BRE Bank SA

IFRS Condensed Financial Statements for the first half of 2012

Contents

1. Selected financial data

The selected financial data are supplementary information to these Condensed Financial Statements of BRE Bank SA for the first half of 2012.

SELECTED FINANCIAL DATA FOR THE BANK		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	1 979 617	1 620 085	468 593	408 360
II.	Fee and commission income	531 196	484 854	125 739	122 213
III.	Net trading income	174 687	170 196	41 350	42 900
IV.	Operating profit	747 948	660 890	177 046	166 584
V.	Profit before income tax	747 948	660 890	177 046	166 584
VI.	Net profit	600 647	527 293	142 178	132 910
VII.	Net cash flows from operating activities	(2 015 699)	11 055	(477 134)	2 787
VIII.	Net cash flows from investing activities	(45 788)	(36 917)	(10 838)	(9 305)
IX.	Net cash flows from financing activities	3 857	(932 118)	913	(234 950)
X.	Net increase / decrease in cash and cash equivalents	(2 057 630)	(957 980)	(487 059)	(241 468)
XI.	Earnings per ordinary share (in PLN/EUR)	14.27	12.53	3.38	3.16
XII.	Diluted earnings per ordinary share (in PLN/EUR)	14.25	12.51	3.37	3.15
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK		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	90 219 947	93 895 432	82 558 563	21 171 930	21 258 701	20 709 016
II.	Amounts due to the Central Bank	-	-	-	-	-	-
III.	Amounts due to other banks	22 363 165	25 281 169	23 420 076	5 247 968	5 723 865	5 874 699
IV.	Amounts due to customers	51 948 839	54 018 635	46 305 166	12 190 843	12 230 265	11 615 202
V.	Own equity	8 319 314	7 610 906	7 101 091	1 952 295	1 723 172	1 781 240
VI.	Share capital	168 411	168 411	168 347	39 521	38 130	42 228
VII.	Number of shares	42 102 746	42 102 746	42 086 674	42 102 746	42 102 746	42 086 674
VIII.	Book value per share (in PLN/EUR)	197.60	180.77	168.73	46.37	40.93	42.32
IX.	Capital adequacy ratio	15.05	15.28	16.78	15.05	15.28	16.78

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 2011: EUR 1 = PLN 4.2246 and EUR 1 = PLN 3.9673 respectively.

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

2. Condensed Financial Data

Income Statement

	Note	Period from 01.01.2012 to 30.06.2012	Period from 01.01.2011 to 30.06.2011
Interest income		1 979 617	1 620 085
Interest expense		(979 209)	(691 538)
Net interest income		**1 000 408**	**928 547**
Fee and commission income		531 196	484 854
Fee and commission expense		(174 916)	(175 137)
Net fee and commission income		**356 280**	**309 717**
Dividend income		35 102	45 713
Net trading income, including:		174 687	170 196
Foreign exchange result		*150 448*	*154 251*
Other trading income and result on hedge accounting		*24 239*	*15 945*
Gains less losses from investment securities, investments in subsidiaries and associates		26 125	(2 127)
Other operating income		30 778	34 441
Net impairment losses on loans and advances		(195 127)	(146 639)
Overhead costs		(571 220)	(565 187)
Amortization and depreciation		(86 478)	(87 852)
Other operating expenses		(22 607)	(25 919)
Operating profit		**747 948**	**660 890**
Profit before income tax		**747 948**	**660 890**
Income tax expense		(147 301)	(133 597)
Net profit		**600 647**	**527 293**

Net profit		**600 647**	**527 293**
Weighted average number of ordinary shares	**5.24**	**42 102 746**	**42 086 674**
Earnings per ordinary share (in PLN)	**5.24**	**14.27**	**12.53**
Weighted average number of ordinary shares for diluted earnings	**5.24**	**42 160 766**	**42 138 416**
Diluted earnings per ordinary share (in PLN)	**5.24**	**14.25**	**12.51**

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

Statement of Comprehensive Income

	Period from 01.01.2012 to 30.06.2012	Period from 01.01.2011 to 30.06.2011
Net profit	**600 647**	**527 293**
Other comprehensive income net of tax	**101 806**	**37 648**
Exchange differences on translation of foreign operations (net)	(138)	1 342
Change in valuation of available for sale financial assets (net)	101 944	36 306
Total comprehensive income net of tax, total	**702 453**	**564 941**

