BRE BANK SA

Our people make the difference.

BRE Bank SA Group

IFRS Condensed Consolidated Financial Statements for the first half of 2012

Contents

Selected Financial Data

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000		in EUR'000	
		1st Half of 2012 period from 01.01.2012 to 30.06.2012	1st Half of 2011 period from 01.01.2011 to 30.06.2011	1st Half of 2012 period from 01.01.2012 to 30.06.2012	1st Half of 2011 period from 01.01.2011 to 30.06.2011
I.	Interest income	2 172 642	1 827 190	514 283	460 563
II.	Fee and commission income	645 289	636 711	152 746	160 490
III.	Net trading income	180 985	176 655	42 841	44 528
IV.	Operating profit	817 780	716 016	193 576	180 479
V.	Profit before income tax	817 780	716 016	193 576	180 479
VI.	Net profit attributable to Owners of BRE Bank SA	650 589	542 879	154 000	136 838
VII.	Net profit attributable to non-controlling interests	172	7 568	41	1 908
VIII.	Net cash flows from operating activities	(2 052 836)	145 507	(485 924)	36 677
IX.	Net cash flows from investing activities	(99 033)	(100 360)	(23 442)	(25 297)
X.	Net cash flows from financing activities	(416 832)	(1 090 973)	(98 668)	(274 991)
XI.	Net increase / decrease in cash and cash equivalents	(2 568 701)	(1 045 826)	(608 034)	(263 611)
XII.	Earnings per ordinary share (in PLN/EUR)	15.45	12.90	3.66	3.25
XIII.	Diluted earnings per ordinary share (in PLN/EUR)	15.43	12.88	3.65	3.25
XIV.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE GROUP		in PLN'000			in EUR'000		
		As at			As at		
		30.06.2012	31.12.2011	30.06.2011	30.06.2012	31.12.2011	30.06.2011
I.	Total assets	95 044 775	98 875 647	88 706 886	22 304 174	22 386 263	22 251 263
II.	Amounts due to the Central Bank	-	-	-	-	-	-
III.	Amounts due to other banks	23 900 747	27 390 809	26 258 873	5 608 792	6 201 505	6 586 784
IV.	Amounts due to customers	52 189 951	54 244 388	46 447 740	12 247 425	12 281 377	11 650 966
V.	Equity attributable to Owners of BRE Bank SA	8 800 233	8 048 755	7 496 162	2 065 152	1 822 305	1 880 340
VI.	Non-controlling interests	24 082	23 910	103 283	5 651	5 413	25 908
VII.	Share capital	168 411	168 411	168 347	39 521	38 130	42 228
VIII.	Number of shares	42 102 746	42 102 746	42 086 674	42 102 746	42 102 746	42 086 674
IX.	Book value per share (in PLN/EUR)	209.02	191.17	178.11	49.05	43.28	44.68
X.	Capital adequacy ratio	14.84	14.96	16.08	14.84	14.96	16.08

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 30 June 2012: EUR 1 = PLN 4.2613, exchange rate as at 31 December 2011: EUR 1 = PLN 4.4168 and exchange rate as at 30 June 2011: EUR 1 = PLN 3.9866.
- 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 the first half of 2012 and the first half of 2011: EUR 1 = PLN 4.2246 and 1 EUR = PLN 3.9673 respectively.

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

Consolidated Income Statement

	Note	Period from 01.01.2012 to 30.06.2012	Period from 01.01.2011 to 30.06.2011
Interest income		2 172 642	1 827 190
Interest expense		(1 067 574)	(779 971)
Net interest income	5	**1 105 068**	**1 047 219**
Fee and commission income		645 289	636 711
Fee and commission expense		(204 808)	(221 115)
Net fee and commission income	6	**440 481**	**415 596**
Dividend income	7	2 662	2 661
Net trading income, including:	8	180 985	176 655
Foreign exchange result		*152 702*	*159 268*
Other trading income and result on hedge accounting		*28 283*	*17 387*
Gains less losses from investment securities, investments in subsidiaries and associates	9	36 494	(6 805)
Other operating income	10	132 255	137 663
Net impairment losses on loans and advances	11	(220 778)	(172 730)
Overhead costs	12	(699 997)	(717 553)
Amortization and depreciation		(98 939)	(99 714)
Other operating expenses	13	(60 451)	(66 976)
Operating profit		**817 780**	**716 016**
Profit before income tax		**817 780**	**716 016**
Income tax expense		(167 019)	(165 569)
Net profit		**650 761**	**550 447**
Net profit attributable to:			
- Owners of BRE Bank SA		650 589	542 879
- Non-controlling interests		172	7 568
Net profit attributable to Owners of BRE Bank SA		**650 589**	**542 879**
Weighted average number of ordinary shares	14	**42 102 746**	**42 086 674**
Earnings per ordinary share (in PLN)	14	**15.45**	**12.90**
Weighted average number of ordinary shares for diluted earnings	14	**42 160 766**	**42 138 416**
Diluted earnings per ordinary share (in PLN)	14	**15.43**	**12.88**

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

Consolidated Statement of Comprehensive Income

	Period from 01.01.2012 to 30.06.2012	Period from 01.01.2011 to 30.06.2011
Net profit	**650 761**	**550 447**
Other comprehensive income net of tax	**94 934**	**40 375**
Exchange differences on translation of foreign operations (net)	(1 547)	4 028
Change in valuation of available for sale financial assets (net)	96 481	36 347
Total comprehensive income net of tax, total	**745 695**	**590 822**
Total comprehensive income (net), attributable to:		
- Owners of BRE Bank SA	745 523	582 180
- Non-controlling interests	172	8 642

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

Consolidated Statement of Financial Position

ASSETS	Note	30.06.2012	31.12.2011	30.06.2011
Cash and balances with the Central Bank		928 732	1 038 356	1 799 272
Loans and advances to banks		2 499 765	4 008 874	2 800 019
Trading securities	15	866 528	991 559	1 394 668
Derivative financial instruments	16	1 302 062	1 506 595	1 044 445
Loans and advances to customers	17	67 889 397	67 851 516	60 125 525
Hedge accounting adjustments related to fair value of hedged items		1 623	1 924	770
Investment securities	18	15 194 988	16 697 212	16 671 823
Non-current assets held for sale	24	-	-	1 252 292
Pledged assets	15, 18	3 761 232	4 339 523	1 225 416
Intangible assets	19	409 753	436 769	411 982
Tangible fixed assets	20	796 474	832 455	759 872
Current income tax assets		1 385	4 728	4 198
Deferred income tax assets	23	315 608	307 052	257 215
Other assets		1 077 228	859 084	959 389
Total assets		**95 044 775**	**98 875 647**	**88 706 886**
EQUITY AND LIABILITIES				
Amounts due to the Central Bank		-	-	-
Amounts due to other banks		23 900 747	27 390 809	26 258 873
Derivative financial instruments	16	1 920 410	1 862 747	1 207 485
Amounts due to customers	21	52 189 951	54 244 388	46 447 740
Debt securities in issue		3 162 332	1 735 988	1 466 784
Subordinated liabilities		3 375 356	3 456 200	3 139 856
Other liabilities		1 371 450	1 723 856	1 498 411
Current income tax liabilities		124 155	235 568	102 911
Deferred income tax liabilities	23	1 566	258	240
Provisions	22	174 493	153 168	152 165
Liabilities held for sale	24	-	-	832 976
Total liabilities		**86 220 460**	**90 802 982**	**81 107 441**
Equity				
Equity attributable to Owners of BRE Bank SA		**8 800 233**	**8 048 755**	**7 496 162**
Share capital:		**3 493 812**	**3 493 812**	**3 493 698**
- Registered share capital		168 411	168 411	168 347
- Share premium		3 325 401	3 325 401	3 325 351
Retained earnings:		**5 149 701**	**4 493 157**	**3 902 017**
- Profit from the previous years		4 499 112	3 358 185	3 359 138
- Profit for the current year		650 589	1 134 972	542 879
Other components of equity		**156 720**	**61 786**	**100 447**
Non-controlling interests		**24 082**	**23 910**	**103 283**
Total equity		**8 824 315**	**8 072 665**	**7 599 445**
Total equity and liabilities		**95 044 775**	**98 875 647**	**88 706 886**
Capital adequacy ratio *		**14.84**	**14.96**	**16.08**
Book value		**8 800 233**	**8 048 755**	**7 496 162**
Number of shares		**42 102 746**	**42 102 746**	**42 086 674**
Book value per share (in PLN)		**209.02**	**191.17**	**178.11**

* Regulatory capital for credit risk included in the calculation of the adequacy ratio was determined using standardized approach in accordance with the annex No. 4 to the Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 (with further amendments).

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

Consolidated Statement of Changes in Equity

Changes from 1 January to 30 June 2012

	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	Valuation of available for sale financial assets			
Equity as at 1 January 2012	**168 411**	**3 325 401**	**2 334 675**	**81 174**	**841 953**	**1 235 355**	**-**	**1 921**	**59 865**	**8 048 755**	**23 910**	**8 072 665**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**650 589**	**(1 547)**	**96 481**	**745 523**	**172**	**745 695**
Transfer to General Risk Fund	-	-	-	-	104 000	(104 000)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	1 018 829	10 000	-	(1 028 829)	-	-	-	-	-	-
Stock option program for employees	-	-	-	5 955	-	-	-	-	-	5 955	-	5 955
- value of services provided by the employees	-	-	-	*5 955*	-	-	-	-	-	*5 955*	-	*5 955*
Equity as at 30 June 2012	**168 411**	**3 325 401**	**3 353 504**	**97 129**	**945 953**	**102 526**	**650 589**	**374**	**156 346**	**8 800 233**	**24 082**	**8 824 315**

Changes from 1 January to 31 December 2011

	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	Valuation of available for sale financial assets			
Equity as at 1 January 2011	**168 347**	**3 323 465**	**1 814 954**	**55 300**	**778 953**	**707 138**	**-**	**50**	**61 096**	**6 909 303**	**167 982**	**7 077 285**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1 134 972**	**1 871**	**(1 231)**	**1 135 612**	**11 071**	**1 146 683**
Dividends paid	-	-	-	-	-	-	-	-	-	-	(6 978)	(6 978)
Transfer to General Risk Fund	-	-	-	-	63 000	(63 000)	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	17 000	-	(17 000)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	519 721	-	-	(519 721)	-	-	-	-	-	-
Issue of shares	64	-	-	-	-	-	-	-	-	64	-	64
Change in the scope of consolidation/increase of share in consolidated company	-	-	-	(513)	-	(7 034)	-	-	-	(7 547)	(148 165)	(155 712)
Stock option program for employees	-	1 936	-	9 387	-	-	-	-	-	11 323	-	11 323
- value of services provided by the employees	-	-	-	*11 323*	-	-	-	-	-	*11 323*	-	*11 323*
- settlement of exercised options	-	*1 936*	-	*(1 936)*	-	-	-	-	-	-	-	-
Equity as at 31 December 2011	**168 411**	**3 325 401**	**2 334 675**	**81 174**	**841 953**	**100 383**	**1 134 972**	**1 921**	**59 865**	**8 048 755**	**23 910**	**8 072 665**

