BRE BANK SA

MANAGEMENT BOARD REPORT ON THE BUSINESS OF BRE BANK GROUP

in H1 2009

Warsaw, August 6, 2009

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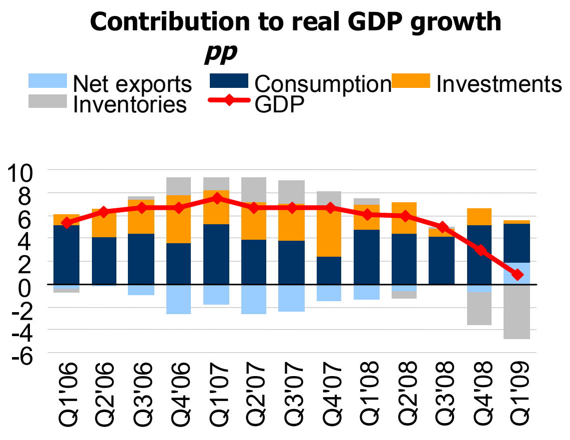
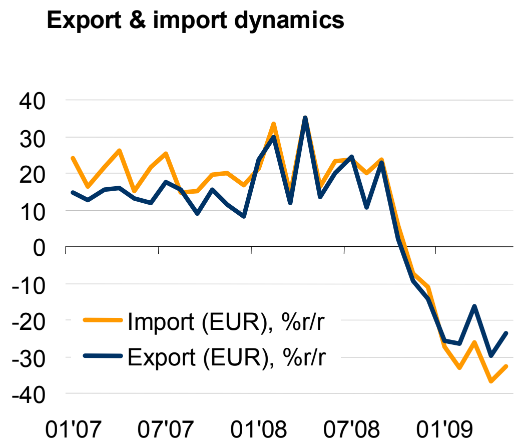
External Environment of the BRE Bank Group's Business

I. Macroeconomic Situation in H1 2009

I.1. Modest GDP Growth v. GDP Fall in EU

The collapse of global market trends in H2 2008 caused a strong slow-down of economic growth in Poland. According to the Polish Statistical Office (GUS), GDP grew by 0.8% YoY in Q1 2009 (compared with 2.9% YoY growth in Q4 2008 and 4.9% YoY growth in all of 2008), the lowest growth rate recorded since 2002. However, the growth was impressive compared to other EU countries. In the EU, Poland was one of three economies (including Greece and Cyprus) to report growth in Q1 2009. The negative GDP rate in the European Union under the Eurostat methodology was 5.1% YoY (compared with a decrease of 1.5% YoY in Q4 2008 and a growth of 0.9% YoY in all of 2008). Economic growth in Q1 2009 was mainly a result of the still strong consumer demand (private consumption grew by 3.3% YoY compared with 5.4% YoY in all of 2008) and the positive contribution of the foreign trade balance as imports were falling faster than exports. Investments made a notional contribution to growth (0.2 percentage points); yet the growth of investments by 1.2% YoY was higher than expected.
Macroeconomic reports from the economy suggest that the GDP growth in Q2 2009 may be close to rate recorded in Q1 and the annual growth rate is expected to be positive. Consumer demand, currently the main driver of GDP growth, may be expected to continue slowing down. This is suggested by the deteriorating situation on the labour market, causing a decrease of the purchasing power of households. It seems that net exports will remain the only driver of economic growth apart from consumer demand: the weaker zloty makes exports more competitive and imports less profitable. In view of the deteriorating financial position of companies, investments are unlikely to grow.





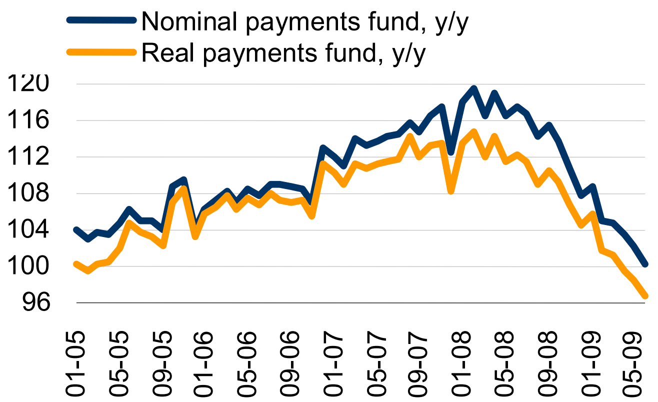
I.2. Deteriorating Labour Market Conditions

The economic slow-down has largely affected the domestic labour market. The salary pressure and demand for labour both decreased significantly.
Salaries in the corporate sector slowed down sharply in H1 2009. Their nominal growth was 2.0% YoY in June (decrease by 1.4% YoY in real terms) compared with an average growth of 10.6% YoY in 2008.

