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This annual report of BRE Bank S.A. (the "**Bank**") is disclosed to the public in order to fulfill the Bank's reporting obligations, in particular those arising from the Bank's status as a public company, which shares are traded on the regulated market (main market) operated by the Warsaw Stock Exchange (the "**WSE**").

This report is for informational and promotional purposes only and under no circumstances shall constitute the basis for a decision to invest in the shares of the Bank in the contemplated rights issue offering. This report does not constitute an offer to sell, or an invitation to subscribe for or to buy, any securities of the Bank. In particular, this document is not an offer of securities for sale in the United States.

The prospectus (the "**Prospectus**") to be prepared in connection with a proposed public offering of shares in the Bank, including pre-emptive rights as well as admission and introduction thereof to trading on the regulated market (main market) operated by the WSE, will constitute the sole and only legally binding offering document containing information about the public offering of the Bank's securities in Poland (the "**Offering**"). The Bank will be able to conduct the Offering in Poland after approval of the Prospectus by the Polish Financial Supervision Authority which supervises the capital market in Poland, and after publication thereof. In relation to the Offering in Poland as well as applying for admission and introduction of the Bank's securities to trading on the WSE, the Bank will make the Prospectus available on its website (www.brebank.pl) and on the website of Dom Inwestycyjny BRE Bank S.A. (www.dibre.com.pl).

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This report is directed only at (i) persons who are outside the United Kingdom, or (ii) investment professionals falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "**Order**"), or (iii) high net worth companies and other persons to whom it may lawfully be communicated falling within article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). Any person who is not a Relevant Person must not act or rely on this report or any of its contents. Any investment or investment activity to which this report relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

In any EEA Member State other than Poland that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "**Prospectus Directive**"), this report is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the registered auditor's opinion and report of the above-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated opinion has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Independent registered auditor's opinion

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

We have audited the accompanying financial statements of BRE Bank SA (hereinafter called the "Bank"), Warsaw, Senatorska 18, which comprise:

(a) the statement of financial position as at 31 December 2009, showing total assets and total liabilities & equity of PLN 72,607,181 thousand;

(b) the income statement for the period from 1 January to 31 December 2009, showing a net profit of PLN 57,143 thousand;

(c) the statement of comprehensive income for the period from 1 January to 31 December 2009, showing a total comprehensive income of PLN 193,150 thousand;

(d) the statement of changes in equity for the period from 1 January to 31 December 2009, showing an increase in equity of PLN 189,479 thousand;

(e) the statement of cash flows for the period from 1 January to 31 December 2009, showing a net decrease in cash and cash equivalents of PLN 1,934,224 thousand;

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

The Bank's Management Board is responsible for preparing the financial statements and a Directors' Report in accordance with the applicable regulations. Our responsibility was to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the following:

(a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223 with subsequent amendments, hereinafter called "the Act");

(b) knowledge and experience acquired from applying the previously effective auditing norms issued by the National Chamber of Registered Auditors.

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

Independent Registered Auditor's Opinion

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

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

In our opinion, and in all material respects, the accompanying financial statements:

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

(b) comply in form and content with the applicable laws and the Company's Memorandum of Association;

(c) give a fair and clear view of the Bank's financial position as at 31 December 2009 and of the results of its operations for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

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

Adam Celiński

Key Registered Auditor
No. 90033

Warsaw, 1 March 2010

BRE Bank SA

Independent registered auditor's report on the financial statements as at and for the year ended 31 December 2009

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the registered auditor's report of the above-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated report has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish language version is binding.

Independent registered auditor's report on the financial statements
To the General Shareholders' Meeting and the Supervisory Board of BRE Bank SA

This report contains 28 consecutively numbered pages and consists of:

I. General information about the Bank

(a) The Bank was formed on the basis of Resolution No. 99 of the Council of Ministers dated 20 June 1986. The Bank began operating on 2 January 1987. The Bank was formed on the basis of a Notarial Deed drawn up at the State Notarial Office in Warsaw on 11 December 1986 and registered with Rep. No. A I 5919/86. On 11 July 2001, the Bank was entered in the Register of Businesses maintained by the District Court in Warsaw, 19th Business Department of the National Court Register, with the reference number KRS 0000025237.

(b) On 24 June 1993, the Bank was assigned a tax identification number (NIP) 526-021-50-88 for making tax settlements. For statistical purposes, the Bank was assigned a REGON number 001254524 on 2 June 1998.

(c) As at 31 December 2009, the Bank's registered share capital amounted to PLN 118,763,528 and consisted of 29,690,882 shares with a par value of PLN 4 each.

(d) In the audited period, the Bank's operations comprised, amongst others:

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

I. General information about the Bank (cont.)

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

• Mariusz Grendowicz	Chairman;
• Karin Katerbau	Deputy Chairman (from 1 October 2009); Board Member (to 30 September 2009);
• Wiesław Thor	Deputy Chairman;
• Hans Dieter Kemler	Board Member (from 10 July 2009);
• Jarosław Mastalerz	Board Member;
• Christian Rhino	Board Member;
• Przemysław Gdański	Board Member;
• Bernd Loewen	Board Member (to 30 June 2009).

(f) The Bank has the following significant related entities:

Commerzbank Auslandsbanken Holding AG	-	the parent company;
Aspiro Sp. z o.o. (formerly emFinanse Sp. z o.o.)	-	a subsidiary;
BRE Bank Hipoteczny SA	-	a subsidiary;
BRE Corporate Finance SA	-	a subsidiary;
BRE Finance France SA	-	a subsidiary;
BRE Holding Sp. z o.o.	-	a subsidiary;
BRE Leasing Sp. z o.o.	-	a subsidiary;
BRE.locum SA	-	a subsidiary;
BRE Ubezpieczenia TUiR SA	-	a subsidiary;
BRE Ubezpieczenia Sp. z o.o.	-	a subsidiary;
BRE Wealth Management SA	-	a subsidiary;
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	-	a subsidiary;
Dom Inwestycyjny BRE Banku SA	-	a subsidiary;
Garbary Sp. z o.o.	-	a subsidiary;
Intermarket Bank AG	-	a subsidiary;
Magyar Factor zRt.	-	a subsidiary;
Polfactor SA	-	a subsidiary;
Tele –Tech Investment Sp. z o.o.	-	a subsidiary;
Transfinance a.s.	-	a subsidiary;
BRE Gold FIZ Aktywów Niepublicznych (*BRE Gold Non-Public Assets Closed-Ended Investment Fund*)	-	a subsidiary,

and the companies which belong to the Group of the parent company of the Bank.

(g) The Bank issues securities admitted to trading on the Warsaw Stock Exchange. As permitted by the Accounting Act, the Bank has elected, commencing 2005, to prepare its financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The decision to prepare the Bank's financial statements in accordance with those standards was taken by the General Shareholders' Meeting by means of Resolution No. 1 passed on 27 January 2005.

(h) The Bank, as the parent company in the BRE Bank SA Group, also prepared consolidated financial statements in accordance with IFRS as adopted by the European Union, dated 1 March 2010. In order to understand the financial position and the results of operations of the Bank as the parent company, the separate financial statements should be read in conjunction with the consolidated financial statements.

II. Information on the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Bank by Resolution No. 31 of the Ordinary General Shareholders' Meeting dated 16 March 2009, on the basis of paragraph 11 of the Bank's Articles of Association.

(b) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of Art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (*Journal of Laws* No. 77, item 649).

(c) The audit was conducted on the basis of an agreement concluded on 4 July 2008, in the following periods:

- interim audit from 26 October 2009 to 23 December 2009;
- final audit from 4 January 2010 to 1 March 2010.

III. The Bank's results and financial position

The financial statements do not take account of the effects of inflation. The consumer price index (from December to December) amounted to 3.5% in the audited year (3.3% in 2008).

The observations below are based on the knowledge obtained during the audit of the financial statements. The financial statements have been prepared in accordance with the going concern principle.

- In the financial year ended 31 December 2009, total assets increased by PLN 251,789 thousand to PLN 72,607,181 thousand as at the end of the audited period. The main assets comprised "Loans and advances to customers" in the amount of PLN 44,260,700 thousand (accounting for 60% of total assets) and "Investment securities" in the amount of PLN 13,397,725 thousand (accounting for 18% of total assets); whereas the largest items on the liabilities side were "Amounts due to customers" in the amount of PLN 42,414,412 thousand (i.e. 58% of total liabilities and equity) and "Amounts due to other banks" the balance of which amounted to PLN 19,184,949 thousand (i.e. 26% of total liabilities and equity) as at 31 December 2009.
- The value of the share capital did not change compared with the end of the previous year and amounted to PLN 1,521,683 thousand.
- In the audited period, there was an increase in lending activities of PLN 2,003,535 thousand, which resulted mainly from the increase in the balance of amounts due from individuals of PLN 1,816,916 thousand. Thus, the share of loans and advances to customers in total assets increased from 58% to 60%.
- The share of impaired loans and advances to customers and amounts due from banks in the gross portfolio amounted to 4.5% as at the balance sheet date, whereas as at 31 December 2008 it amounted to 1.6%. The balance of impairment losses on loans and advances to customers and banks amounted to PLN 1,707,876 thousand as at the end of 2009 and increased by PLN 1,002,998 thousand compared with the end of the previous year. At the same time, in the audited period the ratio of impairment losses to impaired loan receivables dropped by 3 percentage points to 70% as at the end of the audited period, mainly as a result of a high level of recoveries for loans with impairment identified in the audited period. The significant increase in the share of impaired loans and advances to customers in the gross portfolio as at the end of the audited period compared with 31 December 2008 resulted from the deterioration in the quality of the loan portfolio mainly due to the deterioration in the financial position of the Bank's borrowers as a result of the economic slowdown. In addition, the Bank recognized impairment losses on amounts due from corporate customers who had liabilities in respect of derivative transactions. The low recovery of cash advances which the Bank extended to customers who did not have any other products with BRE Bank before contributed significantly to the deterioration in the quality of the portfolio of loans and advances to retail customers.
- Free cash was invested in investment securities, securities held for trading, and pledged assets which mainly comprised sell-buy back transactions in securities. These items totalled PLN 18,146,299 thousand as at the balance sheet date and increased by PLN 4,234,927 thousand compared with the end of the previous year. This change contributed to the increase in the total share of the securities balance in total assets from 20% as at the end of 2008 to 25% as at the end of the audited period.

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

- In the audited period, amounts due from banks dropped by PLN 3,568,184 thousand (i.e. by 59%) to PLN 2,497,397 thousand as at the end of the reporting period, mainly as a result of the decrease in the balance of interbank deposits of PLN 3,003,433 thousand, as well as loans and advances of PLN 424,276 thousand. At the same time, the value of cash in hand and with the Central Bank increased by PLN 1,280,141 thousand (i.e. by 51%) compared with the end of 2008, to PLN 3,771,992 thousand as at the end of the reporting period.
- In the audited period, the value of derivative financial instruments dropped by PLN 3,680,445 thousand to PLN 1,931,868 thousand as at the end of 2009, which was accompanied by a fall in derivative financial instruments recognized in liabilities of PLN 4,278,167 thousand to PLN 1,933,149 thousand as at the end of the audited period.
- The total net revenues amounted to PLN 193,150 thousand in 2009 and comprised the net profit of PLN 57,143 thousand, a change in the valuation of available-for-sale financial assets in the amount of PLN 128,006 thousand, and a change in foreign exchange differences on the translation of foreign entities in the amount of PLN 8,001 thousand. The Bank's total net revenues decreased by PLN 335,847 thousand compared with the previous year, mainly as a result of the decrease in the net profit of PLN 772,388 thousand, which was partly offset by the increase in the valuation of available-for-sale financial assets of PLN 420,482 thousand.
- The net profit for the current financial year amounted to PLN 57,143 thousand and was PLN 772,388 thousand lower than the net profit earned in 2008. The said net profit comprised mainly: net interest income of PLN 1,357,017 thousand, net fee and commission income of PLN 399,229 thousand, and net trading income of PLN 385,267 thousand. At the same time, the net profit had been affected by the Bank's overheads together with depreciation and amortization totalling PLN 1,201,324 thousand, as well as by negative net impairment losses on loans and advances in the amount of PLN 966,652 thousand.
- The profit before tax amounted to PLN 98,878 thousand in 2009 and was PLN 802,609 thousand (i.e. 89%) lower than in 2008. The said drop was mainly due to the increase in negative net impairment losses on loans and advances of PLN 747,905 thousand, a fall in the gain on investment securities of PLN 210,111 thousand, and a drop in net trading income of PLN 62,211 thousand. The said fall in the results was partly offset by the increase in net interest income of PLN 229,750 thousand.
- The increase in net impairment losses on loans and advances in 2009 resulted from the deterioration in the quality of both the retail portfolio and the corporate portfolio. The net impairment losses on the loans and advances in the retail portfolio amounted to PLN 440,647 thousand and related to the portfolio of cash advances granted to customers who did not have any of the Bank's credit products before. The losses in the corporate portfolio amounted to PLN 526,008 thousand and mainly resulted from the economic slowdown which translated into the deterioration in the financial position of the borrowers and the impairment of amounts due from customers who had liabilities in respect of derivative transactions.
- In the audited financial year, the income tax expense decreased by PLN 30,221 thousand to PLN 41,735 thousand. The fall in the income tax expense resulted from the drop in the current income tax expense of PLN 197,736 thousand accompanied by the increase in the deferred income tax expense of PLN 167,515 thousand.

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

- Return on equity being the ratio of the profit for the financial period to average net assets (including the net profit for the period) amounted to 1.54% and was 23.21 percentage points lower than in the previous year. In 2009, there was a fall in gross margin which amounted to 2.34% compared with 20.01% in 2008.

IV. Discussion of financial statement components

STATEMENT OF FINANCIAL POSITION as at 31 December 2009

	Note	31.12.2009 PLN'000	31.12.2008 PLN'000	Change PLN'000	Change (%)	31.12.2009 Structure (%)	31.12.2008 Structure (%)
ASSETS							
Cash and balances with the Central Bank	1	3,771,992	2,491,851	1,280,141	51	5	3
Debt securities eligible for rediscounting at the Central Bank		9,134	9,238	(104)	(1)	-	-
Amounts due from banks	2	2,497,397	6,065,581	(3,568,184)	(59)	3	8
Securities held for trading	3	1,234,792	4,969,212	(3,734,420)	(75)	2	7
Derivative financial instruments	4	1,931,868	5,612,313	(3,680,445)	(66)	3	8
Loans and advances to customers	5	44,260,700	42,257,165	2,003,535	5	60	57
Investment securities	6	13,397,725	5,498,171	7,899,554	144	18	8
Pledged assets	7	3,513,782	3,443,989	69,793	2	5	5
Investments in subsidiaries	8	480,709	457,305	23,404	5	1	1
Intangible assets	9	396,121	406,360	(10,239)	(3)	1	1
Property, plant and equipment	10	555,864	601,649	(45,785)	(8)	1	1
Current tax assets		116,081	-	116,081	-	-	-
Deferred tax assets	30	108,975	156,747	(47,772)	(30)	-	-
Other assets	11	332,041	385,811	(53,770)	(14)	1	1
TOTAL ASSETS		**72,607,181**	**72,355,392**	**251,789**	**-**	**100**	**100**

IV. The Bank's results and financial position (cont.)

STATEMENT OF FINANCIAL POSITION as at 31 December 2009 (cont.)

	Note	31.12.2009 PLN'000	31.12.2008 PLN'000	Change PLN'000	Change (%)	31.12.2009 Structure (%)	31.12.2008 Structure (%)
LIABILITIES AND EQUITY							
Liabilities		**68,793,555**	**68,731,245**	**62,310**	**-**	**95**	**95**
Amounts due to the Central Bank	12	2,003,783	1,302,469	701,314	54	3	2
Amounts due to other banks	13	19,184,949	20,142,760	(957,811)	(5)	26	28
Derivative financial instruments and other liabilities held for trading	14	1,933,149	6,211,316	(4,278,167)	(69)	3	8
Amounts due to customers	15	42,414,412	37,438,494	4,975,918	13	58	52
Debt securities in issue		-	7,829	(7,829)	(100)	-	-
Subordinated liabilities	16	2,631,951	2,669,453	(37,502)	(1)	4	4
Other liabilities	17	516,443	654,676	(138,233)	(21)	1	1
Current income tax liability	30	-	214,145	(214,145)	(100)	-	-
Deferred tax provision	30	79	81	(2)	(2)	-	-
Provisions	18	108,789	90,022	18,767	21	-	-
Equity	**19**	**3,813,626**	**3,624,147**	**189,479**	**5**	**5**	**5**
Share capital	20	1,521,683	1,521,683	-	-	2	2
Retained earnings		2,377,239	2,323,767	53,472	2	3	3
Other equity items		(85,296)	(221,303)	136,007	(61)	-	-
TOTAL LIABILITIES AND EQUITY		**72,607,181**	**72,355,392**	**251,789**	**-**	**100**	**100**

IV. The Bank’s results and financial position (cont.)

INCOME STATEMENT
For the year ended 31 December 2009

	Note	31.12.2009 PLN’000	31.12.2008 PLN’000	Change PLN’000	Change (%)	31.12.2009 Structure (%)	31.12.2008 Structure (%)
Interest income		2,865,773	2,940,153	(74,380)	(3)	68	65
Interest expense		(1,508,756)	(1,812,886)	304,130	(17)	(37)	(50)
Net interest income	**21**	**1,357,017**	**1,127,267**	**229,750**	**20**		
Fee and commission income		777,932	704,842	73,090	10	18	16
Fee and commission expense		(378,703)	(280,876)	(97,827)	35	(9)	(8)
Net fee and commission income	**22**	**399,229**	**423,966**	**(24,737)**	**(6)**		
Dividend income	**23**	**59,738**	**68,681**	**(8,943)**	**(13)**	1	1
Foreign exchange position		402,115	482,361	(80,246)	(17)	10	11
Net other trading income		(16,848)	(34,883)	18,035	(52)	(1)	(1)
Net trading income	**24**	**385,267**	**447,478**	**(62,211)**	**(14)**		
Net gain/loss on investment securities	25	55,346	265,457	(210,111)	(79)	1	6
Other operating income	26	68,477	43,742	24,735	57	2	1
Net impairment losses on loans and advances	27	(966,652)	(218,747)	(747,905)	342	(23)	(6)
Bank’s overheads	28	(993,382)	(1,070,917)	77,535	(7)	(24)	(30)
Depreciation and amortization	29	(207,942)	(159,798)	(48,144)	30	(5)	(4)
Other operating expenses	26	(58,220)	(25,642)	(32,578)	127	(1)	(1)
Profit before tax		**98,878**	**901,487**	**(802,609)**	**(89)**		
Income tax expense	30	(41,735)	(71,956)	30,221	(42)		
Net profit for the year	**31**	**57,143**	**829,531**	**(772,388)**	**(93)**		
Total income		4,229,381	4,505,236	(275,855)	(6)	100	100
Total expenses		(4,130,503)	(3,603,749)	(526,754)	15	(100)	(100)
Profit before tax		**98,878**	**901,487**	**(802,609)**	**(89)**		

IV. The Bank's results and financial position (cont.)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	2009 PLN'000	2008 PLN'000	Change PLN'000	Change (%)	31.12.2009 Structure (%)	31.12.2008 Structure (%)
Net profit	**57,143**	**829,531**	**(772,388)**	**(93)**	30	157
Foreign exchange differences on the translation of foreign entities (net)	8,001	(8,058)	16,059	(199)	4	(2)
Valuation of available-for-sale financial assets (net)	128,006	(292,476)	420,482	(144)	66	(55)
Net comprehensive income	**193,150**	**528,997**	**(335,847)**	**(63)**	**100**	**100**

IV. The Bank's results and financial position (cont.)

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

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

	31.12.2009	31.12.2008
Profitability ratios		
Return on equity (net profit for the financial period / average net assets)(1)	1.54%	24.75%
Return on equity (net profit for the financial period / average net assets excluding the net profit/loss for the period)(1)	1.55%	28.24%
Return on assets (profit before tax for the financial period / average assets)(1)	0.14%	1.49%
Gross margin (profit before tax for the financial period / total income)	2.34%	20.01%
Interest income to working assets (interest income / average working assets)(3)	4.30%	5.40%
C/I ratio (Bank's overheads / profit/loss on banking activities)(2)	53.23%	52.76%
Liability ratios		
Cost of borrowings (interest expense for the financial period / average interest-bearing liabilities)(1)	2.36%	3.49%
Equity to liabilities & equity (average equity / average total liabilities & equity)(1)	5.13%	5.55%
Loans to assets (average gross amounts due from banks and customers / average total assets)(1)	67.25%	64.72%
Impaired loans and advances to gross amounts due from banks and customers	4.49%	1.63%
Working assets to total assets(3)	94.60%	89.47%
Liquidity ratios		
Liquidity I (assets maturing within 1 month / liabilities maturing within 1 month)(4)	0.40	0.36
Liquidity II (assets maturing within 3 months / liabilities maturing within 3 months)(4)	0.47	0.39
Capital market ratios		
Earnings per share	PLN 1.92	PLN 27.95
Book value per share	PLN 128.44	PLN 122.06
Other ratios		
Equity in accordance with KNF (*Polish Financial Supervision Authority*) Resolution No. 381/2008	PLN 5,338,650 thousand	PLN 4,887,007 thousand
Total regulatory capital requirement in accordance with KNF Resolution No. 380/2008	PLN 3,639,569 thousand	PLN 3,893,689 thousand
Capital adequacy ratio in accordance with KNF Resolution No. 380/2008	11.73%	10.04%

(1) The average balances of balance sheet items were calculated on the basis of the balances of the individual items as at the beginning and the end of the current financial period and the previous financial period.
(2) The profit/loss on banking activities understood as the profit/loss before tax less the Bank's overheads, net impairment losses on loans and advances, and other operating income and expenses.
(3) Interest receivable was not eliminated from working assets.
(4) The values of the individual ratios may differ from the ratios presented in the financial statements due to a different calculation method being used.

IV. The Bank's results and financial position (cont.)

STATEMENT OF FINANCIAL POSITION as at 31 December 2009

1. Cash and balances with the Central Bank

As at 31 December 2009, the balance of "Cash and balances with the Central Bank" amounted to PLN 3,771,992 thousand, which represented a 51% increase compared with PLN 2,491,851 thousand as at the end of 2008.

The increase in the balance was mainly due to the increase in cash in current accounts of PLN 1,274,266 thousand to PLN 3,622,840 thousand as at 31 December 2009.

As at the end of the reporting period, the Bank calculated and maintained a mandatory reserve in accordance with Resolution No. 15/2004 of the Management Board of the National Bank of Poland dated 13 April 2004 on the terms and procedures for banks calculating and maintaining a mandatory reserve. As at 31 December 2009, the balance of the mandatory reserve maintained with the NBP amounted to PLN 1,039,065 thousand compared with PLN 1,175,454 thousand as at the end of the previous year.

2. Amounts due from banks

As at 31 December 2009, the balance of amounts due from banks amounted to PLN 2,497,397 thousand and dropped by PLN 3,568,184 thousand (i.e. by 59%) compared with the end of 2008.

The drop mainly resulted from the decrease in deposits with other banks of PLN 3,003,433 thousand (i.e. of 69%), as well as in loans and advances from PLN 941,813 thousand as at the end of 2008 to PLN 517,537 thousand as at 31 December 2009 (i.e. of 45%).

Impairment losses on amounts due from banks amounted to PLN 38,087 thousand as at the end of 2009 and increased by PLN 7,073 thousand compared with the end of 2008.

3. Securities held for trading

As at 31 December 2009, the balance of securities held for trading amounted to PLN 1,234,792 thousand, which represented a drop of PLN 3,734,420 thousand compared with 31 December 2008 (i.e. 75%).

As at 31 December 2009, the balance of the said item comprised debt securities with a carrying value of PLN 1,232,198 thousand and equity securities with a carrying value of PLN 2,594 thousand.

The drop in the carrying value of securities held for trading resulted mainly from the decrease in the portfolio of other debt securities of PLN 3,626,306 thousand (including a decrease in the securities issued by the NBP of PLN 3,162.714 thousand) and in the balance of Treasury bills of PLN 266,594 thousand. The said drop was partly offset by the increase in the portfolio of government bonds of PLN 157,198 thousand.

IV. The Bank's results and financial position (cont.)

4. Derivative financial instruments

The balance of "Derivative financial instruments" amounted to PLN 1,931,868 thousand as at the end of the reporting period and dropped by PLN 3,680,445 thousand (i.e. by 66%) compared with the end of the previous financial year.

The said item mainly comprised the valuation of interest rate derivatives, which amounted to PLN 1,153,631 thousand on the assets side as at the end of the audited period and was PLN 1,741,289 thousand lower than as at 31 December 2008, and the valuation of foreign exchange derivatives, which amounted to PLN 757,225 thousand on the assets side as at the end of the reporting period, which represented a drop of PLN 1,937,082 thousand compared with the balance as at the end of 2008.

5. Loans and advances to customers

As at 31 December 2009, the balance of loans and advances to customers amounted to PLN 44,260,700 thousand and increased by PLN 2,003,535 thousand (i.e. by 5%) compared with 31 December 2008. At the same time, the share of this item in total assets increased by 2 percentage points to 60%. The write-downs of this item amounted to PLN 1,669,789 thousand as at 31 December 2009 compared with PLN 673,864 thousand as at the end of 2008.

(a) Structure of the loan portfolio in terms of types of loans

As at 31 December 2009, loans to individuals, which amounted to PLN 28,771,426 thousand, and loans to corporate customers in the gross amount of PLN 15,598,691 thousand, were the largest components of the gross loan portfolio. The increase in gross receivables compared with the previous year resulted from, amongst others, the increase in the portfolio of loans to individuals of PLN 2,232,460 thousand (i.e. of 8%) compared with the end of the previous financial year and the increase in the value of loans to the public sector of PLN 709,469 thousand to PLN 743,851 thousand as at the end of 2009.

Since the end of 2008, the proportions within the gross loan portfolio have changed slightly. As at 31 December 2009, loans to individuals accounted for 63% of the portfolio, whereas loans to corporate customers represented 34% of the portfolio, whereas as at the end of the previous year these loans accounted for 62% and 37% of the portfolio respectively.

(b) Structure of the loan portfolio in terms of quality

The ratio of impairment losses to the gross receivables balance increased by 2 percentage points in the audited period and amounted to 3.6% as at the end of the financial year.

The increase in impairment losses in 2009 resulted from the deterioration in the quality of the loan portfolio which was mainly due to the deterioration in the financial position of the Bank's borrowers as a result of the economic slowdown. In addition, the Bank recognized impairment losses on amounts due from corporate customers who had liabilities in respect of derivative transactions. The low recovery of cash advances which the Bank extended to customers who did not have any other products with BRE Bank before contributed significantly to the deterioration in the quality of the portfolio of loans and advances to retail customers.

IV. The Bank's results and financial position (cont.)

5. Loans and advances to customers (cont.)

The value of gross impaired receivables increased by PLN 1,367,930 thousand (i.e. by 190%) and amounted to PLN 2,089,544 thousand as at 31 December 2009. The increase in the gross impaired receivables was accompanied by an increase in the value of impairment losses of PLN 938,532 thousand (i.e. of 178%) to PLN 1,466,069 thousand as at the end of the audited financial year. The ratio of losses to the portfolio of loans with recognized impairment amounted to 70% as at the end of 2009 and decreased by 3 percentage points compared with the previous year.

The carrying value of the gross receivables subject to the portfolio analysis amounted to PLN 43,840,945 thousand as at 31 December 2009 and increased by PLN 1,631,530 thousand compared with the previous year. The increase in these receivables was accompanied by the increase in the impairment losses on the exposures subject to the portfolio analysis of PLN 57,393 thousand to PLN 203,720 thousand as at 31 December 2009. In consequence, the ratio of impairment losses to the portfolio of the receivables subject to the portfolio analysis amounted to 0.46% as at 31 December 2009 (0.35% as at 31 December 2008).

6. Investment securities

As at 31 December 2009, the balance of "investment securities" amounted to PLN 13,397,725 thousand (PLN 5,498,171 thousand as at the end of the previous year), which represented an increase of PLN 7,899,554 thousand (i.e. of 144%). The balance of the item comprised debt securities in the amount of PLN 13,271,099 thousand (PLN 5,414,972 thousand as at the end of 2008) and equity instruments in the net amount of PLN 126,626 thousand (PLN 83,199 thousand as at the end of 2008).

The increase in the balance of debt securities was largely due to the increase in the balance of NBP bills of PLN 6,564,063 thousand and the increase in the balance of Treasury bills of PLN 2,101,492 thousand compared with the previous year.

The balance of equity instruments increased by PLN 43,427 thousand to PLN 126,626 thousand, which was mainly associated with the revaluation of PZU SA's shares which were subsequently contributed to Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BRE Gold in return for investment certificates in this fund. The value of the investment certificates amounted to PLN 113,919 thousand as at the end of the reporting period, whereas the value of PZU SA's shares contributed to the fund, at cost – PLN 73,998 thousand.

7. Pledged assets

As at 31 December 2009, the balance of pledged assets amounted to PLN 3,513,782 thousand, which represented an increase of PLN 69,793 thousand (i.e. of 2%) compared with the end of 2008.

The said increase was mainly due to the increase in the value of securities provided as collateral for a loan from the European Investment Bank in the amount of PLN 374,397 thousand, which was partly offset by the drop in the value of sell-buy back transactions of PLN 314,025 thousand (i.e. of 10%).

The Bank also showed debt securities pledged for the Bank Guarantee Fund as pledged assets. As at 31 December 2009, they amounted to PLN 184,821 thousand compared with PLN 175,300 thousand as at the end of the previous financial year.

IV. The Bank's results and financial position (cont.)

8. Investments in subsidiaries

As at 31 December 2009, the balance of "Investments in subsidiaries" amounted to PLN 480,709 thousand and increased by PLN 23,404 thousand (i.e. by 5%) compared with the end of the previous year.

This increase was mainly associated with the capital of Centrum Rozliczeń i Informacji CERI Sp. z o.o. being increased by PLN 20,506 thousand and the capital of Aspiro Sp. z o.o. (formerly emFinanse Sp. z o.o.) being increased by PLN 10,000 thousand.

In 2009, the capital of BRE Corporate Finance SA was also increased by PLN 1,980 thousand. As at the end of the year, the value of shares in this company was covered by an impairment write-down of PLN 6,473 thousand.

9. Intangible assets

As at 31 December 2009, the balance of intangible assets amounted to PLN 396,121 thousand, which represented a drop of PLN 10,239 thousand (i.e. of 3%) compared with the end of the previous financial year.

In the audited period, the gross book value of intangible assets increased by PLN 23,734 thousand (i.e. by 3%) to PLN 758,164 thousand in the audited year. The said increase resulted from the expenditure on intangible assets in the course of construction incurred in 2009, in the amount of PLN 81,738 thousand, and the purchases of intangible assets in the amount of PLN 22,761 thousand. This increase was partly offset by the liquidation and other disposals of intangible assets totalling PLN 82,115 thousand.

10. Property, plant and equipment

As at the end of the reporting period, the balance of "Property, plant and equipment" amounted to PLN 555,864 thousand and dropped by PLN 45,785 thousand (i.e. by 8%) compared with 31 December 2008. The said item mainly comprised: buildings, apartments and structures with a net book value of PLN 189,382 thousand, plant and machinery with a carrying value of PLN 111,330 thousand, and other fixed assets with a carrying value of PLN 175,918 thousand.

The gross book value of property, plant and equipment increased by PLN 22,437 thousand to PLN 1,244.673 thousand as at the end of the audited year. The said increase mainly resulted from expenditure being incurred on fixed assets under construction with a value of PLN 45,439 thousand and the purchases of equipment in the amount of PLN 27,780 thousand. The said increase was partly offset by the sale, scrapping, and other disposals with a total gross book value of PLN 60,084 thousand.

11. Other assets

As at the end of the audited financial year, the balance of "Other assets" amounted to PLN 332,041 thousand compared with PLN 385,811 thousand as at the end of the previous financial year, which represented a decrease of PLN 53,770 thousand (i.e. of 14%).

The change in the balance of "Other assets" was mainly due to the decrease in the balance of "Debtors" of PLN 33,634 thousand, in "Other prepayments and deferred costs" of PLN 9,865 thousand, and in "Income receivable" of PLN 9,167 thousand.

IV. The Bank's results and financial position (cont.)

12. Amounts due to the Central Bank

As at the end of the reporting period, the balance of "Amounts due to the Central Bank" amounted to PLN 2,003,783 thousand compared with PLN 1,302,469 thousand as at 31 December 2008. The amounts due to the Central Bank mainly comprised liabilities in respect of repo transactions in the amount of PLN 2,003,440 thousand.

13. Amounts due to other banks

As at 31 December 2009, the balance of "Amounts due to other banks" amounted to PLN 19,184,949 thousand, which represented a drop of PLN 957,811 thousand (i.e. of 5%).

The drop in amounts due to banks mainly resulted from the drop in repo and sell buy-back transactions of PLN 1,228,756 thousand (i.e. of 66%) to PLN 632,927 thousand. This drop was partly offset by the increase in cash in current accounts of PLN 335,932 thousand to PLN 743,985 thousand as at the end of the audited period.

14. Derivative financial instruments and other liabilities held for trading

As at 31 December 2009, the said item in the amount of PLN 1,933,149 thousand comprised solely the valuation of derivative financial instruments and dropped by PLN 4,278,167 thousand compared with the end of December 2008.

The balance comprised: the valuation of interest rate derivatives in the amount of PLN 1,181,470 thousand, the valuation of foreign exchange derivatives with a value of PLN 732,832 thousand, and the valuation of market risk derivatives with a value of PLN 18,847 thousand.

The drop in the item resulted mainly from the fall in the valuation of interest rate derivatives of PLN 2,225,720 thousand and the drop in foreign exchange derivatives of PLN 2,049,443 thousand.

15. Amounts due to customers

As at 31 December 2009, the value of amounts due to customers amounted to PLN 42,414,412 thousand, which represented an increase of PLN 4,975,918 thousand (i.e. of 13%) compared with the end of the previous financial year.

The increase in the item was mainly due to the increase in amounts due to individuals of PLN 3,893,489 thousand to PLN 24,768,842 thousand as at the end of the audited period. The said increase mainly comprised the increase in cash in current accounts of PLN 3,256,900 thousand (i.e. of 25%).

A large increase also occurred in amounts due to corporate customers (of PLN 911,711 thousand, i.e. 6%).

IV. The Bank's results and financial position (cont.)

16. Subordinated liabilities

As at 31 December 2009, the balance of subordinated liabilities amounted to PLN 2,631,951 thousand and decreased by PLN 37,502 thousand (i.e. by 1%) compared with the end of the previous financial year.

As at 31 December 2009, "Subordinated liabilities" comprised subordinated bonds and loans with a total par value of CHF 950,000 thousand. In 2009, there were no new issues of subordinated bonds, and no new loans were raised, and the change in the balance resulted mainly from the change in the CHF exchange rate.

17. Other liabilities

As at 31 December 2009, other liabilities amounted to PLN 516,443 thousand, which represented a drop of PLN 138,233 thousand (i.e. of 21%) compared with the end of the previous year.

The decrease in the said item compared with 31 December 2008 was mostly due to the drop in provisions for other liabilities to employees of PLN 95,271 thousand and in the balance of "Creditors" of PLN 16,505 thousand.

The decrease in the balance of accruals of PLN 9,457 thousand and of deferred income of PLN 7,777 thousand also contributed significantly to the drop in other liabilities.

18. Provisions

As at the end of the reporting period, the balance of provisions amounted to PLN 108,789 thousand, which represented an increase of PLN 18,767 thousand (i.e. of 21%) compared with the end of the previous year.

As at 31 December 2009, the said balance comprised provisions for off-balance-sheet liabilities in the amount of PLN 61,323 thousand, other provisions for future liabilities in the amount of PLN 45,378 thousand, and provisions for disputes in the amount of PLN 2,088 thousand.

The increase in provisions compared with 31 December 2008 resulted mainly from the increase in other provisions for future liabilities of PLN 31,277 thousand, which was partly offset by a decrease in provisions for off-balance-sheet contingent liabilities of PLN 11,906 thousand.

IV. The Bank's results and financial position (cont.)

19. Equity

	31.12.2008	Foreign exchange differences on the translation of foreign entities	Valuation of available-for-sale financial assets	Valuation of share option schemes	Net profit for the year	31.12.2009
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Share capital	1,521,683	-	-	-	-	1,521,683
Retained earnings	2,323,767	-	-	(3,671)	57,143	2,377,239
Other equity items	(221,303)	8,001	128,006	-	-	(85,296)
Total equity	**3,624,147**	**8,001**	**128,006**	**(3,671)**	**57,143**	**3,813,626**

As at the end of the audited period, the value of "Equity" amounted to PLN 3,813,626 thousand (PLN 3,624,147 thousand as at 31 December 2008).

In the audited year, the share capital did not change and amounted to PLN 1,521,683 thousand.

Retained earnings increased by the amount of the net profit earned by the Bank in 2009, which amounted to PLN 57,143 thousand.

In the audited period, the valuation of the Incentive Scheme for the Management Board in the amount of PLN -3,671 thousand, approved by the General Shareholders' Meeting on 14 March 2008, was recognized in retained earnings. The details of the scheme are described in Note 41 to the Bank's financial statements.

In the audited period, other equity items increased from PLN -221,303 thousand as at 31 December 2008 to PLN -85,296 thousand as at the end of the audited period. This increase resulted mainly from the positive valuation of the portfolio of available-for-sale financial assets in the amount of PLN 128,006 thousand and the recognition of foreign exchange gains associated with the shares held by the Bank in subordinated entities and with foreign branches totalling PLN 8,001 thousand.

IV. The Bank's results and financial position (cont.)

20. Share capital – ownership structure

As at 31 December 2009, the Bank's shareholders were:

Name	Number of shares held	Par value of shares held	Type of shares held (ordinary /preference shares)	% of voting rights
Commerzbank Auslandsbanken Holding AG	20,719,692	82,878,768	ordinary shares	69.78
Other shareholders	8,971,190	35,884,760	ordinary shares	30.22
	29,690,882			**100.00**

As at the end of the financial year, the share capital amounted to PLN 118,763,528 and comprised 29,690,882 shares with a par value of PLN 4 each. In 2009, Commerzbank Auslandsbanken Holding AG, which is a subsidiary of Commerzbank AG, remained the main shareholder of BRE Bank SA.

As at 31 December 2009, no other shareholder exceeded the threshold of 5% of shares held. Thus, the interest held by the remaining shareholders in the Bank's share capital amounted to 30.22%.

IV. The Bank's results and financial position (cont.)

Income statement for the year ended 31 December 2009

21. Net interest income

In the current financial period, net interest income amounted to PLN 1,357,017 thousand (PLN 1,127,267 thousand in the previous financial year), which represented an increase of PLN 229,750 thousand (i.e. of 20%). The said increase resulted from the drop in interest income (a drop of PLN 74,380 thousand to PLN 2,865,773 thousand) being smaller than the drop in interest expense (a drop of PLN 304,130 thousand to PLN 1,508,756 thousand).

The largest drop in value among income items was observed in interest income on cash and short-term deposits (a drop of PLN 158,560 thousand, i.e. of 52%) and in interest income on debt securities held for trading (a drop of PLN 145,411 thousand, i.e. of 56%). The said drop was partly offset by an increase in interest income on investment securities (an increase of PLN 229,755 thousand, i.e. of 73%).

The drop in interest income was the product of a decrease in interest income to working assets (being the ratio of interest income to average working assets) of 1.10 percentage points to 4.30% accompanied by an increase in the share of working assets in total assets of 5.13 percentage points to 94.60%.

The interest expense mainly comprised interest in respect of settlements with banks and customers in the amount of PLN 1,448,219 thousand, the balance of which dropped by PLN 278,740 thousand (i.e. by 16%) compared with the previous year. The cost of borrowings (being the ratio of the interest expense for the financial period to the average balance of interest-bearing liabilities) decreased by 1.13 percentage points to 2.36%.

The Bank's interest margin (being the ratio of net interest income to interest income) increased compared with the previous financial year from 38% to 47%.

22. Net fee and commission income

In 2009, net fee and commission income amounted to PLN 399,229 thousand, which represented a drop of PLN 24,737 thousand (i.e. of 6%) compared with the previous year. The drop in the balance of the item resulted from the increase in fee and commission expense (an increase of PLN 97,827 thousand, i.e. of 35%) being larger than the increase in the related income (an increase of PLN 73,090 thousand, i.e. of 10%).

The increase in fee and commission income was mainly due to an increase in income from handling payment cards (of PLN 82,659 thousand, i.e. of 40%) and in income from maintaining accounts (of PLN 14,811 thousand, i.e. of 21%). The increase in income from handling payment cards was the result of both a greater number of cards issued and a greater number of transactions conducted with the use of such cards, whereas the increased income from fees and commissions for maintaining accounts resulted from an increase in the number of active accounts. The said increases were partly offset by a drop in income from lending activities (of PLN 24,432 thousand, i.e. of 12%), which mainly resulted from the limitation of lending activities in 2009.

The level of fee and commission expense in the financial period under discussion was mainly affected by the costs of handling and insuring payment cards which increased by PLN 45,167 thousand to PLN 188,796 thousand and other fees which increased by PLN 55,812 thousand to PLN 184,903 thousand, and which mainly comprised the fees of financial agents.

IV. The Bank's results and financial position (cont.)

23. Dividend income

Dividend income amounted to PLN 59,738 thousand in 2009, which represented a drop of PLN 8,943 thousand (i.e. of 13%) compared with 2008. The said item comprised, amongst others, dividends from Dom Inwestycyjny BRE Banku SA (PLN 33,624 thousand), BRE Holding Sp. z o.o. (PLN 11,500 thousand), BRE.locum SA (PLN 9,080 thousand) and the National Clearing Chamber (PLN 2,104 thousand). Dividends from other companies in which the Bank held shares amounted to PLN 3,430 thousand.

24. Net trading income

Net trading income amounted to PLN 385,267 thousand in 2009, which represented a drop of PLN 62,211 thousand (i.e. of 14%) compared with 2008. The net trading income comprised the foreign exchange position of PLN 402,115 thousand and a loss on other trading activities which amounted to PLN 16,848 thousand.

The foreign exchange position decreased by PLN 80,246 thousand compared with the previous year due to a drop in net foreign exchange differences of PLN 788,349 thousand, which was partly offset by an increase in gains on transactions of PLN 708,103 thousand.

The loss on other trading activities decreased by PLN 18,035 thousand compared with the previous year mainly as a result of the increase in the net gain on market risk instruments of PLN 8,720 thousand, equity instruments of PLN 5,586 thousand and interest rate instruments of PLN 3,729 thousand.

25. Net gain/loss on investment securities

In 2009, the Bank made a gain on investment securities of PLN 55,346 thousand, which represented a drop of PLN 210,111 thousand (i.e. of 79%) compared with the previous financial year.

The said gain mainly comprised a gain on the redemption of investment certificates in BRE Gold Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in the amount of PLN 60,846 thousand, which was offset by the costs of the impairment write-down of shares in BRE Corporate Finance SA in the amount of PLN 6,473 thousand.

26. Other operating income and other operating expenses

Other operating income amounted to PLN 68,477 thousand and increased by PLN 24,735 thousand (i.e. by 57%) compared with 2008. In 2009, this item mainly comprised income from the release of provisions for future liabilities with a value of PLN 25,655 thousand, the sales of goods for resale and services in the amount of PLN 23,653 thousand, and "Other" in the amount of PLN 14,341 thousand.

Other operating expenses increased from PLN 25,642 thousand in 2008 to PLN 58,220 thousand in the audited period. In 2009, the balance of the item mainly comprised charges to provisions for future liabilities in the amount of PLN 33,982 thousand, impairment write-downs of property, plant and equipment and intangible assets in the amount of PLN 4,838 thousand, as well as "Other" in the amount of PLN 13,834 thousand.

IV. The Bank's results and financial position (cont.)

27. Net impairment losses on loans and advances

The balance of net impairment losses on loans and advances amounted to PLN 966,652 thousand in the audited period compared with PLN 218,747 thousand in the previous year.

In the audited year, the said item comprised mainly net impairment losses on loans and advances to customers in the amount of PLN 957,437 thousand, which increased by PLN 774,087 thousand compared with the previous year, and net impairment losses on amounts due from banks in the amount of PLN 19,950 thousand, which decreased by PLN 1,944 thousand compared with the previous year. In 2009, more provisions for off-balance-sheet liabilities were released than were recognized – the net write-downs amounted to PLN 10,735 thousand. In 2008, the related net write-downs amounted to PLN -13,503 thousand.

The increase in net impairment losses on loans and advances in 2009 resulted from the deterioration in the quality of both the retail portfolio and the corporate portfolio. The net impairment losses on loans and advances in the retail portfolio amounted to PLN 440,647 thousand and related mostly to the portfolio of cash advances granted to customers who did not have any of the Bank's credit products before. The losses in the corporate portfolio amounted to PLN 526,008 thousand and mainly resulted from the economic slowdown which translated into the deterioration in the financial position of the borrowers and the impairment of amounts due from customers who had liabilities in respect of derivative transactions.

28. The Bank's overheads

In the audited period, the Bank's overheads amounted to PLN 993,382 thousand, which represented a drop of PLN 77,535 thousand (i.e. of 7%) compared with 2008.

The decrease in the Bank's overheads was mainly due to the drop in employee costs of PLN 111,107 thousand (i.e. of 20%) which resulted from, amongst others, employees being made redundant (the Bank's average employment levels decreased by 4%) and lower than 2008 provisions for bonuses. At the same time, there was an increase in running costs which reached PLN 495,369 thousand compared with PLN 476,122 thousand in 2008.

29. Amortization and depreciation

The amortization and depreciation expense amounted to PLN 207,942 thousand in the audited period, which represented an increase of PLN 48,144 thousand (i.e. of 30%) compared with the previous financial year.
In the audited period, the balance of the said item comprised the amortization of intangible assets in the amount of PLN 113,842 thousand and the depreciation of fixed assets in the amount of PLN 94,100 thousand.

30. Income tax expense

	2009 PLN'000	2008 PLN'000	Change PLN'000
Current income tax	16,526	214,262	(197,736)
Deferred income tax	25,209	(142,306)	167,515
Income tax expense	**41,735**	**71,956**	**(30,221)**

IV. The Bank's results and financial position (cont.)

30. Income tax expense (cont.)

In the current financial period, corporate income tax was calculated using the 19% rate on the basis of the profit before tax determined in accordance with the IFRS as adopted by the European Union, and adjusted for non-taxable income and non-deductible costs. In the course of 2009, the Bank paid advances towards corporate income tax on a flat rate basis, which resulted in income tax receivables of PLN 116,081 thousand arising as at the end of the reporting period.

The deferred tax balance comprised deductible temporary differences which amounted to PLN 332,305 thousand compared with PLN 361,322 thousand as at 31 December 2008. The deductible temporary differences related to, amongst others, impairment losses on loans and off-balance-sheet liabilities which have not so far been recognized as tax-deductible costs (PLN 178,871 thousand), the valuation of derivative instruments and forward contracts (PLN 63,604 thousand), the valuation of available-for-sale financial instruments (PLN 20,027 thousand), interest payable on customer deposits (PLN 18,327 thousand), and accruals (PLN 17,925 thousand).

Taxable temporary differences amounted to PLN 223,409 thousand as at the end of the audited period and were PLN 18,753 thousand higher than as at the end of the previous year. The taxable temporary differences related to, amongst others, the valuation of available-for-sale financial instruments (PLN 42,478 thousand), differences between tax depreciation and accounting depreciation (PLN 39,268 thousand), the balance of unutilized investment relief (PLN 28,111 thousand), interest receivable on loans to customers (PLN 28,052 thousand), and the valuation of derivative instruments and forward contracts (PLN 19,631 thousand).

Due to there being net deductible differences, the Bank recognized deferred tax assets of PLN 108,975 thousand as at the end of 2009 (PLN 156,747 thousand as at the end of 2008). In addition, a deferred tax provision was recognized in the amount of PLN 79 thousand (PLN 81 thousand as at the end of 2008), which related to the foreign branches in the Czech Republic and Slovakia.

The effective corporate income tax rate amounted to 42.0%. The difference between the effective tax rate and the applicable tax rate (19%) resulted first of all from the tax losses of the foreign branches in the Czech Republic and Slovakia.

Detailed breakdowns of the deferred tax recognized in the income statement for 2009 and 2008 are presented in Notes 13 and 35 to the Bank's financial statements.

31. Net profit for the year

The net profit for the audited year amounted to PLN 57,143 thousand.

Pursuant to Resolution No. 2 of the General Shareholders' Meeting dated 16 March 2009, a portion of the net profit earned in 2008 in the amount of PLN 100,000 thousand was earmarked for transfer to the general risk reserve, and the remaining portion in the amount of PLN 729,531 thousand was earmarked for increasing other supplementary capital. Both the equity items are presented in "Retained earnings" in the Bank's statement of financial position.

IV. The Bank's results and financial position (cont.)

32. Contingent liabilities granted and received

The balance of "Contingent liabilities granted and received" comprised liabilities granted, the balance of which dropped by PLN 6,191,863 thousand compared with the end of the previous year to PLN 12,227,183 thousand, and liabilities received in the amount of PLN 684,503 thousand, the balance of which increased by PLN 126,867 thousand compared with the end of the previous year.

As at 31 December 2009, the balance of liabilities granted mainly comprised lending commitments in the amount of PLN 9,379,566 thousand, as well as guarantees and letters of credit in the amount of PLN 2,349,785 thousand, whereas the balance of liabilities received mostly comprised guarantee commitments received in the amount of PLN 424,093 thousand.

Detailed information on this balance is presented in Note 37 to the Bank's financial statements.

V. The independent registered auditor's statement

(a) In the course of the audit, the Bank's Management Board presented the required information, explanations, and representations and provided us with a representation letter confirming the completeness of the data in the books of account and the disclosure of all the contingent liabilities. They also informed us of significant events which occurred between the end of the reporting period and the date of that letter being signed.

(b) The scope of the audit was not limited.

(c) The Bank had up-to-date documentation of its accounting policies, approved by the Management Board. The Bank's accounting policies were tailored to its needs and ensured the specification, in its accounting records, of all the events material to the assessment of its financial position and results, taking into consideration the prudence principle. Changes in the accounting policies used were correctly disclosed in the notes to the financial statements.

(d) The closing balances as at the end of the previous financial year were correctly brought forward as the opening balances of the current period in all material respects.

(e) We have assessed the operations of the accounting system. Our assessment covered in particular:
- the accuracy of the documentation relating to business transactions;
- the fairness, accuracy and verifiability of the books of account, including computerized books of account;
- the methods used for controlling access to data and the computerized data processing system;
- the safeguarding of the accounting documentation, books of account, and financial statements.

This assessment, together with our verification of the individual items of the financial statements, provides the basis for expressing a general, comprehensive and unqualified opinion on the truth and fairness of these financial statements. Our audit was not aimed at providing a comprehensive opinion on the operations of the said system.

(f) The notes to the financial statements present all the material information required by the International Financial Reporting Standards as adopted by the European Union.

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

(h) The counts of assets and equity & liabilities were carried out and reconciled in accordance with the Accounting Act, and their results were recognized in the books of account for the audited year.

V. The independent registered auditor's statement (cont.)

(i) The total regulatory requirement along with the requirement concerning the risk of excessive capital exposures amounted to PLN 3,639,569 thousand as at the end of the reporting period. The capital adequacy ratio amounted to 11.73% as at 31 December 2009. As at the end of the reporting period, the Bank complied with the applicable prudence standards in all material respects.

(j) We determined the materiality levels at the planning stage. The materiality levels specify the limits up to which the irregularities identified may be left unadjusted without detriment to the quality of the financial statements or the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the users of the financial statements. Materiality measures both the quantity and quality of the audited items, and therefore it varies for different balance sheet and income statement items. Due to the complexity and the number of the materiality levels adopted for audit purposes, they are included in the audit documentation.

(k) The financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

(l) The Bank's financial statements as at and for the year ended 31 December 2008 were approved by Resolution No. 1 of the 22nd of the Ordinary General Shareholders' Meeting dated 16 March 2009. They were filed with the National Court Register in Warsaw on 21 March 2009 and published in *Monitor Polski B* No. 905, item 5197 on 4 June 2009.

VI. Final information and comments

This report has been prepared in connection with our audit of the financial statements of BRE Bank SA, Warsaw, ul. Senatorska 18 (hereinafter referred to as “the Bank”). The audited financial statements comprised:

(a) the statement of financial position as at 31 December 2009, showing total assets and total liabilities & equity of PLN 72,607.181 thousand;

(b) the income statement for the year ended 31 December 2009, showing a net profit of PLN 57,143 thousand;

(c) the statement of comprehensive income for the year ended 31 December 2009, showing comprehensive income of PLN 193,150 thousand;

(d) the statement of changes in equity for the year ended 31 December 2009, showing an increase in the equity of PLN 189,479 thousand;

(e) the cash flow statement for the year ended 31 December 2009, showing net cash outflows of PLN 1,934,244 thousand;

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

The financial statements were signed by the Bank’s Management Board on 1 March 2010. This report should be read in conjunction with the Independent Registered Auditor’s Opinion to the General Shareholders’ Meeting and the Supervisory Board of BRE Bank SA dated 1 March 2010, concerning the said financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of the individual components of the financial statements or issues. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements.

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

Adam Celiński

Key Registered Auditor
No. 90033

Warsaw, 1 March 2010

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

Ladies and Gentlemen,

The results of the past year prove that BRE Bank Group not only survived the economic slow-down but, most importantly, came out of it stronger and ready to set and achieve new ambitious goals. We closed 2009 at a profit and reported the highest recurrent income in our history, our best cost/income ratio in five years, and a growing deposit base. Polish clients continue to choose BRE Bank to invest their savings as evidenced by the fact that we have acquired almost 0.5 million new customers and collected over PLN 5 billion of deposits in 2009.

However, we must bear in mind that 2009 was a difficult year in many ways. While we achieved the highest recurrent income in our history and kept cost development under tight control, our pre-tax profit of PLN 209.4 million was largely impacted by more than PLN 1 billion of loan loss provisions. Negative developments in the macroeconomic environment, sharply falling dynamics of new lending, and less accessible and more expensive funding affected our results.

In this past year, we worked under challenging and difficult macroeconomic conditions. As a result of the global financial crisis, the world economy suffered the biggest recession in almost 80 years. Germany and many other trade partners of Poland were strongly affected. While Poland was the only EU Member State to avoid recession, the local economy slowed down significantly. The banking sector was one of the industries most affected by the crisis. The effect is clearly seen in the profitability level of banks, down by around 38% year on year in 2009. The main reason for the profitability decline were high loan loss provisions required by the fast falling quality of the loans portfolio. Irregular loans doubled since mid-2008 and represented no less than 7.5% of the banking sector's loans portfolio at the end of 2009. The growth of new lending slowed down due to falling demand and less accessible conditions of bank debt. The terms of lending had to become stricter as a consequence of rising risks and costs of funding incurred by banks. The growth rate of corporate loans in the banking sector fell from nearly 29% to a negative 4% in 2009 while the growth rate of household loans fell from over 47% to under 12%. The growth rate of housing loans fell even more sharply.