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

Changes from 1 January to 30 June 2011

	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	Valuation of available for sale financial assets			
Equity as at 1 January 2011	**168 347**	**3 323 465**	**1 814 954**	**55 300**	**778 953**	**707 138**	**-**	**50**	**61 096**	**6 909 303**	**167 982**	**7 077 285**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**542 879**	**2 954**	**36 347**	**582 180**	**8 642**	**590 822**
Dividends paid	-	-	-	-	-	-	-	-	-	-	(6 978)	(6 978)
Transfer to General Risk Fund	-	-	-	-	63 000	(63 000)	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	17 000	-	(17 000)	-	-	-	-	-	-
Transfer to supplementary capital	-	-	519 721	-	-	(519 721)	-	-	-	-	-	-
Change in the scope of consolidation/increase of share in consolidated company	-	-	-	(513)	-	-	-	-	-	(513)	(66 363)	(66 876)
Stock option program for employees	-	1 886	-	3 306	-	-	-	-	-	5 192	-	5 192
- value of services provided by the employees	-	-	-	*5 192*	-	-	-	-	-	*5 192*	-	*5 192*
- settlement of exercised options	-	*1 886*	-	*(1 886)*	-	-	-	-	-	-	-	-
Equity as at 30 June 2011	**168 347**	**3 325 351**	**2 334 675**	**75 093**	**841 953**	**107 417**	**542 879**	**3 004**	**97 443**	**7 496 162**	**103 283**	**7 599 445**

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

Consolidated Statement of Cash Flows

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
A. Cash flow from operating activities	**(2 052 836)**	**145 507**
Profit before income tax	**817 780**	**716 016**
Adjustments:	***(2 870 616)***	***(570 509)***
Income taxes paid	(304 158)	(32 993)
Amortisation, including amortisation of fixed assets provided under operating lease	124 047	119 492
Foreign exchange (gains) losses related to financing activities	(640 144)	827 948
(Gains) losses on investing activities	(12 620)	(10)
Impairment of financial assets	105	-
Dividends received	(2 675)	(2 833)
Interest received	(1 491 052)	(1 269 069)
Interest paid	938 004	682 361
Changes in loans and advances to banks	(668 827)	112 401
Changes in trading securities	188 660	(102 424)
Changes in assets and liabilities on derivative financial instruments	262 196	26 185
Changes in loans and advances to customers	1 298 269	(711 143)
Changes in investment securities	2 011 403	2 134 575
Changes in other assets	(219 672)	(77 334)
Changes in amounts due to other banks	(1 701 028)	(1 763 406)
Changes in amounts due to customers	(2 682 861)	(933 888)
Changes in debt securities in issue	306 044	39 810
Changes in provisions	21 325	(11 376)
Changes in other liabilities	(297 632)	391 195
Net cash generated from operating activities	**(2 052 836)**	**145 507**
B.Cash flows from investing activities	**(99 033)**	**(100 360)**
Investing activity inflows	**30 232**	**13 585**
Disposal of shares in subsidiaries, net of cash disposed	13 200	-
Disposal of intangible assets and tangible fixed assets	14 357	10 512
Dividends received	2 675	2 833
Other investing inflows	-	240
Investing activity outflows	**129 265**	**113 945**
Purchase of intangible assets and tangible fixed assets	129 265	113 945
Net cash used in investing activities	**(99 033)**	**(100 360)**
C. Cash flows from financing activities	**(416 832)**	**(1 090 973)**
Financing activity inflows	**2 795 721**	**1 630 346**
Proceeds from loans and advances from other banks	-	427 209
Issue of debt securities	2 795 721	1 203 137
Financing activity outflows	**3 212 553**	**2 721 319**
Repayments of loans and advances from other banks	1 344 888	1 315 878
Repayments of other loans and advances from other entities	5 271	4 866
Redemption of debt securities	1 675 421	1 147 987
Acquisition of shares in subsidiaries	-	67 276
Payments of financial lease liabilities	178	203
Dividends and other payments to shareholders	-	6 978
Interest paid from loans and advances received from other banks and subordinated liabilities	186 795	178 131
Net cash generated from financing activities	**(416 832)**	**(1 090 973)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(2 568 701)**	**(1 045 826)**
Effects of exchange rate changes on cash and cash equivalents	(3 215)	6 011
Cash and cash equivalents at the beginning of the reporting period	4 675 211	5 805 816
Cash and cash equivalents at the end of the reporting period	**2 103 295**	**4 766 001**

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 and other) 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 30 June 2012, 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 Register (KRS) under number KRS 0000025237.

According to the Polish Classification of Business Activities, the business of the Bank was classified as 'Other monetary intermediation' under number 6419Z. According to the Stock Exchange Quotation, the Bank is classified as 'Banks' sector as part of the 'Finance' macro-sector.

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

The Bank provides services to Polish and international corporations and individuals, both in the local currency (Polish Zloty, PLN) and in foreign currencies.

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

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

As at 30 June 2012 the headcount of BRE Bank SA amounted to 4 686 FTEs (Full Time Equivalents) and of the Group to 6 145 FTEs (30 June 2011: Bank 4 581 FTEs, Group 6 252 FTEs).

As at 30 June 2012 the employment in BRE Bank SA was 5 619 persons and in the Group 8 070 persons (30 June 2011: Bank 5 495 persons, Group 8 136 persons).

Corporates and Financial Markets Segment, including:

Corporates and Institutions

- BRE Holding Sp. z o.o., subsidiary
- BRE Faktoring SA (previously Polfactor SA), subsidiary
- BRE Leasing Sp. z o.o., subsidiary
- Garbary Sp. z o.o., subsidiary
- Transfinance a.s., subsidiary
- BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, subsidiary

Trading and Investment

- BRE Bank Hipoteczny SA, subsidiary
- BRE Finance France SA, subsidiary
- Dom Inwestycyjny BRE Banku SA, subsidiary

Retail Banking Segment (including Private Banking)

- Aspiro SA, subsidiary
- BRE Wealth Management SA, subsidiary
- BRE Ubezpieczenia TUiR SA, subsidiary, insurer
- BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent
- BRE Agent Ubezpieczeniowy Sp. z o.o., subsidiary, insurance agent

Other

- BRE Centrum Operacji Sp. z o.o. (previously Centrum Rozliczeń i Informacji CERI Sp. z o.o.), subsidiary
- BRE.locum SA, subsidiary

Other information concerning companies of the Group

From the first quarter of 2012, the Group started to consolidate BRE Agent Ubezpieczeniowy Sp. z o.o. its subsidiary entity. The core business of the company is to provide services as an insurance agent. Its direct parent entity is BRE Ubezpieczenia TuiR SA. The Bank holds 100% shares in the company indirectly, through Aspiro SA and BRE Ubezpieczenia TUiR SA.

On 28 June 2012, the share capital of Aspiro SA was increased by PLN 109 342 thousand by way of issuing 109 342 B-series ordinary registered shares. The shares were acquired by BRE Bank in a private placement and covered by a non-financial contribution in the form of 12 941 177 ordinary registered shares of BRE Ubezpieczenia TUiR SA. The transaction resulted from the reorganization of the retail sales network.

A detailed description of the business of the companies of BRE Bank SA Group was presented in the Explanatory Notes to the Consolidated Financial Statements for 2011, published on 2 March 2012.

Additionally, information concerning the business conducted by the Group's entities is presented under Note 4 'Business Segments' of these Condensed Consolidated Financial Statements.

2. Description of Relevant Accounting Policies

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

2.1. Accounting Basis

These Condensed Consolidated Financial Statements of BRE Bank SA Group have been prepared for the 6-month period ended
30 June 2012.

The presented Condensed Consolidated Financial Statements for the first half of 2012 fulfill the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting', concerning interim financial statements.

The presented Condensed Consolidated Financial Statements for the first half of 2012 should be read in conjunction with the Consolidated Financial Statements of BRE Bank SA Group for the year ended 31 December 2011, which have been prepared in accordance with IFRSs.

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 Note 3.

2.2. Consolidation

Subsidiaries

Subsidiaries comprise 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).

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction (i.e. transactions with owners in their capacity as owners).

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 policies 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 comprehensive income since the date of acquisition – in other comprehensive income. 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. Accounting policies applied by associates have been adjusted, wherever necessary, to assure consistency with the accounting principles applied by the Group.

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

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

Company	30.06.2012		30.06.2011	
	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 Leasing 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 Agent Ubezpieczeniowy Sp. z o.o.	100%	full	-	-
BRE Wealth Management SA	100%	full	100%	full
BRE Centrum Operacji Sp. z o.o. (previously 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 Faktoring SA (previously Polfactor SA)	100%	full	78.12%	full
Transfinance a.s.	100%	full	78.12%	full
BRE Finance France SA	99.98%	full	99.98%	full
BRE.locum SA	79.99%	full	79.99%	full
BRE GOLD FIZ Aktywów Niepublicznych	100% of certificates	full	100% of certificates	full
Intermarket Bank AG	-	-	56.24%	full
Magyar Factor zRt.	-	-	78.12%	full

From the first quarter of 2012, the Group started to consolidate BRE Agent Ubezpieczeniowy Sp. z o.o. its subsidiary entity.

Starting from the end of July 2011, the Group stopped consolidation of its two subsidiaries, Intermarket Bank AG and Magyar Factor zRt. due to the completed sale of their shares.

2.3. Interest Income and Expenses

All interest income on financial instruments carried at amortised cost using the effective interest rate method is 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 Group estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

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

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

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

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

Income and expenses related to the interest component of the result on interest rate derivatives and resulting from current calculation of swap points on currency derivatives classified into banking book are presented in the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedge are presented in the interest result in the position Interest income/expense on derivatives concluded under the hedge accounting.

In the current reporting period, the Group has introduced changes in the presentation of operating lease revenue as well as income and expense of the interest component of the result on derivatives. Detailed information concerning above mentioned changes in the presentation of interest income and expenses is presented under note 2.32 'Comparative Data'.

2.4. Fee and Commission Income

Income on account of fees and commissions is recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the granting of loans which are likely to be drawn down are deferred (together with the related direct costs) and recognised as adjustments of the effective interest rate charge on the loan. Fees on account of syndicated loans are recognised as income at the time of closing of the process of organisation of the respective syndicate, if the 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. 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 payment and credit cards-related fees, 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 relate to 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.

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

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the Income Statement upon initial recognition. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the 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 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.

<u>Loans and Receivables</u>

Loans and receivables consist of financial assets not classified as derivative instruments, with payments either determined or possible to determine, not listed on an active market. They arise when the 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 Condensed 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.

Regular way purchases and sales of financial assets at fair value through the Income Statement, held to maturity and available for sale are recognised on the settlement date – the date on which the 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 other comprehensive income is now recognised in the Income Statement. However, interest calculated using the effective interest rate is recognised in the Income Statement. Dividends on available for sale equity instruments are recognised in the Income Statement when the entity's right to receive payment is established.