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

Statement of Financial Position

ASSETS	30.06.2012	31.12.2011	30.06.2011
Cash and balances with the Central Bank	925 664	1 032 081	1 793 284
Loans and advances to banks	3 636 052	5 222 678	4 310 833
Trading securities	939 074	1 191 335	1 444 419
Derivative financial instruments	1 299 231	1 504 020	1 043 594
Loans and advances to customers	62 377 313	61 663 992	53 675 464
Hedge accounting adjustments related to fair value of hedged items	1 623	1 924	770
Investment securities	15 399 493	17 077 797	17 174 842
Non-current assets held for sale	-	-	45 570
Pledged assets	3 759 743	4 338 332	1 224 252
Investments in subsidiaries	546 387	546 430	538 394
Intangible assets	363 435	389 807	370 292
Tangible fixed assets	507 027	542 410	503 935
Deferred income tax assets	70 390	63 194	20 100
Other assets	394 515	321 432	412 814
Total assets	**90 219 947**	**93 895 432**	**82 558 563**
EQUITY AND LIABILITIES			
Amounts due to the Central Bank	-	-	-
Amounts due to other banks	22 363 165	25 281 169	23 420 076
Derivative financial instruments	1 914 273	1 857 371	1 204 735
Amounts due to customers	51 948 839	54 018 635	46 305 166
Debt securities in issue	992 921	-	-
Subordinated liabilities	3 375 356	3 456 200	3 139 856
Other liabilities	1 093 166	1 371 511	1 217 106
Current income tax liabilities	116 773	227 251	98 719
Provisions for deferred income tax	82	85	77
Provisions	96 058	72 304	71 737
Total liabilities	**81 900 633**	**86 284 526**	**75 457 472**
Equity			
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:	**4 579 313**	**3 972 711**	**3 427 911**
- Profit for the previous year	3 978 666	2 906 699	2 900 618
- Net profit for the current year	600 647	1 066 012	527 293
Other components of equity	**246 189**	**144 383**	**179 482**
Total equity	**8 319 314**	**7 610 906**	**7 101 091**
Total equity and liabilities	**90 219 947**	**93 895 432**	**82 558 563**
Capital adequacy ratio *	**15.05**	**15.28**	**16.78**
Book value	**8 319 314**	**7 610 906**	**7 101 091**
Number of shares	**42 102 746**	**42 102 746**	**42 086 674**
Book value per share (in PLN)	**197.60**	**180.77**	**168.73**

* Capital charge for credit risk included in the calculation of the solvency 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 Financial Statements for the first half of 2012 PLN (000's)

Statement of Changes in Equity

Changes from 1 January to 30 June 2012

	Share capital		Retained earnings					Other components of equity		Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General Risk Fund	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	
Equity as at 1 January 2012	168 411	3 325 401	2 061 378	20 178	825 143	1 066 012	-	(8 333)	152 716	7 610 906
Total comprehensive income							600 647	(138)	101 944	702 453
Transfer to General Risk Fund	-	-	-	-	100 000	(100 000)	-	-	-	-
Transfer to supplementary capital	-	-	966 012	-	-	(966 012)	-	-	-	-
Stock option program for employees	-	-	-	5 955	-	-	-	-	-	5 955
- value of services provided by the employees	-	-	-	*5 955*	-	-	-	-	-	*5 955*
Equity as at 30 June 2012	168 411	3 325 401	3 027 390	26 133	925 143	-	600 647	(8 471)	254 660	8 319 314

Changes from 1 January to 31 December 2011

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

Changes from 1 January to 30 June 2011

	Share capital		Retained earnings					Other components of equity		Total equity
	Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General Risk Fund	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Valuation of available for sale financial assets	
Equity as at 1 January 2011	168 347	3 323 465	1 603 654	10 791	765 143	517 724	-	(3 782)	145 616	6 530 958
Total comprehensive income							527 293	1 342	36 306	564 941
Transfer to General Risk Fund	-	-	-	-	60 000	(60 000)	-	-	-	-
Transfer to supplementary capital	-	-	457 724	-	-	(457 724)	-	-	-	-
Stock option program for employees	-	1 886	-	3 306	-	-	-	-	-	5 192
- value of services provided by the employees	-	-	-	*5 192*	-	-	-	-	-	*5 192*
- settlement of exercised options	-	*1 886*	-	*(1 886)*	-	-	-	-	-	-
Equity as at 30 June 2011	168 347	3 325 351	2 061 378	14 097	825 143	-	527 293	(2 440)	181 922	7 101 091

