BRE Bank SA

IFRS Financial Statements 2012

Selected financial data

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

		in PLN '000		in EUR '000	
		Year ended 31.12.2012	Year ended 31.12.2011	Year ended 31.12.2012	Year ended 31.12.2011
I.	Interest income	4 089 597	3 484 479	979 873	841 641
II.	Fee and commission income	1 068 839	994 969	256 095	240 325
III.	Net trading income	344 897	337 847	82 638	81 604
IV.	Operating profit	1 456 347	1 342 200	348 943	324 195
V.	Profit before income tax	1 456 347	1 342 200	348 943	324 195
VI.	Net profit	1 199 484	1 066 012	287 398	257 485
VII.	Net cash flows from operating activities	3 290 233	460 887	788 344	111 323
VIII.	Net cash flows from investing activities	(133 420)	9 593	(31 968)	2 317
IX.	Net cash flows from financing activities	296 936	(1 794 959)	71 146	(433 555)
X.	Net increase / decrease in cash and cash equivalents	3 453 749	(1 324 479)	827 523	(319 915)
XI.	Basic earnings per share (in PLN/EUR)	28.48	25.32	6.82	6.12
XII.	Diluted earnings per share (in PLN/EUR)	28.45	25.30	6.82	6.11
XIII.	Declared or paid dividend per share (in PLN/EUR)	-	-	-	-

		in PLN '000		in EUR '000	
		As at		As at	
		31.12.2012	31.12.2011	31.12.2012	31.12.2011
I.	Total assets	98 148 976	93 895 432	24 007 870	21 258 701
II.	Amounts due to the Central Bank	-	-	-	-
III.	Amounts due to other banks	20 241 514	25 281 169	4 951 204	5 723 865
IV.	Amounts due to customers	59 881 918	54 018 635	14 647 502	12 230 265
V.	Equity	9 163 857	7 610 906	2 241 538	1 723 172
VI.	Share capital	168 556	168 411	41 230	38 130
VII.	Number of shares	42 138 976	42 102 746	42 138 976	42 102 746
VIII.	Book value per share (in PLN/EUR)	217.47	180.77	53.19	40.93
IX.	Capital adequacy ratio	19.66	15.28	19.66	15.28

The following exchange rates were used in translating selected financial data into euro:

- for items of the statement of financial position – exchange rate announced by the National Bank of Poland as at 31 December 2012 EUR 1 = PLN 4.0882 and exchange rate as at 31 December 2011: EUR 1 = PLN 4.4168.
- 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 2012 and 2011: EUR 1 = PLN 4.1736 and EUR 1 = PLN 4.1401 respectively.

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Income statement

	Note	Year ended 31 December	
		2012	2011
Interest income	5	4 089 597	3 484 479
Interest expense	5	(2 073 614)	(1 545 562)
Net interest income		**2 015 983**	**1 938 917**
Fee and commission income	6	1 068 839	994 969
Fee and commission expense	6	(378 429)	(362 391)
Net fee and commission income		**690 410**	**632 578**
Dividend income	7	35 663	45 806
Net trading income, including:	8	344 897	337 847
Foreign exchange result		*316 404*	*309 759*
Other net trading income and result on hedge accounting		*28 493*	*28 088*
Gains less losses from investment securities, investments in subsidiaries and associates	22	149 850	68 870
Other operating income	9	75 029	69 597
Net impairment losses on loans and advances	12	(383 735)	(318 684)
Overhead costs	10	(1 206 956)	(1 180 098)
Amortization and depreciation	24,25	(168 589)	(185 077)
Other operating expenses	11	(96 205)	(67 556)
Operating profit		**1 456 347**	**1 342 200**
Profit before income tax		**1 456 347**	**1 342 200**
Income tax expense	13	(256 863)	(276 188)
Net profit		**1 199 484**	**1 066 012**

Net profit		**1 199 484**	**1 066 012**
Weighted average number of ordinary shares	14	**42 118 904**	**42 093 950**
Basic earnings per share (in PLN)	14	**28.48**	**25.32**
Weighted average number of ordinary shares for diluted earnings	14	**42 158 632**	**42 133 947**
Diluted earnings per share (in PLN)	14	**28.45**	**25.30**

Notes presented on pages 9 – 95 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2012 PLN (000's)

Statement of comprehensive income

	Note	Year ended 31 December	
		2012	2011
Net profit		**1 199 484**	**1 066 012**
Other comprehensive income net of tax	15	**341 957**	**2 549**
Exchange differences on translating foreign operations (net)		555	(4 551)
Available-for-sale financial assets (net)		341 402	7 100
Total comprehensive income net of tax, total		**1 541 441**	**1 068 561**

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IFRS Financial Statements 2012 PLN (000's)

Statement of financial position

ASSETS	Note	31.12.2012	31.12.2011
Cash and balances with the Central Bank	16	4 816 095	1 032 081
Loans and advances to banks	17	5 052 629	5 222 678
Trading securities	18	1 528 994	1 676 798
Derivative financial instruments	19	2 796 542	1 504 020
Loans and advances to customers	21	62 100 314	61 663 992
Hedge accounting adjustments related to fair value of hedged items	20	2 439	1 924
Investment securities	22	19 740 852	20 930 666
Investments in subsidiaries	23	937 336	546 430
Intangible assets	24	389 325	389 807
Tangible assets	25	480 647	542 410
Deferred income tax assets	33	127 505	63 194
Other assets	26	176 298	321 432
Total assets		**98 148 976**	**93 895 432**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		-	-
Amounts due to other banks	27	20 241 514	25 281 169
Derivative financial instruments	19	3 481 294	1 857 371
Amounts due to customers	28	59 881 918	54 018 635
Hedge accounting adjustments related to fair value of hedged items	20	4 220	-
Debt securities in issue	29	659 048	-
Subordinated liabilities	30	3 222 295	3 456 200
Other liabilities	31	1 147 996	1 371 511
Current income tax liabilities		217 940	227 251
Deferred income tax liabilities	33	79	85
Provisions	32	128 815	72 304
Total liabilities		**88 985 119**	**86 284 526**
Equity			
Share capital:		**3 501 633**	**3 493 812**
- Registered share capital	37	168 556	168 411
- Share premium	38	3 333 077	3 325 401
Retained earnings:	39	**5 175 884**	**3 972 711**
- Profit from the previous years		3 976 400	2 906 699
- Profit for the current year		1 199 484	1 066 012
Other components of equity	40	**486 340**	**144 383**
Total equity		**9 163 857**	**7 610 906**
Total liabilities and equity		**98 148 976**	**93 895 432**
Capital adequacy ratio	47	**19.66**	**15.28**
Book value		**9 163 857**	**7 610 906**
Number of shares		**42 138 976**	**42 102 746**
Book value per share (in PLN)		**217.47**	**180.77**

Notes presented on pages 9 – 95 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2012 PLN (000's)

Statement of changes in equity

Changes in equity from 1 January to 31 December 2012

	Note	Share capital		Retained earnings					Other components of equity		Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Available for sale financial assets	
Equity as at 1 January 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	15							**1 199 484**	**555**	**341 402**	**1 541 441**
Transfer to General Risk Fund		-	-	-	-	100 000	(100 000)	-	-	-	-
Transfer to supplementary capital		-	-	966 012	-	-	(966 012)	-	-	-	-
Issue of shares	37, 38	145	-	-	-	-	-	-	-	-	145
Stock option program for employees	43	-	7 676	-	3 689	-	-	-	-	-	11 365
- value of services provided by the employees		-	-	-	*11 365*	-	-	-	-	-	*11 365*
- settlement of exercised options		-	*7 676*	-	*(7 676)*	-	-	-	-	-	-
Equity as at 31 December 2012		**168 556**	**3 333 077**	**3 027 390**	**23 867**	**925 143**	**-**	**1 199 484**	**(7 778)**	**494 118**	**9 163 857**

Changes in equity from 1 January to 31 December 2011

	Note	Share capital		Retained earnings					Other components of equity		Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General banking risk reserve	Profit from the previous years	Profit for the current year	Exchange differences on translation of foreign operations	Available for sale financial assets	
Equity as at 1 January 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	15							**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	37, 38	64	-	-	-	-	-	-	-	-	64
Stock option program for employees	43	-	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**

Notes presented on pages 9 – 95 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2012 PLN (000's)

Statement of cash flows

	Note	Year ended 31 December	
		2012	2011
A. Cash flows from operating activities		**3 290 233**	**460 887**
Profit before income tax		**1 456 347**	**1 342 200**
Adjustments:		***1 833 886***	***(881 313)***
Income taxes paid		(375 975)	(69 869)
Amortisation	24, 25	168 589	185 077
Foreign exchange (gains) losses on financing activities		(1 732 912)	3 490 529
(Gains) losses on investing activities		(115 842)	(70 737)
Impairment of investments in subsidiaries	23	105	-
Dividends received	7	(35 663)	(45 806)
Interest income (income statement)	5	(4 089 597)	(3 484 479)
Interest expenses (income statement)	5	2 073 614	1 545 562
Interest received		4 285 726	3 694 693
Interest paid		(1 675 793)	(1 156 376)
Changes in loans and advances to banks		19 640	(200 871)
Changes in trading securities		(135 599)	(280 207)
Changes in assets and liabilities on derivative financial instruments		361 801	239 567
Changes in loans and advances to customers		(548 995)	(10 178 931)
Changes in investment securities		1 403 530	(907 713)
Changes in other assets		146 020	(13 823)
Changes in amounts due to other banks		(1 706 762)	39 134
Changes in amounts due to customers		3 883 872	5 841 982
Changes in provisions		56 511	(3 754)
Changes in other liabilities		(148 384)	494 709
Net cash generated from operating activities		**3 290 233**	**460 887**
B.Cash flows from investing activities		**(133 420)**	**9 593**
Investing activity inflows		**38 010**	**167 767**
Disposal of shares in subsidiaries		56	108 603
Disposal of intangible assets and tangible fixed assets		2 291	644
Dividends received	7	35 663	45 806
Other investing inflows		-	12 714
Investing activity outflows		**171 430**	**158 174**
Acquisition of shares in associates		1 653	-
Purchase of intangible assets and tangible fixed assets		169 777	158 174
Net cash used in investing activities		**(133 420)**	**9 593**
C. Cash flows from financing activities		**296 936**	**(1 794 959)**
Financing activity inflows		**5 536 375**	**1 539 758**
Proceeds from loans and advances from other banks		84 254	283 734
Proceeds from other loans and advances		-	1 255 960
Issue of debt securities		3 414 454	-
Issue of ordinary shares		145	64
Security deposit due to issue of Eurobonds	44	2 037 522	-
Financing activity outflows		**5 239 439**	**3 334 717**
Repayments of loans and advances from other banks		2 014 391	2 823 069
Repayments of other loans and advances		10 542	9 732
Redemption of debt securities		2 760 165	-
Acquisition of shares in subsidiaries		88 286	107 130
Payments of financial lease liabilities		10 575	12 339
Interest paid from loans and advances received from other banks and subordinated liabilities		355 480	382 447
Net cash from financing activities		**296 936**	**(1 794 959)**
Net increase / decrease in cash and cash equivalents (A+B+C)		**3 453 749**	**(1 324 479)**
Effects of exchange rate changes on cash and cash equivalents		(42 994)	(18 827)
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	42	**7 994 650**	**4 583 895**

Notes presented on pages 9 – 95 constitute an integral part of these Financial Statements.

Explanatory notes to the financial statements

1. Information regarding BRE Bank SA

Bank Rozwoju Eksportu SA (Export Development Bank) was established by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16th Economic Registration Division on 23 December 1986 in the Business Register under the number RHB 14036. The 9th Extraordinary Meeting of Shareholders held on 4 March 1999 adopted the resolution changing the Bank's name to BRE Bank SA. The new name of the Bank was entered in the Business Register on 23 March 1999. On 11 July 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Register (KRS) under number KRS 0000025237.

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

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

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

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

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

As at 31 December 2012, the headcount of BRE Bank SA amounted to 4 728 FTEs (Full Time Equivalents)– 5 703 persons (31 December 2011: 4 729 FTEs – 5 683 persons).

The Management Board of BRE Bank SA approved these Financial Statements for issue on 7 March 2013.

2. Description of relevant accounting policies

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

2.1 Accounting basis

These financial statements of BRE Bank SA have been prepared for the 12 month period ended 31 December 2012.

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

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the 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 financial statements are disclosed in the Note 4.

The Bank also prepares consolidated financial statements in accordance with IFRS. BRE Bank SA Group Consolidated Financial Statements for the year 2012 were published on 7 March 2013.

2.2 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 the interest results in the position Interest income/expense on derivatives classified into banking book. The banking book includes transactions, which are not concluded for trading purposes i.e. not aimed at generating a profit in a short-term period (up to 6 months) and those that do not constitute hedging a risk arising from the operations assigned into trading book.

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

In the current reporting period, the Bank has introduced changes in the presentation of income and expense of the interest component of the result on derivatives. Detailed information concerning above mentioned changes in the presentation of interest income and expenses is presented under note 2.26 'Comparative Data'.

2.3 Fee and commission income

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

Fee and commissions collected by the Bank on account of issuance, renewal and change in the limit of credit and payment cards, guarantees granted as well as opening, extension and increase of letters of credit are accounted for a straight-line basis.

Fee and commissions collected by the Bank on account of cash management operations, keeping of customer accounts, money transfers, brokerage business activities are recognized directly in the income statement.

2.4 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.

Standardised purchases and sales of financial assets at fair value through the income statement, held to maturity and available for sale are recognised on the settlement date – the date on which the 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 profit or loss or in other components of equity. Loans are recognised when cash is advanced to the borrowers. Derivative financial instruments are recognised beginning from the date of transaction.

Financial assets valued at fair value through the income statement

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the income statement upon initial 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 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 2.10, 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 there with all the assets of this category are reclassified to the available for sale category.

In reporting periods presented in these 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.

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.

2.5 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.

2.6 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. Loss events were divided into definite ('hard') loss events of which occurrence requires that the client be classified into the default category, and indefinite ('soft') loss events of which occurrence may imply that there is a need to classify the client into the default category.

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 the amount of the provision for loan impairment in the income statement.

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

Assets measured at fair value

At the end of the reporting period the 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.

Renegotiated agreements

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.

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

- the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', and

- the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 'Revenue'.

2.8 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.

2.9 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.

2.10 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). If 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, then the Bank recognises the respective gains or losses from the first day in accordance with the principles described under Note 2.11.

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 2.2 '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 2.26 'Comparative data'.

<u>Fair value hedges</u>

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

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

<u>Cash flow hedges</u>

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

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

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

Derivative instruments not fulfilling the criteria of hedge accounting

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

The 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.

2.11 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 (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 amortised over the period of time.

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

2.12 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.

2.13 Intangible assets

Intangible assets are recognised at their cost of acquisition adjusted by the costs of improvement (rearrangement, development, reconstruction, adaptation or modernisation) and accumulated amortization. Accumulated amortization 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.

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

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

2.14 Tangible fixed assets

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only where it is probable that future economic benefits associated with the item will flow to the 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 2.15.

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,
- 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.

2.15 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, amortization 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.

2.16 Deferred income tax

The Bank creates a deferred income tax on the temporary difference arising between the carrying amount of an asset or liability in the statement of financial position and its tax base. A taxable net difference is recognised in liabilities as 'Provisions for deferred income tax'. A deductible 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, amortization 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 to the extent it is probable that there will be sufficient taxable profits to allow them to recover. 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 probable, 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.

2.17 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 recognised 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.

2.18 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'.

2.19 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.

2.20 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.

2.21 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 programmes 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 programmes. In case of the part of the programme based on shares of the ultimate parent until the liability is settled, the Bank measures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

2.22 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 Bank's 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 banking risk reserve,
- undistributed profit for the previous year,
- net profit (loss) for the current year.

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

2.23 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 in 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 components of equity.

2.24 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.

2.25 New standards, interpretations and amendments to published standards

These financial statements comply with all the International Accounting Standards and the International Financial Reporting Standards endorsed by the European Union, and the interpretations related to them, except for those standards and interpretations listed below which await endorsement of the European Union or which have been endorsed by the European Union but entered or will enter into force after the balance sheet date.

In the period covered by the financial statements, the Bank did not decide for early application of the standards and interpretations which have been endorsed by the European Union, but entered or will enter into force after the balance sheet date.

Published standards and interpretations which have been issued and are binding for the Bank for annual periods beginning on 1 January 2012:

Standards and interpretations endorsed by the European Union:

- ***IFRS 1 (Amended), Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters***, published by the International Accounting Standards Board on 20 December 2010, binding for annual periods beginning on or after 1 July 2011. Standard was endorsed by the European Union on 11 December 2012.

  The amendment concerning severe hyperinflation provides guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. In accordance with the amendments, the entities, which make the transition to IFRS on or after the functional currency normalisation date, may elect to measure assets and liabilities at fair value as at the date of transition to IFRS, and use that fair value as the deemed cost of those assets and liabilities.

  The amendment removing fixed dates for first-time adopters of IFRS replaces the date of prospective application of derecognised assets and financial liabilities, i.e. '1 January 2004', with 'the date of transition to IFRS', thus eliminating the need for companies adopting IFRS for the first time to restate the initial ('first day') profit and loss on transactions that occurred before the date of transition to IFRS.

The Bank is of the opinion that the application of the amended standard did not have significant impact on the financial statements in the period of its initial application.

- ***IFRS 7 (Amended), Disclosures - Transfers of Financial Assets,*** published by the International Accounting Standards Board on 7 October 2010, binding for annual periods beginning on or after 1 July 2011. The standard was endorsed by the European Union on 22 November 2011.

  The amendments require additional qualitative and quantitative disclosures for transfers of financial assets in case financial assets are derecognized in their entirety, but the entity retains 'continuing involvement' in them, and when the financial assets are not derecognized in their entirety. In particular, the disclosures pertain to the characteristics, description of risks associated with, and the nature of the Bank's 'continuing involvement'.

  The Bank is of the opinion that the application of the amended standard did not have significant impact on the financial statements in the period of its initial application.

- ***IAS 12 (Amended), Deferred Tax: Recovery of Underlying Assets,*** published by the International Accounting Standards Board on 20 December 2010, binding for annual periods beginning on or after 1 January 2012. The standard was endorsed by the European Union on 11 December 2012.

  The amendment clarifies, in particular, the valuation method of assets and provisions relating to deferred tax in the case of investment properties measured using the fair value model under *IAS 40 Investment Property*. As a result of the amendments, *SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets* would no longer apply.

  The Bank is of the opinion that the application of the amended standard did not have significant impact on the financial statements in the period of its initial application.

Published standards and interpretations which have been issued, but are not yet binding and have not been applied earlier.

Standards and interpretations endorsed by the European Union:

- ***IFRS 10, Consolidated Financial Statements***, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IFRS 10 supersedes those parts of *IAS 27 Consolidated and Separate Financial Statements* that address when and how an investor should prepare consolidated financial statements, and eliminates interpretation *SIC-12 Consolidation — Special purpose entities* in its entirety.

  The objective of IFRS 10 is to have a single basis for consolidation for all entities, regardless of the nature of the investee. It was decided that control is such a basis. The principle of control sets out the following three elements of control: power over the investee, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's return. IFRS 10 provides detailed guidance on how to apply the control principle in a number of situations, including agency relationships and holdings of potential voting rights. An investor should reassess whether it controls an investee if there is a change in facts and circumstances.

  The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IFRS 11, Joint Arrangements,*** published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IFRS 11 supersedes *IAS 31 Interests in Joint Ventures* and interpretation *SIC-13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The new standard classifies joint agreements as either joint operations (joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or joint ventures (joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

  IFRS 11 requires the use of the equity method of accounting for interests in joint ventures, thereby eliminating the proportionate consolidation method. The existence of a separate legal vehicle is no longer the key factor of classification. Transitional provisions vary depending on the joint arrangements classification under IAS 31.

The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IFRS 12, Disclosure of Interests in Other Entities,*** published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  The new standard requires extensive disclosures relating to a reporting entity's interests in subsidiaries, associates, joint arrangements, and unconsolidated structured entities.

  An entity is also required to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.

  The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IFRS 13, Fair Value Measurement,*** published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  The new standard clarifies the definition of fair value, sets out a framework for measuring fair value and requires disclosures on fair value measurements. The standard does not specify requirements on when fair value measurement is required. It only prescribes the various valuation techniques that can be used to determine fair value, if required by other standards. The standard applies to both financial and non-financial items measured at fair value.

  The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IAS 19 (Amended), Employee Benefits,*** published by the International Accounting Standards Board on 16 June 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 5 June 2012.

  The amendments modify the settlement methods for defined benefit plans and termination benefits. The amendments aim at improving the quality of financial reporting of employee benefits through: introducing a more comprehensible form of presenting changes in liabilities relating to defined benefits and fair value of the plan assets, eliminating certain presentation methods allowed under *IAS 19*, thus improving comparability, clarifying the requirements which previously led to differences in the practices applied, and improving the quality of disclosures about risks arising from defined benefit plans.

  The amended standard requires immediate recognition of all estimated changes in liabilities relating to defined benefits and plan assets, which eliminates the corridor method and accelerates the recognition of past service costs.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- ***IAS 27, Separate Financial Statements***, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  IAS 27 and IFRS 10 supersede IFRS 27 Consolidated and Separate Financial Statements. The name of the standard was changed. The amended standard applies only to separate financial statements. The previous guidance and the required disclosures relating to separate financial statements remain unchanged.

  The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***IAS 28, Investments in Associates and Joint Ventures,*** published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013. The standard was endorsed by the European Union on 11 December 2012.

  It supersedes *IAS 28 Investments in Associates*. The standard was amended to reflect the requirements of IFRS 11 and IFRS 12.

The standard sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Moreover, the standard incorporates SIC-13 (jointly controlled entities - non-monetary contributions by venturers).

The disclosure requirements have been removed from the standard and specified in IFRS 12.

The Bank is of the opinion that the application of the standard will have no significant impact on the financial statements in the period of its initial application.

- ***Amendments to IAS 1, Presentation of Items of Other Comprehensive Income***, published by the International Accounting Standards Board on 16 June 2011, binding for annual periods beginning on or after 1 July 2012. The amendments were endorsed by the European Union on 5 June 2012.

  The amendments address the grouping of items of other comprehensive income (OCI). The amendments require that items of OCI be divided into:

  - items that would be reclassified into profit or loss in future periods,
  - items that would not be reclassified into profit or loss in future periods.

  The standard allows an entity to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. The amendments leave entities the possibility to present their profit or loss and other comprehensive income in a single statement (Statement of profit or loss and other comprehensive income) or in two separate statements.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- ***Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities,*** published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2014. The amendments were endorsed by the European Union on 13 December 2012.

  The amendments aim to eliminate inconsistencies identified in applying some of the offsetting financial assets and liabilities criteria.

  The amendments clarify the criteria that must be met by an entity planning to offset financial assets and financial liabilities in the balance sheet, by:

  - clarifying the meaning of 'currently has a legally enforceable right to set off', and
  - explaining when some gross settlement systems may be considered equivalent to net settlement of financial assets and liabilities.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

- ***Amendments to IFRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities,*** published by the International Accounting Standards Board on 16 December 2011, binding for annual periods beginning on or after 1 January 2013. The amendments were endorsed by the European Union on 13 December 2012.

  The standard sets out the required disclosures to include information that will enable investors and other users of financial statements to evaluate the effect or potential effect of offsetting financial assets and liabilities on an entity's financial position. The standard requires quantitative and qualitative disclosures on the financial assets and liabilities subject to offsetting. At the reporting date, the entity is obliged to disclose detailed quantitative information, separately for financial assets and financial liabilities, in tabular format.

  The Bank is of the opinion that the application of the amended standard will have no significant impact on the financial statements in the period of its initial application.

Standards and interpretations not yet endorsed by the European Union:

- ***IFRS 9, Financial Instruments Part 1: Recognition and Measurement***, published by the International Accounting Standards Board on 12 November 2009, supersedes the parts of IAS 39 addressing classification and measurement of financial assets. On 28 October 2010, new requirements addressing classification and measurement of financial liabilities were added to IFRS 9. The new standard is binding for annual periods beginning on or after 1 January 2015.

  The standard introduces a single approach to classification of financial assets in only two categories: measurement at amortised cost or fair value. The classification is made on initial recognition and is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial instruments.

The majority of requirements of IAS 39 addressing the classification and measurement of financial liabilities have been transferred to IFRS 9 unchanged. The key change is the obligation imposed on entities to present the effects of changes in the entity's own credit risk in respect of financial liabilities measured at fair value through income statement, in other comprehensive income.

The Bank is of the opinion that the application of the standard on recognition and measurement of financial instruments will have an impact on the presentation of these instruments in the financial statements.

The real impact of the IFRS 9 application will be possible to estimate after the publication of the final, complete version of the standard.

- ***Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance***, published by the International Accounting Standards Board on 28 June 2012, binding for annual periods starting on or after 1 January 2013.

  The amendments clarify the date of initial application of IFRS 10 as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. They precise also there is no requirement to adjust comparative periods, if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC 12. Moreover, the amendments clarify additional relief from adjustment of comparative information for periods prior to the immediately preceding period in transition to IFRS 10, IFRS 11 and IFRS 12.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- ***Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities***, published by the International Accounting Standards Board on 31 October 2012, binding for annual periods starting on or after 1 January 2014.

  The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- ***Improvements to IFRS 2009-2011***, modifying 5 standards, published by the International Accounting Standards Board on 17 May 2012, in majority binding for annual periods starting on or after 1 January 2013.

  The amendments are aimed at simplifying the process of transition to IFRS, as well as explanation or elimination accidental inconsistencies in the published standards.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

- ***Government Loans - Amendments to IFRS 1 First-Time Adoption*** of International Accounting Standards concerning government loans were published in March 2012 by the International Accounting Standards Board (IASB) and apply to annual periods starting on 1 January 2013 or after that date.

  Amendments concerning government loans and borrowings granted to an entity on preferential terms (interest rate below the market rate) allow releasing those who are adopting the IFRS in financial statements for the first time from presenting full accounting records of these transactions. Therefore, these amendments implement the same exemption for those who are adopting the IFRS in financial statements for the first time as applicable to other.

  The Bank is of the opinion that the application of the amended standards will have no significant impact on the financial statements in the period of their initial application.

