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 financial statements of BRE Bank SA (the "Bank"), Warsaw, ul. Senatorska 18, which comprise:

(a) the balance sheet as at 31 December 2005, showing total assets and total equity and liabilities of PLN 30,126,877 thousand;

(b) the income statement for the year ended 31 December 2005, showing a net profit of PLN 207,310 thousand;

(c) the statement of changes in equity for the year ended 31 December 2005, showing an increase in equity of PLN 152,570 thousand;

(d) the cash flow statement for the year ended 31 December 2005, showing a decrease in cash and cash equivalents of PLN 1,847,795 thousand;

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

The Bank's Management Board is responsible for preparing financial statements and a Directors' Report which comply with the applicable regulations. Our responsibility was to express an opinion on these financial statements based on our audit.

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

(a) the provisions of Chapter 7 of the Polish Accounting Act of 29 September 1994 (the "Act" - Journal of Laws of 2002, No. 76, item 694, as amended);

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

Our audit was planned and performed to obtain reasonable assurance that the 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 financial statements. The audit also included assessing the accounting policies used by the Bank and significant estimates made when preparing the financial statements as well as evaluating 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 Directors' Report for the year ended 31 December 2005 complies with the requirements of the Decree of 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 financial statements.

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

(a) have been prepared on the basis of properly maintained accounting records;

(b) comply in form and contents with the relevant laws and the Bank's Memorandum of Association;

(c) give a true and fair view of the Bank's financial position as at 31 December 2005 and of the results of its operations for the year then ended in accordance with 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
Member of the Management Board
Registered Auditor
No. 90033/7039

Registered Audit Company
No. 144

Warsaw, 27 February 2006

BRE Bank SA

Registered auditor's report on the 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.

BRE Bank SA
Registered auditor's report on the 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 financial statements of BRE Bank SA, Warsaw, ul. Senatorska 18 (the "Bank"). The audited financial statements comprise:

(a) the balance sheet as at 31 December 2005, showing total assets and total equity and liabilities of PLN 30,126,877 thousand;

(b) the income statement for the year ended 31 December 2005, showing a net profit of PLN 207,310 thousand;

(c) the statement of changes in equity for the year ended 31 December 2005, showing an increase in equity of PLN 152,570 thousand;

(d) the cash flow statement for the year ended 31 December 2005, showing a decrease in cash and cash equivalents of PLN 1,847,795 thousand;

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

The 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, signed on 27 February 2006, concerning the above-mentioned financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

This report contains 28 consecutively numbered pages and consists of:

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

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

Warsaw, 27 February 2006

I. General information about the Bank

(a) The Bank was formed on the basis of Resolution No. 99 of the Council of Ministers of 20 June 1986. The Bank began operating on 2 January 1987. It was formed on the basis of a Notarial Deed drawn up at the State Notarial Office in Warsaw on 11 December 1986 and registered with Rep. No. A I 5919/86. On 11 July 2001, the Bank was entered in the Register of Businesses maintained by the District Court in Warsaw, 19th Business Department of the National Court Register, with the reference number KRS 0000025237.

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

(c) The Bank's registered share capital amounted to PLN 115,935,888 and consisted of 28,983,972 shares, each of PLN 4 par value.

(d) In the audited period, the Bank's operations comprised, inter alia, the following:

- operating bank accounts;
- accepting savings and term deposits;
- clearing transactions;
- granting loans and advances and consumer loans and advances within the meaning assigned by a separate act;
- conducting transactions involving bills of exchange or cheques;
- issuing and confirming letters of support;
- issuing and confirming bank guarantees and opening letters of credit;
- trading in foreign exchange instruments and providing financial services in respect of foreign trade;
- servicing government loans;
- issuing securities, trading in securities and operating securities accounts;
- performing commissioned tasks related to issuing securities;
- conducting forward transactions;
- purchasing and selling debt;
- managing funds for governmental agencies and other entities;
- acquiring interests in banks and companies and acquiring units and certificates of investment in investment funds in Poland and abroad;
- soliciting custom for pensions funds;
- acting in the capacity of a depositary within the meaning assigned by the Polish Pension Funds Act;
- acting in the capacity of a depositary within the meaning assigned by the Polish Investment Funds Act;
- accepting instructions to purchase, repurchase and subscribe to units or certificates of investment in investment funds;
- keeping registers of pension fund participants and registers of investment fund participants;
- acquiring shares and rights arising from shares of other legal persons.

I. General information about the Bank (cont.)

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

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

(f) The Bank has the following significant related entities (belonging to the BRE Bank SA Group):

BRE Corporate Finance S.A.	- subsidiary
BRE Finance France S.A.	- subsidiary
BRE International Finance B.V.	- subsidiary
BRE Leasing Sp. z o. o.	- subsidiary
BRE.locum Sp. z o. o.	- subsidiary
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	- subsidiary
Dom Inwestycyjny BRE Banku S.A.	- subsidiary
Garbary Sp. z o.o.	- subsidiary
Intermarket Bank AG	- subsidiary
Magyar Factor Rt.	- subsidiary
Polfactor S.A.	- subsidiary
PTE Skarbiec – Emerytura S.A.	- subsidiary
Skarbiec Asset Management Holding S.A.	- subsidiary
Tele – Tech Investment Sp. z o.o.	- associate, special purpose vehicle
Transfinance a.s.	- subsidiary
TV – Tech Investment 1 Sp. z o.o.	- subsidiary, special purpose vehicle

(g) The Bank is listed on the Warsaw Stock Exchange. As permitted by the Act, on 1 January 2005, the Bank implemented the transition to International Financial Reporting Standards (IFRS) as adopted for use in the European Union for the purpose of preparation of financial statements..

(h) The decision to prepare the Bank's financial statements in accordance with those standards was taken by the General Shareholders' Meeting in Resolution No. 1 dated 27 January 2005.

(i) The audited financial statements as at and for the year ended 31 December 2005 are the first financial statements of the Bank prepared in accordance with IFRS as adopted for use in the European Union and the effects of the transition to the new accounting standards are disclosed in Note 45 to the financial statements. The comparative data presented in the audited financial statements has been restated and differs from the data presented in the approved financial statements for the prior year.

I. General information about the Bank (cont.)

(j) On 27 February 2006, the Bank, as the parent company in its Group, also issued the Group's consolidated financial statements prepared in accordance with IFRS as adopted for use in the European Union. The financial position and results of operations of the Bank as the parent company can only be understood if the individual financial statements of the Bank are read in conjunction with the consolidated financial statements.

II. Information about the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed auditor to the Bank by Resolution No. 26 of the General Shareholders' Meeting held on 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 Article 66.2 of the Accounting Act.

(c) The audit was conducted in accordance with an agreement 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 Bank's results and financial position.

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

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

The Bank's financial statements for periods since 1 January 2005 are prepared in accordance with IFRS as adopted for use in the European Union. In accordance with IFRS 1, the Bank restated the comparative data in the scope required by the standard. However, the comparability of the 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.

- During the year, Commerzbank Auslandsbanken Holding AG became the new major shareholder of the Bank. Details of the Bank's ownership structure are disclosed in Note 22 of this report.
- Throughout the year ended 31 December 2005, the Bank's Management Board continued to pursue its financial investment portfolio optimisation policy. The focus was on retail banking development and continued corporate banking development, including small and medium-sized enterprises and investment banking. In November 2005, the Bank signed a conditional agreement for the sale of its shares in PTE Skarbiec – Emerytura S.A. (PTE). By reference to the minimum price specified in the agreement, the Bank recognised additional impairment losses of PLN 31,293 thousand on its interest in PTE. During the audited period, the Bank sold a part of its interest in Novitus S.A. and made a net gain of PLN 34,163 thousand on that transaction.
- In January 2006, the Bank acquired a 100% interest in BRE Bank Hipoteczny S.A for the price of PLN 174,540 thousand.
- In the year ended 31 December 2005, total assets increased by PLN 2,356,416 thousand, i.e. 8%. The increase in total assets was mainly financed with the net profit for the year ended 31 December 2005 of PLN 207,310 thousand and an increase in amounts due to customers of PLN 3,454,435 thousand. The increase in amounts due to customers resulted from an increase in deposits of individual customers (including mBank and MultiBank customers) of PLN 1,305,356 thousand (i.e. 21%) and an increase in amounts due to corporate customers of PLN 2,159,721 thousand (i.e. 17%).

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

- In the audited year, net loans and advances to customers increased by PLN 1,274,986 thousand, which was almost entirely due to an increase in amounts due from individual customers (especially mortgages granted to MultiBank and mBank customers). In the audited year, impairment losses on loans and advances to customers fell by PLN 13,197 thousand to PLN 739,860 thousand (including the adjustment to provisions of PLN 6,971 thousand recognised on 1 January 2005 due to the adoption of new measurement method for loans and receivables). In the same period, the Bank's provisions against off-balance sheet liabilities increased by PLN 60,328 thousand to PLN 63,920 thousand (the effect of the implementation of a new measurement model for loans and receivables was PLN 52,104 thousand as at the opening balance).

- The fact that the Monetary Policy Council reduced NBP (National Bank of Poland) interest rates five times in the year ended 31 December 2005 was an additional factor which contributed to the performance of the Polish banking sector. The NBP interest rates fell by 2 percentage points (reference and lombard rates) and 2.25 percentage points (rediscount rate).

- The structure of assets changed during the year ended 31 December 2005. There was a significant increase in cash and cash equivalents (of PLN 1,041,732 thousand) an increase in trading securities (of PLN 2,623,969 thousand) and investment securities (of PLN 581,811 thousand) and a decrease in amounts due from banks of PLN 2,149,879 thousand (mainly current accounts).

- The Bank's net profit for the current year amounted to PLN 207,310 thousand, compared with a net loss of PLN 316,882 thousand for the prior year (based on 2004 data restated to ensure comparability). The net profit was mainly the product of the Bank's net interest income of PLN 507,471 thousand, net fee and commission income of PLN 237,106 thousand, net trading income of PLN 256,651 thousand. At the same time the net profit went down due to administrative expenses, depreciation and amortisation of PLN 755,480 thousand, a surplus of provisions recognised over released of PLN 53,392 thousand, and income tax expense of PLN 42,837 thousand.

- The Bank's operating profit was PLN 555,121 thousand higher than in the year ended 31 December 2004, mainly due to an increase in net interest income and net gains on investment securities, of PLN 176,499 thousand and PLN 203,902 thousand respectively, and a decrease in other operating expenses of PLN 400,972 thousand. The positive trend was partly offset by an increase in administrative expenses of PLN 94,616 thousand and a decrease in other operating income of PLN 276,697 thousand

- At the same time, the Bank's income tax expense grew by PLN 30,929 thousand in the audited year. The increase in income tax expense resulted from an increase in current income tax expense by PLN 46,898 thousand to PLN 48,369 thousand and a decrease in deferred income tax expense of PLN 15,969 thousand. As at 31 December 2005, the Bank recognised deferred tax assets at the applicable income tax rate of 19%.

IV. Discussion of selected financial statement components

BALANCE SHEET as at 31 December 2005

	Notes	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	1,776,340	734,608	1,041,732	142	6	3
Debt securities eligible for rediscounting at the Central Bank		37,464	52,832	(15,368)	(29)	-	-
Amounts due from banks	2	4,689,765	6,839,644	(2,149,879)	(31)	16	25
Trading securities	3	5,014,653	2,390,684	2,623,969	110	17	9
Derivative financial instruments	4	1,255,232	1,796,824	(541,592)	(30)	4	6
Loans and advances to customers	5	12,979,559	11,704,573	1,274,986	11	43	42
Investment securities	6	1,055,174	473,363	581,811	123	3	2
Non-current assets held for sale	7	310,510	-	310,510	100	1	-
Pledged assets	8	1,516,212	1,781,725	(265,513)	(15)	5	6
Investments in subsidiaries	9	285,251	671,743	(386,492)	(58)	1	2
Investments in associates	10	5,649	826	4,823	584	-	-
Intangible assets	11	368,504	350,148	18,356	5	1	1
Property, plant and equipment	12	484,071	477,051	7,020	1	2	2
Deferred income tax assets	34	83,950	61,841	22,109	36	-	-
Other assets	13	264,543	434,599	(170,056)	(39)	1	2
TOTAL ASSETS		**30,126,877**	**27,770,461**	**2,356,416**	**8**	**100**	**100**

.

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

BALANCE SHEET as at 31 December 2005 (cont.)

	Notes	31.12.2005 PLN'000	31.12.2004 PLN'000	Change PLN'000	Change (%)	31.12.2005 Structure (%)	31.12.2004 Structure (%)
LIABILITIES AND EQUITY							
Liabilities		**28,172,006**	**25,968,160**	**2,203,846**	**8**	**94**	**94**
Deposits from other banks	14	2,346,159	3,457,310	(1,111,151)	(32)	8	13
Derivative financial instruments and other trading liabilities	15	1,174,278	1,613,462	(439,184)	(27)	4	6
Amounts due to customers	16	22,754,494	19,300,059	3,454,435	18	76	69
Debt securities in issue	17	91,545	407,792	(316,247)	(78)	-	1
Subordinated liabilities	18	1,362,528	1,020,144	342,384	34	5	4
Other liabilities	19	364,893	143,865	221,028	154	1	1
Provisions	20	78,109	25,528	52,581	206	-	-
Equity	21	**1,954,871**	**1,802,301**	**152,570**	**8**	**6**	**6**
Share capital	22	1,423,843	1,386,017	37,826	3	4	5
Revaluation reserve		(2,637)	3,460	(6,097)	(176)	-	-
Retained earnings		533,665	412,824	120,841	29	2	1
TOTAL LIABILITIES AND EQUITY		**30,126,877**	**27,770,461**	**2,356,416**	**8**	**100**	**100**

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

INCOME STATEMENT for the year ended 31 December 2005

	Notes	Year ended 31.12.2005 PLN'000	Year ended 31.12.2004 PLN'000	Change PLN'000	Change (%)	Year ended 31.12.2005 Structure (%)	Year ended 31.12.2004 Structure (%)
Interest income		1,318,437	1,025,655	292,782	29	66	54
Interest expense		(810,966)	(694,683)	(116,283)	17	(46)	(31)
Net interest income	23	**507,471**	**330,972**	**176,499**	**53**	**-**	**-**
Fee and commission income		335,594	323,243	12,351	4	17	17
Fee and commission expense		(98,488)	(104,720)	6,232	(6)	(6)	(5)
Net fee and commission income	24	**237,106**	**218,523**	**18,583**	**9**	**-**	**-**
Dividend income	25	61,997	24,991	37,006	148	3	1
Foreign exchange position	26	251,293	219,156	32,137	15	12	11
Net other trading income	27	5,358	(15,419)	20,777	(135)	-	(1)
Net trading income		**256,651**	**203,737**	**52,914**	**26**	**-**	**-**
Net gains / (losses) on investment securities	28	374	(203,528)	203,902	(100)	-	(9)
Other operating income	29	38,849	315,546	(276,697)	(88)	2	17
Net impairment losses on loans and advances	30	(53,392)	(80,973)	27,581	(34)	(3)	(4)
Administrative expenses	31	(635,990)	(541,374)	(94,616)	17	(36)	(24)
Depreciation and amortisation	32	(119,490)	(128,467)	8,977	(7)	(7)	(6)
Other operating expenses	33	(43,429)	(444,401)	400,972	(90)	(2)	(20)
Operating profit / (loss)		**250,147**	**(304,974)**	**555,121**	**(182)**	-	-
Profit / (loss) before income tax		**250,147**	**(304,974)**	**555,121**	**(182)**	-	-
Income tax expense	34	**(42,837)**	**(11,908)**	**(30,929)**	**260**	-	-
Net profit / (loss)	35	**207,310**	**(316,882)**	**524,192**	**(165)**	**-**	**-**
Total revenues		**2,011,902**	**1,908,591**	**103,311**	**6**	**100**	**100**
Total costs		**(1,761,755)**	**(2,213,565)**	**451,810**	**(20)**	**(100)**	**(100)**
Profit / (loss) before income tax		**250,147**	**(304,974)**	**555,121**	**(182)**	**-**	**-**

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

Presentation of the Bank's financial position and results of operations:

	31.12.2005	31.12.2004
Profitability ratios		
Return on equity (net profit for the year / average net assets) (1)	11.04%	(18.89%)
Return on assets (profit before income tax for the year / average assets) (1)	0.86%	(1.14%)
Gross profitability (profit before income tax for the year / total income)	12.43%	(15.98%)
Interest income to working assets (interest income / average working assets) (1)	6.19%	5.57%
Gearing ratios		
Cost of borrowings (interest expense for the year / average interest-paying liabilities) (1)	3.20%	3.08%
Equity to liabilities and equity (average equity / average liabilities and equity) (1)	6.49%	6.26%
Asset ratios		
Loans to assets (average gross loans and advances to banks and customers / average total assets) (1)	65.13%	67.46%
Loans and advances classified as default to gross loans and advances (2)	5.29%	-
Working assets to total assets	74.64%	72.34%
Liquidity ratios		
Liquidity I (assets maturing within 1 month / liabilities maturing within 1 month)	0.61	0.96
Liquidity II (assets maturing within 3 months / liabilities maturing within 3 months)	0.72	0.97
Capital market ratios		
(Loss) / Earnings per share	PLN 7.20	PLN (12.26)
Book value per share	PLN 67.45	PLN 62.77
Other ratios		
Own funds in accordance with KNB 5/2004	PLN 2,249,629 thousand	PLN 1,971,691 thousand
Total regulatory capital requirement including the capital requirement to cover excess exposures (total regulatory capital requirement in accordance with KNB 4/2004)	PLN 1,398,296 thousand	PLN 1,356,166 thousand
Capital adequacy ratio in accordance with KNB 4/2004	12.87%	11.76%

(1) The average balance sheet item balances were calculated by reference to the balances as at the beginning and end of the current and prior 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) 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.)

Balance sheet as at 31 December 2005

1. Cash and balances with the Central Bank

As at 31 December 2005, "Cash and balances with the Central Bank" amounted to PLN 1,776,340 thousand (PLN 734,608 thousand as at the end of 2004).

Cash and balances with the Central Bank grew by 142% in the current year, which was mainly due to the placement of a term deposit of PLN 1,377,000 thousand with the National Bank of Poland (NBP). At the same time, the balance of the Bank's current account with the NBP went down from PLN 666,569 thousand as at 31 December 2004 to PLN 312,259 thousand as at the end of the audited year.

The average balance of the mandatory reserve placed on the current account with the NBP was PLN 585,560 thousand in December 2005 (PLN 462,180 thousand in December 2004), which was in compliance with the mandatory reserve regulations (the average mandatory reserve required in December 2005 was PLN 585,227 thousand).

2. Amounts due from banks

As at 31 December 2005, the net balance of "Amounts due from banks" amounted to PLN 4,689,765 thousand which, compared with PLN 6,839,644 thousand as at the end of 2004, represented a 31% decrease. The decrease was reflected in a decrease in the proportion of amounts due from banks in total assets from 25% as at the end of 2004 to 16% as at 31 December 2005.

Amounts due in respect of term interbank deposits went down by PLN 2,656,910 thousand in relation to 31 December 2004 (i.e. by 47%) to PLN 3,005,618 thousand as at the end of the audited period.
During the year, loans and advances to banks decreased slightly (by 2%, to PLN 733,304 thousand). At the same time, there was a change in the composition of loans and advances, namely loans and advances maturing within 1 year increased by 121%, whereas loans and advances maturing within 2 to 3 years and within 3 to 5 years decreased by 64% and 84% respectively. The reverse-repo / buy-sell-back transactions involved fell by 70% from PLN 110,280 thousand as at the end of 2004.

3. Trading securities

The balance of "Trading securities" amounted to PLN 5,014,653 thousand as at 31 December 2005 and went up by 110% compared with the balance of PLN 2,390,684 thousand as at the end of the prior year. The increase was mainly due to the purchase of NBP bills by the Bank, which amounted to PLN 2,324,769 thousand as at 31 December 2005, an increase in bonds and investment certificates issued by other banks of PLN 280,926 thousand and an increase in Government bonds of PLN 230,966 thousand. The increase was partly offset by a decrease in the balance of securities issued by financial entities, non-financial entities and public sector entities by PLN 178,444 thousand.

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

4. Derivative financial instruments

The balance of "Derivative financial instruments" accounted for PLN 1,255,232 thousand as at 31 December 2005 (PLN 1,796,824 thousand as at the prior year-end), which represented a decrease of PLN 541,592 thousand (i.e. 30%).

The decrease was mainly attributable to a decrease in the value of foreign exchange swap contracts of PLN 512,349 thousand (i.e. 76%) a decrease in the valuation of foreign exchange options of PLN 66,029 thousand (i.e. 39%) a decrease in the valuation of foreign exchange forward transactions of PLN 29,452 thousand (i.e. 7%) and a decrease in the valuation of currency interest rate swap (CIRS) transactions of PLN 19.434 thousand (i.e. 28%). The decrease was partly offset by an increase in the valuation of interest rate swap (IRS) transactions of PLN 61,901 thousand (i.e. 16%) and an increase in the valuation of forward rate agreements (FRA) of PLN 23,765 thousand (i.e. 50%).

Foreign exchange derivatives of PLN 720,106 thousand and interest rate derivatives of PLN 530,394 thousand were the largest components of "Derivative financial instruments", accounting for 57% and 42% of the balance respectively.

5. Loans and advances to customers

The balance of "Loans and advances to customers" amounted to PLN 12,979,559 thousand as at 31 December 2005 (PLN 11,704,573 thousand as at the prior year-end), which represented an increase of 11%. The balance comprises, inter alia, gross loans and advances to individual customers of PLN 4,326,918 thousand, gross loans to corporate customers of PLN 7,960,043 thousand, and gross amounts due from the public sector of PLN 1,123,946 thousand. Compared with the end of 2004, the proportion of loans and advances to customers in total assets went up from 42% to 43%. Gross amounts due from individual customers increased by PLN 1,668,317 thousand (i.e. 63%) in the audited period. The increase was attributable to the Bank pursuing its retail bank expansion strategy. Gross amounts due from corporate customers decreased by PLN 350,827 thousand (i.e. 4%). Amounts due from the public sector increased from PLN 1,024,841 thousand to PLN 1,123,946 thousand, which represented an increase of PLN 99,105 thousand (i.e. 10%). The increase was mainly due to increased Bank's exposure to a large public sector entity.

In the current year, bad debt provisions remained at the same level of 5% of gross receivables as in the prior year. Total impairment losses on gross receivables amounted to PLN 739,860 thousand, which comprised individually assessed impairment losses of PLN 668,140 thousand and collectively assessed impairment losses of PLN 71.720 thousand.
The non-performing (default) portfolio amounted to PLN 974.684 thousand, which represented 7% of the total gross portfolio. The coverage of the non-performing portfolio with impairment losses was 69%.

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

6. Investment securities

As at 31 December 2005, the balance of "Investment securities" accounted for PLN 1,055,174 thousand (PLN 473,363 thousand as at the prior year-end), which represented an increase of 123%.

The balance comprised debt securities of PLN 873,326 thousand (PLN 242,363 thousand as at the end of 2004) and equity instruments of PLN 181,848 thousand (PLN 231,000 thousand as at the end of 2004).

The increase in debt securities of PLN 630,963 thousand was due to, inter alia, an increase in debt securities issued by banks of PLN 356,909 thousand to PLN 411,576 thousand as at the end of the audited year (mainly due to an increase in bonds). In the audited year, there was also an increase in the balance of debt securities issued by the State Budget by PLN 259,066 thousand to PLN 446,762 thousand as at 31 December 2005 (mainly due to an increase in bonds denominated in PLN) and in the balance of debt securities issued by the Central Bank to PLN 14,988 thousand (nil balance as at the prior year-end).

The decrease in equity instruments was mainly due to the reclassification of TVN S.A. shares of the carrying amount of PLN 129,259 thousand as at 31 December 2004 to "Other financial instruments at fair value through profit or loss" and their subsequent sale in the year ended 31 December 2005. At the same time, the balance of equity instruments went up due to the acquisition of an interest in Vectra S.A. accounting for PLN 99,963 thousand as at the end of the audited year.

7. Non-current assets held for sale

Non-current assets held for sale comprised the Bank's shares in PTE Skarbiec – Emerytura S.A. following the Bank and PZU S.A. signing of a relevant agreement ("Agreement for the combination of PTE PZU S.A and PTE Skarbiec – Emerytura S.A., including the obligation to sell shares to be issued to effect the merger"). The non-current assets held for sale were measured in accordance with IFRS 5 at fair value less costs to sell, i.e. the contractual minimum guaranteed price of PLN 315,000 thousand, less the recognised provision for transaction costs of PLN 4,490 thousand. Based on the measurement of the assets, the Bank recognised an impairment loss of PLN 31,293 thousand in the income statement for the year ended 31 December 2005 and incurred transaction costs of PLN 828 thousand. The transaction details are disclosed in Note 28 to the financial statements of the Bank.

8. Pledged assets

As at the balance sheet date, the balance of "Pledged assets" accounted for PLN 1,516,212 thousand and decreased by PLN 265,513 thousand (i.e. 15%) compared to the end of the previous year. This decrease was almost wholly attributable to the drop in the value of Treasury bills and Government bonds provided as security for sell-buy-back transactions.

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

9. Investments in subsidiaries

As at 31 December 2005 the balance of "Investments in subsidiaries" amounted to PLN 285,251 thousand and fell down by PLN 368,492 thousand (i.e. 58%) compared with the prior year-end. The decrease was the result of the sale of certain shares carried out by the Bank during 2005, the write-down of certain investments and the reclassification of investments in PTE Skarbiec – Emerytura S.A. as non-current assets held for sale.

Details of the Bank's investments in subsidiaries are disclosed in Note 23 to the Bank's financial statements.

The decrease in investments in subsidiaries in the year ended 31 December 2005 was due to, inter alia, the transfer of the Bank's investment in PTE Skarbiec – Emerytura S.A. to non-current assets held for sale following the Bank and PZU S.A. signing a relevant agreement ("Agreement for the combination of PTE PZU S.A. and PTE Skarbiec – Emerytura S.A., including the obligation to sell shares to be issued to effect the merger"). Details of that agreement are disclosed in Note 28 to the financial statements of the Bank. The decrease was also attributable to the sale of a part of the Bank's interest in Novitus S.A. and the reclassification of the remaining interest to investments in associates (a total decrease of PLN 17,949 thousand), the repayment of capital contributions of PLN 13,998 thousand by the Bank's subsidiaries and the winding-up of AMBRESA Sp. z o.o. BRELLA Sp. k. and BRELINVEST Sp. z o.o. Fly 1 Sp. k. accounting for PLN 14,111 thousand.

At the same time, investments in subsidiaries increased in the audited period, due to, inter alia, the formation of emFinanse Sp. z o.o. (an increase of PLN 1,800 thousand) and the transfer of PLN 3,901 thousand from "Other assets", being a capital contribution to BRELIM Sp. z o.o. The amount was the capital contribution of PLN 10,140 thousand less impairment loss of PLN 6,239 thousand.

10. Investments in associates

The balance of "Investments in associates" amounted to PLN 5,649 thousand as at 31 December 2005 and increased by PLN 4,823 thousand compared to the prior year. The increase was entirely due to the reclassification of shares in Novitus S.A. to investments in associates, presented as at the end of the prior year as investments in subsidiaries. Their reclassification was caused by the sale of a part of Novitus S.A. shares. Shares in Xtrade S.A. and Tele – Tech Investment Sp. z o.o. represented the remaining investments in associates.

11. Intangible assets

As at the balance sheet date, the balance of "Intangible assets" was PLN 368,504 thousand, which compared with PLN 350,148 thousand as at 31 December 2004 represented an increase of PLN 18,356 thousand (i.e. 5%). The increase was attributable to, inter alia, an increase in the gross value of intangible assets of PLN 75,163 thousand, mainly due to the continued work on the development of new intangible assets (including expenditure on the GLOBUS system) and the purchase of concessions, patents and licences. The increase was partly offset by their amortisation of PLN 53,474 thousand recognised in the income statement in the year

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

11. Intangible assets (cont.)

ended 31 December 2005. In the year ended 31 December 2005, intangible assets with a net book value of PLN 1,786 thousand were scrapped.

