BRE BANK SA

Our people make the difference.

# BRE Bank SA Group

## IFRS Consolidated Financial Statements 2011

Contents

## Selected Financial Data

The selected financial data are supplementary information to these Consolidated Financial Statements of BRE Bank SA Group for 2011.

| | | in PLN '000 | | in EUR '000 | |
|---|---|---|---|---|---|
| | | Year ended 31.12.2011 | Year ended 31.12.2010 | Year ended 31.12.2011 | Year ended 31.12.2010 |
| I. | Interest income | 3 871 231 | 3 421 704 | 935 057 | 854 486 |
| II. | Fee and commission income | 1 279 172 | 1 178 745 | 308 971 | 294 362 |
| III. | Net trading income | 424 091 | 410 672 | 102 435 | 102 555 |
| IV. | Operating profit | 1 467 127 | 872 511 | 354 370 | 217 888 |
| V. | Profit before income tax | 1 467 127 | 872 511 | 354 370 | 217 888 |
| VI. | Net profit attributable to Owners of BRE Bank SA | 1 134 972 | 641 602 | 274 141 | 160 224 |
| VII. | Net profit attributable to non-controlling interests | 9 463 | 19 263 | 2 286 | 4 810 |
| VIII. | Net cash flows from operating activities | 1 594 968 | (1 641 347) | 385 249 | (409 886) |
| IX. | Net cash flows from investing activities | (187 372) | (134 115) | (45 258) | (33 492) |
| X. | Net cash flows from financing activities | (2 519 401) | 737 505 | (608 536) | 184 174 |
| XI. | Net increase / decrease in cash and cash equivalents | (1 111 805) | (1 037 957) | (268 545) | (259 204) |
| XII. | Earnings per ordinary share (in PLN/EUR) | 26.96 | 17.49 | 6.51 | 4.37 |
| XIII. | Diluted earnings per ordinary share (in PLN/EUR) | 26.94 | 17.48 | 6.51 | 4.36 |
| XIV. | Declared or paid dividend per share (in PLN/EUR) | - | - | - | - |

| | | in PLN '000 | | in EUR '000 | |
|---|---|---|---|---|---|
| | | As at | | As at | |
| | | 31.12.2011 | 31.12.2010 | 31.12.2011 | 31.12.2010 |
| I. | Total assets | 98 875 647 | 90 038 831 | 22 386 263 | 22 735 356 |
| II. | Amounts due to the Central Bank | - | 79 | - | 20 |
| III. | Amounts due to other banks | 27 390 809 | 28 727 008 | 6 201 505 | 7 253 745 |
| IV. | Amounts due to customers | 54 244 388 | 47 150 953 | 12 281 377 | 11 905 904 |
| V. | Equity attributable to Owners of BRE Bank SA | 8 048 755 | 6 909 303 | 1 822 305 | 1 744 641 |
| VI. | Non-controlling interests | 23 910 | 167 982 | 5 413 | 42 416 |
| VII. | Share capital | 168 411 | 168 347 | 38 130 | 42 509 |
| VIII. | Number of shares | 42 102 746 | 42 086 674 | 42 102 746 | 42 086 674 |
| IX. | Book value per share ( in PLN/EUR) | 191.17 | 164.17 | 43.28 | 41.45 |
| X. | Capital adequacy ratio | 14.96 | 15.90 | 14.96 | 15.90 |

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

- for items of the Statement of Financial Position – exchange rate announced by the National Bank of Poland as at 31 December 2011 EUR 1 = PLN 4.4168 and 31 December 2010: EUR 1 = PLN 3.9603.
- for items of the Income Statement – exchange rate calculated as the arithmetic mean of exchange rates announced by the National Bank of Poland as at the end of each month of 2011 and 2010: 1 EUR = PLN 4.1401 and 1 EUR = PLN 4.0044 respectively.

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## Consolidated Income Statement

| | Note | Year ended 31 December | |
|---|---|---|---|
| | | 2011 | 2010 |
| Interest income | | 3 871 231 | 3 421 704 |
| Interest expense | | (1 722 629) | (1 610 740) |
| **Net interest income** | 6 | **2 148 602** | **1 810 964** |
| Fee and commission income | | 1 279 172 | 1 178 745 |
| Fee and commission expense | | (439 200) | (432 826) |
| **Net fee and commission income** | 7 | **839 972** | **745 919** |
| Dividend income | 8 | 15 113 | 8 173 |
| Net trading income, including: | 9 | 424 091 | 410 672 |
| *Foreign exchange result* | | *393 943* | *369 982* |
| *Other net trading income and result on hedge accounting* | | *30 148* | *40 690* |
| Gains less losses from investment securities, investments in subsidiaries and associates | 23 | 11 985 | 45 148 |
| Other operating income | 10 | 301 930 | 311 271 |
| Net impairment losses on loans and advances | 13 | (373 470) | (634 779) |
| Overhead costs | 11 | (1 471 501) | (1 380 351) |
| Amortization and depreciation | 25, 26 | (251 412) | (236 918) |
| Other operating expenses | 12 | (178 183) | (207 588) |
| **Operating profit** | | **1 467 127** | **872 511** |
| **Profit before income tax** | | **1 467 127** | **872 511** |
| Income tax expense | 14 | (322 692) | (211 646) |
| **Net profit** | | **1 144 435** | **660 865** |
| **Net profit attributable to:** | | | |
| - Owners of BRE Bank SA | | 1 134 972 | 641 602 |
| - Non-controlling interests | | 9 463 | 19 263 |

| | | | |
|---|---|---|---|
| **Weighted average number of ordinary shares** | 15 | **42 093 950** | **36 679 683** |
| **Earnings per ordinary share (in PLN)** | 15 | **26.96** | **17.49** |
| **Weighted average number of ordinary shares for diluted earnings** | 15 | **42 133 947** | **36 709 325** |
| **Diluted earnings per ordinary share (in PLN)** | 15 | **26.94** | **17.48** |

Notes presented on pages 9 – 109 constitute an integral part of these Consolidated Financial Statements.

IFRS Consolidated Financial Statements 2011 PLN (000's)

## Consolidated Statement of Comprehensive Income

| | Note | Year ended 31 December | |
|---|---|---|---|
| | | 2011 | 2010 |
| **Net profit** | | **1 144 435** | **660 865** |
| **Other comprehensive income net of tax** | 16 | **2 248** | **172 788** |
| Exchange differences on translating foreign operations (net) | | 3 451 | (5 231) |
| Available-for-sale financial assets (net) | | (1 203) | 178 019 |
| **Total comprehensive income net of tax, total** | | **1 146 683** | **833 653** |
| **Total comprehensive income (net), attributable to:** | | | |
| - Owners of BRE Bank SA | | 1 135 612 | 816 638 |
| - Non-controlling interests | | 11 071 | 17 015 |

Notes presented on pages 9 – 109 constitute an integral part of these Consolidated Financial Statements.

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## Consolidated Statement of Financial Position

| ASSETS | Note | 31.12.2011 | 31.12.2010 |
|---|---|---|---|
| Cash and balances with the Central Bank | 17 | 1 038 356 | 2 359 912 |
| Loans and advances to banks | 18 | 4 008 874 | 2 507 282 |
| Trading securities | 19 | 991 559 | 1 565 656 |
| Derivative financial instruments | 20 | 1 506 595 | 1 226 653 |
| Loans and advances to customers | 22 | 67 851 516 | 59 374 051 |
| Hedge accounting adjustments related to fair value of hedged items | 21 | 1 924 | - |
| Investment securities | 23 | 16 697 212 | 18 762 688 |
| Pledged assets | 19,23,37 | 4 339 523 | 1 830 803 |
| Investments in associates | 24 | - | 317 |
| Intangible assets | 25 | 436 769 | 427 837 |
| Tangible assets | 26 | 832 455 | 777 620 |
| Current income tax assets | | 4 728 | 5 922 |
| Deferred income tax assets | 34 | 307 052 | 316 372 |
| Other assets | 27 | 859 084 | 883 718 |
| **Total assets** | | **98 875 647** | **90 038 831** |
| **EQUITY AND LIABILITIES** | | | |
| Amounts due to the Central Bank | 28 | - | 79 |
| Amounts due to other banks | 28 | 27 390 809 | 28 727 008 |
| Derivative financial instruments | 20 | 1 862 747 | 1 363 508 |
| Amounts due to customers | 29 | 54 244 388 | 47 150 953 |
| Debt securities in issue | 30 | 1 735 988 | 1 371 824 |
| Subordinated liabilities | 31 | 3 456 200 | 3 010 127 |
| Other liabilities | 32 | 1 723 856 | 1 136 624 |
| Current income tax liabilities | | 235 568 | 25 469 |
| Deferred income tax liabilities | 34 | 258 | 629 |
| Provisions | 33 | 153 168 | 175 325 |
| **Total liabilities** | | **90 802 982** | **82 961 546** |
| **Equity** | | | |
| **Equity attributable to Owners of BRE Bank SA** | | **8 048 755** | **6 909 303** |
| **Share capital:** | | **3 493 812** | **3 491 812** |
| - Registered share capital | 38 | 168 411 | 168 347 |
| - Share premium | 39 | 3 325 401 | 3 323 465 |
| **Retained earnings:** | 40 | **4 493 157** | **3 356 345** |
| - Profit from the previous years | | 3 358 185 | 2 714 743 |
| - Profit for the current year | | 1 134 972 | 641 602 |
| **Other components of equity** | 41 | **61 786** | **61 146** |
| **Non-controlling interests** | | **23 910** | **167 982** |
| **Total equity** | | **8 072 665** | **7 077 285** |
| **Total equity and liabilities** | | **98 875 647** | **90 038 831** |
| **Capital adequacy ratio** | 47 | **14.96** | **15.90** |
| **Book value** | | **8 048 755** | **6 909 303** |
| **Number of shares** | | **42 102 746** | **42 086 674** |
| **Book value per share (in PLN)** | | **191.17** | **164.17** |

Notes presented on pages 9 – 109 constitute an integral part of these Consolidated Financial Statements.

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## Consolidated Statement of Changes in Equity

### Changes from 1 January to 31 December 2011

| | Note | Share capital | | Retained earnings | | | | | Other components of equity | | Equity attributable to Owners of BRE Bank SA, total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General risk fund | Profit from the previous years | Profit for the current year | Exchange differences on translation of foreign operations | Available for sale financial assets | | | |
| **Equity as at 1 January 2011** | | **168 347** | **3 323 465** | **1 814 954** | **55 300** | **778 953** | **707 138** | **-** | **50** | **61 096** | **6 909 303** | **167 982** | **7 077 285** |
| **Total comprehensive income** | 16 | | | | | | | **1 134 972** | **1 871** | **(1 231)** | **1 135 612** | **11 071** | **1 146 683** |
| Dividends paid | | - | - | - | - | - | - | - | - | - | - | (6 978) | (6 978) |
| Transfer to General Risk Fund | | - | - | - | - | 63 000 | (63 000) | - | - | - | - | - | - |
| Transfer to reserve capital | | - | - | - | 17 000 | - | (17 000) | - | - | - | - | - | - |
| Transfer to supplementary capital | | - | - | 519 721 | - | - | (519 721) | - | - | - | - | - | - |
| Issue of shares | 38, 39 | 64 | - | - | - | - | - | - | - | - | 64 | - | 64 |
| Change in the scope of consolidation/increase of share in consolidated company | | - | | - | (513) | - | (7 034) | - | - | - | (7 547) | (148 165) | (155 712) |
| Stock option program for employees | 40 | - | 1 936 | - | 9 387 | - | - | - | - | - | 11 323 | - | 11 323 |
| *- value of services provided by the employees* | | - | - | - | *11 323* | - | - | - | - | - | *11 323* | - | *11 323* |
| *- settlement of exercised options* | | - | *1 936* | - | *(1 936)* | - | - | - | - | - | - | - | - |
| **Equity as at 31 December 2011** | | **168 411** | **3 325 401** | **2 334 675** | **81 174** | **841 953** | **100 383** | **1 134 972** | **1 921** | **59 865** | **8 048 755** | **23 910** | **8 072 665** |

### Changes from 1 January to 31 December 2010

| | Note | Share capital | | Retained earnings | | | | | Other components of equity | | Equity attributable to Owners of BRE Bank SA, total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Registered share capital | Share premium | Other supplementary capital | Other reserve capital | General risk fund | Profit from the previous years | Profit for the current year | Exchange differences on translation of foreign operations | Available for sale financial assets | | | |
| **Equity as at 1 January 2010** | | **118 764** | **1 402 919** | **1 761 960** | **53 158** | **719 210** | **178 066** | **-** | **3 017** | **(116 907)** | **4 120 187** | **150 967** | **4 271 154** |
| **Total comprehensive income** | 16 | | | | | | | **641 602** | **(2 967)** | **178 003** | **816 638** | **17 015** | **833 653** |
| Transfer to General Risk Fund | | - | - | - | - | 59 743 | (59 743) | - | - | - | - | - | - |
| Transfer to supplementary capital | | - | - | 52 994 | - | - | (52 994) | - | - | - | - | - | - |
| Loss coverage with reserve capital | | - | - | - | (207) | - | 207 | - | - | - | - | - | - |
| Issue of shares | 38, 39 | 49 583 | 1 929 907 | - | - | - | - | - | - | - | 1 979 490 | - | 1 979 490 |
| Issue expenses | | - | (13 287) | - | - | - | - | - | - | - | (13 287) | - | (13 287) |
| Stock option program for employees | 40 | - | 3 926 | - | 2 349 | - | - | - | - | - | 6 275 | - | 6 275 |
| *- value of services provided by the employees* | | - | - | - | *6 275* | - | - | - | - | - | *6 275* | - | *6 275* |
| *- settlement of exercised options* | | - | *3 926* | - | *(3 926)* | - | - | - | - | - | - | - | - |
| **Equity as at 31 December 2010** | | **168 347** | **3 323 465** | **1 814 954** | **55 300** | **778 953** | **65 536** | **641 602** | **50** | **61 096** | **6 909 303** | **167 982** | **7 077 285** |

Notes presented on pages 9 – 109 constitute an integral part of these Consolidated Financial Statements.

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## Consolidated Statement of Cash Flows

| | Note | Year ended 31 December | |
|---|---|---|---|
| | | 2011 | 2010 |
| A. Cash flow from operating activities | | 1 594 968 | (1 641 347) |
| Profit before income tax | | 1 467 127 | 872 511 |
| *Adjustments:* | | *127 841* | *(2 513 858)* |
| Income taxes paid | | (95 738) | (76 690) |
| Amortisation | 25, 26 | 251 412 | 236 918 |
| Foreign exchange (gains) losses related to financing activities | | 3 491 775 | 2 821 505 |
| (Gains) losses on investing activities | | (14 014) | (43 783) |
| Impairment of financial assets | | - | 97 |
| Dividends received | 8 | (15 113) | (8 173) |
| Interest received | | (2 537 710) | (2 031 189) |
| Interest paid | | 1 491 412 | 1 476 674 |
| Changes in loans and advances to banks | | 82 717 | (349 174) |
| Changes in trading securities | | (181 068) | 110 709 |
| Changes in assets and liabilities on derivative financial instruments | | 219 297 | 134 987 |
| Changes in loans and advances to customers | | (7 232 553) | (4 956 689) |
| Changes in investment securities | | (975 828) | (3 554 475) |
| Changes in other assets | | 15 888 | 27 036 |
| Changes in amounts due to other banks | | 185 887 | 165 778 |
| Changes in amounts due to customers | | 4 916 626 | 3 418 561 |
| Changes in debt securities in issue | | (39 839) | 30 515 |
| Changes in provisions | | (10 605) | (1 632) |
| Changes in other liabilities | | 575 295 | 85 167 |
| Net cash generated from operating activities | | 1 594 968 | (1 641 347) |
| B.Cash flows from investing activities | | (187 372) | (134 115) |
| Investing activity inflows | | 118 865 | 105 618 |
| Disposal of shares in associates | 24 | 1 348 | - |
| Disposal of shares in subsidiaries, net of cash disposed | | 70 013 | - |
| Disposal of intangible assets and tangible fixed assets | | 19 437 | 29 553 |
| Dividends received | 8 | 15 113 | 8 173 |
| Other investing inflows | | 12 954 | 67 892 |
| Investing activity outflows | | 306 237 | 239 733 |
| Purchase of intangible assets and tangible fixed assets | | 306 237 | 239 733 |
| Net cash used in investing activities | | (187 372) | (134 115) |
| C. Cash flows from financing activities | | (2 519 401) | 737 505 |
| Financing activity inflows | | 4 356 344 | 4 113 662 |
| Proceeds from loans and advances from other banks | | 620 507 | 1 929 382 |
| Proceeds from other loans and advances | | 1 255 960 | 199 260 |
| Issue of debt securities | | 2 479 813 | 18 817 |
| Issue of ordinary shares | | 64 | 1 966 203 |
| Financing activity outflows | | 6 875 745 | 3 376 157 |
| Repayments of loans and advances from other banks | | 4 290 141 | 2 912 297 |
| Repayments of other loans and advances | | 9 732 | 17 236 |
| Redemption of debt securities | | 2 075 810 | 96 714 |
| Acquisition of shares in subsidiaries | | 107 498 | - |
| Payments of financial lease liabilities | | 365 | 207 |
| Dividends and other payments to shareholders | | 6 978 | 2 272 |
| Interest paid from loans and advances received from other banks and subordinated liabilities | | 385 221 | 347 431 |
| Net cash generated from financing activities | | (2 519 401) | 737 505 |
| Net increase / decrease in cash and cash equivalents (A+B+C) | | (1 111 805) | (1 037 957) |
| Effects of exchange rate changes on cash and cash equivalents | | (18 800) | (24 107) |
| Cash and cash equivalents at the beginning of the reporting period | | 5 805 816 | 6 867 880 |
| Cash and cash equivalents at the end of the reporting period | 43 | 4 675 211 | 5 805 816 |

Notes presented on pages 9 – 109 constitute an integral part of these Consolidated Financial Statements.

## Explanatory Notes to the Consolidated Financial Statements

### 1. Information Regarding the Group of BRE Bank SA

The Group of BRE Bank SA (the 'Group') consists of entities under the control of BRE Bank SA (the 'Bank') of the following nature:

- strategic: shares and equity interests in companies supporting particular business lines of BRE Bank SA (corporates and financial markets segment, retail banking segment and other) with an investment horizon not shorter than 3 years. The formation or acquisition of these companies was intended to expand the range of services offered to the clients of the Bank;
- other: shares and equity interests in companies acquired in exchange for receivables, in transactions resulting from composition and work out agreements with debtors, with the intention to recover a part or all claims to loan receivables and insolvent companies under liquidation or receivership.

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

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

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

As at 31 December 2011, the BRE Bank SA Group covered by the Consolidated Financial Statements comprised the following companies:

**BRE Bank SA, the parent entity**

Bank Rozwoju Eksportu SA (Export Development Bank) was established by Resolution of the Council of Ministers N° 99 of 20 June 1986. The Bank was registered pursuant to the legally valid decision of the District Court for the Capital City of Warsaw, 16$^{th}$ Economic Registration Division, on 23 December 1986 in the Business Register under the number RHB 14036. The 9$^{th}$ 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 'Banks' sector as part of the 'Finance' macro-sector.

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

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 in Polish and foreign banks, and can possess foreign exchange assets and trade in them.

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

As at 31 December 2011 the headcount of BRE Bank SA amounted to 4 729 FTEs (Full Time Equivalents) and of the Group to 6 294 FTEs (31 December 2010: Bank 4 416 FTEs, Group 6 018 FTEs).

As at 31 December 2011 the employment in BRE Bank SA was 5 683 persons and in the Group 8 158 persons (31 December 2010: Bank 5 300 persons, Group 7 023 persons).

The business activities of the Group are conducted in the following business segments (presented in detail in the Note 5).

### Corporates and Financial Markets Segment, including:

### Corporates and Institutions

- **BRE Holding Sp. z o.o., subsidiary**

The company was founded in November 2007 by BRE Bank as a sole shareholder. The company's assets consists of 100% shares of BRE Leasing Sp. z o.o., 100% shares of BRE Faktoring SA, 75.71% shares of BRE Bank Hipoteczny SA and 79.99% shares of BRE.locum SA.

- **BRE Leasing Sp. z o.o., subsidiary**

The company's core business is to lease chattels such as: machinery, equipment, technology lines, passenger cars, vans and trucks, tractors, trailers and semi-trailers, buses, vehicles, special equipment, ships, aircraft, rolling stock, office equipment, computer hardware. BRE Leasing's offer for corporate clients includes leasing of real estate, mainly offices, hotels, warehouses and logistics centres, petrol stations, public buildings and municipal infrastructure. The company has a network of offices in the largest cities of Poland. BRE Bank holds indirectly through its subsidiary BRE Holding 100% shares of BRE Leasing.

- **Garbary Sp. z o.o., subsidiary**

The only business of the company is to administer the buildings of a former meat factories located at 101/111 Garbary St. in Poznań.

- **BRE Faktoring SA (former Polfactor SA), subsidiary**

The company operates in Poland and provides factoring services for domestic, export and import transactions. It is a member of the Polish Factors Association and Factors Chain International. Now, the Bank holds an indirect stake (through BRE Holding, its subsidiary) of 100% of the share capital and 100% of votes at the General Meeting of the company.

- **Transfinance a.s., subsidiary**

Transfinance a.s. provides factoring services to small and medium-sized enterprises in the Czech Republic. Its services include domestic and international factoring. The core business of the company also includes purchase of collections, letters of credit, bank guarantees, as well as forfaiting. The Bank holds 100% of Transfinance's shares.

- **BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, subsidiary**

As of November 2009 the Group consolidates BRE GOLD Fundusz Inwestycyjny Zamkniety Aktywów Niepublicznych after BRE Bank acquired all its investment certificates (A and B series). The main asset of the fund is the package of PZU SA shares which was previously held by the Bank directly.

### Trading and Investment

- **BRE Bank Hipoteczny SA, subsidiary**

The core business of BRE Bank Hipoteczny SA is to grant mortgage loans to finance commercial real estate, residential development projects and local government investments. The company issues mortgage and public bonds to finance its lending operation.

The Bank holds directly and indirectly through BRE Holding, its subsidiary, 100% of the shares of the company.

- **BRE Finance France SA, subsidiary**

The core business of the company is to raise funds for the Bank by issuing euro-notes on international financial markets. The company redeemed the last outstanding tranche of euro-notes in December 2009. The company did not issue debt in 2011.

- **Dom Inwestycyjny BRE Banku SA, subsidiary**

The company's core business is to provide services related to trading in securities, rights in property other than securities, and other financial instruments on the capital market in accordance with the applicable law and the licences held by the company.

### Retail Banking Segment (including Private Banking)

- **Aspiro SA, subsidiary**

Aspiro SA offers products from mBank, MultiBank and third party banks. Its offer includes mortgage loans, business products, cash loans, insurance products and leasing. It has a national distribution network comprising 25 Financial Centres, 62 mKiosks, 10 Partner mKiosks, and 30 Agent Service Points.

- **BRE Wealth Management SA, subsidiary**

The company's core business is to provide comprehensive wealth management services. In 2011, a new business model focused on offering investment related advice was implemented. The Company continues its strategic direction communicated as a change in the offer "From Asset Manager for Wealth Manager." The new model provides advice on all assets, both financial and non-financial, focusing on client business plans and assistance in this regard. Thus, the target group of BRE Wealth Management was changed - currently the offer is addressed to clients with assets of more than 1 million PLN.

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- **BRE Ubezpieczenia TUiR SA, subsidiary, insurer**

The core business of the company is insurance activity within the scope of the second division of underwriting – property and casualty insurance. The company sells its products through the Internet platform developed in cooperation with retail branches of the Bank. Also, typical products known as bancassurance for customers of the Bank are sold via an insurance agent, the company BRE Ubezpieczenia Sp. z o.o. The Bank holds 100% of the company's shares.

- **BRE Ubezpieczenia Sp. z o.o., subsidiary, insurance agent**

The core business of the company involves services provided as an insurance agent and services within the scope of settlements due to insurance agreements of insured persons. Its direct parent entity is BRE Ubezpieczenia TUiR SA. The Bank holds 100% shares in the company indirectly, through BRE Ubezpieczenia TUiR SA.

## Other

- **Centrum Rozliczeń i Informacji CERI Sp. z o.o., subsidiary**

The core business of the company includes providing services such as settlements, database servicing, electronic and paper archiving and input of data to systems.

- **BRE.locum SA, subsidiary**

BRE.locum SA is a property developer operating on the primary market of residential real estate. The company develops and assesses investment projects; arranges, supervises and manages building designs and construction work; acts as a 'substitute investor'; sources funds for investment. In Q4 2010, the shares of BRE.locum were transferred to BRE Holding Sp. z o.o. The Bank holds indirectly through BRE Holding 79.99% of the shares of the company.

### Other information concerning companies of the Group

On 28 July 2011, the Group completed the sale of its stakes in Intermarket Bank AG and Magyar Factor zRt. and acquired from Intermarket Bank AG its respective stakes in BRE Faktoring SA and Transfinance a.s.

The transaction is described under Note 45 of these Consolidated Financial Statements.

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

| Company | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | Share in voting rights (directly and indirectly) | Consolidation method | Share in voting rights (directly and indirectly) | Consolidation method |
| Aspiro SA | 100% | full | 100% | full |
| BRE Bank Hipoteczny SA | 100% | full | 100% | full |
| BRE Holding Sp. z o.o. | 100% | full | 100% | full |
| BRE Leasing Sp. z o.o. | 100% | full | 50.004% | full |
| BRE Ubezpieczenia Sp. z o.o. | 100% | full | 100% | full |
| BRE Ubezpieczenia TUiR SA | 100% | full | 100% | full |
| BRE Wealth Management SA | 100% | full | 100% | full |
| Centrum Rozliczeń i Informacji CERI Sp. z o.o. | 100% | full | 100% | full |
| Dom Inwestycyjny BRE Banku SA | 100% | full | 100% | full |
| Garbary Sp. z o.o. | 100% | full | 100% | full |
| BRE Faktoring SA (previously Polfactor SA) | 100% | full | 78.12% | full |
| Transfinance a.s. | 100% | full | 78.12% | full |
| BRE Finance France SA | 99.98% | full | 99.98% | full |
| BRE.locum SA | 79.99% | full | 79.99% | full |
| BRE GOLD FIZ Aktywów Niepublicznych | 100% of certificates | full | 100% of certificates | full |
| Intermarket Bank AG | - | - | 56.24% | full |
| Magyar Factor zRt. | - | - | 78.12% | full |

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

The Management Board of BRE Bank SA approved these Consolidated Financial Statements for issue on 2 March 2012.

## 2. Description of Relevant Accounting Policies

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

### 2.1 Accounting Basis

These Consolidated Financial Statements of BRE Bank SA Group have been prepared for the 12-month period ended 31 December 2011.

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

The preparation of the financial statements in compliance with IFRS requires the application of specific accounting estimates. It also requires the Management Board to use its own judgment when applying the accounting policies adopted by the Group. The issues in relation to which a greater degree of judgment is required, more complex issues, or such issues where estimates or judgments are material to the consolidated financial statements are disclosed in the Note 4.

### 2.2 Consolidation

Subsidiaries

Subsidiaries comprise entities (including special purpose vehicles) over which the Group has the power to manage their financial and operating policies generally accompanying a shareholding of a majority of the voting rights. When assessing whether the Group actually controls the given entity, the existence and impact of potential voting rights that are currently exercisable or convertible are considered. Subsidiary entities are subject to full consolidation from the date of acquisition of control over them by the Group. Their consolidation is discontinued from the date when control is not exercised any longer. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement (see Note 2.18).

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

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

The company also applies accounting policies in line with IFRS 3 Business Combinations to combinations of bussines under common control.

Consolidation does not cover those companies whose scale of business operations is immaterial in relation to the volume of business of the Group, as well as companies acquired for the purpose of their resale or liquidation. Those companies were recognised at cost less impairment.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are settled using the equity method of accounting and they are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment losses) identified on the acquisition date (see Note 2.18).

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

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

### 2.3 Interest Income and Expenses

All interest income on 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 expense to the proper periods. The effective interest rate is the interest rate at which the discounted future payments or future cash inflows are equal to the net present carrying value of the respective financial asset or liability. When calculating the effective interest rate, the Bank estimates the cash flows taking into account all the contractual terms of the financial instrument, but without taking into account possible future losses on account of non-recovered loans and advances. This calculation takes into account all the fees paid or received between the parties to the contract, which constitute an integral component of the effective interest rate, as well as transaction expenses and any other premiums or discounts.

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

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

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

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

### 2.4 Fee and Commission Income

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

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

Additionally, fee and commission income on insurance activity comprises income on services provided by an insurance agent and income on account of payments for arranging instalments for a premium for insurance products sold through the Internet platform. Payment on account of arranging instalments for a premium is recognised entirely at the policy issue date.

Income on account of services provided as an insurance agent is recognised at the time of performance of the services in the net amount, after deduction of expenses (directly connected with the income) of services provided by the entities from outside of the Group.

### 2.5 Insurance premium revenue

Insurance premium revenue accomplished upon insurance activity is recognised at the policy issue date and calculated proportionally over the period of insurance cover. Insurance premium revenue is recognised under other operating income in the consolidated financial statements of the Group.

### 2.6 Compensations and benefits, net

Compensations and benefits, net relate to insurance activity. They comprise payoffs and charges made in the reporting period due to compensations and benefits for events arising in the current and previous periods, together with costs of claims handling and costs of enforcement of recourses, less received returns, recourses and any recoveries, including recoveries from sale of remains after claims and reduced by reinsurers' share in these positions. Costs of claims handling and costs of enforcement of recourses also comprise costs of legal proceedings. The item also comprises compensations and benefits due to co-insurance activity in the part related to the share of the Group. Compensations and benefits, net are recognised together with insurance premium revenue recognition under other operating income in the consolidated financial statements of the Group.

### 2.7 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Management Board of the Bank as its chief operating decision-maker (as defined in IFRS 8).

In accordance with IFRS 8, the Group has the following business segments: Retail Banking, Corporates and Financial Markets including the sub-segments Corporates and Institutions as well as Trading and Investment Acivity, and the remaining business.

### 2.8 Financial Assets

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

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

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

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

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

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

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

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

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

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

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

Interest income/expense on financial assets/financial liabilities designated at fair value, except for derivatives the recognition of which is discussed in Note 2.15, is recognised in net interest income. The valuation and result on disposal of financial assets/financial liabilities designated at fair value is recognised in trading income.

Loans and Receivables

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

Held to Maturity Investments

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

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

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

Available for Sale Investments

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

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

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

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

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

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

Investments in associates are initially recognised at cost and settled using the equity method of accounting.

### 2.9 Reinsurance assets

The Group transfers insurance risks to reinsurers in the course of typical operating activities in insurance activity. Reinsurance assets comprise primarily reinsurers' share in technical-insurance provisions.

The amounts of settlements with reinsurers are estimated according to relevant reinsured polices and reinsurance agreements.

Tests for impairment of reinsurance assets are carried out if there is objective evidence that the reinsurance asset is impaired. Impairment loss of reinsurance asset is calculated if either there is an objective evidence that the Group might not receive the receivable in accordance with the agreement or the value of such impairment can be reliably assessed.

If in a subsequent period the impairment loss is decreasing and the decrease can be objectively related to an event occurring after the recognition of impairment, then the previously recognised impairment loss is reversed as an adjustment of the impairment loss through the Consolidated Income Statement.

The reversal cannot cause an increase of the carrying amount of the financial asset more than the amount which would constitute the amortised cost of this asset on the reversal date if the recognition of the impairment did not occur at all.

### 2.10 Offsetting Financial Instruments

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

### 2.11 Impairment of Financial Assets

<u>Assets Carried at Amortised Cost</u>

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

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

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

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

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

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

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

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

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

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

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

Assets Measured at Fair Value

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

Renegotiated agreements

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

### 2.12 Financial Guarantee Contracts

The financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
When a financial guarantee contract is recognised initially, it is measured at the fair value. After initial recognition, an issuer of such a contract measures it at the higher of:

- the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', and
- the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 'Revenue'.

### 2.13 Cash and Cash Equivalents

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

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

### 2.14 Sell-buy-back, Buy-sell-back, Reverse Repo and Repo Contracts

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

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

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

Securities borrowed by the Group are not recognised in the financial statements, unless they are sold to third parties. In such case the purchase and sale transactions are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as trading liability.
Securities borrowed under 'buy-sell-back' transactions and then lent under 'sell-buy-back' transactions are not recognised as financial assets.

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

### 2.15 Derivative Financial Instruments and Hedge Accounting

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

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

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

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

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

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

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

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

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 Other Comprehensive Income until the disposal of the equity security.