We made best efforts to adjust to the new conditions and to anticipate further developments in a volatile market environment; as a result, we decided to prepare a strategic plan with a shorter horizon and a strong focus on quick wins as well as structural mid term efficiency improvements, which you all know as our strategic BREnova programme. Our positive results of the past months are primarily due to this programme. Today we know that it has produced tangible results: highest recurrent income in our history, savings of PLN 296 million (6% above the target), growth of the retail customer base (up by 17 % yoy from 2.78 million to 3.26 million customers), improved cross-selling, reduced cost/income and loans/deposits ratios, and higher product margins.

The success of BREnova lets us make more ambitious plans for the future. We realise that 2010 will bring more challenges in the banking industry, but we are clear about the goals of BRE Bank Group in the coming years.
In order to increase its strategic flexibility to support the implementation of the announced growth strategy for the years 2010 – 2012, as well as provide for a core Tier 1 capital ratio in line with potential new capital requirements, both regulatory and those of the marketplace, the Bank plans to increase its share capital.

In corporate banking we shall seek to strengthen our position in lending to public-sector entities and to expand in projects co-financed with the EU funds. At the same time, we plan to further grow our client base in the K2 and K3 segments. In area of investment banking, we intend to maintain the current model of close cooperation with corporate clients and within the range of products currently offered to clients.
The strategic goal for retail banking is to strengthen the Bank's position in the non-mortgage lending, in particular among the existing clients of the bank. We intend to achieve this goal through intensified cross-selling. We believe that at the same time, revenues from non-mortgage products will help to diversify revenue sources. Moreover, we aim to further develop sales of mortgage products, including those denominated in foreign currencies. The sales of foreign currency mortgage products will be based on our expertise gained from building up the current portfolio of mortgage loans denominated mainly in CHF.
We also plan to maintain a leading position in the area of product innovations. In particular, we want to become a leading player in modern transactional banking, tailored for corporate clients. A further development of electronic distribution channels, both for corporate clients and individuals is planned.

The BREnova Programme implemented in the Group in 2009, improved the cost base significantly, which, in turn, improved the operating efficiency ratios. We will seek to maintain these ratios or improve them in 2010, mostly thanks to revenue increase.

Ladies and Gentlemen,

I would like to thank you for your support for BRE Bank in this difficult and challenging year. BREnova would not have been successful without the full understanding that will benefit everyone: shareholders, clients, and employees of the BRE Bank Group. Thank you very much for your efforts and support, your understanding and trust this year.

Yours sincerely,

Mariusz Grendowicz

1 March, 2010

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

Dear Shareholders,

During the past financial year the Supervisory Board was thoroughly monitoring and analysing the situation at BRE Bank SA and remained in close contact with the Management Board, participating in consultations on all important aspects of the Bank's activities. The Supervisory Board held 4 meetings. The focus of all the meetings was on the Bank's current business situation, which we discussed in detail with the Management Board on each occasion.

Between the meetings of the Supervisory Board, the Executive Committee took a number of decisions by circular procedure. The Supervisory Board passed various resolutions by circular procedure as well. Moreover, the Audit Committee and the Risk Committee operated within the Supervisory Board.

It ought to be stated that the environment in which BRE Bank SA was operating in the past year was harsh. As forecasted at the beginning of 2009, the economic slowdown, which started in the second half of 2008 as a result of the financial crisis, continued. For the banking sector, one of the most severe effects of the slowdown was the deterioration of the quality of credit portfolios. To a certain extent, it was also caused by dealing with the problem of leveraged FX options, which appeared in 2008 and lasted for many months in the past year. 2009 was also a year of great uncertainty as to the further development of the economic situation, mainly leading to a limitation of lending in both supply and demand in the banking sector.

In 2009 the BRE Bank SA Group generated a pre-tax profit of the amount of PLN 209,4 million, which translated into PLN 128,9 million of consolidated net profit attributable to owners of BRE Bank SA.

Due to the adverse macroeconomic and business conditions last year, the Bank's growth was restricted. The balance sheet total of the BRE Bank SA Group fell by 1.9% while the client's loan portfolio grew by 0.6%. This however does not imply the end of the Bank's profitable growth path. It was decided to take advantage of the challenging period and to lay the foundations for improved profitability and efficiency. Both targets were included in the successfully implemented strategic BREnova programme.

On March 1, 2010 the Supervisory Board took the decision to recommend to the Annual General Meeting of Shareholders to vote in favour of a share capital increase of up to PLN 83.13 million by way of issuing of no more than 20.78 million new shares, in an issue addressed to the existing Bank's shareholders, based on their pre-emptive right, with the aim to raise PLN 2 billion as a result of the new shares' issue. Such capital increase will provide the Bank with flexibility for potential new capital requirements, both regulatory and of the marketplace. This will allow to increase the Bank's capital adequacy ratio calculated on the basis of core capital (Tier 1 ratio), being currently one of the lowest among the banks operating in Poland. Moreover, it will support identified, profitable growth initiatives in a new, improved macroeconomic environment. For all the above mentioned reasons the Supervisory Board recommends to the Annual General Meeting of Shareholders not to pay out a dividend for 2009.

On behalf of the entire Supervisory Board I wish to express my hope that during this year and the years to come BRE Bank SA will strengthen its position in the Polish banking sector, at the same time remaining the best financial institution for demanding clients, and increase the Bank's value for you as Shareholders. I am certain that the entire BRE Bank SA staff will do their utmost to make that happen.

Maciej Leśny
Chairman of the Supervisory Board
01 March 2010

BRE BANK SA

BRE Bank SA

IFRS Financial Statements 2009

Contents

Selected Financial Data

The selected financial data are supplementary information to these financial statements of BRE Bank SA for 2009.

SELECTED FINANCIAL DATA FOR THE BANK		in'000 PLN (functional currency)		in EUR '000	
		Year ended 31.12.2009	Year ended 31.12.2008	Year ended 31.12.2009	Year ended 31.12.2008
I.	Interest income	**2 865 773**	**2 940 153**	**660 225**	**832 409**
II.	Fee and commission income	**777 932**	**704 842**	**179 222**	**199 553**
III.	Net trading income	**385 267**	**447 478**	**88 759**	**126 689**
IV.	Operating profit	**98 878**	**901 487**	**22 780**	**255 227**
V.	Profit before income tax	**98 878**	**901 487**	**22 780**	**255 227**
VI.	Net profit	**57 143**	**829 531**	**13 165**	**234 855**
VII.	Net cash flows from operating activities	**(2 076 159)**	**(6 895 493)**	**(478 312)**	**(1 952 236)**
VIII.	Net cash flows from investing activities	**(49 500)**	**577 299**	**(11 404)**	**163 444**
IX.	Net cash flows from financing activities	**191 435**	**7 165 940**	**44 103**	**2 028 804**
X.	Net decrease in cash and cash equivalents	**(1 934 224)**	**847 746**	**(445 612)**	**240 012**
XI.	Earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**1.92**	**27.95**	**0.44**	**7.91**
XII.	Diluted earnings per 1 ordinary share (in PLN/EUR per share) (for 12 months)	**1.92**	**27.93**	**0.44**	**7.91**
XIII.	Declared or paid dividend per share (in PLN/EUR per share)	**-**	**-**	**-**	**-**

SELECTED FINANCIAL DATA FOR THE BANK		in'000 PLN (functional currency)		in EUR '000	
		Year ended 31.12.2009	Year ended 31.12.2008	Year ended 31.12.2009	Year ended 31.12.2008
I.	Total assets	**72 607 181**	**72 355 392**	**17 673 721**	**17 341 432**
II.	Amounts due to the Central Bank	**2 003 783**	**1 302 469**	**487 752**	**312 163**
III.	Amounts due to other banks	**19 184 949**	**20 142 760**	**4 669 916**	**4 827 620**
IV.	Amounts due to customers	**42 414 412**	**37 438 494**	**10 324 330**	**8 972 892**
V.	Equity	**3 813 626**	**3 624 147**	**928 296**	**868 600**
VI.	Share capital	**118 764**	**118 764**	**28 909**	**28 464**
VII.	Number of shares	**29 690 882**	**29 690 882**	**29 690 882**	**29 690 882**
VIII.	Book value per share (in PLN/EUR)	**128.44**	**122.06**	**31.26**	**29.25**
IX.	Diluted book value per share (in PLN/EUR)	**128.28**	**121.98**	**31.23**	**29.23**
X.	Capital adequacy ratio	**11.73**	**10.04**	**11.73**	**10.04**

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

- for items of the Statement of Financial Position – an exchange rate announced by the National Bank of Poland as at 31 December 2009 EUR 1 = PLN 4.1082 and an exchange rate announced by the National Bank of Poland as at 31 December 2008 EUR 1 = PLN 4.1724;
- for items of the Income Statement – an exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2009 and 2008: EUR 1 = PLN 4.3406 and EUR 1 = PLN 3.5321 respectively.

IFRS Financial Statements 2009 PLN (000's)

Income Statement

	Note	Year ended 31 December 2009	2008
Interest income	5	2 865 773	2 940 153
Interest expense	5	(1 508 756)	(1 812 886)
Net interest income		**1 357 017**	**1 127 267**
Fee and commission income	6	777 932	704 842
Fee and commission expense	6	(378 703)	(280 876)
Net fee and commission income		**399 229**	**423 966**
Dividend income	7	59 738	68 681
Net trading income, including:	8	385 267	447 478
Foreign exchange result		*402 115*	*482 361*
Other trading income		*(16 848)*	*(34 883)*
Gains less losses from investment securities	22	55 346	265 457
Other operating income	9	68 477	43 742
Impairment losses on loans and advances	12	(966 652)	(218 747)
Overhead costs	10	(993 382)	(1 070 917)
Amortization and depreciation	25,26	(207 942)	(159 798)
Other operating expenses	11	(58 220)	(25 642)
Operating profit		**98 878**	**901 487**
Profit before income tax		**98 878**	**901 487**
Income tax expense	13	(41 735)	(71 956)
Net profit		**57 143**	**829 531**
Net profit		**57 143**	**829 531**
Weighted average number of ordinary shares		**29 690 882**	**29 680 542**
Earnings per 1 ordinary share (in PLN)	14	**1.92**	**27.95**
Weighted average number of ordinary shares for diluted earnings		**29 729 741**	**29 701 246**
Diluted earnings per 1 ordinary share (in PLN)	14	**1.92**	**27.93**

Notes presented on pages 9 – 86 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2009 PLN (000's)

Statement of Comprehensive Income

	Note	Year ended 31 December 2009	2008
Financial result		**57 143**	**829 531**
Other comprehensive income subject to taxation	15	**136 007**	**(300 534)**
Exchange differences on translating foreign operations (net)		8 001	(8 058)
Available-for-sale financial assets (net)		128 006	(292 476)
Total comprehensive income net of tax, total		**193 150**	**528 997**

Notes presented on pages 9 – 86 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2009 PLN (000's)

Statement of Financial Position

	Note	31.12.2009	31.12.2008
ASSETS			
Cash and balances with the Central Bank	16	3 771 992	2 491 851
Debt securities eligible for rediscounting at the Central Bank	17	9 134	9 238
Loans and advances to banks	18	2 497 397	6 065 581
Trading securities	19	1 234 792	4 969 212
Derivative financial instruments	20	1 931 868	5 612 313
Loans and advances to customers	21	44 260 700	42 257 165
Investment securities	22	13 397 725	5 498 171
- Available for sale		13 397 725	5 498 171
Pledged assets	38	3 513 782	3 443 989
Investments in subsidiaries	23	480 709	457 305
Intangible assets	25	396 121	406 360
Tangible fixed assets	26	555 864	601 649
Current income tax assets		116 081	-
Deferred income tax assets	35	108 975	156 747
Other assets	27	332 041	385 811
Total assets		**72 607 181**	**72 355 392**
EQUITY AND LIABILITIES			
Amounts due to the Central Bank	29	2 003 783	1 302 469
Amounts due to other banks	29	19 184 949	20 142 760
Derivative financial instruments and other trading liabilities	20	1 933 149	6 211 316
Amounts due to customers	30	42 414 412	37 438 494
Debt securities in issue	31	-	7 829
Subordinated liabilities	32	2 631 951	2 669 453
Other liabilities	33	516 443	654 676
Current income tax liabilities		-	214 145
Deferred income tax provision	35	79	81
Provisions	34	108 789	90 022
Total liabilities		**68 793 555**	**68 731 245**
Equity			
Share capital:		**1 521 683**	**1 521 683**
- Registered share capital	39	118 764	118 764
- Share premium	40	1 402 919	1 402 919
Retained earnings:	41	**2 377 239**	**2 323 767**
- Profit from the previous years		2 320 096	1 494 236
- Profit for the current year		57 143	829 531
Other components of equity	42	**(85 296)**	**(221 303)**
Total equity		**3 813 626**	**3 624 147**
Total equity and liabilities		**72 607 181**	**72 355 392**
Capital adequacy ratio	48	**11.73**	**10.04**
Book value		**3 813 626**	**3 624 147**
Number of shares		**29 690 882**	**29 690 882**
Book value per share (in PLN)		**128.44**	**122.06**
Diluted number of shares		**29 729 741**	**29 711 586**
Diluted book value per share (in PLN)		**128.28**	**121.98**

Notes presented on pages 9 – 86 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2009 PLN (000's)

Statement of Changes in Equity

Changes in equity from 1 January 2009 to 31 December 2009

	Note	Share capital		Retained earnings					Other components of equity		Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General Risk Fund	Profit from the previous years	Profit for the current year	Exchange differences on translating foreign operations	Available-for-sale financial assets	
Equity as at 1 January 2009		**118 764**	**1 402 919**	**874 123**	**12 113**	**608 000**	**829 531**	**-**	**(10 610)**	**(210 693)**	**3 624 147**
- reclassification to book value through the profit and loss account		-	-	-	-	-	-	-	-	-	-
- changes to accounting policies		-	-	-	-	-	-	-	-	-	-
- adjustment of errors		-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2009		**118 764**	**1 402 919**	**874 123**	**12 113**	**608 000**	**829 531**	**-**	**(10 610)**	**(210 693)**	**3 624 147**
Total comprehensive income	15							**57 143**	**8 001**	**128 006**	**193 150**
Transfer to General Risk Fund		-	-	-	-	100 000	(100 000)	-	-	-	-
Transfer to supplementary capital		-	-	729 531	-	-	(729 531)	-	-	-	-
Stock option program for employees	41	-	-	-	(3 671)	-	-	-	-	-	(3 671)
- value of services provided by the employees		-	-	-	*(3 671)*	-	-	-	-	-	*(3 671)*
Equity as at 31 December 2009		**118 764**	**1 402 919**	**1 603 654**	**8 442**	**708 000**	**-**	**57 143**	**(2 609)**	**(82 687)**	**3 813 626**

Changes in equity from 1 January 2008 to 31 December 2008

		Share capital		Retained earnings					Other components of equity		Total equity
		Registered share capital	Share premium	Other supplementary capital	Other reserve capital	General Risk Fund	Profit from the previous years	Profit for the current year	Exchange differences on translating foreign operations	Available-for-sale financial assets	
Equity as at 1 January 2008		**118 643**	**1 398 789**	**286 893**	**1 346**	**558 000**	**637 231**	**-**	**(2 552)**	**81 783**	**3 080 133**
- reclassification to book value through the profit and loss account		-	-	-	-	-	-	-	-	-	-
- changes to accounting policies		-	-	-	-	-	-	-	-	-	-
- adjustment of errors		-	-	-	-	-	-	-	-	-	-
Adjusted equity as at 1 January 2008		**118 643**	**1 398 789**	**286 893**	**1 346**	**558 000**	**637 231**	**-**	**(2 552)**	**81 783**	**3 080 133**
Total comprehensive income	15							**829 531**	**(8 058)**	**(292 476)**	**528 997**
Transfer to General Risk Fund		-	-	-	-	50 000	(50 000)	-	-	-	-
Transfer to supplementary capital		-	-	587 231	-	-	(587 231)	-	-	-	-
Issue of shares	39, 40	121	2 784	-	-	-	-	-	-	-	2 905
Other changes		-	-	(1)	-	-	-	-	-	-	(1)
Stock option program for employees	41	-	1 346	-	10 767	-	-	-	-	-	12 113
- value of services provided by the employees		-	-	-	*12 113*	-	-	-	-	-	*12 113*
- settlement of exercised options		-	*1 346*	-	*(1 346)*	-	-	-	-	-	-
Equity as at 31 December 2008		**118 764**	**1 402 919**	**874 123**	**12 113**	**608 000**	**-**	**829 531**	**(10 610)**	**(210 693)**	**3 624 147**

Notes presented on pages 9 – 86 constitute an integral part of these Financial Statements.

IFRS Financial Statements 2009 PLN (000's)

Statement of Cash Flows

	Note	Year ended 31 December 2009	2008
A. Cash flow from operating activities		**(2 076 159)**	**(6 895 493)**
Profit before income tax		**98 878**	**901 487**
Adjustments:		***(2 175 037)***	***(7 796 980)***
Income taxes paid (negative amount)		(346 752)	(118 475)
Amortisation		207 942	159 798
Foreign exchange (gains) losses		5 276	639 366
(Gains) losses on investing activities		(58 107)	(271 122)
Impairment of financial assets		6 632	11 020
Dividends received		(59 738)	(68 681)
Interest received		(2 204 176)	(2 334 815)
Interest paid		1 545 552	1 665 572
Change in loans and advances to banks		936 880	59 258
Change in trading securities		3 625 024	(4 114 256)
Change in derivative financial instruments		3 680 445	(3 348 468)
Change in loans and advances to customers		12 702	(13 887 680)
Change in investment securities		(8 181 074)	261 017
Change in other assets		84 584	(160 772)
Change in amounts due to other banks		(764 295)	5 983 317
Change in financial instruments and other trading liabilities		(4 278 167)	4 029 896
Change in amounts due to customers		3 734 094	3 570 335
Change in debt securities in issue		171	219
Change in provisions		18 767	21 191
Change in other liabilities		(140 797)	106 300
Net cash from operating activities		**(2 076 159)**	**(6 895 493)**
B. Cash flows from investing activities		**(49 500)**	**577 299**
Investing activity inflows		**134 975**	**818 121**
Disposal of shares or stocks in associates	24	-	485 013
Disposal of shares or stocks in subsidiaries		1 369	50
Disposal of intangible assets and tangible fixed assets		1 367	342
Other investing inflows		132 239	332 716
Investing activity outflows		**184 475**	**240 822**
Acquisition of shares or stocks in subsidiaries		11 980	5
Purchase of intangible assets and tangible fixed assets		171 751	240 817
Other investing outflows		744	-
Net cash used in investing activities		**(49 500)**	**577 299**
C. Cash flows from financing activities		**191 435**	**7 165 940**
Financing activity inflows		**1 723 058**	**11 704 517**
Proceeds from loans and advances from other banks		1 514 028	10 954 760
Proceeds from other loans and advances		209 030	-
Increase of subordinated liabilities		-	746 852
Issue of ordinary shares		-	2 905
Financing activity outflows		**1 531 623**	**4 538 577**
Repayments of loans and advances from other banks		1 082 533	3 640 500
Repayments of other loans and advances		11 506	106 718
Redemption of debt securities		8 000	29 200
Decrease of subordinated liabilities		-	359 500
Payments of financial lease liabilities		10 674	14 380
Interest payments on loans received from banks and subordinated liabilities		418 910	388 279
Net cash from financing activities		**191 435**	**7 165 940**
Net increase / decrease in cash and cash equivalents (A+B+C)		**(1 934 224)**	**847 746**
(Decrease)/increase in cash and cash equivalents in respect of foreign exchange gains and losses		(44 849)	157 364
Cash and cash equivalents at the beginning of the reporting period		8 513 263	7 508 153
Cash and cash equivalents at the end of the reporting period	44	**6 534 190**	**8 513 263**

Notes presented on pages 9 – 86 constitute an integral part of these Financial Statements.

Explanatory Notes to the Financial Statements

1. Information Concerning BRE Bank SA

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

According to the Polish Classification of Business Activities, the business of the Bank was classified as "Other banking business" under number 6512A. According to the Stock Exchange Quotation, the Bank is classified as pertaining to the "Banks" sector of the "Finance" macro-sector.

According to the By-laws of the Bank, the scope of its business consists of providing banking services and consulting-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, institutional and retail banking (including private banking) throughout the whole country and operates trading and investment activity.

Foreign branches of mBank in both the Czech Republic and Slovakia opened business under the retail banking umbrella of BRE Bank.

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

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

The average employment in 2009 was in BRE Bank SA 5 162 persons (2008: 5 364 persons).

The Management Board of BRE Bank SA approved these Financial Statements for issue on 1 March 2010.

2. Description of Relevant Accounting Policies

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

2.1 Accounting Basis

These Financial Statements of the BRE Bank SA have been prepared for the 12 - month period ended 31 December 2009.

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

The Bank, drafting Financial Statements for the year 2009, applied the provisions of revised International Accounting Standard (IAS) 1, Presentation of Financial Statements, which has been binding from 1 January 2009. The revised IAS 1 was applied with reference to all reporting periods presented in financial statements.

The drafting of the Financial Statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Bank The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues which involve a significant degree of application of estimates or judgments for the purpose of the Financial Statements are disclosed in the Note 4.

The Bank also prepares Consolidated Financial Statements in accordance with IFRSs. BRE Bank SA Group Consolidated Financial Statements for the year 2009 were published on 1 March 2010.

2.2 Interest Income and Expenses

All interest proceeds linked with financial instruments carried at amortised cost using the effective interest rate method are recognised in the Income Statement.

The effective interest rate method is a method of calculation of the amortised initial value of financial assets or financial liabilities and allocation of interest income or interest 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 Bank estimates the cash flows taking into account all the contractual conditions attached to the given financial instrument, 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 Income Statement, and on the other side in the Statement of Financial Position as receivables from banks or from other customers.

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

2.3 Fee and Commission Income

Income on account of fees and commissions is basically recognised on the accrual basis, at the time of performance of the respective services. Fees charged for the 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 Bank has not retained any part of the credit risk on its own account or has retained a part with the same effective interest rate as other participants. Commissions and fees on account of negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the acquisition of shares or other securities, or the acquisition or disposal of an enterprise, are recognised at the time of realisation of the respective transaction. 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, which are continuously provided over an extended period of time.

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

2.4 Financial Assets

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

<u>Financial assets valued at fair value through the income statement</u>

This category comprises two subcategories: financial assets held for trading and financial assets designated at fair value through the Income Statement 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 Bank. Derivative instruments are also classified as "held for trading", unless they were designated for hedging.

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

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

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

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value, except for derivatives the recognition of which is discussed in the Note 2.10, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

The Bank did not designate any financial assets/financial liabilities as measured at fair value through the Income Statement at the initial recognition.

<u>Loans and Receivables</u>

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

<u>Held to Maturity Investments</u>

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

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

In reporting periods presented in these consolidated financial statements, there were no assets held to maturity at the Bank.

<u>Available for Sale Investments</u>

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

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

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

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

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

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

Investments in subsidiaries and associates

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

2.5 Offsetting Financial Instruments

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

2.6 Impairment of Financial Assets

Assets Carried at Amortised Cost

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

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

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

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

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

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

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

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

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

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

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

Assets Measured at Fair Value

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

Renegotiated agreements

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

2.7 Financial Guarantee Contracts

In accordance with amendment to IAS 39, which came into force at 1 January 2006, the Bank has an obligation to recognise financial guarantee contracts in its financial statements.

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

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

1. the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and
2. the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

2.8 Cash and Cash Equivalents

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

2.9 Sell-buy-back, Buy-sell-back, Reverse Repo and Repo Contracts

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

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

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

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

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

2.10 Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

a) At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
b) The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.

c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

d) The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.

e) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

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

Fair Value Hedges

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

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

Cash Flow Hedges

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

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

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

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting

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

The 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
e) Commodity swaps

Interest rate risk instruments:

a) Forward Rate Agreement (FRA)
b) Interest Rate Swap (IRS), Overnight Index Swap (OIS)
c) Interest Rate Options

Foreign exchange risk instruments:

a) Currency forwards, fx swap, fx forward
b) Cross Currency Interest Rate Swap (CIRS)
c) Currency options.

2.11 Gains and Losses on Initial Recognition

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

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

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

2.12 Borrowings

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

2.13 Intangible Assets

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

Computer software

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

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

Development costs

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

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

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

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

2.14 Tangible Fixed Assets

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

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

Accounting principles concerning assets held for liquidation or withdrawal from usage were described under Note 2.15.

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

Land and buildings consist mainly of branch outlets and offices.

Residual values and estimated useful life periods are verified at the end of the reporting period and adjusted accordingly as the need arises.

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

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

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

2.15 Non-Current Assets Held for Sale and Discontinued Operation

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

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

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

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

Discontinued operations are a component of the Bank that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operation or is a subsidiary acquired exclusively with a view to resale. The classification to this category takes places at the moment of sale or when the operation meets criteria of the operation classified as held for sale, if this moment took place previously.
Disposal group which is to be taken out of usage may also be classified as discontinued operation.

2.16 Deferred Income Tax

The Bank forms a provision/assets 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 by application of 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 income tax.

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

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

The Bank presents the deferred income tax assets and deferred income tax provisions netted against each other for each country separately where the Bank conducts its business and is obliged to settle corporate income tax. Such assets and provisions may be netted against each other if the Bank possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

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

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

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

2.17 Assets Repossessed for Debt

Assets repossessed for debt at their initial recognition are measured at their fair values. In case the fair value of acquired assets is higher than the debt amount the difference constitutes a liability toward the debtor.

At the end of the reporting period the initial amount is tested for impairment.

2.18 Prepayments, Accruals and Deferred Income

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

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

2.19 Leasing

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

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

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

2.20 Provisions

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

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

2.21 Retirement Benefits and Other Employee Benefits

<u>Retirement Benefits</u>

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

<u>Benefits Based on Shares</u>

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

2.22 Equity

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

<u>Registered share capital</u>

Share capital is presented at its nominal value, in accordance with the By-laws 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 Extraordinary General Meeting but not distributed at the end of the reporting period, are shown under the liabilities on account of dividends payable under the item "Other liabilities".

c) Own Shares

In the case of acquisition of shares or equity interests in the Bank by the Bank the amount paid reduces the value of equity as 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.

<u>Share premium</u>

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

Other components of equity

Other components of equity result from:

- valuation of available for sale financial instruments,
- currency translation differences resulting from valuation of structural items.

2.23 Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

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

Transactions and Balances

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

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

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

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

2.24 Trust and Fiduciary Activities

BRE Bank SA operates trust and fiduciary activities including domestic and foreign securities and services provided to investment and pension funds. The assets concerned are not shown in these financial statements as they do not belong to the Bank.

2.25 New Standards, Interpretations and Amendments to Published Standards

Changes in the published Standards and Interpretations that have come into force since 1 January 2009:

- IFRIC 13, Customer Loyalty Programmes, binding for annual periods starting on or after 1 January 2009.
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, binding for annual periods starting on 1 January 2009.
- IFRS 1 (Revised), First-Time Adoption of International Accounting Standards and IAS 27 (Revised), Consolidated and Separate Financial Statements, binding for annual periods starting on or after 1 January 2009.
- IFRS 2 (Revised), Share-based Payment, binding for annual periods starting on or after 1 January 2009.
- IFRS 7 (Revised) Financial Instruments: Disclosures, binding for annual periods starting on or after 1 January 2009.

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment resulted in additional disclosures but did not have an impact on the financial position or the comprehensive income of the Bank.

- IFRS 8, Operating Segments, binding for annual periods starting on or after 1 January 2009.

  IFRS 8 was issued in November 2006 and replaced IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The application of IFRS 8 did not result in change of the number of operating segments, and did not have any material effect for the Bank but has an impact on segment disclosure.

- IAS 1 (Revised), Presentation of Financial Statements, binding for annual periods starting on or after 1 January 2009.

  A revised version of IAS 1 was issued in September 2007. It changed the presentation of items of income and expenses in the statement of changes in equity (that is, 'non-owner changes in equity'), requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Bank presented in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

- IAS 23 (Revised), Borrowing Costs, binding for annual periods starting on or after 1 January 2009.

  The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The Bank applied IAS 23 (Amendment) retrospectively from 1 January 2009 but it is currently not applicable to the Bank as there are no qualifying assets.

- IAS 32 (Revised), Financial Instruments: Presentation and IAS 1 (Revised), Presentation of Financial Statements-Puttable Financial Instruments and Obligation arising on Liquidation, binding for annual periods starting on or after 1 January 2009.
- Improvements to IFRS 2008 revising 20 standards, binding mostly for annual periods starting on 1 January 2009.
- Embedded Derivatives, Amendments to IFRIC 9 and IAS 39, binding for annual periods ended after 30 June 2009.

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

- IFRIC 12, Service Concession Arrangements, binding for annual periods starting on 29 March 2009. Interpretation has not been approved by the European Union yet.
- IFRIC 14, (Revised), Prepayments of a Minimum Funding Requirement, binding for annual periods starting on or after 1 January 2011.
- IFRIC 15, Agreements for the Construction of Real Estate, binding for annual periods starting on or after 1 January 2009.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation, binding for annual periods starting on or after 1 July 2009.
- IFRIC 17, Distribution of Non-Cash Assets to Owners, binding for annual periods starting after 1 November 2009.
- IFRIC 18, Transfers of Assets from Customers, binding for annual periods starting after 1 July 2009.
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, binding for annual periods starting on or after 1 November 2010.
- IFRS 1 (Revised), Additional Exemptions in First-time Adoption of IFRS, binding for annual periods starting on or after 1 January 2010. Revision has not been approved by the European Union yet.
- IFRS 1 (Revised), Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, binding for annual periods starting on or after 1 July 2010. Revise has not been approved by the European Union yet.
- IFRS 2 (Revised), Share-based Payment, binding for annual periods starting on or after 1 January 2010. Revisions has not been approved by the European Union yet.
- IFRS 3 (Revised), Business Combinations, binding prospectively to business combinations for which the acquisition date is on or after 1 July 2009.
- IFRS 9, Financial Instruments, binding for annual periods starting on or after 1 January 2013. Standard has not been approved by the European Union yet.

- IAS 24, Related Party Disclosures, retrospectively binding for annual periods starting on or after 1 January 2011. Standard has not been approved by the European Union yet.
- IAS 27 (Revised), Consolidated and Separate Financial Statements, binding for annual periods starting after 1 July 2009.
- IAS 32 (Revised), Classification of Rights Issues, binding for annual periods starting on or after 1 February 2010.
- IAS 39 (Revised), Financial Instruments: Recognition and Measurement – criteria of qualification as hedged item, binding for annual periods starting on or after 1 July 2009.

Improvements to IFRS 2009 revising 12 standards, binding mostly for annual periods starting on 1 January 2010. Improvements have not been approved by the European Union yet.

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

2.26 Comparative Data

Data prepared as at 31 December 2008 are totally comparable with data introduced in the current financial period so they were not adjusted.

2.27 Business segments

Data concerning business segments were presented in the Consolidated Financial Statements of the BRE Bank SA Group for the year 2009, prepared in compliance with the International Financial Reporting Standards, published on 1 March 2010.

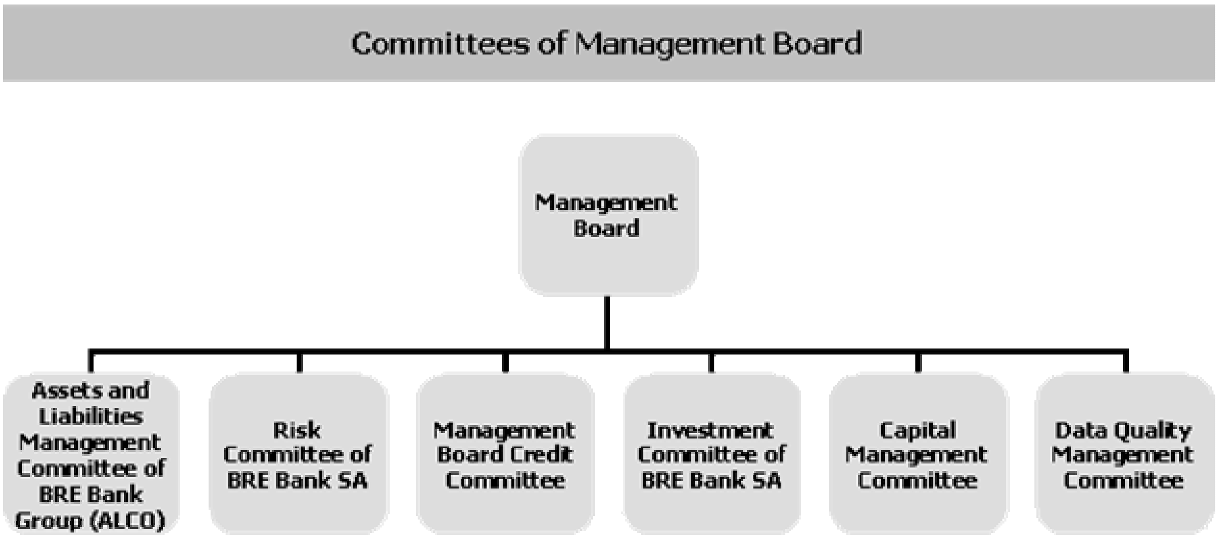
3. Financial Risk Management

The structure of Risk Management in BRE Bank

Risk management in BRE Bank starts with widely understood responsibility of the Supervisory Board of BRE Bank, which, among other activities, grants approvals to the Bank's risk management strategies and polices. The Supervisory Board Risk Committee is a body within the Board aimed both at risk management processes supervision (especially market, liquidity, credit and operational risk management) and at assessment of the Bank's exposure to particular risks.

The Management Board Members of the Bank, adequately to their duties and powers, have assigned responsibilities for the different risk types present in the Bank's activities. The President of the Management Board of the Bank is responsible for the risk of the Bank's business strategy, reputation risk and compliance risk. The Vice-President, Head of Risk Management bears responsibility for the supervision of market, liquidity, credit and operational risk, and accordingly for the implementation of the risk strategies and realisation of the risk management polices in the Bank. The Head of Investment Banking, Member of the Management Board is responsible for investment risks. The Head of Operations and IT, Member of the Management Board bears responsibility for business processes risk. Moreover, the human resources risks are under supervision of the Bank Director in charge of Human Resources Management.

The daily management of market, liquidity, credit and operational risks is performed on several defined management levels, ranging from the Management Board level at the top to the risk control and management units level at the bottom. In order to effectively execute the above mentioned risk management duties, the Management Board has defined the appropriate organisational structure of the Bank with clearly assigned and divided responsibilities of particular units, as well as has delegated the supervision of different types of risk to the respective Committees. The below chart presents the structure of the Committees:

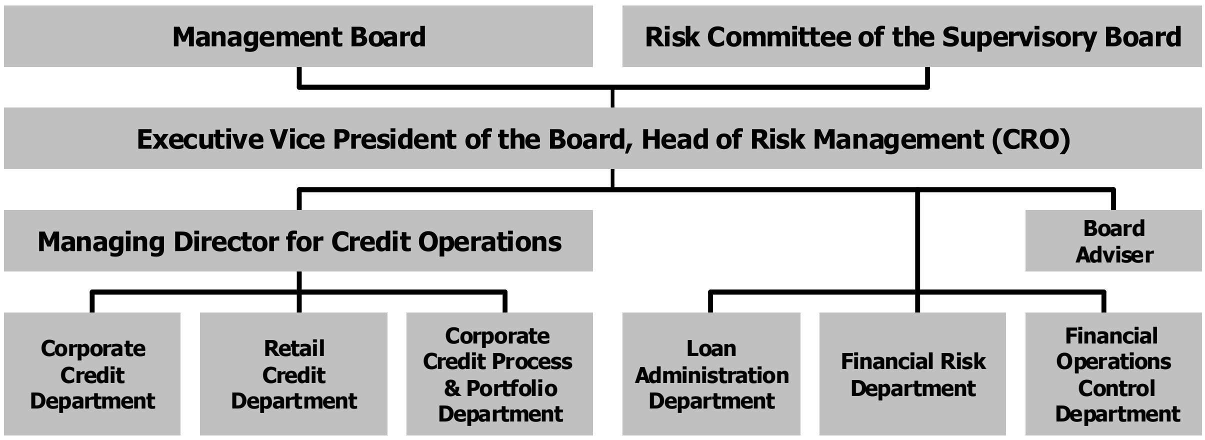


The Risk Committee of BRE Bank SA carries out the Management Board responsibilities in the area of control and management of financial risk (i.e., market, liquidity and banking book interest rate risk), portfolio credit risk and operational risk, including coordination of actions of the Bank's units participating in relevant risk management processes. The Risk Committee is comprised of four Management Board Members, out of which the Head of Risk Management chairs the Committee, and of the heads of the departments which control and monitor the risks, of the heads of departments which manage operationally the relevant risks, and of the heads of the Controlling Department, the Strategy Department, and the Internal Audit Department. The Committee is responsible for: setting the rules and the framework for the processes of control of financial and operational risks, setting the risk limits, accepting methodologies for calculations of regulatory and economic capital, approving financial risk measurement methodologies and reporting forms, setting the rules for inclusion of Bank's operations in the trading book or in the banking book respectively, setting the structure and minimal volume of liquidity reserves of the Bank, making decisions to neutralize the possibility of losing the Bank's liquidity. Moreover, the Risk Committee reviews regularly the Bank's exposure to market risk, banking book interest rate risk, liquidity risk, portfolio credit risk and operational risk, and assesses the Bank's capital adequacy level and the level of capital requirements, and reviews operational losses and the profile of operational risk of the Bank, reviews utilisation of limits established by the Committee and limits imposed by external supervisory institutions, presettlement and settlement limits, P&L results of front-office departments, and price conformity of concluded transactions with the market. The Committee holds its meetings on at least monthly basis.

The Management Board Credit Committee consists of: the Management Board Members, the adviser of the Management Board and the Heads of: the Corporate Credit Department, the Credit Administration Department (both Heads of the Departments enjoy voting power), the Trading Transaction Department (the Head of the Department does not enjoy voting power). The Committee is responsible for credit decisions concerning: loan exposures, debt conversions into shares, bonds etc. and other decisions exceeding competences of lower level decision-making bodies.

The Data Quality Management Committee for the purpose of calculating the regulatory capital requirement of the Bank (AIRB) was appointed due to the need for creating conditions for introduction and development of an effective system for managing the quality of data necessary in the processes related with application of the advanced approaches to calculation of the regulatory capital requirement. The gravity of the quality of data used in the management processes is of special importance in the case of advanced internal ratings based approach used, for example, in credit risk assessment. The rules of the system operation are set out in the Data Quality Management Policy and the Standards of Operation (good practice) approved by the Management Board and the Committee respectively. The Committee is composed of the Vice-President of the Management Board, Head of Risk Management (Chairperson), the Head of Operations and IT (Vice-Chairperson) and representatives of the areas supervised by the Management Board members appointed by them. The works performed by the Committee are supported by the data quality units located in the retail and corporate part of the risk management area.

The Chief Risk Officer (CRO) supervises the Risk Line, which consists of the Bank's units shown in the bottom on the diagram below.



Credit risk management is an integrated and continuous process operating at both the transaction and portfolio levels. The process is carried out within the credit departments responsible for clear definition of complementary areas.

The mission of the Corporate Credit Department (DKK) is mainly focused on the credit risk controlling and management in the area of Corporate Banking on the Bank level and the level of the subsidiaries of BRE Bank Group. The key functions of the DKK include: analysing and managing credit risk of the Bank's customers and the BRE Bank Group's subsidiaries (except for retail credits); monitoring the structure of exposure of the risk portfolio; analysing and managing country credit risk and controlling country limits; controlling customer limits (for non-financial customers, banks, and international financial institutions); assignment of customer and Expected Loss ratings.

The Corporate Credit Process and Portfolio Department (DPP) is responsible for organising the corporate credit process and supervising its course, establishing and implementing principles of operation of the data quality management system for the purpose of AIRB in the corporate area and supervising their observance. Moreover, in the future the Department will also prepare portfolio analyses of credit risk.

The mission of the Credit Administration Department (DAK) is to administer credit risk in the Corporate Banking and Private Banking Area. In particular, DAK administers credit risk provisions and monitors concentration risk in the case of large exposures.

The mission of the Retail Credit Department (DKD) is management of credit risk in retail banking on the domestic and foreign markets. The main operational responsibilities of DKD include: the assessment of credit risk and making credit decisions, administration of credit agreements concluded with retail clients, monitoring and collecting credit receivables. Furthermore, rules for assessment of credit risk and for calculation of exposure limits of retail clients are developed in the Department and they are implemented by means of tools which support the credit decision-making process.

Finally, credit risk on the portfolio level is monitored, valued and reported by the Financial Risk Department (DRF).

Market risk is controlled and monitored by the Financial Risk Department (DRF) and the Financial Operations Control Department (DKF). DRF is responsible for measurement of exposures to market risk of the Bank's front-office units portfolios using market risk measures: Value at Risk (VaR) and stress tests. DRF controls and monitors on a daily basis utilisation of the limits for these risk measures established by the Risk Committee of BRE Bank and provides daily and periodical reporting on the market risk exposure to managers of the Bank's front-office units, to the Risk Committee of BRE Bank, and directly to the Chief Risk Officer. Moreover, DRF carries research on market risk measurement methodologies, presettlement counterparty risk of derivative transactions, and establishes valuation models for financial instruments.

DKF calculates and reconciles daily P&L on transactions carried out by the front-office units and delivers daily reconciled P&L to the financial division. NPV of derivative transactions is also delivered to the business units responsible for managing clients (investment and corporate division). Likewise valuations prepared at DKF are the basis for exchanging collateral which mitigates counterparty credit risk in derivative transactions. Moreover, DKF is responsible for the administration of the front-office dealing systems, supervises access rights to the systems and is responsible for feeding market data to the systems utilised at the Bank. DKF monitors whether transactions carried out are within earlier established credit limits (pre-settlement, settlement, issuer and country risk) imposed on trading activities and monitors infringement escalation. Likewise, DKF verifies the market conformity of the transactions carried out by the front-office units and supervises the process of modifying and deleting deals in the front-office systems.

The purpose of **liquidity risk management** is to ensure and maintain the Bank's ability to fulfil both current and future liabilities taking into account the cost of liquidity. The liquidity management process consists of the procedures that aim at identification, measurement, controlling, monitoring, reducing and defining the acceptable level of the risk exposure. This process can be divided into two main elements in the operational sense: the part involving all forms of management and the part of controlling and monitoring liquidity risk. The Assets and Liabilities Management Committee of the BRE Bank Group, the BRE Bank Risk Committee and the Management Board of the Bank are responsible for liquidity management on the strategic level. On the operational level responsible for liquidity management are: the Settlement and Custody Department –operational supervision over cash flows in the Bank's accounts; and the Treasury Department providing necessary funds for settlements in the Bank's accounts, implementing strategic decisions made by the Assets and Liabilities Management Committee of the BRE Bank Group, calibrating the structure of the future cash flows within the limits imposed by the BRE Bank Risk Committee, maintaining defined securities portfolios whose purpose is to secure liquidity within the limits imposed by the BRE Bank Risk Committee and the Assets and Liabilities Management Committee of the BRE Bank Group. The Treasury Department is supported in its tasks by the Financial Institutions Department (arranging funding from domestic and foreign banks and international financial institutions) and the Financial Markets Department (arranging issues of the Bank's debt securities). The Financial Risk Department is in charge of controlling and monitoring financial liquidity risk of the Bank on the strategic level and reporting to the Chief Risk Officer and to the BRE Bank Risk Committee. The Financial Risk Department monitors financial liquidity on a daily basis using methods based on cash flow analysis. Liquidity risk measurement is based on the regulatory model and an internal model, which has been established taking into consideration the specific character of the Bank, the volatility of the deposit base, the level of funding concentration and projected development of particular portfolios. The value of mismatch of cash flows over defined periods of time (the liquidity gap), the level of liquidity reserves of the Bank, the usage of external and internal liquidity limits are monitored daily. The Bank assesses the current liquidity situation and the probability of its deterioration using scenario methods including stress tests. The Bank has established a Liquidity Contingency Plan, which regulates the proceedings in the case of illiquidity threat. The Contingency Plan defines the organisation of an appropriate warning system, the scope of responsibilities of particular officers and Committees in relation to the whole process and on each of its stages.

The operational risk control and monitoring function is realised by the Financial Risk Department on the Bank and the BRE Bank Group (consolidated) level. As a part of the operational risk control activities BRE Bank collects data about operational risk events and losses (loss collection database), regularly carries out the operational risk self-assessment within organisational units, collects and monitors key risk indicators and performs scenario analysis in order to identify exposure to potential high-severity events. At the same time the function maintains communication channels with all areas of the Bank (business and support areas) for remedial action once the systems spot critical patterns of operational risk in any area. The results of operational risk control and monitoring are reported to the Management Board, the BRE Bank Risk Committee and the Chief Risk Officer on a regular basis.– Within the scope of its operational risk control function duties, the Financial Risk Department closely co-operates with other units and projects within the Bank involved in operational risk, in particular with the Compliance Bureau, the Internal Audit Department and the Business Continuity Project.

The enhanced credit risk control function at the Group level is carried out by a specially dedicated Bureau established in the Corporate Credit Department. The main tasks of the Bureau are: analysing credit risk connected with new exposures of the companies, monitoring credit risk of the biggest exposures, analysis of risk portfolio quality, participation in development and modification of strategies, policies and risk management rules applied by the companies, and supervision over planning and realisation of provisions, furthermore the biggest exposures audit with reference to the Group's commitments (consolidation of commitments).

An important part in the risk management process in the Bank is played by the well organised reporting system. On one hand, the Heads of the Bank's organisational units that deal with risk management operationally, report directly and on ongoing basis to the Management Board Members responsible for the relevant units. On the other hand, with regard to quantifiable risks, units of the Risk Line that control and monitor these risks submit independent risk reports to the Heads of the Departments that manage the respective risks operationally, to the Chief Risk Officer, and to appropriate Committees of the Bank's Management Board. The CRO regularly presents reports concerning the risks under his supervision to the Risk Committee of the Supervisory Board and to the Management Board. Moreover, the above mentioned bodies are provided with regular reports about the risk profile of the Bank as a whole. In particular, a quarterly risk report addressed to the Risk Committee of the Supervisory Board, prepared by the units of the Risk Line, presents a comprehensive and synthetic approach to the risk profile of the Bank. Furthermore, every event that has considerable impact on the risk profile of the Bank is reported on an ad hoc basis and with no delay at the appropriate levels of risk management system, depending on the significance of the situation.

The Capital Management Committee under the direction of the Vice President of the Management Board (the Chief Financial Officer) is a collegiate body performing among others advisory functions in relation to capital management to the Management Board. The Committee consists of the Bank's Directors of Finance, Risk, Investment Banking, Corporate Banking and Retail Banking Lines. In particular, the Committee recommends to the Management Board capital management activities, including the capital strategy of the Bank and the Group, activities concerning maintenance of a safe level and optimal capital structure by the Bank and the Group, activities related to enhancement of capital utilisation, draft internal procedures of the Bank concerning planning and capital management processes.

Moreover, the Committee monitors and determines the structure of capital in order to provide optimal allocation of capital, taking into account the Bank's internal strategy concerning the capital adequacy ratio and elaborating optimal return on capital. Additionally, the Committee participates in identification and validation of relevance of the risks. The Committee has powers in making decisions on:

1) establishing management rules in relation to regulatory and internal capital,
2) approvals concerning estimation and maintenance of internal capital,
3) establishing the rules of capital estimation and allocation of capital to particular business areas of the Bank's activities, depending on the actual level of the risk taken,
4) establishing the rules of minimum margin assessment in relation to capital used and risks taken,
5) introducing capital measures,
6) limits of capital utilisation by particular business activities of the Bank and the units of the Bank.

The Committee has approval powers related to activities aiming at optimisation of capital utilisation and the capital strategy of the Bank, in particular long-term capital goals of the Bank within the scope of capital adequacy as well as the preferred structure of the capital.

The Bank has an **Assets and Liabilities Committee of BRE Bank Group (ALCO)**.

ALCO performs advisory functions towards the Management Board in the following areas:

1) assets and liabilities management,
2) liquidity management,
3) financing of the Bank and the BRE Bank Group.

Its duties are:

1) decisions-making on the ground of liquidity and sources of financing, taking under consideration currency and term structure,
2) balance sheet management by the transfer pricing system of funds,
3) carrying out revision of:
   a) liquidity,
   b) currency magnitude and the structure as well as the structure of portfolio of loans and deposits,
   c) level of stable financing in relation to the amount of illiquid assets,

   on a regular basis,
4) carrying out stress tests.

The Committee consists of:

1) Chairman of the Committee – Member of the Management Board, Head of Investment Banking,
2) Deputy Chairman of the Committee – Member of the Management Board, the Chief Financial Officer,
3) Members of the Committee:
   a) President of the Management Board, Director General of the Bank,
   b) Vice-President of the Management Board, the Head of Risk Management,
   c) Head of the Controlling Department,
   d) Head of the Accounting Department,
   e) Head of the Financial Risk Department.
   f) Head of the Treasury Department.

The Chairman of the Committee can invite other employees of the Bank or employees of the companies of the BRE Bank Group to meetings if he deems their presence is grounded by the topics to be discussed.

The Members of the Committee meet once a month. In justified cases, the Chairman or the Deputy Chairman of the Committee can convoke an extraordinary meeting on their own initiative or on a motion of one of the Members of the Committee.

Authority to Approve Credit Decisions

The Bank actively manages credit risk, striving to optimise its level. For this purpose, uniform principles of credit risk management apply across the Bank's structure. The main principles include: separation of the functions of credit risk rating from the sales functions; setting exposure limits; monitoring the concentration risk of large exposures; monitoring concentration risk in other significant dimensions. The separation of the functions of credit risk rating from the sales functions applies at all levels in the Bank, up to and including the Management Board level. After a product is sold, exposures generating credit risk are also administered by the Risk Line, completely independently from the Sales Line. Limits of exposure are set per individual clients and groups of associated entities, sectors, countries, etc. The concentration risk of large exposures is monitored by means of imposing limits, making observations, and by reservation by the units which offer products generating the risk of planned future exposure in correspondence with regulatory limits under the Banking Law.

The Corporate Banking Line has a credit decision-making scheme. Decisions on products generating credit risk are made by decision-making bodies whose composition, tasks, and procedures are uniform across all levels, the only difference is their powers. The authority of the decision-making bodies is determined on the basis of the amount of the Bank's total acceptable exposure to a client or a group of associated clients and the rating of exposure to a client or a group of associated clients set pursuant to the Bank's internal regulations. The specific rating is determined on the basis of the client's probability of default. Each credit decision is preceded by risk assessment carried out by an experienced analyst. The main purpose of the analysis is to determine the EL rating, i.e., the quality of the client as measured by expected loss caused by the Bank's exposure to the client's business. Depending on the level of the Bank's exposure to the client and the client's rating, the decisions are made by the relevant decision-making bodies after risk appraisal made by Risk Line.

The decision-making process for the Private Banking clients is identical to the process in Corporate Banking, i.e., the decision-making bodies (Credit Committees) make decisions within the scope of their authority, while appeals against credit decisions are elevated to a superior decision-making level.

Within the retail activity of the Bank (mBank and MultiBank) a different approach to risk financing retail clients is adopted.

The Bank applies other rules to the assessment of risk posed by funding retail clients (mBank and MultiBank). Due to a different profile of those clients, the amount of exposure per client and standardisation of products offered to those clients, the risk assessment and criteria for making credit decisions differ from those applied to corporate clients. The decision-making process is automated to a large extent, both in terms of acquiring data on the borrower from internal and external data sources, and in terms of risk assessment by means of the scoring techniques. The tasks which are not automated within this process refer mainly to verification of the credit documentation and are performed by operational units within the Risk Line. With reference to mBank and MultiBank clients, all the situations which diverge from the standard are forwarded to the senior management level.

The area of significant importance in the retail banking is that of mortgage-backed loans. The Bank reduces the probability of default (PD) by application of a very conservative approach to the clients' creditworthiness and by favouring clients with a positive credit history. Another, independent factor decreasing loan loss in the case of the client's insolvency is a very strict approach to real estate valuation and the Bank's policy on applicable LtV (Loan to Value). With reference to other credit products offered to the clients of mBank and MultiBank, the Bank observes the rule which forbids granting non-secured loans, such as bank account overdrafts, credit cards and cash borrowings to new clients with no developed relation with the Bank or with no positive credit history in the banking system. Furthermore, the Bank analyses in detail the client's conduct in the period prior to submission of the credit application in order to identify clients that are about to end up in a vicious circle of debt or those already overburdened with loans taken.

The New Basel Capital Accord

The Bank is undertaking a project to implement the advanced methods (AIRB) of calculating capital requirements and the capital adequacy ratio. As a result of the project, the Bank is ready to comply with AIRB Basel II requirements and submitted on 18 December 2009 a motion to the Polish Financial Supervision Authority for the approval to use the advanced methods.

In view of the high complexity of the process of preparation to implement the AIRB method, the Basel II AIRB project has received the highest priority of the Bank's Management Board, and a team of specialists from Commerzbank has been engaged in the project in addition to the Bank's employees and the employees of the consulting company supporting the Bank.

The strategic goal of the project is to provide the potential for the development of BRE Bank Group due to optimisation of the level and the structure of risk weighted assets, and in consequence to improve (in comparision with the standard approach) the match of the structure and the level of capital requirements to the risk profile resulting from business operations of the Bank, which cannot be achieved with application of the standard methods.

The essential added value following from direct engagement of the strategic shareholder of BRE Bank in the project is not only the operational support in realisation of project tasks but also the transfer of knowledge, experience and solutions both in relation to methodology and IT area which were worked out in the course of the Basel II AIRB project at Commerzbank. These solutions are adaptable to the needs and surroundings of BRE Bank and also reflect the specific conditions of the Polish market.

The ongoing support from the principal shareholder of the company is aimed at application of its knowledge and experience in the process of implementation of the complex elements AIRB method at BRE Bank and at adaptation of the Bank, in the most efficient manner possible, to solutions used in the Commerzbank Group.

The impact of the worldwide turmoil on the financial risk management

The financial worldwide turmoil has had an impact on the Polish economy, and has put Polish financial institutions, banks in particular, in a very strained environment. The main problem since the emergence of the crisis in the Polish market has been the rapidly drying liquidity on the interbank market. The Risk Committee of BRE Bank in October 2008 decided to implement actions within the liquidity contingency plan to secure the Bank's ability to cover its obligations and to have stable funding sources, although the liquidity profile of the Bank remained safe and stable at that time. Moreover, in order to adequately diagnose the liquidity needs of the Bank, scenarios used in assessment of the Bank's liquidity profile were adjusted accordingly to reflect the current situation on the financial markets. Due to the crisis in the interbank market, both in Poland and internationally, the Bank decided to fund long-term CHF assets with direct credit lines within the Group, and thus gained independence of funding from the expensive and illiquid interbank market of fx swaps and CIRS. In addition, the Bank strengthened its monitoring of the customer deposit portfolio.

ALCO took a range of decisions (approved by the Bank's Management Board) concerning the pricing policy of deposit and savings products offered to retail and corporate clients which were historically very stable. The decisions were aimed at maintaining an attractive product offering and sourcing stable long-term funding at a cost lower than interbank and capital market prices (interbank borrowings, issues of own securities).

Another problem faced by the Bank was the increased counterparty exposure of the Bank to its corporate clients caused by sudden reverse of the trends of major market parameters, such as accelerated depreciation of the Polish Zloty and high market volatility. In response to this situation, in addition to typical actions as calls for collaterals, the Bank adjusted internal parameters used in evaluation of potential future counterparty exposure as a measure to assess this risk correctly in the currently strained market. Moreover, in order to value the Bank's positions in corporate debt securities appropriately, the Bank priced these securities by applying updated credit spreads with respect to current default risk of the issuer, concentration risk and the cost of the capital consumption.