12. Property, plant and equipment

As at 31 December 2005, the balance of "Property, plant and equipment" amounted to PLN 484,071 thousand and went up by PLN 7,020 thousand during the audited year. The increase was mainly due to an increase in the gross value of property, plant and equipment due to their purchases of PLN 36,925 thousand in total, including the purchases of buildings and offices (an increase of PLN 10,890 thousand) and machinery (an increase of PLN 20,008 thousand) and the expenditure incurred on assets under construction of PLN 48,678 thousand. The increase was partly offset by the depreciation of PLN 60,016 thousand recognised in the income statement during the year. Furthermore, the net book value of the Bank's property, plant and equipment went down due to the sale and scrapping of assets with a total net book value of PLN 18,038 thousand.

13. Other assets

The balance of "Other assets" went down from PLN 434,599 thousand as at 31 December 2004 to PLN 264,543 thousand as at the end of the audited year (i.e. by 39%). "Debtors" of PLN 195,264 thousand (i.e. 74% of the balance) was the major component of "Other assets". The decrease in "Other assets" was mainly due to a decrease in amounts due from debtors of PLN 172,873 thousand (i.e. 47%) and a decrease in other prepayments of PLN 7,889 thousand (i.e. 19%) which was partly offset by an increase in the other components of "Other assets", including an increase in income tax receivable of PLN 7,276 thousand and in accrued income of PLN 5,205 thousand.

As at 31 December 2005, the balance of "Debtors" also comprised an amount due from PAI Media S.A. in respect of the sale of shares in Elektrim S.A. of PLN 32,241 thousand and an amount due from Atlas - Vermoegensverwaltungs GmbH in respect of the sold shares in BRE Bank Hipoteczny S.A., of PLN 33,100 thousand. In January 2006, the amount due from PAI Media S.A. was received, while the amount due from Atlas - Vermoegensverwaltungs GmbH was set off against the amount payable by the Bank for the purchase of an interest in BRE Bank Hipoteczny S.A.

The decrease in the balance of "Debtors" in the year ended 31 December 2005 was the result of a decrease in prepayments for the purchase of shares, which was mainly the result of the return made by TV – Tech Investment 1 Sp. z o.o. of the prepayment of USD 42,500 thousand for purchase of shares from TVN S.A.. Moreover, following the registration of an increase in share capital of BRELIM Sp. z o.o. the amount of PLN 3,901 thousand was reclassified to "Investments in subsidiaries" and a receivable due from Tele – Tech Investment Sp. z o.o. in respect of the prepayment for the repurchase of shares in BRE.locum Sp. z o.o. was partly repaid and forgiven (the total amount received or forgiven was PLN 9,684 thousand).

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

14. Deposits from other banks

As at 31 December 2005, the balance of "Deposits from other banks" amounted to PLN 2,346,159 thousand, that represented a decrease of 32% compared to the prior year balance of PLN 3,457,310 thousand.

"Loans and advances received", accounting for 59% of the balance, i.e. 2% less than as at the end of 2004, is the major component of "Deposits from other banks".

The decrease in "Loans and advances received" was mainly due to a reduction in the level of term deposits of 56% and in cash in current accounts by 53% compared with the prior year-end.

15. Derivative financial instruments and other trading liabilities

As at 31 December 2005, the balance of "Derivative financial instruments and other trading liabilities" amounted to PLN 1,174,278 thousand (PLN 1,613,462 thousand as at the end of the prior year), which represented a decrease of PLN 439,184 thousand, (i.e. 27%).

The decrease was mainly attributable to a decrease in the valuation of foreign exchange swap contracts of PLN 248,145 thousand (i.e. 65%) a decrease in the valuation of foreign exchange forward transactions of PLN 208,796 thousand (i.e. 38%) a decrease in the valuation of foreign exchange options of PLN 35,078 thousand (i.e. 22%) and a decrease in the valuation of currency interest rate swap (CIRS) transactions of PLN 18,167 thousand (i.e. 29%). The decrease was partly offset by an increase in the valuation of interest rate swap (IRS) transactions of PLN 53,551 thousand (i.e. 13%) and an increase in the valuation of forward rate agreements (FRA) of PLN 24,212 thousand (i.e. 65%).

Foreign exchange derivatives of PLN 637,810 thousand and interest rate derivatives of PLN 531,525 thousand were the largest components of "Derivative financial instruments and other trading liabilities".

16. Amounts due to customers

As at the balance sheet date, the balance of "Amounts due to customers" accounted for PLN 22,754,494 thousand, compared with PLN 19,300,059 thousand as at 31 December 2004, which represented an increase of PLN 3,454,435 thousand (i.e. 18%).

The increase was mainly due to an increase in the balance of deposits from individual customers (an increase of PLN 1,305,356 thousand, i.e. 21%) and corporate customers (an increase of PLN 2,159,721 thousand, i.e. 17%). Increases in funds deposited in current accounts by corporate and retail customers, of PLN 2,067,215 thousand and PLN 1,649,499 thousand respectively, contributed the most to the increase in deposits. Whereas, term deposits grew by PLN 74,895 thousand in total (deposits from corporate customers went up by PLN 429,866 thousand, which was partly offset by a decrease in term deposits from individual customers of PLN 354,971 thousand).

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

17. Debt securities in issue

As at 31 December 2005, the balance of liabilities for debt securities in issue amounted to PLN 91,545 thousand and went down by PLN 316,247 thousand in the audited year. The decrease was due to the Bank redeeming, during the audited year, all the short-term deposit certificates in the amount of PLN 316,637 thousand as at 31 December 2004. Following the redemption, as at the end of the audited year, the balance comprised liabilities for long-term debt securities only.

18. Subordinated liabilities

As at 31 December 2005, the balance of "Subordinated liabilities" accounted for PLN 1,362,528 thousand, which represented an increase of 34% compared with the balance of PLN 1,020,144 thousand as at 31 December 2004. The increase was due to the issue of subordinated bonds during the year (EUR 100,000 thousand).

As at 31 December 2005, the balance was composed of three issues of subordinated bonds (EUR 350,000 thousand in total) including accrued interest.

Details of the subordinated liabilities are disclosed in Note 32 to the financial statements of the Bank.

19. Other liabilities

As at 31 December 2005, the balance of "Other liabilities" amounted to PLN 364,893 thousand, which represented an increase of PLN 221,028 thousand (i.e. 154%) compared with the balance of PLN 143,865 thousand as at 31 December 2004. The increase was due to, inter alia, the adjustment to the opening balance sheet resulting from the use of the effective interest method in the measurement of certain financial assets (a decrease of PLN 41,436 thousand).

The increase in the balance of "Other liabilities" compared with the balance as at 31 December 2004 was attributable to an increase in the balance of "Creditors", including trade payables and bank card settlements, of PLN 53,271 thousand (i.e. 132%). The increase in "Other liabilities" was also attributable to an increase in the balance of provisions for other employee liabilities, including the bonus fund (up PLN 55,128 thousand), an increase in interbank settlements (up PLN 48,164 thousand), an increase in deferred income (up PLN 40,492 thousand) and an increase in accruals (up PLN 22,177 thousand) resulting mostly from an increase in the accrued administrative expenses of the Bank).

20. Provisions

As at the balance sheet date, the balance of "Provisions" was PLN 78,109 thousand (PLN 25,528 thousand as at 31 December 2004), which represented an increase of PLN 52,581 thousand.
As at 31 December 2005, provisions comprised provisions for off-balance sheet liabilities of PLN 63,920 thousand, provisions for disputed claims of PLN 4,512 thousand and other provisions for liabilities of PLN 9,677 thousand.

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

20. Provisions (cont.)

The increase in provisions compared with 31 December 2004 was mainly due to an increase in provisions for off-balance sheet liabilities of PLN 60,327 thousand following the application of the impairment model to the measurement of loans and advances effective from 1 January 2005 (including an increase of PLN 52,103 thousand recognised as the opening balance adjustment).

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

21. Equity

As at the balance sheet date, the balance of "Equity" was PLN 1,954,871 thousand (PLN 1,802,301 thousand as at 31 December 2004).

	31.12.2004	Changes in accounting policies	Income / (costs) recognised in equity	Share capital increase due to exercising management share options	Net profit for the current year	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	3,460	-	(6,097)	-	-	-	(2,637)
Retained earnings	412,824	(84,070)	4,536	(6,909)	207,310	(26)	533,665
Total	**1,802,301**	**(84,070)**	**(1,561)**	**30,917**	**207,317**	**(26)**	**1,954,871**

In the audited year, the registered share capital of the Bank was increased by PLN 1,083 thousand through the issue of 270,847 shares, each of PLN 4 par value. The remaining increase in share capital (of PLN 29,834 thousand) represents share premium. Shares were issued in connection with the exercise of share options under two Management Share Option Schemes. As part of the First Management Share Option Scheme, implemented under Resolution No. 7 of the General Shareholders' Meeting of BRE Bank SA adopted on 24 May 2000, as amended by Resolution No. 27 of the General Shareholders' Meeting of BRE Bank SA adopted on 21 May 2003, the Bank issued 118,884 shares at the issue price of PLN 135.80 per share. As part of the Second Management Share Option Scheme, implemented under Resolution No. 29 of the General Shareholders' Meeting of BRE Bank SA adopted on 21 May 2003, the Bank issued 151,963 shares at the issue price of PLN 96.16. Following the realization of a part of the Management Share Option Scheme, the value of the exercised options, of PLN 6,909 thousand, was transferred from "Retained earnings" to share capital.

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

21. Equity (cont.)

In the audited year, there was a decrease in the Revaluation reserve by PLN 6,097 thousand. This was due to the recognition of net losses on the valuation of the financial assets classified as available-for-sale of PLN 3,107 thousand and the recognition of foreign exchange losses of PLN 2,990 thousand.

Due to the adoption of IAS 39 effective from 1 January 2005, the Bank adjusted its retained earnings down by PLN 84,070 thousand. The amount of the adjustment comprised: the effect of the use of the effective interest rate in the valuation of certain financial assets of PLN 49,860 thousand, the effect of the application of the impairment model in the valuation of loans and advances of PLN 25,890 thousand and a one-off recognition in the income statement of the previously accrued commission of PLN 8,320 thousand paid in respect of a contract for the purchase of certain financial assets. Details of the adjustments relating to the adoption of IFRS are disclosed in Note 45 to the financial statements of the Bank.

The Bank's retained earnings for 2005 increased due to the recognition of a remeasurement of the Management Share Option Scheme of PLN 4,536 thousand and decreased in consequence of the transfer of the effect of the exercised options to share capital by PLN 6,909 thousand.

The retained earnings increased by the amount of the net profit for the year ended 31 December 2005, of PLN 207,310 thousand.

22. Share capital – ownership structure

As at 31 December 2005, the Bank's shareholders were:

Shareholders	**Number of shares held**	**Par 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 shareholders	8,264,280	33,057,120	ordinary	28.51%
	28,983,972			**100.00%**

In the year ended 31 December 2005, the major shareholder of BRE Bank SA changed due to the fact that Commerzbank AG, the existing major shareholder, contributed its shares in BRE Bank SA to Commerzbank Auslandsbanken Holding AG, its 100% subsidiary.

Due to the issue of shares in the year ended 31 December 2005, in connection with the realization of the Management Share Option Schemes, the interest of the major shareholder in the registered share capital of the Bank fell from 72.16% as at the end of the prior year to 71.49% as at the end of the current year. Thus, the interest held by the remaining shareholders grew from 27.84% to 28.51%.

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

Income statement for the year ended 31 December 2005

23. Net interest income

In the current year, net interest income amounted to PLN 507,471 thousand (PLN 330,972 thousand in the prior year), which represented an increase of PLN 176,499 thousand (i.e. 53%) compared with the prior year.

The increase in net interest income was due to a faster increase in interest income (an increase of 29%) than in interest expense (an increase of 17%).

In the current year, interest income grew by PLN 292,782 thousand (i.e. 29%) to PLN 1,318,437 thousand, whereas interest expense grew by PLN 116,283 thousand (i.e. 17%) to PLN 810,966 thousand. The increase in interest income was attributable, inter alia, to an increase in interest income from loans and advances of PLN 187,632 thousand, resulting from an increase in loans to customers and banks of 10%, and an increase in interest income from debt securities classified as trading securities of PLN 48,380 thousand, resulting from an increase in the balance of trading securities of 110%. Interest expense mainly comprised interest expense related to settlements with banks and customers (amounting to PLN 692,153 thousand in the year ended 31 December 2005) and interest expense on CIRS, IRS and OIS contracts (related interest expense amounted to PLN 35,990 thousand in the year ended 31 December 2005). Included in the balance was net interest income from debt securities classified as trading securities of PLN 182,408 thousand in the year ended 31 December 2005.

The interest margin (calculated as the ratio of net interest income to interest income) went up from 32% in the prior year to 38% in the audited year.

24. Net fee and commission income

In the current year, net fee and commission income amounted to PLN 237,106 thousand, which represented an increase of PLN 18,583 thousand (i.e. 9%) compared with the prior year.

The increase in net commission income was mainly due to an increase in fee and commission income of PLN 12,351 thousand and at the same time the decrease of fee and commission expense of PLN 6,232 thousand.

Fee and commission income increased mainly in respect of servicing bank cards, money transfers and maintaining bank accounts, which grew by PLN 38,755 thousand in total. At the same time, commission and fee income on lending activity fell by PLN 21,682 thousand, which was the result of a change in its presentation due to the introduction of the effective interest rate for their measurement.

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

25. Dividend income

Dividend income amounted to PLN 61,997 thousand in the year ended 31 December 2005 and went up by PLN 37,006 thousand (i.e. 148%) compared with the year ended 31 December 2004. The balance comprised, inter alia, dividends received from Novitus S.A. (PLN 8,884 thousand), Dom Inwestycyjny BRE Banku S.A. (PLN 7,560 thousand), PZU S.A. (PLN 5,344 thousand) and PTE Skarbiec – Emerytura S.A. (PLN 3,045 thousand). Dividends received from the remaining companies in which the Bank held shares amounted to PLN 14,897 thousand.

Proceeds from the distribution of assets of the liquidated AMBRESA Sp. z o.o. BRELLA Sp. k. and BRELINVEST Sp. z o.o. Fly 1 Sp. k. were also recognised as dividend income and amounted to PLN 22,267 thousand in total.

26. Foreign exchange position

In the year ended 31 December 2005, the Bank reported net foreign exchange gains of PLN 251.293 thousand (PLN 219,156 thousand in the prior year), which represented an increase of 15% compared with the prior year.

The "Foreign exchange position" mainly comprised realised foreign exchange gains of PLN 324,524 thousand and net gains on foreign exchange forward transactions of PLN 171.404 thousand. The Bank's gains were partly offset by losses on foreign exchange swaps of PLN 264,204 thousand.

27. Net other trading income

In the year ended 31 December 2005 "Net other trading income" amounted to PLN 5,358 thousand (a loss of PLN 15,419 thousand in the prior year), which represented an increase of PLN 20.777 thousand.

The increase in profit from other net trading income was mainly the result of an increase in net gains from money market instruments of PLN 29,043 thousand. The increase was partly offset by a decrease in net gains from market risk derivatives of PLN 6,676 thousand.

28. Net gains / (losses) on investment securities

In the year ended 31 December 2005, the Bank made a profit on investment securities of PLN 374 thousand, compared with net losses of PLN 203,528 thousand in the year ended 31 December 2004. The profit comprised a profit on the sale of shares of PLN 32,321 thousand and impairment losses of PLN 31,947 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").

The largest impairment loss related to PTE Skarbiec – Emerytura S.A. and amounted to PLN 26,803 thousand. The remaining impairment losses related to the impairment of foreign funds classified as investment securities available-for-sale, amounting to PLN 5,144 thousand in total.

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

29. Other operating income

Other operating income amounted to PLN 38,849 thousand in the year ended 31 December 2005, down by PLN 276,697 thousand (i.e. 88%) compared with the year ended 31 December 2004. Proceeds from the sale or scrapping property, plant and equipment and intangible assets and other assets represented the largest decrease of PLN 257,683 thousand. The decrease was mainly the result of the recognition of the proceeds from the sale of the Bank's head office of PLN 254,766 thousand in the year ended 31 December 2004 (see also Note 33).

30. Net impairment losses on loans and advances

Net impairment losses comprised impairment losses on loans and advances to customers and provisions for off-balance sheet liabilities recognised during the year.

The net surplus of impairment losses recognised during the year amounted to PLN 53,392 thousand, compared with the net surplus of impairment losses of PLN 80,973 thousand in the prior year. In the audited year, impairment losses for loans and advances to customers increased by PLN 369,189 thousand (mainly impairment losses recognised during the year), and decreased by PLN 315,797 thousand (mainly provisions released during the year).

31. Administrative expenses

Administrative expenses of the Bank amounted to PLN 635,990 thousand in the year ended 31 December 2005, compared with PLN 541,374 thousand in the prior year, which represented an increase of PLN 94,616 thousand (i.e. 17%). The increase was mainly attributable to an increase in personnel costs of PLN 80,697 thousand to PLN 312,192 thousand. The increase in personnel costs in the year ended 31 December 2005 was due among others to setting up a bonus fund and an increase in base salaries, long-service (jubilee) and other bonuses. In the year ended 31 December 2005, personnel and non-personnel overheads each accounted for 49% of the total overheads of the Bank.

32. Depreciation and amortisation

Depreciation and amortisation charges for the year ended 31 December 2005 amounted to PLN 119,490 thousand, which, in relation to the prior year, represented a decrease of PLN 8,977 thousand (i.e. 7%). The depreciation and amortisation expense for the audited year comprised the amortisation of intangible assets of PLN 53,474 thousand and the depreciation of property, plant and equipment of PLN 66,016 thousand.

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

33. Other operating expenses

Other operating expenses went down from PLN 444,401 thousand in the year ended 31 December 2004 to PLN 43,429 thousand in the year ended 31 December 2005 (i.e. by PLN 400,972 thousand). The decrease in other operating expenses was mainly due to a decrease in the cost of sale or scrapping of property, plant and equipment and intangible assets and other assets of PLN 279,603 thousand. The decrease was the result of the Bank recognising the cost of selling the Bank's head office in the prior year (net book value of the sold properties was PLN 225,736 thousand) and writing off the unamortized part of goodwill on acquisition of Polski Bank Rozwoju S.A. and Bank Częstochowa S.A. of PLN 44,159 thousand in total.

Furthermore, there was a decrease in "Other operating expenses – impairment of non-financial assets" of PLN 80,348 thousand, which was due to the fact that the impairment losses on non-current assets (properties held for sale and properties owned by the Bank) were recognised in the year ended 31 December 2004 in the amount of PLN 87,292 thousand in total, while in the year ended 31 December 2005 it amounted to PLN 6,944 thousand.

"Additional provisions recognised for liabilities" also decreased, by PLN 19,147 thousand, which was due to the lower level of additional provisions created in 2005 than in 2004.

34. Income tax expense

	12 months to 31.12.2005 PLN'000	12 months to 31.12.2004 PLN'000	Change PLN'000
Current income tax	48,369	1,471	46,898
Deferred income tax	(5,532)	10,437	(15,969)
Income tax expense	**42,837**	**11,908**	**30,929**

In the current year, income tax was calculated at 19% of the profit before tax determined in accordance with International Financial Reporting Standards as adopted for use in the European Union, as adjusted for non-taxable income and non-deductible costs. During the year ended 31 December 2005, the Bank withheld income tax, the overpaid portion of which was presented as income tax receivable of PLN 22,384 thousand as at 31 December 2005 (see also Note 12).

A detailed breakdown of deferred income tax reflected in the income statements for the years ended 31 December 2005 and 31 December 2004 is disclosed in Note 14 and Note 35 to the financial statements of the Bank.

The balance of deferred tax assets comprised mainly negative temporary differences concerning among others impairment losses on loans and off-balance sheet liabilities, not treated as deductible cost of PLN 69,991 thousand, provisions for bonuses, retirement pensions bonuses, and unused holidays of PLN 14,588 thousand and tax loss carryforwards of PLN 12,755 thousand.

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

34. Income tax expense (cont.)

Positive temporary differences comprised inter alia the balance of unsettled investment relief of PLN 30,775 thousand, and differences between depreciation charges for tax and accounting purposes of PLN 21,361 thousand. In connection with the surplus of negative temporary differences over the positive temporary differences the Bank recognized at the end of 2005 deferred tax assets of PLN 83,950 thousand (PLN 61,841 thousand at the end of 2004).

The effective income tax rate was 17.1%. The difference between the effective tax rate and the standard tax rate of 19% was mainly attributable to the fact that non-taxable income of PLN 79,936 thousand and non-deductible costs of PLN 78,631 thousand were excluded from the current tax calculation, as complied with the Corporate Income Tax Act.

35. Net profit/(loss) for the year

The net profit for the audited year amounted to PLN 207,310 thousand. As disclosed in the relevant note to the financial statements, the Management Board will propose to the General Shareholders' Meeting appropriating the profit as follows (the general risk reserve and the supplementary (additional) capital are included in "Retained earnings"):

- the transfer of a part of the net profit to the general risk reserve to cover unforeseen risks and future losses;
- the mandatory transfer of 8% of the net profit to the supplementary (additional) capital as required by the Polish regulations. The proposed appropriation will not change the structure of the Bank's equity and will only change the internal composition of the Bank's retained earnings.

According to Resolution No. 2 of the General Shareholders' Meeting of 22 March 2005, the net loss for the prior year was offset as follows:

- the accumulated losses of PLN 188,757 thousand (a part of the net loss of the Bank for the year ended 31 December 2004 of PLN 179,864 thousand and the entire accumulated net losses for prior years of PLN 8,893 thousand) were offset against the Bank's reserve capital (included in "Retained earnings");
- the remaining part of the net loss of the Bank for the year ended 31 December 2004, of PLN 104,343 thousand, would be covered from future profits.

36. Off-balance sheet items

As at the balance sheet date, "Off-balance sheet items" amounted to PLN 406,668,475 thousand, which represented an increase in relation to the balance as at the prior year-end of PLN 172,099,962 thousand (i.e. 73%). Detailed components of "Off-balance sheet items" are disclosed in Note 36 to the financial statements.

As at 31 December 2005, "Commitments related to purchase/sale transactions", regarding derivatives and amounting to PLN 394,093,816 thousand (i.e. 97% of the balance) was the major component of "Off-balance sheet items".

V. The registered auditor's statement

(a) The Bank's Management Board provided all the information, explanations and representations required by us in the course of our audit and provided us with a letter of representation confirming the completeness of the information included in the accounting records and the disclosure of all the contingent liabilities and post balance sheet events which occurred up to the date of the letter of representation being signed.

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

(c) The Bank has up-to-date documentation of its accounting policies approved by the Management Board. The Bank's accounting policies were tailored to its needs and ensured the identification of all events with a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. Changes in the accounting policies and the effect of the adoption of accounting policies consistent with IFRS as adopted for use in the European Union were correctly disclosed in the notes to the financial statements.

(d) The closing balances as at the end of the prior year, after adjustments arising from the transition to IFRS as adopted for use in the European Union, were correctly brought forward as the opening balances of the current financial year in all material respects. Given that, as defined in IFRS 1, the IFRS transition date was 1 January 2004, the comparative data presented in the audited financial statements has been restated to ensure comparability and differs from the data presented in the approved financial statements for the prior year.

(e) We have assessed the operation of the accounting system. Our assessment covered in particular:
- the accuracy of the documentation relating to business transactions;
- the fairness, accuracy and verifiability of the accounting records, including computerized accounting records;
- the methods used for controlling access to data and computerized data processing systems;
- the safeguarding of accounting documentation, accounting records and the financial statements.

The above assessment, together with our substantive tests of individual items of the financial statements, gives a basis for expressing a general, comprehensive and unqualified opinion on the truth and fairness of these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

(f) The notes to the financial statements present all significant information required by International Financial Reporting Standards as adopted for use in the European Union.

(g) The Directors' Report includes all the information required by the Decree of Minister of Finance dated 19 October 2005 concerning the publication of current and periodic information by issuers of securities. The financial information presented therein is consistent with that presented in the financial statements.

(h) The counts of assets and liabilities were carried out and reconciled in accordance with the Polish Accounting Act and their results were included in the accounting records for the audited year.

V. The registered auditor's statement (cont.)

(i) The Bank's financial statements for the prior financial year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued a qualified opinion.

(j) The Bank's financial statements as at and for the year ended 31 December 2004 were approved by Resolution No. 1 of the General Shareholders' Meeting of 22 March 2005, filed with the National Court Register in Warsaw on 31 March 2005, and published in *Monitor Polski B* No. 875/7047 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

Letter by the Chairman of the Supervisory Board of BRE Bank SA to Shareholders

Dear Shareholders,

I am pleased to address you on behalf of the Supervisory Board, which since January 2005, when joined by and supported with experience of a member of the Management Board of Commerzbank – Martin Blessing, has been operating with an unchanged membership. My satisfaction is additionally enhanced by the fact that standing of the Bank is presently much better than a year ago. At the same time past year saw numerous positive trends.

The year 2005 was the first full year of the Management Board of BRE Bank chaired by the President Sławomir Lachowski. That was also the first year the Management Board worked with a renewed membership, with three new heads of business areas: Jerzy Jóźkowiak as the head of retail banking, Janusz Wojtas in charge of corporate banking, and Bernd Loewen supervising investment banking.

I proudly note that co-operation between the Supervisory Board and the Management Board significantly improved. A permanent contact is maintained and the Supervisory Board is informed about the standing of the Bank on a current basis.

The evaluation by the Supervisory Board of activities of the Bank in the past year is presented in a separate document. I would only like to underline that generally the year 2005 was a year of strengthening the position of the Bank in basic areas of its activities, proved by higher results of the Bank for 2005 compared to 2004. It is worth stressing strong foundations: high balance sheet total, placing the Bank on the 5th position among Polish banks, significant improvement of the credit portfolio quality and increasing share of customer deposits.

The gross financial result was PLN 338 million on a consolidated basis and PLN 250.1 on an individual basis, which proves that actions taken up by the new Management Board are correct. I mean both single actions at the end of 2004, consisting in revaluation of numerous assets, as well as business and organisational actions taken in 2005. At the same time the present financial result confirms ability of the Bank to generate systematic, steady and foreseeable profits from its basic activity in the next years.

The Supervisory Board agrees with the position of the Management Board to use good results of 2005 to strengthen the capital base of the Bank. Therefore, we recommend a decision of the Management Board, on not paying out dividends for 2005, for acceptance of the General Meeting. Thus retained capital will be the basis for further dynamic development of the Bank in the current and following years, which will be beneficial for the Bank and its Shareholders.

The past year showed that trust put in the authorities of the Bank last year and conviction that the Bank would return on the profitability path proved very right, while assumed plans became reality. As in the last year, I am fully convinced now that under the present management, while consequently implementing the adopted strategy consisting of limiting the capital investment portfolio, strengthening relations with corporate Customers, including further acquisition of new companies from the SME sector and further dynamic development of retail banking, the Bank will further develop, generate profits and strengthen its position in the banking sector. Striving to attain ambitious objectives for the next years: return (gross profit) on equity of 20%, growing share of profits from retail banking, earning the reputation of the best bank among Customers, will soon further improve the results.

In the past year the Supervisory Board held three meetings. It also acted through a four-person Executive Committee, while numerous decisions were taken by circular procedure, in accordance with the Supervisory Board Regulations.

There was also operating the Risk Committee of the Supervisory Board, supervising the credit risk, market risk and operational risk, as well as approving an acceptable risk limit for particular counterparties, in accordance with parameters defined by the Supervisory Board, which resulted in 129 decisions on individual counterparty exposure limits. The said Committee was also in charge of requirements under the New Capital Accord and monitoring the project of implementing new International Accounting Standards as regards loan loss provision planning.

The Audit Committee of the Supervisory Board, established a year ago, strengthened the authority of the Board in the scope of approving financial statements of the Bank and appointing an auditor, and it assumed functional supervision over the internal audit of the Bank.

