BRE Bank SA Group

Annual Report 2010

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BRE BANK SA

Our people make the difference.

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Letter of the President of the Management Board of BRE Bank SA to Shareholders

Ladies and Gentlemen,

The year 2010 was very successful for BRE Bank Group. Profit before tax of PLN 872.5 million was more than four times higher than a year earlier while net profit of PLN 641.6 million was five times higher. The Bank alone generated profit before tax of PLN 682.0 million and net profit of PLN 517.7 million.

However, our biggest success was the historically highest income of over PLN 3.1 billion, up by almost 10% year on year. It should be stressed that it mainly consisted of typical banking revenue: interest as well as fees and commissions. The income level improved both in Retail Banking and Corporate Banking.

At the same time, the level of loan loss provisions was reduced by a high 42% compared to 2009, when the provisions determined the weaker results of the Bank and the Group. The cost of risk (new provisions to average loans in the year) decreased from 210 basis points in 2009 to 114 basis points in 2010. Considering the current risk profile, this is an acceptable level in line with market benchmarks.

While the costs of the Group increased by less than 5%, the cost/income ratio was reduced to 51.8%, as compared to 54.2% a year earlier. We will be working to improve the ratio further by focusing more on income growth. I believe that BRE Bank Group, taking into account the value of its total assets and costs born in recent years, must generate higher revenue, including interest income as well as fee and commission income, because our current income level is relatively lower compared to our peers.

Retail Banking generated the biggest part of the profit before tax (52.2%). We acquired 394 thousand new customers in 2010 and increased cross-selling ratio from 2.6 to 2.8 products per customer. Deposits were stable year on year despite our more aggressive pricing policy. Non-mortgage loans started to gradually grow and our market share increased in this segment.

Retail Banking, which serves 3.7 million customers, will be the main driver of our further income improvement. Clients acquired during last years represent a huge asset of the Bank and its retail subsidiaries. Our ambition is to grow our income by improving customer relations, making mBank and MultiBank into first-choice banks, and selling more products and services to clients. We must also remain on the forefront of innovation and anticipate clients' needs.

Corporates and Markets generated almost as much profit before tax (46.8%). It was possible thanks to a higher number of customers and their increased activity, especially in transactional banking. In 2010, companies were still accumulating cash and their investment decisions were on hold. As a result, BRE Bank's corporate deposits increased by 10.4% while corporate loans fell slightly in line with the market trend (figures adjusted for significant repo transactions at the end of 2010, which distorted the aggregates).

According to our strategy, BRE Bank expanded its share in financing local governments, up from 0.8% at 2009 year-end to 4.1% in 2010. We will continue to grow our market share by offering services including co-financing of EU projects.

The subsidiaries made a significant contribution (38%) to the profit of Corporates and Markets. Their total profit reached PLN 154 million. BRE Leasing was the profitability leader (profit before tax of PLN 44.1 million) followed by BRE Bank Hipoteczny (PLN 37.8 million) and Dom Inwestycyjny BRE Banku (PLN 37.1 million).

Income in this business segment can improve thanks to higher level of cross-selling including sales of investment banking products and products of our subsidiaries to corporate clients.

A significant growth potential can also be unlocked by extending our relations with German clients operating in Poland in order to make BRE Bank into the first-choice bank for German businesses in Poland. While we have a strong position in this customer segment, we are yet to tap the potential supported by our 15-year-long relations with Commerzbank.

In 2010, the Bank successfully completed a new share issue and added almost PLN 2 billion to its capital base. The level of our equity ensures a very safe position of the Group: our capital adequacy ratio was 15.90% and our Core Tier I ratio was 10.40% as at the end of 2010. This enables us to take advantage of improving market conditions and to expand relatively actively in 2011.

To make the improvement of our income base even more dynamic, we have initiated internal changes to our organisation in early 2011. These include mainly the MbO (Management by Objectives) system. Objectives of our managers, cascaded down to employees, will be set on an annual basis, by quarter, and subject to quarterly review.

I do believe that these initiatives will improve our income base and ensure better shareholder satisfaction. I want the Bank to pay out a satisfactory dividend to the shareholders (starting from 2011 net profit) after years of no dividend payments.

Our Bank (established as Banku Rozwoju Eksportu) is celebrating its 25th anniversary in late 2011. This will be a time of reflection on what our founders and ourselves have achieved, and what challenges we will face in the future.

I wish BRE Bank to enter its second 25 years with energy typical of its age and not only to be the third largest institution in Poland but to gradually generate at least the third highest income in the sector. I do believe that we can do that if we pursue our strategy with dedication and employee involvement.

Today, on behalf of the Management Board, I would like to thank all those without whose input last year's achievements would not have been possible.

I thank our shareholders for confidence and support over the years. I would like to thank especially those investors, who participated in new share issue and entrusted us with additional funds. I thank our clients, who make us a partner to their business success, for their trust and partnership. We will do our best to meet your expectations. I thank the employees of the Bank and the Subsidiaries for efforts, persistence and commitment and also for a friendly welcome to me in the new role.

With best regards,

Cezary Stypułkowski

28 February 2011

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

Dear Shareholders,

The year 2011 marks the end of the current tenure of the Supervisory Board, which began in March 2008. The term of office will expire following the end of the Ordinary General Meeting of Shareholders. The period of its incumbency was a challenging time. The world's financial crisis and the economic slowdown in Poland discontinued the long-term prosperity, which affected also the Bank. In this difficult time, the Bank had to cope with a lot of challenges among others FX options. The Supervisory Board carefully observed the situation in the Bank and exercised strict supervision over the Bank. From the present perspective, the well-known saying „what doesn't kill you makes you stronger" turned out to be true also in the case of BRE Bank SA. At present, the Bank is recovering its strength, which is also attributable to the last year's issue of shares for the amount of PLN approximately 2 billion. Thanks to the capital increase, the Bank is now better prepared to meet the capital requirements, which are to become binding in a few years as a result of the Basel III Regulations.

The year 2010 brought along a noticeable turn in the unfavourable trends observed in Polish banking from the second half of 2008. The economic environment in which BRE Bank SA operates proved much more favourable. Economic growth was more dynamic, the environment for developing lending activity improved. It brings satisfaction to supervise a company which managed to take advantage of a chance provided by the environment. Last year, BRE Bank SA was back on the growth path and significantly improved its profitability. The consolidated pre-tax result for 2010 reached PLN 872.5 million, which represents a fourfold rise compared to the previous year (PLN 209.4 million in 2009). Consolidated net result allocated to the shareholders of the Bank was characterised by even higher growth dynamics, which represents almost a fivefold of the 2009 result. Following the results the profitability also grew. Return on equity (pre-tax) reached 15.6% for 2010 against 5.1% for 2009. It is worth stressing that this growth of the RoE occurred despite above mentioned increase of the Bank's capital.

In 2010, Mr Cezary Stypułkowski was appointed as President of the Management Board, very experienced manager, who has a long-standing track-record in leading large financial institutions, especially banks, to success. I am convinced, that under his leadership BRE Bank will be able to further improve its achievements, which for you, dear Shareholders, will be the source of measurable satisfaction.

In the past year, the Supervisory Board was thoroughly monitoring and analysing the situation in BRE Bank SA and remained in close contact with the Management Board participating in consultation on all important aspects of the Bank's activity. The Supervisory Board held 6 meetings. As in the previous years, Members of the Supervisory Board, took part in 3 Committees (Executive Committee, Audit Committee and Risk Committee). Between the meetings of the Supervisory Board, both the Executive Committee taking a number of decisions by circular procedure, and the Supervisory Board, passing resolutions in the circular procedure, exercised their activity. Moreover, the Audit Committee and the Risk Committee operated on a regular basis within the Supervisory Board.

On behalf of the entire Supervisory Board I wish to express my deep conviction that this year and in the years to come, BRE Bank SA will follow the targeted path of profitable growth and will strengthen its position in the Polish banking sector, remaining the best financial institution for demanding clients. For you, dear Shareholders, BRE Bank will bring an increase of its value. I strongly believe that both the Management Board of BRE Bank SA with its new President, Mr Cezary Stypułkowski, as well as all the employees of the Bank and all of its subsidiaries will do their outmost, to make that happen.

To conclude, with reference to the term of office of the Supervisory Board which is coming to its end, on behalf of the entire Supervisory Board, I would like to express warm thanks to the Management Board for constructive and effective cooperation, and to you, dear Shareholders, for your confidence in BRE Bank's activity. I want to thank Members of the Supervisory Board warmly for their personal involvement in and great contribution to the work of the Supervisory Board, and I wish the newly to be appointed Supervisory Board further fruitful cooperation with the Management Board for the achievement of set targets.

Maciej Leśny
Chairman of the Supervisory Board

Assessment (concise evaluation) of the Bank's standing in 2010 made by the Supervisory Board of BRE Bank SA, including assessment of the internal control system and the system for managing risks significant for the Bank

Basis: Rule III.1. (1) of the Code of Best Practices for WSE Listed Companies

2010 went down in the history of Polish banking as a year marking a reversal of the negative trends that had begun in the aftermath of the 2008 and 2009 global financial crisis. Although the global situation still remains unstable, last year saw an improvement in the economic environment, in Poland, the Czech Republic and Slovakia, i.e. in the countries in which BRE Bank SA operates. Now that the economic slowdown is past us, there have been signs of a slow return to a favourable climate for increased lending. BRE Bank SA has fully benefited from the improving economic situation, thus increasing its profitability and strengthening its position on the Polish banking market.

All the aspects of 2010 that proved favourable to BRE Bank SA are reflected mainly in the Bank's performance. The consolidated pre-tax result reached 872.5 million, which represents a fourfold rise compared to 2009 (PLN 209.4 million). The consolidated net result allocated to the shareholders of the Bank had been growing more dynamically and was nearly five times ahead of the figure reported in 2009 (PLN 641.6 million versus PLN 128.9 million).

In 2010, the net income generated by BRE Bank SA from recurring operations followed upward trend. The Supervisory Board is satisfied with this fact and sees it as a good sign for the future. Furthermore, it is noteworthy that in 2010, the growth was highly regular and observed on a quarter-on-quarter basis. Annually, all the main components of net income, i.e. interest result, commission result and trading result, which rose by more than 9 per cent, 25 per cent and 1 per cent respectively, contributed to the increase of income.

The Supervisory Board is glad to see a reduction in net impairment losses on loans and advances amounting to PLN 634.8 million in 2010, which compared to PLN 1,097.1 million reported in 2009, represents a decrease by more than 42 per cent and is positively perceived by market analysts. At the same time, the Supervisory Board is aware of the fact that the provisions are still significant and exceed the figures reported by BRE Bank Group before 2009.

The Supervisory Board is of the opinion that the operating costs of the Bank were under control. Compared to 2009, they rose by 4.7 per cent including depreciation. The costs increased at a much slower pace compared to net income, which is reflected in an improved cost-to-income ratio (51.8 per cent in 2010 versus 54.2 per cent in 2009).

The Supervisory Board is pleased with the continuing growth in the Bank's deposit base. Throughout 2010, it grew by nearly 11 per cent to more than PLN 47.4 billion, thus outpacing the entire Polish banking sector (+9 per cent).

In the opinion of the Supervisory Board, in 2010, BRE Bank SA ensured top security of funds entrusted to it, when conducting its business operations. Throughout the year, the consolidated capital adequacy ratio was ranging from approx. 12 per cent to almost 16 per cent, to reach 15.9 per cent at the end of December 2010, which means that it was above the 8 per cent level required by law. Similarly, the consolidated solvency ratio based on core funds (Core Tier 1 ratio) increased in 2010 to reach 10.4 per cent at the end of December 2010. The considerable rise in the capital adequacy of BRE Bank SA Group seen in 2010 is a result of the capital increase in which the Bank raised close to PLN 2 billion. This helped the Bank to prepare even better for meeting capital requirements which will come into force under Basel III within a few years.

Taking all the above into account, the Supervisory Board has a positive assessment of the standing of BRE Bank SA in 2010.

The Supervisory Board appreciates the commitment shown by the Management Board and the employees as well as their efforts made for the Bank, to which the present good standing of the Bank is owed. At the same time, the Supervisory Board hopes that in 2011 the favourable trends, such as the upward tendencies in the economy, will continue and so will the positive results of the commitment of the Management Board and the employees, assuming the form of development and growth of the Bank, its increasing profitability, stronger competitive position and rising value for shareholders.

With reference to the term of office of the Supervisory Board which is coming to its end in 2011 on the day of the General Shareholders' Meeting, the Supervisory Board would like to thank the Management Board for the constructive and effective cooperation, the Shareholders for their confidence in BRE Bank's activity, and wishes the newly to be appointed Supervisory Board further fruitful cooperation with the Management Board for the achievement of the Bank's targets.

Assessment of the internal control system and the system for managing risks significant for the Bank

The internal control system of BRE Bank SA comprises institutional control exercised by the Internal Audit Department and functional control.

The Audit Committee, operating within the Supervisory Board, monitors all the topics connected with internal control on an ongoing basis, and supervises and exercises functional control over the Internal Audit Department. In 2010, the Audit Committee of the Supervisory Board was regularly informed about a broad spectrum of audit-related issues, including the assessment of the internal control and risk management system and the course of the major audits at the Bank and in the Group's subsidiaries. It also assessed and approved the Audit Plan for 2010. Moreover, the Chairman of the Supervisory Board was provided with reports on all the audits conducted at the Bank and in the subsidiaries by the Internal Audit Department. The Audit Committee is also supported by an external auditor who in 2010 reported regularly on the results of and conclusions from the audit of financial statements.

The Supervisory Board assesses the internal control system at BRE Bank SA positively, both in terms of its functional and institutional aspects.

In the case of risk-related issues, the Supervisory Board operates through the Risk Committee exercising ongoing control over particular risk types, in particular credit (including concentration risk), market, operational, liquidity and business risk. The Risk Committee gives recommendations on large exposures posing single-entity risk. Moreover, last year the Committee dealt with many important risk related topics, among others the situation on the Polish credit market, retail non-mortgage loans at BRE, consequences of recommendation T, and the Internal Capital Adequacy Assessment Process.

Furthermore, at the Bank there are several committees whose tasks are directly related to risk management. These are, in particular: the Credit Committee of the Bank's Management Board, the Assets and Liabilities Committee, the Capital Management Committee, and the Risk Committee of BRE Bank.

The Supervisory Board assesses positively the risk management system at BRE Bank SA. In the opinion of the Supervisory Board, the system covers all the risk types that are significant for the Bank and for the Group.

Maciej Leśny
Chairman of the Supervisory Board

Independent Registered Auditor's Opinion

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Independent Registered Auditor's Opinion

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

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

(a) introduction;

(b) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 90,042,441 thousand;

(c) the consolidated income statement for the period from 1 January to 31 December 2010, showing a net profit of PLN 660,865 thousand;

(d) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 833,653 thousand;

(e) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 2,806,131 thousand;

(f) the consolidated statement of cash flows for the period from 1 January to 31 December 2010, showing a net decrease in cash and cash equivalents of PLN 1,037,957 thousand;

(g) additional information on adopted accounting policies and other explanatory notes.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report for the Group in accordance with the applicable regulations.

The Management Board and members of the Supervisory Board of the Parent Company are required to ensure that the financial statements and the Director's Report meets the requirements set out in the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as "the Act").

Our responsibility was to express an opinion on the consolidated financial statements based on our audit.

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 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 language version is binding.

Independent Registered Auditor's Opinion

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

We conducted our audit in accordance with the following:

(a) the provisions of Chapter 7 of the Act;

(b) national standards of auditing issued by the National Chamber of Registered Auditors.

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

(a) have been prepared in accordance with the applicable accounting principles (policies) on the basis of properly maintained consolidation documentation;

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

(c) give a fair and clear view of the Group's financial position as at 31 December 2010 and of the results of its operations for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Agnieszka Accordi-Krawiec

Registered Auditor for the Group, Key Registered Auditor
No. 11665

Warsaw, 28 February 2011

BRE Bank SA Group

Independent registered auditor's report on the consolidated financial statements as at and for the year ended 31 December 2010

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

This report contains 20 consecutively numbered pages and consists of:

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.
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I. General information about the Group

(a) BRE Bank SA (hereinafter referred to as "the Bank", "the Parent Company") was formed on the basis of Resolution No. 99 of the Council of Ministers dated 20 June 1986. The Bank began operating on 2 January 1987. The Bank 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. 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 making tax settlements. For statistical purposes, the Bank was assigned a REGON number 001254524 on 2 June 1998.

(c) As at 31 December 2010, the Bank's registered share capital amounted to PLN 168,346,696 and consisted of 42,086,674 shares with a par value of PLN 4 each.

(d) In the audited period, the Group's operations comprised, amongst others:
- accepting cash placements payable on demand or on maturity and maintaining accounts for these placements;
- maintaining other bank accounts;
- clearing cash transactions;
- granting loans and cash advances;
- granting and confirming bank guarantees and opening letters of credit;
- issuing bank and other securities;
- performing commissioned tasks related to issuing securities;
- conducting forward transactions;
- issuing payment cards and conducting transactions with the use of such cards;
- taking up or purchasing shares and share-related rights, shares in other legal entities, and purchasing units and investment certificates in investment funds;
- soliciting customers for pensions funds;
- acting in the capacity of a depositary within the meaning of the provisions of the Act on the Organization and Operations of Pension Funds;
- acting in the capacity of a depositary within the meaning of the provisions of the Act on Investments Funds, conducting activities which consist of accepting orders to purchase, repurchase and subscribe for units or investment certificates in investment funds;
- maintaining registers of pension fund members and registers of investment fund participants;
- performing tasks classified as insurance intermediation;
- trading in securities, providing custody services, including maintaining securities accounts, and performing tasks related to the provision of custody services.

(e) In the financial year, the following people were on the Bank's Management Board:

▪ Cezary Stypułkowski	Chairman (from 1 October 2010)
▪ Karin Katerbau	Deputy Chairman
▪ Wiesław Thor	Deputy Chairman (Acting Chairman from 2 August to 1 October 2010)
▪ Przemysław Gdański	Board Member
▪ Hans Dieter Kemler	Board Member
▪ Jarosław Mastalerz	Board Member
▪ Christian Rhino	Board Member
▪ Mariusz Grendowicz	Chairman (to 2 August 2010)

(f) The Bank issues securities admitted to trading on the Warsaw Stock Exchange and, in accordance with the requirements of the Accounting Act, it prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.
- The decision to prepare the Bank's financial statements in accordance with those standards was taken by the General Shareholders' Meeting by means of Resolution No. 1 passed on 27 January 2005.

I. General information about the Group (cont.)

(g) As at 31 December 2010, the BRE Bank SA Group comprised the following entities:

Name	Nature of equity relationship (interest in %)	Consolidation method	Auditor of the consolidation package	Type of opinion	End of the reporting period as at which the consolidation package was prepared
BRE Bank SA	Parent Company	Not applicable	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Aspiro SA	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
BRE Bank Hipoteczny SA	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
BRE Gold FIZ Aktywów Niepublicznych *(BRE Gold Non-Public Assets Closed-Ended Investment Fund)*	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
BRE Holding Sp. z o.o.	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
BRE Wealth Management SA	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
BRE Ubezpieczenia TUiR SA	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
BRE Ubezpieczenia Sp. z o.o.	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Dom Inwestycyjny BRE Banku SA	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Garbary Sp. z o.o.	Subsidiary 100.00%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
BRE.locum SA	Subsidiary 79.99%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Magyar Factor zRt.	Subsidiary 78.12%	Acquisition	PricewaterhouseCoopers Kft.	unqualified	31 December 2010
Polfactor SA	Subsidiary 78.12%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010
Transfinance a.s.	Subsidiary 78.12%	Acquisition	PricewaterhouseCoopers Audit s.r.o.	unqualified	31 December 2010
Intermarket Bank AG	Subsidiary 56.24%	Acquisition	PwC INTER-TREUHAND GmbH	unqualified	31 December 2010
BRE Leasing Sp. z o.o.	Subsidiary 50.004%	Acquisition	PricewaterhouseCoopers Sp. z o.o.	unqualified	31 December 2010

II. Information on the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Bank by Resolution No. 26 of the Ordinary General Shareholders' Meeting dated 30 March 2010, on the basis of paragraph 11 of the Bank's Articles of Association.
(b) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of Art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws No. 77, item 649).
(c) The audit was conducted on the basis of an agreement concluded on 1 June 2010, in the following periods:
- interim audit from 25 October 2010 to 23 December 2010;
- final audit from 3 January 2011 to 28 February 2011.

III. The Group's results and financial position

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

The consolidated financial statements do not take account of inflation. The consumer price index (from December to December) amounted to 3.1% in the audited year (3.5% in 2009).

BRE Bank SA is the Parent of the Group. In the audited year, the Group comprised the Bank and 30 subordinated entities (including 16 consolidated subsidiaries and 1 investment fund - the others were considered immaterial for the consolidated financial statements). In the year preceding the audited year, the Group comprised the Bank and 31 subordinated entities (including 18 consolidated subsidiaries and 1 investment fund - the other entities were considered immaterial for the consolidated financial statements).

The following factors had a significant impact on the Group's results of operations and profitability for the year as well as on its financial position as at the balance sheet date:
- The net profit for 2010, including the profit of minority shareholders, amounted to PLN 660,865 thousand. The following were the major components of 2010 operating profit: net interest income of PLN 1,810,964 thousand, net fee and commission income of PLN 745,919 thousand and net trading income of PLN 410,672 thousand. At the same time, the operating profit was affected by the overheads, including amortization and depreciation, of PLN 1,617,269 thousand, and negative net impairment losses on loans and advances of PLN 634,779 thousand.
- Profit before tax, including the profit of minority shareholders, was PLN 663,122 thousand higher than in the previous year. The increase was mainly due to a decrease in negative net impairment losses on loans and advances of PLN 462,355 thousand and an increase in fee and commission income of PLN 303,983 thousand compared with the previous year.
- In 2010 net impairment losses on loans and advances amounted to PLN 634,779 thousand and were PLN 462,355 thousand (i.e. 42%) lower than in 2009. The change in net impairment charges was mainly due to the level of impairment losses on loans and advances to customers, which decreased by PLN 453,282 thousand to PLN 634,637 thousand in 2010. Net impairment losses on loans and advances amounting to PLN 338,518 thousand in the retail portfolio and PLN 293,688 thousand in the corporate loan portfolio, resulted from deterioration in the financial position of some borrowers.
- In the audited year, the income tax expense increased by PLN 132,780 thousand to PLN 211,646 thousand. The increase was due to an increase in current income tax of PLN 124,956 thousand.
- Return on equity calculated as the ratio of net profit for the period, including the profit of minority shareholders, to average net assets (including the net profit for the current period) amounted to 11.65% and was 8.51 percentage points higher than in 2009. In 2010, gross margin also increased and amounted to 16.23%, compared with 4.00% in 2009.
- As at the end of the audited year, the Group's assets amounted to PLN 90,042,441 thousand. Total assets increased by PLN 9,018,555 thousand (i.e. by 11%) during the year. The main components of assets were "Loans and advances to customers" of PLN 59,370,365 thousand (representing 66% of total assets) and "Investment securities" of PLN 18,762,688 thousand (representing 21% of total assets). The main liabilities comprised mainly "Amounts due to customers" of PLN 47,420,057 thousand (representing 53% of total liabilities and equity) and "Amounts due to other banks" of PLN 28,727,008 thousand as at 31 December 2010 (representing 32% of total liabilities and equity).
- As at 31 December 2010 the Group's share capital increased by PLN 1,970,129 thousand to PLN 3,491,812 thousand compared with the end of the prior year as a result of the public issue of 12,371,200 shares and the issue of 24,592 shares in connection with the Incentive Plan for the Management Board.

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

- Consolidated net comprehensive income in 2010 amounted to PLN 833,653 thousand and comprised the net profit of PLN 660,865 thousand, the change in valuation of available-for-sale financial assets of PLN 178,019 thousand, and net foreign exchange losses on translation of foreign operations of PLN 5,231 thousand. Compared with the prior year, the Group's total net comprehensive income increased by PLN 603,676 thousand as a result of an increase in the net profit of PLN 530,342 thousand and an increase in the valuation of available-for-sale financial assets of PLN 84,679 thousand.

IV. Discussion of consolidated financial statement components

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010

ASSETS	Note	31.12.2010 PLN'000	31.12.2009 PLN'000	Change PLN'000	Change (%)	31.12.2010 Structure (%)	31.12.2009 Structure (%)
Cash and balances with the Central Bank	1	2 359 912	3 786 765	(1 426 853)	(38)	3	5
Debt securities eligible for rediscounting at the Central Bank		3 686	9 134	(5 448)	(60)	-	-
Amounts due from banks	2	2 510 892	2 530 572	(19 680)	(1)	3	3
Securities held for trading	3	1 565 656	1 065 190	500 466	47	2	1
Derivative financial instruments	4	1 226 653	1 933 627	(706 974)	(37)	1	3
Loans and advances to customers	5	59 370 365	52 468 812	6 901 553	13	66	65
Investment securities	6	18 762 688	13 120 687	5 642 001	43	21	16
Pledged assets	7	1 830 803	3 516 525	(1 685 722)	(48)	2	4
Investments in associates		317	1 150	(833)	(72)	-	-
Intangible assets	8	427 837	441 372	(13 535)	(3)	-	1
Property, plant and equipment	9	777 620	786 446	(8 826)	(1)	1	1
Current tax assets		5 922	125 308	(119 386)	(95)	-	-
Deferred tax assets	33	316 372	331 828	(15 456)	(5)	-	-
Other assets	10	883 718	906 470	(22 752)	(3)	1	1
TOTAL ASSETS		**90 042 441**	**81 023 886**	**9 018 555**	**11**	**100**	**100**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010 (cont.)

LIABILITIES AND EQUITY	Note	31.12.2010 PLN'000	31.12.2009 PLN'000	Change PLN'000	Change (%)	31.12.2010 Structure (%)	31.12.2009 Structure (%)
Liabilities		**82 974 174**	**76 752 732**	**6 221 442**	**8**	**92**	**95**
Amounts due to the Central Bank	11	79	2 003 783	(2 003 704)	(100)	-	3
Amounts due to other banks	12	28 727 008	25 019 805	3 707 203	15	32	31
Derivative financial instruments and other liabilities held for trading	13	1 363 508	1 935 495	(571 987)	(30)	1	2
Amounts due to customers	14	47 420 057	42 791 387	4 628 670	11	53	53
Debt securities in issue	15	1 371 824	1 415 711	(43 887)	(3)	2	2
Subordinated liabilities	16	3 010 127	2 631 951	378 176	14	3	3
Other liabilities	17	871 130	776 195	94 935	12	1	1
Current income tax liability	33	25 469	904	24 565	2 717	-	-
Deferred tax provision	33	629	544	85	16	-	-
Provisions	18	175 325	176 957	(1 632)	(1)	-	-
Equity	**19**	**7 077 285**	**4 271 154**	**2 806 131**	**66**	**8**	**5**
Share capital	20	3 491 812	1 521 683	1 970 129	129	4	2
Retained earnings		3 356 345	2 712 394	643 951	24	4	3
Other equity items		61 146	(113 890)	175 036	(154)	-	-
Minority interests	21	167 982	150 967	17 015	11	-	-
TOTAL EQUITY AND LIABILITIES		**90 042 441**	**81 023 886**	**9 018 555**	**11**	**100**	**100**

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

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2010

	Note	2010 PLN'000	2009 PLN'000	Change PLN'000	Change (%)	2010 Structure (%)	2009 Structure (%)
Interest income		3 421 704	3 453 207	(31.503)	(1)	64	66
Interest expense		(1 610 740)	(1 795 030)	184.290	(10)	(36)	(36)
Net interest income	**24**	**1 810 964**	**1 658 177**	**152 787**	**9**		
Fee and commission income		1 178 745	1 001 287	177 458	18	22	19
Fee and commission expense		(432 826)	(406 564)	(26 262)	6	(9)	(8)
Net fee and commission income	**25**	**745 919**	**594 723**	**151 196**	**25**		
Dividend income	26	8 173	99 067	(90 894)	(92)	-	2
Net trading income	27	410 672	406 374	4 298	1	7	8
Net gain/loss on investment securities		45 148	(772)	45 920	(5 948)	1	-
Other operating income	28	311 271	263 522	47 749	18	6	5
Net impairment losses on loans and advances	29	(634 779)	(1 097 134)	462 355	(42)	(14)	(22)
Overheads	30	(1 380 351)	(1 285 425)	(94 926)	7	(31)	(26)
Depreciation and amortization	31	(236 918)	(259 362)	22 444	(9)	(5)	(5)
Other operating expenses	32	(207 588)	(169 781)	(37 807)	22	(5)	(3)
Profit before tax		**872 511**	**209 389**	**663 122**	**317**		
Income tax expense	33	(211 646)	(78 866)	(132.780)	168		
Net profit including the profit of minority shareholders		**660 865**	**130 523**	**530 342**	**406**		
Net profit of BRE Bank's shareholders		641 602	128 928	512 674	398		
Profit of minority shareholders		19 263	1 595	17 668	1 108		
Total income and profits		3 332 147	3 021 863	310 284	10	100	100
Total costs and losses		(2 459 636)	(2 812 474)	352 838	(13)	(100)	(100)
Profit before tax		**872 511**	**209 389**	**663 122**	**317**		

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2010

	2010 PLN'000	2009 PLN'000	Change PLN'000	Change (%)	2010 Structure (%)	2009 Structure (%)
Net profit/ (loss)	**660 865**	**130 523**	**530 342**	**406**	**80**	**56**
Foreign exchange gains/ (losses) on translation of foreign operations	(5 231)	6 114	(11 345)	(186)	(1)	3
Valuation of available-for-sale financial assets (net)	178 019	93 340	84 679	91	21	41
Net comprehensive income	**833 653**	**229 977**	**603 676**	**262**	**100**	**100**
Comprehensive income of BRE Bank shareholders	813 638	229 406	587 232	256		
Comprehensive income of minority shareholders	17 015	571	16 444	2 880		

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

Presentation of financial ratios summarizing the Bank's financial position and results (*)

The following ratios characterize the Group's business activities, its results of operations for the financial year, and its financial position as at the end of the reporting period compared with the prior period:

	31.12.2010 /2010	31.12.2009 /2009
Profitability ratios		
Return on equity (net profit for the financial period / average net assets)(1)	11.65%	3.14%
Return on equity (net profit for the financial period / average net assets excluding the net profit/loss for the period)(2)	12.34%	3.19%
Return on assets (profit before tax for the financial period / average assets)(1)	1.02%	0.26%
Gross margin (profit before tax for the financial period / total income)	16.23%	4.00%
Interest income to working assets (interest income / average working assets)(1)	4.20%	4.58%
C/I ratio (overheads / profit/loss on banking activities))(3)	51.76%	54.18%
Liability ratios		
Cost of borrowings (interest expense for the financial period / average interest-bearing liabilities)(1)	2.09%	2.48%
Equity to liabilities & equity (average equity / average total liabilities & equity)(1)	6.63%	5.08%
Asset ratios		
Amounts due from banks and customers to assets (average gross amounts due from banks and customers / average total assets)(1)	70.94%	70.97%
Impaired loans and advances to gross amounts due from banks and customers	5.10%	4.65%
Working assets to total assets	95.95%	94.41%
Liquidity ratios		
Liquidity I (assets maturing within 1 month / liabilities maturing within 1 month) (4)	0.42	0.41
Liquidity II (assets maturing within 3 months / liabilities maturing within 3 months) (4)	2,17	0.49
Capital market ratios		
Earnings per share	PLN 17.49	PLN 4.34
Book value per share	PLN 164.17	PLN 138.77
Other ratios		
Equity in accordance with KNF (Polish Financial Supervision Authority) Resolution No. 381/2008	PLN 8 970 930 thousand	PLN 6 263 844 thousand
Total regulatory capital requirement in accordance with KNF Resolution No. 76/2010	PLN 4 513 324 thousand	PLN 4 356 859 thousand
Capital adequacy ratio in accordance with KNF Resolution No. 76/2010	15.90%	11.50%

(*) The ratios were calculated on the basis of the profit, including the profit of minority shareholders.
(1) The average balances of balance sheet items were calculated on the basis of the balances of the individual items as at the beginning and the end of the current financial period and the previous financial period.
(2) The net profit, including the profit of minority shareholders, in relation to average net assets excluding the net profit for the year.
(3) The profit/loss on banking activities, i.e. the net profit/loss less overheads and net impairment losses on loans and advances.
(4) The values of the individual ratios may differ from the ratios presented in the consolidated financial statements due to a different calculation method being used.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

1. Cash and balances with the Central Bank

As at 31 December 2010 the Group's "Cash and balances with the central bank" amounted to PLN 2,359,912 thousand and were PLN 1,426,853 thousand lower than in the prior year.

The Bank had the largest share in the balance, which amounted to PLN 2,340,672 thousand as at the end of the audited year and was 38% lower than the balance of PLN 3,771,992 thousand at the end of the prior year. The decrease in the balance at the Bank was mainly due to a decrease in cash in current accounts of PLN 1,449,009 thousand to PLN 2,173,831 thousand as at 31 December 2010.

2. Amounts due from banks

As at 31 December 2010, the above balance of amounts due from banks amounted to PLN 2,510,892 thousand. It decreased by PLN 19,680 thousand, i.e. by 1%, compared with the balance as at the end of 2009.

As at 31 December 2010, the above balance comprised mainly the Bank's receivables, which after elimination of intercompany transactions amounted to PLN 2,341,601 thousand and were PLN 55,531 thousand, i.e. 2%, lower than the balance as at the end of 2009.

Other companies which reported significant balances as at the end of the audited year were: Dom Inwestycyjny BRE Banku SA (a balance of PLN 135,078 thousand), Intermarket Bank AG (a balance of PLN 24,784 thousand) and BRE Leasing Sp. z o.o. (a balance of PLN 5,208 thousand).

3. Securities held for trading

As at 31 December 2010, the balance of securities held for trading amounted to PLN 1,565,656 thousand, which represented an increase of PLN 500,466 thousand (i.e. 47%) compared with 31 December 2009.

The increase in the carrying value of securities held for trading consisted mainly of an increase in the balance of Treasury bills of PLN 865,810 thousand, partly offset by a decrease in the portfolio of other debt securities of PLN 252,735 thousand and in Treasury bonds of PLN 116,920 thousand.

The largest share in the Bank's balance represented securities held for trading as at the balance sheet date of PLN 1,465,575 thousand (after elimination of intercompany transactions). The Bank's balance of securities held for trading dropped in the audited year by PLN 466,293 thousand.

4. Derivative financial instruments

The balance of "Derivative financial instruments" amounted to PLN 1,226,653 thousand as at 31 December 2010 and was PLN 706,974 thousand (i.e. 37%) lower than at the end of the prior year.

The decrease in that balance was mainly due to a PLN 386,744 thousand decrease in interest rate derivatives to PLN 768,236 thousand and a PLN 368,319 thousand decrease in the balance of foreign exchange derivatives to PLN 388,957 thousand.

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

5. Loans and advances to customers

As at 31 December 2010, "Loans and advances to customers" amounted to PLN 59,370,365 thousand, representing an increase of PLN 6,901,553 thousand, i.e. 13%, compared with the prior financial year.

(a) Structure of the loan portfolio by type of loans
Loans to retail customers of PLN 33,658,660 thousand and loans to corporate customers of PLN 25,570,342 thousand had the largest share in the gross loan portfolio as at 31 December 2010. The increase in gross loans compared with the prior year resulted mainly from the increase in the portfolios of retail and corporate loans of PLN 4,803,531 thousand, i.e. 17%, and PLN 2,136,347 thousand, i.e. 9%, respectively.

(b) Structure of the loan portfolio by quality
In the audited period, the ratio of impairment losses to the gross receivables balance increased by 0.4 percentage points and amounted to 4.0% as at the end of the financial year.
Gross impaired loans increased by PLN 724,230 thousand, i.e. 28%, and amounted to PLN 3,285,158 thousand as at 31 December 2010. The increase in gross impaired receivables was accompanied by an increase in impairment losses of PLN 501,625 thousand, i.e. 29%, to PLN 2,233,878 thousand as at the end of the audited year. Despite the increase of impaired loans portfolio, the ratio of impairment provisions to the impaired loans as at 31 December 2010 did not change in relation to the previous year and amounted to 68% due to the fact that impairment provisions increased at the same rate as the gross balance of impaired loans and advances.

At the same time, the carrying value of gross receivables subject to the portfolio analysis was PLN 58,534,978 thousand as at 31 December 2010 and increased by PLN 6,662,325 thousand compared with the previous year. However, the increase in these receivables was accompanied by a PLN 16,623 thousand decrease in impairment losses on exposures which were subject to the portfolio analysis to PLN 215,893 thousand as at 31 December 2010. The improvement in the quality of the portfolio of loans in respect of which provisions for losses incurred but not identified were created was due to both the increase in the gross portfolio and improvement of the financial position of the Group's borrowers as a result of the economic recovery, which was reflected in the balance of the discussed provisions.

6. Investment securities

As at 31 December 2010, the balance of "Investment securities" amounted to PLN 18,762,688 thousand, representing an increase of PLN 5,642,001 thousand (i.e. 43%) compared with the balance of PLN 13,120,687 thousand at the end of 2009. The increase in the above balance was largely due to a PLN 5,589,446 thousand increase in the balance of debt securities held mainly in the Bank's portfolio.

7. Pledged assets

As at 31 December 2010, the balance of pledged assets amounted to PLN 1,830,803 thousand which represented a decrease of PLN 1,685,722 thousand (i.e. 48%) compared with the end of 2009.

The pledged assets of the whole Group comprised almost solely the pledged assets of the Bank both as at 31 December 2010 and as at 31 December 2009. As at 31 December 2010, the balance of pledged assets of the Bank was PLN 1,828,724 thousand, representing a decrease of PLN 1,685,058 thousand, i.e. 48%, compared with the balance as at 31 December 2009. The decrease was mainly due to a PLN 1,935,906 thousand decrease in the value of sell-buy-back transactions which was partly offset by a PLN 239,360 thousand (i.e. 64%) increase in securities held as collateral for a loan from the European Investment Bank.

The Group also disclosed debt securities pledged to the Bank Guarantee Fund as pledged assets, and they amounted to PLN 198,388 thousand as at 31 December 2010, compared with PLN 187,564 thousand as at the end of the prior year.

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

8. Intangible assets

As at 31 December 2010, the balance of intangible assets in the Group amounted to PLN 427,837 thousand which represented a decrease of PLN 13,535 thousand compared with the end of the prior year.

The balance comprised mainly intangible assets held by the Bank of PLN 379,981 thousand, which decreased by PLN 16,140 thousand compared with the prior year.

9. Property, plant and equipment

As at 31 December 2010, "Property, plant and equipment" amounted to PLN 777,620 thousand, representing a decrease of PLN 8,826 thousand (i.e. 1%) compared with the balance as at 31 December 2009.

The balance comprised mainly property, plant and equipment of the Bank, which amounted to PLN 534,450 thousand and was PLN 21,414 thousand higher than the balance as at 31 December 2009. BRE Leasing Sp. z o.o., whose balance of property, plant and equipment as at 31 December 2010 amounted to PLN 163,579 thousand and was PLN 6,888 thousand higher than in the prior year, accounted for a significant proportion of the discussed item.

10. Other assets

The balance of "Other assets" went down by PLN 22,752 thousand to PLN 883,718 thousand in the audited year. The major elements of "Other assets" of the Group were inventories (PLN 323,348 thousand, i.e. 37% of the balance), and "Debtors" (PLN 274,907 thousand, i.e. 31% of the balance).

The key elements of "Other assets" are attributed to the Bank (PLN 263,166 thousand after elimination of intercompany transactions) and to BRE.locum SA (PLN 252,291 thousand after elimination of intercompany transactions). The balance of BRE.locum SA comprised mainly work in progress and land.

11. Amounts due to the Central Bank

As at 31 December 2010, the balance of "Amounts due to the Central Bank" amounted to PLN 79 thousand and was PLN 2,003,704 thousand lower than as at 31 December 2009. The decrease resulted from a decrease in the liabilities in respect of repo transactions.

12. Amounts due to other banks

"Amounts due to other banks" increased compared with the balance as at 31 December 2009 by PLN 3,707,203 thousand to PLN 28,727,008 thousand as at 31 December 2010. As at the end of the audited year, the most important components of the balance were loans and advances received of PLN 23,580,714 thousand, liabilities resulting from the repo and sell/buy back transactions of PLN 2,047,864 thousand, term deposits of PLN 1,695,679 thousand and cash in current accounts of PLN 1,195,730 thousand.

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

13. Derivative financial instruments and other liabilities held for trading

"Derivative financial instruments and other liabilities held for trading" amounted to PLN 1,363,508 thousand as at 31 December 2010 and were PLN 571,987 thousand (i.e. 30%) lower than as at 31 December 2009.
The decrease in the balance was mainly due to a decrease in interest rate derivatives of PLN 365,982 thousand to PLN 817,834 thousand and a decrease in the balance of foreign exchange derivatives of PLN 203,468 thousand to PLN 529,364 thousand.

14. Amounts due to customers

The balance of "Amounts due to customers" amounted to PLN 47,420,057 thousand as at the balance sheet date, which represented an increase of PLN 4,628,670 thousand (i.e. 11%) compared with the balance as at 31 December 2009. The increase resulted mainly from an increase in amounts due to corporate customers of PLN 3.943.265 thousand (i.e. 23%) and in amounts due to the public sector customers of PLN 681,675 thousand (i.e. 276%).

The Bank's liabilities, which (after elimination of intercompany transactions) amounted to PLN 46,392,044 thousand and represented 98% of the balance, constituted a major part of the Group's balance of amounts due to customers. The remaining part of amounts due to customers comprised mainly the liabilities of Dom Inwestycyjny BRE Banku SA of PLN 646,226 thousand and the liabilities of BRE Bank Hipoteczny SA of PLN 242,665 thousand.

15. Debt securities in issue

As at 31 December 2010, the balance amounted to PLN 1,371,824 thousand and decreased by PLN 43,887 thousand (i.e. 3%) during the audited year.

The balance comprised mainly mortgage bonds and bonds issued by BRE Bank Hipoteczny SA of PLN 1,312,047 thousand, which represented 96% of the balance of debt securities in issue. The remaining part of the balance comprised the liabilities of Polfactor SA of PLN 59,777 thousand.

The change in the balance in relation to the previous year was mainly due to the decrease in the balance of debt securities issued by BRE Bank Hipoteczny SA of PLN 74,655 thousand, which was partly offset by an increase in the balance of debt securities issued by Polfactor SA of PLN 34,629 thousand.

16. Subordinated liabilities

As at 31 December 2010, subordinated liabilities of the Group amounted to PLN 3,010,127 thousand, representing an increase of PLN 378,176 thousand (i.e. 14%) compared with the balance as at 31 December 2009. Subordinated liabilities comprised bonds and subordinated loans of the Bank with a nominal value totalling CHF 950,000 thousand.

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

17. Other liabilities

As at 31 December 2010, "Other liabilities" amounted to PLN 871,130 thousand and were PLN 94,935 thousand (i.e. 12%) higher than the balance as at 31 December 2009. The balance comprised mainly amounts due to creditors of PLN 281,316 thousand, accruals of PLN 176,779 thousand, provisions for other liabilities to employees of PLN 142,412 thousand and deferred income of PLN 105,947 thousand. An increase in the balance of provisions for other liabilities to employees of PLN 59,859 thousand and in accruals of PLN 53,202 thousand contributed significantly to an increase in "Other liabilities" compared with 31 December 2009.

18. Provisions

As at 31 December 2010, the balance of "Provisions" amounted to PLN 175,325 thousand, which represented a decrease of PLN 1,632 thousand compared with the end of the prior year. The balance of provisions as at 31 December 2010 comprised technical reserves of PLN 87,307 thousand, provisions for off-balance sheet liabilities of PLN 49,674 thousand, provisions for disputed claims of PLN 19,193 thousand and other provisions for liabilities of PLN 19,151 thousand.

The most significant element of the balance were the provisions of BRE Ubezpieczenia TUiR SA, which consisted of technical reserves only (100% of such reserves within the Group).

The Bank's provisions, which also constituted a significant part of the balance, as at 31 December 2010 amounted to PLN 76,058 thousand and were PLN 32,731 thousand lower than the balance as at 31 December 2009. This decrease was mainly due to the decrease in the balance of provisions for off-balance sheet liabilities of PLN 21,945 thousand and provisions for future liabilities of PLN 27,756 thousand. The decrease was partly offset by an increase in the balance of provisions for disputed claims of PLN 16,970 thousand.

19. Equity

	31.12.2009	Issue of shares	Exchange differences on translating foreign operations	Valuation of available-for-sale financial assets	Change in equity due to the valuation and execution of option plans	Net profit/ (loss) for the year	31.12.2010
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Share capital	1 521 683	1 966 203	-	-	3 926	-	3 491 812
Retained earnings	2 712 394	-	-	-	2 349	641 602	3 356 345
Other equity items	(113 890)	-	(2 967)	178 003	-	-	61 146
Minority interests	150 967	-	(2 248)	-	-	19 263	167 982
Total	**4 271 154**	**1 966 203**	**(5 215)**	**178 003**	**6 275**	**660 865**	**7 077 285**

As at the balance sheet date, "Equity" amounted to PLN 7,077,285 thousand (PLN 4,271,154 thousand as at 31 December 2009).

In the audited year, the Group's share capital increased by PLN 1,970,129 thousand and amounted PLN 3,491,812 thousand as at 31 December 2010. The increase was due to an increase in registered share capital through a public issue of 12,371,200 shares of PLN 4 par value and an issue of 24,592 shares in connection with the Incentive Plan for the Management Board. At the same time, the supplementary capital presented under the "Share capital" increased due to a public issue by PLN 1,916,620 thousand and due to the settlement of option schemes by PLN 3,926 thousand.

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

The PLN 643,951 thousand increase in "Retained earnings" was mainly due to the consolidated net profit for 2010 of PLN 641,602 thousand and the result of valuation and execution of option schemes totalling PLN 2,349 thousand. The option schemes comprised the Incentive Plan for the Bank's Management Board approved by the General Shareholders' Meeting on 14 March 2008 and the Incentive Plan for the Key Employees of the Bank approved by the General Shareholders' Meeting on 27 October 2008. Detailed information on the plans was presented in Note 40 to the consolidated financial statements of the BRE Bank SA Group.

In the audited period, other equity items increased by PLN 175,036 thousand. The increase was mainly due to valuation of the available-for-sale financial asset portfolio of PLN 178,003 thousand and foreign exchange losses recognized mainly in connection with foreign branches of the Bank of PLN 2,967 thousand.

20. Share capital of the Parent Company

As at 31 December 2010, the Bank's shareholders were as follows:

Shareholder	Number of shares held	Par value of shares held	Type of shares held (ordinary /preference)	Votes %
Commerzbank Auslandsbanken Holding AG	29 352 897	117 411 588	ordinary	69.74
Other shareholders	12 733 777	50 935 108	ordinary	30.26
	42 086 674			**100.00**

As at the balance sheet date, the share capital comprised 42,086,674 shares with PLN 4 par value each and amounted to PLN 168,346,696. In 2010, Commerzbank Auslandsbanken Holding AG, a subsidiary of Commerzbank AG, continued to be the main shareholder of BRE Bank SA.
As at 31 December 2010, no other shareholder exceeded the threshold of 5% of the shares held. Thus, the interest of the other shareholders in the Bank's share capital amounted to 30.26%.

21. Minority interests

Minority interests comprised interests in the share capital of the following companies:

	31.12.2010	31.12.2009
	PLN'000	PLN'000
Intermarket Bank AG	57,172	64,015
BRE Leasing Sp. z o.o.	64,129	49,314
BRE.locum SA	21,848	20,606
Transfinance a.s.	8,730	7,157
Polfactor SA	10,158	5,900
Magyar Factor Rt.	5,945	3,975
TOTAL	**167,982**	**150,967**

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

The increase in minority interests of PLN 17,015 thousand in the audited year was associated with recognizing profits of subsidiaries attributable to minority shareholders of PLN 19,263 thousand and recognizing foreign exchange losses of PLN 2,248 thousand.

22. Reconciliation of the net profit of the consolidated companies with the Group's consolidated net profit

		2010
		PLN'000
(a)	Net profit of BRE Bank SA	517 724
	Financial result of consolidated companies	177 358
	Total net profit per the financial statements (consolidation packages) of the consolidated companies	**695 082**
(b)	Dividends	(18 471)
(c)	Adjustment of valuation of shares	(12 789)
(d)	Adjustments in result on sale of shares realized by the Bank and the Group	32 697
(e)	Adjustment of valuation of loans and advances to customers	(19 116)
(f)	Adjustment of deferred tax	(7 276)
(g)	Other consolidation adjustments	(9 262)
	Net profit of the Group including the profit of minority shareholders	**660 865**

23. Reconciliation of net assets of the consolidated companies with the Group's consolidated net assets

		31.12.2010
		PLN'000
(a)	Net assets of BRE Bank SA	6 530 958
	Net assets of consolidated companies	1 721 927
	Total net assets	**8 252 885**
(b)	Adjustments (b-g in Note 22)	(34 217)
(c)	Elimination of the share capitals of subsidiaries	(881 680)
(d)	Adjustment of valuation of available-for-sale financial assets through other equity items	(209 662)
(e)	Other adjustments	(50 041)
	Consolidated net assets	**7 077 285**

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

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

24. Net interest income/(expenses)

Net interest income increased by PLN 152,787 thousand (i.e. 9%) in the current year. This increase was due to the fact that expenses decreased more (by PLN 184,290 thousand) than income (by PLN 31,503 thousand).

The decrease in interest income of PLN 31,503 thousand was due to a decrease in interest income on loans and advances, taking into account a PLN 174,095 thousand reversal of discount on impairment losses to PLN 2,449,816 thousand, a PLN 52,768 thousand decrease in interest income on debt securities held for trading to PLN 41,674 thousand and a PLN 41,331 thousand decrease in interest income on cash, cash equivalents and short-term deposits to PLN 149,498 thousand. The decrease in the balance of interest income was offset with a PLN 238,292 thousand increase in interest income on investment securities to PLN 768,623 thousand.

Interest expenses comprised mainly the costs of settlements with banks and customers of PLN 1,487,987 thousand (a decrease of PLN 154,827 thousand compared with the year 2009), costs of debt securities issue of PLN 68,206 thousand (a decrease of PLN 21,896 thousand) and costs of subordinated liabilities of PLN 50,352 thousand (a decrease of PLN 7,828 thousand).

The net interest income was generated primarily by the Bank, where it amounted to PLN 1,418,042 thousand (after elimination of intercompany transactions), which represented 78% of the Group's net interest income, and by BRE Leasing Sp. z o.o., where it amounted to PLN 202,229 thousand (after elimination of intercompany transactions), which represented 11% of the Group's net interest income.

25. Net fee and commission income

In the current financial year, net fee and commission income increased by PLN 151,196 thousand (i.e. 25%) to PLN 745,919 thousand, which was due to the fact that fee and commission income increased more (by PLN 177,458 thousand, i.e. by 18%) than fee and commission expenses (an increase of PLN 26,262 thousand, i.e. 6%).

The main component of the Group's fee and commission income was the Bank's net fee and commission income of PLN 529,953 thousand (after elimination of intercompany transactions), which represented 71% of the Group's net fee and commission income. The Bank's fee and commission income was PLN 139,259 thousand higher than in the previous year, which was mainly due to an increase in the commission on payment cards and the commission for maintaining accounts.

The following other consolidated companies contributed to balance: the insurance company (PLN 111,995 thousand), Dom Inwestycyjny BRE Banku SA (PLN 85,190 thousand) and Intermarket Bank AG (PLN 26,901 thousand).

26. Dividend income

In 2010, dividend income amounted to PLN 8,173 thousand, representing a decrease of PLN 90,894 thousand compared with the prior year.

The decrease in dividend income was mainly due to the fact that the dividend paid by PZU SA was PLN 91,078 thousand lower.

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

27. Net trading income

Trading income and costs are shown in the table below:

	2010	2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Net foreign exchange gains	369,982	415,048	(45,066)	(11)
Net other trading income and costs	40,690	(8,674)	49,364	569
Net trading income	**410,672**	**406,374**	**4,298**	**1**

In the current financial year, there was an increase in "Net trading income" of PLN 4,298 thousand to PLN 410,672 thousand. The change resulted from the increase in net other trading income of PLN 49,364 thousand, which was partly offset with a decrease in net foreign exchange gains of PLN 45,066 thousand.

The Group's net trading income was generated mainly by the Bank, where it amounted to PLN 394,409 thousand (after elimination of intercompany transactions), BRE Leasing Sp. z o.o. (PLN 7,798 thousand) and BRE Bank Hipoteczny SA (net trading income of PLN 4,322 thousand).

28. Other operating income

Other operating income amounted to PLN 311,271 thousand and was PLN 47,749 thousand (i.e. 18%) higher than in 2009. Other operating income comprised mainly gains on sale or disposal of property, plant and equipment, intangible assets and assets held for sale of PLN 149,014 thousand, income on the sales of services of PLN 52,042 thousand, and income on insurance activities of PLN 49,546 thousand.

The following companies contributed to the balance: BRE.locum SA with other operating income of PLN 123,505 thousand (after elimination of intercompany transactions), the Bank with other operating income of PLN 54,820 thousand, BRE Ubezpieczenia with PLN 49,613 thousand, and BRE Leasing with PLN 49,833 thousand.

29. Net impairment losses on loans and advances

In the current financial year, an excess of impairment charges made over their releases amounted to PLN 634,779 thousand and was PLN 462,355 thousand lower than in the prior financial year.

The decrease was mainly due to a PLN 404,710 thousand decrease in net impairment losses on loans and advances at the Bank to PLN 561,942 thousand. The decrease in the balance of net impairment losses on loans and advances was also due to the fact that impairment losses on loans and advances recorded by BRE Leasing Sp. z o.o. were PLN 72,573 thousand lower than in the prior year and amounted to PLN 31,975 thousand in the audited year.

The fact that net impairment losses on loans and advances in 2010 were lower than in the prior year was a result of a lower level of net impairment losses on cash advances granted to customers without previous business with the Bank and a lower level of net impairment losses on receivables from customers who had liabilities to the Bank resulting from derivative transactions, compared to their levels at the end of the previous year.

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

30. Overheads

In 2010 the Group's overheads amounted to PLN 1,380,351 thousand, representing an increase of PLN 94,926 thousand (i.e. 7%) compared with the expenses incurred in the prior year.

The increase in overheads was mainly due to a PLN 99,649 thousand increase in employee expenses of PLN 744,400 thousand, which was partly offset by a PLN 6,158 thousand decrease in running expenses to PLN 579,069 thousand.

The following companies contributed most to overheads: the Bank (PLN 1,074,439 thousand after elimination of intercompany transactions), BRE Leasing Sp. z o.o. (PLN 71,553 thousand) and Dom Inwestycyjny BRE Banku SA (PLN 49,623 thousand).

31. Depreciation and amortization

In 2010, depreciation and amortization amounted to PLN 236,918 thousand and was PLN 22,444 thousand (i.e. 9%) lower than in the prior year. Amortization and depreciation in the audited year comprised depreciation of property, plant and equipment of PLN 137,296 thousand and amortization of intangible assets of PLN 99,622 thousand.

32. Other operating expenses

Other operating expenses amounted to PLN 207,588 thousand in 2010 and increased by PLN 37,807 thousand compared with the prior year.

The increase in other operating expenses was due to an increase in the losses on sale or liquidation of property, plant and equipment, intangible assets and assets held for sale of PLN 46,428 thousand as well as other operating expenses of PLN 24,621 thousand. The increase in these items was partly offset by a decrease in impairment charges related to other receivables (excluding loans and advances) of PLN 17,813 thousand, provisions for future liabilities of PLN 11,712 thousand and impairment losses on property, plant and equipment and intangible assets of PLN 4,795 thousand.

33. Income tax expense

	12 months to 31.12.2010	12 months to 31.12.2009	Change
	PLN'000	**PLN'000**	**PLN'000**
Current income tax	(223 415)	(98 459)	(124 956)
Deferred income tax	11 769	19 593	(7 824)
Income tax expense	**(211 646)**	**(78 866)**	**(132 780)**

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

The following Group companies had the biggest effect on the Group's income tax expense:

Consolidated company	Current income tax	Company's share in current income tax	Deferred income tax	Company's share in deferred income tax
	(PLN'000)	**(%)**	**(PLN'000)**	**(%)**
BRE Bank SA	(156 383)	70	(7 854)	(67)
Dom Inwestycyjny BRE Banku SA	(7 647)	3	421	4
BRE Bank Hipoteczny SA	(7 615)	3	671	6
BRE Ubezpieczenia TUiR SA and BRE Ubezpieczenia Sp. z o.o.	(3 339)	2	(1 342)	(11)
BRE Leasing Sp. z o.o.	(37 495)	17	23 037	195
Polfactor SA	(2 540)	1	110	1
BRE Wealth Management SA	(2 393)	1	345	3
Intermarket Bank AG	(3 292)	2	(1 666)	(14)
Other companies	(2 711)	1	(1 953)	(17)
Total	**(223 415)**	**100**	**11 769**	**100**

34. Contingent liabilities granted and received

The balance of "Contingent liabilities granted and received" comprised liabilities granted, which increased compared with the end of the previous year by PLN 1,873,704 thousand to PLN 14,331,938 thousand, and liabilities received of PLN 1,131,281 thousand, which decreased by PLN 398,255 thousand compared with the end of the previous year.

As at 31 December 2010, the balance of liabilities granted comprised mainly liabilities to grant a loan of PLN 11,709,926 thousand and guarantees and stand-by letters of credit of PLN 2,236,771 thousand. The balance of liabilities received comprised guarantee liabilities of PLN 1,116,453 thousand and financial liabilities of PLN 14,828 thousand.

V. The independent registered auditor's statement

(a) In the course of the audit, the Management Board of the Parent Company presented the required information, explanations, and representations and provided us with a representation letter confirming the completeness of the data in the consolidation documentation and the disclosure of all the contingent liabilities. They also informed us of significant events which occurred between the end of the reporting period and the date of that letter being signed.
(b) The scope of the audit was not limited.
(c) The consolidation documentation was complete and accurate, and it is stored in a manner which ensures proper safeguarding.
(d) In all material respects, the accounting policies and disclosures specified by the manager of the Parent Company were in compliance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. Changes in the accounting policies used and their implications are correctly presented in the notes to the consolidated financial statements.
(e) The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
(f) The elimination of mutual balances (receivables and payables) and intra-Group transactions (revenue and costs) of the consolidated entities was carried out in accordance with the IFRS as adopted by the European Union in all material respects.
(g) The eliminations of gains/losses not realized by the consolidated entities, included in the value of assets and in respect of dividends, were conducted in accordance with the IFRS as adopted by the European Union in all material respects.
(h) The effects of the sale of all or some of the shares in subordinated entities were accounted for properly in all material respects.
(i) The notes to the consolidated financial statements present all the material information specified by the IFRS as adopted by the European Union.
(j) The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.
(k) The total regulatory requirement along with the requirement concerning the risk of excessive capital exposures amounted to PLN 4,513,324 thousand as at the end of the reporting period. The capital adequacy ratio amounted to 15.90% as at 31 December 2010. As at the end of the reporting period, the Group complied with the applicable prudence standards in all material respects.
(l) We determined the materiality levels at the planning stage. The materiality levels specify the limits up to which the irregularities identified may be left unadjusted without detriment to the quality of the consolidated financial statements or the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the users of the financial statements. Materiality measures both the quantity and quality of the audited items, and therefore it varies for different balance sheet and income statement items. Due to the complexity and the number of the materiality levels adopted for audit purposes, they are included in the audit documentation.
(m) The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.
(n) The financial statements of the BRE Bank SA Group as at and for the year ended 31 December 2009 were approved by Resolution No. 21 of the General Shareholders' Meeting dated 13 March 2010, filed with the National Court Register in Warsaw on 12 April 2010 and published in Monitor Polski B No. 949, item 5240 on 14 June 2010.

PRICEWATERHOUSECOOPERS

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VI. Final information and comments

This report has been prepared in connection with our audit of the consolidated financial statements of the BRE Bank SA Group, in which BRE Bank SA, Warsaw, ul. Senatorska 18, is the Parent Company. The audited consolidated financial statements comprised:

(a) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 90,042,441 thousand;
(b) the consolidated income statement for the period from 1 January to 31 December 2010, showing a net profit of PLN 660,865 thousand;
(c) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing comprehensive income of PLN 833,653 thousand;
(d) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in the equity of PLN 2,806,131 thousand;
(e) the consolidated cash flow statement for the period from 1 January to 31 December 2010, showing net cash outflows of PLN 1,037,957 thousand;
(f) additional information on the adopted accounting policies and other explanatory notes.

The consolidated financial statements were signed by the Management Board of the Parent Company on 28 February 2011. 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 dated 28 February 2011, concerning the said consolidated 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 the individual components of the consolidated financial statements or issues. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., registered audit company no. 144:

Agnieszka Accordi-Krawiec

Registered Auditor for the Group, Key Registered Auditor
No. 11665

Warsaw, 28 February 2011

PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register maintained by the District Court for the Capital City of Warsaw, under KRS number 0000044655, NIP 526-021-02-28. The share capital is PLN 10,363,900. The seat of the Company is in Warsaw at Al. Armii Ludowej 14.