The fair value of quoted investments in active markets is based on current market prices. If the market for a given financial asset is not an active one, the 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 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 when determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value – is removed from other comprehensive income and recognised in the Income Statement. The above indicated difference should be reduced by the impairment concerning the given asset which was previously recognised in the Income Statement. Impairment losses concerning equity instruments recorded in the Income Statement are not reversed through the Income Statement, but through other comprehensive income. If the fair value of a debt instrument classified as available for sale increases in a subsequent period, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the Income Statement, then the respective impairment loss is reversed in the Income Statement.

Renegotiated agreements

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

When concluding a repo or reverse repo transaction, 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: (i), 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 related to the underlying debt instrument, the option should be separated and fair valued in the consolidated financial statements of the Group; (ii), exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

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

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

Due to the split of derivatives classified into banking book and into trading book, the Group applies a different approach to the presentation of interest income / expense for each of these groups of derivatives that is described in Note 2.3 Interest income and expenses. The remaining result from fair value measurement of derivatives is recognized in Net trading income.

Detailed information on the restatement of comparative data related to changes in the presentation of interest income / expense on derivatives classified into banking book and derivatives concluded under the hedge accounting are included in Note 2.32 Comparative data.

<u>Fair Value Hedges</u>

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

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

<u>Cash Flow Hedges</u>

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

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

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

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting

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

The 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 of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the payment given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (without modification) 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 and 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 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 reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

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

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

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

If it is not possible to estimate the recoverable amount of the individual asset, the 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 a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets (or disposal groups) and its sale must be highly probable, i.e., the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

When criteria for classification to non-current assets held for sale are not met, the 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 deferred income tax on the temporary difference arising between the timing of recognition of income as earned and of costs as incurred according to accounting regulations and according to legal regulations concerning corporate income taxation. A positive net difference is recognised in liabilities as 'Provisions for deferred income tax'. A negative net difference is recognised under 'Deferred income tax assets'. Any change in the balance of the deferred tax assets and liabilities in relation to the previous accounting period is recorded under the item 'Income Tax'. The balance sheet method is applied for the calculation of the deferred corporate income tax.

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

The main temporary differences arise on account of impairment write-offs recognised in relation to the loss of value of credits and granted guarantees of repayment of loans, amortisation of fixed assets and intangible assets, finance leases treated as operating leases for tax purposes, 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 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 Comprehensive Income, 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

<u>BRE Bank SA Group as a Lessor</u>

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.

- Net revenue from operating lease

Revenue from operating lease and the depreciation cost of fixed assets provided by the Group under operating lease, incurred in order to obtain this revenue are recognized in net amount as other operating income in the profit and loss account.

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.

In the current reporting period the Group has introduced changes in the presentation of operating lease revenue and related depreciation cost of fixed assets provided by the Group under operating lease. Detailed information regarding above mentioned adjustments are presented under note 2.32 'Comparative Data'.

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

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 over 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 the part of the program based on shares of the ultimate parent 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 owners of the Bank, and non-controlling 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 Bank by the Bank the amount paid reduces the value of equity as own shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

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

- Share Issue Costs

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

2.29. 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 comprehensive income.

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

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

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 6 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of Other Comprehensive Income.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. 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 for the Group for annual periods starting on 1 January 2012:

Standards and Interpretations approved by the European Union:

- IFRS 7 (Revised), Disclosures - Transfers of financial assets, binding for annual periods starting on or after 1 July 2011.

The Group believes that the application of the standard mentioned above did not have a significant effect on the financial statements in the period of its 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:

- IAS 19 (Revised), Employee Benefits, binding for annual periods starting on or after 1 January 2013.
- Amendments to IAS 1, Presentation of Items of Other Comprehensive Income, binding for annual periods starting on or after 1 July 2012.

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

- 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 9, Financial Instruments Part 1: Recognition and Measurement, binding for annual periods starting on or after 1 January 2015.
- IFRS 10, Consolidated Financial Statements (replaces the consolidation requirements in IAS 27), binding for annual periods starting on or after 1 January 2013.
- IFRS 11, Joint Arrangements, binding for annual periods starting on or after 1 January 2013.
- IFRS 12, Disclosure of Interests in Other Entities, binding for annual periods starting on or after 1 January 2013.
- IFRS 13, Fair Value Measurement, binding for annual periods starting on or after 1 January 2013.
- IAS 12 (Revised), Income Taxes: Recovery of Underlying Assets, binding for annual periods starting on or after 1 January 2012.
- IAS 27, Separate Financial Statements (together with IFRS 10 Supersedes IAS 27 Consolidated and Separate Financial Statements), binding for annual periods starting on or after 1 January 2013.
- IAS 28, Investments in Associates and Joint Ventures (Supersedes IAS 28, Investments in Associates), binding for annual periods starting on or after 1 January 2013.
- Amendments to IAS 32, Offsetting Financial Assets and Financial Libilities, binding for annual periods starting on or after 1 January 2014.
- Amendments to IFRS 7, Disclosure - Offsetting Financial Assets and Financial Libilities, binding for annual periods starting on or after 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance, binding for annual periods starting on or after 1 January 2013.
- Improvements to IFRS 2009 - 2011, in majority binding for annual periods starting on or after 1 January 2013.

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

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

Starting from the financial statements for the fourth quarter of 2011, the Group ceased to present debt securities eligible for rediscounting at the Central Bank in a separate line in the Statement of Financial Position and present them within the item 'Loans and advances to customers'.

Beginning from the year 2012, changes were introduced in the presentation of the result on FX swaps as well as in the presentation of the result on IRS transactions concluded under fair value hedge were introduced. Following IFRS 7 Appendix B point 5E the Group decomposed the result on derivatives classified into banking book as well as the result on derivatives held for hedging and distinguished the interest component resulting from the current calculation of swap points and the remaining result from fair value measurement.

After changes described above, the measurement components of derivatives classified into banking book as well as the measurement components of derivatives concluded under the hedge accounting are presented as follows: the result of the current accrual of the interest component, including the swap points is presented in the interest results as Interest income / expense, and the remaining result from fair value measurement is presented in 'Net trading income'.

The change of presentation relates mainly to changes in the structure of obtaining the financing by BRE Bank Group. In Group's opinion the above presentation of the interest measurement component of the result on financial derivatives classified into banking book as well as the presentation of the interest measurement component of the result on derivatives concluded under the hedge accounting better reflects the economic nature of transactions concluded for the financing of assets in foreign currencies.

In the current reporting period the Group has introduced changes in the presentation of operating lease revenue and related depreciation cost of fixed assets provided by the Group under operating lease. As a result of this change, revenue and depreciation cost from operating lease transactions are presented in net amount as 'Other operating income'. Previously, revenue from lease activities was presented as interest income, while depreciation costs of assets provided by the Group under operating lease were presented as depreciation costs. This change has been introduced in order to present the Group's lease activity concerning operating lease in a better and more transparent way.

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

The restatement had no impact on the profit and equity in presented comparative data as at 30 June 2011.

The following table presents the impact of the restatement on presented comparative data in the consolidated financial statements, which were introduced during the reporting years 2011 and 2012.

Changes in the BRE Bank Group Consolidated Statement of Financial Position as at 30 June 2011:

	30.06.2011 before adjustments	presentation adjustments	30.06.2011 after adjustments
Debt securities eligible for rediscounting at the Central Bank	15 268	(15 268)	-
Loans and advances to customers	60 110 257	15 268	60 125 525
Total assets	88 706 886	-	88 706 886

Changes in the BRE Bank Group Consolidated Income Statement for the period from 1 January to 30 June 2011:

	30.06.2011 before adjustments	presentation adjustments	30.06.2011 after adjustments
Interest income	1 828 981	(1 791)	1 827 190
Interest expense	(779 971)	-	(779 971)
Net interest income	**1 049 010**	**(1 791)**	**1 047 219**
Net trading income, including:	201 387	(24 732)	176 655
Foreign exchange result	*179 729*	*(20 461)*	*159 268*
Other trading income and result on hedge accounting	*21 658*	*(4 271)*	*17 387*
Other operating income	130 918	6 745	137 663
Amortization and depreciation	(119 492)	19 778	(99 714)
Profit before income tax	716 016	-	716 016
Net profit	550 447	-	550 447

3. 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 recognized 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 verified.

If the current value of estimated cash flows for portfolio of loans and advances, individually impaired, changed by +/-10%, the estimated loans and advances impairment would either decrease by PLN 91.6 million or increase by PLN 122.2 million respectively. The above indicated estimation was performed for the portfolio of loans and advances impaired on the basis of individual analysis 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, observable market data originating from an active market are used in the models.

<u>Technical-insurance provisions</u>

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 30 June 2012, provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial methods (Naive Loss Ratio and Bornhuetter-Ferguson). The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

4. 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 its 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:

- <u>The Retail Banking segment</u>, 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 (mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, 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, BRE Ubezpieczenia Sp. z o.o. and BRE Agent Ubezpieczeniowy Sp. z o.o.
- <u>The Corporates and Financial Markets segment</u>, 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 offer 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., BRE Faktoring SA (previously Polfactor SA), BRE Holding Sp. z o.o., Transfinance a.s., Garbary Sp. z o.o. as well as BRE Gold Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. In 2011, this business line includes also the financial results achieved by Intermarket Bank AG and Magyar Factor zRt. till the date of sale of their shares held by the Group.
  - *The Trading and Investment* Activity sub-segment (business line) consists primarily of treasury and financial markets operations, 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. 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 Bank Hipoteczny SA, Dom Inwestycyjny BRE Banku SA and BRE Finance France SA.

- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under 'Other'. This segment includes the results of BRE.locum SA and BRE Centrum Operacji Sp. z o.o. (previously 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, is 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).

At the beginning of 2012 certain activities that are presented in the segment Corporates and Markets were reassigned between its two sub-segments. The reassignment comprised a shift of Financial Institutions area from Trading and Investment Activity to Corporates and Institutions. The amendment was made in order to better reflect requirements of performance measurement.

According to above-mentioned change, the comparative data concerning business segments of the Group were restated to reflect changes in presentation made to the current financial year.

Presentation of segments' results changed also due to including, from the start of 2012, internal settlements regarding long-term funding costs in net interest income of segments.

The primary basis used by the Group in the segment reporting is business line division. Additionally, the Group's activity is presented by geographical segment reporting broken down into Poland and foreign countries.