Since our term of office ends on 15 March 2006, I would like to thank – on behalf of the Supervisory Board – the Management Board for good co-operation and the Shareholders and Customers for the trust placed in us.

I would like to give our special thanks to employees of the Bank – without them there would not be such good results, either business or financial. Appreciating their contribution the Supervisory Board approved significant funds in the budget for paying incentive bonuses.

In the end, hoping that the year 2006 will not be less favourable for the Bank than the past year 2005, I would like to ask Shareholders, on behalf of all members of the Supervisory Board applying for re-election, for further trust and support. I am convinced that the authorities of the Bank as well as its employees will do their utmost to maintain favourable growing trends worked out last year, which will result in further growth in the value of BRE Bank and satisfaction of its Shareholders and Customers.

Chairman of the Supervisory Board

Maciej Leśny

Opinion of the Supervisory Board of BRE Bank on standing of the Company in 2005

The year 2005, the first year BRE Bank was managed by Sławomir Lachowski as President of the Management Board, saw a **radical improvement of the financial standing** of the Bank and the Group. After three unfavourable years, 2005 ended with gross consolidated profit of PLN **338.0 million** (gross profit of the Bank was PLN 250.1 million), compared to prior year projections of PLN 290 million and after results of the 3rd quarter increased to PLN 330 million.

Profitability ratios were favourable: gross ROE was 18.4% for the Group, 14.3% for the Bank, the cost to income ratio was 69.3% for the Group and 71.3% for the Bank.

At the same time the Bank maintained **full safety** of funds entrusted with it. The level of own funds was adequate for the conducted activity. In February 2005 EUR 100 million worth of subordinated bonds were issued. Upon consent of the Banking Supervision Commission, the equivalent of the said amount was included in its entirety in supplementary funds of the Bank, for the needs of calculating the risk-based capital ratio, and added to improving the same. The risk-based capital ratio, both individual and consolidated, was on the safe level of 10-13% in subsequent quarters.

According to the Supervisory Board, a decision on retaining the total profit of 2005 in the Bank in order **to increase capital** of the same is necessary to strengthen the capital base, thus enabling further development of the Bank. Therefore, we recommend to the Shareholders **not to pay out dividends for 2005.**

Risks related to activities of the Bank were monitored and managed by competent organisational units and committees of the Bank. At the same time risk measurement tools were being improved, also within the BRE Bank Group. That mainly referred to credit risk, also in the context of full compliance with the New Capital Accord. The Supervisory Board joined the process of risk monitoring in the Bank through the Risk Committee of the Supervisory Board. The main tasks of the said Committee include regular supervision over credit risk, market risk and operational risk, as well as approval of particular counterparty risks in accordance with parameters defined from time to time by the Supervisory Board.

For the whole 2005 **liquidity of the Bank was good**, which translated into high safety of customer funds collected in bank accounts. Positive changes occurred in the structure of financing. The share of inter-bank market deposits went down, while the share of customer deposits increased.

The year 2005 was a year of very important changes in activities of BRE Bank. The aforesaid changes referred mainly to **membership of the Management Board**. Besides the new President of the Management Board, whose office was taken up by Sławomir Lachowski in November 2004, there were also changes of members of the Management Board in charge of the main business areas of the Bank. In January 2005 the Supervisory Board of the Bank appointed Jerzy Jóźkowiak member of the Management Board, Bank Executive Director for Retail and Private Banking, in March – Janusz Wojtas, managing the area of Corporate Banking and Bernd Loewen, in charge of the area of Investment Banking.

Changes in the management brought **changes in the strategy of the Bank** and its capital group.

It is worth underlining efforts made to implement the **BREactivation** project. The project was based on deep reconstruction of the **corporate banking** area, by creating a new business model, more open to serve the SME sector. The works consisted of customer re-segmentation, matching each segment with a product offer and distribution channels, accompanied by material strengthening of sales forces. At the same time organisational changes were made in the Bank, adapting it to the new model. The most important tasks were releasing branches from activities not directly connected with sales and moving the so-called back office to four Regional Operating Centres. Works to optimise the lending process were performed as well. Credit procedures for corporate Customers were verified and modified, including improvement of the SME service.

Most of project works under BREactivation were completed in 2005, while effects of the same will be visible in 2006 and following years. However, it should be noted that positive changes, especially as far as development of business with SME companies is concerned, appeared as early as in the 2nd half of 2005. That was also a result of increased sales of *Efekt*, *Efekt Plus* and *Efekt Finansowy* packages to SME Customers.

The Supervisory Board is convinced that BREactivation will materially improve the corporate banking area and add to strengthening the competitive position of the Bank.

The youngest area of activity – **retail banking**, was developing most dynamically, serving approx. 1.3 million Customers as at the end of 2005, which only after five years of entering this segment made BRE Bank one of the leading retail banks in Poland. Volumes of credits and deposits were growing much faster than in the whole banking system, due to which the share of the Bank in retail banking was increasing. It is worth underlining that high dynamics of retail loans, especially housing loans, brought favourable changes in the credit portfolio structure, changing its concentration and adding to credit risk reduction.

We should note innovation of both mBank and MultiBank based on a multi-channel contact with Customers and provision of maximum benefits and convenience by delivering tailored products and services. Last year Customers were offered among other life insurance (jointly with Generali) and Internet access to brokerage services under the name e-Makler. At the same time the network of local outlets was developed.

Top positions in rankings on product offers and service quality prove high appreciation of the activity of both mBank and MultiBank.

The Supervisory Board with pleasure underlines that the year 2005 was the turning point for the retail banking, as after years of making significant expenditures it generated gross profit amounting to PLN 19.1 million.

Investment banking changed its character and risk profile. A quite risky – as shown in the past years – investment activity consisting of buying shares and interests in companies with the purpose of their future profitable sale was limited. The portfolio of own investments was reduced during the year (at the acquisition price) by approx. 37%, to PLN 376.2 million, while the biggest transaction of that kind – sale of Novitus shares – brought over PLN 30 million worth of profit. Moreover, significant income in this area was generated by operations on debt securities and derivative financial instruments.

The Supervisory Board approves **restructuring of strategic investment portfolio** for the purpose of leaving companies which are strategic for the Bank and show satisfactory return on investment made in the same. That was expressed in the agreement on sale of PTE Skarbiec Emerytura and its merge with PTE PZU. Three companies being financial vehicles were liquidated due to the same: BRE Internationale Finance BV, Brelinvest Fly 1 and Ambressa-Brella. Besides, additional payments to equity of two companies – BRE Leasing and CERI – were withdrawn. Works over reorganisation of Skarbiec Asset Management Holding were also performed, among other by modifying the product offer, developing innovative products and changing the sales policy, also by way of strengthening and modifying co-operation with the Bank. Restructuring covered structure simplification and cost reduction, tax optimisation and own capital reduction making the said capital adequate to the scale of conducted operations. On 2 January 2006 BRE Bank Hipoteczny, bought back from the Commerzbank Group, returned to the BRE Bank Group.

The year 2005 was **very favourable for the companies of the Group**. All key companies ended the year with positive results and their contribution (before consolidation adjustments) amounted to PLN 110 million worth of gross profit, i.e. approx. 1/3 of the result of the Group. In BRE Leasing the value of lease agreements grew by 38% and exceeded PLN 1.2 milliard, while gross profit of the company amounted to PLN 21 million. Turnovers of factoring companies of the Intermarket Bank Group grew by 15% in 2005, while gross profit amounted to PLN 45 million. The result of the Brokerage House of BRE Bank was exceptionally good as it took advantage of the boom on the market and generated a record gross profit of PLN 15 million.

It is also worth underlining that in the past year dividends constituted a significant item of Bank's income – both from Group and non-Group companies. They amounted to PLN 62 million on an individual basis and PLN 47 million on a consolidated one.

The dynamics of development of the capital group of BRE Bank was high in the past year. Favourable trends in basic activity were proved by PLN 621.7 million worth of interest result (by 28% more than a year ago) and by 3.1% higher commission result. The balance sheet total grew by almost 2 milliard during the year and amounted to PLN 33.1 milliard.

Liabilities to Customers on a consolidated basis grew during the year by 21% (18% in the Bank). Loans and credits granted to Customers on a consolidated basis were by 8% higher, while in the Bank alone they grew by 11%. The quality of credit portfolio improved. The share of loans at risk in the Bank (according to classification of the National Bank of Poland) went down from 12.4% to 8.5%, due to which net loan loss provisions were lower.

It should be noted that the Bank, as a public company, pays more and more attention to **transparency of its activities**, observing the rules of "Best Practices in Public Companies 2005" and implementing the rules of compliance. To act in accordance with the rules of compliance a special unit was established – Office for Compliance Monitoring [*Biuro Monitoringu Zgodności*].

In the area of best practices BRE Bank declared (based on relevant resolutions of the Management Board, Supervisory Board and Annual General Meeting) observance of 52 out of 53 rules of corporate governance. The Bank did not make such declaration only with regard to rule 20, referring to independent members of supervisory boards. The By-laws of BRE Bank do not provide that the Chairman of the Audit Committee of the Supervisory Board shall be an independent member of the Supervisory Board. Rule 20 is not respected by the Bank to that extent.

The declaration of strict observance of corporate governance rules by BRE Bank confirms a long-applied policy based on transparency of business activities. The Supervisory Board hopes that acceptance of the rules of corporate governance to such broad extent will be a strong incentive for present and potential investors to invest in shares of the Bank.

Market appreciation for changes made in the Bank in 2005 is proved by a growth in the price of shares of BRE Bank in the past year from PLN 114 at the last stock exchange session in 2004 to the maximum of PLN 171.5 on 29 December 2005 and PLN 169 on 30 December 2005. **During the year shares of BRE Bank went up by 48.2**%, which was an above-market growth both with regard to WIG 20 (growth by 35.3%) and WIG Banki (growth by 32.0%).

The Supervisory Board highly appreciates big efforts made in the past year by the management of the Bank and its employees. That was expressed in consent to establish a provision for incentive bonuses, which will not only be a token of recognition for past year achievements but also an incentive for further efforts aimed at development of the Bank and the Group.

The Supervisory Board is also convinced that in 2006, a jubilee year being the 20th anniversary of operation of the Bank, it will be still developing dynamically, aiming at return on equity of 20%. Whereas, in customer relations it will carry out its mission of the best financial institution for demanding corporate and retail Customers, as well as entrepreneurs.

BRE BANK SA

BRE Bank SA

IFRS Financial Statements 2005

Contents

IFRS Financial Statements 2005 (PLN 000's)

Profit and Loss Account

	Note	Year ended 31 December 2005	2004
Interest income	5	1 318 437	1 025 655
Interest expense	5	(810 966)	(694 683)
Net interest income		**507 471**	**330 972**
Fee and commission income	6	335 594	323 243
Fee and commission expense	6	(98 488)	(104 720)
Net fee and commission income		**237 106**	**218 523**
Dividend income	7	61 997	24 991
Net trading income	8	256 651	203 737
Foreign exchange result		*251 293*	*219 156*
Other trading income		*5 358*	*(15 419)*
Gains less losses from investment securities	22	374	(203 528)
Other operating income	9	38 849	315 546
Impairment losses from investment securities	13	(53 392)	(80 973)
Overhead costs	10.12	(635 990)	(541 374)
Amortization and depreciation	25.26	(119 490)	(128 467)
Other operating expenses	11	(43 429)	(444 401)
Operating profit		**250 147**	**(304 974)**
Profit before income tax		**250 147**	**(304 974)**
Income tax expense	14	(42 837)	(11 908)
Net profit (loss)		**207 310**	**(316 882)**
Net profit (loss)		**207 310**	**(316 882)**
Weighted average number of ordinary shares		**28 780 011**	**25 841 813**
Earnings per 1 ordinary share (in PLN per share)	15	**7.20**	**(12.26)**
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)	15	**7.18**	**(12.24)**

IFRS Financial Statements 2005 (PLN 000's)

Balance Sheet

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	16	1 776 340	734 608
Debt securities eligible for rediscounting at the Central Bank	17	37 464	52 832
Loans and advances to banks	18	4 689 765	6 839 644
Trading securities	19	5 014 653	2 390 684
Derivative financial instruments	20	1 255 232	1 796 824
Loans and advances to customers	21	12 979 559	11 704 573
Investment securities		1 055 174	473 363
- Available for sale	22	1 055 174	473 363
Non-current assets held for sale	28	310 510	-
Pledged assets	36	1 516 212	1 781 725
Investments in subsidiaries	23	285 251	671 743
Investments in associated undertakings	24	5 649	826
Intangible assets	25	368 504	350 148
Tangible fixed assets	26	484 071	477 051
Deferred income tax assets	35	83 950	61 841
Other assets	27	264 543	434 599
Total assets		**30 126 877**	**27 770 461**
EQUITY AND LIABILITIES			
Amounts due to other banks	29	2 346 159	3 457 310
Derivative financial instruments and other trading liabilities	20	1 174 278	1 613 462
Amounts due to customers	30	22 754 494	19 300 059
Debt securities in issue	31	91 545	407 792
Subordinated liabilities	32	1 362 528	1 020 144
Other liabilities	33	364 893	143 865
Provisions	34	78 109	25 528
Total liabilities		**28 172 006**	**25 968 160**
Equity			
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	**(2 637)**	**3 460**
Retained earnings:	40	**533 665**	**412 824**
- Profit (loss) for the previous year		326 355	729 706
- Net profit (loss) for the current year		207 310	(316 882)
Total equity		**1 954 871**	**1 802 301**
Total equity and liabilities		**30 126 877**	**27 770 461**
Capital adequacy ratio	47	**12.87**	**11.76**
Book value		**1 954 871**	**1 802 301**
Number of shares		**28 983 972**	**28 713 125**
Book value per share (in PLN)		**67.45**	**62.77**
Diluted number of shares		**29 082 134**	**28 750 436**
Diluted book value per share (in PLN)		**67.22**	**62.69**

Statements of changes in equity

Changes in equity from 1 January 2005 to 31 December 2005 (in PLN 000's)

	Note	Share capital		Other capital and reserves	Retained earnings					Total
		Registered share capital	Share premium (aggio)		Supplementary capital	Other reserve capital	General risk fund	Profit (loss) from previous year	Profit (loss) for the current year	
Equity as at 1 January 2005		**114 853**	**1 271 164**	**3 460**	**12 388**	**204 097**	**558 000**	**(361 661)**		**1 802 301**
- reclassification to book value through profit and loss account										-
- changes to accounting policies								**(84 070)**		**(84 070)**
- adjustment of errors										-
Adjusted equity as at 1 January 2005		**114 853**	**1 271 164**	**3 460**	**12 388**	**204 097**	**558 000**	**(445 731)**		**1 718 231**
Net change in investments available for sale, net of tax	39			(3 107)						**(3 107)**
Net change in cash flow hedges, net of tax										-
Currency translation differences	39			(2 990)						**(2 990)**
Net profit not recognised in income statement				(6 097)						**(6 097)**
Net profit (loss)	40								207 310	**207 310**
Total profit recognised in current year				(6 097)					207 310	**201 213**
Dividends paid										-
Transfer to General Banking Risk Fund										-
Transfer to reserve capital										-
Transfer to supplementary capital										-
Loss coverage with reserve capital						(188 757)		188 757		-
Loss coverage with supplementary capital										-
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										-
Sale of fixed assets										-
Change in the scope of consolidation										-
Increase of share in consolidated company								(26)		**(26)**
Other changes										-
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**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(257 000)**	**207 310**	**1 954 871**

Changes in equity from 1 January 2004 to 31 December 2004 (in PLN 000's)

	Note	Share capital		Other capital and reserves	Retained earnings					Total
		Registered share capital	Share premium (aggio)		Supplementary capital	Other reserve capital	General risk fund	Profit (loss) from previous year	Profit (loss) for the current year	
Equity as at 1 January 2004		**91 882**	**744 320**	**5 517**	**4 419**	**193 575**	**558 000**	**(44 635)**		**1 461 196**
- 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**	**5 517**	**4 419**	**193 575**	**558 000**	**(44 635)**		**1 553 078**
Net change in investments available for sale, net of tax	39			7 842						**7 842**
Net change in cash flow hedges, net of tax										-
Currency translation differences	39			(1 929)						**(1 929)**
Net profit not recognised in income statement				**5 913**						**5 913**
Net profit (loss)	40								**(316 882)**	**(316 882)**
Total profit recognised in current year				**5 913**					**(316 882)**	**(310 969)**
Dividends paid										-
Transfer to General Banking Risk Fund										-
Transfer to reserve capital						1 836		(1 836)		-
Transfer to supplementary capital										-
Loss coverage with reserve capital										-
Loss coverage with supplementary capital										-
Issue of shares	37,38	22 971	528 321							**551 292**
Redemption of shares										-
Purchase/sale of own shares										-
Issue expenses			(1 477)							**(1 477)**
Additional shareholder payments										-
Sale of fixed assets				(7 970)	7 970					-
Change in the scope of consolidation										-
Increase of share in consolidated company										-
Other changes					(1)			1 692		**1 691**
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**	**3 460**	**12 388**	**204 097**	**558 000**	**(44 779)**	**(316 882)**	**1 802 301**

IFRS Financial Statements 2005 (PLN 000's)

Cash Flow Statement

	Year ended 31 December	
	2005	**2004**
A. Cash flow from operating activities - indirect method	**(2 251 305)**	**1 214 855**
Profit before income tax	**250 147**	**(304 974)**
Adjustments:	***(2 501 452)***	***1 519 829***
Income taxes paid (negative amount)	(35 812)	(15 108)
Amortisation	119 490	128 467
Foreign exchange gains (losses)	(138 984)	(324 042)
Gains (losses) on investing activities	(17 282)	(85 113)
Impairment of financial assets	36 436	224 293
Dividends received	(61 281)	(24 638)
Interest paid	724 771	694 265
Change in loans and advances to banks	(495 848)	(1 722 249)
Change in trading securities	(2 856 585)	484 755
Change in derivative financial instruments	541 592	(95 318)
Change in loans and advances to customers	(1 344 026)	539 509
Change in investment securities	(519 543)	6 969
Change in other assets	421 540	(447 399)
Change in amounts due to other banks	(1 078 312)	111 253
Change in financial instruments and other trading liabilities	(439 184)	4 251
Change in amounts due to customers	2 760 461	1 755 062
Change in debt securities in issue	(316 011)	153 968
Change in provisions	(555)	11 704
Change in other liabilities	197 681	119 200
Net cash from operating activities	**(2 251 305)**	**1 214 855**
B.Cash flows from investing activities	**(37 260)**	**313 479**
Investing activity inflows	**154 214**	**656 141**
Disposal of shares in associates	-	8 040
Disposal of shares in subsidiaries, net of cash disposed	62 469	169 196
Proceeds from sale of intangible assets and tangible fixed assets	7 492	263 148
Other investing inflows	84 253	215 757
Investing activity outflows	**191 474**	**342 662**
Acquisition of subsidiaries, net of cash acquired	11 173	147 274
Purchase of intangible assets and tangible fixed assets	100 611	181 293
Other investing outflows	79 690	14 095
Net cash used in investing activities	**(37 260)**	**313 479**
C. Cash flows from financing activities	**440 770**	**550 068**
Financing activity inflows	**607 646**	**959 439**
Proceeds from loans and advances from other banks	49 924	196 218
Proceeds from other loans and advances	120 975	124 879
Issue of debt securities	-	88 526
Increase of subordinated liabilities	405 830	-
Issue of ordinary shares	30 917	549 816
Financing activity outflows	**166 876**	**409 371**
Repayments of loans and advances from other banks	4 876	50 082
Repayments of other loans and advances	50 548	276 763
Other financing outflows	111 452	82 526
Net cash from financing activities	**440 770**	**550 068**

IFRS Financial Statements 2005 (PLN 000's)

Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 847 795)**	**2 078 402**
(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	9 990 140	8 006 016
Cash and cash equivalents at the end of the reporting period (Note 42)	**8 139 020**	**9 990 140**

Notes presented on pages 9 – 75 constitute an integral part of these Financial Statements.

Explanatory Notes to the Financial Statements

1. Information concerning BRE Bank SA

Bank Rozwoju Eksportu SA (Export Development Bank) was established by Resolution of the Council of Ministers N° 99 on 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 04 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 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.

The average employment in BRE Bank SA was: 3,410 persons in 2005 and 3,037 persons, respectively.

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

2. Description of Relevant Accounting Policies

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

2.1. Accounting Basis

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

These Financial Statements of BRE Bank 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.

Until 31 December 2004 financial statements of BRE Bank 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 Bank at 31 December 2004 have been presented to adjust to IFRS 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 IFRS 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 Bank prepared its opening IFRS balance sheet at that date. The reporting date of these financial statements is 31 December 2005. The Bank's IFRS adoption date is 1 January 2005. In preparing stand alone financial statements in accordance with IFRS 1, the Bank 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 Bank (facultative exemptions)
The Bank has elected to apply the following optional exemptions from full retrospective application.

a) Business combination
The Bank 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 Bank 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 Bank under previous GAAP recognised all cumulative actuarial gains and losses, this exemption is not applicable.

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

e) Compound financial instruments
The Bank 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 Bank 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 Bank 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 to the IAS 32 and IAS 39 transition date.

i) Share-based payments
The Bank 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 Bank does not issue insurance contracts; this exemption is not applicable.

k) Designation of financial assets and financial liabilities at fair value

IFRS Financial Statements 2005 (PLN 000's)

The Bank 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 Bank has applied the following mandatory exceptions from retrospective application.

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 Bank 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 Bank 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 :

The adoption of IFRS 2 has resulted in	**31.12.2005**	**31.12.2004**
- increase of employment costs	4 536	8 686
- decrease of basic profit per share	0.82	0.00
- decrease of diluted profit per share	(0.02)	0.02
- decrease of retained financial result	15 340	6 654
- increase of share capital	1 083	-

2.2. 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 Bank 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.

2.3. Fee and Commission Income

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

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

2.4. Financial Assets

The Bank classifies its financial assets to the following categories: financial assets valued at fair value through the Profit and Loss Account; loans and receivables; 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 Bank. Derivative instruments are also classified as "held for trading", unless they were designated for hedging.

Disposals of debt securities held for trading are accounted 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 Bank supplies monetary assets, goods or services directly to the debtor, without any intention of trading the receivable.

Held to Maturity Investments

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

In the case of sale by the Bank 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.

According to the policy of the Bank, financial assets classified in this category are not maintained.

Available for Sale Investments

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

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

2.5. 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.

2.6. Impairment of Financial Assets

Assets Carried at Amortised Cost

At each Balance Sheet date, the Bank estimates whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the 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 Bank 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 Bank to a borrower caused by the economic or legal aspects of such borrower's financial difficulties, which would not have been taken into account under different circumstances;

d) Probability of bankruptcy or other financial reorganisation of the debtor;

e) Disappearance of the active market for the respective financial asset caused by financial difficulties; or

f) Noticeable data indicating a measurable decrease of estimated future cash flows attached to a group of financial assets since the time of their initial recognition, even if such reduction cannot yet be assigned to particular items of the respective group of financial assets, including:

- adverse changes in the payment status of borrowers; or
- economic situation of the country or on the local market causing the impairment of assets belonging to the respective group.

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

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 Bank 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.

2.7. 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.

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

Securities borrowed by the Bank are not recognized in the financial statements, unless 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.

2.9. Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

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

2.10. 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.

2.11. 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.

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 (2-10 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 Bank shows separately additions from internal development and separately those acquired through business combinations.

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

2.12. 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 Bank and the cost of the item can be measured reliably.

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

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

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.

2.13. Deferred Tax Assets and Liabilities

The Bank 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 Bank presents the deferred tax assets and liabilities netted in the Balance Sheet. Such assets and provisions may be netted against each other if the Bank possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

The Bank discloses separately the amount of negative temporary differences (mainly on account of 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 Bank and it is possible that the difference will not reverse in the foreseeable future.

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

2.14. 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.

2.15. Accruals and Deferred Income

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

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

2.16. 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 Bank has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliable estimated.

2.17. Retirement Benefits and Other Employee Benefits

Retirement Benefits

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

Benefits Based on Shares

The Bank runs a 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 Bank 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.

2.18. 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

Registered 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 in the Bank by the Bank, 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.

2.19. Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

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

2.20. Custody Services Business

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

2.21. 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 Bank 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 IRFS has been presented in Note 46.
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 Bank focuses on using financial instruments, including derivatives. The Bank accepts customers deposits with both fixed and variable interest for various terms and attempts to earn above-average percent margins by investing the funds in top quality assets. The Bank works to increase its percent margins by accumulating short-term funds and lending the funds for longer terms, for higher interest rates, while retaining liquidity at a level ensuring that all liabilities are met.

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

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

Hedge Accounting

The Bank does not use hedge accounting.

3.2 Credit Risk

The Bank is exposed to credit risk, i.e., risk that a contracting party may be unable to repay its liabilities to the Bank on time. The Bank creates provisions for its losses on the Balance Sheet date. Because of concentration of the risk portfolio, a change in the economy or an industry sector with a large share in the Bank's portfolio may create additional risk, for which no provisions were made on the Balance Sheet date. For this reason, the Management monitors the customers and customer groups in connection with the service of which the exposure of the Bank is significant. 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 Bank manages the level of its credit exposure by setting limits for risks acceptable to each borrower or group of related borrowers and by using a structure of sub-limits.

Sub-limits make it possible to adjust a limit to the requirements of customers in functional terms and, on the other hand, they enable control of the use of funds provided to each customer. The risk management exercise involves also 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 data 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 Bank 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 Bank 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 Bank does not ask for security for credit risk related to such instruments. The exception is a situation when the Bank requires security deposits from its contracting parties.

Master Netting Agreements

Master netting agreements made with contracting parties with which the Bank concludes large transactions are an additional measure used by the Bank to 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 Bank related to derivative instruments covered by master netting agreements can undergo significant changes over a short time because each transaction covered by the agreement affects the exposure.

Off-balance sheet Credit-related Commitments

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

Credit-related off-balance sheet commitments concern the unused parts of credits, guarantees and letters of credit granted by the Bank. As regards credit risk related to credit commitments, the Bank can be exposed to loss equal to the whole amount of unused credit commitments. However, the probable amount of loss is smaller than the whole amount of unused credit commitments because most of such commitments are contingent on meeting specific credit standards by customers. The BRE Bank 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. Insurance and retirement/pension funds (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 subsidiary of the Bank. The second exposure consists of credits and an open credit line for a public/government organization. Exposure with customer 3 and 4 relates mainly to a credit for subsidiary. Number 5 represents exposure with a subsidiary, related to credits, open credit lines, stocks and bonds; it is classified as "standard" exposure. Item 6 represents credit exposure, exposure related to securities and a measure of credit risk related to transactions on derivatives. Item 7 relates to open credit lines and guarantees for a company with stabilized financial standing. Number 8 is mainly credits 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	221 212	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 very good or good. 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 Bank 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 the 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 31December 2005, the one-day total VaR in the trade book of the Bank amounted to PLN 743,000 at 95% (2004: PLN 720,000) 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.