Deteriorating results of companies (caused, among others, by fewer orders) caused employment to drop. This was particularly the case in the processing industry. Construction and service sectors continued to create new jobs (although the growth rate slowed down sharply); this suggests that domestic demand remained relatively stable, unlike foreign demand, whose collapse in late 2008 most adversely affected industrial companies, largely focused on exports.

Lower demand for labour drove the unemployment rate. Unemployment was growing particularly fast in Q1: the unemployment rate grew to 11.2% at the end of March (compared with 9.5% at the end of 2008). Unemployment fell to 10.7% at the end of June 2009 thanks to new seasonal jobs. However, it seems that the stabilisation of the official unemployment rate cannot last in the current slow-down. The rate is likely to rise again much above the Q2 level in H2 2009.

Payments fund dynamics

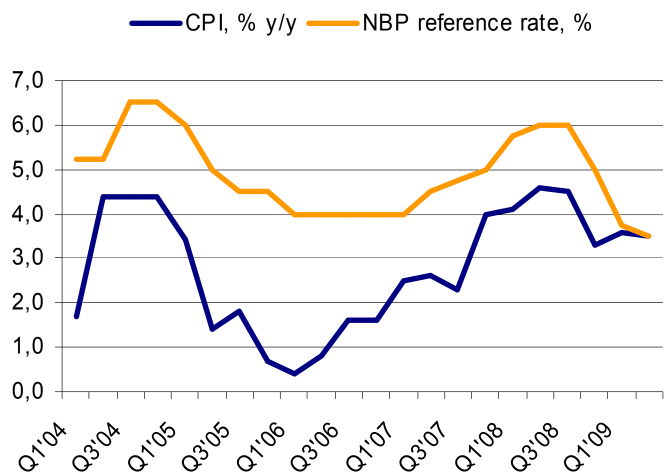


As a result of less dynamic salaries and lower employment in the corporate sector, the total salaries declined visibly. In real terms (adjusted for inflation), employees in the corporate sector earned less in Q2 2009 than they had a year earlier: the real total salaries fell by 0.5% YoY in April and as much as 3.2% YoY in June. This means that households are getting less affluent, which poses a threat to future growth of private consumption, the main component of GDP and the growth driver in Q4 2008 and Q1 2009.

I.3. Inflation and Interest Rates

While in late 2008 disinflation was expected to continue into 2009, the consumer price index was rising month by month in 2009 more than in late 2008 due to the strong economic slow-down. Although inflation was at its low after a gradual decrease since mid-2008 (CPI of 2.8% YoY), yet it rose much above 3.0% YoY in subsequent months of 2009. The higher CPI was mainly caused by the depreciation of the zloty, causing fuel and food prices to rise and affecting the prices of organised tourism and electronic equipment. The CPI was down to 3.5% YoY at the end of H1 2009, mainly thanks to a seasonal fall of food prices.

In H1 2009 the Monetary Policy Council continued monetary policy easing cycle, started in November 2008. The Council four times took decision to reduce interest rate and as a result the NBP reference rate dropped from 5.00% at the end of 2008 to 3.50% at the end of June 2009.



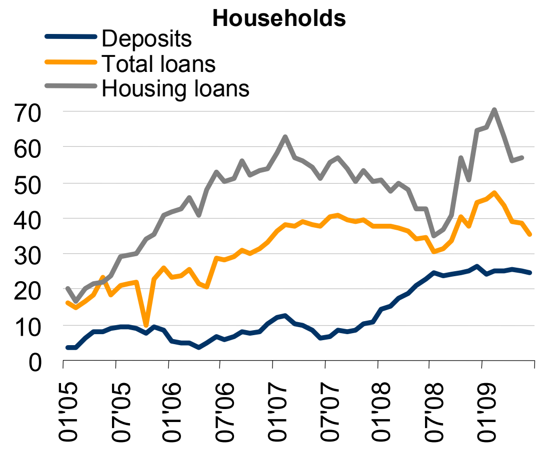
The sharp decline of market conditions abroad and the stronger than expected economic slow-down in Poland prompted the Council to cut the rates by 75 basis points in January (the Council also cut the rates by 75 bp in December 2008). The decision to relax the monetary policy was additionally supported by the falling inflation pressure. The rates were cut again in February and March (by 25 bp at each time). The Council decided against deeper cuts as it was fearing inflation of the weak zloty. The last cut (by 25 bp) was in June. The key factor of any further rate cuts in H2 2009 will be the future inflation track and GDP statistics.

