BRE BANK SA

THE BEST FINANCIAL INSTITUTION
FOR DEMANDING CUSTOMERS

IFRS Consolidated Financial Statements of BRE Bank SA Group for the Second Quarter 2006

Contents

Selected Financial Data

SELECTED FINANCIAL DATA FOR THE GROUP	in PLN '000		in EUR '000	
	2 quarter 2006 from 2006-01-01 to 2006-06-30	2 quarter 2005 from 2005-01-01 to 2005-06-30	2 quarter 2006 from 2006-01-01 to 2006-06-30	2 quarter 2005 from 2005-01-01 to 2005-06-30
I. Interest income	790 813	790 682	202 762	193 771
II. Fee and commission income	327 354	254 047	83 933	62 259
III. Net trading income	196 099	98 317	50 279	24 094
IV. Operating profit	249 231	196 832	63 902	48 237
V. Profit before income tax	249 119	196 662	63 873	48 196
VI. Net profit (loss) attributable to minority interest	14 091	8 249	3 613	2 022
VII. Net profit (loss)	180 399	144 538	46 254	35 422
VIII. Cash flows from operating activities	(1 784 687)	1 026 277	(457 589)	251 508
XIX. Cash flows from investing activities	(228 017)	(56 735)	(58 463)	(13 904)
X.Cash flows from financing activities	869 343	274 637	222 897	67 305
XI. Net increase / decrease in cash and cash equivalents	(1 143 361)	1 244 179	(293 154)	304 908
XII. Total assets	38 872 233	32 975 400	9 613 749	8 162 026
XIII. Amounts due to the Central Bank	2 146	-	531	-
XIV. Amounts due to other banks	6 617 174	5 216 465	1 636 537	1 291 172
XV. Amounts due to customers	21 894 964	19 150 453	5 414 988	4 740 094
XVI. Capital and reserves attributable to the Company's equity holders	2 248 904	1 908 223	556 191	472 321
XVII. Minority interest	75 539	57 969	18 682	14 348
XVIII. Share capital	117 500	114 853	29 060	28 428
XIX. Number of shares	29 374 947	28 713 125	29 374 947	28 713 125
XX. Book value per share (in PLN/EUR per share)	76.56	66.46	18.93	16.45
XXI. Diluted book value per share (in PLN/EUR per share)	76.21	66.22	18.85	16.39
XXII. Capital adequacy ratio	10.39	10.97	10.39	10.97
XXIII. Earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	9.76	(7.54)	2.48	(1.80)
XXIV. Diluted earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	9.69	(7.52)	2.46	(1.79)
XXV. Declared or paid dividend per share (in PLN/EUR per share)	-	-	-	-

SELECTED FINANCIAL DATA FOR THE BANK	in'000 PLN		in'000 EUR	
	2 quarter 2006 from 2006-01-01 to 2006-06-30	2 quarter 2005 from 2005-01-01 to 2005-06-30	2 quarter 2006 from 2006-01-01 to 2006-06-30	2 quarter 2005 from 2005-01-01 to 2005-06-30
I. Interest income	618 708	689 143	158 635	168 887
II. Fee and commission income	188 430	154 868	48 313	37 953
III. Net trading income	187 507	95 786	48 076	23 474
IV. Operating profit	151 621	165 024	38 875	40 442
V. Profit before income tax	151 621	165 024	38 875	40 442
VI. Net profit (loss)	119 125	134 237	30 543	32 897
VII. Cash flows from operating activities	(1 412 261)	764 516	(362 100)	187 358
VIII. Cash flows from investing activities	(269 727)	(28 914)	(69 157)	(7 086)
IX.Cash flows from financing activities	481 307	455 156	123 406	111 544
X. Net increase / decrease in cash and cash equivalents	(1 200 681)	1 190 758	(307 851)	291 817
XI. Total assets	33 941 408	30 276 486	8 394 274	7 493 994
XII. Amounts due to the Central Bank	2 146	-	531	-
XIII. Amounts due to other banks	4 353 877	3 254 923	1 076 786	805 654
XIV. Amounts due to customers	24 039 672	21 430 285	5 945 410	5 304 395
XV. Equity	2 106 236	1 857 423	520 907	459 747
XVI. Share capital	117 500	114 853	29 060	28 428
XVII. Number of shares	29 374 947	28 713 125	29 374 947	28 713 125
XVIII. Book value per share (in PLN/EUR per share)	71.70	64.69	17.73	16.01
XIX. Diluted book value per share (in PLN/EUR per share)	71.37	64.49	17.65	15.96
XX. Capital adequacy ratio	11.62	13.03	11.62	13.03
XXI. Earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	6.62	(8.54)	1.68	(2.04)
XXII. Diluted earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	6.57	(8.52)	1.67	(2.03)
XXIII. Declared or paid dividend per share (in PLN/EUR per share)	-	-	-	-

Introduction

The BRE Bank Group generated a profit before tax of PLN 249.1 million in H1 2006, up 26.6% year on year (PLN 196.7 million in H1 2005). The pre-tax profit was PLN 139.6 million in Q2 2006 alone, compared to PLN 109.5 million in Q1 2006. The higher profitability in Q2 was mainly due to the Bank's higher trading income as well as high profits generated by the subsidiaries.

In 2006, the significant increase in income from the core business was accompanied by relatively lower overhead costs compared to previous periods. This helped to improve the profitability and productivity ratios in H1 2006, both compared to H1 2005 and Q1 2006.

- The Group's pre-tax ROE (profit before tax to average own funds) was 23.6% p.a. in H1 2006, more than the H1 2005 ROE (21.7% p.a.), the Q1 2006 ROE (20.9%), and the 2006 ROE target (18%).
- The Group's C/I ratio (overhead costs including amortisation/depreciation to income including net other operating income and costs) stood at 64.7% in H1 2006, compared to the annual target of 66% and the Q1 2006 C/I of 66%. The C/I ratio was 68.7% in H1 2005.

The key profit drivers included:

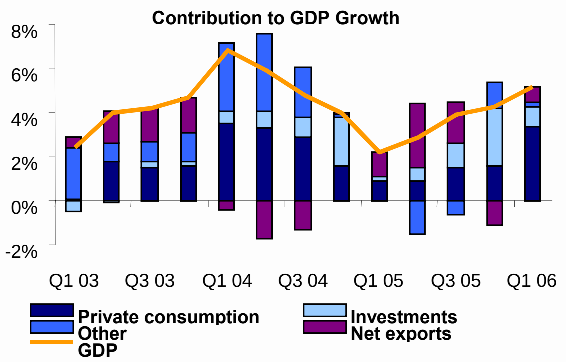
- Positive trends in the effective balance sheet structure thanks to continued increase in loans and advances to customers as well as and amounts due to customers, crucial to the profitability of the core business. The share of the loans portfolio in the balance sheet total grew by 10 percentage points over the past 12 months and reached 56.2%.
- Continued positive trends in the fx market, helping the high profitability of the trading business despite the deterioration in the bonds market in Q2 2006.
- Expansion of the BRE Bank Group to include BRE Bank Hipoteczny (BBH). BBH's contribution to the pre-tax profit of the Group was 7.6%. BBH's contribution to the balance sheet was mainly under loans and advances (a share of more than 10%) and liabilities under issued securities (a share of over 30%). BBH's contribution to the P&L was mainly under the net interest income (a share of 8.8%) and overhead costs (a share of 3.5%).
- A high cost regime at the Bank and the subsidiaries.
- High quality of the loans portfolio and a falling default ratio (3.0%, compared to 3.5% in Q1 2006), ensuring a relatively low cost of loans impairment to the Group's P&L.

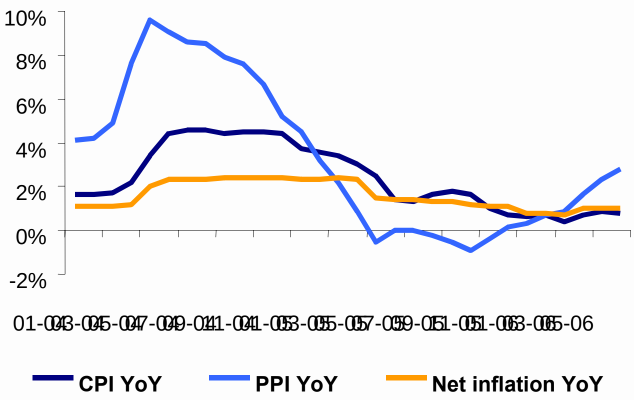
In view of the BRE Bank Group's financial results of Q1-2 2006, the Management Board of BRE Bank SA believe that the annual pre-tax profit target of PLN 380 million and the annual pre-tax ROE target of 18.8% may be exceeded. The detailed updated 2006 profit targets of the BRE Bank Group will be published by the Management Board at the time of the disclosure of the Group's Q3 2006 results.

Macroeconomics in Q2 2006

Gross Domestic Product

The Polish economy continued to grow fast in Q2 2006. Coupled with stable prices and official interest rates, the GDP growth created a good environment for financial institutions. According to the Polish Statistical Office GUS, the GDP growth rate was 5.2% in Q1 2006, mainly due to fast-growing private consumption (up 5.1% year on year). Available statistics, including in particular the fast growth in industrial output, retail sales, and foreign trade, suggest that the GDP growth rate was similar (slightly over 5%) in Q2 2006. Growing domestic demand remained the key driver. However, the role of investments, gradually picking up (up 8.3% year on year according to estimates), in domestic demand grew in Q2. Following a temporary decline in April, the growth rate of exports and imports was again very high in May (32.9% and 31% year on year according to the National Bank of Poland), proof of good conditions in foreign markets as well as domestic recovery. The contribution of net exports to the GDP growth, estimated at 0.7 percentage points in Q1 2006, remained slightly positive or turned neutral in Q2.





Labour Market

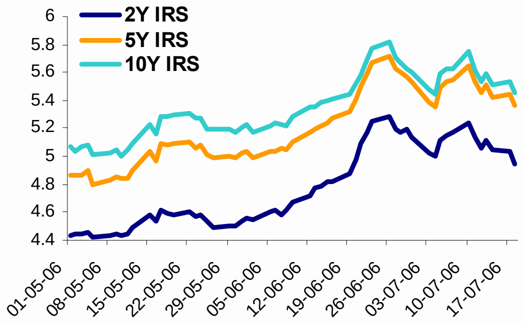
The situation in the labour market improved significantly, attesting to the ongoing economic recovery. The official unemployment rate fell from 17.8% at the end of Q1 to 16.5% at the end of May and approximately 16% at the end of June 2006. Employment in the corporate sector has been record-high over the past two months (up 3.1% year on year). The improving labour market has seen a relatively high growth in wages and salaries. The average gross wage in the corporate sector was up 4.6% year on year in H1 2006. Average old-age and disability pensions grew even more, by 8.8% year on year in May 2006. A fast increase in household income coupled with a high growth in household loans and complemented by foreign transfers is a good prognostic of fast growth in private consumption. Thanks to the continued high growth in productivity (especially in industry), the recent increase in wages did not result in higher inflation pressure. However, the Monetary Policy Council is watching closely the growth in wages and salaries.

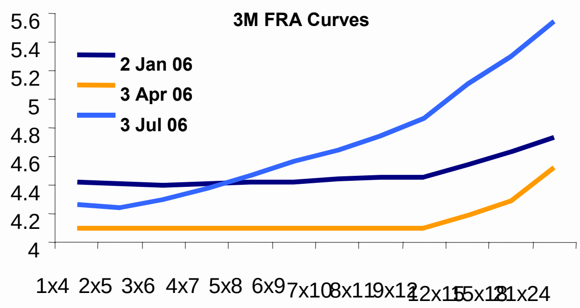
Prices, Inflation, Interest Rates

The CPI remained much below the NBP's official inflation target in Q2 2006. The CPI was 0.8% in June 2006 and is likely to remain stable in the coming months. All core inflation measures (ranging from –0.5% to +1.0% in June 2006) and stable indicators of inflation expectations suggest lack of any inflation pressure. The PPI was slightly higher, mainly due to growing prices of raw materials and energy, although other prices were also observed to rise in June. The Monetary Policy Council did not change the official interest rates in Q2 2006. The rates are widely expected to remain stable throughout the year. The main threat and uncertainty for inflation is the fast growing price of oil. Prices may also rise beyond expectations due to a potential high increase in wages and salaries or the now largely unknown impact of (very dry) weather conditions on agricultural harvests and food prices later in the year. The growing PPI is also of some concern. All in all, despite the currently minor inflation pressure, the balance of risks indicates a growing probability of higher consumer prices than expected.

Financial Markets

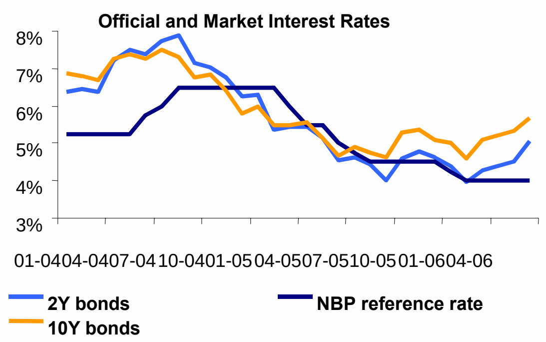
The positive trends and outlook in the real economy did not prevent serious disruptions in the financial markets in Q2 2006. The WIG-20 index fell by nearly 25% between 11 May and 11 June. Bond prices also slumped while the volatility of the fx rate increased. The local currency weakened by over 4% against the euro and approximately 3% against the US dollar between the end of April and the end of June. Expectations of interest rate hikes grew significantly, as demonstrated by FRA prices. These negative developments were mainly caused by the changing behaviour of foreign investors in the emerging markets triggered by concerns with growing inflation in the well-developed economies and the continued trend of interest rate hikes in the USA and in the eurozone. Investors' sentiment was also affected by the deteriorating conditions in the Turkish economy and in some other emerging markets. The outflow of foreign capital was triggered by a May 10 communication of the US Fed which suggested a further tightening of the monetary policy.

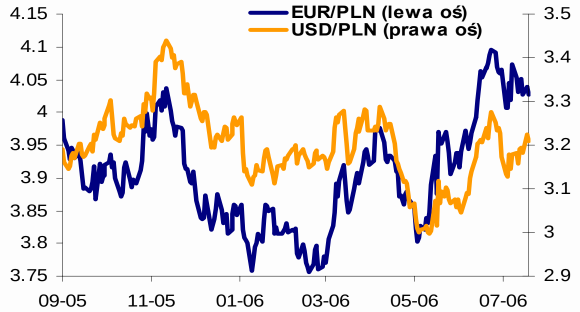




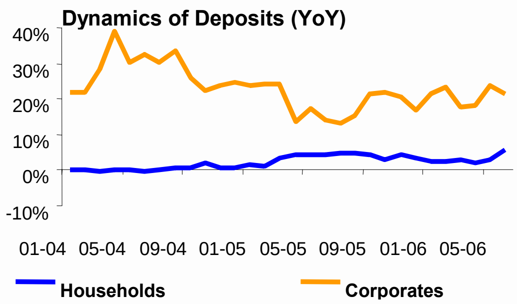
Banking Sector

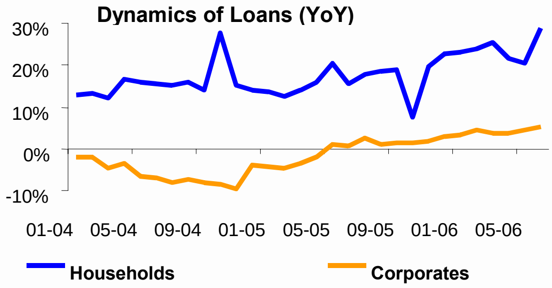
The high growth in monetary receivables of financial institutions continued into Q2 2006. These grew 16% year on year at the end of June. Household debt increased by nearly 29% year on year and corporate debt by 5.1%. Retail housing loans grew the fastest, by 48.1% year on year in May 2006 (including fx loans up by approximately 64%). Their fast growth was certainly boosted by the planned implementation, as of 1 July 2006, of a new supervisory regulation concerning good practices in mortgage-backed credit exposure (Recommendation S).





The per annum growth in corporate loans remains moderate (5.1% in June 2006), but the rate has been rising steadily since the beginning of 2005. The expected growth in investments and the absorption of EU funds should reinforce the trend. However, corporates still have significant liquid assets. Total corporate bank deposits were PLN 104.5 billion in June 2006, up by approximately 22% year on year. Household deposits grew by only 5.6% year on year; the highest growth (up by over PLN 4.6 billion) took place last month, partly due to the clearly diminishing interest in the stock market and investment funds.





Main Factors Affecting the Results of the BRE Bank Group in Q2 2006

Balance Sheet

The Group's balance sheet total continued to grow dynamically in Q2 2006. The BRE Bank Group's balance sheet total was PLN 38.9 billion at 30 June 2006, up 17.9% year on year and up 18.4% compared to the end of 2005. Credits and loans grew the fastest, by 43.3% and 41.2% respectively. Thanks to this high growth, much above that of the balance sheet total, credits and loans accounted for 56% of the total assets, compared to 46% at the end of 2005.

The high growth in the credit portfolio was mainly driven by the expansion of retail banking, the addition of BBH's mortgage loans portfolio, and the recovery in the corporate loans market. The growth in the Bank's lending was 28.6% compared to the end of 2005 and 31.3% year on year.

Very liquid assets (loans and advances to banks, securities available for sale) remained stable, ensuring high safety of the business.

Among sources of financing, debt securities in issue grew the fastest thanks to the consolidation of the balance sheet of BBH which mainly uses debt securities to finance its business. Consequently, the share of securities in the Group's liabilities grew. Amounts due to customers grew by over 14% year on year while their share in the total liabilities remained at approximately 60%.

The share of equity in sources of funding remained stable at approximately 6.0% of the total liabilities and equity.

The solvency ratio at the end of H1 2006 fell to 10.4%, compared to 11.2% at the end of Q1 2006. This was mainly due to a relatively high increase in the capital requirement compared to the growth in equity following the dynamic expansion in lending, including both retail and corporate loans.

Profit and Loss Account

The BRE Bank Group generated a profit before tax of PLN 249.1 million in H1 2006, up 26.6% year on year.

The net interest income remained the major P&L item. It was PLN 332.5 million at the end of H1 2006, compared to PLN 335.8 million in H1 2005. This year's net interest income was lower than last year due to the Bank's lower contribution while the subsidiaries reported a higher net interest income. The Bank's net interest income was lower in Q2 2006 largely due to the deteriorating conditions in the bonds market. The net interest income was helped in 2006 by the growing mortgage loans portfolio, including BBH's portfolio, as well as positive shifts in the structure of sources of funding, which largely offset the impact of negative trends caused by the lower profitability of securities.