Business segment reporting on the activities of BRE Bank Group
for the period from 1 January 2012 to 30 June 2012
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	**361 190**	**116 829**	**633 228**	**(6 179)**	**-**	**1 105 068**	**1 105 068**
- sales to external clients	277 398	442 297	389 206	(3 833)	-	1 105 068	
- sales to other segments	83 792	(325 468)	244 022	(2 346)	-	-	
Net fee and commission income	**166 611**	**22 000**	**241 679**	**(920)**	**11 111**	**440 481**	**440 481**
- sales to external clients	155 461	30 448	244 381	(920)	11 111	440 481	
- sales to other segments	11 150	(8 448)	(2 702)	-	-	-	
Dividend income	**-**	**103**	**20**	**2 539**	**-**	**2 662**	**2 662**
Trading income	**89 845**	**27 468**	**63 459**	**213**	**-**	**180 985**	**180 985**
Gains less losses from investment securities, investments in subsidiaries and associates	**(97)**	**26 216**	**-**	**10 375**	**-**	**36 494**	**36 494**
Other operating income	**32 824**	**810**	**59 792**	**60 623**	**(21 794)**	**132 255**	**132 255**
Net impairment losses on loans and advances	**(99 437)**	**(3 465)**	**(117 871)**	**(5)**	**-**	**(220 778)**	**(220 778)**
Overhead costs	**(249 448)**	**(79 944)**	**(362 488)**	**(18 800)**	**10 683**	**(699 997)**	**(699 997)**
Amortization and depreciation	**(39 691)**	**(7 842)**	**(49 854)**	**(1 552)**	**-**	**(98 939)**	**(98 939)**
Other operating expenses	**(10 392)**	**(2 231)**	**(11 522)**	**(36 306)**	**-**	**(60 451)**	**(60 451)**
Gross profit of the segment	**251 405**	**99 944**	**456 443**	**9 988**	**-**	**817 780**	**817 780**
Income tax						(167 019)	(167 019)
Net profit attributable to Owners of BRE Bank SA						650 589	650 589
Net profit attributable to non-controlling interests						172	172
Assets of the segment	**30 732 841**	**31 290 251**	**39 109 948**	**925 853**	**(7 014 118)**	**95 044 775**	**95 044 775**
Liabilities of the segment	**26 102 971**	**35 570 596**	**29 317 610**	**901 808**	**(5 672 525)**	**86 220 460**	**86 220 460**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(48 377)	(9 342)	(21 684)	(975)	-	(80 378)	
Other costs/ income without cash outflows/ inflows*	1 471	(24 601)	2 052	135	(370)	(21 313)	
- other non-cash costs	*(1 120)*	*(524 262)*	*-*	*-*	*1 586*	*(523 796)*	
- other non-cash income	*2 591*	*499 661*	*2 052*	*135*	*(1 956)*	*502 483*	

* 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 2011 to 31 December 2011
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	**604 166**	**312 022**	**1 266 027**	**(12 456)**	**(1 815)**	**2 167 944**	**2 167 944**
- sales to external clients	932 540	409 672	835 267	(7 720)	(1 815)	2 167 944	
- sales to other segments	(328 374)	(97 650)	430 760	(4 736)	-	-	
Net fee and commission income	**340 209**	**63 684**	**414 269**	**(1 317)**	**23 127**	**839 972**	**839 972**
- sales to external clients	321 807	79 354	416 998	(1 314)	23 127	839 972	
- sales to other segments	18 402	(15 670)	(2 729)	(3)	-	-	
Dividend income	**12 257**	**114**	**36**	**2 706**	**-**	**15 113**	**15 113**
Trading income	**152 156**	**45 342**	**148 055**	**1 123**	**-**	**346 676**	**346 676**
Gains less losses from investment securities, investments in subsidiaries and associates	**13 768**	**(1 923)**	**-**	**140**	**-**	**11 985**	**11 985**
Other operating income	**56 689**	**5 949**	**122 977**	**176 215**	**(44 475)**	**317 355**	**317 355**
Net impairment losses on loans and advances	**(209 327)**	**(6 142)**	**(157 998)**	**(3)**	**-**	**(373 470)**	**(373 470)**
Overhead costs	**(546 492)**	**(169 618)**	**(673 493)**	**(105 061)**	**23 163**	**(1 471 501)**	**(1 471 501)**
Amortization and depreciation	**(108 671)**	**(29 207)**	**(108 688)**	**37 802**	**-**	**(208 764)**	**(208 764)**
Other operating expenses	**(26 353)**	**(5 320)**	**(37 264)**	**(109 246)**	**-**	**(178 183)**	**(178 183)**
Gross profit of the segment	**288 402**	**214 901**	**973 921**	**(10 097)**	**-**	**1 467 127**	**1 467 127**
Income tax						(322 692)	(322 692)
Net profit attributable to Owners of BRE Bank SA						1 134 972	1 134 972
Net profit attributable to non-controlling interests						9 463	9 463
Assets of the segment	**29 415 149**	**36 199 274**	**38 963 556**	**958 640**	**(6 660 972)**	**98 875 647**	**98 875 647**
Liabilities of the segment	**28 426 171**	**39 555 893**	**27 461 286**	**783 474**	**(5 423 842)**	**90 802 982**	**90 802 982**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(224 359)	(27 390)	(103 745)	(3 753)	-	(359 247)	
Other costs/ income without cash outflows/ inflows*	1 469	19 523	3 922	(193)	(59)	24 662	
- other non-cash costs	*(2 210)*	*(1 858 655)*	*-*	*(193)*	*(4 732)*	*(1 865 790)*	
- other non-cash income	*3 679*	*1 878 178*	*3 922*	*-*	*4 673*	*1 890 452*	

* 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 30 June 2011
(PLN'000)

	Corporates & Financial Markets		Retail Banking (including Private Banking)	Other	Eliminations	Total figure for the Group	Statement of financial position reconciliation/ income statement reconciliation
	Corporates & Institutions	Trading & Investment					
Net interest income	**310 971**	**140 010**	**601 839**	**(5 601)**	**-**	**1 047 219**	**1 047 219**
- sales to external clients	438 955	217 195	394 591	(3 522)	-	1 047 219	
- sales to other segments	(127 984)	(77 185)	207 248	(2 079)	-	-	
Net fee and commission income	**168 386**	**39 014**	**200 236**	**(1 147)**	**9 107**	**415 596**	**415 596**
- sales to external clients	160 459	45 914	201 262	(1 146)	9 107	415 596	
- sales to other segments	7 927	(6 900)	(1 026)	(1)	-	-	
Dividend income	**-**	**5**	**-**	**2 656**	**-**	**2 661**	**2 661**
Trading income	**74 949**	**28 733**	**73 154**	**(181)**	**-**	**176 655**	**176 655**
Gains less losses from investment securities, investments in subsidiaries and associates	**(6 161)**	**(784)**	**-**	**140**	**-**	**(6 805)**	**(6 805)**
Other operating income	**25 987**	**1 928**	**60 034**	**69 928**	**(20 214)**	**137 663**	**137 663**
Net impairment losses on loans and advances	**(137 191)**	**958**	**(36 497)**	**-**	**-**	**(172 730)**	**(172 730)**
Overhead costs	**(275 180)**	**(84 395)**	**(333 977)**	**(35 108)**	**11 107**	**(717 553)**	**(717 553)**
Amortization and depreciation	**(43 960)**	**(10 615)**	**(43 224)**	**(1 915)**	**-**	**(99 714)**	**(99 714)**
Other operating expenses	**(10 986)**	**(1 196)**	**(18 224)**	**(36 570)**	**-**	**(66 976)**	**(66 976)**
Gross profit of the segment	**106 815**	**113 658**	**503 341**	**(7 798)**	**-**	**716 016**	**716 016**
Income tax						(165 569)	(165 569)
Net profit attributable to Owners of BRE Bank SA						542 879	542 879
Net profit attributable to non-controlling interests						7 568	7 568
Assets of the segment	**24 966 859**	**33 985 958**	**35 683 000**	**1 046 176**	**(6 975 107)**	**88 706 886**	**88 706 886**
Liabilities of the segment	**25 520 604**	**34 851 144**	**25 659 831**	**738 906**	**(5 663 044)**	**81 107 441**	**81 107 441**
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(76 876)	(10 393)	(28 514)	(3 291)	-	(119 074)	
Other costs/ income without cash outflows/ inflows*	2 823	7 450	1 324	35	93	11 725	
- other non-cash costs	*(61)*	*(690 833)*	*1 324*	*35*	*345*	*(689 190)*	
- other non-cash income	*2 884*	*698 283*	*-*	*-*	*(252)*	*700 915*	

* 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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The BRE Bank Group geographical segment reporting

Geographical segment reporting on the acivities of BRE Bank Group for the period from 1 January to 30 June 2012	Poland	Foreign Countries	Total
Net interest income	1 066 344	38 724	1 105 068
Net fee and commission income	431 198	9 283	440 481
Dividend income	2 662	-	2 662
Trading income	180 120	865	180 985
Gains less losses from investment securities, investments in subsidiaries and associates	36 494	-	36 494
Other operating income	131 333	922	132 255
Net impairment losses on loans and advances	(215 220)	(5 558)	(220 778)
Overhead costs	(662 350)	(37 647)	(699 997)
Amortization and depreciation	(96 468)	(2 471)	(98 939)
Other operating expenses	(59 402)	(1 049)	(60 451)
Gross profit of the segment	814 711	3 069	817 780
Income tax			(167 019)
Net profit attributable to Owners of BRE Bank SA			650 589
Net profit attributable to non-controlling interests			172
Assets of the segment, including:	92 925 729	2 119 046	95 044 775
- tangible assets	1 167 188	39 039	1 206 227
- deferred income tax assets	311 633	3 975	315 608
Liabilities of the segment	82 049 005	4 171 455	86 220 460

Geographical segment reporting on the acivities of BRE Bank Group for the period from 1 January to 31 December 2011	Poland	Foreign Countries	Total
Net interest income	2 084 863	83 081	2 167 944
Net fee and commission income	804 341	35 631	839 972
Dividend income	15 113	-	15 113
Trading income	347 611	(935)	346 676
Gains less losses from investment securities, investments in subsidiaries and associates	(15 450)	27 435	11 985
Other operating income	315 511	1 844	317 355
Net impairment losses on loans and advances	(359 405)	(14 065)	(373 470)
Overhead costs	(1 370 646)	(100 855)	(1 471 501)
Amortization and depreciation	(202 985)	(5 779)	(208 764)
Other operating expenses	(169 389)	(8 794)	(178 183)
Gross profit of the segment	1 449 564	17 563	1 467 127
Income tax			(322 692)
Net profit attributable to Owners of BRE Bank SA			1 134 972
Net profit attributable to non-controlling interests			9 463
Assets of the segment, including:	96 784 964	2 090 683	98 875 647
- tangible assets	1 263 923	5 301	1 269 224
- deferred income tax assets	302 965	4 087	307 052
Liabilities of the segment	86 792 697	4 010 285	90 802 982

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Geographical segment reporting on the acivities of BRE Bank Group for the period from 1 January to 30 June 2011	Poland	Foreign Countries	Total
Net interest income	1 002 985	44 234	1 047 219
Net fee and commission income	392 313	23 283	415 596
Dividend income	2 661	-	2 661
Trading income	175 287	1 368	176 655
Gains less losses from investment securities, investments in subsidiaries and associates	(6 805)	-	(6 805)
Other operating income	136 235	1 428	137 663
Net impairment losses on loans and advances	(165 204)	(7 526)	(172 730)
Overhead costs	(661 164)	(56 389)	(717 553)
Amortization and depreciation	(96 873)	(2 841)	(99 714)
Other operating expenses	(62 149)	(4 827)	(66 976)
Gross profit of the segment	717 286	(1 270)	716 016
Income tax			(165 569)
Net profit attributable to Owners of BRE Bank SA			542 879
Net profit attributable to non-controlling interests			7 568
Assets of the segment, including:	85 500 648	3 206 238	88 706 886
- tangible assets	1 122 393	49 461	1 171 854
- deferred income tax assets	252 871	4 344	257 215
Liabilities of the segment	76 291 348	4 816 093	81 107 441

5. Net Interest Income

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Interest income		
Loans and advances including the unwind of the impairment provision discount	1 576 490	1 291 372
Investment securities	413 566	388 662
Cash and short-term placements	62 712	70 438
Trading debt securities	33 976	43 444
Interest income on derivatives classified into banking book	81 341	24 732
Other	4 557	8 542
Total interest income	**2 172 642**	**1 827 190**
Interest expense		
Arising from amounts due to banks	(196 684)	(223 522)
Arising from amounts due to customers	(748 492)	(476 106)
Arising from issue of debt securities	(78 628)	(37 366)
Arising from repo transactions	(9 754)	(11 505)
Other borrowed funds	(31 236)	(26 706)
Interest expense on derivatives concluded under the hedge accounting	(515)	-
Other	(2 265)	(4 766)
Total interest expense	**(1 067 574)**	**(779 971)**

Interest income related to impaired financial assets amounted to PLN 105 654 thousand (30 June 2011: PLN 105 484 thousand).