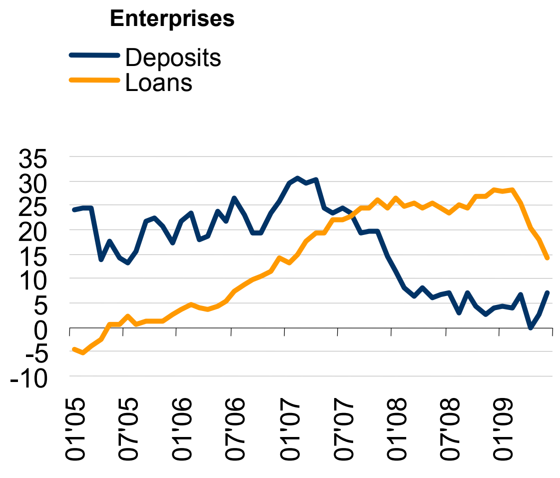
I.4. Money Supply and the Banking Sector

In H1 2009, the growth rate of household deposits slowed down modestly. The volume of household deposits grew by over PLN 32 billion and the growth rate dropped only slightly to 24.7% YoY compared with 26.5% YoY at the end of 2008. The high growth rate of household deposits was a result of growing incomes and relatively attractive interest rates on bank deposits (interest rates on term deposits started to fall in Q2, causing a slight drop in the volume of deposits). The volume of corporate deposits fell by over PLN 1 billion due to declining results of companies caused by the economic slow-down.

The volume of household loans grew by over PLN 30 billion in H1 2009 and the growth rate fell from 44.6% YoY in December 2008 to 35.7% YoY. Nevertheless, the growth rate of household loans was relatively high. The growth rate of corporate loans fell much more sharply: it reached 28.3% YoY in December 2008 but only half of that, 14.3%, YoY in H1 2009. Corporate loans grew by slightly more than PLN 2 billion in H1 2009 compared to a growth of almost PLN 24 billion a year earlier. The MoM growth rate of corporate loans fell in the three subsequent months of Q2 2009. It means that the net value of repaid corporate loans was higher than the amount taken.

It should be noted that the change of the volume of deposits and loans was largely distorted by the volatility of fx rates. The strongest volatility of fx rates affected household loans as loans denominated in foreign currencies (mainly CHF) account for over 40% of their value. Net of the fx effect, the growth rate of household loans fell from 33% YoY in December to 20% YoY in June. For comparison growth rate of corporate loans fell from over 24% YoY to less than 7% YoY respectively.





In view of the sharp slow-down of corporate lending, the Monetary Policy Council reduced the rate of mandatory reserves of banks (by 50 bp to 3.0%) in May 2009. The goal was to generate additional liquidity in the sector in order to improve the banks' lending capacity. However, credit risk, which according to banks remains very high, and the necessity to meet capital requirements make banks invest cash in safe securities instead of growing lending activities. In this situation the Monetary Policy Council decided to halt further reductions of the rate of mandatory reserves until obtaining confirmation that it leads to credit activity revival.

Activities of BRE Bank Group in H1 2009

I. Factors and Events Affecting Results of BRE Bank Group

The profit before tax of BRE Bank Group from continued activity reached PLN 16.2 million and its net profit was PLN 15.7 million (net profit attributable to the owner of BRE Bank) in H1 2009 compared with a profit before tax of PLN 701.1 million and a net profit of PLN 623.8 million in H1 2008 (from continued and discontinued activity).

The income generated in both periods was comparable: PLN 1,387.3 million in H1 2009 versus PLN 1,403.9 million in H1 2008.

It should be noted that there were two one-off transactions in H1 2008: the sale of a block of shares of Vectra and the effect of the merger of two pension fund companies, PTE Skarbiec Emerytura SA and PTE Aegon SA, both held for sale. The total income on both these transactions was PLN 205 million. As a result, the income on recurring operations was up by 15.7% year on year in H1 2009.

The results of H1 2009 were mainly affected by the loss of PLN 87.1 million in Q2 resulting from new loan loss provisions at PLN 438.8 million. At the same time, the profit before tax of Q1 was positive at PLN 103.3 million.