Consequently, the BRE Bank Group's interest margin (net interest income to average interest-earning assets) was 2.05% p.a. in Q2 2006, compared to 2.2% p.a. in Q1 2006 and 2.19% at the end of 2005.

The contribution of Corporate Banking Line and the Retail Banking Line to the BRE Bank Group's net interest income grew to 52% and 39%, respectively, compared to 46% and 29% in H1 2005. The contribution of the Investment Banking Line to the Group's net interest income fell from 32% in H1 2005 to 13% in H1 2006.

Trading income was the fastest-growing item of the BRE Bank Group's P&L in H1 2006: it was almost twice as high as in H1 2005. The largest contribution to the Group's trading income was made by the Bank (96%) which reported a very high growth in fx income in Q2 2006. The Bank's high trading income offset the relatively lower growth in its net interest income quarter on quarter.

The net commission income grew relatively fast by 23.5% year on year. It stood at PLN 229.2 million in H1 2006, compared to PLN 185.6 million in H1 2005. The investment banking subsidiaries, the asset management subsidiaries, and the Bank's retail banking business reported the highest growth in the net commission income.

Despite a lower growth rate, the Corporate Banking Line again made the largest contribution to the net commission income (57%), followed by the Asset Management Line (20%). The Investment Banking Line reported a high growth in the net commission income thanks to active investor trading on the Warsaw Stock Exchange and the related high growth in the net commission income of BRE Bank SA Securities. The contribution of the Investment Banking Line to the Group's net commission income grew from 4% in H1 2005 to 10% at the end of H1 2006.

Impairment losses on loans and advances were PLN 32.8 million in H1 2006, including PLN 22.6 million for BRE Bank. Thanks to a decrease in irregular loans, the Bank's ratio of provisions to default credit exposure was 77.4% at the end of June 2006, compared to 67.1% at the end of Q1.

Overhead costs were PLN 436.4 million in H1 2006, compared to PLN 390.6 million in H1 2005, up 11.7% year on year. Amortisation and depreciation grew by a higher rate of 23.6% year on year due to the implementation of IT systems at the Bank and Group subsidiaries. Overhead costs of Q2 2006 were only 1.6% higher than in Q1 2006. Thanks to a higher growth in income, the Group reported a significant increase in productivity as measured by the C/I (cost/income) ratio, both against 2005 and Q1 2006.

Quality of the Credit Risk Portfolio

The Bank applies the provisions of the International Financial Reporting Standards (IFRS) as of 1 January 2005. The credit risk portfolio is stated under the provisions of IAS 39 and IAS 37.

The default ratio for the credit risk portfolio under IAS 39 and IAS 37 was 3.5% at the end of Q1 2006 and 3.0% at the end of Q2 2006.

The default ratio for the balance-sheet credit risk portfolio (credit receivables less interest) was 4.9% at the end of Q2 2006 (down from 5.8% at the end of Q1 2006).

The quality of the credit risk portfolio under the Polish Accounting Standards (rating of loans under the Regulation of the Finance Minister dated 10 December 2003) improved in Q2 2006. Irregular loans were 6.1% of the balance-sheet credit risk portfolio, compared to 7.2% at 31 March 2006.

The main factors of improvement in the quality of the credit risk portfolio in Q2 2006 were improving financial condition of our clients, significant growth in the credit portfolio and large repayments of default loans.

The ratio of provisions to default credit exposure grew from 67.1% at the end of Q1 2006 to 77.4% at the end of Q2 2006 for the whole credit portfolio, and from 68.1% to 77.9% for the balance-sheet portfolio.

Although the credit risk portfolio grew, the portfolio provision (IBNR) for the non-default portfolio fell from PLN 138 million at the end of Q1 2006 to PLN 119 million at the end of Q2 2006. The portfolio provision was lower thanks to the improving quality of the credit portfolio as demonstrated by the improvement in credit rating, as well as the reduced PD (probability of default) of particular credit ratings.

Performance of the Business Lines

Retail Banking and Private Banking

Financial Results

The Retail Banking Line, which was growing the fastest, reported a profit before tax of PLN 23.7 million at the end of H1 2006, compared to PLN 8.6 million in H1 2005. The contribution of the Business Line to the Group's pre-tax profit was nearly 10% a the end of June 2006, compared to 4.4% at the end of June 2005.
The Retail Banking Business reported a higher growth than the Group's average under the net interest income (up 33.9%) and the net commission income (up 57.4%). The Business Line's contribution to the Group's total net interest and commission income grew from 22.3% in H1 2005 to 28.5% at the end of June 2006.
Thanks to dynamic expansion of the branch network, the Retail Banking Business reported a significant increase in overhead costs by approximately 41%, more than the Group's average but less than the growth rate of income. The costs also grew due to allocated costs, higher than last year as the Line's share in the Bank's overheads increased.
The significant growth in income was mainly helped by the dynamic growth in the credit portfolio, which offset the ongoing credit margin squeeze.

Customers and Accounts

BRE Bank's Retail Banking Line had 1,455.6 thousand customers at the end of June 2006 (including 1,154.7 thousand at mBank and 300.9 thousand at MultiBank). The Line acquired over 81 thousand new customers in Q2 (63.4 thousand at mBank, 17.8 thousand at MultiBank). There were 167.1 thousand microenterprise customers at the end of June 2006 (121.13 thousand at mBank, 45.97 thousand at MultiBank). The number of microenterprise customers grew by 10.7 thousand in Q2 2006 (7.2 thousand at mBank, 3.5 thousand at MultiBank).

The Retail Banking Line had 1,695.6 thousand accounts at the end of June 2006 (1,509 thousand at mBank, 185.6 thousand at MultiBank). The number of accounts grew by 96.8 thousand in Q2 2006 (85.2 thousand at mBank, 11.6 thousand at MultiBank). The number of microenterprise accounts grew by 13.9 thousand in Q2 2006 (10.4 thousand at mBank, 3.5 thousand at MultiBank). There were 200.3 thousand microenterprise accounts (154.3 thousand at mBank, 45.9 thousand at MultiBank) at the end of Q2 2006.

Deposits

The Retail Banking Line had deposits of PLN 6,075.2 million at the end of June 2006 (PLN 4,701.6 million at mBank, PLN 1,373.6 million at MultiBank). The deposits grew by PLN 489.7 million in Q2 2006 (PLN 326.6 million at mBank, PLN 163.1 million at MultiBank).

Investment Funds

BRE Bank's retail customers' assets in investment funds were PLN 1,078 million at the end of June 2006 (PLN 831.2 million at mBank, PLN 246.8 million at MultiBank). Investment fund assets grew by PLN 83.2 million in Q2 2006 (PLN 60.9 million at mBank, PLN 22.3 million at MultiBank).

Loans

Balance-sheet retail loans were PLN 5,899.7 million at the end of June 2006 (PLN 1,952.9 million at mBank, PLN 3,946.8 million at MultiBank). Retail loans grew by PLN 1,243.8 million in Q2 2006 (PLN 555.3 million at mBank, PLN 688.5 million at MultiBank).

Loans portfolio structure:

mBank: 83,.3% mortgage loans (PLN 1,625.7 million), 7% credit lines (PLN 136.1 million), 3.9% credit cards (PLN 75.8 million), 5.9% other (PLN 114.8 million);

MultiBank: 84.5% mortgage loans (PLN 3,334.7 million), 8% credit lines (PLN 314.9 million), 2.3% credit cards (PLN 90.9 million), 5.2% other (PLN 206.9 million).

The Retail Banking Line's balance-sheet mortgage loans were PLN 4,960.4 million at the end of Q2 2006 (mBank PLN 1,625.7 million, MultiBank PLN 3,334.7 million). Balance-sheet mortgage loans grew by PLN 1,128.1 million in Q2 2006 (PLN 511 million at mBank, PLN 617.1 million at MultiBank). Retail mortgage loans were PLN 4,643.2 million at the end of June 2006 (PLN 1,621.1 million at mBank, PLN 3,022.1 million at MultiBank). FX loans (mainly CHF) were 80.7% of balance-sheet mortgage loans (91.8% at mBank, 75.3% at MultiBank).

Retail Mortgage Loans	***Total***	***PLN***	***FX***
Balance-sheet value (PLN bn)	4.6	0.6	4.0
Average maturity (years)	21.9	17.9	22.6
Average value (PLN'000)	153.3	185.2	150.9
Average LTV (%)	68.7	56.5	70.8
NPL (%)	0.6	0.8	0.5

The Retail Banking Line's share in the mortgage loans market continued to grow dynamically. According to the Polish Banks Association, BRE Bank's market share was 12.5% at the end of May 2006, up 5.8 percentage points compared to the end of February 2006.

Microenterprise loans were PLN 568.3 million at the end of Q2 2006 (PLN 29.0 million at mBank, PLN 539.3 million at MultiBank), 60.4% of which were mortgage loans (16% at mBank, 57.9% at MultiBank). Microenterprise mortgage loans were PLN 317.1 million (PLN 4.6 million at mBank, PLN 312.5 million at MultiBank).

Cards

BRE Bank's Retail Banking Line had issued 864.1 thousand debit cards by the end of June 2006 (639.9 thousand at mBank, 224.2 thousand at MultiBank), up 136.6 thousand in Q2 2006 (61.2 thousand at mBank, 75.4 thousand at MultiBank).

BRE Bank's Retail Banking Line had issued 118.9 thousand credit cards by the end of June 2006 (65.8 thousand at mBank, 53.1 thousand at MultiBank), up 30 thousand in Q2 2006 (9.3 thousand at mBank, 20.7 thousand at MultiBank).

Corporate Banking

Financial Results

The pre-tax profit of BRE Bank's Corporate Banking Line was PLN 89.3 million in H1 2006. The pre-tax result reported in Q2 2006 of PLN 51,6m was the highest over the period of past four quarters. The result of H1 2006 is lower by PLN 28m in comparison with H1 2005 due to one-off transactions, which had significant positive impact on Bank's performance in H1 2005. H1 2005 was characterised by very low provisioning level (only PLN 8,5m charge) due to release of provisions for unexpectedly repaid default loans at PLN 30m, in comparison with provision charge in H1 2006 of PLN 25,5m.

The Line's financial results in 2006 were also affected by the consolidation of BBH with its high contribution to the Group's balance sheet and income items. The contribution of the subsidiaries to the profitability of the Business Line was high, approximately 63% at the pre-tax profit level. The largest contribution was that of BBH, Intermarket Bank, and BRE Leasing. The Corporate Banking subsidiaries continued to grow fast, as demonstrated in particular by the high net commission income (PLN 43.2 million), net interest income (PLN 19.1 million), and other operating income (PLN 9.5 million).

Corporate Customers

The Bank's active customer acquisition produced positive results in H1 2006. BRE Bank acquired nearly 1.15 thousand new corporate customers, 20% more than in H1 2005. The net change in the number of customers was a positive 576, of which 78% were K3 customers and 22% K2 customers.

Service Packages: An Effective Customer Acquisition Tool

The Bank acquired nearly 737 new customers who bought service packages in H1 2006, up 79% year on year and up 132% compared to H1 2004. The average H1 2006 growth in the number of SME customers per month was 56% higher than the 2005 monthly average. The sales of packages including credit products, such as EFFECT Plus and EFFECT Investments, were growing. There were nearly three times as many active credit packages in H1 2006 as in H1 2005.

Corporate Banking Customers

	31.12.2005	***31.03.2006***	***Change***
*K1**	928	929	1
*K2**	3 179	3 305	126
*K3**	5 926	6 375	449

** K1 is the segment of the largest corporations with annual sales over PLN 1 billion; K2 is the segment of corporations with annual sales between PLN 30 million and PLN 1 billion; K3 is the segment of SMEs with annual sales between PLN 3 and 30 million.*

Corporate Deposits

BRE Bank's corporate customers' deposits (including deposits of enterprises) were PLN 14.9 billion at the end of June 2006, up by approximately 4.2% compared to the end of 2005. Corporate deposits were up by over PLN 1.8 billion (13.7%) in Q2 2006. The market share of BRE Bank's corporate deposits was 8.4%, compared to 8.5% in March 2006.

Loans to Corporate Customers

Corporate customers' interest in loans increased sharply in H1 2006, especially in the case of K2 and K3 customers. As a result, BRE Bank's corporate customers loans portfolio grew 13.5% year to date and was PLN 10.9 billion. The market share of BRE Bank's corporate loans was 6.3% at the end of June 2006, compared to 6% at the end of March 2006 and 5,8% at year-end 2005.

Strategic Product Lines

Cash Management

Ongoing expansion of the cash management service supports long-term customer relationships and helps to grow the volume of transactions involving the identification of payments (direct debits, identification of mass payments, identification of trade payments). The number of direct debits processed in H1 2006 was 622 thousand, up 70% year on year. The number of identifications of mass payments processed in H1 2006 was over 45 million, up more than 10% year on year. The number of identifications of trade payments was nearly 1,150 thousand in H1 2006, up 14% year on year.

Foreign Trade Transactions

BRE Bank's leading position in the market of foreign trade transactions, especially its close co-operation with exporters, helped to grow the number of foreign trade services opened and advised, by 28% year on year for letters of credit and by 2.4% for collections. This in turn grew the fee and commission income by 6.1% for letters of credit and by 9.4% for collections (year on year).

Pricing, FX Rate, Interest Rate Risk Hedging

The profit on financial instruments grew slightly (up 3%) in H1 2006 year on year. The profit grew by 13.8% year on year in Q2 2006 alone.

BRE Leasing

Leasing contracts executed by BRE Leasing in H1 2006 totalled PLN 1,12bn (up 15% year on year), equivalent to 76% of the value of contracts executed in 2005. BRE Leasing ranks first in the market by the value of assets leased from January to June 2006. BRE Leasing generated a pre-tax profit of PLN 13,06 million in H1 2006, up 51% year on year.

Factoring – The Intermarket Group

The sales of the Intermarket Group companies totalled EUR 2,2 billion in H1 2006, up 18% year on year, with pre-tax profit coming at EUR 6,07 million. Polfactor's sales reached PLN 1,35bn in H1 2006, up 21% year on year, including a growth of 130% in export factoring.

BRE Bank Hipoteczny (BBH)

BBH's loans portfolio was PLN 2.3 billion at the end of June 2006 (up 18.7% YoY). BBH's profit before tax in H1 2006 was PLN 19.02 million, up 57,5% year on year. The profit grew mainly thanks to a higher net interest income, helped by significantly higher lending, and lower administrative costs. The volume of loans granted in 1H 2006 reached PLN 662,8 million, up 80% YoY.

Investment Banking

Financial Results

The Investment Banking Line generated a pre-tax profit of PLN 117 million in H1 2006, up PLN 33 million (39.8%) year on year. The main contribution to the Line's profit once again came from the Bank (92%). The increase in the profitability of the Investment Banking Line was largely possible thanks to the Bank's growing trading income; the Line's net interest income was, however, lower than in 2005. The decrease in the net interest income was caused by the lower profitability of debt securities due to the declining conditions in the bonds market in Q2.

Favourable conditions in fx markets allowed for above-average profits on fx transactions and on fx financial instruments in 2006. BRE Bank SA Securities reported a high growth in the net commission income, which almost doubled year on year and was crucial to the Investment Banking Line's income. In addition, the Line's pre-tax profit in Q2 2006 was helped by the released credit provisions in the Project Finance segment following the repayment of overdue debt.

Market Position

BRE Bank holds the first place in the market of commercial papers and banks' bonds with a share of approximately 19.4% and 26.8%, respectively. BRE Bank ranks second in mid- and long-term corporate debt

Additional Payment for Vectra SA Shares – Proprietary Investments

In May 2006, the Bank and three National Investment Funds (NIF) signed agreements amending the principles of payment for shares of the company Vectra SA acquired by BRE Bank from the NIFs in 2005.
Under the original agreements, the Bank was required to repay to the NIFs share in gains realised at any time on the sale of the package of Vectra shares acquired from the NIFs.
Under the amended agreements with the three NIFs, the Bank makes an additional payment of PLN 25 million for the acquired Vectra shares, and thereby limits the amount, the period, and the percentage share of the NIFs' participation in potential gains on BRE Bank's future sale of the Vectra shares. As a result, the Bank's obligation to repay to the NIFs the gains on the sale of the company's shares will expire in May 2007.

Proprietary Investments Portfolio

At the end of Q2 2006, the proprietary investments portfolio stood at PLN 279.2 million at cost. The portfolio was reduced by PLN 97.1 million (down 26%) year to date. The reduction followed the sale of stocks and shares (Zachodni Fundusz Inwestycyjny, Novitus) as well as ITI Bond Finance bonds. The proprietary investments portfolio grew by PLN 19.6 million (up 7.6%) quarter on quarter due to the above-mentioned additional payment of PLN 25 million for the Vectra SA shares acquired in 2005.

BRE Bank SA Securities and BRE Corporate Finance

Currently BRE Bank SA Securities' market share in options trading exceeds 36%. With a market share of 13.6% in Q2 2006, BRE Bank SA Securities was the second largest broker of futures. BRE Bank SA Securities is steadily growing its market share in equities trading: nearly 6% of all transactions in equities in Q2 2006 were traded by BRE Bank SA Securities.

Asset Management

Financial Results

The Asset Management Line reported a pre-tax profit of PLN 10.3 million in H1 2006, compared to a PLN 12.1 million loss in H1 2005. The fast-growing net commission income enabled a year-on-year increase in the Line's operating profit.

The following positive trends, which began in Q1 2006 and continued into Q2 2006, were key to the improvement of the financial standing of the Asset Management subsidiaries and the Asset Management Line's consolidated profits

- Growing assets under management of Skarbiec TFI and Skarbiec Investment Management due to the growing market value of the assets. The assets under management of the Line's subsidiaries (Skarbiec TFI, Skarbiec Investment Management and PTE Skarbiec – Emerytura) totalled PLN 6,052 million at the end of June 2006;
- Steady growth in income from the core business (management fee) of Skarbiec TFI and Skarbiec Investment Management;
- Growing customer base and growing fees charged by BRE Agent Transferowy;
- Continued cost regime and controls.

New Strategic Initiatives

Expansion of the MultiBank Branch Network

In June 2006, the Management Board of BRE Bank took the strategic decision to expand the MultiBank branch network by adding 56 new branches. The decision to expand the MultiBank network was based on the following reasons:

- The existing experience of the MultiBank network proved the branches to be effective in sales. The branches remain MultiBank's main channel of customer acquisition; most existing branches in large cities will reach the point of saturation by 2009;
- MultiBank's human resources, product, and technology capacity will support many more customers while retaining personalised service.

The expansion of the MultiBank network will complement the existing network of CUFs (Financial Service Centres) and PPs (Partner Outlets) in the cities with the best potential, and enable to reach out to microenterprises in smaller cities and towns. The improved branch model (Branch of the Future) will adjust the network to serving customers in the strategic segments (mainly 'mass affluent') by focusing on sales and advisory as the core functionalities.