IFRS Financial Statements 2005 (PLN 000's)

	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

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

Concentration of Assets, Liabilities and Off-balance Sheet Items

31.12.2005	**PLN**	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
ASSETS							
Cash and balances with Central Bank	1 741 370	22 320	9 744	624	1 306	976	1 776 340
Debt securities eligible for rediscounting at the Central Bank	37 464	-	-	-	-	-	37 464
Loans and advances to banks	2 468 499	586 043	1 430 295	1 731	3 216	199 981	4 689 765
Financial instruments at fair value through profit or loss (including trading)	4 309 821	447 640	257 192	-	-	-	5 014 653
Derivative financial instruments	1 225 537	15 619	13 646	-	205	225	1 255 232
Loans and advances to customers	7 882 217	1 524 220	673 837	2 849 065	7 031	43 189	12 979 559
Investment securities	553 864	127 692	373 618	-	-	-	1 055 174
- Available for sale	553 864	127 692	373 618	-	-	-	1 055 174
- Held to maturity	-	-	-	-	-	-	-
Pledged assets	1 488 188	28 024	-	-	-	-	1 516 212
Investments in subsidiaries	224 097	37 073	-	-	-	24 081	285 251
Investments in associated undertakings	5 649	-	-	-	-	-	5 649
Intangible assets	368 504	-	-	-	-	-	368 504
Tangible fixed assets	483 872	199	-	-	-	-	484 071
Other assets, including deferred income tax assets	651 400	2 324	5 268	3	8	-	659 003
Total assets	**21 440 482**	**2 791 154**	**2 763 600**	**2 851 423**	**11 766**	**268 452**	**30 126 877**
LIABILITIES							
Amounts due to the Central Bank	-	-	-	-	-	-	-
Amounts due to other banks	870 343	1 201 501	36 381	236 304	1 630	-	2 346 159
Other deposits	-	-	-	-	-	-	-
Derivative financial instruments and other trading liabilities	1 148 655	16 798	8 369	-	205	251	1 174 278
Amounts due to customers	16 531 840	4 736 877	1 408 428	11 416	39 821	26 112	22 754 494
Debt securities in issue	91 545	-	-	-	-	-	91 545
Subordinated liabilities	-	1 362 528	-	-	-	-	1 362 528
Other liabilities including tax liabilities	352 658	3 642	8 593	-	-	-	364 893
Provisions	75 366	1 844	131	-	-	768	78 109
Total liabilities	**19 070 407**	**7 323 190**	**1 461 902**	**247 720**	**41 656**	**27 131**	**28 172 006**
Net on-balance sheet position	**2 370 075**	**(4 532 036)**	**1 301 698**	**2 603 703**	**(29 890)**	**241 321**	**1 954 871**
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**	**Inne**	**Razem**
Total assets	18 750 728	3 825 895	3 191 930	1 693 985	15 097	292 826	27 770 461
Total liabilities	17 897 289	6 487 136	1 312 216	224 366	35 388	11 765	25 968 160
Net on-balance sheet position	**853 439**	**(2 661 241)**	**1 879 714**	**1 469 619**	**(20 291)**	**281 061**	**1 802 301**
Credit commitments	**4 971 879**	**622 531**	**311 403**	**96 850**	**1 716**	**4 615**	**6 008 994**

IFRS Financial Statements 2005 (PLN 000's)

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.

According to the Bank Accounting Policies, the Bank 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	17 651 821	4 506 013	1 592 251	1 136 181	674 794	
Interest bearing liabilities	(18 608 254)	(5 051 382)	(964 151)	(134 910)	(14 306)	
Net neutral positions	-	-	-	-	-	(788 057)
Balance sheet gap	**(956 433)**	**(545 369)**	**628 100**	**1 001 271**	**660 488**	
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	**(1 335 157)**	**1 659 025**	**(1 182 616)**	**(4 540)**	**248 345**	
						614 943

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	-	-	-

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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 BRE Bank based on the time to maturity remaining as at the Balance Sheet date.

According to the Bank Accounting Policies comparative information does not comply with IAS 32, IAS 39 in its first year of transition and 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	1 776 340	-	-	-	-	**1 776 340**
Debt securities eligible for rediscounting at the Central Bank	-	37 464	-	-	-	**37 464**
Loans and advances to banks	2 182 401	1 187 432	1 071 798	213 430	34 704	**4 689 765**
Trading securities and other financial instruments at fair value through profit or loss	3 300 006	990 409	258 634	944 954	1 014 375	**6 508 378**
Loans and advances to customers	2 982 931	1 112 572	2 961 691	2 731 135	3 191 230	**12 979 559**
Investment securities	15 000	988	272 093	697 256	688 085	**1 673 422**
- Available for sale	15 000	988	272 093	697 256	688 085	**1 673 422**
- Held to maturity	-	-	-	-	-	-
Other assets	1 547 916	3 556	-	481 951	428 526	**2 461 949**
						-
T o t a l a s s e t s	**11 804 594**	**3 332 421**	**4 564 216**	**5 068 726**	**5 356 920**	**30 126 877**
LIABILITIES						
Amounts due to the Central Bank	-	-	-	-	-	-
Amounts due to other banks	712 765	102 329	1 221 439	278 821	30 805	**2 346 159**
Other deposits	-	-	-	-	-	-
Amounts due to customers	17 149 883	1 695 863	1 479 474	2 050 433	378 841	**22 754 494**
Debt securities in issue	-	-	45 183	46 362	-	**91 545**
Subordinated liabilities	-	-	-	-	1 362 528	**1 362 528**
Other liabilities	1 478 226	7 149	287	45 331	8 178	**1 539 171**
Provisions	14 189	-	-	63 920	-	**78 109**
Total liabilities	**19 355 063**	**1 805 341**	**2 746 383**	**2 484 867**	**1 780 352**	**28 172 006**
Net liquidity gap	**(7 550 469)**	**1 527 080**	**1 817 833**	**2 583 859**	**3 576 568**	**1 954 871**

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 Bank took benefit of the exemption from the obligation to disclose comparable fair value information.

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

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

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

	Carrying value 31.12.2005	Fair value 31.12.2005
Financial assets		
Loans and advances to banks	4 689 765	4 718 175
Loans and advances to customers	12 979 559	12 990 234
Assets available for sale	1 055 174	1 055 174
Financial liabilities		
Amounts due to other banks	2 346 159	2 346 996
Amounts due to customers	22 754 494	22 762 269
Debt securities in issue	91 545	95 095

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

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

Loans and advances to customers are disclosed at net values adjusted for impairment write-offs. The fair value of fixed interest rate loans and advances granted to customers with more than 1 year to maturity was calculated as 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.

Available for sale financial assets. Listed available for sale financial instruments held by the BRE Bank are priced at their fair values. The Bank 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 Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties.

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

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

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

Impairment of loans and advances

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

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5. Net interest income

	31.12.2005	31.12.2004
Interest income		
Cash and short-term investments	194 400	173 662
Investment securities	30 330	14 192
Amounts due arising from purchased securities with a sale clause	-	145
Loans and advances including the unwind of the impairment provision discount	878 598	690 966
Debt securities	191 793	143 412
Other	23 316	3 278
	1 318 437	**1 025 655**
Interest expense		
Arising from amounts due to banks and customers	(692 153)	(615 470)
Arising from issue of debt securities	(9 972)	(29 351)
Amounts due arising from sold securities with a repurchase clause	-	(2 478)
Other borrowed funds	(52 267)	(35 188)
Debt trading securities	(9 386)	(10 008)
IRS, CIRS and OIS contracts	(35 990)	(224)
Other	(11 198)	(1 964)
	(810 966)	**(694 683)**

Net interest income per segment is as follows:

	31.12.2005	31.12.2004
Interest income		
From banking sector	343 509	217 319
From clients, including:	974 928	808 336
- corporate clients	536 810	470 986
- individual clients	215 687	124 700
- public sector	222 431	212 650
	1 318 437	**1 025 655**
Interest expense		
From banking sector	(150 512)	(151 279)
From clients, including:	(650 482)	(514 053)
- corporate clients	(394 373)	(269 820)
- individual clients	(244 689)	(228 364)
- public sector	(11 420)	(15 869)
Debt securities in issue	(9 972)	(29 351)
	(810 966)	**(694 683)**

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6. Net Fee and Commission Income

	31.12.2005	31.12.2004
Fee and commission income		
Credit related fees and commissions	62 709	84 391
Fees from portfolio-management services and other management-related fees	10 703	10 009
Guarantees granted and trade finance commissions	29 458	29 963
Commissions from credit cards	76 330	49 194
Commissions from money transfers	61 995	52 268
Commissions from bank accounts	44 067	42 175
Other	50 332	55 243
	335 594	**323 243**
Fee and commission expense		
Brokerage fees	(9 481)	(8 077)
Credit cards related fees	(64 149)	(51 577)
Other fees	(24 858)	(45 066)
	(98 488)	**(104 720)**

7. Dividend Income

	31.12.2005	31.12.2004
Trading securities	717	354
Securities available for sale	61 280	24 637
Dividend income, total	**61 997**	**24 991**

8. Net Trading Income

	31.12.2005	31.12.2004
Foreign exchange result	**251 293**	**219 156**
- foreign exchange differences from the translation (net)	350 924	97 507
- transaction gains less losses	(99 631)	121 649
Other trading income	**5 358**	**(15 419)**
- interest-bearing instruments	18 787	(10 256)
- equities	(3 961)	(2 371)
- market risk instruments	(9 468)	(2 792)
Total net trading income	**256 651**	**203 737**

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.

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9. Other Operating Income

	31.12.2005	31.12.2004
Sale of tangible and intangible fixed assets and assets held for resale	9 128	266 811
Income from recovering previously designated as uncollectible receivables	47	85
Income from compensation, penalties and fines received	1 251	2 713
Income due to release of provisions	8 538	1 891
Proceeds from services provided	8 460	-
Other	11 425	44 046
Total other operating income	**38 849**	**315 546**

10. Overhead Costs

	31.12.2005	31.12.2004
Staff-related expenses (Note 12)	(312 192)	(231 495)
Material costs	(312 614)	(297 248)
Taxes and fees	(7 231)	(6 774)
Contributions and transfers to the Banking Guarantee Fund	(3 895)	(5 806)
Contribution to the Social Benefits Fund	(58)	(51)
Total overhead costs	**(635 990)**	**(541 374)**

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).

11. Other Operating Expenses

	31.12.2005	31.12.2004
Costs of selling or scrapping fixed assets, intangible assets and assets held for resale	(7 297)	(286 900)
Impairment provisions created for other receivables (excluding loans and advances)	(1 138)	(18 065)
Receivables and liabilities recognised as uncollectible and written off	-	(52)
Compensation, penalties and fines paid	(11 613)	(1 196)
Donations made	(3 158)	(3 101)
Impairment losses on other non-financial assets	(6 944)	(87 292)
Other, due to:	(13 279)	(47 795)
- provisions	(5 278)	(24 426)
- other operating costs	(7 780)	(23 277)
- accessory expenses	(112)	(144)
- net other items	(109)	52
Total other operating expenses	**(43 429)**	**(444 401)**

12. Staff costs

	31.12.2005	31.12.2004
Wages and salaries	(245 803)	(168 104)
Social security expenses	(40 514)	(21 937)
Salaries in form of share option program for employees	(4 536)	(8 686)
Other staff expenses	(21 339)	(32 768)
Staff-related expenses, total	**(312 192)**	**(231 495)**

The average level of employment in the Bank in 2005 was 3,410 persons (vs. 3,037 in 2004).
The additional information related to share-based payment has been presented in the Note 40 “Retained earnings”.

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13. Impairment losses on loans and advances

	31.12.2005	31.12.2004
Loans and advances to customers (Notes 21,34)	(53 392)	(80 973)
Total impairment losses on loans and advances	**(53 392)**	**(80 973)**

14. Income Tax Expense

	31.12.2005	31.12.2004
Current tax	(48 369)	(1 471)
Deferred income tax (Note 35)	5 532	(10 437)
Total income tax	**(42 837)**	**(11 908)**
Profit before tax	**250 147**	**(304 974)**
Income tax	(47 528)	57 945
Expenses not deductible for tax purposes	15 188	56 776
Accrued expenses	(14 940)	(123 582)
Other positions*	4 443	(3 047)
Income tax recognised in the profit and loss account	**(42 837)**	**(11 908)**
Effective tax rate calculation		
Profit before income tax	250 147	(304 974)
Income tax	(42 837)	(11 908)
Effective tax rate	**17.12%**	**(3.90%)**

*Tax on adjustments due to the change of accounting principles as at 1 January 2005. The adjustments affected the net profit for 2004. They were not tax income and tax expense.

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

15. Earnings per Share

Earnings per share for 12 months

	31.12.2005	31.12.2004
Basic:		
Net profit (loss)	207 310	(316 882)
Weighted average number of ordinary shares	28 780 011	25 841 813
Net basic profit (loss) per share (in PLN per share)	7.20	(12.26)
Diluted:		
Net profit (loss)	207 310	(316 882)
Net profit (loss) applied for calculation of diluted earnings per share	207 310	(316 882)
Weighted average number of ordinary shares in issue	28 780 011	25 841 813
Adjustments for:		
- stock options for employees	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)	7.18	(12.24)

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.

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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.

16. Cash and Balances with central bank

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%).

	31.12.2005	**31.12.2004**
Cash in hand	86 777	68 039
Current account	312 337	666 569
Other	1 377 226	-
Total cash and balances with central bank (Note 42)	**1 776 340**	**734 608**
Including: mandatory reserve deposit	585 227	485 544

17. Debt Securities Eligible for Rediscounting at the Central Bank

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

18. Loans and Advances to Banks

	31.12.2005	**31.12.2004**
Current accounts	205 830	298 094
Placements with other banks	3 005 618	5 662 528
Included in cash equivalents (Note 42)	**3 211 448**	**5 960 622**
Loans and advances	1 432 146	771 029
Reverse repo / buy sell back transactions	33 430	110 280
Other receivables	12 741	-
Total (gross) loans and advances to banks	**4 689 765**	**6 841 931**
Provisions created for loans and advances to banks (negative amount) (Note 13)	-	(2 287)
Total (net) loans and advances to banks	**4 689 765**	**6 839 644**

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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)	777 229	1 939 056
Provisions created for loans and advances to Polish banks	-	(2 287)
Loans and advances to foreign banks (gross)	3 912 536	4 902 875
Total (net) loans and advances to banks	**4 689 765**	**6 839 644**

Loans and advances to banks are variable rate credits amounting to PLN 733,304 thousand (vs. PLN 711,277 thousand 31 December 2004).

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

	31.12.2005	**31.12.2004**
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
- release of provisions	-	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)**

19. Trading Securities and Pledged Assets

	31.12.2005	**31.12.2004**
Trading debt securities and pledged assets	**6 472 185**	**4 134 680**
Government bonds included in cash equivalents and pledged government bonds (sell buy back transactions) (Note 41), including:	1 473 639	1 201 869
- 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 41), including:	1 640 129	2 144 515
- pledged treasury bills (sell buy back transactions)	1 298 166	1 524 472
Other debt securities	3 358 417	788 296
- pledged deposit certificates (sell buy back transactions)	64 767	-
- pledged corporate bonds (sell buy back transactions)	89 988	-
Equity securities:	**36 193**	**6 229**
- listed	36 193	6 229
Total trading debt and equity securities, including:	**6 508 378**	**4 140 909**
- Trading securities	*5 014 653*	*2 390 684*
- 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 22 “Investment securities”.

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20. Derivative Financial Instruments and Other Trading Liabilities

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

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

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

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

Face values of certain types of financial instruments provide a basis for comparing them to instruments disclosed in the Balance Sheet but 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 Bank's exposure to credit risk or price change risk. Derivative instruments can have positive value (assets) or negative value (liabilities), depending on market interest or currency exchange rate fluctuations. The aggregate fair value of derivative financial instruments may be subject to strong variations. The following table presents the fair values of the derivatives held by the Bank:

	Contract amount	**Fair value 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**
Total recognised derivative assets/(liabilities)	**288 192 435**	**1 255 232**	**1 174 136**

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Other trading liabilities	-	-	142
- Other	-	-	142
Total recognised derivative assets/(liabilities) and other trading liabilities	**288 192 435**	**1 255 232**	**1 174 278**

	Fair value of asset	Fair value of liability
As at 31 December 2004		
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	415 572
- Forward rate agreements	47 112	37 392
Total OTC interest rate derivatives	**443 869**	**452 964**
- Stock exchange traded interest rate options	45	-
Total interest rate derivatives	**443 914**	**452 964**
Stock exchange traded market risk transactions	**5 504**	**12 350**
Total recognised derivative assets/(liabilities)	**1 796 824**	**1 613 319**
Other trading liabilities	-	143
- Other	-	143
Total recognised derivative assets/(liabilities) and other trading liabilities	**1 796 824**	**1 613 462**

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

21. 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:	**7 960 043**	**8 310 870**
- overdrafts	1 585 400	1 423 248
- credit cards	2 422	1 785
- direct commercial loans	6 064 353	6 167 772
- consortium loans	305 580	703 634
- reverse repo / buy sell back transactions	-	10 061
- other	2 288	4 370
Loans and advances to public sector	**1 123 946**	**1 024 841**
Receivables purchased	170 704	283 632
Realised guarantees and warranties	18 894	20 127
Other receivables	118 914	159 559

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Total (gross) loans and advances to customers	**13 719 419**	**12 457 630**
Provisions for loans and advances to customers (negative amount)	(739 860)	(753 057)
Total (net) loans and advances to customers	**12 979 559**	**11 704 573**

As at 31 December 2005, variable rate loans amounted to PLN 12,751,532 thousand and fixed rate loans PLN 659,375 thousand. The values mentioned above relate to loans granted to individual clients, corporate clients and budget sector.

The Bank 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	12 744 735
Value adjustments to exposures analysed according to portfolio approach	(71 720)
Net balance sheet exposure	**12 673 015**
Receivables classified as "default"	
Gross balance sheet exposure	974 684
Value adjustment to exposures analysed individually	(668 140)
Net balance sheet exposure	**306 544**

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	**(760 028)**	**(738 137)**
Increase (due to)	**(346 502)**	**(434 614)**
- provisions created	(346 028)	(433 877)
- foreign exchange differences	(474)	-
- other	-	(737)
Decrease (due to)	**366 670**	**419 694**
- provisions release	302 860	343 079
- reclassification	36 649	-
- foreign exchange differences	-	30 025
- charge-offs	19 284	46 590
- other	7 877	-
Provisions as at the end of the period	**(739 860)**	**(753 057)**

22. Investment Securities and pledged assets

	31.12.2005	**31.12.2004**
Debt securities - at fair value:	895 813	273 863
- listed	895 813	273 863
- unlisted	-	-
Equity securities - at fair value	204 752	249 117
- listed	5 618	145 275
- unlisted	199 134	103 842
Total securities	**1 100 565**	**522 980**

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Impairment of available for sale securities	**(22 904)**	**(18 117)**
Total investment securities, including:	**1 077 661**	**504 863**
- Available for sale securities	*1 055 174*	*473 363*
- Pledged assets	*22 487*	*31 500*

As at 31 December 2005, the balance sheet value of debt securities based on fixed and variable interest rates amounted to PLN 721,357 thousand and PLN 86,940 thousand respectively.

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

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).

According to the Act dated on 14 December 1994 about Banking Guarantee Fund, BRE Bank SA had treasury bills pledged in carrying value of PLN 22,487 thousand (the nominal value PLN 23,000 thousand) as at 31 December 2005 that were on a separate account in NBP.

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	32 321	34 695
Impairment of available for sale equity securities	(31 947)	(238 223)
Total gains and losses from investment securities	**374**	**(203 528)**

Movement in Investment Securities

	31.12.2005	**31.12.2004**
As at 1 January 2005	**504 863**	**679 842**
Exchange differences	10 363	(90 261)
Additions	7 014 710	4 248 952
Disposals (sale and redemption)	(6 438 016)	(4 330 159)
Losses from impairment	(3 964)	(3 511)
Gains / losses from changes in fair value	(10 295)	-
As at 31 December 2005	**1 077 661**	**504 863**

23. Investments in Subsidiaries

31 December 2005 (in PLN '000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
BRE International Finance BV	Amsterdam, Holland	295	83	9 972	140	100.00	77
PTE Skarbiec - Emerytura SA*	Warsaw	12 943	6 839	41 278	7 861	100.00	310 510
ServicePoint Sp. z o.o.	Warsaw	2 385	657	7 939	783	100.00	50
Fund Advisory and Management Company (FAMCO) SA w likwidacji	Warsaw	4 243	1 521	204	165	100.00	5 340
BRE Corporate Finance SA	Warsaw	4 751	1 271	16 122	210	100.00	6 256
Dom Inwestycyjny BRE Banku SA	Warsaw	385 018	341 106	64 113	11 608	100.00	26 719
Skarbiec Asset Management Holding SA	Warsaw	134 681	10 742	64 596	8 293	100.00	94 626
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Aleksandrów Łódzki	12 886	6 299	20 638	283	100.00	7 066
AMBRESA Sp. z o.o.	Warsaw	1 346	116	76	(51)	100.00	866
Garbary Sp. z o.o.	Poznań	52 093	2 577	1 222	(1 919)	100.00	52 184
MKF Sp. z o.o.	Warsaw	90	99	17	(19)	100.00	33
TV-Tech Investment 1 Sp. z o.o.	Warsaw	787	1	1 196	760	100.00	50
TV-Tech Investment 2 Sp. z o.o.	Warsaw	31	1	-	(8)	100.00	50
BRELIM Sp. z o.o.	Warsaw	4 528	2	5	(31)	100.00	3 966
BREL-MAR Sp. z o.o.		36	7	742	(759)	100.00	335
BRE Finance France SA	Levallois Perret, France	2 418 657	2 417 377	55 430	420	99.97	868
BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	Warsaw	67 971	61 390	-	(383)	99.84	3 629
Intermarket Bank AG	Vienna, Austria	673 412	575 445	67 495	14 802	56.24	36 128
BRE Leasing Sp. z o.o.	Warsaw	1 751 080	1 704 959	194 129	15 117	50.004	3 737
Magyar Factor Rt.	Budapest, Hungary	229 243	209 407	27 607	6 056	50.00	8 399
TRANSFINANCE a.s.	Prague, Czech Republic	385 173	352 958	34 143	6 085	50.00	15 682
Polfactor SA	Warsaw	269 678	245 726	28 934	7 642	50.00	4 803
BRE.locum Sp. z o.o.	Łódź	130 184	101 910	66 291	5 494	49.99	12 587
emFinanse Sp. z o.o.	Łódź	1 236	248	6	(812)	100.00	1 800
*) balance sheet value of PTE is presented in separete balance sheet item "Non-current assets held for sale"							**595 761**

31 December 2004 (in PLN '000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
BRE International Finance BV	Amsterdam, Holland	799 284	798 311	37 231	987	100.00	82
PTE Skarbiec - Emerytura SA	Warsaw	108 402	-	38 363	5 223	100.00	341 804
ServicePoint Sp. z o.o. *	Warsaw	1 265	321	4 562	275	100.00	50
Fund Advisory and Management Company (FAMCO) SA *	Warsaw	4 008	55	796	(353)	100.00	5 340
BRE Corporate Finance SA	Warsaw	8 146	3 876	14 223	1 329	100.00	6 257
Dom Inwestycyjny BRE Banku SA	Warsaw	433 552	393 689	51 116	8 766	100.00	26 719
Skarbiec Asset Management Holding SA	Warsaw	125 151	10 064	64 734	(15 383)	100.00	94 627
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Aleksandrów Łódzki	14 999	3 695	26 584	(240)	100.00	12 066
AMBRESA Sp. z o.o. *	Warsaw	1 286	21	-	(39)	100.00	850
Garbary Sp. z o.o.	Poznań	53 810	2 391	10 594	7 459	100.00	52 169
Optimus IC SA *	Nowy Sącz	35 297	8 352	64 616	9 633	100.00	17 949
BRELIM Sp. z o.o. *	Warsaw	4 560	10 140	6	(2 386)	100.00	65
MKF Sp. z o.o. *	Warsaw	21	21	-	-	100.00	12
TV-Tech Investment 1 Sp. z o.o.	Warsaw	136 091	136 055	-	(12)	100.00	50
BRE Finance France SA	Levallois Perret, France	1 716 254	1 715 141	28 859	203	99.97	918
BRELINVEST Sp. z o.o. Fly 1 Sp. Komandytowa *	Warsaw	73 864	64 324	-	(155)	99.84	5 622
BRELINVEST Sp. z o.o. Fly 2 Sp. Komandytowa *	Warsaw	72 669	62 888	-	(163)	99.84	5 415
AMBRESA Sp. z o.o. - BRELLA Sp. Komandytowa *	Warsaw	129 702	111 462	-	1 043	99.69	8 490
Intermarket Bank AG	Vienna, Austria	635 765	545 481	62 391	3 497	54.84	38 179
eCard SA *	Warsaw	1 772	5 172	6 629	(2 288)	52.96	-
BRE Leasing Sp. z o.o.	Warsaw	1 739 538	1 689 549	186 019	10 149	50.00	12 735
Magyar Factor Rt.	Budapest, Hungary	179 055	161 639	30 901	5 846	50.00	9 126
TRANSFINANCE a.s.	Prague, Czech Republic	370 255	341 842	38 163	5 296	50.00	15 825
Polfactor SA	Warsaw	235 917	217 608	28 217	6 710	50.00	4 804
BRE.locum Sp. z o.o.	Łódź	92 277	69 497	40 083	(20 525)	49.99	12 589
							671 743

* data according to Polish GAAP

Change in Investments in Subsidiaries:

	31.12.2005	31.12.2004
As at the beginning of the period	**671 743**	**898 046**
Increase due to:	**6 128**	**216 329**
- purchase	2 013	216 329
- other	4 115	-
Decrease due to:	**(392 620)**	**(442 632)**
- sale	(47 511)	(216 599)
- impairment	(26 803)	(223 683)
- foreign exchange differences	(2 973)	(2 350)
- reclassification to available for sale	(4 823)	-
- reclassification to non-current assets held for sale	(310 510)	-
As at the end of the period	**285 251**	**671 743**

On 31 December 2005, impairment test on PTE Skarbiec-Emerytura SA (PTE) shares was made. The agreement with PZU dated at November 2005 regarding the sale of PTE shares for the minimum price of PLN 315 million had the influence on the impairment amount of PTE shares. As a consequence, the Bank stated the impairment on PTE shares in amount of PLN 31,293 thousand as at 31 December 2005. The signing of the agreement mentioned above caused that the carrying value of the Bank's investment in PTE was presented in a separate position of the balance sheet "Non-current assets held for sale" (Note 28).