The net loss loan provisions totalled PLN 648.9 million in H1 2009, almost ten times more than in H1 2008. A large part(PLN 285.5 million) were loan loss provisions for BRE Bank corporate clients holding large exposures under derivative instruments (option provisions). Provisions in Corporate Banking totalled PLN 436.1 million while loan loss provisions in Retail Banking were PLN 212.7 million. Retail Banking had to set up significant provisions against mBank cash loans, especially granted by agents to persons, who earlier were not mBank clients.

The amount of LLPs results from conservative assumptions made as part of restructuring measures taken by the Bank.

It should also be noted that the Bank has implemented new projects changing the sales concept of derivative instruments and the monitoring of exposures in reaction to the issues necessitating the above-mentioned provisions. The Bank has also made important adjustments of its retail banking lending policy.

In early 2009, the Bank implemented the strategic BREnova programme, comprising a range of revenue and cost initiatives aimed at ensuring effective business operations at the time of economic slow-down. BREnova has helped to increase income on recurring business and to cut costs. Overhead costs stood at PLN 604.5 million in H1 2009, down by 2.5% year on year. Personnel costs were down by 9.4% as a result of workforce reductions in Q1 2009.

The effective cost reductions thanks to the BREnova initiatives as well as strong income ensured an improved cost/income ratio at 52.1%. This helped to cover the additional risk cost and to generate a modest H1 2009 profit before tax..

Income grew in H1 2009 as a result of business expansion, although its growth rate slowed down significantly, as it did in the economy at large, which is factored into the 2009 plan. Gross loans were up by 6.4% in H1 2009 (up by 39.7% year on year) while liabilities to clients were up by 2.9% (up by 6.9% YoY).

In H1 2009, like in previous periods, interest income continued to grow: it was up by 28.8% year on year. Like in previous periods, commission income was falling, mainly due to the slow-down of business including new loans. However, a strong increase of net fee and commission income was recorded in Q2 2009 (+30% QoQ) thanks to increased brokerage and insurance activities.

Despite the prevailing difficult conditions on the financial market and the strong economic slow-down, trading income was relatively high: it was down by only PLN 30 million year on year, including ca. PLN 24 million of negative valuation of derivative instruments in 2009, not yet affecting the results of H1 2008.

The return on equity of BRE Bank Group (profit before tax on continued and discontinued operations to average equity net of the profit of the period) was 0.8% p.a. in H1 2009 compared with 42.9% (30.4% net of one-off transactions) in H1 2008.

The capital adequacy ratio stood at a safe 11.08% at the end of June 2009, which was higher than at the end of 2008 (10.04%) and the end of June 2008 (9.23%). CAR increased thanks to a significant growth of equity compared to the capital requirement; in addition, the capital requirement decreased modestly after the end of 2008.

I.1. Factors affecting the results of BRE Bank Group to the end of 2009

Summing up the events which occurred in the first half of the year, a conclusion may be drawn that in terms of financial results, the consequences of adverse events, i.e. the need for setting up high provisions for loans, which adversely affected the H1 result, prevailed.
According to the Management Board of BRE Bank, the amount of provisions set up is a consequence of the conservative assumptions underlying the Bank's restructuring actions towards group of customers with derivatives transactions. The majority of them will be completed by the end of 2009, which shalll create conditions for improving the results in the future, starting from Q3 2009.

The Bank also took and implemented a range of actions aimed at mitigating the risks which caused the need for setting up the provisions. Since a considerable part of the provisions was related with currency options, the system for trading in derivatives has been changed, which is described in detail in point IV.2.1. ("Financial Market") of this Report. The measures taken as part of the "Derivatives Trading" banking project will limit the possibility of loss in the future.

The actions cover also adjustments in the Bank's credit policy (presented in point V.1.4.) with respect to retail cash loans.

As a result of taken measures restructuring derivatives related debt and changes in the cash loans policy the level of provisions in the H2 2009 is expected to be significantly lower than in H1 2009, if one - offs in the area of larger exposures do not appear.

The following positive factors observed in H1 are expected to continue:

- maintaining stable recurrent income and improving interest income,
- continuing tight management of operating costs thanks to the BREnova project,
- implementing new tools, such as CRM, allowing for improved calculation and monitoring of client profitability.

Such factors as safe capital adequacy ratio at 11.08% and favourable cost-to-income ratio at 52.1% represent good fundamentals for the gradual improvement of BRE Bank Group financial results in the subsequent quarters. The stabilisation of the financial markets and the clearly visible signs of economic recovery on the global and the Polish market indicating that the phase of the most dramatic slump in economic activity is nearing the end, are expected to be conducive to the improvement in the Bank's results. However, the group of risk factors should include the need for completing the process of adjusting Polish companies to the altered economic conditions, the expected continuing deterioration of the situation on the labour market, and the concomitant fall in the households' income growth. The above may contribute to a further reduction in the growth of the clients' deposits and in their demand for loans. One cannot rule out that similarly to the previous slowdowns in the economy, we will also face a continued deterioration in the quality of the credit portfolio.