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2.26 Comparative data

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

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. 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 the 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.

In the current reporting period, the Bank ceased to present pledged assets in a separate line in the statement of financial position. Debt securities pledged as collaterals were presented within the items: 'Trading securities' or 'Investment securities', according to their classification before establishing the pledge. Information regarding debt securities pledged as collaterals is still available under notes 18 and 22.

The change had no impact on the profit and equity in presented comparative data as at 31 December 2011.
The following table presents the impact of the restatement on presented comparative data in the financial statements.

Changes in BRE Bank statement of financial position as at 31 December 2011:

	31.12.2011/ 01.01.2012 before adjustments	presentation adjustments	31.12.2011/ 01.01.2012 after adjustments
Trading securities	1 191 335	485 463	1 676 798
Investments securities	17 077 797	3 852 869	20 930 666
Pledged assets	4 338 332	(4 338 332)	-
Total asstes	93 895 432	-	93 895 432

Changes in BRE Bank income statement for the period from 1 January to 31 December 2011:

	31.12.2011 before adjustments	presentation adjustments	31.12.2011 after adjustments
Interest income	3 419 176	65 303	3 484 479
Interest expense	(1 544 826)	(736)	(1 545 562)
Net interest income	**1 874 350**	**64 567**	**1 938 917**
Net trading income, including:	402 414	(64 567)	337 847
Foreign exchange result	*375 062*	*(65 303)*	*309 759*
Other trading income and result on hedge accounting	*27 352*	*736*	*28 088*
Profit before income tax	1 342 200	-	1 342 200
Net profit	1 066 012	-	1 066 012

2.27 Business segments

Data concerning business segments was presented in the Consolidated Financial Statements of BRE Bank SA Group for the year 2012, prepared in compliance with the International Financial Reporting Standards and published on 7 March 2013.

3. Financial risk management

The risk management process is an elementary component of the management process of BRE Bank SA. The risk management functions and roles are released on all of the levels of the organizational structure, starting at the level of the Supervisory Board down to each business unit. Risk management is streamlined in an unified process run by specialized organizational units.

3.1. Division of responsibilities in the risk management process

<u>Authorities of the Bank:</u>

- **Supervisory Board,** through its **Risk Committee,** exercises constant supervision of the Bank's operations in the risk taking area, which includes approving the Risk Management Strategy and supervising its execution.
- **Management Board of the Bank** develops the Risk Management Strategy and is responsible for establishing and implementing the principles of managing individual risk types and for their coherence with the Risk Management Strategy. Moreover, the Management Board defines the organisational structure of the Bank, ensuring the separation of roles, and allocates the tasks and responsibility to individual units.

<u>Directors of the Bank:</u>

- **Chief Risk Officer** is responsible for organising, developing and implementing the process of identifying, measuring, monitoring and controlling credit risk, market risk, operational risk and liquidity risk in BRE Bank Group.
- **Managing Director for Credit Operations** is responsible for organising the credit process in the scope of the retail loans portfolio and corporate loans portfolio of BRE Bank and BRE Bank Group and for the quality of each credit portfolio.

<u>Committees:</u>

1. **Risk Committee of BRE Bank SA** is responsible, in particular, for establishing the principles of identifying, measuring, monitoring and controlling risk and for setting strategic limits.
2. **Assets and Liabilities Committee of BRE Bank Group (ALCO)** is responsible, in particular, for developing the Bank's strategy on the structure of assets and liabilities, obligations, and off-balance sheet items, with the aim of optimizing funds allocation.
3. **Capital Management Committee** is responsible, in particular, for managing capital, which includes also issuing recommendations for the Management Board of the Bank on measures in respect of capital management, capital level and structure, and on increasing the effectiveness of capital utilisation, and recommendations on the Bank's internal procedures related to capital management and capital planning.
4. **Data Quality Management Committee for the purpose of calculating the Bank's regulatory capital requirement (AIRB)** is responsible, in particular, for creating conditions for the implementation and development of an effective system for managing the quality of credit portfolio data in order to ensure compliance with the requirements of the advanced internal ratings based approach (AIRB), used to calculate the capital requirement for credit risk.
5. **Credit Committee of the Bank's Management Board (KKZB)** is responsible, in particular, for:
   - making credit decisions concerning companies in accordance with the decision-making matrix, depending on the rating and amount of exposure,
   - making decisions on debt conversion into shares, stocks, etc.,
   - making decisions on taking over properties in return for debts,
   - making any other decisions going beyond the jurisdiction of the lower-level decision-making authorities.
6. **Credit Policy Committee of the Retail Banking (KPK)** is responsible, in particular, for:
   - approving or amending the decision-making methodology for granting credit products of the retail banking,
   - making decisions on admitting credit products to or withdrawing them from sale,
   - monitoring the quality and profitability of the credit products portfolio, and making decisions on measures to be taken in the case of negative occurrences related with the quality or profitability of that portfolio.
7. **Credit Committee of the Retail Banking (KKD)** is responsible, in particular, for:

- making individual credit decisions concerning retail clients in the case when the total exposure to such a client, the transaction amount or the AIRB risk parameters (PD/LGD/EL) defined for the client/transaction reach a specified threshold set for this decision-making level,
- making decisions on granting decision-making powers to individual employees of the Bank, or on changing or revoking those powers.

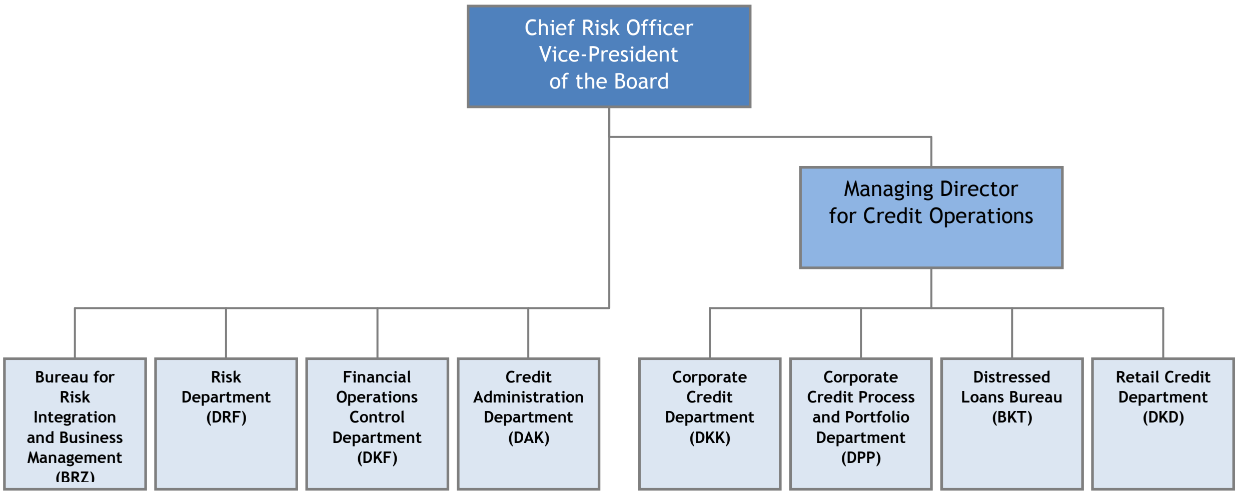
Moreover, in 2012 the Bank decided to establish the **Operational Risk Committee (KRO)** responsible, in particular, for:

- monitoring the level of operational risk in BRE Bank Group based on regular reports received within the operational risk control system,
- analysing areas relevant from the point of view of operational risk, including the structure of operational losses and the operational risk profile of the Bank and BRE Bank Group,
- accepting and monitoring follow-up plans for the major components of operational risk,
- taking decisions and coordinating actions covering the entire Bank aimed at mitigating and managing operational risk, and monitoring the situation in this area in the subsidiaries of BRE Bank Group,
- supervising the course and analysing the results of the methods used at the Bank to control and manage operational risk,
- accepting the methods used at the Bank and in BRE Bank Group to control and manage operational risk.

Other units:

1. **Organisational units of the Risk Area**

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks and risk of models used to quantify the aforesaid risk types is performed in the Risk Area supervised by the Chief Risk Officer. The chart below presents the organisational structure of this area.



The roles played by particular units in the process of identifying, measuring, monitoring and controlling risk, which also includes assessing individual credit risk posed by clients and establishing the client selection rules, have been strictly defined. Within the scope of their powers, the units develop methodologies and systems supporting the aforesaid areas. Furthermore, the risk control units also report on risk and support the major authorities of the Bank.

Corporate Credit Department (DKK):

- developing and implementing the credit policy (excluding the retail banking),
- controlling and managing credit risk of the Bank and the Group, excluding the retail banking area.

Credit Administration Department (DAK):

- defining the process of setting impairment write-offs and provisions, and controlling the correct course of this process,
- administering the back data necessary to parameterize risk models under AIRB in the corporate banking area,
- monitoring the amounts and structure of exposures,

- organising and supervising the operational process of administering credit products.

Corporate Credit Process and Portfolio Department (DPP):

- organising and supervising the credit process in the corporate banking area,
- establishing and implementing the principles governing the operation of the data quality management system for the AIRB purpose in the corporate banking area, and supervising their observance,
- organising the system of preparing and presenting portfolio analyses used for active management of credit risk.

Distressed Loans Bureau (BKT):

- controlling and managing credit risk in the scope of exposures subject to supervision, restructuring and debt collection carried out by the Debt Restructuring and Collection Department,
- early identification of non-default clients at risk of losing their creditworthiness.

Retail Credit Department (DKD):

- defining the credit policy principles,
- reporting on the quality of the credit portfolio and monitoring the quality of data,
- taking credit decisions,
- administering the portfolio of credit transactions,
- collecting overdue debt,
- counteracting credit frauds.

The Department performs the tasks listed above for the retail banking area (individual clients and small enterprises) on the following three markets: Polish, Czech and Slovak.

Risk Department (DRF):

- identifying, measuring and controlling credit risk from the portfolio perspective, as well as market risk, operational risk (strict sense, operational risk components are controlled in accordance with point 2 of this section), financial liquidity risk, and interest rate risk of the banking book,
- ensuing methodological adequacy of the techniques of valuing financial instruments included in the portfolios of the Financial Markets Department and the Treasury Department, and the mezzanine finance transactions of the Structured and Mezzanine Finance Department,
- developing methods for measuring particular risk types, integrating financial risk control at the Bank and BRE Bank Group, and monitoring model risk,
- organising the following processes:
  - process of admitting to trading the financial instruments concluded by organisational units of the investment banking area,
  - process of assessing the adequacy of internal capital (ICAAP),
  - process of measuring the internal and economic capital,
  - and supervising their execution,
- determining the regulatory capital requirements for particular risk types, and monitoring the capital adequacy of the Bank and BRE Bank Group,
- estimating the portfolio impairment of corporate and retail receivables.

Financial Operations Control Department (DKF):

- independent operational control of the risk generated by the Financial Markets Department and the Treasury Department in the scope of trading in financial instruments,
- reporting in this respect to the Management Board of the Bank and to respective collegial bodies of the Bank.

Bureau for Risk Integration and Business Management (BRZ):

- coordinating and carrying out projects/cases connected with the requirements of consolidated supervision imposed by the main shareholder in the area supervised by the Chief Risk Officer (CRO) arising from the strategy and risk management policy at the Group,
- organising, performing and monitoring tasks related with the risk area and managing them with respect to other organisational units of the Bank – in line with the powers vested in CRO.

2. **Organizational units outside the Risk Area** are in charge of the management and control of other risks identified in BRE Bank Group's activity (business risk, strategic risk, capital risk, reputational risk, legal risk, IT system risk, personnel and organisational risk, security risk and compliance risk).

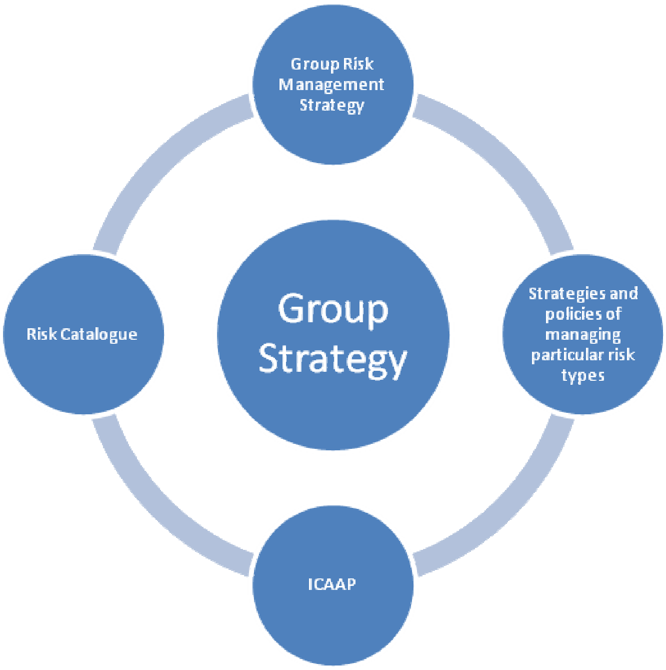
3. **Business units** take part in managing particular risk types by means of taking risk into account in business decisions, in preparing the product offer and in the client acquisition process. The units assume the ultimate responsibility for taking risk within the set limits and for developing the Bank's results.

Control units:

- **Internal Audit Department (DAW)** carries out independent review of the process of identifying, taking, measuring, monitoring and controlling risk as part of its internal control and audit function.
- **Compliance Department (DC)** is responsible for establishing standards of managing the risk of non-compliance of internal regulations and standards of the Bank's operation with applicable law.

3.2. Structure of the risk management process documentation

The risk management strategy implemented by the Bank is documented accordingly and linked to the Strategy of BRE Bank Group and Mid-term Plan of BRE Bank Group. The documentation of the risk management strategy is an important component of the documentation of the internal capital adequacy assessment process at the Bank and BRE Bank Group (ICAAP).



ICAAP documentation:

1. **Internal Capital Adequacy Assessment Process (ICAAP) in BRE Bank SA Group**

The document describes the internal capital adequacy assessment process taking place in BRE Bank Group and the course of the individual process components, including:

- identification and assessment of risk relevance,
- principles of calculating and aggregating internal capital,
- stress tests,
- limits on risk capital, and
- principles of reviewing the process.

2. **Document establishing the principles of determining capital for other risk types (including hard to measure risks)**

3. **Document describing the risk coverage potential**

4. **Principles of Prudent and Stable Management of BRE Bank SA**

The document describes the principles of prudent and stable management of the Bank within the framework of the strategic planning process, risk management system, internal control system, and capital management.

Strategies and policies for managing particular risk types:

1. **Credit Risk Management Strategy in BRE Bank SA and BRE Bank Group (ICAAP)**

The document describes the credit risk management process in the Bank and the Group, including its organisation, and the principles of setting the acceptable risk level.

2. **Strategy and Policy of Operational Risk Management in BRE Bank SA**

The document describes the organisation of the operational risk management process in the Bank, and the Bank's policy in respect of individual areas of operational risk.

3. **Market Risk Strategy**

The document describes the market risk management process in the Bank, in particular the setting of the acceptable level and structure of market risk.

4. **Liquidity Risk Management Strategy in BRE Bank SA**

The document describes the liquidity risk management process (both at the strategic and operational level), the principles of limiting risk, and the emergency plans of the Bank.

5. **Compliance Policy in BRE Bank SA**

The document describes the process of organising compliance risk management, including the role of the Bank's authorities in the process, the role of the Compliance Department, and obligations of the Bank's employees in implementing the policy.

6. **Capital Management Policy of BRE Bank SA Group**

The document describes the capital strategy of BRE Bank Group, including the capital goals, the preferred capital structure, the capital plan for the coming years, and the emergency capital plan.

The documents listed above are subject to annual review in accordance with the principles laid down in "Review of the internal capital adequacy assessment process (ICAAP) in BRE Bank SA Group".

3.3 Management of different types of risk

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

- **The Retail Credit Department** (DKD) is responsible for management of credit risk in retail banking on the domestic markets and in foreign branches (Czech Republic and Slovakia). The main operational responsibilities of DKD include: credit risk rating and credit decision-making for individual exposures and transactions, mitigation of operational risk (credit frauds), supervision over the automated credit process, administration of credit agreements concluded with retail clients and their monitoring, collection of credit receivables via telephone and legal collection of credit receivables. Furthermore, DKD develops rules of credit risk rating and principles of calculating the creditworthiness of retail clients. Moreover, the Department is responsible for implementing the assessment principles in the tools supporting the credit decision-making process, reports on the quality of the credit portfolio, and monitors the quality of data used in the risk assessment process.

- **The Corporate Credit Department** (DKK) is responsible for management of the quality of the corporate loans portfolio of the Bank and subsidiaries of BRE Bank Group. DKK's key functions include: decisions on and recommendations for individual exposures and transactions of companies and groups of companies which are clients of the Bank, assessment of and recommendations for large exposures accepted by subsidiaries of BRE Bank Group, monitoring the structure of exposures in the risk portfolio, in particular by sector, and the related concentration risk, calculation of the clients' probability of default (PD) and expected loss (EL) ratings for banks and international financial institutions and related exposure limits and monitoring their utilisation, management of credit risk of exposures by country (setting and monitoring the utilisation of limits). The more extensive scope of credit risk controlling functions at Group level is performed by a dedicated organisational unit: BRE Bank Group Credit Risk Bureau at the Corporate Credit Department. The main functions of the Bureau include: analysis of credit risk of new exposures of subsidiaries, monitoring credit risk of the largest exposures, analysis of the quality of the risk portfolio, participation in development and modification projects of the risk management strategy, policies and rules in subsidiaries, supervision over plans and methodologies of establishing and releasing provisions, as well as audits of the largest exposures for all liabilities of the Group. Similar functions of the restructured exposures and subject to a restructuring meets the Distressed Loans Bureau (BKT).

- **The Corporate Credit Process and Portfolio Department** (DPP) is responsible for organisation and supervision of the credit process in the corporate area as well as development, implementation and supervision of the application of the rules of operation of the data quality management system in the corporate area. The Department creates the analysis of corporate credit risk portfolio as well as analysis and reports on the course and effectiveness of the credit process in this area.
- **The Credit Administration Department** (DAK) supervises the process of setting impairment write-offs and provisions and registers them. DAK coordinates the write-off planning process in BRE Bank Group and monitors its implementation. Moreover, the Department monitors the concentration level of large exposures of particular risks at the Bank and in the Group.
- **The Risk Department** (DRF) is responsible for controlling and evaluating credit risk and monitors its volatility and concentration on portfolio basis. The Department is responsible for the construction and development of scoring and rating models used in the credit risk assessment process and applied in decision-making when approving credit exposures both in the corporate and the retail banking area.

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

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

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

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

established credit limits (pre-settlement, settlement, issuer and country risk limits) imposed on trading activities and escalates if limits are exceeded. Moreover, DKF verifies the market conformity of the transactions concluded by the front-office units and supervises the process of modification and deletion of deals in the front-office systems.

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

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

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

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

3.4 Credit risk management

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

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

3.4.2 Collateral accepted

Collateral accepted for granted credit products. The collateral policy is an important part of the credit policy. It provides that, in making a decision about granting a credit risk bearing product, the Bank strives to obtain collateral that would be adequate to the accepted risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value, and the quality of personal collateral is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on limitation on the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. The quality of accepted collateral is correlated to the amount of the product bearing credit risk and the level of risk related to granting such a product. The collateral most frequently accepted by the Bank includes:

a) mortgage on real estate,
b) cession of receivables (cession of rights),
c) registered pledge,
d) transfer of ownership to collateral (partial or conditional),
e) monetary deposit,
f) guarantee deposit or cash blocked,
g) bill of exchange,
h) guarantees and warranties,
i) a letter of comfort issued by a company whose reliability and fairness is known on the international financial markets.

In the case of personal collateral (e.g. warranty, guarantee), the situation and reliability of the entity issuing such security is evaluated against the standards applicable to the assessment of borrowers. In the case of tangible collateral, the adopted rules of assessment are applied. The value of fixed assets taken as collateral is determined on the basis of an estimate prepared by a certified expert. These estimates submitted to the Bank are verified by a team of specialists situated in the Risk Line, who verify the correctness of the market value assumptions and assess the liquidity of the collateral from the Bank's point of view. The following factors are taken into account in the verification process:

a) for collateral on real estate:
   - type of real estate
   - legal status
   - designation in the local land development plan
   - technical description of buildings and structures
   - description of land
   - situation on the local market
   - other price-making factors

b) for collateral on plant and machinery:
   - general application and function in the technological process / possibilities of alternative use
   - technical description and parameters
   - exploitation and maintenance conditions
   - availability of similar devices and machinery
   - current market situation
   - forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery

c) for collateral on inventories:
   - formal and legal requirements related to specific products (e.g., a security certificate 'CE' for electrical equipment, permit of UDT (the Office of Technical Inspection) for appliances which operate under pressure, etc.)
   - saleability
   - warehousing conditions required (e.g., for paper materials sensitive to humidity, precise materials sensitive to pollution, etc.)
   - security and insurance of both the warehouse and the goods stored therein.

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

Collateral on securities resulting from buy-sell-back transactions. The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement, such collateral may be sold or repledged.

Hedge Accounting. Starting from 2011, the Bank has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged under hedge accounting. At the end of each month, the Bank evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk. The Bank hedges against the risk of change in fair value of a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of BRE Bank in Czech Republic and fair value hedge accounting of Eurobonds issued BRE Finance France (BFF). The hedged risk results from changes in interest rates. The hedged items are respectively: a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by the foreign branches of BRE Bank in Czech Republic and security deposit given by BRE Finance France in the amount of EUR 497 770. In both cases, IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate. Adjustment to the fair value of the hedged assets and the valuation of hedging instruments is recognised in the profit and loss account in the income from trading operation.

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

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

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

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

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

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

- Loss Given Default (LGD) model, which covers the entire retail portfolio. In the model, loss is defined as a function dependent on the level of recovery from clients' own payments and possible value of collateral using real estate collected in enforcement procedures.
- Credit Conversion Factor (CCF) model, which covers the entire retail banking portfolio. The model is based on historical data. The Credit Conversion Factor is an integral part of EAD (CCF as a level of off-balance sheet items converted to balance sheet items as at the date of default).

- PD model with a modular structure, which integrates application and behavioural models in the retail banking area as well as models which use Credit Information Bureau (BIK) data.

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

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

3.4.4.1 Corporate portfolio

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

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

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

3.4.4.2 Retail portfolio

For the purpose of calculating the provisions, the retail exposures are classified into homogeneous portfolios with similar risk specificity. For each portfolio risk parameters are determined: probability of default (PD) and the value of potential loss so arisen (LGD). Values of these parameters are calculated based on historical data for each portfolio and depend on overdue period. Then, the risk parameters and the amortised cost of the exposures are used in the calculation of the retail portfolio LLP.

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

3.4.4.3 Measurement of impairment of corporate portfolio

The Bank measures impairment of loan exposures in accordance with the International Accounting Standards 39. The intranet application IMPAIRMENT-KORPO is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

a) identifying impairment indicator on individual basis (loss events) and if they exist, classifying a customer to a default category;
b) assessing estimated future cash flows (repayments) both from collateral and from repayments by a customer;
c) calculating impairment losses taking into account the future amount of estimated discounted cash flows using the effective interest rate;
d) booking of impairment losses (specific provisions).

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

<u>The list of definite loss events:</u>

1. The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000 for corporate clients and PLN 500 for clients of Private Banking.

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

<u>The list of required conditions for indefinite loss events is prepared separately for each following entity type:</u>

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,
e) insurers,
f) pension fund managing companies, investment fund managing companies.

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

In order to assess if the impairment loss has occurred, identification of credit exposures with premises for impairment is carried out. Subsequently the comparison of the gross balance sheet credit exposure with the value of estimated future cash flows discounted at the original effective interest rate is carried out, results in the ascertainment whether the impairment loss has occurred. If the discounted value of future cash flow is higher than the gross balance sheet value, the impairment charge is not recognised.

3.4.4.4 Measurement of impairment of retail portfolio

In the Bank's retail division losses for impaired exposures are calculated, similarly to the corporate division, with the usage of the IMPAIRMENT application. Retail exposures are considered impaired when:

a) the exposure exceeds PLN 500 and it is more than 90 days past due,
b) the loan has been identified as fraudulent,
c) the contract is restructured,
d) the credit receivable has been sold at a considerable economic credit loss,
e) the Bank applies for instigating enforcement proceedings, bankruptcy proceedings or reorganisation proceedings (resulting in a potential discontinuation of or delay in payments) against the debtor related with a particular credit receivable,
f) the debtor intends to challenge his credit obligation in court.

All the identified cases of impairment are automatically marked in the system, except for the restructured and sold contracts, frauds and operational cases which are identified based on an individual analysis. The methodology of impairment calculation is based on portfolio approach. The exception are selected mortgage exposures in case of which there occurred events determining the classification of exposure to individual analysis, in accordance with the applicable procedures of the Bank.

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

Sub-portfolio	31.12.2012		31.12.2011	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	36.99	0.09	41.04	0.08
2	30.51	0.13	24.76	0.10
3	9.08	0.25	12.07	0.24
4	9.83	0.46	10.10	0.57
5	2.64	1.51	1.46	1.51
6	0.05	1.96	0.16	3.01
7	0.26	5.51	0.41	14.77
8	5.95	0.66	5.22	0.63
Default category	4.69	54.81	4.78	51.52
Total	100.00	2.81	100.00	2.73

67.50% of the loans and advances portfolio (for balance sheet and off-balance sheet exposures) is categorized in the top two grades of the internal rating system (31 December 2011: 65.80%);

In order to reflect the credit risk embedded in derivative instruments Bank uses correction to fair value that takes into account the element of credit risk of the counterparty. Write off due to credit risk of contractor is based on expected loss until maturity of the contract and is calculated on customer level. The value of the write off affects the income statement and is reported as a correction to the total value of derivatives.

The table below presents the percentage of derivatives, which constitute the component of financial assets and percentage of correction to fair value due to credit risk of counterparty in the total carrying value for each of the Bank's internal rating categories (description of the rating model is given above).