24. Investments in Associated Undertakings

The Bank 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.	Polska	1 521	1 063	1 793	(1 863)	24.90
NOVITUS S.A.	Polska	36 077	10 202	58 751	6 929	24.88
Tele-Tech Investment Sp. z o.o.	Polska	50 409	49 415	6 189	(511)	24.00

31 December 2004 (in PLN '000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade SA	Polska	3 121	800	2 470	(1 842)	24.90
Tele-Tech Investment Sp. z o.o.	Polska	57 740	56 234	15 565	10 233	24.00

Change in Investments in Associates:

	31.12.2005	31.12.2004
As at the beginning of the period	**826**	**7 372**
Increase due to:	**4 823**	**10**
- purchase	-	10
- reclassification of shares	4 823	-
Decrease due to:	**-**	**(6 556)**
- sale	-	(5 896)
- reclassification of shares	-	(50)
- other	-	(610)
As at the end of the period	**5 649**	**826**

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, licences and similar assets, including	323 267	198 876
- computer software	285 517	169 358
Other intangible assets	2 227	909
Prepayments for intangible assets	37 436	142 644
Total intangible assets	**368 504**	**350 148**

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Movement in Intangible Assets

Movements in intangible assets from 1 January 2005 to 31 December 2005	Development costs	Goodwill	Acquired concessions, patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Advances for intangible asssets,	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2005	**33 108**	**-**	**304 586**	**250 725**	**2 749**	**142 644**	**483 087**
Increase (due to)	**-**	**-**	**176 986**	**149 177**	**1 837**	**55 708**	**234 531**
- purchase	-	-	20 464	1 105	49	54 650	**75 163**
- transfer from assets under construction and prepayments for intangible assets	-	-	1 212	7	17	747	**1 976**
- transfer from investment expenditure	-	-	154 807	147 562	1 771	-	**156 578**
- other increases	-	-	503	503	-	311	**814**
Decrease (due to)	**-**	**-**	**(5 628)**	**(2 355)**	**-**	**(160 916)**	**(166 544)**
- liquidation	-	-	(5 618)	(2 355)	-	-	**(5 618)**
- transfer from investment expenditure	-	-	-	-	-	(156 578)	**(156 578)**
- other decreases	-	-	(10)	-	-	(4 338)	**(4 348)**
Gross value of intangible assets as at the end of the period: 31.12.2005	**33 108**	**-**	**475 944**	**397 547**	**4 586**	**37 436**	**551 074**
Accumulated amortization as at the beginning of the period: 01.01.2005	**(25 389)**	**-**	**(105 710)**	**(81 367)**	**(1 840)**	**-**	**(132 939)**
Amortization for the period (due to)	**(2 145)**	**-**	**(46 967)**	**(30 663)**	**(519)**	**-**	**(49 631)**
- depreciation charges	(2 145)	-	(50 810)	(32 544)	(519)	-	**(53 474)**
- liquidation	-	-	3 832	1 881	-	-	**3 832**
- other decreases	-	-	11	-	-	-	**11**
Accumulated amortization as at the end of the period: 31.12.2005	**(27 534)**	**-**	**(152 677)**	**(112 030)**	**(2 359)**	**-**	**(182 570)**
Impairment losses as at the beginning of the period: 01.01.2005	-	-	-	-	-	-	-
- increase	-	-	-	-	-	-	-
- decrease	-	-	-	-	-	-	-
Impairment losses as at the end of the period: 31.12.2005							-
Net value of intangible assets as at the end of the period: 31.12.2005	**5 574**	**-**	**323 267**	**285 517**	**2 227**	**37 436**	**368 504**

Movements in intangible assets from 1 January 2004 to 31 December 2004	Development costs	Goodwill	Acquired concessions, patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Advances for intangible asssets	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2004	**26 438**	**55 061**	**239 377**	**202 568**	**2 365**	**149 840**	**473 081**
Increase (due to)	**6 670**	**-**	**100 350**	**79 829**	**386**	**54 204**	**161 610**
- purchase	-	-	10 227	1 510	141	44 024	**54 392**
- transfer from assets under construction and prepayments for intangible assets	-	-	36 249	33 662	245	-	**36 494**
- other increases	6 670	-	53 874	44 657	-	10 180	**70 724**
Decrease (due to)	**-**	**(55 061)**	**(35 141)**	**(31 672)**	**(2)**	**(61 400)**	**(151 604)**
- liquidation	-	(55 061)	(27 570)	(27 570)	-	-	**(82 631)**
- transfer from investment expenditure	-	-	-	-	-	-	-
- other decreases	**-**	**-**	**(7 571)**	**(4 102)**	**(2)**	**(61 400)**	**(68 973)**
Gross value of intangible assets as at the end of the period: 31.12.2004	**33 108**	**-**	**304 586**	**250 725**	**2 749**	**142 644**	**483 087**
Accumulated amortization as at the beginning of the period: 01.01.2004	**(18 537)**	**-**	**(80 070)**	**(65 304)**	**(1 222)**	**-**	**(99 829)**
Amortization for the period (due to)	**(6 852)**	**-**	**(25 640)**	**(16 063)**	**(618)**	**-**	**(33 110)**
- depreciation charges	(5 959)	-	(52 248)	(28 540)	(619)	-	**(58 826)**
- other increases	(893)	-	(146)	-	-	-	**(1 039)**
- liquidation	-	-	20 786	9 884	-	-	**20 786**
- other decreases	-	-	5 968	2 593	1	-	**5 969**
Accumulated amortization as at the end of the period: 31.12.2004	**(25 389)**	**-**	**(105 710)**	**(81 367)**	**(1 840)**	**-**	**(132 939)**
Impairment losses as at the beginning of the period: 01.01.2004	-	-	-	-	-	-	-
- increase	-	(44 160)	(17 686)	(17 686)	-	-	**(61 846)**
- decrease	-	44 160	17 686	17 686	-	-	**61 846**
Impairment losses as at the end of the period: 31.12.2004	-	-	-	-	-	-	-
Net value of intangible assets as at the end of the period: 31.12.2004	**7 719**	**-**	**198 876**	**169 358**	**909**	**142 644**	**350 148**

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

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26. Tangible fixed assets

	31.12.2005	31.12.2004
Tangible fixed assets, including:	451 961	431 214
- land	1 733	653
- buildings and constructions	240 151	237 390
- equipment	108 194	98 685
- vehicles	2 076	6 559
- other tangible fixed assets	99 807	87 927
Assets under construction	32 110	45 837
Total tangible fixed assets	**484 071**	**477 051**

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
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2005	**653**	**341 978**	**306 434**	**16 784**	**190 965**	**856 814**
Increase (due to)	**1 080**	**14 128**	**42 877**	**-**	**40 837**	**98 922**
- purchase	1 080	10 890	20 008	-	4 947	**36 925**
- transfer from assets under construction	-	2 476	20 644	-	35 890	**59 010**
- other increases	-	762	2 225	-	-	**2 987**
Decrease (due to)	**-**	**(63)**	**(21 220)**	**(7 246)**	**(22 450)**	**(50 979)**
- sale	-	-	(14 058)	(7 069)	(576)	**(21 703)**
- liquidation	-	-	(6 351)	(177)	(16 148)	**(22 676)**
- other decreases	-	(63)	(811)	-	(5 726)	**(6 600)**
Gross value of tangible fixed assets as at the end of the period: 31.12.2005	**1 733**	**356 043**	**328 091**	**9 538**	**209 352**	**904 757**
Accumulated depreciation as at the beginning of the period: 01.01.2005 r.	**-**	**(39 083)**	**(196 033)**	**(10 224)**	**(101 842)**	**(347 182)**
Depreciation for the period (due to)	**-**	**(6 860)**	**(23 684)**	**2 763**	**(6 507)**	**(34 288)**
- depreciation charge	-	(6 829)	(32 788)	(2 641)	(23 758)	**(66 016)**
- other increases	-	(31)	-	-	(5)	**(36)**
- sale	-	-	2 467	5 296	537	**8 300**
- liquidation	-	-	5 979	108	11 954	**18 041**
- other decreases	-	-	658	-	4 765	**5 423**
Accumulated depreciation as at the end of the period: 31.12.2005	**-**	**(45 943)**	**(219 717)**	**(7 461)**	**(108 349)**	**(381 470)**
Impairment losses as at the beginning of the period: 01.01.2005	**-**	**(65 505)**	**(11 716)**	**(1)**	**(1 196)**	**(78 418)**
- increase	-	(4 444)	-	-	-	**(4 444)**
- decrease	-	-	11 536	-	-	**11 536**
Impairment losses as at the end of the period: 31.12.2005	**-**	**(69 949)**	**(180)**	**(1)**	**(1 196)**	**(71 326)**
Net value of tangible fixed assets as at the end of the period: 31.12.2005	**1 733**	**240 151**	**108 194**	**2 076**	**99 807**	**451 961**

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	**653**	**521 962**	**304 017**	**20 871**	**155 587**	**1 003 090**
Increase (due to)	**-**	**21 350**	**53 019**	**-**	**53 331**	**127 700**
- purchase	-	7 058	20 080	-	5 856	**32 994**
- transfer from assets under construction	-	1 018	32 904	-	40 141	**74 063**
- other increases	-	13 274	35	-	7 334	**20 643**
Decrease (due to)	**-**	**(201 334)**	**(50 602)**	**(4 087)**	**(17 953)**	**(273 976)**
- sale	-	(201 334)	(41 975)	(4 013)	(1 468)	**(248 790)**
- liquidation	-	-	(8 114)	(37)	(9 586)	**(17 737)**
- other decreases	-	-	(513)	(37)	(6 899)	**(7 449)**
Gross value of tangible fixed assets as at the end of the period: 31.12.2004	**653**	**341 978**	**306 434**	**16 784**	**190 965**	**856 814**
Accumulated depreciation as at the beginning of the period: 01.01.2004 r.	**-**	**(54 863)**	**(188 925)**	**(9 304)**	**(95 118)**	**(348 210)**
Depreciation for the period (due to)	**-**	**15 780**	**(7 108)**	**(920)**	**(6 724)**	**1 028**
- depreciation charge	-	(10 676)	(38 628)	(3 898)	(16 396)	**(69 598)**
- tax investment relief	-	(43)	-	-	-	**(43)**
- other increases	-	-	(431)	-	-	**(431)**
- sale	-	26 499	23 388	2 929	1 376	**54 192**
- liquidation	-	-	8 051	25	8 296	**16 372**
- other decreases	-	-	512	24	-	**536**
Accumulated depreciation as at the end of the period: 31.12.2004	**-**	**(39 083)**	**(196 033)**	**(10 224)**	**(101 842)**	**(347 182)**
Impairment losses as at the beginning of the period: 01.01.2004	-	-	-	-	-	-
- increase	-	(65 505)	(11 716)	(1)	(1 196)	**(78 418)**
- decrease	-	-	-	-	-	-
Impairment losses as at the end of the period: 31.12.2004	**-**	**(65 505)**	**(11 716)**	**(1)**	**(1 196)**	**(78 418)**
Net value of tangible fixed assets as at the end of the period: 31.12.2004	**653**	**237 390**	**98 685**	**6 559**	**87 927**	**431 214**

The 2004 write-offs for impairment relate to parts of fixed assets (mostly those owned by the Bank) and real property.

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:	264 529	434 556
- debtors	195 264	367 837
- receivables from income tax	22 384	15 108
- interbank balances	945	1 868
- other accruals	33 862	41 751
- accrued income	7 751	2 546
- inventories	2 913	5 119
- other	1 410	327
Total other assets	**264 543**	**434 599**

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 Bank's investment in PTE Skarbiec-Emerytura has been presented in the balance sheet as separate positions: non-"current asset held for sale" and "liabilities held for sale".

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 KNUiFE and the approval by the Competition and Customers Protection Office UOKiK. On 17 February 2006 the parties got the approval by 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 a 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.

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.

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 31,293 thousand. Additionally, the Bank incurred costs related to sale transaction in amount of PLN 828 thousand.

According to the Bank's policy, the Bank did not recognised an deferred tax asset related to impairment of PTE shares, because there is no certainty that the asset will realize in foreseeable future.

In 2005 the Bank received a dividend from PTE in amount of PLN 3,045 thousand.

The total impact of events mentioned above on the Bank's net profit in 2005 (dividend received from PTE, impairment amount and costs incurred in 2005 including tax effect) was negative and amounted to PLN 28,644 thousand.

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29. Amounts due to Other Banks

	31.12.2005	31.12.2004
Payables to be settled	4 639	-
Current accounts	301 987	631 386
Term deposits	521 689	1 190 330
Loans and advances received	1 391 083	1 424 271
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	**2 346 159**	**3 457 310**

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

30. Amounts due to Customers

	31.12.2005	31.12.2004
Corporate customers:	**15 192 877**	**13 033 156**
Current accounts	6 936 194	4 868 978
Term deposits	3 730 239	3 300 373
Loans and advances received	325 615	244 995
Repo transactions	1 478 535	1 750 225
Other liabilities:	2 722 294	2 868 585
- liabilities in respect of cash collaterals	2 697 411	2 756 907
- other	24 883	111 678
Individual customers:	**7 463 570**	**6 158 215**
Current accounts	4 447 290	2 797 791
Term deposits	2 942 765	3 297 736
Other liabilities:	73 515	62 688
- liabilities in respect of cash collaterals	73 188	62 450
- other	327	238
Public sector customers:	**98 047**	**108 688**
Current accounts	36 171	83 467
Term deposits	60 186	23 505
Loans and advances received	1 685	1 696
Other liabilities:	5	20
- other	5	20
Total amounts due to customers	**22 754 494**	**19 300 059**

31. Debt Securities in Issue

As at 31 December 2005

Debt securities in issue by cathegory	Nominal value	Interest rate	Guarantees/collaterals	Redemption date
Long-term issues				
- Deposit Certificate (in PLN)	3 000 000	6.91%	no collateral	29-01-10
- Deposit Certificate (in PLN)	3 000 000	5.90%	no collateral	14-08-06
- Deposit Certificate (in PLN)	8 000 000	5.87%	no collateral	21-08-06
- Deposit Certificate (in PLN)	3 000 000	5.91%	no collateral	27-08-08
- Deposit Certificate (in PLN)	5 000 000	6.32%	no collateral	01-10-08
- Deposit Certificate (in PLN)	10 000 000	5.94%	no collateral	13-10-06
- Deposit Certificate (in PLN)	10 000 000	6.34%	no collateral	13-10-08
- Deposit Certificate (in PLN)	20 000 000	fix interest rate 6.73%	no collateral	12-04-06
- Deposit Certificate (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
Libilities due to the issue of debt securities (balance sheet value in thousand PLN)				**91 545**

As at 31 December 2004

Debt securities in issue by cathegory	Nominal value	Interest rate	Guarantees/collaterals	Redemption date
Long-term issues				
- Deposit Certificate (in PLN)	3 000 000	6.13%	no collateral	29-01-10
- Deposit Certificate (in PLN)	3 000 000	7.20%	no collateral	14-08-06
- Deposit Certificate (in PLN)	8 000 000	7.23%	no collateral	21-08-06
- Deposit Certificate (in PLN)	3 000 000	7.24%	no collateral	27-08-08
- Deposit Certificate (in PLN)	5 000 000	7.25%	no collateral	01-10-08
- Deposit Certificate (in PLN)	10 000 000	7.50%	no collateral	13-10-06
- Deposit Certificate (in PLN)	10 000 000	7.65%	no collateral	13-10-08
- Deposit Certificate (in PLN)	20 000 000	fix interest rate 6.73%	no collateral	12-04-06
- Deposit Certificate (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
Short-term issues				
- Deposit Certificate (in PLN)	320 700 000	average return 6.53%	no collateral	od 11-01-05 do 05-07-05
Libilities due to the issue of debt securities (balance sheet value in thousand PLN)				**407 792**

Movement in Debt Securities in Issue

	31.12.2005	31.12.2004
As at the beginning of the period	**407 792**	**165 298**
Increase (due to):	**4 453**	**2 703 700**
- issuance	-	2 703 700
- adjustment of value (discount/premium/interest)	4 453	-
Decrease (due to):	**320 700**	**2 461 206**
- redemption	320 700	2 432 800
- adjustment of value (discount/premium/interest)	-	5 906
- other	-	22 500
Debt securities in issue at the end of the period	**91 545**	**407 792**

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					
- 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%	not defined	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					
- 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 Bank did not note any delays in repayments of principal or interest instalments and was not in default of any other contractual provisions related to its 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**	**1 179 475**
Increase (due to:)	**444 412**	**35 188**
- subordinated loan raised	385 980	-
- interest on subordinated loan	58 432	35 188
Decrease (due to):	**102 028**	**194 519**
- interest repayment	47 207	34 989
- foreign exchange differences	54 821	159 530
Subordinated liabilities as at the end of the period	**1 362 528**	**1 020 144**

33. Other Liabilities

	31.12.2005	31.12.2004
Special Fund	**21 537**	**21 349**
- Social Benefits Funds	21 537	21 349
Other liabilities	**343 356**	**122 516**
- tax liabilities	4 532	4 095
- interbank settlements	66 164	18 001
- creditors	93 691	40 420
- accrued expenses	56 337	34 160
- deferred income	45 365	4 873
- provisions for pension dismissals	2 295	1 725
- provisions for holiday equivalents	1 731	1 620
- provisions for other employee benefits	72 750	17 622
- other	491	-
Total special funds and other liabilities	**364 893**	**143 865**

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34. Provisions

	31.12.2005	31.12.2004
For off-balance sheet contingent liabilities	63 920	3 592
For legal proceedings	4 512	6 657
Other	9 677	15 279
Total other provisions	**78 109**	**25 528**

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

Movements in provisions

	31.12.2005	31.12.2004
As at the beginning of the period (by type)	**77 632**	**13 824**
For off-balance sheet contingent liabilities	55 696	13 417
For legal proceedings	6 657	407
Other	15 279	-
Increase (due to)	**34 775**	**36 371**
- increase of provisions	34 732	36 371
- other	43	-
Decrease (due to)	**(34 298)**	**(24 667)**
- charge-offs	(1 656)	-
- release of provisions	(30 371)	(23 991)
- utilization	-	(253)
- foreign exchange differences	-	(423)
- reclassification to other balance sheet positions	(2 271)	-
As at the end of the period (by type)	**78 109**	**25 528**
For off-balance sheet contingent liabilities	63 920	3 592
For legal proceedings	4 512	6 657
Other	9 677	15 279

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 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 Liability

	31.12.2005	31.12.2004
As at the beginning of the period	**61 841**	**75 590**
Deferred income tax included in the financial result of the period	5 532	(10 437)
Deferred income tax included in equity	16 577	(3 312)
including:		
- valuation of securities available for sale	729	(3 312)
- changes in valuation due to first-time adoption of IFRS	15 848	-
As at the end of the period	**83 950**	**61 841**

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Interest payable on bank deposits	994	1 820
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	742	7 496
Valuation of financial instruments available for sale	5 467	1 347
Provisions for impairment of loans and off-balance sheet exposure	69 991	69 210
Provisions for pensions, holiday equivalents, jubilee and other bonuses	14 588	3 984
Other provisions	93	703
Accruals and prepayments	11 010	1 668
Impairment of subsidiaries and associates	1 686	-
Tax loss to be settled in future periods	12 755	47 155
Other negative temporary differences	34 382	20 586
Interest receivable on loans and advances granted to banks	(6 265)	(3 854)
Interest receivable on loans granted to customers	(10 431)	(7 618)
Valuation of financial instruments held for trading and other at fair value through Profit and Loss	(12 288)	(10 745)
Valuation of financial instruments available for sale	(2 058)	(2 420)
Investment tax relief	(30 775)	(36 374)
Difference between the amortization and depreciation for tax and accounting purposes	(21 361)	(16 294)
Other positive temporary differences	(3 133)	(33 488)
Total deferred income tax assets *	**83 950**	**61 841**

	31.12.2005	**31.12.2004**
Deferred income tax included in the income statement **		
Interest	(7 389)	(4 297)
Provisions for impairment of loans and guarantees determined individually	(1 421)	(9 847)
Valuation of derivatives and futures	1 228	11 231
Valuation of financial instruments held for trading and other at fair value through Profit and Loss	(8 297)	(17 785)
Valuation of financial instruments available for sale	3 753	(393)
Valuation of financial instruments held to maturity	-	(1 123)
Investment tax relief	5 599	16 479
Tax losses carried forward	(34 400)	(30 182)
Provisions for pensions, holiday equivalents, jubilee and other bonuses	10 603	616
Other provisions	(611)	-
Accruals and prepayments	9 342	(3 154)
Impairment of shares in associates	1 686	-
Difference between the amortization and depreciation for tax and accounting purposes	(5 067)	(1 115)
Other temporary differences	30 506	29 133
Total deferred income tax included in the profit and loss account	**5 532**	**(10 437)**

* 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 67,132 thousand of tax losses from previous years (PLN 248,184 thousand on 31 December 2004).
The Bank 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 was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries whose value would be equal to or greater than 10% of the Bank's equity. 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 US$ 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 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.

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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 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 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 31/12/2005	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 and 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 Bank'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	**12 295 996**	**10 801 668**
Liabilities granted	**11 899 701**	**10 365 621**
- financing	7 719 004	6 186 717
- guarantees	4 180 697	4 178 904
Liabilities received	**396 295**	**436 047**
- financing	51 712	37 070
- guarantees	344 583	398 977
Liabilities arising from purchase/sale operations	**394 115 010**	**223 452 709**
Other liabilities	**278 663**	**314 136**
Total off-balance-sheet items	**406 689 669**	**234 568 513**

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

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Issuer	Type of guaranteed securities	Amount of guarantee in PLN	Financial, organizational and personal relationships	Marketability
BRE.locum Sp. z o.o.	Bonds	80 000 000	▪ BRE Bank holds 49.99% of the voting power and Tele-Tech Investment Sp. z o.o. holds 30.00% of the voting power ▪ 3 Supervisory Board members	Marketable
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 members	Marketable
Prokom Software SA	Bonds	100 000 000	None	Marketable
Skarbiec Asset Management Holding SA	Bonds	60 000 000	▪ BRE Bank holds 100% of the voting power , ▪ 3 Supervisory Board members	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.

Contingent Commitments

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.

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
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 Bank 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

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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.

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 5.48% 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 item 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.

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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	2 894	4 823
Exchange differences	(2 990)	(1 929)
As at the end of the period	**(96)**	**2 894**
Revaluation reserve - available for sale securities		
As at the beginning of the period	566	(7 276)
Net gains / (losses) from changes in fair value	1 337	11 220
Net losses transferred to net profit on disposal and impairment	(5 173)	(67)
Deferred income tax	729	(3 311)
As at the end of the period	**(2 541)**	**566**
Revaluation of fixed assets		
As at the beginning of the period	-	7 970
Sale of fixed assets	-	(7 970)
As at the end of the period	-	-
Total other capital and reserves	**(2 637)**	**3 460**

The total amount of PLN 5,173 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 67 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	12 388	12 388
Other reserve capital	12 967	204 097
General Banking Risk Fund	558 000	558 000
Profit (loss) from the previous year	(257 000)	(44 779)
Profit (loss) for the current year	207 310	(316 882)
Total retained earnings	**533 665**	**412 824**

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 Bank 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.

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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 0.01each) 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	479 500

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 changes in other reserve capital which arose in accordance with the employee stock options program:

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

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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

BRE Bank SA did not distribute any dividend for 2004 and declared that will not distribute 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 16)	1 776 340	734 608
Debt securities eligible for rediscounting at the Central Bank	37 464	52 832
Loans and advances to banks (Note 18)	3 211 448	5 856 316
Trading securities (Note 19)	3 113 768	3 346 384
Total cash and cash equivalents	**8 139 020**	**9 990 140**

43. Transactions with Related Entities

BRE Bank SA is a parent entity and Commerzbank AG is the ultimate parent of the Group. The direct parent entity of BRE Bank SA is Commerzbank Auslandsbanken Holding AG which is 100% 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 27 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 22 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 22 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.

Below are presented transactions between the Bank and Management :

	Directors and key management personel	
(in PLN '000)	**31.12.2005**	**31.12.2004**
Loans outstanding as at 31 December	1 279	1 364
Deposits received as at 31 December	2 709	2 172
Interest expense on deposits	56	40
Fee and commission income	12	7
Key management compensation	10 843	17 240

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	Bonus for 2005 to be paid in 2006
	(PLN)	(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
	(PLN)
1. Anton Burghardt	2 142 913
2. Krzysztof Kokot	132 580

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

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Additionally, in 2005 the members of the Bank's Management Board received in aggregate PLN 162 697 as a compensation for their role as members of the management boards and supervisory boards of the Bank's related companies (in 2004: PLN 65 706).

Management Board members did not receive bonuses for 2004.

The total amount of remuneration received by Bank's Management Board members was PLN 7 848 172 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.

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

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:

	31.12.2004
Disposal	**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 Stand Alone 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		473 243		473 243
Debt securities eligible for rediscounting at the Central Bank		52 765		52 765
Loans and advances to banks	a	4 534 246	(14 393)	4 519 853
Trading securities	b	3 691 898	(1 253 026)	2 438 872
Derivative financial instruments		1 701 506		1 701 506
Other financial instruments at fair value through profit and loss account		-		-
Loans and advances to customers	c	12 581 772	(1 036 088)	11 545 683
Investment securities		657 355		657 355
Non-current assets held for sale		-		-
Pledged assets	d	47 788	1 253 026	1 300 814
Investments in subsidiaries	e	930 847	(32 802)	898 045
Investments in associated undertaking	f	(710)	8 082	7 372
Intangible assets	g	226 632	146 620	373 252
Tangible fixed assets	h	940 161	(209 302)	730 859
Deferred income tax assets	i	634 802	(559,212)	75 590
Other assets	j	382 213	71 726	453 939
Total assets		**26 854 518**	**(1 625 369)**	**25 229 149**

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EQUITY AND LIABILITIES				
Amounts due to Central Bank		-		-
Amounts due to other banks	k	4 100 523	34 627	4 135 150
Other deposits		-		-
Derivative financial instruments and other trading liabilities		1 609 211		1 609 211
Amounts due to customers	l	17 152 603	(743 870)	16 408 732
Debt securities in issue		165 298		165 298
Subordinated liabilities		1 179 475		1 179 475
Other liabilities	m	395 698	(231 317)	164 381
Current income tax liabilities		-		-
Provision for deferred income tax	n	557 914	(557 914)	-
Provisions	o	116 946	(103 122)	13 824
Total liabilities		**25 277 668**	**(1 601 596)**	**23 676 072**
Equity				
Share capital:		**836 202**		**836 202**
- Registered share capital		91 882		91 882
- Share premium		744 320		744 320
Other capital and reserves	p	**(1 636)**	**7 153**	**5 517**
Retained earnings:		**742 284**	**(30 926)**	**711 358**
- Profit (loss) for the previous year	q	735 924	(16 371)	719 553
- Net profit (loss) for the current year	r	6 360	(14 555)	(8 195)
Total equity		**1 576 850**	**(23 773)**	**1 553 077**
Total equity and liabilities		**26 854 518**	**(1 625 369)**	**25 229 149**

(a)	*Loans and advances to banks*	
(i)	Decrease of receivables under suspended interest	(14 393)
	Total impact: decrease of Loans and advances to banks	(14 393)
(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)	Loans and advances to customers	
(i)	Decrease of receivables under suspended interest	(216 923)
(ii)	Decrease of receivables under swap interest	(20 781)
(iii)	Decrease of receivables under general risk reserve	(103 122)
(iv)	Historical cost valuation of shares in subsidiaries and associates	(6 800)
(v)	Decrease of receivables under swap interest	(688 462)
	Total impact: decrease of Loans and advances to customers	(1 036 088)
(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)	*Investments in subsidiaries*	

(i)	Historical cost valuation of subsidiaries previously subject to equity valuation accounting	(32 802)
	Total impact: decrease of Investments in subsidiaries	(32 802)
(f)	*Investments in associates*	
(i)	Historical cost valuation of affiliates previously subject to equity valuation accounting	8 082
	Total impact: increase of Investments in associates	8 082
(g)	*Intangibles*	
(i)	Change of presentation of investments of intangibles	146 620
	Total impact: increase of Intangibles	146 620
(h)	*Tangible fixed assets*	
(i)	Change of depreciation policy for tangible fixed assets of low initial value	6 832
(ii)	Presentation adjustment of perpetual usufruct of land reflecting different treatment under IFRS	(69 514)
(iii)	Change of presentation of investments of intangibles	(146 620)
	Total impact: decrease of Tangible fixed assets	(209 302)
(i)	*Deferred tax asset*	
(i)	Netting of assets and liabilities related to deferred income tax	(559 212)
	Total impact: decrease of deferred tax asset	(559 212)
(j)	*Other assets*	
(i)	Presentation adjustment of perpetual usufruct of land reflecting different treatment under IFRS	69 514
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	2 212
	Total impact: increase of Other assets	71 726
(k)	*Amounts due to other banks*	
(i)	Increase of receivables under swap interest	34 627
	Total impact: increase of Amounts due to other banks	34 627
(l)	*Amounts due to customers*	
(i)	Decrease of liabilities under swap interest	(743 870)
	Total impact: decrease of Amounts due to customers	(743 870)
(m)	*Other liabilities*	
(i)	Receivables decreased by suspended interest	(231 317)

IFRS Financial Statements for 2005 (PLN 000's)

	Total impact: decrease of Other liabilities	(231 317)
(n)	*Provisions for deferred income tax*	
(i)	Change of depreciation method for tangible fixed assets with a low initial value	1 298
(ii)	Netting of assets and liabilities related to deferred income tax	(559 212)
	Total impact: decrease of Provisions for deferred income tax	(557 914)
(o)	*Provisions*	
(i)	Decrease of receivables under general risk reserve	(103 122)
	Total impact: decrease of Provisions	(103 122)
(p)	*Other capital and reserves*	
(i)	Historical cost valuation of subsidiaries and associates	7 153
	Total impact: increase of Other capital and reserves	7 153
(q)	*Profit (loss) for the previous year*	
(i)	Change of depreciation policy of fixed assets with low initial value	5 534
(ii)	Amortisation adjustment of perpetual usufruct of land reflecting different treatment under IFRS	2 212
(iii)	Historical cost valuation of subsidiaries and associates	(30 771)
(iv)	Recognition of the cost of remuneration under management stock options	6 654
	Total impact: decrease of Profit (loss) for the previous year	(16 371)
(r)	*Net profit (loss) for the current year*	
(i)	Increase of equity on the issue of management stock options	(6 654)
(ii)	Historical cost valuation of subsidiaries and associates	(7 901)
	Total impact: decrease of Net profit (loss) for the current year	(14 555)