II. Shareholders and BRE Bank Share Price on WSE

II.1. Commerzbank AG – main shareholder of BRE Bank

The total number of BRE Bank shares at the end of June 2009 was 29,690,882.

BRE Bank's strategic shareholder - Commerzbank AG – has been involved in the Company in terms of capital for many years, first directly and now - through its 100% subsidiary Commerzbank Auslandsbanken Holding AG.

The stake held by Commerzbank increased from 21% in 1995 to 50% in 2000 and to 72.16% in 2003. Starting from 2005, the stake decreased slightly due to the execution of the Management Options Programmes at BRE Bank. At the end of June 2009, Commerzbank Auslandsbanken Holding AG held 69.78% of shares and votes at the GM of BRE Bank.

Commerzbank is the second largest private German bank, with a wide network of branches in Germany and Europe. In 2008, Commerzbank decided to acquire Dresdner Bank AG. The merger, which was one of the biggest mergers in the history of German banking, was finalised in May 2009.

At the end of 2008 due to the effects of the world financial crisis Commerzbank accepted a government bailout totalling EUR 8.2 billion which increased its capital by 10%. A second contribution amounted to EUR 10 billion and was made by the sate fund SoFFin. In return, the state became the largest shareholder of Commerzbank, after acquiring a stake (25 percent of shares plus one share), enough to block certain decisions made by the the Annual General Meeting of Shareholders and authorities of the Bank.

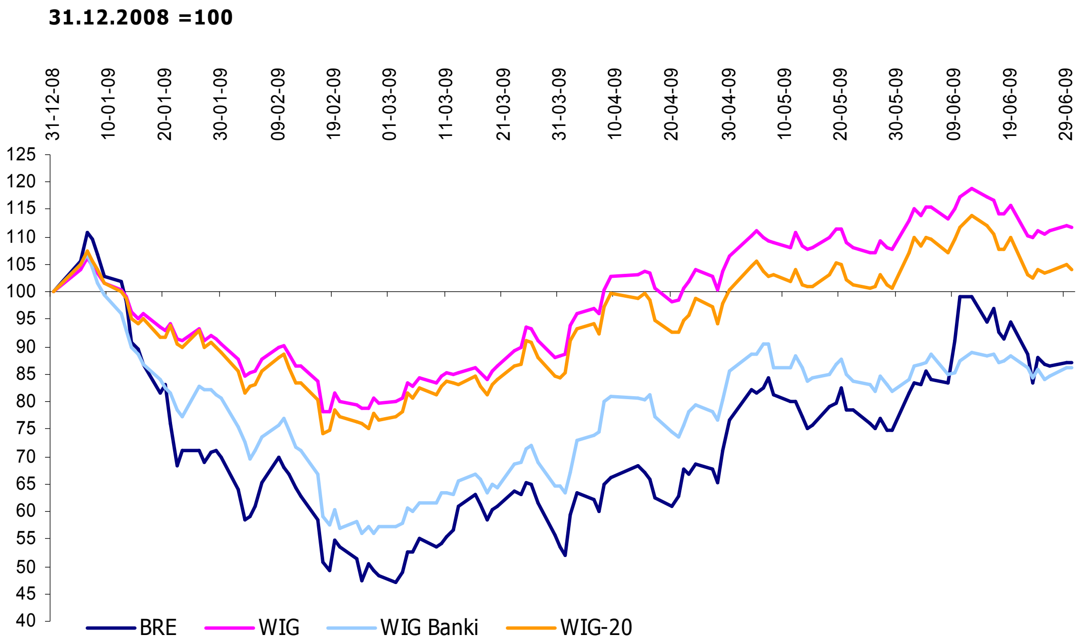
Changes in ownership had no impact on Commerzbank's capital engagement in BRE Bank. In accordance with the declarations of the Management Board of Commerzbank, BRE Bank remains the most important entity of the Commerzbank Group in Central and Eastern Europe.

The remaining 30.22% of BRE Bank shares are in free float. These shares are traded mainly by financial investors (about ¾ of the free float). Among them two exceed the threshold of 5% shares and votes at AGM: Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK holding a 5.05% package of shares and votes at the AGM of BRE Bank and ING Otwarty Fundusz Emerytalny with 5.01% of the Bank's share capital and votes at the AGM. The remaining shares are traded by other investors, including individual investors. Since they do not exceed the 5% threshold of BRE Bank shares, it is not obligatory for them to report the fact of purchasing the shares.