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

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	**(2 015 699)**	**11 055**
Profit before income tax	**747 948**	**660 890**
Adjustments:	***(2 763 647)***	***(649 835)***
Income taxes paid	(288 238)	(22 340)
Amortisation	86 478	87 852
Foreign exchange (gains) losses related to financing activities	(631 659)	822 907
(Gains) losses on investing activities	(2 251)	130
Impairment of financial assets	105	-
Dividends received	(35 103)	(14 805)
Interest received	(1 568 623)	(1 318 564)
Interest paid	948 743	687 445
Changes in loans and advances to banks	(77 411)	(17 596)
Changes in trading securities	313 196	11 238
Changes in assets and liabilities on derivative financial instruments	261 691	20 799
Changes in loans and advances to customers	688 861	(739 956)
Changes in investment securities	2 189 495	2 065 129
Changes in other assets	(58 052)	(98 960)
Changes in amounts due to other banks	(1 690 397)	(1 533 867)
Changes in amounts due to customers	(2 708 755)	(976 262)
Changes in debt securities in issue	8 090	-
Changes in provisions	23 754	(4 321)
Changes in other liabilities	(223 571)	381 336
Net cash generated from operating activities	**(2 015 699)**	**11 055**
B.Cash flows from investing activities	**(45 788)**	**(36 917)**
Investing activity inflows	**37 424**	**14 837**
Disposal of shares in subsidiaries	56	-
Disposal of intangible assets and tangible fixed assets	2 265	32
Dividends received	35 103	14 805
Investing activity outflows	**83 212**	**51 754**
Purchase of intangible assets and tangible fixed assets	83 212	51 754
Net cash used in investing activities	**(45 788)**	**(36 917)**
C. Cash flows from financing activities	**3 857**	**(932 118)**
Financing activity inflows	**1 971 252**	**239 655**
Proceeds from loans and advances from other banks	-	239 655
Issue of debt securities	1 971 252	-
Financing activity outflows	**1 967 395**	**1 171 773**
Repayments of loans and advances from other banks	783 665	895 010
Repayments of other loans and advances from other entities	5 271	4 866
Redemption of debt securities	986 421	-
Acquisition of shares in subsidiaries	-	90 789
Payments of financial lease liabilities	5 334	5 897
Interest paid from loans and advances received from other banks and subordinated liabilities	186 704	175 211
Net cash from financing activities	**3 857**	**(932 118)**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(2 057 630)**	**(957 980)**
Effects of exchange rate changes on cash and cash equivalents	(11 413)	10 843
Cash and cash equivalents at the beginning of the reporting period	4 583 895	5 927 201
Cash and cash equivalents at the end of the reporting period	**2 514 852**	**4 980 064**

3. Description of Relevant Accounting Policies

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

3.1. Accounting Basis

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

The presented Condensed 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 Condensed Consolidated Financial Statements of the Group, which constitute an integral part of the Condensed Financial Statements, are publicly available together with the Condensed Financial Statements. These Condensed Financial Statements should be read in conjunction with the Condensed Consolidated Financial Statements of the Group to obtain a complete understanding of result and financial position of the issuer.

The Condensed Financial Statements for the first half of 2012 should be read in conjunction with the BRE Bank SA Financial Statements 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 Bank. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the Condensed Financial Statements are disclosed in Note 4.

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

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

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

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

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

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 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 results in the position Interest income/expense on derivatives concluded under the hedge accounting.

In the current reporting period, the Bank 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 3.26 'Comparative Data'.

3.3. Fee and Commission Income

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

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

3.4. Financial Assets

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

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

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

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

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

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

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value, except for derivatives the recognition of which is discussed in Note 3.10, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

Loans and Receivables

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

Held to Maturity Investments

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

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

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

Available for Sale Investments

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

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

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

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

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

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

Investments in subsidiaries and associates

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

3.5. Offsetting Financial Instruments

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

3.6. Impairment of Financial Assets

Assets Carried at Amortised Cost

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

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

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

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

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

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

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

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

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

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

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

<u>Assets Measured at Fair Value</u>

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

<u>Renegotiated agreements</u>

The Bank 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 Bank makes an assessment whether the impairment should be recognised on either individual or group basis.