The improved functionality concept of the Branch of the Future, where no cash transactions will be offered (all cash transactions will be available from ATMs at the new branches), will ensure a significant reduction of the branch start-up cost (on average by 30%), and consequently a shorter period till the branch's break-even point.

The Management of BRE Bank expect that the expansion of the MultiBank branch network, at the cost of PLN 40m, will be completed by 2008, growing the profitability of MultiBank beyond the original target in 2009 and after.

BRE Insurance Project

As announced in the current report no. 132/2006 published on 12 June 2006, BRE Bank SA has set up the company BRE Ubezpieczenia Sp. z o.o. ("Company"). The Company was established in connection to the Bank's plans to launch a bancassurance business. Consequently, in June, the Bank approached the insurance and pension fund regulator KNUiFE with an application for an insurance licence.

The Management Board of the Bank expects that a non-life insurance business BRE Ubezpieczenia TU SA will launch its operation in early 2007 while a life insurance business in H2 2007, immediately following the relevant approvals of the regulator.

The strategic decision of the Bank's Management Board to enter the bancassurance market follows from the BRE Bank Group's intention to handle all insurance transactions with customers and to tap the potential of retail customers and microenterprises serviced by mBank, MultiBank, and selected BRE Bank Group subsidiaries.

The Bank's investment in the insurance project will total PLN 33 million, including PLN 15 million of guarantee capital of BRE Ubezpieczenia TU SA and the future life insurance business. The Bank expects that the insurance project will reach the break-even after three years of the companies' business.

Consolidated Profit and Loss Account

Consolidated Profit and Loss Account from 1 January 2006 to 30 June 2006 and from 1 January 2005 to 30 June 2005:

PLN '000

	Note	II Quarter (curent year) from 01-04-2006 to 30-06-2006	II Quarters cumulative (curent year) from 01-01-2006 to 30-06-2006	II Quarter (previous year) from 01-04-2005 to 30-06-2005	II Quarters cumulative (previous year) from 01-01-2005 to 30-06-2005
Interest income		387 511	790 813	396 800	790 682
Interest expense		(226 114)	(458 318)	(226 263)	(454 856)
Net interest income	5	**161 397**	**332 495**	**170 537**	**335 826**
Fee and commission income		172 898	327 354	126 071	254 047
Fee and commission expense		(54 911)	(98 168)	(35 727)	(68 456)
Net fee and commission income	6	**117 987**	**229 186**	**90 344**	**185 591**
Dividend income	7	4 513	5 024	17 303	21 740
Net trading income, including:	8	106 624	196 099	55 135	98 317
Foreign exchange result		99 181	184 689	30 772	88 043
Other trading income		7 443	11 410	24 363	10 274
Gains less losses from investment securities	9	2 122	10 584	9 517	11 825
Other operating income	10	94 651	147 034	24 203	39 964
Impairment losses on loans and advances	11	(10 216)	(32 792)	1 718	(10 635)
Overhead costs	12	(220 014)	(436 449)	(206 834)	(390 650)
Amortization and depreciation		(40 577)	(81 287)	(34 013)	(65 771)
Other operating expenses	13	(76 851)	(120 663)	(13 057)	(29 375)
Operating profit		**139 636**	**249 231**	**114 853**	**196 832**
Share of profit of associates		(25)	(112)	(168)	(170)
Profit before income tax		**139 611**	**249 119**	**114 685**	**196 662**
Income tax expense		(30 097)	(54 629)	(26 126)	(43 875)
Net profit (loss) including minority interest, of which:		**109 514**	**194 490**	**88 559**	**152 787**
Net profit (loss) attributable to minority interest		8 016	14 091	4 162	8 249
Net profit (loss)		**101 498**	**180 399**	**84 397**	**144 538**
Net profit (loss) attributable to the Company's equity holders		**283 404**		**(216 359)**	
Weighted average number of ordinary shares	14	**29 033 524**		**28 713 125**	
Earnings per 1 ordinary share (in PLN per share)	14	**9.76**		**(7.54)**	
Weighted average number of ordinary shares for diluted earnings	14	**29 238 541**		**28 789 221**	
Diluted earnings per 1 ordinary share (in PLN per share)	14	**9.69**		**(7.52)**	

Consolidated Balance Sheet

Consolidated Balance Sheet as at 30 June 2006, 31 December 2005 and 30 June 2005:

PLN '000

	Note	30.06.2006	31.12.2005	30.06.2005
ASSETS				
Cash and balances with Central Bank		1 137 810	1 778 457	611 517
Debt securities eligible for rediscounting at the Central Bank		25 161	37 464	55 771
Loans and advances to banks		3 649 387	4 668 474	7 444 063
Trading securities	15	3 244 158	5 011 960	2 893 979
Derivative financial instruments		1 782 352	1 264 500	1 721 175
Other financial instruments at fair value through profit or loss		-	-	148 002
Loans and advances to customers	16	21 837 919	15 463 514	15 239 332
Investment securities	17	2 860 183	1 124 832	470 584
- Available for sale		2 860 183	1 124 832	445 180
- Held to maturity		-	-	25 404
Non-current assets held for sale	18	317 021	317 349	-
Pledged assets	15, 17	2 470 060	1 516 212	2 538 938
Investments in associated undertakings		5 604	6 477	2 139
Intangible assets		412 319	406 380	671 458
Tangible fixed assets		561 382	558 535	535 566
Deferred income tax assets		94 861	117 048	98 662
Other assets		474 016	555 437	544 214
Total assets		**38 872 233**	**32 826 639**	**32 975 400**
EQUITY AND LIABILITIES				
Amounts due to the Central Bank		2 146	-	-
Amounts due to other banks		6 617 174	4 256 749	5 216 465
Derivative financial instruments and other trading liabilities		1 552 631	1 271 206	1 824 352
Amounts due to customers	19	21 894 964	20 436 844	19 150 453
Debt securities in issue		4 388 645	2 731 157	2 837 518
Subordinated liabilities		1 494 224	1 362 528	1 424 964
Other liabilities		497 946	563 021	453 087
Current income tax liabilities		10 115	3 529	1 358
Provisions for deferred income tax		207	161	185
Provisions		83 227	86 135	100 826
Libilities held for sale	18	6 511	6 839	-
Total liabilities		**36 547 790**	**30 718 169**	**31 009 208**
Equity				
Capital and reserves attributable to the Company's equity holders		**2 248 904**	**2 035 239**	**1 908 223**
Share capital:		**1 477 157**	**1 423 843**	**1 386 017**
- Registered share capital		117 500	115 936	114 853
- Share premium		1 359 657	1 307 907	1 271 164
Other capital and reserves		**(19 912)**	**(2 975)**	**5 878**
Retained earnings:		**791 659**	**614 371**	**516 328**
- Profit (loss) from the previous year		611 260	366 828	371 790
- Profit (loss) for the current year		180 399	247 543	144 538
		-	-	-
Minority interest		75 539	73 231	57 969
Total equity		**2 324 443**	**2 108 470**	**1 966 192**
Total equity and liabilities		**38 872 233**	**32 826 639**	**32 975 400**
Capital adequacy ratio		**10.39**	**11.10**	**10.97**
Book value		**2 248 904**	**2 035 239**	**1 908 223**
Number of shares		**29 374 947**	**28 983 972**	**28 713 125**
Book value per share (in PLN)		**76.56**	**70.22**	**66.46**
Diluted number of shares		**29 510 846**	**29 082 134**	**28 815 036**
Diluted book value per share (in PLN)		**76.21**	**69.98**	**66.22**

Statements of Changes in Consolidated Equity

Changes in equity from 1 January 2006 to 30 June 2006

PLN '000

Changes in consolidated equity from 1 January 2006 to 30 June 2006	Share capital		Other capital and reserves	Retained earnings					Minority interest	Total
	Registered share capital	Share premium (aggio)		Other supplementary capital	Other reserve capital	General risk fund	Profit (loss) from the previous year	Profit (loss) for the current year		
Equity as at 1 January 2006	**115 936**	**1 307 907**	**(2 975)**	-	**(4 304)**	**558 000**	**60 675**	-	**73 231**	**2 108 470**
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	-	-	-	-
- adjustment of errors	-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2006	**115 936**	**1 307 907**	**(2 975)**	-	**(4 304)**	**558 000**	**60 675**	-	**73 231**	**2 108 470**
Net change in investments available for sale, net of tax	-	-	(20 876)	-	-	-	-	-	-	(20 876)
Net change in cash flow hedges, net of tax	-	-	313	-	-	-	-	-	312	625
Currency translation differences	-	-	3 626	-	-	-	-	-	1 635	5 261
Net profit not recognised in the profit & loss account	-	-	**(16 937)**	-	-	-	-	-	**1 947**	**(14 990)**
Net profit (loss)	-	-	-	-	-	-	-	180 399	14 091	**194 490**
Total profit recognised in current year	-	-	**(16 937)**	-	-	-	-	**180 399**	**16 038**	**179 500**
Dividends paid	-	-	-	-	-	-	-	-	(6 029)	(6 029)
Transfer to General Banking Risk Fund	-	-	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	-	33 079	-	(33 079)	-	-	-
Transfer to supplementary capital	-	-	-	8 614	-	-	(8 614)	-	-	-
Loss coverage with reserve capital	-	-	-	-	-	-	-	-	-	-
Loss coverage with supplementary capital	-	-	-	-	-	-	-	-	-	-
Issue of shares	1 564	48 920	-	-	-	-	-	-	-	50 484
Redemption of shares	-	-	-	-	-	-	-	-	-	-
Purchase/sale of own shares	-	-	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-	-	-
Additional shareholder payments	-	-	-	-	-	-	-	-	(1 493)	(1 493)
Sale of fixed assets	-	-	-	-	-	-	-	-	-	-
Change in the scope of consolidation	-	-	-	-	-	-	(918)	-	(6 208)	(7 126)
Increase of share in consolidated company	-	-	-	-	-	-	-	-	-	-
Other changes	-	160	-	147	(467)	-	11	-	-	(149)
Stock option program for employees	-	**2 670**	-	-	**(1 884)**	-	-	-	-	**786**
- value of services provided by the employees	-	-	-	-	1 106	-	-	-	-	1 106
- settlement of exercised options	-	2 670	-	-	(2 990)	-	-	-	-	(320)
Equity as at 30 June 2006	**117 500**	**1 359 657**	**(19 912)**	**8 761**	**26 424**	**558 000**	**18 075**	**180 399**	**75 539**	**2 324 443**

Changes in equity from 1 January 2005 to 31 December 2005

PLN '000

Changes in consolidated equity from 1 January 2005 to 31 December 2005	**Share capital**		**Other capital and reserves**	**Retained earnings**					**Minority interest**	**Total**
	Registered share capital	**Share premium (aggio)**		**Other supplementary capital**	**Other reserve capital**	**General risk fund**	**Profit (loss) from the previous year**	**Profit (loss) for the current year**		
Equity as at 1 January 2005	**114 853**	**1 271 164**	**1 568**	**8 303**	**206 049**	**558 000**	**(315 192)**	**-**	**62 656**	**1 907 401**
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	(86 879)	-	(2 809)	**(89 688)**
- adjustment of errors	-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2005	**114 853**	**1 271 164**	**1 568**	**8 303**	**206 049**	**558 000**	**(402 071)**	**-**	**59 847**	**1 817 713**
Net change in investments available for sale, net of tax	-	-	(2 444)	-	-	-	-	-	-	(2 444)
Net change in cash flow hedges, net of tax	-	-	2 616	-	-	-	-	-	2 616	5 232
Currency translation differences	-	-	(4 715)	-	-	-	-	-	(2 655)	(7 370)
Net profit not recognised in the profit & loss account	**-**	**-**	**(4 543)**	**-**	**-**	**-**	**-**	**-**	**(39)**	**(4 582)**
Net profit (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**247 543**	**20 362**	**267 905**
Total profit recognised in current year	**-**	**-**	**(4 543)**	**-**	**-**	**-**	**-**	**247 543**	**20 323**	**263 323**
Dividends paid	-	-	-	-	-	-	-	-	(1 967)	(1 967)
Transfer to General Banking Risk Fund	-	-	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	10 006	-	-	(10 006)	-	-	-
Transfer to supplementary capital	-	-	-	-	-	-	-	-	-	-
Loss coverage with reserve capital	-	-	-	-	(208 301)		208 301	-	-	-
Loss coverage with supplementary capital	-	-	-	(18 309)			18 309	-	-	-
Issue of shares	1 083	29 834	-	-	-	-	-	-	-	30 917
Redemption of shares	-	-	-	-	-	-	-	-	-	-
Purchase/sale of own shares	-	-	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-	-	-
Additional shareholder payments	-	-	-	-	-	-	-	-	(8 996)	(8 996)
Sale of fixed assets	-	-	-	-	-	-	-	-	-	-
Change in the scope of consolidation	-	-	-	-	-	-	-	-	-	-
Increase of share in consolidated company	-	-	-	-	-	-	-	-	3 803	3 803
Other changes	-	-	-		321		(1 401)	-	221	(859)
Stock option program for employees	-	6 909	-	-	(2 373)	-	-	-	-	4 536
- value of services provided by the employees	-	-	-	-	4 536	-	-	-	-	4 536
- settlement of exercised options	-	6 909	-	-	(6 909)	-	-	-	-	-
Equity as at 31 December 2005	**115 936**	**1 307 907**	**(2 975)**	**-**	**(4 304)**	**558 000**	**(186 868)**	**247 543**	**73 231**	**2 108 470**

Changes in equity from 1 January 2005 to 30 June 2005

PLN '000

Changes in consolidated equity from 1 January 2005 to 30 June 2005	**Share capital**		**Other capital and reserves**	**Retained earnings**					**Minority interest**	**Total**
	Registered share capital	**Share premium (aggio)**		**Other supplementary capital**	**Other reserve capital**	**General risk fund**	**Profit (loss) from the previous year**	**Profit (loss) for the current year**		
Equity as at 1 January 2005	**114 853**	**1 271 164**	**1 568**	**8 303**	**206 049**	**558 000**	**(315 192)**	-	**62 656**	**1 907 401**
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	(86 879)	-	(2 809)	(89 688)
- adjustment of errors	-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2005	**114 853**	**1 271 164**	**1 568**	**8 303**	**206 049**	**558 000**	**(402 071)**		**59 847**	**1 817 713**
Net change in investments available for sale, net of tax	-	-	3 917	-	-	-	-	-	-	3 917
Net change in cash flow hedges, net of tax	-	-	1 467	-	-	-	-	-	1 466	2 933
Currency translation differences	-	-	(1 073)	-	-	-	-	-	(261)	(1 334)
Net profit not recognised in income statement			**4 311**						**1 205**	**5 516**
Net profit (loss)	-	-	-	-	-	-	-	144 538	8 249	**152 787**
Total profit recognised in current year	-	-	**4 311**	-	-	-	-	**144 538**	**9 454**	**158 303**
Dividends paid	-	-	-	-	-	-	-	-	(2 032)	(2 032)
Transfer to General Banking Risk Fund	-	-	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	-	10 009	-	-	(10 009)	-	-	-
Loss coverage with reserve capital	-	-	-	-	(208 302)	-	208 302	-	-	-
Loss coverage with supplementary capital	-	-	-	(18 312)	-	-	18 312	-	-	-
Issue of shares	-	-	-	-	-	-	-	-	-	-
Redemption of shares	-	-	-	-	-	-	-	-	-	-
Purchase/sale of own shares	-	-	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-	-	-
Additional shareholder payments	-	-	-	-	-	-	-	-	(8 996)	(8 996)
Sale of fixed assets	-	-	-	-	-	-	-	-	-	-
Change in the scope of consolidation	-	-	-	-	-	-	-	-	-	-
Increase of share in consolidated company	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	(1)	-	2	-	(647)	-	(304)	(950)
Stock option program for employees	-	-	-	-	2 154	-	-	-	-	2 154
- value of services provided by the employees	-	-	-	-	2 154	-	-	-	-	2 154
- settlement of exercised options	-	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2005	**114 853**	**1 271 164**	**5 878**	**-**	**(97)**	**558 000**	**(186 113)**	**144 538**	**57 969**	**1 966 192**

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement from 1 January 2006 to 30 June 2006 and from 1 January 2005 to 30 June 2005

PLN '000

	Quarter ended 30 June	
	2006	**2005**
A. Cash flow from operating activities - indirect method	**(1 784 687)**	**1 026 277**
Profit before income tax	**249 119**	**196 662**
Adjustments:	***(2 033 806)***	***829 615***
Income taxes paid (negative amount)	10 185	(19 380)
Amortisation	81 287	65 771
Foreign exchange gains (losses)	87 230	(2 032)
Gains (losses) on investing activities	(2 750)	(72)
Impairment of financial assets	1 551	1 361
Dividends received	(2 177)	(21 740)
Interest paid	470 688	362 671
Change in loans and advances to banks	(207 490)	(14 193)
Change in trading securities	1 309 448	401 174
Change in derivative financial instruments	(518 630)	75 579
Change in other financial instruments at fair value	-	(148 002)
Change in loans and advances to customers	(4 359 630)	(920 111)
Change in investment securities	(1 717 379)	109 647
Change in other assets	109 542	(775 710)
Change in amounts due to other banks	1 557 845	(133 295)
Change in financial instruments and other trading liabilities	285 089	203 639
Change in amounts due to customers	694 294	1 850 752
Change in debt securities in issue	238 568	(292 168)
Change in provisions	(2 697)	8 296
Change in other liabilities	(68 780)	77 428
Net cash from operating activities	**(1 784 687)**	**1 026 277**
B.Cash flows from investing activities	**(228 017)**	**(56 735)**
Investing activity inflows	**22 134**	**31 221**
Disposal of shares in associates	10 944	-
Disposal of shares in subsidiaries, net of cash disposed	2 596	8 489
Proceeds from sale of intangible assets and tangible fixed assets	5 329	992
Other investing inflows	3 265	21 740
Investing activity outflows	**250 151**	**87 956**
Acquisition of associates	38	-
Acquisition of subsidiaries, net of cash acquired	144 775	9 213
Purchase of intangible assets and tangible fixed assets	63 861	61 420
Other investing outflows	41 477	17 323
Net cash used in investing activities	**(228 017)**	**(56 735)**