II.2. BRE Bank Share Price Performance on the WSE in H1 2009

BRE Bank stock traded at PLN 207.5 on the first day of trading in 2009 (5 January) and rose to PLN 217.6 on 6 January, the highest price in this period. Afterwards, the Bank's stock was falling for two consecutive months, reaching PLN 92.7 on 2 March 2009. Then BRE stock rose again along with stock market indices. On 30 June, BRE stock traded at PLN 171 and the company capitalisation was PLN 5.08 billion, compared with PLN 5.8 billion at the end of 2008.

BRE Bank Stock Price Relative to Indices: WIG, WIG-20, WIG-Banks



BRE Bank stock price was down by 13% in H1 2009. Meanwhile, the WIG index gained 11.7% and WIG-Banks lost 13.7%.

BRE Bank's P/BV was 1.3 (price/book value; price of PLN 171 at 30.06.2009, book value per share of PLN 131.9 at 30.06.2009). BRE Bank's P/E was 8.4 (price at 30.06.2009, incremental earnings per share in 4 subsequent quarters, going back from Q1 2009, to ensure comparability with other banks).

BRE Bank's capitalisation measured by P/E was below the market average in H1 2009.

III. Composition of BRE Bank Group

The organisation of the business lines and areas of BRE Bank Group at 30.06.2009 is shown below:

BRE Bank Group			
Lines	**Corporations and Financial Markets**		**Retail Banking**
	Corporates and Institutions	**Trading and Investments**	
Bank	• Corporations (Capital Groups) • Large Companies • SMEs • Financial Institutions • Structured & Mezzanine Finance*/	▪ Risk and Liquidity Management ▪ Financial Markets	▪ mBank (mass retail customers and microenterprises) ▪ MultiBank (affluent and aspiring retail customers) ▪ Private Banking (high net worth individuals)
Consolidated companies	▪ BRE Bank Hipoteczny SA ▪ BRE Leasing Sp. z o.o. ▪ The Intermarket Group - Intermarket Bank AG - Polfactor SA - Transfinance a.s. - Magyar Factor zRt ▪ Dom Inwestycyjny BRE Banku SA ▪ BRE Corporate Finance SA ▪ BRE Holding Sp. z o.o. ▪ Tele-Tech Investment ** Sp. z o.o. ▪ Garbary Sp. z o.o.**	▪ BRE Finance France SA	▪ BRE Wealth Management SA ▪ emFinanse Sp. z o.o. ▪ BRE Ubezpieczenia TU SA ▪ BRE Ubezpieczenia Sp. z o.o.
	Other subsidiaries	▪ BRE.locum SA ▪ Centrum Rozliczeń i Informacji CERI Sp. z o.o.	

*/ previously including Project Finance (shown under Corporates and Institutions) and Proprietary Investments (shown under Trading and Investments)
**/ previously shown under Trading and Investments

The subsidiaries CERI Sp. z o.o. and BRE.locum are not assigned to any business line and are shown as "Other" due to their business profile.

The companies BRE Ubezpieczenia TU SA and BRE Ubezpieczenia Sp. z o.o., part of the Retail Banking area, have been consolidated as of the end of 2008. The results of the insurance companies are also included in the H1 2008 data to ensure comparability of H1 2008 and H1 2009 results.

All companies are consolidated using acquisition accounting according to the IFRS. The business profile of the consolidated companies and the Bank's stake in their equity are presented in Note 1 to the Concise IFRS consolidated financial statements for the first half of 2009. In addition, their business is outlined in the sections presenting respective business areas.

IV. Growth of BRE Bank Group's Corporations and Financial Markets Area

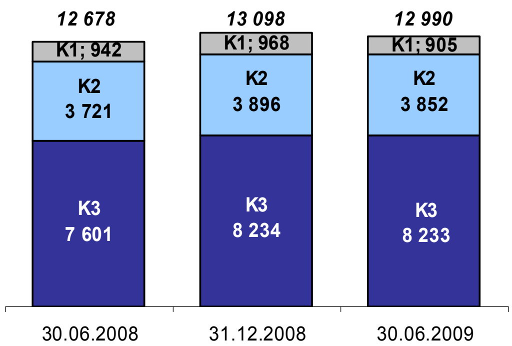
IV.1. Corporates and Institutions (BRE Bank)

IV.1.1. Corporate Clients and Dedicated Offering

Corporate Banking clients are divided into three segments:

- K1 is the segment of capital groups and large corporations with annual sales over PLN 1 billion; the Bank aims to maintain the number of clients in this segment. Clients in this segment require professional advisory with a focus on structured finance, capital markets and innovative products. BRE Bank offers advanced financial instruments and technological solutions tailored to clients' expectations including cash management instruments and equity transaction consulting.
- K2 is the segment of mid-sized companies with annual sales between PLN 30 million and PLN 1 billion; the Bank expects to grow selectively the number of served segment companies with high requirements of the scope and quality of financial products and expectation of top service standards as well as financial service advisory. The strategic services for K2 segment clients include structured trade finance, both current and long-term funding, mainly using discounting instruments (discounting debt with or without recourse), as well as fx products, derivative instruments, basic and advanced cash management using electronic distribution channels, and structured finance.
- K3 is the segment of small and medium-sized enterprises with annual sales up to PLN 30 million, keeping full books of account, in particular exporters and importers; the Bank plans to grow significantly the customer base in this segment. The strategic product offering addressed to K3 segment clients is based on the EFFECT Package line (New EFFECT, New EFFECT PLUS). The offered packages allow SMEs to define a range of used products including leasing and factoring. The offering is based on accounts and on-line access over the iBRE platform. Individual care of an Account Advisor is an integral part of the package offering.

Number of customers



The Bank acquired 866 new corporate clients in H1 2009, of which 79% were K3 clients and 18% were K2 clients.

There were 12,990 corporate clients at the end of June 2009 (up by 312 clients year on year); their number was down by 108 year to date due to less intense acquisition.

IV.1.2. Corporate Loans and Deposits, Market Share

The corporate loans segment (including loans to State enterprises and companies, private enterprises and companies, and co-operatives but excluding State budget institutions and non-banking financial institutions like leasing companies, insurance institutions, pension funds, etc.) remained stable at ca. PLN 230 billion in H1 2009, growing by 0.3% (PLN 0.6 billion year to date). The growth rate was higher at 3.4% at the Bank. The market share of BRE Bank's loans to enterprises was 6.6% at the end of June 2009 compared with 6.4% at the end of 2008 and 6.5% at the end of March 2009.

Deposits of enterprises (defined as for loans – see above) with BRE Bank were down by 4.0% year to date at the end of June 2009. Meanwhile, deposits in the sector fell by 1.7% to PLN 148 billion. The market share of BRE Bank's enterprise deposits was 8.8% at the end of June 2009 compared with 9.1% at the end of 2008 and 8.6% at the end of March 2009.

The Bank's loans/deposits ratio (for enterprises) was 115.3% at the end of June 2009 compared with 155.4% in the sector.

IV.1.3. Strategic Product Lines

Cash Management

The continually expanding cash management offer helps to grow the volume of transactions involving the identification of payments and the number of customers using advanced cash management products.

The number of direct debits processed was 1,196 thousand in H1 2009, up by 3.4% year on year. The number of identifications of trade payments grew dynamically: almost 3.5 million transactions were processed in H1 2009, up by 14.2% year on year. The number of customers using bank account consolidation facilities grew by 17.9% year on year in H1 2009; 448 customers were using Cash Pooling and Shared Balances services at the end of June 2009.

Banking Products with EU Financing

The sales of products including EU co-financing in H1 2009 were up by 4.3% year on year. The sales followed the start of application rounds for measures addressed to entrepreneurs under the Operational Programme – Innovative Economy (Measure 4.2, Measure 4.4, Measure 1.4/4.1).

Financial Instruments

The profit on the sales of financial instruments to corporate customers amounted to over PLN 73 million in H1 2009, down by 29.5% year on year.

IV.1.4. Expansion of the Offering

The product offering was growing in H1 2009:

- Visa BRE Business Card – the debit card was launched; it gives direct, permanent, easy access to funds in bank accounts; the card is part of the planned expansion of the transaction banking offer BRE CARDS. The card includes the Visa Cash-back service.
- iBRE Cash – work is in progress to implement the iBRE Cash module enabling clients to place cash orders via the iBRE platform. In addition, work is in progress to expand the availability of cash services for corporate clients through access to the MultiBank branch network. Moreover, cash management optimisation efforts include the introduction of the functionality of cash monitors in order to track and monitor the amount of cash at each stage of the process.

IV.1.5. Expansion of the Branch Network

The BRE Bank corporate branch network had 24 Branches and 22 Corporate Offices at the end of June 2009 (the most recent Corporate Office opened in Siedlce in June 2009).