Reconciliation of differences between IFRS and Polish GAAP in the Stand alone Balance Sheet as at 31 December 2004 and in the Stand alone 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		734 608		734 608
Debt securities eligible for rediscounting at the Central Bank		52 832		52 832
Loans and advances to banks	a	6 841 461	(1 817)	6 839 644

IFRS Financial Statements for 2005 (PLN 000's)

Trading securities	b	4 140 909	(1 750 225)	2 390 684
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	13 265 134	(1 560 561)	11 704 573
Investment securities		473 363		473 363
Non-current assets held for sale		-		-
Pledged assets	d	31 500	1 750 225	1 781 725
Investments in subsidiaries	e	717 880	(46 137)	671 743
Investments in associated undertaking	f	(4 901)	5 727	826
Intangible assets		350 148		350 148
Tangible fixed assets	g	488 469	(11 418)	477 051
Deferred income tax assets	h	729 241	(667 400)	61 841
Other assets	i	424 736	9 863	434 599
Total assets		**30 042 204**	**(2 271 743)**	**27 770 461**
EQUITY AND LIABILITIES				
Amounts due to Central Bank		-		-
Amounts due to other banks	j	3 278 009	179 301	3 457 310
Other deposits		-		-
Derivative financial instruments and other trading liabilities		1 613 462		1 613 462
Amounts due to customers	k	20 694 709	(1 394 650)	19 300 059
Debt securities in issue		407 792		407 792
Subordinated liabilities		1 020 144		1 020 144
Other liabilities	l	378 901	(235 036)	143 865
Current income tax liabilities		-		-
Provision for deferred income tax	ł	671 187	(671 187)	-
Provisions	m	123 470	(97 942)	25 528
Total liabilities		**28 187 674**	**(2 219 514)**	**25 968 160**
Equity				
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	**2 468**	**992**	**3 460**
Retained earnings:		**466 045**	**(53 221)**	**412 824**
- Profit (loss) for the previous year	ń	750 252	(20 546)	729 706
- Net profit (loss) for the current year	o	(284 207)	(32 675)	(316 882)
Total equity		**1 854 530**	**(52 229)**	**1 802 301**
Total equity and liabilities		**30 042 204**	**(2 271 743)**	**27 770 461**
Interest income		1 025 655		1 025 655
Interest expense	p	(694 459)	(224)	(694 683)
Net interest income		331 196	(224)	330 972
Fee and commission income		323 243		323 243
Fee and commission expense		(104 720)		(104 720)
Net fee and commission income		218 523		218 523
Dividend income		24 991		24 991
Net trading income	q	203 513	224	203 737
Gains less losses from investment securities	r	(181 274)	(22 254)	(203 528)

IFRS Financial Statements for 2005 (PLN 000's)

	Other operating income		315 546		315 546
	Impairment losses on loans and advances		(80 973)		(80 973)
	Overhead costs	s	(532 380)	(8 994)	(541 374)
	Amortisation of intangible assets and depreciation of tangible fixed assets	t	(128 969)	502	(128 467)
	Other operating expenses	u	(437 387)	(7 014)	(444 401)
	Operating profit		(267 214)	(37 760)	(304 974)
	Share of profit of associates		(267 214)	(37 760)	(304 974)
	Profit before income tax	w	(16 993)	5 085	(11 908)
	Net profit (loss)		(284 207)	(32 675)	(316 882)

(a)	*Loans and advances to banks*	
(i)	Decrease of receivables under suspended interest	(1 817)
	Total impact: decrease of 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)
(c)	Loans and advances to customers	
(i)	Decrease of receivables under suspended interest	(233 218)
(ii)	Decrease of receivables under swap interest	(1 215 349)
(iii)	Decrease of receivables under general risk reserve	(103 122)
(iv)	Historical cost valuation of shares in subsidiaries and associates	(8 872)
	Total impact: decrease of Loans and advances to customers	(1 560 561)
(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)	*Investments in subsidiaries*	
(i)	Historical cost valuation of subsidiaries previously subject to equity valuation accounting	(46 137)
	Total impact: decrease of Investments in subsidiaries	(46 137)
(f)	*Investments in associates*	
(i)	Historical cost valuation of affiliates previously subject to equity valuation accounting	5 727
	Total impact: increase of Investments in associates	5 727
(g)	*Tangible fixed assets*	
(i)	Change of depreciation policy for tangible fixed assets with low initial value	7 332
(ii)	Presentation adjustment of perpetual usufruct of land reflecting different treatment under IFRS	(18 750)
	Total impact: decrease of Tangible fixed assets	(11 418)

IFRS Financial Statements for 2005 (PLN 000's)

(h)	*Deferred income tax assets*	
(i)	Historical cost valuation of shares in subsidiaries and associates	5 180
(ii)	Netting of assets and liabilities related to deferred income tax	(672 580)
	Total impact: decrease of Deferred income tax assets	(667 400)
(i)	*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)	Historical cost valuation of shares in subsidiaries and associates	(11 029)
	Total impact: increase of Other assets	9 863
(j)	*Amounts due to other banks*	
(i)	Decrease of receivables under swap interest	179 301
	Total impact: increase of Amounts due to other banks	179 301
(k)	*Amounts due to customers*	
(i)	Decrease of liabilities under swap interest	(1 394 650)
	Total impact: decrease of Amounts due to customers	(1 394 650)
(l)	*Other liabilities*	
(i)	Receivables decreased by suspended interest	(235 036)
	Total impact: decrease of Other liabilities	(235 036)
(ł)	*Provisions for deferred income tax*	
(i)	Change of depreciation policy of tangible fixed assets with a low initial value	1 393
(ii)	Netting of assets and liabilities related to deferred income tax	(672 580)
	Total impact: decrease of Provisions for deferred income tax	(671 187)
(m)	*Provisions*	
(i)	Decrease of receivables under general risk reserve	(103 122)
(ii)	Historical cost valuation of shares in subsidiaries and associates	5 180
	Total impact: decrease of Provisions	(97 942)
(n)	Other capital and reserves	
(i)	Historical cost valuation of subsidiaries and associates	992
	Total impact: increase of other capital and reserves	992

IFRS Financial Statements for 2005 (PLN 000's)

(ń)	*Unappropriated profit (loss)*	
(i)	Change of depreciation policy of fixed assets with a low initial value	5 534
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	2 212
(iii)	Historical cost valuation of subsidiaries and associates	(36 978)
(iv)	Recognition of the cost of remuneration under management stock options	8 686
	Total impact: decrease of Unappropriated profit (loss)	(20 546)
(o)	*Net profit (loss) for the current year*	
(i)	Change of depreciation policy of fixed assets with low initial value	407
(ii)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	(70)
(iii)	Historical cost valuation of subsidiaries and associates	(24 326)
(iv)	Recognition of the cost of remuneration under management stock options	(8 686)
	Total impact: decrease of Net profit (loss) for the current year	(32 675)
(p)	*Interest income*	
(i)	Change of presentation of interest flows from derivative instruments.	(224)
	Total impact: increase of Interest income	(224)
(q)	*Net trading income*	
(i)	Change of presentation of interest flows from derivative instruments.	224
	Total impact: increase of Net trading income	224
(r)	*Gains less losses from investment securities*	
(i)	Historical cost valuation of subsidiaries and associates	(22 254)
	Total impact: decrease of Gains less losses from investment securities	(22 254)
(s)	*Overhead costs*	
(i)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	(308)
(ii)	Recognition of the cost of remuneration under management stock options	(8 686)
	Total impact: increase of Overhead costs	(8 994)

IFRS Financial Statements for 2005 (PLN 000's)

(t)	*Amortisation of intangible assets and depreciation of tangible fixed assets*	
(i)	Change of depreciation policy for tangible fixed assets with low initial value	502
	Total impact: decrease of Amortisation of intangible assets and depreciation of tangible fixed assets	502
(u)	*Other operating expenses*	
(i)	Amortization adjustment of perpetual usufruct of land reflecting different treatment under IFRS	238
(ii)	Valuation of shares in subsidiary and affiliated companies according to historical cost	(2 072)
(iii)	Historical cost valuation of shares in subsidiaries and associates	(5 180)
	Total impact: increase of Other operating expenses	(7 014)
(w)	*Income tax expense*	
(i)	Tax effect of the change of depreciation policy for tangible fixed assets with low initial value	(95)
	Historical cost valuation of shares in subsidiaries and associates	5 180
	Total impact: decrease of Income tax expense	5 085

Reconciliation of adjustments recognised in the stand alone balance sheet as at 1 January 2005, drafted in compliance with IFRS, without adjustment of comparative data for the previous accounting periods

Item	Note	IFRS 31.12.2004	Adjustment	IFRS 01.01.2005
ASSETS				
Cash and balances with Central Bank		734 608		734 608
Debt securities eligible for rediscounting at the Central Bank		52 832		52 832
Loans and advances to banks	a	6 839 644	(859)	6 838 785
Trading securities		2 390 684		2 390 684
Derivative financial instruments		1 796 824		1 796 824
Other financial instruments at fair value through the profit and loss account	b	-	118 401	118 401
Loans and advances to customers	c	11 704 573	2 831	11 707 404
Investment securities	d	473 363	(118 401)	354 962
Non-current assets held for sale		-		-
Pledged assets		1 781 725		1 781 725
Investments in subsidiaries		671 743		671 743
Investments in affiliates		826		826
Intangible assets		350 148		350 148
Tangible fixed assets		477 051		477 051
Deferred income tax assets	e	61 841	21 401	83 242
Other assets	f	434 599	(8 009)	426 590
Total assets		**27 770 461**	**15 364**	**27 785 825**

IFRS Financial Statements for 2005 (PLN 000's)

EQUITY AND LIABILITIES				
Amounts due to the Central Bank		-		-
Amounts due to other banks		3 457 310		3 457 310
Other deposits		-		-
Derivative financial instruments and other trading liabilities		1 613 462		1 613 462
Amounts due to customers		19 300 059		19 300 059
Debt securities in issue	g	407 792	(236)	407 556
Subordinated liabilities	h	1 020 144	6 287	1 026 431
Other liabilities	i	143 865	35 727	179 592
Current income tax liabilities		-		-
Provisions for deferred income tax	j	-	5 552	5 552
Provisions	k	25 528	52 104	77 632
Total liabilities		**25 968 160**	**99 434**	**26 067 594**
Equity				
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		3 460		3 460
Retained earnings:		**412 824**	**(84 070)**	**328 754**
- Profit (loss) for the previous year	l	729 706	(84 070)	645 636
- Net profit (loss) for the current year		(316 882)		(316 882)
Total equity		**1 802 301**	**(84 070)**	**1 718 231**
Total equity and liabilities		**27 770 461**	**15 364**	**27 785 825**

(a)	*Loans and advances to banks*	
(i)	Adjustment of receivables as a result of using the amortized-cost valuation method	(859)
	Total impact: decrease of Loans and advances to banks	(859)
(b)	*Other financial instruments at fair value through the profit and loss account*	
(i)	Reclassification of securities from trading securities to other financial instruments at fair value through the profit and loss account	118 401
	Total impact: increase of Other financial instruments valued at fair value through profit and loss account	118 401
(c)	*Loans and advances to customers*	
(i)	Adjustment of receivables as a result of using the amortized-cost valuation method	(21 181)
(ii)	Impairment charge due to application of the impairment model in the valuation of loans and advances	24 012
	Total impact: increase of Loans and advances to customers	2 831

IFRS Financial Statements for 2005 (PLN 000's)

(d)	*Investment securities*	
(i)	Reclassification of securities from trading securities to other financial instruments at fair value through the profit and loss account	(118 401)
	Total impact: decrease of Investment securities	(118 401)
(e)	*Deferred income tax assets*	
(i)	Increase in tax assets due to adjustment of the Bank's net profit for the previous accounting periods as a result of using the amortized-cost valuation method for some 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 impact: increase of Deferred income tax assets	21 401
(f)	*Other assets*	
(i)	Adjustment of receivables as a result of using the amortized-cost valuation method	2 262
(ii)	One-off recognition of the commission amortized in time under Polish Accounting Standards	(10 271)
	Total impact: decrease of Other assets	(8 009)
(g)	*Debt securities in issue liabilities*	
(i)	Adjustment of liabilities as a result of using the amortized-cost valuation method	(236)
	Total impact: decrease of Debt securities in issue liabilities	(236)
(h)	*Subordinated liabilities*	
(i)	Adjustment of liabilities as a result of using the amortized-cost valuation method	6 287
	Total impact: increase of Subordinated liabilities	6 287
(i)	*Other liabilities*	
(i)	Adjustment of liabilities as a result of using the amortized-cost valuation method	35 727
	Total impact: increase of Other liabilities	35 727
(j)	*Provisions for deferred income tax*	
(i)	Impairment charge due to application of the impairment model in the valuation of loans and advances	5 552
	Total impact: increase of Provisions for deferred income tax	5 552

IFRS Financial Statements for 2005 (PLN 000's)

(k)	*Provisions*	
(i)	Impairment charge due to application of the impairment model in the valuation of loans and advances	52 104
	Total impact: increase of Provisions	52 104
(l)	*Profit (loss) for the previous year*	
(i)	Adjustment of retained earnings as a result of using the amortized-cost valuation method for some financial assets	(49 860)
(ii)	Impairment charge due to application of the impairment model in the valuation of loans and advances	(25 890)
(iii)	One-off recognition of the commission amortized in time under Polish Accounting Standards	(8 320)
	Total impact: decrease of Profit (loss) for the previous year	(84 070)

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 Bank needed to calculate the capital adequacy ratio was PLN 2,249,629 thousand as at 31 December 2005 (PLN 1,971,692 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 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 Bank 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 Bank believes that these amendments should not have a significant impact on the stand alone 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 Bank believes that these amendments should not have a significant impact on the stand alone 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 Bank 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 stand alone 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 Bank'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 Bank'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 Bank'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 Bank's operations.

BRE BANK SA

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

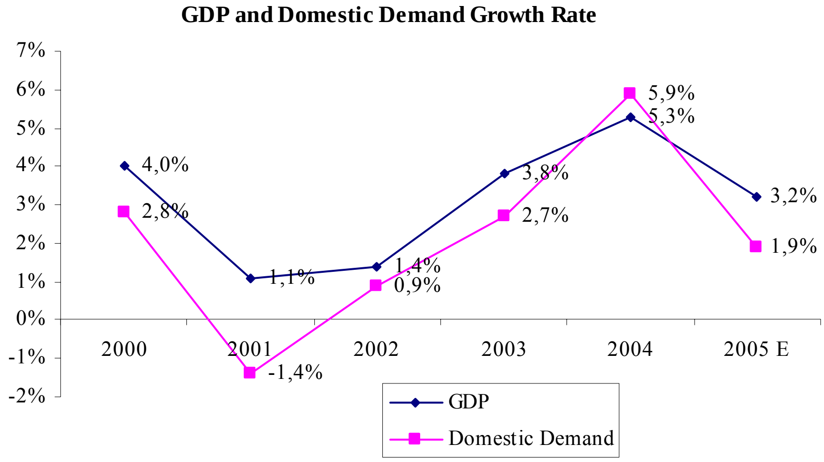
Warsaw, February 2006

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

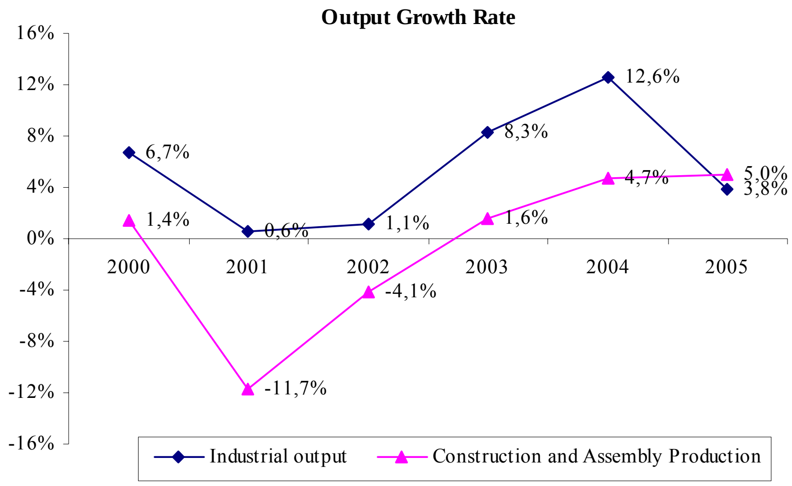
According to preliminary estimates from GUS, the GDP growth rate in 2005 reached **3.2**% versus **5.3**% in 2004. Gross domestic demand increased by 1.9%. Following a temporary slowdown in economic growth in the first quarter of 2005, attributable to the fading of the accession effect, the subsequent 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 76.5 billion, while imports totalled EUR 79.1 billion. Compared to the corresponding prior period (Dec 2003 – Nov 2004), exports of goods rose by **16.7%** 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.

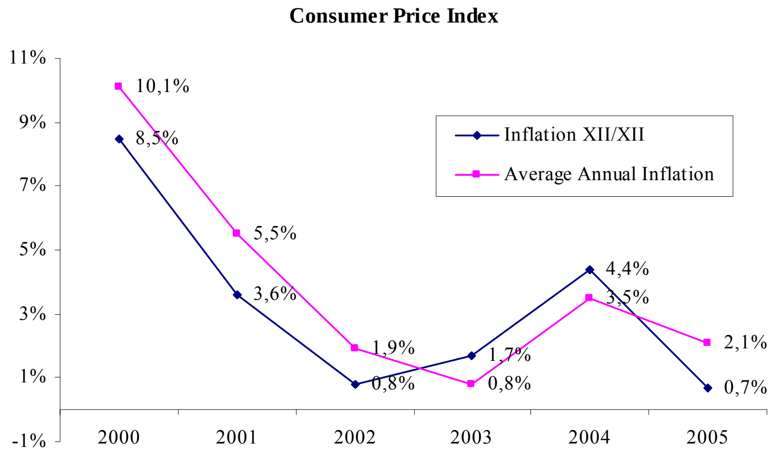
The reduction of the trade deficit in goods (from EUR 4.6 billion to EUR 2.3 billion) and increase in the surplus in services (from EUR 0.8 billion to EUR 1.7 billion) contributed to an improvement in the balance of the current account. Current deficit over 2005 amounted to EUR 3.9 billion against EUR 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

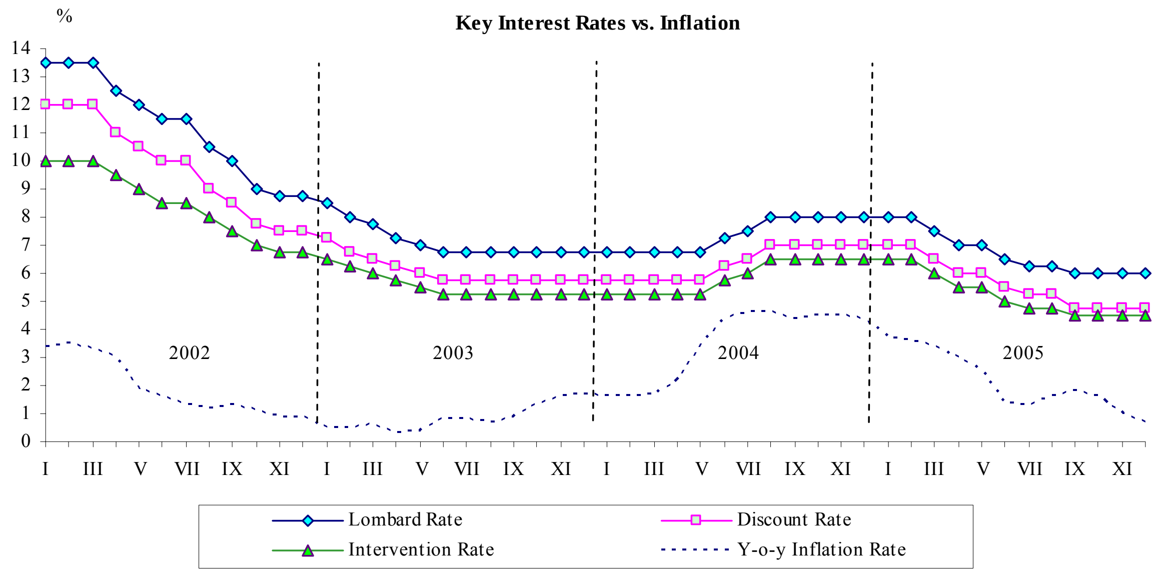
2005 saw a decline in inflation. The rate of growth in prices was lower than a year before both in consumer goods and in producer prices. Consumer prices were 0.7% higher in December 2005 than a year earlier.

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.

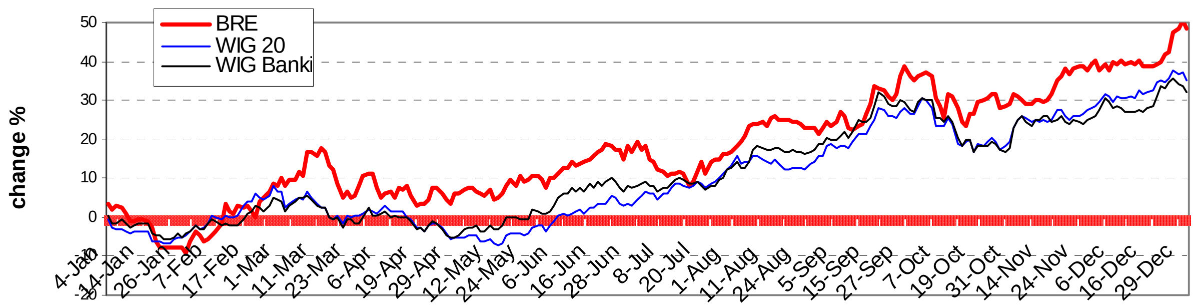
II. 2. Record Prices of BRE Bank Shares on WSE

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 30th 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 in 2005

I. Factors and Events Affecting the Performance of BRE Bank in 2005

The past year was a breakthrough period for BRE Bank. At the beginning of 2005, the newly composed Management Board of BRE Bank faced the need to recover the confidence of the market in the Bank's potential for further development and its ability to generate stable profits.

The key tasks for 2005 included:

- recovery of sustainable profitability,
- restructuring and growth of business within business lines; in this area, the main tasks were related to the BREactivation strategy, i.e. the restructuring of the corporate banking model and reaching the break-even point in retail banking,
- further reduction of the risk profile while maintaining profitability in investment banking,
- improvement of corporate transparency and hence the improvement of the perception of BRE Bank by 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.

The following factors contributed to such a significant improvement of the Bank's financial situation:

- considerably better results in all business areas,
- improvement of the quality of 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 performance of companies of the BRE Bank Group.

Improvement in financial performance was witnessed in the main business areas of the BRE Bank Group. **Corporate Banking** generated a gross profit of **PLN 108.7 million**, about 80% higher than in 2004, owing to better interest income and lower provisions. The result in **Investment Banking (gross profit of PLN 184.5 million)** was as much as 82% higher due to profit on sales (the largest item being the disposal of shareholding in Novitus with a profit of PLN 32.4 million) and on liquidation of companies from the Bank's own account investment portfolio, lower provisions and activities of the Treasury.

On the other hand, **Retail Banking** reached a break-event point in 2005 and for the first time showed a profit of **PLN 19.1 million** compared with a PLN 36.6 million loss a year earlier.

The improvement in loan portfolio quality and effective management of credit risk resulted in **net valuation adjustments of loans and advances lower than a year before**. While it remained negative (PLN – 53.4 million), in 2004 it amounted to PLN -81 million. The proportion of the Bank's irregular receivables (as classified by NBP) in the entire on-balance sheet portfolio decreased from 12.4% to 8.5% of the portfolio.

Taking advantage of increased income and bearing in mind the fact that sales plans were achieved and in many cases exceeded by the personnel, and willing to motivate the staff to take further efforts, the Management Board decided to set up a **provision for payments related to incentive bonuses** in the amount of PLN 80 million. Compared with 2004, the total amount of the Bank's general administrative expenses was 17.5% higher, mainly because of the provision, as tangible costs and depreciation were lower than a year earlier.

Strategic companies also generated sound results, contributing to better performance of the Group as a whole. The overall gross result of the companies (before consolidation adjustments) reached about PLN 110 million, i.e. 1/3 of the Group's profit before tax. In BRE Leasing, the value of leasing contracts increased by 38% and exceeded PLN 1.5 billion, while the company's gross profit reached PLN 20.5 million. Turnover generated by factoring companies of the Intermarket Bank Group increased in 2005 by 15% and gross profit amounted to PLN 45.9 million. Dom Inwestycyjny BRE Banku also performed exceptionally well, taking advantage of the bull market, reaching a record high gross profit of PLN 15 million.

Work carried out by the Bank on **business model changes in the Corporate Banking area** was a very important event last year, accompanied by changes in the operating area as well as in organisation and management of the credit process under the common name of **BREactivation**. A significant improvement in profitability of Corporate Banking, which is the objective of this project, should bring an increase in income, improvement of profitability and the Bank's competitive advantage in the coming years. The changes are dealt with in greater detail in the section concerning the Bank's activities in the Corporate Banking area.

Material events of 2005 included the **signing of the "Agreement to Merge PTE Skarbiec-Emerytura** and PTE PZU and Commitment to Sell Merger Issue Shares", 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 EUR 100 million. With 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 on January 2nd 2006, hence it will affect both the balance sheet and the profit and loss account only in 2006.

II. Business Areas of BRE Bank and 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
- Proprietary Investment
- Retail Banking including Private Banking

was reduced to three:

- Corporate Banking
- Investment Banking (which now includes Proprietary Investment)
- Retail Banking (including Private Banking).

In terms of their business profile and the type of clients to who they provide services, 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 company, not consolidated

In addition, the companies Skarbiec Asset Management Holding SA (SAMH) and PTE Skarbiec Emerytura S.A. (previously included in the Stategic Investment area) were separated into the **Asset Management segment**, which is currently under restructuring as provided by the agreement with PZU Życie to sell shares in PTE Skarbiec Emerytura S.A.

The companies CERI Sp. z o.o. and BRE.locum Sp. z o.o. were not included in any business area owing to the nature of their business and are shown under the heading "**other**"**.** Companies BRE.locum and Garbary 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.

This stand-alone report presents the **Bank's own activities** in the different business areas, while the consolidated report published simultaneously also includes the activities of the companies and their impact on the consolidated result of the Group.

III. Corporate Banking

III.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**- groups of companies with annual income exceeding PLN 1 billion, **K2** - companies with income between PLN 30 million and PLN 1 billion and **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.

In 2005, the centralisation of operational functions of settlements was completed. 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.

III.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%.

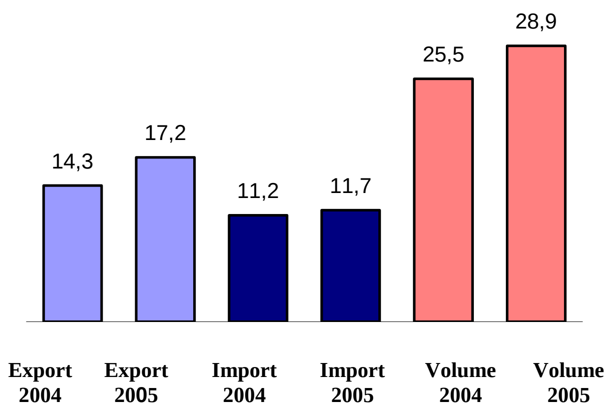
The changes in credits and deposits portfolio of corporate clients in 2005 compared with 2004 are presented in chapter VII.4. "Changes of the Bank's Main Balance Sheet Items".

III.3. International Payment Services

Over the 12 months of 2005, 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)



In the entire economy (according to NBP data) in 2005 the foreign trade volume increased in comparison with 2004 by **17.0%** for exports and **12.4%** for imports. BRE Bank witnessed a greater rate of growth in exports and lower in imports.