Cash Flow Hedges

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

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

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

Derivative Instruments Not Fulfilling the Criteria of Hedge Accounting

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

The Group holds the following derivative instruments in its portfolio:

*Market risk instruments:*

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

*Interest rate risk instruments:*

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

*Foreign exchange risk instruments:*

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

### 2.16 Gains and Losses on Initial Recognition

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

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

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

### 2.17 Borrowings and deposits taken

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

### 2.18 Intangible Assets

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisition of associates is recognised in 'investment in associates'. Goodwill is not amortised, but it is tested annually for impairment, and it is carried in the Statement of Financial Position at cost reduced by accumulated impairment losses. Goodwill impairment losses should not be reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Goodwill is allocated to cash generating units or groups of cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose and identified in accordance with IFRS 8.

Computer software

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

Capitalised costs attached to the development of software are amortised over the period of their estimated useful life.

Computer software directly connected with the functioning of specific information technology hardware is recognised as 'Tangible fixed assets'.

Development costs

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

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

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

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

### 2.19 Tangible Fixed Assets

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

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

Accounting principles concerning assets held for liquidation or withdrawal from usage are described under Note 2.21.

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

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

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

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

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

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

### 2.20 Inventories

Inventories are stated at the lower of: cost of purchase/cost of construction and net realisable value. Cost of construction of inventories comprises direct construction costs, the relevant portion of fixed indirect production costs incurred in the construction process and the borrowing costs, which can be directly allocated to the purchase or construction of an asset. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs. The amount of any inventory write-downs to the net realisable value and any inventory losses are recorded as costs of the period in which a write-down or a loss occurred and they are classified as the cost of finished goods sold. Reversals of inventory write-downs resulting from increases in their net realisable value are recorded as a reduction of the inventories recognized as cost of the period in which the reversals took place. Inventory issues are valued through detailed identification of the individual purchase prices or costs of construction of the assets which relate to the realisation of the individual separate undertakings. In particular, inventories comprise land and rights to perpetual usufruct of land designated for use as part of construction projects carried out. They also comprise assets held for lease as well as assets taken over as a result of terminated lease agreements.

### 2.21 Non-Current Assets Held for Sale and Discontinued Operations

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

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

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

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

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

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

### 2.22 Deferred Income Tax

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

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

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

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

The Group presents the deferred income tax assets and provisions netted in the Statement of Financial Position separately for each subsidiary undergoing consolidation. Such assets and provisions may be netted against each other if the Group possesses the legal rights allowing it to simultaneously account for them when calculating the amount of the tax liability.

In the case of the Bank, the deferred income tax assets and provisions are netted against each other separately for each country where the Bank conducts its business and is obliged to settle corporate income tax.

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

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

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

### 2.23 Assets Repossessed for Debt

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

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

### 2.24 Prepayments, Accruals and Deferred Income

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

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

Deferred income comprises reinsurance and co-insurance commissions, resulting from insurance agreements included in reinsurance and co-insurance agreements, which are subject to settlement over the period in the proportional part to the future reporting periods.

Acquisition costs in the part attributable to future reporting periods are subject to settlement, proportionally to the duration of the relevant insurance agreements.

### 2.25 Leasing

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

In the case of assets in use on the basis of a finance lease agreement, the amount equal to the net investment in the lease is recognised as receivables. The difference between the gross receivable amount and the present value of the receivables is recognised as unrealised financial income.

Revenue from leasing agreements is recognized as follows:

- Interests on finance lease

Revenue from finance lease is recognized on the accruals basis, based on the fixed rate of return calculated on the basis of all the cash flows related to the realization of a given lease agreement, discounted using the initial effective interest rate.

- Revenue from operating lease

Revenue from operating lease is recognized as income on a straight-line basis over the lease period, unless application of a different systematic method better reflects the time allocation of benefits drawn from the leased asset.

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

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

### 2.26 Provisions

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

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

Technical-insurance provisions for unpaid claims, benefits and premiums concern insurance activity.

Provision for unpaid claims and benefits is created in the amount of the established or expected final value of future claims and benefits paid in connection with events before the reporting period date, including related claims handling costs.

Provision for unpaid claims and benefits which were notified to the insurer and in relation to which the information held does not enable to assess the value of claims and benefits is calculated using the lump sum method.

Provision for premiums is created individually for each insurance agreement as premium written, attributed to subsequent reporting periods, proportionally to the period for which the premium was written on the daily basis. However, in case of insurance agreements whose risk is not evenly apportioned over the period of duration of insurance, provision is created proportionally to the expected risk in subsequent reporting periods.

At each reporting date the Group tests for adequacy of technical-insurance provisions to ensure whether the provisions deducted by deferred acquisition costs are sufficient. The adequacy test is carried out using up-to-date estimates of future cash flows arising from insurance agreements, including costs of claims handling and policy-related costs.

If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the Consolidated Income Statement through impairment of deferred acquisition costs or/and supplementary provisions.

### 2.27 Retirement Benefits and Other Employee Benefits

Retirement Benefits

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

Benefits Based on Shares

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

### 2.28 Equity

Equity consists of capital and own funds attributable to owners of the Bank, and non-controlling interest created in compliance with the respective provisions of the law, i.e., the appropriate legislative acts, the By-laws or the Company Articles of Association.

Registered share capital

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

- Own Shares

In the case of acquisition of shares or equity interests in the Bank by the Bank the amount paid reduces the value of equity as own shares until the time when they are cancelled. In the case of sale or reallocation of such shares, the payment received in return is recognised in equity.

Share premium

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

- Share Issue Costs

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

Retained earnings

Retained earnings include:

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

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

Moreover, other reserve capital comprises valuation of employee options.

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

Other components of equity

Other components of equity result from:

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

### 2.29 Valuation of Items Denominated in Foreign Currencies

Functional Currency and Presentation Currency

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

Transactions and Balances

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

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

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

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

Companies Belonging to the Group

The performance and the financial position of all the entities belonging to the Group, none of which conduct their operations under hyperinflationary conditions, the functional currencies of which differ from the presentation currency, are converted to the presentation currency as follows:

- assets and liabilities in each presented Statement of Financial Position are converted at the average rate of exchange of the National Bank of Poland (NBP) in force at the end of this reporting period;
- revenues and expenses in each Income Statement are converted at the rate equal to the arithmetical mean of the average rates quoted by NBP on the last day of each of 12 months of each presented periods; whereas
- all resulting foreign exchange differences are recognised as a distinct item of other comprehensive income.

Upon consolidation, foreign exchange differences arising from the conversion of net investments in companies operating abroad are recognised in other comprehensive income. Upon the disposal of a company operating abroad, such foreign exchange differences are recognised in the Income Statement as part of the profit or loss arising upon disposal.

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

Leasing Business

Negative or positive foreign exchange differences (gains/losses) from the valuation of liabilities on account of credit financing of purchases of assets under operating leasing schemes are recognised in the Income Statement. In the operating leasing agreements recognised in the Statement of Financial Position of the subsidiary (BRE Leasing Sp. z o.o.), the fixed assets subject to the respective contracts are recognised at the starting date of the appropriate contract as converted to PLN, whereas the foreign currency loans with which they were financed are subject to valuation according to the respective foreign exchange rates.

Additionally, in the case of operating lease agreements, all future receivables on account of leasing payments (including receivables in foreign currencies) are not presented on the face of the financial reports. In the case of finance lease agreements the foreign exchange differences arising from the valuation of leasing payments due as well as of liabilities denominated in foreign currency are recognised through the Income Statement at the end of the reporting period.

### 2.30 Trust and Fiduciary Activities

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

Dom Inwestycyjny BRE Banku SA operates trust and fiduciary activities in connection with the handling of securities accounts of the clients.

The assets concerned are not shown in these financial statements as they do not belong to the Group.

Other companies belonging to the Group do not conduct any trust or fiduciary activities.

### 2.31 New Standards, Interpretations and Amendments to Published Standards

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

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

Published standards and interpretations which have been issued and are binding for the Group for annual periods beginning on 1 January 2011:

**Standards and interpretations endorsed by the European Union:**

- *IFRIC 14 (Amended), Prepayments of a Minimum Funding Requirement*, issued by the International Financial Reporting Interpretations Committee on 26 November 2009, binding for annual periods beginning on or after 1 January 2011. The interpretation was endorsed by the European Union on 19 July 2010.

  The interpretation provides guidance on recognition of early payments of contributions to cover minimum funding requirements as an asset in the entity making the payments.

  The Group is of the opinion that the amendment to this interpretation had no significant impact on the financial statements in the period of its initial application.

- *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*, issued by the International Financial Reporting Interpretations Committee on 26 November 2009, binding for annual periods beginning on or after 1 July 2010. The interpretation was endorsed by the European Union on 23 July 2010.

The interpretation clarifies the accounting principles applicable when an entity renegotiates the terms of a financial liability and the liability is settled through the issue of equity instruments addressed to the creditor. The interpretation requires that equity instruments be measured at their fair value and that the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued is recognized as profit or loss.

The Group is of the opinion that the application of this interpretation had no significant impact on the financial statements in the period of its initial application.

- *IFRS 1 (Amended), Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*, published by the International Accounting Standards Board on 28 January 2010, binding for annual periods beginning on or after 1 July 2010. The standard was endorsed by the European Union on 30 June 2010.

  The amendments introduce additional exemptions for first-time adopters of IFRS from the disclosures required by the amended IFRS 7, issued in March 2009, relating to fair value measurements and liquidity risk.

  The Group is of the opinion that the amendment to this standard had no significant impact on the financial statements in the period of its initial application.

- *IAS 24 (Amended), Related Party Disclosures*, published by the International Accounting Standards Board on 4 November 2009, binding on a retrospective basis for annual periods beginning on or after 1 January 2011. The standard was endorsed by the European Union on 19 July 2010.

  The amendments simplify the disclosure requirements for government-related entities and clarify the definition of a related party by means of including in it additional entities, such as associates of the controlling shareholder and entities controlled or jointly controlled by members of key management personnel.

  The Group is of the opinion that the amendment to this standard had no significant impact on the financial statements in the period of its initial application.

- *IAS 32 (Amended), Classification of Rights Issues*, published by the International Accounting Standards Board on 8 October 2009, binding for annual periods beginning on or after 1 February 2010. The standard was endorsed by the European Union on 23 December 2009.

  The amendments pertain to the method for classification of rights issues (rights, options, warrants) denominated in a currency other than the functional currency of the issuer. The previous standard required that such rights issues be accounted for as derivative liabilities. The amendments state that if such rights issues meet specified conditions, they should be classified as equity regardless of the currency in which the exercise price is denominated.

  The Group is of the opinion that the amendment to this standard had no significant impact on the financial statements in the period of its initial application.

- *The amendments to IFRS,* modifying 7 standards, were published by the International Accounting Standards Board on 10 May 2010; the majority of them are binding for annual periods beginning on or after 1 January 2011. The amendments were endorsed by the European Union on 18 February 2011.

  The amendments modify presentation, recognition and measurement, and introduce terminology and editing modifications.

  The Group is of the opinion that the amendments to IFRS had no significant impact on the financial statements in the period of their initial application.

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

**Standards and interpretations endorsed by the European Union:**

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

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

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

**Standards and interpretations not yet endorsed by the European Union:**

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

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

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

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

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

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

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

  The Group is of the opinion that the application of the standard on recognition and measurement of financial instruments will have an impact on the presentation of these instruments in the financial statements. The real impact of the IFRS 9 application will be possible to estimate after the publication of the final, complete version of the standard.

- *IFRS 10, Consolidated Financial Statements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

- *IFRS 11, Joint Arrangements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

- *IFRS 12, Disclosure of Interests in Other Entities*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

- *IFRS 13, Fair Value Measurement*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

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

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

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

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

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

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

- *IAS 27, Separate Financial Statements*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

- *IAS 28, Investments in Associates and Joint Ventures*, published by the International Accounting Standards Board on 12 May 2011, binding for annual periods beginning on or after 1 January 2013.

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

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

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

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

- *IAS 1, Presentation of Items of Other Comprehensive Income*, published by the International Accounting Standards Board on 16 June 2011, binding for annual periods beginning on or after 1 July 2012.

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

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

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

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

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

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

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

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

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

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

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

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

### 2.32 Comparative Data

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

In the current reporting period, the Group has introduced modifications to the manner of reflecting liabilities arising from cash funds of the Bank's clients in amount of PLN 269 104 thousand, which were subject to outgoing transfer orders submitted beyond hours enabling execution of the transfer the same day. This change has been introduced in order to reflect the economic nature of the funds in a better way.

Moreover, the Group has introduced changes to the way of presenting receivables and liabilities arising from the Social Benefits Fund (SBF). In accordance with the legal nature of the funds, receivables and liabilities arising from SBF in amount of PLN 3 610 thousand, were removed from the report on the Group's Statement of Financial Position.

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

The restatement had no impact on the profit and equity in presented comparative data as at 31 December 2010.

**IFRS Consolidated Financial Statements 2011** **PLN (000's)**

All other data as at 31 December 2010 are comparable with data introduced in the current financial period so they were not adjusted.

The following table presents the impact of the restatement on presented comparative data in the Consolidated Financial Statements.

Changes in the BRE Bank Group Consolidated Statement of Financial Position as at 31 December 2010:

| | 31.12.2010/ 01.01.2011 before adjustments | presentation adjustments | 31.12.2010/ 01.01.2011 after adjustments |
|---|---|---|---|
| Debt securities eligible for rediscounting at the Central Bank | 3 686 | (3 686) | - |
| Loans and advances to banks | 2 510 892 | (3 610) | 2 507 282 |
| Loans and advances to customers | 59 370 365 | 3 686 | 59 374 051 |
| Amounts due to customers | 47 420 057 | (269 104) | 47 150 953 |
| Other liabilities | 871 130 | 265 494 | 1 136 624 |
| | | | |
| Total assets | 90 042 441 | (3 610) | 90 038 831 |
| Total liabilities | 82 965 156 | (3 610) | 82 961 546 |

## 3. Financial and Insurance Risk management

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

### 3.1 Division of responsibilities in the risk management process

Authorities of the Bank:

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

Directors of the Bank:

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

Committees:

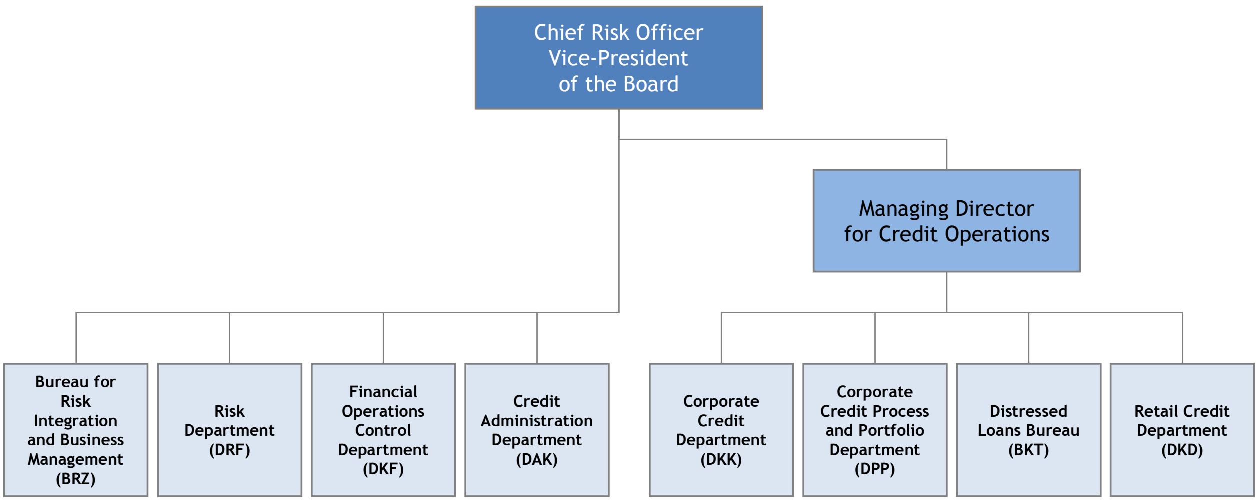
1. **Risk Committee of BRE Bank SA** is responsible, in particular, for establishing the principles of identifying, measuring, monitoring and controlling risk and for setting limits on each risk type.
2. **Assets and Liabilities Committee of the BRE Bank Group (ALCO)** is responsible, in particular, for developing the Bank's strategy on the structure of assets and liabilities, obligations, and off-balance sheet items, with the aim of optimizing funds allocation.
3. **Capital Management Committee** is responsible, in particular, for managing capital, which includes also issuing recommendations for the Management Board of the Bank on measures in respect of capital management, capital level and structure, and on increasing the effectiveness of capital utilization, and recommendations on the Bank's internal procedures related to capital management and capital planning.
4. **Data Quality Management Committee for the purpose of calculating the Bank's regulatory capital requirement (AIRB)** is responsible, in particular, for creating conditions for the implementation and development of an effective system for managing the quality of credit portfolio data in order to ensure compliance with the requirements of the advanced internal ratings based approach (AIRB), used to calculate the capital requirement for credit risk. AIRB methodology is used for internal purposes.

5. **Credit Committee of the Bank's Management Board (KKZB)** is responsible, in particular, for:
   - making credit decisions concerning companies in accordance with the decision-making matrix, depending on the rating and amount of exposure,
   - making decisions on debt conversion into shares, stocks, etc.,
   - making decisions on taking over properties in return for debts,
   - making any other decisions going beyond the jurisdiction of the lower-level decision-making authorities.
6. **Credit Policy Committee of the Retail Banking (KPK)** is responsible, in particular, for:
   - approving or amending the decision-making methodology for granting credit products of the retail banking,
   - making decisions on admitting credit products to or withdrawing them from sale,
   - monitoring the quality and profitability of the credit products portfolio, and making decisions on measures to be taken in the case of negative occurrences related with the quality or profitability of that portfolio.
7. **Credit Committee of the Retail Banking (KKD)** is responsible, in particular, for:
   - making individual credit decisions concerning retail clients in the case when the exposure to such a client exceeds a specified threshold set for this decision-making level,
   - making decisions on granting decision-making powers to individual employees of the Bank, or on changing or revoking those powers.

**Other units:**

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

The function of management at the strategic level and the function of control of credit, market, liquidity and operational risks are performed in the Risk Area supervised by the Chief Risk Officer. The chart below presents the organisational structure of this area.




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

**Corporate Credit Department (DKK):**

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

**Credit Administration Department (DAK):**

- administering credit risk in the corporate banking.

**Corporate Credit Process and Portfolio Department (DPP):**

- organising and supervising the credit process in the corporate banking area,
- establishing and implementing the principles governing the operation of the data quality management system for the AIRB purpose in the corporate banking area, and supervising their observance,

- organising the system of preparing and presenting portfolio analyses used for active management of credit risk.

**Distressed Loans Bureau (BKT):**

- controlling and managing credit risk in the scope of exposures subject to supervision, restructuring and debt collection carried out by the Debt Restructuring and Collection Department.

**Retail Credit Department (DKD):**

- defining and updating the credit policy principles in the retail banking area, assessing risk, making credit decisions concerning retail clients, on the domestic and foreign markets.

**Risk Department (DRF):**

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

**Financial Operations Control Department (DKF):**

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

**Bureau for Risk Integration and Business Management (BRZ):**

- coordinating and carrying out projects/cases connected with the requirements of consolidated supervision imposed by the main shareholder in the area supervised by the Chief Risk Officer (CRO) arising from the strategy and risk management policy at the Commerzbank Group.

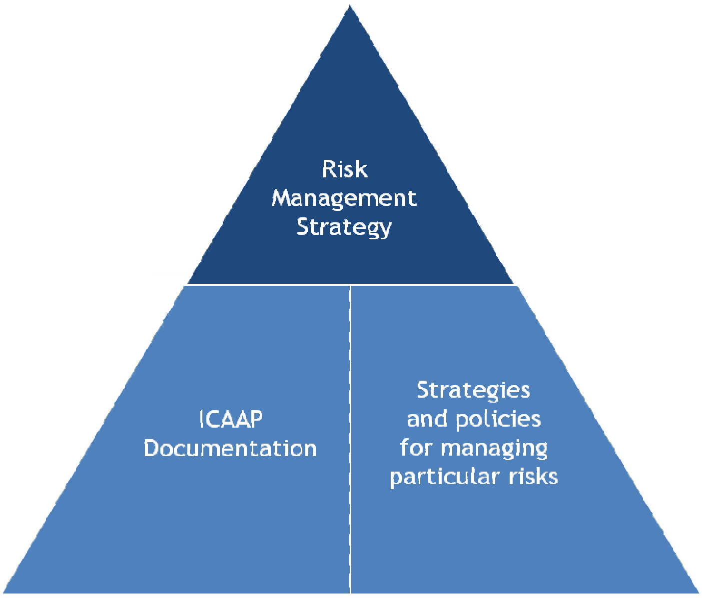
2. **Organizational units outside the Risk Area** are in charge of the management and control of other risks identified in the BRE Bank SA Group's activity (business risk, strategic risk, capital risk, compliance risk and reputational risk).
3. **Business units** take part in managing particular risk types by means of taking risk into account in business decisions, in preparing the product offer and in the client acquisition process. The units assume the ultimate responsibility for taking risk within the set limits and for developing the Bank's results.

<u>Control units:</u>

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

### 3.2 Structure of the risk management process documentation

The risk management strategy implemented by the Bank is documented accordingly. The documentation of the risk management strategy is an important component of the documentation of the internal capital adequacy assessment process at the Bank and the Group (ICAAP).




ICAAP documentation:

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

The document describes the internal capital adequacy assessment process taking place in the Group and the course of the individual process components, including the identification and assessment of risk relevance, the principles of calculating and aggregating internal capital, the stress tests, and the principles of reviewing the process.

2. **Documentation establishing the principles of determining capital for hard to measure risks monitored by means of the risk card**

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

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

Strategies and policies for managing particular risk types:

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

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

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

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

3. **Strategy and Policy of Market Risk Management in BRE Bank SA**

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

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

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

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

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

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

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

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

## 3.3 Management of Different Types of Risk

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

- **The Retail Credit Department** (DKD) is responsible for management of credit risk in retail banking on the domestic markets and in foreign branches (Czech Republic and Slovakia). The main operational responsibilities of DKD include: credit risk rating and credit decision-making for individual exposures and transactions, supervision over the automated credit process, administration of credit agreements concluded with retail clients, monitoring and collecting loan receivables. Furthermore, DKD develops rules of credit risk rating and calculation of retail client exposure limits and is responsible for their implementation in tools supporting the credit decision-making process.
- **The Corporate Credit Department** (DKK) is responsible for management of the quality of the corporate loans portfolio of the Bank and subsidiaries of BRE Bank Group. DKK's key functions include: decisions on and recommendations for individual exposures and transactions of companies and groups of companies which are clients of the Bank, assessment of and recommendations for large exposures accepted by subsidiaries of BRE Bank Group, monitoring the structure of exposures in the risk portfolio, in particular by sector, and the related concentration risk, calculation of the clients' probability of default (PD) and expected loss (EL) ratings for banks and international financial institutions and related exposure limits and monitoring their utilisation, management of credit risk of exposures by country (setting and monitoring the utilisation of limits). The more extensive scope of credit risk controlling functions at Group level is performed by a dedicated organisational unit: the BRE Bank Group Credit Risk Bureau at the Corporate Credit Department. The main functions of the Bureau include: analysis of credit risk of new exposures of subsidiaries, monitoring credit risk of the largest exposures, analysis of the quality of the risk portfolio, participation in development and modification projects of the risk management strategy, policies and rules in subsidiaries, supervision over plans and methodologies of establishing and releasing provisions, as well as audits of the largest exposures for all liabilities of the Group. Similar functions of the restructured exposures and subject to a restructuring meets the Distressed Loans Bureau (BKT).
- **The Corporate Credit Process and Portfolio Department** (DPP) is responsible for organisation and supervision of the credit process in the corporate area as well as development, implementation and supervision of the application of the rules of operation of the data quality management system in the corporate area. The Department creates the analysis of corporate credit risk portfolio as well as analysis and reports on the course and effectiveness of the credit process in this area.
- **The Credit Administration Department** (DAK) is responsible for administration of credit risk in the corporate banking area. In particular, DAK is responsible for administration of credit risk provisions and monitoring of concentration risk of large exposures. The Department prepares analyses and reports on lending activities and the risk portfolio for internal and external purposes.
- **The Risk Department** (DRF) is responsible for controlling and evaluating credit risk and monitors its volatility and concentration on portfolio basis. The Department is responsible for the construction and development of scoring and rating models used in the credit risk assessment process and applied in decision-making when approving credit exposures both in the corporate and the retail banking area.

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

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

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

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

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

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

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

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

**Insurance risk management**. Insurance risk is concentrated in the subsidiary BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji SA. A risk management function supervised by a Management Board Member has been separated within the company's structure. The function also manages insurance risk.

## 3.4 Credit risk management

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

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

### 3.4.2 Collateral accepted

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

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

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

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

b) for collateral on plant and machinery:

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

c) for collateral on inventories:

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

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

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

**Collaterals accepted by the BRE Bank Group companies**. The BRE Bank SA Group companies accept various forms of legal collateral of credit risk-bearing products. Their list depends on the specific nature of activities and the products offered. A blank bill of exchange plays the role of universal collateral, which makes potential recovery of debt more efficient.

BRE Bank Hipoteczny applies mortgage on the financed real estate as the basic collateral. Additional collateral may include bills of exchange or civil surety by the borrowing company's owners, as well as pledge on shares in the borrower's company. Loan insurance in an insurance company approved by the Bank may be accepted for a period necessary to effectively set up collateral.

BRE Leasing applies types of collateral that are most similar to those of BRE Bank. It accepts both standard personal security – bill of exchange and civil surety, letters of comfort, guarantees and tangible collateral – ordinary and capped mortgage, registered liens, transfer of ownership of collateral, transfer of receivables and cession of receivables and rights to an insurance policy, and deposits. Moreover, conditional taking over of debt is a frequently accepted security – in the case of this security, it is possible to accept the evaluation of risk related to the conditional lender. BRE Leasing also accepts declarations of voluntary submission for enforcement

Factoring companies only accept highly liquid collateral. Apart from own blank bills of exchange, these are mainly bill of exchange surety of the owners of the customer's company, cession of receivables from bank accounts (mainly those maintained by BRE Bank), insurance of receivables, cession of rights from insurance policies in respect of receivables, concluded by customers. In the case of providing services to several companies belonging to one group, a customary form of collateral is a power of attorney to perform cross-settlement of agreements concluded with the particular companies.

Insurance companies which secure their activities against credit risk, by implementing a policy of safe allocation of all resources and using comprehensive reinsurance, do not have any additional collateral for assets exposed to credit risk.

**Hedge Accounting.** Starting from 2011, the Group has been applying fair value hedge accounting. The interest rate risk is the only type of risk hedged under hedge accounting. At the end of each month, the Group evaluates effectiveness of the applied hedging by carrying out analysis of changes in fair value of the hedged and hedging instruments in respect of the hedged risk. The Group hedges against the risk of change in fair value of a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of BRE Bank in Czech Republic. The hedged risk results from changes in interest rates. The hedged item is a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by the foreign branches of BRE Bank in Czech Republic. IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate. Adjustment to the fair value of the hedged assets and the valuation of hedging instruments is recognised in the profit and loss account in the income from trading operation.

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

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

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

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

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

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

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

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

All BRE Bank SA Group companies, whose operations are burdened with credit risk, before concluding an agreement and upon its performance, apply a monitoring process to estimate the risk using rating systems. The systems are different for different types of operations, with the exception of all factoring companies which use the same solution, moreover lease contracts and mortgage loans are concluded on the basis of individual systems. The common feature is a two-stage methodology: at the first stage the customer rating is assigned and at the second stage the rating of the transaction/portfolio is established. Both above-mentioned ratings constitute credit risk rating. Quantitative indicators and qualitative features with material impact on the risk are evaluated. Particular risk classifications (client/transaction) are emphasized differently depending on the nature of the operations and the evaluated product.

Rating systems that are used by the Group's companies were created either on the basis of BRE Bank's systems or by an application of quantitative and expert based approach.

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

##### 3.4.4.1 Corporate portfolio

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

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

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

##### 3.4.4.2 Retail portfolio

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

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

#### 3.4.5 Measurement of Impairment

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

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

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

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 debtor creditworthiness.
3. The Bank performed enforced restructuring of the exposure, which resulted in the change of the loan/transaction service schedule due to the lack of possibility of the obligor to meet his obligations under loan/transaction agreement, as initially stipulated, which resulted in:
   a) reduction of financial obligations by remitting part of these obligations, or
   b) postponing the repayment of the substantial part of the principal, interest or (if it refers to) commission; provided that the lack of approval for restructuring would cause more than 90 calendar days delay in repayment of substantial part of the obligation.

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4. Filing by the Bank, the parent or subsidiary entity of the Bank a bankruptcy motion against debtor or filing similar motion in respect of credit obligations of the debtor towards the Bank, the parent or subsidiary entity of the Bank.
5. Bankruptcy of debtor or acquiring by him a similar legal protection resulting in his evasion of or delay in repayment of credit obligations towards the Bank, the parent or subsidiary entity of the Bank.
6. Termination of part or whole credit agreement by the Bank and the beginning of restructuring/collection procedures.
7. Client's fraud.

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) pension fund managing companies, investment fund managing companies.

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

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 PLN 500 and it 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. The methodology of impairment calculation is based on portfolio approach. The exception are selected mortgage exposures in case of which there occurred events determining the classification of exposure to individual analysis, in accordance with the applicable procedures of the Bank.

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

| Sub-portfolio | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | Exposure (%) | Provision coverage (%) | Exposure (%) | Provision coverage (%) |
| 1 | 38.22 | 0.08 | 5.73 | 0.34 |
| 2 | 22.02 | 0.11 | 48.86 | 0.05 |
| 3 | 10.73 | 0.37 | 8.46 | 0.32 |
| 4 | 15.68 | 0.40 | 17.93 | 0.59 |
| 5 | 2.18 | 1.19 | 4.46 | 1.68 |
| 6 | 0.28 | 2.03 | 0.39 | 2.63 |
| 7 | 0.83 | 8.39 | 1.03 | 6.91 |
| 8 | 4.75 | 0.63 | 5.31 | - |
| other *) | 0.45 | 15.89 | 2.48 | 1.44 |
| *Default category* | 4.86 | 50.31 | 5.35 | 53.07 |
| **Total** | **100.00** | **2.80** | **100.00** | **3.21** |

*) position 'other' concerns these entities which do not use the same systems as BRE Bank SA

60.24% of the loans and advances portfolio for balance sheet and off-balance sheet exposures is categorised in the top two grades of the internal rating system (31 December 2010: 54.59%);

In order to reflect the credit risk embedded in derivative instruments the Group uses correction to fair value that takes into account the element of credit risk of the counterparty. Adjustment due to credit risk of contractor is based on expected loss till maturity of the contract and is calculated on customer level. The value of the adjustment affects P&L and is reported as a correction to the total value of derivatives.

The table below presents the percentage of the Group's derivatives which constitute the component of financial assets and coverage of their fair value with impairment provision for each of the Group's internal rating categories (description of the rating model is given above).

| Sub-portfolio | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | Fair value | Provision coverage (%) | Fair value | Provision coverage (%) |
| 1 | 33.14 | 0.01 | 27.23 | 0.02 |
| 2 | 23.89 | 0.11 | 35.51 | 0.13 |
| 3 | 18.73 | 0.57 | 1.99 | 5.73 |
| 4 | 7.05 | 2.31 | 12.46 | 1.27 |
| 5 | 1.74 | 2.42 | 1.79 | 1.36 |
| 6 | 0.29 | 1.66 | - | 15.69 |
| 7 | 0.06 | 0.12 | 1.72 | 17.10 |
| 8 | 15.01 | - | 18.41 | - |
| *Default category* | 0.09 | - | 0.89 | - |
| **Total** | **100.00** | **0.34** | **100.00** | **0.64** |

### 3.4.6 Maximum Exposure to Credit Risk

The Group has no financial instruments which maximum exposure to credit risk would differ from their net carrying amounts with the exception of off-balance sheet exposures which are described under Note 36.