3.7. Financial Guarantee Contracts

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

When a financial guarantee contract is recognized 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 recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 'Revenue'.

3.8. Cash and Cash Equivalents

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

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

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

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

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

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

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

Securities borrowed under 'buy-sell-back' transactions and then lent under 'sell-buy-back' transactions are not recognised as financial assets.

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

3.10. Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

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

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

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

Due to the split of derivatives classified into banking book and into trading book, the Bank applies a different approach to the presentation of interest income/expense for each of these groups of derivatives that is described in Note 3.2 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 3.26 'Comparative data'.

Fair Value Hedges

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

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

Cash Flow Hedges

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

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

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

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting

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

The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:

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

Interest rate risk instruments:

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

Foreign exchange risk instruments:

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

3.11. Gains and Losses on Initial Recognition

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

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

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

3.12. Borrowings and Deposits taken

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

3.13. Intangible Assets

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

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 Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses attached to the development of software and the corresponding part of the respective general overhead costs.

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

Development costs

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

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

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

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

3.14. 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 Bank and the cost of the item can be measured reliably. Any other expenses incurred on repairs and maintenance are expensed to the Income Statement in the reporting period in which they were incurred.

Accounting principles concerning assets held for liquidation or withdrawal from usage are described under Note 3.15.

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

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

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

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

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

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

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

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

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

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

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

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

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

3.16. Deferred Income Tax

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

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

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

The Bank discloses separately the amount of negative temporary differences (mainly on account of unused tax losses or unutilised tax allowances) in connection with which the deferred income tax asset was not recognised in the

Statement of Financial Position, and also the amount of temporary differences attached to investments in subsidiaries and associates for which no deferred income tax provision has been formed.

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

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

3.17. Assets Repossessed for Debt

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

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

3.18. Prepayments, Accruals and Deferred Income

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

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

3.19. Leasing

BRE Bank SA as a Lessee

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

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

3.20. Provisions

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

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

3.21. Retirement Benefits and Other Employee Benefits

Retirement Benefits

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

Benefits Based on Shares

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

3.22. Equity

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

3.23. Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

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

Transactions and Balances

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

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

3.24. Trust and Fiduciary Activities

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

3.25. New Standards, Interpretations and Amendments to Published Standards

Published Standards and Interpretations which have been issued and binding for the Bank 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 Bank 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 19 (Revised), Employee Benefits, binding for annual periods starting on or after 1 January 2013.
- 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 Bank is considering the implications of the IFRS 9, the impact on the Bank and the timing of its adoption by the Bank. The Bank 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.

3.26. Comparative Data

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

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 Bank 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. In Bank'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.

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

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

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

Changes in the 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	53 660 196	15 268	53 675 464
Total assets	82 558 563	-	82 558 563

Changes in the 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	*1 599 624*	*20 461*	*1 620 085*
Interest expense	(691 538)	-	(691 538)
Net interest income	**908 086**	**20 461**	**928 547**
Net trading income, including:	190 657	(20 461)	170 196
Foreign exchange result	*174 712*	*(20 461)*	*154 251*
Other trading income and result on hedge accounting	*15 945*	*-*	*15 945*
Profit before income tax	660 890	-	660 890
Net profit	527 293	-	527 293

3.27. Business segments

Data concerning business segments were presented in the Condensed Consolidated Financial Statements of the BRE Bank SA Group for the first half of 2012, prepared in compliance with the International Financial Reporting Standards.

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

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

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

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognized in the Income Statement, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly verified.

If the current value of estimated cash flows for portfolio of loans and advances 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 individually assessed for impairment on the basis of individual analysis of future cash flows due to repayments and recovery from collateral.

<u>Fair value of derivative instruments</u>

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.

5. Selected explanatory information

5.1. Compliance with International Financial Reporting Standards

The presented condensed 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.

5.2. 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 Bank is presented in the Note 3 of these Condensed 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 3.26 'Comparative data'.

5.3. Seasonal or Cyclical Nature of the Business

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

5.4. 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 Bank.

5.5. 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.

5.6. 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.

5.7. 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.

5.8. Income and Profit by Business Segment

Income and profit by business segment within the Bank are presented on the consolidated level in the Note 4 of the Condensed Consolidated Financial Statements for the first half of 2012.

5.9. 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 Bank.

5.10. 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.