Sub-portfolio	31.12.2012		31.12.2011	
	Fair value	Provision coverage (%)	Fair value	Provision coverage (%)
1	44.67	0.01	33.25	0.01
2	17.34	0.15	23.85	0.11
3	35.73	0.31	18.70	0.57
4	1.85	2.82	7.04	2.31
5	0.24	0.65	1.73	2.42
6	0.05	0.15	0.29	1.66
7	0.03	0.11	0.06	0.12
8	0.09	-	14.99	-
Default category	-	-	0.09	-
Total	100.00	0.19	100.00	0.34

3.4.6 Maximum exposure to credit risk

The Bank has no financial instruments which maximum exposure to credit risk would differ from their net carrying amounts with the exception of off-balance sheet exposures, which are described under Note 35.

3.4.7 Loans and advances to customers and banks

Loans and advances to customers	31.12.2012		31.12.2011	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	58 728 471	91.28	58 219 937	91.28
Past due but not impaired	2 463 128	3.83	2 758 563	4.33
Impaired	3 144 876	4.89	2 798 505	4.39
Total, gross	64 336 475	100.00	63 777 005	100.00
Provision (provision for impaired loans and advances as well as IBNI provision)	(2 236 161)	3.48	(2 113 013)	3.31
Total, net	62 100 314	96.52	61 663 992	96.69

The table below presents amounts due from banks:

Loans and advances to banks	31.12.2012		31.12.2011	
	exposure in PLN '000	share/coverage (%)	exposure in PLN '000	share/coverage (%)
Neither past due nor impaired	5 053 188	100.00	5 223 705	100.00
Past due but not impaired	-	-	-	-
Impaired	-	-	-	-
Total, gross	5 053 188	100.00	5 223 705	100.00
Provision (provision for impaired loans and advances as well as IBNI provision)	(559)	0.01	(1 027)	0.02
Total, net	5 052 629	99.99	5 222 678	99.98

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The total impairment provision for loans and advances is PLN 2 236 720 thousand (as at 31 December 2011: PLN 2 114 040 thousand) of which PLN 2 066 654 thousand (as at 31 December 2011: PLN 1 930 957 thousand) represents provisions for loans and advances to customers and banks individually impaired and the remaining amount of PLN 169 507 thousand represents the portfolio provision (as at 31 December 2011: PLN 182 056 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 17 and 21.

91.27% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2011: 91.28%);

Loans and advances neither past due nor impaired

31 December 2012	Individuals			Corporate entities				Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Sub-portfolio	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions				
1	699 317	26 287 713	26 034 920	14 492	-	259 860	-	204 810	-	27 466 192	2 385 328
2	2 062 372	4 599 260	1 323 522	914 285	6 210 203	1 056 228	-	1 521 217	-	16 363 565	1 832 615
3	743 067	-	-	723 014	1 601 307	1 513 606	-	366 180	-	4 947 174	635 199
4	35 645	-	-	1 747 885	537 908	2 985 338	-	253 701	-	5 560 477	52 954
5	-	-	-	245 461	577 563	614 891	-	18 362	-	1 456 277	106 266
6	-	-	-	6 655	-	19 350	-	-	-	26 005	-
7	-	-	-	13 119	7 501	93 850	-	-	-	114 470	-
8	-	-	-	-	-	10	2 024 380	-	666 434	2 690 824	40 826
Default category	3 056	11 047	3 972	7 227	9 969	72 188	-	-	-	103 487	-
Total	3 543 457	30 898 020	27 362 414	3 672 138	8 944 451	6 615 321	2 024 380	2 364 270	666 434	58 728 471	5 053 188

31 December 2011	Individuals			Corporate entities				Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Sub-portfolio	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions				
1	589 056	27 825 770	27 588 173	58 187	18 157	112 302	-	505 591	-	29 109 063	5 223 705
2	1 479 983	4 285 616	1 659 808	859 503	3 153 825	989 620	-	1 621 423	-	12 389 970	-
3	1 108 757	410 861	105 765	826 148	3 318 782	1 064 191	-	384 133	-	7 112 872	-
4	74 013	-	-	1 415 780	1 046 375	2 498 271	-	268 564	-	5 303 003	-
5	-	-	-	216 761	15 951	440 284	-	22 240	-	695 236	-
6	-	-	-	8 571	1 502	34 766	-	-	-	44 839	-
7	-	-	-	19 503	10 005	37 190	-	-	-	66 698	-
8	6	-	-	741	1 052 374	754 337	1 153 508	-	480 790	3 441 756	-
Default category	69	8 225	2 932	20 235	-	27 971	-	-	-	56 500	-
Total	3 251 884	32 530 472	29 356 678	3 425 429	8 616 971	5 958 932	1 153 508	2 801 951	480 790	58 219 937	5 223 705

Loans and advances past due but not impaired

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

31 December 2012	Individuals: Current accounts	Individuals: Term loans	including: housing and mortgage loans	Corporate entities: Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Past due up to 30 days	341 145	1 059 690	854 944	7 405	-	63 983	-	-	-	1 472 223	-
Past due 31 - 60 days	44 433	326 126	254 801	514	-	11 950	-	-	-	383 023	-
Past due 61 - 90 days	16 634	108 310	87 656	382	-	7 309	-	-	-	132 635	-
Past due over 90 days	70 709	93 128	39 591	11 096	-	288 772	-	11 542	-	475 247	-
Total	472 921	1 587 254	1 236 992	19 397	-	372 014	-	11 542	-	2 463 128	-

31 December 2011	Individuals: Current accounts	Individuals: Term loans	including: housing and mortgage loans	Corporate entities: Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions	Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
Past due up to 30 days	292 020	978 968	763 266	40 401	1 111	123 050	-	7 667	-	1 443 217	-
Past due 31 - 60 days	30 048	259 369	217 357	9 420	-	29 003	-	-	-	327 840	-
Past due 61 - 90 days	2 271	136 175	117 275	268	-	11 975	-	-	-	150 689	-
Past due over 90 days	60 711	97 300	35 506	26 080	-	652 726	-	-	-	836 817	-
Total	385 050	1 471 812	1 133 404	76 169	1 111	816 754	-	7 667	-	2 758 563	-

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Loans and advances individually impaired

As at 31 December 2012, net value of loans and advances individually impaired amounted to PLN 1 078 222 thousand (as at 31 December 2011: PLN 867 548 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets, together with the corresponding fair value of collateral.

	Individuals			Corporate entities				Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including: housing and mortgage loans	Current accounts	Term loans: corporate & institutional enterprises	Term loans: medium & small enterprises	Reverse repo / buy-sell-back transactions				
31 December 2012											
Loans and advances with impairment	584 167	716 226	474 477	324 630	484 560	1 035 293	-	-	-	**3 144 876**	-
Provisions for loans and advances with impairment	(542 771)	(437 885)	(267 082)	(260 248)	(285 783)	(539 967)	-	-	-	**(2 066 654)**	-
31 December 2011											
Loans and advances with impairment	496 134	510 259	344 066	375 487	569 332	845 916	-	-	1 377	**2 798 505**	-
Provisions for loans and advances with impairment	(478 863)	(295 480)	(172 722)	(283 827)	(303 371)	(568 039)	-	-	(1 377)	**(1 930 957)**	-

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

Financial effect of collaterals

As at 31 December 2012	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	**5 053 188**	**(559)**	**(3 998)**	**3 439**
Loans and advances to customers, including:	**64 336 475**	**(2 236 161)**	**(3 636 041)**	**1 399 880**
Loans to individuals:	37 802 045	(1 056 576)	(1 456 110)	399 534
- Current accounts	4 600 545	(586 189)	(616 467)	30 278
- Term loans, including:	33 201 500	(470 387)	(839 643)	369 256
housing and mortgage loans	29 073 883	(282 791)	(542 648)	259 857
Loans to corporate clients:	21 467 804	(1 167 356)	(2 157 934)	990 578
- Current accounts	4 016 165	(277 918)	(339 693)	61 775
- Term loans:	17 451 639	(889 438)	(1 818 241)	928 803
corporate & institutional enterprises	9 429 011	(311 280)	(353 432)	42 152
medium & small enterprises	8 022 628	(578 158)	(1 464 809)	886 651
Loans and advances to public sector	2 375 812	(12 229)	(21 997)	9 768
Total balance sheet data	**69 389 663**	**(2 236 720)**	**(3 640 039)**	**1 403 319**
Off-balance sheet data:				
Loan commitments and other commitments	13 944 261	(25 614)	(47 509)	21 895
Guarantees, banker's acceptances, documentary and commercial letters of credit	4 633 495	(20 848)	(35 438)	14 590
Total off-balance sheet data:	**18 577 756**	**(46 462)**	**(82 947)**	**36 485**

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As at 31 December 2011	Gross amount	Provisions created	Provisions without cash flow from collaterals	Financial effect of collaterals
Balace sheet data				
Loans and advances to banks	5 223 705	(1 027)	(5 228)	4 201
Loans and advances to customers, including:	63 777 005	(2 113 013)	(3 342 946)	1 229 933
Loans to individuals:	38 645 611	(860 001)	(1 135 660)	275 659
– Current accounts	4 133 068	(523 086)	(547 735)	24 649
– Term loans, including:	34 512 543	(336 915)	(587 925)	251 010
housing and mortgage loans	30 834 148	(199 413)	(384 078)	184 665
Loans to corporate clients:	20 686 101	(1 249 414)	(2 195 449)	946 035
– Current accounts	3 877 085	(315 619)	(374 193)	58 574
– Term loans:	16 809 016	(933 795)	(1 821 256)	887 461
corporate & institutional enterprises	9 187 414	(337 438)	(374 342)	36 904
medium & small enterprises	7 621 602	(596 357)	(1 446 914)	850 557
Loans and advances to public sector	2 809 618	(3 598)	(11 837)	8 239
Total balance sheet data	69 000 710	(2 114 040)	(3 348 174)	1 234 134
Off-balance sheet data:				
Loan commitments and other commitments	13 422 886	(26 963)	(96 510)	69 547
Guarantees, banker's acceptances, documentary and commercial letters of credit	3 037 588	(3 943)	(20 211)	16 268
Total off-balance sheet data:	16 460 474	(30 906)	(116 721)	85 815

Other financial assets

	31.12.2012	31.12.2011
Gross other financial assets, including:	96 881	207 265
- Not past due	87 218	198 110
- Past due over 90 days	9 663	9 155
- Provisions for impaired assets (negative amount)	(13 780)	(15 619)
Net other financial assets (Note 27)	83 101	191 646

The above note presents quality of other financial assets included in Note 26 'Other assets'.

3.4.8 Debt instruments: treasury bonds and other eligible debt securities

31 December 2012 Rating	Trading securities			Investment debt securities	Total
	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	-	491 500	491 500
A- to A+	707 657	319	355 338	18 873 831	19 937 145
BBB+ to BBB-	-	-	362 858	103 226	466 084
BB+ to BB-	-	-	94 284	20 673	114 957
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	-	2	2
Total	707 657	319	812 480	19 489 232	21 009 688

31 December 2011 Rating	Trading securities			Investment debt securities	Total
	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	115 769	499 331	615 100
A- to A+	928 520	148	110 508	19 911 802	20 950 978
BBB+ to BBB-	-	-	187 097	262 697	449 794
BB+ to BB-	-	-	172 325	-	172 325
B+ to B-	-	-	12 275	-	12 275
Lower than B-	-	-	-	2	2
Unrated	-	-	150 156	-	150 156
Total	928 520	148	748 130	20 673 832	22 350 630

97.23% of the investments in debt securities is rated at least on A- credit rating (31 December 2011: 96.49%). Information about impairment allowance for investment debt securities occurs under the Note 22.

3.4.9 Repossessed collateral

The Bank classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in Note 2.17. Repossessed collaterals classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the Restructuring and Collection Department for individual types of repossessed collaterals. The policy of the Bank is to sell repossessed assets. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Bank's urgent need, and must each time be approved by the Management Board. In 2012 and 2011, the Bank did not have any repossessed collaterals that were difficult to sell.

3.5 Concentration of assets, liabilities and off-balance sheet items

Geographic concentration risk

In order to actively manage the risk of concentration by country, the Bank:

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

Sector concentration risk

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

Sector limits are set for sectors defined by the Bank in accordance with the internal Bank's regulations in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds 5% of the total amount of exposures at the end of a given reporting period, the so-called "sensitive sectors" and sectors additionally indicated by the Chief Risk Officer. Unless the Bank's Management Board Credit Committee decides otherwise, an exposure limit is set for the Bank in any sector on a level not higher than:

- 12% of the gross loan portfolio in the prior reporting period for low risk sectors;
- 10% of the gross loan portfolio in the prior reporting period for medium risk sectors;
- 5% of the gross loan portfolio in the prior reporting period for high risk sectors.

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

The tables below present the structure of concentration of BRE Bank exposures in particular business sectors.

The structure of concentration of carrying amounts of exposure of BRE Bank SA

No.	Sectors	Principal exposure (in PLN million)	%	Principal exposure (in PLN million)	%
		31.12.2012		31.12.2011	
1.	Household customers	37 802 045	58.76%	38 645 611	60.59%
2.	Leasing and renting	3 810 393	5.92%	2 803 521	4.40%
3.	Public administration	1 962 122	3.05%	2 243 161	3.52%
4.	Real estate management	1 707 603	2.65%	1 401 232	2.20%
5.	Power industry and heat engineering	1 459 905	2.27%	705 033	1.11%
6.	Liquid fuels and natural gas	1 146 606	1.78%	1 911 876	3.00%
7.	Financial agencies	1 048 015	1.63%	997 813	1.56%
8.	Metals	909 610	1.41%	917 646	1.44%
9.	Building industry	876 171	1.36%	1 072 706	1.68%
10.	Transport and travel agencies	787 841	1.22%	840 325	1.32%
11.	Other wholesale trade	721 711	1.12%	635 155	1.00%
12.	Motorization	685 843	1.07%	661 301	1.04%
13.	Basic groceries	659 707	1.03%	495 326	0.78%
14.	Telecomunication	596 637	0.93%	525 987	0.82%
15.	Building materials	596 344	0.93%	530 042	0.83%
16.	Chemistry and plastics	561 959	0.87%	512 059	0.80%
17.	Wood and furniture	553 372	0.86%	710 255	1.11%
18.	Meat processing industry	523 537	0.81%	528 178	0.83%
19.	Management, consulting, advertising	293 537	0.46%	762 104	1.19%

In 2012, the total exposure of the Bank in the above sectors (excluding household customers) amounts to 29.37% (2011: 28.63%) of the credit portfolio. The risk of investing in these sectors (in a 3-point scale, i.e., low, medium, high) estimated by the Bank's credit risk advisors as at the end of 2012, was assessed as follows:

Leasing and renting	- medium
Public administration	- low
Real estate management	- medium
Power industry and heat engineering	- medium
Liquid fuels and natural gas	- medium
Financial agencies	- low
Metals	- high
Building industry	- high
Transport and travel agencies	- medium
Other wholesale trade	- medium
Motorization	- high
Basic groceries	- medium
Telecomunication	- medium
Building materials	- medium
Chemistry and plastics	- medium
Wood and furniture	- high
Meat processing industry	- medium
Management, consulting, advertising	- n/a

At the end of 2011, the risk of the sectors listed above was classified as follows:

Leasing and renting	- medium
Public administration	- low
Real estate management	- medium
Power industry and heat engineering	- medium
Liquid fuels and natural gas	- medium
Financial agencies	- low
Metals	- high
Building industry	- medium
Transport and travel agencies	- medium
Other wholesale trade	- medium

Motorization	- high
Basic groceries	- n/a
Telecomunication	- medium
Building materials	- medium
Chemistry and plastics	- medium
Wood and furniture	- high
Meat processing industry	- n/a
Management, consulting, advertising	- n/a

Large exposures concentration risk

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

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

These activities have a direct impact on the decisions of the Bank's bodies concerning the approval, increase and undertaking of exposures to customers.

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

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

3.6 Market risk

In the process of organisation of the market risk management, the Bank follows rules and requirements set forth in Polish Financial Supervision Authority (KNF) regulations and recommendations, in particular in Recommendations A and I.

The fundamental principle applied in the organisation of the market risk management in the Bank is the separation of risk control and monitoring functions from structures undertaking and operationally managing Bank's risk positions. Independent monitoring and controlling of the market risk exposition is performed by the Risk Department and the Financial Operations Control Department, both units in the Risk Area of the Bank under supervision of and reporting to the Chief Risk Officer, while the market risk positions are operationally managed by Financial Markets Department, Brokerage Bureau and Treasury Department reporting to the Management Board member in charge of investment banking. The Brokerage Bureau is a new organisational unit of the Bank separated from the Financial Markets Department. The Bureau started its operations in June 2012. Moreover, the investment positions sensitive to market risk factors (e.g. prices of shares listed on the Warsaw Stock Exchange) are managed in the Structured and Mezzanine Finance Department (DFS) operating in the Corporate Banking area.

In the course of Bank's operations, the Bank is exposed to market risk, which is defined as a risk resulting from unfavourable change of the current valuation of the Bank's open positions in interest rate, foreign currency and equity instruments due to changes of the appropriate market risk factors, in particular interest rates, foreign exchange rates, stock share prices and indices, and implied volatilities of relevant options. The Bank identifies market risk primarily on the trading book positions valuated at fair value (either directly to market prices or via models) and as such may lead to losses reported in Bank's financial results. Furthermore, the Bank assigns market risk to its banking positions independently of the accounting rules of calculating financial results on these positions. In particular, in order to reflect the interest rate risk of the retail and corporate banking products with unspecified interest revaluation dates or rates administered by the Bank, the Bank uses the so-called replicating portfolio models. Market risk measures applicable to interest rate banking book positions are based on net present value (NPV) models. Exposure to market risk is quantified by measurement of the value at risk (VaR), stress tests values, and scenario analyses based on markets behaviour during the past financial crises. Market risk, in particular interest rate risk of the banking book is also quantified by calculation of the earning at risk (EaR) measure for the banking portfolio.

In order to mitigate market risk exposure BRE Bank Risk Committee establishes VaR limits and limits (management action triggers) on stress test for respective Bank portfolios.

Value at Risk

In 2012, Bank's market risk exposure, as measured by the value at risk (VaR, for one day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level. The average utilisation of VaR limit for Financial Markets Department, whose positions consist primarily of trading book portfolios, amounted to 29% (PLN 1.6 million), for the Brokerage Bureau (BM) 18% (PLN 0.4 million), while for the Treasury Department, whose positions are classified solely to the banking book, it was 65% (PLN 10.4 million). The average utilisation of the VaR limit for the position of the Structured and Mezzanine Finance Department (DFS) in shares listed in the Warsaw Stock Exchange accounted for 49% (PLN 0.5 million) in the period by November 2012. From November 2012, due to restructuring of BRE Bank Group's holding in PZU SA shares, as a result of which the Bank took over the PZU shares to the DFS portfolio, the average VaR on the DFS portfolio amounted to PLN 4.6 million. By November 2012, the VaR figures for BRE's portfolio ware driven mainly by portfolios of instruments sensitive to interest rates – the banking book T-bonds portfolios managed by Treasury Department and the trading book portfolios and interest rate exchange positions managed by Financial Markets Department. The DFM portfolios of instruments sensitive to changes in exchange rates had a relatively low impact on the Bank's risk profile, while the exposure of BM and DFS portfolios to equity price risk and risk of implied variability of options traded on the Warsaw Stock Exchange was even lower. However, starting from November 2012, equity price risk (in particular, PZU shares) became the second relevant type of market risk for the Bank's positions.

BRE Bank VaR

The tables below present VaR statistics from two perspectives. The first table compares the 2012 data with 2011 figures (the values presented in the table were calculated for the Bank's portfolio excluding the DFS positions).

PLN 000's	2012				2011			
	31.12.2011	Mean	Maximum	Minimum	31.12.2010	Mean	Maximum	Minimum
VaR IR	6 162	11 146	14 368	6 162	12 157	11 166	14 480	8 219
VaR FX	132	506	2 004	76	229	258	719	29
VaR EQ	274	245	815	0	3	30	160	0
VaR	**6 171**	**11 241**	**14 885**	**6 131**	**12 217**	**11 118**	**14 238**	**8 118**

The table below presents analogous VaR statistics for the Bank's portfolio including the DFS positions, and takes into account the PZU shares transferred to DFS on November 2012.

PLN 000's	2012			
	31.12.2012	Mean	Maximum	Minimum
VaR IR	6 162	11 146	14 368	6 162
VaR FX	132	506	2 004	76
VaR EQ	4 750	925	4 801	1
VaR	**9 879**	**11 588**	**14 779**	**8 059**

Stress testing

Stress tests are additional measures of market risk, supplementing the measurement of the value at risk. The tests show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values in a one-day period. The Bank applies two methods for carrying out stress tests: in one, the scenarios are composed of large changes in risk factors - perfectly correlated and having the same magnitude in each risk factor group, and in the other, the scenarios of changes in risk factors have been constructed on the basis of large changes in market parameters observed during past market crisis situations.

The values of the stress tests calculated by the second method for the portfolios of the Treasury Department and the Financial Markets Department were subject to the limits treated as management action triggers. The average utilisation of these limits in 2012 was 32% (PLN 39.4 million) for the Treasury Department portfolio (DS) (in 2011: 83% or PLN 103.6 million), and 20% (PLN 15.2 million) for the Financial Markets Department portfolio (in 2011: 19% or PLN 14.3 million). Among scenarios used in these tests, the highest potential loss was due to large changes of interest rates (mostly PLN rates). For the scenario of 15% overnight increase of interest rates, average potential change of the valuation of BRE's portfolios was PLN 38.1 million in 2012. Realisation of such a scenario, would negatively impact (in the part corresponding to the banking book portfolios of the Treasury Department including debt instruments classified as available for sale) on the Bank's funds, and to lesser extent, it would affect the Bank's financial results. For this scenario the average potential change of the valuation of the Treasury Department portfolio would amount to PLN 38.5 million in 2012.

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The average value of a stress test (based on observed crisis situations in the past) in 2012 was PLN 17.6 million for the Financial Markets Department portfolios (in 2011: PLN 14.6 million), and PLN 48.5 million for the Treasury Department portfolios (in 2011: PLN 102.4 million).

3.7 Currency risk

The Bank is exposed to changes in currency exchange rates. The following tables present the exposure of the Bank to currency risk as at 31 December 2012 and 31 December 2011. The tables present assets and liabilities of the Bank at balance sheet carrying amount, for each currency:

31.12.2012	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 718 905	1 060 999	7 342	174	1 057	27 618	4 816 095
Loans and advances to banks	1 716 223	1 925 360	597 386	2 468	102 126	709 066	5 052 629
Trading securities	1 528 994	-	-	-	-	-	1 528 994
Derivative financial instruments	2 639 399	120 777	33 561	63	-	2 742	2 796 542
Loans and advances to customers	29 614 170	8 435 036	1 434 680	20 971 974	45 410	1 599 044	62 100 314
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	-	2 439	2 439
Investment securities	19 232 864	415	10 353	-	-	497 220	19 740 852
Investments in subsidiaries	906 672	1 006	-	-	-	29 658	937 336
Intangible assets	388 740	209	-	-	-	376	389 325
Tangible fixed assets	468 105	4 017	-	-	-	8 525	480 647
Other assets, including tax assets	289 982	6 880	32	1	8	6 900	303 803
Total assets	60 504 054	11 554 699	2 083 354	20 974 680	148 601	2 883 588	98 148 976
LIABILITIES							
Amounts due to other banks	2 366 173	512 476	856 547	16 424 292	526	81 500	20 241 514
Derivative financial instruments and other trading liabilities	3 328 535	119 937	29 366	-	-	3 456	3 481 294
Amounts due to customers	44 773 107	10 528 170	1 349 359	82 405	136 393	3 012 484	59 881 918
Hedge accounting adjustments related to fair value of hedged items	-	4 220	-	-	-	-	4 220
Debt securities in issue	659 048	-	-	-	-	-	659 048
Subordinated liabilities	-	-	-	3 222 295	-	-	3 222 295
Other liabilities including tax liabilities	1 204 440	66 588	32 628	1 602	2 003	58 754	1 366 015
Provisions	108 810	9 821	10 128	-	-	56	128 815
Total liabilities	52 440 113	11 241 212	2 278 028	19 730 594	138 922	3 156 250	88 985 119
Net on-balance sheet position	8 063 941	313 487	(194 674)	1 244 086	9 679	(272 662)	9 163 857
Loan commitments and other commitments	12 450 229	1 134 413	198 063	-	10	161 546	13 944 261
Guarantees, banker's acceptances, documentary and commercial letters of credit	1 945 538	2 504 938	71 897	-	1 629	109 493	4 633 495

31.12.2011	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	929 202	57 240	9 160	118	1 729	34 632	1 032 081
Loans and advances to banks	1 908 024	2 399 099	703 524	37 093	28 983	145 955	5 222 678
Trading securities	1 672 952	-	3 846	-	-	-	1 676 798
Derivative financial instruments	1 397 947	71 353	24 603	1 355	-	8 762	1 504 020
Loans and advances to customers	24 880 859	8 878 153	2 352 442	23 985 607	49 251	1 517 680	61 663 992
Hedge accounting adjustments related to fair value of hedged items	-	-	-	-	-	1 924	1 924
Investment securities	20 385 887	351	7 991	-	-	536 437	20 930 666
Investments in subsidiaries	545 406	994	-	-	-	30	546 430
Intangible assets	388 763	377	-	-	-	667	389 807
Tangible fixed assets	524 114	6 956	-	-	-	11 340	542 410
Other assets, including tax assets	370 451	6 386	(13)	1 799	14	5 989	384 626
Total assets	53 003 605	11 420 909	3 101 553	24 025 972	79 977	2 263 416	93 895 432
LIABILITIES							
Amounts due to other banks	2 776 786	2 016 202	1 210 298	19 183 950	105	93 828	25 281 169
Derivative financial instruments and other trading liabilities	1 762 032	66 678	22 743	638	-	5 280	1 857 371
Amounts due to customers	42 467 866	7 302 770	1 402 270	59 852	98 474	2 687 403	54 018 635
Subordinated liabilities	-	-	-	3 456 200	-	-	3 456 200
Other liabilities including tax liabilities	1 264 276	204 690	75 363	4 361	2 768	47 389	1 598 847
Provisions	59 991	1 650	10 590	-	20	53	72 304
Total liabilities	48 330 951	9 591 990	2 721 264	22 705 001	101 367	2 833 953	86 284 526
Net on-balance sheet position	4 672 654	1 828 919	380 289	1 320 971	(21 390)	(570 537)	7 610 906
Loan commitments and other commitments	12 268 330	891 562	99 528	-	6 806	156 660	13 422 886
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 226 067	558 923	141 826	-	53	110 719	3 037 588

3.8 Interest rate risk

In the process of managing interest rate risk of the banking book, the risk monitoring and control functions are performed by the Risk Department supervised by the Chief Risk Officer, whereas operational management of risk positions takes place in the Treasury Department supervised by the Head of Investment Banking. This way the Bank ensures independence of risk measurement, monitoring and control functions from operational activity, which gives rise to the positions taken by the bank.