PLN '000

C. Cash flows from financing activities	**869 343**	**274 637**
Financing activity inflows	**5 042 816**	**912 932**
Proceeds from loans and advances from other banks	1 725 671	69 927
Proceeds from other loans and advances	140 431	120 975
Issue of debt securities	3 126 230	316 200
Increase of subordinated liabilities	-	405 830
Issue of ordinary shares	50 484	-
Financing activity outflows	**4 173 473**	**638 295**
Repayments of loans and advances from other banks	1 211 580	268 082
Redemption of debt securities	2 867 391	289 600
Other financing outflows	94 502	80 613
Net cash from financing activities	**869 343**	**274 637**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 143 361)**	**1 244 179**
(Decrease)/increase in cash and cash equivalents in respect of foreign exchange gains and losses	15 001	(1 604)
Cash and cash equivalents at the beginning of the reporting period	8 163 420	10 047 287
Cash and cash equivalents at the end of the reporting period	**7 035 060**	**11 289 862**

Consolidated Off-Balance-Sheet Items

Off-Balance-Sheet Items as at 30 June 2006, 31 December 2005 and 30 June 2005:

PLN '000

	30.06.2006	**31.12.2005**	**30.06.2005**
Contingent laibilities granted and received	**12 335 187**	**10 622 729**	**7 980 510**
Liabilities granted	***10 605 930***	***9 510 093***	***7 368 669***
- financing	8 746 389	7 769 140	6 057 552
- guarantees	1 859 541	1 740 953	1 311 117
Liabilities received	***1 729 257***	***1 112 636***	***611 841***
- financing	563 589	552 679	73 897
- guarantees	1 165 668	559 957	537 944
Liabilities arising from purchase/sale operations	**506 225 321**	**394 123 899**	**314 096 541**
Other liabilities	**1 222 852**	**1 373 322**	**1 650 610**
- factoring receivables	716 773	760 417	642 695
- factoring payables	226 952	334 242	122 238
- other	279 127	278 663	885 677
Total off-balance-sheet items	**519 783 360**	**406 119 950**	**323 727 661**

BRE Bank SA Stand Alone Financial Statements

1. *Profit and Loss Account*

Profit and Loss Account from 1 January 2006 to 30 June 2006 and from 1 January 2005 to30 June 2005:

PLN '000

	II Quarter (curent year) from 01-04-2006 to 30-06-2006	II Quarters cumulative (curent year) from 01-01-2006 to 30-06-2006	II Quarter (previous year) from 01-04-2005 to 30-06-2005	II Quarters cumulative (previous year) from 01-01-2005 to 30-06-2005
Interest income	299 035	618 708	351 832	689 143
Interest expense	(183 655)	(375 788)	(202 568)	(404 755)
Net interest income	**115 380**	**242 920**	**149 264**	**284 388**
Fee and commission income	98 274	188 430	78 764	154 868
Fee and commission expense	(37 656)	(65 859)	(22 691)	(43 393)
Net fee and commission income	**60 618**	**122 571**	**56 073**	**111 475**
Dividend income	21 155	23 329	30 178	36 875
Net trading income	103 268	187 507	52 801	95 786
Foreign exchange result	98 102	170 219	29 450	86 641
Other trading income	5 166	17 288	23 351	9 145
Gains less losses from investment securities	948	9 387	1 715	1 908
Other operating income	6 591	19 103	9 730	14 190
Impairment losses on loans and advances	(4 398)	(22 567)	9 189	4 849
Overhead costs	(164 872)	(331 046)	(167 283)	(311 837)
Amortization and depreciation	(33 243)	(66 686)	(29 465)	(56 954)
Other operating expenses	(29 446)	(32 897)	(7 810)	(15 656)
Operating profit	**76 001**	**151 621**	**104 392**	**165 024**
Profit before income tax	**76 001**	**151 621**	**104 392**	**165 024**
Income tax expense	(17 824)	(32 496)	(18 744)	(30 787)
Net profit (loss)	**58 177**	**119 125**	**85 648**	**134 237**
Net profit (loss)	**192 198**		**(245 266)**	
Weighted average number of ordinary shares	**29 033 524**		**28 713 125**	
Earnings per 1 ordinary share (in PLN per share)	**6.62**		**(8.54)**	
Weighted average number of ordinary shares for diluted earnings	**29 238 541**		**28 772 106**	
Diluted earnings per 1 ordinary share (in PLN per share)	**6.57**		**(8.52)**	

2. Balance Sheet

Balance Sheet as at 30 June 2006, 31 December 2005 and 30 June 2005:

PLN '000

	30.06.2006	31.12.2005	30.06.2005
ASSETS			
Cash and balances with Central Bank	1 131 324	1 776 340	611 457
Debt securities eligible for rediscounting at the Central Bank	25 161	37 464	55 771
Loans and advances to banks	3 800 103	4 689 765	7 479 626
Trading securities	3 370 081	5 014 653	2 823 192
Derivative financial instruments	1 785 319	1 264 500	1 720 641
Other financial instruments at fair value through profit or loss	-	-	148 002
Loans and advances to customers	16 697 206	12 979 559	12 712 861
Investment securities	2 776 200	1 055 174	1 004 039
- Available for sale	2 776 200	1 055 174	1 004 039
Non-current assets held for sale	310 510	310 510	-
Pledged assets	2 469 714	1 516 212	2 538 938
Investments in subsidiaries	511 916	285 251	-
Investments in associated undertakings	-	5 649	826
Intangible assets	363 646	368 504	356 780
Tangible fixed assets	468 722	484 071	478 650
Deferred income tax assets	45 734	83 950	65 363
Other assets	185 772	264 543	280 340
Total assets	**33 941 408**	**30 136 145**	**30 276 486**
EQUITY AND LIABILITIES			
Amounts due to the Central Bank	2 146	-	-
Amounts due to other banks	4 353 877	2 265 852	3 254 923
Derivative financial instruments and other trading liabilities	1 554 254	1 270 414	1 820 721
Amounts due to customers	24 039 672	22 747 932	21 430 285
Debt securities in issue	62 145	91 545	92 951
Subordinated liabilities	1 429 441	1 362 528	1 424 964
Other liabilities	315 734	364 894	315 463
Current income tax liabilities	10	-	-
Provisions	77 893	78 109	79 756
Total liabilities	**31 835 172**	**28 181 274**	**28 419 063**
Equity			
Share capital	**1 477 157**	**1 423 843**	**1 386 017**
- Registered share capital	117 500	115 936	114 853
- Share premium	1 359 657	1 307 907	1 271 164
Other capital and reserves	(21 828)	(2 637)	6 287
Retained earnings:	**650 907**	**533 665**	**465 119**
- Profit (loss) for the previous year	531 782	326 355	330 882
- Net profit (loss) for the current year	119 125	207 310	134 237
Total equity	**2 106 236**	**1 954 871**	**1 857 423**
Total equity and liabilities	**33 941 408**	**30 136 145**	**30 276 486**
Capital adequacy ratio	**11.62**	**12.87**	**13.03**
Book value	**2 106 236**	**1 954 871**	**1 857 423**
Number of shares	**29 374 947**	**28 983 972**	**28 713 125**
Book value per share (in PLN)	**71.70**	**67.45**	**64.69**
Diluted number of shares	**29 510 846**	**29 082 134**	**28 802 357**
Diluted book value per share (in PLN)	**71.37**	**67.22**	**64.49**

3. *Statements of changes in equity*

Changes in equity from 1 January 2006 to 30 June 2006:

PLN '000

Changes in equity from 1 January 2006 to 30 June 2006 (in PLN 000's)	Share capital		Other capital and reserves	Retained earnings					Total
	Registered share capital	Share premium (aggio)		Supplementary capital	Other reserve capital	General risk fund	Profit (loss) from previous year	Profit (loss) for the current year	
Equity as at 1 January 2006	**115 936**	**1 307 907**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(49 690)**	**-**	**1 954 871**
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	-	-	-
- adjustment of errors	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2006	**115 936**	**1 307 907**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(49 690)**	**-**	**1 954 871**
Net change in investments available for sale, net of tax	-	-	(21 538)	-	-	-	-	-	(21 538)
Net change in cash flow hedges, net of tax	-		-		-				-
Currency translation differences	-	-	2 347	-	-	-	-	-	2 347
Net profit not recognised in income statement	**-**	**-**	**(19 191)**	**-**	**-**	**-**	**-**	**-**	**(19 191)**
Net profit (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**119 125**	**119 125**
Total profit recognised in current year	**-**	**-**	**(19 191)**	**-**	**-**	**-**	**-**	**119 125**	**99 934**
Dividends paid	-	-	-	-	-	-	-	-	-
Transfer to General Banking Risk Fund	-	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	-	-	-	-	-	-	-
Loss coverage with reserve capital	-	-	-	-	-	-	-	-	-
Loss coverage with supplementary capital	-	-	-	-	-	-	-	-	-
Issue of shares	1 564	48 920	-	-	-	-	-	-	**50 484**
Redemption of shares	-	-	-	-	-	-	-	-	-
Purchase/sale of own shares	-	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-	-
Additional shareholder payments	-	-	-	-	-	-	-	-	-
Sale of fixed assets	-	-	-	-	-	-	-	-	-
Change in the scope of consolidation	-	-	-	-	-	-	-	-	-
Increase of share in consolidated company	-	-	-	-	-	-	-	-	-
Other changes	-	160	-	-	-	-	1	-	**161**
Stock option program for employees	-	**2 670**	-	-	**(1 884)**	-	-	-	**786**
- value of services provided by the employees	-	-	-	-	1 106	-	-	-	**1 106**
- settlement of exercised options	-	2 670	-	-	(2 990)	-	-	-	**(320)**
Equity as at 30 June 2006	**117 500**	**1 359 657**	**(21 828)**	**12 388**	**11 083**	**558 000**	**(49 689)**	**119 125**	**2 106 236**

Changes in equity from 1 January 2005 to 31 December 2005:

PLN '000

Changes in equity from 1 January 2005 to 31 December 2005 (in PLN 000's)	Share capital		Other capital and reserves	Retained earnings					Total
	Registered share capital	Share premium (aggio)		Supplementary capital	Other reserve capital	General risk fund	Profit (loss) from previous year	Profit (loss) for the current year	
Equity as at 1 January 2005	**114 853**	**1 271 164**	**3 460**	**12 388**	**204 097**	**558 000**	**(361 661)**	-	**1 802 301**
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	(84 070)	-	**(84 070)**
- adjustment of errors	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2005	**114 853**	**1 271 164**	**3 460**	**12 388**	**204 097**	**558 000**	**(445 731)**	-	**1 718 231**
Net change in investments available for sale, net of tax	-	-	(3 107)	-	-	-	-	-	**(3 107)**
Net change in cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	(2 990)	-	-	-	-	-	**(2 990)**
Net profit not recognised in income statement	-	-	(6 097)	-	-	-	-	-	**(6 097)**
Net profit (loss)	-	-	-	-	-	-	-	**207 310**	**207 310**
Total profit recognised in current year	-	-	(6 097)	-	-	-	-	207 310	**201 213**
Dividends paid	-	-	-	-	-	-	-	-	-
Transfer to General Banking Risk Fund	-	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	-	-	-	-	-	-	-
Loss coverage with reserve capital	-	-	-	-	(188 757)	-	188 757	-	-
Loss coverage with supplementary capital	-	-	-	-	-	-	-	-	-
Issue of shares	1 083	29 834	-	-	-	-	-	-	**30 917**
Redemption of shares	-	-	-	-	-	-	-	-	-
Purchase/sale of own shares	-	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-	-
Additional shareholder payments	-	-	-	-	-	-	-	-	-
Sale of fixed assets	-	-	-	-	-	-	-	-	-
Change in the scope of consolidation	-	-	-	-	-	-	-	-	-
Increase of share in consolidated company	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	(26)	-	**(26)**
Stock option program for employees	-	**6 909**	-	-	**(2 373)**	-	-	-	**4 536**
- value of services provided by the employees	-	-	-	-	4 536	-	-	-	**4 536**
- settlement of exercised options	-	6 909	-	-	(6 909)	-	-	-	-
Equity as at 31 December 2005	**115 936**	**1 307 907**	**(2 637)**	**12 388**	**12 967**	**558 000**	**(257 000)**	**207 310**	**1 954 871**

Changes in equity from 1 January 2005 to 30 June 2005:

PLN '000

Changes in equity from 1 January 2005 to 30 June 2005 (in PLN 000's)	Share capital		Other capital and reserves	Retained earnings					Total
	Registered share capital	Share premium (aggio)		Supplementary capital	Other reserve capital	General risk fund	Profit (loss) from previous year	Profit (loss) for the current year	
Equity as at 1 January 2005	**114 853**	**1 271 164**	**3 460**	**12 388**	**204 097**	**558 000**	**(361 661)**	**-**	**1 802 301**
- reclassification to book value through profit and loss account	-	-	-	-	-	-	-	-	-
- changes to accounting policies	-	-	-	-	-	-	(84 070)	-	**(84 070)**
- adjustment of errors	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2005	**114 853**	**1 271 164**	**3 460**	**12 388**	**204 097**	**558 000**	**(445 731)**	**-**	**1 718 231**
Net change in investments available for sale, net of tax	-	-	3 301	-	-	-	-	-	**3 301**
Net change in cash flow hedges, net of tax	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	(474)	-	-	-	-	-	**(474)**
Net profit not recognised in income statement	**-**	**-**	**2 827**	**-**	**-**	**-**	**-**	**-**	**2 827**
Net profit (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**134 237**	**134 237**
Total profit recognised in current year	**-**	**-**	**2 827**	**-**	**-**	**-**	**-**	**134 237**	**137 064**
Dividends paid	-	-	-	-	-	-	-	-	-
Transfer to General Banking Risk Fund	-	-	-	-	-	-	-	-	-
Transfer to reserve capital	-	-	-	-	-	-	-	-	-
Transfer to supplementary capital	-	-	-	-	-	-	-	-	-
Loss coverage with reserve capital	-	-	-	-	(188 757)	-	188 757	-	-
Loss coverage with supplementary capital	-	-	-	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-	-	-
Redemption of shares	-	-	-	-	-	-	-	-	-
Purchase/sale of own shares	-	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-	-
Additional shareholder payments	-	-	-	-	-	-	-	-	-
Sale of fixed assets	-	-	-	-	-	-	-	-	-
Change in the scope of consolidation	-	-	-	-	-	-	-	-	-
Increase of share in consolidated company	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	(26)	-	**(26)**
Stock option program for employees	-	-	-	-	**2 154**	-	-	-	**2 154**
- value of services provided by the employees	-	-	-	-	2 154	-	-	-	**2 154**
- settlement of exercised options	-	-	-	-	-	-	-	-	-
Equity as at 30 June 2005	**114 853**	**1 271 164**	**6 287**	**12 388**	**17 494**	**558 000**	**(257 000)**	**134 237**	**1 857 423**

4. *Cash Flow Statement*

Cash Flow Statement from 1 January 2006 to 30 June 2006 and from 1 January 2005 to 30 June 2005:

PLN '000

	Quarter ended 30 June	
	2006	**2005**
A. Cash flow from operating activities - indirect method	**(1 412 261)**	**764 516**
Profit before income tax	**151 621**	**165 024**
Adjustments:	***(1 563 882)***	***599 492***
Income taxes paid (negative amount)	32 977	(7 668)
Amortisation	66 686	56 954
Foreign exchange gains (losses)	84 301	(2 030)
Gains (losses) on investing activities	(7 595)	-
Impairment of financial assets	1 308	600
Dividends received	(9 022)	(27 626)
Interest paid	478 381	370 855
Change in loans and advances to banks	(344 597)	(183 920)
Change in trading securities	1 402 259	419 937
Change in derivative financial instruments	(530 087)	76 183
Change in other financial instruments at fair value	-	(148 002)
Change in loans and advances to customers	(3 717 901)	(1 015 902)
Change in investment securities	(1 708 241)	141 190
Change in other assets	94 536	(614 695)
Change in amounts due to other banks	1 468 520	(185 655)
Change in financial instruments and other trading liabilities	379 976	207 259
Change in amounts due to customers	852 276	1 689 654
Change in debt securities in issue	(59 400)	(314 605)
Change in provisions	(216)	1 092
Change in other liabilities	(48 043)	135 871
Net cash from operating activities	**(1 412 261)**	**764 516**
B.Cash flows from investing activities	**(269 727)**	**(28 914)**
Investing activity inflows	**23 584**	**36 115**
Disposal of shares in associates	10 944	-
Disposal of shares in subsidiaries, net of cash disposed	173	8 489
Proceeds from sale of intangible assets and tangible fixed assets	2 906	-
Other investing inflows	9 561	27 626
Investing activity outflows	**293 311**	**65 029**
Acquisition of associates	38	-
Acquisition of subsidiaries, net of cash acquired	218 540	9 213
Purchase of intangible assets and tangible fixed assets	38 016	38 493
Other investing outflows	36 717	17 323
Net cash used in investing activities	**(269 727)**	**(28 914)**

PLN '000

C. Cash flows from financing activities	**481 307**	**455 156**
Financing activity inflows	**1 544 542**	**526 805**
Proceeds from loans and advances from other banks	1 494 058	-
Proceeds from other loans and advances	-	120 975
Increase of subordinated liabilities	-	405 830
Issue of ordinary shares	50 484	-
Financing activity outflows	**1 063 235**	**71 649**
Repayments of loans and advances from other banks	987 756	2 517
Repayments of other loans and advances	-	19 117
Redemption of debt securities	30 000	-
Other financing outflows	45 479	50 015
Net cash from financing activities	**481 307**	**455 156**
Net increase / decrease in cash and cash equivalents (A+B+C)	**(1 200 681)**	**1 190 758**
(Decrease)/increase in cash and cash equivalents in respect of foreign exchange gains and losses	15 001	(1 604)
Cash and cash equivalents at the beginning of the reporting period	8 139 020	9 990 140
Cash and cash equivalents at the end of the reporting period	**6 953 340**	**11 179 294**

5. Off-Balance-Sheet Items

Off-Balance-Sheet Items as at 30 June 2006, 31 December 2005 and 30 June 2005:

PLN '000

	30.06.2006	**31.12.2005**	**30.06.2005**
Contingent laibilities granted and received	**13 450 887**	**12 295 996**	**10 701 401**
Liabilities granted	***12 494 949***	***11 899 701***	***10 298 292***
- financing	8 073 271	7 719 004	6 164 313
- guarantees	4 421 678	4 180 697	4 133 979
Liabilities received	***955 938***	***396 295***	***403 109***
- financing	196 131	51 712	36 619
- guarantees	759 807	344 583	366 490
Liabilities arising from purchase/sale operations	**506 628 652**	**394 115 010**	**314 254 006**
Other liabilities	**279 127**	**278 663**	**885 677**
Total off-balance-sheet items	**520 358 666**	**406 689 669**	**325 841 084**

Notes to the Consolidated Financial Statements

1. *Information concerning the Group of BRE Bank SA*

The Group of the BRE Bank SA ("Group") consists of entities of the following nature in relation to the BRE Bank SA (the "Bank"):

- Strategic and infrastructural: Shares and equity interests in companies supporting the different particular business lines of the BRE Bank SA (investment banking business, corporate banking, retail banking, asset management), as well as shares and equity interests in companies providing financial infrastructure or handling spheres that are complementary to the statutory scope of business of the BRE Bank SA. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- Long term: Investments with an assumed high rate of return and an investment horizon of not less than 2 years; they also comprise equity investments placed in companies listed on the Warsaw Stock Exchange SA with anticipated duration of not less than 6 months, as well as investments in investment funds (National Investment Funds /NIF/ and foreign closed end funds);
- Other: Company shares and equity interests acquired in exchange for receivables, in transactions resulting from composition and work out agreements with creditors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

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

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

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

At the date of 30 June 2006 the BRE Bank's Group covered by the Consolidated Financial Statements comprised the following companies:

BRE Bank SA – the parent entity

Bank Rozwoju Eksportu SA (Export Development Bank) was established by Resolution of the Council of Ministers No 99, dated 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, XVI Business – Registry Department on 23 December 1986 in the Business Register under the number RHB 14036. The 9^{th} Extraordinary Shareholders' Meeting on March 4, 1999 adopted the resolution changing the Bank's name to BRE Bank SA ("Bank"). The new firm name of the Bank was entered in the Business Register on 23 March 1999.
On July 11, 2001, the District Court in Warsaw issued the decision on the entry of the Bank in the National Court Registry (KRS) under the number KRS 0000025237.
According to the Polish Classification of Business Activities, the Bank has the number 6512A "Other banking business".