BRE Bank SA Group

IFRS Consolidated Financial Statements 2010

BRE Bank SA Group
IFRS CONSOLIDATED FINANCIAL STATEMENTS 2010

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Selected Financial Data

The selected financial data are supplementary information to these consolidated financial statements of BRE Bank SA Group for 2010.

		in PLN '000		in EUR '000	
		Year ended 31.12.2010	Year ended 31.12.2009	Year ended 31.12.2010	Year ended 31.12.2009
I.	Interest income	3 421 704	3 453 207	854 486	795 560
II.	Fee and commission income	1 178 745	1 001 287	294 362	230 679
III.	Net trading income	410 672	406 374	102 555	93 622
IV.	Operating profit	872 511	209 389	217 888	48 240
V.	Profit before income tax	872 511	209 389	217 888	48 240
VI.	Net profit attributable to Owners of BRE Bank SA	641 602	128 928	160 224	29 703
VII.	Net profit attributable to non-controlling interests	19 263	1 595	4 810	367
VIII.	Net cash flows from operating activities	(1 641 347)	(670 750)	(409 886)	(154 529)
IX.	Net cash flows from investing activities	(134 115)	(126 831)	(33 492)	(29 220)
X.	Net cash flows from financing activities	737 505	(983 417)	184 174	(226 562)
XI.	Net increase / decrease in cash and cash equivalents	(1 037 957)	(1 780 998)	(259 204)	(410 311)
XII.	Earnings per ordinary share (in PLN/EUR)	17.49	4.34	4.37	1.00
XIII.	Diluted earnings per ordinary share (in PLN/EUR)	17.48	4.34	4.36	1.00
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

		in PLN '000		in EUR '000	
		As at 31.12.2010	As at 31.12.2009	As at 31.12.2010	As at 31.12.2009
I.	Total assets	90 042 441	81 023 886	22 736 268	19 722 478
II.	Amounts due to the Central Bank	79	2 003 783	20	487 752
III.	Amounts due to other banks	28 727 008	25 019 805	7 253 745	6 090 211
IV.	Amounts due to customers	47 420 057	42 791 387	11 973 855	10 416 091
V.	Equity attributable to Owners of BRE Bank SA	6 909 303	4 120 187	1 744 641	1 002 918
VI.	Non-controlling interests	167 982	150 967	42 416	36 748
VII.	Share capital	168 347	118 764	42 509	28 909
VIII.	Number of shares	42 086 674	29 690 882	42 086 674	29 690 882
IX.	Book value per share (in PLN/EUR)	164.17	138.77	41.45	33.78
X.	Capital adequacy ratio	15.90	11.50	15.90	11.50

The following exchange rates were used in translating selected financial data into euro:
- for items of the Statement of Financial Position – exchange rate announced by the National Bank of Poland as at 31 December 2010 EUR 1 = PLN 3.9603 and 31 December 2009: EUR 1 = PLN 4.1082.
- for items of the Income Statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2010 and 2009: 1 EUR = PLN 4.0044 and 1 EUR = PLN 4.3406 respectively.

BRE Bank SA Group I IFRS Consolidated Financial Statements 2010 PLN (000's)

CONSOLIDATED INCOME STATEMENT	Note	Year ended 31 December	
		2010	2009
Interest income		3 421 704	3 453 207
Interest expense		(1 610 740)	(1 795 030)
Net interest income	6	**1 810 964**	**1 658 177**
Fee and commission income		1 178 745	1 001 287
Fee and commission expense		(432 826)	(406 564)
Net fee and commission income	7	**745 919**	**594 723**
Dividend income	8	8 173	99 067
Net trading income, including:	9	410 672	406 374
Foreign exchange result		369 982	415 048
Other trading income		40 690	(8 674)
Gains less losses from investment securities	23	45 148	(772)
Other operating income	10	311 271	263 522
Net impairment losses on loans and advances	13	(634 779)	(1 097 134)
Overhead costs	11	(1 380 351)	(1 285 425)
Amortization and depreciation	25,26	(236 918)	(259 362)
Other operating expenses	12	(207 588)	(169 781)
Operating profit		**872 511**	**209 389**
Profit before income tax		**872 511**	**209 389**
Income tax expense	14	(211 646)	(78 866)
Net profit		**660 865**	**130 523**

Net profit attributable to:			
- Owners of BRE Bank SA		641 602	128 928
- Non-controlling interests		19 263	1 595
Net profit attributable to Owners of BRE Bank SA		**641 602**	**128 928**
Weighted average number of ordinary shares	**15**	**36 679 683**	**29 690 882**
Earnings per ordinary share (in PLN)	**15**	**17.49**	**4.34**
Weighted average number of ordinary shares for diluted earnings	**15**	**36 709 325**	**29 729 741**
Diluted earnings per ordinary share (in PLN)	**15**	**17.48**	**4.34**

Notes presented on pages 43-145 constitute an integral part of these Consolidated Financial Statements.

BRE Bank SA Group I IFRS Consolidated Financial Statements 2010 PLN (000's)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	Year ended 31 December	
		2010	2009
Financial result		**660 865**	**130 523**
Other comprehensive income net of tax	**16**	**172 788**	**99 454**
Exchange differences on translating foreign operations (net)		(5 231)	6 114
Available-for-sale financial assets (net)		178 019	93 340
Total comprehensive income net of tax, total		**833 653**	**229 977**
Total comprehensive income (net), attributable to:			
- Owners of BRE Bank SA		816 638	229 406
- Non-controlling interests		17 015	571

Consolidated Statement of Financial Position

ASSETS	Note	31.12.2010	31.12.2009
Cash and balances with the Central Bank	17	2 359 912	3 786 765
Debt securities eligible for rediscounting at the Central Bank	18	3 686	9 134
Loans and advances to banks	19	2 510 892	2 530 572
Trading securities	20	1 565 656	1 065 190
Derivative financial instruments	21	1 226 653	1 933 627
Loans and advances to customers	22	59 370 365	52 468 812
Investment securities	23	18 762 688	13 120 687
Pledged assets	20, 23, 37	1 830 803	3 516 525
Investments in associates	24	317	1 150
Intangible assets	25	427 837	441 372
Tangible fixed assets	26	777 620	786 446
Current income tax assets		5 922	125 308
Deferred income tax assets	34	316 372	331 828
Other assets	27	883 718	906 470
Total assets		**90 042 441**	**81 023 886**

EQUITY AND LIABILITIES	Note	31.12.2010	31.12.2009
Amounts due to the Central Bank	28	79	2 003 783
Amounts due to other banks	28	28 727 008	25 019 805
Derivative financial instruments and other trading liabilities	21	1 363 508	1 935 495
Amounts due to customers	29	47 420 057	42 791 387
Debt securities in issue	30	1 371 824	1 415 711
Subordinated liabilities	31	3 010 127	2 631 951
Other liabilities	32	871 130	776 195
Current income tax liabilities		25 469	904
Deferred income tax liabilities	34	629	544
Provisions	33	175 325	176 957
Total liabilities		**82 965 156**	**76 752 732**

Notes presented on pages 43-145 constitute an integral part of these Consolidated Financial Statements.

BRE Bank SA Group | IFRS Consolidated Financial Statements 2010 PLN (000's)

EQUITY	Note	31.12.2010	31.12.2009
Equity attributable to Owners of BRE Bank SA		**6 909 303**	**4 120 187**
Share capital:		**3 491 812**	**1 521 683**
- Registered share capital	38	168 347	118 764
- Share premium	39	3 323 465	1 402 919
Retained earnings:	**40**	**3 356 345**	**2 712 394**
- Profit from the previous years		2 714 743	2 583 466
- Profit for the current year		641 602	128 928
Other components of equity	**41**	**61 146**	**(113 890)**
Non-controlling interests		**167 982**	**150 967**
Total equity		**7 077 285**	**4 271 154**
Total equity and liabilities		**90 042 441**	**81 023 886**
Capital adequacy ratio	**47**	**15.90**	**11.50**
Book value		**6 909 303**	**4 120 187**
Number of shares		**42 086 674**	**29 690 882**
Book value per share (in PLN)		**164.17**	**138.77**

Notes presented on pages 43-145 constitute an integral part of these Consolidated Financial Statements.

PLN (000's)

Consolidated Statement of Changes in Equity

Changes from 1 January to 31 December 2010.

	Note	Share capital		Retained earnings					Other components of equity		Equity attributable to Owners of BRE Bank SA, total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Available for sale financial assets			
Equity as at 1 January 2010		**118 764**	**1 402 919**	**1 761 960**	**53 158**	**719 210**	**178 066**		**3 017**	**(116 907)**	**4 120 187**	**150 967**	**4 271 154**
- reclassification to book value through profit and loss account		-	-	-	-	-	-	-	-	-	-	-	-
- changes to accounting policies		-	-	-	-	-	-	-	-	-	-	-	-
- adjustment of errors		-	-	-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2010		**118 764**	**1 402 919**	**1 761 960**	**53 158**	**719 210**	**178 066**	**-**	**3 017**	**(116 907)**	**4 120 187**	**150 967**	**4 271 154**
Total comprehensive income	**16**							**641 602**	**(2 967)**	**178 003**	**816 638**	**17 015**	**833 653**
Transfer to General Risk Fund		-	-	-	-	59 743	(59 743)	-	-	-	-	-	-
Transfer to reserve capital		-	-	-	-	-	-	-	-	-	-	-	-
Transfer to supplementary capital		-	-	52 994	-	-	(52 994)	-	-	-	-	-	-
Loss coverage with reserve capital		-	-	-	(207)	-	207	-	-	-	-	-	-
Issue of shares	38, 39	49 583	1 929 907	-	-	-	-	-	-	-	1 979 490	-	1 979 490
Issue expenses		-	(13 287)	-	-	-	-	-	-	-	(13 287)	-	(13 287)
Stock option program for employees	40	-	3 926	-	2 349	-	-	-	-	-	6 275	-	6 275
- value of services provided by the employees		-	-	-	6 275	-	-	-	-	-	6 275	-	6 275
- settlement of exercised options		-	3 926	-	(3 926)	-	-	-	-	-	-	-	-
Equity as at 31 December 2010		**168 347**	**3 323 465**	**1 814 954**	**55 300**	**778 953**	**65 536**	**641 602**	**50**	**61 096**	**6 909 303**	**167 982**	**7 077 285**

Notes presented on pages 43-145 constitute an integral part of these Consolidated Financial Statements.

BRE Bank SA Group I IFRS Consolidated Financial Statements 2010 PLN (000's)

Consolidated Statement of Changes in Equity

Changes from 1 January to 31 December 2009.

	Note	Share capital		Retained earnings					Other components of equity		Equity attributable to Owners of BRE Bank SA, total	Non-controlling interests	Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General risk fund	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Available for sale financial assets			
Equity as at 1 January 2009		**118 764**	**1 402 919**	**971 541**	**43 495**	**613 310**	**958 791**	**-**	**(4 139)**	**(210 229)**	**3 894 452**	**153 584**	**4 048 036**
- reclassification to book value through profit and loss account		-	-	-	-	-	-	-	-	-	-	-	-
- changes to accounting policies		-	-	-	-	-	-	-	-	-	-	-	-
- change in the scope of consolidation		-	-	-	-	-	-	-	-	-	-	-	-
- adjustment of errors		-	-	-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2009		**118 764**	**1 402 919**	**971 541**	**43 495**	**613 310**	**958 791**	**-**	**(4 139)**	**(210 229)**	**3 894 452**	**153 584**	**4 048 036**
Total comprehensive income	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**128 928**	**7 156**	**93 322**	**229 406**	**571**	**229 977**
Dividends paid		-	-	-	-	-	-	-	-	-	-	(3 188)	(3 188)
Transfer to General Risk Fund		-	-	-	-	105 900	(105 900)	-	-	-	-	-	-
Transfer to reserve capital		-	-	-	13 334	-	(13 334)	-	-	-	-	-	-
Transfer to supplementary capital		-	-	790 419	-	-	(790 419)	-	-	-	-	-	-
Stock option program for employees	40	-	-	-	(3 671)	-	-	-	-	-	(3 671)	-	(3 671)
- value of services provided by the employees		-	-	-	(3 671)	-	-	-	-	-	(3 671)	-	(3 671)
Equity as at 31 December 2009		**118 764**	**1 402 919**	**1 761 960**	**53 158**	**719 210**	**49 138**	**128 928**	**3 017**	**(116 907)**	**4 120 187**	**150 967**	**4 271 154**

Notes presented on pages 43-145 constitute an integral part of these Consolidated Financial Statements.

BRE Bank SA Group I IFRS Consolidated Financial Statements 2010 PLN (000's)

CONSOLIDATED STATEMENT OF CASH FLOWS	Note	Year ended 31 December	
		2010	2009
A. Cash flow from operating activities		**(1 641 347)**	**(670 750)**
Profit before income tax		**872 511**	**209 389**
Adjustments:		**(2 513 858)**	**(880 139)**
Income taxes paid (negative amount)		(76 690)	(466 859)
Amortisation	25, 26	236 918	259 362
Foreign exchange (gains) losses		2 821 505	5 783
(Gains) losses on investing activities		(43 783)	(13 197)
Impairment of financial assets		97	17 840
Dividends received	8	(8 173)	(99 067)
Interest received		(2 031 189)	(2 116 956)
Interest paid		1 476 674	1 561 443
Changes in loans and advances to banks		(349 174)	929 627
Changes in trading securities		110 709	3 730 876
Changes in derivative financial instruments		706 974	3 699 245
Changes in loans and advances to customers		(4 956 689)	1 655 068
Changes in investment securities		(3 554 475)	(8 066 164)
Changes in other assets		27 036	144 518
Changes in amounts due to other banks		165 778	(1 251 740)
Changes in other trading liabilities		(571 987)	(4 238 996)
Changes in amounts due to customers		3 418 561	3 840 382
Changes in debt securities in issue		30 515	(271 183)
Changes in provisions		(1 632)	10 951
Changes in other liabilities		85 167	(211 072)
Net cash from operating activities		**(1 641 347)**	**(670 750)**
B. Cash flows from investing activities		**(134 115)**	**(126 831)**
Investing activity inflows		**105 618**	**133 751**
Disposal of shares in subsidiaries, net of cash disposed		-	17 181
Disposal of intangible assets and tangible fixed assets		29 553	17 287
Dividends received	8	8 173	99 067
Other investing inflows		67 892	216
Investing activity outflows		**239 733**	**260 582**
Acquisition of shares in subsidiaries, net of cash acquired		-	272
Purchase of intangible assets and tangible fixed assets		239 733	259 566
Other investing outflows		-	744
Net cash used in investing activities		**(134 115)**	**(126 831)**
C. Cash flows from financing activities		**737 505**	**(983 417)**
Financing activity inflows		**4 113 662**	**4 637 079**
Proceeds from loans and advances from other banks		1 929 382	2 432 049
Proceeds from other loans and advances		199 260	209 030
Issue of debt securities		18 817	1 996 000
Issue of ordinary shares		1 966 203	-
Financing activity outflows		**3 376 157**	**5 620 496**
Repayments of loans and advances from other banks		2 912 297	3 024 300
Repayments of other loans and advances		17 236	25 774

Notes presented on pages 43-145 constitute an integral part of these Consolidated Financial Statements.

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Redemption of debt securities		96 714	2 105 515
Payments of financial lease liabilities		207	342
Dividends and other payments to shareholders		2 272	3 187
Other financing outflows		347 431	461 378
Net cash from financing activities		**737 505**	**(983 417)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(1 037 957)**	**(1 780 998)**
Effects of exchange rate changes on cash and cash equivalents		(24 107)	(44 849)
Cash and cash equivalents at the beginning of the reporting period		6 867 880	8 693 727
Cash and cash equivalents at the end of the reporting period	**43**	**5 805 816**	**6 867 880**

Notes presented on pages 43-145 constitute an integral part of these Consolidated Financial Statements.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Information Regarding the Group of BRE Bank SA

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

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

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

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

As at 31 December 2010, the BRE Bank SA Group covered by the Consolidated Financial Statements comprised the following companies:

BRE Bank SA; the parent entity

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

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

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

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

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

As at 31 December 2010 the headcount of BRE Bank SA amounted to 4,416 FTEs (Full Time Employees) and of the Group to 6,018 FTEs (31 December 2009: Bank 4,051 FTEs, Group 5,566 FTEs).

As at 31 December 2010 the employment in BRE Bank SA was 5 300 persons and in the Group 7,023 persons
(31 December 2009: Bank 4,901 persons, Group 6,483 persons).

The business activities of the Group are conducted in the following business segments, presented in detail in the Note 5.

Corporates and Financial Markets Segment, including:

Corporates and Institutions

BRE Holding Sp. z o.o., subsidiary
The company was founded in connection with a reorganisation conducted within the BRE Bank Group with the objective of maintenance of effective cooperation with the companies of the corporate banking area. The company holds 50.004% of the shares of BRE Leasing Sp. z o.o., 50% of the shares of Polfactor SA 75.71% of the shares of BRE Bank Hipoteczny SA and 79.99% of the shares of BRE.locum Sp. z o.o. as at 31 December 2010.

BRE Leasing Sp. z o.o., subsidiary
The company's core business is to lease chattels such as: machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. BRE Leasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland. The Bank holds indirectly through BRE Holding Sp. z o.o., its 100% subsidiary, 50.004% of the company's shares as at 31 December 2010. On 31 January 2011, under the agreement concluded on 26 January 2011 between BRE Holding Sp. z o.o. and Commerz Real, a 100% subsidiary of Commerzbank AG, BRE Holding acquired 49.996% of shares of BRE Leasing from Commerz Real. After this transaction, BRE Bank Group holds 100% shares in BRE Leasing. Detailed information regarding this transaction is presented under the Note 48 'Events after the Balance Sheet Date'.

Garbary Sp. z o.o., subsidiary
Managing real estate located at 101/111 Garbary St. in Poznań is the only business of the company. The real estate consists of several meat factories which are not used at present.

Intermarket Bank AG, subsidiary
Intermarket Bank AG is Austria's biggest factoring bank. The two main products of Intermarket Bank AG are: finance factoring – providing financing against bought receivables, and full finance – a service combining financing with receivables management services as well as enforcement. The Bank holds 56.24% of the shares of Intermarket Bank AG.

Four companies, centred around the Austrian bank Intermarket Bank AG, which are market leaders on their home markets, provide factoring services both on domestic and foreign markets. The Intermarket Group subsidiaries consolidated by the Bank include companies operating on the Polish market (Polfactor SA), the Czech market (Transfinance a.s.) and the Hungarian market (Magyar Factor zRt.).

Magyar Factor zRt., subsidiary
Magyar Factor zRt. provides domestic, export and import factoring service. It is a member of Factors Chain International, an international organisation of factoring companies. The Bank holds 50% of Magyar Factor zRt.'s shares while Intermarket Bank AG holds the remaining 50%.

Polfactor SA, subsidiary
The company operates in Poland and provides factoring services for domestic, export and import transactions. It is a member of the Polish Factors Association and Factors Chain International. The Bank holds an indirect stake (through BRE Holding, its subsidiary) of 50% of the share capital and 50.01% of votes at the General Meeting of the company while Intermarket Bank AG holds the remaining shares.

Transfinance a.s., subsidiary
Transfinance a.s. provides factoring services to small and medium-sized enterprises in the Czech Republic. Its services include domestic and international factoring. The core business of the company also includes purchase of collections, letters of credit, bank guarantees, as well as forfaiting. The Bank holds 50% of Transfinance's shares while Intermarket Bank AG holds the remaining 50%.

BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, subsidiary
As of November 2009 the Group consolidates BRE GOLD Fundusz Inwestycyjny Zamkniety Aktywów Niepublicznych after BRE Bank acquired all its investment certificates (A and B series). The main asset of the fund is the package of PZU SA shares which was previously held by the Bank directly.

Trading and Investment Activity

BRE Bank Hipoteczny SA, subsidiary

The core business of BRE Bank Hipoteczny SA is to grant mortgage loans to finance commercial real estate, residential development projects and local government investments. The company issues mortgage and public bonds to finance its lending operation.

The Bank holds directly and indirectly through BRE Holding, its subsidiary, 100% of the shares of the company.

BRE Finance France SA, subsidiary

The core business of the company is to raise funds for the Bank by issuing euro-notes on international financial markets. The company redeemed the last outstanding tranche of euro-notes in December 2009. The company did not issue debt in 2010.

Dom Inwestycyjny BRE Banku SA, subsidiary

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

Retail Banking Segment (including Private Banking)

Aspiro SA, subsidiary

Aspiro SA offers products from mBank, MultiBank and third party banks. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. It has a national distribution network comprising 24 Financial Centres, 65 mKiosks, 26 Partner mKiosks, and 32 Agent Servise Points.

On 16 September 2010 under the decision of the District Court for Łódź Śródmieście in Łódź, the joint-stock company Aspiro SA was registered in the Register of Entrepreneurs, which was established owing to transformation of the limited liability company Aspiro Sp. z o.o.

BRE Wealth Management SA, subsidiary

The core business of BRE Wealth Management SA is to provide comprehensive wealth management services. Clients are offered model portfolios: aggressive, balanced, stable and conservative, as well as individual investment strategies. BRE Wealth Management also offers an asset allocation service, where it provides advisory on the client's strategic asset allocation including financial and non-financial assets. The company's transborder structures offering has been expanded.

BRE Ubezpieczenia TUiR SA, subsidiary, insurer

The core business of the company is insurance activity within the scope of the second division of underwriting – Other personal insurances and property insurances. The company sells its products through the Internet platform developed in cooperation with retail branches of the Bank. Also, typical products known as bancassurance for customers of the Bank are sold via an insurance agent, the company BRE Ubezpieczenia Sp. z o.o. The Bank holds 100% of the company's shares.

BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent

The core business of the company involves services provided as an insurance agent and services within the scope of settlements due to insurance agreements of insured persons. Its direct parent entity is BRE Ubezpieczenia TUiR SA. The Bank holds 100% shares in the company indirectly, through BRE Ubezpieczenia TUiR SA.

Remaining business:

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

The core business of the company includes providing services such as settlements, database servicing, electronic and paper archiving and input of data to systems.

BRE.locum SA, subsidiary

BRE.locum SA is a property developer operating on the primary market of residential real estate. It manages the property and provides consulting services. The company develops and assesses investment projects; arranges, supervises and manages building designs and construction work; acts as a ‚substitute investor'; sources funds for investment. In Q4, there shares of BRE.locum were transferred to BRE Holding Sp. z o.o. The Bank holds indirectly through BRE Holding 79.99% of the shares of the company.

Other information concerning companies of the Group

Starting from the consolidated financial statements for the third quarter of 2010 the Group stopped the consolidation of two subsidiaries, BRE Corporate Finance SA and Tele-Tech Sp. z o.o. The financial statements of these two subsidiaries are immaterial for the Group activity.

Additionally, information concerning the business conducted by the Group's entities is presented under the Note 5 ‘Business Segments' of these Consolidated Financial Statements.

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

Company	31.12.2010		31.12.2009	
	Share in voting rights (directly and indirectly)	Consolidation method	Share in voting rights (directly and indirectly)	Consolidation method
Aspiro SA	100%	full	100%	full
BRE Bank Hipoteczny SA	100%	full	100%	full
BRE Holding Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia Sp. z o.o.	100%	full	100%	full
BRE Ubezpieczenia TUiR SA	100%	full	100%	full
BRE Wealth Management SA	100%	full	100%	full
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	100%	full	100%	full
Dom Inwestycyjny BRE Banku SA	100%	full	100%	full
Garbary Sp. z o.o.	100%	full	100%	full
BRE Finance France SA	99.98%	full	99.98%	full
BRE.locum SA	79.99%	full	79.99%	full
Magyar Factor zRt.	78.12%	full	78.12%	full
Polfactor SA	78.12%	full	78.12%	full
Transfinance a.s.	78.12%	full	78.12%	full
Intermarket Bank AG	56.24%	full	56.24%	full
BRE Leasing Sp. z o.o. *	50.004%	full	50.004%	full
BRE GOLD FIZ Aktywów Niepublicznych	100% of certificates	full	100% of certificates	full
BRE Corporate Finance SA	-	-	100%	full
Tele-Tech Investment Sp. z o.o.	-	-	100%	full

*After transaction on 31 January 2011, described in the Note 48, the Group holds 100% shares of BRE Leasing Sp. z o.o.

The Management Board of BRE Bank SA approved these Consolidated Financial Statements for issue on 28 February 2011.

2. Description of Relevant Accounting Policies

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

2.1. Accounting Basis

These Consolidated Financial Statements of BRE Bank SA Group have been prepared for the 12-month period ended 31 December 2010.

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

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

2.2. Consolidation

Subsidiaries:
Subsidiaries comprise any entities (including special purpose vehicles) over which the Group has the power to manage their financial and operating policies generally accompanying a shareholding of a majority of the voting rights. When assessing whether the Group actually controls the given entity, the existence and impact of potential voting rights that are currently exercisable or convertible are

considered. Subsidiary entities are subject to full consolidation from the date of acquisition of control over them by the Group. Their consolidation is discontinued from the date when control is not exercised any longer. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement (see Note 2.18).

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

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

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group, as well as companies acquired for the purpose of their resale or liquidation. Those companies were recognised at cost less impairment.

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

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

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

2.3. Interest Income and Expenses

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

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

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

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

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

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

2.4. Fee and Commission Income

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

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

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

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

2.5. Insurance premium revenue

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

2.6. Compensations and benefits, net

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

2.7. Segment Reporting

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

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

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

2.8. Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In reporting periods presented in these Consolidated Financial Statements, there were no assets held to maturity at the Group.

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

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

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

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

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

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

Investments in associates are initially recognised at cost and settled using the equity method of accounting.

2.9. Reinsurance assets

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

The amounts of settlements with reinsurers are estimated according to relevant reinsured polices and reinsurance agreements.
Tests for impairment of reinsurance assets are carried out if there is objective evidence that the reinsurance asset is impaired. Impairment loss of reinsurance asset is calculated if either there is an objective evidence that the Group might not receive the receivable in accordance with the agreement or the value of such impairment can be reliably assessed.

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

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

2.10. Offsetting Financial Instruments

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

2.11. Impairment of Financial Assets

Assets Carried at Amortised Cost

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

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

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

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

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

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

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

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

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

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

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

Assets Measured at Fair Value

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

Renegotiated agreements

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

2.12. Financial Guarantee Contracts

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

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

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

2.13. Cash and Cash Equivalents

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

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

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

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

Securities sold with a repurchase clause (repos) are reclassified in the financial statements as pledged assets if the entity receiving them has the contractual or customary right to sell or pledge them as collateral security. The liability towards the counterparty is recognised as amounts due to other banks, deposits from other banks, other deposits or amounts due to customers, depending on its nature. Securities purchased together with a resale clause (reverse repos) 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 BRE Bank Group sells or buys securities with a repurchase or resale clause specifying a contractual date and price. Such transactions are presented in the Statement of Financial Position as financial assets held for trading or as investment financial assets, and also as liabilities in the case of 'sell-buy-back' transactions and as receivables in the case of 'buy-sell-back' transactions.

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

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

2.15. Derivative Financial Instruments and Hedge Accounting

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

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

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

In accordance with IAS 39 AG 30 (g), there is no need to separate the prepayment option from the host debt instrument for the needs of consolidated financial statements, because the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument. If the value of prepayment option was not to be closely linked to the underlying debt instrument, the option should be separated and fair valued in the consolidated financial statements of the Group.

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

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

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

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

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

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

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

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

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting
Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the Income Statement of the current period.

The Group holds the following derivative instruments in its portfolio:
Market risk instruments:
- Futures contracts for bonds, index futures
- Options for securities and for stock-market indices
- Options for futures contracts
- Forward transactions for securities
- Commodity swaps

Interest rate risk instruments:
- Forward Rate Agreement (FRA)
- Interest Rate Swap (IRS), Overnight Index Swap (OIS)
- Interest Rate Options

Foreign exchange risk instruments:
- Currency forwards, fx swap, fx forward
- Cross Currency Interest Rate Swap (CIRS)
- Currency options

2.16 Gains and Losses on Initial Recognition

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

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

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

2.17. Borrowings and deposits taken

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

2.18. Intangible Assets

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

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

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose identified in accordance with IFRS 8.

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

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

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

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

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

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

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

2.19. Tangible Fixed Assets

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

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

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

Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value 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 structures 25-40 years,
- Technical plant vehicles 5-15 years,
- Transport vehicles 5 years,
- Information technology hardware 3.33-5 years,
- Investments in third party fixed assets 10-40 years or the period of the lease contract,
- Office equipment, furniture 5-10 years.

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

Depreciable fixed assets are tested in terms of possible impairment always after the occurrence of events or change of circumstances indicating that their carrying value in the Statement of Financial Position might not be possible to be recovered. The value of a fixed asset carried in the Statement of Financial Position is reduced to the level of its recoverable value if the carrying value in the Statement of Financial Position exceeds the 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 Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs (cash-generating unit of the asset).

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

2.20. Inventories

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

2.21. Non-Current Assets Held for Sale and Discontinued Operations

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

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

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

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

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

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

2.22. Deferred Income Tax

The Group creates a deffered Income Tax on the temporary difference arising between the timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognised in liabilities as 'Provisions for deferred income tax'. A negative net difference is recognised under 'Deferred income tax assets'. Any change in the balance of the deferred tax assets and 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 Statement of Financial Position. Such liabilities or assets are determined by application of the tax rates in force by virtue of law or of actual obligations at the end of the reporting period. According to expectations such tax rates applied will be in force at the time of realisation of the assets or settlement of the liabilities for deferred corporate income tax.

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

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

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

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

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

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

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

2.23. Assets Repossessed for Debt

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

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

2.24. Prepayments, Accruals and Deferred Income

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

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

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

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

2.25. Leasing

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

Revenue from leasing agreements is recognized as follows:

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

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

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

2.26. Provisions

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

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

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

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

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

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

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

from insurance agreements, including costs of claims handling and policy-related costs.
If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the Consolidated Income Statement through impairment of deferred acquisition costs or/ and supplementary provisions.

2.27. Retirement Benefits and Other Employee Benefits

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

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

2.28. Equity

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

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

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

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

- 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.

Retained earnings
Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity
Other components of equity result from:
- valuation of available for sale financial instruments,
- exchange differences on translation of foreign operations.

2.29. Valuation of Items Denominated in Foreign Currencies

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

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

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

Changes in fair value of monetary items available for sale cover foreign exchange differences arising from valuation at amortised cost, which are recognised in the Income Statement, and foreign exchange differences relating to other changes in carrying value, which are recognised under other components of equity.

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

Companies Belonging to the Group
The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which differ from the presentation currency, are converted to the presentation currency as follows:
- assets and liabilities in each presented Statement of Financial Position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each Income Statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of twelve months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of equity.

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

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

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

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

2.30. Trust and Fiduciary Activities

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

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

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

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

2.31. New Standards, Interpretations and Amendments to Published Standards

Published Standards and Interpretations which have been issued and binding of the Group for annual periods starting on 1 January 2010:

Standards and Interpretations approved by the European Union:

- IFRIC 12, Service Concession Arrangements, binding for annual periods starting on 29 March 2009.
- IFRIC 15, Agreements for the Construction of Real Estate, binding for annual periods starting on or after 1 January 2010.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation, binding for annual periods starting on or after 1 July 2009.
- IFRIC 17, Distribution of Non-Cash Assets to Owners, binding for annual periods starting after 1 November 2009.
- IFRIC 18, Transfers of Assets from Customers, binding for annual periods starting after 1 November 2009.
- IFRS 1 (Revised), Additional Exemptions in First-time Adoption of IFRS, binding for annual periods starting on or after 1 January 2010.
- IFRS 2 (Revised), Share-based Payment, binding for annual periods starting on or after 1 January 2010.
- IFRS 3 (Revised), Business Combinations, binding prospectively to business combinations for which the acquisition date is on or after 1 July 2009.
- IAS 27 (Revised), Consolidated and Separate Financial Statements, binding for annual periods starting after 1 July 2009.
- IAS 39 (Revised), Financial Instruments: Recognition and Measurement – criteria of qualification as hedged item, binding for annual periods starting on or after 1 July 2009.
- Improvements to IFRS 2009 revising 12 standards, binding mostly for annual periods starting on 1 January 2010. Improvements have been approved by the European Union.

The Group believes that the application of the standards and interpretations mentioned above did not have a significant effect on the financial statements in the period of their first application.

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

Standards and Interpretations approved by the European Union:

- IFRIC 14, (Revised), Prepayments of a Minimum Funding Requirement, binding for annual periods starting on or after 1 January 2011.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, binding for annual periods starting on or after 1 July 2010.
- IFRS 1 (Revised), Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, binding for annual periods starting on or after 1 July 2010.
- IAS 24, Related Party Disclosures, retrospectively binding for annual periods starting on or after 1 January 2011.
- IAS 32 (Revised), Classification of Rights Issues, binding for annual periods starting on or after 1 February 2010.
- Improvements to IFRS, in majority binding for annual periods starting on or after 1 January 2011.

Standards and Interpretations which have not been approved by the European Union yet:

- IFRS 1 (Revised), Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, binding for annual periods starting on or after 1 July 2011.
- IFRS 7 (Revised), Disclosures – Transfers of financial assets, binding for annual periods starting on or after 1 July 2011.
- IFRS 9, Financial Instruments, binding for annual periods starting on or after 1 January 2013.
- IAS 12 (Revised), Deferred Tax: Recovery of Underlying Assets, binding for annual periods starting on or after 1 January 2012.

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

2.32. Comparative Data

At the beginning of Q3 2010 certain activities that are presented in the segment Corporates and Financial Markets were reassigned within its two sub-segments. The reassignment comprised a shift of the following activities from Corporates and Institutions to Trading and Investments:
- Financial Institutions,
- Subsidiaries: DI BRE Bank SA, BRE Bank Hipoteczny SA and BRE Corporate Finance SA.

The amendments were made in order to better reflect business lines organisational responsibilities and performance measurement requirements and to better leverage the existing cooperation areas between business lines at Bank level and with subsidiaries.

In connection with above mentioned, the comparative data concerning presentation of 'Business Segments' have been adjusted so as to reflect the changes in presentation in the current year.

All other data as at 31 December 2009 are comparable with data introduced in the current financial period so they were not adjusted.

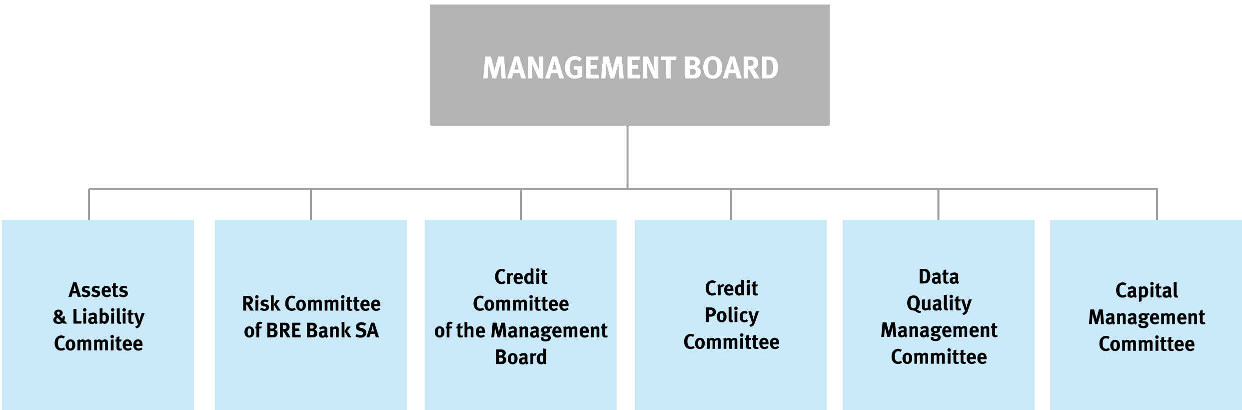
3. Financial and Insurance Risk management

Organisational structure supporting risk management and the division of tasks

Risk management is an inherent element of management in the Group. Risk management functions and tasks are present at all levels of the organisational structure. The Supervisory Board of BRE Bank SA is responsible for supervising the Bank's risk management strategies and policies. Supervision over the risk management process is the responsibility of the Risk Committee established within the Supervisory Board as a special decision-making body responsible among others for monitoring the Bank's profile of exposure to risks, in particular credit risk, and the Bank's compliance with adopted strategic assumptions contained in the above-mentioned strategies and policies.

The Bank's Management Board Members are responsible for managing different risks of the Bank's business:
- The President of the Management Board of the Bank: risk of the Bank's business strategy, reputation risk and compliance risk.
- The Vice-President, Head of Risk Management: credit risk, market risk, liquidity risk, operational risk, special responsibility for implementation of the Bank's risk management strategy and policies.
- The Management Board Member, Head of Investment Banking & Markets: investment risk.

The Management Board of the Bank has established several Committees to which it has delegated responsibilities for specific elements of the risk management process and defined the organisational structure of the Bank with clearly divided responsibilities of organisational units. The chart below presents the structure of the Committees.



The Assets and Liabilities Management Committee (ALCO): It is responsible for management of the assets and liabilities and the liquidity of the Bank. The main tasks of the Committee are to decide on liquidity and long-term funding, management of the Bank's balance sheet including the transfer pricing system of funds, and to perform regular reviews of the liquidity position and funding structure of the Bank. The Committee consists of the Management Board Member, Head of Investment Banking & Markets who chairs the Committee, the Vice-President of the Management Board, Chief Financial Officer, the President of the Management Board, General Director of the Bank, the Vice-President of the Management Board, Head of Risk Management, the Director of the Controlling and Management Information Department, the Director of the Accounting Department, the Director of the Risk Department, the Director of the Treasury Department.

The Risk Committee of BRE Bank SA: Its responsibility is to control and manage financial risk including:
- market risk,
- interest rate risk in banking book,
- liquidity risk,
- portfolio credit risk,
- operational risk.

The responsibilities of the Committee include approval of risk measurement and economic capital calculation methods, setting limits and other measures limiting the Bank's exposure to risk, co-ordination of activities of the Bank's organisational units involved in financial risk controlling and management processes, and monitoring the profile of the Bank's exposure to different risks. The Committee also monitors the compliance of risk profile against internally and externally precautionary measures. The Risk Committee is composed of four Management Board Members, including the Head of Risk Management who chairs the Committee, as well as the directors of units which control and monitor risks, the directors of units which manage risks operationally, and the Director of the Controlling and Management Information Department, the Director of the Strategy Department, and the Director of the Internal Audit Department.

The Credit Committee of Management Board: It is responsible for:
- credit decisions, debt restructuring and enforcement decisions based on limits and transactions which due to their exposure are decided at this level of competence,
- decisions on the Bank's credit policy,
- review of the loan portfolio quality and status of process of monitoring of the financial position of clients.

The Committee consists Vice-President of the Management Board Member, Head of Risk Management who chairs the Committee, the Head of Credit Operations, the Management Board Member, Head of Corporate Banking, the Head of Enterprise Banking and Corporate Banking Management, the Director of the Corporate Loans Department, the Director of the Loans Administration Department, and the Directors of Departments in the corporate banking area as substitutes.

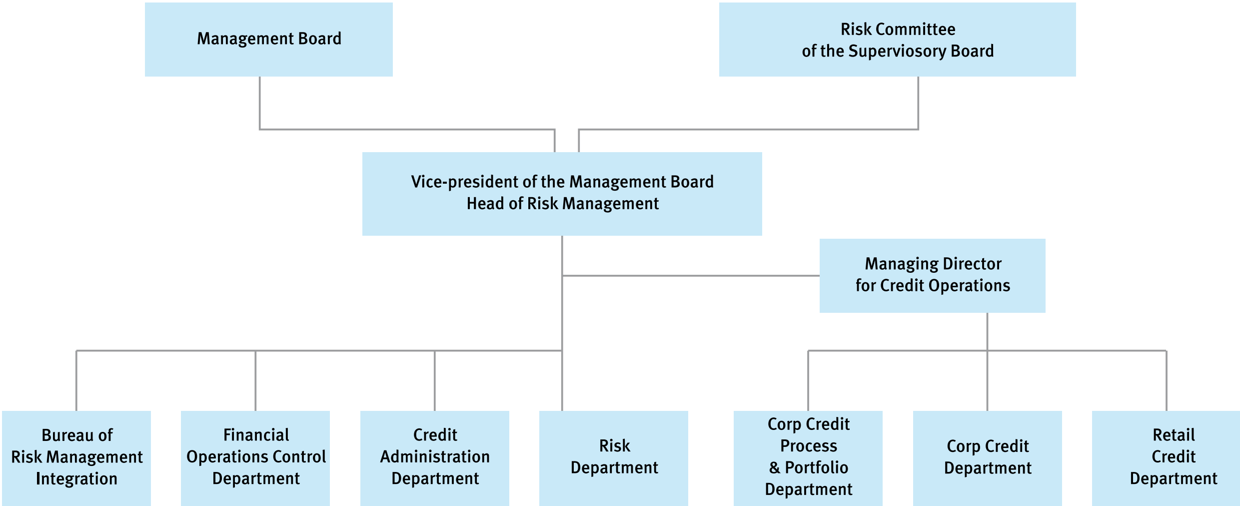
The Credit Policy Committee: The Credit Policy Committee was established in 2010 and is responsible for development of the credit policy and decisions on the Bank's retail banking business. The Committee decides about:
- amendments to the decision-making methodology,
- implementation of new products and modifications to existing credit products impacting credit risk,
- assessment of the impact of marketing factors: distribution channels, target segments, customer communications on the credit risk,
- recalling products.

The Committee is responsible for periodical reviews of the quality and profitability of the loans portfolio. The Committee consists of the Vice-President of the Management Board, Head of Risk Management who chairs the Committee, the Head of Credit Operations, the Management Board Member, Head of Retail Banking, the Head of Retail Banking Sales and Business Processes, the Director of the Retail Loans Department.

The Data Quality Management Committee: The Committee has been established for the purpose of creating conditions for the introduction and development of an effective system for managing the quality of data used for the purpose of the calculation of the Bank's regulatory capital requirement (AIRB). The quality of data used in management processes has significant impact on the advanced internal ratings based approach used, for example, in credit risk rating. The Committee is composed of the Vice-President of the Management Board, Head of Risk Management who chairs the Committee, the Head of Operations and IT, and representatives of the areas supervised by the Management Board Members appointed by them. The work performed by the Committee is supported by the data quality units located in the retail and corporate part of the risk management area.

The Capital Management Committee: The Committee is responsible for the Bank's and the Group's capital strategy and activities aimed at maintenance of a safe level and optimal structure of capital and its effective use. The Committee is authorised to decide about establishing regulatory and internal capital management rules, approve the internal capital estimation and allocation process, implement capital efficiency measures and limits of capital utilisation by particular business areas of the Bank. The Committee consists of the Vice-President of the Management Board, Chief Financial Officer who chairs the Committee, and Directors in the Finance, Risk, Investment Banking, Corporate Banking and Retail Banking Lines.

Financial risk management process is performed by the organisational units of the Risk Line supervised by the Head of Risk Management.



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

The segregation of responsibilities in the process is as follows:

- **The Retail Loans Department** (DKD) is responsible for management of credit risk in retail banking on the domestic markets and in foreign branches (Czech Republic and Slovakia). The main operational responsibilities of DKD include: credit risk rating and credit decision-making for individual exposures and transactions, supervision over the automated credit process, administration of credit agreements concluded with retail clients, monitoring and collecting loan receivables. Furthermore, DKD develops rules of credit risk rating and calculation of retail client exposure limits and is responsible for their implementation in tools supporting the credit decision-making process;
- **The Corporate Loans Department** (DKK) is responsible for management of the quality of the corporate and private banking loans portfolio of the Bank and subsidiaries of BRE Bank Group. DKK's key functions include: decisions on and recommendations for individual exposures and transactions of companies and groups of companies which are clients of the Bank, assessment of and recommendations for large exposures accepted by subsidiaries of BRE Bank Group, monitoring the structure of exposures in the risk portfolio, in particular by sector, and the related concentration risk, calculation of the clients' probability of default (PD) and expected loss (EL) ratings for banks and international financial institutions and related exposure limits and monitoring their utilisation, management of credit risk of exposures by country (setting and monitoring the utilisation of limits). The more extensive scope of credit risk controlling functions at Group level is performed by a dedicated organisational unit: the BRE Bank Group Credit Risk Bureau at the Corporate Loans Department. The main functions of the Bureau include: analysis of credit risk of new exposures of subsidiaries, monitoring credit risk of the largest exposures, analysis of the quality of the risk portfolio, participation in development and modification projects of the risk management strategy, policies and rules in subsidiaries, supervision over plans and methodologies of establishing and releasing provisions, as well as audits of the largest exposures for all liabilities of the Group;
- **The Corporate Credit Process and Portfolio Department** (DPP) is responsible for organisation and supervision of the credit process in the corporate area as well as development, implementation and supervision of the application of the rules of operation of the data quality management system for the purpose of AIRB in the corporate area. Moreover, the Department is developing competences of performing portfolio analyses of credit risk in order to take by the end of 2011;
- **The Loans Administration Department** (DAK) is responsible for administration of credit risk in the corporate banking and private banking area. In particular, DAK is responsible for administration of credit risk provisions and monitoring of concentration risk of large exposures. The Department prepares analyses and reports on lending activities and the risk portfolio for internal and external purposes;
- **The Risk Department** (DRF) is responsible for controlling and evaluating credit risk and monitors its volatility and concentration on portfolio basis. The Department is responsible for the construction and development of scoring and rating models used in the credit risk assessment process and applied in decision-making when approving credit exposures both in the corporate and the retail banking area.

Decision-making for credit exposures in the corporate and private banking area. In the case of exposures to corporate and private banking clients, the Bank has a hierarchical, multi-tier system of credit decision-making (limits and transactions) for separate entities and groups of related entities. Escalation to the relevant decision-making level in the system depends on the following criteria: nominal exposure amount (total exposure) and expected loss rating (EL). A new criterion was implemented in 2010: concentration of exposure to an entity or group of related entities as measured by Credit Value at Risk. Each credit decision on every level is preceded by risk assessment carried out by an experienced analyst. The main purpose of the analysis is to determine the EL rating and to verify the client's current capacity to repay the loans and to maintain this capacity over the planned exposure period based on the terms of the agreement. The decision-making process for private banking client exposures is the same as for corporate exposures.

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

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

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

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

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

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

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

Insurance risk management. Insurance risk is concentrated in the subsidiary BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji SA. A risk management function supervised by a Management Board Member has been separated within the company's structure. The function also manages insurance risk.

3.1 The New Basel Capital Accord

An application for approval of BRE Bank's use of statistical methods of the calculation of the regulatory capital requirement for credit risk (AIRB) was filed with the Polish Financial Supervision Authority and the German regulator BaFin in December 2009. As a result, the Polish Financial Supervision Authority carried out an inspection at the Bank in 2010 in order to verify the Bank's readiness for the application of the AIRB approach in the calculation and reporting of capital requirements. The inspection covered a comprehensive range of processes, models, data quality and IT tools including the AIRB capital requirement calculator for the exposure categories to be covered by AIRB in the first phase of implementation in regulatory reporting of BRE Bank. The Bank is awaiting the final decision of the Polish Financial Supervision Authority and BaFin concerning the AIRB application for regulatory purposes and already benefits of modifications to the credit risk management and controlling process introduced by the AIRB project.

Work on the deployment of the AIRB method is also carried out by BRE Bank Hipoteczny SA and BRE Leasing Sp. z o.o., which are covered by a plan of gradual implementation of the AIRB method in BRE Bank Group according to the application. The implementation of the project in BRE Bank Group will result in better alignment of the structure and level of capital requirements to the risk profile of the business operations conducted.

3.2 Credit risk management

3.2.1 Credit policy

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

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

In 2010, despite the first signs of economic recovery after the crisis, demand for corporate loans was however stagnating while corporate risk remained high for companies whose business was associated with Western Europe including Germany through ownership or trade relations. Due to the volatility of fx rates and in the absence of significant economic growth or improvement on the labour market, the Bank pursued a lending policy aiming to ensure limited safe growth of the loans portfolio. The credit policy in corporate banking imposed restrictions applicable to high-risk sectors and implemented mechanisms preventing economically unreasonable concentration to individual entities, groups of entities and sectors, as well as portfolios (Credit Value at Risk). The structure of the Bank's loans portfolio was expanded by adding exposures to municipalities carrying low credit risk. The credit policy in the retail banking area aimed to grow the portfolio of mortgage loans addressed to more affluent borrowers. The Bank applies such rules of evaluating and accepting creditworthiness which historically enabled it to build a loans portfolio characterized by low risk and consequently low impairment provisions. In non-mortgage lending, the Bank's offering was mainly targeted at existing clients of a stronger risk profile: the Bank introduced pre-approved exposure limits available to clients as credit card limits, overdraft limits and cash loan limits. The pursued policy helped to mitigate risks related to the "old" cash loans portfolio (Kredyt Ratalny Plus).

3.2.2 Collateral accepted

Collateral accepted for granted credit products. The collateral policy is an important part of the credit policy. It provides that, in making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral that would be adequate to the accepted risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value, and the quality of personal collateral is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on limitation on the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. The quality of accepted collateral is correlated to the amount of the product bearing credit risk and the level of risk related to granting such a product. The collateral most frequently accepted by the Bank includes:
a) mortgage on real estate,
b) cession of receivables (cession of rights),
c) registered pledge,
d) transfer of ownership to collateral,
e) monetary deposit,
f) guarantee deposit or cash blocked,
g) bill of exchange,
h) guarantees and warranties,
i) a letter of comfort issued by a company whose reliability and fairness is known on the international financial markets.

In the case of personal collateral (e.g. warranty, guarantee), the situation and reliability of the entity issuing such security is evaluated against the standards applicable to the assessment of borrowers. In the case of tangible collateral, the adopted rules of assessment are applied. The value of fixed assets taken as collateral is determined on the basis of an estimate prepared by an certified expert . These estimates submitted to the Bank is verified by a team of specialists situated in the Risk Line, who verify the correctness of the market value assumptions and assess the liquidity of the collateral from the Bank's point of view. The following factors are taken into account in the verification process:
a) for collateral on real estate:
   - Type of real estate,
   - Legal status,
   - Designation in the local land development plan,
   - Technical description of buildings and structures,
   - Description of land,
   - Situation on the local market,
   - Other price-making factors,
b) for collateral on plant and machinery:
   - General application and function in the technological process / possibilities of alternative use,
   - Technical description and parameters,
   - Exploitation and maintenance conditions,
   - Availability of similar devices and machinery,
   - Current market situation,
   - Forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery,
c) for collateral on inventories:
   - Formal and legal requirements related to specific products (e.g., a security certificate „CE" for electrical equipment, permit of UDT (the Office of Technical Inspection) for appliances which operate under pressure, etc.),
   - Saleability,
   - Warehousing conditions required (e.g., for paper materials sensitive to humidity, precise materials sensitive to pollution, etc.),
   - Security and insurance of both the warehouse and the goods stored therein.

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

Collateral on securities resulting from buy-sell-back transactions. The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement such collateral may be sold or repledged. The total market value of collateral that can be sold or repledged, including the case of lack of default of the customer, as at 31 December 2010 amounted to PLN 4,254,372 thousand (as at 31 December 2009: PLN 710,379 thousand), including the value of taken collaterals which were resold or pledged with another pledge as at 31 December 2010 amounting to PLN 3,279,087 thousand (as at 31 December 2009: PLN 346,537 thousand).

Collaterals accepted by the BRE Bank Group companies. The BRE Bank SA Group companies accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities and the products offered. A blank bill of exchange plays the role of universal collateral, which makes potential recovery of debt more efficient.

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BRE Bank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the borrowing company's owners, as well as pledge on shares in the borrower's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

BRE Leasing applies types of collateral that are most similar to those of BRE Bank. It accepts both standard personal security – bill of exchange and civil surety, letters of comfort, guarantees and tangible collateral – ordinary and capped mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, and deposits. Moreover, conditional taking over of debt is a frequently accepted security – in the case of this security, it is possible to accept the evaluation of risk related to the conditional lender. BRE Leasing also accepts declarations of voluntary submission for enforcement

Factoring companies only accept highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by BRE Bank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers. In the case of providing services to several companies belonging to one group, a customary form of collateral is a power of attorney to perform cross-settlement of agreements concluded with the particular companies.

Insurance companies which secure their activities against credit risk, by implementing a policy of safe allocation of all resources and using comprehensive reinsurance, do not have any additional collateral for assets exposed to credit risk.

Hedge Accounting. The Group did not use hedge accounting in the reporting periods.

3.2.3 Rating system

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

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

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

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

The table below presents the mapping system.

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

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

- Loss Given Default (LGD) model, which covers the portfolio of retail mortgage exposures. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected in enforcement procedures.
- Credit Conversion Factor (CCF) model, which covers the entire retail banking portfolio. The model is based on historical data for 2003-2010. The Credit Conversion Factor is an integral part of EAD (CCF as a level of off-balance sheet items converted to balance sheet items).
- PD model with a modular structure, which integrates application and behavioural models in the retail banking area as well as models which use Credit Information Bureau (BIK) data.

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

All BRE Bank SA Group companies whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems. The systems are different for different types of operations, with the exception of all factoring companies which use the same solution, moreover lease contracts and mortgage loans are concluded on the basis of individual systems. The common feature is a two-stage methodology: at the first stage the customer rating is assigned and at the second stage the rating of the transaction/portfolio is established. Both above-mentioned ratings constitute credit risk rating. Both quantitative indicators and qualitative features with material impact on credit risk are classified as essential. The impact on particular risk categories is decomposed depending on the character of the operation (client/ transaction).

Rating systems that are used by the Group's companies were created either on the basis of BRE Bank's systems or by an application of expert estimates.

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

3.2.4.1 Corporate portfolio

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

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

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

3.2.4.2 Retail portfolio

For the purpose of calculating the provisions for retail receivables, loan contracts are classified into subportfolios – groups of contracts of similar risk level. Risk parameters are determined for each transaction: probability of default of a client (PD) and loss so arisen (LGD). Values of these parameters are based on historical data for each portfolio and depend on overdue period. Then, the risk parameters and the amortised cost of the exposures are used in the calculation of the retail portfolio LLP.

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

If impairment indicator is identified on one exposure of a customer, such debtor is classified to a group of default clients.

3.2.5 Measurement of Impairment

The Bank measures impairment of loan exposures in accordance with the International Accounting Standards 39. The intranet application IMPAIRMENT-KORPO is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:
a) identifying impairment indicator on individual basis and if they exist, classifying a customer to a default category;
b) assessing estimated future cash flows (repayments) both from collateral and from repayments by a customer;
c) calculating impairment losses taking into account the future amount of estimated discounted cash flows using the effective interest rate;
d) booking of impairment losses (specific provisions).

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

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

The list of required conditions for indefinite loss events is prepared separately for each following entity type:
   a) governments and central banks,
   b) banks,
   c) corporations, including specialised lending,
   d) local government units,
   e) insurers,
   f) pension fund managing companies, investment fund managing companies.

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

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

In the Bank's retail division losses for impaired exposures are calculated, similarly to the corporate division, with the usage of the IMPAIRMENT application. Retail exposures are considered impaired when:
   a) the exposure exceeds 500 PLN and it is more than 90 days past due,
   b) the loan has been identified as fraudulent,
   c) the contract is restructured.

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

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

Sub-portfolio	31.12.2010		31.12.2009	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	5.73	0.34	36.42	0.05
2	48.86	0.05	16.89	0.10
3	8.46	0.32	9.39	0.37
4	17.93	0.59	19.94	0.61
5	4.45	1.68	5.88	1.74
6	0.39	2.63	1.62	1.16
7	1.04	6.91	0.60	16.72
8	5.31	-	2.05	-
other *)	2.48	1.44	2.33	3.75
Default category	5.35	53.07	4.88	52.73
Total	**100.00**	**3.21**	**100.00**	**3.08**

* position „other" concerns these entities which do not use the same systems as BRE Bank SA

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3.2.6 Maximum Exposure to Credit Risk – before taking account of the accepted collateral

	31.12.2010	31.12.2009
Credit risk exposures relating to on-balance sheet assets:		
Debt securities eligible for rediscounting at the Central Bank	**3 686**	**9 134**
Loans and advances to banks	**2 510 892**	**2 530 572**
Loans and advances to customers	**59 370 365**	**52 468 812**
Loans to individuals:	32 605 727	28 144 729
• Current accounts	3 541 703	3 649 451
• Term loans, including:	29 064 024	24 495 278
housing and mortgage loans	26 187 013	22 427 162
Loans to corporate clients:	24 178 694	22 182 427
• Current accounts	2 740 923	2 906 140
• Term loans:	16 192 724	17 064 098
corporate & institutional enterprises	3 162 315	3 393 330
medium & small enterprises	13 030 409	13 670 768
• Reverse repo / buy-sell-back transactions	3 338 317	353 808
• Other	1 906 730	1 858 381
Loans and advances to public sector	1 917 829	1 325 135
Other receivables	668 115	816 521
Trading securities		
• Debt securities	1 554 544	1 058 389
Derivative financial instruments	**1 226 653**	**1 933 627**
Investment securities		
• Debt securities	18 567 773	12 978 327
Pledged assets	**1 830 803**	**3 516 525**
Other assets	**312 552**	**339 142**
Total exposures relating to on-balance sheet assets	**85 377 268**	**74 834 528**

	31.12.2010	31.12.2009
Credit risk exposures relating to off-balance sheet items:		
Loan commitments and other commitments	11 710 787	9 946 384
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 449 814	2 312 114
Total exposures relating to off-balance sheet items	**14 160 601**	**12 258 498**
Total on-balance sheet assets and off-balance sheet items	**99 537 869**	**87 093 026**

The above table shows the maximum exposure to credit risk as at 31 December 2010 and 31 December 2009 without taking account of any collateral held or credit enhancements attached. Balance Sheet exposures set out above are based on net carrying amounts.

As shown above, 72.48% of the total maximum balance sheet exposure is derived from loans and advances to banks and customers (31 December 2009: 73.49%); 21.75% represents investments in debt securities (31 December 2009: 17.34%).

Risk Management System is aimed at sustaining minimal exposure of credit risk of the Group resulting from both its loan and advances portfolio and debt securities which is characterised by the following trends:

- 54.59% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorised in the top two grades of the internal rating system (31 December 2009: 53.31%);
- 90.18% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2009: 91.04%);
- 99.13% of the investments in debt securities is rated at least on A- credit rating (31 December 2009: 97.79%).

3.2.7 Loans and Advances to Customers and Banks

Loans and advances to customers	31.12.2010		31.12.2009	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	55 746 355	90.18	49 555 124	91.04
Past due but not impaired	2 788 623	4.51	2 317 529	4.26
Impaired	3 285 158	5.31	2 560 928	4.70
Total. gross	**61 820 136**	**100.00**	**54 433 581**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 449 771)	3.96	(1 964 769)	3.61
Total. net	**59 370 365**	**96.04**	**52 468 812**	**96.39**

The table below shows amounts due from banks:

Loans and advances to banks	31.12.2010		31.12.2009	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	2 480 749	97.47	2 481 832	96.62
Past due but not impaired	-	0.00	-	-
Impaired	64 390	2.53	86 827	3.38
Total. gross	**2 545 139**	**100.00**	**2 568 659**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(34 247)	1.35	(38 087)	1.48
Total. net	**2 510 892**	**98.65**	**2 530 572**	**98.52**

The total impairment provision for loans and advances is PLN 2,484,018 thousand (as at 31 December 2009: PLN 2,002,856 thousand) of which PLN 2,267,059 thousand (as at 31 December 2009: PLN 1,768,491 thousand) represents the individually impaired loans and advances to customers and banks and the remaining amount of PLN 216,959 thousand represents the portfolio provision (as at 31 December 2009 PLN 234,365 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 19 and 22.

In 2010, the amount of loans and advances granted to the Group's customers increased by 12.92% compared to the end of the year 2009.

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Loans and advances neither past due nor impaired

31 December 2010 Sub-portfolio	Individuals: Current accounts	Individuals: Term loans	Individuals: including: housing and mortgage loans	Corporate entities: Current accounts	Corporate entities: Term loans: corporate & institutional enterprises	Corporate entities: Term loans: medium & small enterprises	Corporate entities: Reverse repo/buy-sell-back transactions	Corporate entities: Other	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
1	446 203	108 519	6 622	39 652	33 100	308 347	-	-	597 452	-	1 533 273	740 912
2	1 462 611	27 004 913	24 958 637	360 971	583 597	856 154	-	-	742 925	-	31 011 171	1 419 979
3	519 121	666 511	145 078	347 017	747 519	1 942 693	-	-	225 752	-	4 448 613	33 103
4	743 889	43 696	43 696	1 228 167	869 545	5 771 004	-	502 245	190 409	-	9 348 955	82 921
5	-	-	-	378 759	475 589	1 671 195	-	-	130 420	-	2 655 963	2 597
6	-	-	-	23 267	88 035	127 186	-	-	-	-	238 488	18 946
7	-	259	259	43 780	2 701	270 486	-	-	-	-	317 226	20 684
8	39	-	-	-	-	-	3 338 317	-	-	668 115	4 006 471	-
other *)	-	-	-	11 840	1 162	588 554	-	1 334 049	-	-	1 935 605	161 607
Default category	594	8 223	3 172	43 198	61 665	136 910	-	-	-	-	250 590	-
Total	**3 172 457**	**27 832 121**	**25 157 464**	**2 476 651**	**2 862 913**	**11 672 529**	**3 338 317**	**1 836 294**	**1 886 958**	**668 115**	**55 746 355**	**2 480 749**

31 December 2009 Sub-portfolio	Individuals: Current accounts	Individuals: Term loans	Individuals: including: housing and mortgage loans	Corporate entities: Current accounts	Corporate entities: Term loans: corporate & institutional enterprises	Corporate entities: Term loans: medium & small enterprises	Corporate entities: Reverse repo/buy-sell-back transactions	Corporate entities: Other	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
1	367 844	20 237 498	20 160 404	18 289	-	222 903	-	-	1 078 656	-	21 925 190	1 536 499
2	1 854 364	2 543 201	1 364 885	299 614	608 594	1 280 407	-	-	25 211	-	6 611 391	606 340
3	618 157	751 976	116 534	537 859	900 757	1 315 262	-	-	-	-	4 124 011	55 442
4	-	48 455	48 455	1 318 386	1 246 266	6 936 758	-	412 595	17 375	-	9 979 835	35 771
5	410 349	-	-	350 022	415 884	1 664 943	-	-	206 098	-	3 047 296	32 882
6	-	-	-	30 892	10 189	821 980	-	-	-	-	863 061	-
7	-	-	-	35 164	1 201	50 389	-	-	-	-	86 754	12 125
8	-	207	-	59	-	-	353 808	-	-	816 521	1 170 595	95 030
other *)	-	-	-	9 425	8 595	29 241	-	1 329 217	-	-	1 376 478	107 743
Default category	327	18 884	2 239	27 550	-	323 752	-	-	-	-	370 513	-
Total	**3 251 041**	**23 600 221**	**21 692 517**	**2 627 260**	**3 191 486**	**12 645 635**	**353 808**	**1 741 812**	**1 327 340**	**816 521**	**49 555 124**	**2 481 832**

*) position „other" concerns these entities which do not use the same rating systems as BRE Bank

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Loans and advances past due but not impaired

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

31 December 2010	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo/buy-sell-back transactions	Other				
Past due up to 30 days	297 289	821 072	718 272	17 716	1 072	503 340	-	42 569	36 061	-	1 719 119	-
Past due 31-60 days	48 100	153 131	133 990	14 141	442	285 388	-	1 711	-	-	502 913	-
Past due 61-90 days	49 849	135 475	75 380	10 002	36	370 605	-	624	-	-	566 591	-
Total	**395 238**	**1 109 678**	**927 642**	**41 859**	**1 550**	**1 159 333**	**-**	**44 904**	**36 061**	**-**	**2 788 623**	**-**

31 December 2009	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo/buy-sell-back transactions	Other				
Past due up to 30 days	335 270	606 124	514 620	20 480	800	456 042	-	29 742	596	-	1 449 054	-
Past due 31-60 days	70 197	113 833	103 060	10 959	46	147 643	-	71 564	-	-	414 242	-
Past due 61-90 days	60 654	108 978	57 345	12 140	24	263 255	-	9 182	-	-	454 233	-
Total	**466 121**	**828 935**	**675 025**	**43 579**	**870**	**866 940**	**-**	**110 488**	**596**	**-**	**2 317 529**	**-**

As at 31 December 2010 the fair value of received collaterals for mortgage loans to retail customers, amounted to PLN 715,422 thousand (31 December 2009: PLN 535,226 thousand) for the group of loans and advances past due but not impaired.