Interest rate risk results from the threat to the bank's financial result and capital posed by adverse influence of interest rate fluctuations. Guided by the KNF recommendations, in particular Recommendation G, the Bank monitors the banking book structure in terms of repricing gap as well as basis risk, yield curve risk and customer option risk.

The basic measures used to control interest rate risk in the banking book are the repricing gap and the net interest income exposed to risk calculated on its basis (Earning at Risk). Moreover, the Bank performs also stress test analyses aimed to estimate the impact of adverse interest rate fluctuations on net interest income and the economic value of the banking portfolio. Interest rate risk of the banking book is also quantified using market risk measures: Value at Risk and stress tests.

Based on a decision of the Risk Committee of BRE Bank SA, the exposure to interest rate risk is limited for the banking portfolio by means of repricing gap limits and market risk limits imposed on the value at risk (VaR) and stress tests. The utilisation of all those limits is monitored and controlled on a daily basis.

Interest income subject to risk

As at 31 December 2012 and 31 December 2011 a sudden, lasting and unfavourable shift change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income within 12 months after the year end date by the following amounts:

31.12.2012		31.12.2011	
in PLN million	currency	in PLN million	currency
90.26	PLN	35.06	PLN
10.89	EUR	2.19	EUR
2.17	USD	4.50	USD
14.45	CHF	18.90	CHF
8.30	CZK	7.63	CZK

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

Stress tests

The Bank runs also other analyses of the changes of the economic value of the banking book under stress test scenarios. Under the stress test, which assumes unfavorable shift of the interest rates for respective currencies by 200 bps, the economic value of the banking book at the end of 2012 would change by PLN 58 million (at the end of 2011: PLN 375 million), out of which PLN 324 million (in 2011: PLN 333 million) due to available for sale instruments. During the calculation of these values no correlation between currencies was taken into account and it was assumed that taking into account small interest rate values after the negative shift cannot become less than or equal to zero.

The risk measures in 2012 (net interest income exposed to risk and changes in the economic value of the banking portfolio as a result of stress tests) were affected by a change in the methodology. From the beginning of the year, successive groups of products have been gradually covered by the replicating portfolios approach in order to better reflect the reaction of their interest to fluctuations in market interest rates.

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

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31.12.2012	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 854 213	-	-	-	-	2 961 882	4 816 095
Loans and advances to banks	3 944 609	531 066	413 420	-	-	163 534	5 052 629
Securities (trading securities, investment securities and pledged assets)	14 726 219	263 723	1 472 840	3 915 805	639 639	1 188 956	22 207 182
Loans and advances to customers	57 226 197	2 721 422	1 124 109	360 455	1 697	666 434	62 100 314
Other assets and derivative financial instruments	339 958	507 817	1 339 188	500 820	25 034	260 023	2 972 840
Total assets	78 091 196	4 024 028	4 349 557	4 777 080	666 370	5 240 829	97 149 060
LIABILITIES							
Amounts due to other banks	10 219 870	9 847 354	173 021	-	-	1 269	20 241 514
Amounts due to customers	44 216 798	5 700 142	9 585 420	78 425	266 207	34 926	59 881 918
Debt securities in issue	206 105	-	452 943	-	-	-	659 048
Subordinated liabilities	578 765	2 643 530	-	-	-	-	3 222 295
Other liabilities and derivative financial instruments	418 525	637 848	1 761 101	612 815	31 088	1 167 913	4 629 290
Total liabilities	55 640 063	18 828 874	11 972 485	691 240	297 295	1 204 108	88 634 065
Total interest repricing gap	22 451 133	(14 804 846)	(7 622 928)	4 085 840	369 075		

31.12.2011	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	811 980	-	-	-	-	220 101	1 032 081
Loans and advances to banks	3 982 093	635 903	507 276	-	-	97 406	5 222 678
Securities (trading securities, investment securities and pledged assets)	12 358 644	465 491	5 424 295	3 071 699	1 030 501	803 264	23 153 894
Loans and advances to customers	56 497 985	2 832 249	1 415 089	431 506	4 093	483 070	61 663 992
Other assets and derivative financial instruments	245 036	286 796	677 217	260 730	14 497	341 176	1 825 452
Total assets	73 895 738	4 220 439	8 023 877	3 763 935	1 049 091	1 945 017	92 898 097
LIABILITIES							
Amounts due to other banks	12 016 415	13 126 153	132 096	-	-	6 505	25 281 169
Amounts due to customers	47 214 001	5 091 093	1 087 338	147 939	400 891	77 373	54 018 635
Subordinated liabilities	1 238 818	2 217 382	-	-	-	-	3 456 200
Other liabilities and derivative financial instruments	245 932	348 942	950 343	327 333	18 074	1 338 258	3 228 882
Total liabilities	60 715 166	20 783 570	2 169 777	475 272	418 965	1 422 136	85 984 886
Total interest repricing gap	13 180 572	(16 563 131)	5 854 100	3 288 663	630 126		

3.9 Liquidity risk

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfil both current and future commitments. The Bank achieves this objective by diversifying stable funding sources in terms of client, product and currency groups, and at the same time, optimizes its balance sheet in terms of profitability. Long-term activities of BRE Bank are organised around growth determined by funding opportunities and business profitability.

In 2012, the liquidity situation was closely monitored and kept at a level adequate to the Bank's needs by adjusting the deposit base and securing additional funding sources depending on the development of lending activity and other funding needs.

The strategic assumptions concerning the diversification of funding sources and profitable structure of the balance sheet are reflected in the business and financial goals of BRE Bank Group defined by appropriate measures, e.g. L/D ratio (Loans to Deposits). The Bank assumes a specific relation of loans to deposits in order to maintain a stable structure of its balance sheet. In 2012, liquidity measured by L/D ratio improved from 125.1% to 115.7% The Bank aims at building a stable deposit base using deposit and investment products, regular and specific-purpose savings offerings, as well as operating deposits of the subsidiaries. Liabilities to clients constitute the major funding source for the Bank's business. The second largest funding source is the portfolio of long-term loans from banks (with maturities over 1 year), in particular from Commerzbank (Note 27). The loans together with subordinated loans (Note 33) are the core funding source for the portfolio of mortgage loans in CHF. Owing to the suspension of mortgage loans in CHF, the receivables in this currency have been decreasing successively along with credit repayments. The funds obtained from the repayment of the said loans are used to reduce the Bank's debt in CHF owed to Commerzbank, BRE's main shareholder. In 2012, the debt was reduced by CHF 430 million as the maturing loans had not been renewed.

Moreover, in order to secure funding (also in foreign currencies) the Bank uses mid-term and long-term instruments, including credit line facilities within Commerzbank Group and on the international market as well as

FX swap transactions. In H2 2012, the Bank issued, through its subsidiary entity BRE Finance France, Eurobonds worth EUR 500 million under the Euro Medium Term Note Programme (EMTN).

In addition, the Bank has the option to raise up to PLN 5 billion under the Banking Debt Securities Issue Programme. In November 2012, the Bank issued debt securities worth PLN 450 million with a 3-year maturity. When making funding-related decisions, the Bank takes into consideration the supervisory liquidity measures and limits, as well as the internal risk limits, in order to match the term structure of its funding sources with the structure of long-term assets. Liquid assets are expected to remain at a level necessary to ensure the safety of business as measured by satisfactory liquidity ratios.

In order to ensure that the liquidity risk management process is effective, the Management Board of the Bank lies down an adequate organisational structure and delegates powers to dedicated units and Committees. The existing process covers the liquidity risk management area at both the strategic and operational level, and the liquidity risk measurement and control area.

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure reflecting the Bank's liquidity situation is the mismatch account of future cash flows, and the mismatch gap related with it. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. The aim to secure liquidity is realized by active management of the structure of future cash flows and in maintaining sufficient liquidity buffer. In 2012, the Bank held high liquidity surplus, adequate to the liquidity needs arising from the Bank's activity and current market situation, in the form of a portfolio of liquid treasury and money market securities that may be pledged or sold at any time without any considerable loss in value. In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding on banks, the Bank calculates the supervisory liquidity measures. In 2012, the supervisory limits on short-term and long-term liquidity measures were not exceeded. Moreover, in line with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits on involvement in long-term assets. There are analysed the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account overdraft facilities.

The ongoing analysis covers not only liquidity under normal conditions, but also on the assumption of a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and behavioral events relative to the Bank's clients. The Bank has also adequate procedures in case BRE Bank SA is threatened with financial liquidity loss.

For the purpose of current monitoring of liquidity, the Bank establishes values of realistic, cumulated gap of cash flows misfit. The gap is calculated on the basis of contractual cash flows (Note 3.9.1). Cash flows in portfolios of non-banking customers' deposits, overdrafts and term loans are mainly amended. In the calculation of liquidity measures the Bank takes into account the possibilities of raising funds by selling or pledging the debt securities from Bank's Liquidity Reserves.

Value of realistic, cumulative gap of cash flows misfit (in PLN million)		
Time range	31.12.2012	31.12.2011
up to 3 working days	11 559	7 065
up to 7 calendar days	11 425	11 222
up to 15 calendar days	10 478	11 148
up to 1 month	11 500	12 339
up to 2 months	12 488	12 011
up to 3 months	13 399	12 280
up to 4 months	13 767	12 705
up to 5 months	14 048	13 073
up to 6 months	13 849	12 658
up to 7 months	13 072	12 741
up to 8 months	13 029	12 851
up to 9 months	12 798	11 851
up to 10 months	12 332	12 110
up to 11 months	11 239	12 134
up to 12 months	11 292	12 259

The above values should be interpreted as liquidity surplus in relevant time ranges.

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3.9.1 Cash flows from transactions in non-derivative financial instruments

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

Liabilities (by contractual maturity dates)	as at 31.12.2012					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to other banks	2 702 379	62 044	3 426 517	11 510 182	2 540 100	20 241 222
Amounts due to customers	43 503 128	4 732 049	7 614 541	2 378 192	1 670 468	59 898 378
Debt securities in issue	209 048	-	-	450 000	-	659 048
Subordinated liabilities	4 878	-	-	1 761 136	1 456 324	3 222 338
Other liabilities	910 072	-	-	-	-	910 072
Total liabilities	47 329 505	4 794 093	11 041 058	16 099 510	5 666 892	84 931 058
Assets (by remaining contractual maturity dates)						
Total assets	19 436 271	3 972 358	15 877 308	24 675 360	45 606 588	109 567 885
Net liquidity gap	(27 893 234)	(821 735)	4 836 250	8 575 850	39 939 696	24 636 827

Liabilities (by contractual maturity dates)	as at 31.12.2011					
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Amounts due to other banks	3 746 190	390 763	2 870 725	13 779 911	5 556 075	26 343 664
Amounts due to customers	46 477 359	4 195 978	1 178 653	399 722	2 433 267	54 684 979
Subordinated liabilities	7 851	7 028	19 887	105 652	3 473 819	3 614 237
Other liabilities	1 122 298	-	-	-	-	1 122 298
Total liabilities	51 353 698	4 593 769	4 069 265	14 285 285	11 463 161	85 765 178
Assets (by remaining contractual maturity dates)						
Total assets	15 494 994	3 293 601	19 519 701	26 308 742	46 859 778	111 476 816
Net liquidity gap	(35 858 704)	(1 300 168)	15 450 436	12 023 457	35 396 617	25 711 638

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

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

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

3.9.2 Cash flows from derivatives

<u>Derivative financial instruments settled in net amounts</u>

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

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

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

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31.12.2012

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	10 668	48 145	125 781	49 644	-	234 238
Overnight Index Swaps (OIS)	247	999	4 417	-	-	5 663
Interest Rate Swaps (IRS)	265 516	304 016	599 312	1 456 714	396 415	3 021 973
Cross Currency Interest Rate Swaps (CIRS)	-	8 870	130 793	1 039	-	140 702
Options	479 988	3 456	90 410	8 812	19	582 685
Other	2 211	734	1 172	83	-	4 200
Total derivatives settled on a net basis	758 630	366 220	951 885	1 516 292	396 434	3 989 461

31.12.2011

Derivatives settled on a net basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forward Rate Agreements (FRA)	8 207	15 169	26 359	2 638	-	52 373
Overnight Index Swaps (OIS)	663	1 470	8 809	-	-	10 942
Interest Rate Swaps (IRS)	50 506	252 958	193 313	630 749	134 439	1 261 965
Cross Currency Interest Rate Swaps (CIRS)	-	820	696	199 777	-	201 293
Options	5 351	28 403	143 895	12 942	-	190 591
Futures contracts	-	1	-	-	-	1
Other	399	-	631	-	-	1 030
Total derivatives settled on a net basis	65 126	298 821	373 703	846 106	134 439	1 718 195

Derivative financial instruments settled in gross amounts

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

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

31.12.2012

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	9 744 590	2 698 607	1 909 498	159 335	-	14 512 030
-inflows	9 769 996	2 769 493	1 916 536	157 772	-	14 613 797

31.12.2011

Derivatives settled on a gross basis	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Currency derivatives:						
-outflows	9 126 237	3 952 184	5 578 434	258 135	-	18 914 990
-inflows	9 143 395	3 886 216	5 593 960	271 787	-	18 895 358

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

The amounts presented in the table above are nominal cash flows of currency derivatives, which have not been settled, while the Note 19 shows contractual nominal values of all open derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 35.

3.10 Fair value of financial assets and financial liabilities

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

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

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

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

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

	31.12.2012		31.12.2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and advances to banks	**5 052 629**	**5 052 629**	**5 222 678**	**5 222 676**
Loans and advances to customers	**62 100 314**	**62 113 307**	**61 663 992**	**61 671 225**
Loans and advances to individuals	**36 745 469**	**36 745 346**	**37 785 610**	**37 785 561**
current accounts	4 014 356	4 014 356	3 609 982	3 609 982
term loans including:	32 731 113	32 730 990	34 175 628	34 175 579
- housing and mortgage loans	28 791 092	28 791 092	30 634 735	30 634 686
Loans and advances to corporate entities	**22 324 828**	**22 342 745**	**20 590 195**	**20 600 965**
current accounts	3 738 247	3 738 247	3 561 466	3 561 466
term loans	16 562 201	16 580 118	15 875 221	15 885 991
- corporate & institutional enterprises	9 117 731	9 134 513	8 849 976	8 861 073
- medium & small enterprises	7 444 470	7 445 605	7 025 245	7 024 918
reverse repo / buy sell back transactions	2 024 380	2 024 380	1 153 508	1 153 508
Loans and advances to public sector	**2 363 583**	**2 358 782**	**2 806 020**	**2 802 532**
Other receivables	**666 434**	**666 434**	**482 167**	**482 167**
Financial liabilities				
Amounts due to other banks	**20 241 514**	**20 241 514**	**25 281 169**	**25 281 169**
Amounts due to customers	**59 881 918**	**60 097 035**	**54 018 635**	**54 057 175**

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

Loans and advances to banks. The fair values of variable interest deposits and fixed interest deposits with less than 1 year to maturity is equal to its carrying amounts.

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

Available for sale financial assets. Listed available for sale financial instruments held by the Bank are valued at fair value. The fair value of debt securities unlisted at an active market is calculated by the use of zero-coupon curve (including credit spread). The model of spread determination in the case of illiquid commercial papers was extended in order to reflect the costs of unexpected loss component of the credit spread more precisely.

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

- contracted borrowings;
- deposits.

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

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

Credit risk exposures relating to off-balance sheet items. As at 31 December 2012, the fair value of financial guarantees amounted to PLN 10 181 thousand (31 December 2011: PLN 4 711 thousand). The fair values of other off-balance sheet items are equal to their carrying amounts.

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the statement of financial position of the Bank at their fair values.

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31.12.2012	Including:	Level 1 Quoted prices in active markets for identical instruments	Level 2 Valuation techniques based on observable market data	Level 3 Value measurements for inputs that are not based on observable market data
Financial assets				
Trading securities	1 528 994	716 497	-	812 497
Debt	1 520 456	707 976	-	812 480
Equity	8 538	8 521	-	17
Derivative financial instruments, including	2 796 542	1 307	2 795 235	-
Investment securities	19 740 852	11 679 148	7 509 065	552 639
Debt	19 489 232	11 453 224	7 496 926	539 082
Equity	251 620	225 924	12 139	13 557
Total financial assets	24 066 388	12 396 952	10 304 300	1 365 136
Financial liabilities				
Derivative financial instruments	3 481 294	150	3 481 144	-
- Instrumenty pochodne zabezpieczające	6 198	-	6 198	-
Total financial liabilities	3 481 294	150	3 481 144	-

Assets Measured at Fair Value Based on Level 3 - changes in 2012	Debt trading securities	Equity trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	748 130	-	934 886	1 265
Gains and losses for the period:	7 679	-	4 581	927
Recognised in profit or loss	*7 679*	-	-	-
Recognised in other comprehensive income	-	-	*4 581*	*927*
Purchases	1 957 938	17	153 220	12 198
Redemptions	(2 313 966)	-	(314 000)	-
Sales	(14 969 149)	-	(1 016 896)	-
Issues	15 356 065	-	773 900	-
Settlements	25 783	-	3 391	(833)
As at the end of the period	812 480	17	539 082	13 557

31.12.2011	Including:	Level 1 Quoted prices in active markets for identical instruments	Level 2 Valuation techniques based on observable market data	Level 3 Value measurements for inputs that are not based on observable market data
Financial assets				
Trading securities	1 676 798	928 668	-	748 130
Debt	1 676 798	928 668	-	748 130
Derivative financial instruments	1 504 020	6 680	1 497 340	-
Investment securities	20 930 666	13 403 339	6 591 176	936 151
Debt	20 673 832	13 392 375	6 346 571	934 886
Equity	256 834	10 964	244 605	1 265
Total financial assets	24 111 484	14 338 687	8 088 516	1 684 281
Financial liabilities				
Derivative financial instruments	1 857 371	296	1 857 075	-
Total financial liabilities	1 857 371	296	1 857 075	-

Transfers between levels in 2011	Transfers into Level 1	Transfers out of Level 1	Transfers into Level 2	Transfers out of Level 2
Investment securities	-	-	7	-
Equity	-	-	7	-

Assets Measured at Fair Value Based on Level 3 - changes in 2011	Debt trading securities	Debt investment securities	Equity investment securities
As at the beginning of the period	528 714	752 727	1 236
Gains and losses for the period:	2 913	19 192	36
Recognised in profit or loss	*2 913*	*4 392*	-
Recognised in other comprehensive income	-	*14 800*	*36*
Purchases	1 381 497	219 849	-
Redemptions	(2 244 062)	(261 000)	-
Sales	(11 058 124)	(1 147 831)	-
Issues	12 111 662	1 353 007	-
Settlements	25 530	(1 058)	-
Transfers out of Level 3	-	-	(7)
As at the end of the period	748 130	934 886	1 265

According to the fair value methodology applied by the Bank, financial assets and liabilities are classified as follows:

- Level 1: prices quoted on active markets for the same instrument (without modification);
- Level 2: valuation techniques based on observable market data;
- Level 3: valuation methods for which at least one significant input data is not based on observable market data.

Level 1

As at 31 December 2012, at Level 1 of the hierarchy of values, the Bank presented the fair values of government bonds and treasury bills held for trading in the amount of PLN 707 976 thousand (see Note 18) and the fair values of investment government bonds and treasury bills in amount of PLN 11 415 436 thousand (31 December 2011 respectively: PLN 928 668 thousand, PLN 13 258 760 thousand). Level 1 also includes the fair value of local government bonds in amount of PLN 37 788 thousand (31 December 2011: PLN 33 615).

In addition, as at 31 December 2012 Level 1 includes the value of PZU SA shares in the amount of PLN 206 775 thousand (31 December 2011: PLN 874 thousand).

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

Level 2

Level 2 of the hierarchy includes the fair values of monetary bills issued by NBP in the amount of PLN 7 496 926 thousand (31 December 2011: PLN 6 346 571 thousand) whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

As at 31 December 2012, Level 2 also includes the value of the option on the index WIG 20, listed on the Stock Exchange due to changes in the valuation of these options with the direct method, it means from valuation based on market quotations to the method of valuation of its own model. Change in valuation was due to the limited liquidity of the market in which these options are listed.

In 2011, Level 2 included investment certificates issued by BRE GOLD FIZ Aktywów Niepublicznych in the fair value of PLN 242 405 thousand (31 December 2012: PLN 0).

Level 3

Level 3 of the hierarchy shows the fair values of commercial debt securities issued by local banks and companies (bonds, mortgage bonds, deposit certificates) in the amount of PLN 1 351 562 thousand (31 December 2011: PLN 1 683 016 thousand).

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

If credit spread used in the valuation increased by 20 basis points, the value of commercial debt securities would decrease by PLN 5.6 million.

Moreover, Level 3 covers mainly the fair value of equity securities amounting to PLN 13 055 thousand valuated using the market multiples method. The market multiples method, consists of valuating the equity capital of a company by using a relation between the market values of the own equity capital or market values of the total capital invested in comparable companies (goodwill) and selected economic and financial figures.

3.11 Other business

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

4. Major estimates and judgments made in connection with the application of accounting policy principles

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

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Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the 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 which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 51.0 million or increase by PLN 115.0 million respectively. This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral.

Fair value of derivative instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, observable market data originating from an active market are used in the models. Changes in market conditions on valuation of the trading book of the Bank (containing inter alia derivatives) are presented in the Note 3.4.

5. Net interest income

	Year ended 31 December	
	2012	2011
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 848 335	2 385 276
Investment securities	886 704	827 931
Cash and short-term placements	123 372	103 735
Trading debt securities	82 706	91 820
Interest income on derivatives classified into banking book	139 659	65 303
Other	8 821	10 414
Total interest income	**4 089 597**	**3 484 479**
Interest expense		
Arising from amounts due to banks	(295 855)	(354 085)
Arising from amounts due to customers	(1 638 349)	(1 104 747)
Arising from issue of debt securities	(62 177)	(56 045)
Other borrowed funds	(44 594)	-
Interest expense on derivatives concluded under the hedge accounting	(945)	(736)
Other	(31 694)	(29 949)
Total interest expense	**(2 073 614)**	**(1 545 562)**

Interest income related to impaired financial assets amounted to PLN 184 199 thousand (31 December 2011: PLN 176 526 thousand).

Net interest income per client groups is as follows:

	Year ended 31 December	
	2012	2011
Interest income		
From banking sector	573 116	455 462
From clients, including:	3 516 481	3 029 017
- individual clients	1 530 124	1 383 031
- corporate clients	1 155 580	891 194
- public sector	830 777	754 792
Total interest income	**4 089 597**	**3 484 479**

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Interest expense		
From banking sector	(358 983)	(410 232)
From clients, including:	(1 670 037)	(1 135 330)
- individual clients	(827 097)	(581 642)
- corporate clients	(806 451)	(515 242)
- public sector	(36 489)	(38 446)
From debt securities in issue	(44 594)	-
Total interest expense	**(2 073 614)**	**(1 545 562)**

6. Net fee and commission income

	Year ended 31 December	
	2012	2011
Fee and commission income		
Payment cards-related fees	393 837	351 819
Commission for agency service regarding selling products of external financial entities	200 567	211 770
Credit-related fees and commissions	147 100	112 841
Commissions from bank accounts	124 634	108 941
Commissions from money transfers	88 380	85 619
Commissions due to guarantees granted and trade finance commissions	36 069	38 756
Commissions on trust and fiduciary activities	17 469	16 525
Other	60 783	68 698
Fee and commission income	**1 068 839**	**994 969**
Fee and commission expense		
Payment cards-related fees	(182 739)	(176 594)
Commissions paid to external entities for sale of the Bank's products	(79 391)	(84 809)
Discharged brokerage fees	(6 350)	(6 032)
Other discharged fees	(109 949)	(94 956)
Total fee and commision expense	**(378 429)**	**(362 391)**

7. Dividend income

	Year ended 31 December	
	2012	2011
Trading securities	101	-
Securities available for sale	35 562	45 806
Total dividend income	**35 663**	**45 806**

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8. Net trading income

	Year ended 31 December	
	2012	2011
Foreign exchange result	**316 404**	**309 759**
Net exchange differences on translation	220 106	345 542
Net transaction gains/(losses)	96 298	(35 783)
Other net trading income and result on hedge accounting	**28 493**	**28 088**
Interest-bearing instruments	24 241	29 487
Equity instruments	889	-
Market risk instruments	2 024	(1 956)
Result on hedge accounting, including:	1 339	557
- Net profit on hedged items	(3 705)	1 924
- Net profit on hedging instruments	5 044	(1 367)
Total net trading income	**344 897**	**337 847**

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

The Bank applies fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

In addition, from October 2012 the Bank applies fair value hedge accounting for a fixed interest rate security deposit given by BRE Finance France, subsidiary of BRE Bank, from funds derived from the issuance of Eurobonds. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate.

In both cases described above, the risk of changes in interest rates is the only type of risk hedged within hedge accounting applied by the Bank. The result of the valuation of hedged items and hedging instruments is presented in the above note.

Beginning from the year 2012, the interest component of the result on derivatives classified into banking book and derivatives concluded under the hedge accounting is presented in the interest results in the position Interest income/expense, while the remaining result from fair value measurement is presented in this note in the position Interest – bearing instruments.

In connection with the above mentioned, the comparative data presented in these financial statements was respectively restated. Detailed information on the impact of changes in the presentation of the result on derivatives classified into banking book and on transactions concluded under the hedge accounting are included in Note 2.10 'Derivative financial instruments' and in Note 2.26 'Comparative data'.