According to the Stock Exchange Quotation, the Bank is classified as pertaining to the macro-sector "Finance", sector "Banks".

According to the Bank's By-Laws, the scope of its business consists of providing banking services and consulting-advisory services in financial matters, as well as the conduct of business activities within the scope described in its By-Laws. The Bank operates within the scope of corporate, investment and retail banking throughout the whole country.

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

The Bank has the capacity to open and maintain accounts with Polish and foreign banks, as well as having the right to possess foreign exchange assets and to trade with them.

Investment Banking:

Dom Inwestycyjny BRE Banku SA - subsidiary company
BRE Corporate Finance SA - subsidiary company
BRE Finance France SA - subsidiary company
Tele-Tech Investment Sp. z o.o. - subsidiary company
Garbary Sp. z o.o. - subsidiary company

Corporate Banking:

BRE Leasing Sp. z o.o. - subsidiary company
Intermarket Bank AG - subsidiary company
Magyar Factor zRt. - subsidiary company
Transfinance a.s. - subsidiary company
Polfactor SA - subsidiary company
BRE Bank Hipoteczny SA - subsidiary company

Asset Management:

Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura SA - subsidiary company
Skarbiec Asset Management Holding SA (SAMH) - subsidiary company

Other:

BRE.locum Sp. z o.o. - subsidiary company
Centrum Rozliczeń i Informacji CERI Sp. z o.o. - subsidiary company

On 2 January 2006 BRE Bank bought from Atlas Vermögensverwaltungs Gmbh with registered office in Germany, 100% subsidiary of Commerzbank AG, shares of BRE Bank Hipoteczny SA (BBH) which constitute 100% of share capital and votes at the General Meeting BBH. The detailed description of this transaction is presented under item 10 of Selected Explanatory Information.

The core business of BRE Bank Hipoteczny SA is to grant mortgage credits to finance commercial real estates, development projects, for the local governments and issuing mortgage and public letters of pledge.

Moreover, the Company takes term deposits, receives loans, is entrusted with securities for safekeeping and purchases shares of other entities which legal form ensures the limitation of the Bank's liability up to invested money.

The detailed description of other companies of BRE Bank SA Group companies was presented in the Notes to the Consolidated Financial Statement for the year 2005 published on 27 February 2006.

2. Description of important accounting policies

The most important accounting policies applied to the drafting of the present consolidated financial report are presented below. These principles were applied consistently over all of the presented periods, unless indicated otherwise.

2.1. Accounting basis

These Consolidated Financial Statements of the BRE Bank Group were prepared in compliance with the International Financial Reporting Standards (IFRS) issued to use in the European Union, according to the historical cost method, with due regard for the principles of valuation of available for sale financial assets, assets and liabilities measured at fair value through the profit and loss account, as well as all derivative contracts.

The presented report for Q2 2006 fulfils the requirements of the International Accounting Standard (IAS) 34 concerning interim financial reporting.

The preparation of financial statements according to IFRS requires some estimates. It requires also making some judgements by the Management in connection with the application of accounting policy principles. Some crucial judgements, more complicated cases or estimates which are significant in consolidated financial statements are disclosed in Note 3.

2.2. Consolidation

Subsidiary entities:

Subsidiaries comprise any entities (including special purpose vehicles) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of majority of the voting rights. When assessing whether the Group actually controls the given entity, the existence and impact of potential voting rights that are currently exercisable or convertible are considered. Subsidiary entities are subject to full consolidation from the date of acquisition of control over them by the Group. Their consolidation is discontinued from the date when control is not exercised any longer. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement (see Note 2.13).

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

Subsidiary entities are consolidated for the period starting from the date of the actual take over of control over them by the Capital Holding Group, whereas their consolidation is discontinued from the date of their disposal.

Associates:

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.13).

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

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

Such an accounting treatment does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group, as well as companies acquired for the purpose of their resale or liquidation.

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

Company	*Share of voting rights (direct and indirect)*	*Consolidation method*
BRE Bank Hipoteczny SA	100%	full
BRE Corporate Finance SA	100%	full
CERI Sp. z o.o.	100%	full
Dom Inwestycyjny BRE Banku SA	100%	full
Garbary Sp. z o.o.	100%	full
PTE - Skarbiec Emerytura S.A.	100%	full
Skarbiec Asset Management Holding SA	100%	full
Tele-Tech Investment Sp. z o.o.	100%	full
BRE Finance France SA	99.97%	full
BRE.locum Sp. z o.o.	79.99%	full
Magyar Factor zRt.	78.12%	full
Polfactor SA	78.12%	full
Transfinance a.s.	78.12%	full
Intermarket Bank AG	56.24%	full
BRE Leasing Sp. z o.o.	50.00%	full

Referring to the purchase of 100% shares of BRE Bank Hipoteczny, the Company was included in the consolidated financial statements of BRE Bank SA beginning from 1st quarter 2006.

Beginning from 1st quarter 2006 the Bank ceased to consolidate the following companies:

- BRE International Finance B.V. – the company was liquidated. On 30 March 2006 the company was cancellated from National Court Registry (KRS),
- TV-TECH Investment 1 Sp. z o.o. – on 23 March 2006 the company's General Shareholders Meeting passed a resolution to go into liquidation.

2.3. Interest income and interest expenses

All interest proceeds linked with financial instruments valued at amortised cost using the effective interest rate method are recognised in the Profit and Loss Account.

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

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

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

Interest income, including interest on loans, is recognised in the Profit and Loss Account, and on the other side in the Balance Sheet as receivables from banks or from other customers.

Interest income on impaired loans is recognised using the interest used to discount the future cash flows for the purpose of measuring impairment loss.

2.4. Commission and fee income

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

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

2.5. Segment reporting

A business segment consists of a group of assets and operations engaged in the delivery of products and services which are subject to risks and rewards from the capital expenditure incurred other than the remaining business segments. A geographic segment supplies products and services in a specific economic environment, which is exposed to risks and returns other than in the case of segments functioning in other economic environments.

2.6. Financial assets

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

Financial assets valued at fair value

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through Profit and Loss Account at inception. A financial asset is classified in this category if it was acquired principally for the purpose of short-term resale or if it was classified in this category by the Group. Derivative instruments are also classified as "held for trading", unless they were designated for hedging.

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

Loans and Receivables

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

Held to Maturity Investments

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

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

Available for Sale Investments

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

Transactions consisting of buying and selling of financial assets valued at fair value through the Profit and Loss Account, held to their maturity date, and available for sale are recognised at the date of transaction – the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. A financial asset or financial liability is recognised initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit and loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows have expired or where the Group has transferred substantially all rights and rewards of ownership.

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

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

2.7. Offsetting Financial Instruments

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

2.8. Impairment of Financial Assets

Assets Carried at Amortised Cost

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

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

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

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

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

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

Future cash flows concerning groups of financial assets assessed collectively in terms of their possible impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

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

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

Assets Measured at Fair Value

At each Balance Sheet date the Group estimates whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If such kind of evidence concerning available for sale financial assets exists, the cumulative loss – determined as the difference between the cost of acquisition and the current fair value, less any impairment loss on that financial asset previously recognised in the Profit and Loss Account – is removed from equity and recognised in the Profit and Loss Account. Impairment losses concerning equity instruments recorded in the Profit and Loss Account are not reversed through the Profit and Loss Account, but through equity. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and such increase can be objectively related to an event occurring after the recording of the impairment loss in the Profit and Loss Account, then the respective impairment loss is reversed in the Profit and Loss Account.

2.9. Cash and Cash Equivalents

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

2.10. Sell-buy-back Contracts

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

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

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

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

2.11. Derivative Financial Instruments and Hedging Accounting

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

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

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

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

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

Fair Value Hedges

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

In case a hedge has ceased to fulfil the criteria of hedging accounting, the adjustment to the carrying value of the hedged item for which the effective interest method is used is amortised to Profit and Loss Account over the period to maturity. The adjustment to the carrying amount of the hedged equity security remains in the revaluation reserve until the disposal of the equity security.

Cash Flow Hedges

The effective part of the fair value changes of derivative instruments designated and qualifying as cash flow hedges is recognised in equity. The gain or loss concerning the ineffective part is recognised in the Profit and Loss Account of the current period.

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

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

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting

Changes of the fair value of derivative instruments that do not meet the criteria of hedge accounting are recognised in the Profit and Loss Account of the current period.
The Bank holds the following derivative instruments in its portfolio:

Market risk instruments:
a) Futures contracts for bonds, index futures
b) Options for securities and for stock-market indices
c) Options for futures contracts
d) Forward transactions for securities

Interest rate risk instruments:
a) Forward Rate Agreement (FRA)
b) Interest Rate Swap (IRS), Cross Currency Interest Rate Swap (CIRS), Overnight Index Swap (OIS)
c) Interest Rate Options

Foreign exchange risk instruments:
a) Currency forwards, fx swap, fx forward
b) Currency options

2.12. Loans and advances

Loans and advances are initially recognised at fair value reduced by the incurred transaction costs. After the initial recognition, loans and advances are recorded at adjusted cost of acquisition (amortised cost). Any differences between the amount received (reduced by transaction costs) and the redemption value are recognised in the Profit and Loss Account over the period of duration of the respective agreements according to the effective interest rate method.

2.13. Intangible Assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisition of associates is recognised in "investment in associates". Goodwill is not amortised, but it is tested annually for impairment, and it is carried in the Balance Sheet at cost reduced by accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units is represented by the investments of the Bank classified by basic reporting business segments.

Computer software

Purchased computer software licences are capitalised in the amount of costs incurred for the purchase and adaptation for use of specific computer software. These costs are amortised on the basis of the expected useful life of the software (2-10 years). Expenses attached to the development or maintenance of computer software are expensed when incurred. Costs directly linked to the development of identifiable and unique proprietary computer programmes controlled by the Bank, which are likely to generate economic benefits in excess of such costs expected to be gained over a period exceeding one year, are recognised as intangible assets. Direct costs comprise personnel expenses attached to the development of software and the corresponding part of the respective general overhead costs.
Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.
Computer software directly connected with the functioning of specific information technology hardware is recognised as "Tangible fixed assets".

Development costs

The Bank identifies development costs as intangible asset as the asset will generate probably future economic benefits and fulfil the following requirements described in IAS 38: the Bank has the intention and technical feasibility to complete and to use or sell the intangible asset, the availability of adequate technical, financial and other resources to complete and to use the intangible asset and the ability to measure reliably the expenditure attributable to the intangible asset during its development.
Development costs' useful lives are finite and the amortization period does not exceed 3 years. The Group shows separately additions from internal development and separately those acquired through business combinations.
Research and development expenditure comprises all expenditure that is directly attributable to research and development activities.

2.14. Tangible Fixed Assets

Land and buildings consist mainly of branch outlets and offices. Tangible fixed assets are carried at historical cost reduced by depreciation. Historical cost takes into the account the expenses directly attached to the acquisition of the respective assets.

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

Fixed assets designated for liquidation or decommissioning are measured at net book value or at fair value less selling costs, depending on which value is lower: the difference arising on this account is recognised under "Other operating profit/loss".
Land is not depreciated. Depreciation of other fixed assets is accounted for according to the straight line method in order to spread their initial value or revaluated amount reduced by the residual value over the period of their useful life which is estimated as follows for the particular categories of fixed assets:

– Buildings and constructed structures	25-40 years,
– Technical plant and equipment	8-17 years,
– Transport vehicles	5 years,
– Information technology hardware	3 years,
– Investments in third party (leased) fixed assets	10-40 years or the period of the lease contract, if it is shorter than 25 years
– Office equipment, furniture	5-7 years.

Residual values and estimated useful life periods are verified at each Balance Sheet date and adjusted accordingly as the need arises.

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

If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the cash-generating unit to which the asset belongs.

Gains and losses on account of the disposal of fixed assets are determined by comparing the proceeds from their sale against their carrying value in the Balance Sheet and they are recognised in the Profit and Loss Account.

2.15. Deferred Tax Assets and Liabilities

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

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

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

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

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

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

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is possible that the difference will not reverse in the foreseeable future.

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

2.16. Assets Taken Over for Debts

Assets taken over in return for debts are measured at fair value. The difference between the debt amount and the value of assets acquired that is lower than the amount of the debt is charged to a specific provision formed on such account or written off and charged to the revaluation of such assets owing to their impairment. In the case when the fair value of acquired assets is higher than the debt amount, the difference constitutes a liability toward the debtor.

2.17. 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 Balance Sheet under "Other assets".

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

2.18. Leasing

BRE Bank SA Group as a Lessor

In the case of assets in use on the basis of a finance lease agreement, the current value of lease payments is recognised under receivables. The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income. Income on account of leasing is recorded over the period of the lease according to the net-of-tax investment method, which reflects the fixed periodical rate of return on the lease.

BRE Bank SA Group as a Lessee

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

2.19. Provisions

The value of provisions for contingent liabilities such as unutilised guarantees and (own) letters of credit, as well as for unutilised irreversible unconditionally granted credit limits, is measured in compliance with IAS 37 Provisions, *Contingent Liabilities and Contingent Assets*.
According to IAS 37 provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliable estimated.

2.20. Retirement Benefits and Other Employee Benefits

Retirement Benefits

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

Benefits Based on Shares

The Group runs a programme of employee remuneration based on and settled in shares. These benefits are accounted for in compliance with IFRS 2 *Share-based Payment*. The fair value of the work performed by employees in return for options granted increases the costs of the respective period, corresponding to equity. The total amount which needs to be expensed over the period when the outstanding rights of the employees for their options to become exercisable are vested is determined on the basis of the fair value of the granted options. There are no market conditions that shall be taken into account when estimating the fair value of share options at the measurement date. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. In accordance with IFRS 2, in spite of the fact that the fair value of the options are changing it is not necessary to recognize the change in fair value of the share-based payment over the term of the program.

2.21. Equity

Equity consists of capital and funds created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the Company by-laws, or a founding deed.

Registered share capital

Share capital is presented at its nominal value, in accordance with the Bylaws and with the entry in the business register.

a) Share Issue Costs

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

b) Dividends

Dividends for the given year, which have been approved by the General Shareholders Meeting but not distributed at the Balance Sheet date, are shown under the liabilities on account of dividends payable under the item of "Other liabilities".

c) Own Shares

In the case of acquisition of stocks or shares in the Company by the Company or by other entities consolidated as part of the Group, the amount paid reduces the value of equity as Treasury shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

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

Revaluation reserve

Revaluation reserve is formed as a result of:

- valuation of available for sale,
- valuation of cash flow hedge financial assets,
- currency translation differences.

Retained earnings

Retained earnings include:

- other supplementary capital,
- other reserved capital,
- general banking risk fund,
- unappropriated profit for the previous year,
- net profit (loss) for the current year.

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

Hyperinflationary restatement of equity

According to IAS 29 *Financial Reporting in Hyperinflationary Economies* paragraph 25, the components of equity (except retained earnings and any revaluation surplus) are restated by applying a general price index from the dates the components were contributed or otherwise arose for a period when the economy of the carrying business entity was recognised as a hyperinflationary economy.

The effect of restating the components of share capital by applying a general price index is recognised with a corresponding impact on retained earnings. The adoption of IAS 29 paragraph 25 results in an increase of the share capital and at the same time it reduces retained earnings by the same amount.

The Management Board has carried out an analysis to estimate the value of such adjustment, which would result in a growth of the share capital and growth of the share premium as well as in a corresponding decrease in the retained earnings by PLN 107,219 thousand.

Because the effect of the restatement:

- Represents 4.77% of the owners' equity of the Bank and 7.26% of share capital;
- Consists of re-allocation of funds between various items of the owners' equity, which has no effect on the equity as a whole;
- Has no material effect on the presented financial data, both as a whole and on line items basis;

the Management Board of the Bank believes that such restatement will have no material effect on the accuracy and fairness of the presentation of the Bank's financial position as at, and for the quarter ended 30 June 2006.

2.22. Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

The items contained in financial reports of particular entities of the Group are valued in the currency of the basic economic environment in which the given entity conducts its business activities ("functional currency"). The Consolidated Financial Statements are presented in Polish zloty, which is the functional currency and the currency in which Company presents its accounts.

Transactions and Balances

Transactions denominated in foreign currencies are converted to the functional currency at the exchange rate in force at the transaction date. Foreign exchange gains and losses on such transactions as well as Balance Sheet revaluation of monetary assets and liabilities denominated in foreign currency are recognised in the Profit and Loss Account.
Foreign exchange differences arising on account of non-monetary items, such as financial assets measured at fair value through the Profit and Loss Account, are recognised under gains or losses arising in connection with changes of fair value. Foreign exchange differences on account of such non-monetary assets as equity instruments classified as available for sale financial assets are recognised under equity arising on revaluation at fair value.

Companies Belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which do not differ from the reporting currency, are converted to the reporting currency as follows:

a) assets and liabilities in each presented Balance Sheet are converted at the mid rate of exchange of the National Bank of Poland (NBP) in force at the Balance Sheet date;
b) revenues and expenses in each Profit and Loss Account are converted at the rate equal to the arithmetic mean of the mid rates quoted by NBP on the last day of each of six months of each presented periods; whereas
c) all resulting foreign exchange differences are recognised as a distinct item of equity.