In view of the current situation, while assessing capital adequacy, the Bank also decided to calculate its economic capital in a conservative way anticipating strong correlation between risk categories.

Due to significant write-offs in respect of the risk posed by the consumer loan portfolio (mainly cash loans), in H1 2009, the Bank introduced major changes in the rules for granting those loans, mainly in the area of creditworthiness assessment, also to reduce the influx of the clients who are already in a vicious circle of debt. Simultaneously, the Bank introduced changes tightening up the process of borrower verification. Implemented modifications aim at minimising the credit risk and the operational risk posed by fraud. Due to worse quality of the clients acquired by external agents, the Bank has changed the model of credit product sales and focused on supporting own network of outlets and increasing sales to existing clients.

What is more, the Bank has been monitoring this portfolio closely. The reviews are carried out in two stages – by cross-sectional analyses and by verification of individual transactions in terms of identified risks.

As regards monitoring of timely repayment, the process of contacting clients with amounts due on their accounts has changed significantly. At present, the Bank uses new communication channels, including text messages and e-mails, whereas the client is contacted already on the day following his/her delay in repayment. Finally, the construction of the product itself was revised, and due to changes implemented in May, the product has been much simpler in handling, mainly for Clients not using Internet banking.

3.1 Strategy in Using Financial Instruments

Due to its nature, the business of the Bank focuses on using financial instruments, including derivatives. The Bank accepts customers' deposits with both fixed and variable interest for various terms and attempts to earn above-average percent margins by investing the funds in top quality assets. The Bank works to increase its percentage margins by accumulating short-term funds and lending the funds for longer terms, for higher interest rates, while retaining liquidity at a level ensuring that all liabilities are met.

Further, the Bank works to improve its earnings by obtaining above-average margins, net of provisions, by lending funds to corporate and retail customers with varying credit ratings. Such exposures include not only credits and loans recognised in the Balance Sheet but also guarantees and other off-balance sheet liabilities, such as letters of credit, good performance guarantees, etc.

Also, the Bank trades in listed and unlisted financial instruments, including derivatives, in order to take advantage of short-term changes on the equity instruments, bonds, currencies and interest rate markets. The Management Board sets exposure limits for overnight market positions.

Hedge Accounting

The Bank did not use hedge accounting in reporting periods presented in these financial statements.

3.2 Credit Risk

The Bank is exposed to credit risk, i.e., risk that borrower may be unable to repay its liabilities to the Bank on time and in amounts due. The Bank creates provisions for its losses on the Balance Sheet date. Because of strong concentration of the risk portfolio, a change in the economy or an industry sector with a large share in the Bank's portfolio may create additional risk, for which no provisions were made on the Balance Sheet date. For this reason, the Management monitors the customers and customer groups in connection with the service of which the exposure of the Bank is significant.

The Bank manages the level of its credit exposure by setting limits for acceptable risks per borrower or group of related borrowers and by using a structure of sub-limits. Sub-limits make it possible to adjust a limit to the requirements of customers in functional terms and, on the other hand, they enable control of the use of funds provided to each customer. The risk management exercise involves also setting limits for geographic and industrial concentration. Credit risk is monitored daily on the basis of financial documents received from customers and observation of all trends, signals, and economic projections. In addition, the Bank can access external databases and information services that capture information in various cross-sections.

In response to the unfavorable development of the market situation, the Bank introduced significant changes to the credit policy. A more conservative approach had been adopted in respect of customer creditworthiness and collateral polices.

The most important changes were the following:

1. change of creditworthiness model parameters,
2. restrictions in respect of customers without a documented positive credit history,
3. restrictions in the area of loans secured with real estate under construction,
4. limitation of the maximum loan amount for mortgage loans with Low Down-payment Insurance (to the level of 100% of real estate value).
5. in the area of loans to small enterprises rules were introduced for obligatory collateral in the form of mortgage for loans in the amount of more than PLN 1 million as well as decreasing the acceptable LtV by 20 percentage points for such transactions

In 2009, despite the fact that financial markets became more stable, the real estate market reported stagnation. Therefore, the Bank still applied conservative solutions to the credit policy, as introduced already in late 2008, which referred mainly to mortgage-backed transactions, including:

a. increased requirements for DTI (Debt to Income) ratio, aiming at reduction of the risk posed by the client's insolvency;
b. reduction in financing real estate by decreasing the acceptable LtV ratio, mainly in the case of real estate located on low liquidity markets, which aim at retaining high recovery rates in the case of mortgage collateral execution.

Additionally, in H1 2009, the Bank undertook measures in order to tighten up the credit policy in the area of non-secured loans of the retail portfolio, mainly for the clients with no earlier relations with the Bank. These measures consisted mainly in:

a. discontinuation of the application procedure which did not require an income statement to be provided;
b. limiting the risk posed by acquiring clients already in a vicious circle of debt by changing the client acquisition model (terminating cooperation with agents), centralisation of the verification process and change in the schema of decision-making powers.

3.2.1 Collateral

<u>Derivative instruments</u>

The Bank controls net open derivatives, i.e., the difference between purchase and sale contracts, both in terms of amount and maturity. The amount exposed to credit risk is limited at any time to the present fair value of the instruments with positive values (assets), which, in relation to derivative instruments, represents only a small fraction of contract or nominal value used to express the volume of the existing instruments. The level of exposure to this credit risk, together with potential risk exposure related to market changes, is managed under the overall credit limits for customers. In case of the growth of value of exposure (growth of value favourable to the Bank or, in theory, growth of weights of the risk for calculation of potential loss) related to transactions on derivatives or in case of exceeding a limit, the customer is asked to provide or increase the collateral. Typically, the Bank does not require collateral for credit risk related to such instruments. The exception is a situation when the Bank requires deposits as collateral from its contracting parties.

<u>Master netting agreements</u>

Master netting agreements made with contracting parties with which the Bank concludes large transactions are an additional measure used by the Bank to limit the credit risk. As a rule, such master netting agreements do not result in compensation of balance sheet assets and liabilities because transactions are usually settled in gross amounts. However, credit risk related to a favourable agreement is alleviated through execution of a master netting agreement because if the agreement is breached, all accounts with the contracting party are terminated and realised in net amounts. The total credit risk exposure of the Bank related to derivative instruments covered by master netting agreements can undergo significant changes over a short time because each transaction covered by the agreement affects the exposure.

Off-balance sheet credit-related commitments

These instruments are used mainly to ensure availability of required funds to customers. Standby guarantees and letters of credit, representing irrevocable assurance of payment of a customer's liabilities to third parties by the Bank if the customer is unable to do so, involve the same risk as credits. Documentary letters of credits and commercial letters of credit (CLC), representing written commitments of the Bank given to a customer, authorising third parties to draw checks on the Bank up to an agreed amount and on specified terms, are secured with deliveries of goods they relate to, by which they involve less risk than direct credits.

Credit-related off-balance sheet commitments concern the unused parts of credits, guarantees and letters of credit granted by the Bank. As regards credit risk related to credit commitments, the Bank can be exposed to loss equal to the whole amount of unused credit commitments. However, the probable amount of loss is smaller than the whole amount of unused credit commitments because most of such commitments are contingent on meeting specific credit standards by customers. The Bank monitors the terms of validity of credit commitments because, as a rule, longer terms involve larger risk.

Collateral on securities resulting from buy-sell-back transactions

The Bank accepts collateral in the form of securities in connection with the buy-sell-back transactions concluded. Depending on the agreement such collateral may be sold or repledged. The total market value of collateral that can be sold or repledged, including the case of lack of default of the customer, as at 31 December 2009 amounted to PLN 710 379 thousand (as at 31 December 2008: PLN 925 775 thousand), including the value of taken collaterals which were resold or pledged with another pledge as at 31 December 2009 amounting to PLN 346 537 thousand (as at 31 December 2008: PLN 806 583 thousand).

Collateral accepted by BRE Bank

In making a decision about granting a credit risk bearing product, the Bank strives to obtain the highest possible quality collateral that would be adequate to the risk. The quality of the proposed tangible collateral is assessed according to its liquidity and market value, and the quality of collateral in form of guarantees is assessed according to the financial situation of the guarantor. Moreover, the impact of collateral on limitation on the impairment of the loan portfolio is a significant factor in the assessment of the collateral's quality. The quality of the accepted collateral is correlated to the amount of the product bearing credit risk and the level of risk related to granting such a product.

The most frequently applied collateral includes:

a) monetary deposit;
b) guarantee deposit or cash blocked in BRE Bank SA;
c) cession of receivables (cession of rights);
d) mortgage on real estate;
e) registered pledge;
f) transfer of ownership to collateral;
g) bill of exchange – including blank bill of exchange with declaration on the bill of exchange;
h) a letter of comfort issued by a company whose reliability and fairness is known on the international financial markets;
i) guarantees and warranties.

In the case of personal collateral (e.g. warranty, guarantee), the situation and reliability of the entity issuing such security is evaluated against the standards concerning customer assessment.

In the case of tangible collateral the following principles for assessing their value are applied:

The value of fixed assets set up as collateral is determined on the basis of a valuation survey prepared by an expert surveyor. The valuation survey submitted at the Bank is verified by a team of specialists situated in the Corporate Credit Department who verify the correctness of the market value assumptions and assess the liquidity of the collateral from the Bank's point of view. The following factors are taken into account in the verification process:

a) for collateral on real estate:
   - Type of real estate (industrial, housing, commercial)
   - Legal status
   - Designation in the local land development plan

- Technical description of buildings and structures
- Description of land
- Situation on the local market
- Other price-making factors

b) for collateral on plant and machinery:
- General application and function in the technological process / possibilities of alternative use
- Technical description and parameters
- Exploitation and maintenance conditions
- Availability of similar devices and machinery
- Current market situation
- Forecasts of demand for specific machinery in connection with the situation in the industrial sectors applying such machinery

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

3.2.2 Rating System Description

<u>Rating system of BRE Bank</u>

Current rating methodology (RC-POL) consists of two elements:
- Customer rating (PD-rating) – which describes the probability of lack of loan repayment (PD – Probability of Default)
- Credit rating (EL-rating) – which describes expected loss (EL - Expected Loss) and takes into consideration both customer risk (PD) and transaction risk (LGD, Loss Given Default – loss resulting from the lack of loan repayment). EL can be described as PD*LGD. EL indicator is used mainly at the decision making stage.

Rating provides absolute measure of credit risk both in percentages scale (PD % and EL %) and on the scale from 1.0 to 6.5 (PD-rating, EL-rating) for Corporate (annual revenue above PLN 30 million) and for SMEs (annual revenue below PLN 30 million).

PD rating calculation includes seven steps:

1. Financial analysis of annual report – based on discrimination function in logistic regression of 7 financial indicators and corresponding default/non-default status of the client in one-year period;
2. Financial analysis of following interim figures:
   - assessment of trends, essential for rating,
   - increase of PD as an effect of delay of data updating;
3. Assessment of timeliness of presenting financial statements;
4. Analysis of qualitative risks:
   - analysis of quality factors including among others macroeconomics, business risk, management quality, value added activities, accounting policies, etc;
5. Warning indicators:
   - 32 warning indicators:
     - 14 warning indicators from financial analysis or qualitative analysis of risk (answers),
     - 18 direct warning indicators,
   - 3 criteria for assigning the lowest intermediate rating,
   - other 3 steps which influence rating;
6. Level of integration of the debtor's group:
   - applying the PD of the parent entity,
   - diverse procedures according to PD of parent entity;
7. Overruling:
   - manual change of PD by one category is possible.

In the year 2009 development of rating model for corporations (RC_POL 5.0) has been made, by diversifying algorithms and parameters for the segment of SMEs and large corporations, and taking into account the negative effect of customer valuation of derivatives on its financial position.

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Credit rating based on expected loss (EL) is created by combining customer risk and transactional risk, which results from the value of exposure (EAD, Exposure At Default) and the character and coverage of collateral for transactions carried out with the client (LGD).

EAD represents actual balance sheet exposure increased by the expected level of off-balance sheet items to be converted to balance sheet items at the date of default

LGD, described as % of EAD, is a function of possibly executed value of collateral and depends on the type and the value of the collateral, the type of transaction and recovery ratio from other than collateral sources (which depends on the client type).

As part of preparatory work to implement AIRB in 2009 made a significant re-parameterization LGD and CCF models to take into account of all the supervisory requirements in this area and rely models mainly on empirical data. In order to do this, complex task of collection and recovery of historical data (including the media on paper) where performed. Task was based on results of restructuring and recovery process for cases completed during the period 2004 to 2008.

The rating system generates the probability of lack of loan repayment directly in the form of PD ratio, expressed in percentage on the continuous scale. Classes of rating are calculated on the basis of procedures of dividing PD into groups based on geometric stepladder.

Mapping the internal PD-rating scale to external ratings

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

The rating system is based on Commerzbank and BRE Bank solution. Mapping the internal rating scale to external ratings is based on PD statistics.

Method of calculating the portfolio provision for loans and advances to corporates and retail, based on rating system

The portfolio provision is formed on the credit portfolio of customers not classified to the default category. The portfolio is divided into 8 subportfolios for corporates based on client rating determined by means of aggregation of similar grades on the rating scale as presented in the table above.

Subportfolios are homogeneous groups having similar credit risk outlines. The amount of provisions is a sum of incurred losses resulting from arisen economic events which haven't been identified by Bank at the provisions calculation date.

The probability of disclosure of a loss is modeled by logistic regression based on financial indicators and qualitative data. The model is calibrated on the Bank's internal data, comprising a several years' period of observation of the corporate portfolio. A 9-month-period was established as the average period between the loss event occurrence and its identification by the Bank (loss identification period "LIP"). Therefore, the Bank performs calculations on the basis of default observation of 9 months. The value of incurred loss is calculated based on current exposure multiplied by LGD (parameter describing the loss resulting from the lack of loan repayment), calculated by rating model RC-POL at the stage of estimating the EL-rating.

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

Moreover, for the purpose of calculating the portfolio provisions for loans and advances to corporates, the Bank uses own AIRB compliant estimates of LGD model parameters since December 2009.

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

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

Shall an impairment trigger be identified on one obligation of a customer, such debtor is classified to a group of default clients.

3.2.3 Measurement of Impairment

The Bank measures impairment of loan exposures in accordance with the International Accounting Standards 37 and 39. The intranet application IMPAIRMENT-Korpo is a tool used to calculate impairment losses for impaired exposures granted to corporate customers and banks. The classification of customers to default portfolio and calculation of impairment write-off is as follows:

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

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

The list of definite loss events:

1. The number of days from which any exposure being the obligor's credit obligation becomes overdue is above 90 days and the overdue amount exceeds PLN 3,000 for corporate clients and PLN 500 for clients of Private Banking.
2. The Bank has sold exposures with a significant economic loss related to the change of the obligor's creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:

   a) reduction of financial obligations by remitting part of these obligations, or
   b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.
4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy petition against obligor or filing similar petition in respect of credit obligations of the obligor towards the Bank, the parent or subsidiary entity of the Bank.
5. Declaring the obligor bankrupt or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.

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

a) governments and central banks,
b) banks,
c) corporations, including specialised lending,
d) local government units,
e) insurers,
f) PTE, TFI funds.

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

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

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

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

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

PD/Rating	31.12.2009		31.12.2008	
	Exposure (%)	Provision coverage (%)	Exposure (%)	Provision coverage (%)
1	40.83	0.05	43.89	0.01
2	20.27	0.09	23.98	0.15
3	11.82	0.31	10.14	0.36
4	13.20	0.75	14.40	1.02
5	6.07	1.85	3.01	1.60
6	0.13	4.36	0.11	5.52
7	0.68	17.14	0.59	2.37
8	2.37	0.00	2.17	0.00
Default category	4.63	57.09	1.71	56.84
Total	**100.00**	**3.05**	**100.00**	**1.26**

3.2.4 Maximum Exposure to Credit Risk – before taking account of the adopted collateral

	31.12.2009	31.12.2008
Credit risk exposures relating to on-balance sheet assets:		
Debt securities eligible for rediscounting at the Central Bank	**9 134**	**9 238**
Loans and advances to banks	**2 497 397**	**6 065 581**
Loans and advances to customers	**44 260 700**	**42 257 165**
Loans to individuals:	28 063 197	26 246 283
– current accounts	3 649 451	3 358 878
– term loans, including:	24 413 746	22 887 405
housing and mortgage loans	22 319 761	21 341 130
Loans to corporate clients:	14 639 756	15 308 006
– current accounts	2 851 535	3 510 238
– term loans:	11 434 413	11 390 189
corporate & institutional enterprises	4 687 884	4 612 890
medium & small enterprises	6 746 529	6 777 299
– Reverse repo / buy-sell-back transactions	353 808	407 579
Loans and advances to public sector	741 226	34 192
Other receivables	816 521	668 684
Trading assets		
– Debt securities	1 232 198	4 967 900
Derivative financial instruments	**1 931 868**	**5 612 313**
Investment securities		
– Debt securities	13 271 099	5 414 972
Pledged assets	**3 513 782**	**3 443 989**
Other assets - debtors	**233 778**	**267 412**
Total exposures relating to on-balance sheet assets	**66 949 956**	**68 038 570**
Credit risk exposures relating to off-balance sheet items:		
Loan commitments and other commitments	9 672 273	15 177 904
Guarantees, banker's acceptances, documentary and commercial letters of credit	2 358 668	3 020 853
Total exposures relating to off-balance sheet items	**12 030 941**	**18 198 757**
Total on-balance sheet assets and off-balance sheet items	**78 980 897**	**86 237 327**

The above table shows the maximum exposure to credit risk as at 31 December 2009 and 31 December 2008 without taking account of any collateral held or credit enhancements attached. Balance Sheet exposures set out above are based on net carrying amounts.

As shown above, 69.74% of the total maximum balance sheet exposure is derived from loans and advances to banks and customers (31 December 2008: 70.90%); 19.79% represents investments in debt securities (31 December 2008: 7.94%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk of the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- 61.10% of loans and advances portfolio is categorised in the top two grades of the internal rating system (31 December 2008: 67.87%);
- 92.01% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2008: 94.32%);

- 93.11% of the investments in debt securities got at least A- credit rating (31 December 2008: 95.53%).

3.2.5 Loans and Advances to Customers and Banks

Loans and advances to customers	31.12.2009		31.12.2008	
	exposure in PLAN '000	**share / coverage %**	**exposure in PLN '000**	**share / coverage %**
Neither past due nor impaired	42 258 923	92.01	40 491 905	94.32
Past due but not impaired	1 582 022	3.44	1 717 510	4.00
Impaired	2 089 544	4.55	721 614	1.68
Total, gross	**45 930 489**	**100.00**	**42 931 029**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(1 669 789)	3.64	(673 864)	1.57
Total, net	**44 260 700**	**96.36**	**42 257 165**	**98.43**

The table below shows amounts due from banks:

Loans and advances to banks	31.12.2009		31.12.2008	
	exposure in PLN '000	**share / coverage %**	**exposure in PLN '000**	**share / coverage %**
Neither past due nor impaired	2 448 657	96.58	6 019 732	98.74
Past due but not impaired	-	-	-	-
Impaired	86 827	3.42	76 863	1.26
Total, gross	**2 535 484**	**100.00**	**6 096 595**	**100.00**
Provision (provision for impaired loans and advances as well as IBNI provision)	(38 087)	1.50	(31 014)	0.51
Total, net	**2 497 397**	**98.50**	**6 065 581**	**99.49**

The total impairment provision for loans and advances is PLN 1 707 876 thousand (as at 31 December 2008: PLN 704 878 thousand) of which PLN 1 502 307 thousand (as at 31 December 2008: PLN 553 749 thousand) represents provisions for loans and advances to customers and banks individually impaired and the remaining amount of PLN 205 569 thousand represents the portfolio provision (as at 31 December 2008: PLN 151 129 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 21.

In 2009, the amount of loans and advances granted to the Bank's customers increased by 4.74% compared to 2008 as a result of expansion in the market of retail and corporate loans and advances. For the purpose of minimising potential increase of exposure to credit risk, the Bank focused on corporate enterprises and retail customers who provide sufficient collateral.

Loans and advances neither past due nor impaired

31 December 2009	**Individuals**			**Corporate entities**					**Public sector**	**Other receivables**	**Total - Loans and advances to customers**	**Loans and advances to banks**
PD/Rating	**Current accounts**	**Term loans**	**including:** housing and mortgage loans	**Current accounts**	**Term loans** corporate & institutional enterprises	**Term loans** medium & small enterprises	**Reverse repo / buy-sell-back transactions**	**Other**				
1	367 844	20 263 367	20 160 404	31 483	49 774	82 771	-	-	495 167	-	21 290 406	1 514 561
2	1 854 364	2 543 201	1 364 885	326 207	971 374	1 234 111	-	-	25 211	-	6 954 468	602 918
3	618 157	702 509	67 067	664 842	1 750 361	866 661	-	-	-	-	4 602 530	155 707
4	-	-	-	1 293 807	1 245 506	2 642 573	-	-	17 375	-	5 199 261	35 434
5	410 349	-	-	345 257	464 963	1 264 613	-	-	206 098	-	2 691 280	32 882
6	-	-	-	18 727	3 078	39 180	-	-	-	-	60 985	-
7	-	-	-	34 953	1 201	34 101	-	-	-	-	70 255	12 125
8	-	207	-	59	-	-	353 808	-	-	816 521	1 170 595	95 030
Default category	327	18 884	2 239	27 550	-	172 382	-	-	-	-	219 143	-
Total	**3 251 041**	**23 528 168**	**21 594 595**	**2 742 885**	**4 486 257**	**6 336 392**	**353 808**	**-**	**743 851**	**816 521**	**42 258 923**	**2 448 657**

31 December 2008	**Individuals**			**Corporate entities**					**Public sector**	**Other receivables**	**Total - Loans and advances to customers**	**Loans and advances to banks**
PD/Rating	**Current accounts**	**Term loans**	**including:** housing and mortgage loans	**Current accounts**	**Term loans** corporate & institutional enterprises	**Term loans** medium & small enterprises	**Reverse repo / buy-sell-back transactions**	**Other**				
1	609 828	20 567 067	20 441 245	58 777	325 968	217 286	-	-	-	-	21 778 926	3 652 381
2	1 628 787	962 377	-	1 187 892	2 084 894	1 899 971	-	-	3 336	-	7 767 257	1 879 852
3	87 981	389 573	57 084	790 280	1 150 913	1 137 468	-	-	444	-	3 556 659	219 697
4	734 496	-	-	1 178 034	816 244	2 422 269	-	-	30 602	-	5 181 645	149 132
5	-	-	-	262 696	8 346	603 636	-	-	-	-	874 678	54 504
6	-	-	-	10 498	-	19 730	-	-	-	-	30 228	-
7	-	-	-	10 499	17 454	119 243	-	-	-	-	147 196	29 286
8	-	-	-	1 159	-	-	407 579	-	-	668 684	1 077 422	34 880
Default category	315	6 118	1 642	19 878	2 984	48 599	-	-	-	-	77 894	-
Total	**3 061 407**	**21 925 135**	**20 499 971**	**3 519 713**	**4 406 803**	**6 468 202**	**407 579**	**-**	**34 382**	**668 684**	**40 491 905**	**6 019 732**

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Loans and advances past due but not impaired

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

31 December 2009	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other				
			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises						
Past due up to 30 days	335 270	601 747	510 243	2 033	653	42 124	-	-	-	-	981 827	-
Past due 31 - 60 days	70 197	113 380	102 607	319	-	4 675	-	-	-	-	188 571	-
Past due 61 - 90 days	60 654	108 822	57 189	2 302	-	239 846	-	-	-	-	411 624	-
Total	**466 121**	**823 949**	**670 039**	**4 654**	**653**	**286 645**	**-**	**-**	**-**	**-**	**1 582 022**	**-**

31 December 2008	Individuals			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Loans and advances to banks
	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other				
			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises						
Past due up to 30 days	254 029	828 461	732 187	-	203 138	203 841	-	-	-	-	1 489 469	-
Past due 31 - 60 days	40 731	67 501	58 555	-	-	32 099	-	-	-	-	140 331	-
Past due 61 - 90 days	33 377	31 286	23 468	-	-	23 047	-	-	-	-	87 710	-
Total	**328 137**	**927 248**	**814 210**	**-**	**203 138**	**258 987**	**-**	**-**	**-**	**-**	**1 717 510**	**-**

As at 31 December 2009 the fair value of received collaterals for mortgage loans to retail customers amounted to PLN 535 226 thousand (31 December 2008: PLN 605 891 thousand) for the group of loans past due but not impaired.

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

Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 674 064 thousand (as at 31 December 2008: PLN 244 370 thousand). Gross amounts of loans and advances individually impaired (i.e., before taking into consideration the cash flows from collateral held and expected repayments) are presented below by classes of assets, together with the corresponding collateral.

	Individual customers			Corporate entities					Public sector	Other receivables	Total - Loans and advances to customers	Banks
	Current accounts	Term loans	including:	Current accounts	Term loans		Reverse repo / buy-sell-back transactions	Other				
			housing and mortgage loans		corporate & institutional enterprises	medium & small enterprises						
31 December 2009												
Loans and advances with impairment	519 064	183 083	95 207	438 820	309 386	639 191	-	-	-	-	**2 089 544**	86 827
Fair value of collateral	19 562	77 803	55 778	21 309	38 247	115 859	-	-	-	-	**272 780**	-
31 December 2008												
Loans and advances with impairment	175 332	121 707	60 659	98 558	33 955	292 062	-	-	-	-	**721 614**	76 863
Fair value of collateral	8 913	47 051	35 951	3 496	-	82 529	-	-	-	-	**141 989**	-

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

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

In the 12-month-period ended 31 December 2009, the Bank recognised impairment of exposures to banks in the amount of PLN 36 238 thousand (PLN 26 212 thousand as at 31 December 2008).

Renegotiated loans and advances

The renegotiations of contractual terms of loans and advances is an evidence of impairment unless it is not caused by the situation of a debtor and it was carried out in normal business conditions. The restructuring processes consists in changing the agreements through extension of payments, recognised reparation plans, modification and delay of repayment of the customer's debt, which as a result of the process is classified into the default portfolio. The restructuring procedures and practice are based on ratios and criteria which, in the opinion of the Management Board, show that payments will most probably be made on time. The restructuring procedures are conditioned by regular reviews. Most frequently, restructuring is carried out in respect of term loans. In connection with established accounting principles, renegotiated loans are impaired if the change of contractual terms was caused by higher credit risk. As at 31 December 2009 renegotiated loans and advances not impaired amounted to PLN 90 724 thousand.

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3.2.6 Debt Instruments: treasury bonds and other eligible debt securities

31 December 2009	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	6 935	-	6 935
A- to A+	1 003 082	227 557	180 127	15 357 317	16 768 083
BBB+ to BBB-	-	-	264 036	661 251	925 287
BB+ to BB-	-	-	47 652	-	47 652
B+ to B-	-	-	-	-	-
Lower than B-	-	-	-	-	-
Unrated	-	-	269 122	-	269 122
Total	**1 003 082**	**227 557**	**767 872**	**16 018 568**	**18 017 079**

31 December 2008	Trading securities and pledged assets			Investment debt securities and pledged assets	Total
Rating	Government bonds	Treasury bills	Other debt securities		
AAA	-	-	-	-	-
AA- to AA+	-	-	-	-	-
A- to A+	795 927	874 579	3 775 953	7 762 177	13 208 636
BBB+ to BBB-	-	-	49 908	-	49 908
BB+ to BB-	-	-	-	-	-
B+ to B-	-	-	67 228	-	67 228
Lower than B-	-	-	-	-	-
Unrated	-	-	501 089	-	501 089
Total	**795 927**	**874 579**	**4 394 178**	**7 762 177**	**13 826 861**

In 2009 included in the amount of debt securities with ratings A- to A+ were securities issued by the Central Bank in the amount of PLN 6 564 063 thousand (2008: PLN 3 162 714 thousand).

Information about impairment allowance for investment debt securities occurs under the Note 22.

3.2.7 Repossessed Collateral

In 2009, the Bank did not take over or sell any assets established as collateral.

The Bank classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in Note 2.17. Repossessed collaterals classified as assets held for sale shall be put up for sale on an appropriate market and sold at the soonest possible date. The process of selling collaterals repossessed by the Bank is arranged in line with the policies and procedures specified by the Restructuring and Collection Department for individual types of repossessed collaterals. The policy of the Bank is to sell repossessed assets. Cases in which the repossessed collateral is used for own needs are rare – such a step must be economically justified and reflect the Bank's urgent need, and must each time be approved by the Management Board. In 2009, the Bank did not have any repossessed collaterals that were difficult to sell. Repossessed collaterals are presented in "Other assets" (Note 27).

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

Geographic concentration risk

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

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

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

Sector concentration risk

If the exposure of the Bank is concentrated in an industry, the Bank monitors its share in the financing of the whole industry and the standing of each customer of the Bank vs. the rest of the industry.

For this purpose, the Bank uses a statistical database, in which each parameter of financing each of the Bank's customers is mapped onto a decile grid of the parameter for the whole industry. This enables the Bank to monitor its industry-related risk to its portfolio at times when the standing of the whole industry undergoes rapid changes under the influence of external factors.

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

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

The tables below present the structure of concentration of exposures to particular business lines of BRE Bank SA.

<u>The structure of concentration of exposure of BRE Bank SA</u>

No.	Sector	Principal exposure (in PLN millions) 31.12.2009	%	Principal exposure (in PLN millions) 31.12.2008	%
1.	Household customers	28 771 426	62.64%	26 538 966	61.82%
2.	Leasing and renting	1 358 266	2.96%	846 747	1.97%
3.	Metals	1 046 517	2.28%	1 092 428	2.54%
4.	Real estate management	1 044 231	2.27%	906 297	2.11%
5.	Management, consulting, advertising	922 106	2.01%	693 230	1.61%
6.	Liquid fuels and natural gas	916 667	2.00%	1 004 087	2.34%
7.	Power industry and heat engineering	800 439	1.74%	911 347	2.12%
8.	Wood and furniture	772 106	1.68%	811 307	1.89%
9.	Building industry	750 290	1.63%	639 459	1.49%
10.	Wholesale trade	664 515	1.45%	815 607	1.90%
11.	Motorization	588 722	1.28%	676 848	1.58%
12.	Basic groceries	555 236	1.21%	537 174	1.25%
13.	Building materials	543 330	1.18%	549 592	1.28%
14.	Insurance	495 607	1.08%	180	0.00%
15.	Chemistry and plastics	457 879	1.00%	487 304	1.14%
16.	Financial agencies	450 101	0.98%	455 794	1.06%
17.	Transport and travel agencies	446 938	0.97%	713 987	1.66%
18.	Fleshy industry	421 950	0.92%	437 050	1.02%
19.	Household goods	420 572	0.92%	6 400	0.01%

In 2009 the total exposure of the Bank in the above sectors (excluding household customers) amounts to 27.55% (2008: 26.98%) of the credit portfolio. According to the newest (for 2009) study of The Gdańsk Institute for Market Economics as well as on the basis of recommendations of trade analysts from the Bank, the risk of investing in these sectors (in a 5-point scale, i.e., small, medium, increased, large and very large) was assessed as follows:

Leasing and renting	- large
Metals	- medium
Real estate management	- medium
Management, consulting, advertising	- increased
Liquid fuels and natural gas	- increased
Power industry and heat engineering	- medium
Wood and furniture	- large
Building industry	- large
Wholesale trade	- increased
Motorization	- large
Basic groceries	- increased
Building materials	- increased
Insurance	- medium
Chemistry and plastics	- increased
Financial agencies	- medium
Transport and travel agencies	- medium
Fleshy industry	- increased
Household goods	- medium

Large exposures concentration risk

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

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

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

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

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

3.4 Market Risk

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

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

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

The level of exposure to market risk

The level of market risk of the Bank's positions is quantified in the first place by the following risk measures: value at risk (VaR) and stress tests values.

Value at Risk

Value at Risk (VaR) is the basic standard measure of market risk applied to the trading book portfolios and the banking book portfolios. VaR is a statistical measure which expresses potential loss to which a portfolio is exposed in a specified period, for a specified confidence level , in normal market conditions, in connection with changes in risk factors, such as interest rates, foreign exchange rates, stock share prices / stock indices values and implied volatilities of relevant options. The potentiality of this loss means that with a predetermined high probability (i.e. at the given confidence level) at which value at risk is determined, in a specified holding period, a loss lower than VaR can occur. In BRE Bank value at risk is determined using historical simulation method, based on time series of 254 (1 year) observed values of all the risk factors to which the Bank's portfolios are exposed. The Bank monitors value at risk at 97.5% confidence level for the one-day holding period.

In the process of determining value at risk the Bank applies full valuation methods for pricing financial instruments, and this ensures that VaR monitored by the Bank accurately reflects market risk of these instruments, in particular non-linear instruments (e.g. options). The model for determining value at risk is subjected to historical back tests on an ongoing basis.

The table below presents the picture of the structure of market risk of the Bank's positions measured by value at risk (at 97.5% confidence level for the one day holding period). The average, the lowest and the greatest values of value at risk presented in the table were computed on the yearly samples of the daily value at risk figures in 2009 and 2008 relatively.

PLN 000's	2009				2008			
	31.12.2009	mean	maximum	minimum	31.12.2008	mean	maximum	minimum
VaR IR	6 496	7 278	8 847	4 881	5 409	4 649	8 173	2 378
VaR FX	2 293	2 778	4 310	1 139	3 301	927	3 301	378
VaR EQ	163	152	694	1	66	273	906	11
VaR	**7 685**	**9 396**	**14 657**	**6 485**	**8 623**	**5 309**	**11 575**	**2 336**

The utilisation of VaR limits in 2009 was on a safe level and amounted to 25% on average for the Financial Markets Department (DFM) portfolio, whereas the Treasury Department (DS) utilised 63% of the VaR limit.

The level of VaR in the course of 2009 was driven mainly by portfolios of instruments sensitive to interest rates (predominantly PLN rates), such as debt securities, interest rate swaps and secondly, by portfolios of instruments sensitive to foreign exchange rates, such as currency options and currency exchange transactions. The remaining groups of risk factors had a relatively smaller impact on VaR.

Stress testing

Stress tests are additional measures of market risk, supplementing the measurement of value at risk. The tests show the hypothetical changes in the current valuation of the Bank's portfolios, which would take place as a result of realisation of the so-called stress scenarios – i.e. market situations at which the risk factors would reach specified extreme values in a one-day period. The Bank applies two methods for carrying out stress tests: in one, the scenarios of changes in risk factors have been constructed on the basis of large changes in market parameters observed during past market crisis situations, and in the other, the scenarios are composed of large changes in risk factors - perfectly correlated and having the same magnitude in each risk factor group. The value of the stress test is subject to a limit treated as the control number (management action trigger). The average value of a stress test (based on observed crisis situations in the past) in 2009 was for the Financial Markets Department portfolio - PLN 12 million (in 2008 – PLN 20 million), and for the Treasury Department - PLN 44 million (in 2008 – PLN 42 million).

3.5 Currency Risk

The Bank is exposed to changes in currency exchange rates. The following table present the exposure of the Bank to currency risk as at 31 December 2009 and 31 December 2008. The table present assets and liabilities of the Bank at balance sheet carrying amount, for each currency:

31.12.2009	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	3 672 075	31 391	4 825	106	287	63 308	**3 771 992**
Debt securities eligible for rediscounting at the Central Bank	9 134	-	-	-	-	-	**9 134**
Loans and advances to banks	902 681	238 867	143 151	407	932	1 211 359	**2 497 397**
Trading securities	1 232 928	-	1 864	-	-	-	**1 234 792**
Derivative financial instruments	1 799 707	40 802	64 236	3 004	-	24 119	**1 931 868**
Loans and advances to customers	18 373 160	3 524 005	1 475 285	19 957 174	25 947	905 129	**44 260 700**
Investment securities	13 301 930	82 392	13 403	-	-	-	**13 397 725**
- Available for sale	13 301 930	82 392	13 403	-	-	-	**13 397 725**
Pledged assets	3 513 782	-	-	-	-	-	**3 513 782**
Investments in subsidiaries	414 652	39 377	-	-	-	26 680	**480 709**
Intangible assets	394 439	568	-	-	-	1 114	**396 121**
Tangible fixed assets	532 282	9 535	-	-	-	14 047	**555 864**
Other assets, including tax assets	549 652	2 702	19	1	8	4 715	**557 097**
Total assets	**44 696 422**	**3 969 639**	**1 702 783**	**19 960 692**	**27 174**	**2 250 471**	**72 607 181**
LIABILITIES							
Amounts due to the Central Bank	2 003 440	343	-	-	-	-	**2 003 783**
Amounts due to other banks	1 511 696	996 680	288 302	16 375 201	-	13 070	**19 184 949**
Derivative financial instruments and other trading liabilities	1 764 596	120 885	41 893	-	-	5 775	**1 933 149**
Amounts due to customers	33 511 549	4 614 057	698 748	24 881	53 852	3 511 325	**42 414 412**
Subordinated liabilities	-	-	-	2 631 951	-	-	**2 631 951**
Other liabilities including tax liabilities	477 457	6 122	3 134	-	1	29 808	**516 522**
Provisions	95 042	10 044	113	-	-	3 590	**108 789**
Total liabilities	**39 363 780**	**5 748 131**	**1 032 190**	**19 032 033**	**53 853**	**3 563 568**	**68 793 555**
Net on-balance sheet position	**5 332 642**	**(1 778 492)**	**670 593**	**928 659**	**(26 679)**	**(1 313 097)**	**3 813 626**
Loan commitments and other commitments	**8 628 591**	**762 317**	**177 805**	**1 024**	**4 150**	**98 386**	**9 672 273**

31.12.2008	PLN	EUR	USD	CHF	GBP	Other	Total
ASSETS							
Cash and balances with the Central Bank	2 422 554	14 572	4 939	27	170	49 589	**2 491 851**
Debt securities eligible for rediscounting at the Central Bank	9 238	-	-	-	-	-	**9 238**
Loans and advances to banks	3 101 544	769 477	455 838	745 763	23 961	968 998	**6 065 581**
Trading securities	4 855 957	100 649	12 606	-	-	-	**4 969 212**
Derivative financial instruments	5 315 877	107 091	44 559	29 950	1 371	113 465	**5 612 313**
Loans and advances to customers	17 248 910	3 067 604	1 391 551	19 499 626	15 437	1 034 037	**42 257 165**
Investment securities	5 417 034	71 019	10 118	-	-	-	**5 498 171**
- Available for sale	5 417 034	71 019	10 118	-	-	-	**5 498 171**
Pledged assets	3 443 989	-	-	-	-	-	**3 443 989**
Investments in subsidiaries	390 168	39 992	-	-	-	27 145	**457 305**
Intangible assets	404 642	-	-	-	-	1 718	**406 360**
Tangible fixed assets	571 957	215	-	-	-	29 477	**601 649**
Other assets, including tax assets	511 039	21 307	-	475	17	9 720	**542 558**
Total assets	**43 692 909**	**4 191 926**	**1 919 611**	**20 275 841**	**40 956**	**2 234 149**	**72 355 392**
LIABILITIES							
Amounts due to the Central Bank	1 302 469	-	-	-	-	-	**1 302 469**
Amounts due to other banks	2 591 094	900 639	2 596	16 631 483	-	16 948	**20 142 760**
Derivative financial instruments and other trading liabilities	5 777 755	326 393	63 836	13 458	3 700	26 174	**6 211 316**
Amounts due to customers	29 952 021	3 003 628	1 022 509	30 886	84 071	3 345 379	**37 438 494**
Debt securities in issue	7 829	-	-	-	-	-	**7 829**
Subordinated liabilities	-	-	-	2 669 453	-	-	**2 669 453**
Other liabilities including tax liabilities	831 082	452	3 249	391	2	33 726	**868 902**
Provisions	85 508	987	3 420	-	-	107	**90 022**
Total liabilities	**40 547 758**	**4 232 099**	**1 095 610**	**19 345 671**	**87 773**	**3 422 334**	**68 731 245**
Net on-balance sheet position	**3 145 151**	**(40 173)**	**824 001**	**930 170**	**(46 817)**	**(1 188 185)**	**3 624 147**
Loan commitments and other commitments	**12 575 624**	**1 616 998**	**191 670**	**745 390**	**1 313**	**46 909**	**15 177 904**

3.6 Interest Rate Risk

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

As at 31 December 2009 and 31 December 2008 a sudden, lasting and disadvantageous change of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income within 12 months after the Balance Sheet date by the following amounts ("EaR"):

31.12.2009		31.12.2008	
in PLN millions	**currency**	**in PLN millions**	**currency**
7.47	PLN	7.85	PLN
0.13	EUR	5.04	EUR
1.46	USD	0.06	USD
14.18	CHF	16.3	CHF
5.09	CZK	2.64	CZK

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

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

The Bank runs also other analyses of the changes of the economic value of the banking book under stress test scenarios. Under the stress test, which assumes unfavorable shift of the interest rates for respective currencies by 200 bps, the economic value of the banking book at the end of 2009 would change by PLN 121 million, out of which PLN 111 million due to available for sale instruments. During the calculation of these values no correlation between currencies was taken into account and it was assumed that after the negative shift interest rates cannot become negative.

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

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31.12.2009	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 039 161	-	-	-	-	2 732 831	**3 771 992**
Debt securities eligible for rediscounting at the Central Bank	-	9 134	-	-	-	-	**9 134**
Loans and advances to banks	743 067	1 292 782	168 775	-	-	292 773	**2 497 397**
Securities (trading securities, investment securities and pledged assets)	11 131 153	3 433 514	2 668 109	29 755	754 548	609 929	**18 627 008**
Loans and advances to customers	40 703 173	1 461 000	406 382	869 669	3 215	817 261	**44 260 700**
Other assets and derivative financial instruments	292 130	429 677	725 552	301 955	25 656	605 020	**2 379 990**
T o t a l a s s e t s	**53 908 684**	**6 626 107**	**3 968 818**	**1 201 379**	**783 419**	**5 057 814**	**71 546 221**
LIABILITIES							
Amounts due to the Central Bank	2 003 440	-	-	-	-	343	**2 003 783**
Amounts due to other banks	7 633 390	10 796 283	619 129	-	-	136 147	**19 184 949**
Amounts due to customers	34 290 934	5 098 847	2 324 377	128 892	343 421	227 941	**42 414 412**
Subordinated liabilities	472 965	2 158 986	-	-	-	-	**2 631 951**
Other liabilities and derivative financial instruments	262 239	454 189	760 657	305 544	25 816	641 147	**2 449 592**
Total liabilities	**44 662 968**	**18 508 305**	**3 704 163**	**434 436**	**369 237**	**1 005 578**	**68 684 687**
Total interest repricing gap	**9 245 716**	**(11 882 198)**	**264 655**	**766 943**	**414 182**		

31.12.2008	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with the Central Bank	1 175 454	-	-	-	-	1 316 397	**2 491 851**
Debt securities eligible for rediscounting at the Central Bank	-	9 238	-	-	-	-	**9 238**
Loans and advances to banks	4 867 001	523 542	303 915	-	-	371 123	**6 065 581**
Securities (trading securities, investment securities and pledged assets)	7 893 795	2 064 359	2 902 224	284 249	682 234	541 816	**14 368 677**
Loans and advances to customers	38 780 988	1 560 371	915 475	301 470	29 826	669 035	**42 257 165**
Other assets and derivative financial instruments	890 819	999 783	2 275 099	1 036 274	32 888	763 261	**5 998 124**
T o t a l a s s e t s	**53 608 057**	**5 157 293**	**6 396 713**	**1 621 993**	**744 948**	**3 661 632**	**71 190 636**
LIABILITIES							
Amounts due to the Central Bank	1 090 545	211 924	-	-	-	-	**1 302 469**
Amounts due to other banks	8 792 488	10 602 808	721 397	-	-	26 067	**20 142 760**
Amounts due to customers	31 710 571	4 607 912	882 084	167 890	56 687	13 350	**37 438 494**
Debt securities in issue	-	-	7 829	-	-	-	**7 829**
Subordinated liabilities	482 077	2 187 376	-	-	-	-	**2 669 453**
Other liabilities and derivative financial instruments	999 218	1 086 056	2 651 538	1 145 218	36 369	947 593	**6 865 992**
Total liabilities	**43 074 899**	**18 696 076**	**4 262 848**	**1 313 108**	**93 056**	**987 010**	**68 426 997**
Total interest repricing gap	**10 533 158**	**(13 538 783)**	**2 133 865**	**308 885**	**651 892**		

3.7 Liquidity Risk

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

Process of ensuring financial liquidity in the Bank comprises of the following sub-processes:

1) liquidity risk management, i.e., taking up preventive actions for the purposes of not allowing the occurrence the threat of losing liquidity.
2) monitoring liquidity situation of the Bank,

The Bank's liquidity risk management process contains two stages:

1) strategic stage that enables to ensure financial liquidity in the long term and includes a prognostic point of view,
2) operational which allows to observe exposure to liquidity risk for the purpose of protecting immediate and current liquidity.

Financial liquidity risk management at the strategic level in the Bank is executed via ALCO and the Risk Committee decisions and concerns, among others:

a) establishing the structure and levels of strategic limits of the risk,
b) setting up the structure and minimum amount of liquidity reserves of the Bank,
c) adapting methods of calculating financial liquidity risk and forms of banking reports,
d) neutralising emergency situations due to the threat of losing liquidity,
e) establishing the Bank's strategy in relation to the structure of assets, debt, equity, liabilities and off-balance items,
f) determining a long term financing strategy.

Financial liquidity risk management at the operational level takes place in the Treasury Department of the Bank in the following areas:

a) ensuring resources for the purpose of settlements on the Bank's accounts (e.g. nostro accounts),
b) realisation of strategic recommendations of ALCO,
c) forming the structure of future cash flows in the range of the limits set up by the Risk Committee,
d) keeping securities portfolios in proper size, which ensures preservation of liquidity in the scope of the limits of Risk Committee, on established levels (liquid assets),

e) keeping other parameters on levels determined by the limits established by ALCO and the Risk Committee,
f) performing emergency procedures in order to neutralise emergency situations related to the treatment of losing financial liquidity.

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

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

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

In 2009 Bank has built and has maintained high level of liquid securities assuming that the only source of cash from debt securities are: Repo or Lombard Credit with NBP. This steps was taken in a context of rapidly drying liquidity on the interbank market, uncertainty of future depositor's decisions and materializing credit risk in a banking sector according to current emergency proceedings

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

Value of realistic, cumulative gap of cash flows misfit (in PLN millions)

Time range	31.12.2009	31.12.2008
up to 3 working days	5 405	4 394
up to 7 calendar days	2 686	5 642
up to 15 calendar days	11 223	4 912
up to 1 month	12 336	6 083
up to 2 months	13 421	6 783
up to 3 months	14 119	6 662
up to 4 months	14 241	6 537
up to 5 months	14 329	6 738
up to 6 months	14 368	6 504
up to 7 months	13 115	6 400
up to 8 months	13 253	6 492
up to 9 months	13 268	7 319
up to 10 months	11 887	7 310
up to 11 months	11 942	6 559
up to 12 months	12 475	6 564

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

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

- the funding structure was stable. The biggest position in this structure was current and term customer's deposit portfolio. The second biggest source of funding, with a growing share in the funding structure, were long-term borrowings from banks (over 1 year), especially from Commerzbank (Note 29). Borrowings and subordinated loans (Note 32) were the main sources of financing the mortgage loan portfolio in CHF. BRE Bank's dependency on money market funding was low (ca. 1 % of total funding) and fully resulted from the market maker's operations on the interbank market.
- BRE Bank, which analyses liquidity risk on a daily basis , increased, during the crisis, the number and the range of scenario analysis, especially stress test scenarios. The results of these scenarios were regularly presented and discussed at ALCO, Risk Committee and Management Board meetings. A very detailed

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stability analysis applied to loan and deposit portfolios. ALCO established a Task Force responsible for analysing the Bank's deposit base and preparing recommendations for ALCO and the Management Board on the pricing policy, the product and currency structure. In view of the first symptoms of "deposit wars", it proposed actions necessary to prevent the observed outflow of funds from term accounts and to stabilise and increase the deposit base. The initiated actions produced the expected effects. Additionally, the securities portfolio, which is an important source of funding in time of a crisis, was precisely analysed. Moreover, the Bank prepared information for the Polish Financial Supervision Authority as required by the regulator.

- The Management Board of the Bank agreed with Commerzbank on a strategy of funding the CHF mortgage loans portfolio. Considering the continued confidence crisis on the interbank market, it was decided that long-term CHF assets will continue to be funded with direct credit lines within the group. Maturing funds were gradually replaced with new long-term borrowings.
- In 2009, the Bank built and maintained a high level of liquid securities assuming that the only source of cash from debt securities are repo transactions and lombard credit with NBP. These steps were taken in the context of rapidly drying liquidity on the interbank market, uncertainty of future depositor's decisions and materialising credit risk in the banking sector.

3.7.1 Cash Flows from Transactions in Non-derivative Financial Instruments

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

Liabilities (by contractual maturity dates)	as at 31.12.2009					
	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Amounts due to the Central Bank	2 007 327	-	-	-	-	2 007 327
Amounts due to other banks	1 602 898	45 776	3 156 035	14 799 367	-	19 604 076
Amounts due to customers	34 184 201	4 972 824	2 493 075	297 266	709 986	42 657 352
Subordinated liabilities	-	5 803	17 732	94 205	2 693 870	2 811 610
Other liabilities	367 991	78	590	1 229	81	369 969
Total liabilities	38 162 417	5 024 481	5 667 432	15 192 067	3 403 937	67 450 334
Assets (by remaining contractual maturity dates)						
Total assets	14 858 463	4 769 719	10 718 942	16 218 834	38 161 367	84 727 325
Net liquidity gap	(23 303 954)	(254 762)	5 051 510	1 026 767	34 757 430	17 276 991

Liabilities (by contractual maturity dates)	as at 31.12.2008					
	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Amounts due to the Central Bank	1 097 633	213 201	-	-	-	1 310 834
Amounts due to other banks	2 665 150	97 462	1 582 217	17 114 178	-	21 459 007
Amounts due to customers	31 782 594	4 393 785	1 053 491	379 678	104 849	37 714 397
Debt securities in issue	-	-	8 000	-	-	8 000
Subordinated liabilities	5 979	9 777	28 196	149 797	2 799 065	2 992 814
Other liabilities	419 136	181	749	2 533	267	422 866
Total liabilities	35 970 492	4 714 406	2 672 653	17 646 186	2 904 181	63 907 918
Assets (by remaining contractual maturity dates)						
Total assets	12 836 540	2 845 270	10 293 854	16 545 298	38 735 448	81 256 410
Net liquidity gap	(23 133 952)	(1 869 136)	7 621 201	(1 100 888)	35 831 267	17 348 492

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

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

Moreover, debt securities and T-bonds and other bonds were pledged as collateral for liabilities. The Bank could ensure cash for unexpected net outflows by selling securities and availing itself of other sources of financing, such as the market of securities secured with assets (e.g. securitisation transactions).

3.7.2 Cash Flows from Derivatives

Derivative financial instruments settled in net amounts

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

- Derivative futures;
- Forward Rate Agreements (FRA);
- Options;

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- Warrants;
- Interest rate swaps (IRS);
- Cross currency interest rate swaps (CIRS);
- Security forwards.

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

31.12.2009 Derivatives settled on a net basis	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Forward Rate Agreements (FRA)	18 217	31 061	11 807	548	-	61 633
Overnight Index Swaps (OIS)	124	3 045	362	-	-	3 531
Interest Rate Swaps (IRS)	84 240	183 592	370 135	423 876	48 210	1 110 053
Cross Currency Interest Rate Swaps (CIRS)	-	9 880	83 055	172 852	-	265 787
Options	24 720	47 360	158 629	22 999	11 805	265 513
Futures contracts	-	68	21	-	-	89
Other	1 678	-	-	-	-	1 678
Total derivatives settled on a net basis	128 979	275 006	624 009	620 275	60 015	1 708 284

31.12.2008 Derivatives settled on a net basis	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Forward Rate Agreements (FRA)	32 018	100 566	264 617	77 491	-	474 692
Overnight Index Swaps (OIS)	1 822	10 754	84 702	-	-	97 278
Interest Rate Swaps (IRS)	238 732	285 218	552 729	1 544 079	201 702	2 822 460
Cross Currency Interest Rate Swaps (CIRS)	71 013	4 195	127 995	337 391	-	540 594
Options	78 809	237 686	480 680	127 018	15 652	939 845
Futures contracts	-	39	-	-	-	39
Other	868	-	3 249	-	-	4 117
Total derivatives settled on a net basis	423 262	638 458	1 513 972	2 085 979	217 354	4 879 025

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

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

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

31.12.2009 Derivatives settled on a gross basis	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Currency derivatives:						
-outflows	5 222 095	2 653 672	2 857 443	335 315	-	11 068 525
-inflows	5 181 306	2 694 342	2 890 730	346 182	-	11 112 560

31.12.2008 Derivatives settled on a gross basis	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Currency derivatives:						
-outflows	6 733 193	4 561 439	6 344 262	784 894	-	18 423 788
-inflows	6 556 321	4 495 831	6 191 820	837 295	-	18 081 267

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

The amounts presented in the table above are nominal cash flows which have not been settled up yet due to currency derivatives, while the Note 20 shows nominal values of all open by contract derivative transactions.

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 37.

3.8 Fair Value of Financial Assets and Financial Liabilities

Fair value is a price, for which an asset could be exchanged, or an obligation fulfilled, between well informed and interested parties in a direct transaction other than a forced sale or liquidation. The market price, if available, is the best reflection of fair value.

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

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

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

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

	31.12.2009		31.12.2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Loans and advances to banks	**2 497 397**	**2 497 398**	**6 065 581**	**6 065 581**
Loans and advances to customers	**44 260 700**	**44 289 751**	**42 257 165**	**42 232 586**
Loans and advances to individuals	***28 063 197***	***28 063 634***	***26 246 283***	***26 245 535***
current accounts	3 649 451	3 649 451	3 358 878	3 358 878
term loans including:	24 413 746	24 414 183	22 887 405	22 886 657
- housing and mortgage loans	22 319 761	22 319 862	21 341 130	21 340 935
Loans and advances to corporate entities	***14 639 756***	***14 667 335***	***15 308 006***	***15 285 292***
current accounts	2 851 535	2 851 535	3 510 238	3 510 238
term loans	11 434 413	11 461 992	11 390 189	11 367 475
- corporate & institutional enterprises	4 687 884	4 691 938	4 612 890	4 598 136
- medium & small enterprises	6 746 529	6 770 054	6 777 299	6 769 339
reverse repo / buy-sell-back transactions	353 808	353 808	407 579	407 579
Loans and advances to public sector	***741 226***	***742 261***	***34 192***	***33 075***
Other receivables	***816 521***	***816 521***	***668 684***	***668 684***
Financial liabilities				
Amounts due to other banks	**19 184 949**	**19 185 040**	**20 142 760**	**7 931 692**
Amounts due to customers	**42 414 412**	**42 539 929**	**37 438 494**	**32 717 430**
Debt securities in issue	**-**	**-**	**7 829**	**36 188**

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

<u>Amounts due from banks.</u> The fair values of variable interest deposits and fixed interest deposits with less than 1 year to maturity approximates the balance sheet carrying amounts.