### 3.4.7 Loans and Advances to Customers and Banks

| Loans and advances to customers | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | exposure in PLN '000 | share/coverage (%) | exposure in PLN '000 | share/coverage (%) |
| Neither past due nor impaired | 63 557 620 | 90.49 | 55 750 041 | 90.18 |
| Past due but not impaired | 3 395 420 | 4.83 | 2 788 623 | 4.51 |
| Impaired | 3 286 760 | 4.68 | 3 285 158 | 5.31 |
| **Total, gross** | **70 239 800** | **100.00** | **61 823 822** | **100.00** |
| Provision (provision for impaired loans and advances as well as IBNI provision) | (2 388 284) | 3.40 | (2 449 771) | 3.96 |
| **Total, net** | **67 851 516** | **96.60** | **59 374 051** | **96.04** |

The table below shows amounts due from banks:

| Loans and advances to banks | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | exposure in PLN '000 | share/coverage (%) | exposure in PLN '000 | share/coverage (%) |
| Neither past due nor impaired | 4 009 901 | 100.00 | 2 477 139 | 97.47 |
| Past due but not impaired | - | - | - | - |
| Impaired | - | - | 64 390 | 2.53 |
| **Total, gross** | **4 009 901** | **100.00** | **2 541 529** | **100.00** |
| Provision (provision for impaired loans and advances as well as IBNI provision) | (1 027) | 0.03 | (34 247) | 1.35 |
| **Total, net** | **4 008 874** | **99.97** | **2 507 282** | **98.65** |

The total impairment provision for loans and advances is PLN 2 389 311 thousand (as at 31 December 2010: PLN 2 484 018 thousand) of which PLN 2 175 894 thousand (as at 31 December 2010: PLN 2 267 059 thousand) represents the individually impaired loans and advances to customers (2010: to customers and banks) and the remaining amount of PLN 213 417 thousand represents the portfolio provision (as at 31 December 2010 PLN 216 959 thousand). Further information on the impairment allowance for loans and advances to banks and to customers is provided in Notes 18 and 22.

90.49% of the loans and advances portfolio is considered to be neither past due nor impaired (31 December 2010: 90.18%);

In 2011, the amount of loans and advances granted to the Group's customers increased by 13.61% compared to the end of the year 2010.

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## Loans and advances neither past due nor impaired

| 31 December 2011 | Individuals | | | Corporate entities | | | | | Public sector | Other receivables | Total - Loans and advances to customers | Loans and advances to banks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sub-portfolio | Current accounts | Term loans | including: housing and mortgage loans | Current accounts | Term loans: corporate & institutional enterprises | Term loans: medium & small enterprises | Reverse repo / buy-sell-back transactions | Other | | | | |
| 1 | 589 056 | 27 760 863 | 27 588 173 | 58 438 | 25 188 | 310 221 | - | - | 867 451 | - | 29 611 217 | 3 785 720 |
| 2 | 1 479 983 | 4 285 616 | 1 659 808 | 596 085 | 2 772 590 | 1 193 124 | - | - | 1 621 423 | - | 11 948 821 | 12 076 |
| 3 | 1 108 757 | 452 828 | 147 732 | 757 995 | 887 315 | 1 901 757 | - | 880 751 | 384 133 | - | 6 373 536 | 4 235 |
| 4 | 74 013 | 53 472 | 53 472 | 1 445 886 | 1 054 542 | 7 064 045 | - | - | 268 564 | - | 9 960 522 | - |
| 5 | - | - | - | 231 280 | 16 149 | 1 083 711 | - | - | 22 240 | - | 1 353 380 | - |
| 6 | - | - | - | 13 785 | 1 606 | 122 315 | - | - | - | - | 137 706 | - |
| 7 | - | - | - | 35 467 | 10 022 | 312 554 | - | - | - | - | 358 043 | - |
| 8 | 6 | - | - | 741 | 1 052 374 | 754 337 | 1 153 508 | - | - | 480 790 | 3 441 756 | - |
| other *) | - | - | - | - | - | - | - | 316 139 | - | - | 316 139 | 207 870 |
| *Default category* | 69 | 8 225 | 2 932 | 20 235 | - | 27 971 | - | - | - | - | 56 500 | - |
| **Total** | **3 251 884** | **32 561 004** | **29 452 117** | **3 159 912** | **5 819 786** | **12 770 035** | **1 153 508** | **1 196 890** | **3 163 811** | **480 790** | **63 557 620** | **4 009 901** |

| 31 December 2010 | Individuals | | | Corporate entities | | | | | Public sector | Other receivables | Total - Loans and advances to customers | Loans and advances to banks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sub-portfolio | Current accounts | Term loans | including: housing and mortgage loans | Current accounts | Term loans: corporate & institutional enterprises | Term loans: medium & small enterprises | Reverse repo / buy-sell-back transactions | Other | | | | |
| 1 | 446 203 | 108 519 | 6 622 | 39 652 | 33 100 | 308 347 | - | - | 597 452 | - | 1 533 273 | 737 302 |
| 2 | 1 462 611 | 27 004 913 | 24 958 637 | 360 971 | 583 597 | 856 154 | - | - | 742 925 | - | 31 011 171 | 1 419 979 |
| 3 | 519 121 | 666 511 | 145 078 | 347 017 | 747 519 | 1 943 639 | - | - | 225 752 | - | 4 449 559 | 33 103 |
| 4 | 743 889 | 43 696 | 43 696 | 1 228 167 | 869 545 | 5 773 744 | - | 502 245 | 190 409 | - | 9 351 695 | 82 921 |
| 5 | - | - | - | 378 759 | 475 589 | 1 671 195 | - | - | 130 420 | - | 2 655 963 | 2 597 |
| 6 | - | - | - | 23 267 | 88 035 | 127 186 | - | - | - | - | 238 488 | 18 946 |
| 7 | - | 259 | 259 | 43 780 | 2 701 | 270 486 | - | - | - | - | 317 226 | 20 684 |
| 8 | 39 | - | - | - | - | - | 3 338 317 | - | - | 668 115 | 4 006 471 | - |
| other *) | - | - | - | 11 840 | 1 162 | 588 554 | - | 1 334 049 | - | - | 1 935 605 | 161 607 |
| *Default category* | 594 | 8 223 | 3 172 | 43 198 | 61 665 | 136 910 | - | - | - | - | 250 590 | - |
| **Total** | **3 172 457** | **27 832 121** | **25 157 464** | **2 476 651** | **2 862 913** | **11 676 215** | **3 338 317** | **1 836 294** | **1 886 958** | **668 115** | **55 750 041** | **2 477 139** |

*) position 'other' concerns these entities which do not use the same rating systems as BRE Bank

## 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 2011 | Individuals: Current accounts | Individuals: Term loans | including: housing and mortgage loans | Corporate entities: Current accounts | Term loans: corporate & institutional enterprises | Term loans: medium & small enterprises | Reverse repo / buy-sell-back transactions | Other | Public sector | Other receivables | Total - Loans and advances to customers | Loans and advances to banks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Past due up to 30 days | 292 020 | 981 582 | 765 880 | 55 344 | 1 133 | 532 636 | - | - | 14 545 | - | 1 877 260 | - |
| Past due 31 - 60 days | 30 048 | 262 319 | 220 307 | 20 959 | - | 159 378 | - | - | - | - | 472 704 | - |
| Past due 61 - 90 days | 62 982 | 233 650 | 152 956 | 28 719 | - | 720 105 | - | - | - | - | 1 045 456 | - |
| **Total** | **385 050** | **1 477 551** | **1 139 143** | **105 022** | **1 133** | **1 412 119** | **-** | **-** | **14 545** | **-** | **3 395 420** | **-** |

| 31 December 2010 | Individuals: Current accounts | Individuals: Term loans | including: housing and mortgage loans | Corporate entities: Current accounts | Term loans: corporate & institutional enterprises | Term loans: medium & small enterprises | Reverse repo / buy-sell-back transactions | Other | Public sector | Other receivables | Total - Loans and advances to customers | Loans and advances to banks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Past due up to 30 days | 297 289 | 821 072 | 718 272 | 17 716 | 1 072 | 503 340 | - | 42 569 | 36 061 | - | 1 719 119 | - |
| Past due 31 - 60 days | 48 100 | 153 131 | 133 990 | 14 141 | 442 | 285 388 | - | 1 711 | - | - | 502 913 | - |
| Past due 61 - 90 days | 49 849 | 135 475 | 75 380 | 10 002 | 36 | 370 605 | - | 624 | - | - | 566 591 | - |
| **Total** | **395 238** | **1 109 678** | **927 642** | **41 859** | **1 550** | **1 159 333** | **-** | **44 904** | **36 061** | **-** | **2 788 623** | **-** |

## Loans and advances individually impaired

Loans and advances individually impaired amounted to PLN 1 110 866 thousand (as at 31 December 2010: PLN 1 082 489 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.

| | Individuals: Current accounts | Individuals: Term loans | including: housing and mortgage loans | Corporate entities: Current accounts | Term loans: corporate & institutional enterprises | Term loans: medium & small enterprises | Reverse repo / buy-sell-back transactions | Other | Public sector | Other receivables | Total - Loans and advances to customers | Loans and advances to banks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | | | | | | |
| Loans and advances with impairment | 496 134 | 517 356 | 351 163 | 530 161 | 569 332 | 1 087 883 | - | 84 517 | - | 1 377 | **3 286 760** | - |
| **31 December 2010** | | | | | | | | | | | | |
| Loans and advances with impairment | 791 245 | 357 921 | 221 538 | 599 406 | 465 130 | 961 417 | - | 110 039 | - | - | **3 285 158** | 64 390 |

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

## Financial effect of collaterals

| As at 31 December 2011 | Gross amount | Provisions created | Provisions without cash flow from collaterals | Financial effect of collaterals |
|---|---|---|---|---|
| Balace sheet data | | | | |
| Loans and advances to banks | 4 009 901 | (1 027) | (5 228) | 4 201 |
| Loans and advances to customers, including: | 70 239 800 | (2 388 284) | (3 698 325) | 1 374 044 |
| Loans to individuals: | 38 688 979 | (861 377) | (1 142 109) | 280 732 |
| - Current accounts | 4 133 068 | (523 086) | (547 735) | 24 649 |
| - Term loans, including: | 34 555 911 | (338 291) | (594 374) | 256 083 |
| housing and mortgage loans | 30 942 423 | (200 789) | (390 527) | 189 738 |
| Loans to corporate clients: | 25 455 383 | (1 459 196) | (2 544 269) | 1 085 073 |
| - Current accounts | 3 795 095 | (324 262) | (374 193) | 49 931 |
| - Term loans: | 21 660 288 | (1 134 934) | (2 170 076) | 1 035 142 |
| corporate & institutional enterprises | 6 390 251 | (337 438) | (374 715) | 37 277 |
| medium & small enterprises | 15 270 037 | (797 496) | (1 795 361) | 997 865 |
| Loans and advances to public sector | 3 178 356 | (3 708) | (11 947) | 8 239 |
| Total balance sheet data | 74 249 701 | (2 389 311) | (3 703 553) | 1 378 245 |
| Off-balance sheet data: | | | | |
| Loan commitments and other commitments | 14 200 226 | (26 963) | (96 510) | 69 547 |
| Guarantees, banker's acceptances, documentary and commercial letters of credit | 2 967 250 | (3 943) | (20 211) | 16 268 |
| Total off-balance sheet data: | 17 167 476 | (30 906) | (116 721) | 85 815 |

| As at 31 December 2010 | Gross amount | Provisions created | Provisions without cash flow from collaterals | Financial effect of collaterals |
|---|---|---|---|---|
| Balace sheet data | | | | |
| Loans and advances to banks | 2 541 529 | (34 247) | (34 247) | - |
| Loans and advances to customers, including: | 61 823 822 | (2 449 771) | (3 586 261) | 1 220 997 |
| Loans to individuals: | 33 658 660 | (1 052 933) | (1 213 096) | 160 163 |
| - Current accounts | 4 358 940 | (817 237) | (826 470) | 9 233 |
| - Term loans, including: | 29 299 720 | (235 696) | (386 626) | 150 930 |
| housing and mortgage loans | 26 306 644 | (119 631) | (221 518) | 101 887 |
| Loans to corporate clients: | 20 244 474 | (1 307 141) | (2 362 784) | 1 055 643 |
| - Current accounts | 3 117 916 | (376 993) | (440 414) | 63 421 |
| - Term loans: | 17 126 558 | (930 148) | (1 922 370) | 992 222 |
| corporate & institutional enterprises | 3 329 593 | (167 278) | (346 452) | 179 174 |
| medium & small enterprises | 13 796 965 | (762 870) | (1 575 918) | 813 048 |
| Loans and advances to public sector | 1 923 019 | (5 190) | (10 381) | 5 191 |
| Total balance sheet data | 64 365 351 | (2 484 018) | (3 620 508) | 1 220 997 |
| Off-balance sheet data: | | | | |
| Loan commitments and other commitments | 11 710 787 | (45 036) | (67 401) | 22 365 |
| Guarantees, banker's acceptances, documentary and commercial letters of credit | 2 449 814 | (4 638) | (16 062) | 11 424 |
| Total off-balance sheet data: | 14 160 601 | (49 674) | (83 463) | 33 789 |

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Other financial assets

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Gross other financial assets, including: | 288 567 | 299 067 |
| - Not past due | 277 071 | 293 242 |
| - Past due over 90 days | 11 496 | 5 825 |
| - Provisions for impaired assets (negative amount) | (18 710) | (8 810) |
| Net other financial assets (Note 27) | 269 857 | 290 257 |

### 3.4.8 Debt Instruments: treasury bonds and other eligible debt securities

| 31 December 2011 | Trading securities and pledged assets | | | Investment debt securities and pledged assets | Total |
|---|---|---|---|---|---|
| Rating | Government bonds | Treasury bills | Other debt securities | | |
| AAA | - | - | - | - | - |
| AA- to AA+ | - | - | 115 769 | 499 331 | 615 100 |
| A- to A+ | 1 019 425 | 148 | 92 376 | 19 697 637 | 20 809 586 |
| BBB+ to BBB- | - | - | 50 941 | 176 535 | 227 476 |
| BB+ to BB- | - | - | 172 325 | - | 172 325 |
| B+ to B- | - | - | 12 275 | - | 12 275 |
| Lower than B- | - | - | - | 2 | 2 |
| Unrated | - | - | - | - | - |
| Total | 1 019 425 | 148 | 443 686 | 20 373 505 | 21 836 764 |

| 31 December 2010 | Trading securities and pledged assets | | | Investment debt securities and pledged assets | Total |
|---|---|---|---|---|---|
| Rating | Government bonds | Treasury bills | Other debt securities | | |
| AAA | - | - | 49 201 | - | 49 201 |
| AA- to AA+ | - | - | - | 3 327 | 3 327 |
| A- to A+ | 1 207 015 | 1 100 918 | 114 949 | 19 286 845 | 21 709 727 |
| BBB+ to BBB- | - | - | 51 339 | 89 744 | 141 083 |
| BB+ to BB- | - | - | 49 780 | - | 49 780 |
| B+ to B- | - | - | - | - | - |
| Lower than B- | - | - | - | 2 | 2 |
| Unrated | - | - | - | - | - |
| Total | 1 207 015 | 1 100 918 | 265 269 | 19 379 918 | 21 953 120 |

98.11% of the investments in debt securities is rated at least on A- credit rating (31 December 2010: 99.13%).

Information about impairment allowance for investment debt securities occurs under the Note 23.

### 3.4.9 Repossessed Collateral

The Group classifies repossessed collaterals as assets repossessed for debt and measures them in accordance with the adopted accounting policies described in paragraph 2.23. 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 units managing the collection process for individual types of repossessed collaterals.

The policy of the companies of the Group is to sell repossessed assets or - in the case of leases - lease them out again to another customer. Cases in which the repossessed collateral is used for own needs are rare - such a step must be economically justified and reflect the Group companies' urgent need, and must at each time be approved by their Management Boards. In 2011, the Group did not have any repossessed collaterals that were difficult to sell. As at 31 December 2011, value of repossessed collaterals was PLN 29 803 thousand (31 December 2010: PLN 0) included mainly leasing assets and real estates which constitute collaterals for mortgage loans.

## 3.5 Concentration of Assets, Liabilities and Off-Balance Sheet Items

Geographic concentration risk

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

- Complies with the formal procedures aimed at identifying, measurement and monitoring this risk.

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

Sector concentration risk

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

Sector limits are set for sectors defined by the Bank in accordance with the internal Bank's regulations, in quarterly reporting periods. Monitoring and analysis covers all the sectors in which the Bank's exposure exceeds PLN 800 million, and additionally those indicated by the Chief Risk Officer. Unless the Bank's Management Board Credit Committee decides otherwise, an exposure limit is set for the Group in any sector on a level not higher than:

- 10% of the gross loan portfolio in the prior reporting period for low risk sectors;
- 8% of the gross loan portfolio in the prior reporting period for medium risk sectors;
- 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 table below presents the structure of concentration of BRE Bank SA Group's exposures in particular sectors.

The structure of concentration of carrying amounts of exposure of the Group

| No. | Sectors | Principal exposure (in PLN million) 31.12.2011 | % | Principal exposure (in PLN million) 31.12.2010 | % |
|---|---|---|---|---|---|
| 1. | Household customers | 38 688 979 | 55.08% | 33 703 646 | 54.52% |
| 2. | Real estate management | 4 279 605 | 6.09% | 3 565 345 | 5.77% |
| 3. | Public Administration | 2 508 575 | 3.57% | 1 586 819 | 2.57% |
| 4. | Building industry | 2 277 683 | 3.24% | 2 030 608 | 3.28% |
| 5. | Liquid fuels and natural gas | 2 051 906 | 2.92% | 986 905 | 1.60% |
| 6. | Transport and travel agencies | 1 975 109 | 2.81% | 1 541 993 | 2.49% |
| 7. | Metals | 1 260 732 | 1.79% | 1 102 050 | 1.78% |
| 8. | Management, consulting, advertising | 947 286 | 1.35% | 756 467 | 1.22% |
| 9. | Wholesale trade | 909 508 | 1.29% | 1 007 980 | 1.63% |
| 10. | Chemistry and plastic processing | 851 016 | 1.21% | 544 030 | 0.88% |
| 11. | Motorization | 809 103 | 1.15% | 735 722 | 1.19% |
| 12. | Wood and furniture | 774 043 | 1.10% | 929 151 | 1.50% |
| 13. | Leasing and renting | 745 406 | 1.06% | 634 973 | 1.03% |
| 14. | Power industry and heat engineering | 716 907 | 1.02% | 464 640 | 0.75% |
| 15. | Building materials | 706 057 | 1.01% | 628 786 | 1.02% |
| 16. | Groceries | 614 850 | 0.88% | 586 715 | 0.95% |
| 17. | Meat processing industry | 528 178 | 0.75% | 474 263 | 0.77% |
| 18. | Telecomunication | 525 987 | 0.75% | 210 531 | 0.34% |

In 2011, the total exposure of the Group in the above sectors (excluding household customers) amounts to 31.99% of the credit portfolio (2010: 28.77%). The risk of investing in these sectors (in a 3-point scale, i.e., small, medium, large) estimated by the Bank's credit risk advisors as at the end of 2011, was assessed as follows:

| | |
|---|---|
| Real estate management | - medium |
| Public Administration | - small |
| Building industry | - medium |
| Liquid fuels and natural gas | - medium |
| Transport and travel agencies | - medium |
| Metals | - large |
| Management, consulting, advertising | - n/a |
| Wholesale trade | - n/a |
| Chemistry and plastic processing | - medium |
| Motorization | - large |
| Wood and furniture | - large |
| Leasing and renting | - medium |
| Power industry and heat engineering | - medium |
| Building materials | - medium |
| Groceries | - n/a |
| Meat processing industry | - n/a |
| Telecommunication | - medium |

In the previous year, the risk of investing was assesed in a 5-point scale, i.e., small, medium, increased, large and very large and assessed according to the study of The Gdańsk Institute for Market Economics as well as on the basis of recommendations of sector analysts from the Bank. As at the end of 2010 the risk of above sectors was as follows:

| | |
|---|---|
| Real estate management | - medium |
| Public Administration | - small |
| Building industry | - large |
| Liquid fuels and natural gas | - medium |
| Transport and travel agencies | - large |
| Metals | - very large |
| Management, consulting, advertising | - increased |
| Wholesale trade | - medium |
| Chemistry and plastic processing | - medium |
| Motorization | - large |
| Wood and furniture | - very large |
| Leasing and renting | - medium |
| Power industry and heat engineering | - medium |
| Building materials | - increased |
| Groceries | - medium |
| Meat processing industry | - medium |
| Telecommunication | - 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 regulatory limits in companies of the Group:

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

These activities have a direct impact on the decisions of the Group concerning the approval of increase and undertaking of exposures to customers.

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

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

### 3.6 Market Risk

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

The fundamental principle applied in the organisation of the market risk management in the Bank is the separation of risk control and monitoring functions from structures undertaking and operationally managing Bank's risk positions. Independent monitoring and controlling of the market risk exposition is performed by the Risk Department and the Financial Operations Control Department, both units in the Risk Area of the Bank under supervision of and reporting to the Chief Risk Officer, while the market risk positions are operationally managed by Financial Markets Department and Treasury Department reporting to the Management Board member in charge of investment banking.

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

In order to mitigate market risk exposure BRE Bank Risk Committee establishes limits for VaR figures and management action triggers limits.

#### Value at Risk

In 2011 Bank's market risk exposure, as measured by the value at risk (VaR, for one day holding period, at 97.5% confidence level), was in relation to the established limits on moderate level. The average value of Bank's VaR in 2011 was PLN 11.1 million, while the highest observed VaR in this period was PLN 14.2 million. The average utilisation of VaR limit for Financial Markets Department, whose positions consist primarily of trading book portfolios, amounted to 26%, while for the Treasury Department, whose positions are classified solely to the banking book, it was 64%. BRE VaR figures are driven mainly by positions sensitive to interest rates – i.e. by banking book T-bonds portfolios managed by Treasury Department and in the trading book managed by Financial Markets Department by interest rates exchange positions and to a lesser extent by portfolios of instruments sensitive to changes in exchange rates, such as currency exchange transactions and currency options.

#### BRE Bank VaR

| PLN 000's | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2011 | Mean | Maximum | Minimum | 31.12.2010 | Mean | Maximum | Minimum |
| VaR IR | 12 157 | 11 166 | 14 480 | 8 219 | 9 529 | 7 242 | 10 411 | 3 895 |
| VaR FX | 229 | 258 | 719 | 29 | 222 | 651 | 2 786 | 178 |
| VaR EQ | 3 | 30 | 160 | 0 | 25 | 184 | 906 | 2 |
| **VaR** | **12 217** | **11 118** | **14 238** | **8 118** | **9 423** | **7 314** | **10 375** | **3 951** |

#### Stress testing

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

The values of the stress tests calculated by the second method are subject to the limits treated as the management action triggers. The average utilization of these limits in 2011 was 83% (PLN 103.6 million) – in 2010 was 49% (PLN 59.2 million) for the Treasury Department portfolio and 19% (PLN 14.3 million) – in 2010 was 17% (PLN 12.9 million) for Financial Markets Department portfolio. Among scenarios used in these tests, the highest potential loss was due to large changes of interest rates (mostly PLN rates). For the scenario of 15% overnight increase of interest rates, average potential loss on BRE portfolios was PLN 112.1 million. Realization of such scenario, would impact mostly (i.e. due to change in mark-to-market value of debt instruments of Treasury Department having accounting category available for sale) the Bank's funds, and to lesser extend would impact Bank's financial results. For this scenario the average potential loss in 2011 on Treasury Department portfolio was PLN 102.1 million.

The average value of a stress test (based on observed crisis situations in the past) in 2011 was for the Financial Markets Department portfolio - PLN 14.6 million (in 2010 – PLN 11.7 million), and for the Treasury Department - PLN 102.4 million (in 2010 – PLN 72 million).

**Market Risk of BRE Bank Group**

The main sources of market risk of the BRE Bank Group are the Bank's positions. The table below shows the level of market risk exposure of the BRE Bank Group (i.e. BRE Bank, BRE Bank Hipoteczny, BRE Leasing, and Dom Inwestycyjny BRE Banku) as of 31 December 2011 measured by VaR (at 97.5% confidence level for a one-day holding period) and its decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), and equity prices risk (VaR EQ).

| PLN 000's | BRE Group | BRE | BRE BH | BRE Leasing | DI BRE |
|---|---|---|---|---|---|
| VaR IR | 12 220 | 12 157 | 157 | 379 | 0 |
| VaR FX | 80 | 229 | 140 | 218 | 0 |
| VaR EQ | 92 | 3 | 0 | 0 | 91 |
| **VaR** | **12 185** | **12 217** | **146** | **373** | **91** |

For comparison, at the end of 2010 VaR for the BRE Bank Group was PLN 9 637 thousand, with VaR of BRE Bank at PLN 9 423 thousand, BRE Bank Hipoteczny – PLN 191 thousand, BRE Leasing – PLN 290 thousands, and Dom Inwestycyjny BRE Banku – PLN 77 thousand.

Moreover, the Bank is exposed to the risk of equity prices via its holding in BRE Gold Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The average VaR on PZU shares in 2H 2011 amounted to PLN 5.24 mln PLN. However, the impact of this position on overall VaR of the Group was rather moderate – the average VaR of BRE Bank Group including the PZU share position in 2H 2011 was 13.57 mln PLN.

### 3.7 Currency Risk

The Group is exposed to changes in currency exchange rates. The following tables present the exposure of the Group to currency risk as at 31 December 2011 and 31 December 2010. The tables present assets and liabilities of the Group at balance sheet carrying amount, for each currency:

| 31.12.2011 | PLN | EUR | USD | CHF | GBP | Other | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and balances with the Central Bank | 935 433 | 57 240 | 9 160 | 118 | 1 729 | 34 676 | 1 038 356 |
| Loans and advances to banks | 1 916 184 | 1 230 760 | 648 415 | 37 732 | 29 087 | 146 696 | 4 008 874 |
| Trading securities | 987 713 | - | 3 846 | - | - | - | 991 559 |
| Derivative financial instruments | 1 400 522 | 71 353 | 24 603 | 1 355 | - | 8 762 | 1 506 595 |
| Loans and advances to customers | 28 141 033 | 11 330 484 | 2 495 507 | 23 981 722 | 49 564 | 1 853 206 | 67 851 516 |
| Hedge accounting adjustments related to fair value of hedged items | - | - | - | - | - | 1 924 | 1 924 |
| Investment securities | 16 181 966 | 351 | 7 991 | - | - | 506 904 | 16 697 212 |
| Pledged assets | 4 339 523 | - | - | - | - | - | 4 339 523 |
| Intangible assets | 425 145 | 377 | - | - | - | 11 247 | 436 769 |
| Tangible fixed assets | 813 034 | 6 956 | - | - | - | 12 465 | 832 455 |
| Other assets, including tax assets | 1 108 170 | 44 050 | 1 623 | 1 799 | 14 | 15 208 | 1 170 864 |
| Total assets | 56 248 723 | 12 741 571 | 3 191 145 | 24 022 726 | 80 394 | 2 591 088 | 98 875 647 |
| LIABILITIES | | | | | | | |
| Amounts due to other banks | 4 113 503 | 2 456 373 | 1 224 000 | 19 183 950 | 171 | 412 812 | 27 390 809 |
| Derivative financial instruments | 1 766 612 | 67 474 | 22 743 | 638 | - | 5 280 | 1 862 747 |
| Amounts due to customers | 42 572 602 | 7 382 918 | 1 475 994 | 47 291 | 99 690 | 2 665 893 | 54 244 388 |
| Debt securities in issue | 1 735 988 | - | - | - | - | - | 1 735 988 |
| Subordinated liabilities | - | - | - | 3 456 200 | - | - | 3 456 200 |
| Other liabilities including tax liabilities | 1 582 605 | 240 482 | 76 584 | 5 826 | 2 768 | 51 417 | 1 959 682 |
| Provisions | 135 785 | 2 639 | 10 590 | 4 081 | 20 | 53 | 153 168 |
| Total liabilities | 51 907 095 | 10 149 886 | 2 809 911 | 22 697 986 | 102 649 | 3 135 455 | 90 802 982 |
| | | | | | | | |
| Net on-balance sheet position | 4 341 628 | 2 591 685 | 381 234 | 1 324 740 | (22 255) | (544 367) | 8 072 665 |
| Loan commitments and other commitments | 12 883 476 | 1 029 183 | 116 544 | - | 13 239 | 157 784 | 14 200 226 |
| Guarantees, banker's acceptances, documentary and commercial letters of credit | 2 133 969 | 577 717 | 143 941 | - | 56 | 111 567 | 2 967 250 |

| 31.12.2010 | PLN | EUR | USD | CHF | GBP | Other | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and balances with the Central Bank | 2 259 825 | 44 850 | 5 577 | 117 | 469 | 49 074 | 2 359 912 |
| Loans and advances to banks | 1 283 267 | 603 102 | 242 708 | 5 127 | 14 496 | 358 582 | 2 507 282 |
| Trading securities | 1 564 293 | 1 100 | 263 | - | - | - | 1 565 656 |
| Derivative financial instruments | 1 043 926 | 99 766 | 62 728 | 3 632 | - | 16 601 | 1 226 653 |
| Loans and advances to customers | 25 371 627 | 8 378 725 | 1 666 823 | 22 073 527 | 28 243 | 1 855 106 | 59 374 051 |
| Investment securities | 18 663 366 | 85 221 | 14 101 | - | - | - | 18 762 688 |
| Pledged assets | 1 830 803 | - | - | - | - | - | 1 830 803 |
| Investments in associates | - | 317 | - | - | - | - | 317 |
| Intangible assets | 416 075 | 3 130 | - | - | - | 8 632 | 427 837 |
| Tangible fixed assets | 751 033 | 12 586 | - | - | - | 14 001 | 777 620 |
| Other assets, including tax assets | 1 161 973 | 27 140 | 1 958 | 297 | 10 | 14 634 | 1 206 012 |
| Total assets | 54 346 188 | 9 255 937 | 1 994 158 | 22 082 700 | 43 218 | 2 316 630 | 90 038 831 |
| LIABILITIES | | | | | | | |
| Amounts due to the Central Bank | - | 79 | - | - | - | - | 79 |
| Amounts due to other banks | 4 613 753 | 3 641 285 | 1 157 421 | 18 781 485 | 1 932 | 531 132 | 28 727 008 |
| Derivative financial instruments | 1 255 302 | 60 890 | 39 939 | 1 687 | - | 5 690 | 1 363 508 |
| Amounts due to customers | 38 779 633 | 4 991 244 | 718 059 | 30 671 | 77 867 | 2 553 479 | 47 150 953 |
| Debt securities in issue | 1 371 824 | - | - | - | - | - | 1 371 824 |
| Subordinated liabilities | - | - | - | 3 010 127 | - | - | 3 010 127 |
| Other liabilities including tax liabilities | 871 353 | 229 201 | 26 884 | 688 | 3 308 | 31 288 | 1 162 722 |
| Provisions | 145 014 | 15 564 | 5 211 | 9 266 | 19 | 251 | 175 325 |
| Total liabilities | 47 036 879 | 8 938 263 | 1 947 514 | 21 833 924 | 83 126 | 3 121 840 | 82 961 546 |
| | | | | | | | |
| Net on-balance sheet position | 7 309 309 | 317 674 | 46 644 | 248 776 | (39 908) | (805 210) | 7 077 285 |
| Loan commitments and other commitments | 10 518 084 | 917 541 | 144 013 | 81 | 4 319 | 126 749 | 11 710 787 |
| Guarantees, banker's acceptances, documentary and commercial letters of credit | 1 636 079 | 625 921 | 158 038 | 137 | 46 | 29 593 | 2 449 814 |

## 3.8 Interest Rate Risk

### BRE Bank SA

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

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

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

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

### Interest income subject to risk

As at 31 December 2011 and 31 December 2010 a sudden, lasting and unfavourable shift of market interest rates by 100 basis points for all maturities would result in decrease in the annual interest income within 12 months after the year end date by the following amounts:

| 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|
| in PLN million | currency | in PLN million | currency |
| 35.06 | PLN | 35.83 | PLN |
| 2.19 | EUR | 4.56 | EUR |
| 4.50 | USD | 0.12 | USD |
| 18.90 | CHF | 16.28 | CHF |
| 7.63 | CZK | 5.49 | CZK |

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

**Stress tests**

The Bank runs also other analyses of the changes of the economic value of the banking book under stress test scenarios. Under the stress test, which assumes unfavorable shift of the interest rates for respective currencies by 200 bps, the economic value of the banking book at the end of 2011 would change by PLN 375 million (2010: PLN 293 million), out of which PLN 333 million (2010: PLN 310 million) due to available for sale instruments. During the calculation of these values no correlation between currencies was taken into account and it was assumed that taking into account small interest rate values after the negative shift cannot become less than or equal to zero.

**BRE Bank Hipoteczny SA**

Repricing date misfit gap and interest earnings at risk (EaR) based on the former are the key interest rate risk measures at BRE Bank Hipoteczny SA.

As at 31 December 2011 and 31 December 2010 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 by the following amounts, on average:

| 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|
| in PLN million | currency | in PLN million | currency |
| 4.00 | PLN | 4.31 | PLN |
| 0.49 | EUR | 0.08 | EUR |
| 0.01 | USD | 0.00 | USD |

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 BRE Bank Hipoteczny would not take any measures to change related exposure to interest rate change risk.