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

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

Leasing Business

Negative or positive foreign exchange differences (gains/losses) from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the Profit and Loss Account. In the operating leasing agreements recognised in the Balance Sheet of the Subsidiary Company (BRE Leasing Sp. z o.o.), the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.
Additionally, in the case of operating lease agreements, all future receivables on account of leasing payments (including receivables in foreign currencies) are not presented on the face of the financial reports, but off-Balance Sheet. In case of finance lease agreements the foreign exchange differences arising from the valuation of leasing payments due as well as of liabilities denominated in foreign currency are recognised through the Profit and Loss Account at the time of valuation.

2.23. Custody Services Business

BRE Bank SA operates a custody business including domestic and foreign securities and services provided to investment and pension funds.
Dom Inwestycyjny BRE Banku SA operates a custody business in connection with the handling of securities accounts of the clients.
The assets concerned are not shown in these financial statements as they do not belong to the Group. Other companies belonging to the Group do not conduct any custody business operations.

2.24. Comparative data

The comparative data have been adjusted so as to account for the changes in presentation introduced in the current financial period.

None of the presentation adjustments described below had influence on the net profit and equity presented in comparative data as at 30 June 2005 and 31 December 2005.

The following presentation changes have been done:

1. Deferred tax assets and deferred tax liabilities are offset in the balance sheet (see point 2.15).
2. IRS, CIRS and OIS interest is presented in the income statement in the position "Net trading income" and not as previously in the position "Net interest income". In the balance sheet it is presented in the positions: "Derivative financial instruments" in assets and "Derivative financial instruments and other trading liabilities" in liabilities. Previously, it was presented in the balance sheet on the net basis in the positions: "Loans and advances to banks"/"Amounts due to other banks" and "Loans and advances to customers"/"Amounts due to customers".
3. Income related to investment funds and pension funds management is presented in the income statement in the position "Fee and commission income" and previously it was presented in "Other operating income".
4. Expense related to investment funds and pension funds management is presented in the income statement in the position "Fee and commission expense" and previously it was presented in "Overhead costs".
5. Expense related to amortization is presented in the income statement in the position "Amortization and depreciation" and not as previously in the position "Other operating expenses".

The influence of presentation changes on comparative data in financial statements as at 30 June 2005 and 31 December 2005 is presented in the table below.

Presentation changes in the income statement for the period from 1 January till 30 June 2005:

PLN '000

	II quarter period from 01-01-2005 to 30-06-2005 (before adjustments)	Adjustments	II quarter period from 01-01-2005 to 30-06-2005 (after adjustments)
Net interest income	327 200	8 626	335 826
Net fee and commission income	197 464	(11 873)	185 591
Net trading income	106 890	(8 573)	98 317
Overhead costs	(402 523)	11 873	(390 650)

Presentation changes in the balance sheet as at 30 June 2005:

PLN '000

	II quarter period from 01-01-2005 to 30-06-2005 (before adjustments)	Adjustments	II quarter period from 01-01-2005 to 30-06-2005 (after adjustments)
Derivative financial instruments	1 672 056	49 119	1 721 175
Loans and advances to customers	15 244 806	(5 474)	15 239 332
Deferred income tax assets	541 205	(442 543)	98 662
Amounts due to other banks	5 230 426	(13 961)	5 216 465
Derivative financial instruments and other trading liabilities	1 766 625	57 727	1 824 352
Amounts due to customers	19 150 574	(121)	19 150 453
Provisions for deferred income tax	442 728	(442 543)	185

Presentation changes in the balance sheet as at 31 December 2005:

PLN '000

	IV quarter period from 01-01-2005 to 31-12-2005 (before adjustments)	Adjustments	IV quarter period from 01-01-2005 to 31-12-2005 (after adjustments)
Derivative financial instruments	1 255 232	9 268	1 264 500
Amounts due to other banks	4 337 056	(80 307)	4 256 749
Derivative financial instruments and other trading liabilities	1 175 070	96 136	1 271 206
Amounts due to customers	20 443 406	(6 562)	20 436 844

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

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

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

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

Fair value of derivative instruments

The fair value of financial instruments not listed on active markets is determined by applying valuation techniques. All the models are approved prior to being applied and they are also calibrated in order to assure that the obtained results indeed reflect the actual data and comparable market prices. As far as possible, the models applied resort exclusively to observable data, originating from an active market.

Impairment of available for sale equity instruments

Impairment is regarded to occur if over a period of at least three months the listed price of the given security continues to be lower than the cost of its acquisition or the transfer by the issuer within the period of one year of a loss not covered by its own equity capital, as well as the occurrence of other facts and circumstances providing indications of the impairment of value. Increase of value is regarded to occur if over a period of at least three months the listed price of a given security remains at a higher level than its most recent valuation as well the existence of other facts and circumstances indicating the increase of value. Improvement of value is established according to the value presented in the last day of the three-month period, but not any higher than the cost of acquisition.

Impairment of available for sale financial debt instruments

Impairment and increase in value of available for sale financial debt instruments is determined at the date of valuation, i.e. the balance sheet date, separately for each category of debt security. Impairment is recognised, if over a period of at least three months the listed price of the given security persists at a level lower than its cost of acquisition, if the issuer incurs a loss not covered by his equity capital over a period of one year or in the event of other circumstances indicating impairment. Value is deemed to have increased if over a period of at least three successive months the listed price of a security has been higher than its previous valuation or, if other circumstance indicating such an increase persist over such a period. An increase in value is determined according to the value recognised on the last day of the three month period, but it cannot be higher than the cost of acquisition.

Goodwill

The Bank tests the value of goodwill arising from acquisition of shares in Group member companies consolidated in the financial statements in terms of the risk of goodwill impairment during each annual period.

4. Business segments

The classification by business segments is based on the internal organisational structure of the BRE Bank SA Capital Group. This implies that the business segments were distinguished by attributing to them the business activities conducted by operating units of BRE Bank SA and by the companies of its Capital Group.

The business activities of the Capital Group are conducted in the following business segments:

1) Retail banking, including private banking services, current accounts for retail customers, savings accounts, deposits, investment products, custody services, credit and debit cards, consumer and mortgage loans, term deposits from natural persons and small and medium-sized enterprises, financial settlements, operations on bills of exchange, cheques, and issuing of guarantees.

2) Investment banking, including dealing in financial instruments, financing of a structural nature, leasing services for enterprises, consulting concerning mergers and acquisitions, as well as consulting services on corporate restructuring and the implementation of all forms of privatisation of enterprises, and offerings of securities admitted to public trading, acquisition and sale of securities in own name but on the account of clients, safekeeping of securities in custody, acquisition and sale of securities in own name and on proprietary account, management of portfolios of securities entrusted by clients.

The Bank is a money market participant both in transactions concluded on the inter-bank market and with non-bank clients. This line of business also comprises transactions in securities such as Treasury bills and bonds, monetary bills of the National Bank of Poland, investment-deposit and FX SWAP transactions. The Bank is also a participant of the securities market, focusing on operations consisting of buying and selling securities on the primary and secondary markets, as well as repo and reverse repo transactions on the inter-bank market. Moreover the Bank is engaged in sell buy back and buy sell back transactions on the inter-bank market and with Bank's clients. The Bank also offers financial instruments used in interest rate risk management, including forward rate agreements (FRA), interest rate swaps (IRS), interest rate options, as well as cross-currency interest rate swaps (CIRS).

Recently, the Bank has introduced a new product: investment deposit combining the benefits of time deposit and capital market investment.
Independently or in syndicates with other banks, the Bank enters into agreements concerning issues of debt securities (bonds, investment notes and certificates of deposit) and into agreements concerning financing of big scale projects in a form of loans.

Co-operation with local and international financial institutions (apart from transactions conducted through nostro and loro accounts) helps to raise loans on the international inter-bank market. Moreover, the Bank also has access to credit lines for the financing of imports and for refinancing of investment loans dedicated for small and medium-sized enterprises, drawn mainly from the funds of the European Investment Bank (EIB).

Investment banking includes the following companies: Dom Inwestycyjny BRE Banku SA, BRE Corporate Finance SA, BRE Finance France SA.

The Bank earns income from capital gains on its portfolio of proprietary investment including direct and indirect stakes (held via SPV – special-purpose vehicles) acquired with a view to high long-term yields. Apart from the specialised organisational unit of the Bank managing the long-term investment portfolio, the segment also comprises the activities of Tele-Tech Investment Sp. z o.o., whose core business is to invest in securities, to trade in debts, to manage controlled companies, and to provide consultancy. Proprietary investment also includes the results of the company Garbary Sp. z o.o.

3) Asset Management, including the results of Skarbiec Asset Management Holding SA and PTE Skarbiec-Emerytura SA.

4) Corporate banking, including the keeping of current accounts, savings accounts and term deposits, FX products and derivative instruments, offering of investment products, credit cards and debit cards and business credit, as well as finance and operating leasing of motor cars, machines, office equipment, leasing of real estate, as well as administration support of the leasing of the above indicated categories of fixed assets.

The Bank's product offer in this business segment targets large firms, small and medium-sized enterprises, as well as local governments. A significant part of the activities in the corporate banking segment consists of services supporting foreign trade transactions. The Bank's offer addressed to businesses includes currency exchange, international transfers, cheques, collection of payments, short-term loans, as well as a whole range of financial tools, such as the purchasing of claims to receivables, forfeiting, letters of credit, bank guarantees, and others. Moreover, clients are offered financial instruments designed to hedge against foreign exchange risk exposure.
Corporate banking includes the results of the following companies: BRE Bank Hipoteczny, BRE Leasing Sp. z o.o., Intermarket Factoring Bank AG, Polfactor SA, Transfinance a.s., and Magyar Factor zRt. The Bank's offert is enriched by commercial real estate financing, leasing, factoring.

5) The remaining business of the Group includes results on transactions not classified as business areas and the results of the companies BRE Locum Sp. z o.o. and CERI Sp. z o.o.

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

Funds are allocated to particular business segments, which results in funding cost transfers. Interest charged for these funds is based on the Group's cost capital and presented in operating income.

Internal funds transfers are calculated on transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and term structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfer have been reflected in the performance of each business.

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

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

The business operations of particular companies of the Capital Group are attributed in full to a relevant business segment (including consolidation adjustments).

The primary basis used by the Group in the segment reporting is business line. The Group does not distinguish geographic segments as reportable segments due to their immateriality.

Business segment reporting on the activities of the BRE Bank Group for the period from 01.01.2006 to 30.06.2006 (PLN'000)

	Retail Banking (including Private Banking)	Corporate Banking	Investment Banking	Asset Management	Other	Eliminations	Group
Net interest income	**129 368**	**172 028**	**42 647**	**(9 140)**	**(1 954)**	**(454)**	**332 495**
- sales to external clients	33 628	209 035	88 880	1 944	(538)	(454)	332 495
- sales to other segments	95 740	(37 007)	(46 233)	(11 084)	(1 416)	-	-
Net fee and commission income	**30 662**	**131 251**	**23 090**	**45 253**	**(414)**	**(656)**	**229 186**
- sales to external clients	31 260	124 117	29 624	45 253	(412)	(656)	229 186
- sales to other segments	(598)	7 134	(6 534)	-	(2)	-	-
Unallocated costs							
Gross profit / (loss) of the segment	**23 747**	**89 322**	**116 967**	**10 319**	**15 399**	**(6 635)**	**249 119**
Profit / (loss) on operating acitivities							249 231
Contribution of profit / (loss) sharing in associated companies (before tax)	-	-	-	-	-	(112)	(112)
Gross profit (before tax)							249 119
Corporate income tax							(54 629)
Net profit (loss) attributable to minority interest							14 091
Net profit (after tax)							180 399
Asset of the segment	**6 620 354**	**14 534 880**	**20 913 841**	**691 477**	**736 427**	**(4 624 746)**	**38 872 233**
Total assets							38 872 233
Segment's liabilities	**8 375 966**	**12 114 823**	**20 170 937**	**285 836**	**2 549 417**	**(4 624 746)**	**38 872 233**
Total liabilities							38 872 233
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(17 003)	(45 629)	(10 571)	(1 719)	(5 474)	-	(80 396)
Amortisation/depreciation	(29 221)	(38 527)	(9 979)	(1 393)	(1 126)	(1 041)	(81 287)
Losses on credits and loans	(26 195)	(175 969)	(29 439)	-	(1 572)	-	(233 175)
Other costs without cash outflows	-	(52)	(498 894)	-	-	-	(498 946)

Business segment reporting on the activities of the BRE Bank Group for the period from 01.01.2005 to 30.06.2005 (PLN'000)

	Retail Banking (including Private Banking)	Corporate Banking	Investment Banking	Asset Management	Other	Eliminations	Group
Net interest income	**96 632**	**154 689**	**107 902**	**(14 302)**	**(668)**	**(8 428)**	**335 826**
- sales to external clients	(37 490)	231 764	149 839	1 179	(1 037)	(1)	344 253
- sales to other segments	134 123	(77 075)	(41 937)	(15 480)	370	(8 427)	(8 427)
Net fee and commission income	**19 479**	**131 046**	**7 307**	**28 457**	**(2 078)**	**1 379**	**185 591**
- sales to external clients	19 857	123 418	14 455	28 554	(2 072)	(1)	184 211
- sales to other segments	(378)	7 629	(7 149)	(97)	(6)	1 380	-
Unallocated costs							
Gross profit / (loss) of the segment	**8 601**	**117 398**	**83 665**	**(12 132)**	**(639)**	**(231)**	**196 662**
Profit / (loss) on operating acitivities							196 832
Contribution of profit / (loss) sharing in associated companies (before tax)	-	-	(3)	-	-	(167)	(170)
Gross profit (before tax)							196 662
Corporate income tax							(43 875)
Net profit (loss) attributable to minority interest							8 249
Net profit (after tax)							144 538
Asset of the segment	**3 673 130**	**11 550 783**	**20 060 368**	**780 616**	**643 191**	**(3 732 689)**	**32 975 400**
Total assets							32 975 400
Segment's liabilities	**5 653 881**	**9 367 995**	**19 695 336**	**244 121**	**1 746 757**	**(3 732 689)**	**32 975 400**
Total liabilities							32 975 400
Other items of the segment							
Expenditures incurred on fixed assets and intangible assets	(28 611)	(38 876)	(9 419)	(1 535)	(909)	-	(79 349)
Amortisation/depreciation	(21 255)	(29 589)	(12 251)	(1 500)	(1 176)	(1)	(65 771)
Losses on credits and loans	(28 283)	(116 568)	(26 800)	-	-	-	(171 650)
Other costs without cash outflows	-	-	(976 560)	-	(71)	-	(976 630)

PLN '000

5. *Net interest income*

	31.06.2006	30.06.2005
Interest income		
Cash and short-term investments	130 637	99 441
Investment securities	27 192	20 321
Amounts due arising from purchased securities with a sale clause	139	1 996
Loans and advances with respect to the unwind of the impairment provision discount	546 762	541 459
Debt securities	76 928	115 701
Other	9 155	11 764
	790 813	**790 682**
Interest expense		
Arising from amounts due to banks and customers	(336 961)	(376 909)
Arising from issue of debt securities	(76 714)	(44 159)
Other borrowed funds	(32 110)	(26 557)
Trading debt securities	(2 248)	(3 896)
Other	(10 285)	(3 335)
	(458 318)	**(454 856)**

6. *Net fee and commission income*

	30.06.2006	30.06.2005
Fee and commission income		
Credit related fees and commissions	52 782	47 828
Fees from brokerage activity	39 654	18 895
Fees from portfolio-management services and other management-related fees	62 829	41 602
Guarantees granted and trade finance commissions	12 775	14 772
Commissions from credit cards	46 191	33 263
Commissions from money transfers	32 823	29 653
Commissions from bank accounts	17 609	21 445
Other	62 691	46 589
	327 354	**254 047**
Fee and commission expense		
Brokerage fees	(12 357)	(8 597)
Credit cards related fees	(43 944)	(27 853)
Other fees	(41 867)	(32 006)
	(98 168)	**(68 456)**

PLN '000

7. *Dividend income*

	30.06.2006	30.06.2005
Trading securities	99	591
Securities available for sale	4 925	21 149
Dividend income, total	**5 024**	**21 740**

8. *Net trading income*

	30.06.2006	30.06.2005
Foreign exchange result	**184 689**	**88 043**
Foreign exchange differences from the translation (net)	91 811	323 881
Transaction gains less losses	92 878	(235 838)
Other trading income	**11 410**	**10 274**
Interest-bearing instruments	(2 435)	(7 617)
Equities	4 729	25 699
Market risk instruments	9 116	(7 808)
Total net trading income	**196 099**	**98 317**

9. *Gains less losses from investment securities*

	30.06.2006	30.06.2005
Redemption / sale by the issuer of the financial assets available for sale	11 000	12 425
Impairment of available for sale equity securities	(416)	(600)
Total gains and losses from investment securities	**10 584**	**11 825**

10. *Other operating income*

	30.06.2006	30.06.2005
Sale of tangible and intangible fixed assets and assets held for resale	93 451	10 468
Income from recovering previously designated as uncollectible receivables	1 320	1 672
Income from compensation, penalties and fines received	420	1 488
Income due to release of provisions	7 171	4 675
Proceeds from services provided	33 719	11 504
Other	10 953	10 157
Total other operating income	**147 034**	**39 964**

PLN '000

11. *Impairment losses on loans and advances*

	30.06.2006	30.06.2005
Amounts due from other banks	(5 212)	-
Loans and advances to customers (Note 22,34)	(27 580)	(10 635)
Total impairment losses on loans and advances	**(32 792)**	**(10 635)**

12. *Overhead costs*

	30.06.2006	30.06.2005
Staff-related expenses (Note 12A)	(235 270)	(209 639)
Material costs	(189 029)	(165 851)
Taxes and fees	(6 912)	(6 127)
Contributions and transfers to the Banking Guarantee Fund	(2 188)	(1 948)
Contribution to the Social Benefits Fund	(2 193)	(477)
Other	(857)	(6 608)
Total overhead costs	**(436 449)**	**(390 650)**

Staff-related expenses (12A)

	30.06.2006	30.06.2005
Wages and salaries	(192 225)	(167 979)
Social security expenses	(31 367)	(30 277)
Pension fund expenses	(375)	(365)
Salaries in form of share option program for employees	(1 106)	(2 154)
Other staff expenses	(10 197)	(8 864)
Staff-related expenses, total	**(235 270)**	**(209 639)**

13. *Other operating expenses*

	30.06.2006	30.06.2005
Costs of selling or scraping fixed assets, intangible assets and assets held for resale	(75 474)	(8 251)
Impairment provisions created for tangible and intangible assets	(9 243)	(117)
Impairment provisions created for other receivables (excluding loans and advances)	(832)	(525)
Receivables and liabilities recognised as uncollectible and written off	(2 309)	(1 172)
Compensation, penalties and fines paid	(624)	(104)
Donations made	(1 997)	(1 777)
Impairment losses on other non-financial assets	(33)	-
Provisions	(9 881)	(11 453)
Costs of services sale	(16 204)	(320)
Other operating costs	(4 066)	(5 656)
Total other operating expenses	**(120 663)**	**(29 375)**