<u>Loans and advances to customers</u> are disclosed at net values adjusted for impairment write-offs. The fair value of fixed interest rate loans and advances granted to customers with more than 1 year to maturity was calculated as value of expected future receivables on the account of principal and interest discounted on the basis of zero-coupon curve, including credit spread. It was assumed that credits and loans would be repaid on dates set in agreements. The fair values of credits with recognised impairment are equal to their net balance sheet values that take account of all premises indicative of impairment of the value of such credits. So estimated fair value of credits and loans reflects changes in credit risk from the grant of each credit/loan and changes in interest rates for fixed rate credits.

As at 31 December 2009 the value of loans and advances to customers includes the value of bonds of the following companies: ABC Data Holding SA (bonds with embedded warrant), Internet Group SA (convertible bonds). The aforementioned bonds were taken up by the Bank. The maturity dates for the bonds fall in 2012 and 2013 respectively, with earlier redemption clause. Because of complicated agreements and lack of analogous transactions on the Polish market in relation to bonds of the company ABC Data Holding SA it is not possible to determine reliably the fair value of acquired instruments at the moment of the transaction.

Consequently, the Bank, abiding by the principle of prudence, recognised the transactions at acquisition cost being also the nominal value of the acquired bonds.

In December 2009, a partial redemption of the bonds issued by ABC Data Holding SA took place in the amount of PLN 39 853 thousand. Additionally changes in terms of the bonds of Internet Group SA were made allowing the conversion of the bonds into equity and introducing the Bank's resignation from the warrants for Call Center Poland SA shares.

All acquired bonds were classified as credit receivables subject to tests for impairment and valuation at amortised cost.

<u>Available for sale financial assets.</u> Listed available for sale financial instruments held by the Bank are valued at fair value. The fair value of debt securities unlisted at an active market is calculated by the use of zero-coupon curve (including credit spread). The model of spread determination in the case of illiquid commercial papers was

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extended in order to reflect the costs of unexpected loss component of the credit spread more precisely. Since November 2008 the above element has been a product of portfolio CVAR risk contribution (modelled by Enhanced Credit Risk Plus model at 99.90% confidence level) of given issuance as a measure of UL and estimation of required return on BRE equity (CAPM model based on WSE data) as a measure of equity / UL costs.

The Bank was unable to prepare reliable fair value estimates for unlisted equity instruments and it used the acquisition cost adjusted for impairment losses for the balance sheet valuation purposes.

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

1. Contracted borrowings;
2. Liabilities resulting from the issue of securities;
3. Deposits.

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

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

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

Credit risk exposures relating to off-balance sheet items. As at 31 December 2009 the fair value of financial guarantees amounted to PLN 7 506 thousand (31 December 2008: PLN 11 644 thousand).

The following table presents fair values hierarchy of financial assets and liabilities recognised in the Bank's Statement of Financial Position at their fair values.

	31.12.2009	Including: Level 1	Level 2	Level 3
		Prices quoted on active markets	Pricing methods noticeable market data	Other pricing methods
Financial assets				
Trading securities	**2 001 105**	**1 233 233**	**-**	**767 872**
Debt*	1 998 511	1 230 639	-	767 872
Equity	2 594	2 594	-	-
Derivatives	**1 931 868**	**8 757**	**1 923 111**	**-**
Investment securities	**16 145 194**	**8 804 125**	**6 564 063**	**777 006**
Debt*	16 018 568	8 793 254	6 564 063	661 251
Equity	126 626	10 871	-	115 755
Total financial assets	**20 078 167**	**10 046 115**	**8 487 174**	**1 544 878**
Financial liabilities				
Derivatives and other trading liabilities	1 933 149	5 746	1 927 403	-
Total financial liabilities	**1 933 149**	**5 746**	**1 927 403**	**-**

* the amount include pledged assets

Financial assets valued at fair value on level 3	**Debt trading securities**	**Debt investment securities**	**Equity investment securities**
Opening balance sheet	**1 243 917**	**287 870**	**75 241**
Gains and losses	(3 721)	(159)	75 232
Recognised in the Income Statement	*(3 721)*	-	-
Recognised in the Comprehensive Income	-	*(159)*	*75 232*
Purchases	11 045 891	373 200	193 595
Settlements	(11 518 215)	340	(228 313)
Closing balance sheet	**767 872**	**661 251**	**115 755**

On the basis of methods used by the Group to measure the fair value, financial assets and financial liabilities are classified to the following levels in fair value hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in within Level 1 that are observable for the asset or liability, either directly(ie as prices) or indirectly (ie derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 1

On the Level 1 of the fair value hierarchy the Bank presented the fair value of trading government bonds and Treasury bills amounting to PLN 1 230 639 thousand (see Note 19) as well as the fair value of investment government bonds and Treasury bills amounting to PLN 8 697 785 thousand. The Level 1 includes also the fair value of bonds issued by foreign banks amounting to PLN 95 469 thousand.

Those instruments were classified into Level 1 because their pricing relies on the usage of current market prices of those instruments that are observed on active and liquid financial markets.

Level 2

The Level 2 in its entirety represents the fair value of the National Bank of Poland bills amounting to PLN 6 564 063 thousand, which valuation is based on NPV model (discounting of future cash flows), which uses as its input yield curves, that are calculated by means of transformation of current quotations that are observed on active and liquid financial markets.

Additionally, Level 2 comprises valuation of derivative financial instruments that use models for their pricing , that are compliant with market best practices. Those models are fed with parameters stemming directly from active markets (e.g. exchange rates, implied volatilities, equity prices or indexes values) or with parameters that are transformations of quotations observed directly on active and liquid financial markets (e.g. yield curves).

Level 3

On the Level 3 the Bank presented the fair value of the commercial debt securities issued by Polish banks and corporations (bonds, mortgage bonds, deposit certificates) amounting to PLN 1 429 627 thousand. Investment equity securities presented on the Level 3 include mainly investment certificates issed by BRE GOLD FIZ Aktywów Niepublicznych amounting to PLN 113 919 thousand.

Above mentioned instruments were classified into Level 3, as for their pricing, apart from parameters that are transformations of quotations observed directly on active and liquid financial markets (e.g. yield curves), so called credit spread is used. This spread is estimated by the Bank by means of in-house credit risk model. This model utilises parameters such rates of return of collaterals, migration of ratings or volatility of default rates. Those parameters are not observed on active markets and were evaluated on the basis of statistical analyses.

Had the credit spread used for valuation increased by 20 basic points, the valuation of domestic commercial debt securities would have been lower by PLN 0.7 million.

The fair value of investment certificates was assessed by the investment fund company Ipopema TFI SA which manages the investment fund BRE GOLD FIZ Aktywów Niepublicznych. The fair value was based on the valuation of PZU SA shares, constituting the only significant asset of BRE GOLD FIZ Aktywów Niepublicznych. Valuation of PZU SA shares was performed by the independent consulting company on the basis of financial data of PZU SA, market valuations of insurance companies representing PZU SA's peer group as well as other data concerning PZU SA.

3.9 Other Business

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

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

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

Impairment of loans and advances

The Bank reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Income Statement, the Bank assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio, 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 are determined will be regularly reviewed in order to reduce the discrepancies between the estimated and the actual magnitude of the impairment losses concerned. If the current value of estimated cash flows for portfolio of loans and advances, individually impaired, changed by +/-10%, the estimated loans and advances impairment would either decrease by PLN 49.6 million or increase by PLN 76.7

million respectively. The above indicated estimation was performed for portfolio of loans and advance impaired on the basis of individual analysis of future cash flows due to repayments and recovery from collateral.

Credit risk management connected with changes in market conditions was described under Note 3, in the part regarding the impact of the worldwide turmoil on financial risk management.

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. Changes in market conditions on valuation of the trading book of the Bank (containing inter alia derivatives) are presented in the Note 3.4.

Impairment of debt instruments available for sale

Impairment is regarded to occur if the issuer incurs a loss not covered by its equity within the period of one year or in the event of occurrence of other circumstances indicating impairment. In addition, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates which indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Significant and prolonged declines in fair values of available for sale financial debt instruments below their acquisition cost would result in estimated impairment of the portfolio of these instruments in the amount of PLN 7.6 million, which would be charged to the Income Statement of the Bank in correspondence with revaluation reserve. For the purpose of the analysis, the declines in particular securities ratings that decreased by four rating classes were assumed to be significant and prolonged declines in fair values of available for sale financial debt instruments.

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5. Net Interest Income

	Year ended 31 December	
	2009	**2008**
Interest income		
Loans and advances including the unwind of the impairment provision discount	2 051 630	2 056 191
Cash and short-term investments	145 954	304 514
Investment securities	543 863	314 108
Trading debt securities	113 791	259 202
Other	10 535	6 138
	2 865 773	**2 940 153**
Interest expense		
Arising from amounts due to banks and customers	(1 448 219)	(1 726 959)
Arising from issue of debt securities	(171)	(1 928)
Other borrowed funds	(58 116)	(82 086)
Other	(2 250)	(1 913)
	(1 508 756)	**(1 812 886)**

Interest income related to financial assets which have been impaired amounted to PLN 83 519 thousand (PLN 33 180 thousand in 2008).

Net interest income per segment is as follows:

	Year ended 31 December	
	2009	**2008**
Interest income		
From banking sector	289 236	444 354
From clients, including:	2 576 537	2 495 799
- corporate clients	831 560	1 013 668
- individual clients	1 209 010	1 028 423
- public sector	535 967	453 708
	2 865 773	**2 940 153**
Interest expense		
From banking sector	(450 851)	(423 617)
From clients, including:	(1 057 734)	(1 387 341)
- corporate clients	(358 191)	(660 082)
- individual clients	(656 795)	(646 082)
- public sector	(42 748)	(81 177)
Own issue	(171)	(1 928)
	(1 508 756)	**(1 812 886)**

6. Net Fee and Commission Income

	Year ended 31 December	
	2009	**2008**
Fee and commission income		
Credit-related fees and commissions	186 262	210 694
Payment cards-related fees	289 104	206 445
Commissions from money transfers	72 914	72 435
Commissions from bank accounts	84 704	69 893
Guarantees granted and trade finance commissions	45 220	38 648
Commissions on trust and fiduciary activities	10 171	10 164
Other	89 557	96 563
	777 932	**704 842**
Fee and commission expense		
Payment cards-related fees	(188 796)	(143 629)
Brokerage fees discharged	(5 004)	(8 156)
Other fees discharged	(184 903)	(129 091)
	(378 703)	**(280 876)**

The amount of other fees discharged comprises primarily commissions paid for sale of the Bank's products to external customers.

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7. Dividend Income

	Year ended 31 December	
	2009	**2008**
Trading securities	92	1 687
Securities available for sale	59 646	66 994
Total dividend income	**59 738**	**68 681**

8. Net Trading Income

	Year ended 31 December	
	2009	**2008**
Foreign exchange result	**402 115**	**482 361**
Foreign exchange differences from the conversion (net)	(392 955)	395 394
Net transaction gains and losses	795 070	86 967
Other net trading income	**(16 848)**	**(34 883)**
Interest-bearing instruments	(24 760)	(28 489)
Equities	1 683	(3 903)
Market risk instruments	6 229	(2 491)
Total net trading income	**385 267**	**447 478**

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

In 2009 valuation of currency derivatives resulted in decrease of valuation by PLN 31 629 thousand included under the item "Net transaction gains and losses" (in 2008 decrease of valuation by PLN 56 613 thousand).

9. Other Operating Income

	Year ended 31 December	
	2009	**2008**
Income from services provided	23 653	22 732
Income due to release of provisions for future commitments	25 655	9 668
Income from recovering receivables designated previously as prescribed, remitted or uncollectible	86	4 476
Income from sale or liquidation of fixed assets, intangible assets and assets held for resale	2 246	562
Compensations, penalties and fines received	2 496	242
Other	14 341	6 062
Total other operating income	**68 477**	**43 742**

Income from services provided concerns non-banking services.

10. Overhead Costs

	Year ended 31 December	
	2009	**2008**
Staff-related expenses	(453 149)	(564 256)
Material costs	(495 369)	(476 122)
Taxes and fees	(19 561)	(20 111)
Contributions and transfers to the Bank Guarantee Fund	(21 867)	(6 623)
Contribution to the Social Benefits Fund	(3 436)	(3 805)
Total overhead costs	**(993 382)**	**(1 070 917)**

"Material costs" consist of tangible assets operating lease payment costs (mainly real estate) of PLN 28 130 thousand (2008: PLN 22 605 thousand).

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Staff-related Expenses

	Year ended 31 December	
	2009	**2008**
Wages and salaries	(377 829)	(442 563)
Social security expenses	(47 612)	(63 905)
Remuneration settled in the form of shares and share options	(2 388)	(18 898)
Other staff expenses	(25 320)	(38 890)
Staff-related expenses, total	**(453 149)**	**(564 256)**

The average level of employment in the Bank in 2009 was 5 162 persons (2008: 5 364).

Additional information related to share-based payments is presented in the Note 41 "Retained earnings".

11. Other Operating Expenses

	Year ended 31 December	
	2009	**2008**
Costs arising from impairment provisions created for other receivables (excluding loans and advances)	(580)	(7 365)
Provisions for future commitments	(33 982)	(4 935)
Donations made	(2 930)	(3 333)
Costs arising from sale or liquidation of fixed assets, intangible assets and assets held for resale	(1 477)	(1 260)
Costs arising from impairment provisions created for tangible fixed assets and intangible assets	(4 838)	-
Compensations, penalties and fines paid	(556)	(728)
Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible	(23)	(12)
Other operating costs	(13 834)	(8 009)
Total other operating expenses	**(58 220)**	**(25 642)**

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

12. Impairment Losses on Loans and Advances

	Year ended 31 December	
	2009	**2008**
Impairment losses on amounts due from other banks (Note 18)	(19 950)	(21 894)
Impairment losses on off-balance sheet contingent liabilities due to other banks (Note 34)	542	(287)
Impairment losses on loans and advances to customers (Note 21)	(957 437)	(183 350)
Impairment losses on off-balance sheet contingent liabilities due to customers (Note 34)	10 193	(13 216)
Total impairment losses on loans and advances	**(966 652)**	**(218 747)**

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13. Income Tax Expense

	Year ended 31 December	
	2009	**2008**
Current tax	(16 526)	(214 262)
Deferred income tax (Note 35)	(25 209)	142 306
Total income tax	**(41 735)**	**(71 956)**
Profit before tax	**98 878**	**901 487**
Tax calculated at Polish current tax rate (19%)	(18 787)	(171 283)
Income not subject to tax	16 291	72 350
Costs other than tax deductible costs	(17 165)	(7 589)
Other positions affecting income tax	106	50 968
Losses of foreign branches of the Bank	(22 180)	(16 402)
Income tax expense	**(41 735)**	**(71 956)**
Effective tax rate calculation		
Profit before income tax	98 878	901 487
Income tax	(41 735)	(71 956)
Effective tax rate	**42.21%**	**7.98%**

The effective tax rate of 42.21% was mainly a result of losses incurred by the Bank's foreign branches, costs not deductible for tax purposes and costs of provisions and write-offs not allowed for tax purposes.

In 2008 the effective tax rate 7.98% is mainly attributable to the result on the sale for redemption purposes of Vectra SA and the tax loss on the sale of the Aegon PTE shares.

In 2008 the item "Other positions affecting income tax" comprised tax result on the sale of the shares of Aegon PTE SA.

Further information about deferred income tax is presented in the Note 35. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

14. Earnings per Share

	Year ended 31 December	
	2009	**2008**
Basic:		
Net profit	57 143	829 531
Weighted average number of ordinary shares	29 690 882	29 680 542
Net basic profit per share (in PLN per share)	**1.92**	**27.95**
Diluted:		
Net profit from continued operations attributable to the Bank's equity holders applied for calculation of diluted earnings per share	57 143	829 531
Weighted average number of ordinary shares	29 690 882	29 680 542
Adjustments for:		
- stock options for employees	38 859	20 704
Weighted average number of ordinary shares for calculation of diluted earnings per share	29 729 741	29 701 246
Diluted earnings per share (in PLN per share)	**1.92**	**27.93**

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

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

According to IAS 33, the Bank prepares a calculation of the so-called "diluted earnings per share", taking account of share purchase options granted to employees.

On 14 March 2008, the Ordinary General Meeting of BRE Bank adopted a resolution approving an incentive program for Management Board Members of the Bank. Under the program, the Management Board Members can acquire bonds with the pre-emptive right to acquire shares of the Bank and shares of the ultimate parent of the Group, Commerzbank AG.

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The Bank conducted two option programs from 1 January 2007 to 31 December 2008. The programs were valued in accordance with IFRS 2.

The employee options program (initiated in May 2003) assumes that the members of the Bank's Management will receive 500 000 options to be exercised in phases between 1 June 2005 and 30 June 2008. Under these options, the employees may have assumed 500 000 of newly issued shares of the Bank.

Detailed information concerning the conducted remuneration program based on and settled in shares is described in the Note 41.

Detailed information concerning the option program which the Bank conducted in previous years and which expired during the year 2008 is presented in the BRE Bank SA IFRS Financial Statements 2008 and BRE Bank SA Group IFRS Consolidated Financial Statements 2008, published on 27 February 2009.

15. Other Comprehensive Income

Disclosure of tax effect concerning particular items of other comprehensive income	Year ended 31 December 2009			Year ended 31 December 2008		
	Amount before tax	Deferred tax	Amount after tax	Amount before tax	Deferred tax	Amount after tax
Exchange differences on translating foreign operations (net)	8 001	-	8 001	(8 058)	-	(8 058)
Available-for-sale financial assets (net)	150 568	(22 562)	128 006	(304 093)	11 617	(292 476)
Total comprehensive income net of tax, total	**158 569**	**(22 562)**	**136 007**	**(312 151)**	**11 617**	**(300 534)**

Detailed information concerning other comprehensive income for the years 2009 and 2008 is presented bellow:

	31.12.2009	31.12.2008
Exchange differences on translating foreign operations	**8 001**	**(8 058)**
unrealized gains (positive differences) arising during the year (net)	9 914	6 994
unrealized losses (negative differences) arising during the year (net)	(1 913)	(15 052)
Available-for-sale financial assets	**128 006**	**(292 476)**
unrealized gains on debt instruments arising during the year (net)	67 867	8 868
unrealized losses on debt instruments arising during the year (net)	-	(160 660)
Reclassification adjustments for gains (losses) on debt instruments included in the income statement (net)	(799)	453
unrealized gains on equity instruments arising during the year (net)	110 304	787
unrealized losses on equity instruments arising during the year (net)	-	(2 851)
Reclassification adjustments for gains (losses) on equity instruments included in the income statement (net)	(49 366)	(139 073)
Other comprehensive income, net-of-tax	**136 007**	**(300 534)**

The net gain of PLN 50 165 thousand representing a net increase/decrease in the value of securities (investment certificates, bonds, Treasury notes and stocks) sold in 2009 was released from the other components of equity and recognised in the Income Statement (as at 31 December 2008: net gain PLN 138 620 thousand).

The main items under unrealised gains on equity instruments at the end of 2009 include the revaluation of PZU SA shares to fair value in Q4 2009 (unrealised gains on equity instruments arising during the year in the net amount of PLN 59 889 thousand). Additionally on 5 November 2009, 651 660 PZU SA shares were transferred to BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in exchange for acquired investment certificates, and subsequently on 31 December 2009 part of the certificates were redeemed (Reclassification adjustments for gains on equity instruments included in the income statement in the net amount of PLN 49 366 thousand).

The year-on-year increase in the valuation of the portfolio of securities available for sale in 2009 was mainly due to an increase in the value of variable-coupon Treasury securities held by the Bank. The change in the valuation was mainly related to an increase in the value of variable-coupon securities held by the Bank. The change in the valuation of the portfolio was largely impacted by an increase of market prices of debt securities issued by foreign banks as a result of improving sentiment on the financial markets, increased confidence in the banking sector, and decreased credit spreads. In addition, the increase in the valuation was driven by redemption of zero-coupon Treasury securities, stated at a negative amount at the end of 2008, as well as an increase in the valuation of Treasury bills acquired for the Bank's portfolio in 2009 resulting from reduced interest rates. The positive impact of these factors was partly offset by the negative valuation of long-term fixed-income Treasury securities.

The biggest material impact on the change in other components of equity in 2008 was caused by the release to the Income Statement of the change in value of the investment in Vectra SA and the release on sale of shares disposed by the Bank on 25 January 2008 (Reclassification adjustments for gains on equity instruments included in the income statement in the amount of PLN 139 073 thousand), (Note 22).

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16. Cash and Balances with Central Bank

	31.12.2009	31.12.2008
Cash in hand	149 152	143 277
Current account	3 622 840	2 348 574
Total cash and balances with the Central Bank (Note 44)	**3 771 992**	**2 491 851**
Including: mandatory reserve deposit	1 039 065	1 175 454

On the basis of the National Bank of Poland Act dated 29 August 1997, BRE Bank SA holds a mandatory reserve deposit. The mandatory reserve is held in an account with the Central Bank and in the Bank's hand. As at 31 December 2009, the former part of the reserve bore 3.38% interest (31 December 2008: 4.73%).

17. Debt Securities Eligible for Rediscounting at the Central Bank

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

18. Loans and Advances to Banks

	31.12.2009	31.12.2008
Current accounts	270 136	95 493
Placements with other banks	1 252 289	4 246 175
Included in cash equivalents (Note 44)	**1 522 425**	**4 341 668**
Loans and advances	517 537	941 813
Placements	80 281	89 828
Reverse repo / buy-sell-back transactions	357 161	515 694
Other receivables	58 080	207 592
Total (gross) loans and advances to banks	**2 535 484**	**6 096 595**
Provisions created for loans and advances to banks (negative amount)	(38 087)	(31 014)
Total (net) loans and advances to banks	**2 497 397**	**6 065 581**
Short-term (up to 1 year)	2 326 239	5 634 569
Long-term (over 1 year)	171 158	431 012

The following table presents receivables from Polish and foreign banks:

	31.12.2009	31.12.2008
Loans and advances to Polish banks, gross	734 617	898 208
Provisions created for loans and advances to Polish banks	(331)	(57)
Loans and advances to foreign banks, gross	1 800 867	5 198 387
Provisions created for loans and advances to foreign banks	(37 756)	(30 957)
Total (net) loans and advances to banks	**2 497 397**	**6 065 581**

As at 31 December 2009, the variable rate loans to banks amount to PLN 507 214 thousand and the fixed rate loans to banks amounted to PLN 10 323 thousand (as at 31 December 2008 – variable rate loans to banks amounted to PLN 960 821 thousand and fixed rate loans: PLN 54 670 thousand). An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 2.97% (31 December 2008: 5.31%).

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

	31.12.2009	31.12.2008
Provisions for loans and advances to banks as at the beginning of the period	**31 014**	**5 209**
Increase (due to)	26 405	25 805
- provisions created (Note 12)	26 405	21 894
- foreign exchange differences	-	3 911
Release (due to)	(19 332)	-
- release of provisions (Note 12)	(6 455)	-
- write-offs	(10 565)	-
- foreign exchange differences	(2 312)	-
Provisions for loans and advances to banks as at the end of the period	**38 087**	**31 014**

Provisions for loans and advances to banks in 2009 comprise provisions of PLN 36 238 thousand created for receivables on an individual basis (31 December 2008: PLN 26 212 thousand).

19. Trading Securities and Pledged Assets

	31.12.2009	31.12.2008
Debt securities:	**1 998 511**	**6 064 684**
Government bonds included in cash equivalents and pledged government bonds (sell-buy-back transactions) (Note 44), including:	1 003 082	795 927
- pledged government bonds (sell-buy-back transactions) (Note 38)	766 313	716 356
Treasury bills included in cash equivalents and pledged treasury bills (sell-buy-back transactions) (Note 44), including:	227 557	874 579
- pledged treasury bills (sell-buy-back transactions) (Note 38)	-	380 428
Other debt securities	767 872	4 394 178
Equity securities:	**2 594**	**1 312**
- listed	2 594	1 312
Other financial instruments at fair value through profit or loss		
Debt and equity securities, including:	**2 001 105**	**6 065 996**
- Trading securities	*1 234 792*	*4 969 212*
- Pledged assets (Note 38)	*766 313*	*1 096 784*

Government bonds include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2009 amounted to PLN 766 313 thousand (31 December 2008: PLN 716 356 thousand). The bonds are disclosed separately within the "Pledged assets" in the Statement of Financial Position.

In 2008 Treasury bills include bills used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2008 amounted to PLN 380 428 thousand. The bills are disclosed separately within the "Pledged assets" in the Statement of Financial Position.

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

The above note includes neither Treasury bills nor money bills pledged under the Bank Guarantee Fund of PLN 184 821 thousand (31 December 2008: PLN 175 300 thousand), which have been classified into investment securities (the Note 22).

20. Derivative Financial Instruments and Other Trading Liabilities

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

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

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

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

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

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

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

	Contract amount		**Fair value**	
	purchase	**sale**	**assets**	**liabilities**
As at 31 December 2009				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	9 834 886	9 946 489	114 341	65 713
- Currency swaps	8 143 028	8 131 581	148 035	141 841
- Cross-currency interest rate swaps	5 794 847	5 941 004	142 688	274 383
- OTC currency options bought and sold	4 679 412	4 819 890	352 161	250 895
Total OTC derivatives	**28 452 173**	**28 838 964**	**757 225**	**732 832**
Total foreign exchange derivatives	**28 452 173**	**28 838 964**	**757 225**	**732 832**
Interest rate derivatives				
- Interest rate swap, OIS	97 585 601	97 585 601	1 079 516	1 118 545
- Forward rate agreements	26 136 492	35 190 000	62 547	52 152
- OTC interest rate options	462 575	455 447	11 568	10 773
Total OTC interest rate derivatives	**124 184 668**	**133 231 048**	**1 153 631**	**1 181 470**
Total interest rate derivatives	**124 184 668**	**133 231 048**	**1 153 631**	**1 181 470**
Market risk transactions	**853 602**	**797 641**	**21 012**	**18 847**
Total derivative assets / liabilities held for trading	**153 490 443**	**162 867 653**	**1 931 868**	**1 933 149**
Total recognised derivative assets/ liabilities	**153 490 443**	**162 867 653**	**1 931 868**	**1 933 149**
Total recognised derivative assets/ liabilities and other trading liabilities	**153 490 443**	**162 867 653**	**1 931 868**	**1 933 149**
Short-term (up to 1 year)	103 209 762	113 052 308	1 263 683	1 232 352
Long-term (over 1 year)	50 280 681	49 815 345	668 185	700 797

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	Contract amount		Fair value	
	purchase	**sale**	**assets**	**liabilities**
As at 31 December 2008				
Derivatives held for trading				
Foreign exchange derivatives				
- Currency forwards	16 503 882	16 135 075	615 328	191 351
- Currency swaps	11 507 998	12 262 351	391 237	1 168 759
- Cross-currency interest rate swaps	6 710 761	6 755 264	518 271	513 708
- OTC currency options bought and sold	10 393 957	11 311 674	1 169 471	908 457
Total OTC derivatives	**45 116 598**	**46 464 364**	**2 694 307**	**2 782 275**
Total foreign exchange derivatives	**45 116 598**	**46 464 364**	**2 694 307**	**2 782 275**
Interest rate derivatives				
- Interest rate swap, OIS	164 517 492	164 517 492	2 280 107	2 922 735
- Forward rate agreements	102 672 586	131 095 000	599 517	470 713
- OTC interest rate options	518 134	509 829	15 296	13 742
Total OTC interest rate derivatives	**267 708 212**	**296 122 321**	**2 894 920**	**3 407 190**
Total interest rate derivatives	**267 708 212**	**296 122 321**	**2 894 920**	**3 407 190**
Market risk transactions	**750 581**	**647 227**	**23 086**	**21 851**
Total derivative assets / liabilities held for trading	**313 575 391**	**343 233 912**	**5 612 313**	**6 211 316**
Total recognised derivative assets/ liabilities	**313 575 391**	**343 233 912**	**5 612 313**	**6 211 316**
Total recognised derivative assets/ liabilities and other trading liabilities	**313 575 391**	**343 233 912**	**5 612 313**	**6 211 316**
Short-term (up to 1 year)	218 456 055	244 002 412	3 593 059	4 428 318
Long-term (over 1 year)	95 119 336	99 231 500	2 019 254	1 782 998

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

Under financial derivative instruments the Bank presented derivative instruments in the amount of PLN 13 486 thousand (liabilities), which have been separated from structured investment deposits (31 December 2008: PLN 11 906 thousand).

As at 31 December 2009 and 31 December 2008 the Bank did not have any other financial assets or liabilities in the category priced at fair value through the Income Statement.

21. Loans and Advances to Customers

	31.12.2009	**31.12.2008**
Loans and advances to individuals:	**28 771 426**	**26 538 966**
- overdrafts	4 236 226	3 564 876
- term loans, including:	24 535 200	22 974 090
housing and mortgage loans	22 359 841	21 374 840
Loans and advances to corporate entities:	**15 598 691**	**15 688 997**
- overdrafts	3 186 359	3 618 271
- term loans:	12 058 524	11 663 147
corporate & institutional enterprises	4 796 296	4 643 896
medium & small enterprises	7 262 228	7 019 251
- reverse repo / buy-sell-back transactions	353 808	407 579
Loans and advances to public sector	**743 851**	**34 382**
Other receivables	**816 521**	**668 684**
Total (gross) loans and advances to customers	**45 930 489**	**42 931 029**
Provisions for loans and advances to customers (negative amount)	(1 669 789)	(673 864)
Total (net) loans and advances to customers	**44 260 700**	**42 257 165**
Short-term (up to 1 year)	14 416 882	12 654 060
Long-term (over 1 year)	29 843 818	29 603 105

As at 31 December 2009, variable and fixed rate credits amounted to PLN 45 388 289 thousand and PLN 542 200 thousand, respectively (as at 31 December 2008: PLN 42 381 018 thousand and PLN 550 011 thousand respectively). The values mentioned above relate to loans granted to individual clients, corporate clients and budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 4.58% (31 December 2008: 6.30%).

The Bank accepted exchange-listed securities at the fair value of PLN 1 634 789 thousand (31 December 2008: PLN 789 160 thousand) as collateral for commercial loans.

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Provisions for Loans and Advances

	31.12.2009	31.12.2008
Receivables classified as "non-default"		
Gross balance sheet exposure	43 840 945	42 209 415
Impairment provisions for exposures analysed according to portfolio approach	(203 720)	(146 327)
Net balance sheet exposure	**43 637 225**	**42 063 088**
Receivables classified as "default"		
Gross balance sheet exposure	2 089 544	721 614
Provisions for exposures analysed individually	(1 466 069)	(527 537)
Net balance sheet exposure	**623 475**	**194 077**

Movements in provisions for loans and advances

	31.12.2009	31.12.2008
INDIVIDUALS		
Current accounts		
As at the beginning of the period	**205 998**	**116 907**
increase (due to)	384 952	113 773
- provisions created	384 952	113 773
release (due to)	(4 175)	(24 682)
- release of provisions	(804)	(6 845)
- write-offs	(3 371)	(17 837)
As at the end of the period	**586 775**	**205 998**
Term loans	**31.12.2009**	**31.12.2008**
As at the beginning of the period	**86 685**	**63 894**
increase (due to)	57 858	34 187
- provisions created	57 759	30 613
- reclassification of provisions & foreign exchange differences	99	3 574
release (due to)	(23 089)	(11 396)
- release of provisions	(4 196)	(4 383)
- write-offs	(18 893)	(7 013)
As at the end of the period	**121 454**	**86 685**
including:		
Housing and mortgage loans		
As at the beginning of the period	**33 710**	**22 033**
increase (due to)	24 477	13 949
- provisions created	24 477	13 942
- reclassification of provisions & foreign exchange differences	-	7
release (due to)	(18 107)	(2 272)
- release of provisions	(663)	(39)
- write-offs	(17 444)	(2 233)
As at the end of the period	**40 080**	**33 710**
TOTAL - INDIVIDUALS		
As at the beginning of the period	**292 683**	**180 801**
increase (due to)	442 810	147 960
- provisions created	442 711	144 386
- reclassification of provisions & foreign exchange differences	99	3 574
release (due to)	(27 264)	(36 078)
- release of provisions	(5 000)	(11 228)
- write-offs	(22 264)	(24 850)
As at the end of the period	**708 229**	**292 683**

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	31.12.2009	31.12.2008
CORPORATE ENTITIES		
Current accounts		
As at the beginning of the period	**108 033**	**79 963**
increase (due to)	643 086	92 952
- provisions created	570 199	83 417
- reclassification of provisions & foreign exchange differences*	72 887	9 535
release (due to)	(416 295)	(64 882)
- release of provisions	(405 267)	(45 162)
- reclassification of provisions & foreign exchange differences	(9 253)	(5 320)
- write-offs	(1 775)	(14 400)
As at the end of the period	**334 824**	**108 033**
Term loans		
As at the beginning of the period	**272 958**	**288 730**
increase (due to)	538 221	97 022
- provisions created	537 335	97 022
- reclassification of provisions & foreign exchange differences	886	-
release (due to)	(187 068)	(112 794)
- release of provisions	(184 976)	(84 961)
- reclassification of provisions & foreign exchange differences	(588)	(5 241)
- write-offs	(1 504)	(22 592)
As at the end of the period	**624 111**	**272 958**
including:		
Corporate & institutional enterprises		
As at the beginning of the period	**31 006**	**28 480**
increase (due to)	111 760	11 817
- provisions created	110 874	11 817
- reclassification of provisions & foreign exchange differences	886	-
release (due to)	(34 354)	(9 291)
- release of provisions	(34 354)	(8 422)
- reclassification & foreign exchange differences	-	(869)
As at the end of the period	**108 412**	**31 006**
Medium & small enterprises		
As at the beginning of the period	**241 952**	**260 250**
increase (due to)	426 461	85 205
- provisions created	426 461	85 205
release (due to)	(152 714)	(103 503)
- release of provisions	(150 622)	(76 539)
- reclassification of provisions & foreign exchange differences	(588)	(4 372)
- write-offs	(1 504)	(22 592)
As at the end of the period	**515 699**	**241 952**
TOTAL - CORPORATE ENTITIES		
As at the beginning of the period	**380 991**	**368 693**
increase (due to)	1 181 307	189 974
- provisions created	1 107 534	180 439
- reclassification of provisions & foreign exchange differences	73 773	9 535
release (due to)	(603 363)	(177 676)
- release of provisions	(590 243)	(130 123)
- reclassification of provisions & foreign exchange differences	(9 841)	(10 561)
- write-offs	(3 279)	(36 992)
As at the end of the period	**958 935**	**380 991**

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	31.12.2009	31.12.2008
PUBLIC SECTOR		
As at the beginning of the period	**190**	**314**
increase (due to)	2 447	-
- provisions created	2 447	-
release (due to)	(12)	(124)
- release of provisions	(12)	(124)
As at the end of the period	**2 625**	**190**
CUSTOMERS		
As at the beginning of the period	**673 864**	**549 808**
increase (due to)	1 626 564	337 934
- provisions created (Note 12)	1 552 692	324 825
- reclassification of provisions & foreign exchange differences	73 872	13 109
release (due to)	(630 639)	(213 878)
- release of provisions (Note 12)	(595 255)	(141 475)
- reclassification of provisions & foreign exchange differences	(9 841)	(10 561)
- write-offs	(25 543)	(61 842)
As at the end of the period	**1 669 789**	**673 864**

* In 2009 the amount of PLN 72 887 thousand refers to the derivatives' fair value adjustment reclassified to provisions for loans, concerning receivables from customers who previously held derivative instruments in portfolio.

22. Investment Securities and Pledged Assets

	31.12.2009	31.12.2008
Debt securities	**16 018 568**	**7 762 177**
Listed, including:	16 018 568	7 762 177
- pledged government bonds (sell-buy-back transactions)	2 188 251	2 171 905
- pledged government bonds (Bank Guarantee Fund)	145 323	175 300
- pledged government bonds (loan collateral)	374 397	-
- Treasury bills pledged under the Bank Guarantee Fund	39 498	-
Equity securities	**126 626**	**83 199**
- listed	10 871	7 958
- unlisted	115 755	75 241
Total securities	**16 145 194**	**7 845 376**
Total investment securities and pledged assets, including:	**16 145 194**	**7 845 376**
- Available for sale securities	13 397 725	5 498 171
- Pledged assets (Note 38)	2 747 469	2 347 205
Short-term (up to 1 year)	9 291 510	1 317 860
Long-term (over 1 year)	6 853 684	6 527 516

The fair values of equity securities presented above include impairment in the amount of PLN 125 thousand (31 December 2008: PLN 125 thousand).

As at 31 December 2009, the carrying values of debt securities with fixed interest rates amounted to PLN 9 878 933 thousand and debt securities with variable interest rates PLN 6 139 635 thousand respectively (31 December 2008 respectively: PLN 2 006 163 thousand and PLN 5 756 014 thousand).

The above includes government bonds and Treasury bills under the Bank Guarantee Fund, investment government bonds pledged as sell-buy-back transactions and government bonds pledged as collateral for the loan received from the European Investment Bank, which are presented in the Statement of Financial Position in a separate position "Pledged assets" (see the Note 38).

The above note also includes the Central Bank's bills with maturity date up to three months, which are presented in cash equivalents (see the Note 44).

In accordance with the Bank Guarantee Fund Law of 14 December 1994, the Bank held PLN 184 821 thousand, at face value PLN 185 000 thousand of Treasury securities (bonds and bills) disclosed in its Statement of Financial Position as at 31 December 2009 (face value as at 31 December 2008: PLN 175 000 thousand). The bills were used as security under the Bank Guarantee Fund and they were deposited in a separate account at the National Bank of Poland.

Gains and Losses from Investment Securities:

	31.12.2009	31.12.2008
Sale / redemption by the issuer of the financial assets available for sale and investments in subsidiaries and affiliated entities	61 979	124 452
Impairment of available for sale equity securities and investments in subsidiaries and affiliated entities	(6 633)	141 005
Total gains and losses from investment securities	**55 346**	**265 457**

In 2009 the biggest material impact on the value of sale/redemption of financial assets available for sale came from the result on the cancellation of part of investment certifications of BRE GOLD FIZ Aktywów Niepublicznych in the amount of PLN 60 946 thousand.

In 2008 the biggest material impact on the value of sale/redemption of financial assets available for sale came from the result on the sale of shares of Vectra SA. The transaction of sale was described under Note 22 of the Financial Statements of BRE Bank for 2008 and under Note 23 of the Consolidated Financial Statements of BRE Bank Group for 2008, published on 27 February 2008.

Movements in investment securities and pledged assets:

	31.12.2009	31.12.2008
As at the beginning of the period	**7 845 376**	**6 305 961**
Exchange differences	(1 474)	15 129
Additions	72 770 009	8 774 565
Disposals (sale, redemption and remission)	(64 680 231)	(7 084 700)
Gains / (losses) from changes in fair value	211 514	(165 579)
As at the end of the period	**16 145 194**	**7 845 376**

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

	31.12.2009	31.12.2008
Equity securities		
- Listed		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**
Total available for sale securities		
As at the beginning of the period	**(125)**	**(125)**
As at the end of the period	**(125)**	**(125)**

23. Investments in Subsidiaries

31 December 2009 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	**AMBRESA Sp. z o.o.**	Poland	691	6	-	(159)	100.00	685
2.	**Aspiro Sp. z o.o.** (previously emFinanse Sp. z o.o.)	Poland	24 352	14 639	48 976	(1 077)	100.00	11 880
3.	**BRE Bank Hipoteczny SA**	Poland	4 464 942	4 127 135	267 328	25 297	100.00	52 103
4.	**BRE Corporate Finance SA**	Poland	2 105	342	5 410	(1 330)	100.00	1 763
5.	**BRE Finance France SA**	France	968	224	1 517	(166)	99.98	924
6.	**BRE Holding Sp. z o.o.**	Poland	187 890	41	16 796	16 669	100.00	171 083
7.	**BRE Systems Sp. z o.o.** (previously ServicePoint Sp. z o.o.)	Poland	4 697	2 543	24 987	713	100.00	50
8.	**BRE Ubezpieczenia TUiR S.A.** (previously BRE Ubezpieczenia TU SA)	Poland	129 088	107 632	143 894	32 597	100.00	26 353
9.	**BRE Wealth Management**	Poland	11 991	1 926	13 784	4 888	100.00	12 000
10.	**BRE.locum SA**	Poland	374 824	271 846	122 854	36 937	79.99	22 251
11.	**BRELINVEST Sp. z o.o. Fly 2 Commandite company**	Poland	43 554	42 557	5 150	(663)	99.84	2 260
12.	**Centrum Rozliczeń i Informacji CERI Sp. z o.o.**	Poland	69 680	37 017	41 388	776	100.00	31 072
13.	**Dom Inwestycyjny BRE Banku SA**	Poland	739 995	683 167	147 888	34 203	100.00	26 719
14.	**Garbary Sp. z o.o.**	Poland	47 157	1 301	233	(1 889)	100.00	56 384
15.	**Intermarket Bank AG**	Austria	1 034 645	888 362	84 294	(15 135)	56.24	38 453
16.	**Magyar Factor zRt.**	Hungary	130 575	103 737	20 691	1 906	78.12	8 342
17.	**Tele -Tech Investment Sp. z o.o.**	Poland	57 593	57 322	6 460	(207)	100.00	50
18.	**TRANSFINANCE a.s.**	Czech Republic	323 915	278 221	24 209	336	78.12	18 337
								480 709

31 December 2008 (in PLN 000's)

No.	Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held	Carrying value
1.	**AMBRESA Sp. z o.o.**	Poland	851	7	109	(203)	100	844
2.	**BRE Bank Hipoteczny SA**	Poland	4 675 087	4 362 060	310 377	43 063	100	52 102
3.	**BRE Corporate Finance SA**	Poland	1 371	258	5 489	(2 157)	100	6 256
4.	**BRE Finance France SA**	France	18 623	17 707	19 005	(106)	100	938
5.	**BRE Holding Sp. z o.o.**	Poland	182 729	49	11 745	11 597	100	171 083
6.	**BRE Systems Sp. z o.o.** (previously ServicePoint Sp. z o.o.)	Poland	3 555	2 076	18 486	85	100	50
7.	**BRE Ubezpieczenia SA**	Poland	175 894	151 231	130 469	4 748	100	26 353
8.	**BRE Wealth Management**	Poland	7 363	1 531	8 636	655	100	12 000
9.	**BRE.locum SA**	Poland	346 879	269 486	163 542	29 496	80	22 252
10.	**BRELINVEST Sp. z o.o. Fly 2 Sp.**	Poland	50 873	47 842	5 890	(560)	100	3 629
11.	**Centrum Rozliczeń i Informacji CERI Sp. z o.o.**	Poland	69 946	58 565	39 832	566	100	10 566
12.	**Dom Inwestycyjny BRE Banku SA**	Poland	453 564	397 315	104 528	20 624	100	26 719
13.	**emFinanse Sp. z o.o.**	Poland	1 836	1 046	12 862	(3 227)	100	1 880
14.	**Garbary Sp. z o.o.**	Poland	47 844	99	203	(1 924)	100	56 384
15.	**Intermarket Bank AG**	Austria	1 128 096	962 894	98 726	22 494	56	39 054
16.	**Magyar Factor zRt.**	Hungary	224 557	197 041	28 115	3 031	78	8 666
17.	**Tele -Tech Investment Sp. z o.o.**	Poland	52 498	52 020	5 564	(203)	100	50
18.	**TRANSFINANCE a.s.**	Czech Republic	413 835	367 943	41 689	1 621	78	18 479
								457 305

Changes in investments in subsidiaries:

	31.12.2009	**31.12.2008**
As at the beginning of the period	**457 305**	**449 098**
Increase due to:	32 486	199 439
- purchase	32 486	173 988
- foreign exchange differences	-	9 094
- release of impairment	-	9 157
- other*	-	7 200
Decrease due to:	(9 082)	(191 232)
- sale	(1 369)	(180 190)
- impairment	(6 632)	(5 722)
- foreign exchange differences	(1 081)	-
- reclassification of provision*	-	(5 320)
As at the end of the period	**480 709**	**457 305**

* In 2008 the amounts of other increases and reclassification of provision concern the company emFinanse whose debt due to the loan received from the Bank as well as provision created by the Bank for that loan were converted to equity. It was connected with restructuring of the company.

24. Investments in associates

As at the end of 2009 the Bank had no investments in associates. On 22 January 2009 the Bank sold all its shares of Xtrade SA.

31 December 2008 (in PLN '000s)

Name of the company	Country of registration	Assets	Liabilities	Revenues	Profit / (loss)	% interest held
Xtrade SA	Poland	1 448	1 799	3 757	772	24.90

25. Intangible Assets

	31.12.2009	**31.12.2008**
Development costs	1 910	2 632
Patents, licences and similar assets, including:	339 150	359 550
- computer software	274 374	295 498
Other intangible assets	1	1 337
Intangible assets under development	55 060	42 841
Total intangible assets	**396 121**	**406 360**

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Movements in intangible assets:

Movements in intangible assets from 1January 2009 to 31 December 2009	Development costs	Acquired patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Intangible assets under development	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2008	**31 774**	**653 668**	**517 457**	**6 147**	**42 841**	**734 430**
Increase (due to)	**-**	**93 131**	**66 476**	**5**	**81 752**	**174 888**
- purchase	-	22 756	278	5	81 738	104 499
- transfer from intangible assets under development	-	69 039	66 198	-	-	69 039
- other increases	-	1 336	-	-	14	1 350
Decrease (due to)	**-**	**(80 285)**	**(65 144)**	**(1 336)**	**(69 533)**	**(151 154)**
- liquidation	-	(80 268)	(65 144)	-	-	(80 268)
- transfer to intangible assets given to use	-	-	-	-	(69 039)	(69 039)
- other decreases	-	(17)	-	(1 336)	(494)	(1 847)
Gross value of intangible assets as at the end of the period: 31.12.2008	**31 774**	**666 514**	**518 789**	**4 816**	**55 060**	**758 164**
Accumulated amortization as at the beginning of the period: 01.01.2008	**(29 142)**	**(294 118)**	**(221 959)**	**(4 810)**	**-**	**(328 070)**
Amortization for the period (due to)	**(722)**	**(33 246)**	**(22 456)**	**(5)**	**-**	**(33 973)**
- amortization	(722)	(113 115)	(87 168)	(5)	-	(113 842)
- liquidation	-	79 836	64 712	-	-	79 836
- other decreases	-	33	-	-	-	33
Accumulated amortization as at the end of the period: 31.12.2008	**(29 864)**	**(327 364)**	**(244 415)**	**(4 815)**	**-**	**(362 043)**
Net value of intangible assets as at the end of the period: 31.12.2008	**1 910**	**339 150**	**274 374**	**1**	**55 060**	**396 121**

Movements in intangible assets from 1January 2008 to 31 December 2008	Development costs	Acquired patents, licences and other similar assets, including:	acquired computer software	Other intangible assets	Intangible assets under development, including:	Total intangible assets
Gross value of intangible assets as at the beginning of the period: 01.01.2008	**31 774**	**527 180**	**438 325**	**6 132**	**73 000**	**638 086**
Increase (due to)	**-**	**135 330**	**80 238**	**15**	**79 585**	**214 930**
- purchase	-	25 842	1 395	15	79 585	105 442
- transfer from fixed assets under construction	-	1 532	608	-	-	1 532
- transfer from intangible assets under development	-	107 956	78 235	-	-	107 956
Decrease (due to)	**-**	**(8 842)**	**(1 106)**	**-**	**(109 744)**	**(118 586)**
- liquidation	-	(8 842)	(1 106)	-	(108)	(8 950)
- transfer to intangible assets given to use	-	-	-	-	(107 956)	(107 956)
- other decreases	-	-	-	-	(1 680)	(1 680)
Gross value of intangible assets as at the end of the period: 31.12.2008	**31 774**	**653 668**	**517 457**	**6 147**	**42 841**	**734 430**
Accumulated amortization as at the beginning of the period: 01.01.2008	**(28 362)**	**(225 661)**	**(170 465)**	**(4 559)**	**-**	**(258 582)**
Amortization for the period (due to)	**(780)**	**(68 457)**	**(51 494)**	**(251)**	**-**	**(69 488)**
- amortization	(780)	(77 273)	(52 581)	(251)	-	(78 304)
- other increases	-	(118)	(112)	-	-	(118)
- liquidation	-	8 842	1 107	-	-	8 842
- other decreases	-	92	92	-	-	92
Accumulated amortization as at the end of the period: 31.12.2008	**(29 142)**	**(294 118)**	**(221 959)**	**(4 810)**	**-**	**(328 070)**
Net value of intangible assets as at the end of the period: 31.12.2008	**2 632**	**359 550**	**295 498**	**1 337**	**42 841**	**406 360**

26. Tangible Fixed Assets

	31.12.2009	**31.12.2008**
Tangible fixed assets, including:	515 695	563 717
- land	1 733	1 733
- buildings and constructions	189 382	216 995
- equipment	111 330	115 375
- vehicles	37 332	48 175
- other tangible fixed assets	175 918	181 439
Fixed assets under construction	40 169	37 932
Total tangible fixed assets	**555 864**	**601 649**

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Movements in tangible fixed assets:

Movements in tangible fixed assets from 1January 2009 to 31 December 2009	Land	Buildings	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2009	**1 733**	**332 701**	**440 207**	**62 481**	**347 046**	**38 068**	**1 222 236**
Increase (due to)	**-**	**69**	**42 166**	**4 758**	**31 837**	**45 448**	**124 278**
- purchase	-	69	27 780	-	4 460	45 439	77 748
- transfer from fixed assets under construction	-	-	14 386	-	27 371	-	41 757
- other increases	-	-	-	4 758	6	9	4 773
Decrease (due to)	**-**	**(24 297)**	**(10 402)**	**(18 402)**	**(5 529)**	**(43 211)**	**(101 841)**
- sale	-	(24 292)	(5 922)	(6 410)	(1 303)	-	(37 927)
- liquidation	-	(5)	(4 426)	(1 261)	(2 956)	-	(8 648)
- transfer to fixed assets	-	-	-	-	-	(41 757)	(41 757)
- other decreases	-	-	(54)	(10 731)	(1 270)	(1 454)	(13 509)
Gross value of tangible fixed assets as at the end of the period: 31.12.2009	**1 733**	**308 473**	**471 971**	**48 837**	**373 354**	**40 305**	**1 244 673**
Accumulated depreciation as at the beginning of the period: 01.01.2009	**-**	**(62 976)**	**(324 832)**	**(14 306)**	**(165 476)**	**-**	**(567 590)**
Depreciation for the period (due to)	**-**	**(1 309)**	**(35 634)**	**2 801**	**(29 242)**	**-**	**(63 384)**
- depreciation charge	-	(6 329)	(45 261)	(8 374)	(34 136)	-	(94 100)
- other increases	-	-	-	(25)	(11)	-	(36)
- sale	-	5 019	5 312	6 446	1 357	-	18 134
- liquidation	-	1	4 237	447	2 390	-	7 075
- other decreases	-	-	78	4 307	1 158	-	5 543
Accumulated depreciation as at the end of the period: 31.12.2009	**-**	**(64 285)**	**(360 466)**	**(11 505)**	**(194 718)**	**-**	**(630 974)**
Impairment losses as at the beginning of the period: 01.01.2009	**-**	**(52 730)**	**-**	**-**	**(131)**	**(136)**	**(52 997)**
- increase	-	(2 076)	(175)	-	(2 587)	-	(4 838)
Impairment losses as at the end of the period: 31.12.2009	**-**	**(54 806)**	**(175)**	**-**	**(2 718)**	**(136)**	**(57 835)**
Net value of tangible fixed assets as at the end of the period: 31.12.2009	**1 733**	**189 382**	**111 330**	**37 332**	**175 918**	**40 169**	**555 864**

In 2009 the entire value of vehicles related to finance lease agreement (2008: gross value – PLN 55 885 thousand, net value – PLN 48 173 thousand).

Movements in tangible fixed assets from 1January 2008 to 31 December 2008	Land	Buildings	Equipment	Vehicles	Other fixed assets	Fixed assets under construction	Total
Gross value of tangible fixed assets as at the beginning of the period: 01.01.2008	**1 733**	**328 071**	**392 837**	**42 916**	**269 110**	**45 277**	**1 079 944**
Increase (due to)	**-**	**4 630**	**49 838**	**25 644**	**82 515**	**81 909**	**244 536**
- purchase	-	26	26 932	-	26 511	81 907	135 376
- transfer from fixed assets under construction	-	4 604	22 899	-	55 999	2	83 504
- other increases	-	-	7	25 644	5	-	25 656
Decrease (due to)	**-**	**-**	**(2 468)**	**(6 079)**	**(4 579)**	**(89 118)**	**(102 244)**
- sale	-	-	(486)	(675)	(211)	-	(1 372)
- liquidation	-	-	(1 952)	(508)	(3 260)	-	(5 720)
- transfer to fixed assets	-	-	-	-	-	(83 504)	(83 504)
- transfer to intangible assets	-	-	-	-	-	(1 532)	(1 532)
- other decreases	-	-	(30)	(4 896)	(1 108)	(4 082)	(10 116)
Gross value of tangible fixed assets as at the end of the period: 31.12.2008	**1 733**	**332 701**	**440 207**	**62 481**	**347 046**	**38 068**	**1 222 236**
Accumulated depreciation as at the beginning of the period: 01.01.2008	**-**	**(56 528)**	**(287 793)**	**(8 753)**	**(141 273)**	**-**	**(494 347)**
Depreciation for the period (due to)	**-**	**(6 448)**	**(37 039)**	**(5 553)**	**(24 203)**	**-**	**(73 243)**
- depreciation charge	-	(6 448)	(39 483)	(8 073)	(27 490)	-	(81 494)
- other increases	-	-	(6)	(56)	-	-	(62)
- sale	-	-	477	650	180	-	1 307
- liquidation	-	-	1 868	47	2 635	-	4 550
- other decreases	-	-	105	1 879	472	-	2 456
Accumulated depreciation as at the end of the period: 31.12.2008	**-**	**(62 976)**	**(324 832)**	**(14 306)**	**(165 476)**	**-**	**(567 590)**
Impairment losses as at the beginning of the period: 01.01.2008	**-**	**(52 730)**	**-**	**-**	**(131)**	**(561)**	**(53 422)**
- decrease	-	-	-	-	-	425	425
Impairment losses as at the end of the period: 31.12.2008	**-**	**(52 730)**	**-**	**-**	**(131)**	**(136)**	**(52 997)**
Net value of tangible fixed assets as at the end of the period: 31.12.2008	**1 733**	**216 995**	**115 375**	**48 175**	**181 439**	**37 932**	**601 649**

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

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27. Other Assets

	31.12.2009	31.12.2008
Assets taken over and held for resale	**-**	**-**
Other, including:	**332 041**	**385 811**
- debtors	233 778	267 412
- inter-bank balances	360	1 208
- other accruals	79 909	89 774
- accrued income	15 210	24 377
- inventories	2 685	3 032
- other	99	8
Total other assets	**332 041**	**385 811**
Short-term (up to 1 year)	246 312	271 681
Long-term (over 1 year)	85 729	114 130

28. Discontinued Operations

Beginning from 30 December 2008 the Bank has had no shares in the companies whose activities were presented in previous periods as discontinued operations under asset management segment.

29. Amounts due to Other Banks

	31.12.2009	31.12.2008
Payables to be settled	1 535	26 067
Current accounts	743 985	408 053
Term deposits	64 250	101 323
Loans and advances received	17 594 180	17 513 656
Repo / sell-buy-back transactions	632 927	1 861 683
Liabilities in respect of cash collaterals	148 072	231 978
Amounts due to other banks	**19 184 949**	**20 142 760**
Short-term (up to 1 year)	4 572 182	3 839 842
Long-term (over 1 year)	14 612 767	16 302 918

As at 31 December 2009 term deposits accepted from other banks were fixed interest rate deposits. The average interest rate for loans and deposits obtained from banks in 2009 amounted to 1.76% (31 December 2008: 3.61%).