9. Other operating income

	Year ended 31 December	
	2012	2011
Income from services provided	28 896	26 498
Income due to release of provisions for future commitments	10 625	19 025
Income from sale or liquidation of fixed assets, intangible assets and assets held for sale	2 641	945
Compensations, penalties and fines received	452	408
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	61	1 225
Release of impairment provisions for tangible fixed assets and intangible assets	12 300	-
Other	20 054	21 496
Total other operating income	**75 029**	**69 597**

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

10. Overhead costs

	Year ended 31 December	
	2012	2011
Staff-related expenses	(631 470)	(615 923)
Material costs	(491 342)	(490 017)
Taxes and fees	(20 187)	(21 210)
Contributions and transfers to the Bank Guarantee Fund	(58 605)	(47 826)
Contributions to the Social Benefits Fund	(5 352)	(5 122)
Total overhead costs	**(1 206 956)**	**(1 180 098)**

'Material costs' consist of tangible assets operating lease payment costs (mainly real estate) of PLN 27 433 thousand (2011: PLN 26 720 thousand).

Staff-related expenses in 2012 and 2011 are presented below.

	Year ended 31 December	
	2012	2011
Wages and salaries	(512 269)	(497 471)
Social security expenses	(74 812)	(71 511)
Remuneration concerning share-based payments, including:	(11 898)	(13 021)
- share-based payments settled in BRE Bank SA shares	(11 365)	(11 323)
- cash-settled share-based payments	(533)	(1 698)
Other staff expenses	(32 491)	(33 920)
Staff-related expenses, total	**(631 470)**	**(615 923)**

Cash-settled share-based payments relate to the cost of 2008 incentive programme for the Management Board Members of the Bank in its part based on Commerzbank shares. Detailed information regarding incentive programmes to which share-based payments relate, is included under the Note 43 'Share-based incentive programmes'.

11. Other operating expenses

	Year ended 31 December	
	2012	2011
Provisions for future commitments	(50 619)	(31 213)
Costs arising from impairment provisions created for other receivables (excluding loans and advances)	(4 600)	(9 932)
Donations made	(2 682)	(3 242)
Costs arising from sale or liquidation of fixed assets, intangible assets and assets held for resale	(664)	(2 311)
Compensations, penalties and fines paid	(996)	(443)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(4)	(10)
Impairment provisions created for tangible fixed assets and intangible assets	(15 326)	-
Other operating costs	(21 314)	(20 405)
Total other operating expenses	**(96 205)**	**(67 556)**

In 2012, provisions for future commitments include provisions for legal proceedings of PLN 22 950 thousand (2011: PLN 6 508 thousand) (Note 32).

In 2012, as a result of the analysis of tangible fixed assets the Bank had made write-offs of investments in real estate and leasehold improvements and reversal of write-offs created in the previous reporting periods (Note 9). The total impact of write-offs and reversal of write-offs was negative and amounted to PLN 3 087 thousand.

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12. Net impairment losses on loans and advances

	Year ended 31 December	
	2012	2011
Net impairment losses on amounts due from other banks (Note 17)	437	8 257
Net impairment losses on loans and advances to customers (Note 21)	(368 215)	(336 018)
Changes in provisions on off-balance sheet items (Note 32)	(15 957)	9 077
Total net impairment losses on loans and advances	**(383 735)**	**(318 684)**

13. Income tax expense

	2012	2011
Current tax	(368 910)	(279 736)
Deferred income tax (Note 33)	112 047	3 548
Total income tax	**(256 863)**	**(276 188)**

Profit before tax	**1 456 347**	**1 342 200**
Tax calculated at Polish current tax rate (19%)	(276 706)	(255 018)
Income not subject to tax	32 639	16 591
Costs other than tax deductible costs	(22 255)	(33 185)
Other positions affecting income tax *	10 993	-
Losses of foreign branches of the Bank	(1 534)	(4 576)
Income tax expense	**(256 863)**	**(276 188)**

Effective tax rate calculation		
Profit before income tax	1 456 347	1 342 200
Income tax	(256 863)	(276 188)
Effective tax rate	**17.64%**	**20.58%**

* In 2012, the amount include tax relief for new technologies in accordance with the Article 18b of the Corporate Income Tax Act

Lower effective tax rate compared to the previous year is a result of i.a.: a positive result of retail branch in the Czech Republic in 2012 and application of tax relief for new technologies regulated in the Article 18b of the Corporate Income Tax Act of 15 February 1992.

Further information about deferred income tax is presented in Note 33. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

14. Earnings per share

Earnings per share for 12 months

	Year ended 31 December	
	2012	2011
Basic:		
Net profit	1 199 484	1 066 012
Weighted average number of ordinary shares	42 118 904	42 093 950
Net basic profit per share (in PLN per share)	**28.48**	**25.32**
Diluted:		
Net profit applied for calculation of diluted earnings per share	1 199 484	1 066 012
Weighted average number of ordinary shares	42 118 904	42 093 950
Adjustments for:		
- share options	39 728	39 997
Weighted average number of ordinary shares for calculation of diluted earnings per share	42 158 632	42 133 947
Diluted earnings per share (in PLN per share)	**28.45**	**25.30**

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According to IAS 33, the Bank prepares a calculation of the 'diluted earnings per share' taking into account contingently issuable shares as part of the incentive programme is described in the Note 39. The calculations did not include those elements of the incentive programmes, which were antidilutive for the presented periods that could potentially dilute basic earnings per share in the future.

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

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

15. Other comprehensive income

Disclosure of tax effects relating to each component of other comprehensive income	Year ended 31 December 2012			Year ended 31 December 2011		
	Before-tax amount	Tax (expense) benefit	Net amount	Before-tax amount	Tax (expense) benefit	Net amount
Exchange differences on translating foreign operations	555	-	555	(4 551)	-	(4 551)
Available-for-sale financial assets	389 139	(47 737)	341 402	9 745	(2 645)	7 100
Total other comprehensive income	**389 694**	**(47 737)**	**341 957**	**5 194**	**(2 645)**	**2 549**

The table presents detailed information concerning other comprehensive income for the years 2012 and 2011.

	Year ended 31 December	
	2012	2011
Exchange differences on translating foreign operations	**555**	**(4 551)**
Unrealised gains (positive differences) arising during the year (net)	2 678	1 034
Unrealised losses (negative differences) arising during the year (net)	(2 123)	(6 760)
Reclassification adjustments for gains (losses) included in the income statement (net)	-	1 175
Available-for-sale financial assets	**341 402**	**7 100**
Unrealised gains on debt instruments arising during the year (net)	398 748	67 599
Unrealised losses on debt instruments arising during the year (net)	(23 979)	(63 091)
Reclassification adjustments of gains (losses) on debt instruments to the income statement (net)	(26 818)	611
Unrealised gains on equity instruments arising during the year (net)	88 743	9 221
Unrealised losses on equity instruments arising during the year (net)	(1 021)	(8 328)
Reclassification adjustments of gains (losses) on equity instruments to the income statement (net)	(94 271)	1 088
Total other comprehensive income (net)	**341 957**	**2 549**

In 2012, a change in the valuation of treasury bonds had a considerable impact on other components of equity. In Q4 2012, the market for treasury bonds, especially those with the longest maturities, rose by 5.47%, whereas bonds with an average maturity over 5 years (including all issues) grew by 8.89% on average.

In 2012, the reclassification adjustments of gains on equity instruments in the net amount of PLN 94 271 thousand from other comprehensive income to the income statement was related to the gain realized in connection with the restructuring of BRE Bank Group's holding in PZU SA shares.

16. Cash and balances with central bank

	31.12.2012	31.12.2011
Cash in hand	197 596	213 831
Current account	4 618 499	680 239
Term placements	-	138 011
Total cash and balances with the Central Bank (Note 42)	**4 816 095**	**1 032 081**

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On the basis of the Act on the National Bank of Poland of August 29,1997,, BRE Bank SA holds a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve that the Bank is obliged to maintain during a given period in the current account with NBP amounts to:

- PLN 1 854 007 thousand for the period from 31 December 2012 to 30 January 2013,
- PLN 1 439 004 thousand for the period from 30 November 2011 to 1 January 2012.

As at 31 December 2012, the former part of the reserve bore 4.05% interest (31 December 2011: 4.28%).

17. Loans and advances to banks

	31.12.2012	31.12.2011
Current accounts	224 355	190 644
Placements with other banks (up to 3 months)	2 246 224	2 430 344
Included in cash equivalents (Note 42)	**2 470 579**	**2 620 988**
Loans and advances	518 982	1 511 382
Term placements with other banks	383 683	158 134
Reverse repo / buy-sell-back transactions	887 433	574 506
Other receivables	792 511	358 695
Total (gross) loans and advances to banks	**5 053 188**	**5 223 705**
Provisions created for loans and advances to banks (negative amount)	(559)	(1 027)
Total (net) loans and advances to banks	**5 052 629**	**5 222 678**
Short-term (up to 1 year)	4 903 972	4 917 563
Long-term (over 1 year)	148 657	305 115

The following table presents receivables from Polish and foreign banks:

	31.12.2012	31.12.2011
Loans and advances to Polish banks (gross)	2 715 749	2 420 965
Provisions created for loans and advances to Polish banks	(79)	(181)
Loans and advances to foreign banks (gross)	2 337 439	2 802 740
Provisions created for loans and advances to foreign banks	(480)	(846)
Total (net) loans and advances to banks	**5 052 629**	**5 222 678**

As at 31 December 2012, the variable rate loans to banks amounted to PLN 516 588 thousand and the fixed rate loans to banks amounted to PLN 2 394 thousand (as at 31 December 2011 – variable rate loans to banks amounted to PLN 1 446 243 thousand and fixed rate loans to PLN 65 139 thousand).

As at 31 December 2012 and 31 December 2011, the term placements with other banks were fixed rated and amounted to PLN 2 629 607 thousand and PLN 2 588 478 thousand respectively.

An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 2.16% (31 December 2011: 2.77%).

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

	31.12.2012	31.12.2011
Provisions for loans and advances to banks as at the beginning of the period	**(1 027)**	**(34 247)**
- provisions created (Note 12)	(3 793)	(3 068)
- release of provision (Note 12)	4 230	11 325
- foreign exchange differences	31	860
- write-offs	-	24 103
Provisions for loans and advances to banks as at the end of the period	**(559)**	**(1 027)**

As at 31 December 2012, provisions for loans and advances to banks relates to the loans without impairment.

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18. Trading securities

	31.12.2012			31.12.2011		
	Trading securities without pledge	Pledged trading securities	Total trading securities	Trading securities without pledge	Pledged trading securities	Total trading securities
Debt securities:	960 812	559 644	1 520 456	1 191 335	485 463	1 676 798
Issued by government	148 332	559 644	707 976	443 205	485 463	928 668
- government bonds	148 013	559 644	707 657	443 057	485 463	928 520
- treasury bills	319	-	319	148	-	148
Other debt securities	812 480	-	812 480	748 130	-	748 130
- bank's bonds	547 753	-	547 753	270 866	-	270 866
- deposit certificates	26 459	-	26 459	171 134	-	171 134
- corporate bonds	158 284	-	158 284	287 998	-	287 998
- communal bonds	79 984	-	79 984	18 132	-	18 132
Equity securities:	8 538	-	8 538	-	-	-
- listed	8 521	-	8 521	-	-	-
- unlisted	17	-	17	-	-	-
Total debt and equity securities:	969 350	559 644	1 528 994	1 191 335	485 463	1 676 798

Trading securities include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2012 amounted to PLN 559 644 thousand (31 December 2011: PLN 485 463 thousand).

19. Derivative financial instruments

The Bank has the following derivative instruments:

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

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

Due to the application of fair value hedge accounting for a part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic and fair value hedge accounting for a fixed interest rate security deposit given by BRE Finance France (BFF), subsidiary of BRE Bank, from funds derived from the issuance of Eurobonds, the Bank distinguished instruments that hedge the risk of changes in interest rate within interest rate swaps. Result from valuation of the hedged item and hedging instruments is presented in this financial statement in item 'Net income from other trading operations and hedge accounting' in the Note 8.

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

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

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

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

	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2012				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	6 427 429	6 549 214	33 375	44 309
- Currency swaps	10 046 685	9 925 239	155 339	42 199
- Cross-currency interest rate swaps	1 496 784	1 599 126	41 264	140 748
- OTC currency options bought and sold	1 197 331	1 171 726	15 301	13 785
Total OTC derivatives	**19 168 229**	**19 245 305**	**245 279**	**241 041**
- Currency futures	34 638	34 789	-	-
Total foreign exchange derivatives	**19 202 867**	**19 280 094**	**245 279**	**241 041**
Interest rate derivatives				
- Interest rate swap, OIS	175 350 063	175 350 063	2 163 781	2 994 852
- Forward rate agreements	103 150 000	145 700 000	373 249	223 150
- OTC interest rate options	541 564	562 933	6 279	5 534
Total OTC interest rate derivatives	**279 041 627**	**321 612 996**	**2 543 309**	**3 223 536**
Total interest rate derivatives	**279 041 627**	**321 612 996**	**2 543 309**	**3 223 536**
Market risk transactions	487 969	398 752	7 954	10 519
Total derivative assets / liabilities held for trading	**298 732 463**	**341 291 842**	**2 796 542**	**3 475 096**
Derivatives held for hedging				
Derivatives designated as fair value hedges	2 148 380	2 148 380	-	6 198
- Interest rate swaps	2 148 380	2 148 380	-	6 198
Total derivatives held for hedging	**2 148 380**	**2 148 380**	**-**	**6 198**
Total recognised derivative assets/ liabilities	**300 880 843**	**343 440 222**	**2 796 542**	**3 481 294**
Total recognised derivative assets/ liabilities and other trading liabilities	**300 880 843**	**343 440 222**	**2 796 542**	**3 481 294**
Short-term (up to 1 year)	194 411 853	230 223 080	1 078 048	1 590 325
Long-term (over 1 year)	106 468 990	113 217 142	1 718 494	1 890 969

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	Contract amount		Fair value	
	Purchase	Disposal	Assets	Liabilities
As at 31 December 2011				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	6 771 792	6 779 318	103 249	35 486
- Currency swaps	13 920 750	13 993 242	154 056	275 332
- Cross-currency interest rate swaps	1 457 145	1 517 730	140 256	199 518
- OTC currency options bought and sold	1 489 253	1 145 147	46 545	5 945
Total OTC derivatives	23 638 940	23 435 437	444 106	516 281
- Stock exchange traded currency options - bought and sold	-	-	-	18 213
Total foreign exchange derivatives	23 638 940	23 435 437	444 106	534 494
Interest rate derivatives				
- Interest rate swap, OIS	133 861 508	133 861 508	986 299	1 259 463
- Forward rate agreements	57 100 000	116 975 000	54 715	54 742
- OTC interest rate options	198 779	351 143	1 505	1 400
Total OTC interest rate derivatives	191 160 287	251 187 651	1 042 519	1 315 605
Total interest rate derivatives	191 160 287	251 187 651	1 042 519	1 315 605
Market risk transactions	523 888	729 506	17 395	5 034
Total derivative assets / liabilities held for trading	215 323 115	275 352 594	1 504 020	1 855 133
Derivatives held for hedging				
Derivatives designated as fair value hedges	92 553	92 553	-	2 238
- Interest rate swaps	92 553	92 553	-	2 238
Total derivatives held for hedging	92 553	92 553	-	2 238
Total recognised derivative assets/ liabilities	215 415 668	275 445 147	1 504 020	1 857 371
Total recognised derivative assets/ liabilities and other trading liabilities	215 415 668	275 445 147	1 504 020	1 857 371
Short-term (up to 1 year)	142 047 742	192 176 505	681 966	888 151
Long-term (over 1 year)	73 367 926	83 268 642	822 054	969 220

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

Under financial derivative instruments the Bank presented derivative instruments in the amount of PLN 3 073 thousand (liabilities), which have been separated from the structured investment deposits (31 December 2011: PLN 1 215 thousand).

As at 31 December 2012 and 31 December 2011, the Bank did not hold any financial assets and financial liabilities designated upon initial recognition as at fair value through the income statement.

20. Hedge accounting

Starting from 2011, the Bank has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged for which hedge accounting is applied.

At the end of each month, the Bank evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk.

<u>Description of the hedging relation</u>

The Bank hedges against the risk of change in fair value:

- a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of BRE Bank in Czech Republic. The hedged risk results from changes in interest rates,
- fixed interest rate Eurobonds issued by BRE Finance France SA, subsidiary of BRE Bank. The hedged risk results from changes in interest rates.

<u>Hedged items</u>

The hedged items are:

- a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by foreign branches of BRE Bank in Czech Republic,
- fixed interest rate security deposit given by BRE Finance France in the amount of EUR 497 770.

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Hedging instruments

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

Presentation of the result from hedged and hedging transactions

Fair value adjustment of the hedged assets and liabilities as well as valuation of the hedging instruments are recognized in the income statement as the income from trading operation.

21. Loans and advances to customers

	31.12.2012	31.12.2011
Loans and advances to individuals:	37 802 045	38 645 611
- current accounts	4 600 545	4 133 068
- term loans, including:	33 201 500	34 512 543
housing and mortgage loans	29 073 883	30 834 148
Loans and advances to corporate entities:	23 492 184	21 839 609
- current accounts	4 016 165	3 877 085
- term loans:	17 451 639	16 809 016
corporate & institutional enterprises	9 429 011	9 187 414
medium & small enterprises	8 022 628	7 621 602
- reverse repo / buy-sell-back transactions	2 024 380	1 153 508
Loans and advances to public sector	2 375 812	2 809 618
Other receivables	666 434	482 167
Total (gross) loans and advances to customers	64 336 475	63 777 005
Provisions for loans and advances to customers (negative amount)	(2 236 161)	(2 113 013)
Total (net) loans and advances to customers	62 100 314	61 663 992

Short-term (up to 1 year)	24 027 284	22 250 530
Long-term (over 1 year)	38 073 030	39 413 462

As at 31 December 2012, variable rate credits amounted to PLN 63 672 018 thousand and fixed rate credits amounted to PLN 664 457 thousand (as at 31 December 2011: 63 167 794 thousand and PLN 609 211 thousand respectively). The values mentioned above relate to loans granted to individual clients, corporate clients and the budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 4.49% (31 December 2011: 4.35%).

The above note includes debt securities eligible for rediscounting at the Central Bank, whose value is cash equivalents included in the Note 42.

Provisions for loans and advances

	31.12.2012	31.12.2011
Incurred but not identified losses		
Gross balance sheet exposure	61 191 599	60 978 500
Impairment provisions for exposures analysed according to portfolio approach	(169 507)	(182 056)
Net balance sheet exposure	61 022 092	60 796 444
Receivables with impairment		
Gross balance sheet exposure	3 144 876	2 798 505
Provisions for receivables with impairment	(2 066 654)	(1 930 957)
Net balance sheet exposure	1 078 222	867 548

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Movements in provisions for loans and advances

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2012	Provisions as at 1 January 2012	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31 December 2012
Loans and advances to individuals	(860 001)	(749 959)	514 372	14 487	24 525	(1 056 576)
Current accounts	(523 086)	(334 510)	245 064	5 757	20 586	(586 189)
Term loans, including:	(336 915)	(415 449)	269 308	8 730	3 939	(470 387)
Housing and mortgage loans	(199 413)	(254 260)	162 351	8 079	452	(282 791)
Loans and advances to corporate entities	(1 249 414)	(705 487)	581 286	20 386	185 873	(1 167 356)
Current accounts	(315 619)	(322 549)	252 259	18 506	89 485	(277 918)
Term loans, including:	(933 795)	(382 938)	329 027	1 880	96 388	(889 438)
Corporate & institutional enterprises	(337 438)	(114 426)	123 065	17 519	-	(311 280)
Medium & small enterprises	(596 357)	(268 512)	205 962	(15 639)	96 388	(578 158)
Loans and advances to public sector	(3 598)	(57 415)	48 988	(204)	-	(12 229)
Total movements for loans and advances to customers	(2 113 013)	(1 512 861)	1 144 646	34 669	210 398	(2 236 161)

MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AS OF 2011	Provisions as at 1 January 2011	Provisions created	Release of provisions	Reclassification and foreign exchange differences	Write-offs	Provisions as at 31 December 2011
Loans and advances to individuals	(1 051 229)	(169 067)	9 852	(1 078)	351 521	(860 001)
Current accounts	(817 237)	(40 261)	1 545	4	332 863	(523 086)
Term loans, including:	(233 992)	(128 806)	8 307	(1 082)	18 658	(336 915)
Housing and mortgage loans	(117 927)	(85 353)	-	(1)	3 868	(199 413)
Loans and advances to corporate entities	(1 111 707)	(920 363)	742 102	(23 841)	64 395	(1 249 414)
Current accounts	(368 350)	(296 277)	325 133	(774)	24 649	(315 619)
Term loans, including:	(743 357)	(624 086)	416 969	(23 067)	39 746	(933 795)
Corporate & institutional enterprises	(167 278)	(300 211)	141 543	(17 923)	6 431	(337 438)
Medium & small enterprises	(576 079)	(323 875)	275 426	(5 144)	33 315	(596 357)
Loans and advances to public sector	(5 034)	(5 320)	6 778	(22)	-	(3 598)
Total movements for loans and advances to customers	(2 167 970)	(1 094 750)	758 732	(24 941)	415 916	(2 113 013)

22. Investment securities

	31.12.2012			31.12.2011		
	Investment securities without pledge	Pledged investment securities	Total investment securities	Investment securities without pledge	Pledged investment securities	Total investment securities
Debt securities	16 944 248	2 544 984	19 489 232	16 820 963	3 852 869	20 673 832
Issued by government	8 995 401	2 420 035	11 415 436	9 505 891	3 852 869	13 358 760
- government bonds	8 995 401	2 420 035	11 415 436	9 505 891	3 852 869	13 358 760
Issued by central bank	7 371 977	124 949	7 496 926	6 346 571	-	6 346 571
Other debt securities	576 870	-	576 870	968 501	-	968 501
- bank's bonds	123 901	-	123 901	327 811	-	327 811
- deposit certificates	335 050	-	335 050	607 075	-	607 075
- corporate bonds	80 131	-	80 131	-	-	-
- communal bonds	37 788	-	37 788	33 615	-	33 615
Equity securities:	251 620	-	251 620	256 834	-	256 834
Listed	225 108	-	225 108	10 964	-	10 964
Unlisted	26 512	-	26 512	245 870	-	245 870
Total debt and equity securities:	17 195 868	2 544 984	19 740 852	17 077 797	3 852 869	20 930 666
Short-term (up to 1 year)	8 307 850	154 887	8 462 737	10 046 103	585 763	10 631 866
Long-term (over 1 year)	8 888 018	2 390 097	11 278 115	7 031 694	3 267 106	10 298 800

Presented above value of equity securities includes provision for impairment of PLN 125 thousand (31 December 2011: PLN 125 thousand).

As at 31 December 2012, listed equity securities include fair value of PZU shares in amount of PLN 206 775 thousand.

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As at 31 December 2012, the carrying values of debt securities with fixed interest rates amounted to PLN 12 775 425 thousand and debt securities with variable interest rates PLN 6 713 807 thousand respectively (31 December 2011 respectively: PLN 14 153 795 thousand and PLN 6 520 037 thousand).

The above includes government bonds and treasury bills under the Bank Guarantee Fund (BFG), investment government bonds pledged as sell-buy-back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank (EIB).

In accordance with the BFG Law of 14 December 1994, the Bank held PLN 344 144 thousand, at face value PLN 335 000 thousand of treasury securities (bonds and bills) disclosed in its statement of financial position as at 31 December 2012 (face value as at 31 December 2011: PLN 268 000 thousand), which were used as security under the Bank Guarantee Fund and they were deposited in a separate account respectively: money bonds at the National Bank of Poland and bonds at the National Depository of Securities.

Gains and losses from investment securities, investments in subsidiaries and associates

	Year ended 31 December	
	2012	2011
Sale/redemption of financial assets available for sale, investments in subsidiaries and associates	149 955	68 870
Impairment of investments in subsidiaries	(105)	-
Total gains and losses from investment securities	**149 850**	**68 870**

In 2012, the biggest impact on the item 'Sale/redemption of financial assets available for sale, investments in subsidiaries and associates' had gains realized in the amount of PLN 116 384 thousand, recognized in connection with the restructuring of BRE Bank Group's holding in PZU shares.

In addition, in 2012 this item includes profit on sale of government bonds in amount of PLN 33 557 thousand.

In 2011, the biggest impact on the item 'Sale/redemption of financial assets available for sale, investments in subsidiaries and associates' had the result on the sale of BRE's shareholding in Intermarket Bank AG and Magyar Factor zRt. The transaction was described in Note 45 'Acquisitions and disposals' of financial statements for the year 2011.

Moreover, in the year 2011 this item included the result on sale of shares of BRELINVEST Sp. z o.o. Fly 2 Commandite.