PLN '000

14. *Earnings per share*

Earnings per share for 12 months

	30.06.2006	30.06.2005
Basic:		
Net profit (loss) attributable to shareholders	283 404	(216 359)
Weighted average number of ordinary shares	29 033 524	28 713 125
Net basic profit (loss) per share (in PLN per share)	**9.76**	**(7.54)**
Diluted:		
Net profit (loss) attributable to shareholders	283 404	(216 359)
Net profit (loss) applied for calculation of diluted earnings per share (in thousand PLN)	283 404	(216 359)
Weighted average number of ordinary shares in issue	29 033 524	28 713 125
Adjustments for:		
- stock options for employees (in thousand PLN)	205 017	76 096
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 238 541	28 789 221
Diluted earnings per share (in PLN per share)	**9.69**	**(7.52)**

Earnings per share for 6 months

	30.06.2006	30.06.2005
Basic:		
Net profit (loss) attributable to shareholders	180 399	144 538
Weighted average number of ordinary shares	29 220 150	28 713 125
Net basic profit (loss) per share (in PLN per share)	**6.17**	**5.03**
Diluted:		
Net profit (loss) attributable to shareholders	180 399	144 538
Net profit (loss) applied for calculation of diluted earnings per share (in thousand PLN)	180 399	144 538
Weighted average number of ordinary shares in issue	29 220 150	28 713 125
Adjustments for:		
- stock options for employees (in thousand PLN)	192 425	101 911
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 412 575	28 815 036
Diluted earnings per share (in PLN per share)	**6.13**	**5.02**

15. *Trading securities, other financial instruments at fair value through profit or loss and pledged assets*

PLN '000

	30.06.2006	31.12.2005	30.06.2005
Debt securities:	**5 688 483**	**6 461 131**	**5 383 519**
Government bonds included in cash equivalents and pledged government bonds (sell buy back transactions), including:	3 540 639	1 473 639	1 501 804
- pledged government bonds (sell buy back transactions)	2 366 780	40 804	473 061
Treasury bills included in cash equivalents and pledged treasury bills (sell buy back transactions), including:	284 318	1 640 129	2 771 569
- pledged treasury bills (sell buy back transactions)	92 529	1 298 166	2 047 576
Other treasury bills	15 019	-	-
Other debt securities, including	1 848 507	3 347 363	1 110 146
- pledged deposit certificates (sell buy back transactions)	-	64 767	-
- pledged corporate bonds (sell buy back transactions)	-	89 988	-
Equity securities:	**14 983**	**44 554**	**31 097**
- listed	14 983	44 554	31 084
- unlisted	-	-	13
Other financial instruments at fair value through profit or loss	-	-	148 002
15. Debt and equity securities, other financial instruments at fair value through profit or loss and pledged assets , including:	**5 703 466**	**6 505 685**	**5 562 618**
- Trading securities	*3 244 158*	*5 011 960*	*2 893 979*
- Other financial instruments at fair value through profit or loss	*-*	*-*	*148 002*
- Pledged assets	*2 459 308*	*1 493 725*	*2 520 637*

The above note doesn't include treasury bills pledged in accordance of Banking Guarantee Fund in amount of PLN 10 752 thousand (31.12.2005 and 30.06.2005 respectively: PLN 22 487 thousand, PLN 18 301 thousand), which are included in the Note 17 "Investment securities".

16. *Loans and advances to customers*

PLN '000

	30.06.2006	31.12.2005	30.06.2005
Loans and advances to individuals:	6 464 240	4 326 918	3 370 104
Loans and advances to corporate entities:	12 943 818	9 605 119	9 589 540
Loans and avances to public sector	1 855 015	1 222 449	1 285 591
Receivables purchased	1 249 675	1 034 831	1 306 034
Realised guarantees and warranties	8 288	18 894	19 232
Other receivables	210 547	118 914	534 100
Total (gross) loans and advances to customers	**22 731 583**	**16 327 125**	**16 104 601**
Provisions for loans and advances to customers (negative amount)	(893 664)	(863 611)	(865 269)
Total (net) loans and advances to customers	**21 837 919**	**15 463 514**	**15 239 332**

17. *Investment securities and pledged assets*

PLN '000

	30.06.2006	31.12.2005	30.06.2005
Debt securities	**2 613 219**	**931 059**	**355 202**
- listed	2 576 789	898 210	291 933
- unlisted	36 430	32 849	63 269
Equity securities	**292 621**	**274 069**	**171 240**
- listed	22 317	15 246	5 675
- unlisted	270 304	258 823	165 565
Total securities	**2 905 840**	**1 205 128**	**526 442**
Impairment of investment securities	**(34 905)**	**(57 809)**	**(37 557)**
Total investment securities and pledged assets, including:	**2 870 935**	**1 147 319**	**488 885**
- Available for sale securities	*2 860 183*	*1 124 832*	*445 180*
- Held to maturity securities	*-*	*-*	*25 404*
- Pledged assets	*10 752*	*22 487*	*18 301*

The above note includes treasury bills pledged in accordance of Banking Guarantee Fund, which are presented in the balance sheet in separate position "Pledged assets".

18. *Assets held for sale*

According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", assets and liabilities of PTE Skarbiec-Emerytura in consolidated balance sheet were presented in the separate position as assets and liabilities held for sale. The transaction was described in the point 22 of the BRE Bank SA IFRS Consolidated Financial Statements 2005, published on 27 February 2006.

Assets of PTE Skarbiec Emerytura as at 30.06.2006 and 31.12.2005:

PLN '000

	30.06.2006	31.12.2005
Assets held to sale, including:		
Loans and advances to banks	9 240	4 342
Investment securities	42 287	35 250
Intangible assets (including goodwill)	232 951	240 215
Tangible fixed assets	327	300
Deferred income tax assets	5 937	7 719
Other assets	26 279	29 523
Total assets held to sale:	**317 021**	**317 349**

19. *Amounts due to customers*

PLN '000

	30.06.2006	31.12.2005	30.06.2005
Corporate customers	13 164 685	12 677 046	11 967 880
Individual customers	8 512 396	7 587 453	7 036 341
Public sector customers	217 883	172 345	146 232
Total amounts due to customers	**21 894 964**	**20 436 844**	**19 150 453**

20. *Liabilities held for sale*

Liabilities of PTE Skarbiec Emerytura as at 30.06.2006 and 31.12.2005:

PLN '000

	30.06.2006	31.12.2005
Libilities held for sale, including:		
Other liabilities	5 276	5 815
Provisions	1 235	1 024
Total libilities held for sale:	**6 511**	**6 839**

Selected Explanatory Information

1. *Compliance with International Financial Reporting Standards (IFRS)*

The presented Q2 2006 Report fulfils the requirements of the International Accounting Standard (IAS) 34 concerning interim financial reporting.

2. *Consistency of accounting principles and calculation methods applied to the drafting of the quarterly report and the last annual financial report*

A detailed description of the accounting policy principles of the Group applied since 1 January 2005 are presented under item 2 of the Notes to the Consolidated Financial Statements.

3. *Seasonal or cyclical nature of the business*

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

4. *The nature and values of items affecting assets, liabilities, equity, net profit/(loss) or cash flows, which are extraordinary in terms of their nature, magnitude or exerted impact*

- On 3 April 2006 the President of the Office of Competition and Customer Protection issued an acceptance for taking indirect control over BRE.locum Sp. z o.o.. by BRE Bank SA („Bank"). In connection with this, on 3 April 2006 Bank, according to the sale – purchase agreement, acquired effectively 76 shares in TELE-TECH Investment Sp. z o.o. („Company"), which constitute 76% of the share capital and give 76 votes at a general meeting, which represents 76% of total number of votes at a general meeting. The above mentioned shares were acquired for a total amount of PLN 38 000.00 by Bank from Mr. Andrzej Wójcik – the Supervisory Board Member of the Company and Mr. Janusz Maciejewicz – the Member of Supervisory Boards of the Company and BRE.locum Sp. z o.o.. After this transaction Bank holds 100 shares of the Company which constitute 100% of the share capital of the Company and give right to execute 100 votes during a shareholder meetings which represents 100% of total number of votes. The Company holds 30% of BRE.locum Sp. z o.o. share capital. The Bank holds directly 49.99% of share capital in BRE.locum Sp. z o.o.. In total Bank holds directly and indirectly 79.99% of share capital in BRE.locum.

- On 13 April 2006 BRE Leasing made four transactions of finance lease with PLL LOT related to four airplanes Embraer ERJ 175 using as intermediary the subsidiary BREL-COM Sp. z o.o. The total amount of transaction was above USD 103 million. 35% of the value of transaction is financed by Commerzbank AG. The agreement is for 12 years.

- On 20 April 2006, acting as member of bank consortia, the Bank concluded a loan agreement with three Customers acting as joint and several debtors. The loan agreement provides for granting the following loans:

  - long-term loan, the part of the loan that falls to the Bank being USD 41,666,667 (PLN 131,366,667.72 in accordance with the average exchange rate of the National Bank of Poland of 20 April 2006); the loan will be granted for the period of seven years,

  - revolving loan, the part of the loan that falls to the Bank being PLN 80,000,000; the loan will be granted for the period of one year with an option to be extended for the period of two years

  - investment loan, the part of the loan that falls to the Bank being the equivalent of the amount of USD 25,000,000 each time expressed in the Polish zloties on the loan payout day (PLN 78,820,000 in accordance with the average exchange rate of the National Bank of Poland of 20 April 2006); the loan will be granted for the period of seven years.
  The interest on the aforementioned loans is based respectively on one-, three- or six-month LIBOR or WIBOR rate increased by the Bank's margin.
  The documentation of the aforementioned loan agreements provides for meeting the standard conditions precedent by the Customer, including the establishment of loan security. The total value of the aforementioned loan agreements in the part falling to the Bank exceeds 10% of the value of the Bank's shareholders' equity.

- On 27 April 2006, pursuant to the agreement signed on 21 April 2006 between the Bank and Commerzbank AG the Bank obtained a loan in the amount of CHF 250,000,000 (PLN 616,750,000 in accordance with the average exchange rate of the National Bank of Poland of 21 April 2006) earmarked for satisfying the Bank's general financial needs. The loan is granted for two years and one day, and the interest is 0.15% p.a. above LIBOR.
  The agreement does not contain any provisions on penalties with a value exceeding EUR 200,000 or any conditions precedent or conditions subsequent.
  The value of the aforementioned loan agreement exceeds the value of 10% of the Bank's shareholders' equity.

- On 28 April 2006, pursuant to the agreement signed on 24 April 2006 between the Bank and Bayerische Landesbank the Bank obtained a loan in the amount of CHF 50,000,000 (PLN 122,905,000) intended for meeting the Bank's general financial needs. The loan is granted for two years and one day, the interest rate is 0.17% p.a. above LIBOR. The agreement does not contain any provisions on penalties with a value exceeding EUR 200,000. Nor does it contain any conditions precedent or conditions subsequent. The total value of the above mentioned agreement exceeds the value of 10% of the shareholder's equity of BRE Bank SA.

- On 6 June 2006, pursuant to the agreement signed on 29 May 2006 between the Bank and Commerzbank AG the Bank obtained a loan in the amount of CHF 250,000,000 (PLN 628,125,000) allocated for satisfaction of the Bank's general financial needs. The loan is granted for two years and one day, the interest rate is 0.15% p.a. above LIBOR. The agreement does not contain any provisions on penalties with a value exceeding EUR 200,000. Nor does it contain any conditions precedent or conditions subsequent. The total value of the above mentioned agreement exceeds the value of 10% of the shareholder's equity of BRE Bank SA.

- On 8 June 2006, the District Court in Warsaw registered the newly established limited liability company BRE Ubezpieczenia Sp. z o.o. ("the Company"). The Company was founded by BRE Bank SA ("the Bank"). On 8 June 2006, the Bank took up 1 000 shares of the company with the nominal value of PLN 1 000 and the issue price of PLN 4 000 each. The shares taken up represent 100% of the Company's share capital and authorize their holder to exercise 1 000 votes at the meeting of sharesholders of the Company, which represents 100% of the total number of votes at the meeting of the Company shareholders.

  The shares have been taken up at their nominal value for the total amount of PLN 4,000,000. The value of the taken up shares of the Company, in the Bank's books, is PLN 4,000,000. The Bank financed the take-up of shares with its own funds. The Bank treats this investment as a long-term one.
  The Company has been established in relation to the planned commencement of BRE Bank's operations on the insurace market. BRE Bank is going to invest a total of PLN 33 million in the insurance project.

- On 19 June 2006, BRE Bank SA, Hank Handlowy w Warszawie SA and Bank BPH SA (jointly hereinafter referred to as "Arrangers") concluded the Contract Agreement of 7 June 2006 with Południowy Koncern Energetyczny SA ("Issuer") regarding arranging the programme of issue of bonds by the Issuer for the amount of PLN 650 million ("Programme") and underwriting the Issuer's bonds by Arrangers for the total amount of PLN 650 million.
  The Programme would allow for issuing Bonds with maturity up to 10 years, denominated in Polish zloty.
  Each Arranger undertook to guarantee the Issuer's bonds up to the amount of about PLN 217 million (1/3 of the Programme amount) ("Guarantee"). The Guarantee would be granted to the Issuer based on a separate guarantee agreement.
  Obligations of each of Arrangers related to granting the Guarantee are separate and none of Arrangers is responsible for fulfilment of related obligations by other Arrangers.
  Funds obtained from the issue of bonds shall be used for financing the investment including the construction of a new power generating unit at the 460 MW power station.
  Bonds shall be offered for sale in a way determined in Article 9 point 3 of the Act of 29 June 1995 on bonds (Journal of Laws of 2001 No. 120, item 1 300 as amended) and shall be fully collateralised.
  The issue of bonds shall take place within 3 years from the date of signing the Programme Agreements, subject to fulfilment of several conditions necessary to start the Programme, usually applied by banks for investment project financing and issue of bonds.
  The Contract Agreement is an agreement including conditions precedent and subsequent.
  The amount o BRE Bank's liabilities arising from the above mentioned agreement may exceed 10% of value the Bank's equity .

- On 21 June 2006, BRE Bank SA entered in to credit agreement with a Client that provides for extension of the following bank loans to the Client:
  - a current account loan of PLN 100,000,000;
  - a renewable loan of PLN 300,000,000.

  The date of repayment of the aforementioned bank loans is December 30, 2008.
  The loans bear interest based on WIBOR for one-month deposits increased by the Bank's margin.
  The agreement provides for no contractual penalty in excess of EUR 200,000.
  The total value of the above mentioned credit agreement exceeds 10% of value the Bank's equity.

5. *The nature and the amounts of changes in estimate values of items, which were presented in previous interim periods of the current reporting year, or changes of accounting estimates indicated in prior reporting years, if they bear a substantial impact upon the current interim period*

In Q2 2006 there were no significant changes in estimate values of items presented in the previous financial periods.

6. *Issues, redemption and repayment of debt and equity securities*

In Q2 2006 there was redemption in BRE Bank of 200 deposit certificates of the nominal value of PLN 200 thousand. In Q2 2006 the company BRE Leasing issued short-term bonds totalling PLN 630 900 thousand. In the same period, the Company carried out the redemption of short-term bonds to the amount of PLN 485 000 thousand. Moreover in Q2 2006 the Company BRE Bank Hipoteczny issued bonds totalling PLN 1 028 330 thousand and in the same period the Company carried out the redemption of bonds to the amount of PLN 929 875 thousand .

7. *Dividends paid (in total or as a value per one share), broken down by ordinary shares and other shares*

The General Meeting of Shareholders of BRE Bank SA on 15 March 2006 adopted the resolution not to pay any dividend for the year 2005.

8. *Income and profit by business segment*

Income and profit by business segment within the Group are presented under item 4 of the Notes to the Consolidated Financial Statements.

9. *Significant events after the end of the quarter, which were not reflected in the financial statement*

- On 14 July 2006, pursuant to the agreement signed on 5 July 2006 between BRE Bank and Commerzbank AG, the Bank obtained a loan in the amount of CHF 250,000,000 (PLN 641 975 000) earmarked for satisfying the Bank’s general financial needs. The loan is granted for two years and one day, and the interest is 0.15% p.a. above LIBOR.
  The agreement does not contain any provisions on penalties with a value exceeding EUR 200,000 or any conditions precedent or conditions subsequent.

- On 19 July 2006 the Insurance and Pension Funds Supervisory Commission (KNUIFE) decided to discontinue the proceedings concerning the application for approval of PTE PZU SA and PTE Skarbiec-Emerytura SA merger.
  Thus one of conditions necessary for the execution of the merger of the aforementioned pension funds was not fulfilled.
  The merger of PTE Skarbiec-Emerytura SA and PTE PZU SA was to be based on the “Agreement on the merger of PTE Skarbiec-Emerytura SA and PTE PZU SA along with the commitment of sale of the merger issue” that was concluded between the Bank and PZU Życie SA on 29 November 2005.

  BRE Bank does not contemplate to appeal from KNUIFE decision.

Despite KNUIFE decision BRE Bank supports its strategy and plans cocncerning the operations of pension business that, from the point of view of BRE Bank Group, is not considered as core business. BRE Bank will consider the possibility of taking other actions in this regard, other than consolidation.

10. *The effect of changes in the structure of the entity in Q2, including business combinations, acquisitions or disposal of subsidiaries, and long-term investments, restructuring, and discontinuation of business activities*

Except of changes mentioned under item 4 of Selected Explanatory Information, concerning increase of Bank's share in equity of companies: Tele-Tech Investment Sp. z o.o. and BRE.locum Sp. z o.o., in Q2 2006 aforementioned events in the significant for the Group range did not occur.

11. *Changes in off-balance sheet liabilities*

In Q2 2006 there were no changes in off-balance sheet liabilities of a credit nature, i.e., guarantees, letters of credit or unutilised loan amounts, other than resulting from current operating activities of the Group. There was no single case of granting of guarantees or any other contingent liability of any material value for the Group, except of transaction guarantee of underwriting the issue of bonds described under item 4 of Selected Explanatory Information.

12. *Write-offs of the value of inventories down to net realisable value and reversals of such write-offs*

The above indicated events did not occur in the Group.

13. *Revaluation write-offs on account of impairment of tangible fixed assets, intangible assets, or other assets, as well as reversals of such write-offs*

In Q2 2006 no significant impairment loss write-offs were recorded in relation to any tangible fixed assets intangible assets, and other assets, nor were any reversals on such account recorded within the Group.