III.4.Development of the offer for corporate clients

In 2005, the offer for corporates 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.

III.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.

III.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.

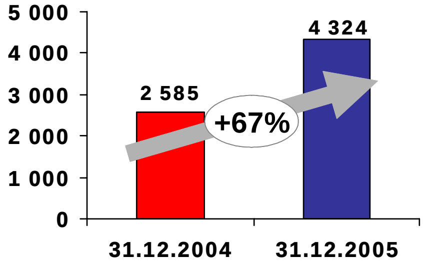
The value of promises, loans and guarantees related to EU funds, issued by BRE Bank between 1 January and 31 December 2005 amounted to PLN 465.4 million, which represents a growth of 29 % from 2004. It is also worth noting the effectiveness of BRE Bank’s activities, measures as the proportion that the 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.

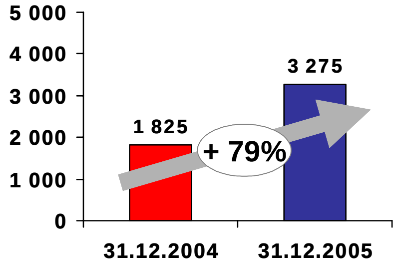
IV. Retail Banking

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 950,000 to 1,278,000 (up 34.5%), and key statistics, such as loans, deposits or assets under management, as shown in the charts below:

in PLN m **Loans**

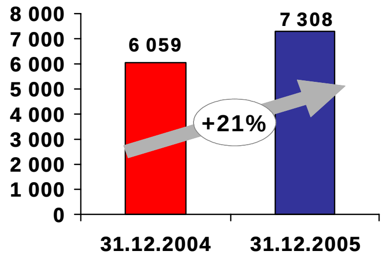


in PLN m **Mortgage loans***

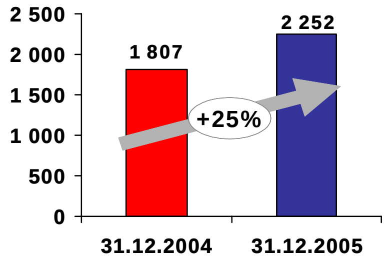


*for mBank and MultiBank only

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.

IV.1. mBank

Customers

At the end of December 2005, mBank served **1 015 300 customers**. 256,700 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).

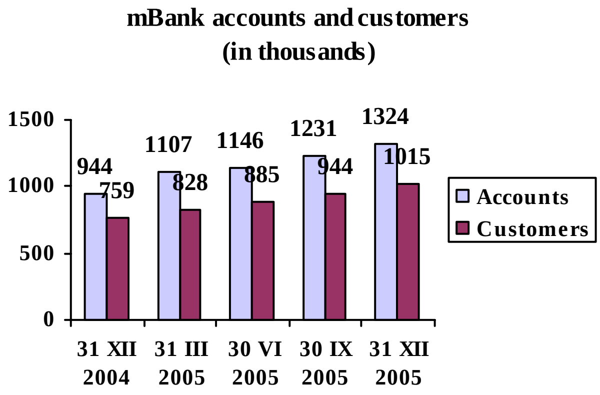
Investment Funds Supermarket (SFI)

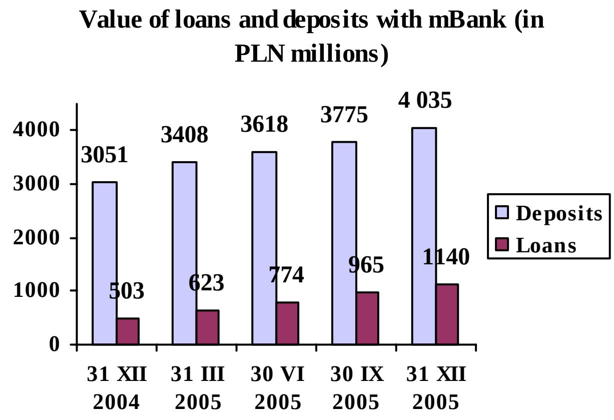
Funds held by customers in investment funds through the SFI platform increased from PLN 378.6 million at the end of 2004 to **PLN 572 million** at the end of December 2005. From the beginning of the year, SFI assets (including SFI IKE) increased by PLN 193.4 million. The increase was attributable to:

- 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,
- Motor vehicle 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.

IV.2. MultiBank

Customers

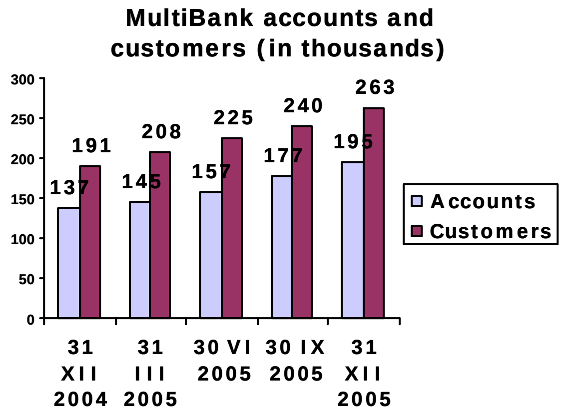
At the end of December 2005, the number of customers was close to **263 thousands**. Compared with the previous year, the number of customers increased by 38% (71,900)

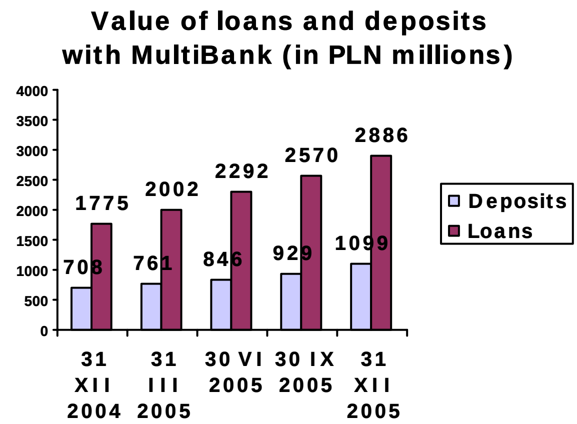
Deposits

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 2 886 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).As compared with the end of 2004, the loans' value increased by ca. 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 – value of loans granted amounted to PLN 41 million,
- 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".

IV.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.
- 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).

V. 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 40%.

V.1. Financial Markets

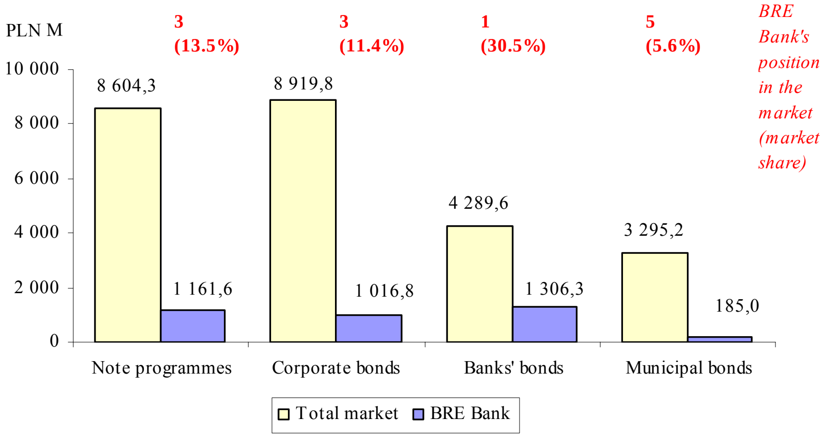
As regards activities in the financial markets, customers invariably showed great interest in derivative instruments (hedging currency and interest rate risk). In the FX and interest rate markets, activity focused on active market making.

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.

V.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 an 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.

V.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.

V.4. Transactions with Financial Institutions

As at 31 December 2005, BRE Bank had Swift keys exchanged with 1 803 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 export transactions' financing 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.

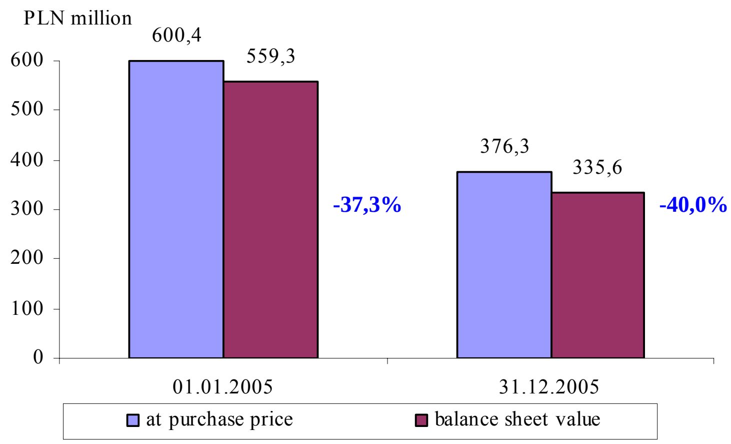
At the end of 2005, the Bank's portfolio contained 104 short and long-term loans granted by BRE Bank to other banks for a total equivalent of PLN 992 million, (PLN 713 million drawn), which were earmarked to a large extent for the financing of Polish exports.

V.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 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 2.8 million of profit before tax.

VI. Asset Management Segment

Asset management in the BRE Bank Group involves two companies: Skarbiec Asset Management Holding S.A. and PTE Skarbiec Emerytura.

At the end of 2005, Skarbiec Asset Management Holding (SAMH) consisted of the companies Skarbiec TFI, Skarbiec Investment Management and BRE Agent Transferowy, with only the first two being involved in the management of customers' assets. BRE Agent Transferowy maintains and operates member registers for pension and investment funds and operates employee pension schemes.

The activities of SAMH and PTE Skarbiec Emerytura are dealt with in greater detail in the Report of the Management Board on the Activities of the BRE Bank Group in 2005 (consolidated report). What had a bearing on the Bank’s business was the **agreement for sale of PTE Skarbiec Emerytura**, as described below.

On November 29th 2005, BRE Bank and PZU Życie entered into the “Agreement to Merge PTE Skarbiec-Emerytura and PTE PZU and Commitment to Sell Merger Issue Shares”. The combination will be effected by way of taking over the assets of PTE Skarbiec-Emerytura by PTE PZU. The stakes in the share capital of PTE PZU after the merger will be 13.1% for BRE Bank and 86.9% for PZU Życie S.A. The price for the merger issue shares to be held by BRE Bank was set at PLN 365 million, subject to adjustment of the amount by a percentage change in net assets of the open-end pension fund (Otwarty Fundusz Emerytalny) Skarbiec-Emerytura between 30 June 2005 and the date of merger of the pension funds plus PLN 15 million. **The minimum price is PLN 315 million** and it applies provided that the merger takes place before 31 August 2006. **The maximum price** for the merger issue shares held by BRE Bank. will be **PLN 365 million**. If the merger does not take effect by 31 August 2006, BRE Bank has the right to terminate the Agreement.

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.

VII. Financial Condition of the Bank in 2005

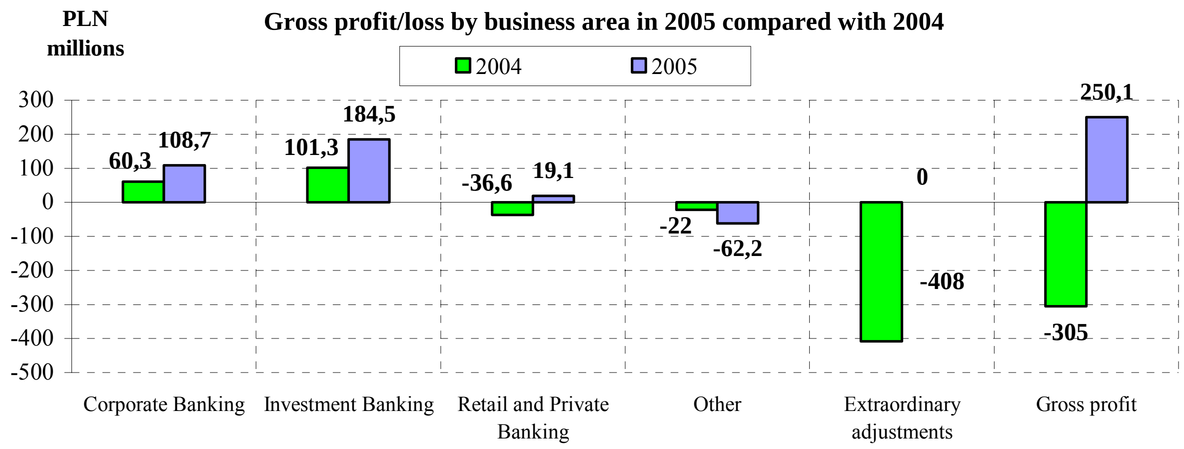
VII.1.Financial Results of the Bank by Business Area

For the sake of comparability with 2005 results, the financial results of the segments for 2004 were converted and adapted to the internal accounting rules followed by the Bank in 2005 (the main changes included IAS adjustments and changes in the allocation of the Bank’s units to segments). This explains the differences from the values published in the “Report of the Management Board on the Activities of BRE Bank in 2004”.

The graph below shows the contribution of the Bank’s respective business areas to profit/loss before tax. Costs were fully allocated by business area, including both direct and indirect expenses (such as those generated by cost centres or administrative expenses), including the cost of capital and the cost provisions set aside in the business area concerned. The breakdown is made at the profit-before-tax level.

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 amounted to PLN 80 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.



As can be seen in the chart above, in 2005 all business areas reported a significant improvement in performance. The main part of the Bank's gross profit was generated by the **Investment Banking** area (as in the previous year), which improved its result by 82%. 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 were attributable to the sale of shares in Novitus S.A. (PLN +32.4 million) and the entire holding of TVN shares.

Gross profit reported by **Corporate Banking** was also more than 80% higher. This was due to a better net interest income (PLN 195.5 million against PLN 155.8 million in 2004) with a slightly lower commission income (PLN 202.2 million against PLN 205.6 million a year earlier). Nevertheless, it should be borne in mind that from 2005 the "effective interest rate" started to be used, and since then commissions on loans have been included in interest income. Stable lending to enterprises, focused on the quality and profitability of exposures, made it possible to minimise the effect of declining interest rates. At the same time, the increase in corporate deposits, which was considerably in excess of the market average, offset the diminishing amount of net interest income on such deposits. With regard to improvement of portfolio quality, the balance of provisions for loans was also better, which additionally contributed to a better result in this area compared with the prior year.

Retail Banking generated a gross profit of **PLN 19.1 million** for the first time, while a year before it still showed a loss of PLN 36.6 million. A significant growth of business in 2005, which translated into higher income (e.g. net interest income increased by as much as 65%), while maintaining tight cost management, made it possible to achieve a YoY increase in gross profit of about PLN 56 million.

The heading "**Other**" category, the loss of PLN -62.2 million was recorded in 2005.

What substantially contributed to a dramatic improvement in 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, and carried in the 2004 financial statements in the amount of PLN –374.3 million) and were described in detail in the Annual Report 2004.

VII.2. Profit and Loss Account

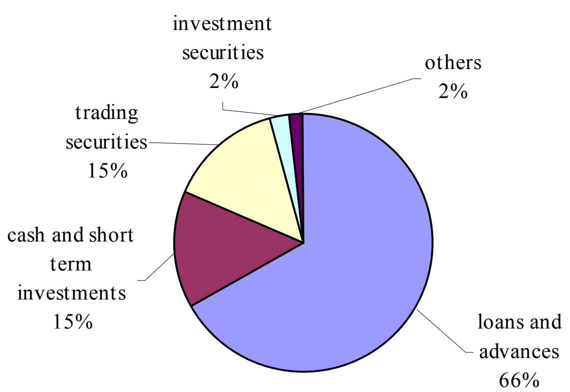
The year 2005 saw a significant improvement in the Bank's results compared with 2004. Gross profit reached PLN 250.1 million against PLN 305.0 million in 2004 (result adjusted for comparability to 2005 standards). In net terms, profit amounted to PLN 207.3 million against a loss of PLN 316.9 million in 2004.

Profit and loss account items	2005	2004	Change 2004 =100%
Interest income	1 318 437	1 025 655	128.5%
Interest expenses	(810 966)	(694 683)	116.7%
Net interest income	**507 471**	**330 972**	153.3%
Fee and commission income	335 594	323 243	103.8%
Fee and commission expenses	(98 488)	(104 720)	94.0%
Net fee and commission income	**237 106**	**218 523**	108.5%
Dividend income	61 997	24 991	248.1%
Net trading income	256 651	203 737	126.0%
Gains less losses from investment securities	374	(203 528)	-0.2%
Other operating income	38 849	315 546	12.3%
Impairment losses on loans and advances	(53 392)	(80 973)	65.9%
Overhead costs	(635 990)	(541 374)	117.5%
Depreciation	(119 490)	(128 467)	93.0%
Other operating expenses	(43 429)	(444 401)	9.8%
Operating profit/loss	**250 147**	**(304 974)**	
Gross profit/loss	**250 147**	**(304 974)**	
Income tax	(42 837)	(11 908)	
Net profit/loss	**207 310**	**(316 882)**	

The following factors contributed to a significant improvement in performance in 2005:

The past year saw a significant improvement in **interest income**, which was **53.3% higher** than in 2004, reaching the amount of PLN 507.5 million. This was possible owing to the fact that interest income increased faster (by 28.5%) than interest expenses, which were 16.7% higher. The interest income structure is shown in the chart below.

Interest income structure

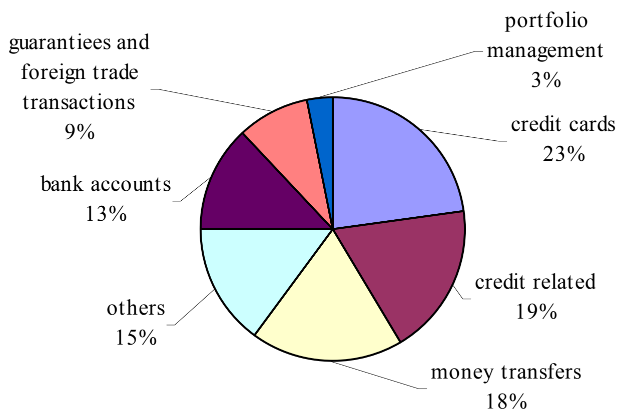


Interest expenses were predominated (85.3%) by interest on accounts with banks and customers.

The Bank's net interest margin increased from 1.3% in 2004 to 1.8 % in 2005. The main reason for such improvement was a growing share of Retail Banking. In liabilities, there was an increase in customer deposits, which partly replaced funds borrowed in the interbank market and acquired by the issue of debt securities. In assets, there was a steep growth in retail loans (by more than 60%), which give better returns than corporate loans. This was also affected by the application of the effective interest rate as required by the IFRS; consequently, accrued commissions on loans now represent interest income.

Net **fee and commission income** was **8.5% higher**, and income was structured as follows:

Fee and commission income structure



The year 2005 was also much better in terms of the amount of **dividends** received, owing to high contributions received both from the Group's companies, including Dom Inwestycyjny BRE Banku (nearly PLN 8 million) and from companies outside the Group – e.g. a total of PLN 14.2 million from PZU and Novitus. This category also included income of PLN 25,8 million from the liquidation of two SPVs: Ambressa –Brella and Brelinvest Fly 1.

Net trading income, 26% better than in 2004, was affected by much better performance of interest rate and equity instruments (which made a loss in 2004) while the foreign exchange result amounted to PLN 251.3 million versus PLN 219.4 million a year earlier.

Gains less losses from investment securities and other operating expenses in 2004 were affected by consolidation adjustments made at the time, therefore their level in 2005 was much higher.

The result was also much decreased to a much lesser extent than in 2004 by **impairment losses on loans and advances.** In 2005, it was the amount of PLN –53.4 million, compared with PLN –81.0 million a year before. This was due to considerable improvement of the quality of the credit portfolio, in which the proportion of irregular loans (as classified by NBP) dropped from 12.4% to 8.5%.

The Bank's **operating expenses** in 2005 were 17.5% higher, but the increase was mainly due to an increase in personnel expenses, which reached PLN 312.2 million, i.e. 34.9% more than a year before. The increase was related to the establishment of a provision for payment of incentive bonuses totalling PLN 80 million for good performance. It should be noticed that this is elastic construction, dependable only on Bank's results.

Tangible expenses of PLN 312.6 million were only 5% higher than a year before. On the other hand, depreciation dropped by 7%, which resulted from the fact that the Head Office building had been sold in 2004 (and continued to be depreciated for a part of the year) and significant write-offs were made for permanent impairment of fixed assets at the end of 2004, which reduced the calculation base in 2005.

VII.3. Key Performance Ratios

At the end of 2005, the key performance ratios for the Bank were as follows:

- **Solvency ratio** 12.9%
- **Gross ROE** gross profit with minority interest/ equity (with minority interest)less current year net profit 14.3%

- **Net ROE** net profit (with minority interest)/
  assets (with minority interest) less current year net profit) 11.9 %
- **ROA** (net profit (with minority interest)/assets) 0.7%
- **Cost/ income ratio** overhead costs + depreciation/
  income (including balance of other operating income and costs) 71.3%
- **Net interest margin** net interest income/ average assets 1.8%

VII.4. Changes of the Bank's Main Balance Sheet Items

Assets

The Bank's assets at the end of 2005 were 8.5% higher than at the end of December 2004. The structure of assets and changes in the particular asset items are shown in the table below:

ASSETS – main items	31.12.2005		31.12.2004		Change
	PLN 000s	%	PLN 000s	%	2004=100%
Cash in hand, transactions with Central Bank	1 776 340	5.9%	734 608	2.6%	241.8%
Loans and advances to banks	4 689 765	15.6%	6 839 644	24.6%	68.6%
Trading securities	5 014 653	16.6%	2 390 684	8.6%	209.8%
Derivative financial instruments	1 255 232	4.2 %	1 796 824	6.5 %	69.9%
Loans and advances to customers	12 979 559	43.1%	11 704 573	42.1%	110.9%
Investment securities	1 055 174	3.5%	473 363	1.7%	222.9%
Pledged assets	1 516 212	5.0%	1 781 725	6.4%	85.1%
Intangible assets	368 504	1.2%	350 148	1.3%	105.2%
Tangible fixed assets	484 071	1.6%	477 051	1.7%	101.5%
Other assets	1 304 074	3.3%	1 894 421	4.4%	80.8%
Total assets	**30 126 877**	100.0%	**27 770461**	100.0%	**108.5%**

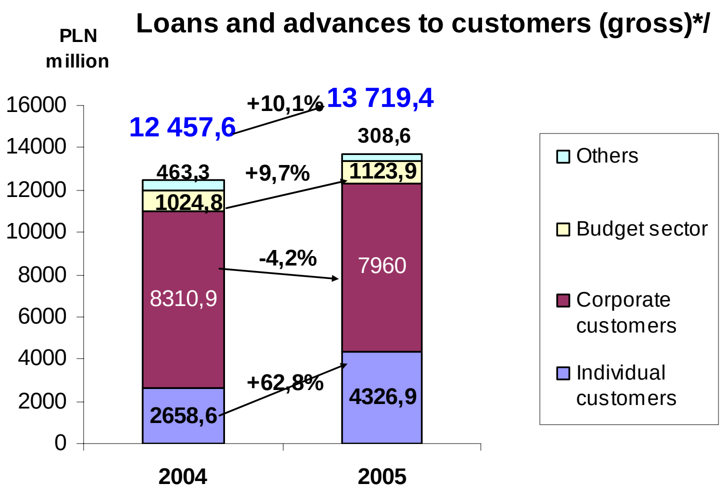
The structure of the Bank's assets changed as follows in 2005:

At the end of 2005, the amount of **loans and advances to banks** was lower (by over 30%) (it should also be borne in mind that at the end of 2004 the amount of liquid assets held with other banks was exceptionally high). **Cash in hand and transactions with the Central Bank** more than doubled, which was due to a relatively high balance of deposits with NBP at the end of December 2005. The portfolio of both trading and investment securities was also much higher.

Fixed assets and intangible assets also showed a slight increase.

The largest item of assets – **loans and advances to customers** were 10.9 % higher, and their growth in the structure of assets increased by 1.0 percentage points. As already mentioned in the description of business activities, an increase in loans was mainly witnessed in retail banking.

The changes broken down into main borrower groups are shown in the chart below.



*/data from BRE Bank's stand-alone financial statements

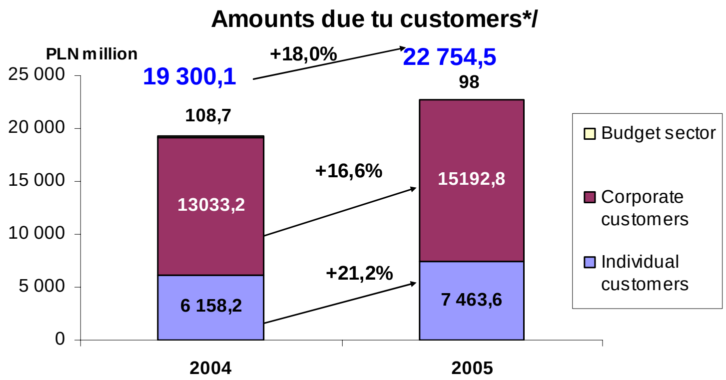
The decrease in loans granted to corporate customers reached **4.2%**, while the budget sector's debt was nearly **9.7%** higher. Loans for individual customers increased during the year by almost **62.8%**. A more detailed description of the credit portfolio is provided in Section X.1.

Liabilities

LIABILITIES - selected items	31.12.2005		31.12.2004		Change
	PLN 000s	%	PLN 000s	%	2004=100%
Deposits from banks	2 346 159	8.3 %	3 457 310	13.3 %	67.9%
Derivative instruments and other trading liabilities	1 174 278	4.2 %	1 613 462	6.2 %	72.8%
Due to customers	22 754 494	80,8%	19 300 059	74.3%	117.9%
Debt securities in issue	91 545	0.3%	407 792	1.6%	22.4%
Subordinated liabilities	1 362 528	4.8%	1 020 144	3.9%	133.6%
Other liabilities	443 002	1.6%	169 393	0.7%	261.5%
Total liabilities	**28 172 006**	100.0%	**25 968 160**	100.0%	108.5%

The increase in the Bank's liabilities in 2005 was largely attributable to the 17.9% increase in customer funds from the non-financial and budget sectors. This was due to an increase in amounts gained from individual clients by 21.2% and from corporate customers 16.6 %.

The changes in the volume of deposits are shown in the chart below:



*/data from BRE Bank's stand-alone financial statements

The average rate of interest on deposits from enterprises (1-month) was 3.94% and it dropped from 5.3% in January to 3.2% in December 2005. Deposits from households (6-month) carried a similar interest, as the average rate in 2005 was 3.95%, declining over the year from 5.5% to 3.4%

In the face of a significant increase in liabilities to the non-financial sector, the Bank relied to a lesser extent on financing based on the interbank market and the issue of debt securities. Instead, other borrowed funds increased due to the fact that a subordinated loan was raised in 2005 for a nominal amount of EUR 100 million, described in greater detail below.

VIII. Shareholders and Changes in Equity

VIII.1. Change in Shareholding Structure of BRE Bank

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%. Strategic investors' stake changed from 72.16% at the end of 2004 due to issue of shares in option programme conducted in 2005, which is presented in next point.

As of December 31st 2005, it was the only shareholder holding more than 5% of the share capital.

At the end of 2005, the share capital of the Bank amounted to PLN 115,935,888. The number of the Bank's shares (both bearer and registered) was 28,983,972.

VIII.2. Changes in Equity of BRE Bank

The changes in the equity of BRE Bank in 2005 (balance-sheet perspective) are shown in the table below:

Equity	**31-12-2005**	**31-12-2004**	**2004 =100%**
Share capital:	**1 423 843**	**1 386 017**	102.7%
- Registered share capital	115 936	114 853	100.9%
- Share premium	1 307 907	1 271 164	107.5%
Other capital and reserves	**(2 637)**	**3 460**	
Retained earnings:	**533 665**	**412 824**	129.3%
- Profit (loss) for the previous year	326 355	729 706	44.7%
- Net profit (loss) for the current year	207 310	(316 882)	
Total equity	**1 954 871**	**1 802 301**	108.5%

The increase of registered share capital by PLN 1,083,000 in 2005 is a result of the implementation of the management option programme under which 270,847 new shares were taken up (with a nominal value of PLN 4 each) under realisation of Programme I and II of Management Options:

- 118.884 shares under I Management Option Programme (of total amount of 479.500 shares, provided in this programme),
- 151.963 shares under II Management Option Programme (of total amount of 500.500 shares, provided in this programme).