Movements in investment securities and pledged assets are presented as follows

	31.12.2012	31.12.2011
Available for sale securities and pledged assets		
As at the beginning of the period	**20 930 666**	**20 005 640**
Exchange differences	(23 665)	11 442
Additions	248 210 508	241 820 886
Disposals (sale, redemption and forfeiture)	(249 829 814)	(240 917 443)
Gains / (losses) from changes in fair value	453 157	10 141
As at the end of the period	**19 740 852**	**20 930 666**

Changes in provisions for impairment losses on investment securities and pledged assets

	31.12.2012	31.12.2011
Provisions for losses on equity securities		
Listed		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**
Total provisions for investment securities		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**

23. Investments in subsidiaries

31 December 2012 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	Aspiro Sp. z o.o.	Poland	155 740	20 417	121 947	(1 501)	100.00	51 535
2.	BRE Bank Hipoteczny SA	Poland	4 809 712	4 308 817	284 512	9 705	24.29	76 388
3.	BRE Centrum Operacji Sp. z o.o.	Poland	58 182	13 115	45 743	8 975	100.00	31 072
4.	BRE Corporate Finance SA	Poland	2 451	534	5 715	(1 059)	100.00	3 532
5.	BRE Finance France SA	France	2 048 795	2 048 231	13 612	(8)	99.98	1 006
6.	BRE Holding Sp. z o.o.	Poland	537 239	27	26 728	26 471	100.00	348 123
7.	BRE Wealth Management SA	Poland	28 401	3 737	24 576	8 048	100.00	12 000
8.	CALL CENTER POLAND SA	Poland	31 294	27 098	28 628	(11 369)	100.00	4 298
9.	CONTACTPOINT Sp. z o.o.	Poland	19 456	13 609	31 643	(2 796)	100.00	5 020
10.	Dom Inwestycyjny BRE Banku SA	Poland	754 032	664 386	113 007	16 886	100.00	26 719
11.	Garbary Sp. z o.o.	Poland	45 050	7 564	181	(2 938)	100.00	56 384
12.	MLV 35 Sp. z o.o.	Poland	42	2	-	(9)	100.00	53
13.	MLV 35 Sp. z o.o. spółka komandytowo-akcyjna	Poland	289 770	32	1 808	1 758	100.00	290 965
14.	Octopus Sp. z o.o.	Poland	37	2	-	(15)	99.00	50
15.	Tele -Tech Investment Sp. z o.o.	Poland	77 470	77 297	3 878	(207)	100.00	533
16.	TRANSFINANCE a.s.	Czech Republic	327 983	282 309	25 467	1 786	100.00	29 658
								937 336

31 December 2011 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	AMBRESA Sp. z o.o.	Poland	526	5	32	(68)	100.00	588
2.	Aspiro Sp. z o.o.	Poland	49 381	24 182	122 847	7 940	100.00	22 900
3.	BRE Bank Hipoteczny SA	Poland	4 510 572	4 121 386	251 309	20 878	24.29	52 103
4.	BRE Corporate Finance SA	Poland	3 365	388	6 696	(188)	100.00	3 532
5.	BRE Finance France SA	France	737	119	2	(94)	99.98	993
6.	BRE Holding Sp. z o.o.	Poland	465 944	40	15 589	14 374	100.00	284 123
7.	BRE Systems Sp. z o.o.	Poland	126	136	37	(89)	100.00	50
8.	BRE Ubezpieczenia TUiR S.A.	Poland	291 303	194 612	188 867	43 966	100.00	26 353
9.	BRE Wealth Management SA	Poland	26 679	3 463	26 236	8 827	100.00	12 000
10.	BRE Centrum Operacji Sp. z o.o.	Poland	69 706	33 614	44 684	531	100.00	31 072
11.	Dom Inwestycyjny BRE Banku SA	Poland	776 487	697 038	142 146	26 824	100.00	26 719
12.	Garbary Sp. z o.o.	Poland	49 047	8 623	475	(3 296)	100.00	56 384
13.	Tele -Tech Investment Sp. z o.o.	Poland	75 527	75 595	11 629	(165)	100.00	50
14.	TRANSFINANCE a.s.	Czech Republic	340 864	294 759	26 789	2 847	100.00	29 563
								546 430

Moreover, as at 31 December 2011 the Bank held 100% of investment certificates of BRE GOLF FIZ Aktywów Niepublicznych (BRE GOLD FIZ), which value was included in Note 22 'Investment securities'. The main asset of the fund was the package of PZU SA shares.

Changes in investments in subsidiaries

	31.12.2012	31.12.2011
Investmentss in subsidiaries		
As at the beginning of the period	**546 430**	**491 761**
Foreign exchange differences	106	(4 455)
Increase	417 308	107 130
Decrease	(26 403)	(48 006)
Impairment/release of impairment	(105)	-
As at the end of the period	**937 336**	**546 430**

In 2012, the position 'Increase' relates to the increase of equity in BRE Holding Sp. z o.o., BRE Bank Hipoteczny SA and Aspiro SA. In addition, this item includes the purchase of 100% shares in the company MLV 35 Sp z o.o. spółka komandytowo-akcyjna (MLV 35) for the amount of PLN 50 thousand and subsequent increase of the equity in this company by PLN 1 500 thousand in cash and PLN 279 275 thousand by contribution in kind in the form of all investment certificates of BRE GOLD FIZ held by the Bank. The company MLV 35 was acquired for the purpose of restructuring of BRE Bank Group's holding in PZU SA shares.

In 2011, the position 'Increase' relates to increase of equity in BRE Holding Sp. z o.o. and the purchase of shares of Transfinance a.s.

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24. Intangible assets

	31.12.2012	31.12.2011
Development costs	474	711
Patents, licences and similar assets, including:	247 706	280 458
- computer software	196 602	214 607
Other intangible assets	7 940	8 895
Intangible assets under development	133 205	99 743
Total intangible assets	**389 325**	**389 807**

Movements in intangible assets

Movements in intangible assets from 1 January to 31 December 2012	Development costs	Acquired concessions, patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Total intangible assets
			including: acquired computer software			
Gross value of intangible assets as at the beginning of the period: 01.01.2012	27 720	731 650	565 519	14 817	99 743	873 930
Increase (due to)	-	37 679	27 315	69	80 778	118 526
- purchase	-	8 735	10	69	61 681	70 485
- transfer from fixed assets under construction	-	193	-	-	-	193
- transfer from intangible assets under development	-	28 747	27 305	-	-	28 747
- development costs	-	-	-	-	12 923	12 923
- other increases	-	4	-	-	6 174	6 178
Decrease (due to)	(4 469)	(91 954)	(76 678)	-	(47 316)	(143 739)
- liquidation	(4 469)	(91 766)	(76 678)	-	-	(96 235)
- transfer to intangible assets given to use	-	-	-	-	(28 747)	(28 747)
- other decreases	-	(188)	-	-	(18 569)	(18 757)
Gross value of intangible assets as at the end of the period: 31.12.2012	23 251	677 375	516 156	14 886	133 205	848 717
Accumulated amortization as at the beginning of the period: 01.01.2012	(27 009)	(451 192)	(350 912)	(5 922)	-	(484 123)
Amortization for the period (due to)	4 232	21 523	31 358	(1 024)	-	24 731
- amortization	(237)	(70 342)	(45 320)	(1 024)	-	(71 603)
- liquidation	4 469	91 725	76 678	-	-	96 194
- other decreases	-	140	-	-	-	140
Accumulated amortization as at the end of the period: 31.12.2012	(22 777)	(429 669)	(319 554)	(6 946)	-	(459 392)
Net value of intangible assets as at the end of the period: 31.12.2012	474	247 706	196 602	7 940	133 205	389 325

Movements in intangible assets from 1 January to 31 December 2011	Development costs	Acquired concessions, patents, licences and other similar assets		Other intangible assets	Intangible assets under development	Total intangible assets
			including: acquired computer software			
Gross value of intangible assets as at the beginning of the period: 01.01.2011	31 774	704 330	546 296	14 815	63 291	814 210
Increase (due to)	-	73 017	32 613	2	83 810	156 829
- purchase	-	35 543	-	2	66 318	101 863
- transfer from intangible assets under development	-	33 172	28 558	-	-	33 172
- development costs	-	-	-	-	13 275	13 275
- other increases	-	4 302	4 055	-	4 217	8 519
Decrease (due to)	(4 054)	(45 697)	(13 390)	-	(47 358)	(97 109)
- liquidation	-	(45 697)	(13 390)	-	-	(45 697)
- transfer to intangible assets given to use	-	-	-	-	(33 172)	(33 172)
- other decreases	(4 054)	-	-	-	(14 186)	(18 240)
Gross value of intangible assets as at the end of the period: 31.12.2011	27 720	731 650	565 519	14 817	99 743	873 930

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Accumulated amortization as at the beginning of the period: 01.01.2011	(30 405)	(398 916)	(294 233)	(4 908)	-	(434 229)
Amortization for the period (due to)	3 396	(52 276)	(56 679)	(1 014)	-	(49 894)
- amortization	(237)	(94 190)	(66 437)	(1 014)	-	(95 441)
- other increases	-	(3 783)	(3 632)	-	-	(3 783)
- liquidation	-	45 697	13 390	-	-	45 697
- other decreases	3 633	-	-	-	-	3 633
Accumulated amortization as at the end of the period: 31.12.2011	(27 009)	(451 192)	(350 912)	(5 922)	-	(484 123)
Net value of intangible assets as at the end of the period: 31.12.2011	711	280 458	214 607	8 895	99 743	389 807

25. Tangible assets

	31.12.2012	31.12.2011
Tangible assets, including:	442 151	477 403
- land	1 033	1 733
- buildings and structures	177 678	186 473
- equipment	107 094	112 535
- vehicles	24 270	31 416
- other tangible assets	132 076	145 246
Tangible assets under construction	38 496	65 007
Total tangible assets	**480 647**	**542 410**

Movements in tangible assets

Movements in tangible assets from 1 January to 31 December 2012	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2012	1 733	312 068	516 660	54 380	397 603	65 143	1 347 587
Increase (due to)	-	837	38 904	1 776	33 083	27 654	102 254
- purchase	-	-	18 895	-	1 777	21 687	42 359
- transfer from tangible assets under construction	-	837	19 166	-	31 082	-	51 085
- other increases	-	-	843	1 776	224	5 967	8 810
Decrease (due to)	(700)	(9 910)	(96 668)	(2 531)	(31 721)	(54 165)	(195 695)
- sale	(700)	(9 910)	(8 902)	-	(8 665)	-	(28 177)
- liquidation	-	-	(18 191)	-	(2 208)	-	(20 399)
- transfer to tangible assets	-	-	-	-	-	(51 085)	(51 085)
- transfer to intangible assets	-	-	-	-	-	(193)	(193)
- other decreases	-	-	(69 575)	(2 531)	(20 848)	(2 887)	(95 841)
Gross value of tangible assets as at the end of the period: 31.12.2012	1 033	302 995	458 896	53 625	398 965	38 632	1 254 146
Accumulated depreciation as at the beginning of the period: 01.01.2012	-	(73 909)	(404 125)	(22 964)	(252 226)	-	(753 224)
Depreciation for the period (due to)	-	(2 138)	52 530	(6 391)	(11 968)	-	32 033
- depreciation charge	-	(5 191)	(43 405)	(7 787)	(40 603)	-	(96 986)
- other increases	-	-	(1)	-	-	-	(1)
- sale	-	3 053	8 604	-	6 923	-	18 580
- liquidation	-	-	18 105	-	1 967	-	20 072
- other decreases	-	-	69 227	1 396	19 745	-	90 368
Accumulated depreciation as at the end of the period: 31.12.2012	-	(76 047)	(351 595)	(29 355)	(264 194)	-	(721 191)
Impairment losses as at the beginning of the period: 01.01.2012	-	(51 686)	-	-	(131)	(136)	(51 953)
- increase	-	(12 500)	(207)	-	(2 619)	-	(15 326)
- decrease	-	14 916	-	-	55	-	14 971
Impairment losses as at the end of the period: 31.12.2012	-	(49 270)	(207)	-	(2 695)	(136)	(52 308)
Net value of tangible assets as at the end of the period: 31.12.2012	1 033	177 678	107 094	24 270	132 076	38 496	480 647

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Movements in tangible assets from 1 January to 31 December 2011	Land	Buildings and structures	Equipment	Vehicles	Other fixed assets	Tangible assets under construction	Total
Gross value of tangible assets as at the beginning of the period: 01.01.2011	1 733	311 172	481 832	54 832	386 562	39 246	1 275 377
Increase (due to)	-	896	47 744	5 025	23 654	66 321	143 640
- purchase	-	162	25 345	-	5 085	65 453	96 045
- transfer from tangible assets under construction	-	734	21 553	-	16 400	-	38 687
- other increases	-	-	846	5 025	2 169	868	8 908
Decrease (due to)	-	-	(12 916)	(5 477)	(12 613)	(40 424)	(71 430)
- sale	-	-	(4 350)	(50)	(3 816)	-	(8 216)
- liquidation	-	-	(8 566)	-	(8 793)	-	(17 359)
- transfer to intangible assets	-	-	-	-	-	(38 687)	(38 687)
- other decreases	-	-	-	(5 427)	(4)	(1 737)	(7 168)
Gross value of tangible assets as at the end of the period: 31.12.2011	1 733	312 068	516 660	54 380	397 603	65 143	1 347 587
Accumulated depreciation as at the beginning of the period: 01.01.2011	-	(68 729)	(377 355)	(18 171)	(224 719)	-	(688 974)
Depreciation for the period (due to)	-	(5 180)	(26 770)	(4 793)	(27 507)	-	(64 250)
- depreciation charge	-	(5 180)	(39 060)	(7 651)	(37 745)	-	(89 636)
- other increases	-	-	(293)	-	(671)	-	(964)
- sale	-	-	4 143	49	3 440	-	7 632
- liquidation	-	-	8 440	-	7 469	-	15 909
- other decreases	-	-	-	2 809	-	-	2 809
Accumulated depreciation as at the end of the period: 31.12.2011	-	(73 909)	(404 125)	(22 964)	(252 226)	-	(753 224)
Impairment losses as at the beginning of the period: 01.01.2011	-	(51 686)	-	-	(131)	(136)	(51 953)
Impairment losses as at the end of the period: 31.12.2011	-	(51 686)	-	-	(131)	(136)	(51 953)
Net value of tangible assets as at the end of the period: 31.12.2011	1 733	186 473	112 535	31 416	145 246	65 007	542 410

The entire value of vehicles is related to finance lease agreement.

The recoverable value of impaired tangible assets is the net sale price determined on the basis of market prices for similar assets.

26. Other assets

	31.12.2012	31.12.2011
Other, including:	176 298	321 432
- debtors	75 714	189 563
- interbank balances	7 387	2 083
- other accruals	68 323	65 824
- accrued income	22 992	61 388
- inventories	1 882	2 574
Total other assets	176 298	321 432

Short-term (up to 1 year)	86 707	196 856
Long-term (over 1 year)	89 591	124 576

As at 31 December 2012, the above note includes financial assets in amount of PLN 83 101 thousand (31 December 2011: PLN 191 646 thousand).

27. Amounts due to other banks

	31.12.2012	31.12.2011
Current accounts	1 148 938	1 880 538
Term deposits	113 426	1 395 273
Loans and advances received	17 461 980	20 719 089
Repo / sell-buy-back transactions	1 295 964	1 173 097
Liabilities in respect of cash collaterals	197 400	73 865
Payables to be settled	1 269	6 505
Other	22 537	32 802
Amounts due to other banks	20 241 514	25 281 169

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Short-term (up to 1 year)	6 191 419	6 734 909
Long-term (over 1 year)	14 050 095	18 546 260

On 31 December 2012, the value of fixed rate deposits from other banks was PLN 113 426 thousand. There were no deposits with variable interest rates (31 December 2011: PLN 510 162 thousand and PLN 885 111 thousand, respectively).

As at 31 December 2012 and as at 31 December 2011, loans and advances received were variable rate loans.

The average interest rate for loans and deposits obtained from banks in 2012 amounted to 1.41% (31 December 2011: 1.55%).

BRE Bank did not provide collateral related to loans from other banks. The Bank did not note any violations of contractual terms related to liabilities in respect of loans received.

28. Amounts due to customers

	31.12.2012	31.12.2011
Individual customers:	**32 945 390**	**26 462 410**
Current accounts	20 772 482	16 722 827
Term deposits	12 121 656	9 698 858
Other liabilities:	51 252	40 725
- liabilities in respect of cash collaterals	32 698	33 150
- other	18 554	7 575
Corporate customers:	**26 435 364**	**27 028 221**
Current accounts	11 609 077	11 098 555
Term deposits	8 727 014	11 716 136
Loans and advances received	1 696 404	1 848 575
Repo transactions	1 883 368	1 818 532
Other liabilities:	2 519 501	546 423
- liabilities in respect of cash collaterals	2 456 433	475 201
- other	63 068	71 222
Public sector customers:	**501 164**	**528 004**
Current accounts	387 383	447 481
Term deposits	110 765	64 783
Other liabilities:	3 016	15 740
- liabilities in respect of cash collaterals	152	18
- other	2 864	15 722
Total amounts due to customers	**59 881 918**	**54 018 635**

Short-term (up to 1 year)	55 639 233	51 452 115
Long-term (over 1 year)	4 242 685	2 566 520

As at 31 December 2012, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 3.11% (31 December 2011: 2.52%).

As at 31 December 2012, the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 1 696 404 thousand (31 December 2011: PLN 1 848 575 thousand). The loan was collateralized with treasury bonds, which were disclosed in the statement of financial position under Note 22 and Note 36.

29. Debt securities in issue

As at 31 December 2012

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issues	206 900				206 105
- Deposit certificates (in PLN)	206 900	5.00%	no collateral	29-01-2013	206 105
Long-term issues	450 000				452 943
- Bonds (in PLN)	450 000	6.10%	no collateral	23-11-2015	452 943
Debt securities in issue (carrying value in PLN '000)					659 048

The Bank did not note any violations of contractual terms related to liabilities in respect of issued debt securities.

Movements in debt securities in issue

	31.12.2012	31.12.2011
As at the beginning of the period	-	-
Additions (issue)	3 414 454	-
Disposals (redemption)	(2 760 165)	-
Other changes	4 759	-
Debt securities in issue as at the end of the period	659 048	-

30. Subordinated liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2012						
- Commerzbank AG	400 000	CHF	3M LIBOR + 1,2%*	1.21	08.03.2017	1 355 725
- Commerzbank AG	80 000	CHF	3M LIBOR + 1,4%**	1.42	perpetual	271 072
- Commerzbank AG	120 000	CHF	3M LIBOR + 1,5%***	2.02	18.12.2017	406 674
- Commerzbank AG	170 000	CHF	3M LIBOR + 2,2%****	2.24	perpetual	578 765
- Commerzbank AG	90 000	CHF	3M LIBOR + 4,0%	4.01	perpetual	305 084
- Commerzbank AG	90 000	CHF	3M LIBOR + 2,5%	2.51	24.06.2018	304 975
						3 222 295

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2011						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0,7%*	0.75	08.03.2017	1 454 048
- Commerzbank AG	80 000	CHF	3M LIBOR + 1,4%**	1.45	perpetual	290 805
- Commerzbank AG	120 000	CHF	3M LIBOR + 1,5%***	1.55	18.12.2017	436 221
- Commerzbank AG	170 000	CHF	3M LIBOR + 2,2%****	2.23	perpetual	620 832
- Commerzbank AG	90 000	CHF	3M LIBOR + 4,0%	4.05	perpetual	327 181
- Commerzbank AG	90 000	CHF	3M LIBOR + 2,5%	2.55	24.06.2018	327 113
						3 456 200

* margin amounting to 0.7% was in force within the period of first five years. From June 2012, margin amounting to 1.2% is in force.

** margin amounting to 1.4% is in force up to December 2016. Within the period of next years it will be equal to 3.4%.

*** margin amounting to 1.5% was in force within the period of first five years. Within the period of next years it will be equal to 2.0%.

**** margin amounting to 2.2% is in force up to January 2018. Within the period of next years it will be equal to 4.2%.

In 2012 and 2011, the Bank did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

Subordinated liabilities include the amount of issued subordinated debt securities with an indefinite maturity term. In the calculation of the capital adequacy ratio the funds raised through these issues were used in the Bank's own funds calculation. The Bank obtained the approvals of Polish Financial Supervision Authority (KNF) for the inclusion of the funds obtained from the issues into the Bank's supplementary capital.

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Movements in subordinated liabilities

	31.12.2012	31.12.2011
As at the beginning of the period	3 456 200	3 010 127
- exchange differences	(234 547)	446 958
- other changes	642	(885)
Subordinated liabilities as at the end of the period	3 222 295	3 456 200

Short-term (up to 1 year)	4 835	4 565
Long-term (over 1 year)	3 217 460	3 451 635

31. Other liabilities

	31.12.2012	31.12.2011
Other liabilities, including		
- tax liabilities	18 031	16 313
- interbank settlements	388 965	765 326
- creditors	377 260	214 390
- accrued expenses	122 558	142 582
- deferred income	76 365	75 177
- accrual of pension benefits	2 953	3 455
- accrual of holiday equivalents	17 286	14 747
- accrual of other employee benefits	144 578	139 521
Total other liabilities	1 147 996	1 371 511

As at 31 December 2012, the presented note includes financial liabilities of PLN 910 072 thousand (31 December 2011: PLN 1 122 298 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.9.1. The other components of presented liabilities, except for part of accrual of pension benefits that were calculated on actuarial basis as a rule, are short-term liabilities.

In 2012, liabilities from creditors include the value of financial lease amounted to PLN 26 047 thousand (in 2011: PLN 33 932 thousand).

32. Provisions

	31.12.2012	31.12.2011
For off-balance sheet granted contingent liabilities *	46 462	30 906
For legal proceedings	47 204	25 644
Other	35 149	15 754
Total provisions	128 815	72 304

* includes valuation of financial guarantees

Provision policies for off-balance sheet commitments granted are described in Note 3.4.4.

The estimated cash flow due to created provisions for legal proceedings and other provisions is expected to crystalise over 1 year.

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Movements in the provisions

	31.12.2012	31.12.2011
As at the beginning of the period (by type)	72 304	76 058
For off-balance sheet granted contingent liabilities	30 906	39 378
For legal proceedings	25 644	19 058
Other	15 754	17 622
Change in the period (due to)	56 511	(3 754)
- increase of provisions, due to:	220 756	177 777
for off-balance-sheet granted contingent liabilities (Note 12)	175 869	159 183
for legal proceedings	22 950	6 508
other	21 937	12 086
- release of provisions, due to:	(160 168)	(168 892)
for off-balance-sheet granted contingent liabilities (Note 12)	(159 912)	(168 260)
for legal proceedings	(256)	(632)
- write-offs	(2 697)	(9 722)
- reclassification	-	(4 243)
- foreign exchange differences	(1 380)	1 326
As at the end of the period (by type)	128 815	72 304
For off-balance sheet granted contingent liabilities	46 462	30 906
For legal proceedings	47 204	25 644
Other	35 149	15 754

Provisions for off-balance sheet granted contingent liabilities

	31.12.2012	31.12.2011
Incurred but not identified losses		
Off-balance sheet contingent liabilities	18 498 287	16 450 953
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(21 936)	(25 264)
Net off-balance sheet contingent liabilities	18 476 351	16 425 689

Off-balance sheet granted contingent liabilities with impairment		
Off-balance sheet contingent liabilities	79 469	9 521
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(24 526)	(5 642)
Net off-balance sheet contingent liabilities	54 943	3 879

33. Assets and liabilities for deferred income tax

Assets and liabilities for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2012 and 2011.

Changes in assets and liabilities for deferred income tax are presented below:

Deferred income tax assets	As at 1 January 2012	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31 December 2012
Interest	27 310	23 076	-	-	50 386
Valuation of derivative financial instruments	76 001	63 586	-	-	139 587
Valuation of investment securities	5 611	4 545	(4 493)	-	5 663
Provisions for impairment of loans and advances	197 930	(8 861)	-	-	189 069
Provisions for employee benefits	28 308	(2 341)	-	-	25 967
Other provisions	2 632	583	-	-	3 215
Prepayments/accruals	26 004	182	-	-	26 186
Other negative temporary differences	12 104	(298)	-	1	11 807
Total deferred income tax assets	375 900	80 472	(4 493)	1	451 880

Short-term (up to 1 year)	384 739
Long-term (over 1 year)	67 141

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Deferred income tax liabilities	As at 1 January 2012	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31 December 2012
Interest	(42 854)	(616)	-	-	(43 470)
Valuation of derivative financial instruments	-	(560)	-	-	(560)
Valuation of investment securities	(140 374)	41 496	(43 244)	-	(142 122)
Prepayments regarding amortization of applyed investment relief	(57 312)	(2 361)	-	-	(59 673)
Difference between tax and book value of fixed and tangible assets	(28 101)	3 686	-	-	(24 415)
Deferred income	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(25 493)	(10 070)	-	6	(35 557)
Total deferred income tax liabilities	(312 791)	31 575	(43 244)	6	(324 454)

Short-term (up to 1 year)	(289 109)
Long-term (over 1 year)	(35 345)

Deferred income tax assets	As at 1 January 2011	Recognised in the income statement	Recognised in other comprehensive income	As at 31 December 2011
Interest	24 237	3 073	-	27 310
Valuation of derivative financial instruments	47 722	28 279	-	76 001
Valuation of investment securities	8 542	(915)	(2 016)	5 611
Provisions for impairment of loans and advances	153 973	43 957	-	197 930
Provisions for employee benefits	19 788	8 520	-	28 308
Other provisions	3 689	(1 057)	-	2 632
Prepayments/accruals	27 981	(1 977)	-	26 004
Other negative temporary differences	12 286	(182)	-	12 104
Total deferred income tax assets	298 218	79 698	(2 016)	375 900

Short-term (up to 1 year)	325 702
Long-term (over 1 year)	50 198

Deferred income tax liabilities	As at 1 January 2011	Recognised in the income statement	Recognised in other comprehensive income	Other changes	As at 31 December 2011
Interest	(34 442)	(8 412)	-	-	(42 854)
Valuation of investment securities	(97 062)	(42 683)	(629)	-	(140 374)
Prepayments regarding amortization of applyed investment relief	(40 840)	(16 472)	-	-	(57 312)
Difference between tax and book value of fixed and tangible assets	(32 860)	4 759	-	-	(28 101)
Deferred income	(18 657)	-	-	-	(18 657)
Other positive temporary differences	(12 143)	(13 342)	-	(8)	(25 493)
Total deferred income tax liabilities	(236 004)	(76 150)	(629)	(8)	(312 791)

Short-term (up to 1 year)	(276 219)
Long-term (over 1 year)	(36 572)

	31.12.2012	31.12.2011
Deferred income tax included in the income statement		
Interest	22 460	(5 339)
Valuation of derivative financial instruments	63 026	28 279
Valuation of securities	46 041	(43 598)
Provisions for impairment of loans and advances	(8 861)	43 957
Provisions for employee benefits	(2 341)	8 520
Other provisions	583	(1 057)
Prepayments/accruals	182	(1 977)
Difference between tax and book value of fixed and tangible assets	3 686	4 759
Other temporary differences *	(12 729)	(29 996)
Total deferred income tax included in the profit and loss account (Note 13)	112 047	3 548

* The other temporary differences comprise mainly interest and commissions received in advance, amortized at effective interest rate.

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Foreign Branches, the Bank does not include those losses in the deferred tax asset calculation. The unused tax losses not included in deferred tax asset calculation amount to PLN 233 709 thousand on 31 December 2012 and PLN 276 185 thousand on 31 December 2011. Right to tax losses' settlement expires between 2013 – 2018 year.