**BRE Leasing Sp. z o.o.**

BRE Leasing Sp. z o.o. performs risk analysis based on the following risk factors:

- interest rates;
- fx rates.

The sensitivity of individual transactions to the risk factors is calculated by adding the shock rate and analysing its impact on the present value of the portfolio (MTM).

As at 31 December 2011 and 31 December 2010 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 by the following amounts, on average:

| 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|
| in PLN million | currency | in PLN million | currency |
| 1.50 | PLN | 2.60 | PLN |
| 1.40 | EUR | 1.20 | EUR |
| 0.20 | USD | 0.01 | USD |
| 1.10 | CHF | 0.02 | CHF |
| 0.10 | JPY | 0.10 | JPY |

**Group interest rate risk**

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

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| 31.12.2011 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | More than 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and balances with the Central Bank | 818 199 | - | - | - | - | 220 157 | 1 038 356 |
| Loans and advances to banks | 3 663 434 | 129 128 | 117 183 | - | - | 99 129 | 4 008 874 |
| Securities (trading securities, investment securities and pledged assets) | 12 283 888 | 426 025 | 4 888 368 | 3 186 329 | 1 052 154 | 191 530 | 22 028 294 |
| Loans and advances to customers | 59 351 360 | 4 487 765 | 2 629 225 | 594 810 | 29 800 | 758 556 | 67 851 516 |
| Other assets and derivative financial instruments | 247 112 | 376 782 | 680 893 | 260 730 | 14 497 | 785 665 | 2 365 679 |
| Total assets | 76 363 993 | 5 419 700 | 8 315 669 | 4 041 869 | 1 096 451 | 2 055 037 | 97 292 719 |
| LIABILITIES | | | | | | | |
| Amounts due to other banks | 14 126 055 | 13 126 153 | 132 096 | - | - | 6 505 | 27 390 809 |
| Amounts due to customers | 47 316 524 | 5 109 449 | 1 090 733 | 147 939 | 400 891 | 178 852 | 54 244 388 |
| Debt securities in issue | 571 665 | 369 080 | 795 243 | - | - | - | 1 735 988 |
| Subordinated liabilities | 1 238 818 | 2 217 382 | - | - | - | - | 3 456 200 |
| Other liabilities and derivative financial instruments | 330 761 | 353 811 | 952 524 | 329 095 | 18 760 | 1 601 652 | 3 586 603 |
| Total liabilities | 63 583 823 | 21 175 875 | 2 970 596 | 477 034 | 419 651 | 1 787 009 | 90 413 988 |
| | | | | | | | |
| Total interest repricing gap | 12 780 170 | (15 756 175) | 5 345 073 | 3 564 835 | 676 800 | | |

| 31.12.2010 | 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 | 2 192 949 | - | - | - | - | 166 963 | 2 359 912 |
| Loans and advances to banks | 2 333 674 | 80 553 | 46 393 | - | - | 46 662 | 2 507 282 |
| Securities (trading securities, investment securities and pledged assets) | 11 703 842 | 2 086 827 | 2 004 757 | 5 139 707 | 1 014 760 | 209 254 | 22 159 147 |
| Loans and advances to customers | 52 442 718 | 3 820 532 | 1 805 138 | 513 658 | 14 534 | 777 471 | 59 374 051 |
| Other assets and derivative financial instruments | 265 710 | 289 812 | 465 209 | 179 176 | 16 517 | 893 947 | 2 110 371 |
| Total assets | 68 938 893 | 6 277 724 | 4 321 497 | 5 832 541 | 1 045 811 | 2 094 297 | 88 510 763 |
| LIABILITIES | | | | | | | |
| Amounts due to the Central Bank | 79 | - | - | - | - | - | 79 |
| Amounts due to other banks | 14 726 117 | 13 443 287 | 556 090 | - | - | 1 514 | 28 727 008 |
| Amounts due to customers | 42 027 205 | 3 056 120 | 1 133 950 | 191 279 | 615 657 | 126 742 | 47 150 953 |
| Debt securities in issue | 385 467 | 478 917 | 507 440 | - | - | - | 1 371 824 |
| Subordinated liabilities | 1 079 035 | 1 931 092 | - | - | - | - | 3 010 127 |
| Other liabilities and derivative financial instruments | 545 132 | 263 804 | 655 720 | 200 463 | 18 973 | 816 040 | 2 500 132 |
| Total liabilities | 58 763 035 | 19 173 220 | 2 853 200 | 391 742 | 634 630 | 944 296 | 82 760 123 |
| | | | | | | | |
| Total interest repricing gap | 10 175 858 | (12 895 496) | 1 468 297 | 5 440 799 | 411 181 | | |

## 3.9 Liquidity Risk

### BRE Bank SA

The objective of liquidity risk management is to ensure and maintain the Bank's ability to fulfill 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:

- taking day-to-day business decisions and structuring the balance sheet in compliance with the Bank's strategy, which affects the current and future level of exposure to liquidity risk
- identifying, measuring, controlling and limiting liquidity risk.

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

Financial liquidity risk management at the strategic level in the Bank is executed by decisions of:

- the Risk Committee by:
  a) adapting methods of calculating financial liquidity risk and forms reports,
  b) establishing the structure and levels of strategic limits of the risk,
  c) setting up the structure and minimum amount of liquidity reserves of the Bank,
  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,

- the ALCO by

  a. determining a long term financing strategy.

The responsibility for monitoring and managing liquidity at the operational level within the limits approved by the Risk Committee rests with the Treasury Department, which in cooperation with the Custody and Settlement Services Department is also responsible for the settlement liquidity area 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 Risk Department, which monitors the liquidity situation on an ongoing basis, is responsible for measuring and controlling liquidity risk.

As part of liquidity risk management, a range of risk measures are being analysed. The basic measure reflecting the Bank's liquidity situation is the mismatch account of future cash flows, and the mismatch gap related with it. It covers all the assets, liabilities and off-balance sheet items of the Bank in all the currencies and time-bands set by the Bank. The aim to secure liquidity is realized by active management of the structure of future cash flows and in maintaining sufficient liquidity surplus, adequate to the liquidity needs arising from the Bank's activity and current market situation. To achieve that, the Bank holds a reserve of liquid assets which secure its liquidity and may be pledged or sold at any time without any considerable loss in value. In accordance with KNF Resolution No. 386/2008 on establishing liquidity measures binding on banks, the Bank calculates the supervisory liquidity measures and maintains them above the set limits. Moreover, in line with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets internal limits on involvement in long-term assets. There are analysed the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts. Additionally, the Bank analyses the variability of the balance sheet and off-balance sheet items, in particular the open credit line facilities and current account overdraft facilities.

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

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

| Value of realistic, cumulative gap of cash flows misfit (in PLN million) | | |
|---|---|---|
| **Time range** | **31.12.2011** | **31.12.2010** |
| up to 3 working days | 7 065 | 8 854 |
| up to 7 calendar days | 11 222 | 16 905 |
| up to 15 calendar days | 11 148 | 17 218 |
| up to 1 month | 12 339 | 18 765 |
| up to 2 months | 12 011 | 18 941 |
| up to 3 months | 12 280 | 19 125 |
| up to 4 months | 12 705 | 18 637 |
| up to 5 months | 13 073 | 18 948 |
| up to 6 months | 12 658 | 19 131 |
| up to 7 months | 12 741 | 19 231 |
| up to 8 months | 12 851 | 19 309 |
| up to 9 months | 11 851 | 19 370 |
| up to 10 months | 12 110 | 19 667 |
| up to 11 months | 12 134 | 19 361 |
| up to 12 months | 12 259 | 17 812 |

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

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

- In 2011, the level of liquidity and funding was adequate to the Bank's needs. The funding structure was stable. The biggest position in this structure was the current and term customers deposit portfolio. The second biggest source of funding, were long-term borrowings from banks (over 1 year), especially from Commerzbank (Note 28). The abovementioned borrowings and subordinated loans (Note 30) were the main sources of financing the mortgage loan portfolio in CHF. BRE Bank's dependency on money market funding was low (<2.5 % of total funding), and fully resulted from the market maker's operations on the interbank market.
- In order to secure funding in foreign currencies, the Bank uses mid-term and long-term instruments, including credit line facilities within Commerzbank Group and on the international market as well as the FX Swap transactions. Moreover, the Bank plans capital market issues. The amounts due in CHF have been decreasing gradually along with the gradual repayment of the portfolio of mortgage loans in CHF. The funds obtained from the repayment of those loans are used to reduce the Bank's debt in CHF to Commerzbank, its main shareholder.
- BRE Bank analyses liquidity risk on a daily basis. Moreover, taking into account the situation of banks in the euro zone and the sensitivity of liquidity risk to any potential market disturbances, the Bank has intensified its monitoring of the current liquidity situation. The Bank has increased the number and broadened the scope of analyses, especially stress test analyses, whose results have been presented and discussed during the ALCO, Risk Committee meetings and to Management Board Members.
- During 2011, the Bank had been maintaining an appropriate liquidity surplus, adequate to the needs arising from the Bank's activity and current market situation, in the form of liquid treasury and money securities which may be pledged or sold at any time without any considerable loss in value.

**BRE Bank Hipoteczny SA**

Liquidity risk occurs due to a gap between the maturity of the Bank's assets and its liabilities. The Bank manages liquidity risk by implementing procedures of monitoring of and reporting on the expected inflows and outflows and the net cash flows.

Sources of funding are subject to diversification, however, are obtained mainly in cooperation with BRE Bank. The Bank finances long-term assets in the first place with mortgage bonds of long-term maturity and with long-term deposits taken from BRE Bank and fulfils its current demand for funding in the interbank market by means of issues of short-term bonds and accepted deposits.

The Bank has put in place a contingency plan applicable in the event of deterioration of liquidity.

In 2011, the liquidity ratios up to 1 month were between 27.93% and 88.08% and the average liquidity ratio was 48.96%. As at 31 December 2011 this ratio was 31.56%. The liquidity ratio up to 1 month at 31.56% results from including unconditional stand-by lines of credit in the total amount of PLN 200 million.

**BRE Leasing Sp. z o.o.**

The purpose of liquidity risk management is to assure and maintain the capacity of the company to honour both its current and future liabilities, taking into account the costs of liquidity.

The company manages its liquidity risk by matching the maturity of amounts receivable under leasing contracts with the maturity of credit liabilities on the basis of cash flow reports. In addition, the company has open sources of refinancing for periods exceeding 6 months.

### 3.9.1 Cash Flows from Transactions in Non-derivative Financial Instruments

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

| Liabilities (by contractual maturity dates) | as at 31.12.2011 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| Amounts due to other banks | 3 799 535 | 414 236 | 4 407 931 | 14 042 491 | 5 582 306 | 28 246 499 |
| Amounts due to customers | 46 276 544 | 4 300 180 | 794 412 | 383 866 | 2 434 292 | 54 189 294 |
| Debt securities in issue | 372 455 | 71 607 | 882 060 | 1 465 838 | 205 986 | 2 997 946 |
| Subordinated liabilities | 1 243 173 | 7 028 | 19 887 | 105 652 | 2 238 497 | 3 614 237 |
| Technical-insurance provisions | 12 835 | 14 305 | 32 884 | 20 199 | 641 | 80 864 |
| Other liabilities | 1 190 066 | 27 452 | 219 509 | 10 529 | 3 829 | 1 451 385 |
| Total liabilities | 52 894 608 | 4 834 808 | 6 356 683 | 16 028 575 | 10 465 551 | 90 580 225 |
| Assets (by remaining contractual maturity dates) | | | | | | |
| Total assets | 15 739 695 | 4 179 751 | 18 782 019 | 30 263 305 | 50 757 444 | 119 722 214 |
| Net liquidity gap | (37 154 913) | (655 057) | 12 425 336 | 14 234 730 | 40 291 893 | 29 141 989 |

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| Liabilities (by contractual maturity dates) | as at 31.12.2010 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| Amounts due to the Central Bank | 79 | - | - | - | - | 79 |
| Amounts due to other banks | 4 527 485 | 261 143 | 5 227 899 | 13 652 014 | 7 520 554 | 31 189 095 |
| Amounts due to customers | 42 261 009 | 2 666 586 | 1 276 444 | 342 952 | 1 325 596 | 47 872 587 |
| Debt securities in issue | 107 342 | 104 149 | 669 592 | 715 277 | - | 1 596 360 |
| Subordinated liabilities | 1 083 167 | 6 779 | 19 045 | 101 181 | 1 976 002 | 3 186 174 |
| Technical-insurance provisions | 19 254 | 16 264 | 27 879 | 23 750 | 159 | 87 306 |
| Other liabilities | 400 956 | 25 212 | 122 452 | 3 557 | 2 734 | 554 911 |
| Total liabilities | 48 399 292 | 3 080 133 | 7 343 311 | 14 838 731 | 10 825 045 | 84 486 512 |
| Assets (by remaining contractual maturity dates) | | | | | | |
| Total assets | 20 272 484 | 4 899 141 | 13 860 823 | 25 645 704 | 39 396 149 | 104 074 301 |
| Net liquidity gap | (28 126 808) | 1 819 008 | 6 517 512 | 10 806 973 | 28 571 104 | 19 587 789 |

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

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

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

### 3.9.2 Cash Flows from Derivatives

Derivative financial instruments settled in net amounts

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

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

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

31.12.2011

| Derivatives settled on a net basis | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Forward Rate Agreements (FRA) | 8 207 | 15 169 | 26 359 | 2 638 | - | 52 373 |
| Overnight Index Swaps (OIS) | 663 | 1 470 | 8 809 | - | - | 10 942 |
| Interest Rate Swaps (IRS), including: | 49 963 | 251 924 | 195 245 | 631 053 | 134 439 | 1 262 624 |
| Cross Currency Interest Rate Swaps (CIRS) | - | 820 | 696 | 199 777 | - | 201 293 |
| Options | 5 351 | 28 403 | 143 895 | 12 942 | - | 190 591 |
| Futures contracts | - | 1 | - | - | - | 1 |
| Other | 399 | - | 631 | - | - | 1 030 |
| Total derivatives settled on a net basis | 64 583 | 297 787 | 375 635 | 846 410 | 134 439 | 1 718 854 |

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31.12.2010

| 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) | 3 532 | 5 593 | 5 330 | 754 | - | 15 209 |
| Overnight Index Swaps (OIS) | 4 695 | 997 | 1 632 | - | - | 7 324 |
| Interest Rate Swaps (IRS) | 41 846 | 87 116 | 196 498 | 413 879 | 45 403 | 784 742 |
| Cross Currency Interest Rate Swaps (CIRS) | - | 6 107 | 110 851 | 139 222 | - | 256 180 |
| Options | 11 364 | 24 021 | 70 707 | 3 221 | 9 904 | 119 217 |
| Futures contracts | - | 445 | - | - | - | 445 |
| Other | 602 | - | - | - | - | 602 |
| Total derivatives settled on a net basis | 62 039 | 124 279 | 385 018 | 557 076 | 55 307 | 1 183 719 |

Derivative financial instruments settled in gross amounts

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

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

| Derivatives settled on a gross basis | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Currency derivatives: | | | | | | |
| -outflows | 9 118 645 | 3 956 735 | 5 610 332 | 258 135 | - | 18 943 847 |
| -inflows | 9 130 609 | 3 891 088 | 5 634 221 | 271 787 | - | 18 927 705 |

31.12.2010

| 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 | 5 710 233 | 3 088 711 | 3 035 877 | 105 999 | - | 11 940 820 |
| -inflows | 5 677 549 | 3 091 640 | 3 011 426 | 103 342 | - | 11 883 957 |

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

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

Detailed data concerning liquidity risk related to off-balance sheet items are presented in the Note 36.

### 3.10 Insurance Risk Management

The risk connected with insurance contracts is the possibility of occurrence of the insurance event and the uncertainty of the amount of the resulting claim the insurer is to pay by virtue of this event. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For the portfolio of insurance contracts where for creating new products, calculating premiums as well as producing financial plans for subsequent periods the theory of probability is applied, the basi risk is the risk of discrepancy between actual claims and their expected values.

As loss ratio-based estimates are usually based on historic values, there is the risk that their actual realisation will differ from their expected realisation with regard to factors changing over the period such as:

- demographic structure of insured persons upon collective health insurance,
- regulations of the law concerning the insurance market,
- other regulations of the law affecting the insurance market.

Too small insurance portfolio which does not enable the Law of Great Numbers to function but also does not provide sufficient statistical information for proper risk management is also a factor increasing the risk of discrepancy between loss ratio-based estimates and their actual realisation.

In order to decrease this risk, the Group concentrates primarily on increasing given insurance risk portfolios while limiting the risk as well as the amount of individual risks insured on the Group's share by application of profound reinsurance.

Another source of insurance risk is insurance fraud which occurs in a higher or lesser degree in most of insurance products. This phenomenon consists in fraudulent claims for compensations or benefits which are not due actually.

Methods limiting the results of occurrence of the above indicated phenomenon include among others: preventive actions taken up by insurance companies (registers etc.) as well as procedures preventing acceptance of such risk for insurance and relevant procedures of claims handling.

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In 2011 the Group offered short-term property and personal insurance contracts both in individual and collective models. However, the collective model is applied to the insurance portfolio known as bancassurance.

The Group also offers individual agreements in co-insurance with other insurers.

Individual agreements are usually concluded for one year with the possibility of renewal with the exception of tourist insurance agreements which are concluded for the duration of the trip, i.e., from 1 to 90 days. Once a year the Group has the right to propose new conditions while renewing the agreement or may not propose such renewal at all.

Collective agreements are concluded in perpetuity. However, the Group has the right to propose new conditions at any time with a three-month notice with the exception of financial agreements where the agreement conditions can be changed by mutual agreement or with a twelve-month notice.

The Group reinsures insurance contracts upon reinsurance agreements.

Concentration of insurance risk is presented in accordance with the breakdown by the groups and the scope of risks defined by the Polish Financial Supervision Authority as well as according to the individual and collective sale model.

The concentration of insurance risk stated in provisions for compensations and benefits

| Gross risk | 31.12.2011 | share % | 31.12.2010 | share % |
|---|---|---|---|---|
| casualty | 8 151 | 10% | 5 025 | 8% |
| disease | 12 649 | 16% | 9 262 | 15% |
| casco of land vehicles | 3 778 | 5% | 5 232 | 8% |
| damages caused by elements | 4 787 | 6% | 3 607 | 6% |
| other material damages | 4 079 | 5% | 3 019 | 5% |
| civil liability due to owing and usage of land vehicles | 23 727 | 30% | 13 180 | 21% |
| civil liability | 560 | 1% | 378 | 1% |
| loan | 16 592 | 21% | 18 624 | 30% |
| guarantee | 1 147 | 1% | 793 | 1% |
| different financial risks | 417 | 1% | 436 | 1% |
| protection by law | 178 | 0% | 155 | 0% |
| providing help | 3 344 | 4% | 2 664 | 4% |
| **Gross provision for compensations and benefits** | **79 409** | **100%** | **62 375** | **100%** |
| **Risk on own share** | **31.12.2011** | **share %** | **31.12.2010** | **share %** |
| casualty | 8 158 | 19% | 5 025 | 15% |
| disease | 12 648 | 29% | 9 262 | 27% |
| casco of land vehicles | 777 | 2% | 916 | 3% |
| damages caused by elements | 2 079 | 5% | 2 059 | 6% |
| other material damages | 3 372 | 8% | 2 481 | 7% |
| civil liability due to owing and usage of land vehicles | 4 888 | 11% | 2 409 | 7% |
| civil liability | 407 | 1% | 271 | 1% |
| loan | 8 501 | 20% | 9 555 | 28% |
| guarantee | 1 147 | 3% | 793 | 2% |
| different financial risks | 417 | 1% | 436 | 1% |
| protection by law | 178 | 0% | 155 | 1% |
| providing help | 640 | 1% | 597 | 2% |
| **Provisions for compensations and benefits on own share** | **43 212** | **100%** | **33 959** | **100%** |
| **Gross risk** | **31.12.2011** | **share %** | **31.12.2010** | **share %** |
| individual | 37 913 | 48% | 26 481 | 42% |
| group | 41 496 | 52% | 35 894 | 58% |
| **Provisions for compensations and benefits** | **79 409** | **100%** | **62 375** | **100%** |
| **Risk on own share** | **31.12.2011** | **share %** | **31.12.2010** | **share %** |
| individual | 12 765 | 30% | 8 685 | 26% |
| group | 30 447 | 70% | 25 274 | 74% |
| **Provisions for compensations and benefits on own share** | **43 212** | **100%** | **33 959** | **100%** |

Sensitivity analysis of provisions for damages

With regard to the accepted methodology of calculation of the IBNR provision ('Naive Loss Ratio' and 'Bornhuetter-Ferguson'), total provisions for compensations and benefits together with costs of claims handling are generally linearly dependent on the assumed loss-based ratio, ULR ('Ultimate Loss Ratio'), accepted for calculation of the IBNR provision with the exception of situations when the ratio calculated only on the basis of damages claimed in a given group of insurance exceeds the accepted value of ULR.

However, the IBNR provision alone is sensitive to changes of assumed loss-based ratios.

Sensitivity analysis was carried out simultaneously for all insured risks of the portfolio, through a change of predicted IBNR ratios with other parameters of the model being unchanged.

The following table presents changes of the IBNR provision depending on changes of parameters of predicted ULR ratios.

| Change of ULR ratio (%) | | Change of IBNR provision (%) | | IBNR provision (PLN '000) | | Change of the value of IBNR provision (PLN '000) | | The impact on profit after reinsurance (PLN '000) | |
|---|---|---|---|---|---|---|---|---|---|
| 31.12.2011 | 31.12.2010 | 31.12.2011 | 31.12.2010 | 31.12.2011 | 31.12.2010 | 31.12.2011 | 31.12.2010 | 31.12.2011 | 31.12.2010 |
| (20) | (20) | (26) | (50) | 45 049 | 20 742 | (16 191) | (20 727) | 8 838 | 8 802 |
| (10) | (10) | (13) | (26) | 53 101 | 30 593 | (8 139) | (10 876) | 4 457 | 4 496 |
| 10 | 10 | 14 | 26 | 69 695 | 52 352 | 8 455 | 10 883 | (4 773) | (4 504) |
| 20 | 20 | 28 | 52 | 78 197 | 63 235 | 16 957 | 21 767 | (9 592) | (9 007) |

Provisions adequacy analysis

The Group carried out a provisions adequacy analysis which showed that technical-insurance provisions (reduced by activated acquisition costs) as at 31 December 2011 were created at a level sufficient to cover commitments arising from insurance agreements till 31 December 2011.

Capital management

Since the start of business of BRE Ubezpieczenia TUiR SA, i.e., 15 January 2007, capital management in both insurance companies is connected with the aspiration for maintenance of regular adequacy. The purpose of the Group within the scope of capital management is the maintenance of the capacity of both insurance companies of the Group for continuance of business and maintenance of an optimal structure of capital in order to reduce costs of capital.

For this purpose, the Group constantly monitors the value of its own resources in relation to the margin of solvency and guarantee capital in accordance with capital requirements imposed by regulations binding in Poland (Insurance Activity Act and Accounting Act with relevant decrees).

In accordance with these regulations, the company BRE Ubezpieczenia TUiR SA is obliged to hold own resources in the value not lower than the margin of solvency and not lower than the guarantee capital. The guarantee capital equals the bigger of: one-third of the margin of solvency or minimum value of the guarantee capital.

The Decree of Minister of Finance, which takes into account the necessity of ensuring solvency of companies conducting insurance activities, determines the manner of calculation of the solvency margin and minimum value of the guarantee capital.

Own resources of the company are the assets of the insurance company, excluding:

- assets assigned for coverage of all expected commitments,
- intangible assets other than DAC (Deferred Acquisition Cost),
- own shares held by the insurance company,
- deferred income tax assets.

The company BRE Ubezpieczenia TUiR SA is guided only by the law requirements in calculating the solvency margin and the minimum guarantee capital.

Insurance companies check the compliance of capital with law requirements as at the end of each reporting period. Within the whole year 2011 and 2010 the law requirements were met.

The following table presents own resources of the company BRE Ubezpieczenia TUiR SA and coverage of the solvency margin and the guarantee capital as at 31 December 2011 and 31 December 2010.

| PLN '000 | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Own resources | 66 732 | 54 476 |
| Margin of solvency | 14 226 | 11 499 |
| Minimal guarantee capital | 14 323 | 14 323 |
| 1/3rd of margin of solvency | 4 742 | 3 833 |
| Own resources surplus for coverage of margin of solvency | 52 506 | 42 977 |
| Guarantee capital | 14 323 | 14 323 |
| Own resources surplus for coverage of guarantee capital | 52 409 | 40 152 |

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### 3.11 Fair Value of Financial Assets and Liabilities

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

Following market practices the Group 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 Group. All open positions in derivatives (currency or interest rates) are valued by relevant market models using prices or observable by market. Domestic commercial papers are mark-to-model (by discounting cash flows), which in addition to market interest rate curve uses credit spreads estimated internally.

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

The following table presents a summary of balance sheet and fair values for each group of financial assets and liabilities not recognised in the Statement of Financial Position of the Group at their fair values.

| | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Financial assets** | | | | |
| **Loans and advances to banks** | **4 008 874** | **4 008 872** | **2 507 282** | **2 507 281** |
| **Loans and advances to customers** | **67 851 516** | **67 859 684** | **59 374 051** | **59 284 786** |
| **Loans and advances to individuals** | **37 827 602** | **37 827 553** | **32 605 727** | **32 605 471** |
| current accounts | 3 609 982 | 3 609 982 | 3 541 703 | 3 541 703 |
| term loans including: | 34 217 620 | 34 217 571 | 29 064 024 | 29 063 768 |
| - housing and mortgage loans | 30 741 634 | 30 741 585 | 26 187 013 | 26 186 883 |
| **Loans and advances to corporate entities** | **26 367 099** | **26 378 804** | **24 182 380** | **24 094 492** |
| current accounts | 3 470 833 | 3 470 833 | 2 740 923 | 2 740 923 |
| term loans | 20 525 354 | 20 537 059 | 16 196 410 | 16 190 674 |
| - corporate & institutional enterprises | 6 052 813 | 6 063 910 | 3 162 315 | 3 156 836 |
| - medium & small enterprises | 14 472 541 | 14 473 149 | 13 034 095 | 13 033 838 |
| reverse repo / buy sell back transactions | 1 153 508 | 1 153 508 | 3 338 317 | 3 338 317 |
| other | 1 217 404 | 1 217 404 | 1 906 730 | 1 824 578 |
| **Loans and advances to public sector** | **3 174 648** | **3 171 160** | **1 917 829** | **1 916 708** |
| **Other receivables** | **482 167** | **482 167** | **668 115** | **668 115** |
| **Financial liabilities** | | | | |
| **Amounts due to other banks** | **27 390 809** | **27 390 809** | **28 727 008** | **28 727 505** |
| **Amounts due to customers** | **54 244 388** | **54 282 928** | **47 150 953** | **47 126 449** |
| **Debt securities in issue** | **1 735 988** | **1 735 988** | **1 371 824** | **1 371 824** |
| **Other financial liabilities** | **1 352 417** | **1 352 417** | **822 603** | **822 603** |

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

<u>Loans and advances to banks</u>. The fair values of variable interest deposits and fixed interest deposits with less than 1 year to maturity is equal to its 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 cash flows of principal and interest discounted on the basis of zero-coupon curve, including credit spread. It was assumed that credits and loans would be repaid on dates set in agreements. The fair values of impaired loan are equal to their carrying amounts which take into account of all impairment indicators. So estimated fair value of loans and receivables reflect changes in credit risk starting from the grant of each credit/loan and changes in interest rates for fixed rate credits.

<u>Available for sale financial assets</u>. Listed available for sale financial instruments held by the Group 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

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(including credit spread). The model of spread determination in the case of illiquid commercial papers was extended in order to reflect the costs of unexpected loss component of the credit spread more precisely.

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

- Contracted borrowings;
- Liabilities resulting from the issue of securities;
- Deposits.

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

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

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

Credit risk exposures relating to off-balance sheet items. As at 31 December 2011, the fair value of financial guarantees amounted to PLN 4 711 thousand (31 December 2010: PLN 4 242 thousand). The fair values of other off-balance sheet items are equal to their carrying amounts.

The following table presents the hierarchy of fair values of financial assets and liabilities recognised in the Statement of Financial Position of the Group at their fair values at 31 December 2011 and 31 December 2010.

| 31.12.2011 | Including: | Level 1<br>Quoted prices in active markets for identical instruments | Level 2<br>Valuation techniques based on observable market data | Level 3<br>Value measurements for inputs that are not based on observable market data |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Trading securities** | **1 477 022** | **1 023 052** | **10 284** | **443 686** |
| Debt* | 1 463 259 | 1 019 573 | - | 443 686 |
| Equity | 13 763 | 3 479 | 10 284 | - |
| **Derivative financial instruments, including:** | **1 506 595** | **6 680** | **1 499 915** | **-** |
| **Investment securities** | **20 551 272** | **13 690 762** | **6 520 835** | **339 675** |
| Debt* | 20 373 505 | 13 534 206 | 6 511 488 | 327 811 |
| Equity | 177 767 | 156 556 | 9 347 | 11 864 |
| **Total financial assets** | **23 534 889** | **14 720 494** | **8 031 034** | **783 361** |
| **Financial liabilities** | | | | |
| **Derivative financial instruments, including:** | **1 862 747** | **296** | **1 862 451** | **-** |
| **Total financial liabilities** | **1 862 747** | **296** | **1 862 451** | **-** |

* the amount includes pledged assets

| Transfers between levels | Transfers into Level 1 | Transfers out of Level 1 | Transfers into Level 2 | Transfers out of Level 2 |
|---|---|---|---|---|
| **Investment securities** | - | - | 7 | - |
| Equity | - | - | 7 | - |

| Assets Measured at Fair Value Based on Level 3 | Debt trading securities | Debt investment securities | Equity investment securities |
|---|---|---|---|
| **As at the beginning of the period** | **263 259** | **89 745** | **15 087** |
| Gains and losses for the period: | 2 854 | 24 679 | 36 |
| *Recognised in profit or loss* | *2 854* | *5 484* | - |
| *Recognised in other comprehensive income* | - | *19 195* | *36* |
| Purchases | 1 248 162 | 260 352 | *550* |
| Redemptions | (584 062) | (46 100) | *(100)* |
| Sales | (9 445 052) | (569 965) | *(3 702)* |
| Issues | 8 943 395 | 570 107 | - |
| Settlements | 15 130 | (1 007) | - |
| Transfers out of Level 3 | - | - | (7) |
| **As at the end of the period** | **443 686** | **327 811** | **11 864** |

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| 31.12.2010 | Including: | Level 1<br>Quoted prices in active markets for identical instruments | Level 2<br>Valuation techniques based on observable market data | Level 3<br>Value measurements for inputs that are not based on observable market data |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Trading securities** | **2 584 314** | **2 312 630** | **8 425** | **263 259** |
| Debt* | 2 573 202 | 2 307 933 | 2 010 | 263 259 |
| Equity | 11 112 | 4 697 | 6 415 | - |
| **Derivative financial instruments** | **1 226 653** | **48 940** | **1 177 713** | **-** |
| **Investment securities** | **19 574 833** | **11 366 143** | **8 103 858** | **104 832** |
| Debt* | 19 379 918 | 11 186 315 | 8 103 858 | 89 745 |
| Equity | 194 915 | 179 828 | - | 15 087 |
| **Total financial assets** | **23 385 800** | **13 727 713** | **9 289 996** | **368 091** |
| **Financial liabilities** | | | | |
| **Derivative financial instruments** | **1 363 508** | **600** | **1 362 908** | **-** |
| **Total financial liabilities** | **1 363 508** | **600** | **1 362 908** | **-** |

* the amount includes pledged assets

In 2010, transfer into Level 1 of PZU shares in amount of PLN 112 654 thousand, representing balance sheet value of PZU shares as at 31 December 2009, was the only transfer between levels. The transfer was connected with PZU's initial public listing.

| Assets Measured at Fair Value Based on Level 3 | Debt trading securities | Debt investment securities | Equity investment securities |
|---|---|---|---|
| **As at the beginning of the period** | **518 004** | **57 274** | **128 292** |
| Gains and losses for the period: | 170 | 2 155 | (551) |
| *Recognised in profit or loss* | *170* | *-* | *-* |
| *Recognised in other comprehensive income* | *-* | *2 155* | *(551)* |
| Purchases | 439 312 | - | - |
| Redemptions | (181 900) | - | - |
| Sales | (8 488 110) | (195 748) | - |
| Issues | 7 969 898 | 225 648 | - |
| Settlements | 5 885 | 416 | - |
| Transfers out of Level 3 | - | - | (112 654) |
| **As at the end of the period** | **263 259** | **89 745** | **15 087** |

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

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

Level 1

At level 1 of the hierarchy of values, the Group shows the fair values of government bonds and T-bills held for trading in the amount of PLN 1 019 573 thousand (see Note 19) and the fair values of investment government bonds and T-bills in the amount of PLN 13 500 591 thousand (31 December 2010 respectively: PLN 2 307 933 thousand, PLN 11 058 466 thousand). Level 1 also includes the fair value of local government bonds in amount of PLN 33 615 thousand (31 December 2010: PLN 33 503 thousand).