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

As at 31 December 2009, apart from amounts due to other banks, the Bank holds amounts due to the Central Bank in the amount of PLN 2 003 783 thousand, including the amount of PLN 2 003 440 thousand arising from repo transactions with maturity dates up to 3 months and average interest rate of 3.81% (31 December 2008 respectively: PLN 1 302 469 thousand, 6.04%).

30. Amounts due to Customers

	31.12.2009	31.12.2008
Individual customers:	**24 768 842**	**20 875 353**
Current accounts	16 516 483	13 259 583
Term deposits	8 206 679	7 567 276
Other liabilities:	45 680	48 494
- liabilities in respect of cash collaterals	35 981	42 625
- other	9 699	5 869
Corporate customers:	**17 398 729**	**16 487 018**
Current accounts	8 598 194	7 833 406
Term deposits	7 215 809	6 784 647
Loans and advances received	289 691	97 285
Repo transactions	881 157	933 924
Other liabilities:	413 878	837 756
- liabilities in respect of cash collaterals	376 008	810 425
- other	37 870	27 331
Public sector customers:	**246 841**	**76 123**
Current accounts	139 446	61 276
Term deposits	106 063	13 812
Other liabilities:	1 332	1 035
- other	1 332	1 035
Total amounts due to customers	**42 414 412**	**37 438 494**
Short-term (up to 1 year)	41 393 035	36 754 107
Long-term (over 1 year)	1 021 377	684 387

As at 31 December 2009 the majority of the deposits from individual and corporate customers bore variable interest rates. An average interest rate for amounts due to customers (excluding repos) amounted to 2.82% (31 December 2008: 3.96%).

As at 31 December 2009 the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 205 410 thousand. The loan was collateralized with Treasury bonds which were disclosed in the balance sheet under the line "Pledged assets" (see Note 38).

31. Debt Securities in Issue

In the first half of 2009 the BRE Bank redeemed deposit certificates of the face value of PLN 8 000 thousand.

As at 31 December 2008

Debt securities in issue by category	Nominal value	Contractual interest rate	Guarantee/collateral	Redemption date	Carrying value
Short-term issue					
- Deposit certificates (in PLN)	8 000	7.75%	no collateral	06-05-09	7 829
Debt securities in issue (carrying value in PLN '000)					**7 829**

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

Movements in Debt Securities in Issue:

	31.12.2009	31.12.2008
As at the beginning of the period	**7 829**	**36 810**
Increase (due to):	-	219
- valuation at amortized cost	-	219
Decrease (due to):	(7 829)	(29 200)
- redemption	(7 829)	(29 200)
Debt securities in issue at the end of the period	**-**	**7 829**
Short-term (up to 1 year)	-	7 829

32. Subordinated Liabilities

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2009						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0,7%*	0.95	08.03.2017	1 107 143
- Commerzbank AG	80 000	CHF	3M LIBOR + 1,4%**	1.65	not defined	221 400
- Commerzbank AG	120 000	CHF	3M LIBOR + 1,5%***	1.75	18.12.2017	332 158
- Commerzbank AG	170 000	CHF	3M LIBOR + 2,2%****	2.49	not defined	472 965
- Commerzbank AG	90 000	CHF	3M LIBOR + 4,0%	4.25	not defined	249 184
- Commerzbank AG	90 000	CHF	3M LIBOR + 2,5%	2.75	24.06.2018	249 101
						2 631 951

SUBORDINATED LIABILITIES	Nominal value	Currency	Terms of interest rate (%)	Effective interest rate (%)	Redemption date	As at the end of the period (in PLN '000)
As at 31 December 2008						
- Commerzbank AG	400 000	CHF	3M LIBOR + 0,7%*	1.88	08.03.2017	1 121 966
- Commerzbank AG	80 000	CHF	3M LIBOR + 1,4%**	2.15	not defined	224 246
- Commerzbank AG	120 000	CHF	3M LIBOR + 1,5%***	2.29	18.12.2017	336 468
- Commerzbank AG	170 000	CHF	3M LIBOR + 2,2%****	5.26	not defined	482 077
- Commerzbank AG	90 000	CHF	3M LIBOR + 4,0%	4.72	not defined	252 390
- Commerzbank AG	90 000	CHF	3M LIBOR + 2,5%	3.22	24.06.2018	252 306
						2 669 453

* margin amounting to 0.7% is in force within the period of first five years. Within the period of next five years it will be equal to 1.2%.
** margin amounting to 1.4% is in force within the period of first ten years. Within the period of next years it will be equal to 3.4%.
*** margin amounting to 1.5% is in force within the period of first five years. Within the period of next years it will be equal to 2.0%.
**** margin amounting to 2.2% is in force within the period of first ten years. Within the period of next years it will be equal to 4.2%.

In 2009 (as in 2008), the Bank did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

Subordinated liabilities include the amount of issued subordinated debt securities with an indefinite maturity term. In the calculation of capital adequacy ratio the funds raised through these issues were used to change the structure of the Bank's own funds by increasing the share of supplementary funds. The Bank obtained the approvals of KNF for the inclusion of the funds obtained from the issues into the Bank's supplementary capital.

Movements in Subordinated Liabilities:

	31.12.2009	31.12.2008
As at the beginning of the period	**2 669 453**	**1 661 785**
Increase (due to:)	58 534	1 443 297
- subordinated loan raised	-	746 852
- interest on subordinated loan	58 116	78 807
- foreign exchange differences	418	617 638
Decrease (due to):	(96 036)	(435 629)
- capital repayment	-	(359 500)
- interest repayment	(62 311)	(76 129)
- foreign exchange differences	(33 725)	-
Subordinated liabilities as at the end of the period	**2 631 951**	**2 669 453**
Long-term (over 1 year)	2 631 951	2 669 453

33. Other Liabilities

	31.12.2009	31.12.2008
Special Funds	**2 543**	**5 835**
- Social Benefits Funds	2 543	5 835
Other liabilities	**513 900**	**648 841**
- tax liabilities	13 266	13 610
- inter-bank settlements	83 322	88 285
- creditors	185 583	202 088
- accrued expenses	103 273	112 730
- deferred income	79 093	86 870
- accrual of pension benefits	2 499	2 883
- accrual of holiday equivalents	1 664	1 940
- accrual of other employee benefits	45 084	140 355
- other	116	80
Total special funds and other liabilities	**516 443**	**654 676**

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As at 31 December 2009 the presented note includes financial liabilities of PLN 268 905 thousand (as at 31 December 2008: PLN 290 373 thousand).

In 2009 liabilities from creditors include the value of financial lease amounted to PLN 39 393 thousand (in 2008: PLN 40 932 thousand).

34. Provisions

	31.12.2009	31.12.2008
For off-balance sheet contingent liabilities *	61 323	73 229
For legal proceedings	2 088	2 692
Other	45 378	14 101
Total provisions	**108 789**	**90 022**

* includes valuation of financial guarantees

The estimated cash flow due to created provisions for legal proceedings is expected to crystallise within one to two years.

Movements in the Provisions:

	31.12.2009	31.12.2008
As at the beginning of the period (by type)	**90 022**	**68 831**
For off-balance sheet contingent liabilities	73 229	58 060
For legal proceedings	2 692	2 704
Other	14 101	8 067
Increase (due to)	**151 119**	**91 598**
- increase of provisions, due to:	151 119	88 969
for off-balance-sheet contingent liabilities (Note 12)	*118 984*	*78 045*
for legal proceedings	*620*	*2 747*
other	*31 515*	*8 177*
- foreign exchange differences	-	*2 629*
Decrease (due to)	**(132 352)**	**(70 407)**
- charge-offs	(276)	(3 021)
- release of provisions, due to:	(130 667)	(66 414)
for off-balance-sheet contingent liabilities (Note 12)	(129 719)	(64 542)
for legal proceedings	(948)	(516)
other	-	(1 356)
- utilization	(238)	-
- reclassification	-	(972)
- other	(1 171)	-
As at the end of the period (by type)	**108 789**	**90 022**
For off-balance sheet contingent liabilities	61 323	73 229
For legal proceedings	2 088	2 692
Other	45 378	14 101

Provisions for Off-balance Sheet Contingent Liabilities

	31.12.2009	31.12.2008
Incurred but not identified losses		
Off-balance sheet contingent liabilities	11 944 734	18 152 917
Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount)	(28 165)	(57 787)
Net off-balance sheet contingent liabilities	**11 916 569**	**18 095 130**
Off-balance sheet contingent liabilities with impairment		
Off-balance sheet contingent liabilities	86 207	45 840
Provisions for off-balance sheet contingent liabilities analysed individually (negative amount)	(33 158)	(15 442)
Net off-balance sheet contingent liabilities	**53 049**	**30 398**

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35. Assets and Provisions for Deferred Income Tax

Assets and provisions for deferred income tax are calculated for all temporary differences in accordance with the balance sheet method, using an effective income tax rate of 19% in 2009 and 2008.

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

	31.12.2009	31.12.2008
As at the beginning of the period	**156 666**	**2 762**
Deferred income tax included in the financial result of the period (Note 13)	(25 209)	142 306
Deferred income tax included in equity:	(22 562)	11 617
- valuation of available for sale securities (Note 15)	(22 562)	11 617
Other changes	1	(19)
As at the end of the period	**108 896**	**156 666**
Interest payable on bank deposits	5 885	16 332
Interest payable on customer deposits	18 327	21 980
Valuation of derivatives and futures	63 604	161 930
Valuation of financial instruments at fair value through profit or loss and held for trading	1 405	4 833
Valuation of financial instruments available for sale	20 027	46 562
Provisions for impairment of loans and off-balance sheet exposures	178 871	64 008
Provisions for pensions, holiday equivalents, jubilee and other bonuses	8 822	25 475
Other provisions	4 773	-
Accruals and prepayments	17 925	19 662
Other negative temporary differences	12 666	540
Interest receivable on loans and advances granted to banks	(3 019)	(3 492)
Interest receivable on loans granted to customers	(28 052)	(25 316)
Valuation of derivatives and futures	(19 631)	(12 403)
Valuation of financial instruments at fair value through profit or loss and held for trading	(2 805)	(11 624)
Valuation of financial instruments available for sale	(42 478)	(61 644)
Investment tax relief	(28 111)	(29 486)
Difference between the amortization and depreciation for tax and accounting purposes	(39 268)	(46 255)
Other positive temporary differences	(60 045)	(14 436)
Total net deferred income tax assets	**108 975**	**156 747**
Total net deferred income tax liabilities	**79**	**81**

	31.12.2009	31.12.2008
Deferred income tax included in the profit and loss account		
Interest	(16 363)	13 551
Provisions for impairment of loans and guarantees determined individually	114 863	21 358
Valuation of derivatives and futures	(105 554)	153 598
Valuation of financial instruments at fair value through profit or loss and held for trading	5 391	(2 289)
Valuation of financial instruments available for sale	15 194	(12 182)
Investment tax relief	1 375	960
Provisions for pensions, holiday equivalents, jubilee and other bonuses	(16 653)	(93)
Other provisions	4 773	(47)
Accruals and prepayments	(1 737)	336
Impairment of shares	-	(1 740)
Difference between the amortization and depreciation for tax and accounting purposes	6 987	(6 453)
Other temporary differences	(33 485)	(24 693)
Total deferred income tax included in the profit and loss account (Note 13)	**(25 209)**	**142 306**

Deferred income tax assets are recognized if it is probable that there will be sufficient taxable income in the future.

36. Proceedings Before a Court, Arbitration Body or Public Administration Authority

As at 31 December 2009, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries whose value would be equal to or greater than 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the issuer or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2009 also was not greater than 10% of the issuer's equity.

Report on major proceedings concerning contingent liabilities of the issuer

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

At present proceedings are pending against BRE Bank in the Court of Jerusalem initiated by Bank Leumi and an insurance company of Bank Leumi, Migdal Insurance Company. It is an action for indemnity in the amount of USD 13.5 million (PLN 38.5 million according to the mid exchange rate of the National Bank of Poland of 31 December 2009). This action was originally initiated by Art-B Sp. z o.o. Eksport – Import with its registered office in Katowice, under liquidation ("Art-B") against the main defendant Bank Leumi, whereas BRE Bank was garnished by Bank Leumi. Considering a settlement concluded between ART-B and Bank Leumi, and Migdal Insurance Company, on the basis of which Art-B received from Bank Leumi and Migdal Insurance Company an amount of USD 13.5 million, Bank Leumi and Migdal Insurance Company claim from BRE Bank refund of the amount paid to Art-B that is USD 13.5 million. BRE Bank's liability towards Bank Leumi and Migdal Insurance Company is under recourse.

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

The Official Receiver of the bankrupt Pozmeat brought the case against the Bank and TTI to court on 29 July 2005. The value of the dispute amounted to PLN 100 000 thousand. The purpose was to cancel Pozmeat's agreements to sell shares of Garbary Sp. z o.o. ("Garbary") 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 on the date of sale of Pozmeat's interest in Garbary (19 July 2001). The District Court in Warsaw has granted the receiver security by forbidding BRE Bank to dispose of or to encumber the interests in Garbary.

On 8 October 2008 the Court issued a verdict which dismissed the bankrupt's complaint in its entirety. The Official Receiver of the bankrupt filed an appeal on 8 December 2008. The Court of Appeal dismissed the appeal on 1 December 2009.

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

BPH brought the case to court on 17 February 2005. The value of the dispute was estimated at PLN 42 854 thousand. The purpose was to cancel actions related to the creation of Garbary and the contribution in kind. The dispute focuses on determination of the value of the right to perpetual usufruct of land and related buildings that Zakłady Mięsne POZMEAT contributed in kind to Garbary as payment for a stake in Pozmeat's share capital worth PLN 100 000 thousand. On 6 June 2006 the District Court in Poznań issued a verdict according to which the claims were dismissed in their entirety. The claimant filed an appeal against that verdict. On 6 February 2007 the Court of Appeal dismissed the claimant's appeal. The claimant filed the last resort appeal against the ruling of the Court of Appeal. On 2 October 2007, the Supreme Court revoked the ruling of the Court of Appeal and referred the case back. After re-examining the case, the Court of Appeal dismissed the ruling of the District Court in Poznań on 4 March 2008 and referred the case back. The action is still before the District Court in Poznań.

4. Lawsuit brought by Bank BPH SA against BRE Bank SA and Tele-Tech Investment Sp. z o.o.

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

The case was filed with the District Court in Warsaw. The Court has not set the date of the first hearing in this case. In the light of the action, the claimed amount of damages of PLN 34 880 thousand is equivalent to the claim of the creditor under a credit agreement between ZM Pozmeat SA and Bank BPH SA not paid to date in the bankruptcy proceeding of ZM Pozmeat SA.

The defendants filed a reply to the claim, where they request dismissal of the claim due to the lack of right of action on the part of the claimant. In case the District Court does not accept their arguments, the defendants refer to the merit of the claim, raising an objection that their actions were not illegal and that the claimant has not proven to have incurred losses.

5. Claims of clients of Interbrok

As at 25 February 2010, 85 entities who were client of Interbrok Investment E. Drożdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 195 287 thousand via the District Court in Warsaw. Additionally, by 25 February 2010 8 legal suits have been delivered to the Bank where former clients of Interbrok claimed compensation in the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case. Therefore the BRE Bank Group did not create provisions for the above claims.

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The District Court in Warsaw settled two of the aforementioned court cases and dismissed both actions of the former clients of Interbrok. The verdict is not in force yet.

As at 31 December 2009, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the issuer or its subsidiaries 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 31 December 2009 also was not greater than 10% of the issuer's equity.

Taxes

Within the period from 20 March to 8 April 2009, officers of the First Mazovian Treasury Office carried out tax audits, concerning calculation, reporting and withholding of the personal income tax for the period from 1 January to 31 December 2007. The audits did not identify any irregularities.

Within the period from 14 May to 30 June 2008, officers of the First Mazovian Treasury Office carried out tax audits at the Bank concerning correctness of the payment of the corporate income tax to the Treasury for the period from 1 January to 31 December 2005. The audits did not identify any irregularities that would have a material impact on the financial statements.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. The Management Board is not aware of any circumstances which may give rise to a potential tax liability in this respect.

37. Off-balance Sheet Liabilities

Off-balance sheet liabilities of the Bank comprise:

(a) Lending commitments

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

(b) Guarantees and other financial facilities
Guarantees are presented in the table below based on the earliest contractual maturity date.

(c) Operating lease liabilities

The following table presents the Bank's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions of the Bank as at 31 December 2009 and 31 December 2008.

31.12.2009	**up to 1 year**	**1 - 5 years**	**over 5 years**	**Total**
I. Contingent liabilities granted and received	**10 693 933**	**1 543 428**	**674 325**	**12 911 686**
Commitments granted	**10 383 878**	**1 406 220**	**437 085**	**12 227 183**
1. Financing	**8 496 516**	**666 986**	**412 306**	**9 575 808**
a) Lending commitments	8 475 859	584 358	319 349	9 379 566
b) Operating lease commitments	20 657	82 628	92 957	196 242
2. Guarantees and other financial facilities	**1 594 655**	**739 234**	**24 779**	**2 358 668**
a) Banker's acceptances	8 883	-	-	8 883
b) Guarantees and standby letters of credit	1 315 336	739 234	24 779	2 079 349
c) Guarantees of issue	103 000	-	-	103 000
d) Documentary and commercial letters of credit	167 436	-	-	167 436
3. Other commitments	292 707	-	-	292 707
Commitments received	**310 055**	**137 208**	**237 240**	**684 503**
a) Financing	55 000	-	205 410	260 410
b) Guarantees	255 055	137 208	31 830	424 093
II. Derivatives	**216 262 070**	**91 226 670**	**8 869 356**	**316 358 096**
1. Interest rate derivatives	172 725 258	75 910 819	8 779 639	257 415 716
2. Currency derivatives	42 026 771	15 174 649	89 717	57 291 137
3. Market risk derivatives	1 510 041	141 202	-	1 651 243
Total off-balance sheet items	**226 956 003**	**92 770 098**	**9 543 681**	**329 269 782**

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31.12.2008	up to 1 year	1 - 5 years	over 5 years	Total
I. Contingent liabilities granted and received	**14 999 251**	**2 627 593**	**1 349 838**	**18 976 682**
Commitments granted	**14 669 870**	**2 440 485**	**1 308 691**	**18 419 046**
1. Financing	**12 246 760**	**1 498 290**	**1 218 736**	**14 963 786**
a) Lending commitments	12 225 779	1 414 371	1 103 347	14 743 497
b) Operating lease commitments	20 981	83 919	115 389	220 289
2. Guarantees and other financial facilities	**1 988 703**	**942 195**	**89 955**	**3 020 853**
a) Banker's acceptances	2 858	-	-	2 858
b) Guarantees and standby letters of credit	1 582 836	942 195	89 955	2 614 986
c) Guarantees of issue	178 000	-	-	178 000
d) Documentary and commercial letters of credit	225 009	-	-	225 009
3. Other commitments	434 407	-	-	517 910
Commitments received	**329 381**	**187 108**	**41 147**	**557 636**
a) Financing	74 057	-	-	74 057
b) Guarantees	255 324	187 108	41 147	483 579
II. Derivatives	**462 458 467**	**184 359 390**	**9 991 446**	**656 809 303**
1. Interest rate derivatives	390 566 194	163 465 255	9 799 084	563 830 533
2. Currency derivatives	70 838 841	20 549 759	192 362	91 580 962
3. Market risk derivatives	1 053 432	344 376	-	1 397 808
Total off-balance sheet items	**477 457 718**	**186 986 983**	**11 341 284**	**675 785 985**

The above operating lease liabilities only concerned the lease of buildings.

The nominal values of derivatives are presented in the Note 20.

As at 31 December 2009, the list of issues underwritten by BRE Bank SA was as follows:

	Payee	Type of guaranteed securities	Amount of guarantee in PLN	Financial, organizational and personal relationships	Marketability
1.	BRE.locum	Bonds	68 000 000	The Bank holds 79.99% of shares in the company.Two Members of the Supervisory Board of the company are related to the BRE Bank Group.	Marketable
2.	ECHO Investment SA	Bonds	35 000 000	none	Marketable

The foregoing list does not include agreements for one-time underwriting of securities, which are still valid in terms of administrative activities, keeping a register of subscribers and performing other responsibilities with respect to the securities.

As at 31 December 2009 BRE Bank SA received commitments in the amount of PLN 684 503 thousand, including unused credits granted by foreign banks in the amount of PLN 260 410 thousand and guarantees received in the amount of PLN 424 093 thousand, securing given credits and guarantees.

38. Pledged Assets

Assets are pledged as security in connection with sell-buy-back agreements made with other banks and securing deposits are created in connection with conclusion of futures or options contracts and with membership in stock exchanges. Further, deposits are held in the Central Bank, representing statutory reserves required by the law.

	31.12.2009	31.12.2008
Pledged assets, including:	**3 513 782**	**3 443 989**
- Trading securities (Note 19)	766 313	1 096 784
- Investment securities (Note 22)	2 747 469	2 347 205
Liabilities arising from pledged assets, including:	**3 679 782**	**4 249 517**
- Sell-buy back transactions (Note 29,30)	3 517 524	4 098 076
- Funds guaranteed under the Bank Guarantee Fund	162 258	151 441

In 2009 investment securities include government bonds in the amount PLN 347 397 thousand, pledged as collateral for the loan received from the European Investment Bank.

The Bank did not pledge any assets as collateral for newly received loans in 2008.

39. Registered Share Capital

The total number of ordinary shares as at 31 December 2009 was 29 690 882 shares (29 690 882 as at 31 December 2008 respectively) of PLN 4 nominal value each. All issued shares were fully paid up.

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REGISTERED SHARE CAPITAL (THE STRUCTURE)

Series / issue	Share type	Type of privilege	Type of limitation	Number of shares	Series / issue value	Paid up	Registered on	Dividend right since
11-12-86	ordinary bearer**	-	-	9 978 500	39 914 000	fully paid up in cash	23-12-86	01-01-89
11-12-86	ordinary registered**	-	-	21 500	86 000	fully paid up in cash	23-12-86	01-01-89
20-10-93	ordinary bearer	-	-	2 500 000	10 000 000	fully paid up in cash	04-03-94	01-01-94
18-10-94	ordinary bearer	-	-	2 000 000	8 000 000	fully paid up in cash	17-02-95	01-01-95
28-05-97	ordinary bearer	-	-	4 500 000	18 000 000	fully paid up in cash	10-10-97	10-10-97
27-05-98	ordinary bearer	-	-	3 800 000	15 200 000	fully paid up in cash	20-08-98	01-01-99
24-05-00	ordinary bearer	-	-	170 500	682 000	fully paid up in cash	15-09-00	01-01-01
21-04-04	ordinary bearer	-	-	5 742 625	22 970 500	fully paid up in cash	30-06-04	01-01-04
21-05-03	ordinary bearer	-	-	2 355	9 420	fully paid up in cash	05-07-05*	01-01-05
21-05-03	ordinary bearer	-	-	11 400	45 600	fully paid up in cash	05-07-05*	01-01-05
21-05-03	ordinary bearer	-	-	37 164	148 656	fully paid up in cash	11-08-05*	01-01-05
21-05-03	ordinary bearer	-	-	44 194	176 776	fully paid up in cash	09-09-05*	01-01-05
21-05-03	ordinary bearer	-	-	60 670	242 680	fully paid up in cash	18-10-05*	01-01-05
21-05-03	ordinary bearer	-	-	13 520	54 080	fully paid up in cash	12-10-05*	01-01-05
21-05-03	ordinary bearer	-	-	4 815	19 260	fully paid up in cash	14-11-05*	01-01-05
21-05-03	ordinary bearer	-	-	28 580	114 320	fully paid up in cash	14-11-05*	01-01-05
21-05-03	ordinary bearer	-	-	53 399	213 596	fully paid up in cash	08-12-05*	01-01-05
21-05-03	ordinary bearer	-	-	14 750	59 000	fully paid up in cash	08-12-05*	01-01-05
21-05-03	ordinary bearer	-	-	53 320	213 280	fully paid up in cash	10-01-06*	10-01-06*
21-05-03	ordinary bearer	-	-	3 040	12 160	fully paid up in cash	10-01-06*	10-01-06*
21-05-03	ordinary bearer	-	-	46 230	184 920	fully paid up in cash	08-02-06*	08-02-06*
21-05-03	ordinary bearer	-	-	19 700	78 800	fully paid up in cash	08-02-06*	08-02-06*
21-05-03	ordinary bearer	-	-	92 015	368 060	fully paid up in cash	09-03-06*	09-03-06*
21-05-03	ordinary bearer	-	-	19 159	76 636	fully paid up in cash	09-03-06*	09-03-06*
21-05-03	ordinary bearer	-	-	8 357	33 428	fully paid up in cash	11-04-06*	11-04-06*
21-05-03	ordinary bearer	-	-	800	3 200	fully paid up in cash	11-04-06*	11-04-06*
21-05-03	ordinary bearer	-	-	108 194	432 776	fully paid up in cash	16-05-06*	16-05-06*
21-05-03	ordinary bearer	-	-	20 541	82 164	fully paid up in cash	16-05-06*	16-05-06*
21-05-03	ordinary bearer	-	-	17 000	68 000	fully paid up in cash	09-06-06*	09-06-06*
21-05-03	ordinary bearer	-	-	2 619	10 476	fully paid up in cash	09-06-06*	09-06-06*
21-05-03	ordinary bearer	-	-	33 007	132 028	fully paid up in cash	10-07-06*	10-07-06*
21-05-03	ordinary bearer	-	-	2 730	10 920	fully paid up in cash	10-07-06*	10-07-06*
21-05-03	ordinary bearer	-	-	48 122	192 488	fully paid up in cash	09-08-06*	09-08-06*
21-05-03	ordinary bearer	-	-	700	2 800	fully paid up in cash	12-09-06*	12-09-06*
21-05-03	ordinary bearer	-	-	3 430	13 720	fully paid up in cash	11-10-06*	11-10-06*
21-05-03	ordinary bearer	-	-	38 094	152 376	fully paid up in cash	10-11-06*	10-11-06*
21-05-03	ordinary bearer	-	-	15 005	60 020	fully paid up in cash	08-12-06*	08-12-06*
21-05-03	ordinary bearer	-	-	800	3 200	fully paid up in cash	10-01-07*	10-01-07*
21-05-03	ordinary bearer	-	-	200	800	fully paid up in cash	16-02-07*	16-02-07*
21-05-03	ordinary bearer	-	-	1 150	4 600	fully paid up in cash	09-03-07*	09-03-07*
21-05-03	ordinary bearer	-	-	9 585	38 340	fully paid up in cash	09-03-07*	09-03-07*
21-05-03	ordinary bearer	-	-	600	2 400	fully paid up in cash	11-04-07*	11-04-07*
21-05-03	ordinary bearer	-	-	32 964	131 856	fully paid up in cash	17-05-07*	17-05-07*
21-05-03	ordinary bearer	-	-	2 700	10 800	fully paid up in cash	15-06-07*	15-06-07*
21-05-03	ordinary bearer	-	-	8 640	34 560	fully paid up in cash	12-07-07*	12-07-07*
21-05-03	ordinary bearer	-	-	41 898	167 592	fully paid up in cash	14-08-07*	14-08-07*
21-05-03	ordinary bearer	-	-	400	1 600	fully paid up in cash	14-09-07*	14-09-07*
21-05-03	ordinary bearer	-	-	2 540	10 160	fully paid up in cash	11-10-07*	11-10-07*
21-05-03	ordinary bearer	-	-	30 807	123 228	fully paid up in cash	15-11-07*	15-11-07*
21-05-03	ordinary bearer	-	-	12 349	49 396	fully paid up in cash	13-12-07*	13-12-07*
21-05-03	ordinary bearer	-	-	700	2 800	fully paid up in cash	13-02-08*	13-02-08*
21-05-03	ordinary bearer	-	-	2 410	9 640	fully paid up in cash	19-03-08*	19-03-08*
21-05-03	ordinary bearer	-	-	650	2 600	fully paid up in cash	15-04-08*	15-04-08*
21-05-03	ordinary bearer	-	-	18 609	74 436	fully paid up in cash	19-05-08*	19-05-08*
21-05-03	ordinary bearer	-	-	4 900	19 600	fully paid up in cash	13-06-08*	13-06-08*
21-05-03	ordinary bearer	-	-	2 945	11 780	fully paid up in cash	10-07-08*	10-07-08*
Total number of shares				**29 690 882**				
Total registered share capital					**118 763 528**			
Nominal value per share			**4**					

* date of registration of shares in National Securities Deposit (KDPW SA)

** as at the balance sheet date

Commerzbank Auslandsbanken Holding AG is a shareholder holding over 5% of the share capital and votes at the General Meeting and as at 31 December 2009 it held 69.7847% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 December 2008 – 69.7847%).

In 2009, there was a change in the holding of material share packages of the Bank.

In accordance with the notification of 7 November 2008, the Bank informed in the Current Report No. 139/2008 that Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK held 1 498 598 shares of BRE Bank, which constituted 5.05% of the share capital of BRE Bank SA and authorised to exercise 1 498 598 votes at the General Meeting of BRE Bank SA, which represented 5.05% of the total number of votes at the General Meeting of BRE Bank SA.

In accordance with the notification of 11 August 2009 sent to BRE Bank by ING Powszechne Towarzystwo Emerytalne SA, the Bank informed in the Current Report No. 44/2009 that ING Otwarty Fundusz Emerytalny reduced its share package to 1 474 015 shares of BRE Bank, which currently constitute 4.96% of the share capital of BRE Bank SA and authorise to exercise 1 474 015 votes at the General Meeting of BRE Bank SA, representing 4.96% of the total number of votes at the General Meeting of BRE Bank SA.

In accordance with the notification of 23 November 2009 sent to BRE Bank by Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA, the Bank informed in the Current Report No. 56/2009 that Aviva Powszechne

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Towarzystwo Emerytalne Aviva BZ WBK SA (formerly Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK) reduced its share package to 1 463 873 shares of BRE Bank, which currently constitute 4.93% of the share capital of BRE Bank SA and authorise to exercise 1 463 873 votes at the General Meeting of BRE Bank SA, representing 4.93% of the total number of votes at the General Meeting of BRE Bank SA.

40. 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. This capital is intended to cover all balance sheet losses that may result from the business activity of the Bank.

The increase of share premium in 2008 results from realisation of employee option programs. The detailed information concerning the programs is described in Note 41.

41. Retained Earnings

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

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

	31.12.2009	**31.12.2008**
Other supplementary capital	1 603 654	874 123
Other reserve capital	8 442	12 113
General Risk Fund	708 000	608 000
Profit for the current year	57 143	829 531
Total retained earnings	**2 377 239**	**2 323 767**

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

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

Share Options

Between 1 January 2007 and 31 December 2008, the Bank had two active option programs. Their valuation was determined in accordance with IFRS 2. Moreover, on 27 October 2008 the General Meeting of BRE Bank gave its consent to start a new option program for the key managers of the BRE Bank Group as of 2009.

2003 Employee Option Program

Share options were granted to BRE Bank SA managers as an incentive. For the options to be exercised, new BRE Bank SA shares were issued.

471 300 share options were granted at 15 October 2003 with an issue price of PLN 96.16 per share; they expired on 30 June 2008. At 31 July 2004, another 21 700 options were granted. The remaining 7 000 options were granted at 1 July 2005. The program comprised a total of 500 000 options, including 175 000 options for the Management Board and 325 000 options for other managers. The options were stated at fair value.

Options were acquired for 0.1% of the share issue price. Options were allocated on a straight line basis, 20% each year in advance starting on 15 October 2003 until 30 June 2007. Options could be exercised not earlier than 1 June 2005 and not later than 30 June 2008 concerning already acquired options. Options could not be sold. The program ended on 30 June 2008.

The following table presents changes in the number of issued share options under the option program that was active up to 30 June 2008 :

	31.12.2009	**31.12.2008**
As at the beginning of the period	**-**	**29 464**
Granted	-	-
Realized	-	29 364
Expired	-	100
As at the end of the period	**-**	**-**
Exercisable at the end of period	-	-

By 30 June 2008, all options were exercised with the exception of 100 options which expired.

Until 31 December 2008, 499 900 shares were issued in implementation of the employee option program.

30 214 shares were issued under options exercised in 2008 (144 633 shares in 2007) under this option program. The weighted average market price of shares at the option exercise date was PLN 390.05 per share in 2008 (the weighted average market price of shares at the option exercise date was PLN 491.54 per share in 2007).

The fair value of options granted as at 15 October 2003 determined using the Black-Scholes valuation model was PLN 45.57 per option. The fair value of options granted as at 31 July 2004 also determined using the Black-Scholes valuation model was PLN 40.15 per option. The valuation model was selected mainly due to the terms of the program. The volatility of BRE Bank shares was calculated based on a standard deviation estimator with a sample of 252 prices (one year back) and an interest rate based on zero-coupon rates capitalised on an on-going basis as required under the Black-Scholes model, determined in the structure of interest rates on the valuation date.

2008 Incentive Program for the Management Board Members of the Bank

On 14 March 2008, the Ordinary General Meeting of BRE Bank adopted a resolution approving an incentive program for Management Board Members of the Bank. Under the program, the Management Board Members can acquire bonds with the pre-emptive right to acquire shares of the Bank and shares of the ultimate parent of the Group, Commerzbank AG.

In implementation of the program in the part comprising BRE Bank shares, the share capital of the Bank will be increased conditionally by PLN 2 200 000 through an issue of 550 000 bearer ordinary shares. In implementation of the program, the Bank will issue 550 000 bonds with the pre-emptive right to acquire shares of the Bank in 10 series (C1 to C10), 55 000 bonds in each series, with an issue price of PLN 0.01. Bonds can be acquired by entitled persons in 2010 – 2018 provided that their employment continues, however in special cases C1 series bonds can be acquired in 2009. The bonds' pre-emptive right to acquire shares from the conditional capital increase can be exercised by entitled persons in the period from the acquisition of bonds until 31 December 2018. The issue price of each share acquired under the program will be equal to the nominal price at PLN 4.

The right to acquire bonds and the number of bonds will depend on the degree of fulfilment of the following conditions: individual assessment of the entitled person by the Supervisory Board, return on equity (ROE) net in the financial year for which shares are granted, performance of the financial year's consolidated profit before tax of the BRE Bank Group or consolidated profit before tax of a BRE Bank Group business line.

In addition, under the incentive program, the Management Board Members of the Bank can acquire shares of Commerzbank AG. Shares will be transferred to the Management Board Members by BRE Bank. The right to acquire shares and the value of shares transferred will also depend on the degree of fulfilment of the above mentioned conditions. The number of granted Commerzbank shares will depend on the market price of the shares within 30 days before their allocation date in 2010 – 2018.

In 2008 the cost of implementation of the program was estimated on the basis of fair value of BRE Bank share options and Commerzbank share options, valued at the grant date of the program by using the Monte Carlo simulation.

In the current reporting period the Bank has modified the rules of valuation of the incentive program for the Management Board Members of the Bank and starting from 2009 the cost of implementation of the program has been calculated on the basis of the value of the program during the Management Board term in office. The cost of the program is charged into the income statements of the respective reporting periods in line with the estimated scheme of acquiring rights in the particular years in correspondence with other reserve capital (the part of the program comprising BRE Bank shares) or other liabilities (the part of the program comprising Commerzbank shares). The cost is estimated starting from the date of taking up the office by a Management Board Member on the basis of the assessed fulfillment of the conditions which enable an entitled person to gain rights to acquire BRE Bank shares and Commerzbank shares. The estimation of the cost is updated at the end of each year on the basis of actual fulfillment of the conditions and potential changes in assessed fulfillment of these conditions in the coming years.

The choice of the valuation technique has been significantly influenced by the conditions of the program.

The table below presents changes in other reserve capital generated by the above mentioned incentive programs.

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	31.12.2009	31.12.2008
Option program ended 30 June 2008		
As at the beginning of the period	**-**	**1 346**
- value of services provided (Note 11)	-	-
- settlement of exercised options	-	(1 346)
As at the end of the period	**-**	**0**
New incentive program		
As at the beginning of the period	**12 113**	**-**
- value of services provided (Note 11)	(3 671)	12 113
- settlement of exercised options	-	-
As at the end of the period	**8 442**	**12 113**
As at the end of the period, total	**8 442**	**12 113**

The new incentive program for the Management Board of the Bank in the part comprising Commerzbank shares has no impact on other reserves as its cost is taken to the Income Statement in correspondence with liabilities. The value of provided services associated with this part of the program was PLN 6 785 thousand in 2008 (Note 11).

2008 Incentive Program for key managers of BRE Bank Group

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

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

- Members of the Management Boards of the key subsidiaries of the BRE Bank Group;
- Managing Directors of the Bank;
- Representatives of key management.

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

The maximum size of the program is 700 000 shares. The lifetime of the programme is 10 years (2009-2019). The decision on commencing the program was postponed till 2010.

42. Other components of equity

	31.12.2009	31.12.2008
Exchange differences on translating foreign operations	**(2 609)**	**(10 610)**
unrealized gains (positive differences)	20 227	10 313
unrealized losses (negative differences)	(22 836)	(20 923)
Available-for-sale financial assets	**(82 687)**	**(210 693)**
- unrealized gains on debt instruments	12 679	7 428
- unrealized losses on debt instruments	(174 977)	(245 062)
- unrealized gains on equity instruments	77 118	1 886
- deferred income tax	2 493	25 055
Total other components of equity	**(85 296)**	**(221 303)**

The year-on-year increase in the valuation of the portfolio of securities available for sale in 2009 was mainly due to an increase in the value of variable-coupon Treasury securities held by the Bank. The change in the valuation of the portfolio was largely impacted by an increase of market prices of debt securities issued by foreign banks as a result of improving sentiment on the financial markets, increased confidence in the banking sector, and decreased credit spreads. In addition, the increase in the valuation was driven by redemption of zero-coupon Treasury securities, stated at a negative amount at the end of 2008, as well as an increase in the valuation of Treasury bills acquired for the Bank's portfolio in 2009 resulting from reduced interest rates. The positive impact of these factors was partly offset by the negative valuation of long-term fixed-income Treasury securities.

A net gain totaling PLN 50 165 thousand resulting from the net increase/decrease in the value of securities (investment certificates, Treasury bills and bonds, equities) sold in 2009 (net gain of PLN 138 620 thousand at 31 December 2008) was moved from other components of equity to the Income Statement. (Notes 15 and 22)

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The main items under unrealised gains on equity instruments at the end of 2009 include the revaluation of PZU SA shares to fair value in the Q4 2009, contribution of 651 660 PZU SA shares to BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in exchange for acquired investment certificates on 5 November 2009 and subsequent cancellation of part of these certificates on 31 December 2009 as well as the valuation of the remaining certificates at 31 December 2009. As a result of these events, unrealised net gains on equity instruments increased by PLN 59 889 thousand in 2009.

The main change of other components of equity in 2008 was the recognition of the valuation of Vectra SA shares in the Income Statement following the sale closed on 25 January 2008 (stated at PLN 139 073 thousand under gains on equity instruments in the Income Statement). (Notes 15 and 22).

43. Dividend per Share

On 1 March 2010, the Management Board of BRE Bank SA passed a resolution on submitting to the 23rd Ordinary General Meeting a motion concerning non-payment of dividend for the year 2009 to the shareholders. The Management Board's motion will be presented for opinion to the Supervisory Board of the Bank.

The recommendation of the Management Board is connected with continuation of the development policy for the BRE Bank Group and intensive expansion on the financial services market, which in consequence cause a necessity to maintain a solid capital basis.

44. Cash and Cash Equivalents

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

	31.12.2009	**31.12.2008**
Cash and balances with the Central Bank (Note 16)	3 771 992	2 491 851
Debt securities eligible for rediscounting at the Central Bank	9 134	9 238
Loans and advances to banks (Note 18)	1 522 425	4 341 668
Trading securities (Note 19)	1 230 639	1 670 506
Total cash and cash equivalents	**6 534 190**	**8 513 263**

45. Transactions with Related Entities

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

All transactions between the Bank and related entities were typical and routine transactions concluded on market terms and their nature 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.

- Within the period from 15 May to 22 June 2009 BRE Bank concluded two agreements of the total value of PLN 550 000 thousand with BRE Bank Hipoteczny ("BBH"), an indirect generic-dependent entity on the Bank. The higher-value agreement as of 22 June 2009 concerned issue underwriting upon which, on 24 June 2009, the Bank acquired three-year mortgage bonds of the total value of PLN 300 000 thousand, issued by BBH.
- On 13 October 2009, BRE Bank SA and Commerzbank AG, the ultimate parent of the group, concluded the agreement on terms and procedure for sale of the banking enterprise of the Commerzbank AG SA Branch in Poland (former branch of Dresdner Bank AG in Poland) (the "Branch") to BRE Bank SA. On 14 October 2009, BRE Bank SA put a motion to the Polish Financial Supervision Authority for consent to the purchase of the banking enterprise of the Branch.
- On 16 November 2009, under the agreement concluded between BRE Bank and Commerzbank AG on 10 November 2009, BRE Bank received a loan in the amount of USD 100 000 thousand (the equivalent of PLN 274 000 thousand according to the mid exchange rate of the National Bank of Poland of 16 November 2009) for the purpose of satisfying general financial needs of the Bank.
- On 16 November 2009, under the agreement concluded between BRE Bank and Commerzbank AG, BRE Bank received a loan in the amount of CHF 280 000 thousand (the equivalent of PLN 760 648 thousand according to the mid exchange rate of the National Bank of Poland of 16 November 2009) for the purpose of satisfying general financial needs of the Bank.

In the presented reporting periods there were no mutual transactions with the direct parent entity of BRE Bank.

The amounts of transactions with related entities, i.e., balances of receivables and liabilities and related cost and income as at 31 December 2009 and 31 December 2008 and for the respective periods then ended were as follows:

Numerical data concerning transactions with related entities (in PLN 000's) as at 31 December 2009

No.	Company's name	Statement of Financial Position		Separate Income Statement				Contingent commitments granted and received	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries								
1	AMBRESA Sp. z o.o.	-	688	-	-	2	-	-	-
2	Aspiro (previously emFinanse Sp. z o.o.)	4 451	19 879	-	-	-	(41 311)	-	-
3	BRE Bank Hipoteczny SA *)	940 697	6 765	52 386	-	-	-	268 679	-
4	BRE Corporate Finance SA	-	-	-	-	-	-	-	-
5	BRE Finance France SA	-	-	-	(1 517)	-	-	-	-
6	BRE Holding Sp. z o.o.	-	2 621	-	-	-	-	-	-
7	BRE Leasing Sp. z o.o. *)	995 364	33 279	12 879	(2 658)	-	-	120 655	-
8	BRE.locum SA	116 676	-	7 941	-	-	-	68 000	-
9	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	-	775	-	(3)	1	-	-	-
10	BRE Systems Sp. z o.o. (previously Service Point Sp. z o.o.)	-	2 469	17	(2)	30	-	1 000	-
11	BRE Ubezpieczenia TUiR SA (previously BRE Ubezpieczenia TU SA)	11 254	26 148	-	-	65 204	(8 949)	-	-
12	BRE Wealth Management SA	-	6 947	-	-	-	-	-	-
13	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	22 780	16 578	-	-	-	(26 353)	-	-
14	Dom Inwestycyjny BRE Bank SA	15 095	514 156	-	(22 403)	13 266	(7 853)	30 673	-
15	Garbary Sp. z o.o.	-	-	-	-	-	-	6 300	-
16	Polfactor SA *)	382 191	48 726	15 495	-	-	-	82 565	-
17	Tele-Tech Investment Sp. z o.o.	57 274	-	6 460	-	-	-	-	-
	Commerzbank AG Capital Group (Ultimate Parent Group)	311 900	19 394 631	13 019	(314 090)	-	-	782 779	171 656

Numerical data concerning transactions with related entities (in PLN 000's) as at 31 December 2008

No.	Company's name	Statement of Financial Position		Separate Income Statement				Contingent commitments granted and received	
		Receivables	Liabilities	Interest income	Interest cost	Commission income	Commission cost	Commitments granted	Commitments received
	Subsidiaries								
1	AMBRESA Sp. z o.o.	-	847	-	-	2	-	-	-
2	BRE Bank Hipoteczny SA *)	696 622	56 877	37 093	-	-	-	269 046	-
3	BRE Corporate Finance SA	-	-	-	-	-	-	1 573	-
4	BRE Finance France SA	-	17 577	-	(18 993)	-	-	29 980	-
5	BRE Holding Sp. z o.o.	-	11 743	-	-	-	-	-	-
6	BRE Leasing Sp. z o.o. *)	206 293	46 229	11 030	(2 738)	-	-	102 375	-
7	BRE Ubezpieczenia TU SA	16 776	38 933	-	-	121 032	(11 338)	-	-
8	BRE Wealth Management SA	-	3 972	-	-	1 881	-	-	-
9	BRE.locum SA	151 109	-	9 881	-	-	-	28 000	-
10	BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	-	715	-	(1)	1	-	-	-
11	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	20 000	37 937	-	-	-	(26 352)	3 000	-
12	Dom Inwestycyjny BRE Bank SA	-	299 009	-	(21 468)	7 302	(3 961)	50 000	-
13	emFinanse Sp. z o.o.	-	-	-	-	-	(4 496)	-	-
14	Intermarket Bank AG	-	-	3 889	-	-	-	-	-
15	Polfactor SA *)	347 181	3 464	19 614	-	-	-	53 232	-
16	BRE Systems Sp. z o.o. (previously Service Point Sp. z o.o.)	-	150	9	(6)	17	-	1 000	-
17	Tele-Tech Investment Sp. z o.o.	51 972	-	5 563	-	-	-	-	-
	Associates								
	Xtrade SA	-	34	-	(4)	7	-	-	-
	Commerzbank AG Capital Group (Ultimate Parent Group)	1 834 878	24 587 002	38 424	(549 414)	-	-	580 504	557 636

* BRE Bank holds shares in the companies through BRE Holding Sp. z o.o., a 100% subsidiary.

In connection with restructuring of the company emFinanse in the second half of 2008 a provision for credit exposures was created in the amount of PLN 5 320 thousand. On 15 July 2008 the provision was recorded as a provision for shares as a result of conversion of the company's debts to equity.

The table below presents the values of transactions between the Bank and the Members of the Management Board of the Bank and key executive management of the Bank.

(in PLN '000s)	**Directors and key management personnel of the Bank**	
As at the end of the period	**31.12.2009**	**31.12.2008**
Loans outstanding	4 262	6 731
Deposits received	18 146	11 704
Interest expense on deposits	(451)	(352)
Interest, fee and commission income	92	250
Directors and key management personnel of the Bank remuneration	31 460	41 379

Management Board Compensation

The composition of the Management Board of BRE Bank which consists of seven persons was as follows at the end of 2009:

1. Mariusz Grendowicz – President of the Management Board, General Director of the Bank,
2. Wiesław Thor – Vice-president of the Management Board, Chief Risk Officer,
3. Karin Katerbau – Vice-president of the Management Board, Chief Financial Officer,
4. Przemysław Gdański – Member of the Management Board, Head of Corporate Banking,
5. Hans-Dieter Kemler – Member of the Management Board, Head of Investment Banking,
6. Jarosław Mastalerz – Member of the Management Board, Head of Retail Banking,
7. Christian Rhino – Member of the Management Board, Chief Operation and IT Officer.

On 10 June 2009 Mr. Bernd Loewen, a Member of the Management Board of BRE Bank SA definitely resigned from his post as of 1 July 2009.

By resolution of the Supervisory Board of BRE Bank SA of 10 July 2009, Mr. Hans-Dieter Kemler was appointed Member of the Management Board, Bank Director for Investment Banking as of 10 July 2009 for the period until the end of the current term of office of the Management Board

Ms Karin Katerbau, who has performed the function of a Member of the BRE Bank SA Management Board, Bank Director since 5 September 2008, was appointed a Vice-President of the Bank's Management Board, Bank Director as of 1 October 2009 under the resolution of the BRE Bank SA Supervisory Board.

Information on the salaries, bonuses and benefits paid out and due to the members of the Management Board of the Bank who were the members at the end of 2009, as at 31 December 2009 and 31 December 2008, is presented below:

		Remuneration paid in 2009 (in PLN)		
		Basic salary	**Other benefits**	**Bonus for 2008**
1.	Mariusz Grendowicz	1 800 000	236 696	2 400 000
2.	Wiesław Thor	1 508 186	148 430	862 500
3.	Karin Katerbau	1 275 000	208 751	223 068
4.	Przemysław Gdański	1 200 000	143 661	1 000 000
5.	Hans-Dieter Kemler	569 565	760 098	-
6.	Jarosław Mastalerz	1 200 000	167 408	870 000
7.	Christian Rhino	1 200 000	101 878	553 890
	Total	**8 752 751**	**1 766 922**	**5 909 458**

Remuneration of the Management Board Members who ceased performing their functions in the year 2009.

		Remuneration paid in 2009 (in PLN)		
		Basic salary	**Other benefits**	**Bonus for 2008**
1.	Bernd Loewen	600 000	71 043	1 270 000
	Total	**600 000**	**71 043**	**1 270 000**

Remuneration of the Management Board Members who ceased performing their functions in the year 2008 paid in 2009.

		Remuneration paid in 2009 (in PLN)		
		Basic salary	**Payoff, compensations and other benefits**	**Bonus for 2008**
1.	Andre Carls	-	-	310 146
2.	Sławomir Lachowski	-	1 225 337	-
3.	Janusz Wojtas	-	726 168	-
4.	Rainer Ottenstein	-	-	600 000
	Total	**-**	**1 951 505**	**910 146**

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Additionally, due to the fact that the effects of a one-off transaction were excluded from the basis for the calculation of the bonus for 2008, Members of the Management Board, Mrs. Karin Katerbau and Mr. Christian Rhino, signed additional agreements with the Bank. The agreements foresee payment of an additional amount in cash and transfer of additional shares of BRE Bank and Commerzbank in case the employee is dismissed from the Management Board Member function on or before 16 March 2012 due to ownership changes in the Commerzbank Group, which could theoretically result in excluding the Bank from the Commerzbank Group (i.e. 50% or more of voting rights at the General Meeting would be transferred outside the Commerzbank Group). In case such hypothetical event took place, Mrs. Karin Katerbau would be entitled to an additional cash payment amounting to PLN 96 987 as well as additional 1 534 BRE Bank shares and 4 263 Commerzbank shares whereas Mr. Christian Rhino would be entitled to an additional cash payment amounting to PLN 240 882 as well as additional 3 807 BRE Bank shares and 10 586 Commerzbank shares.

In both cases, the Bank would be entitled to pay cash compensation to the employees in exchange for BRE Bank and Commerzbank shares. Cash compensation should be calculated on the basis of the market price of BRE Bank shares and Commerzbank shares prevailing one day before the execution of the appropriate payment on the Warsaw Stock Exchange and Xetra stock exchange in Frankfurt, respectively.

Members of the Management Board, Mr. Mariusz Grendowicz, Mr. Wiesław Thor and Mr. Jarosław Mastalerz, are currently negotiating similar agreements with the Bank.

Remuneration of the Management Board Members paid in the year 2008.

	Remuneration paid in 2008 (in PLN)		
	Basic salary	**Other benefits**	**Bonus for 2007**
1. Mariusz Grendowicz	1 425 000	45 954	-
2. Wiesław Thor	1 341 250	117 347	2 583 000
3. Przemysław Gdański	142 105	5 402	-
4. Karin Katerbau	384 478	29 242	-
5. Bernd Loewen	1 110 726	107 912	2 400 000
6. Jarosław Mastalerz	1 103 750	146 988	999 375
7. Christian Rhino	970 988	129 057	-
Total	**6 478 297**	**581 902**	**5 982 375**

Remuneration of the Management Board Members who ceased performing their functions in the year 2008.

	Remuneration paid in 2008 (in PLN)		
	Basic salary	**Other benefits**	**Bonus for 2007**
1. Sławomir Lachowski	659 730	1 995 417	4 300 000
2. Jerzy Jóźkowiak	433 571	1 565 502	2 583 000
3. Andre Carls	543 240	26 063	-
4. Rainer Ottenstein	168 878	32 425	2 400 000
5. Janusz Wojtas	420 393	466 353	2 583 000
Total	**2 225 812**	**4 085 761**	**11 866 000**

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

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2009, which would be paid out in 2010. The final decision concerning the level of the bonus will be taken by the Executive Committee of the Supervisory Board by 30 March 2010.

In 2009, the members of the Management Board of BRE Bank SA did not receive a compensation for their role as members of the management boards and supervisory boards of the Bank's related companies (in 2008: PLN 331 569).

The total amount of remuneration received in 2009 by Bank's Management Board members was PLN 18 370 174 (2008: PLN 31 551 716).

Supervisory Board Compensation

The composition of the Supervisory Board at the end of 2009 was as follows:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee, Member of the Risk Committee, Member of the Audit Committee,
2. Andre Carls – Deputy Chairman of the Supervisory Board, Member of the Executive Committee, Member of the Risk Committee, Member of the Audit Committee,
3. Michael Schmid – Member of the Supervisory Board, Member of the Executive Committee (since October 1, 2009), Chairman of the Risk Committee,

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4. Martin Zielke – Member of the Supervisory Board, Chairman of the Audit Committee,
5. Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee, Member of the Audit Committee,
6. Achim Kassow – Member of the Supervisory Board, Member of the Executive Committee (until September 30, 2009),
7. Waldemar Stawski – Member of the Supervisory Board, Member of the Risk Committee,
8. Teresa Mokrysz – Member of the Supervisory Board,
9. Marek Wierzbowski – Member of the Supervisory Board,
10. Stefan Schmittmann – Member of the Supervisory Board.

On 16 March 2009 the 22nd Ordinary General Meeting of BRE Bank appointed Mr. Stefan Schmittmann as new (tenth) BRE Bank Supervisory Board.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2009 and 31 December 2008 is presented below:

		Remuneration paid in 2009 (in PLN)	**Remuneration paid in 2008 (in PLN)**
1.	Maciej Leśny	315 000	315 000
2.	Andre Carls	273 000	86 864
3.	Jan Szomburg	231 000	231 000
4.	Teresa Mokrysz	132 000	132 000
5.	Waldemar Stawski	198 000	156 750
6.	Michael Schmid	206 250	198 000
7.	Martin Zielke	198 000	156 750
8.	Achim Kassow	181 500	213 625
9.	Marek Wierzbowski	132 000	104 500
10.	Stefan Schmittmann	-	-
	Gromosław Czempiński*	-	27 500
	Nicholas Teller*	-	48 125
	Martin Blessing**	-	178 011
	Total	**1 866 750**	**1 848 125**

* On 14 March 2008 the members completed their term of office.
** On 4 September 2008 Mr. Martin Blessing resigned from the office.

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

46. Acquisitions and Disposals

On 5 November 2009 BRE Bank acquired all deposit certificates (A and B series) at a total value of PLN 191 816 thousand, issued by BRE GOLD FIZ Aktywów Niepublicznych – closed-end investment fund of non-public assets in exchange for 651 660 PZU SA shares. The only asset of the fund is a package of PZU SA shares which was previously held by BRE Bank directly. In connection with ownership of 100% of certificates issued by BRE GOLD FIZ Aktywów Niepublicznych, BRE Bank started the consolidation of the fund as of November 2009. On 31 December 2009, some B series certificates were cancelled at a balance sheet amount of PLN 94 365 thousand.