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6. Net Fee and Commission Income

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Fee and commission income		
Payment cards-related fees	190 685	160 181
Credit-related fees and commissions	116 523	124 383
Commissions from insurance activity	87 550	86 736
Fees from brokerage activity	41 688	59 366
Commissions from bank accounts	60 040	56 557
Commissions from money transfers	45 607	41 370
Commissions due to guarantees granted and trade finance commissions	18 502	19 495
Commission for agency service regarding sale of products of external financial entities	34 403	38 950
Commissions on trust and fiduciary activities	8 486	7 739
Fees from portfolio management services and other management-related fees	3 304	6 036
Other	38 501	35 898
Total fee and commission income	**645 289**	**636 711**
Fee and commission expense		
Payment cards-related fees	(83 168)	(86 151)
Commissions paid to external entities for sale of the Bank's products	(32 103)	(37 344)
Insurance activity-related fees	(4 809)	(13 104)
Discharged brokerage fees	(12 210)	(17 486)
Other discharged fees	(72 518)	(67 030)
Total fee and commision expense	**(204 808)**	**(221 115)**

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Fee and commission income from insurance contracts		
- Income from insurance intermediation	76 875	79 194
- Income from insurance policies administration	10 675	7 542
Total fee and commission income from insurance contracts	**87 550**	**86 736**

7. Dividend Income

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Trading securities	103	5
Securities available for sale	2 559	2 656
Total dividend income	**2 662**	**2 661**

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8. Net Trading Income

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Foreign exchange result	**152 702**	**159 268**
Net exchange differences on translation	196 593	179 462
Net transaction gains/(losses)	(43 891)	(20 194)
Other net trading income and result on hedge accounting	**28 283**	**17 387**
Interest-bearing instruments	24 955	13 911
Equity instruments	852	(795)
Market risk instruments	2 387	4 116
Result on hedge accounting, including:	89	155
- Net profit on hedged items	(301)	770
- Net profit on hedging instruments	390	(615)
Total net trading income	**180 985**	**176 655**

'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, 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.

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

Beginning from the year 2012, the interest component of the result on derivatives classified into banking book and derivatives concluded under the hedge accounting is presented in the interest results in the position Interest income/expense, while the remaining result from fair value measurement is presented in this note in the position Interest – bearing instruments. In connection with the above mentioned, the comparative data presented in these financial statements was respectively restated (Note 2.32).

Detailed information on the impact of changes in the presentation of the result on derivatives classified into banking book and on transactions concluded under the hedge accounting are included in Note 2.15 Derivative financial instruments and in Note 2.32 'Comparative data'.

9. Gains and Losses from Investment Securities, Investments in Subsidiaries and Associates

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	36 599	(1 987)
Impairment of available for sale equity securities	(105)	(4 818)
Total gains and losses from investment securities	**36 494**	**(6 805)**

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

10. Other Operating Income

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	43 450	42 341
Income from insurance activity net	39 609	38 805
Income from services provided	16 925	15 760
Net income from operating lease	9 600	6 745
Income due to release of provisions for future commitments	5 719	12 457
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	38	1 577
Income from compensations, penalties and fines received	187	384
Income from the release of impairment provisions for tangible fixed assets and intangible assets	-	43
Other	16 727	19 551
Total other operating income	**132 255**	**137 663**

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.

Net income from operating lease consists of income from operating lease and related depreciation cost of fixed asset provided by the Group under operating lease, incurred to obtain revenue.

Net income from insurance activity generated for the first half of 2012 and the first half of 2011 is presented below:

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Income from premiums		
- Premiums attributable	86 813	60 595
- Change in provision for premiums	(587)	4 371
Premiums earned	**86 226**	**64 966**
Reinsurer's shares		
- Gross premiums written	(36 045)	(24 495)
- Change in unearned premiums reserve	4 147	5 614
Reinsurer's share in premiums earned	**(31 898)**	**(18 881)**
Net premiums earned	**54 328**	**46 085**

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

Claims and benefits		
- Claims and benefits paid out in the current year including costs of liquidation before tax	(33 017)	(17 342)
- Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax	(4 366)	(4 620)
- Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation	21 761	14 044
- Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation	3 303	1 649
Claims and benefits net	**(12 319)**	**(6 269)**
- Other costs net of reinsurance	(2 165)	(841)
- Other operating income	(68)	30
- Costs of expertise and certificates concerning underwriting risk	(167)	(200)
Total net income from insurance activity	**39 609**	**38 805**

Net income from operating lease for the first half of 2012 and the first half of 2011 is presented below:

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Net income from operating lease, including:		
- Income from operating lease	34 708	26 523
- Depreciation cost of fixed assets provided under operating lease	(25 108)	(19 778)
Total net income from operating lease	**9 600**	**6 745**

11. Net Impairment Losses on Loans and Advances

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Net impairment losses on amounts due from other banks	532	8 118
Net impairment losses on loans and advances to customers	(203 968)	(186 905)
Net impairment losses on off-balance sheet contingent liabilities due to customers	(17 342)	6 057
Total net impairment losses on loans and advances	**(220 778)**	**(172 730)**

12. Overhead Costs

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Staff-related expenses	(386 017)	(391 621)
Material costs	(264 117)	(279 122)
Taxes and fees	(15 884)	(17 632)
Contributions and transfers to the Bank Guarantee Fund	(30 227)	(24 653)
Contributions to the Social Benefits Fund	(3 132)	(3 057)
Other	(620)	(1 468)
Total overhead costs	**(699 997)**	**(717 553)**

IFRS Condensed Consolidated Financial Statements for the first half of 2012 PLN (000's)

Staff-related expenses in the first half of 2012 and the first half of 2011 are presented below:

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Wages and salaries	(312 222)	(318 218)
Social security expenses	(50 453)	(50 073)
Pension fund expenses	-	(496)
Remuneration concerning share-based payments, including:	(6 487)	(6 214)
- share-based payments settled in BRE Bank SA shares	(5 954)	(5 192)
- cash-settled share-based payments	(533)	(1 022)
Other staff expenses	(16 855)	(16 620)
Staff-related expenses, total	**(386 017)**	**(391 621)**

13. Other Operating Expenses

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories	(32 005)	(37 369)
Provisions for future commitments	(10 062)	(8 718)
Donations made	(2 578)	(3 124)
Compensation, penalties and fines paid	(178)	(247)
Costs arising from provisions created for other receivables (excluding loans and advances)	(1 071)	(1 616)
Costs of sale of services	(851)	(651)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(77)	(20)
Impairment provisions created for tangible fixed assets, intangible assets and other non-financial assets	(16)	(99)
Other operating costs	(13 613)	(15 132)
Total other operating expenses	**(60 451)**	**(66 976)**

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.

Costs of sale of services concern non-banking services.

14. Earnings per Share

Earnings per share for 6 months – BRE Bank Group consolidated data

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Basic:		
Net profit attributable to Owners of BRE Bank SA	650 589	542 879
Weighted average number of ordinary shares	42 102 746	42 086 674
Net basic profit per share (in PLN per share)	**15.45**	**12.90**
Diluted:		
Net profit attributable to Owners of BRE Bank SA, applied for calculation of diluted earnings per share	650 589	542 879
Weighted average number of ordinary shares	42 102 746	42 086 674
Adjustments for:		
- share options	58 020	51 742
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 160 766	42 138 416
Diluted earnings per share (in PLN per share)	**15.43**	**12.88**

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15. Trading Securities and Pledged Assets

	30.06.2012			31.12.2011			30.06.2011		
	Trading securities	Pledged assets	Total	Trading securities	Pledged assets	Total	Trading securities	Pledged assets	Total
Debt securities:	833 853	292 668	1 126 521	977 796	485 463	1 463 259	1 376 334	412 040	1 788 374
Issued by government	597 739	292 668	890 407	534 110	485 463	1 019 573	1 015 863	412 040	1 427 903
- government bonds	588 109	292 489	880 598	533 962	485 463	1 019 425	536 235	412 040	948 275
- treasury bills	9 630	179	9 809	148	-	148	479 628	-	479 628
Other debt securities	236 114	-	236 114	443 686	-	443 686	360 471	-	360 471
- bank's bonds	54 942	-	54 942	134 710	-	134 710	138 193	-	138 193
- deposit certificates	31 692	-	31 692	171 134	-	171 134	95 154	-	95 154
- corporate bonds	149 480	-	149 480	137 842	-	137 842	127 124	-	127 124
Equity securities:	32 675	-	32 675	13 763	-	13 763	18 334	-	18 334
- listed	9 925	-	9 925	3 479	-	3 479	11 874	-	11 874
- unlisted	22 750	-	22 750	10 284	-	10 284	6 460	-	6 460
Total debt and equity securities:	866 528	292 668	1 159 196	991 559	485 463	1 477 022	1 394 668	412 040	1 806 708

The note above does not include pledged assets classified as investment securities (Note 18).

16. Derivative Financial Instruments

	30.06.2012		31.12.2011		30.06.2011	
	assets	liabilities	assets	liabilities	assets	liabilities
Held for trading derivative financial instruments classified into banking book	112 398	142 802	142 487	276 921	85 357	65 180
Held for trading derivative financial instruments classified into trading book	1 189 646	1 775 741	1 364 108	1 583 588	959 088	1 141 575
Derivative financial instruments held for hedging	18	1 867	-	2 238	-	730
Total derivative financial instruments assets/liabilities	1 302 062	1 920 410	1 506 595	1 862 747	1 044 445	1 207 485

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 FRA is negotiated individually and each requires payment on a specific future date of the difference between the interest rate set in the agreement and the current market rate on the basis of theoretical amount of capital.