In 2010, at level 1 were also presented fair values of bonds issued by foreign banks in the amount of PLN 94 346 thousand (31 December 2011: PLN 0).

Moreover, as at 31 December 2011, Level 1 includes PZU shares of PLN 146 210 thousand (31 December 2010: PLN 168 212 thousand).

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

Level 2

Level 2 of the hierarchy includes the fair values of monetary bills issued by NBP in the amount of PLN 6 511 488 thousand (31 December 2010: PLN 8 103 858 thousand), whose valuation is based on a NPV model (discounted future cash flows) fed with interest rate curves generated by transformation of quotations taken directly from active and liquid financial markets.

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

Level 3

Level 3 of the hierarchy shows the fair values of commercial debt securities issued by local banks and companies (notes and certificates of deposit) in the amount of PLN 771 497 thousand (31 December 2010: PLN 353 004 thousand).

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

If credit spread used in the valuation increased by 20 basis points, the value of commercial debt securities would decrease by PLN 1.8 million.

### 3.12 Other Business

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties. In connection with these, the Group 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 Group applies estimates and adopts assumptions which impact the values of assets and liabilities presented in the subsequent period. Estimates and assumptions, which are continuously subject to assessment, rely on historical experience and other factors, including expectations concerning future events, which seem justified under the given circumstances.

Impairment of loans and advances

The Group reviews its loan portfolio in terms of possible impairments at least once per quarter. In order to determine whether any impairment loss should be recognised in the Income Statement, the Group assesses whether any evidence exists that would indicate some measurable reduction of estimated future cash flows attached to the loan portfolio. The methodology and the assumptions (on the basis of which the estimated cash flow amounts and their anticipated timing are determined) are regularly veryfied. If the current value of estimated cash flows for portfolio of loans and advances which are impaired, change by +/-10%, the estimated loans and advances impairment would either decrease by PLN 89.3 million or increase by PLN 116.0 million respectively. This estimation was performed for portfolio of loans and advances individually assessed for impairment on the basis of future cash flows due to repayments and recovery from collateral.

Fair value of derivative instruments

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

Technical-insurance provisions

Provision for unpaid claims and benefits which were reported to the insurer and in relation to which the information held does not enable to make an assessment of claims and benefits, is calculated using a lump sum method. Values of lump sum-based ratios for particular risks were established on the basis of information concerning the average value of claims arising from the given risk.

As at 31 December 2011, provisions for claims incurred but not reported to the insurer (IBNR) were calculated using the actuarial methods (Naive Loss Ratio and Bornhuetter-Ferguson). The expected loss ratios are composed on the basis of available market studies concerning loss arising from the given group of risks.

## 5. Business Segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Bank's Management Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses their performance.

The classification by business segments is based on client groups and product groups defined by homogenous transaction characteristics. The classification is consistent with sales management and the philosophy of delivering complex products to the Bank's clients, including both standard banking products and more sophisticated investment products. The method of presentation of financial results coupled with the business management model ensures a constant focus on creating added value in relations with clients of the Bank and Group companies and should be seen as a primary division which serves the purpose of both managing and perceiving business within the Group.

The Group conducts its business through different business segments which offer specific products and services targeted at specific client groups and market segments. The Group currently conducts its operations through the following business segments:

- The Retail Banking segment, which divides its customers into mBank customers, MultiBank customers and BRE Private Banking customers and which offers a full range of the Bank's banking products and services as well as specialized products offered by a number of subsidiaries belonging to the Retail Banking segment. The key products in this segment include current and savings accounts (including accounts in foreign currencies), term deposits, lending products (retail mortgage loans and non-mortgage loans such as cash loans, car loans, overdrafts, credit cards and other loan products), debit cards, insurance products, investment products and brokerage services offered to both individual customers and to micro-businesses. The results of the Retail Banking segment include the results of foreign branches of mBank in the Czech Republic and Slovakia. The Retail Banking segment also includes the results of BRE Wealth Management SA, Aspiro SA as well as BRE Ubezpieczenia TUiR SA and BRE Ubezpieczenia Sp. z o.o..
- The Corporates and Financial Markets segment, which is divided into two sub-segments:
- *Corporates and Institutions* sub-segment (business line), which targets small, medium and large-sized companies and public sector entities. The key products offered to these customers include transactional banking products and services including current account products, multi-functional internet banking, tailor-made cash management and trade finance services, term deposits, foreign exchange transactions, a comprehensive offer of short-term financing and investment loans, cross-border credit, project finance, structured and mezzanine finance services, investment banking products including foreign exchange options, forward contracts, interest rate derivatives and commodity swaps and options, structured deposit products with embedded options (interest on structured deposit products are directly linked to the performance of certain underlying financial instruments such as foreign exchange options, interest rate options and stock options), debt origination for corporate clients, treasury bills and bonds, non-government debt, medium-term bonds, buy sell back and sell buy back transactions and repo transactions, as well as leasing and factoring services. The Corporates and Institutions sub-segment includes the results of the following subsidiaries:, BRE Leasing Sp. z o.o., Intermarket Bank AG, BRE Faktoring SA (previously Polfactor SA), BRE Holding Sp. z o.o., Transfinance a.s., Magyar Factor zRt., Garbary Sp. z o.o. as well as BRE Gold Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, all of whose investment certificates were acquired by BRE Bank in November 2009. The main item of assets of BRE Gold FIZ Aktywów Niepublicznych is a shareholding in PZU, owned previously by BRE Bank. In 2011, this business line includes the financial results achieved by Intermarket Bank AG and Magyar Factor zRt. till the date of sale of their shares held by the Group.
- *The Trading and Investment* sub-segment (business line) consists primarily of treasury, financial markets, and financial institutions operations, and manages the liquidity, interest rate and foreign exchange risks of the Bank, its trading and investment portfolios, and conducts market making in PLN denominated cash and derivative instruments, debt origination for financial institutions and financial institutions' coverage. The Bank also maintains an extensive correspondent banking network and also develops relationships with other banks providing products such as current accounts, overdrafts, stand alone and syndicated loans and loans insured by KUKE to support the Polish export market. This sub-segment also includes the results of BRE Finance France SA, BRE Bank Hipoteczny SA and Dom Inwestycyjny BRE Banku SA.
- Operations which are not included in the Retail Banking segment and the Corporates and Financial Markets segment are reported under 'Other'. This segment includes the results of BRE.locum SA and Centrum Rozliczeń i Informacji CERI Sp. z o.o.

The principles of segment classification of the Group's activities are described below.

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

Allocation of funds to the Group companies and assigning them to particular business segments results in funding cost transfers. Interest charged for these funds is based on the Group's weighted average cost of capital and presented in operating income.

Internal fund transfers between the Bank's units are calculated at transfer rates based on market rates. Transfer rates are determined on the same basis for all operating units of the Bank and their differentiation results only from currency and maturity structure of assets and liabilities. Internal settlements concerning internal valuation of funds transfers are reflected in the results of each segment.

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

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

The business operations of particular companies of the Group are attributed to business segments (including consolidation adjustments).

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

**Business segment reporting on the activities of BRE Bank Group**
**for the period from 1 January to 31 December 2011**
**(PLN'000)**

| | Corporates & Financial Markets | | Retail Banking (including Private Banking) | Other | Eliminations | Total figure for the Group | Statement of financial position reconciliation/ income statement reconciliation |
|---|---|---|---|---|---|---|---|
| | Corporates & Institutions | Trading & Investment | | | | | |
| **Net interest income** | **673 027** | **169 463** | **1 321 427** | **(13 506)** | **(1 809)** | **2 148 602** | **2 148 602** |
| - sales to external clients | 999 232 | 323 637 | 835 267 | (7 725) | (1 809) | 2 148 602 | |
| - sales to other segments | (326 205) | (154 174) | 486 160 | (5 781) | - | - | |
| **Net fee and commission income** | **321 226** | **82 667** | **417 551** | **(1 317)** | **19 845** | **839 972** | **839 972** |
| - sales to external clients | 306 132 | 95 029 | 420 280 | (1 314) | 19 845 | 839 972 | |
| - sales to other segments | 15 094 | (12 362) | (2 729) | (3) | - | - | |
| **Trading income** | **150 528** | **124 386** | **148 055** | **1 122** | - | **424 091** | **424 091** |
| **Gains less losses from investment securities, investments in subsidiaries and associates** | **13 768** | **(1 923)** | - | **140** | - | **11 985** | **11 985** |
| **Net impairment losses on loans and advances** | **(209 327)** | **(6 142)** | **(157 998)** | **(3)** | - | **(373 470)** | **(373 470)** |
| **Gross profit of the segment** | **264 798** | **238 760** | **973 921** | **(16 101)** | **5 749** | **1 467 127** | **1 467 127** |
| Income tax | | | | | | (322 692) | (322 692) |
| Net profit attributable to Owners of BRE Bank SA | | | | | | 1 134 972 | 1 134 972 |
| Net profit attributable to non-controlling interests | | | | | | 9 463 | 9 463 |
| **Assets of the segment** | **29 413 759** | **36 200 664** | **38 963 556** | **958 640** | **(6 660 972)** | **98 875 647** | **98 875 647** |
| **Liabilities of the segment** | **28 421 596** | **39 560 468** | **27 461 286** | **783 474** | **(5 423 842)** | **90 802 982** | **90 802 982** |
| **Other items of the segment** | | | | | | | |
| Expenditures incurred on fixed assets and intangible assets | (223 577) | (28 172) | (103 745) | (3 753) | - | (359 247) | |
| Amortisation/depreciation | (150 794) | (29 732) | (108 688) | 37 802 | - | (251 412) | (251 412) |
| Other costs/ income without cash outflows/ inflows* | 1 469 | 31 635 | 3 922 | (193) | (59) | 36 774 | |
| *- other non-cash costs* | *(2 210)* | *(1 858 655)* | *-* | *(193)* | *(4 732)* | *(1 865 790)* | |
| *- other non-cash income* | *3 679* | *1 890 290* | *3 922* | *-* | *4 673* | *1 902 564* | |

* Other costs/income without cash outflows/inflows include income and expenses arising from valuation of both trading financial instruments and foreign exchange result as well as changes in technical-insurance provisions.

**Business segment reporting on the activities of BRE Bank Group**
**for the period from 1 January to 31 December 2010**
**(PLN'000)**

| | Corporates & Financial Markets | | Retail Banking (including Private Banking) | Other | Eliminations | Total figure for the Group | Statement of financial position reconciliation/ income statement reconciliation |
|---|---|---|---|---|---|---|---|
| | Corporates & Institutions | Trading & Investment | | | | | |
| Net interest income | 632 199 | 140 447 | 1 048 413 | (2 480) | (7 615) | 1 810 964 | 1 810 964 |
| - sales to external clients | 871 219 | 401 349 | 546 016 | (5) | (7 615) | 1 810 964 | |
| - sales to other segments | (239 020) | (260 902) | 502 397 | (2 475) | - | - | |
| Net fee and commission income | 318 820 | 84 587 | 311 427 | (1 578) | 32 663 | 745 919 | 745 919 |
| - sales to external clients | 308 473 | 91 325 | 315 033 | (1 575) | 32 663 | 745 919 | |
| - sales to other segments | 10 347 | (6 738) | (3 606) | (3) | - | - | |
| Trading income | 160 452 | 101 145 | 152 151 | 568 | (3 644) | 410 672 | 410 672 |
| Gains less losses from investment securities, investments in subsidiaries and associates | 46 478 | (1 330) | - | - | - | 45 148 | 45 148 |
| Net impairment losses on loans and advances | (279 571) | (15 572) | (339 634) | (2) | - | (634 779) | (634 779) |
| Gross profit of the segment | 179 111 | 229 316 | 455 642 | 15 210 | (6 768) | 872 511 | 872 511 |
| Income tax | | | | | | (211 646) | (211 646) |
| Net profit attributable to Owners of BRE Bank SA | | | | | | 641 602 | 641 602 |
| Net profit attributable to non-controlling interests | | | | | | 19 263 | 19 263 |
| Assets of the segment | 28 822 880 | 32 371 414 | 33 649 201 | 991 881 | (5 796 545) | 90 038 831 | 90 038 831 |
| Liabilities of the segment | 24 519 486 | 36 897 685 | 25 768 464 | 443 513 | (4 667 602) | 82 961 546 | 82 961 546 |
| Other items of the segment | | | | | | | |
| Expenditures incurred on fixed assets and intangible assets | (149 832) | (24 149) | (81 998) | (981) | - | (256 960) | |
| Amortisation/depreciation | (121 267) | (23 266) | (88 872) | (3 645) | 132 | (236 918) | (236 918) |
| Other costs/ income without cash outflows/ inflows* | 9 894 | (177 675) | 3 037 | 138 | (3 644) | (168 250) | |
| *- other non-cash costs* | *(77)* | *(1 037 423)* | *(3)* | *-* | *1 891* | *(1 035 612)* | |
| *- other non-cash income* | *9 971* | *859 748* | *3 040* | *138* | *(5 535)* | *867 362* | |

* Other costs/income without cash outflows/inflows include income and expenses arising from valuation of both trading financial instruments and foreign exchange result as well as changes in technical-insurance provisions.

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| Geographical segment reporting on the acivities of BRE Bank Group for the period from 1 January to 31 December | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Poland | Foreign Countries | Total | Poland | Foreign Countries | Total |
| Net interest income | 2 069 787 | 78 815 | 2 148 602 | 1 744 625 | 66 339 | 1 810 964 |
| Net fee and commission income | 804 341 | 35 631 | 839 972 | 714 193 | 31 726 | 745 919 |
| Trading income | 425 027 | (936) | 424 091 | 406 395 | 4 277 | 410 672 |
| Gains less losses from investment securities, investments in subsidiaries and associates | (15 450) | 27 435 | 11 985 | 45 949 | (801) | 45 148 |
| Net impairment losses on loans and advances | (359 405) | (14 065) | (373 470) | (577 386) | (57 393) | (634 779) |
| Gross profit of the segment | 1 449 564 | 17 563 | 1 467 127 | 922 555 | (50 044) | 872 511 |
| Income tax | | | (322 692) | | | (211 646) |
| Net profit attributable to Owners of BRE Bank SA | | | 1 134 972 | | | 641 602 |
| Net profit attributable to non-controlling interests | | | 9 463 | | | 19 263 |
| Assets of the segment, including: | 96 784 964 | 2 090 683 | 98 875 647 | 82 544 590 | 7 494 241 | 90 038 831 |
| - tangible assets | 1 263 923 | 5 301 | 1 269 224 | 1 157 074 | 48 383 | 1 205 457 |
| - deferred income tax assets | 302 965 | 4 087 | 307 052 | 311 214 | 5 158 | 316 372 |
| Liabilities of the segment | 86 792 697 | 4 010 285 | 90 802 982 | 75 571 573 | 7 389 973 | 82 961 546 |

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## 6. Net Interest Income

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| **Interest income** | | |
| Loans and advances including the unwind of the impairment provision discount | 2 842 310 | 2 449 816 |
| Investment securities | 799 132 | 768 623 |
| Cash and short-term placements | 130 681 | 149 498 |
| Trading debt securities | 85 011 | 41 674 |
| Other | 14 097 | 12 093 |
| **Total interest income** | **3 871 231** | **3 421 704** |
| **Interest expense** | | |
| Arising from amounts due to banks and customers | (1 575 552) | (1 487 987) |
| Arising from issue of debt securities | (84 886) | (68 206) |
| Other borrowed funds | (56 387) | (50 352) |
| Other | (5 804) | (4 195) |
| **Total interest expense** | **(1 722 629)** | **(1 610 740)** |

In 2011, interest income related to impaired financial assets amounted to PLN 197 176 thousand (31 December 2010: PLN 203 744 thousand).

Net interest income per client groups is as follows:

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| **Interest income** | | |
| From banking sector | 333 200 | 441 545 |
| From clients, including: | 3 538 031 | 2 980 159 |
| - corporate clients | 1 368 915 | 1 170 223 |
| - individual clients | 1 388 711 | 1 189 583 |
| - public sector | 780 405 | 620 353 |
| **Total interest income** | **3 871 231** | **3 421 704** |
| **Interest expense** | | |
| From banking sector | (594 237) | (502 762) |
| From clients, including: | (1 124 017) | (1 039 772) |
| - corporate clients | (503 509) | (363 364) |
| - individual clients | (582 056) | (649 433) |
| - public sector | (38 452) | (26 975) |
| From debt securities in issue | (4 375) | (68 206) |
| **Total interest expense** | **(1 722 629)** | **(1 610 740)** |

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## 7. Net Fee and Commission Income

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| **Fee and commission income** | | |
| Payment cards-related fees | 351 819 | 321 626 |
| Credit-related fees and commissions | 230 017 | 221 279 |
| Commissions from insurance activity | 167 441 | 150 287 |
| Fees from brokerage activity | 114 515 | 113 743 |
| Commissions from bank accounts | 111 509 | 104 168 |
| Commissions from money transfers | 89 070 | 78 599 |
| Commissions due to guarantees granted and trade finance commissions | 39 739 | 41 334 |
| Commission for agency service regarding selling products of external financial entities | 68 782 | 65 531 |
| Commissions on trust and fiduciary activities | 16 525 | 11 972 |
| Fees from portfolio management services and other management-related fees | 12 634 | 11 644 |
| Other | 77 121 | 58 562 |
| **Fee and commission income** | **1 279 172** | **1 178 745** |
| **Fee and commission expense** | | |
| Payment cards-related fees | (176 594) | (187 586) |
| Commissions paid to external entities for sale of the Bank's products | (82 849) | (88 506) |
| Insurance activity-related fees | (17 741) | (37 153) |
| Discharged brokerage fees | (29 893) | (27 274) |
| Other discharged fees | (132 123) | (92 307) |
| **Total fee and commision expense** | **(439 200)** | **(432 826)** |

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| **Fee and commission income from insurance contracts** | | |
| - Income from insurance intermediation | 151 108 | 135 164 |
| - Income from insurance policies administration | 16 333 | 15 123 |
| **Total fee and commission income from insurance contracts** | **167 441** | **150 287** |

## 8. Dividend Income

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| Trading securities | 85 | 26 |
| Securities available for sale | 15 028 | 8 147 |
| **Total dividend income** | **15 113** | **8 173** |

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## 9. Net Trading Income

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| **Foreign exchange result** | **393 943** | **369 982** |
| Net exchange differences on translation | 361 154 | 447 469 |
| Net transaction gains/(losses) | 32 789 | (77 487) |
| **Other net trading income and result on hedge accounting** | **30 148** | **40 690** |
| Interest-bearing instruments | 32 842 | 16 058 |
| Equity instruments | (4 090) | 3 918 |
| Market risk instruments | 1 575 | 20 714 |
| Result on hedge accounting, including: | (179) | - |
| - Net profit on hedged items | 1 924 | - |
| - Net profit on hedging instruments | (2 103) | - |
| **Total net trading income** | **424 091** | **410 672** |

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

Starting from 2011, the Group applies fair value hedge accounting for part of the portfolio of fixed interest rate mortgage loans granted by foreign branches of the Bank in the Czech Republic. An Interest Rate Swap is the hedging instrument changing the fixed interest rate to a variable interest rate. The risk of change in interest rates is the only type of risk hedged within hedge accounting. Result from valuation of the hedged item and hedging instruments is presented in the aforementioned note.

## 10. Other Operating Income

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| Income from sale or liquidation of fixed assets, intangible assets, assets held for sale and inventories | 119 314 | 149 014 |
| Income from insurance activity net | 82 577 | 49 546 |
| Income from services provided | 24 544 | 52 042 |
| Income due to release of provisions for future commitments | 24 209 | 17 306 |
| Income from recovering receivables designated previously as prescribed, remitted or uncollectible | 1 710 | 922 |
| Income from compensations, penalties and fines received | 972 | 286 |
| Income from the release of impairment provisions for tangible fixed assets and intangible assets | 43 | - |
| Other | 48 561 | 42 155 |
| **Total other operating income** | **301 930** | **311 271** |

Income from sale or liquidation of tangible fixed assets, intangible assets as well as assets held for disposal comprises primarily income of the company BRE.locum from developer activity.

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

Income from insurance activity net comprises income from premiums, reinsurance and co-insurance activity, reduced by claims paid and costs of claims handling and adjusted by the changes in provisions for claims connected with the insurance activity conducted within BRE Bank SA Group.

Net income from insurance activity generated in 2011 and 2010 respectively, is presented below.

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| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| **Income from premiums** | | |
| - Premiums attributable | 140 862 | 114 326 |
| - Change in provision for premiums | 3 460 | (8 577) |
| **Premiums earned** | **144 322** | **105 749** |
| **Reinsurer's shares** | | |
| - Gross premiums written | (56 378) | (36 201) |
| - Change in unearned premiums reserve | 12 291 | 4 797 |
| **Reinsurer's share in premiums earned** | **(44 087)** | **(31 404)** |
| **Net premiums earned** | **100 235** | **74 345** |
| **Claims and benefits** | | |
| - Claims and benefits paid out in the current year including costs of liquidation before tax | (35 236) | (29 084) |
| - Change in provision for claims and benefits paid out in the current year including costs of liquidation before tax | (17 019) | (28 212) |
| - Reinsurer's share in claims and benefits paid out in the current year including costs of liquidation | 29 429 | 22 865 |
| - Change in provision for reinsurer's share of claims and benefits paid out in the current year including costs of liquidation | 7 780 | 11 740 |
| **Claims and benefits net** | **(15 046)** | **(22 691)** |
| - Other costs net of reinsurance | (2 276) | (1 800) |
| - Other operating income | 75 | 45 |
| - Costs of expertise and certificates concerning underwriting risk | (411) | (353) |
| **Total net income from insurance activity** | **82 577** | **49 546** |

## 11. Overhead Costs

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| Staff-related expenses | (810 253) | (744 400) |
| Material costs | (573 666) | (579 069) |
| Taxes and fees | (29 410) | (26 385) |
| Contributions and transfers to the Bank Guarantee Fund | (49 305) | (21 217) |
| Contributions to the Social Benefits Fund | (6 380) | (6 120) |
| Other | (2 487) | (3 160) |
| **Total overhead costs** | **(1 471 501)** | **(1 380 351)** |

'Material costs' consist of tangible assets operating lease payment costs (mainly real estate) of PLN 26 720 thousand (2010: PLN 26 012 thousand).

Staff-related expenses in 2011 and 2010 are presented below:

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| Wages and salaries | (663 345) | (613 928) |
| Social security expenses | (92 899) | (86 357) |
| Pension fund expenses | (576) | (614) |
| Remuneration concerning share-based payments, including: | (13 021) | (8 807) |
| - share-based payments settled in BRE Bank SA shares | (11 323) | (6 275) |
| - cash-settled share-based payments | (1 698) | (2 532) |
| Other staff expenses | (40 412) | (34 694) |
| **Staff-related expenses, total** | **(810 253)** | **(744 400)** |

Cash-settled share-based payments relate to the cost of 2008 incentive program for the Management Board Members of the Bank in its part based on Commerzbank shares. In 2010, cash compensation in the amount of PLN 794 736 paid as a settlement concerning the bonus for 2008 to Mr. Mariusz Grendowicz, who acted as the President of the Bank till 2 August 2010, was included under this caption. Detailed information regarding incentive programs, to which share-based payments relate, is included under the Note 40 'Retained earnings'.

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## 12. Other Operating Expenses

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories | (95 076) | (129 409) |
| Provisions for future commitments | (31 213) | (22 826) |
| Costs arising from provisions created for other receivables (excluding loans and advances) | (10 736) | (1 520) |
| Donations made | (3 296) | (3 152) |
| Costs of sale of services | (2 117) | (1 265) |
| Impairment losses on non-financial assets | (1 260) | - |
| Compensation, penalties and fines paid | (616) | (1 530) |
| Costs arising from receivables and liabilities recognised as prescribed, remitted and uncollectible | (38) | (158) |
| Impairment provisions created for tangible fixed assets and intangible assets | (57) | (43) |
| Other operating costs | (33 774) | (47 685) |
| **Total other operating expenses** | **(178 183)** | **(207 588)** |

Costs arising from sale or liquidation of fixed assets, intangible assets, assets held for resale and inventories comprise primarily the expenses incurred by BRE.locum in connection with its developer activity.

In 2011, provisions for future commitments include provisions for legal proceedings of PLN 25 644 thousand (2010: PLN 19 193 thousand) (see Note 33).

Costs of services provided concern non-banking services.

## 13. Net Impairment Losses on Loans and Advances

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| Net impairment losses on amounts due from other banks (Note 18) | 8 257 | (11 318) |
| Net impairment losses on loans and advances to customers (Note 22) | (390 804) | (634 637) |
| Changes in provisions on off-balance sheet items (Note 33) | 9 077 | 11 176 |
| **Total net impairment losses on loans and advances** | **(373 470)** | **(634 779)** |

## 14. Income Tax Expense

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| Current tax | (315 214) | (223 415) |
| Deferred income tax (Note 34) | (7 478) | 11 769 |
| **Total income tax** | **(322 692)** | **(211 646)** |
| **Profit before tax** | **1 467 127** | **872 511** |
| Tax calculated at Polish current tax rate (19%) | (278 754) | (165 777) |
| Effect of different tax rates in other countries | (2 025) | (640) |
| Income not subject to tax | 7 858 | 8 572 |
| Costs other than tax deductible costs | (45 346) | (41 008) |
| Other positions affecting income tax | 151 | (1 706) |
| Non-activated tax losses * | (4 576) | (11 087) |
| **Income tax expense** | **(322 692)** | **(211 646)** |

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| **Effective tax rate calculation** | | |
|---|---|---|
| Profit before income tax | 1 467 127 | 872 511 |
| Income tax | (322 692) | (211 646) |
| **Effective tax rate** | **21.99%** | **24.26%** |

* The amount of non-activated tax losses results mainly from tax losses incurred by Bank's foreign branches in the Czech Republic and Slovakia.

Further information about deferred income tax is presented in the Note 34. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as presented above.

## 15. Earnings per Share

Earnings per share for 12 months

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| **Basic:** | | |
| Net profit attributable to Owners of BRE Bank SA | 1 134 972 | 641 602 |
| Weighted average number of ordinary shares | 42 093 950 | 36 679 683 |
| **Net basic profit per share (in PLN per share)** | **26.96** | **17.49** |
| **Diluted:** | | |
| Net profit attributable to Owners of BRE Bank SA, applied for calculation of diluted earnings per share | 1 134 972 | 641 602 |
| Weighted average number of ordinary shares | 42 093 950 | 36 679 683 |
| Adjustments for: | | |
| - share options | 39 997 | 29 642 |
| Weighted average number of ordinary shares for calculation of diluted earnings per share | 42 133 947 | 36 709 325 |
| **Diluted earnings per share (in PLN per share)** | **26.94** | **17.48** |

According to IAS 33, the Bank prepares a calculation of the 'diluted earnings per share' taking into account contingently issuable shares as part of the incentive programs described in the Note 40. The calculations did not include those elements of the incentive programs which were antidilutive for the presented periods that could potentially dilute basic earnings per share in the future.

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

## 16. Other Comprehensive Income

| Disclosure of tax effects relating to each component of other comprehensive income | Year ended 31 December 2011 | | | Year ended 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount | Tax (expense) benefit | Net amount | Before-tax amount | Tax (expense) benefit | Net amount |
| Exchange differences on translating foreign operations | 3 451 | - | 3 451 | (5 231) | - | (5 231) |
| Available-for-sale financial assets | (500) | (703) | (1 203) | 205 075 | (27 056) | 178 019 |
| **Total other comprehensive income** | **2 951** | **(703)** | **2 248** | **199 844** | **(27 056)** | **172 788** |

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The table presents detailed information concerning other comprehensive income for the years 2011 and 2010:

| | Year ended 31 December | |
|---|---|---|
| | 2011 | 2010 |
| **Exchange differences on translating foreign operations** | **3 451** | **(5 231)** |
| Unrealized gains (positive differences) arising during the year (net) | 6 833 | 12 978 |
| Unrealized losses (negative differences) arising during the year (net) | (1 415) | (18 209) |
| Reclassification adjustments for gains (losses) included in the income statement (net) | (1 967) | - |
| **Available-for-sale financial assets** | **(1 203)** | **178 019** |
| Unrealized gains on debt instruments arising during the year (net) | 71 384 | 151 303 |
| Unrealized losses on debt instruments arising during the year (net) | (53 121) | (36 495) |
| Reclassification adjustments of gains (losses) on debt instruments to the income statement (net) | 462 | 1 079 |
| Unrealized gains on equity instruments arising during the year (net) | 9 221 | 100 576 |
| Unrealized losses on equity instruments arising during the year (net) | (30 237) | - |
| Reclassification adjustments of gains (losses) on equity instruments to the income statement (net) | 1 088 | (38 444) |
| **Total other comprehensive income (net)** | **2 248** | **172 788** |

In 2011, there were no factors with significant impact on changing the status of other components of equity beyond the current valuation of available for sale debt securities.

In 2011, the unrealized losses on equity instruments include a negative valuation of shares in PZU SA in the amount of PLN 22 002 thousand.

In 2010, the net gain of PLN 38 444 thousand representing profit on sale of PZU shares was released from the other components of equity and recognised in the Income Statement. In the same time, in other components of equity was included revaluation of PZU shares in net amount of PLN 61 553 thousand.

The amount of unrealized gains on debt instruments included in 2010 resulted from an increase in valuation of securities available for sale in 2010 in relation to the valuation at the end of 2009. The main factor influencing the growth was the increase in the valuation of the Bank's variable rate securities.

## 17. Cash and Balances with Central Bank

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Cash in hand | 213 888 | 172 762 |
| Current account | 682 556 | 2 187 150 |
| Term placements | 141 912 | - |
| **Total cash and balances with the Central Bank (Note 43)** | **1 038 356** | **2 359 912** |

On the basis of the National Bank of Poland Act dated 29 August 1997, BRE Bank and BRE Bank Hipoteczny hold a mandatory reserve deposit. The arithmetic mean of daily balances of the mandatory reserve which BRE Bank and BRE Bank Hipoteczny are obliged to maintain during a given period in the current account with NBP amounts to:

- PLN 1 447 092 thousand for the period from 30 November 2011 to 1 January 2012.
- PLN 1 408 303 thousand for the period from 31 December 2010 to 30 January 2011,

As at 31 December 2011, the former part of the reserve bore 4.28% interest (31 December 2010: 3.38%).

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## 18. Loans and Advances to Banks

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Current accounts | 318 703 | 284 921 |
| Placements with other banks (up to 3 months) | 2 296 421 | 849 364 |
| **Included in cash equivalents (Note 43)** | **2 615 124** | **1 134 285** |
| Loans and advances | 389 633 | 203 457 |
| Term placements with other banks | 11 960 | 103 445 |
| Reverse repo / buy-sell-back transactions | 574 506 | 919 553 |
| Other receivables | 418 678 | 180 789 |
| **Total (gross) loans and advances to banks** | **4 009 901** | **2 541 529** |
| Provisions created for loans and advances to banks (negative amount) | (1 027) | (34 247) |
| **Total (net) loans and advances to banks** | **4 008 874** | **2 507 282** |
| | | |
| Short-term (up to 1 year) | 3 936 565 | 2 427 495 |
| Long-term (over 1 year) | 72 309 | 79 787 |

The following table presents receivables from Polish and foreign banks:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Loans and advances to Polish banks (gross) | 1 088 849 | 1 448 773 |
| Provisions created for loans and advances to Polish banks | (181) | (159) |
| Loans and advances to foreign banks (gross) | 2 921 052 | 1 092 756 |
| Provisions created for loans and advances to foreign banks | (846) | (34 088) |
| **Total (net) loans and advances to banks** | **4 008 874** | **2 507 282** |

As at 31 December 2011, the variable rate loans to banks amounted to PLN 324 494 thousand and the fixed rate loans to banks amounted to PLN 65 139 thousand (as at 31 December 2010 – variable rate loans to banks amounted to PLN 201 268 thousand and fixed rate loans to PLN 2 189 thousand).

As at 31 December 2011 and 31 December 2010, the term placements with other banks were fixed rated and amounted to PLN 2 308 381 thousand and PLN 952 809 thousand respectively. An average deposit interest rate for deposits in other banks and loans granted to banks amounted to 1.93% (31 December 2010: 1.92%).