47. Information about the Registered Audit Company

The registered audit company with whom BRE Bank SA signed an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement to conduct an audit of stand-alone financial statements of BRE Bank SA and consolidated financial statements of BRE Bank SA Group was signed on 4 July 2008.

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of BRE Bank SA was PLN 2 919 thousand in 2009 (2008: PLN 3 308 thousand).

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for BRE Bank SA was PLN 781 thousand in 2009 (2008: PLN 1 223 thousand).

48. Capital Adequacy Ratio / Capital Adequacy

One of the main tasks of balance sheet management is to ensure an appropriate level of the capital. Under the Group's capital management policy, BRE Bank creates its framework and directions in order to ensure the most effective planning and utilisation of capital which:

- are consistent with valid external regulations and internal regulations of the Bank,
- place in safety continuation of accomplishment of financial targets providing a suitable level of return for shareholders,
- enable to maintain a stable capital base which is the basis for growth of business.

The capital management policy in BRE Bank is based on:

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

Effective utilisation of capital is an integral part of the capital management policy oriented at reaching an optimal rate of return on capital and, as a result, forming a stable basis of reinforcement of the capital base in future periods, which enables to maintain the capital adequacy ratio at least on the level required by the supervision authority (the Polish Financial Supervision Authority, "KNF"). The capital adequacy ratio is calculated as a quotient of own funds to the total capital requirement multiplied by 12.5, and it should be 8% at least.

Own funds comprise:

a) core funds including:

- principal funds (paid and registered share capital, supplementary capital and reserve funds excluding any liabilities due to preference shares),
- additional items of core funds (general risk fund for unidentified banking business risk, retained earnings, profit under approval by shareholders and net profit for the current reporting year, calculated in accordance with valid accounting principles, less any expected costs and dividends in the amounts not greater than the profit verified by auditors, other balance sheet items determined by KNF),
- items reducing core funds – own shares held by the Bank, valued at carrying amount and reduced by impairment losses on them, intangible assets measured according to the balance sheet method, loss from previous years, loss under approval by shareholders, net loss for the current year, other decreases of core funds of the Bank determined by KNF (including missing provisions for banking business risk and exposure to securitisation items),

b) supplementary funds including:

- revaluation reserve resulting from valuation of tangible fixed assets – formed on the basis of separate regulations,
- balance sheet items whose inclusion is conditional on KNF decisions (including subordinated liabilities, liabilities due to securities with unlimited maturities and other similar instruments),
- items determined by KNF for the purpose of ensuring business safety and proper risk management within the Bank,
- decreases of supplementary funds, determined by KNF.

The total capital requirement comprises:

- credit capital requirement,
- market risk capital requirement comprising: foreign exchange risk capital requirement, commodities risk capital requirement, specific risk of equity instrument prices capital requirement, specific risk of debt instrument prices capital requirement, general interest rate risk capital requirement,
- settlement risk capital requirement, delivery risk capital requirement and counterparty risk capital requirement,
- capital requirement due to the risk of exceeding the limit of concentration of exposures and the risk of exceeding the limit of concentration of large exposures,
- capital requirement due to the risk of exceeding the level of capital concentration,
- operational risk capital requirement.

The Bank adjusts the own funds to the level and kind of the risk it is exposed to and to the character, scale and complexity of its business activity. For that purpose, the Bank prepared and implemented ICAAP process (Internal Capital Adequacy Assessment Process). The aim of this process it to have the own funds at the level adequate to the risk profile and the risk level of the Bank's activities to ensure the safety of the business of BRE Bank SA.

Internal capital is estimated by the Bank as a capital level needed to cover all identified, material types of risk within the Bank's activity, including so-called permanent material risks and other material risks being difficult to measure.

The permanent material risks are to be covered by the economic capital, while other risks are to be covered by the capital for coverage of risks being difficult to measure.

The process of internal capital adequacy assessment of the Bank is performed on an on-going basis and is based on the following tasks completed by the organisational units of the Bank:

- identification and description of the material risks occurring in the business of the Bank,
- calculation of the capital to cover each of the material risks,
- aggregation of the capital to cover risks,
- allocation of capital to business lines and the Group's companies,
- monitoring containing permanent identification of the risks occurring in the business activities of the Bank and analysis of the level of consumed capital in the scope of the risks expected to be material.

The process of internal capital adequacy assessment is approved by the Supervisory Board of the Bank.

The calculation of the Bank's capital adequacy ratio and own funds is made on the following basis:

- Banking Act dated 29 August 1997 (Dz.U. from the year 2002 No 72, item 665, as amended),
- Resolution No. 380/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 34),
- Resolution No. 381/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 35),
- Resolution No. 382/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 36),
- Resolution No. 383/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 37),
- Resolution No. 384/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 38),
- Resolution No. 387/2008 of the Polish Financial Supervision Authority dated 17 December 2008 (Dz. Urz. KNF from the year 2008 No 8 item 41),
- Resolution No. 314/2009 of the Polish Financial Supervision Authority dated 14 October 2009 (Dz. Urz. KNF from the year 2010 No 1 item 8),

The capital adequacy ratio of BRE Bank amounted to 11.73% as at 31 December 2009. Due to significant trading activity full calculation of the capital requirements is being made. The total capital requirement of the Bank amounted to PLN 3 639 569 thousand as at 31 December 2009, including PLN 3 253 167 thousand of credit capital requirement (31 December 2008 respectively: 3 893 689 thousand and PLN 3 435 735 thousand).

Due to the fact that total capital requirement of BRE Bank calculated according to Resolution No. 380/2008 is higher than the internal capital calculated according to Resolution No. 383/2008, the Bank's own funds were kept as at 31 December 2009 at a level not lower than the total capital requirement calculated according to Resolution No. 380/2008.

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Capital adequacy	**31.12.2009**	**31.12.2008**
Own funds:		
- Share capital	118 764	118 764
- Supplementary fund	3 006 573	2 277 042
- Reserve fund	716 442	620 113
- Revaluation reserve arising from valuation of non-current and financial assets available for sale	(132 550)	(254 208)
- Profit for the current year	23 949	660 072
- Investments in financial institutions	(459 071)	(466 173)
- Intangible assets	(396 121)	(406 359)
- Subordinated liabilities	2 460 664	2 337 756
I. Total own funds	**5 338 650**	**4 887 007**
Risk weighted off-balance sheet assets and liabilities:		
- applying a 20% risk weight	298 274	1 078 281
- applying a 35% risk weight	458 866	207 008
- applying a 50% risk weight	2 036 431	1 208 737
- applying a 75% risk weight	20 299 914	19 701 272
- applying a 100% risk weight	17 756 555	21 952 918
- applying a 150% risk weight	438 385	297 309
II. Total risk weighted assets and off-balance sheet liabilities	**41 288 425**	**44 445 525**
III. Credit risk	**3 253 167**	**3 435 735**
IV. Foreign exchange risk	**-**	**13 023**
V. Equity instruments price risk	**184**	**114**
VI. Specific risk for debt instruments	**35 778**	**48 997**
VII. General interest rate risk	**21 035**	**37 674**
VIII. Settlement, delivery and counterparty credit risk	**49 909**	**119 907**
IX. Commodities risk	**-**	**1**
X. Operational risk	**279 496**	**238 238**
XI. Total capital charge	**3 639 569**	**3 893 689**
XII. Capital adequacy ratio (%)	**11.73%**	**10.04%**

49. Events after the Balance Sheet Date

- On 27 January 2010 BRE Bank entered into three loan agreements with Commerzbank AG in a total amount of PLN 1 554 010 thousand. In accordance with the largest of them, the Bank received a loan in the amount of CHF 350 000 thousand (PLN 972 370 thousand at the NBP mid exchange rate of 27 January 2010) for the purpose of fulfilling general financial needs of the Bank.
- On 28 January 2010 BRE Bank entered into a loan agreement with its client, a subsidiary of the Bank ("Entity"). In accordance with the agreement, the Bank will grant a loan in a total amount of EUR 200 000 thousand (PLN 812 600 thousand at the NBP mid rate of 28 January 2010) for the purpose of fulfilling general financial needs of the Entity. The loan will be paid in tranches. Each tranche matures two years after the date of drawing the tranche. The last tranche will be paid off at 29 June 2012.
- On 1 March 2010, the Management Board of the Bank adopted the decision on proposing to the Bank's shareholders the share capital increase of the Bank of no less than PLN 4 and up to PLN 83,134,468, by way of a closed subscription (i.e. offering the new shares to the Bank's shareholders, on the basis of the preemptive right) of no less than 1 and up to 20,783,617 new ordinary bearer shares with the nominal value of PLN 4 each, and offering such shares in a public offering in the Republic of Poland, with the aim to raise PLN 2 billion as a result of the new shares' issue and adopted the resolution concerning the update of the Bank's strategy. The Management Board of the Bank recommended to the Supervisory Board of the Bank adoption of the update of the Bank's strategy as well as the relevant draft resolution for XXIII General Meeting of BRE Bank SA regarding the increase of the Bank's share capital, a public offering of new shares, specifying the record date for the new shares, dematerialization and application for admission of the preemptive rights, rights to shares and new shares to trading on a regulated market (main market) operated by the Warsaw Stock Exchange.

BRE BANK SA

MANAGEMENT BOARD REPORT ON THE BUSINESS OF BRE BANK SA IN 2009

Warsaw, 1 March 2010

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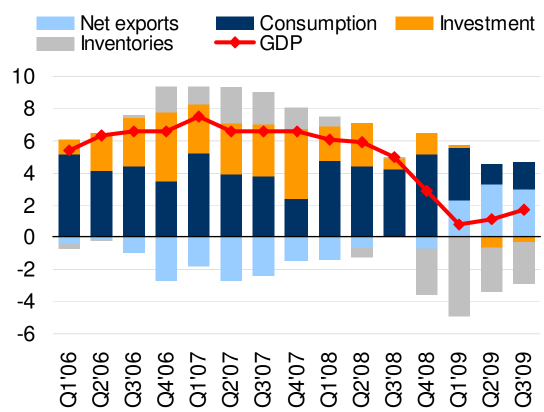
I. Macroeconomic Situation in 2009

I.1. Poland: Only EU Member State with GDP Growth

Elements of the GDP growth (in percentage points)



The Polish GDP rate slowed down considerably in 2009. The GDP rate fell sharply in early 2009, down from 3.0% YoY in Q4 2008 to 0.8% YoY in Q1 2009 (the lowest rate since 2002); the situation gradually improved in the following quarters (1.1% YoY in Q2, 1.7% YoY in Q3) hence, the second half of the year was much better. GDP growth in 2009 compared to 2008 reached 1.7% versus 5.0% a year ago.

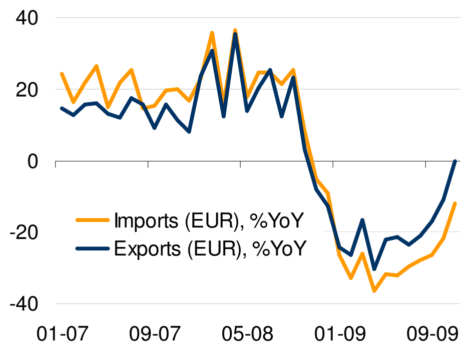
There were two main drivers of the slow-down in the Polish economy. One was a strong reduction in external demand following dramatic deterioration of foreign trade in the EU countries (in particular Germany, Poland's largest trade partner).

The positive contribution of net exports to GDP remained high in 2009 (2-3 percentage points). However it was not driven by the strength of Polish exports: the foreign trade balance improved because imports fell more dynamically than exports. It should be noted that the decrease in Polish exports caused by the global recession was largely curbed by the effect of depreciation of the zloty, which boosted the competitiveness of Polish exporters and enabled them to maintain or even increase their margins. It also had a positive impact on the results of the non-financial corporate sector, which grew again starting in Q2. The results of non-financial companies were up by 14-18% in Q2 and Q3 2009.

The other key driver of the slow-down was a strong reduction in investments due to a drop in foreign direct investments and the credit crunch in the banking sector. The contribution of investments to GDP was negative in Q2 and Q3 (minus 0.3-0.6 percentage points). However, it should be noted that the decrease in private investments was largely cushioned by their substitution with public investments (mainly development of road infrastructure), helping to prevent a sharp decline in total investments (biggest decrease in Q2 by 3.0% YoY).

Importantly, as the economic climate worsened, companies drastically cut stocks, resulting in a deeply negative contribution of stocks to GDP (almost -5 percentage points in Q1, less than -3 percentage points in Q2 and Q3).

Exports and import dynamics



Despite these negative developments, Poland's economy continued to grow in 2009 mainly driven by stable domestic consumer demand, historically the key factor in the Polish economy. The contribution of exports to the Polish GDP is relatively low (ca. 40%), unlike in the other CEE countries, which are strongly dependent on exports (export contribution to their GDP is almost double that of Poland). By definition, domestic demand plays a much greater role in Poland; in addition, relative underdevelopment means that consumption cannot be deferred, in contrast to mature economies.

The relatively stable consumer demand was also helped by the fact that Polish consumption is financed with credit to a much lesser extent than in the well-developed economies (or other countries of the region like the Czech Republic and Slovakia); obviously, consumption was strongly reduced. Additionally, the crisis affected the local labour market much less than expected.

Despite the strong slow-down of economic growth, last year in the Polish economy was far better than expected. The GDP growth rate was 1.7%. Faced with the biggest global economic crisis since the Great Depression in the 1930s, Poland maintained a positive GDP development as the only country in the region and, indeed, in the EU. By comparison, according to recent European Commission forecasts, the Czech GDP fell by 4.8% last year, the Slovak by 5.8%, the Hungarian by 6.5%.

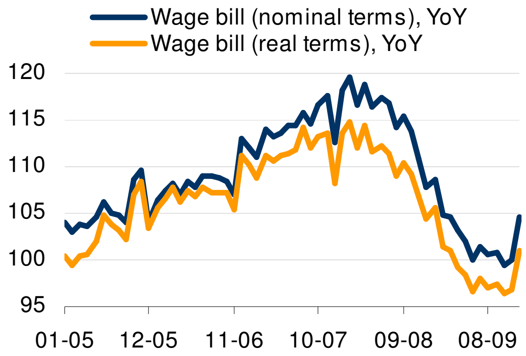
I.2. Gradual Deterioration on the Labour Market

The economic slow-down had a strong impact on the Polish labour market. Demand for labour decreased strongly in 2009; as a result, employment fell, the unemployment rate increased, and wage pressure decreased. However, the labour market in the current crisis turned out to be much more flexible than in the slow-down earlier this decade, and was capable of quick adjustments achieved already in H1. As a result, companies were in a position to improve their financial standing and thus prevented much bigger layoffs, inevitable if their reaction had come late.

Due to falling demand, companies were forced to reduce workforce, mainly in H1 and particularly in industrial processing, especially export-oriented sectors affected by falling foreign demand. More than 110 thousand jobs were cut in the industry between January and June; the situation stabilised in H2, when fewer jobs were lost (under 10 thousand per month). The situation in other sectors (construction, services) was relatively stable thanks to strong domestic demand. With falling employment, the unemployment rate rose from 9.5% in December 2008 to 11.9 % in December 2009.

Due to falling demand for labour, the growth in wages slowed down sharply. While wages in the corporate sector were growing at a double-digit rate in 2008, they only grew by some 2% YoY in 2009. In real terms, wages fell in H2 (by around 1-2% YoY).

The weaker growth in wages combined with falling employment in the corporate sector resulted in a sharp decrease of total wages. In real terms, total wages in the corporate sector only grew in Q1 and then fell for the rest of the year by as much as 3-4% at the end of 2009.



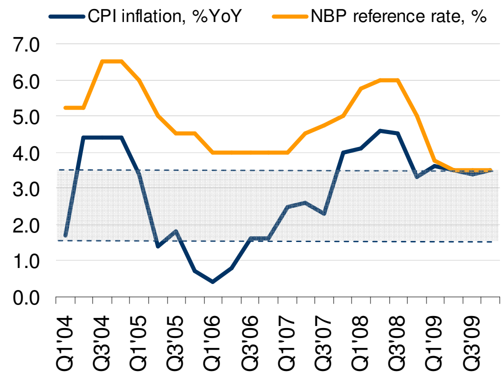
This, however, did not really affect private consumption, the driver of Poland's economic growth throughout 2009. This was possible thanks to improvements in other categories such as old-age and disability pensions and other forms of remuneration.

I.3. Inflation and Interest Rates

Despite the strong slow-down in the Polish economy and the resulting decrease of inflation pressure, consumer prices rose very sharply month on month in H1 2009. The CPI was 2.8% YoY in January but rose to around 4% YoY in the following months. The higher CPI was mainly driven by the strong depreciation of the zloty, affecting fuel and food prices as well as prices of package tours and electronic equipment.

In H2, when the effect of currency depreciation eased gradually in combination with weak demand pressure, inflation fell to some 3.0% YoY. However, the CPI rose again to 3.5% YoY at the end of the year as a result of the low statistical base of 2008.

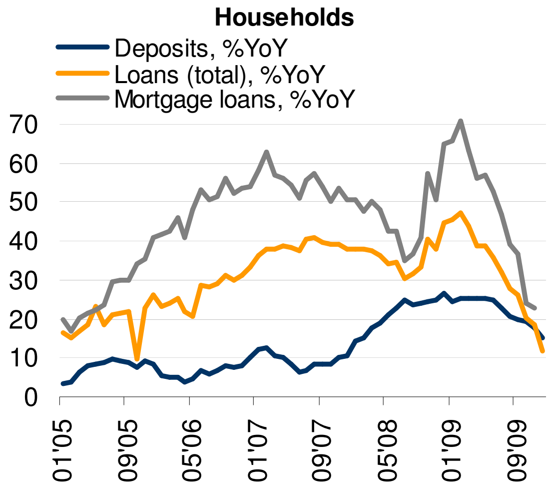
In H1 2009, the Monetary Policy Council continued with a series of monetary policy easing measures started in November 2008 to support the slowing economy. The Council cut the rates four times. As a result, the NBP reference rate fell from 5.00% at the end of 2008 to 3.50% at the end of June 2009. In H2 2009, the Council kept the interest rates unchanged, mainly due to the inflation risks of the weak zloty.

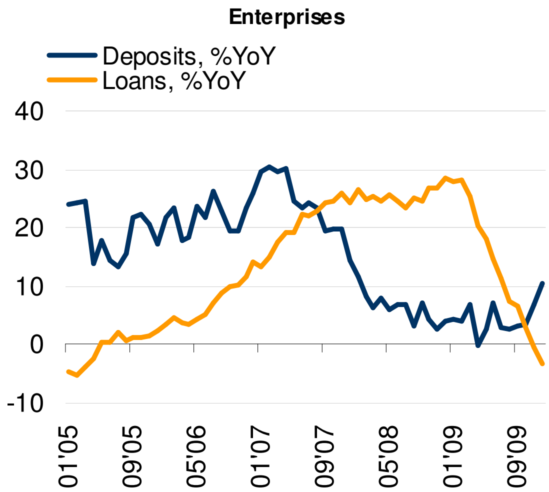


I.4. Money Supply and the Banking Sector

In 2009, the growth rate of household deposits slowed down considerably. Household deposits grew by ca. PLN 50 billion, compared to ca. PLN 70 billion of growth in 2008. The growth rate of household deposits fell to 15.2% YoY at the end of 2009, compared to 26.5% YoY a year earlier. The growth of household deposits was adversely affected by the deteriorating situation on the labour market resulting in a decrease in total wages, as well as a faster outflow of cash to investment funds in H2 (the balance of payments and withdrawals in investment funds was almost PLN 4 billion in H2 compared to PLN 1.6 billion in H1) and falling interest rates on term deposits.
The growth rate of corporate deposits improved from 4.0% YoY at the end of 2008 to 10.4% YoY at the end of 2009 (the volume of deposits grew by ca. PLN 16 billion compared to ca. PLN 6 billion of growth in 2008). This was mainly driven by strong improvement of financial results of Polish companies observed already in Q2.

Due to tighter conditions of lending in a higher risk environment (growing proportion of NPLs driven by economic slow-down), the growth rate of loans fell sharply. In particular, corporate loans were badly affected as their dynamics turned negative at the end of the year (-3.4% YoY in December) compared to growth by 28.3% YoY in 2008. Net of the fx effect (fx loans account for ca. 24% of total corporate loans), the growth rate of corporate loans fell from 24.5% YoY in 2008 to -3.2% YoY in 2009.





The growth rate of household loans also fell sharply from 44.6% YoY in 2008 to 11.8% YoY in 2009; meanwhile, their volumes grew by over PLN 44 billion compared to PLN 116 billion of growth in 2008. Net of the fx effect (fx loans, mainly in CHF, currently account for ca. 37% of total household loans), the growth rate of household loans fell from 32.5% YoY in 2008 to 12.3% YoY in 2009.

In 2009, the National Bank of Poland (NBP) continued its initiatives aimed at generating additional liquidity in the banking sector in order to stimulate new lending by banks. These included early redemption of NBP bonds, extension of repo transactions up to 6 months, addition of new asset categories allowed as collateral of NBP refinance transactions, reduction of the mandatory reserve rate by 50bp to 3.00%, and introduction of discount credit (as of the beginning of 2010).

II. BRE Bank Shareholders and Share Price on the WSE

II.1. BRE Bank SA Shares

- 29,690,882 – total number of BRE Bank SA shares, including:
  29,669,382 shares in exchange trading
  21,500 registered shares
- Nominal value: PLN 4 per share
- BRE Bank share capital: PLN 118,763,528 (fully paid up, as at 31.12.2009)
- Listed on the WSE since 1992
- Shares participate in WSE indices: WIG, WIG20, and WIG Banks; shares also participate in indices WIG 20 short, WIG 20 lev, and WIG PL.
- There are no preferred shares, each share represents one vote at the General Meeting.

II.2. Commerzbank AG – Majority Shareholder of BRE Bank

BRE Bank has a strategic shareholder: Commerzbank AG (CB), who has been BRE Bank's major shareholder for many years – initially directly, and currently through a 100% subsidiary, Commerzbank Auslandsbanken Holding AG.

The stake of Commerzbank has been gradually rising, from 21% in 1995 through 50% in 2000, to the level of 72.16% in 2003. As of 2005, the stake has been reduced slightly due to the execution of a management options program at BRE Bank. Commerzbank Auslandsbanken Holding AG held 69.78% of BRE Bank shares and votes at 31 December 2009.

Commerzbank is the second largest private German bank, with an extensive network of branches in Germany and Europe. In 2008, a decision was made that it would acquire Dresdner Bank AG. The acquisition, one of the largest in the history of the German banking sector, was finalised in January 2009. The merger was completed in May 2009.

At the end of 2008, in consequence of the global financial crisis, Commerzbank used the German government program of assistance for the financial sector and received EUR 8.2 billion which increased its equity by 10%. It received a second capital injection of EUR 10 billion from the state-controlled SoFFin fund. In return, the German state became the largest shareholder of Commerzbank with a stake (25% of shares plus one share) sufficient
to block key decisions made by the Commerzbank General Meeting and other authorities of the bank.

These ownership changes of Commerzbank did not impact its equity investment in BRE Bank SA. The BRE Bank Group remains the strongest affiliation of Commerzbank in Central and Eastern Europe. According to declarations by the Commerzbank Management Board, there are currently no plans to change this.

The remaining 30.22% of BRE Bank shares are in free float, mainly traded by financial investors (about three-fourths of free float shares) including two investors holding more than 5% of shares each during 2009: Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK with a stake of 5.05% and ING Otwarty Fundusz Emerytalny with a stake of 5.01% of shares. However, by the end 2009, both investors reduced their stake to less than 5%: ING OFE to 4.96% and Aviva OFE (former Commercial Union OFE) to 4.93%.

The remaining shares are traded by other investors, including private individuals. As their stakes in BRE Bank remain below 5%, they are not required to report their acquisitions.

II.3. Areas of Co-operation with Commerzbank

Under a strategic agreement signed in 1994, BRE Bank has received various capital injections, including both Tier-1 equity and subordinated loans. The value of subordinated loans stood at the equivalent of ca. PLN 1.7 billion at the end of 2007, ca. PLN 2.7 billion at the end of 2008, ca. PLN 2.6 billion at the end of 2009. In addition, the Bank used CB borrowings, which stood at PLN 16.6 billion at the end of 2009.

In addition to capital support, the strategic shareholder has granted BRE Bank a letter of comfort, committing itself to provide financial assistance in case of liquidity problems (an official assurance that the company will meet its contractual obligations in all cases save for political risks).

A technical co-operation agreement gives BRE Bank access to the network of CB and its correspondent banks around the world. In addition, CB offers its know-how to BRE Bank, enabling co-operation in many areas under separate agreements. The key areas include:

1) Risk controlling, including:
- market risk and liquidity risk measurement methods;
- operational risk monitoring methods;
- corporate client rating system;
- credit process optimisation, credit risk monitoring;
- harmonisation with Basel II requirements.

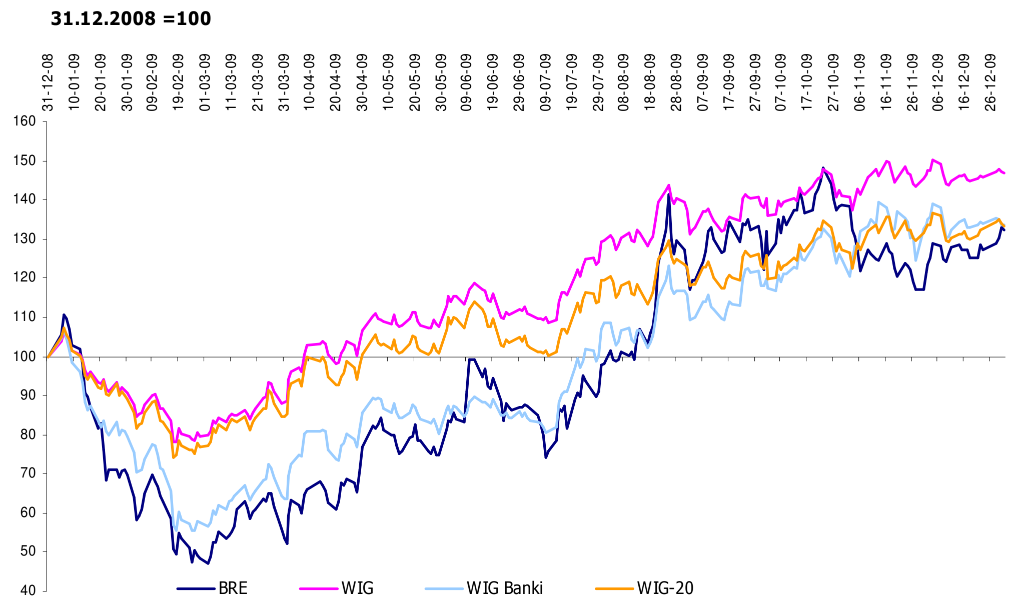
In particular, the Bank uses the know-how of Commerzbank experts in a current project implementing statistical methods of calculation of regulatory capital requirements for credit risk (A-IRB). While decisions on credit risk, market risk and liquidity risk are made by BRE Bank, risk management methodologies are systematically agreed with CB.
2) Co-operation in serving international clients, including Commerzbank clients;
3) Compliance and money laundering prevention;
4) Co-operation in logistics and IT;
5) BRE Bank's use of CB's bank rating;
6) Shared reporting system in accounting and controlling.

BRE Bank also participates in the CB Group's three-year strategic planning system.

II.4. BRE Bank's Share Price on the WSE

After a sharp fall in 2008, when WIG lost more than 50%, the situation on the WSE improved strongly in 2009. WIG gained 47% and WIG20 gained 33% (over 80% since the February 2009 low). The share prices of small and mid-caps improved considerably: mWIG40 gained 55% and sWIG80 62% in 2009. All sector indices rose. The sub-index WIG-Banks gained 34%.

BRE Bank Stock Performance in 2009 relative to WIG, WIG-20 and WIG-Banks Indices



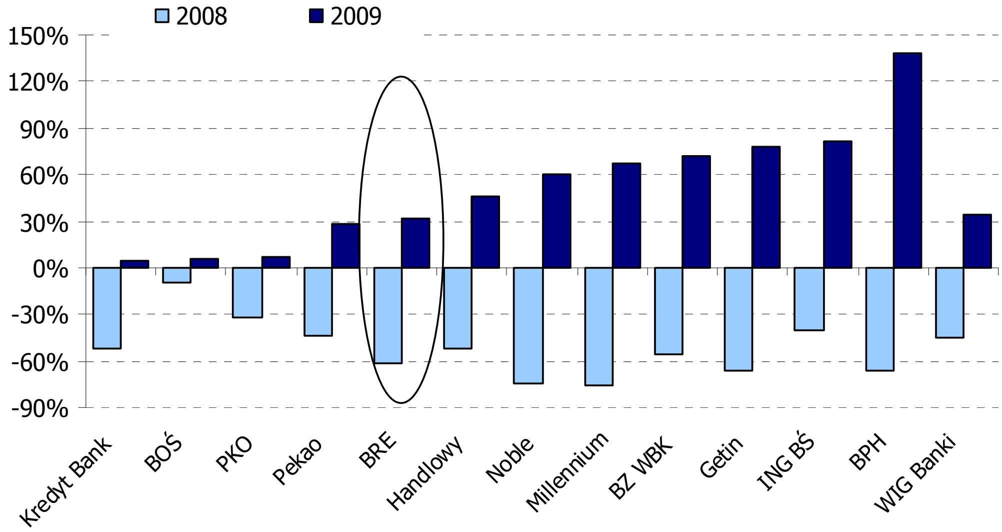
BRE Bank's stock performance in general followed the performance of the banking sector index. After shares fell by 55% in January and February, the BRE Bank share price grew three-fold and **closed the year at PLN 260**. The annual return rate on BRE shares was 32%, close to the dynamics of the banking sector index and 15 percentage points below the broad market index. The BRE Bank share price hit a low (PLN 92.70) on 2 March and a high (PLN 291.00) on 23 October 2009.

The P/E (price/earnings) ratio of BRE Bank shares was 135.4 at the end of 2009 (7.0 at the end of 2008), the P/BV (price/book value) was 2.0 (1.6 at the end of 2008).

BRE Bank's capitalisation was PLN 7.7 billion (EUR 1.9 billion) at 31 December 2009 compared to PLN 5.8 billion (EUR 1.4 billion) at the end of 2008.

The charts below present the return on BRE Bank shares in 2008 and 2009.

Return on BRE Bank shares versus other banks



The table below presents the history of BRE Bank's dividend payments. The Management Board and the Supervisory Board will recommend **no dividend payment for 2009** to the General Meeting.

Dividend year	Dividend per share (PLN)	Total dividend (PLN M)	Dividend as % of standalone profit
1996	3.00	43.5	38
1997	3.00	46.6	32
1998	3.00	68.4	33
1999	8.00	182.4	27
2000	5.00	114.9	32
2001	10.00	230.0	68
2002 -2008	no dividend		

Activity of BRE Bank in 2009

I. Major Developments and Events in 2009

The economic crisis impacted the Polish economy including the banking sector and BRE Bank, however, the impact was experienced in Poland to a lesser extent than in other countries. Still, the economic downturn implied a lower profit than in previous years. Profit before tax was PLN 98.9 million, compared to 901.5 million in 2008. The net profit of BRE Bank stood at PLN 57.1 million in 2009, compared to PLN 829.5 million in 2008.

The income of the Bank at PLN 2,266.9 million in 2009 was slightly lower than a year ago (PLN 2,350.9 million). Considering that the income of 2008 included PLN 272.1 million from one-off transactions (sale of Vectra and PTE Aegon), the regular income was up by 9.0 % in 2009.

The **positive business developments driving the income of the Bank** included:

- **growing number of clients**, in particular retail clients, up by 480 thousand (including 146 thousand in the Czech Republic and Slovakia);

- **growing client deposits**, in particular in H2, while the Bank stayed away from the deposit war at the turn of 2008 and 2009;

- implementation of the strategic programme **BREnova** resulting in improved margins on new loans, a higher share of income earned on non-mortgage loans in retail banking, growing fees and commissions on non-capital binding products, including transaction banking;

- income from redemption of certificates of BRE Gold Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (BRE Gold FIZ) **PLN 60.9 million**;

- good and stable **liquidity** despite problems of the banking sector (BRE Bank has access to long-term borrowings in CHF, mainly from Commerzbank).

These factors helped to **grow the interest income by 20.4%** year on year.

As a result of the BREnova initiatives, important improvements in administrative costs were recorded (-7.2% year on year) as a result of workforce reductions (reduction by 383 full time employees yoy), reduced growth of wages etc. on the one hand and of suspended development of the branch network, reduction of the company car fleet as well as further structural efficiency improvements in the logistics and IT- area on the other hand.

As a result, the C/I ratio was down to 53.0%, and was one of the lowest ratios achieved among Polish banks.

The factors adversely impacting the condition of the Bank and the Group in 2009 included the effect of the downturn affecting the Polish economy and banking sector as of late 2008. This included a sharp depreciation of the Polish currency, deteriorating standing of companies, reduced corporate investments, growing unemployment and a slower growth in wages.

The depreciation of the zloty caused a problem of fx derivative instruments bought by companies in 2008 in anticipation of currency appreciation. When the fx trend reversed, many clients faced financial problems and the Bank was forced to set up provisions against asymmetric derivatves. Bank’s loan loss provisions set up for derivative instruments totalled PLN 275.1 million in 2009, a fourth of all provisions.

In order to mitigate future risks which led to the creation of provisions, the Bank reformed its system of trading in derivative instruments.

Loan loss provisiones for this type of instruments were mainly set up in H1 2009 while the problem eased in H2. By arrangement with several large clients, their corporate debt was restructured and converted into the Bank’s equity investment. The Bank provided those clients with working capital finance.

The difficult situation on the labour market resulted in deterioration of the quality of the retail portfolio of cash loans granted to non-mBank clients. Loan loss provisions for this specific portfolio were set up at the level of PLN 201.5 million in 2009. The cash loan product for non-mBank clients was discontinued as of May 2009. In order to prevent further deterioration of the portfolio quality, the Bank readjusted its credit policy for retail loans in order to mitigate the risks.

Due to the sharply rising exchange rate of the Swiss franc in late 2008 and early 2009, lending in CHF, previously the most popular currency of retail mortgage loans, slowed down.

The Bank's rating was updated during the year. Fitch upgraded BRE's rating while Moody's downgraded the rating. For details see Section XIII.

The major events witnessed in 2009 also include a considerable progress in the Basel II AIRB project (Advanced Internal Ratings Based approach) consisting in implementation of the internal ratings based approach for the purpose of determining the capital requirement for credit risk. In order to use the approach, the Bank must obtain the consent of the Polish Financial Supervision Authority (KNF) and the German Federal Financial Supervisory Authority (BaFin), which is conditional upon meeting a range of requirements. Within the framework of the AIRB project, in December 2009, the Bank applied to both regulators for their consent to using the AIRB approach.

Changes in the authorities of BRE Bank

- Hans-Dieter Kemler replaced Bernd Loewen as Management Board Member, Head of Investment Banking.
- Karin Katerbau, Management Board Member and CFO, was appointed Deputy President of the Management Board as of 1 October 2009.
- Stefan Schmittmann, representing Commerzbank, was elected the tenth Member of the Supervisory Board.

For more information on the composition of the Management Board, the Supervisory Board and its Committees, see "Statement on application of corporate governance principles".

II. BRE Bank business lines

As at 31 December 2009, the composition of BRE Bank's business line and area was as follows:

	BRE Bank		
Lines	Corporations & Markets		Retail Banking
Bank	Corporates & Institutions	Trading & Investments	
	• Corporations (capital groups) • Large Companies • SMEs • Financial Institutions • Structured & Mezzanine Finance*/	▪ Risk and Liquidity Management ▪ Financial Markets	▪ mBank (mass retail customers and microenterprises) ▪ MultiBank (affluent retail customers) ▪ Private Banking (high net worth individuals)

*/ this business formerly included Project Finance under Corporates and Institutions and Proprietary Investments under Trading and Investments.

III. Growth of Corporations and Markets Business

III.1. Corporates and Institutions

The past year was not easy for this business. It faced the issue of solving the problem of clients whose derivative position was affected by the turbulences on the fx market in 2008. Efforts undertaken together with the Risk Line and the Investment Banking Line helped to mitigate the problem. An innovative structure of finance supported many clients and saved them from bankruptcy.

While lending slowed down, income grew thanks to increased credit margins in 2009 compared to 2008 and optimised use of risk-weighted assets (-3%).

Product innovations were developed and implemented for non-capital binding products. This produced the expected results as income from cards and cash management services grew by 16% year on year. Close co-operation with Retail Banking led to the implementation of cash services for corporate clients in MultiBank branches.

Other important implementations, that help to improve the management of business activities, included an advanced sale support management tool Customer Relationship Management (CRM) and a product/sale matrix.

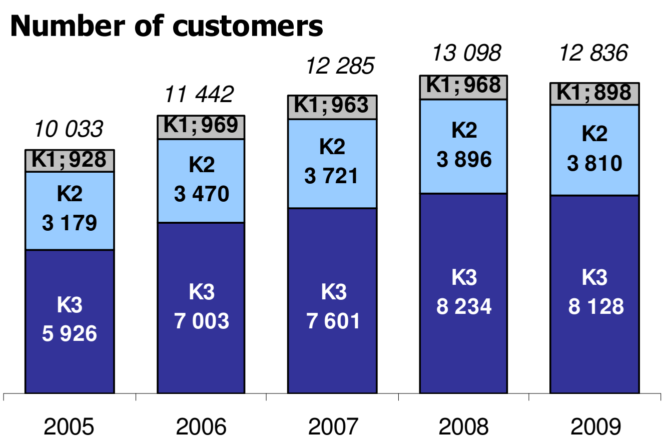
III.1.1. Corporate Customers and Dedicated Offer

Corporate Banking customers are assigned to three segments:

- K1 segment covers capital groups and large enterprises with sales over PLN 1 billion per year; K1 customers require professional advisory focused on structured finance, capital markets, and innovative products. BRE Bank offers advanced financial instruments, technological solutions for cash management instruments tailored to the customers' expectations, and advisory on capital transactions.

- K2 segment covers medium-sized enterprises with sales between PLN 30 million and PLN 1 billion per year. The strategic K2 products include structured foreign trade finance, including both current and long-term financing, mainly using discounting (discounting of trade debt with and without recourse), as well as fx products, derivative instruments, basic and advanced cash management using electronic distribution channels, and structured finance.

- K3 segment covers small and medium-sized enterprises with sales up to PLN 30 million per year which carry full accounting records, in particular foreign trade companies. The strategic product offering targeting K3 customers is based on the EFFECT Package line (New EFFECT and New EFFECT Plus). Every SME can pick products from a Package, including leasing and factoring products. The core product is a bank account available on-line via the iBRE platform. Assigned account managers serve all Package clients.



The number of corporate customers totalled 12,836 companies at the end of 2009, down modestly (2.0%) year on year. This was mainly due to a focus on customers for which BRE Bank is an important business partner.

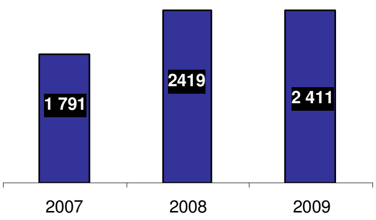
The volumes of corporate clients' loans and deposits are presented in section VII.3 on changes in the Statement of Financial Position.

The total loans to enterprises in the sector were down by 4.0% year on year. The market share of BRE Bank's loans to enterprises was stable at 6.4% at the end of December 2009, the same as in December 2008.

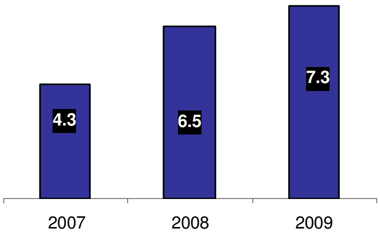
The total deposits of enterprises in the sector were up by 9.5% in 2009. The market share of BRE Bank's deposits of enterprises was 8.9% at the end of December, compared to 9.1% at the end of 2008.

The constantly developed **cash management** offer supports long-term customer relationships and helps to grow the volume of transactions involving the identification of payments and the number of customers using advanced cash management products. The number of direct debits processed in 2009 was 2,411 thousand, down by 0.3% year on year. The number of identifications of trade payments and income from such services grew dynamically. Close to 7.3 million transactions were processed in January-December 2009, up by 11.8% year on year. Income from these services grew by 12.2% year on year in 2009. The number of customers using the most advanced bank account consolidation facilities grew by 19.2% year on year in 2009; 496 customers were using Cash Pooling and Shared Balances services at the end of 2009.

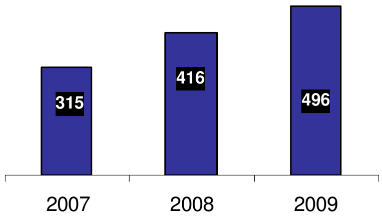
Direct debit
(ths. transactions)



Mass payments identification
(M transactions)



Trade payments identification
(ths. transactions)



III.1.2. Offer Development

The product offering was largely expanded in 2009 including major implementations:

Payment Cards

- Visa BRE Business – on-line card, embossed, Internet-enabled, open for all types of transactions. Mainly used by K3 customers. The card can be used to withdraw cash from mBank ATMs (117) and MultiBank ATMs (115). Its sales in eight months of 2009 represented almost 8% of total sales of all cards to corporate customers. The card will help to improve operating costs related to small cash withdrawals at cash desks.
- Prepaid cards – three types of cards (Visa Business Prepaid, Visa Bonus Prepaid, Visa Profit Prepaid), available since 10 December 2009. Their functionalities include access to account balance information, both on-line (20 last transactions, a unique solution) and by telephone (mLine). Cards can be used by company employees and partners (e.g., customers, contractors, beneficiaries) issued cards by the Bank on request of the company.
- In addition, as a unique option, cards are supported by iBRE from ordering to arranging delivery, personalising and recharge operations.

Cash Management

- In 2009, cash services were made available to corporate clients in the MultiBank branch network. In addition, since December 2009, cash service functionalities are available in mBank and MultiBank ATMs to corporate customers using Visa BRE Business cards.
- Implementation of cash monitoring functionalities – tracking and monitoring of cash at each stage of the cash management process (the functionalities are currently available to corporate branches; as a target, they will be available to retail branches).
- Implementation of a new functionality of the electronic banking system – development of the iBRE Cash module, enabling customers to place cash orders via the iBRE platform, including management of payments and withdrawals; the functionality gives the option of advising payments also at MultiBank branches.
- Implementation of cash deliveries to/from customers.
- Implementation of the target functionality of the cash management system CashBREaker, a WorkFlow system aimed at optimising cash management costs thanks to improved cash projections and improved process effectiveness across the Bank.

BRE Mass Payment

BRE Mass Payment was launched in November 2009 in electronic banking (iBRE and BRESOK). The product is used to charge customers' accounts with global amounts of standard domestic transfers. BRE Mass Payment is mainly addressed to customers processing big number transfers in each billing cycle as well as companies which require additional confidentiality of processed orders. The new functionality ensures data confidentiality, reduces the size of corporate's bank account statements, and improves the speed of processing.

III.1.3. Transaction Banking

BRE Bank has always developed innovative products, offered state-of-the-art business solutions and built partnership with clients. BRE has been a pioneer, setting the direction of customer service and product offering. In 1993, BRE was the first Polish bank to offer an electronic banking system and transaction banking services.

Transaction banking mainly involves products which support current accounts, cash management (in particular, depositing of the daily cash turnover), and a broad range of debt, payments, liquidity, and cash surplus management services. It also includes an array of transactions and operations using corporate payment cards and prepaid cards. Transaction banking offers modern access channels to cash, transactions and information.

Transaction banking is one of the most dynamically developing areas in Polish banking, which still offers a lot of potential to many companies, especially SMEs. One of the main challenges is to build awareness of Polish companies about available opportunities of improving liquidity and about the main benefits of services encompassed by transaction banking, a term still unfamiliar to many companies. This purpose is served by a new transaction banking area / department of the Bank responsible for development and promotion. A wide-range advertising campaign has supported these efforts.

When a company grows, it needs more advanced banking products. Companies usually do not have tools necessary to manage cash optimally, and managers often lack a good understanding of financial services available on the market. The bank should inform and educate corporate clients about the functions and benefits of transaction banking services.

Transaction banking in BRE Bank is grouped around the innovative corporate internet platform **iBRE**. It is a universal modern tool which gives access to many banking products and services. The platform is modular, which enables flexible growth, so the Bank can support both current and future requirements of different clients, from SMEs to the largest corporations. The internet technology enables active cash management with on-line access.

iBRE supports a wide range of settlement and reporting functions as well as debt discount operations and trade transactions. Integration with the leading financial and accounting systems (SAP, Symfonia Forte) ensures direct exchange of financial and other information with the Bank.

iBRE is an internet electronic banking platform providing many banking products and services over a single access channel. It is designed to meet the needs of all clients, from corporations to SMEs and private individuals using Private Banking services.

The modular structure of the platform based on internet technology allows clients to actively manage cash with on-line access to current market data and a wide range of transaction functions. The platform modules include:

- iBRE Banking – the core iBRE module which combines transaction and communication functions. It supports any structure of accounts and the execution of orders.
- iBRE Invoice.net – internet module of invoice presentment combining EBPP functions (Electronic Bill Presentment and Payment) with debt finance.
- iBRE Depo Plus – innovative module which accrues interest on individual deposits, developed for courts and prosecutors.
- iBRE Cards – effective and easy management of employee business cards.
- iBRE Connect – solution adding direct exchange of financial and other data with BRE Bank systems to ERP functionalities.
- iBRE Trade Finance – specialty module supporting submission of and access to electronic orders and instructions for trade finance transactions.
- iBRE Cash – easy and safe cash order processing module.
- IBRE Fx – quick and easy way to exchange currencies (from February 2010).

Growth of transaction banking in 2009 in figures:

- Average monthly number of domestic payments up by 6%; more than 1.8 million payments executed every month, including 98.8% electronic payments; over 71% of electronic payments processed automatically between the client's own system and the Bank's system over interfaces between ERP / financial and accounting / HR and payroll systems and BRE's electronic banking systems.

- Average monthly amount of foreign payments up by 15%.
- Average monthly volume of cash transactions of corporate clients up by over 20% year on year.
- Number of clients using BRE Collection debt identification products up by 20% in 2009. Volume of identified payments up by 12%. BRE Bank identifies almost 8.9 million payments every month.
- Number of iBRE platform users up by 16% to almost 45 thousand in 2009.

III.1.4. Structured Finance, Project Finance, Syndicated Loans

In 2009, BRE Bank participated in eight syndicated transactions. BRE's new and refinanced exposure under syndicated transactions was ca. PLN 1.6 billion (some exposures were in EUR and USD). The Bank granted five bilateral loans totalling ca. PLN 170 million.

At 31 December 2009 the portfolio stood at PLN 2.9 billion versus PLN 2.4 billion a year ago. The portfolio of loans granted in 2009 totalled PLN 1.1 billion.

III.1.5. Financial Institutions

Corporate Banking includes relations with financial institutions, mainly borrowings from other banks and placements with other banks.

The Bank's **borrowings** at 31 December 2009 included 20 active loans totalling the equivalent of PLN 18,592 million, of which PLN 18,376 million was drawn. In 2009, the Bank repaid four loans in CHF totalling the equivalent of PLN 1,134 million, and took five new loans: one in EUR, one in USD, and three in CHF, as well as one credit line with the EIB, totalling PLN 1,912 million.

BRE Bank's **exposure under loans granted** to other banks at 31 December 2009 totalled the equivalent of PLN 464.51 million. The Bank's portfolio included 51 short-term and long-term active loans granted to other banks. In 2009, the Bank signed 18 new credit agreements totalling the equivalent of PLN 60.69 million.

The number of correspondent banks with which BRE Bank has exchanged swift keys was 1,599 at the end of 2009.

At the end of 2009, the Bank had 3 nostro accounts, down by 1 year on year. There were 104 loro accounts in PLN (9 new accounts were opened, 9 accounts were closed). In addition to PLN accounts, the Bank operates 6 other accounts of other banks in other currencies.

III.1.6. Proprietary Investments

As at 31 December 2009, the total value of the proprietary investments portfolio amounted to PLN 232.2 million at cost (down by PLN 18.8 million year on year).

The change of the proprietary investments portfolio value at cost compared to 31 December 2008 was due primarily to:

- transfer of PZU SA shares (651,660 shares) to the fund BRE GOLD FIZ and acquisition of 100% of the fund's investment certificates (191,815 certificates);
- cancellation of some investment certificates of BRE GOLD FIZAN (86,904 certificates);
- redemption of some bonds of a client totalling PLN 39.9 million.

Proprietary investments of BRE Bank SA (PLN M)	31.12.2009	31.12.2008	Change	
			Value	%
value at cost	232,2	250,9	-18,7	-7,5%
carrying value	237,7	234,3	3,4	1,5%

At the end of 2009, the largest equity investment in the Bank's proprietary investments portfolio was the 100% stake in the fund BRE GOLD FIZ (consolidated subsidiary) with a carrying value of PLN 114 million. The portfolio also included bonds issued by customers under mezzanine finance programs worth PLN 55.2 million.

III.2. Trading and Investments

III.2.1. Financial Markets

The activity in the financial markets yielded good results in 2009: while the scale of business shrank, credit spreads and product margins increased. Significant changes in business in 2009 included:

- Origination
  - Outstanding short-term debt securities grew to ca. PLN 2.5 billion from ca. PLN 1.6 billion at the end of 2008 (the Bank's market share was 24.7%, the leader's position in the market),
  - 23% market share (first position) in the nominal value of medium term corporate and banks' bonds placed in 2009 (excluding BGK infrastructure bonds), second position in terms of total outstanding value.
- Co-operation with Retail Banking
  - Successful growth in sales of structured deposits to MultiBank clients, launch of sales to mBank clients; sales of structured deposits totalled PLN 380 million in 2009 compared to PLN 251 million in 2008.
- Trading
  - Implementation of new project changing the derivatives sales concept and exposure monitoring.
  - Decrease in the value of new derivative transactions with clients.
  - Maintained leading position in key market segments; market share: 18.9% in IFR and FRA, 4.8% in Treasury bills and bonds, 5.9% in FX spot and forward transactions.
  - Implementation of an FX trading platform for customers.

The Bank introduced important changes in sales of derivative instruments. The Bank has traded in derivatives with clients for more than 10 years. However, the events at the turn of 2008 and 2009 demonstrated that in the context of sharp changes in market parameters and developments posing a threat to relations with clients, the existing system did not protect the Bank against significant exposures to counterparty credit risk. An analysis of the situation enabled the Bank to develop a concept of changes in the system of trading in derivative instruments. Changes were initiated in all areas related to trading in derivative instruments with clients of the Bank. Major modifications include:

- customer relations;
- credit decision-making procedures;
- calculation of credit exposures under derivative transactions;
- controls of the use of limits;
- monitoring of exposures;
- actions following limit overruns;
- collateral management;
- client documentation.

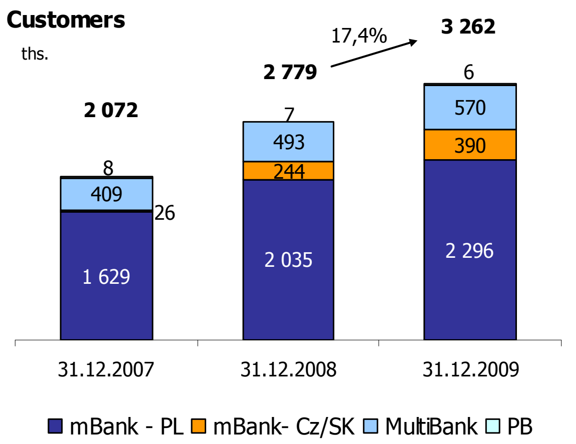
The implementation of this concept required the co-operation of many organisational units in different business lines; therefore, implementation was organised under the umbrella of the bank project "Trading in Derivative Instruments."

IV. Retail Banking

The area includes the business of mBank, MultiBank and Private Banking (PB).

The main developments of 2009 include further growth in the number of customers and in the deposit base.
In the light of a sharp decrease in customers' interest in mortgage loans, the Bank became independent of income from mortgage loans in 2009, one of the main goals of the BREnova revenue enhancement initiatives in Retail Banking.

This business area includes retail customers' current accounts, savings accounts, term deposits, structured deposits, investment products, credit and debit cards, financial settlements, bill-of-exchange and cheque transactions, guarantees, mortgage and consumer loans. The offering also includes on-line brokerage and insurance services. The offer is complemented by an e-commerce platform and a virtual cell phone operator service mBank mobile.



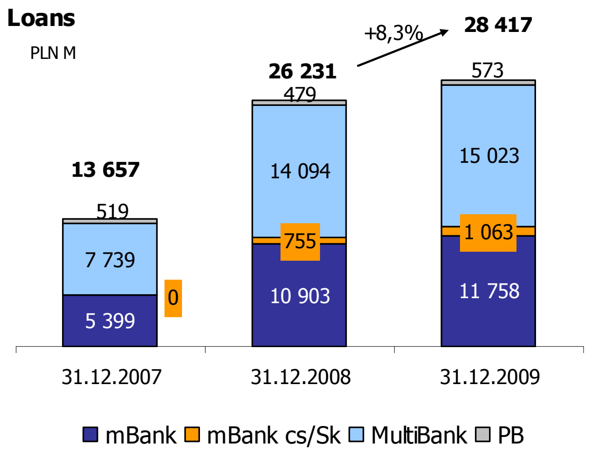
Customers mainly include private individuals as well as microenterprises (mBank). The Line also covers Private Banking (PB) services. Since November 2007, mBank serves clients outside Poland: in the Czech Republic and Slovakia.

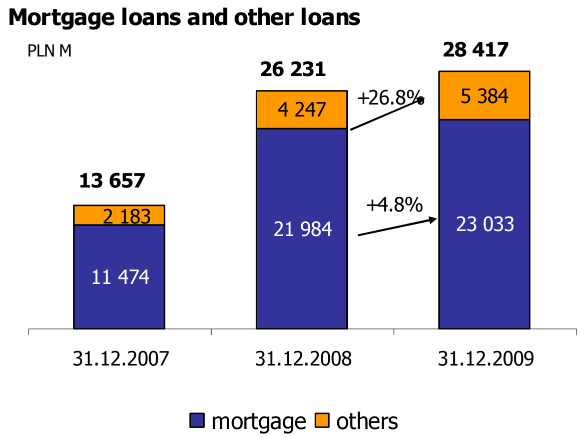
The number of retail banking customers grew by 483 thousand (+17.4%) in 2009, mainly in mBank Poland (+261 thousand). The number of Czech and Slovak customers also grew significantly (+146 thousand). MultiBank acquired 77 thousand new customers in 2009. The number of Private Banking customers fell by more than 1 thousand due to refocusing of the customer base.

IV.1. Retail Banking Loans

Loans grew by 8.3% in 2009 compared with 92.1% in 2008. In particular, mortgage lending growth slowed down (up by 4.8% in 2009 and 91.5% in 2008). This was driven by decreasing demand as a result of economic slowdown as well as by increased creditworthiness and margin requirements. Sales of cash loans fell due to a tighter credit policy aiming at improving the portfolio quality. Consumer loans (in particular, loans for acquisition of shares in the IPO of PGE) and car loans grew year on year.

The market share of retail loans granted by mBank in Poland and MultiBank was 6.7% at the end of November 2009 compared to 6.8% a year earlier.