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

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 1,082,489 thousand (as at 31 December 2009: PLN 879,264 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets, together with the corresponding fair value of collateral.

	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo/buy-sell-back transactions	Other				
31 December 2010												
Loans and advances with impairment	791 245	357 921	221 538	599 406	465 130	961 417	-	110 039	-	-	3 285 158	64 390
Fair value of collateral	34 519	169 113	136 335	78 222	108 807	384 327	-	-	-	-	774 988	-
31 December 2009												
Loans and advances with impairment	519 064	189 747	101 871	578 768	309 386	890 298	-	73 665	-	-	2 560 928	86 827
Fair value of collateral	19 562	94 664	72 639	88 658	38 247	274 215	-	-	-	-	515 346	-

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

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

As at 31 December 2010, impairment of exposures to banks amounted to PLN 33,181 thousand (31 December 2009: PLN 36,238 thousand).

Renegotiated loans and advances

The renegotiations of contractual terms of loans and advances is an evidence of impairment unless it is not caused by the situation of a debtor and it was carried out in normal business conditions. The restructuring processes consists in changing the agreements through extension of payments, recognised reparation plans, modification and delay of repayment of the customer's debt, which as a result of the process is classified into the default portfolio. The restructuring procedures and practice are based on ratios and criteria which, in the opinion of the Management Board, show that payments will most probably be made on time. The restructuring procedures require regular reviews. Most frequently, restructuring is carried out in respect of term loans. In connection with established accounting principles, renegotiated loans are impaired if the change of contractual terms was caused by higher credit risk. As at 31 December 2010 renegotiated loans and advances not impaired amounted to PLN 25,935 thousand (31 December 2009: PLN 91,683 thousand).

3.2.8 Debt Instruments: treasury bonds and other eligible debt securities

31 December 2010	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	49 201	-	49 201
AA- to AA+	-	-	-	3 327	3 327
A- to A+	1 207 015	1 100 918	114 949	19 286 845	21 709 727
BBB+ to BBB-	-	-	51 339	89 744	141 083
BB+ to BB-	-	-	49 780	-	49 780
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	2	2
Unrated	-	-	-	-	-
Total	**1 207 015**	**1 100 918**	**265 269**	**19 379 918**	**21 953 120**

31 December 2009	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	6 935	2 399	9 334
A- to A+	1 079 141	227 557	180 127	15 668 866	17 155 691
BBB+ to BBB-	-	-	86 746	-	86 746
BB+ to BB-	-	-	47 652	-	47 652
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	196 544	57 274	253 818
Total	**1 079 141**	**227 557**	**518 004**	**15 728 539**	**17 553 241**

In 2010 included in the amount of debt securities with ratings A- to A+ were securities issued by the Central Bank in the amount of PLN 8 283 824 thousand (2009: PLN 6 693 975 thousand).

Information about impairment allowance for investment debt securities occurs under the Note 23.

3.2.9 Repossessed Collateral

In 2010 and 2009, the Group did not take over and sell any material assets established as collateral.
The Group classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in paragraph 2.23. Repossessed collaterals classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the units managing the collection process for individual types of repossessed collaterals.

The policy of the companies of the Group is to sell repossessed assets or – in the case of leases – lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the company's urgent need, and must at each time be approved by the Management Board. In 2010, the Group did not have any repossessed collaterals that were difficult to sell.

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

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

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

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

Sector limits are set for sectors defined by the Bank in accordance with the internal Bank's regulations, in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds PLN 800 million, and additionally those indicated by the Head of Risk Management of the Bank. Unless the Bank's Management Board Credit Committee decides otherwise, an exposure limit is set for the Group in any sector on a level not higher than:
- 10% of the gross loan portfolio in the prior reporting period for low risk sectors;
- 8% of the gross loan portfolio in the prior reporting period for medium risk sectors;
- 6% of the gross loan portfolio in the prior reporting period for high risk sectors.

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

The table below presents the structure of concentration of exposures to particular business lines of the BRE Bank SA Group.

No.	Sectors	Principal exposure (in PLN millions)	%	Principal exposure (in PLN millions)	%
		31.12.2010		31.12.2009	
1.	**Household customers**	33 703 646	54.52%	28 880 998	53.06%
2.	**Real estate management**	3 565 345	5.77%	3 633 779	6.68%
3.	**Building industry**	2 030 608	3.28%	1 966 738	3.61%
4.	**Public Administration**	1 586 819	2.57%	248 342	0.46%
5.	**Transport and travel agencies**	1 541 993	2.49%	1 528 405	2.81%
6.	**Metals**	1 102 050	1.78%	1 164 163	2.14%
7.	**Wholesale trade**	1 007 980	1.63%	1 126 252	2.07%
8.	**Liquid fuels and natural gas**	986 905	1.60%	975 529	1.79%

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9.	Timber and furniture	929 151	1.50%	854 870	1.57%
10.	Management, consulting, advertising	756 467	1.22%	1 124 020	2.06%
11.	Motorization	735 722	1.19%	754 903	1.39%
12.	Leasing and renting	634 973	1.03%	519 234	0.95%
13.	Building materials	628 786	1.02%	766 793	1.41%
14.	Groceries	586 715	0.95%	708 945	1.30%
15.	Chemistry and plastic processing	544 030	0.88%	570 039	1.05%
16.	Meat processing industry	474 263	0.77%	421 950	0.78%
17.	Power industry and heat engineering	464 640	0.75%	821 326	1.51%
18.	Pharmacy and health care	314 964	0.51%	280 440	0.52%

In 2010, the total exposure of the Group in the above sectors (excluding household customers) amounts to 28.94% of the credit portfolio (2009: 32.10%). According to the study of The Gdańsk Institute for Market Economics as at the end of 2010 as well as on the basis of recommendations of trade analysts from the Bank the risk of investing in these sectors (in a 5-point scale, i.e., small, medium, increased, large and very large) was assessed as follows:

Real estate management	- medium
Building industry	- large
Public Administration	- lower
Transport and travel agencies	- large
Metals	- very large
Wholesale trade	- medium
Liquid fuels and natural gas	- medium
Timber and furniture	- very large
Management, consulting, advertising	- increased
Motorization	- large
Leasing and renting	- medium
Building materials	- increased
Groceries	- medium
Chemistry and plastic processing	- medium
Financial agencies	- lower
Meat processing industry	- medium
Power industry and heat engineering	- medium
Pharmacy and health care	- medium

Large exposures concentration risk

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

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

These activities have a direct impact on the decisions of bodies of companies of the Group concerning the approval of increase and undertaking of exposures to customers.

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

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

3.4 Market Risk

Definition of market risk. The Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of the Bank's open positions in interest rate, foreign currency and equity instruments, which are exposed to market changes in the values of the appropriate risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, and implied volatilities of relevant options. Market risk is covered by a single management system which is applied both to the trading book and positions belonging to the banking book. Market risk is managed operationally in the Bank's front office units – the Treasury Department (DS), which is responsible mainly for banking book positions, and the Financial Markets Department (DFM), which mainly manages trading book positions. Market risk resulting from transactions concluded by other units of the Bank is transferred, in principle, to the Treasury Department or the Financial Markets Department in line with the type of risk.

The strategic management of market risk, including independent monitoring and controlling, is performed by the Bank's units which are functionally independent of the front office units – particularly by the Risk Department, while decisions relating to strategic market risk management are made by the BRE Bank Risk Committee. Acting on behalf of the Management Board, the Committee sets the VaR and stress tests limits whose utilisation is monitored and reported on a daily basis by DRF.

The management of market risk is performed in accordance with the strategy and the policy of market risk management approved by the Supervisory Board of BRE Bank.

The level of exposure to market risk. According to the methodology adopted by the Bank, market risk is quantified mainly by the following risk measures: value at risk (VaR) and stress tests values.

Value at Risk. Value at Risk (VaR) is the basic standard measure of market risk applied to the trading book portfolios and the banking book portfolios. VaR is a statistical measure which expresses potential loss to which a portfolio is exposed in a specified period, for a specified confidence level, in normal market conditions, in connection with changes in risk factors, such as interest rates, foreign exchange rates, stock share prices/stock indices values and implied volatilities of relevant options. The potentiality of this loss means that with a predetermined high probability (i.e. at the given confidence level) at which value at risk is determined, in a specified holding period, a loss lower than VaR can occur. In the Bank value at risk is determined using historical simulation method, based on time series of 254 (1 year) observed values of all the risk factors to which the Bank's portfolios are exposed. The Bank monitors value at risk at 97.5% confidence level for the one-day holding period. In the process of determining value at risk the Bank applies full valuation methods for pricing financial instruments, and this ensures in Bank's opinion, that monitored VaR reflects market risk of these instruments, in particular non-linear instruments (e.g. options). The model for determining value at risk is subjected to historical back tests on an ongoing basis.

The table below shows the level of market risk exposure of the BRE Bank Group (i.e. BRE Bank, BRE Bank Hipoteczny, BRE Leasing, and Dom Inwestycyjny BRE Banku portfolios) as of 31 December 2010 measured by VaR (at 97.5% confidence level for a one-day holding period) and its decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), and equity risk (VaR EQ).

PLN 000's	BRE Group	BRE	BRE BH	BRE Leasing	DI BRE
VaR IR	9 945	9 529	44	314	0
VaR FX	406	222	175	116	0
VaR EQ	103	25	-	-	77
VaR	**9 637**	**9 423**	**191**	**290**	**77**

By comparison, at the end of 2009 VaR for the BRE Bank Group was PLN 7,339 thousand, with VaR of BRE Bank at PLN 7,685 thousand of, BRE Bank Hipoteczny – PLN 439 thousand, BRE Leasing – PLN 652 thousands, and Dom Inwestycyjny BRE Banku – PLN 139 thousand.

The main sources of market risk of the BRE Bank Group are the Bank's positions. The table below presents the picture of the structure of market risk of the Bank's positions measured by value at risk (at 97.5% confidence level for the one day holding period). The average, the lowest and the greatest values of value at risk presented in the table were computed on the yearly samples of the daily value at risk figures in 2010 and 2009 relatively.

	2010				2009			
PLN 000's	31.12.2009	Mean	Maximum	Minimum	31.12.2008	Mean	Maximum	Minimum
VaR IR	9 529	7 242	10 411	3 895	6 496	7 278	8 847	4 881
VaR FX	222	651	2 786	178	2 293	2 778	4 310	1 139
VaR EQ	25	184	906	2	163	152	694	1
VaR	**9 423**	**7 314**	**10 375**	**3 951**	**7 685**	**9 396**	**14 657**	**6 485**

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The utilisation of VaR limits in 2010 amounted to 16.61% on average for the Financial Markets Department (DFM) portfolio, whereas for the Treasury Department (DS) 48.15%.

The level of VaR was driven mainly by portfolios of instruments sensitive to interest rates (predominantly PLN rates), such as debt securities, interest rate swaps and secondly, by portfolios of instruments sensitive to foreign exchange rates, such as currency options and currency exchange transactions. The remaining groups of risk factors had a relatively smaller impact on VaR.

Stress testing. Stress tests are additional measures of market risk, supplementing the measurement of value at risk. The tests show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values in a one-day period. The Bank applies two methods for carrying out stress tests: in one, the scenarios of changes in risk factors have been constructed on the basis of large changes in market parameters observed during past market crisis situations, and in the other, the scenarios are composed of large changes in risk factors – perfectly correlated and having the same magnitude in each risk factor group. The value of the stress test is subject to a limit treated as the control number. The average value of a stress test (based on observed crisis situations in the past) in 2010 was for the Financial Markets Department portfolio – PLN 11.7 million (in 2009 – PLN 12 million), and for the Treasury Department - PLN 72.0 million (in 2009 – PLN 44 million).

3.5 Currency Risk

The Group is exposed to changes in currency exchange rates. The following tables present the exposure of the Group to currency risk as at 31 December 2010 and 31 December 2009. The tables present assets and liabilities of the Group at balance sheet carrying amount, for each currency

31.12.2010	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	2 259 825	44 850	5 577	117	469	49 074	2 359 912
Debt securities eligible for rediscounting at the Central Bank	3 686	-	-	-	-	-	3 686
Loans and advances to banks	1 286 877	603 102	242 708	5 127	14 496	358 582	2 510 892
Trading securities	1 564 293	1 100	263	-	-	-	1 565 656
Derivative financial instruments	1 043 926	99 766	62 728	3 632	-	16 601	1 226 653
Loans and advances to customers	25 367 941	8 378 725	1 666 823	22 073 527	28 243	1 855 106	59 370 365
Investment securities	18 663 366	85 221	14 101	-	-	-	18 762 688
Pledged assets	1 830 803	-	-	-	-	-	1 830 803
Investments in associates	-	317	-	-	-	-	317
Intangible assets	416 075	3 130	-	-	-	8 632	427 837
Tangible fixed assets	751 033	12 586	-	-	-	14 001	777 620
Other assets, including tax assets	1 161 973	27 140	1 958	297	10	14 634	1 206 012
Total assets	**54 349 798**	**9 255 937**	**1 994 158**	**22 082 700**	**43 218**	**2 316 630**	**90 042 441**
LIABILITIES							
Amounts due to the Central Bank	-	79	-	-	-	-	79
Amounts due to other banks	4 613 753	3 641 285	1 157 421	18 781 485	1 932	531 132	28 727 008
Derivative financial instruments and other trading liabilities	1 255 302	60 890	39 939	1 687	-	5 690	1 363 508
Amounts due to customers	38 840 996	5 169 471	741 632	30 994	81 090	2 555 874	47 420 057
Debt securities in issue	1 371 824	-	-	-	-	-	1 371 824
Subordinated liabilities	-	-	-	3 010 127	-	-	3 010 127
Other liabilities including tax liabilities	813 600	50 974	3 311	365	85	28 893	897 228
Provisions	145 014	15 564	5 211	9 266	19	251	175 325
Total liabilities	**47 040 489**	**8 938 263**	**1 947 514**	**21 833 924**	**83 126**	**3 121 840**	**82 965 156**
Net on-balance sheet position	**7 309 309**	**317 674**	**46 644**	**248 776**	**(39 908)**	**(805 210)**	**7 077 285**
Loan commitments and other commitments	**10 518 084**	**917 541**	**144 013**	**81**	**4 319**	**126 749**	**11 710 787**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**1 636 079**	**625 921**	**158 038**	**137**	**46**	**29 593**	**2 449 814**

31.12.2009	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 686 559	31 623	4 825	106	287	63 365	3 786 765
Debt securities eligible for rediscounting at the Central Bank	9 134	-	-	-	-	-	9 134
Loans and advances to banks	862 081	271 163	160 328	3 534	1 033	1 232 433	2 530 572
Trading securities	1 063 326	-	1 864	-	-	-	1 065 190
Derivative financial instruments	1 801 415	40 853	64 236	3 004	-	24 119	1 933 627
Loans and advances to customers	22 366 161	6 680 581	1 633 718	20 196 760	26 919	1 564 673	52 468 812
Investment securities	12 960 636	146 647	13 403	-	-	1	13 120 687
Pledged assets	3 516 525	-	-	-	-	-	3 516 525
Investments in associates	-	1 150	-	-	-	-	1 150
Intangible assets	429 082	3 444	-	-	-	8 846	441 372
Tangible fixed assets	756 054	15 171	-	-	-	15 221	786 446
Other assets, including tax assets	1 333 191	21 932	26	1	8	8 448	1 363 606
Total assets	**48 784 164**	**7 212 564**	**1 878 400**	**20 203 405**	**28 247**	**2 917 106**	**81 023 886**
LIABILITIES							
Amounts due to the Central Bank	2 003 440	343	-	-	-	-	2 003 783
Amounts due to other banks	3 420 945	3 970 542	414 752	16 599 052	1 844	612 670	25 019 805
Derivative financial instruments and other trading liabilities	1 764 596	123 231	41 893	-	-	5 775	1 935 495
Amounts due to customers	33 695 267	4 774 819	719 906	23 888	54 511	3 522 996	42 791 387
Debt securities in issue	1 387 185	-	28 526	-	-	-	1 415 711
Subordinated liabilities	-	-	-	2 631 951	-	-	2 631 951
Other liabilities including tax liabilities	706 044	35 224	3 134	-	1	33 240	777 643
Provisions	161 193	10 998	256	915	-	3 595	176 957
Total liabilities	**43 138 670**	**8 915 157**	**1 208 467**	**19 255 806**	**56 356**	**4 178 276**	**76 752 732**
Net on-balance sheet position	**5 645 494**	**(1 702 593)**	**669 933**	**947 599**	**(28 109)**	**(1 261 170)**	**4 271 154**
Loan commitments and other commitments	**8 797 676**	**870 079**	**174 431**	**1 024**	**4 788**	**98 386**	**9 946 384**
Guarantees, banker's acceptances, documentary and commercial letters of credit	**1 302 748**	**821 017**	**164 490**	**52**	**739**	**23 068**	**2 312 114**

3.6 Interest Rate Risk

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

As at 31 December 2010 and 31 December 2009 a sudden, lasting and unfavourable shift change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income within 12 months after the year end date by the following amounts:

31.12.2010		31.12.2009	
in PLN millions	currency	in PLN millions	currency
35.83	PLN	7.47	PLN
4.56	EUR	0.13	EUR
0.12	USD	1.46	USD
16.28	CHF	14.18	CHF
5.49	CZK	5.09	CZK

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

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

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

BRE Bank Hipoteczny SA

Repricing date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at BRE Bank Hipoteczny SA.

As at 31 December 2010 and 31 December 2009 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts, on average:

31.12.2010		31.12.2009	
in PLN millions	currency	in PLN millions	currency
4.31	PLN	3.70	PLN
0.08	EUR	0.09	EUR
0.00	USD	0.01	USD

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

BRE Leasing Sp. z o.o.

BRE Leasing Sp. z o.o. performs risk analysis based on the following risk factors:

- interest rates;
- fx rates.

The sensitivity of individual transactions to the risk factors is calculated by adding the shock rate and analysing its impact on the present value of the portfolio (MTM).

As at 31 December 2010 and 31 December 2009 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income by the following amounts, on average:

31.12.2010		31.12.2009	
in PLN millions	currency	in PLN millions	currency
2.60	PLN	4.65	PLN
1.20	EUR	2.04	EUR
0.01	USD	0.01	USD
0.02	CHF	0.24	CHF
0.10	JPY	0.61	JPY

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Groups interest rate risk

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

31.12.2010	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	2 192 949	-	-	-	-	166 963	**2 359 912**
Debt securities eligible for rediscounting at the Central Bank	-	3 686	-	-	-	-	**3 686**
Loans and advances to banks	2 337 284	80 553	46 393	-	-	46 662	**2 510 892**
Securities (trading securities, investment securities and pledged assets)	11 703 842	2 086 827	2 004 757	5 139 707	1 014 760	209 254	**22 159 147**
Loans and advances to customers	52 442 718	3 816 846	1 805 138	513 658	14 534	777 471	**59 370 365**
Other assets and derivative financial instruments	265 710	289 812	465 209	179 176	16 517	893 947	**2 110 371**
Total assets	**68 942 503**	**6 277 724**	**4 321 497**	**5 832 541**	**1 045 811**	**2 094 297**	**88 514 373**
LIABILITIES							
Amounts due to the Central Bank	79	-	-	-	-	-	**79**
Amounts due to other banks	14 726 117	13 443 287	556 090	-	-	1 514	**28 727 008**
Amounts due to customers	42 296 309	3 056 120	1 133 950	191 279	615 657	126 742	**47 420 057**
Debt securities in issue	385 467	478 917	507 440	-	-	-	**1 371 824**
Subordinated liabilities	1 079 035	1 931 092	-	-	-	-	**3 010 127**
Other liabilities and derivative financial instruments	279 638	263 804	655 720	200 463	18 973	816 040	**2 234 638**
Total liabilities	**58 766 645**	**19 173 220**	**2 853 200**	**391 742**	**634 630**	**944 296**	**82 763 733**
Total interest repricing gap	**10 175 858**	**(12 895 496)**	**1 468 297**	**5 440 799**	**411 181**		

31.12.2009	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 053 859	-	-	-	-	2 732 906	**3 786 765**
Debt securities eligible for rediscounting at the Central Bank	-	9 134	-	-	-	-	**9 134**
Loans and advances to banks	847 346	1 192 854	197 255	-	-	293 117	**2 530 572**
Securities (trading securities, investment securities and pledged assets)	11 158 517	3 411 958	2 133 870	45 981	775 001	177 075	**17 702 402**
Loans and advances to customers	45 465 239	3 314 402	1 726 962	1 060 445	23 622	878 142	**52 468 812**
Other assets and derivative financial instruments	307 712	430 584	727 956	302 002	25 656	1 046 187	**2 840 097**
Total assets	**58 832 673**	**8 358 932**	**4 786 043**	**1 408 428**	**824 279**	**5 127 427**	**79 337 782**
LIABILITIES							
Amounts due to the Central Bank	2 003 440	-	-	-	-	343	**2 003 783**
Amounts due to other banks	12 161 676	11 543 742	1 168 557	9 683	-	136 147	**25 019 805**
Amounts due to customers	34 520 969	5 204 812	2 326 656	128 892	343 421	266 637	**42 791 387**
Debt securities in issue	255 702	430 330	729 679	-	-	-	**1 415 711**
Subordinated liabilities	472 965	2 158 986	-	-	-	-	**2 631 951**
Other liabilities and derivative financial instruments	245 776	464 544	790 386	316 372	25 816	868 796	**2 711 690**
Total liabilities	**49 660 528**	**19 802 414**	**5 015 278**	**454 947**	**369 237**	**1 271 923**	**76 574 327**
Total interest repricing gap	**9 172 145**	**(11 443 482)**	**(229 235)**	**953 481**	**455 042**		

3.7 Liquidity Risk

BRE Bank SA

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

Process of ensuring financial liquidity in the Bank comprises of the following sub-processes:
- liquidity risk management, i.e. taking preventive actions for the purpose of not allowing the occurrence the threat of losing liquidity,
- monitoring liquidity situation of the Bank.

The Bank's liquidity risk management process contains two stages:
- strategic stage that enables to ensure financial liquidity in the long term and includes a prognostic point of view,
- operational which allows to observe exposure to liquidity risk for the purpose of protecting immediate and current liquidity.

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

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

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

The Bank also monitors on an on-going basis concentration of funding, in particular in the deposit base, and the liquidity reserves.

For the purpose of securing liquidity, the Bank establishes resources of current and immediate reinforcement of liquidity which are liquidity reserves. The Bank holds its own procedures concerning emergency actions against material worsening of financial liquidity of the Bank.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.7.1). Cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are mainly amended (stability assumption). In assessing its liquidity position the Bank takes into account the low liquidity of securities at the time of crisis and the tendency of banks not to lend to other banks on the money market. As a result it is assumed that only NBP remain the most certain source of cash (by pledging securities in lombard credit).

Value of realistic, cumulative gap of cash flows misfit (in PLN millions)		
Time range	31.12.2010	31.12.2009
up to 3 working days	8 854	5 405
up to 7 calendar days	16 905	2 686
up to 15 calendar days	17 218	11 223
up to 1 month	18 765	12 336
up to 2 months	18 941	13 421
up to 3 months	19 125	14 119
up to 4 months	18 637	14 241
up to 5 months	18 948	14 329
up to 6 months	19 131	14 368
up to 7 months	19 231	13 115
up to 8 months	19 309	13 253
up to 9 months	19 370	13 268
up to 10 months	19 667	11 887
up to 11 months	19 361	11 942
up to 12 months	17 812	12 475

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

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

- the funding structure was stable. The biggest position in this structure was the current and term customers deposit portfolio. The second biggest source of funding, with a growing share in the funding structure, were long-term borrowings from banks (over 1 year), especially from Commerzbank (Note 29). Borrowings and subordinated loans (Note 31) were the main sources of financing the mortgage loan portfolio in CHF. BRE Bank's dependency on money market funding was low (< 2,5 % of total funding), and fully resulted from the market maker's operations on the interbank market,
- BRE Bank, which analyses liquidity risk on a daily basis , increased, during the crisis, the number and the range of scenario analysis, especially in stress test scenarios. The results of these scenarios were regularly presented and discussed at ALCO, Risk Committee and Management Board meetings. A very detailed stability analysis applied to loan and deposit portfolios. ALCO established a Working Group responsible for analysing the Bank's deposit base and preparing recommendations for ALCO and the Management Board on the pricing policy, the product and currency structure under observation of first symptons of 'war for deposits'. It proposed actions necessary to prevent – if applicable - outflow of funds from term accounts and to stabilise and increase the deposit base. The initiated actions were following the expected effects. Additionally, the securities portfolio, which is an important source of funding in time of a crisis, was precisely analysed,
- the Management Board of the Bank agreed with a main shareholder (Commerzbank) on a strategy of funding the CHF mortgage loans portfolio. Considering the continued confidence crisis on the interbank market, it was decided that long-term CHF assets will continue to be funded with direct credit lines within the group. Maturing funds were gradually replaced with new long-term borrowings,
- in 2010, the Bank maintained a high level of liquid securities assuming that the only source of cash from debt securities arises from lombard credit with NBP. These steps were taken in the context of rapidly drying liquidity on the interbank market, uncertainty of future depositor's decisions and materialising credit risk in the banking sector.

BRE Bank Hipoteczny SA

Liquidity risk occurs due to a gap between the maturity of the Bank's assets and its liabilities. The Bank manages liquidity risk by implementing procedures of monitoring of and reporting on the expected inflows and outflows and the net cash flows.

The sources of financing are diversified by means of co-operation with multiple partners and the selection of diverse instruments in order to finance lending. The Bank finances long-term assets in the first place with mortgage bonds of long-term maturity and with long-term deposits taken from BRE Bank and Commerzbank and fulfils its current demand for funding in the interbank market by means of issues of short-term bonds and accepted deposits.

The Bank has put in place a contingency plan applicable in the event of deterioration of liquidity.

In 2010, the liquidity ratios up to 1 month were between 11.07% and 98.54% and the average liquidity ratio was 47.18%. The liquidity ratio up to 1 month at 58.00% results from including unconditional stand-by lines of credit in the total amount of PLN 200 million.

BRE Leasing Sp. z o.o.

The purpose of liquidity risk management is to assure and maintain the capacity of the company to honour both its current and future liabilities, taking into account the costs of liquidity.

The company manages its liquidity risk by matching the maturity of amounts receivable under leasing contracts with the maturity of credit liabilities on the basis of cash flow reports. In addition, the company has open sources of refinancing for periods exceeding 6 months.

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3.7.1 Cash Flows from Transactions in Non-derivative Financial Instruments

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

Liabilities (by contractual maturity dates) as at 31.12.2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	79	-	-	-	-	**79**
Amounts due to other banks	4 527 485	261 143	5 227 899	13 652 014	7 520 554	**31 189 095**
Amounts due to customers	42 261 009	2 666 586	1 276 444	342 952	1 325 596	**47 872 587**
Debt securities in issue	107 342	104 149	669 592	715 277	-	**1 596 360**
Subordinated liabilities	1 083 167	6 779	19 045	101 181	1 976 002	**3 186 174**
Technical-insurance provisions	19 254	16 264	27 879	23 750	159	**87 306**
Other liabilities	400 956	25 212	122 452	3 557	2 734	**554 911**
Total liabilities	**48 399 292**	**3 080 133**	**7 343 311**	**14 838 731**	**10 825 045**	**84 486 512**
Assets (by remaining contractual maturity dates)						
Total assets	**20 272 484**	**4 899 141**	**13 860 823**	**25 645 704**	**39 396 149**	**104 074 301**
Net liquidity gap	**(28 126 808)**	**1 819 008**	**6 517 512**	**10 806 973**	**28 571 104**	**19 587 789**

Liabilities (by contractual maturity dates) as at 31.12.2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to the Central Bank	2 007 327	-	-	-	-	**2 007 327**
Amounts due to other banks	2 838 037	817 993	4 219 060	17 787 968	31 974	**25 695 032**
Amounts due to customers	34 410 559	5 094 926	2 496 993	297 266	712 568	**43 012 312**
Debt securities in issue	187 916	12 152	545 434	852 844	-	**1 598 346**
Subordinated liabilities	-	5 803	17 732	94 205	2 693 870	**2 811 610**
Technical-insurance provisions	6 351	11 379	25 905	23 049	372	**67 056**
Other liabilities	397 791	34 237	155 822	12 115	31 958	**631 923**
Total liabilities	**39 847 981**	**5 976 490**	**7 460 946**	**19 067 447**	**3 470 742**	**75 823 606**
Assets (by remaining contractual maturity dates)						
Total assets	**15 653 297**	**6 279 280**	**11 613 391**	**19 702 824**	**40 606 293**	**93 855 085**
Net liquidity gap	**(24 194 684)**	**302 790**	**4 152 445**	**635 377**	**37 135 551**	**18 031 479**

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

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

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

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3.7.2 Cash Flows from Derivatives

Derivative financial instruments settled in net amounts

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

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

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

Derivatives settled on a net basis as at 31.12.2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	3 532	5 593	5 330	754	-	**15 209**
Overnight Index Swaps (OIS)	4 695	997	1 632	-	-	**7 324**
Interest Rate Swaps (IRS)	41 846	87 116	196 498	413 879	45 403	**784 742**
Cross Currency Interest Rate Swaps (CIRS)	-	6 107	110 851	139 222	-	**256 180**
Options	11 364	24 021	70 707	3 221	9 904	**119 217**
Futures contracts	-	445	-	-	-	**445**
Other	602	-	-	-	-	**602**
Total derivatives settled on a net basis	**62 039**	**124 279**	**385 018**	**557 076**	**55 307**	**1 183 719**

Derivatives settled on a net basis as at 31.12.2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	18 217	31 061	11 807	548	-	**61 633**
Overnight Index Swaps (OIS)	124	3 045	362	-	-	**3 531**
Interest Rate Swaps (IRS)	84 240	183 403	370 544	424 388	48 210	**1 110 785**
Cross Currency Interest Rate Swaps (CIRS)	-	9 880	83 055	172 852	-	**265 787**
Options	24 720	47 360	158 629	22 999	11 805	**265 513**
Futures contracts	-	68	21	-	-	**89**
Other	1 678	-	-	-	-	**1 678**
Total derivatives settled on a net basis	**128 979**	**274 817**	**624 418**	**620 787**	**60 015**	**1 709 016**

Derivative financial instruments settled in gross amounts

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

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

Derivatives settled on a gross basis as at 31.12.2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	5 710 233	3 088 711	3 035 877	105 999	-	**11 940 820**
- inflows	5 677 549	3 091 640	3 011 426	103 342	-	**11 883 957**

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Derivatives settled on a gross basis as at 31.12.2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
- outflows	5 222 505	2 653 672	2 857 443	335 315	-	**11 068 935**
- inflows	5 181 306	2 694 361	2 890 762	346 182	-	**11 112 611**

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

The amounts presented in the table above are nominal cash flows of currency derivatives which have not been settled, while the Note 21 shows nominal values of all open by derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 36.

3.8 Insurance Risk Management

The risk connected with insurance contracts is the possibility of occurrence of the insured event and the uncertainty of the amount of the resulting claim the insurer is to pay by virtue of this event. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For the portfolio of insurance contracts where for creating new products, calculating premiums as well as producing financial plans for subsequent periods the theory of probability is applied, the basis risk is the risk of discrepancy between actual claims and their expected values.

As loss ratio-based estimates are usually based on historic values, there is the risk that their actual realisation will differ from their expected realisation with regard to factors changing over the period such as:
- demographic structure of insured persons upon collective health insurance,
- regulations of the law concerning the insurance market,
- other regulations of the law affecting the insurance market.

Too small insurance portfolio which does not enable the Law of Great Numbers to function but also does not provide sufficient statistical information for proper risk management is also a factor increasing the risk of discrepancy between loss ratio-based estimates and their actual realisation.

In order to decrease this risk, the Group concentrates primarily on increasing given insurance risk portfolios while limiting the risk as well as the amount of individual risks insured on the Group's share by application of profound reinsurance.

Another source of insurance risk is insurance fraud which occurs in a higher or lesser degree in most of insurance products. This phenomenon consists in fraudulent claims for compensations or benefits which are not due actually.

Methods limiting the results of occurrence of the above indicated phenomenon include among others: preventive actions taken up by insurance companies (registers etc.) as well as procedures preventing acceptance of such risk for insurance and relevant procedures of claims handling.

In 2010 the Group offered short-term property and personal insurance contracts both in individual and collective models. However, the collective model is applied to the insurance portfolio known as bancassurance.

The Group also offers individual agreements in co-insurance with other insurers.

Individual agreements are usually concluded for one year with the possibility of renewal with the exception of tourist insurance agreements which are concluded for the duration of the trip, i.e., from 1 to 90 days. Once a year the Group has the right to propose new conditions while renewing the agreement or may not propose such renewal at all.

Collective agreements are concluded in perpetuity. However, the Group has the right to propose new conditions at any time with a three-month notice with the exception of financial agreements where the agreement conditions can be changed by mutual agreement or with a twelve-month notice.

The Group reinsures insurance contracts upon reinsurance agreements.

Concentration of insurance risk is presented in accordance with the breakdown by the groups and the scope of risks defined by the Polish Financial Supervision Authority as well as according to the individual and collective sale model.

The concentration of insurance risk stated in provisions for compensations and benefits

Gross risk	31.12.2010	share %	31.12.2009	share %
casualty	4 933	8%	2 572	8%
disease	9 357	15%	5 076	15%
casco of land vehicles	5 232	8%	4 445	13%
damages caused by elements	3 607	6%	1 588	5%
other material damages	3 019	5%	1 522	4%
civil liability due to owing and usage of land vehicles	13 173	21%	8 802	26%
civil liability	378	1%	184	1%
loan	18 624	30%	6 480	19%
guarantee	793	1%	851	2%
different financial risks	437	1%	411	1%
protection by law	155	0%	103	0%
providing help	2 667	4%	2 164	6%
Gross provision for compensations and benefits	**62 375**	**100%**	**34 198**	**100%**

Risk on own share	31.12.2010	share %	31.12.2009	share %
casualty	4 933	15%	2 572	15%
disease	9 358	27%	5 076	29%
casco of land vehicles	918	3%	647	4%
damages caused by elements	2 059	6%	798	4%
other material damages	2 481	7%	1 284	7%
civil liability due to owing and usage of land vehicles	2 404	7%	1 400	8%
civil liability	271	1%	125	1%
loan	9 555	28%	3 778	21%
guarantee	793	2%	851	5%
different financial risks	436	1%	411	2%
protection by law	155	1%	103	1%
providing help	596	2%	566	3%
Provisions for compensations and benefits on own share	**33 959**	**100%**	**17 611**	**100%**

Gross risk	31.12.2010	share %	31.12.2009	share %
individual	26 474	42%	18 732	55%
group	35 901	58%	15 466	45%
Provisions for compensations and benefits	**62 375**	**100%**	**34 198**	**100%**

Risk on own share	31.12.2010	share %	31.12.2009	share %
individual	8 680	26%	5 636	32%
group	25 279	74%	11 975	68%
Provisions for compensations and benefits on own share	**33 959**	**100%**	**17 611**	**100%**

Sensitivity analysis of provisions for damages

With regard to the accepted methodology of calculation of the IBNR provision (Naive Loss Ratio), total provisions for compensations and benefits together with costs of claims handling are generally linearly dependent on the assumed loss-based ratio, ULR (Ultimate Loss Ratio), accepted for calculation of the IBNR provision with the exception of situations when the ratio calculated only on the basis of damages claimed in a given group of insurance exceeds the accepted value of ULR.

However, the IBNR provision alone is sensitive to changes of assumed loss-based ratios.

Sensitivity analysis was carried out simultaneously for all insured risks of the portfolio, through a change of predicted IBNR ratios with other parameters of the model being unchanged.

The following table presents changes of the IBNR provision depending on changes of parameters of predicted ULR ratios:

Change of ULR ratio (%)		Change of IBNR provision (%)		IBNR provision (PLN '000)		Change of the value of IBNR provision (PLN '000)		The impact on profit after reinsurance (PLN '000)	
31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
(20)	(20)	(50)	(46)	20 742	14 084	(20 727)	(11 803)	8 802	4 689
(10)	(10)	(26)	(24)	30 593	19 550	(10 876)	(6 337)	4 496	2 405
-	-	-	-	41 469	25 887	-	-	-	-
10	10	26	25	52 352	32 277	10 883	6 390	(4 504)	(2 413)
20	20	52	49	63 235	38 669	21 767	12 783	(9 007)	(4 826)

Provisions adequacy analysis

Based on a carried out provisions adequacy analysis, the main actuary states that technical-insurance provisions (reduced by activated acquisition costs) as at 31 December 2010 were created at a level sufficient to cover commitments arising from insurance agreements till 31 December 2010.

Capital management

Since the start of business of BRE Ubezpieczenia TUiR SA, i.e., 15 January 2007, capital management in both insurance companies is connected with the aspiration for maintenance of regular adequacy. The purpose of the Group within the scope of capital management is the maintenance of the capacity of both insurance companies of the Group for continuance of business and maintenance of an optimal structure of capital in order to reduce costs of capital.

For this purpose, the Group constantly monitors the value of its own resources in relation to the margin of solvency and guarantee capital in accordance with capital requirements imposed by regulations binding in Poland (Insurance Activity Act and Accounting Act with relevant decrees).

In accordance with these regulations, the company BRE Ubezpieczenia TUiR SA is obliged to hold own resources in the value not lower than the margin of solvency and not lower than the guarantee capital. The guarantee capital equals the bigger of: one-third of the margin of solvency or minimum value of the guarantee capital.

The Decree of Minister of Finance, which takes into account the necessity of ensuring solvency of companies conducting insurance activities, determines the manner of calculation of the solvency margin and minimum value of the guarantee capital.

Own resources of the company are the assets of the insurance company, excluding:
- assets assigned for coverage of all expected commitments,
- intangible assets other than DAC (Deferred Acquisition Cost),
- own shares held by the insurance company,
- deferred income tax assets.

The company BRE Ubezpieczenia TU SA is guided only by the law requirements in calculating the solvency margin and the minimum guarantee capital.

Insurance companies check the compliance of capital with law requirements as at the end of each reporting period. Within the whole year 2009 the law requirements were met.

The following table presents own resources of the company BRE Ubezpieczenia TUiR SA and coverage of the solvency margin and the guarantee capital as at 31 December 2010 and 31 December 2009.

PLN '000	31.12.2010	31.12.2009
Own resources	54 476	45 479
Margin of solvency	11 499	11 391
Minimal guarantee capital	14 323	13 351
1/3rd of margin of solvency	3 833	3 797
Own resources surplus for coverage of margin of solvency	42 977	34 088
Guarantee capital	14 323	13 351
Own resources surplus for coverage of guarantee capital	40 152	32 128

3.9 Fair Value of Financial Assets and Liabilities

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

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

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

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

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

	31.12.2010		31.12.2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	**2 510 892**	**2 510 891**	**2 530 572**	**2 530 571**
Loans and advances to customers	**59 370 365**	**59 281 100**	**52 468 812**	**52 441 233**
Loans and advances to individuals	**32 605 727**	**32 605 471**	**28 144 729**	**28 144 292**
current accounts	3 541 703	3 541 703	3 649 451	3 649 451
term loans including:	29 064 024	29 063 768	24 495 278	24 494 841
• housing and mortgage loans	26 187 013	26 186 883	22 427 162	22 427 061
Loans and advances to corporate entities	**24 178 694**	**24 090 806**	**22 182 427**	**22 154 848**
current accounts	2 740 923	2 740 923	2 906 140	2 906 140
term loans	16 192 724	16 186 988	17 064 098	17 036 519
• corporate & institutional enterprises	3 162 315	3 156 836	3 393 330	3 389 276
• medium & small enterprises	13 030 409	13 030 152	13 670 768	13 647 243
reverse repo / buy sell back transactions	3 338 317	3 338 317	353 808	353 808
other	1 906 730	1 824 578	1 858 381	1 858 381
Loans and advances to public sector	**1 917 829**	**1 916 708**	**1 325 135**	**1 324 100**
Other receivables	**668 115**	**668 115**	**816 521**	**816 521**

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Financial liabilities				
Amounts due to other banks	28 727 008	28 727 505	25 019 805	25 019 805
Amounts due to customers	47 420 057	47 395 553	42 791 387	42 665 870
Debt securities in issue	1 371 824	1 371 824	1 415 711	1 415 711

The following sections present the key assumptions and methods used by the Group 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 is equal to its carrying amounts.

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

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

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

- Contracted borrowings;
- Liabilities resulting from the issue of securities;
- Deposits.

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

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

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

Credit risk exposures relating to off-balance sheet items. As at 31 December 2010, the fair value of financial guarantees amounted to PLN 4 242 thousand (31 December 2009: PLN 7,506 thousand).

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the Balance Sheet of the Group at their fair values at 31 December 2010 and 31 December 2009.

31.12.2010	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets for identical instruments	Valuation techniques based on observable market data	Value measurements for inputs that are not based on observable market data
Financial assets				
Trading securities	**2 584 314**	**2 312 630**	**8 425**	**263 259**
• Debt*	2 573 202	2 307 933	2 010	263 259
• Equity	11 112	4 697	6 415	-
Derivative financial instruments	**1 226 653**	**48 940**	**1 177 713**	**-**
Investment securities	**19 574 833**	**11 366 143**	**8 103 858**	**104 832**
• Debt*	19 379 918	11 186 315	8 103 858	89 745
• Equity	194 915	179 828	-	15 087
Total financial assets	**23 385 800**	**13 727 713**	**9 289 996**	**368 091**
Financial liablitities				
Derivative financial instruments and other trading liabilities	**1 363 508**	**600**	**1 362 908**	**-**
Total financial liablitities	**1 363 508**	**600**	**1 362 908**	**-**

* the amount include pledged assets

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Assets Measured at Fair Value Based on Level 3	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	**518 004**	**57 274**	**128 292**
Gains and losses for the period:	(3 497)	2 155	(551)
Recognised in profit or loss	(3 497)	-	-
Recognised in other comprehensive income	-	2 155	(551)
Purchases	8 199 572	225 648	-
Sales	(8 456 041)	(195 748)	-
Settlements	5 221	416	-
Transfers out of Level 3	-	-	(112 654)
As at the end of the period	**263 259**	**89 745**	**15 087**

In 2010, transfer into Level 1 of PZU shares in amount of PLN 112,654 thousand, was the only transfer between levels. The transfer was connected with PZU enter listing.

31.12.2009	Including:	Level 1	Level 2	Level 3
		Quoted prices in active markets for identical instruments	Valuation techniques based on observable market data	Value measurements for inputs that are not based on observable market data
Financial assets				
Trading securities	**1 831 503**	**1 313 499**	**-**	**518 004**
• Debt*	1 824 702	1 306 698	-	518 004
• Equity	6 801	6 801	-	-
Derivative financial instruments	**1 933 627**	**8 757**	**1 924 870**	**-**
Investment securities	**15 870 899**	**8 991 358**	**6 693 975**	**185 566**
• Debt*	15 728 539	8 977 290	6 693 975	57 274
• Equity	142 360	14 068	-	128 292
Total financial assets	**19 636 029**	**10 313 614**	**8 618 845**	**703 570**
Financial liablitities				
Derivative financial instruments and other trading liabilities	**1 935 495**	**5 746**	**1 929 749**	**-**
Total financial liablitities	**1 935 495**	**5 746**	**1 929 749**	**-**

* the amount include pledged assets

Assets Measured at Fair Value Based on Level 3	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	**1 053 736**	**51 972**	**88 436**
Gains and losses for the period:	(3 666)	(1 158)	91 699
Recognised in profit or loss	(3 666)	-	-
Recognised in other comprehensive income	-	(1 158)	91 699
Purchases	10 211 987	-	193 867
Settlements	(10 744 053)	6 460	(245 710)
As at the end of the period	**518 004**	**57 274**	**128 292**

According to the fair value methodology applied by the Group, financial assets and liabilities are classified as follows:
- Level 1: prices quoted on active markets for the same instrument (without modification);
- Level 2: valuation techniques based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Level 1
At level 1 of the hierarchy of values, the Group shows the fair values of government bonds and T-bills held for trading in the amount of PLN 2,307,933 thousand (see Note 20) and the fair values of investment government bonds and T-bills in the amount of PLN 11,058,466 thousand (31 December 2009 respectively: PLN 1,306,698 thousand, PLN 8,881,821 thousand). Level 1 also includes the fair values of bonds issued by foreign banks in the amount of PLN 94,346 thousand (31 December 2009: PLN 95,469 thousand) and fair value of local government bonds in amount PLN 33,503 thousand (31 December 2009: PLN 0).

Moreover, as at 31 December 2010, Level 1 includes PZU shares of PLN 168,212 thousand.

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

Level 2
Level 2 of the hierarchy includes the fair values of monetary bills issued by NBP in the amount of PLN 8,103,858 thousand (31 December 2009: PLN 6,693,975 thousand), whose valuation is based on an NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

Level 3
Level 3 of the hierarchy shows the fair values of commercial debt securities issued by local banks and companies (notes and certificates of deposit) in the amount of PLN 353,004 thousand (31 December 2009: PLN 575,278 thousand). In 2009, investment equity securities shown at level 3 included mainly PZU SA shares held by the Group at fair value of PLN 112,654 thousand. In 2010, these shares were transferred into Level 1.

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

If credit spread used in the valuation increased by 20 basis points, the value of commercial debt securities would decrease by PLN 0.3 million.

3.10 Other Business

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

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

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

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Income Statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly veryfied. If the current value of estimated cash flows for portfolio of loans and advances which are individually impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 58.3 million or increase by PLN 96.3 million respectively. This estimation was performed for portfolio of loans and advances individualy assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral.

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, in the models observable market data originating from an active market are used. Changes in market conditions on valuation of the trading book of the Group (containing inter alia derivatives) are presented in the Note 3.4.

Technical-insurance provisions

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

As at 31 December 2010 and as at 31 December 2009 provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial Naive Loss Ratio ULR (Ultimate Loss Ratio) method which consists in establishing the value of claims only on the basis of the expected loss ratio. The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

5. Business Segments

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

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

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

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

- **The Corporates and Financial Markets segment** which is divided into two sub-segments:
  - **Corporates and Institutions** – sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offering of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing and factoring services. The Corporates and Institutions sub-segment includes the results of the following subsidiaries:, BRE Leasing Sp. z o.o., Intermarket Bank AG, Polfactor SA, BRE Holding Sp. z o.o., Transfinance a.s., Magyar Factor zRt., Garbary Sp. z o.o. as well as BRE Gold Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, all of whose investment certificates were acquired by BRE Bank in November 2009. The main item of assets of BRE Gold FIZ Aktywów Niepublicznych is a shareholding in PZU, owned previously by BRE Bank.
  - **The Trading and Investment Activity** – sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, and manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments, debt origination for financial institutions and financial institutions' coverage. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of BRE Finance France SA, BRE Bank Hipoteczny SA and DI BRE Bank SA.

- **Operations which are not included** in the Retail Banking segment and the Corporates and Financial Markets segment were reported under 'Remaining Business' below. This segment includes the results of BRE.locum SA and Centrum Rozliczeń i Informacji CERI Sp. z o.o.

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

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

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

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

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

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

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

The primary and unique basis used by the Group in the segment reporting is business line division.

Business segment reporting on the activities of BRE Bank Group for the period from 1 January to 31 December 2010 (PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Remaining Business	Eliminations	Total figure for the Group	Statement of financial position re-conciliation/ income statement reconciliation
	Corpo-rates & Institutions	Trading & Investment Activity					
Net interest income	**632 199**	**140 447**	**1 048 413**	**(2 480)**	**(7 615)**	**1 810 964**	**1 810 964**
- sales to external clients	871 219	401 349	546 016	(5)	(7 615)	1 810 964	
- sales to other segments	(239 020)	(260 902)	502 397	(2 475)	-	-	
Net fee and commission income	**318 820**	**84 587**	**311 427**	**(1 578)**	**32 663**	**745 919**	**745 919**
- sales to external clients	308 473	91 325	315 033	(1 575)	32 663	745 919	
- sales to other segments	10 347	(6 738)	(3 606)	(3)	-	-	
Trading income	**160 452**	**101 145**	**152 151**	**568**	**(3 644)**	**410 672**	**410 672**
Gains less losses from investment securities	**46 478**	**(1 330)**	**-**	**-**	**-**	**45 148**	**45 148**
Net impairment losses on loans and advances	**(279 571)**	**(15 572)**	**(339 634)**	**(2)**	**-**	**(634 779)**	**(634 779)**
Gross profit of the segment	**179 111**	**229 316**	**455 642**	**15 210**	**(6 768)**	**872 511**	**872 511**
Income tax						(211 646)	(211 646)
Net profit attributable to Owners of BRE Bank SA						641 602	641 602
Net profit attributable to non-controlling interests						19 263	19 263
Assets of the segment	**28 822 880**	**32 371 414**	**33 649 201**	**995 491**	**(5 796 545)**	**90 042 441**	**90 042 441**
Liabilities of the segment	**52 522 165**	**8 895 006**	**25 768 464**	**447 123**	**(4 667 602)**	**82 965 156**	**82 965 156**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(149 832)	(24 149)	(81 998)	(981)	-	(256 960)	
Amortisation/depreciation	(121 267)	(23 266)	(88 872)	(3 645)	132	(236 918)	(236 918)
Other costs/income without cash outflows/ inflows*	9 894	(177 675)	3 037	138	(3 644)	(168 250)	
- other non-cash costs	(77)	(1 037 423)	(3)	-	1 891	(1 035 612)	
- other non-cash income	9 971	859 748	3 040	138	(5 535)	867 362	

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

Business segment reporting on the activities of BRE Bank Group for the period from 1 January to 31 December 2009 (PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Remaining Business	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment Activity					
Net interest income	**601 791**	**110 660**	**955 375**	**(4 671)**	**(4 978)**	**1 658 177**	**1 658 177**
- sales to external clients	899 506	175 137	591 869	(3 357)	(4 978)	1 658 177	
- sales to other segments	(297 715)	(64 477)	363 506	(1 314)	-	-	
Net fee and commission income	**309 056**	**76 305**	**173 585**	**(1 504)**	**37 281**	**594 723**	**594 723**
- sales to external clients	298 456	82 472	178 018	(1 504)	37 281	594 723	-
- sales to other segments	10 600	(6 167)	(4 433)	-	-	-	
Trading income	**118 432**	**142 220**	**142 647**	**(452)**	**3 527**	**406 374**	**406 374**
Gains less losses from investment securities	**(19 806)**	**986**	**(1 508)**	**19 794**	**(238)**	**(772)**	**(772)**
Net impairment losses on loans and advances	**(629 516)**	**(26 974)**	**(440 647)**	**3**	**-**	**(1 097 134)**	**(1 097 134)**
Gross profit of the segment	**(268 515)**	**238 706**	**216 253**	**17 132**	**5 813**	**209 389**	**209 389**
Income tax						(78 866)	(78 866)
Net profit attributable to Owners of BRE Bank SA						128 928	128 928
Net profit attributable to non-controlling interests						1 595	1 595
Assets of the segment	**24 401 128**	**30 241 236**	**29 152 371**	**1 243 486**	**(4 014 335)**	**81 023 886**	**81 023 886**
Liabilities of the segment	**44 601 816**	**9 419 292**	**25 577 889**	**373 356**	**(3 219 621)**	**76 752 732**	**76 752 732**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(158 847)	(23 071)	(85 234)	(2 883)	-	(270 035)	
Amortisation/depreciation	(130 648)	(18 630)	(107 476)	(2 984)	376	(259 362)	(259 362)
Other costs/ income without cash outflows/ inflows*	11 801	18 164	(97)	(55)	-	29 813	
- other non-cash costs	(925)	(5 465 237)	(97)	(55)	-	(5 466 314)	
- other non-cash income	12 726	5 483 401	-	-	-	5 496 127	

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

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6. Net Interest Income

	Year ended 31 December	
	2010	2009
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 449 816	2 623 911
Investment securities	768 623	530 331
Cash and short-term placements	149 498	190 829
Trading debt securities	41 674	94 442
Other	12 093	13 694
Total interest income	**3 421 704**	**3 453 207**
Interest expense		
Arising from amounts due to banks and customers	(1 487 987)	(1 642 814)
Arising from issue of debt securities	(68 206)	(90 102)
Other borrowed funds	(50 352)	(58 180)
Other	(4 195)	(3 934)
Total interest expense	**(1 610 740)**	**(1 795 030)**

In 2010, interest income related to impaired financial assets amounted to PLN 203,744 thousand (31 December 2009: PLN 105,363 thousand).

Net interest income per clients is as follows:

	Year ended 31 December	
	2010	2009
Interest income		
From banking sector	441 545	244 754
From clients, including:	2 980 159	3 208 453
- corporate clients	1 170 223	1 413 968
- individual clients	1 189 583	1 216 245
- public sector	620 353	578 240
Total interest income	**3 421 704**	**3 453 207**
Interest expense		
From banking sector	(502 762)	(613 203)
From clients, including:	(1 039 772)	(1 044 227)
- corporate clients	(363 364)	(342 860)
- individual clients	(649 433)	(658 601)
- public sector	(26 975)	(42 766)
From debt securities in issue	(68 206)	(137 600)
Total interest expense	**(1 610 740)**	**(1 795 030)**

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7. Net Fee and Commission Income

	Year ended 31 December	
	2010	2009
Fee and commission income		
Payment cards-related fees	321 626	289 104
Credit-related fees and commissions	221 279	203 877
Commissions from insurance activity	150 287	79 443
Fees from brokerage activity	113 743	107 574
Commissions from bank accounts	104 168	86 149
Commissions from money transfers	78 599	73 139
Commissions due to guarantees granted and trade finance commissions	41 334	46 371
Commissions on trust and fiduciary activities	11 972	10 171
Fees from portfolio management services and other management-related fees	11 644	10 612
Other	124 093	94 847
Fee and commission income	**1 178 745**	**1 001 287**
Fee and commission expense		
Payment cards-related fees	(187 586)	(188 796)
Commissions paid to external entities for sale of the Bank's products	(88 506)	(111 400)
Insurance activity-related fees	(37 153)	(2 096)
Discharged brokerage fees	(27 274)	(26 365)
Other discharged fees	(92 307)	(77 907)
Total fee and commision expense	**(432 826)**	**(406 564)**

	Year ended 31 December	
	2010	2009
Fee and commission income from insurance contracts		
- Income from insurance intermediation	135 164	66 384
- Income from insurance policies administration	15 123	13 059
Total fee and commission income from insurance contracts	**150 287**	**79 443**

8. Dividend Income

	Year ended 31 December	
	2010	2009
Trading securities	5 166	117
Securities available for sale	3 007	98 950
Total dividend income	**8 173**	**99 067**

In 2009, the Group received a dividend from PZU SA of PLN 96,218 thousand.

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9. Net Trading Income

	Year ended 31 December	
	2010	2009
Foreign exchange result	**369 982**	**415 048**
Net exchange differences on translation	447 469	(333 488)
Net transaction gains/(losses)	(77 487)	748 536
Other net trading income	**40 690**	**(8 674)**
Interest-bearing instruments	16 058	(20 803)
Equity instruments	3 918	4 081
Market risk instruments	20 714	8 048
Total net trading income	**410 672**	**406 374**

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

In 2010, credit risk of currency derivatives measurement, resulted in a gain of valuation by PLN 4,493 thousand included under the item 'Net transaction gains and losses' (in 2009: loss of PLN 31,629 thousand).

10. Other Operating Income

	Year ended 31 December	
	2010	2009
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	149 014	105 409
Income from services provided	52 042	51 436
Income from insurance activity net	49 546	50 401
Income due to release of provisions for future commitments	17 306	27 123
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	922	5 957
Income from compensations, penalties and fines received	286	3 365
Other	42 155	19 831
Total other operating income	**311 271**	**263 522**

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

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

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

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Income from insurance activity net generated in 2010 and 2009 respectively, is presented below.

	Year ended 31 December	
	2010	2009
Income from premiums		
- Premiums attributable	114 326	72 120
- Change in provision for premiums	(8 577)	14 726
Premiums earned	**105 749**	**86 846**
Reinsurer's shares		
- Gross premiums written	(36 201)	(25 671)
- Change in unearned premiums reserve	4 797	869
Reinsurer's share in premiums earned	**(31 404)**	**(24 802)**
Net premiums earned	**74 345**	**62 044**
Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(29 084)	(19 328)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(28 212)	(14 626)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	22 865	17 052
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	11 740	6 074
Claims and benefits net	**(22 691)**	**(10 828)**
- Other costs net of reinsurance	(1 800)	(536)
- Other operating income	45	-
- Costs of expertise and certificates concerning underwriting risk	(353)	(279)
Total net income from insurance activity	**49 546**	**50 401**

11. Overhead Costs

	Year ended 31 December	
	2010	2009
Staff-related expenses	(744 400)	(644 751)
Material costs	(579 069)	(585 227)
Taxes and fees	(26 385)	(25 222)
Contributions and transfers to the Bank Guarantee Fund	(21 217)	(22 711)
Contributions to the Social Benefits Fund	(6 120)	(5 034)
Other	(3 160)	(2 480)
Total overhead costs	**(1 380 351)**	**(1 285 425)**

"Material costs" consist of tangible assets operating lease payment costs (mainly real estate) of PLN 26,012 thousand (2009: PLN 28,130 thousand).

Staff-related expenses in 2010 and 2009 are presented below.

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	Year ended 31 December	
	2010	2009
Wages and salaries	(613 928)	(541 661)
Social security expenses	(86 357)	(69 889)
Pension fund expenses	(614)	(1 320)
Remuneration concerning share-based payments, including:	(8 807)	(2 388)
- share-based payments settled in BRE Bank SA shares	(6 275)	(1 791)
- cash-settled share-based payments	(2 532)	(597)
Other staff expenses	(34 694)	(29 493)
Staff-related expenses, total	**(744 400)**	**(644 751)**

Cash-settled share-based payments relate to the cost of 2008 incentive program for the Management Board Members of the Bank in its part based on Commerzbank shares. In 2010, cash compensation in the amount of PLN 794,736 paid as a settlement concerning the bonus for 2008 to Mr. Mariusz Grendowicz, who acted as the President of the Bank till 2 August 2010, was included under this caption. Additionally, in 2009 the Group recognized other operating income in the amount of PLN 5,462 thousand due to the fact that the actually awarded remunerations concerning share-based payments for 2008 appeared to be lower that the original estimates. Detailed information regarding incentive programs, to which share-based payments relate, is included under the Note 40 'Retained earnings'.

As at 31 December 2010 the headcount of BRE Bank SA amounted to 4,416 FTEs and of the Group to 6,018 FTEs (31 December 2009: Bank 4,051 FTEs, Group 5,566 FTEs).

As at 31 December 2010 the employment in BRE Bank SA was 5,300 persons and in the Group 7,023 persons (31 December 2009: Bank 4,901 persons, Group 6,483 persons).

12. Other Operating Expenses

	Year ended 31 December	
	2010	2009
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories	(129 409)	(82 981)
Provisions for future commitments	(22 826)	(34 538)
Donations made	(3 152)	(2 974)
Compensation, penalties and fines paid	(1 530)	(651)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 520)	(19 333)
Costs of sale of services	(1 265)	(1 118)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(158)	(284)
Impairment provisions created for tangible fixed assets and intangible assets	(43)	(4 838)
Other operating costs	(47 685)	(23 064)
Total other operating expenses	**(207 588)**	**(169 781)**

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

In 2010, provisions for future commitments include provisions for legal proceedings of PLN 19,193 thousand (Note 33).

In 2009, impairment provisions created for other receivables (excluding loans and advances) include the amount of PLN 18,476 thousand of provision created by Intermarket Bank AG due to impaired receivables from Compania de Factoring IFN, Romania, which was in 50% held by Intermarket. On 28 October 2009, Intermarket Bank AG sold all shares held in the company Compania de Factoring IFN SA.