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

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 was increased by PLN 109.3 million 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 Towarzystwo Ubezpieczeń i Reasekuracji SA. The transaction resulted from the reorganization of the retail sales network.

5.11. 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 unutilized loan amounts, other than resulting from current operating activities of the Bank. There was no single case of granting of guarantees or any other contingent liability of any material value for the Bank.

5.12. 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 Bank.

5.13. 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 Bank.

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

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Impairment of available for sale equity securities	(105)	-
Net impairment losses on loans and advances, including:	(195 127)	(146 639)
Net impairment losses on amounts due from other banks	532	8 118
Net impairment losses on loans and advances to customers	(178 317)	(160 814)
Net impairment losses on off-balance sheet contingent liabilities due to customers	(17 342)	6 057
Total revaluation write-offs on account of impairment of financial assets	(195 232)	(146 639)

5.15. Reversals of Provisions against Restructuring Costs

Events as indicated above did not occur in the Bank.

5.16. 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.

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

Events as indicated above did not occur in the Bank.

5.18. Information about the Change of Process (method) of Measurement the Fair Value of Financial Instruments

Events as indicated above did not occur in the Bank.

5.19. Changes in the Classification of Financial Assets due to of Changes of Purpose or use of these Assets

Events as indicated above did not occur in the Bank.

5.20. Corrections of Errors from Previous Reporting Periods

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

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

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

Events as indicated above did not occur in the Bank.

5.22. 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).

5.23. 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		4				

* As at the end of the reporting period

5.24. 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 the 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.

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

5.25. Earnings per share (stand alone data)

Earnings per share for 6 months

the period	from 01.01.2012 to 30.06.2012	from 01.01.2011 to 30.06.2011
Basic:		
Net profit	600 647	527 293
Weighted average number of ordinary shares	42 102 746	42 086 674
Net basic profit per share (in PLN per share)	**14.27**	**12.53**
Diluted:		
Net profit applied for calculation of diluted earnings per share	600 647	527 293
Weighted average number of ordinary shares in issue	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)	**14.25**	**12.51**

5.26. 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 of 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 also was not higher than 10% of the Bank's equity.

Taxes

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

5.27. 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. Zobowiązania warunkowe udzielone i otrzymane:	**18 101 055**	**17 640 794**	**17 871 329**
Zobowiązania udzielone	**17 204 148**	**16 627 040**	**15 978 490**
- finansowe	14 196 134	13 586 108	13 239 991
- gwarancje i inne produkty finansowe	3 008 014	3 037 588	2 738 499
- pozostałe zobowiązania	-	3 344	-
Zobowiązania otrzymane	**896 907**	**1 013 754**	**1 892 839**
- finansowe	426	430	798 790
- gwarancyjne	896 481	1 013 324	1 094 049
2. Pochodne instrumenty finansowe (wartość nominalna kontraktów)	**568 514 153**	**490 860 815**	**429 233 008**
Instrumenty pochodne na stopę procentową	525 566 970	442 533 044	389 365 173
Walutowe instrumenty pochodne	40 237 792	47 074 377	38 340 533
Instrumenty pochodne na ryzyko rynkowe	2 709 391	1 253 394	1 527 302
Pozycje pozabilansowe razem	**586 615 208**	**508 501 609**	**447 104 337**

5.28. Transactions with Related Entities

BRE Bank SA is the parent entity of 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 are as follows:

(in PLN 000's)	BRE Bank's subsidiaries			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	5 676 589	5 676 798	4 611 108	229 267	1 339 685	133 491
Liabilities	710 334	738 793	1 105 196	22 899 312	25 364 355	24 861 814
Separate Income Statement						
Interest income	105 971	177 529	75 614	47 197	11 123	1 347
Interest expense	(12 869)	(20 324)	(8 238)	(174 962)	(366 820)	(173 885)
Commission income	29 746	83 275	54 212	-	-	-
Commission expense	(63 797)	(112 551)	(53 286)	-	-	-
Other operating income	8 451	13 712	6 109	78	137	100
Overhead costs amortization and depreciation and other operating expenses	(2 318)	(8 484)	(5 160)	(5 973)	(9 764)	(10 249)
Contingent liabilities granted and received						
Commitments granted	475 928	588 475	532 913	577 137	777 286	832 553
Commitments 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 billion 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.

5.29. 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 Bank.

5.30. 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.