The share of mortgage loans in the portfolio (including the Czech Republic and Slovakia) dropped from 83.7% in 2008 to 81.1% at the end of 2009. The value of mortgage loans grew by PLN 1,049 million in 2009.

Structure of the loans portfolio:

- mBank Poland: 81.7% mortgage loans, 5.7% credit lines, 5.0% credit cards, 7.6% other;
- MultiBank: 83.4% mortgage loans, 5.9% credit lines, 1.6% credit cards, 9.1% other.

Market share of mBank in Poland and MultiBank in total housing loans stood at 10.0% at the end of 2009.

The table below presents the profile of the retail mortgage loans portfolio (Poland only).

Retail Mortgage Loans	Total	PLN	FX
Balance-sheet value (PLN billion)	21.40	2.30	19.10
Average maturity (years)	23.12	20.20	23.55
Average value (PLN ths)	251.67	208.34	258.14
Average LTV (loan to value)	79.97%	56.65%	83.46%
Non Performing Loans (NPL)	0.52%	1.80%	0.37%

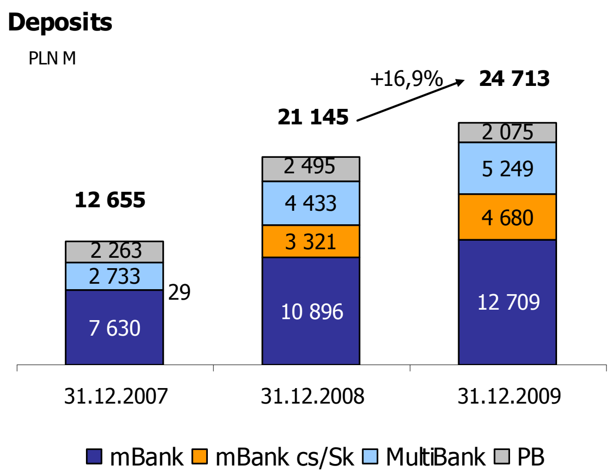
IV.1.1. Adjustment of the Lending Policy

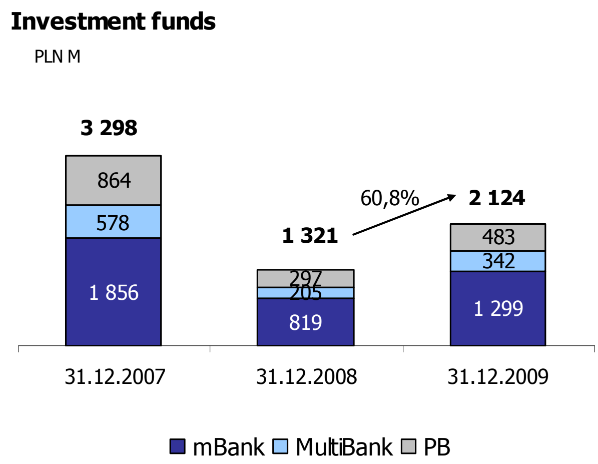
In view of the decreasing quality of the consumer loans portfolio, BRE Bank has adjusted its lending policy in a way that should significantly improve the risk level. The adjustment resulting from a weaker financial standing of potential borrowers mainly includes stricter parameters of client creditworthiness assessment and scoring. Due to higher default rates of clients acquired via third-party intermediaries, the Bank has also rearranged its client acquisition model in order to focus on support for the sales personnel in the Bank's own network and to improve cross-selling. The credit granting and monitoring process has also been subject to a range of modifications. Credit decision-making has been centralised more than before. Enforcement scenarios have been adjusted.

IV.2. Deposits and Investment Funds

Deposits grew by 16.9% to PLN 24.7 billion in 2009, both in mBank in Poland (+PLN 1.8 billion), the Czech Republic and Slovakia (+PLN 1.4 billion) and MultiBank (+PLN 0.8 billion). It should be noted that this was accompanied by parallel fast growth in investment fund assets (+60.8%) competitive to deposits.

The Bank stayed away from the deposit war at the turn on 2008 and 2009 and did not offer aggressive interest on deposits; as a result, deposits decreased in H1 2009. In H2, well targeted deposit gathering campaigns helped to grow deposits considerably.





IV.3. Credit and Debit Cards

The number of credit cards issued in Poland was almost half a million (499 thousand) at the end of December 2009, including 342 thousand issued by mBank and 157 thousand issued by MultiBank. The number of debit cards issued was 2,505.9 thousand, including 1,965.4 thousand issued by mBank and 540.5 thousand issued by MultiBank. According to data available at the end of 2009, the market share of mBank and MultiBank in credit cards was 5.4% by the amount of debt under cards.

IV.4. Offer Development in 2009

In 2009 Retail Banking has developed its offer as follows (main items only):

MultiBank

- MultiKredyt Oszczędnościowy – loans secured with liquid assets.
- Investment policy – MultiZysk Strategy.
- Insurance of Chattels for customers buying or holding active BRE Ubezpieczenia TU Property Insurance
- AXA – Aktywny Portfel Funduszy, asset management product previously exclusive to Private Banking customers, as of April available to MultiBank customers.
- Visa Business Credit cards.
- NNW Moja Ochrona accident insurance for MultiKonto customers.
- Overnight and Multilokata deposits.
- Contactless payment enabled cards Master Card Pay Pass (Standard and Aquarius credit cards, one debit card).
- Products of the 15th and one of the biggest investment funds ING TFI added to the Savings Centre offer.

mBank

- mBIZNES plus microenterprise savings account.
- Insurance attached to personal accounts.
- Microenterprise credit card.
- Structured deposits.
- MasterCard PayPass contactless payment cards.
- Modern mBank mobile starter granting 90 minutes per month without recharge for calls in all networks.
- Overnight deposit mLOKATA Czysty Zysk for customers holding free-of-charge saving accounts eMAX plus.
- Products of several funds and sub-funds added to the offer of the Investment Fund Supermarket (including funds managed by PKO TFI S.A., BPH TFI S.A, ING TFI S.A.).

Current account functionalities available to customers in the Czech Republic and Slovakia are the same as in Poland.

IV.4.1. Arrangements with "Old Portfolio" Clients

Negotiations with customers holding mortgage loans of the "old portfolio" (granted before the autumn of 2006) started in February 2009. The interest rate on such loans was set by decision of the Bank's Management Board, taking into account among others the reference rate (LIBOR) and the market cost of funding in the currency. As interest rates in CHF fell, customers demanded a reduction of the interest rate on loans and launched concerted media campaigns, mainly on specially created websites. The Bank was unable to reduce the rates as demanded by customers because the cost of funding in the currency on the interbank market had increased following the global financial crisis. A series of meetings between Bank representatives and customers helped to develop a package of solutions satisfactory to both parties. On 18 January 2010, mBank and MultiBank introduced a new offer for holders of CHF mortgage loans granted before the autumn of 2006 with the following options:

- Loan converts from CHF to EUR with an interest rate based on 3M EURIBOR and a fixed margin. Conversion uses a special low spread of 0.5%.
- Loan remains in CHF and converts to an interest rate based on 3M LIBOR for CHF and a fixed margin. In addition, customers are offered a special additional package of deposit and credit products at attractive prices.
- Loan converts to PLN with an interest rate based on 3M WIBOR and a fixed margin. Customers are offered a special package of additional products.

IV.5. Development of the Distribution Network

Following the launch of business of Aspiro (see Section V.7.1), Aspiro took over a number of small mBank branches. At the end of 2009, the distribution network of mBank had 142 locations in Poland (161 at the end of 2008), 27 locations in the Czech Republic and 16 locations in Slovakia. The foreign branch network will be rationalised in 2010.

MultiBank's distribution network comprised 76 Financial Services Centres and 58 Partner Outlets, totalling 134 locations (131 locations in 2008).

The pace of development of the branch network was reduced in connection with cost management initiatives under the BREnova programme.

IV.6. Private Banking (PB)

Major events in Private Banking in 2009 included:

- The investment programme "Akumulacja" was added to the offer; it combines security and return on high-interest bank deposits with the advantages of a selected, top-class investment products
- The biggest and most profitable issuance in the history of BRE PB. Nearly 900 loans for a total amount of PLN 5.5 billion for the acquisition of PGE shares were granted.
- BRE PB and BRE Wealth Management (BRE PB&WM) offered art banking to clients as an alternative to capital market instruments.
- BRE Wealth Management offered a foreign markets strategy with emerging market stocks as the underlying.
- Products of investment funds Allianz, Ipopema and Agio were added to the offering.
- Seven subscriptions for investment deposits with different underlying assets were completed.
- In February 2009, for the second time, *Euromoney Magazine* named BRE Private Banking & Wealth Management the best private banking in Poland. BRE Bank had the best total score of all Polish banks in several categories of the ranking.

V. Financial Results of BRE Bank in 2009

V.1. Strategic Programme BREnova

The plans of the Bank and the Group for 2009 focused on the implementation of the BREnova strategic programme. Its priority objective was to ensure effective operation at the time of economic slow-down. The BREnova programme includes a range of initiatives aiming at revenue enhancement and cost management. It aimed at revising the existing business model in Corporate Banking, Retail Banking and in support functions.

The main pillars of the project were:

- to enhance revenues by means of improving income structure, increasing cross-selling, expanding the offering and product range, etc.;
- to optimise costs and, most importantly, continuously monitor costs and improve cost management (both in the short term and the long term).

With long-term initiatives, BREnova was designed to ensure stability at the time of economic slow-down and to lay solid foundations for future profitable growth. Changes were introduced in order to have a lasting structural effect rather than only consisting in short-term response to the market downturn.

The implementation of BREnova produced the desired results, both in income and in costs development. The income of BRE Bank in 2009 reached PLN 2,266.9 million, up by 9.0 % year on year (net of the one-off income from the sale of Vectra and PTE in 2008).

The income generated by Corporate Banking under the umbrella of BREnova was driven by:

- increased revenue efficiency (revenues up by 3.1% while RWAs reduced by 3.0%);
- increased profitability of lending with lending margins on the portfolio up 1 percentage point yoy;
- intensive development of non-capital binding products: cash management, trade finance, transaction banking (income from cash management and foreign trade finance up by 10%);
- development of electronic banking products (iBRE);
- intensive development of cross-selling to the existing customer base and cross-selling of products in the BRE Bank Group;
- implementation of advanced management tools supporting the above initiatives: Customer Relationship Management (CRM), Management Information System (MIS).

Total Gross Revenue (excl. LLP) of Retail Banking grew by 29% yoy and was driven among others by further growth of the customer base. In addition, revenue initiatives resulted in a growing share of income from non-

mortgage products and increased cross-selling to existing customers. Product penetration, i.e. the average number of products per customer grew by 7% from 2.44 at the end of 2008 to 2.62 at the end of 2009 (Poland only, excluding Czech and Slovak operations). The ratio improved in particular for non-mortgage loans, especially car loans (+15.4%), fx accounts (+12.6%) and securities accounts (+10.2%). As a result, income from non-mortgage products, deposits and saving accounts improved; income from mortgage products decreased from PLN 218 million to PLN 86 million; other income grew from PLN 823 million to PLN 1,258 million.
The average credit margin of new loans was 4.6 times higher than in 2008.
Cost initiatives generated significant savings in the HR area:

- headcount was reduced by 383 FTEs in the Bank and by 183 FTEs in Group subsidiaries, providing savings of ca. PLN 50 million during the year;
- the bonus fund created as a reflection of the achieved results in 2009 was down by ca. PLN 100 million versus 2008;
- the manager incentive scheme approved in October 2008 (convertible bonds) was suspended, generating PLN 25.5 million of savings;
- the cost of training and business travel was reduced by ca. PLN 10 million.

Moreover, significant savings were achieved in Logistics and IT area, including:

- frozen development of the branch network including both corporate and retail outlets (PLN 14.7 million);
- renegotiated terms of rent for property leased by the Bank and subsidiaries;
- reduced number of company cars, new car fleet policy;
- rationalised other fees including postal and telephone fees.

Total BREnova savings reached PLN 296 million and were 6% (PLN 16 million) higher than planned. A number of these initiatives will continue in 2010.

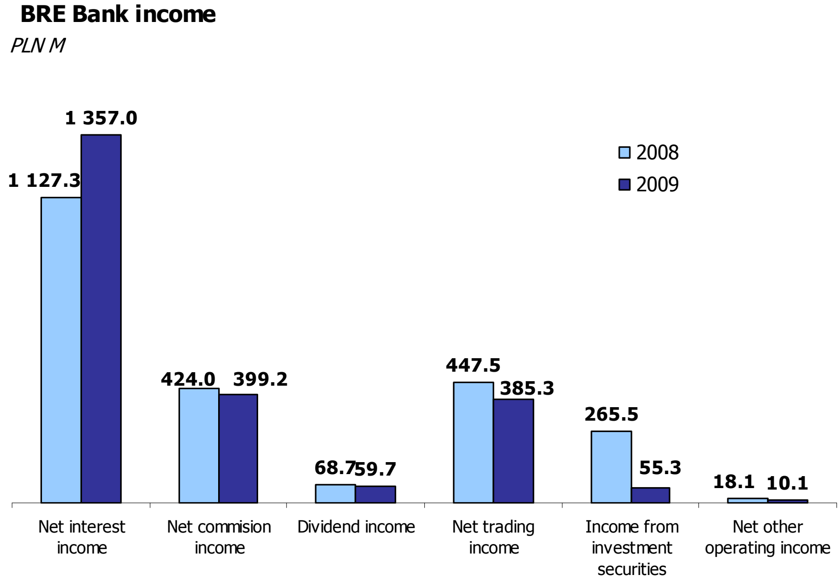
Overall, BREnova effectively protected BRE Bank's C/I ratio at 53.0 vs. 59.2% (excluding one –offs) in FY 2008.

V.2. Profit and Loss Account of BRE Bank

BRE Bank generated a profit before tax of PLN 98.9 million in 2009, equal to 11% of the profit achieved in 2008.

The BRE Bank income of the period was **PLN 2,266.9 million**, down by 3.6% year on year. However, net of the one-off income on the sale of Vectra (PLN 137.7 million) and Aegon PTE (PLN 134.4 million) in 2008, the income on regular business was up by 9.0%.

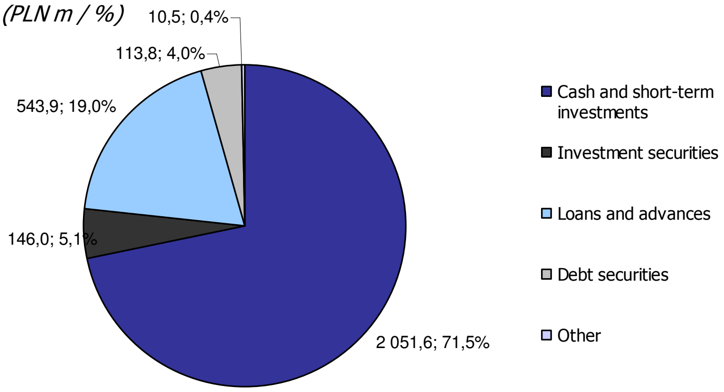
V.2.1. Income



The growth of recurrent income was mainly driven by the **growing net interest income**, up by **20.4%** year on year to PLN 1,357.0 million compared to PLN 1,127.3 million in 2008. The main drivers for the increase were a focus on higher margin products as well as selectively growing volumes.

Structure of the interest revenue

(PLN m / %)



Advances and loans remained the main source of interest income. The share of interest from investment securities grew considerably, from 10.7% in 2008 to 19.0% in 2009 (+PLN 229.8 million) as their share in total assets increased.

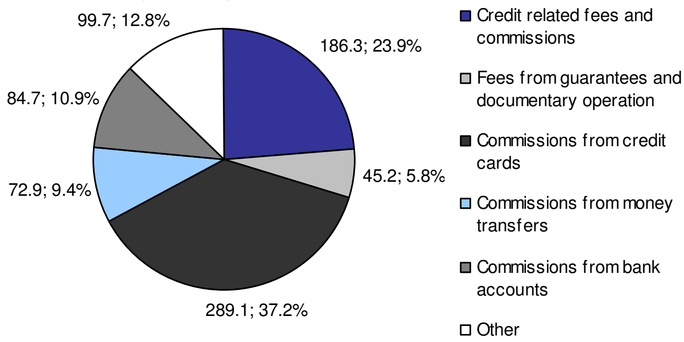
Interest income from cash and placements decreased (-PLN 158.6 million), as did interest income on debt securities held for trading (-PLN 145.4 million).

Interest income from retail loans was up by 42.2%, corporate loans by 29.0%, public sector loans by 18.7%, and loans to banks by 10.1%.

The interest margin (net interest income to average interest-earning assets) was 2.1% in 2009 as compared to 2.2% in 2008. In 2009, the margin development was driven by opposite trends in the assets and the liabilities. On the one hand, there were positive drivers in the structure of assets and rising margins on some credit products. On the other hand, changes in the structure of liabilities had the opposite effect, including the growing share of interbank funding and the deposit interest margin reduction caused by growing competition and falling market rates.

Fee and commission income structure

(PLN m / %)



BRE Bank's net commission income (PLN 399.2 million) was down by 5.8% in 2009 as commission costs grew more than commission income. Fee and commission income was up by 10.4%. The structure of income is presented in the chart. The main item were payment card fees (PLN 289.1 million), which also grew the most year on year (+40%). Account fees also increased (PLN 84.7 million, +21%) as did fees for guarantees and documentary transactions (PLN 45.2 million, +17%).

Fee and commission costs were up by 34.9% due to fast growing costs of payment card service and insurance as well as other charges.

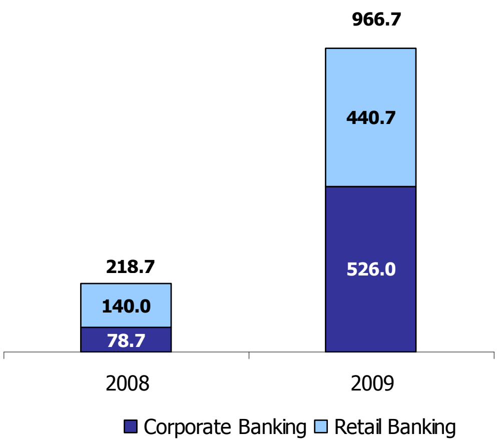
The trading income stood at PLN 385.3 million at the end of 2009, including ca. PLN 31.6 million of cost of the valuation of fx options (PLN 56.6 million in 2008), and was down by 13.9% or PLN 62.2 million year on year. The income was mainly affected by fx income, which went down as a result of less active fx trading by clients and lower currency conversion income.

No equity transactions were closed in 2009, while Q1 2008 results included capital gains of PLN 137.7 million on the sale of Vectra as a part of continued operations. This was the main reason for the large decrease in the profit on investment securities (20.8% of the 2008 profit).

V.2.2. Loan Loss Provisions

The biggest charge against the 2009 results of the Bank were net loan loss provisions of **PLN 966.7 million, over four times more than in 2008**.

Loan Loss Provisions in 2008 and 2009
PLN M



Corporate Banking provisions totalled PLN 526.0 million, including PLN 275.1 million (52.3%) of provisions set up against loans related to derivative transactions (fx options). Yet, the remaining provisions of the Line tripled year on year due to the declining financial standing of clients.

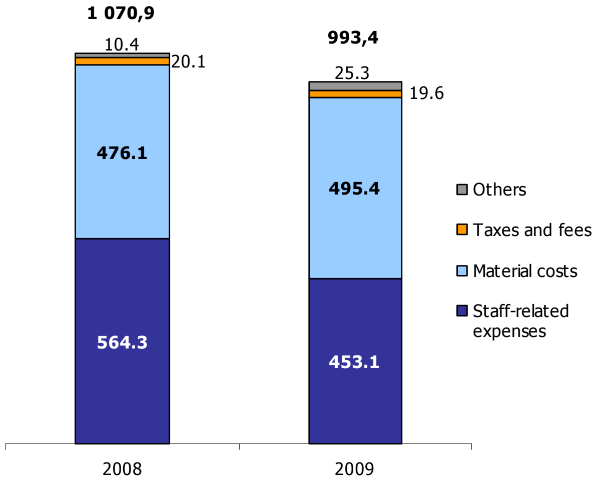
Significant growth in Retail Banking provisions to PLN 440.7 million was mainly driven by provisions against cash loans granted by mBank to external clients (clients without a previous relationship with mBank). Provisions against such loans totalled PLN 201.5 million (45.7% of total Retail provisions). Sale of these cash loan products was stopped in May 2009, hence the problem with portfolio quality should ease gradually.

It should be stressed that the problem affected a relatively small part of the retail loans portfolio. Mortgage loans, which represent more than three-fourths of the retail loans portfolio, are very good quality: provisions set up against mortgage loans in 2009 stood at PLN 10.6 million (0.5% of the portfolio).

V.2.3. Costs of BRE Bank

In 2009, administrative costs were down by 7.2% or PLN 77.5 million year on year.

Overhead costs
PLN M



The Bank costs were down due to personnel cost reductions, down by PLN 111.2 million year on year. The reduction included lower bonus and management options provisions related to generated results as well as achieved workforce reductions.

Maintenance costs grew year on year, mainly driven by:

- growing fixed costs, i.e., rents, property maintenance, postal and telephone fees;
- growing energy and fuel prices;
- branch network expansion in 2008 (both retail and corporate branches);
- BFG and KNF fees, which more than tripled.

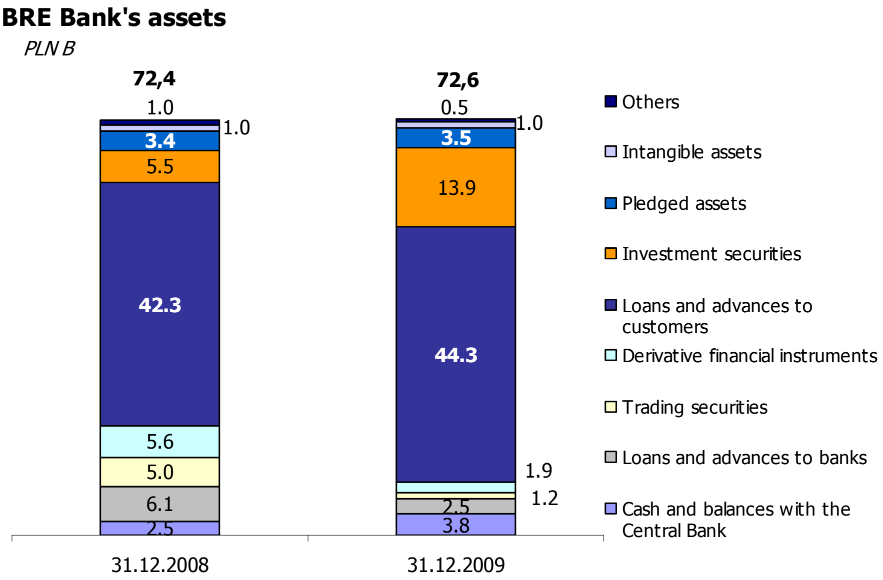
The share of depreciation in the costs of the Bank was growing steadily, up by PLN 48.1 million or 30.1% year on year in 2009. The growth in depreciation was mainly driven by the expansion of the branch network in 2008 and development of banking systems.

It should be noted, that other operating costs and depreciation of Q4 2009 included ca. PLN 57 million of one-off costs: accelerated amortisation of intangible fixed assets (specific applications of the core IT systems Globus and

Altamira), provisions against future liabilities arising from signed contracts, and liabilities arising from court decisions concerning fees charged for bridge insurance of mortgage loans.

V.3. Statement of Financial Position

V.3.1. Assets of BRE Bank



The Bank's assets remained at a stable level in 2009. **Credits and loans** remained the largest item at the end of 2009 with a **share of 61.0%** as compared to 58.4% at the end of 2008, their net volume increased by 4.7%.

The nominal growth of the gross loans portfolio in 2009 reached PLN 3.0 billion (7.0%). The upward trend was particularly notable in **retail loans (+PLN 2.2 billion, +8.4%)**.

Meanwhile, the **corporate loans portfolio decreased by 0.6% i.e., PLN 90 million.**

Changes in lending in 2009 were mainly driven by the volatility of the exchange rate of the zloty, i.e., depreciation in H1 and appreciation in H2. New lending was limited compared to previous periods as a result of the situation in the economic environment and related risks.

Advances and loans to banks fell by PLN 3.6 billion year on year. The carrying value of the portfolio of securities held for trading also fell by PLN 3.8 billion year on year. Meanwhile, investment securities grew by PLN 8.4 billion (143.7 %) year on year. These changes occurred mainly within the structure of short-term assets, which remained at around 30% of total assets, a safe level from the perspective of liquidity.

Finally, the value of derivative financial instruments at year end amounted to PLN 1.9 billion. The year on year decrease by 65.6% was mainly driven by expiration of contracts whose valuation had grown strongly at year end 2008 as a result of the market turbulences at the turn of 2008 and 2009. Also, fewer new derivative transactions were concluded.

V.3.2. Quality of the Loans Portfolio

A major criterion of the evaluation of the quality of the credit risk portfolio is the portfolio structure and valuation based on the provisions of the International Accounting Standards (IAS) 39 and 37 concerning the identified impairment exposures portfolio and relevant provisions.

The default ratio for the risk portfolio under IAS 39 and IAS 37 was 4.6 % at the end of 2009, compared to 1.7% at the end of 2008.

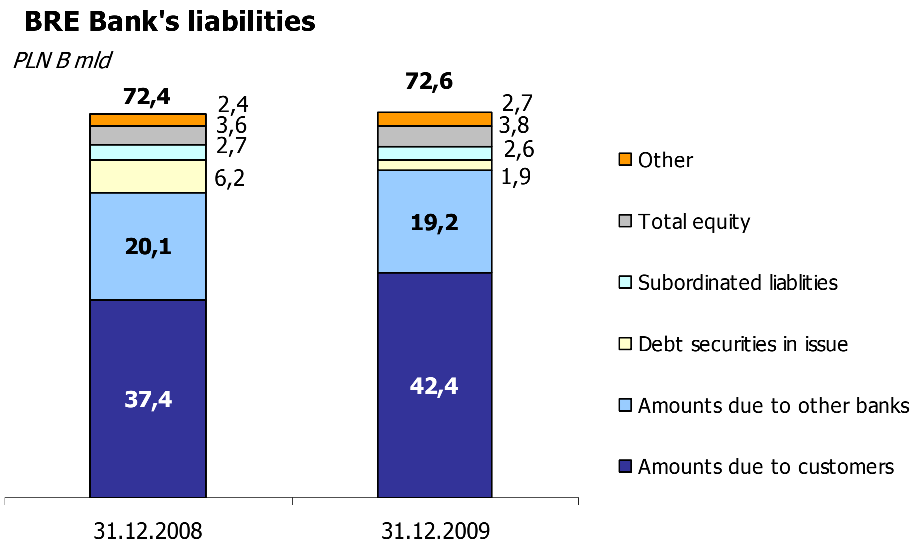
The default ratio for was 5.4% at the end of 2009 (up from 2.1% at the end of 2008).

The main driver of the falling quality of the balance-sheet and off-balance sheet exposure was growth in the default loans portfolio from PLN 1.012 million at the end of 2008 to PLN 2 626 million due to the declining financial standing of customers and the resulting customer default rating.

The ratio of write-offs and provisions to default credit exposure grew modestly to 57.0% at the end of 2009 from 56.8% at the end of 2008. The ratio for the balance-sheet portfolio was up from 61.5% (end 2008) to 58.7%. The main reason for the increase in the ratio was the increase in provisions (write-offs).

V.3.3. Liabilities

The chart below presents changes in the liabilities of the Bank in 2009.



Amounts due to clients, the Bank's major source of funding, were up by 13.4% or PLN 5 billion year on year, reaching PLN 42.4 billion or 58.4% of the total liabilities at the end of 2009, compared to 51.6% at the end of 2008.

Positive trends were observed in the deposit base in H2, while the Bank's deposits decreased temporarily in H1 2009.

As a result, the average level of customer deposits in the Bank grew less dynamically than the loans portfolio in 2009, which drove an increase in the level of funding from the interbank market as a supplementary source of money, causing an increase in the cost of funding.

However, funding from the interbank market had increased already in December 2008, affecting the average balances in all of 2009. The increase included mainly the Bank's credit lines in CHF obtained as a source of funding for the portfolio of housing loans granted in CHF.

Funding on the interbank market fell by PLN 0.9 billion (4.5%) in 2009.

The share of the Group's equity in the sources of funding was 5.2% at the end of 2009, as compared to 5.0% at the end of 2008; this demonstrates a stable share of equity in all of 2009.

V.4. Performance Indicators of BRE Bank

The key performance indicators of BRE Bank at the end of 2009 were as follows:

	2008 r.	2009 r.
ROA net	1.4 %	0.1%
ROE before tax	31.1%	2.7%
ROE net	28.6%	1.6%
C/I	52.3%	53.0%
CAR	10.04%	11.73%

ROA= Net profit (including minority shareholders)/Total assets

ROE before tax = Profit before tax / Equity (including minority shareholders, excluding this year's profit)

ROE net = Net profit (including minority shareholders) / Equity (including minority shareholders, excluding this year's profit)

C/I = Overhead costs + amortisation and depreciation / Income (including net other income and cost)

The **capital adequacy ratio** of BRE Bank increased to **11.73%** at the end of 2009, compared to 10.04% at the end of 2008. The ratio rose as the equity was rising while the capital requirement fell, mainly driven by lower credit risk capital requirement.

The equity increased year on year due to an increase in Tier-1 capital following the retention of the profit and lower deductions (lower unrealised losses on debt instruments).

As a result, the own funds of the Bank were **PLN 5.3 billion** at the end of 2009, up by PLN 0.4 billion year on year.

Meanwhile, the capital requirement fell from PLN 3.9 billion at the end of 2008 to PLN 3.6 billion at the end of December 2009. The capital requirement decreased largely due to a falling credit risk capital requirement following a change of the structure of assets and an appreciation of the zloty.

VI. Main Risks of BRE Bank's Business

BRE Bank attaches special importance to the risk management process performed in two parallel functional areas: risk controlling and monitoring, and operational management of risk positions. This is dealt with on a day to day basis by specialised organisational units of the Bank which manage risk positions in operations and, independently, units of the Risk Line responsible for risk controlling and monitoring. To ensure that risk management duties are properly fulfilled, the Management Board of the Bank has established appropriate committees, consisting of representatives of the Management Board and senior management. In 2009, the particular risk areas were dealt with by the Credit Committee of the Management Board, the Investment Committee, the Assets and Liabilities Management Committee of the BRE Bank Group, the BRE Bank Risk Committee, the BRE Bank Capital Management Committee and The Committee on Data Quality Management for the purposes of Bank's regulatory capital requirements calculation (AIRB).
There are also a Risk Committee at the level of the Supervisory Board, which approves risk management strategies and policies and an Audit Committee which monitors the internal risks and control systems.

VIII.1. Harmonisation with Basel II Requirements

The work of the Risk Line is focused on the Basel II AIRB Project (Advanced Internal Rating Based Approach) implementing **internal rating methods of the calculation of the credit risk capital requirement**, one of the largest and most important projects implemented by the Bank. The importance of the project is highlighted by the fact that its Steering Committee comprises all BRE Bank Management Board Members as well as Commerzbank Managers. The scope of the project covers all relevant aspects of credit risk measurement and corporate governance in the area. The timeline of the project is 2009 – 2013 due to gradual application of the AIRB method to exposure portfolios and BRE Bank Group subsidiaries (BRE Bank Hipoteczny and BRE Leasing).

One of the main goals of the project is to capture the Bank's actual risk level in the capital requirements and to improve methods and tools used by BRE in the credit risk management process. This will create a stable basis for the improvement of methods of effective management of return on risk-sensitive equity. The AIRB implementation will confirm the application of the top standards of credit risk management and controlling and enhance the reputation of the Bank and the confidence of financial market participants in BRE.

The application of the internal rating based approach requires the approval of the Polish Financial Supervision Authority (KNF) and the German Federal Financial Supervisory Authority (BaFin), conditional on a range of criteria. **In the process of AIRB implementation, in December 2009, BRE Bank approached both Authorities with an application for approval of AIRB application.**

VIII.2. Credit Risk

One of the methods of credit risk mitigation consists in a system under which credit decisions are made by competent decision-making bodies. The criterion qualifying any given case to be considered by the appropriate decision-making body is the amount of exposure and the level of risk assigned to the customer and to the transaction (internal rating). In addition, BRE Bank reduces credit risk through the diversification of the loans portfolio. This is supported, among others, by the analysis of the structure of the Bank's portfolio and the resulting conclusions, guidelines and recommendations concerning the Bank's exposure to selected sectors and markets.

The Bank applies credit portfolio risk measurement methods based on the estimation of Expected Loss and Credit Value at Risk, using the extended CreditRisk+ model, which incorporates, among others, correlations between various sectors of the economy and residual risk. The daily monitoring of credit risk involves the verification of internal ratings and events of default as defined under Basel II and the IFRS.

BRE Bank also monitors the credit risk of the Group subsidiaries that generate such risk. The monitoring process covers two areas: direct personal supervision, and procedures and reports. In the former area, risk supervision consists in ensuring the proper representation of the risk management services on the supervisory boards of relevant subsidiaries. In the latter area, the goal is to ensure that business activities are based on safe credit risk procedures and on the controlling of existing credit risk through a system of reports and analyses. Credit risk assessment procedures applied by the subsidiaries of the Group are based on the Bank's solutions and always consulted with the Head Office of the Bank.

As a result of its experience with the "fx options problem," the Bank developed **modifications of the process for concluding transactions in derivative instruments with corporate clients** in order to increase the safety of such transactions, and improved analytical tools used in credit risk assessment to include quantifications of the impact of off-balance sheet exposures on the client's insolvency risk.

The development of the AIRB method of the calculation of credit risk capital requirements, credit risk assessment methods and processes were largely modified and upgraded, including:

- updated and added new tools of corporate and retail customer scoring;
- formal process of risk model development and validation;
- process of collecting historical data necessary for models, covering all sources available at the Bank;
- formal process of comprehensive controlling of the quality of data for capital requirement models and calculations.

VIII.3. Liquidity Risk

The purpose of liquidity risk management is to assure and maintain the capacity of the Bank to honour both its current and future liabilities, taking into account the costs of liquidity. BRE Bank monitors financial liquidity on a daily basis, using cash flow analysis methods. Liquidity risk measurement is based on an in-house model developed on the basis of analysis of the Bank's unique features, deposit base volatility, concentration of financing, and planned developments of particular portfolios. Daily monitoring covers the following items: the value of cash flow gaps in specific time intervals (mismatch), the values of supervisory liquidity measures, the level of liquidity reserves of the Bank, and the degree of utilisation of external supervisory limits and internal liquidity limits, which are determined by the Risk Committee. The Bank assesses its liquidity position and the probability of its deterioration based on scenario methodologies on an ongoing basis. Stress test scenario results are regularly prepared and presented to respective Committees and to the Management Board. They present the potential impact of unfavourable factors on the Bank's liquidity and funding position. They are an important element in the decision-making process in modelling the structure of the Bank's balance sheet.

The Bank also monitors regularly the concentration of funding, especially the deposit base, and the level of liquidity reserves. The Bank has put in place liquidity contingency procedures. At the end of 2009, the Bank's liquidity and funding remained on the level adequate to needs. During 2009, events of supervisory liquidity measure overruns were recorded, which the Bank immediately diagnosed and mitigated in order to restore compliance with statutory limits.

VIII.4. Market Risk

In its business, the Bank is exposed to market risk, i.e., the risk of unfavourable change in the present value of the Bank's trading book and the banking book due to changes in market risk factors: interest rates, fx rates, prices of securities, and the volatility of options. Market risk exposure is quantified by measurement of Value at Risk (VaR) and by use of stress tests and scenario analyses based on market performance during previous financial crises. Market risk, in particular interest rate risk, is also quantified by measurement of Earning at Risk (EaR) of the banking book. A detailed description of the Bank's market risk measures is presented in the 2009 Financial Statement.

In order to limit the level of exposure to market risk, the BRE Bank SA Risk Committee sets binding VaR limits as well as control numbers: stress test limits and EaR limits of the banking book. All these limits are monitored and controlled on a daily basis.

Value at Risk

In 2009, market risk as measured by Value at Risk (one-day horizon, confidence level 97.5%) remained moderate in relation to VaR limits. The key risk factors were very volatile in Q1 2009 (as a consequence of the financial crisis in the autumn of 2008) but market risk decreased as the financial markets gradually stabilised in the subsequent quarters of 2009.

The average VaR of the Bank's total portfolio (trading book and banking book) was PLN 9.4 million in 2009 and the maximum VaR was PLN 14.7 million. The utilisation of VaR limits was at a safe level in 2009 and on average amounted to 25% for the portfolio of the Financial Markets Department (DFM) and 63% for the portfolio of the Treasury Department (DS). The relatively higher utilisation of the VaR limit in the Treasury Department was caused, among others, by a reduction of the DS VaR limit in mid-2009.

VaR was mainly affected by portfolios of interest-rates-sensitive instruments (which are mainly part of the banking book), such as Treasury Bonds and interest rate swaps, and to a lower degree by portfolios of fx-rates-sensitive instruments (part of the trading book), such as fx options and fx transactions. In Q1 2009, in addition to fx rates, the implied volatility of fx options was a key risk factor in the DFM trading portfolio. The volatility of fx rates and the implied volatility of fx options decreased significantly in the following quarters of 2009. The other groups of risk factors had a relatively lower impact on VaR.

Stress Testing

Stress testing is an additional measure of market risk supplementary to Value at Risk. Stress testing measures the hypothetical change in the present value of the Bank's portfolios that would occur as a result of the risk factors moving to specific extreme values within a one-day horizon.

In regular stress tests based on scenarios of large extremely correlated changes in risk factors, the same for each group, market risk remained within a safe band in 2009, below set control numbers: the average utilisation of the limits was 50% at DS and 21% at DFM. Under these scenarios, the biggest potential loss was observed on a sharp increase of interest rates (mainly Polish rates): at a 15% increase in interest rates, the average loss on the DS portfolio was PLN 38 million and the average loss of DFM was PLN 6 million. If the scenario materialised, it would in large part (corresponding to the portfolios of instruments available for sale) reduce the Bank's equity and have a lesser impact on the Bank's P&L.

In addition, the Bank conducts stress tests based on observed past crises. The average value from the tests in 2009 was PLN 12 million for the DFM portfolio and PLN 44 million for the DS portfolio.

Interest Rate Risk of the Banking Book

In 2009, the interest rate risk of the banking book as measured by EaR (potential decrease of interest income within 12 months assuming an unfavourable 100bp change of market interest rates based on a stable value of the portfolio over the period) was moderate for positions in PLN, CHF and CZK, and low for positions in USD and EUR due to the small interest rate position gap in these currencies. At the end of 2009, EaR (in PLN) was 14.18 million for CHF, 7.47 million for PLN, 5.09 million for CZK, 1.46 million for USD, and 0.13 million for EUR. In addition, the Bank monitors underlying risk, yield curve risk, and customer option risk.

VIII.5. Operational Risk

In 2009, BRE Bank monitored and controlled operational risk using the methods and tools implemented in previous years. In particular, BRE Bank compiles operational event and loss data in its central database (in use since 2003), monitors business and operational process parameters using key risk factors, performs operational risk self-assessment surveys of the Banks' organisational units, defines scenarios for identification and mitigation of the risk of very high operational losses.

In 2009, BRE Bank continued to improve these operational risk controlling tools. The Bank joined an operational event database developed by the Polish Bank Association to support data exchange in the Polish banking sector.

VII. Investments

Investments in the Bank were reduced in the implementation of the BREnova programme. The Bank's investments totalled PLN 240.8 million in 2008, decreased to **PLN 182.1 million (-24.4%).**

The majority of the Bank's investments at PLN 148.5 million were in IT. The Bank continued to modernise and develop the core IT components. The IT systems of the Bank's main business areas were enhanced with new functionalities, improved availability and business continuity of existing IT solutions.

The main projects in the Bank included:

- Continued development of the GLOBUS system and accompanying applications.
- Implementation of the AIRB project (internal rating based approach) – calculation of credit risk capital requirements.
- Unification of the source code of Altamira – implementation of the Altamira Get Together project.
- New Retail Banking call centre.
- Continued development of Uniflow 2.0 and RSO in Retail Banking.
- Valuta Direct project – self-service fx functionalities for customers.
- Implementation of a new custody support application.

Investments in Logistics and Security at PLN 33.7 million involved the development and modernisation of the corporate branch network and additional equipment for retail branches including:

- adaptation of new premises of the Częstochowa and Zielona Góra Corporate Branches and the new Corporate Office in Siedlce;

- modernisation of the premises of the Corporate Branch in Katowice based on new visualisation and functionality standards;

- procurement and installation of ATMs with deposit functions in the MultiBank and mBank network;

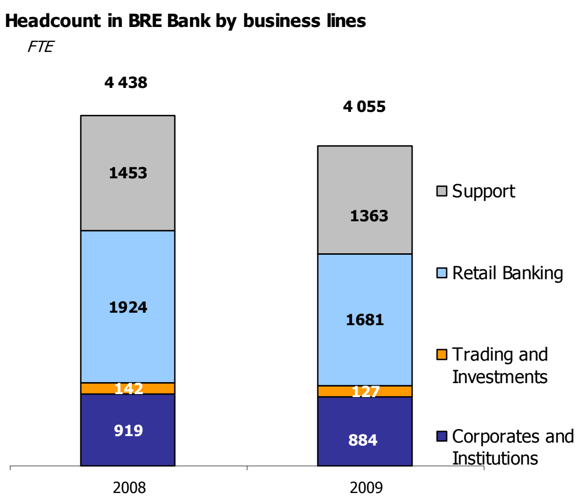
- adaptation of premises and equipment of MultiBank branches following the procurement and installation of recyclers.

In addition, significant investments were made in the modernisation of the air-conditioning system in BRE Bank's Head Office in Warsaw.

VIII. Human Resources area

VIII.1. Changes in the Headcount

As was mentioned above, the HR area was crucial to the implementation of the BREnova programme in 2009, as demonstrated by the significant reduction of personnel costs by 19.7%, partly due to the workforce reduction early in the year.
The charts below present the workforce structure of the Bank by business area.



BRE Bank had **4,901 employees** at the end of 2009, down by 869 year on year. BRE Bank had **4,055 FTEs** at the end of 2009, down by 383 as compared to 4,438 FTEs at the end of 2008. The large difference between the number of employees and the number of FTEs is mainly due to the fact that many retail branch employees work part-time.

Most of the workforce reductions took place in Retail Banking (243 FTEs), including employees working part-time, were transferred from mBank and MultiBank to the subsidiary Aspiro.

Headcount decreased also in other fields of activity, but in a smaller degree: by 90 FTE in the support area, by 35 FTE in Corporates and Institutions and by 15 FTE in Trading and Investment.

Bank employees are relatively young: 65.8% are under 35 years of age. They are also well educated: 74.0% have university education.

VIII.2. Training in BRE Bank

Despite the reduction of training costs under the umbrella of the BREnova programme from PLN 16.7 million in 2008 to PLN 6.8 million in 2009, the qualifications improvement programme continued.

Training and development programmes were based on the Bank's long-term HR policy and focused in particular on building a body of successors for management and expert positions, improving effective co-operation among different areas of the Bank, practical project management, change management, financial and risk analysis, upgrade of product expertise, customer service and communication skills.

A large investment in employee development was possible thanks to European Union co-financing of a Retail Banking employee competence development project covering property finance, credit collateral rating, team work and communication, and cross-selling techniques.

Training was offered both in the traditional system and via an e-learning platform, which was improved and implemented across the Bank in 2009. The e-learning offer includes know-how related to given positions (products and procedures training) as well as IT expertise and soft skills.

VIII.3. Student Internship

BRE Bank offers a student internship programme. The programme helps to select individuals with a high potential who could be hired by BRE Bank in the future. Students get an opportunity to acquire their first professional experience.

Students who have completed at least three years of university classes can be accepted as interns throughout the year. In view of strong demand for internships in summer, the Bank offers an annual summer programme (recruitment starts in April).

The Bank had 323 interns in 2009, including 32 who were later hired by BRE Bank.

VIII.4. BRE Bank's Incentive System

BRE Bank's incentive system, an important part of the HR strategy, comprises both non-monetary benefits (e.g., professional development opportunities) and monetary rewards (remuneration).

The incentive system plays a key role in the development of corporate culture and builds the competitive advantage by recruiting and retaining skilled employees.

BRE Bank's remuneration policy includes fixed remuneration (base salary) and variable remuneration linked to the performance of the organisation and the employee. This way, the system combines the incentive function with effective cost management and controlling.

The results of the Bank in 2009 were lower than in the previous years. Consequently, the share of bonuses in total employee remuneration decreased.

BRE Bank's bonus and option programme provisions accounted for 32% of personnel costs in 2008 and only 10% in 2009.

The stock option scheme for the Bank's key employees, approved by BRE Bank's Extraordinary General Meeting on 27 October 2008, was not activated in 2009. The Management Board stock option scheme continues on existing terms.

IX. BRE Bank and Corporate Social Responsibility

For many years, BRE Bank has worked with non-profit initiatives guided by its understanding of the growing importance and impact of sponsorship and charity work. More information is presented in the annual publication "BRE Bank's Corporate Social Responsibility Report."

Let's Do Good Together

In 2009, BRE Bank launched several new initiatives addressed to employees. One of them was "Let's Do Good Together", a regular employee volunteer programme developed in co-operation with the BRE Bank Foundation. It supports social welfare projects proposed and developed by Bank employees. Participants can initiate and implement interesting initiatives with the involvement of colleagues, friends and family. There are four quarterly editions of the programme in spring, summer, autumn and winter. Every three months, the jury selects the five most interesting projects which match the statutory goals of the BRE Bank Foundation (education, health care and social welfare, culture and the arts). The five selected teams receive financial support for their projects. There were three editions of the programme in 2009 (spring, summer, autumn), implementing a total of 15 different projects. In the programme, 51 employees devoted 491 hours of their free time to voluntary work. The programme is a lasting commitment to social responsibility and will continue in future.

Go Green

The large environmental campaign launched in September 2009 was designed to educate employees about resources used by the Bank and raise awareness of environmental issues both at work and elsewhere. Information materials and campaigns supported the environmental awareness raising action. The Aeris Futuro Foundation is the main partner of the project. In addition, environmental prevention measures were put in place, for instance two-sided printing. The outcome of the project as measured by saved resources will be published in H1 2010.

Global Reporting Initiative Methodology in BRE Bank's CRS Reporting

BRE Bank is one of the first companies in Poland to communicate its corporate social responsibility initiatives in a special report (the first edition was published in 2006). In 2009, BRE Bank was the first financial institution in Poland to publish a CSR report under the Global Reporting Initiative guidelines at application level B+ (the content of the report was verified by an independent body). The report *Passing the Test of Crisis. Sustainable Development in Difficult Times* won the recognition of the 2009 CSR Reports competition jury and received the first prize as the best corporate social responsibility report for 2009. The competition is organised by PricewaterhouseCoopers, CSR Consulting and the Responsible Business Forum.

BRE Bank Foundation

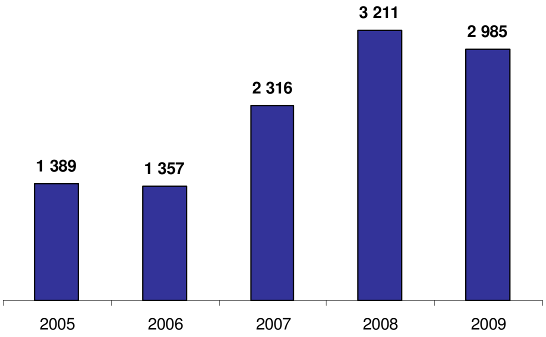
Social responsibility initiatives are mainly co-ordinated by the BRE Bank Foundation, a public charity organisation active mainly in the field of education and science. The Foundation also supports health care and welfare, as well as culture and arts. The mission of the Foundation is to support initiatives of personal development, education and improved quality of social life.

FUNDACJA BRE BANKU

The BRE Bank Foundation celebrated its 15th anniversary in 2009. A gala ceremony at the Warsaw Royal Castle Arcades summarised the charity work of the BRE Bank Foundation. In the 15 years, the BRE Bank Foundation received 9 thousand applications, approved over 4 thousand grants and spent over PLN 15 million on statutory work.

In 2009, the BRE Bank Foundation continued to work with its regular partners and pursued its mission to support initiatives of personal development, education and improved quality of social life.

BRE Bank Foundation expenses 2006 -2009
PLN ths



The Foundation granted and spent PLN 2,985 thousand on statutory goals in 2009, a decrease by 7.0% year on year.

The structure of spendings was in line with the adopted strategy, as follows:

- Education, science, entrepreneurship support 52%
- Health care and social welfare 37%
- Culture, national heritage 11 %.

Major projects financed by the Foundation in 2009:

1. The BRE Bank Foundation and the CASE Foundation continued their co-operation under the agreement of 16 December 2005; they jointly initiated and organised seminars and conferences for researchers, experts and practitioners of management concerning the transition of the Polish economy, in particular the banking sector, and publications on economics and finance. The anniversary 100th BRE&CASE seminar was held in 2009;
2. Foundation for Education in Entrepreneurship (FEP) – support for a Bridge Scholarship Programme (assistance to freshmen college and university students from unprivileged backgrounds) was continued. The BRE Bank Foundation funded 40 scholarships in 2009. As part of continued cooperation with the FEP, another joint project was also carried on: Contest for FEP Scholarship Holders. Under this project, the Foundation financed another 40 scholarships for the winner;.
3. University Entrepreneurship Incubators Foundation – BRE Bank Foundation co-funded the next edition of a business plan competition for students organised by University Entrepreneurship Incubators;
4. The Polish Fund for Children – in 2009, the Foundation supported the Assistance for the Very Gifted Programme and funded awards in the national stage of the EU Young Scientists Competition;
5. The "Help On Time" Foundation for Children received a donation to cover the medical costs of over 200 children;
6. The Synapsis Foundation received a donation for the renovation of the Centre for Autistic Children;
7. The ABCXXI Foundation "All of Poland Reads to Kids"– received a donation for a campaign.

X. Awards and Distinctions in 2009

In 2009, BRE Bank won recognition for its business operations, technological solutions, investor relations, social responsibility initiatives, and reporting. The main awards and distinctions include:

- BRE Bank won the 10th edition of the Entrepreneur-friendly Bank organised by the Polish Chamber of Commerce. BRE Bank Corporate Branches in Wrocław and Kalisz were awarded the promotion logo. SME Department Director Krzysztof Gerlach was named the Polish Business Banker.

- BRE Bank ranked third in the "Banks" category of the 16th ranking of financial institutions published by the daily *Rzeczpospolita*.

- BRE Private Banking was named Poland's best private banking by *Euromoney Magazine*.

- mBank was recognised by customers and experts in the "Customer's Bank" ranking published by the daily *Dziennik Gazeta Prawna* in partnership with the financial consultancy Expander and the Indicator Centre of Marketing Research. According to customers, mBank is the most recommended bank; experts considered mBank's transaction system to be the best. mBank ranked third in the overall classification.

- mBank is the bank most trusted by Poles, next to the market giants PKO BP and Pekao S.A., according to a survey of the opinion poll institute Homo Homini.

- mBank won the prestigious *Forbes* "Best SME Bank" ranking.

- MultiBank ranked second in the category "Best Bricks-and-Mortar Bank" and third among banks friendly for customers with disabilities in another edition of the *Newsweek* Friendly Bank ranking.

MultiBank won the Golden Customer Laurels in the category "Youth Bank Account" and the Customer Laurels "Discovery of 2009" for microenterprise accounts. The Customer Laurels is the biggest national consumer programme which annually selects the most popular products and brands in over 300 categories. National opinion polls are based on consumer opinions and perceptions of best products.

- BRE Bank won the second position in the 2009 Quality International Forum Competition. The SME customer service quality management model was recognised in the IQ Order – Top Quality Management category. BRE Bank was the top-ranking financial institution in the competition.

- iBRE, BRE Bank's electronic banking platform, was awarded the European Medal in the 18th edition of a competition organized by the European Social and Economic Committee, the Office of the Committee for European Integration and the Business Centre Club, and was recognised in the Europroduct competition organised by Polskie Towarzystwo Handlowe.

- BRE Bank was recognised in the World Best Internet Banks competition of Global Finance in the category "Best Integrated Corporate Bank Site in Central and Eastern Europe."

- The second edition of the Business Superbrand ranking chose BRE Bank's brand as a symbol of top quality, unique reputation, customer trust and market recognition. The Business Superbrand ranking selects the strongest and most recognised B2B brands in Poland.

Euromoney Magazine named BRE Private Banking & Wealth Management the best private banking in Poland for a second time.

Euromoney Magazine once again awarded BRE Bank in the Best Managed Company in CEE ranking. The BRE Bank Management Board was named the Most Accessible Senior Management.

- BRE Bank's Investor Relations was named the best among Polish listed companies in the *Institutional Investors* 2009 Europe's Best Investor Relations ranking, and took the second position in the *IR Magazine* ranking of Best Investor Relations by a Polish Company.

- BRE Bank analysts took the second position in a *Gazeta Giełdy Parkiet* ranking of most accurate macroeconomic forecasts in 2009.

- BRE Bank's 2008 Annual Report won the second award in The Best Annual Report Competition of the Institute for Accountancy and Taxation.

- The Corporate Social Responsibility Report won the Forum of Responsible Business ranking.

XI. Changes in Rating

XI.1 Fitch Ratings

As at the end of December 2009, BRE Bank's Fitch ratings were as follows:

- long-term rating A (second best rating on a 12-grade) scale;
- short-term rating **F1** (top rating on a 6-grade scale);
- individual rating **C/D** (sixth best rating on a 9-grade scale);
- support rating **1** (top rating on a 5-grade scale);
- long-term rating outlook for BRE Bank - stable.

Fitch upgraded the ratings in 2009.

On 8 May 2009, Fitch upgraded BRE Bank's long-term rating from A- to A. The rating has a stable outlook. After 2 September 2008, the long-term rating was on a watch list with negative indication, which suggested a high probability of a downgrade. However, Fitch upgraded the rating. The change of BRE Bank's ratings followed the European Commission decision of 7 May 2009 approving capital support of the German Financial Market Stabilisation Fund (SoFFin) for Commerzbank. The European Commission decision approving the funding allowed Commerzbank to continue corporate and retail banking operations in Central and Eastern Europe.

Fitch also upgraded the short-term rating from F2 to F1. The individual rating C/D and the support rating 1 were maintained.

Fitch maintained the upgraded ratings on 11 September 2009.

XI.2. Moody's Investors Service Ratings

As at the end of December 2009, BRE Bank's ratings were as follows:

- long-term deposits rating **Baa1** (eight best on a 21-grade scale), outlook stable;
- short-term deposits rating **P-2** (second best rating on a 4-grade scale);
- financial strength rating **D** (A to E scale), outlook stable.

In early 2009, the outlook of the long-term deposits rating A2 was changed from stable to negative. During the year, Moody's downgraded BRE Bank's ratings twice.

On 2 March 2009, following a downgrade of Commerzbank ratings, BRE Bank's long-term deposits rating was downgraded from A2 to A3 with outlook negative (from 26 May 2009 on a watch list). The short-term deposits rating was downgraded from P-1 to P-2. The financial strength rating D was maintained with outlook stable.

On 10 November 2009, the long-term deposits rating was downgraded from A3 to Baa1. Moody's decision was based on revision of systemic support (potential government support). Moody"s had recalibrated all other Polish banks based on this new systemic support assumption earlier and it had resulted in a number of downgrades in June 2009. Moody's maintained the financial strength rating D. Moody's stressed that BRE Bank's diversified business profile and maintained high profitability of the core business create a cushion for tensions in the external environment despite the Bank's low Tier-1 ratio.