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

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Provisions for loans and advances to banks as at the beginning of the period** | **(34 247)** | **(38 087)** |
| Provisions created (Note 13) | (3 068) | (20 821) |
| Release of provisions (Note 13) | 11 325 | 9 503 |
| Foreign exchange differences | 860 | (1 035) |
| Write-offs | 24 103 | 16 193 |
| **Provisions for loans and advances to banks as at the end of the period** | **(1 027)** | **(34 247)** |

As at 31 December 2011, the amount of provisions for loans and advances to banks relates in total to receivables without loss. As at 31 December 2010, provisions related to receivables impaired on individual basis, in the amount of PLN 33 181 thousand.

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## 19. Trading Securities and Pledged Assets

| | 31.12.2011 | | | 31.12.2010 | | |
|---|---|---|---|---|---|---|
| | Trading securities | Pledged assets | Total | Trading securities | Pledged assets | Total |
| Debt securities: | 977 796 | 485 463 | 1 463 259 | 1 554 544 | 1 018 658 | 2 573 202 |
| Issued by government | 534 110 | 485 463 | 1 019 573 | 1 289 275 | 1 018 658 | 2 307 933 |
| - government bonds | 533 962 | 485 463 | 1 019 425 | 195 908 | 1 011 107 | 1 207 015 |
| - treasury bills | 148 | - | 148 | 1 093 367 | 7 551 | 1 100 918 |
| Other debt securities | 443 686 | - | 443 686 | 265 269 | - | 265 269 |
| - bank's bonds | 134 710 | - | 134 710 | 51 211 | - | 51 211 |
| - deposit certificates | 171 134 | - | 171 134 | 102 605 | - | 102 605 |
| - corporate bonds | 137 842 | - | 137 842 | 111 453 | - | 111 453 |
| Equity securities: | 13 763 | - | 13 763 | 11 112 | - | 11 112 |
| - listed | 3 479 | - | 3 479 | 4 697 | - | 4 697 |
| - unlisted | 10 284 | - | 10 284 | 6 415 | - | 6 415 |
| Total debt and equity securities: | 991 559 | 485 463 | 1 477 022 | 1 565 656 | 1 018 658 | 2 584 314 |

Trading securities include securities used to secure sell-buy-back transactions with customers, the market value of which as at 31 December 2011 amounted to PLN 485 463 thousand (31 December 2010: PLN 1 018 658 thousand). These securities are disclosed separately within the 'Pledged assets' in the Statement of Financial Position.

## 20. Derivative Financial Instruments

The Group has the following derivative instruments:

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

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

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

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

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

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

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| | Contract amount | | Fair value | |
|---|---|---|---|---|
| | Purchase | Disposal | Assets | Liabilities |
| **As at 31 December 2011** | | | | |
| **Derivatives held for trading** | | | | |
| Foreign exchange derivatives | | | | |
| - Currency forwards | 6 771 792 | 6 779 318 | 103 249 | 35 680 |
| - Currency swaps | 13 950 800 | 14 019 609 | 156 807 | 279 717 |
| - Cross-currency interest rate swaps | 1 457 145 | 1 517 730 | 140 256 | 199 518 |
| - OTC currency options bought and sold | 1 489 253 | 1 145 147 | 46 545 | 5 945 |
| **Total OTC derivatives** | **23 668 990** | **23 461 804** | **446 857** | **520 860** |
| - Stock exchange traded currency options - bought and sold | - | - | - | 18 213 |
| **Total foreign exchange derivatives** | **23 668 990** | **23 461 804** | **446 857** | **539 073** |
| **Interest rate derivatives** | | | | |
| - Interest rate swap, OIS | 133 746 967 | 133 746 967 | 986 123 | 1 260 260 |
| - Forward rate agreements | 57 100 000 | 116 975 000 | 54 715 | 54 742 |
| - OTC interest rate options | 198 779 | 351 143 | 1 505 | 1 400 |
| **Total OTC interest rate derivatives** | **191 045 746** | **251 073 110** | **1 042 343** | **1 316 402** |
| **Total interest rate derivatives** | **191 045 746** | **251 073 110** | **1 042 343** | **1 316 402** |
| **Market risk transactions** | **523 888** | **729 506** | **17 395** | **5 034** |
| **Total derivative assets / liabilities held for trading** | **215 238 624** | **275 264 420** | **1 506 595** | **1 860 509** |
| **Derivatives held for hedging** | | | | |
| Derivatives designated as fair value hedges | 92 553 | 92 553 | - | 2 238 |
| - Interest rate swaps | 92 553 | 92 553 | - | 2 238 |
| **Total derivatives held for hedging** | **92 553** | **92 553** | **-** | **2 238** |
| **Total recognised derivative assets/ liabilities** | **215 331 177** | **275 356 973** | **1 506 595** | **1 862 747** |
| | | | | |
| Short-term (up to 1 year) | 141 954 417 | 192 079 497 | 684 541 | 892 977 |
| Long-term (over 1 year) | 73 376 760 | 83 277 476 | 822 054 | 969 770 |

| | Contract amount | | Fair value | |
|---|---|---|---|---|
| | Purchase | Disposal | Assets | Liabilities |
| **As at 31 December 2010** | | | | |
| **Derivatives held for trading** | | | | |
| Foreign exchange derivatives | | | | |
| - Currency forwards | 8 720 352 | 8 884 235 | 32 632 | 70 013 |
| - Currency swaps | 7 660 077 | 7 659 668 | 91 617 | 103 102 |
| - Cross-currency interest rate swaps | 3 884 774 | 3 994 746 | 149 500 | 254 830 |
| - OTC currency options bought and sold | 3 039 570 | 3 067 923 | 115 196 | 59 007 |
| **Total OTC derivatives** | **23 304 773** | **23 606 572** | **388 945** | **486 952** |
| - Currency futures | 1 251 | 1 264 | 12 | - |
| - Stock exchange traded currency options - bought and sold | - | - | - | 42 412 |
| **Total foreign exchange derivatives** | **23 306 024** | **23 607 836** | **388 957** | **529 364** |
| **Interest rate derivatives** | | | | |
| - Interest rate swap, OIS | 87 998 357 | 87 998 357 | 744 718 | 793 414 |
| - Forward rate agreements | 36 350 000 | 42 380 000 | 13 472 | 14 734 |
| - OTC interest rate options | 387 944 | 452 344 | 10 046 | 9 686 |
| **Total OTC interest rate derivatives** | **124 736 301** | **130 830 701** | **768 236** | **817 834** |
| **Total interest rate derivatives** | **124 736 301** | **130 830 701** | **768 236** | **817 834** |
| **Market risk transactions** | **737 037** | **1 164 126** | **69 460** | **16 310** |
| **Total derivative assets / liabilities held for trading** | **148 779 362** | **155 602 663** | **1 226 653** | **1 363 508** |
| **Total recognised derivative assets/ liabilities** | **148 779 362** | **155 602 663** | **1 226 653** | **1 363 508** |
| | | | | |
| Short-term (up to 1 year) | 102 665 041 | 109 855 282 | 641 703 | 744 958 |
| Long-term (over 1 year) | 46 114 321 | 45 747 381 | 584 950 | 618 550 |

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

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Under financial derivative instruments the Group presented derivative instruments in the amount of PLN 1 215 thousand (liabilities), which have been separated from the structured investment deposits (31 December 2010: PLN 9 924 thousand).

As at 31 December 2011 and 31 December 2010 the Group did not have any other financial assets or liabilities initially recognised in the category priced at fair value through the Income Statement.

## 21. Hedge Accounting

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

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

Description of the hedging relation

The Group hedges against the risk of change in fair value of a part of the portfolio of mortgage loans for a fixed interest rate granted by foreign branches of BRE Bank in Czech Republic. The hedged risk results from changes in interest rates.

Hedged items

The hedged item is a part of the portfolio of mortgage loans for a fixed interest rate denominated in CZK and granted by foreign branches of BRE Bank in Czech Republic.

Hedging instruments

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

Presentation of the result from hedged and hedging transactions

Adjustment to the fair value of the hedged assets and the valuation of hedging instruments is recognised in the profit and loss account in the income from trading operation.

## 22. Loans and Advances to Customers

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Loans and advances to individuals:** | **38 688 979** | **33 658 660** |
| - current accounts | 4 133 068 | 4 358 940 |
| - term loans, including: | 34 555 911 | 29 299 720 |
| housing and mortgage loans | 30 942 423 | 26 306 644 |
| **Loans and advances to corporate entities:** | **27 890 298** | **25 574 028** |
| - current accounts | 3 795 095 | 3 117 916 |
| - term loans: | 21 660 288 | 17 126 558 |
| corporate & institutional enterprises | 6 390 251 | 3 329 593 |
| medium & small enterprises | 15 270 037 | 13 796 965 |
| - reverse repo / buy-sell-back transactions | 1 153 508 | 3 338 317 |
| - other | 1 281 407 | 1 991 237 |
| **Loans and advances to public sector** | **3 178 356** | **1 923 019** |
| **Other receivables** | 482 167 | 668 115 |
| **Total (gross) loans and advances to customers** | **70 239 800** | **61 823 822** |
| Provisions for loans and advances to customers (negative amount) | (2 388 284) | (2 449 771) |
| **Total (net) loans and advances to customers** | **67 851 516** | **59 374 051** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 22 756 309 | 22 208 297 |
| Long-term (over 1 year) | 45 095 207 | 37 165 754 |

As at 31 December 2011, variable rate credits amounted to PLN 69 288 165 thousand and fixed rate credits amounted to PLN 855 234 thousand (as at 31 December 2010 respectively: PLN 57 685 502 thousand and PLN 4 134 634 thousand). The values mentioned above relate to loans granted to individual clients, corporate clients and the budget sector. An average interest rate for loans granted to customers (excluding reverse repos) amounted to 4.47% (31 December 2010: 4.50%).

The above note includes debt securities eligible for rediscounting at the Central Bank, whose value is cash equivalents included in the Note 43.

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Provisions for Loans and Advances:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Incurred but not identified losses** | | |
| Gross balance sheet exposure | 66 953 040 | 58 538 664 |
| Impairment provisions for exposures analysed according to portfolio approach | (212 390) | (215 893) |
| **Net balance sheet exposure** | **66 740 650** | **58 322 771** |

| | | |
|---|---|---|
| **Receivables with impairment** | | |
| Gross balance sheet exposure | 3 286 760 | 3 285 158 |
| Provisions for receivables with impairment | (2 175 894) | (2 233 878) |
| **Net balance sheet exposure** | **1 110 866** | **1 051 280** |

In June 2011, BRE Bank sold a part of its retail loans portfolio in the total nominal value of PLN 621 500 thousand. Gross balance sheet value of the sold portfolio was PLN 449 619 thousand and impairment provisions for this exposure were PLN 449 511 thousand. After transaction costs, profit on sale before income tax, included in the Group's Income Statement for the year 2011, amounted to PLN 89 304 thousand.

Movements in provisions for loans and advances:

| MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS - YEAR 2011 | Provisions as at 1 January 2011 | Provisions created | Release of provisions | Reclassification and foreign exchange differences | Write-offs | Other * | Provisions as at 31 December 2011 |
|---|---|---|---|---|---|---|---|
| Loans and advances to individuals | (1 052 933) | (169 861) | 10 974 | (1 078) | 351 521 | - | (861 377) |
| Current accounts | (817 237) | (40 261) | 1 545 | 4 | 332 863 | - | (523 086) |
| Term loans, including: | (235 696) | (129 600) | 9 429 | (1 082) | 18 658 | - | (338 291) |
| Housing and mortgage loans | (119 631) | (86 147) | 1 122 | (1) | 3 868 | - | (200 789) |
| Loans and advances to corporate entities | (1 391 648) | (1 012 428) | 779 007 | (29 085) | 98 801 | 32 154 | (1 523 199) |
| Current accounts | (376 993) | (296 277) | 325 133 | (774) | 24 649 | - | (324 262) |
| Term loans, including: | (930 148) | (706 211) | 453 061 | (23 067) | 71 431 | - | (1 134 934) |
| Corporate & institutional enterprises | (167 278) | (300 211) | 141 543 | (17 923) | 6 431 | - | (337 438) |
| Medium & small enterprises | (762 870) | (406 000) | 311 518 | (5 144) | 65 000 | - | (797 496) |
| Other | (84 507) | (9 940) | 813 | (5 244) | 2 721 | 32 154 | (64 003) |
| Loans and advances to public sector | (5 190) | (5 356) | 6 860 | (22) | - | - | (3 708) |
| Total movements for loans and advances to customers | (2 449 771) | (1 187 645) | 796 841 | (30 185) | 450 322 | 32 154 | (2 388 284) |

* The item 'Other' relates in total to decrease of provisions connected with the sale of shares of Intermarket Bank AG and Magyar Factor zRt.

| MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS - YEAR 2010 | Provisions as at 1 January 2010 | Provisions created | Release of provisions | Reclassification and foreign exchange differences | Write-offs | Provisions as at 31 December 2010 |
|---|---|---|---|---|---|---|
| Loans and advances to individuals | (710 400) | (345 421) | 6 903 | (4 382) | 367 | (1 052 933) |
| Current accounts | (586 775) | (232 756) | 2 066 | (23) | 251 | (817 237) |
| Term loans, including: | (123 625) | (112 665) | 4 837 | (4 359) | 116 | (235 696) |
| Housing and mortgage loans | (42 251) | (74 504) | 1 630 | (4 506) | - | (119 631) |
| Loans and advances to corporate entities | (1 251 568) | (1 084 285) | 790 597 | (4 582) | 158 190 | (1 391 648) |
| Current accounts | (343 467) | (339 721) | 265 858 | 1 634 | 38 703 | (376 993) |
| Term loans, including: | (840 517) | (706 427) | 511 985 | (7 261) | 112 072 | (930 148) |
| Corporate & institutional enterprises | (108 412) | (171 307) | 112 066 | (51) | 426 | (167 278) |
| Medium & small enterprises | (732 105) | (535 120) | 399 919 | (7 210) | 111 646 | (762 870) |
| Other | (67 584) | (38 137) | 12 754 | 1 045 | 7 415 | (84 507) |
| Loans and advances to public sector | (2 801) | (11 097) | 8 666 | 42 | - | (5 190) |
| Total movements for loans and advances to customers | (1 964 769) | (1 440 803) | 806 166 | (8 922) | 158 557 | (2 449 771) |

Loans and advances include receivables under finance leases.

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Receivables under finance leases:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Gross investment in finance leases, receivable:** | **4 500 266** | **4 259 868** |
| - not later than 1 year | 1 882 373 | 1 887 549 |
| - later than 1 year and not later than 5 years | 2 284 374 | 2 099 493 |
| - later than 5 years | 333 519 | 272 826 |
| Unearned future finance income on finance leases (negative amount) | (473 909) | (453 100) |
| **Net investment in finance leases** | **4 026 357** | **3 806 768** |

| | | |
|---|---|---|
| **Net investment in finance leases, receivable:** | | |
| - not later than 1 year | 1 690 088 | 1 704 820 |
| - later than 1 year and not later than 5 years | 2 065 948 | 1 893 107 |
| - later than 5 years | 270 321 | 208 841 |
| **Net investment in finance leases** | **4 026 357** | **3 806 768** |
| **Impairment provisions for finance leases receivable** | **(170 234)** | **(167 706)** |
| **Net carrying amount of finance leases receivable** | **3 856 123** | **3 639 062** |
| **Unguaranteed residual value accruing to the lessor** | **459 671** | **572 245** |

## 23. Investment Securities and Pledged Assets

| | 31.12.2011 | | | 31.12.2010 | | |
|---|---|---|---|---|---|---|
| | Investment securities | Pledged assets | Total | Investment securities | Pledged assets | Total |
| **Debt securities** | **16 519 445** | **3 854 060** | **20 373 505** | **18 567 773** | **812 145** | **19 379 918** |
| Listed, including: | 16 519 445 | 3 854 060 | 20 373 505 | 18 478 028 | 812 145 | 19 290 173 |
| Issued by government | 9 646 531 | 3 854 060 | 13 500 591 | 10 246 321 | 812 145 | 11 058 466 |
| - government bonds | 9 646 531 | 3 852 869 | 13 499 400 | 9 714 635 | 790 299 | 10 504 934 |
| - treasury bills | - | 1 191 | 1 191 | 531 686 | 21 846 | 553 532 |
| Issued by central bank | 6 511 488 | - | 6 511 488 | 8 103 858 | - | 8 103 858 |
| Other debt securities | 361 426 | - | 361 426 | 127 849 | - | 127 849 |
| - bank's bonds | 327 811 | - | 327 811 | 94 346 | - | 94 346 |
| - communal bonds | 33 615 | - | 33 615 | 33 503 | - | 33 503 |
| Unlisted | - | - | - | 89 745 | - | 89 745 |
| **Equity securities:** | **177 767** | **-** | **177 767** | **194 915** | **-** | **194 915** |
| Listed | 156 556 | - | 156 556 | 179 828 | - | 179 828 |
| Unlisted | 21 211 | - | 21 211 | 15 087 | - | 15 087 |
| **Total debt and equity securities:** | **16 697 212** | **3 854 060** | **20 551 272** | **18 762 688** | **812 145** | **19 574 833** |
| Short-term (up to 1 year) | 9 954 397 | 586 954 | 10 541 351 | 10 480 533 | 21 846 | 10 502 379 |
| Long-term (over 1 year) | 6 742 815 | 3 267 106 | 10 009 921 | 8 282 155 | 790 299 | 9 072 454 |

Presented above value of equity securities includes provisions for impairment of PLN 13 257 thousand (31 December 2010: PLN 13 257 thousand).

As at 31 December 2011, listed equity securities include fair value of PZU shares in amount of PLN 146 210 thousand (31 December 2010 - PLN 168 212 thousand).

As at 31 December 2011, the carrying values of debt securities with fixed interest rates amounted to PLN 14 460 541 thousand and debt securities with variable interest rates PLN 5 912 964 thousand (31 December 2010: PLN 14 397 971 thousand and PLN 5 641 667 thousand).

The above includes government bonds and treasury bills under the Bank Guarantee Fund (BFG), investment government bonds pledged as sell-buy-back transactions and government bonds pledged as collateral for the loans received from the European Investment Bank (EIB), which are presented in the Statement of Financial Position in a separate position 'Pledged assets' (Note 37).

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In accordance with the BFG Law of 14 December 1994, the Group held PLN 271 083 thousand, at face value PLN 269 000 thousand of treasury securities (bonds and bills) disclosed in its Statement of Financial Position as at 31 December 2011 (31 December 2010: fair value PLN 198 388 thousand; face value PLN 205 100 thousand), which 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, Investments in Subsidiaries and Associates:

| | Year ended 31 December | |
|---|---|---|
| | 31.12.2011 | 31.12.2010 |
| Sale/redemption of financial assets available for sale, investments in subsidiaries and associates | 11 985 | 46 046 |
| Impairment of available for sale equity securities | - | (97) |
| Impairment of investments in associates | - | (801) |
| **Total gains and losses from investment securities** | **11 985** | **45 148** |

In 2011, the amount of PLN 11 985 thousand includes mainly the result on liquidation of the company BRELINVEST Sp. z o.o. Fly 2 Commandite Company and the result of the sale of BRE's shareholding in Intermarket Bank AG and Magyar Factor zRt. to Erste Group entities.

In 2010, the amount of sale/redemption of the financial assets available for sale mainly relates to the sale of 180 490 shares of PZU SA by BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

Movements in investment securities and pledged assets:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Available for sale securities and pledged assets** | | |
| **As at the beginning of the period** | **19 574 833** | **15 870 899** |
| Exchange differences | 11 715 | (2 567) |
| Additions | 247 540 792 | 364 137 531 |
| Disposals (sale, redemption and forfeiture) | (246 576 084) | (360 667 342) |
| Gains / (losses) from impairment of equity securities and debt securities available for sale | - | (97) |
| Gains / (losses) from changes in fair value | 16 | 236 409 |
| **As at the end of the period** | **20 551 272** | **19 574 833** |

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

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Provisions for losses on equity securities** | | |
| ***Listed*** | | |
| **As at the beginning of the period** | **(125)** | **(125)** |
| **As at the end of the period** | **(125)** | **(125)** |
| ***Unlisted*** | | |
| **As at the beginning of the period** | **(13 132)** | **(2 689)** |
| Allowance for impairment | - | (97) |
| Change in the scope of consolidation | - | (10 346) |
| **As at the end of the period** | **(13 132)** | **(13 132)** |
| **Total provisions for investment securities** | | |
| **As at the beginning of the period** | **(13 257)** | **(2 814)** |
| Allowance for impairment | - | (97) |
| Change in the scope of consolidation | - | (10 346) |
| **As at the end of the period** | **(13 257)** | **(13 257)** |

## 24. Investments in Associates

The Group had the following shares in its major unlisted associates:

31 December 2010 (in PLN '000)

| Name of the company | Country of registration | Assets | Liabilities | Revenues | Profit / (loss) | % interest held |
|---|---|---|---|---|---|---|
| S-Factoring d.d. | Slovenia | 35 988 | 34 911 | 1 993 | (383) | 22.50 |

Changes in investments in associates:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| As at the beginning of the period | 317 | 1 150 |
| Exchange differences | 4 | (32) |
| Disposals (sale and redemption) | (321) | - |
| Losses from impairment of investments in associates | - | (801) |
| As at the end of the period | - | 317 |

## 25. Intangible assets

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Development costs | 789 | 1 452 |
| Goodwill | 4 728 | 7 137 |
| Patents, licences and similar assets, including: | 313 925 | 333 317 |
| - computer software | 247 070 | 279 355 |
| Other intangible assets | 9 231 | 10 057 |
| Intangible assets under development | 108 096 | 75 874 |
| Total intangible assets | 436 769 | 427 837 |

Movements in intangible assets:

| Movements in intangible assets from 1 January to 31 December 2011 | Development costs | Acquired patents, licences and other similar assets | | Other intangible assets | Intangible assets under development | Goodwill | Total intangible assets |
|---|---|---|---|---|---|---|---|
| | | | including: acquired computer software | | | | |
| Gross value of intangible assets as at the beginning of the period: 01.01.2011 | 31 976 | 773 172 | 613 364 | 26 236 | 75 874 | 7 137 | 914 395 |
| Increase (due to) | 43 | 91 245 | 49 766 | 231 | 94 589 | - | 186 108 |
| - purchase | - | 40 267 | 4 666 | 2 | 75 949 | - | 116 218 |
| - transfer from fixed assets under construction | - | 836 | 279 | 229 | - | - | 1 065 |
| - transfer from intangible assets under development | 43 | 45 176 | 40 102 | - | - | - | 45 219 |
| - development costs | - | - | - | - | 13 275 | - | 13 275 |
| - other increases | - | 4 966 | 4 719 | - | 5 365 | - | 10 331 |
| Decrease (due to) | (4 054) | (52 233) | (19 648) | - | (62 327) | (2 409) | (121 023) |
| - liquidation | - | (45 817) | (13 510) | - | - | - | (45 817) |
| - transfer to intangible assets given to use | - | - | - | - | (45 219) | - | (45 219) |
| - sale of the company consolidated previously | - | (6 139) | (6 138) | - | (2 760) | (2 409) | (11 308) |
| - other decreases | (4 054) | (277) | - | - | (14 348) | - | (18 679) |
| Gross value of intangible assets as at the end of the period: 31.12.2011 | 27 965 | 812 184 | 643 482 | 26 467 | 108 136 | 4 728 | 979 480 |
| Accumulated amortization as at the beginning of the period: 01.01.2011 | (30 524) | (439 848) | (334 002) | (16 179) | - | - | (486 551) |
| Amortization for the period (due to) | 3 348 | (58 404) | (62 403) | (1 057) | - | - | (56 113) |
| - amortization | (285) | (102 897) | (74 739) | (1 057) | - | - | (104 239) |
| - other increases | - | (4 099) | (3 947) | - | - | - | (4 099) |
| - liquidation | - | 45 749 | 13 442 | - | - | - | 45 749 |
| - sale of the company consolidated previously | - | 2 843 | 2 841 | - | - | - | 2 843 |
| - other decreases | 3 633 | - | - | - | - | - | 3 633 |
| Accumulated amortization as at the end of the period: 31.12.2011 | (27 176) | (498 252) | (396 405) | (17 236) | - | - | (542 664) |
| Impairment losses as at the beginning of the period: 01.01.2011 | - | (7) | (7) | - | - | - | (7) |
| - increase | - | - | - | - | (40) | - | (40) |
| Impairment losses as at the end of the period: 31.12.2011 | - | (7) | (7) | - | (40) | - | (47) |
| Net value of intangible assets as at the end of the period: 31.12.2011 | 789 | 313 925 | 247 070 | 9 231 | 108 096 | 4 728 | 436 769 |

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| Movements in intangible assets from 1 January to 31 December 2010 | Development costs | Acquired patents, licences and other similar assets | including: acquired computer software | Other intangible assets | Intangible assets under development | Goodwill | Total intangible assets |
|---|---|---|---|---|---|---|---|
| Gross value of intangible assets as at the beginning of the period: 01.01.2010 | 31 959 | 724 422 | 575 434 | 16 262 | 66 760 | 7 137 | 846 540 |
| Increase (due to) | 17 | 67 662 | 54 551 | 10 187 | 66 401 | - | 144 267 |
| - purchase | - | 11 831 | 6 461 | 9 999 | 55 199 | - | 77 029 |
| - transfer from fixed assets under construction | - | 305 | 127 | 38 | - | - | 343 |
| - transfer from intangible assets under development | 17 | 55 414 | 47 851 | - | 35 | - | 55 466 |
| - development costs | - | - | - | - | 10 862 | - | 10 862 |
| - other increases | - | 112 | 112 | 150 | 305 | - | 567 |
| Decrease (due to) | - | (18 912) | (16 621) | (213) | (57 287) | - | (76 412) |
| - liquidation | - | (17 989) | (15 735) | - | - | - | (17 989) |
| - transfer to intangible assets given to use | - | - | - | - | (55 466) | - | (55 466) |
| - other decreases | - | (923) | (886) | (213) | (1 821) | - | (2 957) |
| Gross value of intangible assets as at the end of the period: 31.12.2010 | 31 976 | 773 172 | 613 364 | 26 236 | 75 874 | 7 137 | 914 395 |
| Accumulated amortization as at the beginning of the period: 01.01.2010 | (29 944) | (361 164) | (277 136) | (14 053) | - | - | (405 161) |
| Amortization for the period (due to) | (580) | (78 684) | (56 866) | (2 126) | - | - | (81 390) |
| - amortization | (580) | (96 867) | (72 613) | (2 175) | - | - | (99 622) |
| - other increases | - | (57) | (57) | (150) | - | - | (207) |
| - sale | - | 333 | 328 | - | - | - | 333 |
| - liquidation | - | 17 625 | 15 211 | - | - | - | 17 625 |
| - other decreases | - | 282 | 265 | 199 | - | - | 481 |
| Accumulated amortization as at the end of the period: 31.12.2010 | (30 524) | (439 848) | (334 002) | (16 179) | - | - | (486 551) |
| Impairment losses as at the beginning of the period: 01.01.2010 | - | (7) | (7) | - | - | - | (7) |
| Impairment losses as at the end of the period: 31.12.2010 | - | (7) | (7) | - | - | - | (7) |
| Net value of intangible assets as at the end of the period: 31.12.2010 | 1 452 | 333 317 | 279 355 | 10 057 | 75 874 | 7 137 | 427 837 |

## 26. Tangible assets

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Tangible assets, including: | 765 993 | 733 648 |
| - land | 1 875 | 1 867 |
| - buildings and structures | 228 823 | 237 487 |
| - equipment | 168 804 | 132 444 |
| - vehicles | 216 964 | 194 824 |
| - other fixed assets | 149 527 | 167 026 |
| Fixed assets under construction | 66 462 | 43 972 |
| **Total tangible assets** | **832 455** | **777 620** |

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Movements in tangible assets:

| Movements in tangible assets from 1 January to 31 December 2011 | Land | Buildings and structures | Equipment | Vehicles | Other fixed assets | Tangible assets under construction | Total |
|---|---|---|---|---|---|---|---|
| Gross value of tangible assets as at the beginning of the period: 01.01.2011 | 1 867 | 364 316 | 554 140 | 267 374 | 402 912 | 44 149 | 1 634 758 |
| Increase (due to) | 26 | 2 802 | 94 751 | 91 962 | 25 234 | 70 763 | 285 538 |
| - purchase | - | 568 | 66 974 | 86 434 | 6 427 | 69 895 | 230 298 |
| - transfer from tangible assets under construction | - | 2 021 | 25 366 | 442 | 16 617 | - | 44 446 |
| - other increases | 26 | 213 | 2 411 | 5 086 | 2 190 | 868 | 10 794 |
| Decrease (due to) | (18) | (5 358) | (31 560) | (50 008) | (14 665) | (48 314) | (149 923) |
| - sale | (18) | (400) | (5 053) | (41 632) | (3 931) | - | (51 034) |
| - liquidation | - | (5) | (11 290) | (1 428) | (9 127) | - | (21 850) |
| - transfer to tangible assets | - | - | - | - | - | (44 446) | (44 446) |
| - transfer to intangible assets | - | - | - | - | - | (1 065) | (1 065) |
| - sale of the company consolidated previously | - | (4 953) | (7 380) | (1 288) | (372) | (1 017) | (15 010) |
| - other decreases | - | - | (7 837) | (5 660) | (1 235) | (1 786) | (16 518) |
| Gross value of tangible assets as at the end of the period: 31.12.2011 | 1 875 | 361 760 | 617 331 | 309 328 | 413 481 | 66 598 | 1 770 373 |
| Accumulated depreciation as at the beginning of the period: 01.01.2011 | - | (75 143) | (421 696) | (72 548) | (235 755) | - | (805 142) |
| Depreciation for the period (due to) | - | (6 108) | (26 831) | (19 816) | (28 068) | - | (80 823) |
| - depreciation charge | - | (7 217) | (49 553) | (50 917) | (39 486) | - | (147 173) |
| - other increases | - | (26) | (575) | (52) | (684) | - | (1 337) |
| - sale | - | 152 | 4 709 | 26 670 | 3 554 | - | 35 085 |
| - liquidation | - | 5 | 11 135 | 471 | 7 798 | - | 19 409 |
| - sale of the company consolidated previously | - | 978 | 6 631 | 686 | 328 | - | 8 623 |
| - other decreases | - | - | 822 | 3 326 | 422 | - | 4 570 |
| Accumulated depreciation as at the end of the period: 31.12.2011 | - | (81 251) | (448 527) | (92 364) | (263 823) | - | (885 965) |
| Impairment losses as at the beginning of the period: 01.01.2011 | - | (51 686) | - | (2) | (131) | (177) | (51 996) |
| - decrease | - | - | - | 2 | - | 41 | 43 |
| Impairment losses as at the end of the period: 31.12.2011 | - | (51 686) | - | - | (131) | (136) | (51 953) |
| Net value of tangible assets as at the end of the period: 31.12.2011 | 1 875 | 228 823 | 168 804 | 216 964 | 149 527 | 66 462 | 832 455 |

| Movements in tangible assets from 1 January to 31 December 2010 | Land | Buildings and structures | Equipment | Vehicles | Other fixed assets | Tangible assets under construction | Total |
|---|---|---|---|---|---|---|---|
| Gross value of tangible assets as at the beginning of the period: 01.01.2010 | 18 800 | 360 434 | 539 267 | 236 778 | 389 323 | 43 702 | 1 588 304 |
| Increase (due to) | 3 837 | 9 629 | 47 085 | 97 500 | 23 317 | 50 969 | 232 337 |
| - purchase | 3 837 | 335 | 25 053 | 89 124 | 5 826 | 49 326 | 173 501 |
| - transfer from tangible assets under construction | - | 8 070 | 21 656 | 587 | 17 455 | - | 47 768 |
| - other increases | - | 1 224 | 376 | 7 789 | 36 | 1 643 | 11 068 |
| Decrease (due to) | (20 770) | (5 747) | (32 212) | (66 904) | (9 728) | (50 522) | (185 883) |
| - sale | (4 761) | (5 214) | (3 013) | (62 167) | (1 195) | - | (76 350) |
| - liquidation | - | (120) | (28 425) | (2 181) | (7 238) | (204) | (38 168) |
| - transfer to tangible assets | - | - | - | - | - | (47 768) | (47 768) |
| - transfer to intangible assets | - | - | - | - | - | (343) | (343) |
| - other decreases | (16 009) | (413) | (774) | (2 556) | (1 295) | (2 207) | (23 254) |
| Gross value of tangible assets as at the end of the period: 31.12.2010 | 1 867 | 364 316 | 554 140 | 267 374 | 402 912 | 44 149 | 1 634 758 |
| Accumulated depreciation as at the beginning of the period: 01.01.2010 | (74) | (68 817) | (402 167) | (67 624) | (205 341) | - | (744 023) |
| Depreciation for the period (due to) | 74 | (6 326) | (19 529) | (4 924) | (30 414) | - | (61 119) |
| - depreciation charge | - | (7 716) | (50 409) | (43 267) | (35 904) | - | (137 296) |
| - other increases | - | (77) | (18) | (2) | (29) | - | (126) |
| - sale | - | 1 265 | 2 283 | 35 524 | 910 | - | 39 982 |
| - liquidation | - | 50 | 27 766 | 1 439 | 3 973 | - | 33 228 |
| - other decreases | 74 | 152 | 849 | 1 382 | 636 | - | 3 093 |
| Accumulated depreciation as at the end of the period: 31.12.2010 | - | (75 143) | (421 696) | (72 548) | (235 755) | - | (805 142) |
| Impairment losses as at the beginning of the period: 01.01.2010 | - | (54 806) | (175) | - | (2 718) | (136) | (57 835) |
| - increase | - | - | - | (2) | - | (41) | (43) |
| - decrease | - | 3 120 | 175 | - | 2 587 | - | 5 882 |
| Impairment losses as at the end of the period: 31.12.2010 | - | (51 686) | - | (2) | (131) | (177) | (51 996) |
| Net value of tangible assets as at the end of the period: 31.12.2010 | 1 867 | 237 487 | 132 444 | 194 824 | 167 026 | 43 972 | 777 620 |

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

As part of its activities as a lessor, the Group presents within tangible assets those assets which are leased to third parties under operating lease agreements. The table below presents future minimum lease payments under non-cancellable operating lease agreements with the Group as a lessor.