After the realisation conducted in 2005 there remains:

- 360.616 shares under I Management Option Programme (of which 99.550 shares were acquired in January and February 2006),
- 348.037 shares under II Management Option Programme (of which 22.740 shares were acquired in January and February 2006).

Looking at the Bank's equity, it should be borne in mind that the Bank is using a subordinated loan, which will remain in its liabilities until 2012. As at the end of December, the amount of PLN 690.8 million from that loan was included in the equity funds. In addition, in February 2005, the Bank issued subordinated bonds with unspecified maturity on the terms laid down in Article 127 para. 3 (2) (d) of the Banking Law with a total nominal value of EUR 100 million (acquired by ATBRECOM Limited, an indirect subsidiary of Commerzbank). Pursuant to the above-mentioned provisions of the Banking Law, they are included in full (PLN 389 million at the end of December 2005), with the consent from the Commission for Banking Supervision in the Bank's supplementary funds. In all, subordinated funds amounted to PLN 1,079.8 million.

Owners' equity funds of BRE Bank, a category determined for the purposes of calculation of the solvency ratio (tier I funds and supplementary funds, reduced by intangible assets together with capital expenditures and by capital exposure to financial institutions, increased by the subordinated loan), as at 31 December 2004, amounted to **PLN 2,249.6 million**, i.e. much greater than the **total capital adequacy requirement** (the amount of capital required to cover all kinds of risks attached to banking operations), which amounted to **PLN 1,398.3 million** at the same date. The Bank's solvency ratio reached the value of **12.87%** versus 11.76% in the previous year.

IX. Credit and Guarantee Policy of BRE Bank

The main objective of the credit and guarantee policy of BRE Bank is to ensure high quality and complex nature of customer relations, including comprehensive provision of services exposed to credit risk. The assumption of the Bank's credit and guarantee policy is to seek to maximise profits, among other things by increasing the volume of lending, combined with concurrent active minimisation of credit risk. The policy assumptions presented here arise from the Bank's By-laws and from the Banking Law.

The Bank's offer concerning the products subject to credit risk is addressed to corporate clients, local government units and to retail customers. The Bank grants loans in zlotys and in foreign currency **to corporate customers:**

- for the financing of current operating activities,
- for the financing of investment activities.

In principle, an investment loan should not exceed 60% of the total anticipated capital expenditures. In the case of particularly profitable and adequately secured undertakings, the share of credit in the total value of capital outlays may be increased to 75%. Any further increase in the proportion of credit financing requires the unanimous consent of the decision making body at a higher level.

The Bank's offer addressed to the retail customer segment includes:

- loans to natural persons for consumption purposes (revolving loans on the account, credit cards, cash loans, motor car loans, mortgage loans, etc.),
- loans to natural persons for housing purposes (secured by mortgage),
- loans to small enterprises (working capital, investment, cash loans),
- loans to finance investments by natural persons (acquisition of real property, financing of capital investments, etc.).

The Bank buys out from entrepreneurs and financial institutions cash receivables related to leasing transactions, commercial contracts (both in local and foreign trade), etc. Moreover, the Bank:

- issues PLN and foreign currency guarantees, as well as performs other documentary operations,
- opens, upon customer request, letters of credit exposed to credit risk,
- offers currency and interest rate forward instruments,
- initiates or participates with other banks in syndicates established to finance major investment projects,
- issues debt securities and offers other money market and capital market instruments,
- offers products exposed to credit risk also to other banks,
- offers products exposed to credit risk, also via the intermediation of specialist external firms and using modern distribution channels (Internet, telephone, etc.).

Credit decisions concerning products exposed to risk are taken by decision making bodies, whose composition, tasks and rules of procedure, including the limits of their powers, are determined by order of the President of the Management Board, who notifies the Executive Committee of the Supervisory Board. Decisions of major significance to the quality of the entire credit risk portfolio of the Bank require that the senior lender should be consulted, as specialist in credit risk assessment. The eligibility criterion for a case to be considered by the competent decision making body is the amount of the Bank's exposure and the level of risk attached to the customer concerned and to the transaction to be performed.

The Bank considers it essential to mitigate credit risk through diversification of the loan portfolio. This purpose is served, among other things, by the analysis of the structure of the Bank's portfolio and the resulting conclusions, guidelines and recommendations concerning the Bank's exposure to selected sectors of the economy and geographical markets.

In 2005, work was in progress under the BREactivation Credit Area Project (presented in the Corporate Banking section) on a new methodology of customer rating as well as a new Credit Instructions and related orders. They entered into force at the beginning of 2006. Simultaneously, work was underway on the modification of the rules of BRE Bank's credit policy. They will enter into force in 2006.

X. Characteristics of the Loan and Guarantee Portfolio

X.1. Structure of the Credit Portfolio.

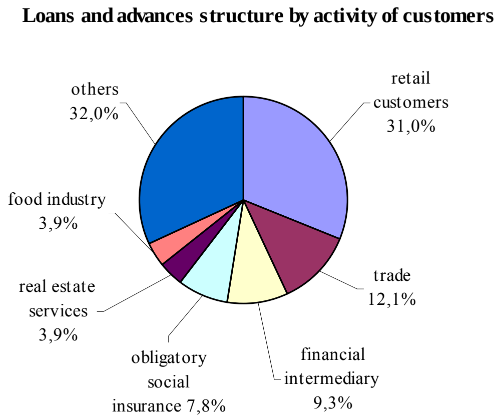
The structure of the credit portfolio broken down into individual, corporate and budget customers is dealt with in the section concerning the Bank's assets.

At the end of 2005, the structure of debtors by category was as follows:

	2004	2005
• investment loans	28.4%	23.3%
• working capital loans*	35.9%	43.1%
• overdraft facilities	11.4%	10.9%
• revolving loans	17.1%	16.7%
• receivables bought from market	2.0%	1.2%
• other loan receivables	5.1%	4.7%

**/ in working capital loans are included loans for mBank and MultiBank clients (also mortgages)*

The structure of the portfolio as of December 31st 2005 by category of business pursued by the customers is shown in the graph below.



The average base interest rate applied to loans granted to enterprises was 5.28% (it decreased over the year from 6.6% in January 2005 to 4.6% in December 2006). The Bank's margin ranged during the year between 0.4% and 2.5%.

At the end of 2005, irregular receivables (as classified by NBP) represented 8.5% of the on-balance sheet portfolio versus 12.4% a year earlier. Of the irregular receivables, 2.4% were classified as substandard, 1.5% as doubtful and 4.6% as lost.

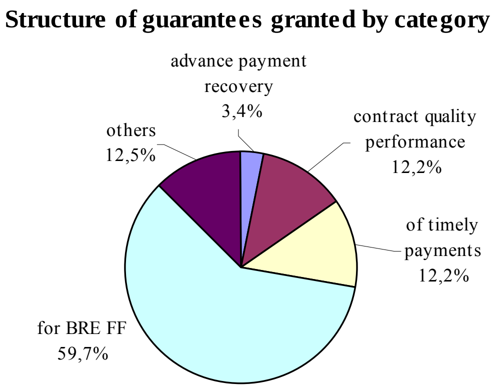
As at the end of 2005, the total value of provisions for receivables from the non-financial sector amounted to PLN 740 million, of which PLN 651 million represented irregular loans.

In 2005, the Bank issued 23 writs of execution against corporate customers for the total amount of PLN 15.7 million, and 1731 writs against individual customers for the total amount of PLN 67 million.

X.2. Characteristics of Guarantees Granted

At the end of December 2005, the value of off-balance sheet liabilities in respect of guarantees granted amounted to PLN 4,181 million. The main part of the guarantee portfolio (59.7%) consists of guarantees granted to the special purpose vehicle BRE Finance France, in underwriting the issue of Eurobonds. Guarantees granted to firms operating in the construction market (9.2%) and commercial companies (8%) also represented a significant share.

The structure of guarantees by category, with guarantees for BRE Finance France shown separately, is presented in the chart below:



XI. Human Resources Development in 2005

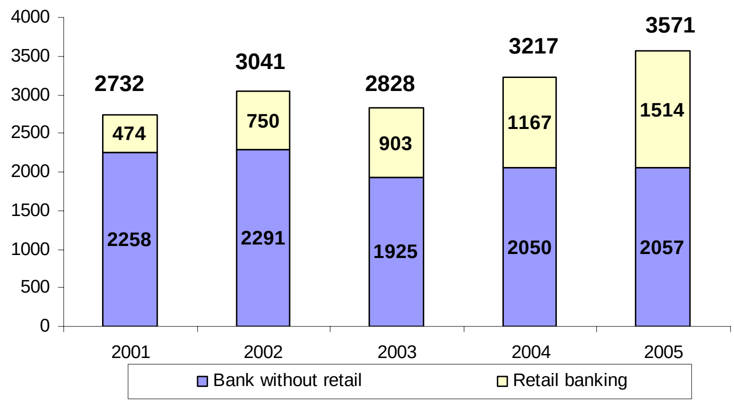
Changes in employment at the Bank over the past year are shown in the table below:

EMPLOYMENT	31.12.2004				31.12.2005			
	Persons **3,217**		FTE* **2,751.1**		Persons **3,571**		FTE* **3,014.6**	
Bank without Retail Banking	2,050	63.7%	1895.0	68.9%	2057	57.6%	1969,2	65,3%
Retail Banking	1,167	36.3 %	856.0	31.1%	1514	42.4%	1045,4	34,7%

The growth of the number of employees at the end of the year 2005 as compared to the end of December 2004 by 11.0% was mainly caused by the growth of employment in the dynamically growing retail banking area. Employment in this area increased by 347 persons by the end of 2005 compared with the end of 2004, i.e. by 29.7%. At the end of the year the employees serving retail customers represented 42.4% of all staff employed at BRE Bank. Staffing outside retail banking remained almost unchanged (increased by 7 persons).

Average employment in 2005 in BRE Bank SA was 3 410 employees, for the Group reached 4 297 employees (2004: Bank 3 037, Group 4 164).

Employment in BRE Bank in 2001-2005



The personnel are mainly young people – 43.4% of the employed are 30 years of age, 35.6% are aged 30-40, 13.9% are people between 40 and 50 years of age, and 7.1% of the employed are aged over 50.

More than 72% are people with higher education. By comparison, in 1999 the percentage was 54%, in 2001 - 63%. The structure of employment by education level is shown in the table below.

STRUCTURE OF EMPLOYMENT BY EDUCATION LEVEL	31 Dec 2004		31 Dec 2005	
	persons	employment %	persons	employment %
Higher	**2 354**	**73.2 %**	**2578**	**72.4%**
Post-secondary	**208**	**6.4%**	**204**	**5.7%**
Secondary	**650**	**20.2%**	**777**	**21.8%**
Vocational	**2**	**0.1%**	**1**	**0.0%**
Elementary	**3**	**0.1%**	**2**	**0.1%**

XII. BRE Bank's Incentive System

The Bank's Incentive System is based on package remuneration. This means that it is made up of financial and non-financial components for each employee group. The remuneration package is not just base pay and bonuses. It also consists of non-pay components, such as benefits, employee and sales competitions, development paths, individual training funds, participation in bank projects, etc.

The bonuses are intended to make employees financially interested completing their individual tasks, financial results of the Bank, business areas and units, and to integrate the employees' effort around the financial objectives and operating plans of the Bank. The criteria for the award of bonuses depend on performance and the style of work, and they include the assessment of conformity of attitudes and behaviour with corporate standards. The following are taken into consideration in granting bonuses:

- degree of completion of individual tasks,
- degree of completion of team tasks,
- the Bank's performance.

In granting bonuses, conformity of attitudes and behaviour with the corporate standards is taken into account. The standards lay down principles of importance to the Bank, which employees they should follow in their own work, in relations with peers, business partners and the environment. The presentation of attitudes and behaviour stemming from the set of corporate standards referred to as DROGA (Polish for "THE WAY", which stands for **D**oskonałość [Excellence], **R**ealizacja [Performance], **O**dpowiedzialność [Responsibility], **G**otowość [Readiness], **A**ngażowanie się [Commitment]), will enable the Bank to make fuller use of its potential and to achieve long-term objectives.

Bonuses are based on differentiation of employees not only in terms of the immediate results of their work, but also in terms of their influence the financial and operating results of the different business areas and the Bank as a whole. In 2005 improvements of the Incentive System were adopted – bonuses are paid to all employees of the Bank (while in previous years they mainly benefited the sales personnel). The following employee differentiation was adopted:

- Sales
- Direct Sales Support
- Support

Specific bonus mechanisms apply to each of those areas, determined in accordance with market practices.

Bonus levels for the individual employees were fixed with reference to bonuses paid in the banking sector, so that all employees have an opportunity to receive total remuneration which is competitive to that offered by other banks. Further improvement of the Incentive System aims to increase the proportion of variable components in total remuneration of the Bank's employees.

The Incentive System is additionally strengthened by competitions for employees. They are designed to activate sales in specific product groups and to reward employees for innovative ideas and exceptional commitment. In 2005, competitions held at the Bank were expanded by increasing the number of categories, the number of eligible employees and the budget earmarked for the purpose.

XIII. Progress in IT System Development

In 2005, the Bank continued the implementation of projects, the objective of which was to build a new architecture of IT solutions, especially in Corporate Banking. The following major events took place involving IT system development in this business area:

- the basic stage of the Globus system implementation process was completed:
  - migration of all corporate customers and accounts to Globus,
  - new organisation of development processes,
  - new 3-shift organisation of system maintenance processes,
- in connection with the above, the first stage of the DSA project (Data Storage Area – a new data warehouse for the Bank) was completed,
- the new iBRE Internet system closely integrated with the central system (in real time),
- the BRESOK system was made available over the Internet, bringing a significant reduction of telecommunication costs.

At the same time, the development of systems used at mBank and MultiBank was progressing intensively, driven by the dynamic development of those initiatives both in terms of the scale of operations and the product range offered. The work focused on upgrading the functionality of the backbone system and on implementation of work process automation systems, required to ensure adequate service quality with a large number of customers and transactions. Work also advanced on the development of management information systems (MIS). Major events in this area included:

- implementation of the Visa Access Point – transaction cost savings and, in future, access to new functions and messages of the VISA organisation,
- SMS – Kod – mBank and MultiBank were among the first banks in Poland to offer the customers additional protection of Internet transactions by the SMS service,
- activation packages (direct activation of e-channels) – improvement of the service standard and significant cost savings for Call Center services.

XIV. Main Risks to BRE Bank 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.

XIV.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.

XIV.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.

XIV.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.

XIV.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.

XV. 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.

XVI. Corporate Governance

As a listed company, the Bank places increasing focus on **transparency of its activities**, observing the "Best Practices in Public Companies 2005" ("Best Practices") and implementing compliance rules, i.e. procedures for the monitoring of legal compliance, both with regard to external and internal regulations. To ensure that compliance rules are observed, a special unit was established – the Compliance Unit.

With regard to the Best Practices, BRE Bank declared (pursuant to relevant resolutions of the Management Board, the Supervisory Board and the Ordinary General Meeting) to observe 52 of the 53 rules of corporate governance. The Bank did not make such a declaration only for Rule 20 of the Best Practices, which concerns the independence of supervisory board members, as the Bye-laws of BRE Bank do not require that the Chairman of the Audit Committee of the Supervisory Board be an Independent Member of the Supervisory Board. Rule 20 is not respected by the Bank only in this respect.

The declaration of such strict compliance by BRE Bank with the rules of corporate governance is a confirmation of its long-established policy based on the transparency of business activities. Respecting the rights of all shareholders and acting in compliance with a universal ethical code is a permanent and inseparable component of that policy. Such extensive adoption of the rules of corporate governance will provide a strong stimulus to the present and prospective investors, encouraging them to invest in the Bank's shares.

In January 2006, the Management Board, and then the Supervisory Board of the Bank adopted amendments to the Bank's comments on Rules 10, 11, 20, 26 and 47 of the Best Practices. To enter into force, the amendments will have to be approved by the General Meeting of BRE Bank, and the amendment of the comment on Rule 20 will additionally require the registration of corresponding amendments to the By-laws of the Bank by the registry court.

The amendments are basically related to the entry into force of new laws, i.e.:

- the Act of 29 July 2005 on trading in financial instruments; and
- the Act of 29 July 2005 on public offering and the conditions for introduction of financial instruments to organised trading and public companies,

which supersede, with regard to the performance by the Bank of information obligation, the Law of 21 August 1997 on public trading in securities.

The above changes are related to some extent to amendments to the By-laws of BRE Bank SA.

The text of the amendments in question was made available to the public in the form of a current report of 13 January 2006, pursuant to a relevant resolution adopted by the Management Board.

In 2005, further measures were taken to improve corporate transparency and hence also to improve the perception of BRE Bank by the market. The market was informed about strategic directions of development and expectations regarding financial performance. In return, investors came forward with better ratings, for example in the Rating by Polski Instytut Dyrektorów (for listed companies as viewed by institutional investors), the Bank gained an additional star (from 2 to 3-star rating) and in a survey conducted by NBS Warsaw Scan (examining the quality of investor relations in listed companies) in the category "Transparency" it moved from the third ten in 2004 to number 7.

The improvement of perception of the Bank by investors was reflected in its valuation by the market – the prices of BRE shares outperformed stock-exchange indexes, as mentioned in the Section on the prices of BRE Bank shares on the stock exchange.

XVII. Sponsoring and Charitable Activities of the Bank in 2005

In its non-commercial activities, BRE Bank has been guided, for many years, by the belief in the increasing importance and expediency of engaging in sponsorship and charitable activities. In 2005, they largely focused on supporting entrepreneurship, increasing competitiveness and improving the quality of the business environment, and promoting innovative solutions in business. The key and largest project in this area was the initiation by BRE Bank and the Institute of Economic Sciences of the Polish Academy of Sciences (INE PAN) of the "Research Programme on Innovation in Polish Economy 2005", the climax of which was the publication of the list of "500 Most Innovative Firms". The ranking was based on an exceptional methodology developed by INE PAN. The firms ranked among the top 500 had to demonstrate the highest ratios for as many as five categories: in addition to R&D expenditure, they were reviewed in terms of market innovation, process innovation, the number of patents registered and participation in EU research programmes.

BRE Bank actively supports domestic enterprises in their day-to-day operations, project finance and adjustment of business profile and form to changing market conditions. BRE Bank puts strong emphasis on substantive and financial assistance to firms that want to effectively operate in the EU common market and compete with business operators from the whole of Europe. The Bank transfers know-how on legal and market issues as well as financial arrangements. Among other components of this partnership, training conferences are organised for managers under a joint title of "Enterprise in the EU". BRE Bank has prepared a series of conferences, at which subject-matter experts indicate e.g. where and how firms can seek financial support and the benefits arising from a well-implemented project.

Support to dynamically developing businesses and commitment to the development of Polish economy were also highlighted by assuming patronage over the competition "Złote Firmy Wielkopolski" organised by *Głos Wielkopolski* daily, Wielkopolski Dom Mediowy (media house) and the Centre for Economic Studies of the Foundation of the Academy of Economics in Poznań.

In addition to its sponsoring activities related to entrepreneurship and education, BRE Bank also helps the needy by engaging in charitable activities. In December 2005, it delivered to Caritas Polska donations in kind for a total amount of nearly PLN 940,000.

The charitable activities are driven mainly by the **BRE Bank Foundation,** which has been operating since 1994. In 2005, the Foundation took a number of initiatives aimed to expand the scope of its activities, addressed mainly to secondary school leavers and graduates of schools of higher education, the unemployed, young entrepreneurs, students, ill children as well as other charitable organisations. Its major activities in 2005 included:

1. Financial support to an international conference organised to mark the 25th anniversary of the Solidarity Trade Union and celebrations related to the anniversary.

2. Initiation (in a joint effort with Jan Bloch Foundation and Jan Kanty Steczkowski Foundation) of a publication series *Biografie niezwykłe* (*Unusual Biographies*), devoted to outstanding and forgotten entrepreneurs and business promoters.
3. Injection of capital to the endowment fund of the CASE (Centrum Analiz Społeczno-Ekonomicznych) Scientific Foundation and undertaking the organisation of cyclic CASE seminars devoted to economic and business issues.
4. Organising and announcing a competition for the best Master's theses to mark the 20th anniversary of BRE Bank under the slogan "Modern Banking in a United Europe".
5. Under a donation agreement with the GAJUSZ Foundation in Łódź, a TV spot was titled "Butterflies" was co-financed, which will be aired as part of the national social campaign "On Time with Truth. Hospice is also Life";
6. The initiative to support talented students of upper secondary schools from families of modest means with scholarships and establish a group of the BRE Bank Foundation's scholarship holders.

In addition to new initiatives, the Foundation carried on "traditional" charitable activities, focusing, as it had done previously, mainly on the issues of:

1. Healthcare and social care (including mainly: part-financing of the treatment of children suffering from cerebral palsy – jointly with the Children's Foundation "Timely Aid" and autistic children – with the SYNAPSIS Foundation),
2. Education, guidance and childcare (aid to schools and other educational facilities, and to centres conducting educational and guidance activities),
3. Culture (part-financing of artistic events, exhibitions, publications).

By decision of the District Court for the City of Warsaw, 19th Economic Department of the National Court Register, dated 21 December 2005, the Foundation was granted the status of public interest organisation.

Sponsoring and Charitable Activities of mBank and MultiBank

mBank, for which Community is one of the key values, carried on numerous sponsoring activities in 2005, apart from its banking business. They were aimed both to build the Bank's image as an institution supporting culture and science, and to strengthen relationships with the customers.

The main projects in which mBank was involved in 2005 included:

1. Support to culture, e.g. Baczyński Literary Association, Internet Picture Story Workshop – Competition for the Best Picture Story (Warsaw University, Faculty of Journalism), "Vena Festival",
2. Support to science and education, which involved support to organisations and participation in fairs, exhibitions, radio and TV programmes, conferences, seminars; cooperation with student organisations and schools; sponsoring in the field of economics and finance; engagement in economic education (e.g. Entrepreneurship Olympics, scientific seminar on Public Institutions and Political Education Institutions in Austria and Switzerland, Poznań Academy of Economics (Innovations in Banking) - Working in the City conference; "Modern Technology Leader" competition; izzyBank sponsoring on-line training – Being Safe in the Mountains (GOPR); Public Relations Congress Rzeszów 2005),
3. Sponsoring sports, e.g. *mBank Lotto Annapurn South Face Expedition,*

4. Aid to those most in need, including the annual Easter Egg Auction, auctions for the Great Orchestra of Christmas Charity, “mBank in Community” – a programme designed to support foundations and other public interest organisations. (mBank w społeczności).

MultiBank has been involved in charitable activities and supporting cultural, and educational institutions since it was established. Through such projects, the bank seeks to build the image of an institution that does something more than caring for its customers’ finance. In 2005, MultiBank:

1. supported charitable projects and institutions (galleries, theatres, childcare centres), helped children from a Warsaw Children’s Home to go for a winter holiday,
2. supported the Archdiocesan Chaplainry for People with Hearing Handicaps in Łódź (helped to equip and outfit an operation theatre at the John Paul II Clinic for Hearing Impairments Treatment and Rehabilitation in Łódź),
3. was engaged in environmental protection activities (provided financial support for the protection of forests in Tatry National Park),
4. financed Polish theatres, such as Polski Teatr in Wrocław, Teatr Stu or Teatr Nowy in Łódź, as well as Zachęta Gallery and Historical Museum of the City of Łódź,
5. provided financial support to Lewada Art Cup, which organised the Star Horse Riding Championship, an integration meeting of people from the worlds of culture, sports and business.

XVIII. Changes in the Governing Bodies of BRE Bank

The Extraordinary General Meeting held on 27 January 2005 appointed Mr Martin Blessing, representing Commerzbank AG, as member of the **Supervisory Board**. He became Vice President of the Board and replaced Ms Renate Krümmer on the Executive Committee, where he serves as Vice Chairman. Hence, in 2005, the Supervisory Board was composed as follows:

1. Maciej Leśny – President of the Supervisory Board, Chairman of the Executive Committee,
2. Martin Blessing – Vice President 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.

In 2005 (except Executive Committee) two committees were acting in the framework of Supervisory Board: Risk Committee and Audit Committee.

Last year, **changes also took place in the Management Board of BRE Bank**:

On 27 January 2005, the Supervisory Board appointed Mr Jerzy Jóźkowiak as Member of the Management Board, Head of Retail and Private Banking.

A change took place in the position of Member of the Management Board, Head of Corporate Banking – Mr Krzysztof Kokot, who tendered his resignation, was replaced by Mr Janusz Wojtas, appointed by the Supervisory Board on 22 March 2005. Following resignation of Mr Anton Burghardt, First Vice President of the Management Board and Head of Investment Banking, on 22 March 2005 the Supervisory appointed Mr Bernd Loewen as Member of the Management Board, Head of Investment Banking.

Currently the Management Board consists of six persons:

1. Sławomir Lachowski – President of the Management Board, CEO,
2. Jerzy Jóźkowiak – Member of the Management Board, Head of Retail Banking,
3. Bernd Loewen – Member of the Management Board, Head of Investment Banking,
4. Rainer Ottenstein – Member of the Management Board, CFO,
5. Wiesław Thor – Member of the Management Board, Head of Risk Management,
6. Janusz Wojtas – Member of the Management Board, Head of Corporate Banking.

The general allocation of responsibilities between the members of the Management Board is defined by Resolution No 46/05 of the Management Board of BRE Bank S.A. of 31 August 2005 on the allocation of responsibilities between the members of the Management Board. Detailed allocation of responsibilities between the members of the Management Board of BRE Bank SA is provided for by the Order of the President of the Management Board of BRE Bank SA No C-I-81/05, dated 22 December 2005, concerning the competences of the Bank's directors (all members of the Management Board of BRE Bank SA are also Directors of the Bank). The documents are available on the **Bank's website under Investor Relations**. Also available on the website are the Rules of the Management Board, the Rules of the Supervisory Board and the By-laws of the Bank.

The authority of the governing persons to take decisions on the issue or redemption of shares in BRE Bank arising from the provision of Section **35a) of the By-laws of BRE Bank**, and it was established by Resolution No 24 of the 17th Ordinary General Meeting of BRE Bank dated 21 April 2004. The main part of that Section reads as follows:

„By 20 April 2007, the Management Board of the Bank may increase once or several time the initial capital within the limits of the target capital by issuing bearer shares (target capital).

2. Initial capital increases referred to in section 1 may not jointly exceed PLN 11,500,000 (eleven million five hundred thousand).

3. A condition for the Management Board of the Bank to make initial capital increases within the limits of the target capital shall be a positive opinion issued by the Supervisory Board in this matter and the adoption of a relevant resolution in the form of a notarial deed. The issue price shall be determined by the Management Board with the consent of the Supervisory Board."

Information on the remuneration of the Management Board and the Supervisory Board is presented in paragraph 42 of the Financial Statements of BRE Bank for 2005 based on the International Financial Reporting Standards.

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. Plans for 2006

2006 will be a year of intense organic work, focused mainly on business development. It will be the next stage of implementation of medium-term goals, which intends to achieve and maintain gross ROE of at least 20% starting from 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 r. with a view to acquiring new customers and expanding relations with the existing ones. The same goal is key to success in retail and investment banking.

In Corporate Banking, the activities in 2005 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 by EU funds.

Consolidation, due to start in the 1st quarter of 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 currency) intended for corporate and institutional customers,
- increasing the volume of new products launched in 2005 (eMakler, Commodity Swaps),

- taking advantage, in partnership with Commerzbank, of foreign customers' interest in holding PLN-denominated assets.

The business targets of the **Retail Banking** Area for 2006 include:

- acquisition of about 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 it 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.

XXI. 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	