In addition to the ratings granted by these two agencies, BRE Bank also holds a BBBpi rating from Standard & Poor's (prepared on the basis of publicly available information), the fourth grade on a scale of 8, unchanged in 2009.

XII. Statement on application of Corporate Governance Principles (CGP) at BRE Bank SA for 2009

XII.1. The basis for preparation of the statement on application of CGP

Pursuant to Article 91.5 (4) of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodical information provided by issuers of securities and the conditions for considering to be equivalent information required by law of the country not being a member state (Journal of Laws no. 33/2009 item 259) the Management Board of BRE Bank SA hereby provides the Statement on application of corporate governance principles at BRE Bank in 2009.

Information contained in the Statement meets the requirements of the report on application of "Code of Best Practice for WSE Listed Companies" set forth in Article 1 of the Resolution No. 1013/2007 of the Management Board of Giełda Papierów Wartościowych S.A. of 11 December 2007. In connection with this, under Article 2 of the Resolution No. 718/2009 of the Management Board of Giełda Papierów Wartościowych S.A. of 16 December 2009 providing WSE with this statement is tantamount to providing WSE with the report, referred to in Article 29 (5) of the Stock Exchange Rules.

XII.2. Corporate governance at BRE Bank SA

Since the initial public offering BRE Bank SA has made every effort so as to ensure that all the shareholders have access to information on the company and their rights are respected regardless of the held share package. Ensuring full transparency of action and proceeding in accordance with business etiquette was reflected in application of best practices of the companies listed on the stock exchange, to begin with "Best Practices of Public Companies 2002".

The document "Code of Best Practice for WSE Listed Companies" adopted by the resolution of the Stock Exchange Board on 4 July 2007 is effective since 1 January 2008. The text of "Code of Best Practice for WSE Listed Companies" is available at the Website of the Warsaw Stock Exchange (http://corp-gov.gpw.pl/), and a link to this site is also available on BRE Bank's website (http://www.brebank.pl).

In January 2008, both the Management Board and the Supervisory Board of BRE Bank adopted resolutions in which they expressed their wish to apply the recommendations and principles contained in "Best Practices" and undertook to inform of their breaches.

Irrespective of "Code of Best Practice for WSE Listed Companies" BRE Bank already in 1995 undertook to voluntarily abide by best industry practices, that is the Good Banking Practice Principles, developed by the Polish Bank Association (the original name – Code of Best Banking Practice).

At present, on the basis of the Order of the President of the Management Board, BRE Bank applies the Good Banking Practice Principles, set forth in Appendix 1 to the Resolution No. 6 of 18th General Meeting of the Polish Bank Association of 26 April 2007 including amendments introduced by the Resolution No. 13 of the 20th General Meeting of the Polish Bank Association of 21 April 2009. The document is available on the website of the Polish Bank Association (http://www.zbp.pl).

The Good Banking Practice Principles constitute a set of principles related to banks' activities and refer to banks, persons employed in them, and the persons through which banks perform banking operations. They take into consideration the text of norms contained in the Canon of Good Practices of the Financial Markets. They cover, among others, bank's procedures relating to relations with clients, rules of mutual relations between banks, advertising rules, bank's employee procedures and procedures of handling clients' claims and complaints.

XII.3. Application of "Code of Best Practice for WSE Listed Companies"

Last year confirmed BRE Bank's adherence to highest standards of corporate governance. In 2009, no new breaches of the principles set forth in "Code of Best Practice for WSE Listed Companies" were identified.

It is worth remembering that since the moment of applicability of "Code of Best Practice for WSE Listed Companies" BRE Bank has delivered one report concerning nonapplication of the principle of "Code of Best Practice for WSE Listed Companies" (report no. 36/2008 of 17 March 2008). It concerned point IV. 8, which has the following wording: "The General Meeting or the Supervisory Board should ensure that the company authorised to audit financial statements changes at least once every seven financial years". Meanwhile, PricewaterhouseCoopers has been auditing BRE Bank's financial statements for over seven years, but the Bank observes the rule that key partners of the audit company responsible for conducting the statutory audit change at least once every seven years in accordance with Article 42 of EU directive (Directive 2006/43/EC of the European Parliament and of the Council on statutory audits of annual accounts and consolidated accounts of 17 May 2006).

PricewaterhouseCoopers is an entity that conducts audits of financial statements of the Bank's strategic shareholder - Commerzbank. The audit company so far responsible for auditing the financial statements of the Bank may change depending on possible change of the audit company responsible for auditing the financial statements of the strategic shareholder of the Bank. Cooperation with one auditor within an international financial group streamlines consolidation of financial statements and is an element of single information policy.

BRE Bank acting with due diligence while applying best practices adopted an interpretation stating that the period of seven financial years should be counted from the first financial year for which financial statements were audited by PricewaterhouseCoopers Sp. z o. o. However, in accordance with the WSE stance, it is acceptable that the listed companies count the period of cooperation with the company auditing financial statements from the effective date of the best practices, which is 2008. Adopting such interpretation BRE Bank meets the requirements of point IV.8 of Best Practices, and thus applies on a permanent basis all the principles of the "Code of Best Practice for WSE Listed Companies".

Capital market as well as the rules and norms governing it are subject to constant evolution. Challenges with respect to corporate governance in 2010 will involve further improvement of BRE Bank's standards compliance with the best practices of companies with relation to corporate governance. Amendments of the Code of Commercial Partnerships and Companies, effective since 3 August 2009, in accordance with the requirements of directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies, aims to strengthen the rights of shareholders and their activity during general meetings. It is important that the changes in legal regulations were properly reflected in internal regulations of BRE Bank and that such solutions be implemented in practice, which will enable the shareholders to exercise their corporate rights. In this way BRE Bank will become a company that is even more investor friendly.

XII.4. Shareholders of BRE Bank SA

Commerzbank AG is a strategic investor of BRE Bank. As at the end of 2009, Commerzbank through its 100% in the subsidiary Commerzbank Auslandsbanken Holding AG held 69.78% of shares and votes at the AGM. Controlling rights of Commerzbank AG, being a dominant entity with relation to Commerzbank Auslandsbanken Holding AG, result from the number of held shares and their percentage share in the share capital and the number of votes at BRE Bank's AGM, which is reflected in exercising the so-called consolidated supervision over BRE Bank being a subsidiary of Commerzbank. Neither Commerzbank, nor any other entity holds shares that give special controlling rights.

30.22% of BRE Bank shares is free float. They are traded mainly by financial investors (about ¾ of free float). The remaining shares belong to other investors, including individual investors.

In 2009, the 5% share threshold, obligating companies to inform about the purchase of shares, apart from Commerzbank Auslandsbanken Holding AG, was periodically exceeded by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK and ING Otwarty Fundusz Emerytalny.

In August 2009, ING Otwarty Fundusz Emerytalny reduced the number of held shares of BRE Bank to below 5% of shares and votes at the general meeting (11 August 2009, 4.96% of share capital and votes at the general meeting). Whereas, in November 2009, Aviva OFE Aviva BZ WBK reduced its share in the general number of votes in the company to below 5% (23 November 2009, 4.93% of share capital and votes at general meeting).

The BRE Bank By-laws do not provide for any restrictions concerning transfer of BRE Bank's shares. There are no restrictions on exercising the right to vote.

XII.5. General Meeting and Rights of Shareholders

The General Meeting shall be convened and prepared pursuant to the provisions of the Code of Commercial Partnerships and Companies, the Bank's By-laws, and Standing Rules of the General Meeting. Both the By-Laws and the Standing Rules of the General Meeting are available on BRE Bank's website.

The General Meeting (AGM) convened by the Management Board by way of an ordinary procedure is held once a year, not later than in June.

Each share of the Bank represents one vote. Subject to the cases specified in the Code of Commercial Partnerships and Companies, the General Meeting is to be valid regardless of the number of shares represented at the General Meeting.

Under the BRE Bank By-laws, the following matters require a resolution of the General Meeting in addition to other matters set out in the Code of Commercial Partnerships and Companies:

a) examination and approval of the report of the Management Board on the Bank's operations and financial statements for the past financial year;

b) adoption of resolutions on the distribution of profit or coverage of losses;

c) vote of discharge of duties to the members of the Bank's authorities;

d) election and dismissal of members of the Supervisory Board;

e) amendment of the By-laws;

f) increase or reduction of the Bank's share capital;

g) adoption of resolutions concerning the cancellation of shares and resolution to cancel shares, in particular setting the policy of share cancellation not regulated in the By-laws;

h) creation and winding up of special purpose funds;

i) issue of convertible bonds or preferred bonds;

j) determination of remuneration for members of the Supervisory Board;

k) liquidation of the Bank or its merger with another bank;

l) appointment of liquidators;

m) matters submitted by the Supervisory Board;

n) matters submitted by shareholders in accordance with the provisions of the By-laws;

o) election of an entity qualified to audit financial statements as statutory auditor of the Bank.

All matters submitted to the General Meeting should be previously submitted to the Supervisory Board for consideration. The principles of participation in the General Meeting and of casting votes are governed bythe Standing Rules of the BRE Bank General Meeting. The Standing Rules of the General Meeting include among others provisions concerning elections including elections to the Supervisory Board as well as provisions on voting procedures. Under the Standing Rules, votes are taken in an open ballot. A secret ballot is required in the case of elections and motions for dismissal of members of the authorities of the Bank or liquidators, motions to put members of the authorities of the Bank or liquidators before justice, and in personnel issues. In addition, a secret ballot is required if requested by at least one shareholder present or represented at the General Meeting.

The General Meeting appoints the Bank's Supervisory Board in a secret ballot. Shareholders propose candidates for Members of the Supervisory Board to the Chairman of the General Meeting, orally or in writing. The right to propose candidates concerns also members of the existing Supervisory Board. The party proposing a candidate for a member of the Supervisory Board should give details of the reasons for their choice. Prior to the election to the Supervisory Board, the General Meeting determines the number of members of the Board of a given tenure within the limits specified in the By-Laws. Candidates for Members of the Supervisory Board should make a statement for the minutes of the General Meeting concerning independence of the candidate.

Resolutions of the General Meeting are passed by a simple majority of votes unless provisions of the Code of Commercial Partnerships and Companies or the BRE Bank By-laws impose a stricter requirement for the passing of a resolution on a specific issue.

Amendments to BRE Bank’s By-Laws require adoption of a resolution by the General Meeting of BRE Bank and registration of the adopted amendment in the National Court Register. Before the General Meeting of BRE Bank is presented with a draft of a resolution concerning the By-Laws, the Management Board of BRE Bank adopts a resolution on the proposed changes by adopting a draft of the resolution of the General Meeting, and next the draft is presented to the Supervisory Board of BRE Bank for approval. Under the Code of Commercial Partnerships and Companies, the resolution on amendments to the By-Laws is passed with a majority of 75% of votes.

The 22nd Ordinary General Meeting was held on 16 March 2009. The Bank's shareholders who exercised at least 5% of their votes at OGM were:

- Commerzbank Auslandsbanken Holding AG which exercised 20,719,692 votes constituting 86.75% of all votes cast by the shareholders at the 22nd Ordinary General Meeting of the Bank and 69.78% of total votes represented at the General Meeting of the Bank.
- Commercial Union OFE BPH CU WBK (at present Aviva OFE Aviva BZ WBK) which exercised 1,500,000 votes, constituting 6.28% of all votes cast by the shareholders at the 22nd OGM of the Bank and 5.05% of the total votes represented at the General Meeting of the Bank.

During the 22nd OGM resolutions were adopted on approval of the report of the Management Board of BRE Bank SA and the financial statements of BRE Bank for 2008, distribution of profit for 2008, granting discharge to Members of the Management Board and Members of the Supervisory Board of BRE Bank SA, approval of consolidated financial statements of the BRE Bank Group for 2008, amendments to the BRE Bank By-laws, specifying the number of members of the Supervisory Board of BRE Bank SA, appointing a member of the Supervisory Board of BRE Bank SA, selection of the auditor to audit financial statements of BRE Bank SA and BRE Bank Group for 2009.

The said amendments to the By-Laws resulted mainly from the necessity of adjusting the BRE Bank By-laws to the recommendation of the Polish Financial Supervision Authority which was to make sure that the internal audit unit is fully independent in its operations through accepting by the Supervisory Board the fact of appointing and recalling Director of the Internal Audit Department. Moreover, the By-Laws of BRE Bank provide for the Bank's activity consisting in providing services for the benefit of BRE Leasing and cooperation with BRE Leasing, and consisting in performing activities relating to agency services with respect to factoring and leasing, as well as services involving the function of a payment agent.

All members of the Management Board and the Supervisory Board were granted discharge. Stefan Schmittmann joined the Supervisory Board as its tenth member. PricewaterhouseCoopers was chosen the auditor auditing financial statements of BRE Bank SA and the BRE Bank Group for 2009.

In accordance with the recommendations contained in the "Code of Best Practice for WSE Listed Companies", the General Meeting was broadcast "on line" via the Internet (open transmission, available to all the interested), registered and made available in the form of a file on BRE Bank's website. The resolutions adopted by the General Meeting and shareholders' questions asked during the General Meeting as well as the answers given with respect to matters covered by the agenda were also placed on the website.

XII.6. Supervisory and managing authorities of the Company and their committees

XII.6.1 Management Board

Pursuant to the BRE Bank By-laws, the Management Board is composed of at least three members appointed for a joint term of office of 5 years. At least half of the members of the Management Board, including the President of the Management Board, should hold the Polish citizenship. The Members of the Management Board manage selected areas of the Bank's operation within the scope determined by the President of the Management Board. Resolutions of the Management Board specify in detail the division of powers and the procedures of replacement in the case of absence or holiday of Management Board members.

The current composition of the Management Board of BRE Bank is as follows:

Member/function	Professional experience
Mariusz Grendowicz President of the Management Board, Chief Executive Officer	Born in 1961, graduate of the Faculty of Economics of Transport at the University of Gdansk and studies in banking in Great Britain. He started his professional career in foreign banks: Grindlays Bank, then in Australia and New Zealand Banking Group in London. In 1991-1992 he worked in Citibank in London, and afterwards in ING Bank, where in 1992-1995 he held managerial positions in Poland, and in 1995-1997 in Hungary. From 1997 to 2000, the President of the Management Board of ABN AMRO Bank Polska and the Head of the ABN AMRO Group in Poland. In 2001-2006 – Vice President of the Management Board of BPH, in charge of Corporate Banking and Property Finance. In the Management Board of BRE Bank since 15 March 2008.
Karin Katerbau Vice President of the Management Board, Chief Financial Officer	Born in 1963, graduate of Reutlingen University of Applied Science and Groupe ESC in Reims in France, where in 1989 she received a French and German diploma in management. She started her professional career in 1990 in Societe Generale – Elsaessische Bank & Co in Frankfurt. She joined the Commerzbank Group in 1994. In 2001-2008 she worked for comdirect bank AG, where from 2004 she held the position of Management Board Member, Chief Financial Officer responsible, among others, for finance and controlling. Since March 2008 she held the position of Chief Operational Officer of Private & Business Customers at Commezbank AG, Frankfurt. In the Management Board of BRE Bank since 5 September 2008.
Wiesław Thor Vice President of the Management Board, Chief Risk Officer	Born in 1958, graduate of Warsaw School of Economics (the former Central School of Planning and Statistics) in Warsaw and summer school of banking at McIntire University Business School. Since 1990 employed with BRE Bank, since May 2000 as the Managing Director responsible for risk. As of 1 August 2002 he was the Managing Director at Bank Handlowy in Warsaw. On 2 November 2002, he was appointed the Member of the Management Board

	of BRE Bank, Chief Risk Officer. In the Management Board of BRE Bank since 2 November 2002.
Przemysław Gdański Member of the Management Board, Head of Corporate Banking	Born in 1967, graduated from the Faculty of Foreign Trade at the University of Gdańsk and completed a one-year programme in banking and international finance at Loughborough University in Great Britain. In 1993-1995, he worked for IBP Bank S.A., then for ABN AMRO in Romania and in the Head Office of ABN AMRO in Amsterdam. In 2002-2006, he was the Managing Director of Corporate Division in BPH Bank. From May to November 2006 he held the position of Chief Executive Officer and General Director of Calyon Bank Polska and Calyon SA Branch in Poland. In November 2006 he took the position of Vice President of the Management Board in BPH Bank responsible for corporate banking and real estate financing. After the merger of BPH Bank and Pekao SA - Vice President of the Management Board responsible for Corporate Banking, Markets and Investment Banking of Pekao SA. In the Management Board of BRE Bank since 19 November 2008.
Hans Dieter Kemler Member of the Management Board, Head of Investment Banking	Born in 1968, graduated from the Westphalian Wilhelm University of Münster in 1996. Within 1991–1992, he worked in the Bond Trading Department of Dresdner Bank. In the period of 1996-1998, employed with Oppenheim jr .& Cie KGaA, the Financial Market Department, Frankfurt and from 1998-2005 - in the Head Office of Commerzbank as Head of the Corporate Risk Advisory. Since 2005, he was a Managing Director of Luxembourg based Public Finance Bank EEPK and a member of the senior management team of Commerzbank responsible for international public finance. In the Management Board of BRE Bank since 10 July 2009.
Jarosław Mastalerz Member of the Management Board, Head of Retail Banking	Born in 1972, in 1996 he graduated from the Faculty of Economics and Foreign Trade at University of Łódz. In 1996-1998, he worked in the Audit Department of PricewaterhouseCoopers. In 1998-2003 - Marketing Director and later Financial Director in Zurich Group. After the take-over of the Polish Zurich operations by Generali in 2003, he worked as the Financial Director (also responsible for bank assurance) at Generali TU and Generali TUnŻ. Since 2006 he has been working for the BRE Bank Group, he was a co-author of the insurance project BRE Ubezpieczenia, and he held the position of the President of the BRE Ubezpieczenia Management Board. In the Management Board of BRE Bank since 1 August 2007.
Christian Rhino Member of the Management Board, Head of Operations and IT	Born in 1969, graduate of Berlin Technical University. In banking since 1998 when he started working in Deutsche Bank AG, first as e-commerce coordinator, later as director of the eBusiness department, finally as Vice President of Corporate Banking. Since 2001 employed with Commerzbank, where he held the position of Global Head Trade Finance & Transaction Services and Managing Director in Corporate Banking. In the Management Board of BRE Bank since 15 March 2008.

In 2009, one personnel change took place in the Management Board of BRE Bank. On 27 March 2009, Bernd Loewen handed in his resignation to the Chairman of the Supervisory Board and the President of the Management Board owing to signing a managerial contract with the German Bank - KfW. He was released from his duties as of 1 July 2009. On 10 July 2009 Hans - Dieter Kemler was appointed the new member of the Management Board, Head of Investment Banking.

Apart from that, as of 1 October 2009, Karin Katerbau, Member of the Management Board and Chief Financial Officer since 5 September 2008, was appointed Vice President of the Management Board until the end of the present term of office.

The term of office of the current Management Board expires on the day of the General Meeting in 2013.

The members of the Management Board are jointly liable for the overall operation of the Bank. They work collegially and inform each other about the most important matters concerning the Bank for which particular members of the Management Board are responsible. The Management Board may appoint standing committees or teams to perform specific functions or to co-ordinate the work of organisational units of the Bank.

The following committees operate at BRE Bank:

- BRE Bank Group's Operational Management Committee (the chairperson: Mariusz Grendowicz)
- Assets and Liabilities Management Committee (ALCO) of the BRE Bank Group (the chairperson: Hans Dieter Kemler)
- Bank's Investment Committee (the chairperson: Hans Dieter Kemler)
- Capital Management Committee (the chairperson: Karin Katerbau)
- Management Board Credit Committee (the chairperson: Wiesław Thor)
- Risk Committee of BRE Bank (the chairperson: Wiesław Thor)
- Committee on Data Quality Management for the purposes of Bank's regulatory requirements calculation (the chairperson: Wiesław Thor).

The Management Board manages the Bank's business, represents the Bank and defines the guidelines for the Bank's operation, especially for the areas subject to risks, including the credit policy, the investment policy, the Bank's assets and liabilities management policy and the guarantee policy. The Management Board presents to the Supervisory Board comprehensive information on all significant aspects of the Bank's operation and risks related to its operations as well as risk management methods on a regular basis.

The Management Board operates pursuant to its Rules approved by the Supervisory Board (available on the website of the Bank). The Rules determine among others the issues which require consideration of the Management Board as a collegial body and adoption of a resolution of the Management Board. The issues which require a resolution of the Management Board include among others decisions to assume obligations or to dispose of assets whose total value in relation to one entity exceeds 5% of the Bank's own funds, yet the Management Board by way of its resolution may authorise standing committees or relevant persons to make such decisions.

All resolutions are adopted by a majority of votes of the Management Board members present at the meeting, and in the case of an equal number of opposing votes, the President of the Management Board has the casting vote. The members of the Management Board strive to adopt resolutions by consensus. Pursuant to principles of best practices, the Rules of the Management Board provide that a member of the Management Board should abstain from participating in decision-making on such matters where a conflict of interest arises or may potentially arise between the Bank and the member of the Management Board, his or her spouse, relatives or relations by affinity up to the second degree, as well as persons with whom he or she has a personal relationship.

The Supervisory Board determines the contract terms and remuneration of Members of the Management Board. The Executive Committee addresses issues concerning the rules and amounts of remuneration of members of the Management Board, including determination of the rates thereof.

Rules of the incentive programme for the Management Board and rules concerning procedure of awarding bonuses for Members of the Management Board have been adopted in the resolutions od the Supervisory Board (Resolution no. 65/08 and Resolution no.66/08 dd. 24 January 2008).

Total remuneration of Management Board Members includes a fixed and a variable part. A fixed part includes basic remuneration and management fee, the amount of which is set for each member of the Management Board.

A variable part is an annual cash bonus for the previous financial year, as well as bonus in shares of BRE Bank and Commerzbank. A bonus in shares serves as the long term incentive.

Both annual cash bonus and the value of shares granted to each Member of the Management Board are determined by three following factors:

- net ROE within BRE Bank Group,
- performance of budget within the supervised area,
- assessment of the Management Board Member by the Supervisory Board.

In 2009, the Supervisory Board decided to decrease the annual bonus of the Management Board for 2008 by adjusting of ROE ratio with one-off transaction - the sale of the Vectra shares for PLN 137.7 million.

Total remuneration (in PLN thousand) of the Management Board for 2008 and 2009 is presented below:

Year	Base salary	Other profits	Cash bonus	Total
2008 (members of the Management Board as of 31 December 2008)	6 478.3	581.9	5 982.4	13 042.6
2008 (persons who ceased holding the position in 2008)	2 225.8	4 085.8	11 866.0	18 177.6
Total 2008	*8 704.1*	*4 667.7*	*17 848.4*	*31 220.2*
2009 (members of the Management Board as of 31 December 2009)	8 752.8	1 766.9	5 909.5	16 429.2
2009 (persons who ceased holding the position in 2009)	600.0	71.0	1 270.0	1 941.0
Total 2009	*9 352.8*	*1 837.9*	*7 179.5*	*18 370.2*

Information on remuneration received by particular Management Board Members divided into the fixed part and bonus part has been presented in point 45 of the explanatory notes to the Financial Statements of BRE Bank SA Group for 2009 pursuant to the International Financial Reporting Standards, and the description of share-based incentive programme for the Management Board is presented in 42 note of this report.

XII.6.2. Supervisory Board

The Supervisory Board acts on the basis of adopted Rules and as stipulated in the BRE Bank By-laws, Code of Commercial Partnerships and Companies and the Banking Law Act. The BRE Bank By-laws provide that the Supervisory Board consists of not less than five members elected by the General Meeting for a joint term of office of three years. The number of the Supervisory Board members is defined by the General Meeting. A member of the Supervisory Board whose term expired in the course of the joint term of office of the Supervisory Board may be replaced with another person, elected by the Supervisory Board.

At least half of all Supervisory Board members, including the Chairperson, should hold the Polish citizenship. Pursuant to the statutory requirement, introduced in 2008 on the basis of III.6 principle of best practices, at least two Supervisory Board Members are independent, unless the General Meeting decides otherwise. Independence criteria of the Supervisory Board Members are stipulated in the Rules of the Supervisory Board.

The composition of the Supervisory Board reflects the aim to diversify its Members both in the context of their professional experience as well as their knowledge and skills. The Supervisory Board is composed of bankers as well as representatives of science and corporate business.

The Supervisory Board of BRE Bank SA acts in the following composition:

Member/function	Professional experience
Maciej Leśny Chairperson of the Bank's Supervisory Board (independent member)	Born in 1946, graduate of the Economics Division at University of Gdańsk and foreign post-graduate studies. He worked 22 years in the central state administration, including 8 years on the position of the Subsecretary of State: at the Ministry of Foreign Economy Co-operation, the Ministry of Economy, Labour and Social Policy and the Ministry of Infrastructure. Chairperson of the Supervisory Board of BRE Bank SA within 1994-1998, in December 2001 appointed again as the member of the Supervisory Board. He was re-elected the Chairperson in 2004.
Andre Carls Deputy Chairman of the Supervisory Board	Born in 1963, graduate of economics, PhD at the University of Cologne. He joined Commerzbank in 1990; in 2000 to 2008, he was a member of the Management Board of comdirect bank AG, from 2004 to March 2008 CEO of comdirect bank AG, currently holds position of the President of the Management Board of Commerzbank Auslandsbanken Holding AG.
Achim Kassow Member of the Supervisory	Born in 1966, graduate of business administration and economics at the University of Cologne, PhD in economics. Within 1993-2002, worked in Deutsche Bank Group, from 2001 - Member of the Board of Managing

Board	Directors of Deutsche Bank 24 AG. In the period of 2002-2004 – Chief Executive Officer of the Management Board of comdirect bank AG, Quickborn. Since 10 November 2004 – Member of the Board of Managing Directors of Commerzbank AG, responsible for the Business Segment Private Customers and the Business Segment Central and Eastern Europe.
Teresa Mokrysz Member of the Supervisory Board (independent member)	Graduate of the Karol Adamiecki University of Economics in Katowice. Co-owner of MOKATE. In 1992-1994 she launched cappuccino coffee as a new product on the Polish market and acquired a 70% market share and a leading position in this product category. In 1994-1995 she built a greenfield MOKATE plant in Ustroń and in 2001 her company put into operation plant in Żory. She is the winner of the "Leader of the Decade" title given by *Gazeta Wyborcza* daily, and the "Success of the Decade" given by the *Businessman Magazine*.
Michael Schmid Member of the Supervisory Board	Born in 1952, graduate of economics at the University of Würzburg, since 1979 employed with Commerzbank on many positions, he was responsible for corporate banking. At present, he holds the position of Chief Credit Officer – CCO - at Commerzbank's Head office in Frankfurt.
Stefan Schmittmann Member of the Supervisory Board	Born in 1956, graduate of economics, PhD in economics at the University of St.Gallen in Switzerland. In 1986-2003, he was employed with Bayerische Vereinsbank AG and as of 1998 with Bayerische Hypo- und Vereinsbank AG. In 2004-2005, Chairman of the Board of Directors of Vereins- und Westbank AG, Hamburg. In 2005, Member of the Divisional Board of Directors in Munich and 2006-2008, Member of the Management Board of Bayerische Hypo - und Vereinsbank AG in Munich, where he was responsible for the Corporate Customer and Commercial Real Estate Customer Division and Member of the Executive Committee UniCredit Corporate Division. Since 1 November 2008, Member of the Board of Managing Directors of Commerzbank AG, currently holding the position of Chief Risk Officer.
Waldemar Stawski Member of the Supervisory Board (independent member)	Born in 1958, graduate of Gdańsk Technical University and post-graduate studies in the financial analysis. In 1993-1995 he was employed with Pomorski Bank Kredytowy, then with PKO BP as Vice President responsible for Treasury, corporate clients and capital market management. From June 2002 to February 2003, Chairman of the Team of Receivers for Wschodni Bank Cukrownictwa SA. At a later date, he was the Management Board Member of CTL Logistics SA and CEO of the Polish Association of Transport and Logistics Employers.
Jan Szomburg Member of the Supervisory Board (independent member)	Born in 1951. Graduate of the University of Gdańsk, a PhD in economics. Previously he worked as an assistant and then as a lecturer at the University of Gdańsk. He is the founder and the President of the Management Board of the Gdańsk Institute for Market Economics. In 90's, he was the chairman of the Polski Bank Rozwoju Supervisory Board, Bank Gdański Supervisory Board, advisor to Minister of Ownership Transformation, member of the Ownership Transformation Council, an advisory body to the Prime Minister. He advised to Jerzy Buzek - prime minister, on economic issues, he was the chairman of the Ownership Transformation Council to the Prime Minister.
Marek Wierzbowski Member of the Supervisory Board (independent member)	Born in 1946. Full professor at the University of Warsaw, legal counsel, partner at the law firm of Prof. Marek Wierzbowski Radcowie Prawni Spółka Partnerska, a member of the Public Procurement Board, of the Central Commission for Scientific Degrees and Titles, President of the Court of the Chamber of Brokerage Houses. Professor Wierzbowski was a vice dean of the Faculty of Law and Administration and a vice rector of the University of Warsaw. He was a chairperson of the Stock Exchange Board and a vice chairperson of the Court of Arbitration at the Polish Chamber of Commerce.
Martin Zielke Member of the Supervisory Board	Born in 1963, economist, graduate of the University in Göttingen. In 1990 – 2000, he cooperated with Dresdner Bank AG, then he was appointed the Regional Head of Portfolio Investments in Deutsche Bank 24, afterwards the Regional Head of Retail Banking Finance at Deutsche Hyp. In 2002 - 2004, acted as Group Manager of Retail Banking Area, Commerzbank AG, and from January 2005 to March 2006 he was a Group Manager in Corporate Banking

	area of Commerzbank AG. Since 1 April 2006, Member of the Management Board of Eurohypo Aktiengesellschaft, Eschborn and since 1 February 2008 Group Manager in Group Finance Department at Commerzbank AG.

As it was mentioned earlier, a change which occurred in 2009 was the appointment of the tenth Member of the Supervisory Board - Stefan Schmittmann, Member of the Management Board of Commerzbank AG, by the 22nd General Meeting of BRE Bank held on 16 March 2009.

The following are independent Members of the Supervisory Board: Maciej Leśny, Jan Szomburg, Teresa Mokrysz, Waldemar Stawski and Marek Wierzbowski. Commerzbank - the strategic shareholder is represented by: Andre Carls, Achim Kassow, Michael Schmid, Stefan Schmittmann and Martin Zielke.

The term of office of the SB expires on the day of the General Meeting in 2011.

Powers of the Supervisory Board (defined in the Rules of the Supervisory Board) and its committees involve in particular:

a) providing the Management Board with advice and exercising supervision over the Management Board in developing guidelines for the Bank's operation which is risk bearing, including its credit, investment, guarantee policies, as well as compliance policy and approving proposals of the Management Board concerning the Bank's basic organisational structure,

b) exercising supervision over compliance of the Bank's regulations with regard to risk taking with the strategy and the Bank's financial plan,

c) approving the rules of information policy, adopted by the Management Board, regarding risk management and capital adequacy,

d) approving strategies developed by the Management Board and the procedures of the internal control system, risk management system, internal capital assessment process, capital management and capital planning,

e) assessing adequacy and effectiveness of risk management system,

f) examining all the regular reports and exhaustive information, received from the Management Board, on all important aspects relating to the Bank's operation, risk related to its operation, and on the manner and effectiveness of the risk management,

g) drawing up a concise assessment of evaluation of the Bank's position in order to submit it to the Ordinary General Meeting and append it to the annual report of the Bank for the previous financial year, drafted pursuant to separate regulations,

h) approving the Bank's annual financial plans, multi-annual development plans, as well as strategy of the Bank's operation and rules of cautious and stable management of the Bank,

i) reviewing any motions and matters subject to resolutions of the General Meeting, including draft resolutions of the General Meeting; the Supervisory Board draws up justifications (opinions) for draft resolutions to be submitted for approval of the General Meeting; such justifications (opinions) along with the draft resolutions will be made available to the shareholders at the registration desk before the General Meeting,

j) issuing or approving the rules provided for in the Bank's By-laws,

k) appointing and dismissing the President, First Vice President, Vice Presidents and other Members of the Management Board in accordance with the provisions of the Banking Law Act and taking into consideration relevant qualifications for performing the functions assigned to them,

l) defining terms and conditions of contracts and setting remuneration for President, First Vice President and Vice President as well as other Members of the Management Board,

m) authorising the Chairman of the Supervisory Board to represent the Bank in agreements with the Members of the Management Board including signing the management contracts with the Members of the Management Board,

n) approving conclusion of or amendments to any significant agreement or arrangement with Members of the Management Board or the Supervisory Board,

o) approving conclusion of, amendments to or termination of any significant affiliation agreements or cooperation agreements,

p) analysing the report from the director of the Internal Audit Department, received at least once a year, which, based on the conducted audits and the drawn up reports on monitoring of internal control mechanism effectiveness, contains information on identified irregularities, applications and action undertaken in order to eliminate the irregularities.

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board on his or her own initiative, or on request of the Management Board, or on request of the Supervisory Board Member not less frequently than three times a year. All Management Board Members participate in meetings of the Supervisory Board except for those agenda items which directly concern the Management Board or its members.

Resolutions of the Supervisory Board are adopted with a simple majority of votes cast. In the case of an equal number of votes, Chairman of the Supervisory Board has the casting vote. Member of Supervisory Board is obliged to notify all the other Supervisory Board Members of any conflict of interest as it arises or a possibility of such conflict and should refrain from taking the floor in discussion and from voting on the resolution pertaining to the situation in which the conflict of interest has arisen or may arise.

No resolution should be passed without the consent of the majority of the independent members of the Supervisory Board on the following matters:

- any benefits provided by the Bank or any entities associated with the Bank to the benefit of Members of the Management Board,
- consent for the Bank to enter into a significant agreement with an entity associated with the Bank, a member of the Supervisory Board or the Management Board, and entities associated with them.

The Supervisory Board has 3 Committees: the Executive Committee, the Risk Committee, and the Audit Committee. Each of the committees is composed of four members of the Supervisory Board, including two independent members.

The tasks of the Executive Committee involve, in particular, exercising regular supervision of the Bank's operation in the periods between meetings of the Supervisory Board; authorising the Management Board to acquire, encumber or dispose of real estate, perpetual leasehold, or interests in real estate, shares or equity interests in companies, and other fixed assets if the value of the transaction exceeds 1% of the Bank's own funds; reviewing rules and amounts of remuneration of Members of the Management Board; issuing opinions on granting members of the Management Board approval for engaging in competitive activity. The Executive Committee is composed of: Maciej Leśny - Chairman and members: Andre Carls, Jan Szomburg and Michael Schmid, who replaced Achim Kassow on 1 October 2009.

The Audit Committee issues opinions about the election of the Bank's statutory auditor by the General Meeting, recommends that the Supervisory Board should approve or reject financial statements, exercises regular supervision over the internal control system at the Bank, and approves the changes proposed by the Management Board of the Bank at the position of the manager of the Internal Audit Department. The Audit Committee is composed of at least one independent Supervisory Board Member with qualifications and experience in accounting and finance. The Audit Committee is composed of: Martin Zielke – Chairman, and Andre Carls, Maciej Leśny and Jan Szomburg.

The tasks of the Risk Committee include among others exercising permanent supervision over credit risk, market risk and operational risk. Moreover, the Risk Committee recommends that the transactions, provided for in the Banking Law, between the Bank and members of the Bank's authorities be approved or refused and submits recommendations relating to approval or refusal to approve the Bank's information policy regarding risk management and capital adequacy. The Risk Committee is composed of: Chairman – Michael Schmid, and members: Maciej Leśny, Andre Carls and Waldemar Stawski.

Pursuant to Article 22(5) of the BRE Bank By-laws, all standing committees acting within the Supervisory Board make reports pertaining their performance in the past reporting period available to shareholders. The aforesaid reports are appended to the set of materials for the Ordinary General Meeting.

The amount of monthly remuneration of the members of the Supervisory Board in 2008 and 2009 was set on the basis of the Resolution No. 27 adopted by the 17th General Meeting of BRE Bank of 21 April 2004.

Additional monthly remuneration is granted for participation in standing committees: 50% of monthly basic remuneration for the first committee and 25% for participating in every other committee. Total remuneration for participation in committees cannot exceed 75% of the basic remuneration.

Total remuneration (in PLN thousand) of the Supervisory Board for 2008 and 2009 is presented below:

Year	2008	2009*
Remuneration paid in PLN thousand	1 848. 1	1 866.8

*/ from March 2009 The Supervisory Board consists of 10 Members compared to 9 Members in 2008.

Detailed information about the remuneration amounts paid in 2008 and 2009 to particular Members of the Supervisory Board is included in the explanatory note no. 45 to the Financial Statements of the BRE Bank SA Group for 2009 in accordance with the International Financial Reporting Standards.

The challenging situation on international financial markets, economic slowdown and growing financial difficulties of enterprises required very close cooperation with the Management Board on key issues related to the Bank's operation.

The Supervisory Board, including especially the Executive Committee, cooperated closely and on a regular basis with the Management Board in order to develop the Mid-term Business Plan for BRE Bank Group for 2010-2012 and strategic directions for the future business development of the Group.

In 2009, the Supervisory Board held 4 meetings and adopted 21 resolutions.

The resolutions concerned, in particular:

- acceptance of financial statements of BRE Bank, BRE Bank Group and of other materials for the OGM,
- incentive programme for the Bank's management - issue and acquisition of shares / bonds,
- adopting the Mid-term Plan,
- adopting the Financial Plan for 2010,
- personnel issues,
- granting a loan to an entity associated with a Member of the Management Board,
- granting a loan to a Member of the Management Board,
- adopting the amendments in the Rules of the Supervisory Board,
- adopting new text of the BRE Bank By-laws,
- allocation of funds to BRE Bank’s Foundation,
- adoption of the report on compliance risk management,
- consent for BRE Bank SA to take a bilateral loan from Commerzbank,
- approval of the content of the motion to supervisory authorities on the approval for implementing at BRE Bank the A-IRB approach (Basel II),
- adoption of the model management policy in the credit risk area.

Furthermore, current results of BRE Bank Group and particular business areas were discussed and evaluated with reference to the financial plan in a systematic, regular manner at the meetings of the Supervisory Board.

The Supervisory Board of the Bank operated in an effective manner. Meetings of the Supervisory Board were held in the presence of all Members. There was only one justified case when a Member of the Supervisory Board did not participate in a meeting. The Supervisory Board passed all resolutions and decisions unanimously.

Participation of the Supervisory Board Members in the meetings and in the Committees in 2009:

	Turnout*	Executive Committee	Risk Committee	Audit Committee
Andre Carls	4/4	X	X	X
Achim Kassow	3/4			
Maciej Leśny	4/4	X	X	X
Teresa Mokrysz	4/4			
Michael Schmid	4/4	X	X	
Stefan Schmittmann (appointed on 16 March 2009)	3/3			

Waldemar Stawski	4/4		X	
Jan Szomburg	4/4	X		X
Marek Wierzbowski	4/4			
Martin Zielke	4/4			X

* Attendance at meetings/ number of meetings during a term of office.

In 2009, the Risk Committee focused mainly on the implemented project which introduces at BRE statistical methods for calculating credit risk regulatory capital requirements (A-IRB approach, Basel II), discussed quarterly risk reports and the current credit portfolio.

The Audit Committee cooperated closely with the external auditor PricewaterhouseCoopers and internal auditor in the scope of correctness of the financial statements submitted and results of the audits conducted. It also discussed changes in the IFRS, as well as the assessment of internal control and risk management systems, implementation of KNF post-inspection recommendations, client's exposure to derivative instruments and the most important risk issues potentially affecting the Company's financial standing. Finally it examined and approved the annual internal audit plan.

The Executive Committee was also involved in the topic of remuneration and of awarding bonuses to the Members of the Management Board, issued approvals for the participation of the Members of the Management Board in supervisory boards of other companies and approved transactions exceeding 1% of Bank's equities.

XII.7. Internal control and risk management systems with regard to the process of preparing financial statements and consolidated financial statements

The Bank has an internal control system which aims at ensuring security and stability of the Bank's operations, supporting management of the Bank, and improving performance of its tasks.

The internal control system includes the following:

1/ functional internal control,

2/ institutional internal control.

The functional internal control is a system applicable to each organisational unit of BRE Bank. Each organisation unit of the Bank performs internal control tasks under supervision of the head of an organisational unit. The functional internal control system is subject to regular assessment and monitoring through institutional internal control.

Institutional internal control is exercised by the Internal Audit Department (DAW). DAW operates on the basis of the provisions of the Banking Law, BRE Bank internal regulations, International Standards for Professional Practice of Internal Auditing and best business practices in this respect.

The Internal Audit Department is under the administration of the President of the Management Board of the Bank and reports to the President of the Management Board and to the Audit Committee of the Supervisory Board of the Bank. The principle of audit operational independence is applied since auditors are not involved in operational activity.

The main functions of DAW include:

- developing the rules for internal control system, assessment of risk management systems and consultancy in this respect,
- monitoring and assessment of efficiency of the risk management systems,
- examining and assessing the adequacy and effectiveness of control mechanisms in the Bank management systems, operating and IT systems,
- performing planned and ad hoc control activities in terms of particular banking and IT products, organizational units and Bank's areas of activity,
- exercising functional supervision over internal control units in the Bank's organisational units (including the Bank's foreign branches),
- initiating and supervising prevention activities aiming at counteracting irregularities in the Bank's operation,

- maintaining contact with the Polish Financial Supervision Authority (KNF) and the Supreme Chamber of Control (NIK), on behalf of the Bank, in the scope of the Department's competence,
- coordination of works related to controls exercised by external control authorities and cooperation with an external auditor.

In terms of assurance and consulting services, DAW performs:

- audit tasks: scheduled on the basis of "The plan of DAW's operation" and ad hoc,
- non-audit tasks of consultative and advisory nature.

The scope of those tasks covers all the Bank's organisational units.

The process of internal audit is a planned process. The audit plan is prepared on an annual basis following risk analysis of all relevant business areas of the Bank, approved by the Management Board of the Bank and accepted by the Audit Committee of the Supervisory Board. Audit results are reported to the President of the Management Board and to the Audit Committee of the Supervisory Board. The DAW monitors the implementation of post-audit recommendations.

In its advisory role, DAW issues opinions on internal legislation, regulations, policies and procedures for the operational activity of the Bank from the perspective of internal control and risk. The Department also provides internal services in the organisation including auditor supervision over ongoing or developed projects executed at the Bank.

In particular, the Bank uses risk management and internal control in the process of preparing financial statements.

The process of preparing financial data for reporting needs is automated and based on the General Ledger of the Bank. Preparation of data in source systems is subject to formalised operational and acceptance procedures. Creating the General Ledger of the Bank takes place within the process which covers respective internal controls. Manual adjustments are subject to special control.

Operational risks, which occur in the process of creating financial statements were included in the Self-assessment of Operational Risk. In the process of monitoring operational risk at the Bank mechanisms have been implemented, which effectively ensure the security of IT systems at the Bank. The Business Continuity Contingency Plan applies at the Bank, covering IT systems used in the process of creating financial statements.

The process of organising the examination of the Bank's financial statements is laid down in the Bank's internal legislation and is approved in the form of an Order of the President of the Management Board. The Order in force provides for a clear and transparent division of responsibilities of the persons participating in the preparation and verification of the quality of prepared financial statements of the Bank.

The Bank's financial statements are prepared by the Accounting Department (DR) which constitutes an organisational unit in the Finance Business Line and reports directly to the Managing Director of Accounting and Controlling and to the Chief Financial Officer.

Substantive and organisational supervision over the course of examining financial statements is exercised by the Director of DR. The work on the preparation of the annual and semi-annual financial statements of the Bank is co-ordinated by the Deputy Director of DR. The prepared financial statements are submitted to the Management Board for verification. Additionally, the Audit Committee receives information on quarterly financial statements and on profits and losses before they are published. The Audit Committee deals with the financial statements in detail and recommends the Supervisory Board to approve or reject the annual financial statements.

The annual and semi-annual financial statements of the Bank are subject respectively to an independent audit and a review by a statutory auditor.

The Bank manages the risk of the process of preparation of financial statements also by ongoing monitoring of changes in requirements under external legislation and regulations concerning reporting obligations of banks, and by preparing for their implementation well ahead of the deadline.

The Bank also updates on an ongoing basis its accounting principles used to prepare financial statements.

The Bank also performs the control functions with respect to subsidiaries, which are consolidated for the purpose of preparing the financial statements of the Group, through its representatives in supervisory boards of those subsidiaries.

It is worth mentioning, that in 2009 BRE Bank was ranked second in "The Best Annual Report" contest, in the financial institutions and banks category, organised by the Institute of Accounting and Taxes. Earlier - in 2008 and in 2007 BRE Bank was ranked highest in that contest. The contest aims at promoting annual reports which are most useful for shareholders and investors.

XII.8. Compliance at BRE Bank

Compliance policy is executed at BRE Bank. Its aim is to guarantee that the provisions of law and the standards of conduct for financial institutions are obeyed at the Bank. The Management Board is responsible for implementation of the Compliance Policy, delegating that obligation to the Compliance Bureau (BMZ) which is supervised directly by the President of the Management Board.

In the area of compliance a number of banking regulations have been introduced, in order to guarantee that:

- cases of using the Bank in money laundering practices and in financing terrorism will be identified and reported to proper state authorities,
- confidential information will not be used to favour the Bank's employees compared with other participants of the organised financial market - internal regulations impose limitations on private investments of employees who have access to confidential information,
- personal data of clients are effectively protected, and their use and processing is subject to the provisions of law,
- gifts given to and received from Bank's clients do not generate corruption related situations thanks to the gift policy adopted at the Bank,
- principles of limiting conflicts of interests are applied at the Bank through limiting the employee's possibility of participation in supervisory boards and management boards of companies which are the Bank's clients, as well as through applying the "Chinese Walls" principle in order to limit the flow of confidential information between organisational units,
- banking products advertisements are subject to thorough evaluation in terms of applicable regulations and standards.

XII.9. Investor relations in BRE Bank

It is BRE Bank's tradition to devote special attention to establish good communication between the Company and the investors. The main goals of investor relations are: informing about the operation and results of the company, building the company's credibility and influencing its proper evaluation. In 2009 the investor relations team was transformed into Investor Relations Bureau.

Year 2009 was a determinant of responsibility and care of the stakeholders by the bank and an exam checking the ability to communicate during a crisis environment.

The Bank has provided the market with the information on preliminary financial results twice, in January and July 2009; when results differed considerably from the previous quarters and market expectations. In both cases, by respecting the best models in terms of corporate governance, the Bank reacted immediately and informed about the ensuing situation ahead of time compared to the publication of the quarterly results. Such conduct was assessed positively by investors, all the more so, because the market practice consists in maximizing a delay of releasing this kind of information.

Furthermore, in 2009 the traditional activities from the investor relations scope were conducted. Investors and stock analysts had a chance to meet with the Management Board representatives on the occasion of numerous foreign and domestic conferences, road-show and individual talks. In 2009 the Management Board of BRE Bank was ranked 1st by Euromoney Magazine in the category of the most accessible senior management.

Like every year, four analysts’ conferences on quarterly results were organized. Bearing in mind the comfort of the audience, conferences were also broadcast via Internet and recordings were published on the websites.

A total of 390 stakeholders took part in 187 meetings organised by investor relations within a year and the number of contacts of the investor relations team with analysts and investors, both individuals and institutions, in the form of e-mails and phone conversations in 2009 exceeded 1.7 thousand.

Activities of Investor Relations team were highly ranked in the rankings announced in 2009 of the financial magazines Institutional Investor and IR Magazine. In the first case, Investor Relations of BRE Bank were ranked first among Polish companies and were granted the “Best Investor Relations - Poland” title. In a similar ranking of an opinion-forming IR Magazine monthly, BRE Bank was ranked second among the companies applying for the title "Best IR by a Polish company". Positive opinion on the quality of investor relations at BRE has also been shared by analysts surveyed by “Parkiet” in March 2009. They assessed the quarterly reports of companies listed on the stock exchange, as well as meetings dedicated to results and presentations. BRE Bank was ranked 2nd.

XIII. BRE Bank's Plans for the Future

XIII.1. Conditions for 2010 Plans – Macroeconomic Scenario

In 2010, we expect GDP growth to accelerate significantly to ca. 3% as compared to estimated 1.7% in 2009. In the coming quarters, consumption will be relatively stable and increase modestly later in the year. The growth in consumption will be curbed by a delayed effect of deterioration on the labour market and a decrease of total wages. The situation on the labour market will probably improve only in the second half of the year, when companies hire new staff, consequently driving private consumption. Naturally, the situation on the labour market will be largely dependent on the outlook of both domestic and foreign demand.

As for domestic demand, the first positive signal is the significant slow-down of the trend to reduce corporate stocks (observed already in Q3 2009); stocks should be gradually rebuilt in the coming quarters as the market picks up. Another important driver is the expected increase in infrastructure investments: the Ministry of Finance expects ca. PLN 12 billion. Yet another key factor driving domestic demand is the level of foreign direct investments. This part of investment demand is difficult to forecast because it depends on global sentiment and risk aversion. However, assuming that the global risk aversion decreases, the inflow of FDI to Poland can be expected at a level close to the average recorded in the past years. Last but not least, other private investments will grow slowly in 2010 as stocks are replenished. However, assuming that the production capacity will be utilised at 77% while new lending remains limited, private investments cannot be expected to grow sharply. Yet, if investments do grow more dynamically, this will happen at the cost of a bigger negative contribution of net exports due to growing imports.

The inflation path in 2010 will probably be V-shaped. The CPI will drop in H1, approaching the floor of the NBP inflation target band, mainly due to the strong effect of a high statistical base of 2009 (prices grew sharply month on month in early 2009 due to strong depreciation of the zloty). In H2, the CPI might rebound fast as inflation pressure mounts due to growing consumption and disappearance of the base effect. The outlook of high inflation in H2 and the improving economy should encourage the Monetary Policy Council to raise interest rates during the year, at the earliest in Q3. We expect that the NBP reference rate can increase to 4.00% by the end of 2010, as compared to 3.50% at the end of 2009.

XIII.2. Scenario for the Banking Sector

In 2010, the growth rate of household deposits is expected to fall from 15.2% YoY at the end of 2009 to ca. 8% YoY in H1 2010, and to stabilise at this level until the end of the year. This will be driven by the worse conditions on the labour market, resulting in a decrease of total wages and continued growth of unemployment in H1 as a delayed effect of the current economic slow-down. The growth rate of deposits will also be curbed by continued inflows to investment funds (the balance of payments and withdrawals remains positive since mid-2009) and further large IPOs on the WSE in the intensified privatisation process of state companies (e.g., Tauron).

The average annual growth rate of corporate deposits in 2010 should remain around 10% YoY, as compared to 4.5% YoY in 2009. The growth of corporate deposits has been accelerating for several months and will continue to accelerate in 2010, driven by major improvements in the financial results of companies (up by 18.5% YoY in Q3 2009) thanks to economic recovery.

Limited availability of long-term bank debt combined with still high credit risk will lead to moderate loan growth in 2010. In addition, the volume of loans will be affected by appreciation of the zloty as the value of fx loans decreases (in particular, housing loans). Lending can be expected to pick up only in H2 when the Polish economy gains momentum and credit risk drops significantly.

Retail loans are expected to grow by ca. 6% in 2010, as compared to 11.8% in 2009. New lending to corporate customers will slow down more sharply following a decrease reported at the end of 2009 (-3.4% YoY). The annual growth rate of corporate loans will remain negative for most of 2010 but it should turn positive later in the year (expected growth by ca. 4% YoY at the end of 2010).

XIII.3. Strategic directions of BRE Bank's development in 2010

The main strategic goals for BRE Bank in 2010 include enhancement of its capital position and profitable growth of the business in attractive product areas e.g. (i) reinvigorating growth in its existing core business lines in both retail and corporate segments, (ii) expanding market share in non-mortgage retail lending and (iii) strengthening its position in niche adjacent corporate lending segments. The Bank seeks to complement lending volume growth with effective cross-selling efforts, especially with regards to non-solvency products for both corporate and retail clients. The Bank will focus on organic growth of its franchise and continue to win new customers.

The Management Board of the Bank intends to recommend to the Annual General Shareholders Meeting a pre-emptive rights issue in 2010 of up to 70% of the existing share capital of the Bank with the aim to raise PLN 2bn as a result of the new shares' issue.

The Bank plans to increase its share capital and increase its strategic flexibility to support the implementation of the announced growth strategy for the years 2010 – 2012, as well as provide for a Tier 1 capital ratio in line with potential new capital requirements, both regulatory and those of the marketplace.

The Bank expects that its improved capitalization will reinforce its competitive advantage to win profitable business from clients and facilitate its expansion plans as economic conditions improve.

In corporate banking the Bank will seek to strengthen its position in lending to public-sector entities and to expand in projects co-financed with the EU funds. At the same time, the Management Board plans further acquisition of clients from K2 and K3 segments. In investment banking the Management Board intends to maintain the current model of close cooperation with corporate clients and improve the range of products currently offered to clients. This will allow the Bank to maintain its strong position particularly in IR-products, FX and debt origination.

For retail banking, the strategic goal is to strengthen the Bank's position in its non-mortgage lending business, in particular among the existing clients of the Bank. The Bank intends to achieve this goal through cross-selling and, consequently, increasing penetration levels of the Bank's customer base. At the same time, revenues from non-mortgage products will help to diversify the Bank revenue sources. Moreover, the Bank aims to further develop sales of mortgage products, including those denominated in foreign currencies. The sales of foreign currency mortgage products will be based on the Bank's expertise gained from building up the current portfolio of mortgage loans denominated mainly in CHF.

The Bank plans to maintain a leading position in product innovations. In particular, the Management Board intends to become a leading player in modern transactional banking, tailored for corporate clients. A further development of electronic distribution channels, both for corporate clients and individuals is planned.

The BREnova Programme implemented in the Group in 2009, improved the cost base significantly, which, in turn, improved the operating efficiency ratios. The Management Board will seek to maintain the ratios achieved in 2009 or improve them.

XIV. Statements of the Management Board of the Bank

True and Fair Picture in the Presented Reports

The Management Board of BRE Bank SA declares that according to their best knowledge:

- The separate financial statement and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of BRE Bank SA as well as its financial performance;
- The report of the Management Board concerning the business activities in 2009 presents a true picture of the developments, achievements, and situation of BRE Bank SA, including a description of the main risks and threats.

Appointment of the Auditor

The Auditor authorised to audit financial statements performing the audit of the annual financial statements of BRE Bank SA was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law and professional standards.

Signatures of the Members of the Management Board of BRE Bank SA

Date	*Name*	*Position*	*Signature*
01.03.2010	Mariusz Grendowicz	President of the Management Board, General Director of the Bank	
01.03.2010	Karin Katerbau	Deputy President of the Management Board, Bank Director for Finance	
01.03.2010	Wiesław Thor	Deputy President of the Management Board, Bank Director for Risk Management	
01.03.2010	Przemysław Gdański	Member of the Management Board, Bank Director for Corporate Banking	
01.03.2010	Hans - Dieter Kemler	Member of the Management Board, Bank Director for Investment Banking	
01.03.2010	Jarosław Mastalerz	Member of the Management Board, Bank Director for Retail Banking	
01.03.2010	Christian Rhino	Member of the Management Board, Bank Director for Operations & IT	