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In 2009 provisions created for future commitments include the amount of PLN 31,854 thousand of provisions for future liabilities of the Bank arising from signed contracts and liabilities arising from court decisions concerning excessive fees charged for bridge insurance of mortgage loans.

Costs of services provided concern non-banking services.

13. Net Impairment Losses on Loans and Advances

	Year ended 31 December	
	2010	2009
Net impairment losses on amounts due from other banks (Note 19)	(11 318)	(19 950)
Net impairment losses on off-balance sheet contingent liabilities due to other banks (Note 33)	-	542
Net impairment losses on loans and advances to customers (Note 22)	(634 637)	(1 087 919)
Net impairment losses on off-balance sheet contingent liabilities due to customers (Note 33)	11 176	10 193
Total net impairment losses on loans and advances	**(634 779)**	**(1 097 134)**

14. Income Tax Expense

	Year ended 31 December	
	2010	2009
Current tax	(223 415)	(98 459)
Deferred income tax (Note 34)	11 769	19 593
Total income tax	**(211 646)**	**(78 866)**
Profit before tax	**872 511**	**209 389**
Tax calculated at Polish current tax rate (19%)	(165 777)	(39 784)
Effect of different tax rates in other countries	(640)	(1 013)
Income not subject to tax	8 572	11 292
Costs other than tax deductible costs	(41 008)	(34 360)
Other positions affecting income tax	(1 706)	7 179
Non-activated tax losses *	(11 087)	(22 180)
Income tax expense	**(211 646)**	**(78 866)**
Effective tax rate calculation		
Profit before income tax	872 511	209 389
Income tax	(211 646)	(78 866)
Effective tax rate	**24,26%**	**37,66%**

* The amount of non-activated tax losses results mainly from tax losses incurred by Bank's foreign branches in the Czech Republic and Slovakia.

In 2009 the effective tax rate of 37.66% was mainly a result of losses incurred by the Bank's foreign branches, costs not deductible for tax purposes and costs of provisions and write-offs not allowed for tax purposes.

Further information about deferred income tax is presented in the Note 34. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

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15. Earnings per Share

Earnings per share for 12 months – consolidated data

	Year ended 31 December	
	2010	2009
Basic:		
Net profit attributable to Owners of BRE Bank SA	641 602	128 928
Weighted average number of ordinary shares	36 679 683	29 690 882
Net basic profit per share (in PLN per share)	**17.49**	**4.34**
Diluted:		
Net profit attributable to Owners of BRE Bank SA, applied for calculation of diluted earnings per share	641 602	128 928
Weighted average number of ordinary shares	36 679 683	29 690 882
Adjustments for:		
- share options	29 642	38 859
Weighted average number of ordinary shares for calculation of diluted earnings per share	36 709 325	29 729 741
Diluted earnings per share (in PLN per share)	**17.48**	**4.34**

According to IAS 33, the Bank prepares a calculation of the 'diluted earnings per share' taking into account contingently issuable shares as part of the incentive programs is described in the Note 40. The calculations did not include those elements of the incentive programs which were antidilutive for the presented periods that could potencially dilute basic earnings per share in the future.

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

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

16. Other Comprehensive Income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2010			Year ended 31 December 2009		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Exchange differences on translating foreign operations	(5 231)	-	(5 231)	6 114	-	6 114
Available-for-sale financial assets	205 075	(27 056)	178 019	107 846	(14 506)	93 340
Total other comprehensive income	**199 844**	**(27 056)**	**172 788**	**113 960**	**(14 506)**	**99 454**

The table presents detailed information concerning other comprehensive income for the year 2010 and 2009.

	Year ended 31 December	
	2010	**2009**
Exchange differences on translating foreign operations	**(5 231)**	**6 114**
Unrealized gains (positive differences) arising during the year (net)	12 978	9 130
Unrealized losses (negative differences) arising during the year (net)	(18 209)	(3 016)
Available-for-sale financial assets	**178 019**	**93 340**
Unrealized gains on debt instruments arising during the year (net)	151 303	62 103
Unrealized losses on debt instruments arising during the year (net)	(36 495)	(354)
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	1 079	(799)
Unrealized gains on equity instruments arising during the year (net)	100 576	32 390
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	(38 444)	-
Total other comprehensive income (net)	**172 788**	**99 454**

Amount of unrealised profits on debt instruments for 2010 results from the increase of valuation of the securities portfolio available for sale in 2010 against the valuation at the end of 2009. The main factor that affected the valuation growth was the growth of value of variable coupon treasury securities held by the Group. The growth of variable coupon treasury securities was a result of decreasing risk premium for Polish market in the assessment of investors. Another valuation growth factor was a positive valuation of fixed coupon bonds in the portfolio. At the end of 2009, the Group's treasury bills, which were repurchased in 2010, were valued positively. Decrease of the positive valuation of treasury bills in other components of equity as a result of their repurchase was compensated by a positive valuation of zero-coupon bonds held in the portfolio at the end of 2010.

In 2010, the net gain of PLN 38,444 thousand representing profit on sale of PZU shares was released from the other components of equity and recognised in the Income Statement. In the same time, in other components of equity was included revaluation of PZU shares in net amount of PLN 61,553 thousand.

Moreover, a net gain in a total amount of PLN 1,079 thousand from a net increase/decrease in the value of securities (Bonds, Treasury Bills and Stocks) sold in 2010 was released from the other components of equity and recognised in the Income Statement Account (for the year 2009: net gain PLN 799 thousand).

The biggest impact on unrealised net gains on equity instruments arising during the year 2009 was caused by fair value pricing of PZU SA shares in 2009 taking into account income from dividend paid by PZU SA in November 2009. The total amount resulting from the above events, presented in unrealised net gains on equity instruments arising during the year 2009, was PLN 31,025 thousand.

17. Cash and Balances with Central Banks

	31.12.2010	**31.12.2009**
Cash in hand	172 762	149 245
Current account	2 187 150	3 637 520
Total cash and balances with the Central Bank (Note 43)	**2 359 912**	**3 786 765**
Including: mandatory reserve deposit	1 407 601	1 053 745

On the basis of the National Bank of Poland Act dated 29 August 1997, the Group holds a mandatory reserve deposit. The mandatory reserve is held in an account with the Central Bank and in the Bank's hand. As at 31 December 2010, the former part of the reserve bore 3.38% interest (31 December 2009: 3.38%).

18. Debt Securities Eligible for Rediscounting at the Central Bank

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

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19. Loans and Advances to Banks

	31.12.2010	31.12.2009
Current accounts	284 921	380 982
Placements with other banks	849 364	1 254 389
Included in cash equivalents (Note 43)	**1 134 285**	**1 635 371**
Loans and advances	203 457	417 609
Term placements	103 445	80 281
Reverse repo/buy-sell-back transactions	919 553	357 161
Other receivables	184 399	78 237
Total (gross) loans and advances to banks	**2 545 139**	**2 568 659**
Provisions created for loans and advances to banks (negative amount)	(34 247)	(38 087)
Total (net) loans and advances to banks	**2 510 892**	**2 530 572**
Short-term (up to 1 year)	2 431 105	2 459 414
Long-term (over 1 year)	79 787	71 158

The following table presents receivables from Polish and foreign banks:

	31.12.2010	31.12.2009
Loans and advances to Polish banks (gross)	1 452 383	691 692
Provisions created for loans and advances to Polish banks	(159)	(331)
Loans and advances to foreign banks (gross)	1 092 756	1 876 967
Provisions created for loans and advances to foreign banks	(34 088)	(37 756)
Total (net) loans and advances to banks	**2 510 892**	**2 530 572**

As at 31 December 2010, the variable rate loans to banks amount to PLN 201 268 thousand and the fixed rate loans to banks amounted to PLN 2 189 thousand (as at 31 December 2009 – variable rate loans to banks amounted to PLN 406 949 thousand and fixed rate loans to PLN 10 323 thousand). An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 1.92% (31 December 2009: 2.96%).

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

	31.12.2010	31.12.2009
Provisions for loans and advances to banks as at the beginning of the period	**38 087**	**31 014**
Increase (due to)	21 856	26 405
- provisions created (Note 13)	20 821	26 405
- foreign exchange differences	1 035	-
Decrease (due to)	(25 696)	(19 332)
- release of provisions (Note 13)	(9 503)	(6 455)
- write-offs	(16 193)	(10 565)
- foreign exchange differences	-	(2 312)
Provisions for loans and advances to banks as at the end of the period	**34 247**	**38 087**

As at 31 December 2010, provisions for loans and advances to banks impaired on individual basis, amounted to PLN 33 181 thousand (2009: PLN 36 238 thousand).

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20. Trading Securities and Pledged Assets

	31.12.2010	31.12.2009
Debt securities:	**2 573 202**	**1 824 702**
Government bonds included in cash equivalents and pledged government bonds (sell-buy-back/repo transactions) (Note 43), including:	1 207 015	1 079 141
- pledged government bonds (sell-buy-back/repo transactions) (Note 37)	1 011 107	766 313
Treasury bills included in cash equivalents and pledged treasury bills (sell-buy-back/repo transactions) (Note 43), including:	1 100 918	227 557
- pledged treasury bills (sell-buy-back/repo transactions) (Note 37)	7 551	-
Other debt securities:	265 269	518 004
Equity securities:	**11 112**	**6 801**
- listed	4 697	6 801
- unlisted	6 415	-
Debt and equity securities, including:	**2 584 314**	**1 831 503**
- Trading securities	1 565 656	1 065 190
- Pledged assets (Note 37)	1 018 658	766 313

Government bonds include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2010 amounted to PLN 1 011 107 thousand (31 December 2009: PLN 766 313 thousand). The bonds are disclosed separately within the „Pledged assets" in the Statement of Financial Position.

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

The note above does not include pledged assets, which have been classified as investment securities (Note 23).

21. Derivative Financial Instruments and Other Trading Liabilities

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

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

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

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

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

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

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

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2010				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	8 720 352	8 884 235	32 632	70 013
- Currency swaps	7 660 077	7 659 668	91 617	103 102
- Cross-currency interest rate swaps	3 884 774	3 994 746	149 500	254 830
- OTC currency options bought and sold	3 039 570	3 067 923	115 196	59 007
Total OTC derivatives	**23 304 773**	**23 606 572**	**388 945**	**486 952**
- Currency futures	1 251	1 264	12	-
- Stock exchange traded currency options - bought and sold	-	-	-	42 412
Total foreign exchange derivatives	**23 306 024**	**23 607 836**	**388 957**	**529 364**
Interest rate derivatives				
- Interest rate swap, OIS	87 998 357	87 998 357	744 718	793 414
- Forward rate agreements	36 350 000	42 380 000	13 472	14 734
- OTC interest rate options	387 944	452 344	10 046	9 686
Total OTC interest rate derivatives	**124 736 301**	**130 830 701**	**768 236**	**817 834**
Total interest rate derivatives	**124 736 301**	**130 830 701**	**768 236**	**817 834**
Market risk transactions	**737 037**	**1 164 126**	**69 460**	**16 310**
Total derivative assets/ liabilities held for trading	**148 779 362**	**155 602 663**	**1 226 653**	**1 363 508**
Total recognised derivative assets/ liabilities	**148 779 362**	**155 602 663**	**1 226 653**	**1 363 508**
Total recognised derivative assets/ liabilities and other trading liabilities	**148 779 362**	**155 602 663**	**1 226 653**	**1 363 508**
Short-term (up to 1 year)	102 665 041	109 855 282	641 703	744 958
Long-term (over 1 year)	46 114 321	45 747 381	584 950	618 550

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	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2009				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	9 832 664	9 943 857	114 392	65 713
- Currency swaps	8 143 028	8 131 581	148 035	141 841
- Cross-currency interest rate swaps	5 794 847	5 941 004	142 688	274 383
- OTC currency options bought and sold	4 679 412	4 819 890	352 161	250 895
Total OTC derivatives	**28 449 951**	**28 836 332**	**757 276**	**732 832**
Total foreign exchange derivatives	**28 449 951**	**28 836 332**	**757 276**	**732 832**
Interest rate derivatives				
- Interest rate swap, OIS	97 299 568	97 299 568	1 080 865	1 120 891
- Forward rate agreements	26 136 492	35 190 000	62 547	52 152
- OTC interest rate options	462 575	455 447	11 568	10 773
Total OTC interest rate derivatives	**123 898 635**	**132 945 015**	**1 154 980**	**1 183 816**
Total interest rate derivatives	**123 898 635**	**132 945 015**	**1 154 980**	**1 183 816**
Market risk transactions	**853 602**	**797 641**	**21 371**	**18 847**
Total derivative assets / liabilities held for trading	**153 202 188**	**162 578 988**	**1 933 627**	**1 935 495**
Total recognised derivative assets/ liabilities	**153 202 188**	**162 578 988**	**1 933 627**	**1 935 495**
Total recognised derivative assets/ liabilities and other trading liabilities	**153 202 188**	**162 578 988**	**1 933 627**	**1 935 495**
Short-term (up to 1 year)	102 917 811	112 759 947	1 265 442	1 232 950
Long-term (over 1 year)	50 284 377	49 819 041	668 185	702 545

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

Under financial derivative instruments the Group presented derivative instruments in the amount of PLN 9 924 thousand (liabilities), which have been separated from the structured investment deposits (31 December 2009: PLN 13 486 thousand).

As at 31 December 2010 and 31 December 2009 the Group did not have any other financial assets or liabilities initially recognised in the category priced at fair value through the Income Statement.

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22. Loans and Advances to Customers

	31.12.2010	31.12.2009
Loans and advances to individuals:	**33 658 660**	**28 855 129**
- current accounts	4 358 940	4 236 226
- term loans, including:	29 299 720	24 618 903
- housing and mortgage loans	26 306 644	22 469 413
Loans and advances to corporate entities:	**25 570 342**	**23 433 995**
- current accounts	3 117 916	3 249 607
- term loans:	17 122 872	17 904 615
- corporate & institutional enterprises	3 329 593	3 501 742
- medium & small enterprises	13 793 279	14 402 873
- reverse repo/ buy-sell-back transactions	3 338 317	353 808
- other	1 991 237	1 925 965
Loans and advances to public sector	**1 923 019**	**1 327 936**
Other receivables	**668 115**	**816 521**
Total (gross) loans and advances to customers	**61 820 136**	**54 433 581**
Provisions for loans and advances to customers (negative amount)	(2 449 771)	(1 964 769)
Total (net) loans and advances to customers	**59 370 365**	**52 468 812**

Short-term (up to 1 year)	22 204 611	17 018 006
Long-term (over 1 year)	37 165 754	35 450 806

As at 31 December 2010, variable rate credits amounted to PLN 57,685,502 thousand and fixed rate credits amounted to PLN 4,134,634 thousand (as at 31 December 2009 respectively: PLN 53,442,731 thousand and PLN 990,850 thousand). The values mentioned above relate to loans granted to individual clients, corporate clients and the budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 4.50% (31 December 2009: 4.76%).

The Group accepted exchange-listed equity securities at the fair value of PLN 1,429,828 thousand (31 December 2009: PLN 1,634,789 thousand) as collateral for commercial loans.

Provisions for Loans and Advances

	31.12.2010	31.12.2009
Incurred but not identified losses		
Gross balance sheet exposure	58 534 978	51 872 653
Impairment provisions for exposures analysed according to portfolio approach	(215 893)	(232 516)
Net balance sheet exposure	**58 319 085**	**51 640 137**

Receivables with impairment		
Gross balance sheet exposure	3 285 158	2 560 928
Provisions for receivables with impairment	(2 233 878)	(1 732 253)
Net balance sheet exposure	**1 051 280**	**828 675**

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Movements in provisions for loans and advances

	31.12.2010	31.12.2009
INDIVIDUALS		
Current Accounts		
As at the beginning of the period	**586 775**	**205 998**
increase (due to)	**232 779**	**384 952**
- provisions created	232 756	384 952
- reclassification & foreign exchange differences	23	-
release (due to)	**(2 317)**	**(4 175)**
- release of provisions	(2 066)	(804)
- write-offs	(251)	(3 371)
As at the end of the period	**817 237**	**586 775**
Term Loans		
As at the beginning of the period	**123 625**	**89 009**
increase (due to)	**117 024**	**58 998**
- provisions created	112 665	58 899
- reclassification of provisions & foreign exchange differences	4 359	99
release (due to)	**(4 953)**	**(24 382)**
- release of provisions	(4 837)	(5 477)
- write-offs	(116)	(18 905)
As at the end of the period	**235 696**	**123 625**
including:		
Housing and Mortgage Loans		
As at the beginning of the period	**42 251**	**36 034**
increase (due to)	**79 010**	**25 617**
- provisions created	74 504	25 617
- reclassification of provisions & foreign exchange differences	4 506	-
release (due to)	**(1 630)**	**(19 400)**
- release of provisions	(1 630)	(1 944)
- write-offs	-	(17 456)
As at the end of the period	**119 631**	**42 251**
TOTAL - INDIVIDUALS		
As at the beginning of the period	**710 400**	**295 007**
increase (due to)	**349 803**	**443 950**
- provisions created	345 421	443 851
- reclassification of provisions & foreign exchange differences	4 382	99
release (due to)	**(7 270)**	**(28 557)**
- release of provisions	(6 903)	(6 281)
- write-offs	(367)	(22 276)
As at the end of the period	**1 052 933**	**710 400**
CORPORATE ENTITIES		
Current Accounts		
As at the beginning of the period	**343 467**	**108 033**
increase (due to)	**339 721**	**652 822**
- provisions created	339 721	579 394
- reclassification of provisions & foreign exchange differences	-	73 428
release (due to)	**(306 195)**	**(417 388)**
- release of provisions	(265 858)	(405 824)
- reclassification of provisions & foreign exchange differences	(1 634)	(9 253)
- write-offs	(38 703)	(2 311)
As at the end of the period	**376 993**	**343 467**

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Term Loans		
As at the beginning of the period	**840 517**	**388 193**
increase (due to)	**713 688**	**668 403**
- provisions created	706 427	667 517
- reclassification of provisions & foreign exchange differences	7 261	886
release (due to)	**(624 057)**	**(216 079)**
- release of provisions	(511 985)	(205 786)
- reclassification of provisions & foreign exchange differences	-	(588)
- write-offs	(112 072)	(9 705)
As at the end of the period	**930 148**	**840 517**
including:		
Corporate & Institutional Enterprises		
As at the beginning of the period	**108 412**	**31 006**
increase (due to)	**171 358**	**111 760**
- provisions created	171 307	110 874
- reclassification of provisions & foreign exchange differences	51	886
release (due to)	**(112 492)**	**(34 354)**
- release of provisions	(112 066)	(34 354)
- write-offs	(426)	-
As at the end of the period	**167 278**	**108 412**
Medium & Small Enterprises		
As at the beginning of the period	**732 105**	**357 187**
increase (due to)	**542 330**	**556 643**
- provisions created	535 120	556 643
- reclassification of provisions & foreign exchange differences	7 210	-
release (due to)	**(511 565)**	**(181 725)**
- release of provisions	(399 919)	(171 432)
- reclassification of provisions & foreign exchange differences	-	(588)
- write-offs	(111 646)	(9 705)
As at the end of the period	**762 870**	**732 105**
- Other		
As at the beginning of the period	**67 584**	**68 120**
increase (due to)	**38 258**	**24 766**
- provisions created	38 137	24 300
- reclassification of provisions & foreign exchange differences	121	466
release (due to)	**(21 335)**	**(25 302)**
- release of provisions	(12 754)	(11 674)
- reclassification of provisions & foreign exchange differences	(1 166)	(1 419)
- write-offs	(7 415)	(12 209)
As at the end of the period	**84 507**	**67 584**
TOTAL - CORPORATE ENTITIES		
As at the beginning of the period	**1 251 568**	**564 346**
increase (due to)	**1 091 667**	**1 345 991**
- provisions created	1 084 285	1 271 211
- reclassification of provisions & foreign exchange differences	7 382	74 780
release (due to)	**(951 587)**	**(658 769)**
- release of provisions	(790 597)	(623 284)
- reclassification of provisions & foreign exchange differences	(2 800)	(11 260)
- write-offs	(158 190)	(24 225)
As at the end of the period	**1 391 648**	**1 251 568**

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	31.12.2010	31.12.2009
PUBLIC SECTOR		
As at the beginning of the period	**2 801**	**379**
increase (due to)	**11 097**	**2 468**
- provisions created	11 097	2 468
release (due to)	**(8 708)**	**(46)**
- release of provisions	(8 666)	(46)
- reclassification of provisions & foreign exchange differences	(42)	-
As at the end of the period	**5 190**	**2 801**
TOTAL - MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS		
As at the beginning of the period	**1 964 769**	**859 732**
increase (due to)	**1 452 567**	**1 792 409**
- provisions created (Note 13)	1 440 803	1 717 530
- reclassification of provisions & foreign exchange differences	11 764	74 879
release (due to)	**(967 565)**	**(687 372)**
- release of provisions (Note 13)	(806 166)	(629 611)
- reclassification of provisions & foreign exchange differences	(2 842)	(11 260)
- write-offs	(158 557)	(46 501)
As at the end of the period	**2 449 771**	**1 964 769**

Receivables under finance leases.

	31.12.2010	31.12.2009
Gross investment in finance leases, receivable:	**4 022 310**	**4 283 194**
- not later than 1 year	1 649 991	1 779 141
- later than 1 year and not later than 5 years	2 099 493	2 222 855
- later than 5 years	272 826	281 198
Unearned future finance income on finance leases (negative amount)	(453 100)	(499 819)
Net investment in finance leases	**3 569 210**	**3 783 375**
Net investment in finance leases, receivable:		
- not later than 1 year	1 467 262	1 573 789
- later than 1 year and not later than 5 years	1 893 107	1 996 160
- later than 5 years	208 841	213 426
Net investment in finance leases	**3 569 210**	**3 783 375**

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23. Investment Securities and Pledged Assets

	31.12.2010	31.12.2009
Debt securities	**19 379 918**	**15 728 539**
Listed, including:	19 290 173	15 671 265
- pledged government bonds (sell-buy-back/repo transactions)	-	2 188 251
- pledged government bonds (loan collateral)	613 757	374 397
- government bonds pledged under the Bank Guarantee Fund	176 542	145 323
- treasury bills pledged under the Bank Guarantee Fund	21 846	42 241
Unlisted	89 745	57 274
Equity securities	**194 915**	**142 360**
- listed	179 828	14 068
- unlisted	15 087	128 292
Total investment securities and pledged assets, including:	**19 574 833**	**15 870 899**
- Available for sale securities	18 762 688	13 120 687
- Pledged assets (Note 37)	812 145	2 750 212
Short-term (up to 1 year)	10 502 379	9 547 762
Long-term (over 1 year)	9 072 454	6 323 137

As at 31 December 2010 the above value of equity securities includes provisions for impairment of PLN 13,257 thousand (31 December 2009: PLN 2,814 thousand).

As at 31 December 2010, the carrying values of debt securities with fixed interest rates amounted to PLN 14,397,971 thousand and debt securities with variable interest rates PLN 5,641,667 thousand (31 December 2009: PLN 10,190,547 thousand and PLN 5,535,658 thousand).

The above includes government bonds and Treasury bills under the Bank Guarantee Fund, investment government bonds pledged as sell-buy-back transactions and government bonds pledged as collateral for the loan received from EBI, which are presented in the Statement of Financial Position in a separate position 'Pledged assets' (Note 37).

In accordance with the Bank Guarantee Fund Law of 14 December 1994, the Group had PLN 198,388 thousand, at face value PLN 205,100 thousand of treasury securities (bonds and bills) disclosed in its Statement of Financial Position as at 31 December 2010 (31 December 2009: fair value PLN 187,564 thousand; face value PLN 187,800 thousand), which were used as security under the Bank Guarantee Fund and they were deposited in a separate account at the National Bank of Poland.

Gains and Losses from Investment Securities:

	Year ended 31 December	
	2010	2009
Sale/redemption of the financial assets available for sale	46 046	(2 726)
Impairment of available for sale equity securities	(97)	18 127
Impairment of investments in associates	(801)	(16 173)
Total gains and losses from investment securities	**45 148**	**(772)**

In 2010 the amount of sale/redemption of the financial assets available for sale mainly relates to the sale of 180,490 shares of PZU SA by BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

In 2009, impairment of available for sale equity securities includes the write-off in the amount of PLN 16,173 thousand which was done by Intermarket Bank AG due to impairment of Compania de Factoring IFN, Romania, of which 50% were held by Intermarket. On 28 October 2009, Intermarket Bank AG sold all shares held in Company Compania de Factoring IFN SA.

In 2009 the item also comprises the amount of a reversal of prior impairment of Czwarty Polski Fundusz Rozwoju Sp. z o.o. in the amount of PLN 19,794 thousand made by BRE.locum Sp. z o.o. in connection with the sale of real estate being the only asset belonging to the company Czwarty Polski Fundusz Rozwoju Sp. z o.o., a subsidiary which is 100% held by BRE.locum.

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Movements in investment securities and pledged assets:

	31.12.2010	31.12.2009
Available for sale securities and pledged assets		
As at the beginning of the period	**15 870 899**	**7 850 809**
Exchange differences	(2 567)	(2 371)
Additions	364 137 531	75 440 516
Disposals (sale, redemption and forfeiture)	(360 667 342)	(67 655 352)
Gains/(losses) from impairment of equity securities and debt securities available for sale	(97)	18 127
Gains/(losses) from changes in fair value	236 409	219 170
As at the end of the period	**19 574 833**	**15 870 899**

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

	31.12.2010	31.12.2009
Provisions for losses on equity securities		
Listed		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**
Unlisted		
As at the beginning of the period	**(2 689)**	**(20 816)**
Allowance for impairment	(97)	(1 667)
Amounts recovered during the period	-	19 794
Change in the scope of consolidation	(10 346)	-
As at the end of the period	**(13 132)**	**(2 689)**
Total provisions for losses on available for sale securities		
As at the beginning of the period	**(2 814)**	**(20 941)**
Allowance for impairment	(97)	(1 667)
Amounts recovered during the period	-	19 794
Change in the scope of consolidation	(10 346)	-
As at the end of the period	**(13 257)**	**(2 814)**

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24. Investments in Associates

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

31 December 2010 (in PLN ,000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
S-Factoring d.d.	Slovenia	35 988	34 911	1 993	(383)	22,50

31 December 2009 (in PLN ,000)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
S-Factoring d.d.	Slovenia	33 420	31 908	4 054	104	22,50

Changes in investments in associates:

	31.12.2010	31.12.2009
As at the beginning of the period	**1 150**	**16 953**
decrease (due to)	**(833)**	**(15 803)**
- sale	-	628
- foreign exchange differences	(32)	(258)
- impairment	(801)	(16 173)
As at the end of the period	**317**	**1 150**

25. Intangible assets

Movements in intangible assets	31.12.2010	31.12.2009
Development costs	1 452	2 015
Goodwill	7 137	7 137
Patents, licences and similar assets, including:	333 317	363 251
- computer software	279 355	298 291
Other intangible assets	10 057	2 209
Intangible assets under development	75 874	66 760
Total intangible assets	**427 837**	**441 372**

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2010	Develop-ment costs	Acquired patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
			including: acquired computer software				
Gross value of intangible assets as at the beginning of the period: 01.01.2010	**31 959**	**724 422**	**575 434**	**16 262**	**66 760**	**7 137**	**846 540**
Increase (due to)	**17**	**67 662**	**54 551**	**10 187**	**66 401**	**-**	**144 267**
- purchase	-	11 831	6 461	9 999	55 199	-	77 029
- transfer from fixed assets under construction	-	305	127	38	-	-	343
- transfer from intangible assets under development	17	55 414	47 851	-	35	-	55 466
- development costs	-	-	-	-	10 862	-	10 862
- other increases	-	112	112	150	305	-	567
Decrease (due to)	**-**	**(18 912)**	**(16 621)**	**(213)**	**(57 287)**	**-**	**(76 412)**
- liquidation	-	(17 989)	(15 735)	-	-	-	(17 989)
- transfer to intangible assets given to use	-	-	-	-	(55 466)	-	(55 466)
- other decreases	-	(923)	(886)	(213)	(1 821)	-	(2 957)
Gross value of intangible assets as at the end of the period: 31.12.2010	**31 976**	**773 172**	**613 364**	**26 236**	**75 874**	**7 137**	**914 395**
Accumulated amortization as at the beginning of the period: 01.01.2010	**(29 944)**	**(361 164)**	**(277 136)**	**(14 053)**	**-**	**-**	**(405 161)**
Amortization for the period (due to)	**(580)**	**(78 684)**	**(56 866)**	**(2 126)**	**-**	**-**	**(81 390)**
- amortization	(580)	(96 867)	(72 613)	(2 175)	-	-	(99 622)
- other increases	-	(57)	(57)	(150)	-	-	(207)
- sale	-	333	328	-	-	-	333
- liquidation	-	17 625	15 211	-	-	-	17 625
- other decreases	-	282	265	199	-	-	481
Accumulated amortization as at the end of the period: 31.12.2010	**(30 524)**	**(439 848)**	**(334 002)**	**(16 179)**	**-**	**-**	**(486 551)**
Impairment losses as at the beginning of the period: 01.01.2010	**-**	**(7)**	**(7)**	**-**	**-**	**-**	**(7)**
Impairment losses as at the end of the period: 31.12.2010	**-**	**(7)**	**(7)**	**-**	**-**	**-**	**(7)**
Net value of intangible assets as at the end of the period: 31.12.2010	**1 452**	**333 317**	**279 355**	**10 057**	**75 874**	**7 137**	**427 837**

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Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2009	Development costs	Acquired patents, licences and other similar assets	including: acquired computer software	Other intangible assets	Intangible assets under development	Goodwill	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2009	**31 959**	**699 265**	**561 882**	**17 657**	**46 590**	**7 137**	**802 608**
Increase (due to)	**-**	**107 305**	**80 559**	**16**	**90 207**	**-**	**197 528**
- purchase	-	32 776	10 209	16	88 385	-	121 177
- transfer from fixed assets under construction	-	3 671	3 671	-	1 808	-	5 479
- transfer from intangible assets under development	-	69 484	66 643	-	-	-	69 484
- other increases	-	1 374	36	-	14	-	1 388
Decrease (due to)	**-**	**(82 148)**	**(67 007)**	**(1 411)**	**(70 037)**	**-**	**(153 596)**
- liquidation	-	(82 054)	(66 930)	(75)	-	-	(82 129)
- transfer to intangible assets given to use	-	-	-	-	(69 484)	-	(69 484)
- other decreases	-	(94)	(77)	(1 336)	(553)	-	(1 983)
Gross value of intangible assets as at the end of the period: 31.12.2009	**31 959**	**724 422**	**575 434**	**16 262**	**66 760**	**7 137**	**846 540**
Accumulated amortization as at the beginning of the period: 01.01.2009	**(29 185)**	**(322 942)**	**(249 920)**	**(12 022)**	**-**	**-**	**(364 149)**
Amortization for the period (due to)	**(759)**	**(38 222)**	**(27 216)**	**(2 031)**	**-**	**-**	**(41 012)**
- amortization	(759)	(119 851)	(93 802)	(2 105)	-	-	(122 715)
- other increases	-	(39)	(36)	-	-	-	(39)
- sale	-	123	123	-	-	-	123
- liquidation	-	81 451	66 327	74	-	-	81 525
- other decreases	-	94	172	-	-	-	94
Accumulated amortization as at the end of the period: 31.12.2009	**(29 944)**	**(361 164)**	**(277 136)**	**(14 053)**	**-**	**-**	**(405 161)**
Impairment losses as at the beginning of the period: 01.01.2009	**-**	**(7)**	**(7)**	**-**	**-**	**-**	**(7)**
Impairment losses as at the end of the period: 31.12.2009	**-**	**(7)**	**(7)**	**-**	**-**	**-**	**(7)**
Net value of intangible assets as at the end of the period: 31.12.2009	**2 015**	**363 251**	**298 291**	**2 209**	**66 760**	**7 137**	**441 372**

26. Tangible assets

	31.12.2010	31.12.2009
Tangible fixed assets, including:	733 648	742 880
- land	1 867	18 726
- buildings and structures	237 487	236 811
- equipment	132 444	136 925
- vehicles	194 824	169 154
- other fixed assets	167 026	181 264
Fixed assets under construction	43 972	43 566
Total tangible fixed assets	**777 620**	**786 446**

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Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2010	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2010	**18 800**	**360 434**	**539 267**	**236 778**	**389 323**	**43 702**	**1 588 304**
Increase (due to)	**3 837**	**9 629**	**47 085**	**97 500**	**23 317**	**50 969**	**232 337**
- purchase	3 837	335	25 053	89 124	5 826	49 326	173 501
- transfer from fixed assets under construction	-	8 070	21 656	587	17 455	-	47 768
- other increases	-	1 224	376	7 789	36	1 643	11 068
Decrease (due to)	**(20 770)**	**(5 747)**	**(32 212)**	**(66 904)**	**(9 728)**	**(50 522)**	**(185 883)**
- sale	(4 761)	(5 214)	(3 013)	(62 167)	(1 195)	-	(76 350)
- liquidation	-	(120)	(28 425)	(2 181)	(7 238)	(204)	(38 168)
- transfer to fixed assets	-	-	-	-	-	(47 768)	(47 768)
- transfer to intangible assets	-	-	-	-	-	(343)	(343)
- other decreases	(16 009)	(413)	(774)	(2 556)	(1 295)	(2 207)	(23 254)
Gross value of tangible fixed assets as at the end of the period: 31.12.2010	**1 867**	**364 316**	**554 140**	**267 374**	**402 912**	**44 149**	**1 634 758**
Accumulated depreciation as at the beginning of the period: 01.01.2010	**(74)**	**(68 817)**	**(402 167)**	**(67 624)**	**(205 341)**	**-**	**(744 023)**
Depreciation for the period (due to)	74	(6 326)	(19 529)	(4 924)	(30 414)	-	(61 119)
- depreciation charge	-	(7 716)	(50 409)	(43 267)	(35 904)	-	(137 296)
- other increases	-	(77)	(18)	(2)	(29)	-	(126)
- sale	-	1 265	2 283	35 524	910	-	39 982
- liquidation	-	50	27 766	1 439	3 973	-	33 228
- other decreases	74	152	849	1 382	636	-	3 093
Accumulated depreciation as at the end of the period: 31.12.2010	**-**	**(75 143)**	**(421 696)**	**(72 548)**	**(235 755)**	**-**	**(805 142)**
Impairment losses as at the beginning of the period: 01.01.2010	**-**	**(54 806)**	**(175)**	**-**	**(2 718)**	**(136)**	**(57 835)**
- increase	-	-	-	(2)	-	(41)	(43)
- decrease	-	3 120	175	-	2 587	-	5 882
Impairment losses as at the end of the period: 31.12.2010	**-**	**(51 686)**	**-**	**(2)**	**(131)**	**(177)**	**(51 996)**
Net value of tangible fixed assets as at the end of the period: 31.12.2010	**1 867**	**237 487**	**132 444**	**194 824**	**167 026**	**43 972**	**777 620**

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Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2009	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2009	**11 012**	**366 106**	**505 173**	**243 946**	**361 955**	**42 978**	**1 531 170**
Increase (due to)	**7 800**	**18 698**	**52 075**	**54 642**	**33 306**	**52 559**	**219 080**
- purchase	7 800	319	33 864	49 883	5 416	52 550	149 832
- transfer from fixed assets under construction	-	238	16 974	1	27 577	-	44 790
- other increases	-	18 141	1 237	4 758	313	9	24 458
Decrease (due to)	**(12)**	**(24 370)**	**(17 981)**	**(61 810)**	**(5 938)**	**(51 835)**	**(161 946)**
- sale	-	(24 292)	(8 082)	(36 308)	(1 351)	-	(70 033)
- liquidation	-	(5)	(9 003)	(3 075)	(3 291)	-	(15 374)
- transfer to fixed assets	-	-	-	-	-	(44 790)	(44 790)
- transfer to intangible assets	-	-	-	-	-	(5 479)	(5 479)
- other decreases	(12)	(73)	(896)	(22 427)	(1 296)	(1 566)	(26 270)
Gross value of tangible fixed assets as at the end of the period: 31.12.2009	**18 800**	**360 434**	**539 267**	**236 778**	**389 323**	**43 702**	**1 588 304**
Accumulated depreciation as at the beginning of the period: 01.01.2009	**(75)**	**(65 896)**	**(362 350)**	**(58 430)**	**(175 088)**	**-**	**(661 839)**
Depreciation for the period (due to)	1	(2 921)	(39 817)	(9 194)	(30 253)	-	(82 184)
- depreciation charge	-	(7 748)	(53 761)	(39 556)	(35 582)		(136 647)
- other increases	-	(201)	(723)	(25)	(11)		(960)
- sale	-	5 019	5 720	22 275	1 411		34 425
- liquidation	-	1	8 704	904	2 687		12 296
- other decreases	1	8	243	7 208	1 242		8 702
Accumulated depreciation as at the end of the period: 31.12.2009	**(74)**	**(68 817)**	**(402 167)**	**(67 624)**	**(205 341)**	**-**	**(744 023)**
Impairment losses as at the beginning of the period: 01.01.2009	**-**	**(52 940)**	**(1 392)**	**(263)**	**(131)**	**(136)**	**(54 862)**
- increase	-	(2 076)	(175)	-	(2 587)		(4 838)
- decrease	-	210	1 392	263			1 865
Impairment losses as at the end of the period: 31.12.2009	**-**	**(54 806)**	**(175)**	**-**	**(2 718)**	**(136)**	**(57 835)**
Net value of tangible fixed assets as at the end of the period: 31.12.2009	**18 726**	**236 811**	**136 925**	**169 154**	**181 264**	**43 566**	**786 446**

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

As part of its activities as a lessor, the Group presents within fixed assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

	31.12.2010	31.12.2009
Minimum lease payments under non-cancellable operating lease		
Up to 1 year	58 595	55 314
Over 1 year up to 5 years	107 447	92 491
Over 5 years	6 845	-
Total	**172 887**	**147 805**

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27. Other assets

	31.12.2010	31.12.2009
Assets taken over and held for resale		
Other, including:	883 718	906 470
- debtors	274 907	312 364
- interbank balances	1 292	360
- other accruals	70 832	87 088
- accrued income	23 587	15 473
- inventories	323 348	371 050
- receivables resulting from insurance premiums	14 058	11 305
- other	175 694	108 830
Total other assets	**883 718**	**906 470**
Short-term (up to 1 year)	565 579	652 987
Long-term (over 1 year)	318 139	253 483

The value of inventories results primarily from the business of the companies: BRE.locum and BRE Leasing.
As at 31 December 2010 the Group capitalised its borrowing costs amounting to PLN 2,158 thousand (31 December 2009: PLN 4,978 thousand). The capitalised borrowing costs increased the value of inventories.

28. Amounts due to Other Banks

	31.12.2010	31.12.2009
Current accounts	1 195 730	737 222
Term deposits	1 695 679	1 152 115
Loans and advances received	23 580 714	22 320 066
Repo / sell-buy-back transactions	2 047 864	632 927
Liabilities in respect of cash collaterals	167 782	148 072
Payables to be settled	1 514	1 535
Other	37 725	27 868
Amounts due to other banks	**28 727 008**	**25 019 805**
Short-term (up to 1 year)	8 555 177	7 492 043
Long-term (over 1 year)	20 171 831	17 527 762

As at 31 December 2010 the fixed rate term deposits accepted from other banks amounted to PLN 803,612 thousand and variable rate term deposits amounted to PLN 892,067 thousand. The average interest rate for loans and deposits obtained from banks in 2009 amounted to 1.60% (31 December 2009: 1.90%).

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

As at 31 December 2010, apart from amounts due to other banks, the Group held amounts due to the Central Bank in the amount of PLN 79 thousand (31 December 2009: 2,003,783, including the amount of PLN 2,003,440 thousand arising from repo transactions with average interest rate of 3.81%).

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29. Amounts due to Customers

	31.12.2010	31.12.2009
Individual customers:	**25 068 308**	**25 064 578**
Current accounts	15 642 036	16 808 287
Term deposits	9 388 109	8 206 679
Other liabilities:	38 163	49 612
- liabilities in respect of cash collaterals	24 048	36 030
- other	14 115	13 582
Corporate customers:	**21 423 190**	**17 479 925**
Current accounts	9 682 381	8 486 646
Term deposits	7 967 060	7 256 219
Loans and advances received	473 606	289 691
Repo transactions	2 708 164	881 157
Other liabilities:	591 979	566 212
- liabilities in respect of cash collaterals	382 141	378 540
- other	209 838	187 672
Public sector customers:	**928 559**	**246 884**
Current accounts	896 407	139 446
Term deposits	22 141	106 063
Other liabilities:	10 011	1 375
- other	10 011	1 375
Total amounts due to customers	**47 420 057**	**42 791 387**
Short-term (up to 1 year)	45 891 264	41 767 594
Long-term (over 1 year)	1 528 793	1 023 793

As at 31 December 2010 the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 2.43% (31 December 2009: 2.81%).

As at 31 December 2010 the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 396,030 thousand (31 December 2009: PLN 205,410 thousand). The loan was collateralized with Treasury bonds which were disclosed in the Statement of Financial Position under the line 'Pledged assets' (Note 37).

30. Debt Securities Issue

As at 31 December 2010					
Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issues	**509 300**				**511 128**
Bonds (in PLN)	10 000	4.71%	no collateral	05-01-2011	9 995
Bonds (in PLN)	17 800	4.72%	no collateral	13-01-2011	17 772
Bonds (in PLN)	20 000	4.32%	no collateral	14-01-2011	19 968
Bonds (in PLN)	26 600	4.74%	no collateral	20-01-2011	26 534
Bonds (in PLN)	5 500	4.75%	no collateral	03-02-2011	5 476
Bonds (in PLN)	5 400	4.30%	no collateral	15-02-2011	5 366
Bonds (in PLN)	25 000	4.35%	no collateral	28-02-2011	24 816
Mortgage bonds (in PLN)	250 000	4.94%	mortgage bond register	28-04-2011	252 007
Mortgage bonds (in PLN)	149 000	5.14%	mortgage bond register	15-06-2011	149 194
Long-term issues	**850 750**				**860 696**
Mortgage bonds (in PLN)	68 250	4.14%	mortgage bonds publicly registered	27-07-2012	69 630
Mortgage bonds (in PLN)	200 000	4.34%	mortgage bonds publicly registered	28-09-2012	202 034
Mortgage bonds (in PLN)	25 000	5.35%	mortgage bond register	29-04-2013	25 199
Mortgage bonds (in PLN)	100 000	4.52%	mortgage bonds publicly registered	20-09-2013	101 162
Mortgage bonds (in PLN)	25 000	5.40%	mortgage bond register	28-04-2014	25 189
Mortgage bonds (in PLN)	177 000	5.39%	mortgage bond register	28-07-2014	180 665
Mortgage bonds (in PLN)	78 500	5.29%	mortgage bond register	28-11-2014	78 637
Mortgage bonds (in PLN)	100 000	5.40%	mortgage bond register	28-09-2015	101 113
Mortgage bonds (in PLN)	77 000	5.23%	mortgage bonds publicly registered	30-11-2015	77 067
Debt securities in issue (carrying value in PLN '000)					**1 371 824**

As at 31 December 2009					
Debt securities in issue by category	**Nominal value**	**Contractual interest rate**	**Guarantee/collateral**	**Redemption date**	**Carrying value**
Short-term issues	**622 200**				**641 949**
Bonds (in PLN)	10 000	4.83%	no collateral	06-01-2010	9 992
Bonds (in PLN)	50 000	5.30%	no collateral	15-01-2010	49 896
Bonds (in PLN)	56 000	5.00%	no collateral	15-01-2010	55 890
Bonds (in PLN)	50 000	4.90%	no collateral	15-01-2010	49 904
Bonds (in PLN)	10 000	4.84%	no collateral	15-01-2010	9 980
Bonds (in PLN)	4 600	4.90%	no collateral	21-01-2010	4 584
Bonds (in PLN)	600	5.05%	no collateral	28-01-2010	592
Bonds (in PLN)	4 000	5.85%	no collateral	29-01-2010	3 861
Mortgage bonds (in PLN)	100 000	4.63%	mortgage bond register	12-04-2010	100 990
Mortgage bonds (in PLN)	125 000	5.13%	mortgage bond register	28-09-2010	126 535
Mortgage bonds (in USD)	10 000	0.74%	mortgage bond register	22-11-2010	28 510
Mortgage bonds (in PLN)	83 000	4.90%	mortgage bond register	29-11-2010	83 240
Mortgage bonds (in PLN)	95 000	4.80%	mortgage bonds publicly registered	29-11-2010	95 284
Bonds (in PLN)	24 000	5.76%		23-12-2010	22 691
Long-term issues	**767 250**				**773 762**
Mortgage bonds (in PLN)	250 000	5.20%	mortgage bond register	28-04-2011	251 024
Mortgage bonds (in PLN)	149 000	5.31%	mortgage bond register	15-06-2011	149 162
Mortgage bonds (in PLN)	68 250	4.52%	mortgage bonds publicly registered	27-07-2012	70 303
Mortgage bonds (in PLN)	200 000	4.63%	mortgage bonds publicly registered	28-09-2012	202 069
Mortgage bonds (in PLN)	100 000	4.85%	mortgage bonds publicly registered	20-09-2013	101 204
Debt securities in issue (carrying value in PLN '000)					**1 415 711**

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

Movements in Debt Securities in Issue

	31.12.2010	31.12.2009
As at the beginning of the period	**1 415 711**	**1 790 745**
increase (due to)	**113 268**	**1 953 238**
- issuance	47 717	1 853 408
- valuation at amortized cost	65 305	83 159
- foreign exchange differences	246	15 246
- other	-	1 425
release (due to)	**(157 155)**	**(2 328 272)**
- redemption	(95 295)	(2 238 171)
- valuation at amortized cost	(61 860)	(88 683)
- other	-	(1 418)
As at the end of the period	**1 371 824**	**1 415 711**
Short-term (up to 1 year)	511 128	651 372
Long-term (over 1 year)	860 696	764 339

As at 31 December 2010, the carrying value of receivables constituting collateral for the issue of mortgage covered bonds amounted to PLN 2,167,704 thousand (31 December 2009: PLN 2,127,868 thousand). These receivables are secured by mortgages on the related real estate. According to legal requirements the nominal value of mortgage covered bonds issued cannot exceed 60% of the value of the related real estate. At 31 December 2010 this amount in the register of collateral of mortgage bond amounted to PLN 1,694,588 thousand (31 December 2009: PLN 1,591,746 thousand). Both as at 31 December 2010 and as at 31 December 2009, covered bonds were secured with receivables secured with mortgage entered as the first item in the land and mortgage register. The value of receivables constituting collateral for the issue of public sector covered bonds amounted to PLN 643,230 thousand as at 31 December 2010 compared with PLN 700,200 thousand as at 31 December 2009.

31. Subordinated Liabilities

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

As at 31 December 2009						
SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
- Commerzbank AG	400 000	CHF	3M LIBOR + 0.7%*	0.95	08.03.2017	1 107 143
- Commerzbank AG	80 000	CHF	3M LIBOR + 1.4%**	1.65	not defined	221 400
- Commerzbank AG	120 000	CHF	3M LIBOR + 1.5%***	1.75	18.12.2017	332 158
- Commerzbank AG	170 000	CHF	3M LIBOR + 2.2%****	2.49	not defined	472 965
- Commerzbank AG	90 000	CHF	3M LIBOR + 4.0%	4.25	not defined	249 184
- Commerzbank AG	90 000	CHF	3M LIBOR + 2.5%	2.75	24.06.2018	249 101
						2 631 951

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

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

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

**** margin amounting to 2.2% is in force within the period of first ten years. Within the period of next years it will be equal to 4.2%.

In 2010 and in 2009, the Group did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.
Subordinated liabilities include the amount of issued subordinated debt securities with an indefinite maturity term. In the calculation of the capital adequacy ratio the funds raised through these issues were used in the Bank's own funds calculation. The Bank obtained the approvals of KNF for the inclusion of the funds obtained from the issues into the Group's supplementary capital.

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Movements in Subordinated Liabilities

	31.12.2010	31.12.2009
As at the beginning of the period	**2 631 951**	**2 669 453**
increase (due to)	**429 398**	**58 534**
- interest on subordinated loan	50 153	58 116
- foreign exchange differences	379 245	418
release (due to)	**(51 222)**	**(96 036)**
- interest repayment	(51 222)	(62 311)
- foreign exchange differences	-	(33 725)
Subordinated liabilities as at the end of the period	**3 010 127**	**2 631 951**
Short-term (up to 1 year)	4 422	4 156
Long-term (over 1 year)	3 005 705	2 627 795

32. Other Liabilities

	31.12.2010	31.12.2009
Special Funds	**3 610**	**4 473**
- Social Benefits Funds	3 610	4 473
Other liabilities	**867 520**	**771 722**
- tax liabilities	17 140	29 388
- interbank settlements	80 132	83 322
- dividends payable	-	2 272
- creditors	281 316	270 216
- accrued expenses	176 779	123 577
- deferred income	105 947	120 136
- reinsurance liabilities	15 272	10 174
- accrual of pension benefits	14 403	14 833
- accrual of holiday equivalents	7 323	6 694
- accrual of other employee benefits	142 412	82 553
- other	26 796	28 557
Total special funds and other liabilities	**871 130**	**776 195**

As at 31 December 2010, the presented note includes financial liabilities of PLN 553,499 thousand (as at 31 December 2009: PLN 487,289 thousand). which liquidity was presented under the Note 3.7.1. The other components of presented liabilities, except for part of accrual of pension benefits that were calculated on actuarial basis, as a rule, are short term liabilities..

33. Provisions

	31.12.2010	31.12.2009
For off-balance sheet granted contingent liabilities *	49 674	61 323
For legal proceedings	19 193	2 637
Technical-insurance provisions	87 307	67 056
Other	19 151	45 941
Total provisions	**175 325**	**176 957**

* includes valuation of financial guarantees

Provision policies for technical-insurance provisions and provisions for off-balance sheet commitments granted are described in Note 2.26 and Note 3.2.4 respectively. Estimated dates of granted contingent liabilities realisation are presented in Note 36.

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

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Movement in the provisions

	31.12.2010	31.12.2009
As at the beginning of the period (by type)	**176 957**	**166 006**
For off-balance sheet granted contingent liabilities	61 323	73 229
For legal proceedings	2 637	4 177
Technical-insurance provisions	67 056	74 174
Other	45 941	14 426
increase (due to)	**231 953**	**152 263**
- increase of provisions, due to:	231 953	152 263
- for off-balance-sheet granted contingent liabilities (Note 13)	190 320	118 984
- for legal proceedings	18 657	1 169
- technical-insurance provisions	20 251	-
- other	2 725	32 110
decrease (due to)	**(233 585)**	**(141 312)**
- charge-offs	(9 531)	(276)
- release of provisions, due to:	(210 749)	(132 419)
- for off-balance-sheet granted contingent liabilities (Note 13)	(201 496)	(129 719)
- for legal proceedings	(778)	(2 380)
- other	(8 475)	(320)
- utilization	(874)	(58)
- utilization of technical-incurance provisions	-	(7 118)
- reclassification	(11 668)	-
- foreign exchange differences	(763)	(1 199)
- other	-	(242)
As at the end of the period (by type)	**175 325**	**176 957**
For off-balance sheet granted contingent liabilities	49 674	61 323
For legal proceedings	19 193	2 637
Technical-insurance provisions	87 307	67 056
Other	19 151	45 941

Technical-insurance provisions

	31.12.2010	31.12.2009
Insurance provisions and reinsurance assets		
Insurance provisions gross, including:		
- Provision for losses raised and costs of liquidation	20 888	8 423
- IBNR	41 487	25 748
- Provision for premiums	71 010	62 433
- Provision for the insurers' share in technical profit	29	21
Insurance provisions gross, total	**133 414**	**96 625**
Reinsurer's share, including:		
- Provision for losses raised and costs of liquidation	11 765	5 695
- IBNR	16 651	10 981
- Provision for premiums	17 691	12 893
Reinsurer's share, total	**46 107**	**29 569**
Insurance provisions net, including		
- Provision for losses raised and costs of liquidation	9 123	2 728
- IBNR	24 836	14 767
- Provision for premiums	53 319	49 540
- Provision for the insurers' share in technical profit	29	21
Insurance provisions net, total	**87 307**	**67 056**

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Provisions for Off-balance Sheet Granted Contingent Liabilities

	31.12.2010	31.12.2009
Incurred but not identified losses		
Off-balance sheet contingent liabilities	14 102 055	12 155 925
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(42 584)	(28 165)
Net off-balance sheet contingent liabilities	**14 059 471**	**12 127 760**
Off-balance sheet granted contingent liabilities with impairment	**51 456**	**69 415**
Off-balance sheet contingent liabilities	58 546	102 573
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(7 090)	(33 158)
Net off-balance sheet contingent liabilities	**51 456**	**69 415**

34. Assets and Provisions for Deferred Income Tax

Assets and provisions for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2010 and 2009.

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

	31.12.2010	31.12.2009
As at the beginning of the period	**331 284**	**327 477**
Deferred income tax included in the financial result for the period (Note 14)	11 769	19 593
Deferred income tax included in equity, including:	(27 056)	(14 506)
- valuation of available for sale securities (Note 41)	(27 056)	(14 506)
Other changes	(254)	(1 280)
As at the end of the period	**315 743**	**331 284**
Interest payable on bank deposits	9 544	7 019
Interest payable on customer deposits	27 325	18 404
Valuation of derivatives	48 026	63 717
Valuation of financial instruments held for trading	670	1 405
Valuation of financial instruments available for sale	21 479	20 504
Provisions for impairment of loans and off-balance sheet exposures	189 558	217 516
Provisions for bonuses, pensions and holiday accrual	32 032	20 199
Other provisions	6 097	5 196
Accruals	29 735	19 740
Tax loss to be settled in future periods	982	861
Other negative temporary differences *	205 612	182 943
Interest receivable on loans and advances granted to banks	(1 062)	(3 042)
Interest receivable on loans granted to customers	(37 407)	(31 508)
Valuation of derivatives	(967)	(19 202)
Valuation of financial instruments held for trading	(1 585)	(2 945)
Valuation of financial instruments available for sale	(96 010)	(42 503)
Investment tax relief	(18 657)	(28 111)
Difference between the amortization and depreciation for tax and accounting purposes	(32 699)	(39 947)
Other positive temporary differences **	(66 930)	(58 962)
Total net deferred income tax assets	**316 372**	**331 828**
Total net deferred income tax liabilities	**(629)**	**(544)**

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	31.12.2010	31.12.2009
Deferred income tax included in the profit and loss account		
Interest	7 527	(17 844)
Provisions for impairment of loans and guarantees determined individually	(27 958)	133 166
Valuation of derivatives	2 544	(105 859)
Valuation of financial instruments held for trading	625	5 330
Valuation of financial instruments available for sale	(25 476)	25 122
Investment tax relief	9 454	1 375
Tax losses carried forward	121	340
Provisions for pensions, holiday equivalents, jubilee and other bonuses	11 833	(15 368)
Other provisions	901	4 880
Accruals and prepayments	9 995	(1 993)
Impairment of shares	-	(134)
Difference between the amortization and depreciation for tax and accounting purposes	7 248	7 301
Other temporary differences	14 955	(16 723)
Total deferred income tax included in the profit and loss account (Note 14)	**11 769**	**19 593**

* The amount of other negative temporary differences arises mainly from the different classification of operating or finance lease for accounting and tax purposes.
** The other positive temporary differences comprise mainly interest and commissions received in advance, amortized at effective interest rate.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Foreign Branches and Garbary Sp. z o.o, BRE Group does not include those losses in the deferred tax asset calculation. The unused tax losses not included in deferred tax asset calculation amount to PLN 230 336 thousand on 31 December 2010 and PLN 188 958 thousand on 31 December 2009.

The Group includes liabilities or assets on temporary differences incurring due to investments in subsidiaries and affiliated companies in deferred tax calculation, unless the recognition of temporary differences is controlled by the Group and it is unlikely that in foreseeable future those differences will reverse. At the end of year 2010 and 2009 the Group did not include settlements on temporary differences incurring due to investments in subsidiaries and affiliated companies in deferred tax calculation, with an exception – investment in BRE GOLD Fundusz Inwestycyjny Aktywów Niepublicznych.

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

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

As at 31 December 2010, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the issuer or its subsidiaries which represent at least 10% of the issuer's equity. Moreover, the total value of claims concerning liabilities of the issuer or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 December 2010 was also not greater than 10% of the issuer's equity.

Report on major proceedings brought against the issuer

1. Lawsuit initiated by Bank Leumi and Migdal Insurance Company against the Bank for indemnity.
   At present proceedings are pending against BRE Bank in the Court of Jerusalem initiated by Bank Leumi and an insurance company of Bank Leumi, Migdal Insurance Company. It is an action for indemnity in the amount of USD 13.5 million (PLN 40.0 million translated at the average exchange rate of the National Bank of Poland as at 31 December 2010). This action was originally initiated by Art-B Sp. z o.o. Eksport – Import with its registered office in Katowice, under liquidation ('Art-B') against the main defendant Bank Leumi, whereas BRE Bank was garnished by Bank Leumi. Considering a settlement concluded between ART-B and Bank Leumi, and Migdal Insurance Company, on the basis of which Art-B received from Bank Leumi and Migdal Insurance Company an amount of USD 13.5 million, Bank Leumi and Migdal Insurance Company claim from BRE Bank refund of the amount paid to Art-B that is USD 13.5 million. BRE Bank's liability towards Bank Leumi and Migdal Insurance Company is under recourse.

2. Lawsuit brought by Bank BPH SA ('BPH') against Garbary Sp. z o.o. ('Garbary')
   BPH brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42,854 thousand. The purpose was to cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that ZM Pozmeat SA contributed in kind to Garbary as payment for a stake in ZM Pozmeat SA share capital worth PLN 100 000 thousand. On 6 June 2006 the District Court in Poznań issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007 the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. On 16 September 2010, the District Court in Poznań dismissed the claim in whole; the decision is not legally valid. On 19 October 2010, BPH filed an appeal against the ruling in question. The case is pending.

3. Lawsuit brought by Bank BPH SA against the Bank and Tele-Tech Investment Sp. z o.o. ('TTI')
   On 17 November 2007 BPH brought to court a case for damages in the amount of PLN 34,880 thousand plus statutory interest from 20 November 2004 to the date of payment, due to alleged illegal actions such as the sale by ZM Pozmeat SA to TTI of all shares in the equity of Garbary Sp. z o.o. (previously Milenium Center Sp. z o.o.), an important part of its assets, while ZM Pozmeat SA was at risk of insolvency.
   In its reply to the claim, the Bank petitioned the Court for dismissing the claim on the grounds of there being no legal basis for allowing the claim. On 1 December 2009, the Court decided to suspend the case until the completion of Pozmeat's bankruptcy proceedings. On 26 January 2011, the court has decided to reinstate suspendand procedings be casue of closing the insolvency procedure.

4. Claims of clients of Interbrok
   Up to 25 February 2011, 153 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 296,461 thousand and via the District Court in Warsaw. In addition, up to 25 February 2011, 8 legal suits have been delivered to the Bank where former clients of Interbrok claimed compensation in the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5,950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case. Therefore BRE Bank Group did not create provisions for the above claims. The District Court in Warsaw settled the aforementioned court cases and dismissed actions in all cases. As a consequence of the Court of Appeal verdict on 4th March 2010, one of the judgments becomes final and valid. The next ruling was revoked by the Court of Appeal on 21 December 2010 and the case was referred back to the District Court in Warsaw. The rulings made in the remaining 6 cases by the District Court in Warsaw are not legally valid.

5. Class action against BRE Bank
   On 4 of February 2011 BRE Bank S.A. received a class action brought to the Dictrict Court in Łódź on 20 December 2010 by the Municipial Ombudsman who represents the group of 835 persons – BRE Bank's retail clients.
   The petitioners demand that a responsibility of the Bank is determined for improper performance of mortgage credit agreements. In particular, it was indicated that the Bank had been improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank had not been reducing interest rates on the loans, although, according to the petitioners, it should have.
   The Bank rejects the above reasoning. On 18 February 2011 the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.
   As at 31 December 2010, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the issuer or its subsidiaries which represent at least 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 2010 also was not greater than 10% of the issuer's equity.

Taxes

Within the period from 24 September to 5 October 2010, the officers of the Tax Office (Trzeci Urząd Skarbowy Warszawa Śródmieście) carried out tax audits at the company BRE Ubezpieczenia Sp. z o.o. concerning the settlement of the corporate income tax for the year 2009. The audits did not identify any irregularities.

Within the period from 8 September to 10 September 2010, the officers of the Tax Office (Urząd Skarbowy Poznań Śródmieście) carried out tax audits at the company Garbary Sp. z o.o. within the scope of accuracy of documents and determination of correctness of amounts included in VAT records (concerning purchase and supply) for the period from May 2007 to May 2010 under the Law on tax on goods and services. The audits did not identify any relevant irregularities.

On 19 July 2010 officers of the Tax Control Office (Urząd Kontroli Skarbowej) launched in BRE Bank audit proceeding concerning reliability of declared tax bases and correctness of the calculation and payment of the corporate income tax for the period from 1 January 2006 to 31 December 2006. The audit is pending.

Within the period from 9 February to 11 March 2010, the officers of the Tax Office (Pierwszy Mazowiecki Urząd Skarbowy) carried out tax audits at the company BRE Leasing concerning the settlement of the value added tax for the period from 1 June to 31 July 2005 and for the period from 1 December to 31 December 2005. The audits did not identify any relevant irregularities.

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Within the period from 20 March to 8 April 2009, officers of the Tax Office (Pierwszy Mazowiecki Urząd Skarbowy) carried out tax audits, concerning calculation, reporting and withholding of the personal income tax for the period from 1 January to 31 December 2007. The audit did not identify any irregularities.

Within the period from 12 May to 30 June 2009, the officers of the Tax Office (Pierwszy Mazowiecki Urząd Skarbowy) carried out tax audits at the company BRE Leasing concerning the settlement of the value added tax for the period from 1 March to 31 December 2007. The audits did not identify any irregularities.