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

Starting from 2011, due to the application of fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic, within interest rate swaps, the Group distinguished instruments that hedge the risk of changes in interest rate. Result from valuation of the hedged item and hedging instruments is presented in this consolidated financial statement in item "Net income from other trading operations and hedge accounting" in the Note 8.

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 Statement of Financial Position but they may not be indicative of the value of the future cash flows or of the present fair value of such instruments. For this reason, the face values do not indicate the level of the 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.

17. Loans and Advances to Customers

	30.06.2012	31.12.2011	30.06.2011
Loans and advances to individuals:	**38 791 144**	**38 688 979**	**35 258 446**
- current accounts	4 432 662	4 133 068	4 118 424
- term loans, including:	34 358 482	34 555 911	31 140 022
housing and mortgage loans	30 544 828	30 942 423	27 791 189
Loans and advances to corporate entities:	**28 374 430**	**27 890 298**	**24 307 684**
- current accounts	5 254 471	3 795 095	3 539 114
- term loans:	21 800 516	21 660 288	17 797 374
corporate & institutional enterprises	6 815 463	6 390 251	4 047 586
medium & small enterprises	14 985 053	15 270 037	13 749 788
- reverse repo / buy-sell-back transactions	474 621	1 153 508	1 958 531
- other	844 822	1 281 407	1 012 665
Loans and advances to public sector	**2 780 245**	**3 178 356**	**2 032 354**
Other receivables	490 158	482 167	741 371
Total (gross) loans and advances to customers	**70 435 977**	**70 239 800**	**62 339 855**
Provisions for loans and advances to customers (negative amount)	(2 546 580)	(2 388 284)	(2 214 330)
Total (net) loans and advances to customers	**67 889 397**	**67 851 516**	**60 125 525**
Short-term (up to 1 year)	21 721 104	22 756 309	20 063 960
Long-term (over 1 year)	46 168 293	45 095 207	40 061 565

The Group presents loans to micro enterprises provided by Retail Banking of BRE Bank (mBank and MultiBank) under the item 'Loans and advances to individuals'.

Loans to micro enterprises in the presented reporting periods amounted to respectively: 30 June 2012 – PLN 3 518 500 thousand, 31 December 2011 – PLN 3 210 276 thousand, 30 June 2011 – PLN 3 067 132 thousand.

Provisions for Loans and Advances

	30.06.2012	31.12.2011	30.06.2011
Incurred but not identified losses			
Gross balance sheet exposure	66 991 335	66 953 040	59 241 311
Impairment provisions for exposures analysed according to portfolio approach	(222 740)	(212 390)	(208 133)
Net balance sheet exposure	**66 768 595**	**66 740 650**	**59 033 178**
Receivables with impairment			
Gross balance sheet exposure	3 444 642	3 286 760	3 098 544
Provisions for receivables with impairment	(2 323 840)	(2 175 894)	(2 006 197)
Net balance sheet exposure	**1 120 802**	**1 110 866**	**1 092 347**

The table below presents the structure of concentration of BRE Bank SA Group's exposures in particular sectors.

No.	Sectors	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%	Principal exposure (in PLN thousand)	%
		30.06.2012		31.12.2011		30.06.2011	
1.	Household customers	38 802 226	55.09%	38 688 979	55.08%	35 258 446	56.56%
2.	Real estate management	4 332 466	6.15%	4 279 605	6.09%	3 716 999	5.96%
3.	Public Administration	2 352 530	3.34%	2 508 575	3.57%	1 662 617	2.67%
4.	Building industry	2 274 681	3.23%	2 277 683	3.24%	1 935 455	3.10%
5.	Liquid fuels and natural gas	1 947 619	2.77%	2 051 906	2.92%	1 206 021	1.93%
6.	Transport and travel agencies	1 882 772	2.67%	1 975 109	2.81%	1 589 448	2.55%
7.	Wholesale trade	1 354 529	1.92%	909 508	1.29%	886 060	1.42%
8.	Metals	1 241 280	1.76%	1 260 732	1.79%	1 180 168	1.89%
9.	Management, consulting, advertising	1 007 189	1.43%	947 286	1.35%	824 268	1.32%
10.	Motorization	871 554	1.24%	809 103	1.15%	689 680	1.11%
11.	Building materials	831 509	1.18%	706 057	1.01%	682 198	1.09%
12.	Leasing and renting	784 971	1.11%	745 406	1.06%	525 798	0.84%
13.	Wood and furniture	780 986	1.11%	774 043	1.10%	715 525	1.15%
14.	Chemistry and plastic processing	773 846	1.10%	851 016	1.21%	676 035	1.08%
15.	Power industry and heat engineering	720 225	1.02%	716 907	1.02%	671 926	1.08%
16.	Telecomunication	655 183	0.93%	525 987	0.75%	441 490	0.71%
17.	Pharmaceuticals and health care	626 782	0.89%	314 964	0.45%	326 781	0.52%
18.	Meat processing industry	576 710	0.82%	528 178	0.75%	576 599	0.92%
19.	Groceries	153 009	0.22%	614 850	0.88%	147 761	0.24%

As at 30 June 2012, the total exposure of the Group in the above sectors (excluding household customers) amounts to 32.89% of the credit portfolio (Year 2011 - 32.44% ; H1 2011 – 29.58%).

18. Investment Securities and Pledged Assets

	30.06.2012			31.12.2011			30.06.2011		
	Investment securities	Pledged assets	Total	Investment securities	Pledged assets	Total	Investment securities	Pledged assets	Total
Debt securities	14 984 152	3 468 564	18 452 716	16 519 445	3 854 060	20 373 505	16 462 050	813 376	17 275 426
Issued by government	10 455 879	3 443 586	13 899 465	9 646 531	3 854 060	13 500 591	12 245 288	813 376	13 058 664
- government bonds	10 358 004	3 442 097	13 800 101	9 646 531	3 852 869	13 499 400	10 986 048	812 212	11 798 260
- treasury bills	97 875	1 489	99 364	-	1 191	1 191	1 259 240	1 164	1 260 404
Issued by central bank	4 165 294	24 978	4 190 272	6 511 488	-	6 511 488	3 999 484	-	3 999 484
Other debt securities	362 979	-	362 979	361 426	-	361 426	217 278	-	217 278
- bank's bonds	328 310	-	328 310	327 811	-	327 811	182 887	-	182 887
- communal bonds	34 669	-	34 669	33 615	-	33 615	34 391	-	34 391
Equity securities:	210 836	-	210 836	177 767	-	177 767	209 773	-	209 773
Listed	174 821	-	174 821	156 556	-	156 556	189 022	-	189 022
Unlisted	36 015	-	36 015	21 211	-	21 211	20 751	-	20 751
Total debt and equity securities:	15 194 988	3 468 564	18 663 552	16 697 212	3 854 060	20 551 272	16 671 823	813 376	17 485 199
Short-term (up to 1 year)	7 806 220	113 519	7 919 739	9 954 397	586 954	10 541 351	7 627 479	1 164	7 628 643
Long-term (over 1 year)	7 388 768	3 355 045	10 743 813	6 742 815	3 267 106	10 009 921	9 044 344	812 212	9 856 556

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

As at 30 June 2012, presented above value of equity securities includes provisions for impairment of PLN 13 362 thousand (31 December 2011: PLN 13 257 thousand, 30 June 2011: PLN 13 257 thousand).

As at 30 June 2012, listed equity securities include fair value of PZU shares in amount of PLN 158 039 thousand (31 December 2011 – PLN 146 210 thousand, 30 June 2011 - PLN 177 439 thousand).

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19. Intangible assets

	30.06.2012	31.12.2011	30.06.2011
Development costs	627	789	896
Goodwill	4 728	4 728	4 728
Patents, licences and similar assets, including:	285 437	313 925	328 446
- computer software	222 020	247 070	257 369
Other intangible assets	8 476	9 231	9 596
Intangible assets under development	110 485	108 096	68 316
Total intangible assets	**409 753**	**436 769**	**411 982**

20. Tangible assets

	30.06.2012	31.12.2011	30.06.2011
Tangible fixed assets, including:	755 418	765 993	723 464
- land	1 175	1 875	1 867
- buildings and structures	223 078	228 823	232 264
- equipment	167 310	168 804	134 159
- vehicles	214 585	216 964	200 214
- other fixed assets	149 270	149 527	154 960
Fixed assets under construction	41 056	66 462	36 408
Total tangible fixed assets	**796 474**	**832 455**	**759 872**

21. Amounts due to Customers

	30.06.2012	31.12.2011	30.06.2011
Individual customers:	**26 978 822**	**26 700 892**	**24 894 968**
Current accounts	20 459 489	16 961 125	15 870 454
Term deposits	6 484 568	9 698 858	8 986 463
Other liabilities:	34 765	40 909	38 051
- liabilities in respect of cash collaterals	23 743	33 215	27 037
- other	11 022	7 694	11 014
Corporate customers:	**24 633 099**	**27 015 436**	**20 988 907**
Current accounts	11 048 075	11 038 961	12 358 692
Term deposits	10 412 640	11 650 679	6 597 931
Loans and advances received	1 777 731	1 848 575	466 863
Repo transactions	821 333	1 818 532	1 164 721
Other liabilities:	573 320	658 689	400 700
- liabilities in respect of cash collaterals	446 833	479 749	328 718
- other	126 487	178 940	71 982
Public sector customers:	**578 030**	**528 060**	**563 865**
Current accounts	305 308	447 481	371 410
Term deposits	241 907	64 783	176 588
Other liabilities:	30 815	15 796	15 867
- liabilities in respect of cash collaterals	-	18	-
- other	30 815	15 778	15 867
Total amounts due to customers	**52 189 951**	**54 244 388**	**46 447 740**

Short-term (up to 1 year)	49 844 433	51 677 581	44 948 193
Long-term (over 1 year)	2 345 518	2 566 807	1 499 547

The Group presents amounts due to micro enterprises provided by Retail Banking of BRE Bank (mBank and MultiBank) under amounts due to individual customers.

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In the presented reporting periods the value of liabilities in respect of current accounts and term deposits accepted from micro enterprises amounted to respectively: 30 June 2012 – PLN 1 856 249 thousand, 31 December 2011 – PLN 1 982 622 thousand, 30 June 2011 – PLN 1 738 128 thousand.