Deferred income tax assets were recognised, because it is probable that there will be sufficient taxable income in the future.

34. Proceedings before a court, arbitration body or public administration authority

As at 31 December 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 31 December 2012 was also not higher than 10% of the Bank's equity.

Report on major proceedings brought against the issuer

1. Lawsuit initiated by Bank Leumi and Migdal Insurance Company against the Bank for indemnity

   Against BRE Bank was pending proceeding 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 41.8 million translated at the average exchange rate of the National Bank of Poland as at 31 December 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 claimed 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 was under recourse. On 23 January 2013, the parties entered into an out-of-court settlement, which was approved by the Court of Jerusalem, and consequently, the dispute over the said issue was brought to the end.

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 and referred the case back.

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

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

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

4. Claims of clients of Interbrok

   Up to 21 February 2013, 166 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 373 935 thousand and via the District Court in Warsaw. In addition, up to 21 February 2013, 9 legal compensation suits have been delivered to the Bank. Eight of the nine suits where placed by former clients of Interbrok for 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. 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. In the 9th case the value of the subject of litigation amounts to PLN 165 571 thousand together with statutory interest and legal costs. The amount set forth in the petition is to cover the 99 receivables, acquired by the Plaintiff by way of assignment, due to 97 parties aggrieved by Interbrok on account of the reduction (as a result of Interbrok's bankruptcy) of the receivables by a return of the deposits paid by the aggrieved for making investments on the forex market. The Plaintiff claims the Bank's liability on the grounds of the Bank's aiding to commit the illicit act of Interbrok involving the pursuit of brokerage activity without a permit. At present, the case is being heard by the court of first instance.

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 did not create provisions for the above claims.

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. As at 17 October 2012, the approved class consisted of 1 247 members. Moreover, the District Court in Łódź ruled against setting up a cash deposit for BRE Bank SA requested by the Bank. The Bank lodged a complaint against this ruling. On 29 November 2012, the Court of Appeal in Łódź dismissed the Bank's complaint about setting up the cash deposit. The ruling is valid and the Plaintiff is not obliged to pay the cash deposit. The final response to the petition was sent in January and the Bank awaits fixing the first date of the hearing. On 15 February 2013, the Plaintiff filed a pleading in reply to the response to the petition.

As at 31 December 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 31 December 2012 was also not higher than 10% of the Bank's equity.

Taxes

On 7 January 2013, Director of the Treasury Control Office in Warsaw (Urząd Kontroli Skarbowej w Warszawie) initiated audit proceedings in BRE Bank concerning reliability of declared tax bases and correctness of calculation and payment of corporate income tax for the year 2007.

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

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.

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35. Off-balance sheet liabilities

Off-balance sheet liabilities of the Bank comprise:

- Loan commitments

The amounts and deadlines by which the Bank will be obliged to realise its off-balance sheet liabilities by granting loans or other monetary services are presented in the table below.

- Guarantees and other financial facilities

Guarantees are presented in the table below based on the earliest contractual maturity date.

- Operating lease liabilities

The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2012 and 31 December 2011.

31.12.2012	Up to 1 year	1 - 5 years	Over 5 years	Total
1 Contingent liabilities granted and received	13 915 347	4 660 661	910 901	19 486 909
Commitments granted	13 546 181	4 431 526	733 705	18 711 412
1. Financing	11 530 509	1 687 036	457 972	13 675 517
a) Loan commitments	11 509 953	1 604 810	427 098	13 541 861
b) Operating lease commitments	20 556	82 226	30 874	133 656
2. Guarantees and other financial facilities	1 613 272	2 744 490	275 733	4 633 495
a) Banker's acceptances	4 441	-	-	4 441
b) Guarantees and standby letters of credit	1 541 465	2 696 990	275 733	4 514 188
c) Guarantees of issues underwritten	-	47 500	-	47 500
d) Documentary and commercial letters of credit	67 366	-	-	67 366
3. Other commitments	402 400	-	-	402 400
Commitments received	369 166	229 135	177 196	775 497
2. Guarantees received	369 166	229 135	177 196	775 497
2 Derivative financial instruments (nominal value of contracts)	424 634 933	204 385 583	15 300 549	644 321 065
1. Interest rate derivatives	387 467 857	202 484 562	14 998 964	604 951 383
2. Currency derivatives	36 639 535	1 825 041	18 385	38 482 961
3. Market risk derivatives	527 541	75 980	283 200	886 721
Total off-balance sheet items	438 550 280	209 046 244	16 211 450	663 807 974

31.12.2011	Up to 1 year	1 - 5 years	Over 5 years	Total
1 Contingent liabilities granted and received	13 763 385	2 625 847	1 251 562	17 640 794
Commitments granted	13 258 633	2 420 918	947 489	16 627 040
1. Financing	11 193 210	1 637 853	755 045	13 586 108
a) Loan commitments	11 171 001	1 549 018	699 523	13 419 542
b) Operating lease commitments	22 209	88 835	55 522	166 566
2. Guarantees and other financial facilities	2 062 079	783 065	192 444	3 037 588
a) Banker's acceptances	3 042	-	-	3 042
b) Guarantees and standby letters of credit	1 670 897	771 739	192 444	2 635 080
c) Guarantees of issues underwritten	223 000	-	-	223 000
d) Documentary and commercial letters of credit	165 140	11 326	-	176 466
3. Other commitments	3 344	-	-	3 344
Commitments received	504 752	204 929	304 073	1 013 754
1. Financial commitments received	430	-	-	430
2. Guarantees received	504 322	204 929	304 073	1 013 324
2 Derivative financial instruments (nominal value of contracts)	334 224 245	146 169 595	10 466 975	490 860 815
1. Interest rate derivatives	290 742 871	141 341 059	10 449 114	442 533 044
2. Currency derivatives	42 271 858	4 784 658	17 861	47 074 377
3. Market risk derivatives	1 209 516	43 878	-	1 253 394
Total off-balance sheet items	347 987 630	148 795 442	11 718 537	508 501 609

The above operating lease liabilities relate to the lease of buildings.

The leasing agreement for the Bank's headquarters is the most important leasing agreement concluded by the Bank. According to the agreement, the leasing period ends on 30 June 2019. The agreement has been concluded for a definite period and, in principal, is not subject to early termination. The agreement provides for the possibility of purchasing the leased object upon a written application of the lessee at least 6 months and no more than 12 months prior to the termination of the leasing agreement, as well as the pre-emptive right under the conditions specified in the agreement. Under the agreement the Bank shall ensure proper maintenance of the object of leasing.

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The nominal values of derivatives are presented in the Note 19.

As at 31 December 2012, commitments received by the Bank in the amount of PLN 775 497 thousand, concerned as a whole guarantees received as collateral of loans and guarantees.

36. Pledged assets

	31.12.2012	31.12.2011
Pledged assets, including:	3 104 628	4 338 332
- Trading securities (Note 18), including:	559 644	485 463
pledged asset with the right to repledge	559 644	485 463
- Investment securities (Note 22), including:	2 544 984	3 852 869
pledged asset with the right to repledge	2 197 220	2 474 685
Liabilities arising from pledged assets, including:	5 165 238	5 024 684
- Sell-buy-back transactions (Note 27, 28), including	3 179 332	2 991 629
sell-buy-back transactions concerning securities which are subject to buy-sell-back transaction	2 066 961	1 314 260
- Loan received from the European Investment Bank	1 696 404	1 848 575
- Deposit placed by the client	7 264	-
- Funds guaranteed under the Bank Guarantee Fund	282 238	184 480

Assets are pledged as collaterals in sell-buy-back agreements made with other banks and deposits are held as collateral for futures and options contracts and in relation to the membership in stock exchanges. Deposits are held in the Central Bank, representing obligatory reserves required by the law.

37. Registered share capital

The total number of ordinary shares as at 31 December 2012 was 42 138 976 shares (31 December 2011: 42 102 746 shares) of PLN 4 nominal value each (31 December 2011: PLN 4 each). All issued shares were fully paid up.

REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2012						
Share type	Type of preference	Type of restrictions	Number of shares	Series / issue value	Paid up	Year of registration
ordinary bearer*	-	-	9 978 500	39 914 000	fully paid in cash	1986
ordinary registered*	-	-	21 500	86 000	fully paid in cash	1986
ordinary bearer	-	-	2 500 000	10 000 000	fully paid in cash	1994
ordinary bearer	-	-	2 000 000	8 000 000	fully paid in cash	1995
ordinary bearer	-	-	4 500 000	18 000 000	fully paid in cash	1997
ordinary bearer	-	-	3 800 000	15 200 000	fully paid in cash	1998
ordinary bearer	-	-	170 500	682 000	fully paid in cash	2000
ordinary bearer	-	-	5 742 625	22 970 500	fully paid in cash	2004
ordinary bearer	-	-	270 847	1 083 388	fully paid in cash	2005
ordinary bearer	-	-	532 063	2 128 252	fully paid in cash	2006
ordinary bearer	-	-	144 633	578 532	fully paid in cash	2007
ordinary bearer	-	-	30 214	120 856	fully paid in cash	2008
ordinary bearer	-	-	12 395 792	49 583 168	fully paid in cash	2010
ordinary bearer	-	-	16 072	64 288	fully paid in cash	2011
ordinary bearer	-	-	36 230	144 920	fully paid in cash	2012
Total number of shares			42 138 976			
Total registered share capital				168 555 904		
Nominal value per share		4				

* As at the end of the reporting period

On 27 December 2012, Commerzbank AG announced of the acquisition of 29 352 897 shares of BRE Bank from Commerzbank AG Auslandbanken, a subsidiary of Commerzbank AG. These shares entitle to 29 352 897 votes at the General Meeting of BRE Bank and represent 69.66% of the share capital of BRE Bank and 69.66% of the total number of votes at the General Meeting. Before the transaction, Commerzbank held the stake in BRE Bank indirectly through Commerzbank Auslandsbanken AG. Sale of shares of BRE Bank was subject to an internal transfer of shares within the Commerzbank Group and did not change the ultimate parent company of BRE Bank.

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In 2012, the National Depository for Securities made a registration of 36 230 shares of BRE Bank, which were issued as part of the conditional increase in the share capital of the Bank by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the incentive programmes (Note 43) to take up shares in BRE Bank SA. As a result of the above registration, in the year 2012 the Bank's share capital increased by PLN 145 thousand.

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

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

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

38. Share premium

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

The increase of share premium in 2012 and 2011 results from the issue of shares under incentive programmes described under Note 43.

39. Retained earnings

Retained earnings include: other supplementary capital, other reserve capital, general banking risk reserve, profit (loss) from the previous year and profit for the current year.

Other supplementary capital, other reserve capital and general banking risk reserve are created from profit for the current year and their aim is described in the By-laws or in other regulations of the law.

	31.12.2012	31.12.2011
Other supplementary capital	3 027 390	2 061 378
Other reserve capital	23 867	20 178
General banking risk reserve	925 143	825 143
Profit for the current year	1 199 484	1 066 012
Total retained earnings	**5 175 884**	**3 972 711**

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

In addition, the Bank transfers some of its net profit to the general banking risk reserve to cover unexpected risks and future losses. The general banking risk reserve can be distributed only on consent of shareholders at a general meeting.

40. Other components of equity

	31.12.2012	31.12.2011
Exchange differences on translating foreign operations	**(7 778)**	**(8 333)**
Unrealized gains (positive differences)	3 531	4 075
Unrealized losses (negative differences)	(11 309)	(12 408)
Available-for-sale financial assets	**494 118**	**152 716**
Unrealized gains on debt instruments	421 432	21 621
Unrealized losses on debt instruments	(9 996)	(38 841)
Unrealized gains on equity instruments	169 401	208 918
Deferred income tax	(86 719)	(38 982)
Total other components of equity	**486 340**	**144 383**

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41. Dividend per share

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

On the basis of resolution dated 8 February 2013, the Management Board of BRE Bank SA decided to recommend to the XXVI Ordinary General Meeting of BRE Bank SA to pay a dividend for 2012 to the shareholders of BRE Bank SA.

The motion of the Management Board regarding payment of dividend for shareholders for 2012, together with an appropriate motion relating to a division of profit for 2012, including: amount of dividend per one share, suggested day of dividend and date of payment of dividend, shall be presented for the assessment of the Supervisory Board in accordance with art. 382 § 3 of the Commercial Companies Code, once the financial data for 2012 is finally verified by the auditor however the Management Board is going to propose a dividend pay-out ratio of approximately 33% of 2012 profits.

42. Cash and cash equivalents

For the purpose of the Statement of Cash Flows, the balance of cash and cash equivalents comprises the following balances with maturities shorter than 3 months:

	31.12.2012	31.12.2011
Cash and balances with the Central Bank (Note 16)	4 816 095	1 032 081
Debt securities eligible for rediscounting at the Central Bank (Note 21)	-	2 158
Loans and advances to banks (Note 17)	2 470 579	2 620 988
Trading securities (Note 18)	707 976	928 668
Total cash and cash equivalents	**7 994 650**	**4 583 895**

43. Share-based incentive programmes

<u>2008 Incentive Programme for the Management Board Members of the Bank</u>

On 14 March 2008, the Ordinary General Meeting of BRE Bank adopted a resolution approving an incentive programme for Management Board Members of the Bank. Under the programme, the Management Board Members can acquire bonds with the pre-emptive right to acquire shares of BRE Bank SA and, as originally planned, shares of the ultimate parent of the Group, Commerzbank AG. In 2010 the programme was amended in the part comprising Commerzbank shares so that the Management Board Members can acquire the right to receive a cash equivalent of the value of Commerzbank shares calculated on the basis of the average market price of the shares at the original date of the right to receive a cash equivalent.

As a result of the programme in the part comprising BRE Bank shares, the share capital of the Bank will be increased conditionally by PLN 2 200 000 through an issue of 550 000 ordinary bearer shares. As a result of settlement of the programme, the Bank will issue 550 000 bonds with the pre-emptive right to acquire shares of the Bank in 10 series (C1 to C10), 55 000 bonds in each series, with an issue price of PLN 0.01. Bonds can be acquired by entitled persons in 2010 – 2018 provided that their employment continues, however in special cases C1 series bonds could have been acquired in 2009. The bonds' pre-emptive right to acquire shares from the conditional capital increase can be exercised by entitled persons in the period from the acquisition of bonds until 31 December 2018. The issue price of each share acquired under the programme will be equal to the nominal price at PLN 4. The right to acquire bonds and the number of bonds will depend on the degree of fulfilment of the following conditions: individual assessment of the entitled person by the Supervisory Board, net return on equity (ROE) in the financial year for which shares are granted, performance of the financial year's consolidated profit before tax of BRE Bank Group or consolidated profit before tax of a BRE Bank Group business line.

The 2008 incentive programme for the Management Board Members of the Bank does not include Mr. Cezary Stypułkowski, President of the Management Board of the Bank, appointed to the Management Board with effect from 1 October 2010, Mr. Joerg Hessenmueller, Member of the Management Board of the Bank, appointed to the Management Board with effect from 16 April 2012 and Mr. Cezary Kocik, Member of the Management Board of the Bank, appointed to the Management Board with effect from 1 April 2012.

The incentive programme for Management Board Members of the Bank was modified in 2012; its new rules are described in the section "2012 – 2016 Incentive Programme for the Management Board Members of the Bank."

The section below describes the accounting treatment of the 2008 incentive programme for Management Board Members of the Bank.

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Cash Part of the Bonus

The cash bonus under the programme was paid for 2008 – 2011 and was recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in Cash

All rights under payments settled as a cash equivalent based on Commerzbank shares under the programme have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Management Board of the right for a given year of the programme, the cost of Commerzbank share-based payments settled in cash are still recognised in the income statement in correspondence with liabilities to employees. The last settlements under the programme are in 2015.

Share-Based Payments Settled in BRE Bank SA Shares

All rights under payments settled as a cash equivalent based on BRE Bank SA shares under the programme have already been granted. Since payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Management Board of the right for a given year of the programme, the cost of share-based payments settled in cash are still recognised in the income statement in correspondence with other reserve capital. The last settlements under the programme are in 2015.

Mr Christian Rhino, who served in the function of Management Board Member until 31 March 2012, retained for the period of serving in this function in 2012 the right to receive a bonus on the terms of the 2008 incentive programme. The cash part of the bonus will be paid after the date of the general meeting, which approves the Bank's 2012 financial statements. Payments settled as a Commerzbank share-based cash equivalent and payments settled in BRE Bank shares will be settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition of the rights.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for Management Board Members of the Bank.

	31.12.2012		31.12.2011	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	35 218	4	33 356	4
Granted during the period	17 376	-	17 934	-
Forfeited during the period	-	-	-	-
Exercised during the period*	27 140	4	16 072	4
Expired during the period	2 292	-	-	-
Outstanding at the end of the period	23 162	4	35 218	4
Exercisable at the end of the period	-	-	-	-

* In 2012, the weighted average exercise price of the shares at the option exercise date was PLN 263.13 (in 2011 PLN 332.95).

2012 – 2016 Incentive Programme for the Management Board Members of the Bank

In 2012, the incentive programme was governed by Agreements made with the Management Board Members under the terms of the management contracts.

On 7 December 2012, the Supervisory Board acting in line with the recommendation of the Remuneration Committee approved BRE Bank SA Incentive Programme Rules which will replace BRE Bank SA Incentive Programme Rules of 14 March 2008 subject to adoption by the General Meeting of BRE Bank of resolutions amending the resolutions of 14 March 2008 concerning the terms of BRE Bank's incentive programme and a bond issue.

Under the programme, the Management Board Members of the Bank are entitled to receive a bonus, including a non-cash bonus paid in Bank shares, including phantom shares. The basis of the acquisition of the right to receive a bonus by a Management Board Member and of the calculation of the base amount necessary to determine the amount of the bonus for a financial year is the net return on equity (ROE) of BRE Bank SA Group. The equivalent of 50% of the base amount calculated on the basis of ROE constitutes the guaranteed bonus for the achievement of the financial result. As the remaining 50% of the base amount, the Executive Committee of the Supervisory Board may award a discretionary bonus if it decides that the Management Board Member has achieved the annual/multi-annual business development target and considering the situation on the financial market in the last financial period(s). 40% of the bonus due to a Management Board Member for a financial year, which constitutes the sum of the guaranteed bonus and the discretionary bonus, is paid in cash while the remaining 60% is paid as a non-cash bonus in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition of the rights to the non-cash bonus by the Management Board Member. The conditions of award of the non-cash bonus and its amount depend on the net ROE in the financial year for which the non-cash bonus is granted, the assessment of the financial standing of the Bank by the Remuneration Committee, and the assessment of the performance of the Management Board Member in a time horizon longer than one financial year. The Supervisory Board acting on the basis of a recommendation of the Remuneration Committee may decide to withhold the full right or to reduce the right to acquire bonds with the pre-emptive right to acquire shares of the Bank of the deferred tranche in whole or in part depending on later assessment of the performance of the Management Board Member in a time horizon longer than one financial year (i.e., for a period of at least 3 years), taking into account the Bank's business cycle as well as the risk inherent in the business of the Bank but only if the action or omission of the Management Board Member had a direct and negative impact on the financial results and the market position of the Bank according to the assessment. The Supervisory Board acting on the basis of a recommendation of the Remuneration Committee of the Supervisory Board may decide to withhold the full amount or to reduce the amount of the bonus for the financial year to the extent of the bonus or deferred tranche not yet paid in cases referred to in Article 142.1 of the Banking Law. Withholding the full amount or reducing the bonus or any deferred tranche by the Remuneration Committee of the Supervisory Board may also apply to a bonus and/or deferred tranche not paid to a Management Board Member following the expiration or termination of the management contract.

The incentive system described above covers all Management Board Members.

The section below describes the accounting treatment of the 2012 - 2016 incentive programme for Management Board Members of the Bank.

Cash Part of the Bonus

The bonus at 40% of the base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

Share-Based Payments Settled in BRE Bank SA Shares

A bonus at 60% of the base amount constitutes a payment settled in BRE Bank SA shares. The cost of this part of the programme is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the programme, i.e., as of 2012, for all years of the programme (2012 – 2016) until the acquisition date of rights to the programme for the year and, subsequently, until the exercise date of the last deferred payment (payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the Manager of the right for a given year of the programme).

The Management Board Members will acquire the right to acquire bonds with the pre-emptive right to acquire shares of the Bank as the non-cash bonus for 2012 in 2014 for Tranche I in the issue of C5 bonds.

2008 Incentive Programme for Key Managers of BRE Bank Group

On 27 October 2008, the Extraordinary General Meeting of the Bank approved an incentive programme for key managers of BRE Bank Group.

The goal of the programme is to tie a large part of remuneration of the key managers with the value of the Bank and the interest of the shareholders by means of building long-term value of the Bank, improvement of the effectiveness of the business of the Bank and the Group, and stabilization of management through the introduction of a long-term element of the remuneration package with lasting value both at the time of a market downtrend and uptrend.

The programme participants include:
- Bank Directors;
- Representatives of key management.

These officers are responsible for decisions which materially impact the implementation of the strategy defined by the Management Board of the Bank, the results of the Group, the viability and safety of business, and the development and creation of added value of the organisation.

The maximum size of the programme is 700 000 shares. The lifetime of the programme is 10 years (2009-2019).

In 2010, the Management Board of the Bank took the decision to launch the programme and approved the list of participants for Tranche III. Not granted options from Tranche I and II may be granted in the future years of the programme execution. There were 13 000 options granted from Tranche III. Additionally, in 2011 there were 20 000 options granted from Tranche IV and 19 990 options granted from Tranche V. The options granted will allow participants to purchase the Bank shares with an issue price of PLN 4 per share. Exercise of rights stemming from Tranche III started in 2012 and will continue until 31 December 2019. Exercise of rights stemming from Tranches IV and V is conditional and the options will be exercisable between 1 May 2013 and 31 December 2019 (Tranche IV) and 1 May 2014 and 31 December 2019 (Tranche V), respectively. The right to acquire shares is conditional upon the achievement of the following conditions: being employed over the period of the tranche, achievement of the economic factor set by Management Board for BRE Bank Group and achievement of the individual yearly assessment grade in each year of the tranche. It was decided in 2011 to suspend the programme and not to activate the remaining tranches.

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The fair values of options granted were determined as at 23 August 2010 (Tranche III) and as at 1 February 2011 (Tranches IV and V) using the Monte-Carlo simulation and amounted to PLN 245.9 (Tranche III), PLN 306.4 (Tranche IV) and PLN 306.6 (Tranche V), respectively. The valuation model was selected mainly due to the terms of the programme, particularly its length and flexibility given to the participants in setting the exercise dates for vested options. The volatility of BRE Bank shares was calculated based on historical data for the period adequate to the length of the programme (data from 12 April 2001 up to 23 August 2010 for Tranche III and from 5 March 2002 up to 1 February 2011 for Tranches IV and V). Calculations were based on a standard deviation of daily share price changes in the given period as well as the yield curve based on zero-coupon rates as at the valuation date.

Share-Based Payments Settled in BRE Bank SA Shares

The cost of the programme for key managers is charged to the income statement and recognised in correspondence with other reserve capital.

The cost of payments settled in shares is recognised in the income statement as of the date of award of the programme until the acquisition date of rights, i.e.:

- from 23.08.2010 to 30.04.2012 for Tranche III;
- from 1.02.2011 to 30.04.2013 for Tranche IV;
- from 1.02.2011 to 30.04.2014 for Tranche V.

The table below presents the number and weighted average exercise prices of share options related to the 2008 incentive programme for key managers of BRE Bank Group.

	31.12.2012		31.12.2011	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
Outstanding at the beginning of the period	**49 280**	**4**	**12 650**	**4**
Granted during the period	5 390	-	39 990	-
Forfeited during the period	-	-	-	-
Exercised during the period	9 090	4	-	-
Expired during the period	2 795	-	3 360	-
Outstanding at the end of the period	**42 785**	**4**	**49 280**	**4**
Exercisable at the end of the period	**3 910**	**4**	**-**	**-**

Options outstanding at the end of 2011 and 2012 expire on 31 December 2019.

Summary of the Impact of the Programmes on the Bank's Balance Sheet and Income Statement

Share-Based Payments Settled in Shares

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in BRE Bank SA shares.

	31.12.2012	31.12.2011
Incentive programs		
As at the beginning of the period	**20 178**	**10 791**
- value of services provided (Note 10)	11 365	11 323
- settlement of exercised options	(7 676)	(1 936)
As at the end of the period	**23 867**	**20 178**

Share-Based Payments Settled in Cash

The incentive programme for the Management Board of the Bank in the part comprising Commerzbank shares has no impact on other reserves as its cost is taken to the income statement in correspondence with liabilities. The value of provided services associated with this part of the programme was PLN 533 thousand in 2012 (31 December 2011: PLN 1 698 thousand) (Note 10). As at 31 December 2012, liabilities due to this programme amounted to PLN 2 660 thousand (31 December 2011: PLN 3 179 thousand).

Cash Payments

The cost of the cash part of the programmes is presented in Note 10 'Overhead costs'.

44. 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 as well as the direct parent of BRE Bank SA.

Up to 27 December 2012, the direct parent of BRE Bank SA was Commerzbank Auslandsbanken Holding AG, 100% subsidiary of Commerzbank AG. Transaction of purchase of BRE Bank's shares by Commerzbank AG from Commerzbank Auslandsbanken Holding AG is described in Note 37.

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.

The most important transactions with related entities in 2012:

- From 10 January 2012, the Bank concluded several agreements with its subsidiary entity BRE Leasing Sp. z o.o. on a total amount of PLN 913 424 thousand. The agreement concluded for the largest amount was the agreement concluded on 29 May 2012 regarding loan of amount of PLN 500 000 thousand with maturity to 29 May 2013. Moreover, from 29 August 2012, the Bank concluded several further agreements on a total amount of PLN 1 289 896 thousand. The agreement for the largest amount was the agreement concluded on 26 September 2012 regarding loan in amount of PLN 564 000 thousand with maturity to 30 September 2013.
- On 12 April 2012, BRE Finance France a subsidiary of BRE Bank, (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. The Luxembourg Stock Exchange admitted the Programme to trading. On 4 October 2012, BRE Finance France issued Eurobonds with a nominal value of EUR 500 000 thousand (PLN 2 046 650 thousand at the average exchange rate of the National Bank of Poland as at 4 October 2012) maturing on 12 October 2015. On 4 October 2012, BRE Bank guaranteed the payment of any amounts payable on debt securities issued under Euro Medium Term Note Programme. Guarantee was given for the duration of the Programme.