There were no tax audits at the other companies of the Group within the year 2010 or 2009.

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

36. Off-balance Sheet Liabilities

Off-balance sheet liabilities of the Group comprise:

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

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

- Operating lease liabilities

Where a company of the Group is a lessee, the minimum future lease payments as part of irrevocable operating lease agreements are presented in the table below

The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions as at 31 December 2010 and 31 December 2009.

31.12.2010	Up to 1 year	1-5 years	Over 5 years	Total
I. Contingent liabilities granted and received	**12 029 441**	**2 179 560**	**1 254 218**	**15 463 219**
Commitments granted	**11 639 108**	**1 848 404**	**844 426**	**14 331 938**
1. Financing	10 116 441	1 097 196	667 626	11 881 263
a) Loan commitments	10 094 646	1 017 351	597 929	11 709 926
b) Operating lease commitments	21 795	79 845	69 697	171 337
2. Guarantees and other financial facilities	1 521 806	751 208	176 800	2 449 814
a) Banker's acceptances	6 801	-	-	6 801
b) Guarantees and standby letters of credit	1 308 763	751 208	176 800	2 236 771
c) Guarantees of issue	41 500	-	-	41 500
d) Documentary and commercial letters of credit	164 742	-	-	164 742
3. Other commitments	861	-	-	861
Commitments received	**390 333**	**331 156**	**409 792**	**1 131 281**
1. Financial commitments received	14 828	-	-	14 828
2. Guarantees received	375 505	331 156	409 792	1 116 453
II. Derivative financial instruments (nominal value of contracts)	**212 520 322**	**83 580 140**	**8 281 563**	**304 382 025**
1. Interest rate derivatives	168 369 009	78 965 908	8 232 085	255 567 002
2. Currency derivatives	42 333 405	4 530 977	49 478	46 913 860
3. Market risk derivatives	1 817 908	83 255	-	1 901 163
Total off-balance sheet items	**224 549 763**	**85 759 700**	**9 535 781**	**319 845 244**

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31.12.2009	Up to 1 year	1-5 years	Over 5 years	Total
I. Contingent liabilities granted and received	**10 943 248**	**1 574 446**	**673 566**	**13 191 260**
Commitments granted	**10 632 254**	**1 389 660**	**436 320**	**12 458 234**
1. Financing	9 018 582	671 617	412 306	10 102 505
a) Loan commitments	8 996 162	587 258	319 349	9 902 769
b) Operating lease commitments	22 420	84 359	92 957	199 736
2. Guarantees and other financial facilities	1 570 965	717 135	24 014	2 312 114
a) Banker's acceptances	8 883	-	-	8 883
b) Guarantees and standby letters of credit	1 345 978	717 135	24 014	2 087 127
c) Guarantees of issue	35 000	-	-	35 000
d) Documentary and commercial letters of credit	181 104	-	-	181 104
3. Other commitments	42 707	908	-	43 615
Commitments received	**310 994**	**184 786**	**237 246**	**733 026**
1. Financial commitments received	55 000	-	205 410	260 410
2. Guarantees received	255 994	184 786	31 836	472 616
II. Derivative financial instruments (nominal value of contracts)	**215 677 756**	**91 234 064**	**8 869 356**	**315 781 176**
1. Interest rate derivatives	172 145 798	75 918 213	8 779 639	256 843 650
2. Currency derivatives	42 021 917	15 174 649	89 717	57 286 283
3. Market risk derivatives	1 510 041	141 202	-	1 651 243
Total off-balance sheet items	**226 621 004**	**92 808 510**	**9 542 922**	**328 972 436**

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

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

The nominal values of derivatives are presented in the Note 21.

As at 31 December 2010, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by BRE Bank Hipoteczny, Polfactor and Intermarket respectively in amount of PLN 661,494 thousand, PLN 309,151 thousand, PLN 69,776 thousand.

As at 31 December 2010, there were no issues underwritten by BRE Bank SA Group.

As at 31 December 2010, the Group had PLN 1,131,281 thousand worth of contingent commitments received.

As at 31 December 2010 BRE Bank SA received commitments in the amount of PLN 1,089,671 thousand and were connected mainly with guarantees securing given credits and guarantees.

As at 31 December 2010, apart from BRE Bank, the significant commitments received from entities other than the companies of the Group arose in BRE Leasing Sp. z o.o. – PLN 34,500 thousand.

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37. Pledged Assets

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

	31.12.2010	31.12.2009
Pledged assets, including:	**1 830 803**	**3 516 525**
- Trading securities (Note 20)	1 018 658	766 313
- Investment securities (Note 23)	812 145	2 750 212
Liabilities arising from pledged assets, including:	**8 218 975**	**4028 267**
- Sell-buy-back transactions (Note 29, 30), including	4 756 028	3 517 524
-Sell-buy-back transactions concerning securities which are subject to buy-sell-back transaction	3 279 087	346 537
- Funds guaranteed under the Bank Guarantee Fund	183 860	164 743

38. Registered Share Capital

The total number of ordinary shares as at 31 December 2010 was 42,086,674 shares (31 December 2009: 29,690,882) at PLN 4 nominal value each (31 December 2009: PLN 4). All issued shares were fully paid up.

Registered Share Capital (the structure)						
Share type	Type of preference	Type of restric-tions	Number of shares	Series / issue value	Paid up	Year of regi-stration
ordinary bearer*	-	-	9 978 500	39 914 000	fully paid in cash	1986
ordinary registered*	-	-	21 500	86 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
Total number of shares			**42 086 674**			
Total registered share capital				**168 346 696**		
Nominal value per share		**4**				

* As at the end of the reporting period

There was no change in the structure of material share packages of the Bank in 2010.

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2010 it held 69.7439% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 December 2009 – 69.7847%).

On 16 July 2010 the Bank's share capital increase of PLN 49,485 thousand up to a total amount of PLN 168,248 thousand was registered in the National Court Register. The total income from shares' issue - decreased by issue costs in the amount of PLN 13,287 thousand - was PLN 1,966,167 thousand.

Registration of the new issue of shares on 16 July 2010 did not change the share of the main shareholder in the Bank's share capital.

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On 5 August and 20 December 2010 the National Depository for Securities ('KDPW') made a registration of respectively: 15,695 and 8,897 shares of BRE Bank SA which were issued as part of the conditional increase in the share capital of the Bank pursuant to the resolution No. 21 of the 21st Ordinary General Meeting of the Bank of 14 March 2008 on the issuance of bonds with pte-emptive right to acquire shares of BRE Bank SA and the conditional increase of the share capital by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the long term incentive programme to take up shares in BRE Bank SA, on application for admission of the shares to trading on the regulated market and on dematerialisation of the shares.

39. Share Premium

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

The increase of share premium in 2010 results from shares' issue in Q2, Q3 and Q4 2010.

40. Retained Earnings

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

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

	31.12.2010	31.12.2009
Other supplementary capital	1 814 954	1 761 960
Other reserve capital	55 300	53 158
General Risk Fund	778 953	719 210
Profit from the previous year	65 536	49 138
Profit for the current year	641 602	128 928
Total retained earnings	**3 356 345**	**2 712 394**

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

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

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

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

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

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

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

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

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

	31.12.2010		31.12.2009	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**47 077**	**4**	**-**	**-**
Granted during the period	10 871	4	47 077	4
Forfeited during the period	-	-	-	-
Exercised during the period*	24 592	4	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**33 356**	**4**	**47 077**	**4**
Exercisable at the end of the period	-	-	-	-

* In 2010 the weighted average share price at the date of option exercise amounted to PLN 266.92.

Options outstanding as at the end of 2009 and at the end of 2010 expire on 31 December 2018.

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

2008 Incentive Program for key managers of BRE Bank Group

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

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

The scheme participants include:
- Members of the Management Boards of the key subsidiaries of BRE Bank Group,
- Bank Directors,
- Representatives of key management.

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

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

In 2010 the Management Board of the Bank took the decision to launch the program and approved the list of participants for Tranche III. Not granted options from Tranche I and II may be granted in the future years of the program execution. There were 12,650 options granted from Tranche III which will allow participants to purchase the Bank shares with an issue price of PLN 4 per share. Realisation of rights stemming from Tranche III is conditional and the options will be exercisable between 1 May 2012 and 31 December 2019. The right to acquire shares is conditional upon the achievement of the following conditions: being employed over the period of

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the tranche, achievement of the economic factor set by Management Board for BRE Bank Group and achievement of the individual yearly assessment grade in each year of the tranche.
The fair value of options granted was determined as at 23 August 2010 using the Monte-Carlo simulation and amounted to PLN 245.9. The valuation model was selected mainly due to the terms of the program, particularly its length and flexibility given to the participants in setting the exercise dates for vested options. The volatility of BRE Bank shares was calculated based on historical data for the period adequate to the length of the program (data from 12 April 2001 up to 23 August 2010). Calculations were based on a standard deviation of daily share price changes in the given period as well as the yield curve based on zero-coupon rates as at the valuation date.

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

	31.12.2010		31.12.2009	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	-	-	-	-
Granted during the period	12 650	4	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	**12 650**	**4**	-	-
Exercisable at the end of the period	-	-	-	-

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

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

	31.12.2010	31.12.2009
Incentive programs		
As at the beginning of the period	8 442	12 113
- value of services provided (Note 11)	6 275	(3 671)
- settlement of exercised options	(3 926)	-
As at the end of the period	**10 791**	**8 442**

The incentive program for the Management Board of the Bank in the part comprising Commerzbank shares has no impact on other reserves as its cost is taken to the Income Statement in correspondence with liabilities. The value of provided services associated with this part of the program was PLN 1,738 thousand in 2010 (31 December 2009: PLN 597 thousand) (Note 11). As at 31 December 2010, liabilities due to this program amounted to PLN 2,925 thousand (31 December 2009: PLN 2,814 thousand).

41. Other Components of Equity

	31.12.2010	31.12.2009
Exchange differences on translating foreign operations	**50**	**3 017**
Unrealized gains (positive differences)	19 264	33 859
Unrealized losses (negative differences)	(19 214)	(30 842)
Available-for-sale financial assets	**61 096**	**(116 907)**
Unrealized gains on debt instruments	3 033	5 547
Unrealized losses on debt instruments	(44 012)	(174 977)
Unrealized gains on equity instruments	118 582	41 974
Deferred income tax	(16 507)	10 549
Total other components of equity	**61 146**	**(113 890)**

The increased amount of unrealised gains on debt instruments in 2010, when compared to 2009, was due to the higher valuation of floating rate treasury securities resulting from decreasing premium for Polish risk in the assessment of investors. Another reason for valuation growth was a positive valuation of a fixed coupon treasury bonds. The treasury bonds, which had positive valuation as at the end of 2009, were repurchased in 2010. Decrease of the positive valuation of treasury bills in other equity items as a result of their repurchase was compensated by a positive valuation of zero-coupon bonds held in the portfolio at the end of 2010.

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In 2010, in other components of equity revaluation of PZU shares was included in the net amount of PLN 61,553 thousand.

42. Dividend per Share

On 28 February 2011, the Management Board of BRE Bank SA passed a resolution on submitting to the 24th Ordinary General Meeting a motion concerning non-payment of dividend for the year 2010 to the shareholders. The Management Board's motion will be presented for opinion to the Supervisory Board of the Bank.

43. Cash and Cash Equivalents

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

	31.12.2010	31.12.2009
Cash and balances with the Central Bank (Note 17)	2 359 912	3 786 765
Debt securities eligible for rediscounting at the Central Bank	3 686	9 134
Loans and advances to banks (Note 19)	1 134 285	1 635 371
Trading securities (Note 20)	2 307 933	1 306 698
Available for sale debt securities (Note 23)	-	129 912
Total cash and cash equivalents	**5 805 816**	**6 867 880**

44. Transactions with Related Entities

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

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

The most important transactions with related entities in 2010:

- On 27 January 2010, BRE Bank and Commerzbank AG entered into three credit agreements totalling PLN 1,554,010 thousand. Under the largest agreement the Bank obtained a loan of CHF 350,000 thousand (the equivalent of PLN 972,370 thousand according to the average exchange rate of the National Bank of Poland of 27 January 2010) for the purpose of satisfying general financial needs of the Bank.
- On 29 April 2010 the Bank concluded a binding Enterprise Sale Agreement of Commerzbank AG Spółka Akcyjna Oddział w Polsce (former branch of Dresdner Bank AG in Poland) with Commerzbank AG. Detailed information regarding the Agreement are presented under the Note 45.

In all reporting periods there were no related-party transactions with the direct parent entity of BRE Bank.
The amounts of transactions with related entities, i.e., assets, liabilities and related costs and income as at 31 December 2010 and 31 December 2009 are as follows.

Numerical data concerning transactions with related entities (in PLN '000) as at 31 December 2010											
No.	Company's name	Statement of Financial Position		Separate Income Statement						Contingent liabilities granted and received	
		Assets	Liabilities	Interest income	Interest expense	Com-mission income	Com-mission expense	Other operating income	Overhead costs amor-tization and depreciation and other operating expenses	Commit-ments granted	Commitments received
	Subsidiaries not included in consolidation due to immateriality										
1.	AMBRESA Sp. z o.o.	-	593	-	(12)	2	-	-	-	-	-
2.	BRE Corporate Finance SA	-	3 425	-	(28)	34	-	-	-	1 828	-
3.	BRELINVEST Sp. z o.o. Fly 2 Commandite company	-	12 693	-	(213)	1	-	-	-	-	-
4.	BRE Systems Sp. z o.o.	-	106	21	(2)	12	-	-	-	-	-
5.	Tele-Tech Investment Sp. z o.o.	60 978	118	5 801	-	3	-	-	-	-	-
Ultimate Parent Group											
	Commerzbank AG Capital Group	224 012	26 368 332	9 947	(399 314)	-	-	6 367	(20 768)	748 003	809 258

Numerical data concerning transactions with related entities (in PLN '000) as at 31 December 2009											
No.	Company's name	Statement of Financial Position		Separate Income Statement						Contingent liabilities granted and received	
		Assets	Liabilities	Interest income	Interest expense	Com-mission income	Com-mission expense	Other operating income	Overhead costs amor-tization and depreciation and other operating expenses	Commit-ments granted	Commit-ments received
1.	Subsidiaries not included in consolidation due to immateriality										
2.	AMBRESA Sp. z o.o.	-	688	-	-	2	-	-	-	-	-
3.	BRELINVEST Sp. z o.o. Fly 2 Commandite company	-	775	-	(3)	1	-	-	-	-	-
	BRE Systems Sp. z o.o.	-	2 469	17	(2)	30	-	-	-	1 000	-
Ultimate Parent Group											
	Commerzbank AG Capital Group	311 900	23 420 712	13 019	(466 647)	-	-	58	(17 288)	782 779	171 656

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

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

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

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

The table below presents the values of transactions between the Bank and companies of BRE Bank Group and: the Members of the Management Board of the Bank, the Management of the Subsidiaries and key executive management of the Group.

(in PLN '000)	Directors and key management personnel of the Bank		Directors and key management personnel of other entities of the Group	
As at the end of the period	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Loans outstanding	6 318	4 262	394	596
Deposits received	12 676	18 146	382	749
Interest expense on deposits	(379)	(451)	-	(19)
Interest, fee and commission income (related to loans and deposits)	75	92	-	1
Directors and key management remuneration	27 330	31 460	27 471	33 845

The table below presents the values of transactions between the Bank and the Members of the Supervisory Board of the Bank.

(in PLN '000)	Members of the Supervisory Board of BRE Bank	
As at the end of the period	31.12.2010	31.12.2009
Loans outstanding	82	79
Deposits received	591	896
Interest expense on deposits	(18)	(22)
Interest, fee and commission income (related to loans and deposits)	12	10

In 2010 and 2009 no provisions were created in connection with credits granted to related entities.

Management Board Remuneration

The composition of the Management Board of BRE Bank which consists of seven persons was as follows at the end of 2010:

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

On 2 August 2010 the Supervisory Board of BRE Bank, pursuant to § 23 of the By-laws of BRE Bank SA, released Mr. Mariusz Grendowicz from the Management Board of the Bank from the function of the President of the Management Board.

As a consequence of the above, with the effect from 1 October 2010 the Supervisory Board appointed Mr. Cezary Stypułkowski to the Management Board of BRE Bank SA and for the post of the President of the Management Board of BRE Bank SA and since that day, designated Mr Cezary Stypułkowski as acting President of the Management Board of the Bank.

On 27 October 2010 the Polish Financial Supervision Authority granted the consent to the appointment of Cezary Stypułkowski as President of the Management Board of BRE Bank SA.

From 2 August 2010 to 1 October 2010 the duties of the President of the Management Board where temporarily executed by the Vice-President of the Management Boaard, Mr. Wiesław Thor.

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Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2010, as at 31 December 2010 and 31 December 2009, is presented below.

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

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

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

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

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

Remuneration of the Management Board Members paid in the year 2009.

Remuneration paid in 2009 (in PLN)				
No.		Basic salary	Other benefits	Bonus for 2008
1.	Mariusz Grendowicz	1 800 000	236 696	2 400 000
2.	Wiesław Thor	1 508 186	148 430	862 500
3.	Katrin Katerbau	1 275 000	208 751	223 068
4.	Przemysław Gdański	1 200 000	143 661	1 000 000
5.	Hans-Dieter Kemler	569 565	760 098	-
6.	Jarosław Mastalerz	1 200 000	167 408	870 000
7.	Christian Rhino	1 200 000	101 878	553 890
	Total	**8 752 751**	**1 766 922**	**5 909 458**

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Remuneration of the former Management Board Members paid in the year 2009.

Remuneration paid in 2009 (in PLN)				
No.		Basic salary	Other benefits	Bonus for 2008
Remuneration of the former Management Board Members who ceased performing their functions in the year 2009				
1.	Bernd Loewen	600 000	71 043	1 270 000
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008				
1.	Andre Carls	-	-	310 146
2.	Sławomir Lachowski	-	1 225 337	-
3.	Janusz Wojtas	-	726 168	-
4.	Rainer Ottenstein	-	-	600 000
Total		**600 000**	**2 022 548**	**2 180 146**

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

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

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

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

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

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2010, which would be paid out in 2011. The final decision concerning the level of the bonus will be taken by the Executive Committee of the Supervisory Board by 30 March 2011.

In 2010 and 2009, the members of the Management Board of BRE Bank SA did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total amount of remuneration received in 2010 by Bank's Management Board members was PLN 17,378,763 (2009: PLN 18,370,174).

Supervisory Board Compensation

The composition of the Supervisory Board at the end of 2010 was as follows:

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

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9. Marek Wierzbowski – Member of the Supervisory Board,
10. Stefan Schmittmann – Member of the Supervisory Board.

On 1 April 2010, due to resignation on 31 March 2010 from membership of the Bank's Supervisory Board and membership of the Executive Committee by Mr. Michael Schmid, the Supervisory Board appointed Mr. Sascha Klaus as a new member.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2010 and 31 December 2009 is presented below:

No.		Remuneration paid in 2010 (in PLN)	Remuneration paid in 2009 (in PLN)
1.	Maciej Leśny	318 557	315 000
2.	Andre Carls	273 000	273 000
3.	Sascha Klaus	173 250	-
4.	Martin Zielke	198 000	198 000
5.	Jan Szomburg	234 557	231 000
6.	Achim Kassow	132 000	181 500
7.	Waldemar Stawski	201 557	198 000
8.	Teresa Mokrysz	134 927	132 000
9.	Marek Wierzbowski	132 000	132 000
10.	Stefan Schmittmann	-	-
11.	Michael Schmid*	57 750	206 250
Total		**1 855 598**	**1 866 750**

* On 31 March Mr. Michael Schmid resigned from the office.

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

Information regarding proprietary position in Bank shares by the Members of the Management Board and by the Members of the Supervisory Board
As at 31 December 2010, Bank shares were held by two Members of the Management Board: Vice-president, Mrs. Karin Katerbau – 1,176 shares and Member of the Management Board, Mr. Christian Rhino – 2,919 shares.
As at 31 December 2009, the Members of the Management Board had no Bank shares.
As at 31 December 2010, one Member of the Supervisory Board of BRE Bank SA held shares of BRE Bank SA, Mr. Andre Carls – 1,635 shares.
As at 31 December 2010, the other Members of the Supervisory Board of BRE Bank SA had no Bank shares.

45. Acquisitions and Disposals

On 29 April 2010 the Bank and Commerzbank AG concluded a binding Enterprise Sale Agreement of Commerzbank AG Spółka Akcyjna Oddział w Polsce (former branch of Dresdner Bank AG in Poland; the 'Branch'). The sale took place on 9 November 2010. On the same day, the ownership of the Banking Enterprise of the Branch was assigned to the Bank. The selling price of the Branch totalled PLN 10,000 thousand and was based on evaluation made by an independent expert. The transaction was settled and accounted for as a purchase of assets.

46. Information about the Registered Audit Company

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

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of BRE Bank SA was PLN 3,029 thousand in 2010 (2009: PLN 2,919 thousand).

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for BRE Bank SA was PLN 2,351 thousand in 2010 (2009: PLN 781 thousand).

47. Capital Adequacy Ratio/Capital Adequacy

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

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

The capital management policy in BRE Bank is based on:

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

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

Own funds comprise:

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

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

Internal capital is estimated by the Group as a capital level needed to cover all identified, material types of risk within the Group's activity, including so-called permanent material risks and other material risks not fully quantifiable. The permanent material risks are to be covered by the economic capital, while other risks are to be covered by the capital for coverage of risks not fully quantifiable.

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

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

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

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

The calculation of the Group's capital adequacy ratio and own funds is made on the following basis:
- Banking Act dated 29 August 1997 (Dz.U. from the year 2002 No 72, item 665, as amended),
- Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 (Dz. Urz. KNF from the year 2010 No 2 item 11) with later amendments,
- Resolution No. 367/2010 of the Polish Financial Supervision Authority dated 12 October 2010 (Dz. Urz. KNF from the year 2010 No 8 item 36),
- Resolution No. 382/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 36),
- Resolution No. 383/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 37),
- Resolution No. 384/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 38),
- Resolution No. 387/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 41).

The capital adequacy ratio of the BRE Bank Group amounted to 15.90% as at 31 December 2010.

Due to significant trading activity full calculation of the capital requirements is being made. The total capital requirement of the Group amounted to PLN 4,513,324 thousand as at 31 December 2010, including PLN 4,063,810 thousand of credit capital requirement (31 December 2009 respectively: 4,356,859 thousand and PLN 3,886,092 thousand).

Due to the fact that total capital requirement of BRE Bank Group calculated according to Resolution No. 76/2010 is higher than the internal capital calculated according to Resolution No. 383/2008, the Group own funds were kept as at 31 December 2010 at a level not lower than the total capital requirement calculated according to Resolution No. 76/2010.

CAPITAL ADEQUACY	31.12.2010	31.12.2009
Own funds:		
- Share capital	168 347	118 764
- Supplementary fund	3 323 465	1 402 919
- Reserve fund	2 714 743	2 583 466
- Revaluation reserve arising from valuation of non-current and financial assets available for sale	53 330	(156 991)
- Profit for the current year	-	10 608
- Investments in financial institutions	(34 805)	(32 312)
- Additional increase	167 982	150 967
- Intangible assets	(427 837)	(441 372)
- Subordinated liabilities	3 005 705	2 627 795
I. Total own funds	**8 970 930**	**6 263 844**
Risk weighted off-balance sheet assets and liabilities:		
- applying a 20% risk weight	847 877	477 435
- applying a 35% risk weight	550 997	466 126
- applying a 50% risk weight	750 221	1 257 266
- applying a 75% risk weight	25 060 871	22 161 503
- applying a 100% risk weight	23 816 226	24 392 772
- applying a 150% risk weight	308 571	444 874
II. Total risk weighted assets and off-balance sheet liabilities	**51 334 763**	**49 199 976**
III. Credit risk	**4 063 810**	**3 886 092**
IV. Foreign exchange risk	**629**	**432**
V. Equity instruments price risk	**284**	**1 069**

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VI. Specific risk for debt instruments	**10 081**	**24 675**
VII. General interest rate risk	**20 833**	**19 969**
VIII. Settlement, delivery and counterparty credit risk	**42 971**	**49 906**
IX. Commodities risk	**-**	**-**
X. Operational risk	**374 716**	**374 716**
XI. Total capital charge	**4 513 324**	**4 356 859**
XII. Capital adequacy ratio (%)	**15.90%**	**11.50%**

48. Events after the Balance Sheet Date

- On 31 January 2011, under the agreement concluded on 26 January 2011 between BRE Holding, a 100% subsidiary of BRE Bank SA, and Commerz Real, a 100% subsidiary of Commerzbank AG, BRE Holding acquired 49.9% of shares of BRE Leasing from Commerz Real. The purchase price of the shares amounted to EUR 17,144 thousand (equivalent of PLN 66,876 thousand). After this transaction, BRE Bank Group holds 100% shares in BRE Leasing.
  In connection with this transaction, the capital of BRE Holding was increased by the amount of PLN 67,276 thousand on 27 January 2011. All new shares in BRE Holding were taken up by BRE Bank SA.
- On 22 February 2010 the Group was informed by Commerzbank AG, the majority shareholder of the Bank, that in view of BRE Bank Group's sustainable core capital and earnings strength and in accordance with international standards, the existing letters of comfort issued to BRE Bank and its subsidiaries BRE Bank Hipoteczny and BRE Leasing would expire by the end of March 2011. In the information delivered to the Bank, Commerzbank AG confirmed that BRE Bank is a strategic core investment of Commerzbank Group in its second home market Central and Eastern Europe, and together with its subsidiaries part of the funding pool of Commerzbank Group.

Management Board Report on the Business of BRE Bank SA Group in 2010

Management Board Report on the Business of BRE Bank SA Group in 2010

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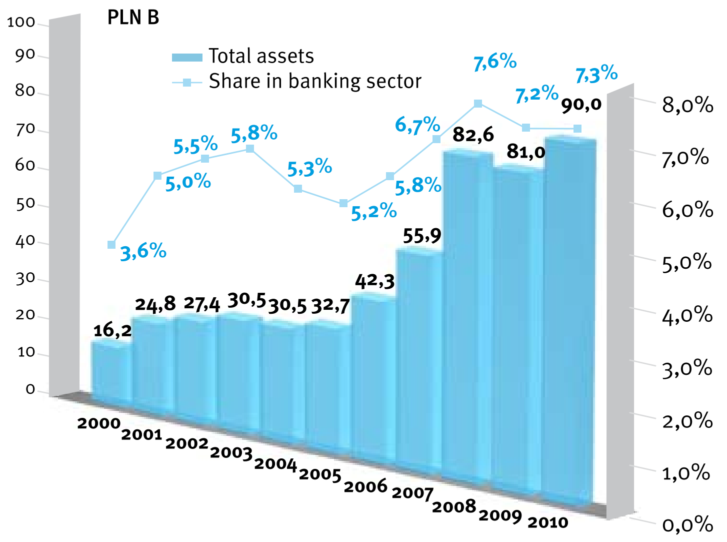
I. Brief Description of BRE Bank and its Group

Key figures and facts

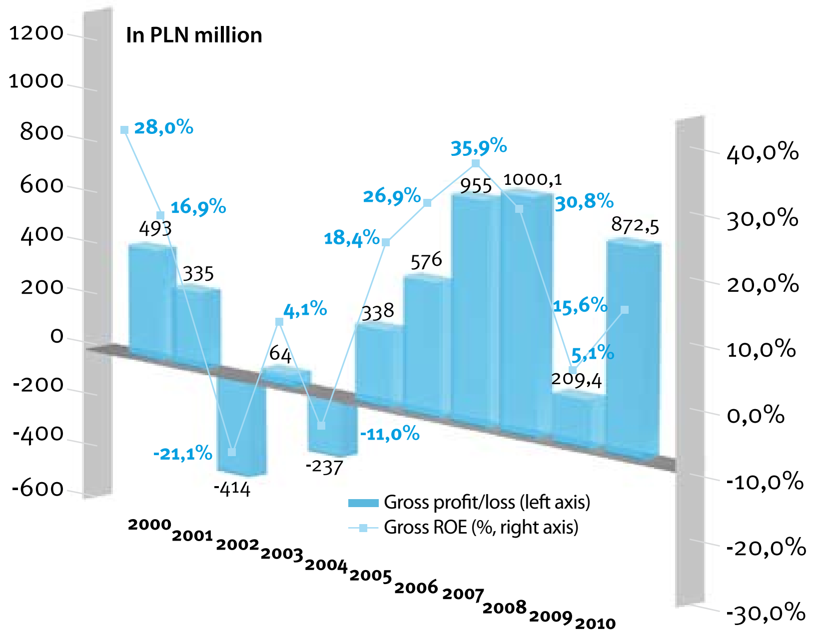
BRE Bank SA was established in 1986 (under the name Bank Rozwoju Eksportu S.A.) and its operations were launched at the beginning of 1987. In 2011, the Bank will be celebrating its 25th anniversary. Presently, it is one of the biggest Polish universal banks.

Assets of BRE Bank Group



At the end of 2010, the consolidated total assets amounted to PLN 90.0 billion, ranking the Bank as the third largest bank in Poland with assets accounting for more than 7% of the Polish banking sector's assets. In terms of the client loan portfolio, it ranked third and in terms of deposits and amounts due to clients – it was number four. BRE Bank was the third largest bank listed on the Warsaw Stock Exchange by equity.

Profit before tax of BRE Bank Group



Profit before tax of BRE Bank Group in 2010 amounted to PLN 872.5 million and was by more than four times higher than in 2009. The performance improvement was achieved among others thanks to a highest income in the history of the Group.

Positive economic environment in 2010 and hence improved financial standing of customers, was reflected in lower loan loss provisions.

BRE is a universal bank which serves its corporate clients (approximately 13 thousand clients) and Private Banking (approximately 5 thousand clients) under the brand of BRE Bank through a network of 24 branches and 21 corporate offices.

Retail customer services are rendered under separate brands: mBank and MultiBank. The first brand – online mBank – served about 2.6 million clients in Poland at the end of 2010. Furthermore, almost 500 thousand clients were serviced by mBank in the Czech Republic and Slovakia.

In 2010, mBank celebrated its 10th anniversary. During the last decade it managed to become the leading online bank and the third largest retail bank in Poland in terms of number of clients.

The second brand, MultiBank, whose offer is dedicated to affluent customers, rendered its

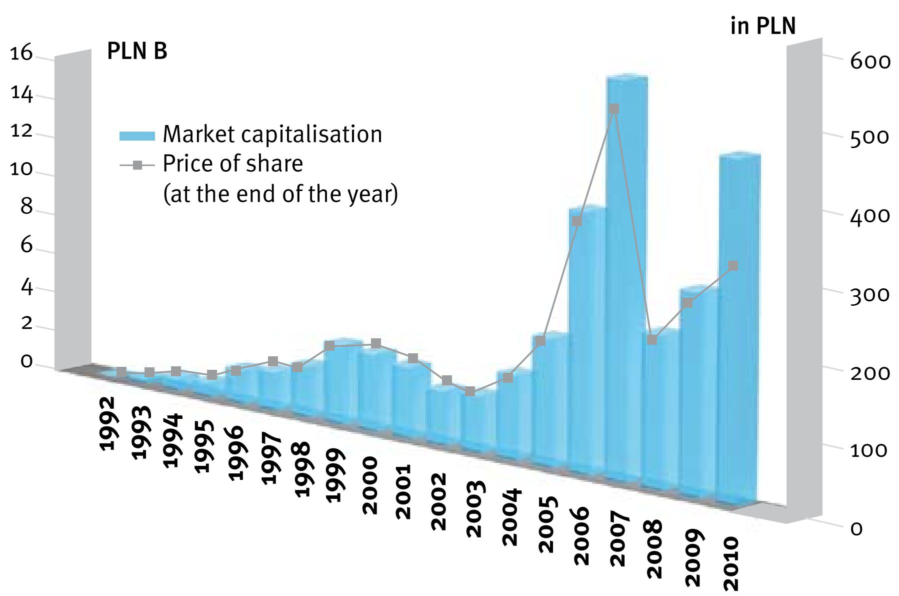
BRE Bank for years has a strategic shareholder, the German bank Commerzbank AG (CB). After the merger with Dresdner Bank in 2009, it became the second largest German bank with an extensive network of branches in Germany and in Europe. It holds ca. 70% of shares in BRE Bank. BRE Bank is a member of Commerzbank Group.

The remaining ca. 30% of shares held by minority shareholders is in free float. The shares are traded predominantly by financial investors (about 3/4 of free float) and individual investors.

5 members (including the Chairman) out of 10 members of the Supervisory Board had Polish citizenship as of 31.12.2010. BRE's Management Board was composed of 7 persons, out of which 4 persons, including the President, had Polish citizenship.

BRE Bank's shares are listed on the Warsaw Stock Exchange (WSE) since 1992. In the last trading session in 2010, the share price amounted to PLN 304. The share price performance and market capitalization from the first listing on the WSE are presented in the chart below:

BRE Bank shares on the Warsaw Stock Exchange



services to about 600 thousand clients at the end of 2010.

Composition of BRE Bank Group

Along with the development of its operations, the Bank established or acquired companies offering products and services complementary to its banking offer.

The main subsidiaries at the end of 2010 included: BRE Leasing, BRE Bank Hipoteczny, Dom Inwestycyjny BRE Banku, Intermarket Group factoring companies (including the Polish company Polfactor), as well as the insurance company BRE Ubezpieczenia. In total, 17 companies were consolidated as at the end of 2010.

The composition of BRE Bank Group by business lines and areas was as follows:

BRE Bank Group			
Segment	Corporates & Financial Markets		Retail Banking
Bank	Corporates & Institutions	Trading & Investments	
	▪ Corporations ▪ (capital groups) ▪ Large Companies ▪ SMEs ▪ Structured & Mezzanine Finance	▪ Risk and Liquidity Management ▪ Financial Markets ▪ Financial Institutions*	▪ mBank (mass retail customers and microenterprises) ▪ MultiBank (affluent retail customers) ▪ Private Banking (high net worth individuals)
Consolidated subsidiaries	▪ BRE Leasing Sp. z o.o. ▪ Intermarket Group - Intermarket Bank AG - Polfactor SA - Transfinance a.s. - Magyar Factor zRt ▪ BRE Holding Sp. z o.o. ▪ BRE Gold FIZ Aktywów Niepublicznych ▪ Garbary Sp. z o.o.	▪ Dom Inwestycyjny BRE* Banku SA ▪ BRE Bank Hipoteczny SA* ▪ BRE Finance France SA	▪ BRE Wealth Management SA ▪ Aspiro SA ▪ BRE Ubezpieczenia TUiR SA ▪ BRE Ubezpieczenia Sp. z o.o.
	Other subsidiaries	▪ BRE.locum SA ▪ Centrum Rozliczeń i Informacji CERI Sp. z o.o.	

* previously under Corporates & Institutions,

At the beginning of Q3 2010 certain activities that are presented in the segment Corporates and Financial Markets were reassigned among its two sub-segments. The reassignment comprised a shift of the following areas from Corporates and Institutions to Trading and Investments: (a) Financial Institutions, (b) Subsidiaries: DI BRE Bank SA, BRE Bank Hipoteczny. The amendments were made in order to better reflect business lines organisational responsibilities and performance measurement requirements and to better leverage the existing cooperation areas between business lines at Bank level with subsidiaries.

The companies Tele-Tech Investment Sp. z o.o. and BRE Corporate Finance S.A. were no longer consolidated as of Q3 2010. Their contribution to the Group's profit before tax is insignificant.

BRE Bank's authorities (at the end of 2010)

Supervisory Board

1.	Mr. Maciej Leśny	Chairman of the Supervisory Board
2.	Mr. Andre Carls	Deputy Chairman of the Supervisory Board
3.	Mr. Achim Kassow	Member of the Supervisory Board
4.	Mr. Sascha Klaus	Member of the Supervisory Board
5.	Ms. Teresa Mokrysz	Member of the Supervisory Board
6.	Mr. Stefan Schmittmann	Member of the Supervisory Board
7.	Mr. Waldemar Stawski	Member of the Supervisory Board
8.	Mr. Jan Szomburg	Member of the Supervisory Board
9.	Mr. Marek Wierzbowski	Member of the Supervisory Board
10.	Mr. Martin Zielke	Member of the Supervisory Board

Management Board

1.	Mr. Cezary Stypułkowski	President of the Management Board, CEO
2.	Ms. Karin Katerbau	Vice president of the Management Board, CFO
3.	Mr. Wiesław Thor	Vice president of the Management Board, CRO
4.	Mr. Przemysław Gdański	Member of the Management Board, Head of Corporate Banking
5.	Mr. Hans-Dieter Kemler	Member of the Management Board, Head of Investment Banking & Markets
6.	Mr. Jarosław Mastalerz	Member of the Management Board, Head of Retail Banking
7.	Mr. Christian Rhino	Member of the Management Board, Head of Operations and Information Technology

In 2010, there was a change at the post of the President of the BRE Bank Management Board. On 2 August 2010, the Supervisory Board of BRE Bank released Mr. Mariusz Grendowicz from the Management Board of BRE Bank and the function of the President of the Management Board and Chief Executive Officer of the Bank. Effective on 1 October 2010 the Supervisory Board appointed Mr. Cezary Stypułkowski for this post. On 27 October 2010, the Polish Financial Supervision Authority approved the appointment. The Executive Vice-President of the Management Board, Mr. Wiesław Thor, had performed temporarily the duties of the office of the President of the Management Board until Mr. Cezary Stypułkowski took the office.

Key figures

	2005	2006	2007	2008	2009	2010
Balance sheet total (PLN M)	32 739.1	42 330.6	55 983.0	82 605.2	81 023.9	90 042.4
Credit and loans granted to customers (PLN M)	15 376.0	23 044.7	33 682.7	52 142.5	52 468.8	59 370.4
Liabilities to customers (PLN M)	20 349.4	24 669.9	32 401.9	37 750.8	42 791.4	47 420.1
Book value (PLN M)	2 035.2	2 530.8	3 324.5	3 894.5	4 120.2	6 909.3
Pre-tax profit from continued and discontinued activity	338	576,4	954,5	1 000.1	209.4	872.5
Net profi from continued and discontinued activity attributable to the Bank's equity holders	247.5	421.3	710.1	857.5	128.9	641.6
Capital adequacy ratio (%)	11.10	10.39	10.16	10.04	11.50	15.90
ROE before tax (%)	17.8	26.9	35.9	30.8	5.1	15.6
Cost/Income ratio (%)	69.3	63.7	55.5	55.1	54.2	51.8
Headcount of BRE Bank, YE (employees)	3 571	4 001	4 795	5 877	4 901	5 300
Number of BRE Bank corporate units, YE						
branches	23	23	23	24	24	24
offices			4	21	21	21
Number of retail branches, YE						
mBank (Aspiro)	54	65	103	161	142	115
MultiBank	72	84	109	131	134	133

BRE Bank Group's Key Stock Exchange Figures	2005	2006	2007	2008	2009	2010
Number of shares, YE	28 983 972	29 516 035	29 660 668	29 690 882	29 690 882	42 086 674
Profit from continued and discontinued operations per share (PLN)	8.60	13.12	21.08	24.49	4.34	17.49
BV/PS (PLN)	70.22	85.74	112.08	131.17	138.77	164.17
P/E	17.34	22.61	21.15	7.08	52.89	17.38
P/BV	2.12	3.46	3.98	1.32	1.65	1.85
Share price at the year's last trading session (PLN; for 2005 -2009 adjusted by 0,88275 ratio due to new issue of shares in 2010)	149	297	446	173	230	304

II. Major Developments and Events in 2010

II.1. Introduction

In 2010, BRE Bank Group generated a profit before tax in the amount of PLN 872.5 million as compared to PLN 209.4 million in 2009 (+317% YoY). Net profit attributable to owners of BRE Bank SA amounted to PLN 641.6 million vs. PLN 128.9 million in 2009 (+398%YoY).

The results improvement was achieved thanks to a favorable development of the Bank's and subsidiaries' business among others as an effect of a consistent implementation of the new strategy. The Group recorded a strong growth of income accompanied by a significant decline of loan loss provisions and continued strict cost management. The following factors contributed to these developments:

- Record high income generated by the Group, at the level of PLN 3,124.6 million, up by PLN 273.3 million vs. 2009 (+ 9.6% YoY) achieved thanks to:
  - significantly higher (by PLN 152.8 million or +9.2% YoY) net interest income mainly as a result of an increase of the loan and deposit volume, a focus on higher margin products, as well as the Bank's capital increase in June 2010,
  - particularly strong increase in net fee and commission income, up by PLN 151.2 million or 25.4% YoY thanks to improved cross-selling to the existing customer base, in combination with continued growth of the number of customers,
  - the sale of a part of PZU shares by the Group's subsidiary, BRE Gold FIZ Aktywów Niepublicznych, which added PLN 47.5 million to the Group's income. In addition, in Q3 2010, the Group recorded dividend income from its PZU shareholding in the amount of PLN 5 million.
- A significant reduction of the cost of risk (calculated as the relation of loan loss provisions set during the year to the average amount of loans and advances to the non-financial sector in a given year), to 114 bps against 210 bps in 2009.
- Further improvement of efficiency, resulting in a lower cost/income ratio which went down to 51.8% at year-end vs. 54.2% at the end of 2009.
- A further increase in the number of BRE Bank retail clients to almost 3.7 million at the end of December 2010. During 2010, the client base grew by 394 thousand as compared to December 2009 (+12.1% YoY).
- An increase in the number of corporate clients to 13.3 thousand (up by 435 net YoY).
- A considerable strengthening of BRE Bank Group's capital position after the successful new shares issue resulting in a capital increase of ca. PLN 1.97 billion. Consequently, the Group's capital adequacy ratio increased to 15.90% at the end of the year vs. 11.50% in 2009. At the same time the Group's Core Tier 1 ratio increased to 10.40% vs 6.62% in 2009.

II.2. Announcement of Strategy for Years 2010-2012 and its Effective Implementation

On 1 March 2010, the Bank announced its 2010-2012 strategy, which focuses on profitable growth in the Group's two main areas of activity: Retail Banking as well as Corporates and Financial Markets.

In **Retail Banking,** the target is to increase income by growing the customer base and by cross-selling to existing clients. It is planned to especially grow income in the most attractive market segments by focusing on existing and potential affluent clients. The Group's goal is to increase income by:

- attracting new clients through the broad functionality of current accounts products,
- increasing the number of products provided to customers for whom the Bank is not currently the bank of first choice,
- segmenting the retail customer base through the use of a state-of-the art CRM system to better target the offering of certain products and services as a function of the needs of individual customer groups.

The range of products and services the Bank intends to cross-sell includes:

- non-mortgage lending products which shall be supported by innovative automatic pre-approved loan limit offers for customers,
- mortgage loans, including foreign currency denominated loans,
- other products such as transaction products, mutual funds, brokerage and bancassurance products.

It is planned that the number of clients will grow further to more than 4 million clients in 2012.

First effects of the implementation of the strategy were already visible in 2010, for example the significant growth in the client base, mainly in Retail Banking (+394 thousand or +12.1% YoY). In addition to such dynamic growth of the number of clients, cross-selling was also growing, which resulted in a higher average number of products per client (up from 2.62 in 2009 to 2.81 in 2010).
The market share in non-mortgage loans was also growing – it increased from 3.2% at the end of 2009 to 3.6% at the end of 2010. Currently, the new CRM system is being implemented also for Retail Banking.

In **Corporates and Financial Markets,** the Bank intends to solidify its strong corporate and investment banking position by more effective use of the corporate network and by focusing on new attractive areas of growth.

In particular, it is planned to develop the transactional banking services business and to increase cross selling of investment banking products to the Bank's corporate client base. In addition, the Bank intends to exploit attractive areas of growth, including:

- servicing public finance business with focus on an attractive risk/return profile,
- business opportunities with Polish subsidiaries of international corporations, including Commerzbank's customers,
- financing projects conducted with the use of EU funds.

The Bank also aims at becoming the market leader in transactional banking services by reaching more customers via BRE's network but also through the network of MultiBank's branches and through an intensified cooperation with the Bank's subsidiaries. Furthermore, the Bank will continue the development of innovative products (including those offered via iBRE platform, innovative cash management products, expansion of its payment card offering, improving PLN cash payments and by fully automated outgoing international payments), and intends to leverage its strong relations with exporters and importers.

In 2010, apart from the growth of the corporate client base, the Group recorded an increase of the market share in services for the public sector. Its market share in loans for public sector increased from 0.8% to 4.1%, while in deposits it grew from 0.1% to 0.6%. Moreover, the Group achieved a higher product penetration in various areas, particularly in Cash Management.

As a result of the implementation of the „Cross–Border" project (see section II.4.) the international client base is increasing, including clients that are co-operating with Commerzbank, and the scope of co-operation with these clients is broadening.

II.3. Successful New Shares Issue

In order to support the implementation of the new strategy for 2010-2012 and to provide for a Core Tier 1 capital in line with potential new requirements both regulatory and those of the market place, on 30 March 2010, the Ordinary General Meeting of BRE Bank took a decision on increasing the capital by up to PLN 2 billion through an issue of shares with pre-emptive rights.

The issue of new shares with pre-emptive subscription rights raised PLN 1,979.4 million and was a great success in H1 2010. The equity raised, significantly increased the Bank's capital base and will allow for its further expansion. It should be emphasised that the issue enjoyed great interest of domestic and international investors, despite other competitive offerings on the market. All the offered shares (12,371,200) were subscribed (with 1.6 times oversubscription).

On 16 July 2010 the new amount of the Bank's share capital was registered in the National Court Register. As at 16 July 2010, Bank's share capital (totally paid) amounted to PLN 168,248,328.
Positive first effects of the strategy implemented in the past year, together with the strengthened capital base, that enables further expansion, form a solid basis for the attainment of the strategic targets by 2012.

II.4. Realization of Important Projects in the Bank

In 2010 a couple of major activities were undertaken within projects, which included among others:

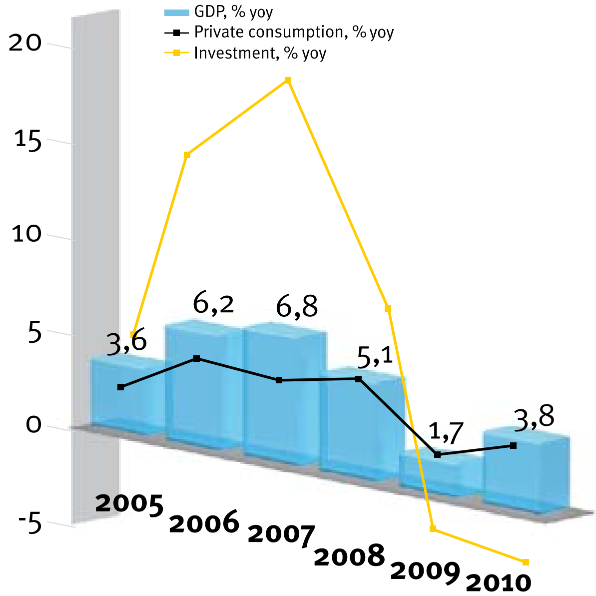
- The implementation of MIFID project (Market in Financial Instruments Directive) in order to adjust the operations to legal changes related to the above directive. For that purpose, actions were taken so as to strengthen the protection of the clients investing in financial instruments, as well as to increase the transparency of the financial instruments offering,

- The continuation of the AIRB project (Advanced Internal Ratings Based approach) consisting in the implementation of the internal ratings based approach for the purpose of determining the capital requirement for credit risk. In December 2009, the Bank applied to the Polish and German financial supervision for consent to apply the approach. Works on the implementation of the AIRB method were carried out also by BRE Leasing and by BRE Bank Hipoteczny,
- The finalization of the „Dresdner" project – as a result of the merger between Commerzbank AG (CB) and Dresdner Bank in 2009, CB also took over the Polish branch of Dresdner Bank, which was converted in turn into Commerzbank AG Spółka Akcyjna Branch in Poland. Next, by virtue of earlier agreements and obtained consents, banking enterprise of branch was bought by BRE Bank on 9 November 2010. 263 clients, PLN 329 million of deposits and PLN 148 million in loans were then acquired. Also 28 employees were hired (according to figures as at the end of October 2010),
- The implementation of the "Cross Border" project, launched at the end of 2009 with the intention to facilitate cross border co-operation within Commerzbank Group in terms of services for German-speaking international clients that directly or through the network of foreign branches, or affiliated companies, conduct their business activities in more than one country. The aim of the project is to harmonize services and offers within one banking group, being Commerzbank Group. The project allowed for the identification of the group of entities, currently being serviced by other banks in Poland. The first target of the acquisition will be approximately half of these entities with their parent companies being serviced by Commerzbank,
- The enhancement of a debt collection system in Retail Banking which comprise the development of credit monitoring module and creation of debt collection call-center,
- Beginning of the implementation of a new CRM system in Retail Banking for the purpose of reinforcing the effectiveness of work performed by relationship managers and improving the customer services quality. The project provides for the development of analytical technologies to generate the information on suggested activities in respect of clients (the allocation of client groups to a particular relationship manager, the implication of the best selling proposals, events related to the client, the history of communication with the client).

III. Macroeconomic Situation in 2010

III.1. Growing Economic Recovery

Economic activity in Poland intensified strongly in 2010.



The GDP rate of growth increased from 1.7% in 2009 to 3.8% and was rising gradually quarter by quarter from 3.0% YoY in Q1 to 3.5% YoY in Q2 to 4.2% YoY in Q3 to ca. 4.2-4.5% YoY in Q4 (estimate based on annual data).

Economic recovery in 2010 was mainly driven by strong growth of exports, largely generated by rising demand in the German industry, which was expanding dynamically last year. The growth rate of exports was ca. 20% in 2010 following a 16% decrease in 2009.

In addition to exports, growth in 2010 was driven by stocks being rebuilt after the crisis and in line with improving economic activity. Other drivers of economic recovery in 2010 included:

- Growth of industrial output by 9.8% after a decrease by 4.5% in 2009; the Polish industry was mainly driven by rising foreign demand based on industrial relations between the Polish and German economies,
- Gradual recovery of private consumption (up by 3.2% v. 2.1% in 2009) helped by improving conditions on the local labour market,
- Improving conditions on the local labour market as demonstrated by:
  - Employment in the corporate sector up by 2.4% YoY (124.5 thousand new FTEs) v. 0.2% YoY decrease in 2009 (-98.1 thousand FTEs). New jobs were formed mainly in the processing sector,
  - The official unemployment rate was on a decrease: after peaking in February (13.2%), it fell to 12.3% v. 12.1% at the end of 2009,
  - Moderate growth of salaries (up by 3.5% YoY on average) driving strong growth of real total salaries, up by 4.6% YoY at the end of 2010 v. 1.1% YoY a year earlier.

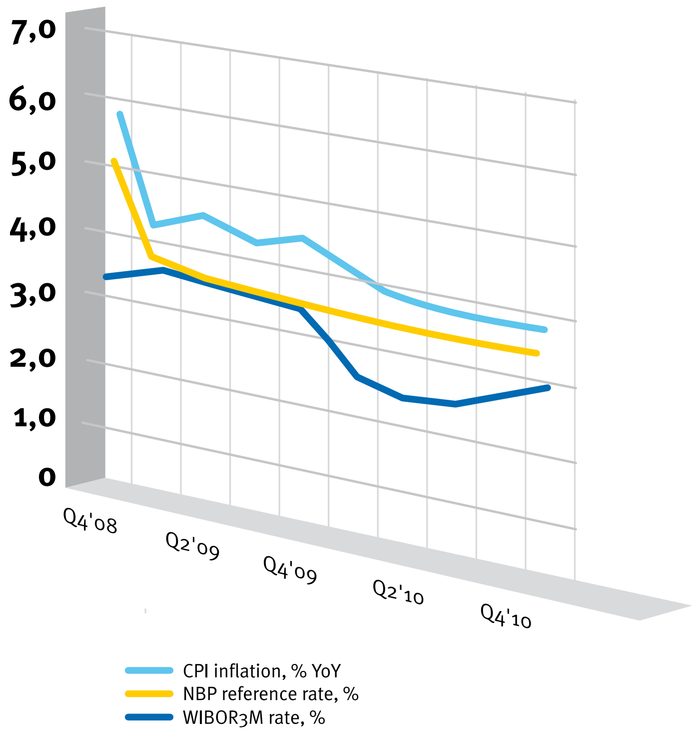
Investments looked less optimistic. Investments fell sharply in H1 2010, mainly due to a strong decline of private investments (down by 19.8% YoY in the large corporates sector in H1). The decline was partly curbed by continued expansion of public investments (mainly road infrastructure). In H2, private investments gradually recovered (up by 3.4% YoY in the large corporate sector in Q3), but the increase mainly took place in the energy sector (rebuilding its production capacity) and in construction while industrial processing still reported a decrease of investments. However, the processing sector should also increase investments in fixed assets in the coming quarters as domestic and foreign demand grows, followed by increased utilisation of the production capacity.

III.2. Inflation and Interest Rates

In H1 2010, CPI decreased from 3.5% YoY at the end of 2009 to 2.0% YoY in July 2010, mainly thanks to a strong negative effect of a high statistical base of 2009 (strong price growth in H1 2009 due to depreciation of the zloty).

In H2 2010, the negative statistical base effect disappeared while price pressures mounted including food prices (lower supply) and gas and fuel price rises (rising oil prices). As a result, inflation rose to 3.1% YoY at the year-end.

Due to gradual increase of demand pressures driven by continued recovery of the Polish economy, as well as cost pressures, CPI is likely to rise further in the coming months, but less dynamically than in H2 2010.

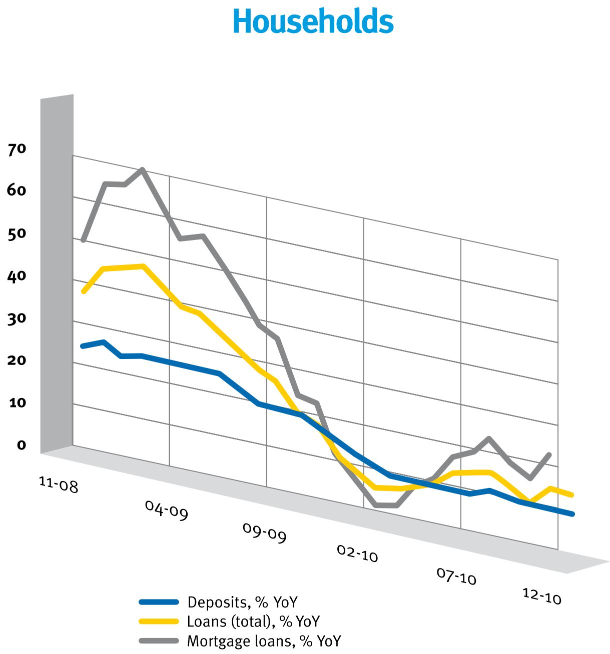


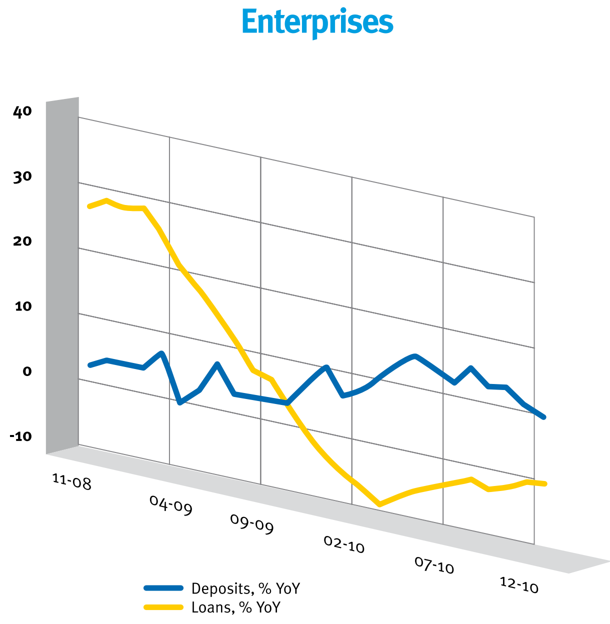
The Monetary Policy Council (RPP), since June headed by new NBP Governor Marek Belka, maintained the interest rates unchanged throughout the year (reference rate at 3.50%). The first hike took place in January 2011 (up by 25 basis points).

Last October, the Council decided to raise the mandatory reserve rate by 50 basis points back to 3.50% as before the crisis as a result of normalisation on the money market.

III.3. Banking Sector

- **The volume of retail deposits grew** by PLN 37.5 billion (following growth by PLN 50.9 billion in 2009) at a rate of **9.8% YoY** v. **15.3%** in 2009. It should be noted that the growth was curbed by continuing inflow of capital to investment funds (up by PLN 10 billion net in 2010).
- **Corporate deposits were up by 9.9% YoY** v. 10.4% YoY in 2009 (the volume of deposits was up by PLN 16.3 billion following growth by PLN 15.5 billion in 2009). The continuing strong growth of corporate deposits demonstrated further improvement of the financial results of Polish companies and their still low investments. In the last months of the year, slowly recovering investments gradually reduced the growth rate of corporate deposits.
- **The growth rate of retail loans increased sharply**: after falling to ca. 5% YoY in Q1, it rose to **13.9% YoY** at the year-end. The volume of retail loans grew by PLN 58.3 billion in 2010 following growth by PLN 45 billion in 2009. The strong recovery of the retail loans sector was mainly driven by the renewed expansion of banks on the housing loans market (these grew by 22.7% YoY in 2010). Another important driver of growth in volumes of retail loans was the fx rate, in particular depreciation of the zloty against the Swiss franc, the currency of a large part of Poland's mortgage loans portfolio. Net of the fx effect, the growth rate of retail loans was **8.5% YoY** at 2010 year-end.
- **Corporate loans were down modestly by 0.3% YoY** following a decrease by 3.6% YoY in 2009 (volumes were down by PLN 0.7 billion in 2010 and down by PLN 8.2 billion in 2009). Low demand for corporate loans in 2010 was the result of dragging recovery in investments and a big buffer of corporate deposits used to finance slowly rising investments. Importantly, net of the fx effect, the growth rate of corporate loans was positive once again at the end of 2010 (up by 0.5% YoY).





III.4. Capital Market

The WSE enjoyed a very good year in 2010 and strengthened its position as the biggest and the fastest growing market in Central and Eastern Europe.

There were 34 IPOs on the Main List in 2010 v. only 13 IPOs in 2009 (33 IPOs in 2008). Including NewConnect, there were 120 IPOs. The WSE lists 400 companies, including 27 foreign companies. The WSE went public in 2010. Its offering, worth PLN 1.2 billion, attracted strong investor interest.

The NewConnect market was very active in terms of attracting new issuers. 86 companies had their IPOs in this market. As at the end of the year, 185 companies were listed in this alternative market. Catalyst, a debt securities platform, launched by the Stock Exchange in autumn 2009 was also successful. The first full year of the market's operation proved that the bond trading platform gained respect of more and more numerous municipal and corporate issuers. As at the end of 2010, 97 series of debt securities issued by 49 entities were traded in this market.

The year 2010 was, at the same time, very successful from the point of view of basic parameters that reflect a growing market. Indices, capitalization and trading volume rose. The WIG index at the end of the year was at the level of 47 489 points, more by 18.8% as compared to 2009. The WIG 20 index grew up to 2744 points, by 14.9%. The value of equities traded in the regulated market was higher by 18%, and in the case of NewConnect even by 202% as compared to the previous year. As regards the futures market, the trading volume in contracts was by 4% higher and in options by 60% against 2009.

IPOs totalled PLN 15.4 billion in 2010. The largest IPO was that of PZU, worth more than PLN 8 billion. The capitalisation of domestic companies rose by 29% to PLN 543 billion. Thanks to foreign investment funds, average trading per session grew by 17% to PLN 1.6 billion.

The situation of investment funds continued to improve in 2010. The net asset value of investment funds was PLN 116.1 billion at the end of 2010 vs. PLN 93.6 billion at the end of December 2009. The growth of investment fund assets was driven both by inflow of capital (PLN 9.4 billion net in 2010) and improved management performance.

Recovery on the local stock market is likely to continue thanks to the good fundamentals of the Polish economy; however, prevailing fiscal problems of some eurozone countries may in the nearest future increase global uncertainty and cause further corrections on the capital markets.

IV. BRE Bank Shareholders and Share Price on the WSE

IV.1. BRE Bank SA Shares at the end of December 2010

- Total number of BRE Bank shares: 42,086,674 ordinary bearer shares.
- There are no preferred shares, each share represents one vote at the General Meeting.
- Nominal value: PLN 4 per share.
- BRE Bank share capital: PLN 168,346,696, fully paid up.
- Shares listed on the WSE since 1992.
- Shares participate in WSE indices: WIG, WIG20, and WIG Banks; shares also participate in indices WIG 20 short, WIG 20 lev, WIG PL and since February 2011 in Respect Index.

The share capital increased mainly as a result of the issue of 12,371,200 new shares in H1 2010. The shareholding structure after the new shares issue was as follows:
- Commerzbank – 69.8%,
- Polish pension funds – 15.6%,
- Foreign investment funds – 7.1%,
- Polish investment funds – 5,5%,
- Individual investors – 1.4% ,
- Foreign pension funds – 0.6%.

Domestic investors (including individual investors) held 22.5% of shares and 75.0% of the free float shares.

After the issue of the new shares in H1 2010, the share capital increased further to PLN 168,346,696, i.e., by PLN 98,368. This was a result of two issues of shares under a stock option scheme. They were issued under a contingent increase of the Bank's share capital pursuant to Resolution No. 21 of the 21st Ordinary General Meeting of the Bank on 14 March 2008 concerning an issue of bonds with the pre-emptive right to acquire shares of the company BRE Bank SA and a contingent increase of the share capital through an issue of shares excluding the subscription right of the existing shareholders in order to enable participants of the incentive scheme to acquire BRE Bank SA shares and concerning seeking the admission of the shares to trading on the regulated market and dematerialization of the shares.