22. Provisions

	30.06.2012	31.12.2011	30.06.2011
For off-balance sheet granted contingent liabilities *	48 187	30 906	33 164
For legal proceedings	34 651	25 644	19 037
Technical-insurance provisions	78 435	80 864	80 292
Other	13 220	15 754	19 672
Total provisions	**174 493**	**153 168**	**152 165**

* includes valuation of financial guarantees

Movements in the Provisions:

	30.06.2012	31.12.2011	30.06.2011
As at the beginning of the period (by type)	**153 168**	**175 325**	**175 325**
For off-balance sheet granted contingent liabilities	30 906	49 674	49 674
For legal proceedings	25 644	19 193	19 193
Technical-insurance provisions	80 864	87 307	87 307
Other	15 754	19 151	19 151
Change in the period (due to)	**21 325**	**(22 157)**	**(23 160)**
- increase of provisions	102 284	171 334	71 237
- release of provisions	(78 258)	(168 892)	(79 279)
- write-offs	(2 551)	(9 722)	(2 962)
- utilization	-	(135)	-
- reclassification	-	(4 243)	(11 784)
- foreign exchange differences	(150)	1 482	(373)
- other	-	(11 981)	1
As at the end of the period (by type)	**174 493**	**153 168**	**152 165**
For off-balance sheet granted contingent liabilities	48 187	30 906	33 164
For legal proceedings	34 651	25 644	19 037
Technical-insurance provisions	78 435	80 864	80 292
Other	13 220	15 754	19 672

23. Assets and Provisions for Deferred Income Tax

Deferred income tax assets	30.06.2012	31.12.2011	30.06.2011
As at the beginning of the period	**646 760**	**570 093**	**570 093**
Changes recognized in the income statement	47 732	79 880	(20 769)
Changes recognized in other comprehensive income	(4 724)	(2 033)	(4 196)
Other changes	-	(1 180)	(790)
As at the end of the period	**689 768**	**646 760**	**544 338**

Provisions for deferred income tax	30.06.2012	31.12.2011	30.06.2011
As at the beginning of the period	**(339 966)**	**(254 350)**	**(254 350)**
Changes recognized in the income statement	(18 119)	(87 358)	(26 981)
Changes recognized in other comprehensive income	(17 576)	1 331	(6 057)
Other changes	(65)	411	25
As at the end of the period	**(375 726)**	**(339 966)**	**(287 363)**

24. Non-current Assets Held for Sale

As at 30 June 2012 and as at 31 December 2011, the Group had no assets classified as non-current assets (disposal group) held for sale.

As at 30 June 2011, the Group classified two of its subsidiary entities - Intermarket Bank AG and Magyar Factor zRt. as non-current assets (disposal group) held for sale. The shares of these entities were sold on 28 July 2011. Detailed information concerning the above transaction were presented in the Group's interim financial reports for the year 2011, starting from Q1 2011 (Note 21). The above transaction was described under Note 45 'Acquisitions and Disposals', of BRE Bank Group Consolidated Financial Statements for the Year 2011.

Selected Explanatory Information

1. Compliance with International Financial Reporting Standards

The presented consolidated report for the first half of 2012 fulfils the requirements of the International Accounting Standard (IAS) 34 'Interim Financial Reporting' relating to interim financial reports.

2. Consistency of Accounting Principles and Calculation Methods Applied to the Drafting of the Half-year Report and the Last Annual Financial Statements

A detailed description of the accounting policy principles of the Group is presented under items 2 and 3 of the Notes to the Condensed Consolidated Financial Statements for the first half of 2012. The accounting policies were applied consistently over all periods presented in the financial statements including restatement described under Note 2.32 'Comparative data'.

3. Seasonal or Cyclical Nature of the Business

The business operations of the Group do not involve significant events that would be subject to seasonal or cyclical variations.

4. Nature and Values of Items Affecting Assets, Liabilities, Equity, Net Profit/(Loss) or Cash Flows, which are Extraordinary in Terms of Their Nature, Magnitude or Exerted Impact

In the first half of 2012, events as indicated above did not occur in the Group.

5. Nature and Amounts of Changes in Estimate Values of Items, which were Presented in Previous Interim Periods of the Current Reporting Year, or Changes of Accounting Estimates Indicated in Prior Reporting Years, if they Bear a Substantial Impact Upon the Current Interim Period

In the first half of 2012, there were no significant changes in estimate values of items presented in previous reporting periods.

6. Issues, Redemption and Repayment of Non-equity and Equity Securities

In the first half of 2012, BRE Bank issued deposit certificates in nominal value of PLN 2 000 000 thousand and redeemed deposit certificates in nominal value of PLN 1 000 000 thousand. Moreover, BRE Bank Hipoteczny issued bonds in amount of PLN 375 000 thousand and mortgage bonds in amount of PLN 400 000 thousand. In the same time, BRE Bank Hipoteczny redeemed bonds in amount of PLN 309 000 thousand and mortgage bonds in amount of PLN 300 000 thousand.

7. Dividends Paid (or Declared) Altogether or Broken Down by Ordinary Shares and Other Shares

Pursuant to the resolution on profit distribution for the year 2011, adopted on 30 March 2012 by the 25th Ordinary General Shareholders Meeting of BRE Bank SA, no dividend was paid for the year 2011.

8. Significant Events after the End of the first Half of 2012, which are not Reflected in the Financial Statements

Events as indicated above did not occur in the Group.

9. Effect of Changes in the Structure of the Entity in the first Half of 2012, Including Business Combinations, Acquisitions or Disposal of Subsidiaries, Long-term Investments, Restructuring, and Discontinuation of Business Activities

- In December 2011, a decision was made to reorganize the outsourcing services area of BRE Bank Group by means of transferring the operations and processes related to services provided to clients from outside BRE Bank Group from Centrum Rozliczeń i Informacji CERI Sp. z o.o. (CERI) to BRE Systems Sp. z o.o. (BRE Systems). On 29 February 2012, an agreement was signed on the sale of 100% of BRE Systems to Commerzbank AG. BRE Bank and CERI sold their respective shareholdings of 0.42% and 99.58% in BRE Systems for a total amount of PLN 13.2 million to Commerzbank AG. The sale transaction was finalized on 2 March 2012.

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

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

- On 28 June 2012, the share capital of Aspiro SA was registered. Detailed description of this event was presented under Note 1 'Information Regarding the Group of BRE Bank SA' of these financial statements.

10. Changes in Contingent Liabilities and Commitments

In the first half of 2012, there were no changes in contingent liabilities and commitments of credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group.

11. Write-offs of the Value of Inventories Down to Net Realisable Value and Reversals of such Write-offs

Events as indicated above did not occur in the Group.

12. Revaluation Write-offs on Account of Impairment of Tangible Fixed Assets, Intangible Assets, or other Assets as well as Reversals of such Write-offs

Events as indicated above did not occur in the Group.

13. Revaluation Write-offs on Account of Impairment of Financial Assets

Data regarding write-offs on account of impairment of financial assets are presented in Note 9 and 11 of these Condensed Consolidated Financial Statements.

14. Reversals of Provisions against Restructuring Costs

Events as indicated above did not occur in the Group.

15. Acquisitions and Disposals of Tangible Fixed Asset Items

In the first half of 2012, there were no material transactions of acquisition or disposal of any tangible fixed assets, with the exception of typical lease and property development operations that are performed by the companies of the Group.

16. Material Liabilities Assumed on Account of Acquisition of Tangible Fixed Assets

Events as indicated above did not occur in the Group.

17. Information about Changing the Process (Method) of Measurement the Fair Value of Financial Instruments

Events as indicated above did not occur in the Group.

18. Changes in the Classification of Financial Assets due to Changes of Purpose or Use of these Assets

Events as indicated above did not occur in the Group.

19. Corrections of Errors from Previous Reporting Periods

In the first half of 2012, there were no corrections of errors from previous reporting periods.

20. Default or Infringement of a Loan Agreement or Failure to Initiate Composition Proceedings

Events as indicated above did not occur in the Group.

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21. Position of the Management on the Probability of Performance of Previously Published Profit/Loss Forecasts for the Year in Light of the Results Presented in the Half-yearly Report Compared to the Forecast

BRE Bank did not publish a performance forecast for the year 2012. The description of the BRE Bank Group strategy published in current report no. 8/2010 shall not be read as a forecast about financial results or their estimations with respect to the Bank and BRE Bank Group referred to in Article 5 item 1 point 25 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic reports published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws from 2009, No. 33, item 259 with further amendments).

22. Registered Share Capital

The total number of ordinary shares as at 30 June 2012 was 42 102 746 shares (30 June 2011: 42 086 674) at PLN 4 nominal value each (30 June 2011: PLN 4). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 30 June 2012						
Share type	Type of privilege	Type of limitation	Number of shares	Series / issue value	Paid up	Registered on
ordinary bearer*	-	-	9 980 500	39 922 000	fully paid in cash	1986
ordinary registered*	-	-	19 500	78 000	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
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
Total number of shares			42 102 746			
Total registered share capital				168 410 984		
Nominal value per share (PLN)		4				

* As at the end of the reporting period

23. Material Share Packages

In the first half of 2012, there were no changes in the holding of material share packages of the Bank.

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 30 June 2012 it held 69.72% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 March 2012 – 69.72%).

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

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

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

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24. Change in Bank Shares and Rights to Shares held by Managers and Supervisors

	Number of rights to shares held as at the date of publishing the report for Q1 2012	Number of rights to shares acquired from the date of publishing the report for Q1 2012 to the date of publishing the report for the first half of 2012	Number of rights to shares realised from the date of publishing the report for Q1 2012 to the date of publishing the report for the first half of 2012	Number of rights to shares held as at the date of publishing the report for the first half of 2012
Management Board				
1. Cezary Stypułkowski	-	-	-	-
2. Wiesław Thor	-	5 821	5 821	-
3. Przemysław Gdański	-	930	930	-
4. Joerg Hessenmueller	-	-	-	-
5. Hans-Dieter Kemler	-	896	896	-
6. Cezary Kocik	-	-	-	-
7. Jarosław Mastalerz	-	5 566	5 566	-

	Number of shares held as at the date of publishing the report for Q1 2012	Number of shares acquired from the date of publishing the report for Q1 2012 to the date of publishing the report for the first half of 2012	Number of shares sold from the date of publishing the report for Q1 2012 to the date of publishing the report for the first half of 2012	Number of shares held as at the date of publishing the report for the first half of 2012
Management Board				
1. Cezary Stypułkowski	-	-	-	-
2. Wiesław Thor	4 805	5 821	-	10 626
3. Przemysław Gdański	156	930	-	1 086
4. Joerg Hessenmueller	-	-	-	-
5. Hans-Dieter Kemler	-	896	-	896
6. Cezary Kocik	-	-	-	-
7. Jarosław Mastalerz	2 603	5 566	-	8 169

As at the date of publishing the report for the first quarter of 2012 and as at the date of publishing the report for the first half of 2012, the Members of the Management Board had no Bank rights to shares and they have no Bank rights to shares.

As at the date of publishing the report for the first quarter of 2012, Mr. Andre Carls, Member of the Supervisory Board of BRE Bank SA, had 3 269 shares of BRE Bank SA. As at the date of publishing the report for the first half of 2012, due to sale of 3 269 shares and purchase of 1 634 shares, Mr. Andre Carls, had 1 634 shares of BRE Bank SA. The other Members of the Supervisory Board of BRE Bank SA had no Bank shares nor Bank rights to shares and they have no Bank shares nor Bank rights to shares.

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

As at 30 June 2012, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 30 June 2012 was also not higher than 10% of the Bank's equity.