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Minimum lease payments under non-cancellable operating lease** | | |
| Up to 1 year | 70 703 | 58 595 |
| Over 1 year up to 5 years | 151 072 | 107 447 |
| Over 5 years | 60 396 | 6 845 |
| **Total** | **282 171** | **172 887** |

## 27. Other assets

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Assets taken over and held for resale** | **18 772** | **-** |
| - real estate | 18 772 | - |
| **Other, including:** | **840 312** | **883 718** |
| - debtors | 247 075 | 274 907 |
| - interbank balances | 2 083 | 1 292 |
| - other accruals | 70 666 | 70 832 |
| - accrued income | 19 133 | 23 587 |
| - inventories | 316 666 | 323 348 |
| - receivables resulting from insurance premiums | 20 699 | 14 058 |
| - other | 163 990 | 175 694 |
| **Total other assets** | **859 084** | **883 718** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 521 945 | 565 579 |
| Long-term (over 1 year) | 337 139 | 318 139 |

The value of inventories results primarily from the business of the companies: BRE.locum and BRE Leasing.

As at 31 December 2011, the Group capitalised its borrowing costs amounting to PLN 7 654 thousand (31 December 2010: PLN 2 158 thousand). The capitalised borrowing costs increased the value of inventories.

As at 31 December 2011, the above note includes financial assets in the amount of PLN 269 857 thousand (31 December 2010: PLN 290 257 thousand).

## 28. Amounts due to Other Banks

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Current accounts | 1 891 265 | 1 195 730 |
| Term deposits | 1 395 273 | 1 695 679 |
| Loans and advances received | 22 816 765 | 23 580 714 |
| Repo / sell-buy-back transactions | 1 173 097 | 2 047 864 |
| Liabilities in respect of cash collaterals | 73 865 | 167 782 |
| Payables to be settled | 6 505 | 1 514 |
| Other | 34 039 | 37 725 |
| **Amounts due to other banks** | **27 390 809** | **28 727 008** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 8 577 533 | 8 555 177 |
| Long-term (over 1 year) | 18 813 276 | 20 171 831 |

As at 31 December 2011 the fixed rate term deposits accepted from other banks amounted to PLN 510 162 thousand and variable rate term deposits amounted to PLN 885 111 thousand (31 December 2010: PLN 803 612 thousand and PLN 892 067 thousand, respectively).

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As at 31 December 2011 and as at 31 December 2010, loans and advances received were variable rate loans.

The average interest rate for loans and deposits obtained from banks in 2011 amounted to 1.58% (31 December 2010: 1.60%).

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

As at 31 December 2010, apart from amounts due to other banks, the Group held amounts due to the Central Bank in the amount of PLN 79 thousand.

## 29. Amounts due to Customers

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Individual customers:** | **26 700 892** | **25 068 308** |
| Current accounts | 16 961 125 | 15 642 036 |
| Term deposits | 9 698 858 | 9 388 109 |
| Other liabilities: | 40 909 | 38 163 |
| - liabilities in respect of cash collaterals | 33 215 | 24 048 |
| - other | 7 694 | 14 115 |
| **Corporate customers:** | **27 015 436** | **21 154 086** |
| Current accounts | 11 038 961 | 9 682 381 |
| Term deposits | 11 650 679 | 7 697 956 |
| Loans and advances received | 1 848 575 | 473 606 |
| Repo transactions | 1 818 532 | 2 708 164 |
| Other liabilities: | 658 689 | 591 979 |
| - liabilities in respect of cash collaterals | 479 749 | 382 141 |
| - other | 178 940 | 209 838 |
| **Public sector customers:** | **528 060** | **928 559** |
| Current accounts | 447 481 | 896 407 |
| Term deposits | 64 783 | 22 141 |
| Other liabilities: | 15 796 | 10 011 |
| - liabilities in respect of cash collaterals | 18 | - |
| - other | 15 778 | 10 011 |
| **Total amounts due to customers** | **54 244 388** | **47 150 953** |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 51 677 581 | 45 622 160 |
| Long-term (over 1 year) | 2 566 807 | 1 528 793 |

As at 31 December 2011, the majority of the deposits from retail and corporate customers bore fixed interest rates. The average interest rate for amounts due to customers (excluding repos) amounted to 2.43% (31 December 2010: 2.43%).

As at 31 December 2011, the balance of loans and advances received included a loan received from European Investment Bank amounting to PLN 1 848 575 thousand (31 December 2010: PLN 396 030 thousand). The loan was collateralized with Treasury bonds which were disclosed in the Statement of Financial Position under the line 'Pledged assets' (Note 37).

## 30. Debt Securities in Issue

As at 31 December 2011

| Debt securities in issue by category | Nominal value | Contractual interest rate | Guarantee/collateral | Redemption date | Carrying value |
|---|---|---|---|---|---|
| Short-term issues | 546 450 | | | | 550 307 |
| - Bonds (in PLN) | 50 000 | 5.25% | no collateral | 05-01-2012 | 49 971 |
| - Bonds (in PLN) | 14 000 | 5.26% | no collateral | 05-01-2012 | 13 992 |
| - Bonds (in PLN) | 10 000 | 5.75% | no collateral | 05-01-2012 | 9 994 |
| - Bonds (in PLN) | 21 400 | 5.27% | no collateral | 11-01-2012 | 21 374 |
| - Bonds (in PLN) | 10 000 | 5.76% | no collateral | 13-01-2012 | 9 981 |
| - Bonds (in PLN) | 10 100 | 5.76% | no collateral | 20-01-2012 | 10 070 |
| - Bonds (in PLN) | 20 000 | 5.39% | no collateral | 27-01-2012 | 19 922 |
| - Bonds (in PLN) | 1 800 | 5.76% | no collateral | 27-01-2012 | 1 792 |
| - Bonds (in PLN) | 4 700 | 5.77% | no collateral | 03-02-2012 | 4 675 |
| - Bonds (in PLN) | 1 500 | 5.68% | no collateral | 15-03-2012 | 1 476 |
| - Bonds (in PLN) | 2 300 | 5.69% | no collateral | 20-04-2012 | 2 251 |
| - Bonds (in PLN) | 25 000 | 5.46% | no collateral | 25-05-2012 | 24 463 |
| - Bonds (in PLN) | 57 400 | 5.95% | no collateral | 16-11-2012 | 57 788 |
| - Bonds (in PLN) | 50 000 | 6.06% | no collateral | 30-11-2012 | 50 243 |
| - Mortgage bonds (in PLN) | 68 250 | 4.92% | mortgage bonds publicly registered | 27-07-2012 | 69 746 |
| - Mortgage bonds (in PLN) | 200 000 | 5.15% | mortgage bonds publicly registered | 28-09-2012 | 202 569 |
| Long-term issues | 1 172 961 | | | | 1 185 681 |
| - Mortgage bonds (in PLN) | 25 000 | 6.22% | mortgage bond register | 29-04-2013 | 25 252 |
| - Mortgage bonds (in PLN) | 100 000 | 5.36% | mortgage bonds publicly registered | 20-09-2013 | 101 434 |
| - Mortgage bonds (in PLN) | 116 100 | 5.94% | mortgage bond register | 21-10-2013 | 116 980 |
| - Mortgage bonds (in PLN) | 25 000 | 6.27% | mortgage bond register | 28-04-2014 | 25 241 |
| - Mortgage bonds (in PLN) | 177 000 | 6.17% | mortgage bond register | 28-07-2014 | 181 367 |
| - Mortgage bonds (in PLN) | 78 500 | 6.21% | mortgage bond register | 28-11-2014 | 78 769 |
| - Mortgage bonds (in PLN) | 78 611 | 5.94% | mortgage bond register | 15-05-2015 | 78 953 |
| - Mortgage bonds (in PLN) | 100 000 | 5.63% | mortgage bond register | 07-07-2015 | 102 484 |
| - Mortgage bonds (in PLN) | 100 000 | 6.21% | mortgage bond register | 28-09-2015 | 101 374 |
| - Mortgage bonds (in PLN) | 77 000 | 6.15% | mortgage bonds publicly registered | 30-11-2015 | 77 200 |
| - Mortgage bonds (in PLN) | 145 750 | 6.00% | mortgage bond register | 20-04-2016 | 146 916 |
| - Mortgage bonds (in PLN) | 150 000 | 5.97% | mortgage bond register | 16-06-2017 | 149 711 |
| Debt securities in issue (carrying value in PLN '000) | | | | | 1 735 988 |

As at 31 December 2010

| Debt securities in issue by category | Nominal value | Contractual interest rate | Guarantee/collateral | Redemption date | Carrying value |
|---|---|---|---|---|---|
| Short-term issues | 509 300 | | | | 511 128 |
| - Bonds (in PLN) | 10 000 | 4.71% | no collateral | 05-01-2011 | 9 995 |
| - Bonds (in PLN) | 17 800 | 4.72% | no collateral | 13-01-2011 | 17 772 |
| - Bonds (in PLN) | 20 000 | 4.32% | no collateral | 14-01-2011 | 19 968 |
| - Bonds (in PLN) | 26 600 | 4.74% | no collateral | 20-01-2011 | 26 534 |
| - Bonds (in PLN) | 5 500 | 4.75% | no collateral | 03-02-2011 | 5 476 |
| - Bonds (in PLN) | 5 400 | 4.30% | no collateral | 15-02-2011 | 5 366 |
| - Bonds (in PLN) | 25 000 | 4.35% | no collateral | 28-02-2011 | 24 816 |
| - Mortgage bonds (in PLN) | 250 000 | 4.94% | mortgage bond register | 28-04-2011 | 252 007 |
| - Mortgage bonds (in PLN) | 149 000 | 5.14% | mortgage bond register | 15-06-2011 | 149 194 |
| Long-term issues | 850 750 | | | | 860 696 |
| - Mortgage bonds (in PLN) | 68 250 | 4.14% | mortgage bonds publicly registered | 27-07-2012 | 69 630 |
| - Mortgage bonds (in PLN) | 200 000 | 4.34% | mortgage bonds publicly registered | 28-09-2012 | 202 034 |
| - Mortgage bonds (in PLN) | 25 000 | 5.35% | mortgage bond register | 29-04-2013 | 25 199 |
| - Mortgage bonds (in PLN) | 100 000 | 4.52% | mortgage bonds publicly registered | 20-09-2013 | 101 162 |
| - Mortgage bonds (in PLN) | 25 000 | 5.40% | mortgage bond register | 28-04-2014 | 25 189 |
| - Mortgage bonds (in PLN) | 177 000 | 5.39% | mortgage bond register | 28-07-2014 | 180 665 |
| - Mortgage bonds (in PLN) | 78 500 | 5.29% | mortgage bond register | 28-11-2014 | 78 637 |
| - Mortgage bonds (in PLN) | 100 000 | 5.40% | mortgage bond register | 28-09-2015 | 101 113 |
| - Mortgage bonds (in PLN) | 77 000 | 5.23% | mortgage bonds publicly registered | 30-11-2015 | 77 067 |
| Debt securities in issue (carrying value in PLN '000) | | | | | 1 371 824 |

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

Movements in Debt Securities in Issue:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| As at the beginning of the period | 1 371 824 | 1 415 711 |
| Additions (issue) | 3 993 798 | 47 717 |
| Disposals (redemption) | (3 658 100) | (95 295) |
| Exchange differences | - | 246 |
| Other changes | 28 466 | 3 445 |
| Debt securities in issue as at the end of the period | 1 735 988 | 1 371 824 |

As at 31 December 2011, the nominal value of receivables constituting collateral for the issue of mortgage covered bonds amounted to PLN 2 471 248 thousand (31 December 2010: PLN 2 167 704 thousand). According to legal requirements the nominal value of mortgage covered bonds issued cannot exceed 60% of the value of the related real estate. At 31 December 2011, this amount in the register of collateral of mortgage bond amounted to PLN 1 860 257 thousand (31 December 2010: PLN 1 694 588 thousand). Both as at 31 December 2011 and as at 31 December 2010, covered bonds were secured with receivables secured with mortgage entered as the first item in the land and mortgage register. The value of receivables constituting collateral for the issue of public sector covered bonds amounted to PLN 549 334 thousand as at 31 December 2011 compared with PLN 643 230 thousand as at 31 December 2010.

## 31. 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 2011 | | | | | | |
| - Commerzbank AG | 400 000 | CHF | 3M LIBOR + 0.7%* | 0.75 | 08.03.2017 | 1 454 048 |
| - Commerzbank AG | 80 000 | CHF | 3M LIBOR + 1.4%** | 1.45 | not defined | 290 805 |
| - Commerzbank AG | 120 000 | CHF | 3M LIBOR + 1.5%*** | 1.55 | 18.12.2017 | 436 221 |
| - Commerzbank AG | 170 000 | CHF | 3M LIBOR + 2.2%**** | 2.23 | not defined | 620 832 |
| - Commerzbank AG | 90 000 | CHF | 3M LIBOR + 4.0% | 4.05 | not defined | 327 181 |
| - Commerzbank AG | 90 000 | CHF | 3M LIBOR + 2.5% | 2.55 | 24.06.2018 | 327 113 |
| | | | | | | 3 456 200 |

| 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 2010 | | | | | | |
| - Commerzbank AG | 400 000 | CHF | 3M LIBOR + 0.7%* | 0.87 | 08.03.2017 | 1 266 293 |
| - Commerzbank AG | 80 000 | CHF | 3M LIBOR + 1.4%** | 1.57 | not defined | 253 244 |
| - Commerzbank AG | 120 000 | CHF | 3M LIBOR + 1.5%*** | 1.67 | 18.12.2017 | 379 879 |
| - Commerzbank AG | 170 000 | CHF | 3M LIBOR + 2.2%**** | 2.38 | not defined | 540 776 |
| - Commerzbank AG | 90 000 | CHF | 3M LIBOR + 4.0% | 4.17 | not defined | 285 015 |
| - Commerzbank AG | 90 000 | CHF | 3M LIBOR + 2.5% | 2.67 | 24.06.2018 | 284 920 |
| | | | | | | 3 010 127 |

* 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 2011 and in 2010, the Group did not note any delays in repayments of interest instalments and was not in default of any other contractual provisions related to its subordinated liabilities.

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

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Movements in Subordinated Liabilities:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| As at the beginning of the period | 3 010 127 | 2 631 951 |
| Exchange differences | 446 958 | 379 245 |
| Other changes | (885) | (1 069) |
| Subordinated liabilities as at the end of the period | 3 456 200 | 3 010 127 |

| | | |
|---|---|---|
| Short-term (up to 1 year) | 4 565 | 4 422 |
| Long-term (over 1 year) | 3 451 635 | 3 005 705 |

## 32. Other Liabilities

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Other liabilities, including | | |
| - tax liabilities | 35 044 | 17 140 |
| - interbank settlements | 765 326 | 349 236 |
| - creditors | 405 264 | 281 316 |
| - accrued expenses | 154 880 | 176 779 |
| - deferred income | 101 137 | 105 947 |
| - reinsurance liabilities | 26 947 | 15 272 |
| - accrual of pension benefits | 4 664 | 14 403 |
| - accrual of holiday equivalents | 19 497 | 7 323 |
| - accrual of other employee benefits | 176 060 | 142 412 |
| - other | 35 037 | 26 796 |
| Total other liabilities | 1 723 856 | 1 136 624 |

As at 31 December 2011, the presented note includes financial liabilities of PLN 1 352 417 thousand (as at 31 December 2010: PLN 822 603 thousand). Cash flows resulting from those financial liabilities are presented under the Note 3.9.1. The other components of presented liabilities, except for part of accrual of pension benefits that were calculated on actuarial basis, as a rule, are short term liabilities.

## 33. Provisions

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| For off-balance sheet granted contingent liabilities * | 30 906 | 49 674 |
| For legal proceedings | 25 644 | 19 193 |
| Technical-insurance provisions | 80 864 | 87 307 |
| Other | 15 754 | 19 151 |
| Total provisions | 153 168 | 175 325 |

* includes valuation of financial guarantees

Provision policies for technical-insurance provisions and provisions for off-balance sheet commitments granted are described in Note 2.26 and Note 3.4.4 respectively. Estimated dates of granted contingent liabilities realisation are presented in Note 36.

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

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Movements in the Provisions:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| As at the beginning of the period (by type) | 175 325 | 176 957 |
| For off-balance sheet granted contingent liabilities | 49 674 | 61 323 |
| For legal proceedings | 19 193 | 2 637 |
| Technical-insurance provisions | 87 307 | 67 056 |
| Other | 19 151 | 45 941 |
| Change in the period (due to) | (22 157) | (1 632) |
| - increase of provisions, due to: | 171 334 | 231 953 |
| for off-balance-sheet granted contingent liabilities (Note 13) | 159 183 | 190 320 |
| for legal proceedings | 6 508 | 18 657 |
| technical-insurance provisions | (6 443) | 20 251 |
| other | 12 086 | 2 725 |
| - release of provisions, due to: | (168 892) | (210 749) |
| for off-balance-sheet granted contingent liabilities (Note 13) | (168 260) | (201 496) |
| for legal proceedings | (632) | (778) |
| other | - | (8 475) |
| - write-offs | (9 722) | (9 531) |
| - utilization | (135) | (874) |
| - reclassification | (4 243) | (11 668) |
| - foreign exchange differences | 1 482 | (763) |
| - other | (11 981) | - |
| As at the end of the period (by type) | 153 168 | 175 325 |
| For off-balance sheet granted contingent liabilities | 30 906 | 49 674 |
| For legal proceedings | 25 644 | 19 193 |
| Technical-insurance provisions | 80 864 | 87 307 |
| Other | 15 754 | 19 151 |

Technical-insurance Provisions:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Insurance provisions and reinsurance assets | | |
| Insurance provisions gross, including: | | |
| - Provision for losses raised and costs of liquidation | 18 154 | 20 888 |
| - IBNR | 61 255 | 41 487 |
| - Provision for premiums | 67 620 | 71 010 |
| - Provision for the insurers' share in technical profit | 14 | 29 |
| Insurance provisions gross, total | 147 043 | 133 414 |
| Reinsurer's share, including: | | |
| - Provision for losses raised and costs of liquidation | 11 114 | 11 765 |
| - IBNR | 25 083 | 16 651 |
| - Provision for premiums | 29 982 | 17 691 |
| Reinsurer's share, total | 66 179 | 46 107 |
| Insurance provisions net, including | | |
| - Provision for losses raised and costs of liquidation | 7 040 | 9 123 |
| - IBNR | 36 172 | 24 836 |
| - Provision for premiums | 37 638 | 53 319 |
| - Provision for the insurers' share in technical profit | 14 | 29 |
| Insurance provisions net, total | 80 864 | 87 307 |

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Provisions for Off-Balance Sheet Granted Contingent Liabilities:

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Incurred but not identified losses** | | |
| Off-balance sheet contingent liabilities | 17 142 460 | 14 102 055 |
| Provisions for off-balance sheet contingent liabilities analysed according to portfolio approach (negative amount) | (25 264) | (42 584) |
| **Net off-balance sheet contingent liabilities** | **17 117 196** | **14 059 471** |
| | | |
| **Off-balance sheet granted contingent liabilities with impairment** | | |
| Off-balance sheet contingent liabilities | 25 016 | 58 546 |
| Provisions for off-balance sheet contingent liabilities analysed individually (negative amount) | (5 642) | (7 090) |
| **Net off-balance sheet contingent liabilities** | **19 374** | **51 456** |

## 34. 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 2011 and 2010.

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

| Deferred income tax assets | As at 1 January 2011 | Charged/(credited) to the income statement | Charged/(credited) to other comprehensive income | Other changes | As at 31 December 2011 |
|---|---|---|---|---|---|
| Interest | 36 869 | 7 226 | - | - | 44 095 |
| Valuation of derivative financial instruments | 47 059 | 29 475 | - | - | 76 534 |
| Valuation of investment securities | 22 149 | 1 187 | (2 033) | - | 21 303 |
| Provisions for impairment of loans and advances | 189 558 | 40 032 | - | - | 229 590 |
| Provisions for employee benefits | 32 032 | 6 793 | - | - | 38 825 |
| Other provisions | 6 097 | (550) | - | - | 5 547 |
| Prepayments/accruals | 29 735 | (773) | - | - | 28 962 |
| Tax losses carried forward | 982 | 6 538 | - | - | 7 520 |
| Differences between carrying and tax value of lease | 139 083 | (22 979) | - | - | 116 104 |
| Other negative temporary differences | 66 529 | 12 931 | - | (1 180) | 78 280 |
| **Total deferred income tax assets** | **570 093** | **79 880** | **(2 033)** | **(1 180)** | **646 760** |

| | |
|---|---|
| Short-term (up to 1 year) | 384 613 |
| Long-term (over 1 year) | 262 147 |

| Deferred income tax liabilities | As at 1 January 2011 | Charged/(credited) to the income statement | Charged/(credited) to other comprehensive income | Other changes | As at 31 December 2011 |
|---|---|---|---|---|---|
| Interest | (38 469) | (10 860) | - | - | (49 329) |
| Valuation of derivative financial instruments | - | - | - | - | - |
| Valuation of investment securities | (97 595) | (44 501) | 1 331 | - | (140 765) |
| Prepayments regarding amortization of applyed investment relief | (40 840) | (16 499) | - | - | (57 339) |
| Difference between tax and book value of fixed and tangible assets | (32 699) | 3 585 | - | - | (29 114) |
| Deferred income | (18 657) | - | - | - | (18 657) |
| Other positive temporary differences | (26 090) | (19 083) | - | 411 | (44 762) |
| **Total deferred income tax liabilities** | **(254 350)** | **(87 358)** | **1 331** | **411** | **(339 966)** |

| | |
|---|---|
| Short-term (up to 1 year) | (299 650) |
| Long-term (over 1 year) | (40 316) |

**IFRS Consolidated Financial Statements 2011** **PLN (000's)**

| Deferred income tax assets | As at 1 January 2010 | Charged/(credited) to the income statement | Charged/(credited) to other comprehensive income | Other changes | As at 31 December 2010 |
|---|---|---|---|---|---|
| Interest | 25 423 | 11 446 | - | - | 36 869 |
| Valuation of derivative financial instruments | 44 515 | 2 544 | - | - | 47 059 |
| Valuation of investment securities | 21 909 | 13 614 | (13 374) | - | 22 149 |
| Provisions for impairment of loans and advances | 217 516 | (27 958) | - | - | 189 558 |
| Provisions for employee benefits | 20 199 | 11 833 | - | - | 32 032 |
| Other provisions | 5 196 | 901 | - | - | 6 097 |
| Prepayments/accruals | 19 740 | 9 995 | - | - | 29 735 |
| Tax losses carried forward | 861 | 121 | - | - | 982 |
| Differences between carrying and tax value of lease | 112 416 | 26 667 | - | - | 139 083 |
| Other negative temporary differences | 70 527 | (3 744) | - | (254) | 66 529 |
| Total deferred income tax assets | 538 302 | 45 419 | (13 374) | (254) | 570 093 |

| | |
|---|---|
| Short-term (up to 1 year) | 274 626 |
| Long-term (over 1 year) | 295 467 |

| Deferred income tax liabilities | As at 1 January 2010 | Charged/(credited) to the income statement | Charged/(credited) to other comprehensive income | As at 31 December 2010 |
|---|---|---|---|---|
| Interest | (34 550) | (3 919) | - | (38 469) |
| Valuation of investment securities | (45 448) | (38 465) | (13 682) | (97 595) |
| Prepayments regarding amortization of applyed investment relief | (25 855) | (14 985) | - | (40 840) |
| Difference between tax and book value of fixed and tangible assets | (39 947) | 7 248 | - | (32 699) |
| Deferred income | (28 111) | 9 454 | - | (18 657) |
| Other positive temporary differences | (33 107) | 7 017 | - | (26 090) |
| Total deferred income tax liabilities | (207 018) | (33 650) | (13 682) | (254 350) |

| | |
|---|---|
| Short-term (up to 1 year) | (204 024) |
| Long-term (over 1 year) | (50 326) |

| Deferred income tax included in the income statement | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Deferred income tax included in the profit and loss account | | |
| Interest | (3 634) | 7 527 |
| Valuation of derivative financial instruments | 29 475 | 2 544 |
| Valuation of securities | (43 314) | (24 851) |
| Provisions for impairment of loans and advances | 40 032 | (27 958) |
| Provisions for employee benefits | 6 793 | 11 833 |
| Other provisions | (550) | 901 |
| Prepayments/accruals | (773) | 9 995 |
| Prepayments regarding amortization of applyed investment relief | - | 9 454 |
| Difference between tax and book value of fixed and tangible assets | 3 585 | 7 248 |
| Tax losses carried forward | 6 538 | 121 |
| Other temporary differences * | (45 630) | 14 955 |
| Total deferred income tax included in the profit and loss account (Note 14) | (7 478) | 11 769 |

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

Due to the improbability of occurrence of taxable income enabling to use tax losses incurred in Foreign Branches and Garbary Sp. z o.o, BRE Group does not include those losses in the deferred tax asset calculation. The unused tax losses not included in deferred tax asset calculation amount to PLN 284 534 thousand on 31 December 2011 and PLN 230 336 thousand on 31 December 2010. Right to tax losses' settlement expires between 2012 and 2017 year.

The Group includes liabilities or assets on temporary differences incurring due to investments in subsidiaries and affiliated companies in deferred tax calculation, unless the recognition of temporary differences is controlled by the Group and it is unlikely that in foreseeable future those differences will reverse. At the end of year 2011 and 2010 the Group did not include settlements on temporary differences incurring due to investments in subsidiaries and affiliated companies in deferred tax calculation, with an exception – investment in BRE GOLD Fundusz Inwestycyjny Aktywów Niepublicznych.

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

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

As at 31 December 2011, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning liabilities of the Bank or its subsidiaries which represent at least 10% of the Bank's equity. Moreover, the total value of claims concerning liabilities of the Bank or its subsidiary in all proceedings before a court, an arbitration body or a public administration authority as at 31 December 2011 was also not higher than 10% of the Bank's equity.

**Report on major proceedings brought against the Bank**

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

   At present proceedings are pending against BRE Bank in the Court of Jerusalem initiated by Bank Leumi and an insurance company of Bank Leumi, Migdal Insurance Company. It is an action for indemnity in the amount of USD 13.5 million (PLN 46.1 million translated at the average exchange rate of the National Bank of Poland as at 31 December 2011). This action was originally initiated by Art-B Sp. z o.o. Eksport – Import with its registered office in Katowice, under liquidation ('Art-B') against the main defendant Bank Leumi, whereas BRE Bank was garnished by Bank Leumi. Considering a settlement concluded between Art-B and Bank Leumi, and Migdal Insurance Company, on the basis of which Art-B received from Bank Leumi and Migdal Insurance Company an amount of USD 13.5 million, Bank Leumi and Migdal Insurance Company claim from BRE Bank refund of the amount paid to Art-B that is USD 13.5 million. BRE Bank's liability towards Bank Leumi and Migdal Insurance Company is under recourse.

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

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

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

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

   In its reply to the claim, the Bank petitioned the Court for dismissing the claim on the grounds of there being no legal basis for allowing the claim. On 1 December 2009, the Court decided to suspend the case until the completion of Pozmeat's bankruptcy proceedings. On 26 January 2011, the court has decided to reinstate suspended proceedings due to the closing of the insolvency procedure. The case is pending.

4. Claims of clients of Interbrok

   Up to 24 February 2012, 153 entities who were clients of Interbrok Investment E. Dróżdż i Spółka Spółka jawna (hereinafter referred to as Interbrok) called the Bank for amicable settlement in the total amount of PLN 296 461 thousand and via the District Court in Warsaw. In addition, up to 24 February 2012, 8 legal suits have been delivered to the Bank where former clients of Interbrok claimed compensation in the total amount of PLN 800 thousand with the reservation that the claims may be extended up to the total amount of PLN 5 950 thousand. Plaintiffs allege that the Bank aided in Interbrok's illegal activities, which caused damage to plaintiffs. In all court cases the Bank moves for dismissal of the claims in entirety and objects to charges raised in the legal suits. The legal analysis of the abovementioned claims indicates that there are not significant grounds to state that the Bank bears liability in the case. Therefore, BRE Bank Group did not create provisions for the above claims. The District Court in Warsaw settled the aforementioned court cases and dismissed actions in all cases. As a consequence of the Court of Appeal verdict on 4 March 2010, one of the judgments becomes final and valid. On 22 June 2011, the Supreme Court dismissed the plaintiff's cassation appeal in the said case. As far as the remaining cases are concerned, on 21 December 2010 and 17 January 2012, the Court of Appeals revoked the judgments of the District Court and remanded the cases to the District Court in Warsaw for re-examination.

5. Class action against BRE Bank

   On 4 February 2011, BRE Bank SA received a class action brought to the District Court in Łódź on 20 December 2010 by the Municipial Ombudsman who represents a group of 835 persons – retail clients of BRE Bank.

   The petitioners demand that a responsibility of the Bank is determined for improper performance of mortgage credit agreements. In particular, it was indicated that the Bank improperly applied provisions of the agreements concerning interest rates adjustment, namely that the Bank did not reduce interest rates on loans, although, according to the petitioners, it should have.

   The Bank rejects the above reasoning. On 18 February 2011, the Bank submitted a formal answer to the court, in which it applied for a dismissal of the claim as a whole.

   On 6 May 2011, the District Court in Łódź decided to reject the application of BRE Bank SA for dismissing the claim and decided that the case will proceed as a class action.

   On 13 June 2011, BRE Bank SA lodged a complaint against this decision with the Court of Appeal in Łódź. On 28 September 2011, the Court of Appeal dismissed the complaint of BRE Bank SA and so the case will proceed as a class action.

As at 31 December 2011, the Bank was not involved in any proceedings before a court, arbitration body, or public administration authority concerning receivables of the Bank or its subsidiaries which represent at least 10% of the Bank's equity. The total value of claims concerning receivables of the Bank or its subsidiaries in all proceedings before a court, an arbitration body or a public administration authority underway at 31 December 2011 was also not higher than 10% of the Bank's equity.

**Taxes**

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

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

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

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

Within the period from 24 September to 5 October 2010, the officers of the Tax Office (Trzeci Urząd Skarbowy Warszawa Śródmieście) carried out tax audits at the company BRE Ubezpieczenia Sp. z o.o. concerning the settlement of the corporate income tax for the year 2009. The audits did not identify any irregularities.

Within the period from 8 September to 10 September 2010, the officers of the Tax Office (Urząd Skarbowy Poznań Śródmieście) carried out tax audits at the company Garbary Sp. z o.o. within the scope of accuracy of documents and determination of correctness of amounts included in VAT records (concerning purchase and supply) for the period from May 2007 to May 2010 under the Law on tax on goods and services. The audits did not identify any relevant irregularities.

Within the period from 9 February to 11 March 2010, the officers of the Tax Office (Pierwszy Mazowiecki Urząd Skarbowy) carried out tax audits at the company BRE Leasing concerning the settlement of the value added tax for the period from 1 June to 31 July 2005 and for the period from 1 December to 31 December 2005. The audits did not identify any relevant irregularities.

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There were no tax audits at other companies of the Group within the year 2011 or 2010.

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.

## 36. Off-balance Sheet Liabilities

Off-balance sheet liabilities of the Group comprise:

- Loan commitments

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

- Guarantees and other financial facilities

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

- Operating lease liabilities

Where a company of the Group is a lessee, the minimum future lease payments as part of irrevocable operating lease agreements are presented in the table below.