The first tranche of 15,695 shares was registered by the National Depository for Securities (KDPW) on 5 August 2010, the second tranche of 8,897 shares was registered on 20 December 2010.

IV.2. Commerzbank AG – Majority Shareholder of BRE Bank

BRE Bank has a strategic shareholder: Commerzbank AG, which has been BRE Bank's major shareholder for many years – initially directly, and currently through a 100% subsidiary, Commerzbank Auslandsbanken Holding AG. The stake of Commerzbank has been gradually rising, from 21% in 1995 through 50% in 2000, to the level of 72.16% in 2003.

As of 2005, the stake has been reduced slightly due to the execution of a management options scheme at BRE Bank. Commerzbank Auslandsbanken Holding AG held 69.74% of BRE Bank shares and votes at 31 December 2010.

Commerzbank (CB) is the second largest private German bank, with an extensive network of branches in Germany and Europe. Its merger with Dresdner Bank AG was completed in 2009. It was one of the largest acquisitions in the history of the German banking sector. Since 2009, the German State is the largest shareholder of Commerzbank: it holds 25% of shares plus one share, which is a stake sufficient to block key decisions of the General Meeting and other authorities of the bank.

These ownership changes of Commerzbank did not impact its equity investment in BRE Bank SA. BRE Bank Group remains the strongest affiliation of Commerzbank in Central and Eastern Europe. According to declarations by the Commerzbank Management Board, there are currently no plans to change this.

IV.3. Areas of Co-operation with Commerzbank

Under a strategic agreement signed in 1994, BRE Bank has received several capital injections, the last of which in 2010 totalled ca. PLN 1.4 billion as Commerzbank acquired ca. 70% of new issue shares. BRE Bank has received subordinated loans in CHF totalling CHF 950 million. These were equivalent to ca. PLN 3 billion at the end of 2010 as compared to PLN 2.6 billion at the end of 2009 (YoY increase solely due to fx effects). In addition, the Bank used CB borrowings, which stood at PLN 19.4 billion at the end of 2010 compared to PLN 16.6 billion at the end of 2009.

On 22 February 2011 BRE Bank Group was informed by Commerzbank that in view of BRE Bank Group's sustainable core capital and earnings strength and in accordance with international standards, the existing letters of comfort issued to BRE Bank and its subsidiaries BRE Bank Hipoteczny and BRE Leasing would expire by the end of March 2011. In the information delivered to BRE Bank Group, Commerzbank AG confirmed that BRE Bank is a strategic core investment of Commerzbank Group in its second home market Central and Eastern Europe, and together with its subsidiaries part of the funding pool of Commerzbank Group.

A technical co-operation agreement gives BRE Bank access to the network of CB and its correspondent banks around the world. In addition, CB offers its know-how to BRE Bank, enabling co-operation in many areas under separate agreements. The key areas include:

1) Risk controlling, including:
   - market risk and liquidity risk measurement methods;
   - operational risk monitoring methods;
   - corporate client rating system;
   - credit process optimisation, credit risk monitoring;
   - harmonisation with Basel II requirements.

In particular, the Bank uses the know-how of Commerzbank experts in a current project implementing statistical methods of calculation of regulatory capital requirements for credit risk (AIRB). While decisions on credit risk, market risk and liquidity risk are made by BRE Bank, risk management methodologies are systematically agreed with CB.

2) Co-operation in serving international clients, including Commerzbank clients.
3) Compliance and money laundering prevention.
4) Co-operation in logistics and IT.
5) BRE Bank's use of CB's bank rating.
6) Shared reporting system in accounting and controlling.

BRE Bank also participates in the CB Group multi-year-planning system.

IV.4. BRE Bank's Share Price on the WSE

The performance of BRE Bank shares in 2010, particularly in mid-May, was significantly impacted by the issue of shares with pre-emptive rights.

If a company listed on the WSE issues shares with pre-emptive rights whose issue price is lower than the current market price ex-rights, the market price of the shares is automatically adjusted for the theoretical ex-rights price (TERP). The shareholders have the right to buy shares at a lower price; this right is priced and excluded from the price of the shares on the first day of trading in the shares ex-rights. The procedure of pricing the pre-emptive rights and adjusting the reference price of shares of the company which issues the pre-emptive rights is set out in detail in the official WSE document "Detailed Exchange Trading Rules".

The last day of trading when the acquisition of BRE Bank's existing shares enabled the buyer to acquire pre-emptive rights was 13 May 2010. BRE Bank's share price was PLN 266 at the closing on that day. According to the formula set out in the above-mentioned

document, BRE Bank's pre-emptive right was priced at PLN 31.2. BRE Bank's reference share price on 14 May was determined on the basis of the closing price of 13 May as the theoretical ex-rights price set at PLN 234.8.
In order to ensure comparability of BRE's share price in the last year, the price of BRE Bank shares of 13 May 2010 in the chart below is adjusted with a ratio of 0.88275 calculated as follows: TERP of 13 May 2010 (PLN 234.82) to the closing price of 13 May 2010 (PLN 266).

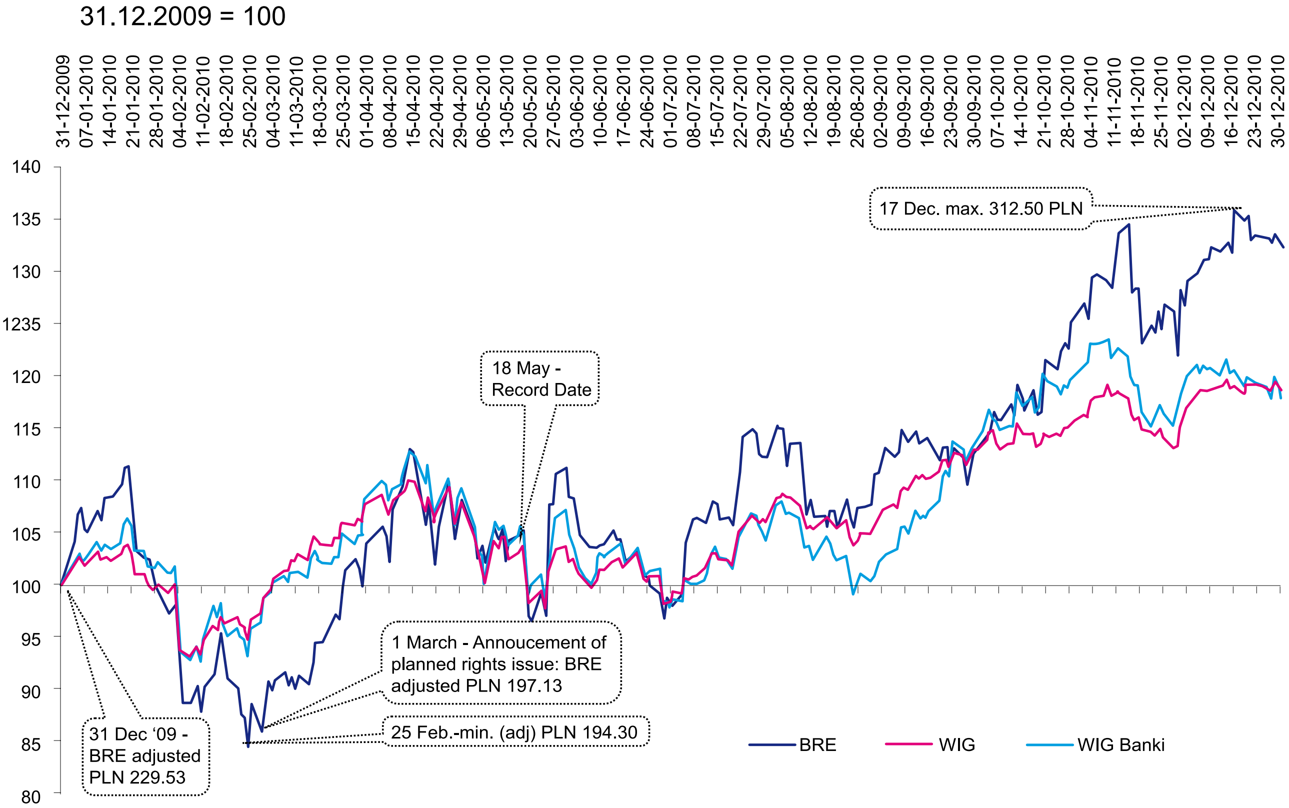
The closing price of 31 December 2010 was PLN **304.9**, which was 32.5% more than TERP of 31 December 2009 (TERP PLN **229.53**). Over that period, the WSE indices performed as follows: WIG up by 18.8%, WIG20 up by 14.9%, WIG-Banks up by 17.8%.

BRE Bank's market capitalisation reached PLN **12.8** billion (EUR 3.2 billion) at 31 December 2010 compared to PLN 7.7 billion (EUR 1.9 billion) at the end of 2009.

The maximum BRE share price was PLN **312.5** on 17 December and the minimum price was PLN 194.3 on 25 February (TERP).

The average daily value of trading in BRE Bank shares was PLN 11.2 million in 2010, increasing from 2009 (PLN 10.9 million).

BRE Bank Share Price in 2010 v. WIG and WIG-Bank Indices

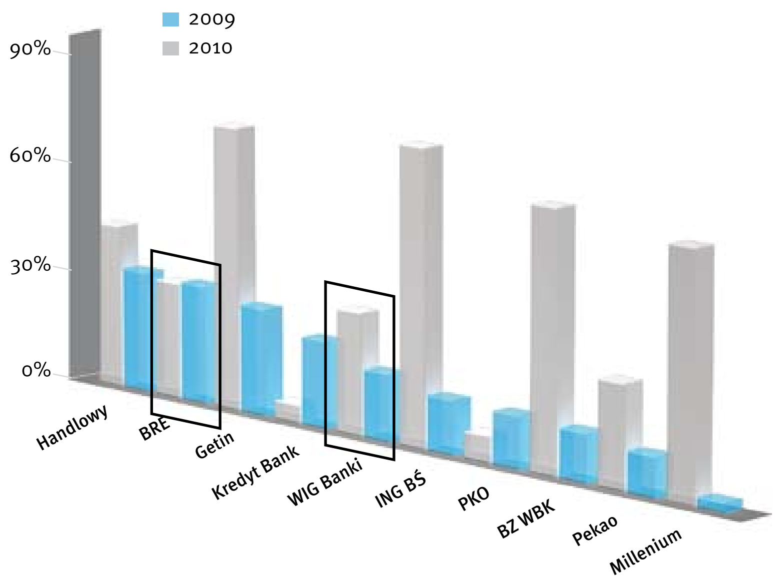


P/BV (price to book value) was 1.9 at 31 December 2010 v. 1.7 at 2009 year-end. P/E (price to earnings) was 17.4 v. 52.9 in 2009. The 2009 ratios are based on TERP of PLN 229.53.

IV.5. Return Rate and Dividend Policy

The chart below presents the return rate on BRE Bank shares in 2009 and 2010. BRE shares provided returns of 32.4% in 2010, second only to the return of 33.6% on Citi Bank Handlowy shares.

Return on BRE Bank shares versus other banks



The table below presents the history of BRE Bank's dividend payouts. The Management Board and the Supervisory Board will recommend no dividend payout for 2010 to the General Meeting of Shareholders.

Dividend year	Dividend per share (PLN)	Total dividend (PLN M)	Dividend as % of stand-alone profit
1996	3.00	43.5	38
1997	3.00	46.6	32
1998	3.00	68.4	33
1999	8.00	182.4	27
2000	5.00	114.9	32
2001	10.00	230.0	68
2002-2009	No dividend		

V. Rating of BRE Bank and Group Subsidiaries

V.1. Fitch Rating

At the end of December 2010, BRE Bank's Fitch ratings were as follows:
- long-term rating A (third best rating on an 11-grade scale);
- short-term rating F1 (top rating on a 7-grade scale);
- individual rating C/D (sixth best rating on a 9-grade scale);
- support rating 1 (top rating on a 5-grade scale);
- long-term rating outlook for BRE Bank – stable.

Fitch affirmed the ratings on 2 July 2010.
BRE Leasing also holds Fitch ratings: long-term rating A, short-term rating F1, support rating 1.

V.2. Moody's Investors Service Rating

At the end of December 2010, BRE Bank's ratings were as follows:
- long-term deposits rating Baa1 (eight best on a 21-grade scale), outlook stable;
- short-term deposits rating P-2 (second best rating on a 4-grade scale);
- financial strength rating D (A to E scale), outlook stable.

Moody's affirmed the ratings in 2010.
The following subsidiaries of BRE Bank also had Moody's ratings as at the end of December 2010:
- BRE Bank Hipoteczny S.A. – long-term deposits rating Baa3, short-term deposits rating P-3, financial strength rating E+, outlook stable. In addition, BBH issued mortgage bonds had the following ratings:
  - Baa1 – public mortgage bonds offered publicly.
  - Baa2 – mortgage bonds offered publicly.
- Intermarket Bank AG: long-term deposits rating Baa 2, short-term deposits rating P-2, financial strength rating D+.

In addition to the ratings granted by these two agencies, BRE Bank also holds a BBBpi rating from Standard & Poor's (prepared on the basis of publicly available information), the fourth grade on a scale of 8.

VI. BRE Bank Group in the Financial Services Market in 2010

BRE Bank is a leading Polish bank in terms of assets and equity. At the end of 2010, BRE Bank was the third largest bank listed on the Warsaw Stock Exchange by assets and by the portfolio of loans and advances to non-financial clients and the public sector as well as the fourth largest by deposits and amounts due to clients (consolidated figures).

Most of the Group subsidiaries also rank high in their sectors of the financial services market. The table below presents the market share and the position of the Bank and selected subsidiaries at the end of 2010 compared to 2008 and 2009:

Business category	Market position in 2010*	Share		
Corporate Banking		**2010**	**2009**	**2008**
Corporate loans	4	6.2%	6.4%	6.4%
Corporate deposits	3	8.6%	8.9%	9.1%
Leasing	3	7.1%	8.1%	10.3%
Factoring				
Poland	5	8.0%	13.8%	10.5%
Austria	1	43.0%	49.3%	57.0%
Hungary	3	11.4%	10.6%	14.3%
Czech Republic	3	13.4%	12.9%	16.0%
Retail Banking (mBank+MultiBank)				
Total loans		6.5%	6.4%	6.7%
of which mortgage loans	2	8.7%	10.0%	11.1%
Non-mortgage	8	3.6%	3.2%	
Deposits	7	4.8%	5.3%	5.4%
Investment Banking				
Financial markets				
Treasury bills and bonds		5.7%	4.7%	13.6%
IRS/FRA		19.0%	19.5%	22.9%
FX spot and forward		5.2%	5.9%	6.2%
Non-Treasury securities (outstanding debt)				
Short-term debt securities	4	14.6%	24.7%	12.0%
Corporate bonds	2	18.1%	22.2%	19.0%
Bank debt securities	1	22.5%	24.4%	27.0%
Brokerage				
Equities trading	8	5.4%	6.9%	5.4%
Bonds trading	4	5.5%	6.5%	5.3%
Derivative transactions	2	14.2%	15.0%	11.8%
Options	1	21.8%	32.6%	28.5%

Source: Own calculations based on data from BRE Bank, NBP, WSE, Fitch Polska, Polish Association of Leasing Companies, press reports.

*/ where determinable

VII. Corporates & Financial Markets Development in 2010

VII.1. Corporates and Institutions (BRE Bank)

In 2010 the Corporates and Institutions area showed a positive development. It achieved double-digit growth of income, acquired more than 2.2 thousand new target clients (up by 24.4% v. 2009) and effectively implemented the strategy of growth in the public sector market, reaching a market share of more than 4% in financing of local governments.

In terms of strategic product lines, multiple product innovations supporting the development of transactional banking were created and introduced. The income generated on Cash Management grew by more than 10% YoY. The income on structured finance and mezzanine products increased by more than 13% YoY.

VII.1.1. Corporate Clients (BRE Bank)

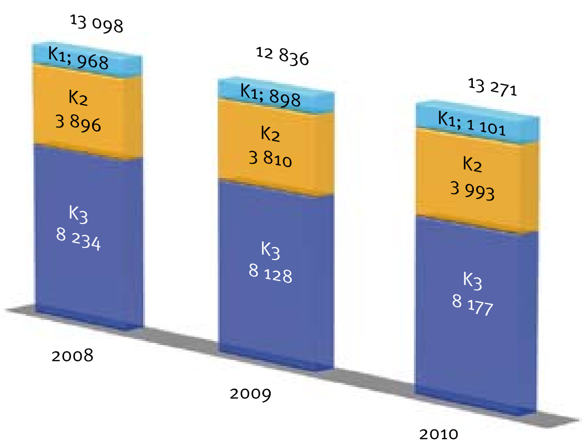
Corporate clients are an important group in terms of generated income. At the end of 2010, the number of corporate customers totalled 13.3 thousand, up by 435 companies net as compared to 2009.

In order to ensure better services and increased cost-effectiveness, clients are assigned to three segments:

- K1 is the segment of the largest corporations with annual sales over PLN 500 million,
- K2 is the segment of medium-sized companies with annual sales between PLN 30 and 500 million,
- K3 is the segment of small and mid-size enterprises with sales from PLN 3 to 30 million.

Each client segment is offered the products tailored to their needs and expectations while the form of service is dedicated, depending on: the complexity of needs, the level of expectations and requirements towards the Bank, as well as the degree of expertise and skills necessary for this service.

BRE Bank Corporate Clients



Such client segmentation allows for a better use of the potential inherent in all the segments. Intensified cross-selling (by offering the entire Group's products) will bear fruits in the form of more dynamic co-operation and higher profitability of the different client segments. CRM system, having already been applied for several years, is of much help in this regard. The system ensures comprehensive analyses of the corporate client potential and needs regarding banking products and services, and allows for better planning and monitoring of selling activities.

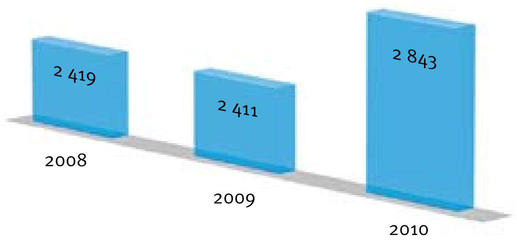
BRE Bank's Corporate deposits and loans are presented in chapter X.2 "Consolidated Statement of Financial Position".

VII.1.2. Development of Transactional Banking

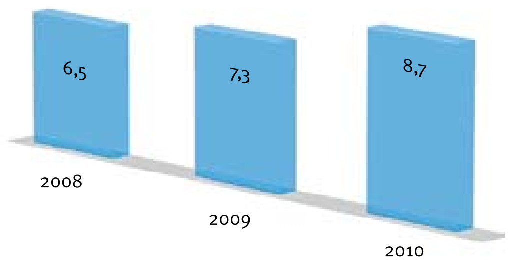
Achievements in client acquisition and product sales are demonstrated mainly by growth of volumes of products used by clients as well as growth of the number of products implemented:

- the average monthly number of domestic payments by the Bank's corporate clients grew by 48% in 2010 and reached almost 2.3 transactions per month on average. The number of transactions in December was more than 3 million. No less than 99.2% of payments were electronic transfers, and close to 73% of electronic transfers were processed automatically via interfaces between clients' ERP, financial, accounting and HR systems and the Bank's systems;
- the average monthly number of foreign payments grew by 13%, mainly due to growing use of SEPA transfers (their number grew by almost 100% YoY);
- the average monthly volume of corporate clients' cash transactions grew by 15% YoY;
- the number of issued payment cards grew by 144% YoY, mainly thanks to prepaid cards added to the product offer in 2009 (the number of prepaid cards grew by 539%);
- the volume of payments automatically identified in the BRE Collect service grew by 20%. BRE Bank processes almost 9 million transactions monthly credited to corporate clients in all automatic payment identification services;
- the number of iBRE online platform users grew by 16.7% in 2010 to over 50 thousand;
- the average monthly number of BRE Direct Debits of BRE Bank's corporate clients grew by 18%;
- the new product BRE Mass Payments used mainly for mass payroll payments grew very dynamically (number of transactions up by 127% YoY).

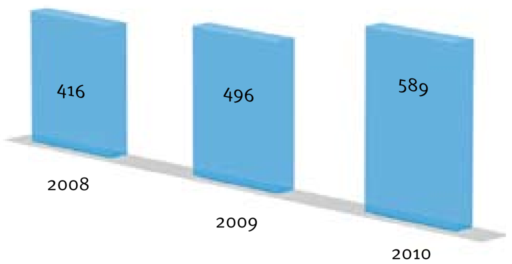
Direct debit
(ths. transactions)



Mass payments identification
(M transactions)



Customers using Cash Pooling and Shared Balances services



VII.1.3. Offer Development

The range of products on offer was largely extended in 2010. The main changes included new and modified transactional banking products. The modular concept of the iBRE Internet Banking Platform continued to develop thanks to the following new features and innovations:

- **iBRE FX** – an internet foreign exchange platform: it supports on-line fx transactions as an additional channel of access to financial markets. The platform supports quick and effective foreign exchange transactions at the best exchange rate currently quoted on the interbank market. The Info FX tab is a new and unique solution: it tracks current exchange rates of different currency pairs, thus enabling the optimum currency buy or sell decisions,
- **iBRE 2.0** – new version of the internet banking platform. The development of the internet platform focused on improvement of the system's user-friendliness and the addition of functionalities facilitating communication between clients and the Bank. iBRE 2.0 has a new layout and many new functionalities including the communication module, an interactive calendar, a notification system, and multiple languages (iBRE Trade),
- **iBRE Client Area** – new iBRE module which supports communication and establishing of relations between clients and the Bank. Platform users receive a special interface to communicate with dedicated Bank experts and access individualised information,
- **BRE Płace** – service generating mass payroll lists. iBRE allows users to select accounts to be debited with payments and with costs of correspondent banks. This self-service function is user-friendly and protects confidential transactions,
- **BRE Mass Payment Plus** – service generating mass payments. It was developed for entities which offer the simplest form of financial service: accepting payment orders of private individuals and microenterprises and transferring them to a third party. BRE Mass Payment Plus is only available on the iBRE platform. The offer is addressed to companies registered as new Payment Institutions under the new Payment Services Act,
- **Escrow account** – a special bank account for settlements under an Escrow Agreement between the bank's client (usually the payment beneficiary) and a payer. Funds in an escrow account are subject to special legal protection under § 59 of the Banking Act,
- **Prepaid cards** – this electronic payment instrument was introduced in late 2009 to be developed and distributed on a mass scale to clients and their contractors (final users / beneficiaries). Three kinds of prepaid cards (VISA Business Prepaid, VISA Profit Prepaid and VISA Bonus Prepaid) support cash and non-cash (also online) transactions,
- **Electronic money** – following the launch of prepaid cards, the Bank concluded the first electronic money agreement in 2011. BRE Bank is Poland's second bank to issue electronic money.

VII.1.4. Structured Finance, Syndicated Loans and Mezzanine Finance

This area of the Bank's Corporate Banking business includes M&A finance, project finance, syndicated loans and mezzanine finance. The Bank was a major player on the syndications market and participated in 15 syndicated loans, ranking second in the market at the end of 2010. At 31 December 2010 the portfolio stood at PLN 2.8 billion versus PLN 2.9 billion a year ago.

The Bank has a strong market presence in other segments as well, including mezzanine finance, which was curbed due to market restrictions and clients' preference for other, low-risk transactions. As the market conditions declined, several deals were restructured.

The recent crisis on the financial markets forced banks to change their approach to financing large projects. The current market conditions determine club deals. The syndicated loans segment is growing dynamically. The market of syndicated loans with underwriting is also strong. Here, the bank arranges financing and selects other interested banks on the secondary market, as in financing the construction project of the Wrocław Stadium arranged by BRE.

VII.1.5. Corporate Banking Network

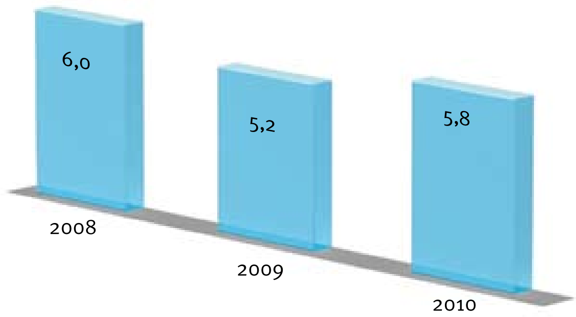
BRE Bank serves its corporate clients through the network of 24 branches and 21 Corporate Offices located in the main Polish cities. In these units, services are also rendered to Private Banking clients.

VII.2. Corporates & Institutions Subsidiaries

VII.2.1. Intermarket Group

Intermarket Group includes Intermarket Bank AG (Austria), Polfactor SA (Poland), Transfinance a.s. (Czech Republic), Magyar Factor zRt. (Hungary), Transfactor Slovakia a.s. (Slovakia) and S-Factoring d.d. (Slovenia) and provides factoring services in six countries in Central and Eastern Europe.

Total Sales of Intermarket Group Companies
(EUR B)



After a decline in 2009, Intermarket Group sales grew by 11% YoY in 2010 and reached EUR 5.8 billion. The highest growth was reported by the Hungarian subsidiary (ca. 29%) and the Czech subsidiary (15%). The two largest subsidiaries of the group reported growth under 10% (Austrian subsidiary 9.5%, Polish subsidiary 8.0%).

VII.2.2. Polfactor SA

The factoring market in Poland was back on track of growth in 2010. Polfactor reported growth of sales by 8.0% YoY to PLN 4.5 billion. The company's sales have been growing steadily for eight years. Polfactor was the fifth biggest factor in the Polish Factors Association with a market share of 7.98%. Polfactor went down in the ranking as Raiffeisen Bank Polska S.A. joined the Association as the ranking leader. Factoring with recourse remained Polfactor's leading product.

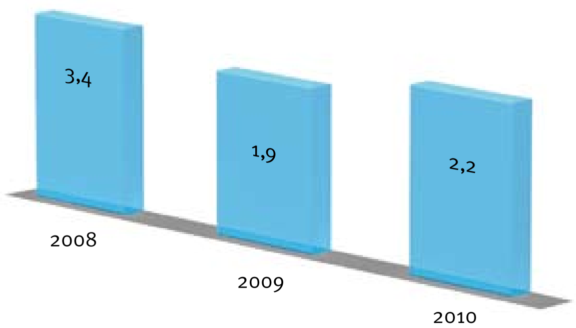
Polfactor's profit before tax grew by 86% YoY (from PLN 6.5 million in 2009 to PLN 12.0 million in 2010) owing to lower write-offs for factoring receivables.

The company was nominated in the "Best SME Factoring Offer" category in the Polish Economic Drivers competition organised by the financial newspaper Gazeta Finansowa for the second consecutive year (first nomination in 2009) in recognition of the high quality of the factoring offer of the company, which last June celebrated its 15th anniversary.

VII.2.3. BRE Leasing Sp. z o.o.

Leasing contracts executed by BRE Leasing in 2010 totalled PLN 2,167 million (up by 15.7% YoY).

BRE Leasing Contracts by value
(PLN B)



In 2010, BRE Leasing continued to co-operate with BRE Bank's Retail Banking in sales of leasing products to microenterprise customers of mBank and MultiBank.

The profit before tax of BRE Leasing was PLN 44.1 million in 2010, 7 times higher versus 2009.

The growth was a result of a strong decrease in loan loss provisions which stood at PLN 32.0 million in 2010 and were much lower than a year earlier (PLN 104.5 million in 2009). Also, improved conditions on the leasing market could be observed in 2010.It should be noted, that BRE Leasing is currently running a project in order to implement the AIRB approach. BRE Leasing worked more closely with the Bank on cross-selling to the Bank's clients and vice versa.

A block of 49.9% shares of BRE Leasing was acquired by BRE Holding Sp. z o.o. (100% subsidiary of BRE Bank) from Commerz Real AG (100% subsidiary of Commerzbank AG) at the turn of January and February 2011. As a result, BRE Leasing is 100% owned by BRE Bank.

VII.2.4. BRE Holding Sp. z o.o.

BRE Holding Sp. z o.o. was established in November 2007 by BRE Bank as the sole partner. The company's assets include shares in the companies BRE Bank Hipoteczny SA, Polfactor SA and BRE Leasing Sp. z o.o., whose total value was PLN 185 million, contributed in kind to the company by BRE Bank in February 2008, as well as shares of BRE.locum S.A., contributed in kind to the company by BRE Bank in October 2010.

The contribution in kind of BRE.locum shares, which represent 79.99% of the company's share capital, to BRE Holding in 2010 was worth PLN 90.7 million.

In 2010, the main source of the company's income were dividends received from Polfactor SA totalling PLN 875 thousand.

VII.2.5. BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (BRE Gold FIZAN)

BRE Gold FIZAN is a closed-ended investment fund of non-public assets. All certificates issued by it were acquired by BRE Bank SA. In H1 2010, following several adjustments of the valuation of all investment certificates, their value changed to PLN 242.4 million at 31 December 2010.

The profit before tax of the company was PLN 19,786 thousand in 2010.

VII.2.6. Garbary Sp. z o.o.

The company is part of the Bank's portfolio since May 2004 following the restructuring of the Bank's investment in the debt securities of Tele-Tech Investment Sp. z o.o. Garbary's only asset is a piece of land with buildings at 101/111 Garbary St., Poznań, including a meat plant (not in use) subject to protection as historical monument.
Due to on-going litigation and existing collateral, the company Garbary cannot sell or encumber the property.

VII.3. Trading and Investments

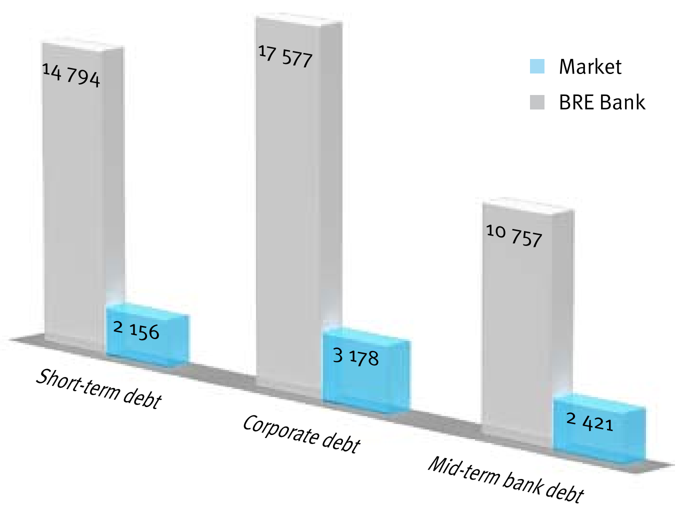
Trading and Investments activity includes:

- Managing the Bank's liquidity as well as its assets and liabilities (including deposits and advances portfolio interest risk management). For the purpose of managing the Bank's liquidity, a number of transactions are being made, including money market transactions, currency swaps, interest rate derivatives, treasury bonds, treasury bills and NBP bills purchase transactions, as well as repo transactions. These activities are executed by the Treasury Department;
- Managing the Bank's currency risk, trading in fx instruments on the interbank market (spot transactions and derivatives), trading in interest rate instruments (treasury bonds and treasury bills, interest rate derivatives), derivatives on commodities, shares listed on the regulated market and derivatives on shares and stock exchange indices;
- Organising the issue of debt securities for corporate clients and banks, as well as trade in and sales of these securities;
- Direct sales of financial market products to corporate banking clients and non-banking financial institutions (such as e.g. insurance companies, pension and investment funds and companies managing assets) and selected private banking clients.

In 2010, on the market of treasury bonds and interest rate derivatives the Bank was ranked as one of the leading banks keeping its bonds and bills market share at the level of 6 per cent and 19 per cent on the IRS/FRA market. Year 2010 reported record issue (PLN 2.4 billion) of mid-term securities, out of which PLN 1.08 billion corporate bonds, PLN 0.78 billion bank bonds and PLN 0.55 billion municipal bonds. Among the largest issuers of mid-term debt securities is the City of Warsaw, NFI Empik, Echo Investment, Polnord, Arctic Paper, Tauron, Magellan, BOŚ Bank, BRE Bank Hipoteczny. The Bank was ranked second on the market of mid-term securities of corporates with 18.1 per cent market share.
On the bank bonds market (excluding BGK bonds) the Bank was a leader, with 22.5 per cent market share.

At the end of 2010, the value of issued short-term debt securities reached about PLN 2.2 billion. The Bank's market share decreased to 14.6 per cent (4th position) mainly due to the fact that a large issue of Polish Energy Group's shares appeared on the market, in which the Bank did not participate.

BRE Bank in the Market of Non-Treasury Debt
at 31.12.2010 (PLN M)



A number of initiatives aimed at increasing the volume of fx transactions have been implemented, focusing mainly on acquiring new clients through Corporate Banking.

Since March 2010, we offer to our corporate clients the iBREFX foreign exchange platform, fully integrated with the iBRE functionality. It allows clients to conduct electronic spot and forward fx transactions at attractive rates, and as in the case of negotiations, it allows simultaneous contact and the possibility of entering into a transaction with a dealer, in the case when such a need arises.

The volume of spot fx transactions with clients (including non-banking financial institutions) went up by about 26 per cent last year, and the Bank's market share in such transactions was above 10 per cent.

VII.3.1. Financial Institutions

Trading & Investments currently covers relations with financial institutions (until Q2 2010 under Corporates & Institutions) which include funding from other banks and placements with other banks.

The number of correspondent banks with which BRE Bank has exchanged swift keys was 1,622 at the end of 2010, up by 23 YoY. At the end of 2010, the Bank had 35 nostro accounts and 114 loro accounts in PLN. In addition to PLN accounts, the Bank operates 8 accounts of other banks in other currencies.

At 31.12.2010, the Bank had 23 active borrowings totalling the equivalent of PLN 22,964 million, of which PLN 21,655 million were drawn. In 2010, the Bank repaid one loan in EUR and made an early repayment of part of a loan in CHF, totalling the equivalent of PLN 1,464 million. At the same time, the Bank took 4 new loans: two in US$, one in CHF and one in EUR, and extended 7 tranches of loans in CHF, totalling the equivalent of PLN 16,432 million. The net borrowings drawn were up by PLN 3,279 million YoY. More than one-fourth of the increase was due to fx differences.

Furthermore, the Bank managed to maintain its leading position in export financing (medium term KUKE – insured loans) and to further develop its relations in trade finance with correspondents, especially from Russia and Belarus. Additionally, its successfully completed the restructuring of our Kazakh exposure recovering 100% of it.

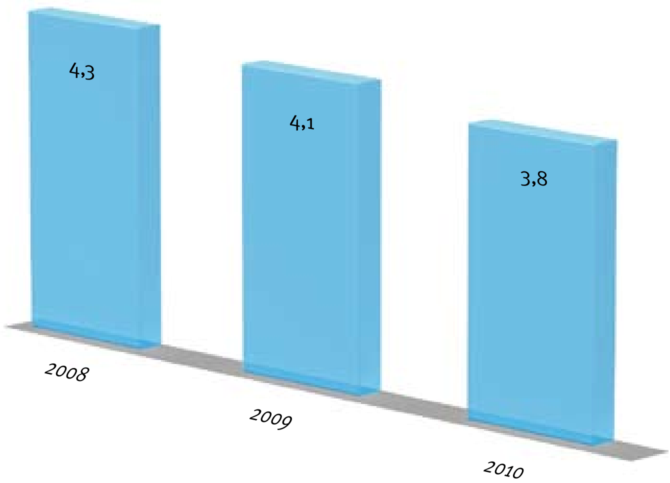
BRE Bank's exposure under loans granted to other banks at 31.12.2010 totalled the equivalent of PLN 1,051 million. The Bank's portfolio included 51 active short-term and long-term loans granted to other banks. In 2010, the Bank signed 33 new credit agreements totalling the equivalent of PLN 920 million.

VII.4. Trading & Investments Subsidiaries

VII.4.1. BRE Bank Hipoteczny SA (BBH)

BBH's gross credit portfolio stood at PLN **3.8 billion** at the end of 2010, down by 7% YoY. BBH's outstanding mortgage bonds stood at PLN 1,910 million at the end of 2010, including PLN 550 million of mortgage bonds issued in 2010.

BBH loan portfolio (book value)
(PLN B)



BBH regained its market presence in 2010 after the crisis and slow-down in the real estate sector affected BBH's growth rate of loans and increased its cost of funding and the credit risk in the sector.

After suspending lending in 2009, BBH resumed real estate financing in 2010 and was selling loans for commercial properties based on a more conservative approach to credit risk.

Despite prevailing difficult market conditions, BBH reported a profit before tax of PLN 37.8 million in 2010 (up by 16.4% YoY).

VII.4.2. Dom Inwestycyjny BRE Banku SA (DI BRE)

DI BRE participated in 17 capital market transactions in 2010, including the IPO of Tauron Polska, the public offering of BRE Bank shares, the privatisation of LW Bogdanka, the offer of Lotos Group shares, and issues of municipal bonds.

Competition of foreign brokers is strong. DI BRE's market share in stock trading was 5.4%, equivalent to the 8th market position in 2010. DI ranked fourth in bonds trading with a market share of 5.5%. DI's trading in futures contracts ensured a second position and a market share of 14,2%.

The number of securities accounts operated by DI BRE continued to grow and reached 283 thousand at 2010 year-end. As a result, DI BRE maintained the leader's position by the number of operated accounts.

DI BRE generated a profit before tax of over PLN 37 million in 2010 v. PLN 42 million in 2009 as a result of lower interest rates on deposits and lower income on equity instruments and market risk instruments.

VII.4.3. BRE Finance France SA

BRE Finance France whose core business included raising funds for BRE Bank in international markets through issues of euronotes. In December 2009, the company redeemed the last outstanding tranche of a Euro Note Issue Programme. The company did not issue debt in 2010.

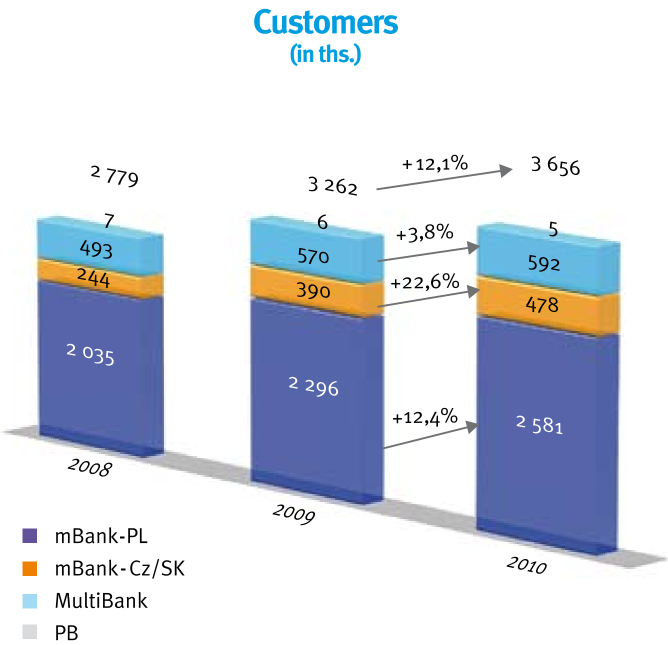
VIII. Retail Banking Development in 2010

VIII.1. Retail Banking Development in BRE Bank

The Retail Banking business model is based on a multi-brand (mBank in Poland, the Czech Republic and Slovakia; MultiBank; BRE Private Banking) and multi-channel strategy with an integrated internet platform used by the Bank to offer a broad range of products and services. The model allows to provide different customer groups with services tailored to their needs. Thanks to this modern retail business model, the number of customers is growing dynamically.

The Bank maintains current accounts for individuals, savings accounts, time deposits, structured deposits, and offers investment products, credit cards and debit cards, settles funds, performs operations in promissory notes, cheques, issues guarantees, and grants mortgage loans and consumer loans. The product mix also includes online brokerage services and insurance products. The e-commerce platform and mBank mobile – an independent virtual mobile operator – complement the offer.

VIII.1.1. Dynamic growth of Customer Base



At the end of 2010, there were almost 3.7 million Retail Banking clients, 394 thousand more as compared to December 2009 (+12.1%). This means that on average 32.8 thousand clients were acquired monthly. This dynamic growth was achieved as a result of modern and renowned internet banking services and innovative, attractive product and services offering.

Clients served in Poland include not only individuals but also microenterprises. At the end of December 2010, there were 389.7 thousand of microenterprises (of which 292.1 thousand in mBank). Since the beginning of 2010, the number has increased by 33.6 thousand (+9.4%).

Most of retail customers are clients of online **mBank**, which celebrated its 10th anniversary in 2010. By this time, it has become the largest internet bank and the third largest retail bank in Poland in terms of client base.

mBank clients are young, well educated and self-directed individuals. At the same time, 78% of them are over 26 years old, which means that they are adults with income and hence able to invest or take loans and use other banking services. The Bank is continuing to focus on acquiring this type of clients. Simultaneously, the Bank will adjust the offer to the existing clients needs in line with their growing affluence in order to be and remain the "bank for life" .

On average, the 592 thousand clients of **MultiBank** are more affluent clients, seeking high quality, seamless and personalized service. Aquarius Club is dedicated to more affluent clients' exclusive services.

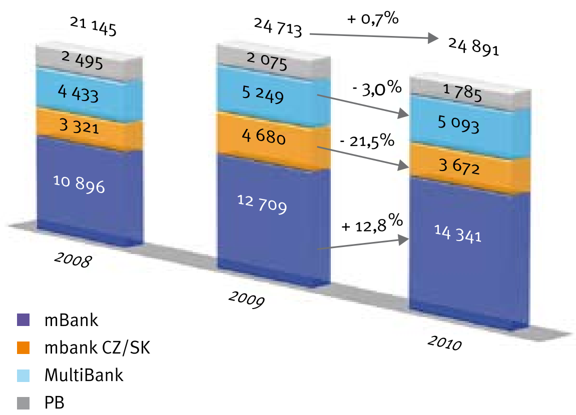
BRE's Retail Banking also services the wealthiest persons – **Private Banking** clients. Their total number amounts to approx. 5 thousand. The subsidiary - BRE Wealth Management offers a wide range of investment products and strategies to such wealthiest persons.

It can be noted, that the client base of BRE Retail Banking is characterized by a very good quality in terms of the demographic and material status structure. These are clients with a high income potential for their banking partner of choice. The targeted growth of Bank's income will be achieved by its intensified activity in creating client-friendly solutions, both in the offer development and in the services provided. The Bank's modern distribution channels constitute an excellent platform for delivering such solutions.

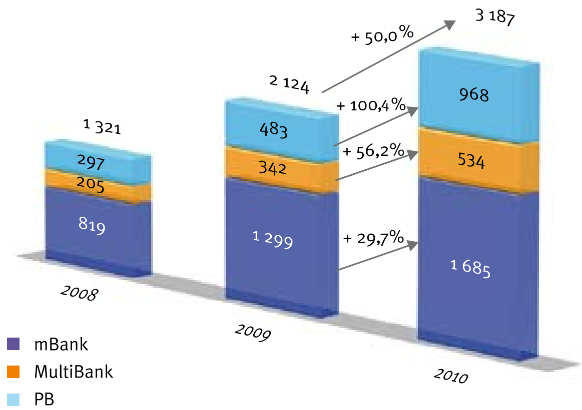
VIII.1.2. Deposits and Investment Funds

mBank and MultiBank offer a broad range of accounts and deposits. Customers may also buy participation units of local and foreign investment funds.
Assets of Retail Banking customers amounted to PLN 28.1 billion at the end of December 2010, including PLN 24.9 billion in bank accounts and deposits and PLN 3.2 billion in investment funds. Deposits grew slightly (by PLN 0.2 billion or +0.7%) YoY.
Deposits of mBank in Poland grew dynamically, up by 12.8% YoY. Deposits of mBank in the Czech Republic and Slovakia (down by 21.5% YoY) and the deposits of MultiBank (down by 3.0% YoY) decreased as a result of adjustments in the Bank's pricing policy.

Deposits
(PLN M)



Investment Funds
(PLN M)



Assets in investment funds grew by PLN 1,063 million (+50.0% YoY) thanks to considerable improvement on the capital markets and an extended offering of funds. Private Banking customers showed particularly strong interest in investment funds as their assets invested in fund participation units grew by 100% YoY.

VIII.1.3. Loans

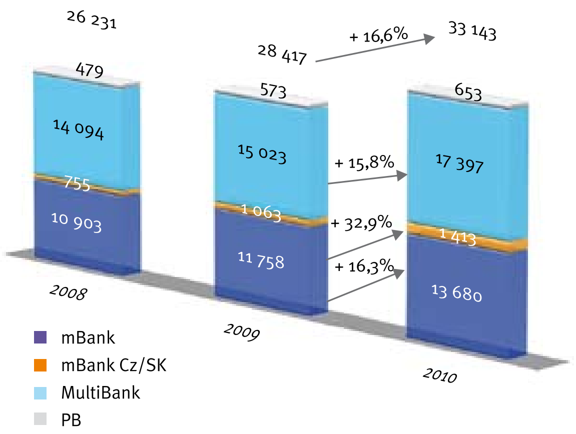
Balance-sheet loans granted by Retail Banking in Poland amounted to PLN 31.7 billion at the end of 2010, including PLN 13.7 billion granted to mBank customers and PLN 17.4 billion granted to MultiBank customers. The borrowers included private individuals as well as microenterprises, whose loans totalled PLN 2.9 billion (mainly in MultiBank: PLN 2 billion). The loan portfolio of Private Banking customers reached PLN 653 million. In addition, loans granted to mBank customers in the Czech Republic and Slovakia amounted to the equivalent of PLN 1.4 billion.

Total loans granted to Retail Banking customers amounted to PLN 33.1 billion, up by 16.6% YoY. However, it should be noted that fx loans, in particular CHF mortgage loans, represent a large part of the portfolio. Consequently, the growth rate was strongly driven by fx rates, in particular the appreciation of CHF against PLN. Net of the fx effect, the loan portfolio grew by ca. 7% YoY. Balance-sheet loans grew by almost PLN 4.7 billion YoY, in particular MultiBank's loans (up by PLN 2.4 billion) and mBank's loans in Poland (up by PLN 1.9 billion).

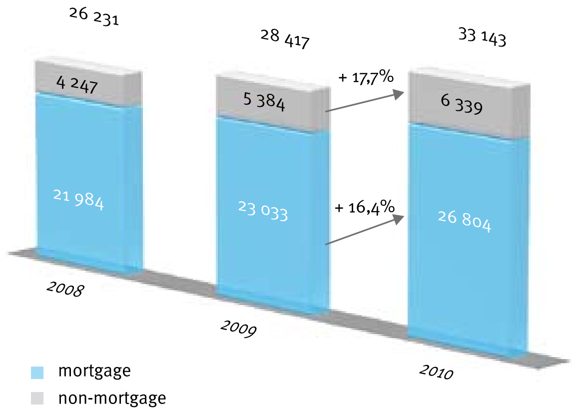
The loan portfolio in the Czech Republic and Slovakia grew by PLN 350 million and the Private Banking loan portfolio by PLN 80 million.
The structure of the loan portfolio in Poland at the end of December 2010 was as follows:

- mBank: 78.8% mortgage loans, 7.1% cash loans, 6.1% credit lines, 4.9% credit cards, 3.1% other;
- MultiBank: 82.9% mortgage loans, 5.5% credit lines, 2.1% cash loans, 1.6% credit cards, 7.9% other.

Loans
(PLN M)



Mortgage and non-mortgage loans
(PLN M)



The loan portfolio structure is dominated by **mortgage loans**, which accounted for 80.9% of all loans granted at the end of December 2010. The growth rate of mortgage loans amounted to 16.4% (+PLN 3.8 billion), also due to the depreciation of PLN against CHF.

The table below presents an overview of the mortgage loans portfolio at 31 December 2010 v. 31 December 2009 (only loans granted to private individuals in Poland).

Retail mortgage loans (Poland)	Total		PLN		FX	
	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010
Balance sheet value (PLN billion)	21,40	24,76	2,30	2,29	19,10	22,47
Average maturity (years)	23,12	22,75	20,20	20,00	23,55	23,14
Average value (PLN ths.)	251,67	278,32	208,34	206,28	258,14	288,59
Average LTV (w %)	79,97%	82%	56,65%	56%	83,46%	86%
NPL	0,52%	0,84%	1,80%	4,00%	0,37%	0,52%

The balance-sheet value of fx mortgage loans grew in 2010 by 17.6%. The percentage of non-performing loans (NPL) increased slightly; it is higher for PLN loans. The quality of the mortgage loans portfolio is declining as a result of the ageing of the portfolio.

In line with the Bank's strategy non-mortgage loans grew by PLN 955 million (+17.7%) YoY to PLN 6,339 million in 2010. These include cash loans, credit lines, credit cards, and consumer loans. According to the Bank's strategy published in March 2010, intensive sales of non-mortgage loans to the existing customer base should be a source of growing revenue in retail banking.

In 2010, the fastest growth was recorded by cash loans. Their dynamic development was connected with the Global Limit introduction in mBank (February 2010) and Multibank (July 2010). Clients' awareness of the possibility of a quick and easy access to Bank's loans increased sharply thanks to a new product offer that allows access to credit limits prepared for clients that have regular inflow on their accounts.

In mBank and Multibank, the volumes of "Cash Loans" for companies grew sharply as a result of introduced sales under guaranteed limits.

In 2010, the sale of non-mortgage loans both for microenterprises and individuals in 2010 was focused on the Bank's existing customers.

VIII.1.4. Cards

In 2010, the growth of credit card loans was mainly driven by an increase in the number of credit cards by 71.5 thousand in 2010 to 570.5 thousand cards at the end of December, including 394.4 thousand cards issued to mBank customers and 176.1 thousand cards issued to MultiBank customers.

The number of issued debit cards reached 3,024.8 thousand at the end of December 2010 (2,369.1 thousand in mBank, 655.7 thousand in MultiBank), up by 518.9 thousand YoY.

VIII.1.5. Development of Quasi-Banking Services

Brokerage and insurance services provided by Retail Banking are a big advantage to customers and a growing source of revenue for BRE Bank Group.

In the context of a recovery on the capital markets, the number of customers using brokerage services grew in 2010. In mBank, eBroker customers had 189 thousand securities accounts, up by 44 thousand YoY. In MultiBank, Brokerage Service customers had 31 thousand accounts (up by 11 thousand). Transactions in the accounts in 2010 represented 28.4% of all trading via DI BRE.

Insurance products (motor, travel, and real estate insurance) are sold via MultiBank's Insurance Centre and mBank's mInsurance module (including the very popular Car Insurance Supermarket). Insurance products are also sold by the subsidiary BRE Ubezpieczenia TUiR (see "Retail Banking Subsidiaries").

VIII.1.6. Offer Development

The development of the product offering continued in 2010. New and significantly modified products and sales support initiatives included:

MultiBank

- Global Limit – an individual credit limit for customers, determined on the basis of the customer's relationship history with the Bank. The Global Limit is known to the customer via the transaction system, where it can be accepted by the customer. It covers three products: credit line, credit card, and cash loan; the customer may choose the credit product from the Bank;
- Introduction of MultiBank housing loans with co-financing under a government programme for families;
- Launch of the MasterCard Debit AQ card and the MasterCard Gold credit card;
- Several new investment deposits and Allianz Platinium FIZ, a product developed by private banking;
- Unemployment insurance for mortgage loans;
- MultiBank apartments (in co-operation with BRE Property Partners) – as of June, MultiBank's wealthy clients may invest in exclusive property for rent;
- Commission-free use of all ATMs in Poland and globally as part of the Aquarius service;
- MultiBank joined the Partner Programme mBank.net.pl;
- Contactless credit card Visa n payWave;
- Safe Profit Strategy Policy – group life insurance and savings product;
- MultiBank Savings Centre offers Poland's first index fund Ipopema m-INDEKS FIO and funds of AgioFunds TFI S.A. and Quercus TFI S.A.;
- Online transfers between mBank and MultiBank;
- Medical service packages added to the insurance offer;
- MultiTransfer payments with MultiBank credit cards.

mBank in Poland

- Global Limit – an individual credit limit for customers, determined on the basis of the customer's relationship history, known to the customer via the transaction system, where it can be accepted by the customer. It covers three products: credit line, credit card, and cash loan; the customer may choose the credit product from the Bank;
- Cash loans for microenterprises;
- EUR car loans;
- Instalment loans under credit cards;
- BILIX service: invoice presentment and payment in the transaction system;
- SMS recharge – a mobile phone recharge service debited to mBank account by SMS;
- iPhone application;
- new mTransfer functionalities: credit card transfers, mTransfer cash loans;
- Online transfers between mBank and MultiBank;
- Express transfers – fast transfers between mBank and other banks in Poland;
- Contact card MasterCard Debit for eKonto and contactless debit card Visa Electron PayWave;
- New insurance product – 24h medical service package of professional health care in a chain of over 700 centres in Poland;
- New eKonto products: Assistance Auto 24h, Dom24h and Opieka24h insurance packages.

mBank abroad

- In Slovakia, mBank launched mFondy (a counterpart to the Investment Funds Supermarket) and SEPA transfers.
- New product added to the offering: modified mortgage loans Hipoteka Light (early payment fee and no balancing account but more attractive prices of the product).
- Cash loans offered in the Czech Republic under a pre-assigned limit known to the customer via the transaction system, where it can be accepted by the customer, and in Slovakia based on income criteria.
- First microenterprise credit product (business overdraft) offered in the Czech Republic.

Private Banking and Wealth Management

- Remodelling and focusing of the service on actual investment advice. Individual asset management and four model management strategies, supported with Client Balance and Fund Picking tools (original ranking of investment funds), have been introduced.
- Introduction of a new product „Stable Assets Portfolio".
- Owing to the modifications in the service model, the min. thresholds for joining the BRE Private Banking & Wealth Management offer have been changed:
  - BRE PB&WM services are available from PLN 1 million or its equivalent in foreign currency,
  - individual investment advice – available to clients who for this service, have at their disposal assets worth at least PLN 2 million or its equivalent in foreign currency,
  - asset management service – available to clients with assets worth at least PLN 5 million.

VIII.1.7. Optimization of the Branch Network

Since July 2009, mBank distribution network in Poland is managed by the Group subsidiary, Aspiro. As of 31 December 2010, the retail sales network encompassed 115 locations (65 mKiosks, 24 Financial Centres and 26 partner mKiosks) v. 142 at the end of 2009. Also 32 Agent Service Points were built during 2010. During 2010 an optimization of the sales network was conducted, both in Poland and abroad.

The number of mBank outlets in the Czech Republic decreased from 27 to 26 (currently, there are 17 mKiosks and 9 Financial Centres) and in Slovakia – from 16 to 9 (5 mKiosks and 4 Financial Centres).

MultiBank operates through 133 branches (72 Financial Services Centres, 61 Partner Branches, of which 51 are Branches of the Future) v. 134 at the end of 2009.

Clients of subsidiaries classified as Retail Banking Clients, namely BRE Ubezpieczenia (BRE Insurance), are serviced in mBank and MultiBank branches, while BRE Wealth Management clients, alike Private Banking clients are serviced in corporate branches.

VIII.2. Retail Banking Subsidiaries

Retail Banking includes the following subsidiaries:

VIII.2.1. Aspiro SA

Aspiro continues the strategy of offering mBank and MultiBank products as well as complementary third-party products to customers. Aspiro currently sells 44 products from 21 partners. Clients can apply in Aspiro branches and via mobile agents for mortgage loans, business products, cash loans, insurance products and leasing.

The distribution network covers all of Poland and includes 24 Financial Centres, 65 mKiosks, 26 Partner mKiosks, and 32 Agent Service Points.

Aspiro generated a profit before tax of PLN 7.9 million in 2010 v. a loss before tax of PLN 1.2 million in 2009.

VIII.2.2. BRE Wealth Management

BRE Wealth Management manages assets of wealthy customers. It introduced asset allocation services in 2010, and provides advisory on the client's strategic asset allocation including financial and non-financial assets. The transborder structures offering was also expanded.

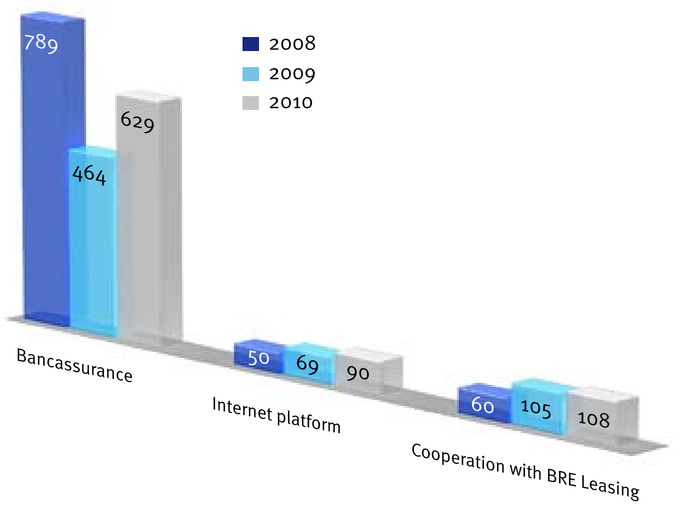
The company generated a profit before tax of PLN 10.7 million in 2010, up by 70% YoY. As a result of growth in assets, its net commission income grew to PLN 20 million v. PLN 13 million in 2009. Due to expansion initiatives, overhead costs increased YoY (PLN 9.8 million, up by 72%).

VIII.2.3. BRE Ubezpieczenia TUiR S.A.

BRE Ubezpieczenia companies were growing their activity on the basis of three business pillars: internet platform (direct), classical bancassurance and global services for a leasing provider.

On the internet platform, gross premiums written by BRE Ubezpieczenia in 2010 totalled PLN 89.6 million, up by 33% YoY. Sales via this channel mainly include car insurance products, accounting for 94% of premiums written. The remaining products are property insurance and travel insurance. In bancassurance, premiums written totalled PLN 629.3 million, up by 35% YoY. 70% of the gross premiums written came from investment products. Very good sales in November and December increased gross premiums written in co-operation with BRE Leasing to almost PLN 108 million.

Gross premium written
(PLN M)



The consolidated profit before tax (including BRE Ubezpieczenia Sp. z o.o.) according to the statutory financial statements (including deferred acquisition costs) of the company was PLN 17.0 million in 2010 v. PLN 25.0 million in 2009. The financial results were down mainly due to reduced margins on bridge insurance for mortgage products.

The company's contribution margin before admini-strative costs on bancassurance was PLN 25 million, down by PLN 5 million YoY. The growing premiums written by the direct business generated a contribution margin before administrative costs of PLN 9.9 million v. PLN 9 million in 2009.

Contribution margin before administrative costs on the co-operation with BRE Leasing was PLN 6.3 million v. PLN 7.7 million in 2009. Result on investments was PLN 5.5 million, up by PLN 1.8 million YoY.

IX. Other BRE Bank Group activities

IX.1. BRE Bank's Custody Services

BRE Bank is one of the largest providers of custody services. These services are not assigned to any of the Bank's business areas, but are briefly presented due to their significant influence on the Bank's position.

BRE Bank's custody clients are mainly local and foreign financial institutions, banks which offer custodian and investment services, pension funds and investment funds, insurance companies, asset management institutions, and non-financial institutions.

The Bank provides services including settlement of transactions in securities registered in local and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, maintenance of asset registers of pension funds and investment funds, monitoring the valuation of their assets and the processing of corporate actions.

The Bank's custody services grew dynamically in 2010. The Bank acquired new clients, mainly investment funds. In 2010, the Bank started to provide services to 69 investment funds; as a result, the number of investment fund clients doubled and reached a market share of around 20%. Another 40 funds are pending the start of service.

At the end of 2010, the total assets of clients covered by the Bank's custody services increased by 25% vs year-end 2009 and reached the highest level ever in the history of BRE Bank SA.

IX.2. Other Consolidated Subsidiaries

Centrum Rozliczeń i Informacji CERI Sp. z o.o.
In 2010, CERI continued its co-operation with BRE Bank Corporate Banking (introduction of automation of selected products, e.g., Postal Order, introduction of additional IPM functionalities, documentation of priority letters and receipt confirmation), Retail Banking (growing number of transactions in mortgage lending, shorter lead time of opening and servicing accounts for private individuals, new service of accounts transfer from other banks to mBank and vice versa) and BRE Group subsidiaries, including mainly operation of electronic and paper archives as well as a new service of car fleet management documentation.

In 2010, electronic and paper archives services provided to Commerzbank were largely extended. In addition, the company expanded its co-operation with third-party customers including Financial Agencies. The share of revenue from third-party customers in total revenue was 13.5% in 2010 v. 14.2% in 2009.

CERI generated a profit before tax of PLN 3.6 million in 2010 v. PLN 0.9 million in 2009.

BRE.locum S.A.
Despite continuing stagnation on the housing market, BRE.locum's sales of apartments under preliminary agreements were increasing in 2010, which may be a signal of growing demand for apartments offered by BRE.locum in the coming years. BRE.locum sold 259 apartments in 2010 v. 187 apartments in 2009.

At the end of December 2010, the company offered for sale 202 apartments in completed properties as well as 133 apartments in an ongoing project in Warsaw and 126 apartments in an ongoing project in Poznań.

BRE Bank's real estate developer generated a profit before tax of PLN 7.6 million in 2010, down by ca. PLN 30.3 million YoY. However, the profit of 2009 was largely driven by the sale of land at Aleje Jerozolimskie in Warsaw, which added PLN 19.8 million to the result of BRE.locum.