Report on major proceedings brought against the Bank

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 45.7 million translated at the average exchange rate of the National Bank of Poland as at 30 June 2012). This action was originally initiated by Art-B Sp. z o.o. Eksport – Import with its registered office in Katowice, under liquidation ('Art-B') against the main defendant Bank Leumi, whereas BRE Bank was garnished by Bank Leumi. Considering a settlement concluded between Art-B and Bank Leumi, and Migdal Insurance Company, on the basis of which Art-B received from Bank Leumi and Migdal Insurance Company an amount of USD 13.5 million, Bank Leumi and Migdal Insurance Company claim from BRE Bank refund of the amount paid to Art-B that is USD 13.5 million. BRE Bank's liability towards Bank Leumi and Migdal Insurance Company is under recourse.

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

   BPH brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 854 thousand. The purpose was to cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that ZM Pozmeat SA contributed in kind to Garbary as payment for a stake in ZM Pozmeat SA share capital worth PLN 100 000 thousand. On 6 June 2006, the District Court in Poznań issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007, the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. On 16 September 2010, the District Court in Poznań dismissed the claim in whole; the decision is not legally valid. On 19 October 2010, BPH filed an appeal against the ruling in question. On 24 February 2011, the Court of Appeal made a decision on revoking the ruling and discontinuance of proceedings involving Bank Pekao S.A. (the Bank entered in the proceedings as successor of BPH) justified by lack of title to bring the action before the court on the side of the Bank. The case was returned to the court of the first instance where it will be continued with the participation of BPH as the claimant. Bank Pekao SA filed the last resort appeal against the aforesaid decision with the Supreme Court. On 25 April 2012, the Supreme Court revoked the aforesaid decision of the Court of Appeal.

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

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

   In its reply to the claim, the Bank petitioned the Court for dismissing the claim on the grounds of there being no legal basis for allowing the claim. On 1 December 2009, the Court decided to suspend the case until the completion of Pozmeat's bankruptcy proceedings. On 26 January 2011, the court has decided to reinstate suspended proceedings due to the closing of the insolvency procedure. On 5 June 2012, the court once again decided to suspend the proceedings until the case filed by Bank BPH SA against Garbary Sp. z o.o. is finally settled.

4. Claims of clients of Interbrok

   Up to 20 July 2012, 153 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 296 461 thousand and via the District Court in Warsaw. In addition, up to 20 July 2012, 8 legal suits have been delivered to the Bank where former clients of Interbrok claimed compensation in the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case. Therefore, BRE Bank Group did not create provisions for the above claims. The District Court in Warsaw settled the aforementioned court cases and dismissed actions in all cases. As a consequence of the Court of Appeal verdict on 4 March 2010, one of the judgments becomes final and valid. On 22 June 2011, the Supreme Court dismissed the plaintiff's cassation appeal in the said case. As far as the remaining cases are concerned, on 21 December 2010 and 17 January 2012, the Court of Appeals revoked the judgments of the District Court and remanded the cases to the District Court in Warsaw for re-examination.

5. Class action against BRE Bank

   On 4 February 2011, BRE Bank SA received a class action brought to the District Court in Łódź on 20 December 2010 by the Municipal Ombudsman who represents a group of 835 persons – retail clients of BRE Bank. The petitioners demand that a responsibility of the Bank is determined for improper performance of mortgage credit agreements. In particular, it was indicated that the Bank improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank did not reduce interest rates on loans, although, according to the petitioners, it should have. The Bank rejects the above reasoning. On 18 February 2011, the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.

   On 6 May 2011, the District Court in Łódź decided to reject the application of BRE Bank SA for dismissing the claim and decided that the case will proceed as a class action. On 13 June 2011, BRE Bank SA lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of BRE Bank SA. Currently, the case proceeds as a class action. The time for joining the class ended in March 2012. Presently, the class consists of 1 247 members; however, its composition is still subject to a revision and final approval of the court.At the end of June 2012 the period in which the Bank could express its reservations with respect to particular members of the group expired. The Bank expressed such reservations with respect to 51 persons ('Plaintiff'). At present, the Bank is waiting for the Plaintiff to take a stance on the aforementioned case and further actions of the Court.

As at 30 June 2012, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries, which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 30 June 2012 was also not higher than 10% of the Bank's equity.

Taxes

Within the period from 20 June 2012 to 29 June 2012, officers of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie) carried out tax audit at the company BRE Leasing, concerning correctness of the settlement of the value added tax for the months January – March 2007, May – December 2007. The audits did not identify any irregularities.

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

Within the period from 28 September to 10 October 2011, officers of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urzad Skarbowy w Warszawie) carried out tax audits at the company BRE Hipoteczny concerning correctness of the settlement of the value added tax for the period from 1 to 31 July 2011. The audits did not identify any irregularities.

Within the period from 27 June to 8 July 2011, officers of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie) carried out tax audits at the company BRE Leasing concerning correctness of the settlement of the value added tax for the period from 1 January to 31 December 2006. The audits did not identify any irregularities.

Within the period from 27 April to 23 May 2011, officers of the First Mazovian Treasury Office in Warsaw (Pierwszy Mazowiecki Urzad Skarbowy w Warszawie) carried out tax audits at the company BRE Leasing concerning correctness of the settlement of the value added tax for the period from 1 July to 31 December 2010. The audits did not identify any relevant irregularities.

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.

26. Off-balance Sheet Liabilities

Off-balance sheet liabilities as at 30 June 2012, 31 December 2011 and 30 June 2011, were as follows:

	30.06.2012	31.12.2011	30.06.2011
1. Contingent liabilities granted and received	**18 871 811**	**18 360 547**	**18 519 472**
Commitments granted	**17 973 161**	**17 346 021**	**16 620 431**
- financing	15 003 607	14 375 193	13 882 016
- guarantees and other financial facilities	2 969 554	2 967 250	2 737 703
- other commitments	-	3 578	712
Commitments received	**898 650**	**1 014 526**	**1 899 041**
- financial commitments	426	430	798 790
- guarantees	898 224	1 014 096	1 100 251
2. Derivative financial instruments (nominal value of contracts)	**568 766 245**	**490 688 149**	**428 709 636**
Interest rate derivatives	525 284 015	442 303 961	389 372 350
Currency derivatives	40 772 839	47 130 794	37 809 984
Market risk derivatives	2 709 391	1 253 394	1 527 302
Total off-balance sheet items	**587 638 056**	**509 048 696**	**447 229 108**

27. Transactions with Related Entities

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

All transactions between the Bank and related entities were typical and routine transactions concluded on terms which not differ from arm's length 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.

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., balances of receivables and liabilities and related costs and income as at 30 June 2012, 31 December 2011 and 30 June 2011 were as follows:

PLN (000's)	BRE Bank's subsidiaries not consolidated by acquisition method			Commerzbank AG		
As at the end of the period	30.06.2012	31.12.2011	30.06.2011	30.06.2012	31.12.2011	30.06.2011
Statement of Financial Position						
Assets	76 040	74 777	63 983	235 611	1 386 035	159 393
Liabilities	22 547	25 853	31 068	23 979 339	26 989 260	27 001 194
Income Statement						
Interest income	1 797	3 181	1 458	47 197	11 123	1 347
Interest expense	(45)	(184)	(234)	(200 979)	(445 009)	(212 401)
Fee and commission income	16	36	23	-	-	-
Other operating income	1	-	1	78	137	100
Overhead costs, amortisation and other operating expenses	(85)	-	(161)	(5 973)	(9 764)	(10 249)
Contingent liabilities granted and received						
Liabilities granted	1 028	1 244	1 177	577 137	777 286	832 553
Liabilities received	-	-	-	510 495	707 467	785 749

Moreover, on 12 April 2012, the Management Board of BRE Bank informed that BRE Finance France (a subsidiary of BRE Bank, in which the Bank holds 99.98% of shares) as the Issuer and BRE Bank as the issue underwriter signed an agreement for a Euro Medium Term Note Programme (EMTN) for a total amount of up to EUR 2 billion (equivalent to PLN 8 348 million according to the average NBP exchange rate as of 12 April 2012). Under the EMTN Programme, the Issuer will have a right to issue debt securities in multiple tranches, various currencies and with diverse interest structure. The Luxembourg Stock Exchange admitted the Programme to trading. The debt securities will be unconditionally and irrevocably guaranteed by BRE Bank. The Bank agreed to extend future guarantees of payment of any amounts payable on debt securities issued under the Programme.

Decisions on a potential issuance of bonds under the Programme will depend on the prevailing market conditions. The Programme provides an additional source of long-term funding for the Bank.

28. Credit and Loan Guarantees, other Guarantees Granted in Excess of 10% of the Equity

As at 30 June 2012, no exposure under guarantees granted in excess of 10% of the equity occurred in the Group.

29. Other Information which the Issuer Deems Necessary to Assess its Human Resources, Assets, Financial Position, Financial Performance and their Changes as well as Information Relevant to an Assessment of the Issuer's Capacity to Meet its Liabilities

On 2 March 2012 Ms Karin Katerbau, Vice-President of the Management Board, Chief Financial Officer, resigned from her function with the effect from 15 April 2012. Ms Karin Katerbau became a Member of the Management Board of Oldenburgische Landesbank. On 9 December 2011, the Bank made a public information concerning intention to resign of Ms Karin Katerbau.

On 30 March 2012, Mr. Christian Rhino, BRE Bank's Management Board Member and Chief Operation Officer, resigned from his function as of 31 March 2012. The reason for his resignation was transfer to a new function in Commerzbank AG. On 27 January 2012, BRE Bank made a public information concerning intention to resign of Mr. Christian Rhino.

Under the Resolution of 2 March 2012, with the effect from 16 April 2012, the Supervisory Board appointed Mr. Joerg Hessenmueller to the Management Board of BRE Bank SA and for the post of Chief Financial Officer, for the period until the end of the current term of the Management Board.

Under the Resolution of 30 March 2012, the Supervisory Board appointed Mr. Jarosław Mastalerz (until 31 March 2012, BRE Bank's Management Board Member and Head of Retail Banking) for the post of BRE Bank's Management Board Member and Chief Operation Officer with the effect from 1 April 2012, for the period until the end of the current term of the Management Board.

Under the Resolution of 30 March 2012, with the effect from 1 April 2012, the Supervisory Board appointed Mr. Cezary Kocik to the Management Board of BRE Bank SA and for the post of Head of Retail Banking, for the period until the end of the current term of the Management Board.

On 13 February 2012, Mr. Eric Strutz, Member of the Supervisory Board, resigned from his function with the effect from 30 March 2012.

On 30 March 2012, the 25th Ordinary General Meeting of Shareholders of BRE Bank SA appointed Mr. Stephan Engels as Member of the Supervisory Board of BRE Bank, effective as of 1 April 2012 for the common term of the Supervisory Board.

On 9 July 2012, BRE Bank received the resignation of Mr. Sascha Klaus, Member of the Supervisory Board, from his function as of 25 July 2012.

On 25 July 2012, the Supervisory Board of BRE Bank appointed Mr. Dirk Wilhelm Schuh as Member of the Supervisory Board of BRE Bank, effective as of 26 July 2012 for the common term of the Supervisory Board.