14. *Reversals of provisions against restructuring costs*

The above indicated events did not occur in the Group.

15. *Acquisitions and disposals of tangible fixed asset items*

In Q2 2006 there were no material transactions of acquisition or disposal of any tangible fixed assets.

16. *Liabilities assumed on account of acquisition of tangible fixed assets*

The above indicated events did not occur in the Group.

17. *Corrections of errors from previous reporting periods*

In Q2 2006 there were no corrections of errors from previous reporting periods.

18. *Default or infringement of a loan agreement or failure to initiate composition proceedings*

The above indicated events did not occur in the Group.

19. *Position of the Management on the probability of performance of previously published profit/loss forecasts for the year in the light of the results presented in the quarterly report compared to the forecast*

BRE Bank did not publish a performance forecast for 2006. The description of the business strategy and goals of the Bank published in current report no. 19/2006 is not a performance forecast in the sense of § 5.1.29 of the Regulation on current and periodic reports published by issuers of securities (Journal of Laws from 2005, No. 49, item 463).

20. *Registered share capital*

The total number of ordinary shares as at 30 June 2006 was 29 374 947 shares with PLN 4 nominal value each. All issued shares were fully paid.

REGISTERED SHARE CAPITAL								
Series / issue	**Share type**	**Type of privilege**	**Type of limitation**	**Numebr of shares**	**Series / issue value**	**Paid up**	**Registered on**	**Dividend right since**
1986-12-11	ordinary bearer	-	-	9 967 000	39 866 000	fully paid up in cash	1986-12-23	1989-01-01
1986-12-11	ordinary registered	-	-	33 000	134 000	fully paid up in cash	1986-12-23	1989-01-01
1993-10-20	ordinary bearer	-	-	2 500 000	10 000 000	fully paid up in cash	1994-03-04	1994-01-01
1994-10-18	ordinary bearer	-	-	2 000 000	8 000 000	fully paid up in cash	1995-02-17	1995-01-01
1997-05-28	ordinary bearer	-	-	4 500 000	18 000 000	fully paid up in cash	1997-10-10	1997-10-10
1998-05-27	ordinary bearer	-	-	3 800 000	15 200 000	fully paid up in cash	1998-08-20	1999-01-01
2000-05-24	ordinary bearer	-	-	170 500	682 000	fully paid up in cash	2000-09-15	2001-01-01
2004-04-21	ordinary bearer	-	-	5 742 625	22 970 500	fully paid up in cash	2004-06-30	2004-01-01
2003-05-21	ordinary bearer	-	-	2 355	9 420	fully paid up in cash	2005-07-05*	2005-01-01
2003-05-21	ordinary bearer	-	-	11 400	45 600	fully paid up in cash	2005-07-05*	2005-01-01
2003-05-21	ordinary bearer	-	-	37 164	148 656	fully paid up in cash	2005-08-11*	2005-01-01
2003-05-21	ordinary bearer	-	-	44 194	176 776	fully paid up in cash	2005-09-09*	2005-01-01
2003-05-21	ordinary bearer	-	-	60 670	242 680	fully paid up in cash	2005-10-18*	2005-01-01
2003-05-21	ordinary bearer	-	-	13 520	54 080	fully paid up in cash	2005-10-12*	2005-01-01
2003-05-21	ordinary bearer	-	-	4 815	19 260	fully paid up in cash	2005-11-14*	2005-01-01
2003-05-21	ordinary bearer	-	-	28 580	114 320	fully paid up in cash	2005-11-14*	2005-01-01
2003-05-21	ordinary bearer	-	-	53 399	213 596	fully paid up in cash	2005-12-08*	2005-01-01
2003-05-21	ordinary bearer	-	-	14 750	59 000	fully paid up in cash	2005-12-08*	2005-01-01
2003-05-21	ordinary bearer	-	-	53 320	213 280	fully paid up in cash	2006-01-10*	2006-01-10*
2003-05-21	ordinary bearer	-	-	3 040	12 160	fully paid up in cash	2006-01-10*	2006-01-10*
2003-05-21	ordinary bearer	-	-	46 230	184 920	fully paid up in cash	2006-02-08*	2006-02-08*
2003-05-21	ordinary bearer	-	-	19 700	78 800	fully paid up in cash	2006-02-08*	2006-02-08*
2003-05-21	ordinary bearer	-	-	92 015	368 060	fully paid up in cash	2006-03-09*	2006-03-09*
2003-05-21	ordinary bearer	-	-	19 159	76 636	fully paid up in cash	2006-03-09*	2006-03-09*
2003-05-21	ordinary bearer	-	-	8 357	33 428	fully paid up in cash	2006-04-11*	2006-04-11*
2003-05-21	ordinary bearer	-	-	800	3 200	fully paid up in cash	2006-04-11*	2006-04-11*
2003-05-21	ordinary bearer	-	-	108 194	432 776	fully paid up in cash	2006-05-16*	2006-05-16*
2003-05-21	ordinary bearer	-	-	20 541	82 164	fully paid up in cash	2006-05-16*	2006-05-16*
2003-05-21	ordinary bearer	-	-	17 000	68 000	fully paid up in cash	2006-06-09*	2006-06-09*
2003-05-21	ordinary bearer	-	-	2 619	10 476	fully paid up in cash	2006-06-09*	2006-06-09*
Total number of shares				**29 374 947**				
Total registered share capital					**117 499 788**			
Nominal value per share			4					

* date of registration of shares in National Securities Deposit (KDPW S.A.)

21. *Material share packages*

There was a change in the holding of material share packages of BRE Bank SA from the publication of the previous quarterly report.

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting. As at 30 June 2006 Commerzbank Auslandsbanken Holding AG held 70.54% of the share capital and votes at the General Meeting of BRE Bank SA.

22. *Change in Bank shares and options held by Managers and Supervisors*

	Number of shares held as at the date of publishing the report for the Q1 2006	**Number of shares acquired in Q2 2006**	**Number of shares sold in Q2 2006**	**Number of shares held as at the date of publishing the report for the Q2 2006**
Management Board				
1. Sławomir Lachowski	100	24 000	-	24 100
2. Bernd Loewen	5 609	-	5 609	-
3. Rainer Ottenstein	5 800	1 690	5 800	1 690
4. Jerzy Jóźkowiak	-	3 000	-	3 000
5. Wiesław Thor	-	11 000	-	11 000
Supervisory Board				
1. Krzysztof Szwarc	8 000	-	-	8 000

	Number of shares held as at the date of publishing the report for the Q1 2006	Number of shares acquired in Q2 2006	Number of shares sold in Q2 2006	Number of shares held as at the date of publishing the report for the Q2 2006
Management Board				
1. Sławomir Lachowski	24 000	7 888	24 000	7 888
2. Jerzy Jóźkowiak	12 609	5 609	3 000	15 218
3. Bernd Loewen	-	5 609	-	5 609
4. Rainer Ottenstein	1 690	5 609	1 690	5 609
5. Wiesław Thor	21 409	5 609	11 000	16 018
6. Janusz Wojtas	5 609	5 609	-	11 218

23. *Earnings per share (stand alone data)*

PLN '000

Earnings per share for 12 months

	30.06.2006	30.06.2005
Basic:		
Net profit (loss)	192 198	(245 266)
Weighted average number of ordinary shares	29 033 524	28 713 125
Net basic profit (loss) per share (in PLN per share)	**6.62**	**(8.54)**
Diluted:		
Net profit (loss)	192 198	(245 266)
Net profit (loss) applied for calculation of diluted earnings per share	192 198	(245 266)
Weighted average number of ordinary shares in issue	29 033 524	28 713 125
Adjustments for:		
- stock options for employees (in thousand PLN)	205 017	58 981
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 238 541	28 772 106
Diluted earnings per share (in PLN per share)	**6.57**	**(8.52)**

PLN '000

Earnings per share for 6 months

	30.06.2006	30.06.2005
Basic:		
Net profit (loss)	119 125	134 237
Weighted average number of ordinary shares	29 220 150	28 713 125
Net basic profit (loss) per share (in PLN per share)	**4.08**	**4.68**
Diluted:		
Net profit (loss)	119 125	134 237
Net profit (loss) applied for calculation of diluted earnings per share	119 125	134 237
Weighted average number of ordinary shares in issue	29 220 150	28 713 125
Adjustments for:		
- stock options for employees (in thousand PLN)	192 425	89 232
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 412 575	28 802 357
Diluted earnings per share (in PLN per share)	**4.05**	**4.66**

24. *Proceedings before a ourt, arbitration body, or public administration authority*

As at 30 June 2006, BRE Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries which value would be equal to or greater than 10% of the Group's equity. The total value of claims concerning liabilities of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 30 June 2006 was PLN 336 555 thousand, equal to 15.98% of the issuer's equity. Below is a report on major proceedings concerning liabilities of the Bank or its subsidiaries.

1. *Lawsuit initiated by ART-B Sp. z o.o. Eksport – Import in Katowice ("ART-B") under liquidation, against BRE Bank*

   Claim was filed on 30 August 1994. On 26 July 2004 the Court of the first instance adopted a decision in favour of the Bank. Pursuant to the decision, the original claims for PLN 99.1 million plus statutory interest accrued since 1991 were dismissed by the Court as in the course of the proceedings the claimant withdrew the claims and presented a new calculation of losses and a new factual basis of the claims. The claims for PLN 17.4 million raised in the course of the proceedings were dismissed due to limitation and lack of sufficient evidence. On 4 July 2005, the Appeal Court in Warsaw dismissed the entire appeal of the claimant. The amount of claim in the proceedings of the second instance was 17.4 mln US. The claimant filed the last resort appeal form the ruling of the Court of Appeal. The Highest Court on the May 17, 2006 issued the verdict, according to which the claims of ART-B in the amount of 3 697 000 PLN was sent back for further recognition to the Court of Appeal and the claims above that amount were dismissed.

   Proceedings for the claims were also opened against BRE BANK SA in the Court of Jerusalem, Israel, and the value of the dispute is USD 43.4 M (PLN 141 M according to the average exchange rate of the National Bank of Poland on 31 March 2006). In these proceedings, BRE Bank SA assists the main defendant, Bank Leumi Le Israel. BRE Bank SA's liability is under recourse, and depends on whether the court grants ART-B's claims against Bank Leumi. Only then will the court consider Bank Leumi's claims against BRE BANK SA. The Israeli proceedings are still at the pre-trial stage (prior to the first hearing). Bank Leumi and ART-B have come to an agreement concerning arbitration. For reasons of procedure, BRE BANK SA has joined the process, which does not imply its acceptance of the claims or readiness to make a settlement. The probability of dismissal of the claims against BRE Bank SA by the court in Israel has increased considerably in connection with the decision of the Polish court in favour of BRE BANK SA.

2. *Lawsuit brought by the Official Receiver of bankrupt Zakłady Mięsne POZMEAT SA with registered office in Poznań ("Pozmeat") against BRE Bank and Tele-Tech Investment Sp. z o.o. ("TTI")*

   The receiver of bankrupt Zakłady Mięsne POZMEAT with registered office in Poznań ("POZMEAT") brought the case against BRE Bank SA ("Bank") and Tele-Tech Investment Sp. z o.o. ("TTI") to court on 29 July 2005. The value of the dispute amounted to PLN 100 000 000. The purpose was to cancel Pozmeat's agreements to sell Garbary shares to TTI and then to the Bank. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings, representing the only assets of Garbary Sp. z o.o. on the date of sale of Pozmeat's interest in Garbary Sp. z o.o. (19 July 2001). In the opinion of the Bank's legal counsellors in charge, there is a basis to assume that the accusation is illegitimate.

3. *Lawsuit brought by Bank BPH SA ("BPH") against Garbary.*

   Bank BPH SA brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 853 892.10. The purpose was to recognize actions related to the creation of Garbary Sp. z o.o. and the contribution in kind as ineffective. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that Zakłady Mięsne POZMEAT with registered office in Poznań contributed in kind to Garbary Sp. z o.o. as payment for Pozmeat's share in the PLN 100 000 000 share capital of Garbary. On June 6, 2006 the District Court in Poznań issued the verdict according to which the claims were dismissed in its entirely. The claimant filed an appeal from that verdict.

4. *Lawsuit against Dom InwestycyjnyBRE Banku SA („DI BRE") by the Katarzyna and Leon Praśniewski*

On 31 January 2001, Katarzyna and Leonard Praśniewski filed claims for compensation against Dom Inwestycyjny BRE Banku SA (DI BRE) before the District Court of Warsaw. The value of the dispute is PLN 13.9 M. In 2003, the court of the first instance granted the plaintiffs' claims of PLN 13.9 M from DI BRE. Following an appeal filed by DI BRE, the court of the second instance in its decision of 29 April 2004 changed the original decision and dismissed the claims. The plaintiffs filed cassation against the decision of the court of the second instance. On 15 April 2005, the Supreme Court revoked the decision of the Appeal Court in Warsaw and referred the case back to the Appeal Court. On 29 December 2005 Appeal Court in Warsaw set aside point 1 of the sentence of District Court in Warsaw dated at 17 June 2003 and it adjudged to L. Praśniewski the amount of PLN 1 245 091 with statutory interest beginning from 6 November 2000 and the amount of PLN 202 689.92 with statutory interest beginning from 6 November 2000 to Katarzyna Praśniewska-Steggles. The other matters included in the judgement will be examined once again by the District Court in Warsaw. The District Court will also decide about the costs of the trial.
DI BRE filed appeal against sentence.

According to the Bank and its legal counsel, the sentence of the Appeal Court does not have any influence on the current risk estimation. Taking into account the amount adjudged to plaintiffs by the Appeal Court, the legal risk posed by the case is estimated at not more than PLN 1 million.

As at 30 June 2006, the BRE Bank Group was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the issuer or its subsidiaries whose value would be equal to or greater than 10% of the issuer's equity. The total value of claims concerning receivables of the issuer or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 30 June 2006 was PLN 279 097 thousand equal to 13.25% of the issuer's equity.

	CLIENT'S NAME	*Disputed matter*	*Value of the dispute in PLN at 30.06.2006*	*Type of proceedings*	*Proceedings opened on*
1.	Stocznia Szczecińska PORTA Holding SA w upadłości	Loan	53 728 964.52	Bankruptcy	2002-07-29
2.	Kama Foods SA	Loan	41 936 511.64	Bankruptcy	2003-06-05
3.	HELLENA SA P.P.	Loan	13 840 227.11	Bankruptcy	2001-07-06

25. *Transactions with related entities*

BRE Bank SA is a parent entity and Commerzbank AG is the ultimate parent of the Group. Direct parent entity of BRE Bank SA is Commerzbank Auslandsbanken Holding AG which is in 100% controlled by Commerzbank AG.

All transactions with related entities exceeding the equivalent of EUR 500 000 were typical and routine transactions concluded on market terms, and their nature, terms and conditions resulted from the current operating activities conducted by the Bank. Transactions concluded with related entities as a part of regular operating activities include loans, deposits and foreign currency transactions.

The values of transactions with related entities, i.e. balance sheet balances and related expenses and income as at 30 June 2006 were as follows:

Numerical data concerning transactions with affilaited entities (in thousand PLN) - 30 June 2006

No.	Company's name	Balance sheet		Income Statement				Off balance sheet		
		Receivables	Liabilities	Interest income	Interest expense	Commission income	Commission expense	Commitments granted	Commitments received	Purchase/Sale commitments
1	BRE Bank SA	995 817	2 981 903	15 111	(42 581)	9 872	(1 603)	2 991 603	0	1 067 370
2	BRE Corporate Finance SA	274	0	13	0	0	(20)	0	2 635	0
3	Dom Inwestycyjny BRE Bank SA	293 893	29 335	4 345	(292)	1 563	(5 099)	0	50 535	0
4	BRE Bank Hipoteczny SA	23 542	267 706	363	(1 442)	0	0	0	83 285	1 067 370
5	PTE Skarbiec Emerytura SA	25 284	0	84	0	0	(4)	0	0	0
6	Skarbiec Asset Management Holding SA	38 723	969	267	(71)	40	(4 226)	0	60 679	0
7	BRE Leasing Sp. z o.o.	20 321	286 695	275	(4 416)	0	0	0	4 128	0
8	Polfactor S.A.	1 316	216 803	0	(4 023)	0	(213)	0	179 809	0
9	Intermarket Bank AG	0	113 704	0	(1 229)	0	0	0	0	0
10	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	8 088	222	128	0	0	0	0	0	0
11	BRE Finance France SA	2 555 022	400	36 930	0	0	0	0	2 558 930	0
12	Tele-Tech Investment Sp. z o.o.	567	48 465	2	(2 433)	0	0	0	5	0
13	Garbary Sp. z o.o.	108	0	12	0	0	(3)	0	0	0
14	BRE.locum Sp. z o.o.	6 088	30 110	85	(1 149)	0	(271)	0	50 000	0
15	ServicePoint Sp. z o.o.	78	0	1	0	0	(1)	0	0	0
16	FAMCO SA	3 884	0	68	0	0	(2)	0	0	0
17	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	7	0	3	0	0	0	0	0	0
18	BRELIM Sp. z o.o.	27	0	0	(49)	0	(1)	0	0	0
19	BREL-MAR Sp. z o.o.	4	0	0	0	0	0	0	0	0
20	AMBRESA Sp. z o.o.	526	0	1	0	0	(3)	0	0	0
21	EMFINANSE Sp. z o.o.	39	1 404	2	(5)	0	(26)	0	1 597	0
22	BRE Ubezpieczenia Sp. z o.o.	4 001	0	1	0	0	0	0	0	0
23	Xtrade SA	111	4	1	(2)	0	(3)	0	0	0
	Commerzbank AG Group	160 523	3 827 950	5 635	(47 549)	0	0	3 198 131	0	0

26. *Credit and loan guarantees, other guarantees granted in excess of 10% of the equity*

The Bank's exposure under extended guarantees in excess of 10% of the equity at 30 June 2006 relates to:

- four guarantees of the redemption of euronotes issued by order of BRE Finance France SA (issuer of euronotes), a 100%-owned subsidiary of BRE Bank SA. The first guarantee of EUR 200 million took effect in November 2003 and expires in November 2006. In October 2004 took effect the second guarantee of EUR 225 million with expire date in 2007. The third guarantee of USD 10 million took effect in December 2004 and expires in 2009. The fourth guarantee of EUR 200 million took effect in June 2005 and expires in 2008.

27. *Other information which the issuer deems necessary to assess its human resources, assets, financial position, financial performance, and their changes, as well as information relevant to an assessment of the issuer's capacity to meet its liabilities*

There is no such information.

28. *Factors affecting the results in the coming quarter*

Other than the day-to-day operations of the Bank and the companies of the Group, no events that might significantly affect the results of the quarter are expected to occur in Q3 2006.