X. Financial Results of BRE Bank Group in 2010

X.1. Profit and Loss Account of BRE Bank Group

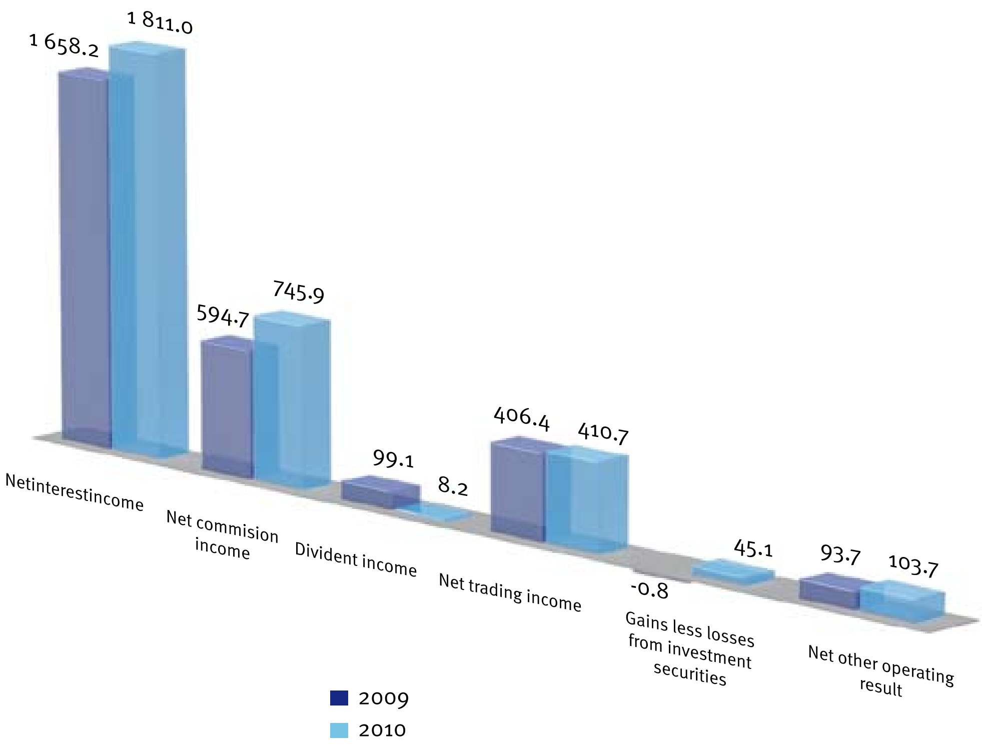
BRE Bank Group generated a profit before tax of PLN 872.5 million in 2010, four times higher than in 2009 (PLN 209.4 million in 2009). The net profit attributable to owners of BRE Bank SA was PLN 641.6 million, five times higher than in 2009.

The significant improvement of the financial results was possible thanks to record high income, lower net loan loss provisions, and continued cost discipline.

X.1.1. Income of BRE Bank Group

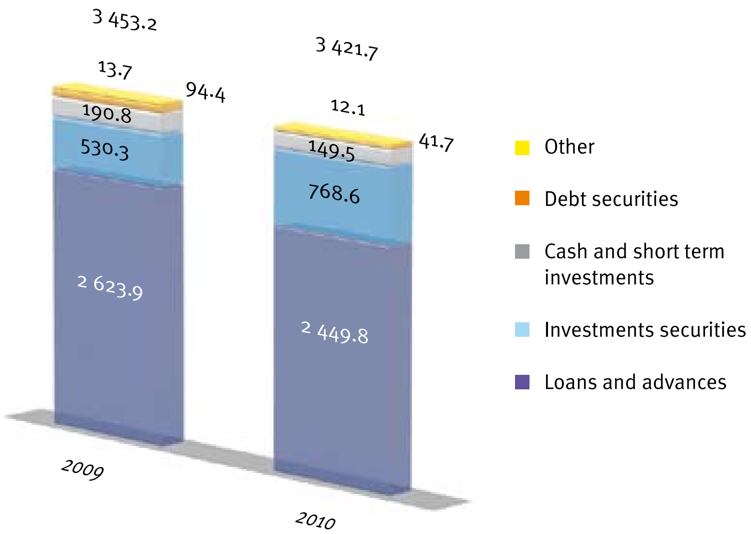
Income generated by BRE Bank Group in 2010 at PLN 3,124.6 million was the highest in the history of the Group, up by PLN 273.3 million or 9.6% YoY. Income was driven by growth of all main income items, only dividend income decreased significantly (due to an especially high dividend payment received on the PZU shareholding in 2009).

BRE Bank Group's income
(PLN M)



Net interest income was BRE Bank Group's main source of income in 2010 with a share of 57.9%. It stood at PLN 1,811.0 million, up by PLN 152.8 million or 9.2% YoY (the Group's income decreased slightly but its interest expenses decreased sharply by over 10%).

Interest income structure
(PLN M)



The main source of interest income (71.6%) were loans and advances. Interest income on loans and advances was PLN 174.1 million lower YoY due to lower nominal reference interest rates in 2010. As a result of a significant growth in the volume of investment securities, interest income from investment securities increased by PLN 238.3 million or 44.9% YoY. Reduced nominal interest rates caused a decrease in interest income on short-term deposits. Interest income from debt securities held for trading decreased because the volume of this asset category went down.

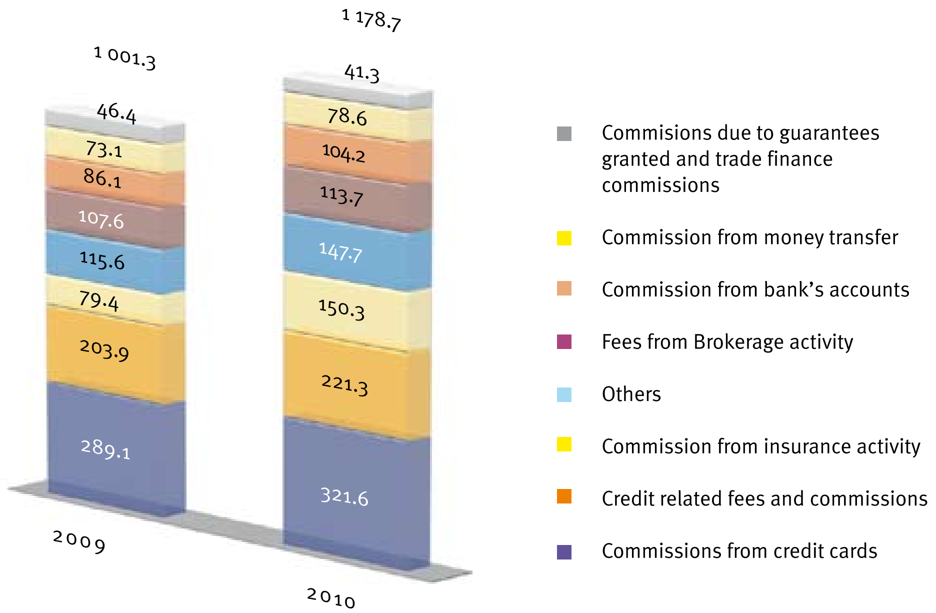
Interest expenses due to banks and clients decreased (down by PLN 154.8 million or 9.4% YoY), as did the interest expenses arising from issues of debt securities (down by PLN 21.9 million or 24.3% YoY).

BRE Bank Group's net interest margin (calculated as net interest income to average interest-earning assets) was 2.2% p.a. in 2010 v. 2.3% p.a. in 2009. The decrease was driven by a growing share of investment securities in interest-earning assets. Additionally, it should be stressed that the net interest margin to risk-weighted assets stood at 3.3% at 2010 year-end v. 2.9% at 2009 year-end. Average interest rates for loans and deposits in 2010 in BRE Bank were as follows:

	Average interes rate (Bank)		
	Retail	Corporates	Bank total
Deposits			
PLN	2.94%	2.68%	2.87%
FX	0.93%	0.17%	0.68%
Loans			
PLN	9.08%	5.66%	6.96%
FX	2.35%	2.67%	2.40%
incl. mortgage loans			
PLN	5.47%		
FX	2.28%		

Net commission income accounted for 23.9% of BRE Bank Group's income and grew dynamically YoY. Net commission income stood at PLN 745.9 million in 2010, up by PLN 151.2 million or 25.4% YoY. The growth rate of commission income (17.7% YoY) was almost three times higher than the growth rate of commission costs (6.5%).

Fee & commission income structure
(PLN M)



Commission income from the insurance activities grew the most dynamically, both in absolute (PLN 70.9 million) and in relative terms (+89.3%), thanks to growing sales of insurance products including bancassurance (especially products related to cards and accounts) by BRE Ubezpieczenia. Commissions on payment cards grew significantly (PLN 32.5 million, +11.2%). Credit related fees and commissions grew by PLN 17.4 million (+8.5%) and so did commissions on accounts (+21.0%). Growth of commission income on client's accounts and on payment cards was driven by positive results of the Bank's cross-sellig inititives and by the dynamic growth of the customer base of BRE Bank Group.

Net trading income stood at PLN 410.7 million in 2010, up by PLN 4.3 million or 1.1% YoY. FX result was down by PLN 45.1 million or 10.9% YoY. This was mainly due to less active trading by clients on the fx market resulting in a smaller number of concluded fx transacstions. Other trading income grew by PLN 49.4 million YoY, mainly driven by a positive valuation of interest-rate derivative instruments as well as by higher income on market risk instruments.

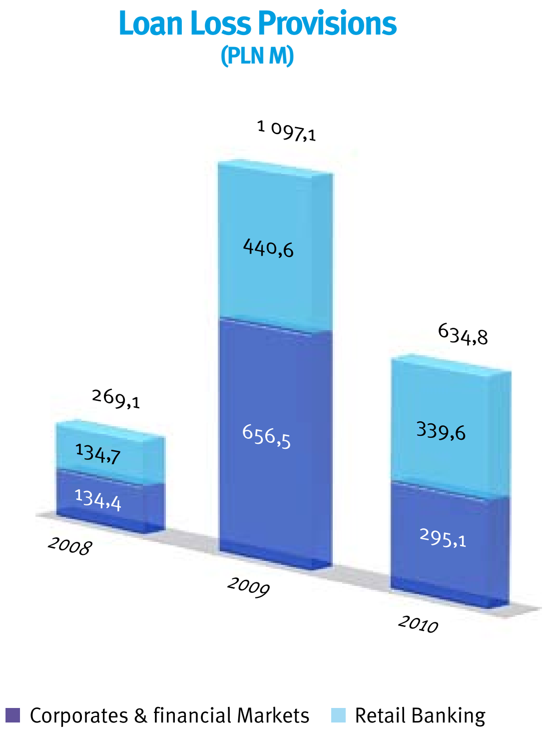
Gains less losses from investment securities was PLN 45.1 million in 2010 and mainly included income on the partial sale of Bank's shareholding in PZU by BRE Gold FIZ at PLN 16.9 million in Q2 and PLN 30.5 million in Q3 2010.

Net other operating result was PLN 103.7 million in 2010, up by PLN 9.9 million or 10.6% YoY as the income in 2009 was burdened with provisions of PLN 18.0 million against impairment of assets related to financing of Compagnia de Factoring, a former subsidiary of Intermarket Bank AG Group (this subsidiary was sold in Q4 2009).

X.1.2. Loan Loss Provisions

Net loan loss provisions of BRE Bank Group stood at PLN 634.8 million at the end of 2010 v. PLN 1,097.1 million at the end of 2009, down by PLN 462.4 million or 42.1%. Provisions decreased significantly both in the Bank (PLN 561.9 million at 2010 year-end v. PLN 966.7 million at year-end 2009) and in the subsidiaries (PLN 72.8 million v. PLN 130.5 million in 2009).

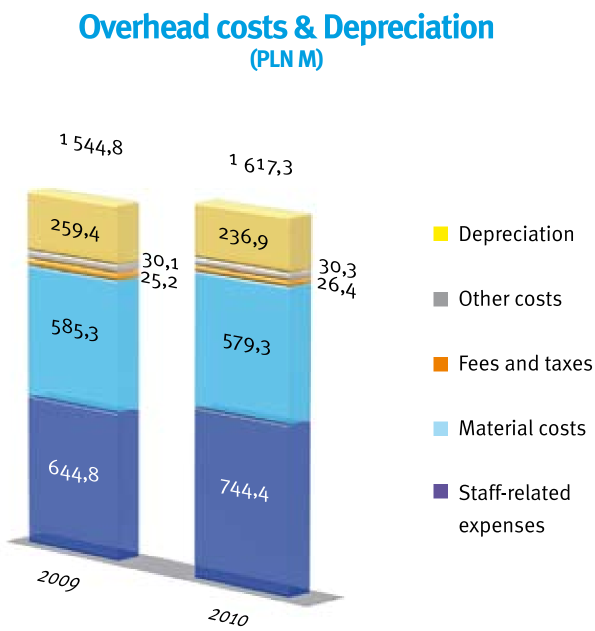
In Corporates and Financial Markets line the positive development of loan loss provisions (from PLN 656.5 million in 2009 to PLN 295.1 million) was strongly driven by a decrease in 2010 of provisions against credit exposures of clients related to derivative transactions; in 2009, the Bank set up PLN 275.1 million of such provisions. The cost of credit risk decreased as a result of the general improvement in the financial standing of the Group's clients and in particular due to a significant decrease of provisions in the area of Corporates and Institutions. As a result of adequate provisions set up in previous periods and undertaken restructuring measures, loan loss provisions in this business area decreased from PLN 629.5 million at the end of 2009 to PLN 279.6 million in 2010.



Changes to the credit policy towards retail clients introduced in 2009, mainly including the withdrawal from granting cash loans to clients without a previous relationship with the Bank, helped to reduce net loan loss provisions in Retail Banking (PLN 339.6 million at year-end 2010 v. PLN 440.6 million in 2009). Retail Banking loan loss provisions in 2009 were mainly driven by cash loans "Kredyt ratalny plus" granted to external clients (clients without a previous relationship with mBank). Sales of these cash loan products were stopped in May 2009, hence the problem with portfolio quality eased substantially. As a result, provisions against mBank cash loans declined to PLN 78.6 million in 2010 from PLN 247.8 million in 2009.

X.1.3. Overhead Costs & Depreciation

Overhead costs in 2010 were up by PLN 94.9 million or 7.4% YoY. Costs including depreciation stood at PLN 1,617.3 million, up by 4.7% YoY.



The cost increase was mainly driven by personnel costs (up by PLN 99.6 million or 15.5%) as a result of higher accruals for bonuses relating to improved performance of the Bank as well as sales bonuses in Retail Banking and employee stock options. The growth in personnel costs was also related to an increase of the headcount of the Group by 8.1% vs. year end 2009. Maintenance costs were down by PLN 6.2 million or 1.0% YoY thanks to implemented optimisation initiatives. Depreciation was down by PLN 22.4 million (8.7%) to PLN 236.9 million as a result of accelerated depreciation of intangible assets (the core IT systems Globus and Altamira) at PLN 20.7 million in 2009. This reduced the cost base in 2010.

X.2. Changes in the Consolidated Statement of Financial Position

X.2.1. Changes in the Assets of BRE Bank Group

BRE Bank Group's assets grew by PLN 9,018.6 million or 11.1% in 2010 and reached PLN 90,042.4 million at 31 December 2010.

Assets	31.12.2009		31.12.2010			
	PLN M	in %	PLN M	in %	∆ in PLN M	31.12.2009 =100%
Cash and balances with Central Bank	3 786.8	4.7%	2 359.9	2.6%	(1 426.9)	62.3%
Loans and advances to banks	2 530.6	3.1%	2 511.0	2.8%	(19.6)	99.2%
Trading securities	1 065.2	1.3%	1 565.7	1.7%	500.5	147.0%
Derivative financial instruments	1 933.6	2.4%	1 226.7	1.4%	(706.9)	63.4%
Loans and advances to customers	**52 468.8**	**64.8%**	**59 370.4**	**65.9%**	**6 901.6**	**113.2%**
Investment securities	**13 120.7**	**16.2%**	**18 762.7**	**20.8%**	**5 642.0**	**143.0%**
Pledged assets	3 516.5	4.3%	1 830.8	2.0%	(1 685.7)	52.1%
Intangible assets	441.4	0.5%	427.8	0.5%	(13.6)	96.9%
Tangible fixed assets	786.4	1.0%	777.6	0.9%	(8.8)	98.9%
Others	1 373.9	1.7%	1 209.8	1.3%	(164.1)	88.1%
Total Assets	**81 023.9**	**100.0%**	**90 042.4**	**100.0%**	**9 018.5**	**111.1%**

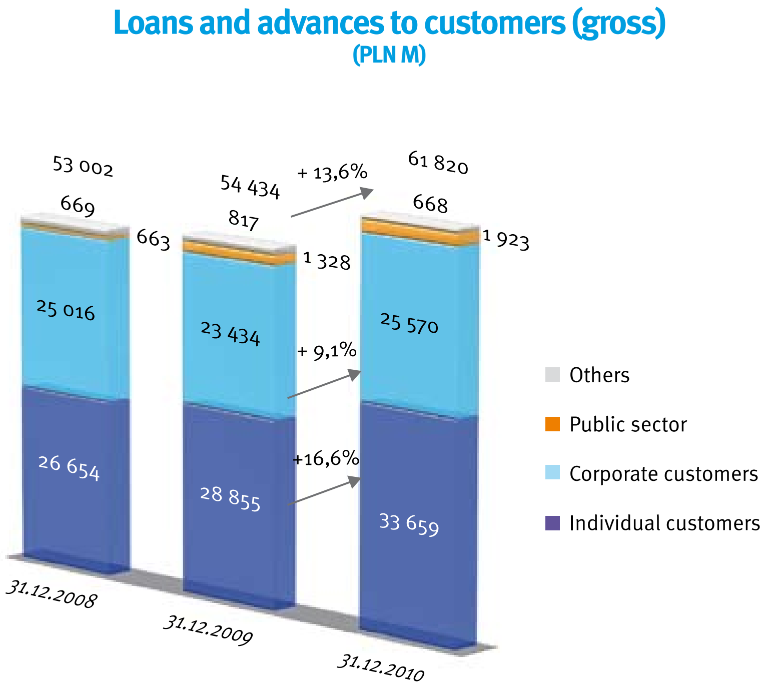
Loans and advances to customers of PLN 59,370.4 million at year-end 2010 remained the largest asset category with a share of 65.9% of total assets (as compared to 64.8% at the end of 2009). Loans and advances to customers grew by PLN 6,901.6 million or 13.2% YoY.

Loans and advances to customers	31.12.2009		31.12.2010	
	PLN M	in %	PLN M	in %
In PLN	22 366.2	42.6%	25 367.9	42.7%
In foreign currencies	30 102.6	57.4%	34 002.5	57.3%
incl. CHF	20 196.8	38.5%	22 073.5	37.2%
Total	**52 468.8**	**100.0%**	**59 370.4**	**100.0%**

The growth was partially driven by depreciation of the zloty. Net of this effect, the loan portfolio was up by 8.3%.
The currency structure of loans granted, especially in CHF, is presented in the table.

Loans and advances to retail clients grew the most (by PLN 4,804 million or 16.6%) as a result of depreciation of the zloty, especially against CHF and it was also driven by intensified sales of PLN non-mortgage loans.

Loans and advances to corporate clients grew by PLN 2,136 million or 9.1%.



However, they were strongly impacted by a high amount of repo transactions with clients (PLN 3,338 million at 2010 year-end v. PLN 354 million in 2009). Excluding repo transactions they were slightly lower than at 2009 year-end due to reduced demand of corporate clients. Loans granted to the public sector were up by PLN 595 million (+44.8% YoY), demonstrating the Bank's growing presence in this sector.

Investment securities were the second largest category of assets. They increased by PLN 5,642.0 million or 4.3% in 2010. The growth was mainly driven by new client deposits as well as funds raised in the rights issue, which were invested in securities. The resources will be deployed in line with the growing credit demand. Loans and advances to banks were stable YoY.

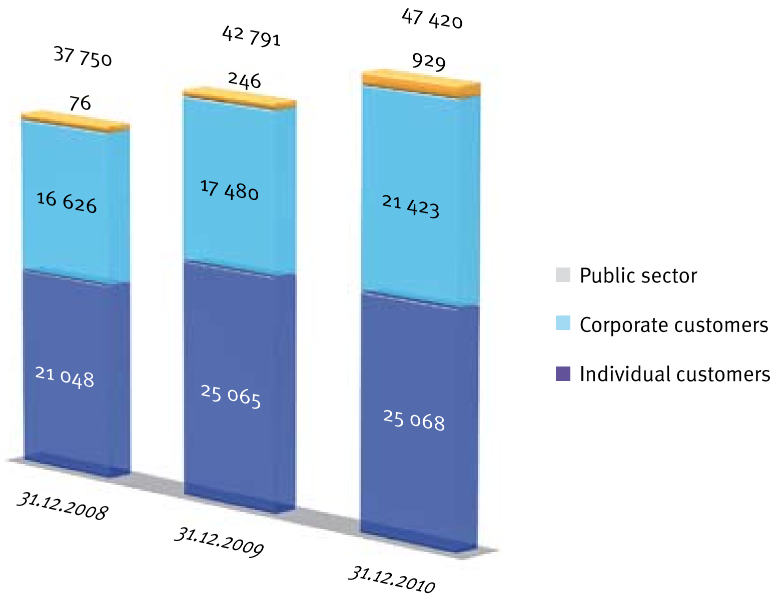
X.2.2. Equity and Liabilities

The table below presents changes in the equity and liabilities of the Group in 2010:

Equities and Liabilities	31.12.2009		31.12.2010			
Liabilities	PLN M	in %	PLN M	in %	∆ in PLN M	31.12.2009 =100%
Amounts due to Central Bank	2 003.8	2.5%	-	0.0%	(2 003.8)	0.0%
Amounts due to other banks	**25 019.8**	**30.9%**	**28 727.0**	**31.9%**	**3 707.2**	**114.8%**
Derivative financial instruments and other trading liabilities	1 935.5	2.4%	1 363.5	1.5%	(572.0)	70.4%
Amounts due to customers	**42 791.4**	**52.8%**	**47 420.1**	**52.7%**	**4 628.7**	**110.8%**
Debt securities in issue	1 415.7	1.7%	1 371.8	1.5%	(43.9)	96.9%
Subordinated liabilities	2 632.0	3.2%	3 010.1	3.3%	378.1	114.4%
Others	954.5	1.2%	1 072.7	1.2%	118.2	112.4%
Total liabilities	**76 752.7**	**94.7%**	**82 965.2**	**92.1%**	**6 212.5**	**108.1%**
Total Equity	**4 271.2**	**5.3%**	**7 077.3**	**7.9%**	**2 806.1**	**165.7%**
Total equity and liabilities	**81 023.9**	**100.0%**	**90 042.4**	**100.0%**	**9 018.5**	**111.1%**

Amounts due to customers remained BRE Bank Group's main source of funding at 52.7% of total liabilities at 31 December 2010. Amounts due to clients were up by PLN 4,628.7 million or 10.8% YoY in 2010 and reached PLN 47,420.1 million.

Amounts due to customers
(PLN M)



Amounts due to corporate clients grew most dynamically (up by PLN 3,943.3 million). The growth was impacted by high repo transactions of PLN 2,708.2 million at the end of 2010 v. PLN 881.2 million in 2009.

Amounts due to retail clients remained stable YoY despite the reduction of interest rates offered to clients in 2010.

Amounts due to the public sector almost quadrupled in 2010 (to PLN 929 million) as a result of the Bank's stronger presence in this market segment.

Amounts due to banks grew by PLN 3,707.2 million or 14.8% YoY in 2010. The growth resulted mainly from depreciation of the zloty against foreign currencies and growing long-term borrowings of the Bank. The amounts due to banks also grew due to the increase in the Group's exposure to sell-buy-back transactions.

Subordinated liabilities grew by 14.4% solely as a result of changes in the exchange rate of CHF versus PLN. CHF is the currency of the subordinated liabilities of BRE Bank SA. **The share of BRE Bank Group's equity** in equity and liabilities was 7.9% at the end of December 2010 v. 5.3% at the end of 2009. The increase resulted mainly from the rights issue conducted by BRE Bank in H1 2010, which added PLN 1,966.2 million to the equity and enhanced the Bank's safety as well as business expansion opportunities.

The description of guarantees granted by Bank and other off- balance sheet positions is presented in note 36 of the BRE Bank Group IFRS Consolidated Financial Statements 2010.

X.3. Performance Indicators

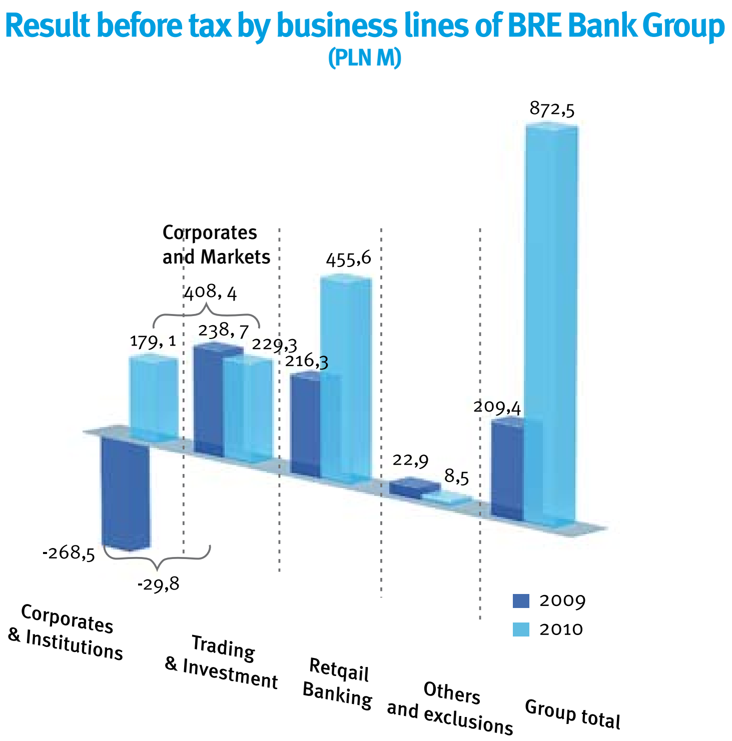
The key performance indicators of BRE Bank Group were as follows:

	31.12.2009	31.12.2010
ROA net	0.16%	0.77%
ROE before tax	5.1%	15.6%
ROE net	3.2%	11.8%
C/I	54.2%	51.8 %
Net interest margin	2.3%	2.2%
CAR	11.50%	15.90%
Tier 1	6.62%	10.40%

ROA= Net profit (including minority shareholders)/Total assets
ROE before tax = Profit before tax / Equity (including minority shareholders, excluding current year's profit)
ROE net = Net profit (including minority shareholders) / Equity (including minority shareholders, excluding current year's profit)
C/I = Overhead costs + depreciation / Income (including net other income and cost)
Net interest margin = net interest income/average interest earning assets

X.4. Contribution of the Business Lines to the Profit of BRE Bank Group

The graph below presents the contribution of the business lines to the profit before tax of BRE Bank Group in 2010.



Corporates & Institutions
The business line generated a profit before tax of PLN 179.1 million in 2010 v. a loss of PLN 268.5 million in 2009. The strong improvement in profit in 2010 was mainly driven by:

- Increased income from the core business: net interest income up by PLN 30.4 million, net commission income up by PLN 9.8 million, net trading income up by PLN 42.0 million.

- Sale of part of PZU shares at PLN 47.5 million v. a loss from investment securities of PLN 19.8 million in 2009 mainly due to the negative valuation of a Romanian subsidiary recognised by Intermarket Bank (the subsidiary was sold in Q4 2009).
- Strong decrease of loan loss provisions. In particular, loan loss provisions related to derivative instruments decreased: PLN 23.3 million of such provisions were released in 2010 while PLN 275.1 million of provisions were set up in 2009.

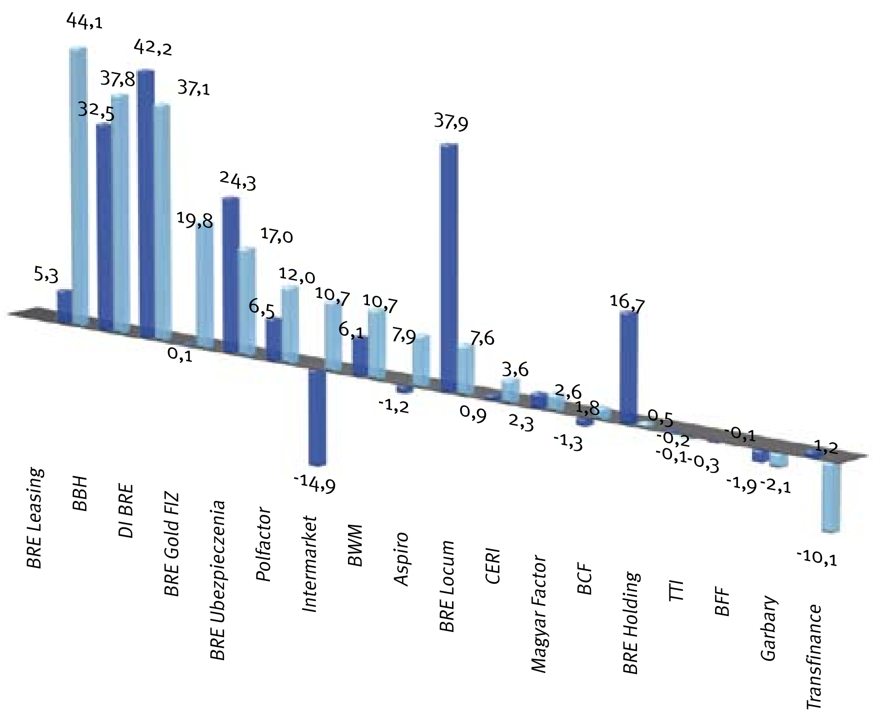
Trading & Investmentsa
The business line generated a profit before tax of PLN 229.3 million in 2010 v. PLN 238.7 million in 2009, down by PLN 9.4 million. The slight decrease of the business line's profit was mainly caused by trading income, down by PLN 41.1 million, mainly resulting from the fx result. The development was mainly due to a very high fx income in 2009 when large volumes of fx derivative transactions were settled. The segment's net interest income grew by PLN 29.8 million or 26.9% thanks to a an increased investment securities portfolio, while its net commission income (mainly generated by DI BRE) grew by PLN 8.3 million or 10.8%.

Retail Banking
This business line generated a profit before tax of PLN 455.6 million in 2010 v. PLN 216.3 million in 2009 (up by 110.6%) thanks to:
- Higher net interest income (up by PLN 93.0 million or 9.7% YoY), mainly due to growing loan volumes and improved margins on deposit products;
- High growth of net commission income (up by PLN 137.8 million or 79.4% YoY). The income grew mainly thanks to income from the insurance business, commissions on bank accounts, commissions on payment cards, and commissions on sales of quasi-banking products like investment fund units. The improved net commission income was driven by several factors including: increased sales of loans (mainly non-mortgage loans), expanding business of the Group's insurance activities and investment fund sales, a growing number of clients' accounts and issued cards as a result of increased cross-selling on the one hand and effective new customer acquisition on the other;
- Loan loss provisions down by PLN 101.0 million or 22.9% owing to changes of the lending policy applicable to retail clients, especially withdrawal from sales of cash loans to clients without a previous relationship with the Bank. As a result, provisions set up against mBank's cash loans portfolio stood at PLN 78.6 million at the end of 2010 v. PLN 247.8 million at the end of 2009.

X.5. Financial Results of BRE Bank Group Subsidiaries

The consolidated subsidiaries jointly generated a profit before tax of PLN 217.6 million in 2010 v. PLN 169.0 million a year earlier. Among others, the results of the following subsidiaries improved YoY: BRE Leasing, BRE Bank Hipoteczny, BRE Wealth Management and Intermarket Bank.

Pre-tax results of consolidated companies
(PLN M)



XI. Main Risks of BRE Bank Group's Business

BRE Bank monitors credit risk, operational risk, market risk, liquidity risk, and interest rate risk of the banking book in the BRE Bank Group using risk measures applied by BRE Bank and taking account of differences in the profile and scale of business between particular Group companies. In addition, within the ICAAP process, the Bank monitors other risks to which its business is exposed.

XI.1. Credit Risk

Credit risk is the most important type of the risk to which the BRE Bank Group is exposed, therefore special attention is paid to credit risk management. Credit risk is defined as the risk posed when the borrower is not able to repay the total obligation towards the Group within the set deadlines and amounts.

As at balance sheet date loan loss provisions are set up. Owing to high concentration of the risk portfolio, changes in the economy or situation of the economic sector, which has a significant share in the Group's portfolio, those obligations may pose additional risk for which no provision has been set up as at the balance sheet date. Therefore, the management carefully monitors the clients and the groups of clients in respect of which the Bank's exposure is large. The Group manages the level of credit risk that is taken by setting the limits of acceptable risk in respect of one borrower or a group of borrowers linked and by the structure of sublimits. Risk management involves also setting limits in respect of territorial or sector concentration. Credit risk is monitored on an ongoing basis, based on the received financial documents of the clients, and based on observing any trends, signals and economic forecasts.

One of the methods of credit risk mitigation consists in a system under which credit decisions are made by competent decision-making bodies. The criterion qualifying any given case to be considered by the appropriate decision-making body is the amount of exposure and the level of risk assigned to the customer and to the transaction (internal rating). In addition, BRE Bank reduces credit risk through the diversification of the loans portfolio. This is supported, among others, 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 and markets.

The Bank applies credit portfolio risk measurement methods based on the estimation of Expected Loss and Credit Value at Risk, using the extended CreditRisk+ model, which incorporates, among others, correlations between various sectors of the economy and residual risk. The daily monitoring of credit risk involves the verification of internal ratings and events of default as defined under Basel II and the IFRS.

BRE Bank also monitors the credit risk of the Group subsidiaries that generate such risk.

XI.1.1. Quality of the Loan Portfolio

The share of default exposures in advances and loans to BRE Bank Group clients was 5.3% at the end of 2010, as compared to 4.7% in 2009.

Provisions for loans and advances increased from PLN 1,964.8 million at the end of 2009 to PLN 2 449.8, including PLN 215.9 million of IBNI (Incurred But Not Identified) loss provisions (PLN 232.5 million in 2009).
The ratio of provisions to default loans (coverage ratio) was 68.0%, compared to 67.6% a year earlier.
In 2010 the Bank issued 191 enforcement orders for corporate client (113 in 2009) and 36,173 enforcement orders for retail clients (15,843 in 2009).

The table below presents the quality of the credit portfolio of the BRE Bank Group by groups of clients at the end of 2010 compared to 2009. More detailed information on the quality and concentration of the credit portfolio is contained in the notes 3 and 22 of BRE Bank SA Group IFRS Consolidated Financial Statements 2010.

Quality of BRE Bank Group's Loan Portfolio	31.12.2009 (PLN M)	31.12.2010 (PLN M)
Loans and advances to customers (gross)	**54 433.6**	**61 820.10**
Not impaired	51 872.7	58 534.90
Impaired	2 560.9	3 285.20
Impaired as % of gross exposure	**4.7%**	**5.3%**
Provisions for loans and advances	**1 964.8**	**2 449.8**
Provisions for not impaired exposures	232.5	215.9
Provisions for impaired exposures	1 732.3	2 233.9
Coverage ratio impaired exposures	**67.6%**	**68.0%**
Coverage ratio for gross portfolio	**3.6%**	**4.0%**
Loans and advances to individuals (gross)	**28 855.1**	**33 658.70**
Not impaired	28 146.3	32 509.50
Impaired	708.8	1 149.2
Impaired as % of gross exposure	**2.5%**	**3.4%**
Loans and advances to corporate entities (gross)	**23 434.0**	**25 570.30**
Not impaired	21 581.8	23 434.40
Impaired	1 852.2	2 135.9
Impaired as % of gross exposure	**7.9%**	**8.4%**
Loans and advances - other customers (gross)	**2 144.5**	**2 591.10**
Not impaired	2 144.5	2 591.10
Impaired	-	-
Impaired as % of gross exposure	**-**	**-**

XI.2. Liquidity Risk

The purpose of liquidity risk management is to assure and maintain the capacity of the Bank to honour both its current and future liabilities, taking into account the costs of liquidity.

BRE Bank monitors financial liquidity on a daily basis, using cash flow analysis methods. Liquidity risk measurement is based on an in-house model developed on the basis of analysis of the Bank's unique features, deposit base volatility, concentration of financing, and planned development of particular portfolios. Daily monitoring covers the following items: the value of cash flow gaps in specific time intervals (mismatch), the values of supervisory liquidity measures, the level of liquidity reserves of the Bank, and the degree of utilisation of external supervisory limits and internal liquidity limits, which are determined by the Risk Committee. The Bank assesses its liquidity position and the probability of its deterioration based on scenario methodologies on an ongoing basis. Stress test scenario results are regularly prepared and presented to respective Committees and to the Management Board.

The Bank also monitors regularly the concentration of funding, especially the deposit base, and the level of liquidity reserves. The Bank has put in place liquidity contingency procedures. In 2010, the Bank's liquidity and funding remained on adequate level (detailed description in note 3.7 of BRE Bank SA Group IFRS Consolidated Financial Statements 2010).

XI.3. Market Risk

In its business, the Bank is exposed to market risk, i.e., the risk of unfavourable change in the present value of the Bank's trading book and banking book due to changes in market risk factors: interest rates, fx rates, prices of securities, and the implied volatility of options.

BRE Group has a balanced currency position (see table below), therefore is less sensitive to interest rates and fx rates risks.

31.12.2010	PLN	EUR	USD	CHF	GBP	Other	Total
Total assets	54 349.8	9 255.9	1 994.2	22 082.7	43.2	2 316.6	90 042.4
Total liabilities	47 040.5	8 938.3	1 947.5	21 833.9	83.1	3 121.8	82 965.2
Net on balance sheet position	7 309.3	317.7	46.6	248.8	-39.9	-805.2	7 077.3
Loan commitment and other commitments	10 518.1	917.5	144.0	0.1	4.3	126.7	11 710.8

Market risk exposure is quantified by measurement of Value at Risk (VaR) and by use of stress tests and scenario analyses based on market performance during previous financial crises. Market risk, in particular interest rate risk, is also quantified by measurement of Earning at Risk (EaR) of the banking book.

In order to limit the level of exposure to market risk, the BRE Bank SA Risk Committee sets binding VaR limits as well as control numbers: stress test limits and maturity gaps of the banking book. All these limits are monitored and controlled on a daily basis.

Value at Risk

The average VaR of the Bank's total portfolio (trading book and banking book) was PLN 7.31 million and the maximum VaR was PLN 10.38 million. The utilisation of VaR limits was at a safe level and on average amounted to 16.61% for the portfolio of the Financial Markets Department (DFM) and 48,15% for the portfolio of the Treasury Department (DS). VaR was mainly affected by portfolios of interest-rates-sensitive instruments (which are mainly part of the banking book), such as Treasury securities and interest rate swaps, and to a lower degree by portfolios of fx-rates-sensitive instruments (part of the trading book), such as fx options and fx transactions. The other groups of risk factors had a relatively low impact on VaR.

VaR

PLN ths	2009				2010			
	31.12.2009	avg	max	min	31.12.2010	avg	max	min
Interest rate risk	6 496	7 278	8 847	4 881	9 529	7 242	10 411	3 895
FX risk	2 293	2 778	4 310	1 139	222	651	2 786	178
Stock price risk	163	152	694	1	25	184	906	2
VaR total	7 685	9 396	14 657	6 485	9 423	7 314	10 375	3 951

Stress Testing

Stress testing is an additional measure of market risk supplementary to Value at Risk. Stress testing measures the hypothetical change in the present value of the Bank's portfolios that would occur as a result of the risk factors moving to specific extreme values within a one-day horizon.

In regular stress tests based on scenarios of large, extremely correlated changes in risk factors, the same for each group, market risk remained within a safe band in 2010, below set control numbers: the average utilisation of the limits was 49% at the Treasury Department (DS) and 17% at the Financial Markets Department (DFM). Under these scenarios, the biggest potential loss was observed on a sharp increase of interest rates (mainly local rates): at a 15% increase in interest rates, the average loss on the DS portfolio would be PLN 54.91 million in 2010 and the average loss of DFM would be PLN 4.75 million in January-May and PLN 10.55 million in October-December. The highest average loss of DFM in June-September would occur at a 15% decrease of interest rates, amounting to PLN 7.42 million.

In addition, the Bank conducts stress tests based on observed past crises. The average value from the tests in 2010 was PLN 11.66 million for the DFM portfolio and PLN 71.96 million for the DS portfolio.

Interest Rate Risk of the Banking Book

In 2010, the interest rate risk of the banking book as measured by EaR (potential decrease of interest income within 12 months assuming an unfavourable 100bp change of market interest rates based on a stable value of the portfolio over the period) was moderate for positions in PLN and CHF and low for positions in CZK, USD and EUR due to the small interest rate position gap in these currencies. At the end of 2010, EaR (in million PLN) was 35.83 for PLN, 16.28 million for CHF, 5.49 for CZK, 4.56 million for EUR, and 0.12 million for USD. In addition, the Bank monitors underlying risk, yield curve risk, and customer option risk of the banking book. The maturity gap limits were not exceeded in 2010.

The table below presents the potential decrease in interest income over 12 months assuming an unfavourable 100bp change of market interest rates.

PLN M	2009				2010			
	31.12.2009	avg	max	min	31.12.2010	avg	max	min
PLN	7.47	12.20	29.38	0.08	35.83	24.45	49.79	0.11
USD	1.46	0.97	3.39	0.01	0.12	0.70	3.04	0.00
EUR	0.13	2.62	6.89	0.01	4.56	2.54	7.38	0.02
CHF	14.18	13.46	19.80	7.22	16.28	13.97	21.68	8.98
CZK	5.09	5.05	8.41	2.20	5.49	4.74	6.65	2.97

XI.4. Operational Risk

In 2010, BRE Bank monitored and controlled operational risk using the methods and tools implemented in previous years. In particular, BRE Bank compiles operational event and loss data in its central database, monitors business and operational process parameters using key risk factors, performs operational risk self-assessment surveys of the Banks' organisational units, defines scenarios for identification and mitigation of the risk of very high operational losses.

In addition, all companies of the BRE Bank Group continued integrating their operational risk controlling and management systems. The operational risk controlling rules and standards implemented by BRE Bank currently apply to the entire Group and all subsidiaries. In 2010, the subsidiaries implemented a Key Risk Indicators (KRI) application and perform self-assessment of operational risk.

XI.5. Capital Adequacy

The Management Board of the Bank ensures consistency of the capital and risk management process by the system of strategies, policies and procedures for management of particular risk types which constitute the architecture of the ICAAP process. Furthermore, in line with the Capital Management Policy applicable at the Bank, the Bank maintains the optimum level and structure of equity, guaranteeing maintenance of the solvency ratio at the level higher than the statutory minimum, at the same time hedging against all the relevant risks identified in the Bank's operations.
The Capital Management Policy at BRE Bank is based on two basic pillars:

1. Maintaining an optimal level and structure of equity, with the use of available methods and means (retained net profit, subordinated loans, issue of shares, etc.);
2. Effective use of the existing capital, also by applying the system of capital use measures. Thus, an reducing the activity that is not bringing the expected return and developing products with lower capital absorption.

The solvency ratio improvement throughout the last 3 years is presented below (data in PLN million).

Capital adequacy	31.12.2008	31.12.2009	31.12.2010
Total own funds	5 911.8	6 263.8	8 970. 9
Total risk weighted assets and off-balance sheet liabilities	53 706.4	49 200.0	51 334.8
Total capital charge	4 712.2	4 356.9	4 513.3
Capital adequacy ratio (%)	10.04%	11.50%	15.90%

XI.5.1 Harmonisation with Basel II Requirements
The work of the Risk Line is focused on the Basel II AIRB Project (Advanced Internal Rating Based Approach) which is implementing internal rating methods of the calculation of the credit risk capital requirement, one of the largest and most important projects implemented by the Bank. The importance of the project is highlighted by the fact that its Steering Committee comprises all BRE Bank Management Board Members as well as Commerzbank Managers. The scope of the project covers all relevant aspects of credit risk measurement and corporate governance in the area. The timeline of the project is 2009-2013 due to gradual application of the AIRB method to exposure portfolios of the Bank and BRE Bank Group subsidiaries (BRE Bank Hipoteczny and BRE Leasing).

The application of the internal rating based approach requires the approval of the Polish Financial Supervision Authority (KNF) and the German Federal Financial Supervisory Authority (BaFin), conditional on a range of criteria. In the process of AIRB implementation, in December 2009, BRE Bank approached both Authorities with an application for approval of AIRB application. In Q2 2010, KNF carried out a topical inspection in the Bank aimed at verification of BRE Bank's readiness for the application of the internal rating based approach. The inspection included an analysis of all credit risk management models covered by AIRB phase 1 as well as credit processes, supporting IT tools, and a capital requirement calculation tool.

BRE Bank performed a preliminary analysis of the impact of the Basel III concept on the Bank's capital adequacy and liquidity. Further analysis based on the final Basel III concept is planned in 2011.

XII. Human Resources Development

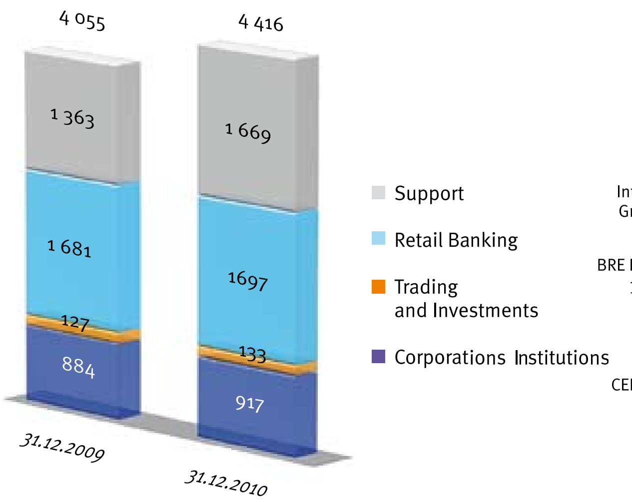
XII.1. Changes in Employment

As at the end of 2010, BRE Bank employed 5,300 persons, which, as compared to the end of 2009, means an increase by 399 persons (+8.1%). New employees were hired mainly in support areas (+ 322 to the level of 1,734 persons) as former employees from BRE Systems, an IT company, found their jobs in BRE Bank after the integration of BRE Systems. Such increased employment was also the outcome of the implementation of the „New Debt Collection Model of mBank and MultiBank Clients" project and the takeover of employees from Commerzbank AG Branch in Poland.

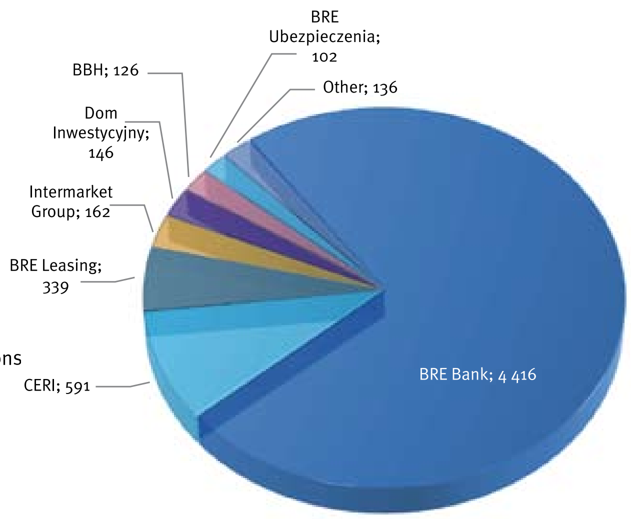
The level of employment presented in Full Time Equivalent (FTE) in BRE Bank was higher as compared to 2009 and amounted to 4,416 FTE (+9.0%) at the end of 2010. Such conspicuous discrepancy between employment presented in persons and FTE results mainly from the fact that a considerable number of employees in MultiBank partner branches has a part-time employment, i.e. for 0.05 of the full time.

In the Group as a whole, at the end of 2010 there were 6,018 FTE against 5,566 in 2009 (+8.1%). The Group's employment breakdown – per companies and per businesses at the Bank is presented below:

Employment in BRE Bank per Business Area
FTE, end of 2010



Employment in BRE Bank Group
FTE, end of 2010



The Bank's employees are relatively young – 63.5% is under the age of 35 – and well educated as 78.0% of them have university education. The percentage of persons with university diplomas is growing – it was 74% at the end of 2009. Many persons take university studies and develop their skills and qualifications at postgraduate studies and internal MBA studies.

XII.2. Training

Qualifications can be improved by taking part in training and development activities, mainly linked to the Bank's business objectives. In 2010, the most popular form was e-learning training. On average, there were 3.2 trainings per person, organized in the above manner and the total number of training sessions was 18.8 thousand. This training formula encompassed general training in banking and training in banking products for sales employees, as well as IT training and financial training.

In addition, traditional training sessions were organized for more than 4 thousand employees in 2010. These were mainly group training sessions for 3.5 thousand persons and over 0.5 thousand persons were trained individually.

A major part of training in 2010 was dedicated to managers from the mid level aimed at developing their competencies. The most important training sessions are listed below:
- 2nd edition of BREmba Internal Programme (MBA studies) with 23 qualified employees
- „Managerial Standard" Programme (e-learning)
- Coaching Management Style (e-learning)
- Sales competencies development – MultiBank.

XII.3. BRE Bank's Incentive System

The incentive system at BRE Bank consists of the remuneration policy and intangible elements (e.g.: possible professional development). It plays a key role in the development at the corporate culture and builds the position in the market by attracting and retaining competent employees.

The remuneration policy at BRE Bank consists of the basic remuneration (permanent) and a variable part dependent on objectives attained by the whole organization and individuals.

Since 2009, the Bank has been participating in remuneration market analyses, which allow for the day-to-day monitoring of the competitiveness of the whole remuneration (permanent and variable portions) for employees as compared to the market.

In 2010, the decision was made to launch the stock option programme adopted on 27.10.2008 by the BRE Bank Extraordinary General Shareholders Meeting, for the Bank's key management. In 2010, the first tranche of the programme was released for 72 employees. In 2010, the Bank's Management Board also decided on the release of two other tranches beginning from 2011 and indicated the beneficiaries – in total 103 employees.

XII.4. MBO (Management by Objectives) – New Evaluation System

In 2010, intensive works were being performed over a new evaluation system which took effect in 2011. In November, the decision was made to introduce MBO (Management by Objectives) – a new system, which considerably changed the approach to setting targets and responsibilities in the context of defined objectives, by making employees aware to a higher degree of the impact of the attainment of individual objectives on the overall performance of the Bank.

The MbO system is an effective managerial tool for defining and delegating objectives and tasks to each of the employees. It is based on the assumption that objectives indicated to employees are related to strategic targets of the organization. A proper cascading of strategic objectives allows for concentrating the employees' commitment on the most crucial issues, by providing, at the same time, measurable effectiveness and saving their time.

In the organization, advantages of the system are as follows:
- it translates directly into the Bank's performance – ensures alignment, discipline and commitment of the whole organization to the realization of results;
- it is a direct communication platform – the delivery of the information on the role and participation of an individual employee in the development of the organization and the realization of the Bank's strategic objectives is assumed.

XIII. Investments

Investments in 2010 were lower as compared to 2009. BRE Bank Group's investments amounted to PLN 257.0 million against PLN 270.0 million in 2009. BRE Bank's investments amounted to PLN 128.6 million while a year before PLN 182.2 million were spent. Investments at the Bank concerned mostly (PLN 98.6 million) **information technology.** The Bank continued the modernization and development of underlying components of the IT environment. Works that embraced the development of new functionality, the improvement of accessibility and business continuity for existing IT solutions, concerned information technology systems applied in the Bank's primary business lines.

Major projects realized in 2010 at the Bank were as follows:
- Debt Management System (the development of a debt collection module for Retail Banking within the Bank's Altamira system).
- Further phases of Custody application development – to support custody activities and their integration with iBRE.
- Further development of the Kondor+ system.
- Modifications in the Finrep system (NBP automatic reporting system).
- SK Tuning – enhancement of the credit system functionalities in view of an enhanced risk evaluation.
- Charging module – pricing base in the Customer Relationship Management (CRM) system.
- Technical and functional modifications in the SEPA system (transfers within unified payment zone in the euro).
- MasterCard prepaid cards – electronic money purchased by the companies internal clients.
- Transaction monitoring vs. MIS-HURT – new functionalities for CRM
- CRM system development in Corporate Banking.
- Further development of UniFlow system (flow of loan applications) in Retail Banking.
- Further development of Call Centre in Retail Banking.
- Further works over AIRB project (internal ratings method).
- Enhancement of Altamira system functionalities.
- Piazza/Ariba (centralized system for office equipment and IT procurement services).
- CHDB – development of a central data warehouse by combining and unifying retail and corporate data warehouses.

In the area of logistics and security the amount of PLN 30.0 million was invested and was related to the development and modernization of the corporate branches network and the HQ, as well as equipment for retail units, such as:

In Corporate Banking:
- The modernization of space in the Corporate Branch in Warsaw at ul. Królewska 14, pursuant to a uniform standard and the new functional model. Branches in Rzeszów and Rybnik were also modernized.
- The adaptation of space in the new Corporate Branch in Białystok and the adaptation of and equipment for a new Corporate Office in Siedlce.
- The commenced modernization of conference halls at the HQ at ul. Senatorska 18.

In Retail Banking:
- The purchase and installation of cash deposit machines for MultiBank and mBank,
- The adjustment of space and equipment for a unit of MultiBank network in connection with the purchase and installation of recyclers and multisafes.
- The replacement of external signboards in units.
- The adaptation of the surface of and the purchase of equipment for the Debt Enforcement Team at the Retail Credit Department.

XIV. Outlook for BRE Bank Group

XIV.1. Favourable Macroeconomic Factors

The Polish economy is expected to continue its expansion which started already in 2010. More specifically, according to the BRE Chief Economist forecast, GDP is set to grow at a 4.2% annual rate, close to already formed market consensus. Entering the more mature business cycle phase is going to be marked by strengthening domestic demand: accelerating consumption and – more important – solid rebound in investment activity, estimated at +10% annually. Continuation of cyclical upswing is set to be accompanied by improvement in the labor market: accelerating employment, wages and falling unemployment rate.

High CPI inflation and slowly building inflationary pressures are going to force the Monetary Policy Committee to hike interest rates. However, owing to a relatively high reference rate starting level, anti-inflationary influence of strengthening PLN and relatively slow (compared with previous upswing episodes) GDP growth, the scale of tightening is expected to be moderate. According to BRE's Chief Economist, the reference rate is set to rise by 75-100 basis points in the whole cycle. Therefore WIBOR 3M rate is expected to reach about 4.60% at the year end.

Being a highly cyclical currency, Polish zloty is expected to strengthen along with higher GDP growth, reference rate increases (tightening cycle) and ongoing fiscal consolidation (highly appreciated by foreign investors). BRE Chief Economist expects EUR/PLN rate at 3.70 in the year end, USD/PLN at 2.55 and CHF/PLN at 2.68.

The aforementioned changes in the economy are expected to positively affect the banking sector (the presented forecasts are those of the BRE Chief Economist), namely:

- The growth rate of retail deposits in 2011 is estimated at 11% YoY vs 9.8% YoY at end 2010. It is expected to be driven by continuing improvement of the financial standing of households and continuing growth of employment and wages. Among the other determinants of retail deposits there is an increase in interest rates (MPC started to raise reference rate in January). However, the interest rate pass-through is set to be partially limited by growing inflation and its negative impact on real interest rates. The growth rate of retail deposits will be also curbed by the continuation of relatively high inflow of assets to investment funds (which accelerated markedly in 2010).
- Corporate deposits are expected to grow by about 7% YoY in 2011 vs 9.9% in end 2010. The lower growth rate of corporate deposits stems from companies' growing investment demand, going hand in hand with expanding economic activity. However, the fall of deposit growth is not expected to be significant due to constantly improving financial results of Polish companies.
- Continuing improvement in the labour market and the accompanying growth of households' creditworthiness are set to propel the growth of lending in the retail sector in 2011. However, the growth rate of retail loans is expected to decrease modestly to ca. 10% YoY vs 13.9% YoY recorded at the end of 2010. This is due, among others, to the coming into force of Recommendation T, which imposes stricter lending criteria, as well as the government's plans to limit the housing loans co-financing programme for families. Another factor curbing the growth of retail loans is the expected appreciation of the zloty (in particular, the appreciation of the Polish currency against the Swiss franc, the currency of a large part of Poland's housing loans portfolio).
- Continuing economic recovery is set to drive demand for corporate loans. Corporate loans are expected to grow by ca. 12% YoY in 2011 vs a decrease by 0.3% YoY in 2010. Demand is expected to grow both for working capital loans due to the growing scale of companies' ongoing business and for investment loans in response to rising investment needs as companies utilise a greater proportion of their production capacity. However, it should be stressed that demand for corporate loans will be curbed partly by companies using their own sources of funding (deposits).

XIV.2. BRE Bank Group well positioned to capture market potential

Various factors and the expected positive development of the macroeconomic environment indicate that 2011 is likely to bring continued improvement in business and financial performance of BRE Bank Group.
The table below presents some overall trends in the Polish economy and highlights the opportunities they create for the Bank and its subsidiaries.

Overall trends/Expectations	BRE Bank ready to seize growth opportunities
Corporates and Markets	
Rebound in corporate lending: ▪ recovery in private investment expected ▪ corporate deposit cushion not enough to cover expansion. Large expenditures – e.g. in power sector both generation & distribution; growing importance of financial markets as a source of financing for companies.	▪ Solid capital position after rights issue constitutes a sound basis for growth ▪ Growing client base, strong market share in corporate loans, dedicated corporate branch network ▪ High expertise in structured & mezzanine finance ▪ Leading arranger and dealer on domestic non-government debt market
Strong public sector investments and demand for co-financing of EU-sponsored projects.	▪ Comprehensive offer for municipalities ▪ Track record with selective approach to local governments ▪ Established position in co-financing of EU-sponsored projects
Increasing demand for transactional banking services	▪ Innovative iBRE platform; further enhancements planned ▪ Recognized and innovative Cash Management products ▪ Advanced solutions for payments and liquidity management
Continued economic growth in Germany – Poland's main trading partner	▪ Leading position within banks cooperating with German clients ▪ International Desk well established, dedicated cross-border initiative launched in 2010 and with promising business prospects ▪ Expertise in trade finance and hedging products
Retail Banking	
Positive prospects for Polish internet banking market – 1M new internet accounts expected every year (according to the Polish Bank Association)	▪ Proven successful customer acquisition model with fast growing retail customer base
Share of affluent segment in retail banking revenue generation expected to increase	▪ BRE well positioned in affluent and upper retail client segments due to its specific multi-channel distribution and overall offering strategy ▪ Further development of product offer dedicated to affluent customers in both savings/investments and lending products ▪ Implementation of new tools supporting affluent customers service process

Increasing importance of individualized and convenient offer & quality of service	▪ BRE well positioned in high-potential customer segments with convenient internet platform ready for individualized offer ▪ Focus on service quality and increasing customer loyalty via new transactional solutions
Increasing awareness of need for long-term savings including pension related products	▪ New solutions for savings and investment services ▪ Launch of new regular savings schemes incl. products managed by BRE Wealth Management experts ▪ Further development of individual pension accounts, brokerage services and mutual funds offer
Continued high demand for retail loans	▪ Quick and easy loans in 15 minutes via remote channels ▪ Car loans to be available within Global Limit offer ▪ Further improvement of credit cards offer for top customers ▪ Proven track record of mortgage loan sales

Based on these trends BRE Bank Group is well positioned to capture market potential while consistently implementing its 2010-2012 strategy (outlined briefly in Section II.2.). The following key factors are expected to drive the Bank's development:

- Positive impact of developments in the macroeconomic environment on BRE Bank Group's business.
- Strong focus on revenue generation and profitable growth in combination with a continued strict cost discipline.
- Continuation of a prudent provisioning of the loan portfolio. At the same time cost of risk is expected to decrease together with the improvement in the Polish economy.
- Sound capital base ensuring high operational stability and allowing opportunities for the Bank to seize market expansion.
- Favourable liquidity situation allowing the Bank to deploy its liquidity resources gradually along with the rise in demand for loans in the economy.
- High potential of the existing client base (which increased dynamically to approximately 3.7 million customers) owing to considerable growth opportunities in the area of cross-selling and improved product penetration.
- Strong position of BRE Bank Group on the Polish market for financial services.

The above factors are expected to be reflected in a more than 10 per cent average annual growth in total income targeted for 2010-2012, an increase of pre-tax ROE to approximately 20 per cent and a reduction of the cost-to-income ratio to approximately 50 per cent in 2012.

XV. BRE Bank and Corporate Social Responsibility

BRE Bank has for years worked on non-commercial initiatives guided by the understanding of the growing importance and impact of sponsorship and charity work. The main thrust of the work belongs to the BRE Bank Foundation; in addition, there are numerous volunteer employee projects and initiatives supported by the Bank.

Sukces pisany szminką bizneswoman roku

Success Written In Lipstick – is an initiative to promote and support women entrepreneurs in Poland. Educational seminars T*omorrow Belongs to Women* are organised three times a year. The last edition in October 2010 gathered 130 women participants. BRE Bank has for two years been a partner of the regular radio broadcast "Success Written In Lipstick" on Radio PIN and since October 2010 a TV broadcast of TVN24. The project includes the *Businesswomen of the Year Success Written In Lipstick* competition. The 2009 awards were presented in November 2010. The grand prix and the title of the Businesswoman of the Year 2009 went to Justyna Garstecka, owner and CEO of Motherhood, a producer of accessories for pregnant women and young mothers.

"Let's Do Good Together"

"Let's Do Good Together" is a regular volunteer employee programme which went into its second year in 2010. It supports social welfare projects proposed and developed by Bank employees. Participants can initiate and implement interesting initiatives with the involvement of colleagues, friends and family. Quarterly editions of the programme are organised in spring, summer, autumn and winter. Every three months, the jury selects the five most interesting projects which match the statutory goals of the BRE Bank Foundation (education, health care and social welfare, culture and the arts). The five selected teams receive financial support for their projects. There were four editions of the programme in 2010), implementing a total of 20 different projects. In the programme, 66 employees devoted 449 hours of their free time to voluntary work.

FUNDACJA BRE BANKU

BRE Bank Foundation

Social responsibility initiatives are mainly co-ordinated by the BRE Bank Foundation, a public charity organisation active mainly in the field of education and science. The Foundation also supports health care and welfare, as well as culture and the arts. The mission of the Foundation is to support initiatives of personal development, education and improved quality of social life.