  The funds comprising the security deposit signed on 4 October 2012 under the agreement between BRE Bank and the Company are used to back the guarantee issued by the Bank to secure the payment obligations from the Eurobonds. The amount of security deposit is EUR 497 770 thousand (PLN 2 037 522 thousand at the average exchange rate of the National Bank of Poland as at 4 October 2012).

  The security deposit will be owned by the Bank until the Eurobonds are repaid on 12 October 2015.

  On an annual basis, the Bank will pay BRE Finance France SA, the provider of the security deposit, fixed interest and an additional repurchase premium amounting to EUR 2 230 thousand (PLN 9 128 thousand at the average exchange rate of the National Bank of Poland as at 4 October 2012).

  The interest on the Eurobonds is 2.75% p.a. The Eurobonds will be quoted in Luxembourg.
- From 10 June 2011 to 16 April 2012, the Bank concluded several agreements with BRE Bank Hipoteczny (BBH), the Bank's subsidiary totalling PLN 820 000 thousand. Agreements concluded for the largest amounts were as follows:
  - The Underwriting Agreement between the Bank and BBH as of 16 April 2012 (the 'Underwriting Agreement I'). Under this Agreement, on 20 April 2012, the Bank acquired 5-year mortgage bonds issued by BBH in amount of PLN 200 000 thousand.

    The aforesaid mortgage bonds are to be quoted on the regulated market.
  - The Agreement between the Bank and BBH as of 21 October 2011 (the 'Underwriting Agreement II'). Under this Agreement, on 27 October 2011, the Bank acquired 2-year mortgage bonds issued by BBH in amount of PLN 200 000 thousand.
- From 11 June 2012, the Bank concluded several further agreements with BBH on a total amount of PLN 890 920 thousand. Agreements concluded for the largest amounts were:
  - The Agreement between the Bank and BBH as of 11 June 2012 (the 'Underwriting Agreement I'). Under this Agreement, on 15 June 2012, the Bank acquired 6-year mortgage bonds issued by BBH in amount of PLN 200 000 thousand.

    The aforesaid mortgage bonds are to be quoted on the regulated market.
  - 1-year deposit agreement on amount of PLN 200 000 thousand concluded on 23 July 2012.

The Bank provides standard financial services to the Bank's key management personnel, Members of the Supervisory Board of the Bank and close members of their families, which comprise i.e.: maintaining bank accounts, taking deposits, granting loans or other financial services. In the Bank's opinion, these transactions are concluded on market terms and conditions.

Pursuant the Banking Law, the extension of a loan, cash advance, bank guarantee or other guarantee to the Members of the Management Board and Supervisory Board of the Bank, persons holding managerial positions at the Bank as well as at entities related financially or organisationally therewith, is governed by the By-Laws adopted by the Supervisory Board of BRE Bank SA.

The By-Laws set out detailed rules and debt limits for loans, cash advances, bank guarantees, and other guarantees in relation to aforementioned persons and entities which are consistent with the Bank's internal regulations defining the competences of granting credit decisions concerning retail and corporate clients of the Bank. A decision to grant a loan, cash advances, bank guarantee or other guarantee to a Member of the Management Board and Supervisory Board of the Bank, person holding managerial position at the Bank or an entity related financially or organisationally therewith in excess of the limits set by the Banking Law is taken by the resolution of the Management Board and by the resolution of the Supervisory Board.

The terms and conditions of such loans, cash advances, bank guarantees or other guarantees, including in particular those related to interest rates as well as fees and commissions, cannot be more advantageous than the terms and conditions offered by the Bank to its retail or corporate clients, respectively.

The table below presents the values of transactions between the Bank and companies of BRE Bank Group and: Members of the Supervisory Board and the Management Board of BRE Bank, key executive management of BRE Bank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities, as well as the amount of transactions with BRE Bank's subsidiaries and other Commerzbank AG Group entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2012 and 31 December 2011 and for the respective periods then ended are as follows:

(in PLN 000's)	Supervisory Board, Management Board and key management personnel of BRE Bank SA as well as Supervisory Board and Management Board of Commerzbank AG		Other related persons *		BRE Bank's subsidiaries		Commerzbank AG Group	
As at the end of the period	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Statement of Financial Position								
Assets	12 222	9 030	55	31	6 260 582	4 748 251	902 977	229 071
Liabilities	39 818	13 078	7 129	2 862	2 897 981	719 453	20 964 962	24 549 139
Separate Income Statement								
Interest income	101	95	5	2	215 884	134 860	114 886	35 067
Interest expense	(1 266)	(428)	(258)	(99)	(80 253)	(20 324)	(346 592)	(365 566)
Commission income	52	25	22	1	65 464	83 275	-	-
Commission expense	-	(6)	-	-	(114 079)	(112 551)	-	-
Other operating income	19	-	1	-	16 501	13 712	113	97
Overhead costs amortization and depreciation and other operating expenses	(1)	(1)	-	-	(9 235)	(8 484)	(12 309)	(14 577)
Contingent liabilities granted and received								
Commitments granted	769	918	156	46	2 745 931	367 890	834 033	777 286
Commitments received	-	-	-	-	-	-	511 959	707 467

* Other related persons and entities include: close family members of Members of the Supervisory and the Management Board of BRE Bank, key executive management of BRE Bank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons.

In 2012 and 2011, no provisions were created in connection with credits granted to related entities.

<u>Management Board Remuneration</u>

The composition of the Management Board of BRE Bank which consists of seven persons was as follows at the end of 2012:

1. Cezary Stypułkowski – President of the Management Board, Director General of the Bank,
2. Wiesław Thor – Vice-President of the Management Board, Chief Risk Officer,
3. Przemysław Gdański – Member of the Management Board, Head of Corporate Banking,
4. Joerg Hessenmueller – Member of the Management Board, Chief Financial Officer,
5. Hans-Dieter Kemler – Member of the Management Board, Head of Investment Banking,
6. Cezary Kocik – Member of the Management Board, Head of Retail Banking,
7. Jarosław Mastalerz – Member of the Management Board, Chief Operating and IT Officer.

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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.

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2012, as at 31 December 2012 and 31 December 2011, is presented below.

		Remuneration paid in 2012 (in PLN)				
		Basic salary	Other benefits	Bonus for 2011	Cash settlement of the incentive program based on Commerzbank shares*	Supplement of bonus for 2008 **
1.	Cezary Stypułkowski	2 088 596	155 600	2 052 222	-	-
2.	Wiesław Thor	1 607 143	165 058	1 350 000	145 034	1 500 000
3.	Przemysław Gdański	1 376 190	141 275	990 000	31 884	-
4.	Joerg Hessenmueller	907 471	173 544	-	-	-
5.	Hans-Dieter Kemler	1 200 000	563 575	1 035 000	30 961	-
6.	Cezary Kocik	900 000	68 672	-	-	-
7.	Jarosław Mastalerz	1 314 286	91 373	1 170 000	135 865	400 000
	Total	9 393 686	1 359 097	6 597 222	343 744	1 900 000

* The settlement relates to an incentive programme for members of the Management Board in 2008, in a part based on the shares of Commerzbank. In 2012, eligible Members of the Board received a cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008, the second tranche of the incentive programme for 2009 and the first tranche of the incentive programme for 2010.

** In 2012, eligible members of the Board were paid an extra amount in addition to the bonus for 2008, representing compensation for the exclusion from the calculation of bonus for 2008, the effects of one-off transaction.

Remuneration of the former Management Board Members paid in the year 2012.

		Remuneration paid in 2012 (in PLN)				
		Basic salary	Other benefits, payoff and compensations	Bonus for 2011	Cash settlement of the incentive program based on Commerzbank shares*	Supplement of bonus for 2008 **
Remuneration of the former Management Board Members who ceased performing their functions in the year 2012						
1.	Karin Katerbau	598 214	18 913	1 125 000	69 645	208 895
2.	Christian Rhino	431 571	31 871	1 080 000	483 223	208 000
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010						
3.	Mariusz Grendowicz	-	-	-	91 516	-
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008						
4.	Andre Carls	-	-	-	36 560	220 035
	Total	1 029 785	50 784	2 205 000	680 944	636 930

* The settlement relates to an incentive programme for members of the Bank Management Board in 2008, in a part based on the shares of Commerzbank. In 2012, entitled former Members of the Management Board received: Mrs. Karin Katerbau - cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008, the second tranche of the incentive programme for 2009 and the first tranche of the incentive programme for 2010; Mr. Christian Rhino - cash equivalent for Commerzbank shares in

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settlement of the third tranche of the incentive programme for 2008, the second and third tranches of the incentive programme for 2009, the first, second and third tranche of the incentive programme for 2010 and first, second and third tranche of the incentive programme for 2011; Mr. Mariusz Grendowicz - cash equivalent for Commerzbank shares in settlement of the first tranche of the incentive programme for 2010, Mr. Andre Carls cash equivalent for Commerzbank shares in settlement of the third tranche of the incentive programme for 2008.

In 2012, Mrs. Karin Katerbau, who acted as V-President of the Bank until 15 April 2012, was paid bonus for 2011 in the amount of PLN 1 125 000 thousand. In 2012, was also paid bonus for 2011 in amount of PLN 1 080 000 thousand for Mr. Christian Rhino who acted as the Member of the Board until 31 March 2012.

** In 2012, eligible members of the Board were paid an extra amount in addition to the bonus for 2008, representing compensation for the exclusion from the calculation of bonus for 2008, the effects of one-off transaction.

Remuneration of the Management Board Members paid in the year 2011.

		Remuneration paid in 2011 (in PLN)			
		Basic salary	Other benefits	Bonus for 2010	Cash settlement of the incentive program based on Commerzbank shares*
1.	Cezary Stypułkowski	2 071 179	183 230	352 844	-
2.	Karin Katerbau	1 500 000	80 291	1 312 500	94 583
3.	Wiesław Thor	1 505 225	154 506	1 312 500	309 081
4.	Przemysław Gdański	1 200 000	130 684	1 000 000	11 854
5.	Hans-Dieter Kemler	1 203 161	409 614	1 000 000	9 254
6.	Jarosław Mastalerz	1 200 000	93 891	1 000 000	307 655
7.	Christian Rhino	1 207 107	145 826	1 000 000	201 608
	Total	9 886 672	1 198 042	6 977 844	934 035

* The settlement relates to 2008 incentive programme for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2011, the entitled Management Board Members received cash equivalent for Commerzbank shares as a settlement of the second tranche of the incentive programme for 2008 and of the first tranche of the incentive programme for 2009.

Remuneration of the former Management Board Members paid in the year 2011.

		Remuneration paid in 2011 (in PLN)			
		Basic salary	Other benefits, payoff and compensations	Bonus for 2010	Cash settlement of the incentive program based on Commerzbank shares*
Remuneration of the former Management Board Members who ceased performing their functions in the year 2010					
1.	Mariusz Grendowicz	-	129	1 098 082	358 663
Remuneration of the former Management Board Members who ceased performing their functions in the year 2008					
2.	Andre Carls	-	-	-	104 055
	Total	-	129	1 098 082	462 718

* The settlement relates to 2008 incentive programme for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2011, the entitled former Management Board Members received: Mr. Mariusz Grendowicz cash equivalent for Commerzbank shares as a settlement of the second and third tranche of the incentive programme for 2008 as well as first, second and third tranche of the incentive programme for 2009; Mr. Andre Carls cash equivalent for Commerzbank shares as a settlement of the second tranche of the incentive programme for 2008.

In 2011, Mr. Mariusz Grendowicz, who acted as the President of the Bank until 2 August 2010, was paid bonus for 2010 in amount of PLN 1 098 082.

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

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, Members of the Management Board of the Bank may be eligible to receive bonuses for the year 2012, which would be paid out in 2013. As a result provision created for the cash bonus payment for the members of the Management Board for 2012 amounts to PLN 6 168 516 as of 31 December

2012. The final decision concerning the level of the bonus will be taken by the Remuneration Committee of the Supervisory Board by 11 April 2013.

In 2012 and 2011, Members of the Management Board of BRE Bank SA did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total amount of remuneration received in 2012 by the Bank's Management Board Members was PLN 23 849 081 (2011: PLN 18 996 593).

Information on the rules of payment other component of remuneration (severance payment) for the members of the Management Board

From the date of appointment of the members of the Management Board for the new term, i.e. from the date of General Shareholders Meeting approving the financial results for the year 2012 all members of the Management Board shall get the severance payment in the amount which depends on years spent with the organization and is calculated as follows: (i) 4 monthly salaries if the member held his post for a period shorter than 1 year, (ii) 8 monthly salaries if the member held his position for more than 1 year but less than 2 years and (iii) 12 monthly salaries if the member held his post for more than 2 but less than 5 years, (iv) 18 monthly salaries if the member held his post for more than 5 years.

Supervisory Board Compensation

The composition of the Supervisory Board at the end of 2012 was as follows:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee, Member of the Risk Committee, Member of the Audit Committee, Member of the Remuneration Committee,
2. Ulrich Sieber - Deputy Chairman of the Supervisory Board, Chairman of the Remuneration Committee, Member of the Executive Committee,
3. Andre Carls – Member of the Supervisory Board, Member of the Executive Committee, Member of the Audit Committee, Member of the Remuneration Committee,
4. Stephan Engels - Member of the Supervisory Board, Chairman of the Audit Committee,
5. Thorsten Kanzler - Member of the Supervisory Board, Member of the Risk Committee,
6. Teresa Mokrysz – Member of the Supervisory Board, Member of the Audit Committee,
7. Waldemar Stawski – Member of the Supervisory Board, Member of the Risk Committee,
8. Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee,
9. Dirk Wilhelm Schuh - Member of the Supervisory Board, Chairmen of the Risk Committee,
10. Marek Wierzbowski – Member of the Supervisory Board, Member of the Remuneration Committee.

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.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2012 and 31 December 2011 is presented below.

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		Remuneration paid in 2012 (in PLN)	Remuneration paid in 2011 (in PLN)
1.	Maciej Leśny	355 430	319 862
2.	Ulrich Sieber	254 250	109 571
3.	Andre Carls	246 750	241 500
4.	Stephan Engels	162 000	-
5.	Thorsten Kanzler	211 500	149 935
6.	Teresa Mokrysz	215 399	185 747
7.	Waldemar Stawski	216 530	202 862
8.	Jan Szomburg	216 530	211 112
9.	Dirk Wilhelm Schuh	93 273	-
10.	Marek Wierzbowski	141 000	132 000
	Stefan Schmittmann*	-	-
	Martin Zielke*	-	49 500
	Achim Kassow**	-	99 668
	Eric Strutz***	49 500	149 935
	Sascha Klaus****	121 500	206 250
	Total	**2 283 662**	**2 057 942**

* Term expired on 30 March 2011
** On 12 July 2011, Mr. Achim Kassow resigned from the office
*** On 30 March 2012, Mr. Eric Strutz resigned from the office
**** On 25 July 2012, Mr. Sascha Klaus resigned from the office.

In accordance with the wording of paragraph 11(j) of the By-laws of BRE Bank SA, the General Meeting determines remuneration for members of the Supervisory Board in a resolution. Remuneration of the Management Board members is determined by the Supervisory Board (paragraph 22.1(e) of the By-laws of BRE Bank SA).

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2012 amounted to PLN 34 654 944 (2011: PLN 29 730 191).

<u>Information regarding proprietary position in Bank shares by the Members of the Management Board and by the Members of the Supervisory Board</u>

As at 31 December 2012, Bank shares were held by one Member of the Management Board, Mr. Przemysław Gdański – 1 086 shares.

As at 31 December 2011, Bank shares were held by five Members of the Management Board: Vice-president, Mrs. Karin Katerbau – 2 611, Vice-president, Mr. Wiesław Thor – 4 805 shares and Members of the Management Board, Mr. Przemysław Gdański - 156 shares, Mr. Jarosław Mastalerz – 2 603 shares and Mr. Christian Rhino – 6 046 shares.

As at 31 December 2012, the Members of the Supervisory Board of BRE Bank SA had no Bank shares.

As at 31 December 2011, one Member of the Supervisory Board of BRE Bank SA held shares of BRE Bank SA, Mr. Andre Carls - 3 269 shares. As at 31 December 2011, the other Members of the Supervisory Board of BRE Bank SA had no Bank shares.

45. Acquisitions and disposals

- In December 2011, a decision was made to reorganise 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 sold its shareholdings of 0.42% and CERI sold 99.58% of its shareholdings for a total amount of PLN 13.2 million. The transaction was finalised on 2 March 2012.

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

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

- On 28 June 2012, the share capital of Aspiro SA was increased by PLN 109 342 thousand by way of issuing 109 342 B-series ordinary registered shares. The shares were acquired by BRE Bank in a private placement and covered by a non-financial contribution in the form of 12 941 177 ordinary registered shares of BRE Ubezpieczenia TUiR SA. The transaction resulted from the reorganization of the retail sales network.
- In the fourth quarter of 2012, BRE Bank acquired 100% stake in MLV 35 Sp. z o.o. spółka komandytowo-akcyjna for the amount of PLN 50 thousand. Subsequently, the Bank increased the equity of the company by the amount of PLN 1 500 thousand in cash and by the amount of PLN 279 725 thousand by contribution in kind in the form of all owned investment certificates issued by BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The core business of the company is financial intermediation.

46. Information about the registered audit company

The registered audit company with whom BRE Bank SA signed an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement to conduct an audit of stand-alone financial statements of BRE Bank SA and consolidated financial statements of BRE Bank SA Group was signed on 19 June 2012.

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of BRE Bank SA was PLN 3 005 thousand in 2011 (2011: PLN 3 005 thousand).

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for BRE Bank SA was PLN 1 546 thousand in 2011 (2011: PLN 1 280 thousand).

47. Capital adequacy ratio / capital adequacy

One of the main tasks of the balance sheet management is to ensure an appropriate level of capital. Within the framework of the capital management policy, BRE Bank prepares the guidelines for the most effective planning and utilisation of capital basis which:

- are compliant with external and internal regulations in force,
- guarantee a continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- ensure the maintenance of a strong capital basis being of fundamental support for business development.

The capital management policy in BRE Bank is based on:

1. maintenance of an optimal level and structure of own funds with the application of available methods and means (retention of net profit, subordinated loan, issue of shares, etc.),
2. effective utilisation of existing capital, among others through application of a set of measures of effective utilisation of the capital, limitation of activities that do not provide an expected rate of return and development of products with lower capital absorption.

Effective utilisation of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and, as a result, forming a stable basis of reinforcement of the capital base in future periods. This enables to maintain the capital adequacy ratio (calculated as a quotient of own funds to the total capital requirement multiplied by 12.5,) at least on the level required by the supervision authority (the Polish Financial Supervision Authority - KNF).

In 2012 the strategic goals of BRE Bank were aimed at maintaining the capital adequacy ratio above 12% and Tier 1 capital adequacy ratio above 10%.

Capital adequacy ratio

The calculation of the capital adequacy ratio, own funds and total capital requirement in BRE Bank is made according to the following regulations:

- Banking Act of 29 August 1997 (Dz.U. from the year 2002 No 72, item 665) with further amendments,
- Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 (Dz. Urz. KNF from 2011 No 13 item 49),
- Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 (Dz. Urz. KNF from 2010 No 2 item 11) with further amendments,

- Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 (Dz. Urz. KNF from 2011 No 11 item 42),
- Resolution No. 208/2011 of the Polish Financial Supervision Authority of 22 August 2011 (Dz. Urz. KNF from 2011 No 9 item 34) with further amendments,
- Resolution No. 384/2008 of the Polish Financial Supervision Authority of 17 December 2008 (Dz. Urz. KNF from 2008 No 8 item 38) with further amendments,
- Resolution No. 387/2008 of the Polish Financial Supervision Authority of 17 December 2008 (Dz. Urz. KNF from 2008 No 8 item 41).

Own funds contains:

- core funds including:
  - principal funds (paid and registered share capital, supplementary capital and reserve funds excluding any liabilities due to preference shares),
  - additional items of core funds (general risk fund for unidentified banking business risk, retained earnings, profit under approval by shareholders and net profit for the current reporting year, calculated in accordance with accounting principles in force, less any expected costs and dividends in the amounts not bigger than the profit verified by auditors and other items defined by KNF),
  - items deducting core funds (own shares valued at carrying amount including impairment losses, intangible assets valued at carrying amount, loss from the previous years, loss under approval by shareholders, net loss for the current year and other deductions of the core funds defined by KNF),
- supplementary funds including:
  - balance sheet items included in supplementary capital with the consent of the KNF (including subordinated liabilities, securities liabilities with undefined maturity and other similar instruments),
  - additional items of supplementary funds defined by KNF,
  - items defined by KNF, the aim of which is to ensure a safe activity conducting and competent risk management,
  - deductions of supplementary funds defined by KNF.

The total capital requirement contains (while assuming the possession of a trading book) capital requirements for:

  - credit risk,
  - market risk, including the total requirement for foreign exchange risk, commodity price risk, equity price risk, specific risk of debt instrument prices and general interest rate risk,
  - settlement, delivery and counterparty risk,
  - excess of the exposure concentration limit and the large exposures limit,
  - excess of qualified holdings,
  - operational risk.

On 4 July 2012, Polish Financial Supervision Authority (KNF) and Bundesanstalt fur Finanzdienstleistungsaufsicht (BaFin) granted conditional consent to the application of the advanced internal rating based approach (A-IRB approach) by BRE Bank to the calculation of the capital requirement for credit risk for the corporate portfolio and the retail mortgage loan portfolio, with a provision that until the significant conditions laid down in the decision are met, the total capital requirement calculated with the application of the A-IRB approach must be maintained at the level based on 100% of the capital requirement for credit risk calculated under the standardised approach.

Since BRE Bank met all high-significance conditions set out in the consent of KNF and BaFin regarding A-IRB application, the calculation of the capital adequacy ratio of BRE Bank as of 31 December 2012 took into account the total capital requirement determined under the A-IRB approach for credit risk pursuant to annex No. 5 to the Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments). Additionally own funds were calculated with the application of the deduction derived from the A-IRB approach and stood above 80% of comparative total capital requirement as stipulated in article 14 of Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments).

The total capital requirement of BRE Bank as of 31 December 2012 amounted to PLN 4 161 105 thousand, including PLN 3 710 664 thousand of capital requirement for credit risk.

The capital adequacy ratio of BRE Bank as of 31 December 2012 amounted to 19.66%. Additionally the Tier 1 capital adequacy ratio of BRE Bank amounted to 13.63%.

Had in the calculations of capital adequacy ratios as of 31 December 2012 BRE Bank still included own funds and total capital requirement according to the methodology applied in the capital ratios calculation as of

31 December 2011, i.e. determined using standardised approach for credit risk in accordance with the annex No. 4 to the Resolution No. 76/2010 of KNF of 10 March 2010 (with further amendments), the capital adequacy ratio of BRE Bank as of 31 December 2012 would have amounted to 16.98%. Additionally the Tier 1 capital adequacy ratio of BRE Bank would have amounted to 11.71%.

Internal capital

BRE Bank adjusts the own funds to the level and the type of risk, BRE Bank is exposed to, and to the nature, the scale and the complexity of its business activity. For that purpose, the ICAAP process (Internal Capital Adequacy Assessment Process) was prepared and implemented in BRE Bank, the aim of which is to maintain the own funds at the level adequate to the risk profile and the risk level of the activity of BRE Bank.

The internal capital is the amount of capital estimated by BRE Bank to cover all material risks identified in the activity of BRE Bank. The internal capital is the total sum of the economic capital and the capital to cover other risk.

The internal capital adequacy assessment process is continuous in BRE Bank and is composed of six stages implemented by organizational units of BRE Bank. The process includes:

- identification and definition of materiality of each risk involved in the business of BRE Bank,
- calculation of internal capital for coverage of risk,
- capital aggregation,
- stress tests,
- allocation of economic capital to business lines and BRE Bank Group entities,
- monitoring consisting in a permanent identification of risk involved in the business of BRE Bank and the analysis of the level of capital for risk coverage.

The internal capital adequacy assessment process is accepted by the Supervisory Board of BRE Bank. The whole internal capital adequacy assessment process is reviewed annually. The Management Board of BRE Bank is responsible for the internal capital adequacy assessment process.

Due to the fact that both, the total capital requirement of BRE Bank calculated according to the Resolution No. 76/2010 (with further amendments) and the internal capital estimated by BRE Bank according to the Resolution No. 258/2011 are lower than BRE Bank own funds, the own funds of BRE Bank as of 31 December 2012 were kept on the level consistent with the Banking Act requirements.

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Capital adequacy	31.12.2012	31.12.2011
Own funds:		
- Share capital	168 556	168 411
- Supplementary fund	6 360 467	5 386 779
- Reserve fund	949 010	845 320
- Unrealised gains and losses on available for sale financial instruments and exchange differences from conversion	456 646	133 510
- Profit for the current year	600 647	-
- Investments in financial institutions	(893 075)	(513 772)
- Additional decrease	(243 212)	(38 535)
- Intangible assets	(389 325)	(389 807)
- Subordinated liabilities	3 217 460	3 451 635
I. Total own funds	10 227 174	9 043 541
Capital charges		
II. Credit risk, including	3 710 664	4 321 334
- with application of standardised approach	1 065 389	4 321 334
- with application of AIRB approach	2 645 275	-
III. Foreign exchange risk	-	-
IV. Equity position risk	1 768	240
V. Specific risk of debt instruments	32 739	34 687
VI. General interest rate risk	26 903	31 736
VII. Settlement, delivery and counterparty credit risk	38 623	34 430
VIII. Commodity risk	-	-
IX. Operational risk	350 408	313 304
X. Total capital charge	4 161 105	4 735 731
XI. Total risk exposure amount	52 013 813	59 196 638
XII. Capital adequacy ratio (%)	19.66%	15.28%
XIII. Internal capital	3 369 401	3 335 643

48. Events after the balance sheet date

After balance sheet date, significant events did not occur in the Bank.