The following table presents the Group's off-balance sheet commitments granted and received as well as nominal value of open positions of derivative transactions as at 31 December 2011 and 31 December 2010.

| | 31.12.2011 | Up to 1 year | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| I | Contingent liabilities granted and received | 14 451 505 | 2 658 153 | 1 250 889 | 18 360 547 |
| | Commitments granted | 13 946 753 | 2 452 452 | 946 816 | 17 346 021 |
| | 1. Financing | 11 950 156 | 1 669 992 | 755 045 | 14 375 193 |
| | a) Loan commitments | 11 926 402 | 1 570 723 | 699 523 | 14 196 648 |
| | b) Operating lease commitments | 23 754 | 99 269 | 55 522 | 178 545 |
| | 2. Guarantees and other financial facilities | 1 993 253 | 782 226 | 191 771 | 2 967 250 |
| | a) Banker's acceptances | 3 042 | - | - | 3 042 |
| | b) Guarantees and standby letters of credit | 1 675 071 | 770 900 | 191 771 | 2 637 742 |
| | c) Guarantees of issue | 150 000 | - | - | 150 000 |
| | d) Documentary and commercial letters of credit | 165 140 | 11 326 | - | 176 466 |
| | 3. Other commitments | 3 344 | 234 | - | 3 578 |
| | Commitments received | 504 752 | 205 701 | 304 073 | 1 014 526 |
| | 1. Financial commitments received | 430 | - | - | 430 |
| | 2. Guarantees received | 504 322 | 205 701 | 304 073 | 1 014 096 |
| II | Derivative financial instruments (nominal value of contracts) | 334 033 912 | 146 187 262 | 10 466 975 | 490 688 149 |
| | 1. Interest rate derivatives | 290 496 121 | 141 358 726 | 10 449 114 | 442 303 961 |
| | 2. Currency derivatives | 42 328 275 | 4 784 658 | 17 861 | 47 130 794 |
| | 3. Market risk derivatives | 1 209 516 | 43 878 | - | 1 253 394 |
| | Total off-balance sheet items | 348 485 417 | 148 845 415 | 11 717 864 | 509 048 696 |

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| | 31.12.2010 | Up to 1 year | 1 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| I | Contingent liabilities granted and received | 12 029 441 | 2 179 560 | 1 254 218 | 15 463 219 |
| | Commitments granted | 11 639 108 | 1 848 404 | 844 426 | 14 331 938 |
| | 1. Financing | 10 116 441 | 1 097 196 | 667 626 | 11 881 263 |
| | a) Loan commitments | 10 094 646 | 1 017 351 | 597 929 | 11 709 926 |
| | b) Operating lease commitments | 21 795 | 79 845 | 69 697 | 171 337 |
| | 2. Guarantees and other financial facilities | 1 521 806 | 751 208 | 176 800 | 2 449 814 |
| | a) Banker's acceptances | 6 801 | - | - | 6 801 |
| | b) Guarantees and standby letters of credit | 1 308 763 | 751 208 | 176 800 | 2 236 771 |
| | c) Guarantees of issue | 41 500 | - | - | 41 500 |
| | d) Documentary and commercial letters of credit | 164 742 | - | - | 164 742 |
| | 3. Other commitments | 861 | - | - | 861 |
| | Commitments received | 390 333 | 331 156 | 409 792 | 1 131 281 |
| | 1. Financial commitments received | 14 828 | - | - | 14 828 |
| | 2. Guarantees received | 375 505 | 331 156 | 409 792 | 1 116 453 |
| II | Derivative financial instruments (nominal value of contracts) | 212 520 322 | 83 580 140 | 8 281 563 | 304 382 025 |
| | 1. Interest rate derivatives | 168 369 009 | 78 965 908 | 8 232 085 | 255 567 002 |
| | 2. Currency derivatives | 42 333 405 | 4 530 977 | 49 478 | 46 913 860 |
| | 3. Market risk derivatives | 1 817 908 | 83 255 | - | 1 901 163 |
| | Total off-balance sheet items | 224 549 763 | 85 759 700 | 9 535 781 | 319 845 244 |

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

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

The nominal values of derivatives are presented in the Note 20.

As at 31 December 2011, apart from financial commitments granted by the Bank, the largest impact on the amount of financial commitments granted had commitments granted by BRE Bank Hipoteczny and BRE Faktoring respectively in amount of PLN 781 071 thousand and PLN 500 725 thousand.

## 37. Pledged Assets

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

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Pledged assets, including: | 4 339 523 | 1 830 803 |
| - Trading securities (Note 19) | 485 463 | 1 018 658 |
| - Investment securities (Note 23) | 3 854 060 | 812 145 |
| Liabilities arising from pledged assets, including: | 5 650 794 | 5 548 163 |
| - Sell-buy-back transactions (Note 28, 29), including | 2 991 629 | 4 756 028 |
| sell-buy-back transactions concerning securities which are subject to buy-sell-back transaction | 1 593 755 | 3 279 087 |
| - Collateral for the loan received from the European Investment Bank | 2 474 685 | 613 757 |
| - Funds guaranteed under the Bank Guarantee Fund | 184 480 | 178 378 |

## 38. Registered Share Capital

The total number of ordinary shares as at 31 December 2011 was 42 102 746 shares (31 December 2010: 42 086 674) at PLN 4 nominal value each (31 December 2010: PLN 4). All issued shares were fully paid up.

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| REGISTERED SHARE CAPITAL (THE STRUCTURE) AS AT 31 DECEMBER 2011 | | | | | | |
|---|---|---|---|---|---|---|
| Share type | Type of preference | Type of restrictions | Number of shares | Series / issue value | Paid up | Year of registration |
| ordinary bearer* | - | - | 9 978 500 | 39 914 000 | fully paid in cash | 1986 |
| ordinary registered* | - | - | 21 500 | 86 000 | fully paid in cash | 1986 |
| ordinary bearer | - | - | 2 500 000 | 10 000 000 | fully paid in cash | 1994 |
| ordinary bearer | - | - | 2 000 000 | 8 000 000 | fully paid in cash | 1995 |
| ordinary bearer | - | - | 4 500 000 | 18 000 000 | fully paid in cash | 1997 |
| ordinary bearer | - | - | 3 800 000 | 15 200 000 | fully paid in cash | 1998 |
| ordinary bearer | - | - | 170 500 | 682 000 | fully paid in cash | 2000 |
| ordinary bearer | - | - | 5 742 625 | 22 970 500 | fully paid in cash | 2004 |
| ordinary bearer | - | - | 270 847 | 1 083 388 | fully paid in cash | 2005 |
| ordinary bearer | - | - | 532 063 | 2 128 252 | fully paid in cash | 2006 |
| ordinary bearer | - | - | 144 633 | 578 532 | fully paid in cash | 2007 |
| ordinary bearer | - | - | 30 214 | 120 856 | fully paid in cash | 2008 |
| ordinary bearer | - | - | 12 395 792 | 49 583 168 | fully paid in cash | 2010 |
| ordinary bearer | - | - | 16 072 | 64 288 | fully paid in cash | 2011 |
| **Total number of shares** | | | **42 102 746** | | | |
| **Total registered share capital** | | | | **168 410 984** | | |
| **Nominal value per share** | | **4** | | | | |

* As at the end of the reporting period

On 18 July 2011 and on 1 December 2011, the National Depository for Securities ('KDPW') made a registration of respectively 15 864 and 208 shares of BRE Bank SA which were issued as part of the conditional increase in the share capital of the Bank pursuant to the resolution No. 21 of the 21st Ordinary General Meeting of the Bank of 14 March 2008 on the issuance of bonds with pre-emptive right to acquire shares of BRE Bank SA and the conditional increase of the share capital by issuance of shares with no subscription rights for the existing shareholders in order to enable beneficiaries of the long term incentive programme to take up shares in BRE Bank SA, on application for admission of the shares to trading on the regulated market and on dematerialisation of the shares.

As a result of the above registration, in the year 2011 the Bank's share capital increased by PLN 64 288.

In 2011, there were changes in the structure of material share packages of the Bank.

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

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

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

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 2011 it held 69.72% of the share capital and votes at the General Meeting of BRE Bank SA (as at 31 December 2010 – 69.74%).

## 39. Share Premium

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

## 40. Retained Earnings

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

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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.

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Other supplementary capital | 2 334 675 | 1 814 954 |
| Other reserve capital | 81 174 | 55 300 |
| General Risk Fund | 841 953 | 778 953 |
| Profit from the previous year | 100 383 | 65 536 |
| Profit for the current year | 1 134 972 | 641 602 |
| **Total retained earnings** | **4 493 157** | **3 356 345** |

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

In addition, the Group 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.

*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, as originally planned, shares of the ultimate parent of the Group, Commerzbank AG. In 2010, the program was amended in the part comprising Commerzbank shares so that the Management Board Members can acquire the right to receive a cash equivalent of the value of the respective number of Commerzbank shares.

As a result 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 ordinary shares. As a result of settlement 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 could have been acquired in 2009. The bonds' pre-emptive right to acquire shares from the conditional capital increase can be exercised by entitled persons in the period from the acquisition of bonds until 31 December 2018. The issue price of each share acquired under the 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 fulfillment of the following conditions: individual assessment of the entitled person by the Supervisory Board, net 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 it was originally planned that the Management Board Members of the Bank could acquire shares of Commerzbank AG. Shares were to be transferred to the Management Board Members by BRE Bank. The right to acquire shares and the value of shares transferred would also depend on the degree of fulfillment of the above mentioned conditions. The number of granted Commerzbank shares would depend on the market price of the shares within 30 days before their allocation date in 2010 – 2018. In 2010, the program was amended and based on the agreements signed between the Bank and the Management Board Members included in the program, it was agreed that the right to receive Commerzbank shares will be replaced by the right to receive cash equivalent of the value of Commerzbank shares calculated on the basis of the average stock exchange price of Commerzbank shares from the day, when the right to the equivalent existed.

Starting from 2009, the cost of implementation of the program has been calculated by the Bank on the basis of the expected value of the program for the period for which the Management Board is appointed. 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 expected fulfillment of the conditions which enable an entitled person to gain rights to acquire BRE Bank shares and cash equivalent of the value of 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.

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

| | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (in PLN) | Number of options | Weighted average exercise price (in PLN) |
| **Outstanding at the beginning of the period** | 33 356 | 4 | 47 077 | 4 |
| Granted during the period | 17 934 | - | 10 871 | 4 |
| Forfeited during the period | - | - | - | - |
| Exercised during the period* | 16 072 | 4 | 24 592 | 4 |
| Expired during the period | - | - | - | - |
| **Outstanding at the end of the period** | 35 218 | 4 | 33 356 | 4 |
| **Exercisable at the end of the period** | - | - | - | - |

* In 2011, the weighted average share price at the date of option exercise amounted to PLN 332.95 (2010: PLN 266.92).

Options outstanding as at the end of 2010 and at the end of 2011 expire on 31 December 2018.

The 2008 incentive program for the Management Board Members of the Bank does not include Mr. Cezary Stypułkowski, President of the Management Board of the Bank, appointed to the Management Board with effect from 1 October 2010.

*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 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 BRE Bank Group;
- Bank Directors;
- Representatives of key management.

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

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

In 2010, the Management Board of the Bank took the decision to launch the program and approved the list of participants for Tranche III. Not granted options from Tranche I and II may be granted in the future years of the program execution. There were 12,650 options granted from Tranche III. Additionally, in 2011 there were 20 000 options granted from Tranche IV and 19 990 options granted from Tranche V. The options granted will allow participants to purchase the Bank shares with an issue price of PLN 4 per share. Realisation of rights stemming from Tranches III, IV and V is conditional and the options will be exercisable between 1 May 2012 and 31 December 2019 (Tranche III), 1 May 2013 and 31 December 2019 (Tranche IV) and 1 May 2014 and 31 December 2019 (Tranche V), respectively. The right to acquire shares is conditional upon the achievement of the following conditions: being employed over the period of the tranche, achievement of the economic factor set by Management Board for BRE Bank Group and achievement of the individual yearly assessment grade in each year of the tranche.

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

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

IFRS Consolidated Financial Statements 2011 PLN (000's)

| | 31.12.2011 | | 31.12.2010 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (in PLN) | Number of options | Weighted average exercise price (in PLN) |
| Outstanding at the beginning of the period | 12 650 | 4 | - | - |
| Granted during the period | 39 990 | - | 12 650 | 4 |
| Forfeited during the period | - | - | - | - |
| Exercised during the period | - | - | - | - |
| Expired during the period | 3 360 | - | - | - |
| Outstanding at the end of the period | 49 280 | 4 | 12 650 | 4 |
| Exercisable at the end of the period | - | - | - | - |

Options outstanding at the end of 2010 expire on 31 December 2019.

The table below presents changes in other reserve capital generated by the above mentioned incentive programs.

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Incentive Programs | | - |
| As at the beginning of the period | 10 791 | 8 442 |
| - value of services provided by the employees (Note 11) | 11 323 | 6 275 |
| - settlement of exercised options | (1 936) | (3 926) |
| As at the end of the period | 20 178 | 10 791 |

The 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 1 698 thousand in 2011 (31 December 2010: PLN 1 738 thousand) (Note 11). As at 31 December 2011, liabilities due to this program amounted to PLN 3 179 thousand (31 December 2010: PLN 2 925 thousand).

## 41. Other Components of Equity

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Exchange differences on translating foreign operations | 1 921 | 50 |
| Unrealized gains (positive differences) | 14 485 | 19 264 |
| Unrealized losses (negative differences) | (12 564) | (19 214) |
| Available-for-sale financial assets | 59 865 | 61 096 |
| Unrealized gains on debt instruments | 9 649 | 3 033 |
| Unrealized losses on debt instruments | (38 841) | (44 012) |
| Unrealized gains on equity instruments | 106 266 | 118 582 |
| Deferred income tax | (17 209) | (16 507) |
| Total other components of equity | 61 786 | 61 146 |

In 2011, other components of equity include a negative valuation of shares in PZU SA in amount of PLN 22 002 thousand (2010: positive valuation in amount of PLN 61 553 thousand).

## 42. Dividend per Share

On 2 March 2012, the Management Board of BRE Bank SA passed a resolution on submitting to the 25th Ordinary General Meeting a motion concerning non-payment of dividend for the year 2011 to the shareholders. The Management Board's motion will be presented for review to the Supervisory Board of the Bank.

## 43. Cash and Cash Equivalents

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

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Cash and balances with the Central Bank (Note 17) | 1 038 356 | 2 359 912 |
| Debt securities eligible for rediscounting at the Central Bank (Note 22) | 2 158 | 3 686 |
| Loans and advances to banks (Note 18) | 2 615 124 | 1 134 285 |
| Trading securities (Note 19) | 1 019 573 | 2 307 933 |
| Total cash and cash equivalents | 4 675 211 | 5 805 816 |

## 44. Transactions with Related Entities

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

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

The most important transactions with related entities in 2011:

- On 31 January 2011, under the agreement concluded on 26 January 2011 between BRE Holding - 100% subsidiary of BRE Bank SA, and Commerz Real - 100% subsidiary of Commerzbank AG, BRE Holding acquired 49.996% of shares of BRE Leasing from Commerz Real. The purchase price was EUR 17 144 thousand (equivalent PLN 66 876 thousand). After this transaction, BRE Bank Group holds 100% shares in BRE Leasing.

  In connection with the above transaction, on 27 January 2011, the capital of BRE Holding was increased by the amount of PLN 67 276 thousand. All new shares in BRE Holding were taken up by BRE Bank SA.

In all reporting periods there were no related-party transactions with the direct parent entity of BRE Bank.

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

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

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

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

The table below presents the values of transactions between the Bank and companies of BRE Bank Group and: Members of the Supervisory Board and the Management Board of BRE Bank, key executive management of BRE Bank, Members of the Supervisory Board and the Management Board of Commerzbank and other related persons and entities. The amounts of transactions include assets, liabilities and related costs and income as at 31 December 2011 and 31 December 2010 and for the respective periods then ended are as follows:

| PLN (000's) | Supervisory Board, Management Board and key management personnel of BRE Bank SA as well as Supervisory Board and Management Board of Commerzbank AG | | Other related persons * | | Commerzbank AG | |
|---|---|---|---|---|---|---|
| As at the end of the period | 31.12.2011 | 31.12.2010 | 31.12.2011 | 31.12.2010 | 31.12.2011 | 31.12.2010 |
| Statement of Financial Position | | | | | | |
| Assets | 9 030 | 6 400 | 74 777 | 61 017 | 1 386 035 | 224 012 |
| Liabilities | 13 078 | 13 267 | 25 853 | 19 797 | 26 979 732 | 26 368 332 |
| Income Statement | | | | | | |
| Interest income | 95 | 87 | 3 181 | 5 824 | 11 123 | 9 947 |
| Interest expense | (428) | (397) | (184) | (354) | (445 009) | (399 314) |
| Fee and commission income | 25 | - | 36 | 53 | - | - |
| Fee and commission expense | (6) | - | - | - | - | - |
| Other operating inccome | - | - | - | - | 137 | 6 367 |
| Overhead costs, amortisation and other operating expenses | 1 | - | - | - | (9 764) | (20 768) |
| Contingent liabilities granted and received | | | | | | |
| Liabilities granted | 918 | 360 | 1 244 | 1 874 | 777 286 | 748 003 |
| Liabilities received | - | - | - | - | 707 467 | 809 258 |

* Other related persons and entities include: close members of the family of Members of the Supervisory and the Management Board of BRE Bank, key executive management of BRE Bank, Members of the Supervisory Board and the Management Board of Commerzbank, entities controlled or jointly controlled by above mentioned persons and BRE Bank's subsidiaries not consolidated by acquisition method.

In 2011 and 2010 no provisions were created in connection with credits granted to related entities.

Management Board Remuneration

The composition of the Management Board of BRE Bank which consists of seven persons was as follows at the end of 2011:

1. Cezary Stypułkowski - President of the Management Board, Director General of the Bank,
2. Karin Katerbau - Vice-President of the Management Board, Chief Financial Officer,
3. Wiesław Thor - Vice-President of the Management Board, Chief Risk 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 Operating and IT Officer.

On 9 December 2011 Ms Karin Katerbau, Vice-President of the Management Board announced her intention to resign from BRE Bank in the first half of 2012. Following her departure from BRE Bank, Ms Karin Katerbau will become a Member of the Management Board of Oldenburgische Landesbank.

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

Information on the salaries, bonuses and benefits paid and due to the Members of the Management Board of the Bank who were performing their functions at the end of 2011, as at 31 December 2011 and 31 December 2010, is presented below.

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

**IFRS Consolidated Financial Statements 2011** **PLN (000's)**

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

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

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

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

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

Remuneration of the Management Board Members paid in the year 2010.

| | | Remuneration paid in 2010 (in PLN) | | | |
|---|---|---|---|---|---|
| | | Basic salary | Other benefits | Bonus for 2009 | Cash settlement of the incentive program based on Commerzbank shares* |
| 1. | Cezary Stypułkowski | 494 529 | 4 916 | - | - |
| 2. | Karin Katerbau | 1 500 000 | 88 200 | 250 000 | 80 623 |
| 3. | Wiesław Thor | 1 500 464 | 151 106 | 250 000 | 311 716 |
| 4. | Przemysław Gdański | 1 200 000 | 123 346 | 150 000 | - |
| 5. | Hans-Dieter Kemler | 1 200 000 | 306 917 | 117 260 | - |
| 6. | Jarosław Mastalerz | 1 200 238 | 123 535 | 200 000 | 314 429 |
| 7. | Christian Rhino | 1 200 000 | 130 718 | 200 000 | 200 191 |
| | **Total** | **8 295 231** | **928 738** | **1 167 260** | **906 959** |

* The settlement relates to 2008 incentive program for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2010, the entitled Management Board Members received cash equivalent for Commerzbank shares as a settlement of the first tranche of the incentive program for 2008.

Remuneration of the former Management Board Members paid in the year 2010.

| | | Remuneration paid in 2010 (in PLN) | | | |
|---|---|---|---|---|---|
| | | Basic salary | Other benefits, payoff and compensations | Bonus for 2009 | Cash settlement of the incentive program based on Commerzbank shares* |
| Remuneration of the former Management Board Members who ceased performing their functions in the year 2010 | | | | | |
| 1. | Mariusz Grendowicz | 1 179 409 | 4 524 961 | 225 000 | 151 205 |
| Remuneration of the former Management Board Members who ceased performing their functions in the year 2008 | | | | | |
| 1. | Andre Carls | - | - | - | 112 093 |
| | **Total** | **1 179 409** | **4 524 961** | **225 000** | **263 298** |

* The settlement relates to 2008 incentive program for the Management Board Members of the Bank in the part based on Commerzbank shares. In 2010, the entitled former Management Board Members received cash equivalent for Commerzbank shares as a settlement of the first tranche of the incentive program for 2008.

Mr. Mariusz Grendowicz, who acted as the President of the Bank till 2 August 2010, received in 2010 the cash compensation in the amount of PLN 794 736 and an additional right to acquire 6 527 BRE Bank bonds with the pre-emptive right to acquire shares of the Bank as a settlement under the bonus for 2008. These bonds were acquired and then converted into Bank shares in November 2010.

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 240 822 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. Wiesław Thor and Mr. Jarosław Mastalerz, have been negotiating similar agreements with the Bank.

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

The above mentioned benefits are short-term employee benefits.

In accordance with the Bank's remuneration system in force, the members of the Management Board of the Bank may be eligible to receive bonuses for the year 2011, which would be paid out in 2012. The final decision concerning the level of the bonus will be taken by the Executive Committee of the Supervisory Board by 30 March 2012.

In 2011 and 2010, the members of the Management Board of BRE Bank SA did not receive compensation for their role as members of the management boards and supervisory boards of the Bank's related companies.

The total amount of remuneration received in 2011 by Bank's Management Board members was PLN 18 996 593 (2010: PLN 17 378 763).

Supervisory Board Compensation

The composition of the Supervisory Board at the end of 2011 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. Ulrich Sieber - Deputy Chairman of the Supervisory Board, Member of the Executive Committee,
3. Andre Carls – Deputy Chairman of the Supervisory Board, Member of the Executive Committee, Member of the Audit Committee,
4. Sascha Klaus - Member of the Supervisory Board, Chairman of the Risk Committee,
5. Eric Strutz - Member of the Supervisory Board, Chairmen of the Audit Committee,
6. Thorsten Kanzler - Member of the Supervisory Board, Member of the Risk Committee,
7. Teresa Mokrysz – Member of the Supervisory Board, Member of the Audit Committee,
8. Waldemar Stawski – Member of the Supervisory Board, Member of the Risk Committee,
9. Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee,
10. Marek Wierzbowski – Member of the Supervisory Board.

On 21 June 2011 the Management Board of BRE Bank SA received information from the Member of Supervisory Board, Mr. Achim Kassow about his resignation from membership in the Supervisory Board of BRE Bank. The resignation took place on 12 July 2011.

With effect from 13 July 2011, the Supervisory Board of BRE Bank appointed Mr. Ulrich Sieber as Supervisory Board Member of BRE Bank and Member of the Executive Committee of the Supervisory Board for the period until the end of the current term of the Supervisory Board.

On 13 February 2012, the Bank received information from Member of the Supervisory Board, Mr. Eric Strutz about his resignation from membership in the Supervisory Board of BRE bank. The resignation will take place on 30 March 2012.

Information about the Supervisory Board members' salaries, bonuses and benefits paid as at 31 December 2011 and 31 December 2010 is presented below.

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| | | Remuneration paid in 2011 (in PLN) | Remuneration paid in 2010 (in PLN) |
|---|---|---|---|
| 1. | Maciej Leśny | 319 862 | 318 557 |
| 2. | Ulrich Sieber | 109 571 | - |
| 3. | Andre Carls | 241 500 | 273 000 |
| 4. | Thorsten Kanzler | 149 935 | - |
| 5. | Sascha Klaus | 206 250 | 173 250 |
| 6. | Teresa Mokrysz | 185 747 | 134 927 |
| 7. | Waldemar Stawski | 202 862 | 201 557 |
| 8. | Eric Strutz | 149 935 | - |
| 9. | Jan Szomburg | 211 112 | 234 557 |
| 10. | Marek Wierzbowski | 132 000 | 132 000 |
| | Michael Schmid* | - | 57 750 |
| | Martin Zielke** | 49 500 | 198 000 |
| | Stefan Schmittmann** | - | - |
| | Achim Kassow*** | 99 668 | 132 000 |
| | **Total** | **2 057 942** | **1 855 598** |

* On 31 March 2010 Mr. Michael Schmid resigned from the office
** Term expired on 30 March 2011
*** On 12 July 2011 Mr. Achim Kassow resigned from the office

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

The total compensation of Members of the Supervisory Board, the Management Board and other key executive management of the Bank that perform their duties in 2011 amounted to PLN 29 730 191 (2010: PLN 29 072 962).

Information regarding proprietary position in Bank shares by Members of the Management Board and by Members of the Supervisory Board

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

As at 31 December 2010, Bank shares were held by two Members of the Management Board: Vice-president, Mrs. Karin Katerbau – 1 176 shares and Member of the Management Board, Mr. Christian Rhino – 2 919 shares.

As at 31 December 2011 and 31 December 2010, one Member of the Supervisory Board of BRE Bank SA held shares of BRE Bank SA, Mr. Andre Carls respectively: 3 269 shares and 1 635 shares.

As at 31 December 2011 and 31 December 2010, the other Members of the Supervisory Board of BRE Bank SA had no Bank shares.

## 45. Acquisitions and Disposals

- On 31 January 2011, under the agreement concluded on 26 January 2011 between BRE Holding Sp. z o.o., a 100% subsidiary of BRE Bank SA and Commerz Real, a 100% subsidiary of Commerzbank AG, BRE Holding acquired 49.996% of shares of BRE Leasing from Commerz Real. The purchase price was EUR 17 144 thousand (equivalent PLN 66 876 thousand). After this transaction, BRE Bank Group holds 100% shares in BRE Leasing.

  According to the above transaction, on 27 January 2011 there was an increase of BRE Holding's equity in amount of PLN 67 276 thousand. All new shares were covered by BRE Bank SA.

- On 8 April 2011, an agreement was concluded between entities of BRE Bank Group and entities of Erste Group. Under this agreement the Group sold its stakes in Intermarket Bank AG and Magyar Factor zRt. to Erste Group entities and acquired from Intermarket Bank AG its respective stakes in Polfactor SA and Transfinance a.s. The completion of the above transactions was on 28 July 2011, following the receipt of all necessary regulatory approvals and the materialisation of all contractual suspending conditions. As a result of this transaction BRE Bank Group became the sole owner of Polfactor SA (now BRE Faktoring SA) and Transfinance a.s., leading factoring providers in Poland and in the Czech Republic respectively.

The transaction was aiming at unwinding the factoring operations of BRE Bank Group. The Group will concentrate on factoring activities in Poland and Czech Republic, where it is also present with mBank Czech Republic banking operations.

## 46. Information about the Registered Audit Company

The registered audit company with whom BRE Bank SA signed an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement to conduct an audit of stand-alone financial statements of BRE Bank SA and consolidated financial statements of BRE Bank SA Group was signed on 1 June 2010.

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to the audit and review of stand-alone financial statements and consolidated financial statements of BRE Bank SA was PLN 3 005 thousand in 2011 (2010: PLN 3 029 thousand).

The total amount of PricewaterhouseCoopers Sp. z o.o. remuneration related to consulting services for BRE Bank SA was PLN 1 280 thousand in 2011 (2010: PLN 2 351 thousand).

## 47. Capital Adequacy Ratio / Capital Adequacy

One of the main tasks of balance sheet management is to ensure an appropriate level of 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 Group,
- assure safe 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 has to be 8% at least.

Own funds comprise:

- 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 statement in financial position items determined by KNF),
  - items reducing core funds – own shares held by the Group, valued at carrying amount and reduced by related impairment losses on them, intangible assets at their carrying amount, loss from previous years, loss under approval by shareholders, net loss for the current year, other decreases of core funds of the Group determined by KNF (including missing provisions for banking business risk and exposure to securitisation items),
- 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 Group,
  - decreases of supplementary funds, determined by KNF.

The total capital requirement comprises:

- credit risk,
- market risk capital requirement comprising: foreign exchange risk capital requirement, commodity 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 Group 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 Group's activities, to ensure the safety of the of BRE Bank SA Group's business.

The internal capital is the amount of capital estimated by the Group to cover all material risks identified in the Group's operations, i.e. measurable risks for which capital is estimated at the assumed confidence level over a one-year time horizon and hard-to-quantify risks. The internal capital is the total of the economic capital to cover permanently material measurable risks and the capital to cover material hard-to-quantify risks.

The process of internal capital adequacy assessment in the BRE Bank SA Group is performed on an on-going basis and is based on the following tasks completed by the organisational units of the Bank:

- identification and determining of the materiality of risks occurring in the business of the Bank,
- calculation of capital to cover each of the material risks,
- aggregation of capital to cover risks,
- allocation of capital to business lines and the Group's companies,
- monitoring containing permanent identification of the risks presented in the business activities of the Bank and analysis of the level of consumed capital related the material risks.

The process of internal capital adequacy assessment is approved by the Supervisory Board of the Bank.

Total capital requirement comprises:

- credit risk,
- market risk capital requirement comprising: foreign exchange risk capital requirement, commodity risk capital requirement, specific risk for equity instruments prices capital requirement, specific risk for debt instruments 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 risk of exceeding the level of capital concentration,
- operational risk capital requirement.

The calculation of the Group'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, with later amendments),
- Resolution No. 325/2011 of the Polish Financial Supervision Authority dated 20 December 2011 (Dz. Urz. KNF from the year 2011 No 13 item 49),
- Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 (Dz. Urz. KNF from the year 2010 No 2 item 11) with later amendments,
- Resolution No. 258/2011 of the Polish Financial Supervision Authority dated 4 October 2011 (Dz. Urz. KNF from the year 2011 No 11 item 42),
- Resolution No. 208/2011 of the Polish Financial Supervision Authority dated 22 August 2011 (Dz. Urz. KNF from the year 2011 No 9 item 34),
- 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) with later amendments,
- 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),

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The capital adequacy ratio of BRE Bank Group amounted to 14.96% as at 31 December 2011.

Due to significant trading activity full calculation of the capital requirements is being made. The total capital requirement of the Group amounted to PLN 5 282 127 thousand as at 31 December 2011, including PLN 4 784 139 thousand of credit capital requirement (31 December 2010 respectively: 4 513 324 thousand and PLN 4 063 810 thousand).

Due to the fact that both total capital requirement of BRE Bank Group calculated according to the Resolution No. 76/2010 with later amendments and internal capital assessed for the Group according to the Resolution No. 258/2011 are lower than the Group's own funds, the Group's own funds as at 31 December 2011 were kept on the level consistent with the Banking Act requirements.

| Capital adequacy | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Own funds: | | |
| - Share capital | 168 411 | 168 347 |
| - Supplementary fund | 5 660 076 | 3 323 465 |
| - Reserve fund | 1 023 510 | 2 714 743 |
| - Revaluation reserve arising from valuation of non-current and financial assets available for sale | 55 812 | 53 330 |
| - Investments in financial institutions | (31 211) | (34 805) |
| - Additional increase | 23 910 | 167 982 |
| - Additional decrease | (38 535) | - |
| - Intangible assets | (436 769) | (427 837) |
| - Subordinated liabilities | 3 451 635 | 3 005 705 |
| **I. Total own funds** | **9 876 839** | **8 970 930** |
| Risk weighted off-balance sheet assets and liabilities: | | |
| - applying a 20% risk weight | 1 401 648 | 847 877 |
| - applying a 35% risk weight | 1 114 588 | 550 997 |
| - applying a 50% risk weight | 961 628 | 750 221 |
| - applying a 75% risk weight | 27 512 991 | 25 060 871 |
| - applying a 100% risk weight | 28 967 786 | 23 816 226 |
| - applying a 150% risk weight | 273 382 | 308 571 |
| **II. Total risk weighted assets and off-balance sheet liabilities** | **60 232 023** | **51 334 763** |
| **III. Credit risk** | **4 784 139** | **4 063 810** |
| **IV. Foreign exchange risk** | **-** | **629** |
| **V. Equity instruments price risk** | **797** | **284** |
| **VI. Specific risk for debt instruments** | **18 035** | **10 081** |
| **VII. General interest rate risk** | **31 002** | **20 833** |
| **VIII. Settlement, delivery and counterparty credit risk** | **34 423** | **42 971** |
| **IX. Commodities risk** | **-** | **-** |
| **X. Operational risk** | **413 731** | **374 716** |
| **XI. Total capital charge** | **5 282 127** | **4 513 324** |
| **XII. Capital adequacy ratio (%)** | **14.96%** | **15.90%** |

Information regarding information on capital management in the Group companies conducting insurance activity is presented under Note 3.10.

## 48. Events after the Balance Sheet Date

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

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

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