The Foundation went into its 16th year of activity in 2010. In the 16 years, the Foundation received more than 10 thousand applications, approved some 5 thousand grants and spent almost PLN 20 million on statutory work.

The Foundation provides financial assistance to a broad group of beneficiaries, including children. The Foundation supports initiatives which promote education and entrepreneurship, and co-finances the cost of treatment and rehabilitation. The Foundation pursues its mission in three areas of social life:

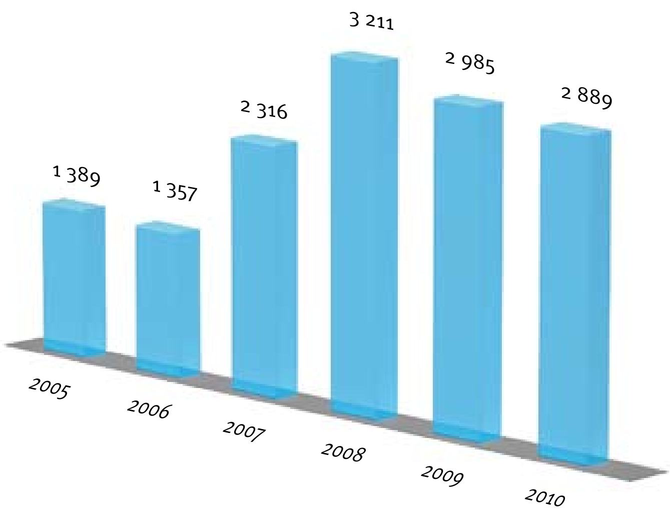
- science and education;
- health care, social welfare and charity work;
- culture and the arts, protection of the national heritage.

In 2010, the BRE Bank Foundation implemented its 2010-2012 strategy by providing financial assistance to projects including the following forms:

1/ Multiannual programmes, e.g., scholarships and educational programmes;
2/ Social campaigns;
3/ Support and grants for individual projects in the above-mentioned three areas;
4/ Participation in BRE Bank's volunteer employee initiatives.

BRE Bank Foundation expenses 2005-2010

(PLN ths)



The Foundation granted PLN 2,889.35 thousand on statutory goals in 2010 (down by 3.0% YoY).
The structure of spending was in line with the adopted strategy, as follows:

- Education, science, entrepreneurship support – 52.5%,
- Health care and social welfare – 34.9%,
- Culture, national heritage – 12.6%.

In 2010, the Foundation continued to work with its regular partners and pursued its mission to support initiatives of personal development, education and improved quality of social life. The Foundation provided funding to new initiatives and projects.

Major projects financed by the Foundation in 2010:

- The BRE Bank Foundation and the CASE Foundation continued their co-operation under the agreement of 16 December 2005; they jointly initiated and organised seminars and conferences for researchers, experts and practitioners of management concerning the transition of the Polish economy, in particular the banking sector, and publications on economics and finance.
- Foundation for Education in Entrepreneurship (FEP) – support for a Bridge Scholarship Programme (assistance to freshmen university students from unprivileged backgrounds) was continued. The BRE Bank Foundation funded 30 scholarships in 2010. As part of continued cooperation with FEP, another joint project was also carried on: Contest for FEP Scholarship Holders. Under this project, the Foundation financed another 32 scholarships for the winners.
- University Entrepreneurship Incubators Foundation – BRE Bank Foundation co-funded the next edition of a business plan competition for students organised by University Entrepreneurship Incubators.
- The Polish Fund for Children – in 2010, the Foundation supported the Assistance for the Very Gifted Programme and funded awards in the national stage of the EU Young Scientists Competition.
- The "Help On Time" Foundation for Children received a donation to cover the medical costs of over 150 children as well as a grant for equipment at the Amicus rehabilitation centre.
- The ABCXXI Foundation "All of Poland Reads to Kids" received a donation for a campaign.
- The Friends of Integration Association received co-funding for the project "Economic education and supporting entrepreneurship

of people with disabilities" and a grant for a new edition of the "People Without Barriers" competition (it promotes people with disabilities who have made a success).
- The Royal Castle in Warsaw received co-financing for the multi-cultural project "Royal Arcades of the Arts" in 2010.
- The Youth Entrepreneurship Foundation received funding for the National Competition of Best Youth Microenterprises PRODUKCIK 2010.
- The 10th April Foundation – co-financing of a scholarship fund for children of victims of the airplane crash at Smoleńsk on 10 April.

XVI. Awards and Distinctions

The operation of the Bank and the subsidiaries in the past year was appreciated by both the clients and external experts, which was reflected in a number of awards and distinctions. The most important of these include:

- BRE was named the best corporate internet bank in Central and Eastern Europe according to the World's Best Internet Banks 2010 competition organised by Global Finance. BRE Bank was selected out of 250 international banks participating in this year's competition.

- The "Thornless Rose" award for the best bank recommended by the largest companies in Poland in the ranking organised by Home & Market monthly. The ranking concerned the quality of service.
- Honorary distinction and promotion logo of the 11th edition of the Entrepreneur-Friendly Bank competition organised by the Polish Chamber of Commerce.
- Europroduct title awarded in the competition organised under the patronage of the Ministry of Economy and the Polish Agency for Enterprise Development for:
  - iBRE FX – Internet foreign exchange platform,
  - Prepaid Payment Cards and iBRE CARDS module,
  - Quality Management Model in the SME segment.
- Three golden medals in the Quality Forum „Quality International 2010" competition organised by the Ministry of Regional Development, the Polish Agency for Enterprise Development, ISO Forum and Forum Biznesu (monthly magazine published by Dziennik Gazeta Prawna daily) for:
  - model of service quality management in the SME segment,
  - BRE Collection - Innovative Platform of Comprehensive Management of Receivables,
  - Multiproduct credit line for SMEs.
- European Medal awarded by the European Economic and Social Committee, the Office for the Committee of European Integration and Business Centre Club for BRE Collection as one of the most innovative platforms on the market.
- BRE Bank's transactional banking products: prepaid cards and debt management services including automatic identification of payments were nominated for Financial World Innovation Awards 2010.
- "Best Private Banking in Poland" title granted by Euromoney Magazine already for the second time in a row to BRE Private Banking & Wealth Management.
- 3rd place in the category "Best Investor Relations in Poland" in the „European Investor Relations" ranking run by Institutional Investor.
- The Bank was nominated to the award for the best investor relations in Poland („Best Investor Relations by Polish company") in the competition organised by IR Magazine publishing house.
- 2nd place in the „Best Managed Companies in the Central and Eastern Europe" ranking organised by Euromoney monthly in „the most accessible senior management" category.
- „Złoty Bank 2010" (Golden Bank 2010) award for mBank, granted by net surfers in the ranking "Złoty Bankier" (Golden Banker), and the winning categories were as follows
  - Best account for a net surfer,
  - Best credit card,
  - Best company account for an Internet entrepreneur.
- MultiBank was the leader in the Banking category (best quality as far as organisation, time and place of service and product offer are concerned) according to "Service Quality Indicator in Poland" (calculated by a specialised portal on the basis of opinions of 200 thousand users); mBank obtained the highest level of client satisfaction.
- mBank named the Bank Closest to Clients (based on users' opinions and user-friendly service) in a ranking of Indicator and Expander in collaboration with Dziennik Gazeta Prawna daily. MultiBank named the most reliable bank; the ranking criteria included: branches, transaction systems, website, call centre.
- The BRE Bank Group annual report won the first prize in the financial institutions category for the third time (out of five editions) in "The Best Annual Report", competition for listed companies organised by the Institute of Accounting and Taxation (IRiP).
- Dom Inwestycyjny BRE Banku won recognition in the ranking by Rzeczpospolita daily for the best financial institution in the category of brokerage houses, and the WarsawScan ranking considered its analyses to be of the highest quality. DI BRE won the 9th Ranking of Stock Exchange Analysts 2010: Best Stock Exchange Analyst 2010 – Kamil Kliszcz, Gazeta Giełdy Parkiet daily

(December 2010). DI BRE's research team took the first place in a report of the London-based company AQ Research (February 2010).

- BRE Ubezpieczenia won the Silver Medal of the Academy of Polish Success and the Polish Business Club for quality and achievements in the Polish insurance sector (December 2010).
- CERI was a second-time winner of the Dynamic SMEs – Business Gazelles ranking.

XVII. Statement of BRE Bank SA on Application of Corporate Governance Principles in 2010

Pursuant to Article 91.5(4) of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state (Journal of Laws no. 33/2009 item 259), the Management Board of BRE Bank SA hereby provides the Statement on application of corporate governance principles at BRE Bank in 2010.

Information contained in the Statement meets the requirements of the report on application of „Code of Best Practice for WSE Listed Companies" set forth in Article 1 of Resolution No. 1013/2007 of the Management Board of the Warsaw Stock Exchange of 11 December 2007. In connection with the foregoing, under Article 2 of Resolution No. 718/2009 of the Management Board of the Warsaw Stock Exchange of 16 December 2009, providing WSE with this statement is tantamount to providing WSE with the report referred to in Article 29.5 of the Warsaw Stock Exchange Rules.

XVII.1. Corporate Governance Principles Binding on BRE Bank SA

The set of corporate governance principles binding on BRE Bank is contained in the document "Code of Best Practice for WSE Listed Companies" adopted by Resolution No. 17/1249/2010 of the Supervisory Board of the Warsaw Stock Exchange dated 19 May 2010. The text of the "Code of Best Practice for WSE Listed Companies" is available on the website of the Warsaw Stock Exchange (http://corp-gov.gpw.pl), and a link to this site is also available on BRE Bank's website (http://www.brebank.pl).

In its internal statutory documents, the Bank has integrated corporate governance principles, in particular those relating to the rules of operation of the General Meeting and the Supervisory Board (and its standing committees) as well as the rights of the Shareholders and the Supervisory Board.

Irrespective of the "Code of Best Practice for WSE Listed Companies", BRE Bank already in 1995 undertook to voluntarily abide by best industry practices, that is the Good Banking Practice Principles, developed by the Polish Bank Association (the original name – Code of Best Banking Practice). The Good Banking Practice Principles are a set of rules relating to the operation of banks and apply to banks, bank employees persons mediating in banking activities of banks. According to an Order of the President of the Management Board, BRE Bank applies the Good Banking Practice Principles, set forth in Appendix 1 to Resolution No. 11 of the 21st General Meeting of the Polish Bank Association of 22 April 2010. The document is available on the website of the Polish Bank Association (http://www.zbp.pl/prawo_bankowe).

XVII.2. Application of Corporate Governance Principles

BRE Bank reaffirmed its commitment towards the highest standards of corporate governance in 2010. There were no reported infringements of the rules subject to the "comply or explain" principle, set out in Sections II, III and IV of the "Code of Best Practice for WSE Listed Companies".

Two items related to Section I of the "Code of Best Practice for WSE Listed Companies" containing "Recommendations" require an additional commentary.

The document, amended in a Resolution of the Supervisory Board of the Warsaw Stock Exchange dated 19 May 2010, includes new provisions on remuneration policy in point 5. According to the recommendation, BRE Bank has a remuneration policy which determines the form, structure, and level of remuneration, including the remuneration of members of supervisory and management bodies of the Company. The remuneration system is complex, transparent and, importantly, it ensures a linkage between remuneration of senior managers and the financial results of the Company and the performance of remunerated persons.

The remuneration system integrates a range of principles derived from Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) supplemented by Commission Recommendation of 30 April 2009 (2009/385/EC). These principles include among others: determination of variable and non-variable components of remuneration of the Management Board, a linkage of the variable components of remuneration with pre-defined performance criteria, detailed regulations concerning a long-term option scheme, and specification of the total remuneration and its components of individual members of the Management Board and the Supervisory Board in the notes to the annual financial statements.

However, the Commission Recommendations were not used as a model for the remuneration system of the Bank and not all their provisions are applied. The remuneration policy is not regularly an explicit item on the agenda of the annual general meeting and is not submitted for a vote. The Bank has not disclosed or published on its website a "remuneration statement". However, it should be noted that the Bank in different documents discloses a range of information, which would constitute a substantive part of such a statement.

The rules and the level of remuneration of Members of the Management Board of BRE Bank are determined by the Executive Committee of the Supervisory Board, which performs the function of the Remuneration Committee within the meaning of the European Union recommendation. The amount of monthly remuneration paid to the Members of the Supervisory Board of BRE Bank was approved in a resolution of the General Meeting of BRE Bank.

More details on the remuneration of the members of supervisory and management bodies of the Bank are presented in Section XI of this Statement.

The other topic which requires an explanation is the recommendation in point 9 to ensure a balanced proportion of women and men in management and supervisory functions in companies. BRE Bank has always pursued a policy of appointing competent and diverse members of its bodies who have the required professional experience and education. Other factors, including the gender of the candidate, are not considered relevant. Currently, one of the 7 members of the Management Board of BRE Bank is a woman: Deputy President and Chief Financial Officer Ms. Karin Katerbau. One of the 10 members of the Supervisory Board is a woman: Ms. Teresa Mokrysz.

XVII.3. Internal control and risk management systems with regard to the process of preparing financial statements of the Bank

The process of preparing financial statements is covered by the Bank's internal control system, which contributes to full reliability and truthfulness of financial reports.
The internal control system includes the following:
1. functional internal control,
2. institutional internal control.

Functional internal control is a system applicable to each organisational unit of BRE Bank. Each organisation unit of the Bank performs internal control tasks under the supervision of the head of the organisational unit. The functional internal control system is subject to regular assessment and monitoring through institutional internal control.

Institutional internal control is exercised by the Internal Audit Department (DAW). DAW operates on the basis of the provisions of the Banking Law, BRE Bank's internal regulations, International Standards for the Professional Practice of Internal Auditing, and best business practices in this respect.

The Internal Audit Department is under the administration of the President of the Management Board of the Bank and reports to the President of the Management Board and to the Audit Committee of the Supervisory Board of the Bank. The principle of operational independence of internal audit is respected since auditors are not involved in operational activity.

The process of preparing financial data for reporting needs is automated and based on the General Ledger of the Bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating the General Ledger of the Bank takes place within a process that is covered by respective internal controls. Manual adjustments are subject to special control.

The process of monitoring of operational risk, which occurs in the preparation of financial statements in the Bank, has in place mechanisms which effectively ensure the security of IT systems. The Business Continuity Plan applies at the Bank, covering IT systems used in the process of preparing financial statements.

The process of organising the examination of the Bank's financial statements is laid down in the Bank's internal legislation and is approved in the form of an Order of the President of the Management Board. The Order in force provides for a clear and transparent division of responsibilities of the persons participating in the preparation and verification of the quality of prepared financial statements of the Bank.

The Bank's financial statements are prepared by the Accounting Department, which reports directly to the Managing Director of Accounting and Controlling and to the Chief Financial Officer.

Substantive and organisational supervision over the course of examining financial statements is exercised by the Director of the Accounting Department. The work on the examination of the annual, semi-annual and quarterly financial statements of the Bank is co-ordinated by the Deputy Director of the Accounting Department. The prepared financial statements are submitted to the Management Board for verification. The Audit Committee receives information on quarterly financial statements before they are published. After in-depth discussion with the Bank's external auditor and the Management of the Bank, the Audit Committee recommends the Supervisory Board to approve or reject the annual financial statements.

The annual and semi-annual financial statements of the Bank are subject respectively to an independent audit and a review by a statutory auditor.

The Bank manages the risk of the process of preparation of financial statements also by ongoing monitoring of changes in requirements under external legislation and regulations concerning reporting obligations of banks, and by preparing for their implementation well ahead of the deadline. The Bank updates on an ongoing basis its accounting principles used to prepare financial statements.

The Bank also performs the control functions with respect to subsidiaries, which are consolidated for the purpose of preparing the financial statements of the Group, through its representatives in supervisory boards of those subsidiaries.

The effectiveness of the control and risk management procedures applied in the process of preparing financial statements was confirmed by the high quality of the financial statements, as demonstrated by the external auditor's opinions following the audit of the financial statements as well as the appreciation of the recipients. The financial statements of BRE Bank Group have for long been recognised by investors and independent industry institutions. In 2010, BRE Bank ranked first in the category of financial institutions and banks in "The Best Annual Report" competition organised by the Institute of Accounting and Taxes. It was the third time that BRE Bank won the first award in the competition. BRE ranked first in 2008 and 2007, and second in 2009.

XVII.4. Significant Blocks of Shares

Commerzbank AG has for many years been the majority shareholder of BRE Bank. As at the end of 2010, Commerzbank through its 100% subsidiary Commerzbank Auslandsbanken Holding AG held 69.74% of shares and votes at the General Meeting.

As at 31.12.2010				
Shareholder	Total number of shares 42 086 674		Total number of votes 42 086 674	
Commerzbank Auslandsbanken Holding AG	29 352 897	69.74%	29 352 897	69.74%

30.26% of BRE Bank shares is free float. They are held by private and institutional investors, in particular Polish pension funds as well as Polish and foreign investment funds.

In 2010, the 5% share threshold, obligating companies to inform about the purchase of shares, was not exceeded by any entity other than Commerzbank Auslandsbanken Holding AG. In 2009, the threshold was periodically exceeded by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK and ING Otwarty Fundusz Emerytalny.
In 2010, BRE Bank completed a new issue of shares with pre-emptive rights, raising PLN 1,966.2 million. The issue was very popular with investors, who took up 12,371,200 offered shares and oversubscribed for the transaction by 1.6 times. Commerzbank exercised all its pre-emptive rights and maintained its percentage stake in the equity and votes at the General Meeting.

XVII.5. Special Control Rights

Shares issued by BRE Bank do not confer any special control rights over the issuer. There are no preferred shares; each share represents one vote at the General Meeting. The control rights of Commerzbank AG as the parent entity of Commerzbank Auslandsbanken Holding AG are a result of the number of shares held and their percentage share in the equity and the number of votes at the General Meeting of BRE Bank, which translates to consolidated supervision exercised over BRE Bank as a subsidiary of Commerzbank.

XVII.6. Limitations on the Exercise of the Voting Right

The BRE Bank By-laws do not impose any limitations on the exercise of the voting right. There are no provisions which would separate equity rights attached to securities from the holding of securities.

XVII.7. Limitations on the Transfer of the Property Right to Securities of the Issuer

The BRE Bank By-laws do not impose any limitations on the transfer of the property right to securities issued by the Bank.

XVII.8. Principles of Appointing and Dismissing Management Board Members

Pursuant to the BRE Bank By-laws, the Management Board is composed of at least three Members appointed for a joint term of office of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, must hold the Polish citizenship.

The President of the Management Board, the Deputy Presidents of the Management Board and the other Members of the Management Board are appointed and dismissed by the Supervisory Board, acting pursuant to the provisions of the Banking Law and considering relevant qualifications for the assigned functions. The Polish Financial Supervision Authority (KNF) approves two Members of the Management Board of the Bank, including the President of the Management Board. According to the Code of Commercial Partnerships and Companies, a Member of the Management Board may also be dismissed or suspended by the General Meeting.

The term of a Member of the Management Board expires at the latest on the day of the General Meeting that approves the financial statements for the last full financial year of the term of office of the Management Board Member. The term of a Member of the Management Board also expires in the case of death, resignation, or recalling of the Member from the Management Board. The term of a Member of the Management Board appointed before the end of the term of office expires on the expiration of the terms of the other Members of the Management Board.

XVII.9. Amendments to the Company's By-Laws

Amendments to BRE Bank's By-Laws require adoption of a resolution by the General Meeting of BRE Bank and registration of the adopted amendment in the National Court Register. Before the General Meeting of BRE Bank is presented with a draft resolution concerning amendment to the By-Laws, the Management Board of BRE Bank adopts a resolution on the proposed amendment by approving the draft resolution of the General Meeting, and next the draft is presented to the Supervisory Board of BRE Bank for approval. Under the Code of Commercial Partnerships and Companies, the resolution on amendments to the By-Laws is passed with a majority of 75% of votes.

According to Article 34.2 of the Banking Law of 29 August 1997, any amendment of the Bank's By-laws requires the authorisation of the Polish Financial Supervision Authority where such amendment relates to:

- the Bank's name;
- the Bank's registered office, objects and scope of activity;
- the bodies and their competences, including particularly the competences of the members of the Management Board appointed with the approval of the Polish Financial Supervision Authority and the decision-making principles;
- the basic organisational structure of the Bank, the procedures applicable to making legally binding statements regarding property rights and
- obligations, the procedures for issuing internal regulations and the procedure for making
- decisions concerning the undertaking of liabilities or disposal of assets whose total value with regard to a single entity exceeds 5% of the Bank's own funds;
- the principles of functioning of the internal control system;
- the own funds and the financial management principles and
- shares preferred or limited as to voting rights.

The 23rd Ordinary General Meeting held on 30 March 2010 adopted two resolutions concerning amendment to the Bank's By-laws.

One Resolution updated the provisions specifying the amount of the share capital and the number of shares according to the parameters of the Bank's share capital increase set in the Issue Resolution adopted by the 23rd Ordinary General Meeting (increase of the share capital by no less than PLN 4 and no more than PLN 83,134,468 through an issue of no less than 1 and no more than 20,783,617 ordinary bearer shares of a new issue with a nominal value of PLN 4 per share).

The other Resolution aimed to harmonise BRE Bank's By-laws with the amended provisions of the Code of Commercial Partnerships and Companies adopted in the Act of 5 December 2008 (Journal of Laws from 2009, No. 13, item 69), to add two activities under the Electronic Payment Instruments Act to the scope of operations of BRE Bank, and to harmonise the By-laws with the post-control recommendations of the Polish Financial Supervision Authority. The amendments included among others the introduction of the possibility of convening an Ordinary General Meeting by the Supervisory Board if the Management Board does not convene a meeting within the time limits set out in the By-laws and an Extraordinary General Meeting if the Supervisory Board considers it necessary, as well as the possibility of convening an Extraordinary General Meeting by shareholders who represent at least one-half of the share capital, and the possibility of a request to convene an Extraordinary General Meeting and to put specific items on the agenda by shareholders who represent at least one-twentieth of the capital.

XVII.10. General Meeting Procedures and Authority, Shareholder Rights and Exercise Procedures

XVII.10.1 General Meeting Procedures

The General Meeting is convened and prepared pursuant to the provisions of the Code of Commercial Partnerships and Companies, the Bank's By-laws, and the Standing Rules of the General Meeting. Both the By-laws and the Standing Rules of the General Meeting are available on BRE Bank's website.

The General Meeting (AGM) convened by the Management Board by way of an ordinary procedure is held once a year, not later than in June. The Supervisory Board may convene an Ordinary General Meeting if the Management Board does not convene a meeting within the time limits set out in the By-laws and an Extraordinary General Meeting if the Supervisory Board considers it necessary. In addition, under specific circumstances, the shareholders have the right to convene a General Meeting or to request convening a General Meeting (more information in Section XVII.10.3)

Shareholders can participate in the General Meeting and cast their votes either in person or by proxies. The powers of attorney for participation in the General Meeting should be made out in writing or in electronic form and attached to the minutes. With the reservation of cases determined in the Code of Commercial Partnerships and Companies, the General Meeting is valid regardless of the number of shares represented at the General Meeting.

All matters submitted to the General Meeting are previously submitted to the Supervisory Board for consideration.
The General Meeting is opened by the Chairman of the Supervisory Board or by the Deputy Chairman of the Supervisory Board. If due to obstacles neither of them can open the meeting, the meeting is opened by a member of the Supervisory Board. The person opening the General Meeting proceeds immediately with election of the Chairman of the General Meeting, ensuring the adequate voting procedure.

Only a shareholder of the Bank can chair the General Meeting. The General Meeting elects the Chairman from among candidates proposed by participants of the General Meeting. The Chairman of the General Meeting presides over the proceedings, makes decisions relating to formal and procedural aspects of the Meeting, and has the right to interpret the Standing Rules of the General Meeting.

The General Meeting shall elects a three-member Vote Counting Committee from among candidates proposed by the Chairman of the Meeting. The Vote Counting Committee is responsible for supervising the way in which each casting of the ballots is conducted and serviced, and for checking and announcing the results of the vote.

Subject to specific exceptions, resolutions of the General Meeting are passed in an open ballot by a simple majority of votes unless provisions of the Code of Commercial Partnerships and Companies or the BRE Bank By-laws impose a stricter requirement for the passing of a resolution on a specific issue. A secret ballot is required in the case of elections and motions for dismissal of members of the authorities of the Bank or liquidators, motions to put members of the authorities of the Bank or liquidators before justice, and in personnel issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

Voting takes place with the use of a computer system which also counts the votes. The system counts the votes cast by the participants of the General Meeting in favour or against a motion as well as abstentions.

The Bank's Supervisory Board is elected in a secret ballot. Shareholders propose candidates for Members of the Supervisory Board to the Chairman of the General Meeting, orally or in writing. The right to propose candidates concerns also Members of the existing Supervisory Board. Prior to the election to the Supervisory Board, the General Meeting determines the number of Members of the Supervisory Board of the given term within the limits specified in the By-laws. Candidates for Members of the Supervisory Board should make a statement for the minutes of the General Meeting concerning independence of the candidate.

XVII.10.2 General Meeting Authority

The following matters require a resolution of the General Meeting in addition to other matters set out in the Code of Commercial Partnerships and Companies:

- examination and approval of the report of the Management Board on the Bank's operations and financial statements for the past financial year;
- adoption of resolutions on the distribution of profit or coverage of losses;
- vote of discharge of duties to the members of the Bank's authorities;
- election and dismissal of members of the Supervisory Board;
- amendment of the By-laws;
- increase or reduction of the Bank's share capital;
- adoption of resolutions concerning the cancellation of shares and resolution to cancel shares, in particular setting the policy of share cancellation not regulated in the By-laws;
- creation and winding up of special purpose funds;
- issue of convertible bonds or preferred bonds;
- determination of remuneration for members of the Supervisory Board;
- liquidation of the Bank or its merger with another bank;
- appointment of liquidators;
- matters submitted by the Supervisory Board;
- matters submitted by shareholders in accordance with the provisions of the By-laws;
- election of an entity qualified to audit financial statements as statutory auditor of the Bank.

XVII.10.3 Shareholder Rights and Exercise Procedures

The Company's shares are bearer shares and can be sold. Shareholders have the right to participate in the profit reported in the audited financial statements allocated by the General Meeting to be paid to the shareholders.

Shareholders representing at least one-half of the share capital or at least one-half of the total number of votes in the company may convene an extraordinary general meeting. The shareholders appoint the chairman of such meeting. Shareholder(s) representing at least one-twentieth of the share capital may request the Management Board that the extraordinary general meeting be convened and that specific issues be entered to agenda of such meeting.

Only persons who are shareholders of the Bank sixteen day before the date of the General Meeting ("record day") have the right to participate in the General Meeting of the Bank as a public company. Shareholders can participate in the General Meeting and cast their votes either in person or by proxies.
A shareholder has the right to:

- vote, propose motions and raise objections,
- justify his or her position briefly,
- stand for election as Chairman of the General Meeting and propose a candidate for Chairman of the General Meeting to the minutes,
- take the floor during the proceedings and make a reply,
- propose amendments and additions to draft resolutions on the agenda of the General Meeting before discussion is closed on the agenda meeting including the draft resolution concerned by the proposal,
- propose formal motions relating to the proceedings and the voting procedure,
- propose candidates for the Bank's Supervisory Board in writing to the Chairman of the General Meeting or orally to the minutes,
- review the book of minutes and request a copy of resolutions authenticated by the Management Board,
- take legal action to have a resolution of the General Meeting annulled where the shareholder voted against a resolution of the General Meeting and after its adoption raised an objection to the minutes or the shareholder was unreasonably prevented from participating in the General Meeting or the shareholder was not present at the General Meeting as a result of it being convened incorrectly or the adopted resolution was not on the agenda,
- take legal action against the Company to have a resolution of the General Meeting annulled where the resolution is in breach of a law.

The Management Board is obliged to provide the shareholder, at the shareholder's request, with information concerning the company if this is justified by the assessment of an issue on the agenda. The Management Board should refuse information where:

1) this could damage the Company or its associated company or subsidiary, in particular due to disclosure of technical, trade or organisational secret of the company,
2) this could expose a Member of the Management Board to criminal, civil or administrative liability.

In justified cases, the Management Board may provide information in writing no later than two weeks after the General Meeting is adjourned.

Authorities of the Company do not restrict access to information but at the same time they comply with the provisions of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, the Act on Trading in Financial Instruments, the Regulation on current and periodical information provided by issuers of securities and the conditions for considering to be equivalent information required by law of the country not being a member state, and the provisions of the Code of Commercial Partnerships and Companies.

The Bank attaches great importance to equal treatment of the shareholders.

General Meetings of the Bank are always held in the registered office of the Bank in Warsaw and are transmitted online. Media presence at General Meetings is allowed. A file containing the recording of a General Meeting as well as draft resolutions and the result of votes are available on the website of BRE Bank.

All relevant materials for the General Meeting, including draft resolutions with justification and an opinion of the Supervisory Board, are made available to the shareholders no later than 14 days before the date of the General Meeting in the registered office of the Bank and on the website of the Bank.

XVII.11. Composition of and Changes on the Management Board and the Supervisory Board of the Bank and Their Procedures

XVII.11.1 Management Board

Pursuant to the BRE Bank By-laws, the Management Board is composed of at least three Members appointed for a joint term of office of 5 years. At least half of the Members of the Management Board, including the President of the Management Board, should hold the Polish citizenship. The Members of the Management Board manage selected areas of the Bank's operation within the scope determined by the President of the Management Board. Resolutions of the Management Board specify in detail the division of powers and the procedures of replacement in the case of absence or holiday of Management Board Members.

The current composition of the Management Board of BRE Bank is as follows:

Member/function	Professional experience
Cezary Stypułkowski *President of the Management Board, CEO*	Born in 1956, Cezary Stypułkowski holds a Ph.D. in law from the University of Warsaw. He studied at Columbia University Business School in New York as a member of the Fulbright Program in 1988-1989. He worked in government administration in the 1980s, among others as Secretary to the Economic Reform Committee of the Council of Ministers and, in 1987, as Advisor to the Prime Minister. As of February 1991, he chaired the Management Board of Bank Handlowy S.A. for more than twelve years. He was President of PZU Group in June 2003 - June 2006. In December 2006, he became Managing Director of J.P. Morgan Investment Bank in Central and Eastern Europe. Cezary Stypułkowski was also a member of the Deutsche Bank Board International Advisory Board, INSEAD International Advisory Board, Institute of International Finance in Washington and Geneva Association. Appointed President of the Management Board of BRE Bank on 2 August 2010, acting President of the Management Board of the Bank as of 1 October 2010, approved as a President of the Management Board by the Polish Financial Supervision Authority on 27 October 2010.
Karin Katerbau *Deputy President of the Management Board, Chief Financial Officer*	Born in 1963, graduate of Reutlingen University of Applied Science and Groupe ESC in Reims in France, where in 1989 she graduated with a French and German diploma in economics and business management. She started her professional career in 1990 in Societe Generale – Elsaessische Bank & Co in Frankfurt. She joined the Commerzbank Group in 1994. In 2001-2008 she worked for comdirect bank AG, where from 2004 she held the position of Management Board Member, Chief Financial Officer responsible, among others, for finance and controlling. Since March 2008 she held the position of Chief Operating Officer of the Group Segment Private & Business Customers at Commerzbank AG, Frankfurt. On the Management Board of BRE Bank since 5 September 2008.
Wiesław Thor *Deputy President of the Management Board, Chief Risk Officer*	Born in 1958, graduate of Central School of Planning and Statistics (currently Warsaw School of Economics), training program conducted by KPMG and the South Carolina Business School and summer school of banking at McIntire University Business School in Virginia. Since 1990 employed with BRE Bank, since May 2000 as the Managing Director responsible for risk. As of 1 August 2002, he was Managing Director at Bank Handlowy in Warsaw. On 2 November 2002, he was appointed Member of the Management Board of BRE Bank, Chief Risk Officer.

Przemysław Gdański *Member of the Management Board, Head of Corporate Banking*	Born in 1967, graduated from the Faculty of Foreign Trade at the University of Gdańsk and completed a one-year programme in banking and international finance at Loughborough University in Great Britain. In 1993-1995, he worked for IBP Bank S.A., then for ABN AMRO including the Head Office of ABN AMRO in Amsterdam. In 2002-2006, he was Managing Director of the Corporate Division in BPH Bank. From May to November 2006 he held the position of Chief Executive Officer and General Director of Calyon Bank Polska and Calyon SA Branch in Poland. In November 2006 he took the position of Vice President of the Management Board in BPH Bank responsible for corporate banking and real estate financing. After the merger of BPH Bank and Pekao SA - Vice President of the Management Board responsible for Corporate Banking, Markets and Investment Banking of Pekao SA. On the Management Board of BRE Bank since 19 November 2008.
Hans Dieter Kemler *Member of the Management Board, Head of Investment Banking*	Born in 1968, graduated from the Westphalian Wilhelm University of Münster in 1996. In 1991-1992, he worked in the Bond Trading Department of Dresdner Bank. In 1996-1998, employed with Oppenheim jr. & Cie KGaA, Financial Market Department, Frankfurt. In 1998-2005 he was Head of the Corporate Risk Advisory in the Head Office of Commerzbank. As of 2005, he was Managing Director of Luxembourg – based Public Finance Bank EEPK and a member of the senior management team of Commerzbank responsible for international public finance. On the Management Board of BRE Bank since 10 July 2009.
Jarosław Mastalerz *Member of the Management Board, Head of Retail Banking*	Born in 1972, in 1996 he graduated from the Faculty of Economics and Foreign Trade at University of Łódz. In 1996-1998, he worked in the Audit Department of PricewaterhouseCoopers. In 1998-2003 – Marketing Director and later Financial Director in Zurich Group. After the take-over of the Polish Zurich operations by Generali in 2003, he worked as Financial Director (also responsible for bank assurance) at Generali TU and Generali TUnŻ. Since 2006 he has been working for BRE Bank Group, he was a co-author of the insurance project BRE Ubezpieczenia, and he held the position of the President of BRE Ubezpieczenia Management Board. On the Management Board of BRE Bank since 1 August 2007.
Christian Rhino *Member of the Management Board, Head of Operations and IT*	Born in 1969, graduate of Berlin Technical University. In banking since 1998 when he started working in Deutsche Bank AG, first as e-commerce coordinator, later as director of the eBusiness Department, finally as Vice President of Corporate Banking. Since 2001 employed with Commerzbank, where he held the position of Global Head Trade Finance & Transaction Services and Managing Director in Corporate Banking. On the Management Board of BRE Bank since 15 March 2008.

The President of the Management Board of BRE Bank was replaced in 2010. On 2 August 2010, the Supervisory Board dismissed Mariusz Grendowicz from the position of President of the Management Board and appointed Cezary Stypułkowski as President of the Management Board; Mr Stypułkowski is in office as of 1 October 2010.

The term of office of the current Management Board expires on the day of the General Meeting in 2013.
The Members of the Management Board are jointly liable for the overall operation of the Bank. They work collegially and inform each other about the most important matters concerning the Bank for which particular Members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the Bank or to perform specific tasks.

The following committees operate at BRE Bank:
- BRE Bank Group's Operational Management Committee (Chairperson: Cezary Stypułkowski),
- Assets and Liabilities Management Committee (ALCO) of the BRE Bank Group (Chairperson: Hans Dieter Kemler),
- Capital Management Committee (Chairperson: Karin Katerbau),
- Investment and Resource Allocation Committee (Chairperson: Cezary Stypułkowski),
- Management Board Credit Committee (Chairperson: Wiesław Thor),
- Risk Committee of BRE Bank (Chairperson: Wiesław Thor),
- Committee on Data Quality Management for the purposes of the Bank's regulatory requirements calculation (AIRB) (Chairperson: Wiesław Thor),
- BRE Bank IT Projects Committee (Chairperson: Christian Rhino).

The Management Board manages the Bank's business, represents the Bank and defines the guidelines for the Bank's operation, especially for the areas subject to risks, including the credit policy, the investment policy, the Bank's assets and liabilities management policy, and the guarantee policy. The Management Board presents to the Supervisory Board comprehensive information on all significant aspects of the Bank's operation and risks related to its operations as well as risk management methods on a regular basis.

The Management Board operates pursuant to its Rules approved by the Supervisory Board (available on the website of the Bank). The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution of the Management Board. The issues which require a resolution of the Management Board include among others decisions to assume obligations or to dispose of assets whose total value in relation to one entity exceeds 5% of the Bank's own funds, however, the Management Board by way of its resolution may authorise standing committees or relevant persons to make such decisions.

All resolutions are adopted by a majority of votes of the Management Board Members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote. The Members of the Management Board strive to adopt resolutions by consensus.

Pursuant to principles of best practices, the Rules of the Management Board provide that a Member of the Management Board should abstain from participating in decision-making on such matters where a conflict of interest arises or may potentially arise between the Bank and the Member of the Management Board, his or her spouse or relatives.

The Executive Committee of the Supervisory Board determines the rules and levels of remuneration of Members of the Management Board.

Rules of the incentive programme for the Management Board and rules concerning procedure of awarding bonuses for Members of the Management Board have been adopted in resolutions of the Supervisory Board.

Total remuneration of Management Board Members includes a fix and a variable part. The fix part includes basic remuneration, the amount of which is set for each Member of the Management Board.

The variable part is composed of an annual cash bonus for the previous financial year, as well as of a bonus in shares of BRE Bank and shares of Commerzbank which serves as a long-term remuneration component. In 2010, entitled Board members received cash as a settlement of the first part of incentive program for the Management Board of the Bank based on shares of Commerzbank, relating to results generated by BRE Bank Group in 2008.

Both the annual cash bonus and the value of shares granted to each Member of the Management Board are determined by the following three factors:
- net ROE of BRE Bank Group or of the supervised area,
- total budget performance of BRE Bank Group or of the supervised area,
- individual assessment of the Management Board Member by the Supervisory Board.

Total remuneration of the Management Board for 2009 and 2010 is presented below.

Year (PLN '000)	Base salary	Other profits	Cash bonus	Cash settlement of the incentive program based on Commerzbank shares	Total
2009 – Members of the Management Board as of 31 December 2009	8 752.8	1 766.9	5 909.5	0	16 429.2
2009 – former Members of the Management Board	600.0	2 022.5	2 180.1	0	4 802.6
Total 2009	**9 352.8**	**3 789.4**	**8 089.6**	**0**	**21 231.8**
2010 – Members of the Management Board as of 31 December 2010	8 295.2	928.7	1 167.3	907.0	11 298.2
2010 – former Members of the Management Board	1 179.4	4 525.0	225.0	151.2	6 080.6
Total 2010	**9 474.6**	**5 453.7**	**1 392.3**	**1 058.2**	**17 378.8**

Information on remuneration received by particular Management Board Members divided into the fix part and the variable part is presented in explanatory note no. 44 to the Financial Statements of BRE Bank SA Group for 2010 pursuant to the International Financial Reporting Standards. The description of the share-based incentive programme for the Management Board is presented in note 40 to the Financial Statements.

XVII.11.2. Supervisory Board

The Supervisory Board acts on the basis of adopted Rules and as stipulated in the BRE Bank By-laws, the Code of Commercial Partnerships and Companies, and the Banking Law Act. The BRE Bank By-laws provide that the Supervisory Board consists of not less than five Members elected by the General Meeting for a joint term of office of three years. The number of the Supervisory Board Members is defined by the General Meeting. A Member of the Supervisory Board whose mandate expired in the course of the joint term of office of the Supervisory Board may be replaced with another person, elected by the Supervisory Board.

At least half of all Supervisory Board Members, including the Chairman, should hold the Polish citizenship. Pursuant to the statutory requirement, at least two Supervisory Board Members are independent, unless the General Meeting decides otherwise. Independence criteria of the Supervisory Board Members are stipulated in the Rules of the Supervisory Board.

The composition of the Supervisory Board reflects the aim to diversify its Members both in the context of their professional experience as well as their knowledge and skills. The Supervisory Board is composed of bankers as well as representatives of science and corporate business.

The Supervisory Board of BRE Bank SA acts in the following composition:

Member/function	Professional experience
Maciej Leśny *Chairman of the Supervisory Board*	Born in 1946. In 1969 Mr. Leśny graduated from the Faculty of Economy of the Warsaw University. During his professional career he worked for 6 years in the shipbuilding industry in Gdańsk, 8 years for Zakłady Elektronicznej Techniki Obliczeniowej. He worked 22 years in the central state administration, including 8 years on the position of the Subsecretary of State: at the Ministry of Foreign Economy Co-operation, the Ministry of Economy, Labor and Social Policy – recently as the Subsecretary of State at the Ministry of Infrastructure. He completed post-graduate studies and training at universities in the USA: the Michigan University (Business School of Administration) and De Paul University (Chicago). In 1992-1993 as a scholarship holder of the government of the USA he studied at the American University in Washington, DC. During his scholarship he conducted a four month training at the World Bank and completed privatization training at the International Currency Fund. Between March 1994 and 1998 he was appointed as the Chairman of the Supervisory Board and then until December 2001 he was the member of the Supervisory Board. He was re-elected the Chairman in 2004.
Andre Carls *Deputy Chairman of the Supervisory Board*	Born in 1963, graduate of economics, PhD at the University of Cologne. He joined Commerzbank in 1990; in 2000-2008, he was a member of the Management Board of comdirect bank AG; from 2004 to March 2008 CEO of comdirect bank AG; from March to September 2008, Deputy President of the Management Board and CFO of BRE Bank. Currently holds the position of President of the Management Board of Commerzbank Auslandsbanken Holding AG.
Achim Kassow *Member of the Supervisory Board*	Born in 1966, graduate of the University of Cologne, 1996 Doctorate. In 1993-2002, he worked for Deutsche Bank Group, as from 2001 – Member of the Board of Managing Directors of Deutsche Bank 24 AG. Since 2002 in Commerzbank Group, in 2002-2004 – Chief Executive Officer of comdirect bank AG. Since November 2004 – Member of the Board of Managing Directors of Commerzbank AG, responsible for the Business Segment Central and Eastern Europe.
Sascha Klaus *Member of the Supervisory Board*	Born in 1970, he graduated from the Frankfurt School of Finance and Management. From 1990 to 1999 he was employed at Deutsche Bank AG. Later, he was Managing Director for Investment Banking/Risk Management at Dresdner Kleinwort in New York, while in 2008 he took up a similar post at Dresdner Bank AG, Frankfurt/London. Since 2009, he had been acting as Deputy Head of Investment Banking/Risk Management at Commerzbank AG. Since March 2010, Member of the Management Board of Commerzbank Auslandsbanken Holding AG, at present responsible for risk management in Central and Eastern Europe.
Teresa Mokrysz *Member of the Supervisory Board*	Born in 1952. She graduated from the Karol Adamiecki University of Economics in Katowice in 1978. Co-owner of MOKATE. In 1992-1994 she launched cappuccino coffee as a new product on the Polish market and acquired a 70% market share and a leading position in this product category. In 1994-1995 she built a greenfield MOKATE plant in Ustroń and in 2001 her company gave another plant in Żory for use. Thanks to investment projects she introduced the company into the market of semi-finished products and opened at MOKATE new manufacturing divisions equipped with state-of-the-art technologies. She is the winner of the „Leader of the decade" title awarded by Gazeta Wyborcza daily and the „Success of the decade" title awarded by Businessman Magazine. In 2000 the International Foundation for Women's Entrepreneurial Spirit from Los Angeles awarded her the title of the „the most entrepreneurial woman of the world". She has founded, among other things, scholarships for talented and impoverished youth, financially supported health care institutions, nursing homes, orphanages and schools.
Stefan Schmittmann *Member of the Supervisory Board*	Born in 1956, graduate of business administration, doctorate in economics at the University of St. Gallen in Switzerland. In 1986-2003, he was employed at Bayerische Vereinsbank AG and, as of 1998, with Bayerische Hypo- und Vereinsbank AG. In 2004-2005, Chairman of the Board of Directors of Vereins- und Westbank AG, Hamburg. In 2005, Member of the Divisional Board of Directors in Munich and 2006-2008, Member of the Management Board of Bayerische Hypo- und Vereinsbank AG in Munich, where he was responsible for the Corporate Customer and Commercial Real Estate Customer Division, and Member of the Executive Committee UniCredit Corporate Division. Since November 2008, Member of the Board of Managing Directors of Commerzbank AG, currently holding the position of Chief Risk Officer.

Waldemar Stawski *Member of the Supervisory Board*	Born in 1958, graduate of Gdańsk Technical University and post-graduate studies among others in financial analysis and accountancy and finance. In 1993-1995, he was employed with Pomorski Bank Kredytowy as a Head of Branch in Gdynia, then with PKO BP since 1995 as a Head of Regional Branch in Gdańsk. Since 2000 Vice President of PKO BP SA responsible for Treasury, Corporate Clients and Capital Markets. From June 2002 to February 2003, Chairman of the Team of Receivers for Wschodni Bank Cukrownictwa SA. Later he was Management Board Member of CTL Logistics SA and General Director of the Polish Association of Transport and Logistics Employers. He has an Accounting Certificate issued by the Minister of Finance.
Jan Szomburg *Member of the Supervisory Board*	Born in 1951. Graduate of the University of Gdańsk, PhD in economics. Previously worked as an Assistant Professor and then as Adjunct Professor at the University of Gdańsk. He is the founder and President of the Management Board of the Gdańsk Institute for Market Economics Research. In the 1990s, he was Chairman of the Supervisory Board of Polski Bank Rozwoju and Bank Gdański, Advisor to the Minister of Ownership Transformation, member of the Ownership Transformation Council, an advisory body to the Prime Minister. He was Economic Advisor to Prime Minister Jerzy Buzek and was Chairman of the Ownership Transformation Council to the Prime Minister.
Marek Wierzbowski *Member of the Supervisory Board*	Born in 1946. Full professor at the University of Warsaw, legal counsel, partner at the law firm Prof. Marek Wierzbowski Radcowie Prawni Spółka Partnerska, member of the Public Procurement Board and of the Central Commission for Scientific Degrees and Titles, President of the Court of the Chamber of Brokerage Houses. He was Deputy Dean of the Faculty of Law and Administration and Deputy Rector of the University of Warsaw. He was Chairman of the Supervisory Board of the Warsaw Stock Exchange and Deputy Chairman of the Court of Arbitration at the Polish Chamber of Commerce.
Martin Zielke *Member of the Supervisory Board*	Born in 1963, economist, graduate of the University in Göttingen. In 1990-2000, he held various positions at Dresdner Bank AG, then he was appointed Regional Head of Portfolio Investments in Deutsche Bank 24, afterwards Regional Head of Retail Banking Finance at Deutsche Hyp. In 2002-2004, he acted as Group Manager of the Retail Banking area, Commerzbank AG, and from January 2005 to March 2006 he was Group Manager in the Corporate Banking area of Commerzbank AG. On 1 April 2006 he became Member of the Management Board of Eurohypo AG, Eschborn. Afterwards back at Commerzbank AG he was appointed Divisional Board Member for the Group Finance Department (1 January 2008), and since November 2010 he is Member of the Board of Managing Directors of Commerzbank AG responsible for the Business Segment Private Customers.

One change in the composition of the Supervisory Board took place in 2010. On 22 March 2010, BRE Bank received a notice of Michael Schmid who resigned from his position as Member of the Supervisory Board as of 31 March. Mr Schmid was replaced by Sascha Klaus, elected to the Supervisory Board as of 1 April 2010.

The following were independent Members of the Supervisory Board in 2010: Maciej Leśny, Teresa Mokrysz, Waldemar Stawski, Jan Szomburg, Marek Wierzbowski. The dependent members were: Andre Carls, Achim Kassow, Sascha Klaus, Stefan Schmittmann, Martin Zielke.

The term of office of the Supervisory Board expires on the day of the General Meeting in 2011.

The powers of the Supervisory Board (defined in the Rules of the Supervisory Board) involve in particular:
- providing the Management Board with advice and exercising supervision over the Management Board in developing guidelines for the Bank's operation which is risk bearing, including its credit, investment, guarantee policies, as well as compliance policy, and approving proposals of the Management Board concerning the Bank's basic organisational structure,
- exercising supervision over compliance of the Bank's regulations with regard to risk taking with the strategy and the financial plan of the Bank,
- approving the rules of information policy, adopted by the Management Board, regarding risk management and capital adequacy,
- approving strategies and procedures developed by the Management Board regarding the internal control system, the risk management system, the internal capital assessment process, capital management and capital planning,
- assessing the adequacy and effectiveness of the risk management system,
- examining all regular reports and exhaustive information received from the Management Board on all important aspects relating to the Bank's operation, the risk related to its operation, and the manner and effectiveness of risk management,
- drawing up a concise assessment of evaluation of the Bank's situation in order to submit it to the Ordinary General Meeting and append it to the annual report of the Bank for the previous financial year, drafted pursuant to separate regulations,
- approving the Bank's annual financial plans, multi-annual development plans, as well as a strategy of the Bank's operation and the rules of prudent and stable management of the Bank,
- reviewing any motions and matters subject to resolutions of the General Meeting, including draft resolutions of the General Meeting; the Supervisory Board draws up justifications (opinions) for draft resolutions to be submitted for approval of the General Meeting,
- issuing or approving the rules provided for in the Bank's By-laws,
- appointing and dismissing the President, the First Deputy President, the Deputy Presidents and the other Members of the Management Board in accordance with the provisions of the Banking Law and taking into consideration relevant qualifications for performing the functions assigned to them,

- defining terms and conditions of contracts and setting remuneration for the President, the First Deputy President, the Deputy Presidents and the other Members of the Management Board,
- authorising the Chairman of the Supervisory Board to represent the Bank in agreements with the Members of the Management Board including signing management contracts with the Members of the Management Board,
- approving conclusion of or amendments to any significant agreement or arrangement with Members of the Management Board or the Supervisory Board,
- approving conclusion of, amendments to or termination of any significant affiliation agreements or co-operation agreements,
- analysing the reports from the director of the Internal Audit Department, received at least once a year, which, based on conducted audits and drawn up reports on monitoring the effectiveness of internal control mechanisms, contains information on identified irregularities, conclusions and actions undertaken in order to eliminate the irregularities.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board on his or her own initiative, or on request of the Management Board, or on request of a Supervisory Board Member, not less frequently than three times a year.

All Management Board Members participate in meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its Members.

Resolutions of the Supervisory Board are adopted with a simple majority of votes cast. In the case of an equal number of opposed votes, the Chairman of the Supervisory Board has the casting vote. A Member of the Supervisory Board is obliged to notify all the other Supervisory Board Members of any conflict of interest as it arises or a possibility of such conflict and should refrain from taking the floor in discussion and from voting on the resolution pertaining to the situation in which the conflict of interest has arisen or may arise.

No resolution should be passed without the consent of the majority of the independent members of the Supervisory Board on the following matters:
- any benefits provided by the Bank or any entities associated with the Bank to the benefit of Members of the Management Board,
- consent for the Bank to enter into a significant agreement with an entity associated with the Bank, a Member of the Supervisory Board or the Management Board, and entities associated with them.

The Supervisory Board has 3 Committees: the Executive Committee, the Risk Committee, and the Audit Committee.

Each of the committees was composed of four Members of the Supervisory Board in 2010, including two independent members.
The tasks of the Executive Committee involve, in particular, exercising regular supervision of the Bank's operation in the periods between meetings of the Supervisory Board; authorising the Management Board to acquire, encumber or dispose of real estate, perpetual leasehold, or interests in real estate, shares or equity interests in companies, and other fixed assets if the value of the transaction exceeds 1% of the Bank's own funds; reviewing rules and levels of remuneration of Members of the Management Board; issuing opinions on granting Members of the Management Board approval for engaging in competitive activity. The Executive Committee is composed of Maciej Leśny as Chairman and Members: Andre Carls, Jan Szomburg and Sascha Klaus, who replaced Michael Schmid on 1 April 2010.

The Audit Committee issues opinions about the election of the Bank's statutory auditor by the General Meeting, recommends that the Supervisory Board should approve or reject financial statements, exercises regular supervision over the internal control system at the Bank, and approves the changes proposed by the Management Board of the Bank at the position of the manager of the Internal Audit Department. The Audit Committee is composed of at least one independent Supervisory Board Member with qualifications and experience in accounting and finance. The Audit Committee is composed of: Martin Zielke as Chairman, and Andre Carls, Maciej Leśny and Jan Szomburg.

The tasks of the Risk Committee include among others exercising permanent supervision over credit risk, market risk and operational risk. Moreover, the Risk Committee recommends that the transactions, provided for in the Banking Law, between the Bank and members of the Bank's authorities be approved or refused and submits recommendations relating to among others approval or refusal to approve the Bank's information policy regarding risk management. The Risk Committee is composed of: Sascha Klaus as Chairman (as of 1 April 2010) and Members: Maciej Leśny, Andre Carls and Waldemar Stawski.

All standing committees acting within the Supervisory Board make reports pertaining their performance in the past reporting period available to shareholders. The aforesaid reports are appended to the set of materials for the Ordinary General Meeting.

The amount of monthly remuneration of the Members of the Supervisory Board was set in Resolution No. 27 adopted by the 17th General Meeting of BRE Bank of 21 April 2004.
Additional monthly remuneration is granted for participation in standing committees: 50% of monthly basic remuneration for the first committee and 25% for participating in every other committee. Total remuneration for participation in committees cannot exceed 75% of the basic remuneration.

Total remuneration of the Supervisory Board for 2009 and 2010 is presented below.

Year	2009	2010
Remuneration paid in PLN thousand	**1 866.8**	**1909.9**

Detailed information about the remuneration amounts paid to particular Members of the Supervisory Board is included in explanatory note no. 44 to the Financial Statements of BRE Bank SA Group for 2010 in accordance with the International Financial Reporting Standards.

In 2010, the Supervisory Board, including especially the Executive Committee, co-operated closely and on a regular basis with the Management Board in order to develop the Mid-term Business Plan for the BRE Bank Group for 2011-2014 and the strategic directions for the future business development of BRE Bank Group.

In 2010, the Supervisory Board held 6 meetings and adopted 49 resolutions. The resolutions concerned among others:

- acceptance of financial statements of BRE Bank and the BRE Bank Group and of other materials for the Ordinary General Meeting,
- approving a capital increase of BRE Bank SA,
- adopting the Financial Plan for 2011,
- adopting the Mid-term Plan for 2012-2014,
- personnel issues,
- granting a loan to an entity associated with a Member of the Management Board,
- adopting amendments to the Rules of the Supervisory Board,
- adopting the new text of the BRE Bank By-laws,
- allocation of funds to BRE Bank's Foundation,
- adoption of the report on compliance risk management,
- adoption of the Compliance Risk Management Policy,
- adoption of the Compliance Policy,
- consent for BRE Bank SA to take bilateral loans from Commerzbank,
- adoption of the new rules and scope of operation of the Risk Committee of the Supervisory Board and the Audit Committee of the Supervisory Board,
- adoption of the Internal Audit Plan for 2010,
- adoption of the Capital Management Policy,
- adoption of the Investment Rules,
- adoption of the Compliance Risk Policy,
- adoption of the conflict of interest management rules,
- adoption of the internal capital adequacy assessment process (ICAAP) in the BRE Bank Group,
- defining amendments to the terms of management contracts of Management Board Members,
- adoption of the Capital Adequacy Information Policy,
- implementation of the Employee Programme and the Incentive Programme for Management Board Members.

Furthermore, current results of the BRE Bank Group and particular business areas were discussed and evaluated with reference to the financial plan in a systematic, regular manner at the meetings of the Supervisory Board.

The Supervisory Board of the Bank operated in an effective manner. Members of the Supervisory Board did not participate in a meeting only in justified cases. The Supervisory Board passed all resolutions and decisions unanimously.

Participation of the Supervisory Board Members n the meetings and in the Committees in 2010:

Member	Attendance*	Executive Committee	Risk Committee	Audit Committee
Andre Carls	5/6	X	X	X
Achim Kassow	4/6			
Sascha Klaus	4/5	X (as of 1.04.2010)	X (as of 1.04.2010)	
Maciej Leśny	6/6	X	X	X
Teresa Mokrysz	5/6			
Michael Schmid	1/2	X (until 31.03.2010)	X (until 31.03.2010)	
Stefan Schmittmann	4/6			
Waldemar Stawski	6/6		X	
Jan Szomburg	6/6	X		X
Marek Wierzbowski	5/6			
Martin Zielke	5/6			X

* Attendance at meetings/number of meetings during the mandate.

Performing its function of ongoing supervision of the Bank's operation in the periods between meetings of the Supervisory Board, the Executive Committee co-operated closely with the Management Board and was informed about the situation in the Bank on an ongoing basis in 2010. Members of the Committee held regular meetings with Members of the Management Board. The Executive Committee considered, among others, bonuses for Members of the Management Board and approved transactions exceeding 1% of the Bank's own funds.

The Audit Committee was regularly informed about the results and the financial standing of the Bank before the publication of quarterly results. The Committee held three meetings in 2010 where it discussed among others the following:

- compliance of the process of preparing financial statements with the law and applicable regulations,
- conclusions of the audit of financial statements of the BRE Bank Group,
- the "Main Rules and Process of Approving Audit and Non-audit Services",
- amendments to the IFRS to take effect in the coming years,
- assessment of the control system and the risk management system in BRE Bank in 2009 and the internal audit plan for 2010,
- co-operation with the auditor PricewaterhouseCoopers (PwC) to date and the scope of the audit of annual financial statements for 2010,
- status of implementation of recommendations of the Polish Financial Supervision Authority.

Among others, the Audit Committee recommended that the Supervisory Board approve the Reports of the Management Board of BRE Bank and the Group as well as the Financial Statements of the Bank and the Group and that it approve the BRE Bank Compliance Policy and the Compliance Risk Management Policy. The Audit Committee issued an opinion on the appointment of the auditor.

Exercising supervision over internal audit, the Audit Committee received regular reports of the Internal Audit Department covering a broad range of audit issues and was informed of actions taken with regard to key risk areas.

The Risk Committee in 2010 focused among others on the implemented project which introduces at BRE statistical methods for calculating credit risk regulatory capital requirements (A-IRB approach, Basel II). At its meetings, the Committee discussed quarterly risk reports and the current credit portfolio. Other major issues considered by the Committee included large exposures, the development of risk parameters and of loan loss provisions at the Bank and in the Group.

XVII.12. Investor Relations in BRE Bank

BRE Bank traditionally pays very close attention and takes good care of effective communication between the Company and the stakeholders. The Investor Relations Bureau, reporting directly to the President of the Management Board, maintains ongoing relations with investors and analysts. The key goals of Investor Relations include: to provide transparent information on the company's activity and results, to build its reputation and to ensure optimum market valuation.

Members of the Management Board of BRE Bank together with Investor Relations Bureau staff take part in most individual meetings with analysts and investors. In 2010, around 320 stakeholders attended more than 200 meetings. As usual, 4 conferences for analysts and investors were held in 2010 to discuss quarterly results; to ensure broad reception, the events were transmitted online as well as recorded and posted on the website of the Bank (www.brebank.pl).

In addition, Members of the Management Board of the Bank participated in national and international conferences as well as in roadshows (Europe and USA). BRE Bank representatives took part in 6 international and 2 national investor conferences, mainly in London, and 5 national and international roadshows.

The roadshow in Poland, the United Kingdom, Sweden and Germany completed before the issue of shares in May with the participation of the President of the Management Board and the Chief Financial Officer was particularly relevant for investors and the Bank. Active participation of Management Board Members in meetings with Polish and international investors largely contributed to the success of the issue.

The investor relations website (www.brebank.pl/en/investor_relations) is an important communication platform and provides interested parties with information about BRE Bank's shareholders, General Meetings, ratings, share price on the Warsaw Stock Exchange, and gives access to annual, periodic and current reports, presentations of the Company's strategy and results, as well as business and financial data.

BRE Bank Group and its results are monitored by analysts from a range of financial institutions, banks and brokers. At 2010 year-end, BRE Bank was covered by 21 national and international institutions whose analysts gave recommendations for BRE Bank shares. Most of the recommendations were neutral. Two analyst recommendations for BRE were positive ("Buy" or "Accumulate"), thirteen were neutral ("Hold"), and six were negative ("Sell" or "Reduce").

The investor relations activity was recognised by analysts and investors. In 2010, BRE Bank was awarded in a prestigious Euromoney ranking of the best managed companies in Central and Eastern Europe and took second place in the category "Most Accessible Senior Management". BRE Bank ranked third in the category "Best Investor Relations in Poland" in the European Investor Relations ranking of Institutional Investor. BRE Bank was also nominated in the IR Magazine ranking of "Best Investor Relations in Poland".

XVIII. Statements of the Management Board

True and Fair Picture in the Presented Reports

The Management Board of BRE Bank SA declares that according to their best knowledge:

- The annual consolidated financial statement and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of BRE Bank SA Group as well as its financial performance,
- The report of the Management Board on the business of the BRE Bank Group in 2010 presents a true picture of the developments, achievements, and situation of the BRE Bank SA Group, including a description of the main risks and threats.

Appointment of the Auditor

The Auditor authorised to audit financial statements performing the audit of the annual financial statements of the BRE Bank SA Group - PricewaterhouseCoopers Sp. z o.o. (PwC) was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law and professional standards.

Signatures of the Members of the Management Board of BRE Bank SA

Data	First and last name	Position	Signature
28.02.2011	Cezary Stypułkowski	President of the Management Board, General Director of the Bank	
28.02.2011	Karin Katerbau	Deputy President of the Management Board, Chief Financial Officer	
28.02.2011	Wiesław Thor	Deputy President of the Management Board, Chief Risk Officer	
28.02.2011	Przemysław Gdański	Member of the Management Board, Head of Corporate Banking	
28.02.2011	Hans - Dieter Kemler	Member of the Management Board, Head of Investment Banking & Markets	
28.02.2011	Jarosław Mastalerz	Member of the Management Board, Head of Retail Banking	
28.02.2011	Christian Rhino	Member of the Management Board, Head of Operations & Information Technology	

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