IV.1.6. Project Finance and Syndicated Loans

From the beginning of 2009 four transactions involving BRE Bank's participation of approx. EUR 42.6 million, i.e. PLN 178.3 million has already concluded. In the framework of these transactions BRE Bank participated in five consortium loans amounting to the equivalent of EUR 20.5 million. In addition, the Bank also granted two bilateral loans totalling approx. EUR 22.1 million. As at 30 June 2009, the total value of the portfolio accounted for PLN 2.8 billion.

The first half of 2009 saw a considerable year-on-year increase in margins on loans in the market, and a significant fall in banks' lending. The banks were focusing on the analysis and on potential restructuring of their credit portfolios. The consortium loan market is almost entirely dominated by transactions arranged on a "club deal" basis.

IV.1.7. Proprietary Investments

The proprietary investments portfolio (excluding the consolidated companies Garbary and Tele-Tech Investment Sp.z o.o.) was worth PLN 177.9 million at cost at 30.06.2009 (down by PLN 10 million year to date). The decrease of the value of the portfolio at cost compared with 31.12.2008 included mainly a decrease following the sale of securities totaling PLN 11.7 million (Xtrade SA). Also securities in the amount of PLN 1.8 million (Internet Group SA) were acquired..

BRE Bank S.A. Proprietary Investments (PLN M)	30.06.2009	31.12.2008	Change	
			Value	%
at cost	177.9	187.9	-10.0	-5.30
balance-sheet value	179.9	177.9	2.0	112

The largest single equity investment in the Bank's proprietary investments portfolio at the end of H1 2009 was a 0.76% stake in PZU S.A. (balance-sheet value PLN 74 million). In addition, the portfolio included bonds issued by mezzanine finance clients worth PLN 95.1 million.

IV.2. Trading and Investments

IV.2.1. Financial Markets

The operations on the financial markets generated good results in H1 2009 driven by growing credit spreads and margins on sold products. The major changes in this business in H1 2009 included:

- Issues of debt securities
    - The market value of short-term securities was ca. PLN 1.8 billion compared with PLN 1.6 billion at the end of 2008 and PLN 2.6 billion in mid-2008.
    - The market share of issued mid-term securities of banks and enterprises by value was 47% in H1 2009, mainly owing to an issue of mortgage bonds of BRE Bank Hipoteczny (PLN 360 million) and bonds of Południowy Koncern Energetyczny (PLN 15 million).
- Co-operation with Retail Banking
    - Steady increase in the volume of structured investment deposits for MultiBank clients, launch of sales of these deposits to mBank clients; sales of structured products totalled PLN 318 million in H1 2009 compared with PLN 200 million in all of 2008.
- Trading
    - New projects changing the sales concept of derivative instruments and the monitoring of exposures.
    - New derivative transactions with clients decreased significantly to 1/3 of the amount reported a year earlier.
    - Maintained leading position in key market segments; market share: 20.0% in IRS and FRA trading, 5.6% in Treasury bonds and bills trading, 6.4% in fx spots and forwards.

It should be noted that sales of derivative products were adjusted. The Bank has been trading in derivative instruments with clients for over ten years. However, the practice of the last three quarters demonstrated that in the context of sharp changes in market parameters and factors posing a threat to relations with clients, the existing system did not protect the Bank against significant, excessive exposures to counterparty credit risk. An analysis of the situation enabled the Bank to develop a concept of changes in the system of trading in derivative instruments. Changes were initiated in all areas related to trading in derivative instruments with clients of the Bank. Major modifications include:

- customer relations;
- credit decision-making procedures;
- calculation of credit exposures under derivative transactions;
- controls of the use of limits;
- monitoring of exposures;
- actions following limit overruns;
- collateral management;
- client documentation.

The implementation of this concept requires the co-operation of many organisational units in different business lines; therefore, the implementation is organised under the umbrella of the bank project "Trading in Derivative Instruments."

IV.3. Subsidiaries of Corporates and Institutions Business Line

IV.3.1. Intermarket Group

In H1 2009, the sales of Intermarket Group totalled EUR 2.4 billion, down by nearly 20% year on year. The reduction in the value of purchased invoices stems mainly from a downfall in clients' activity and from high rate of bankruptcy in business entities. A decline in client's activity was especially observed in the Czech Republic and in Hungary which reported the highest year-on-year fall in sales – 49% and 34% respectively.

The factoring companies consolidated with BRE Bank reported a pre-tax loss of PLN 20.5 million in H1 2009, mainly due to the impairment provisions set up by Intermarket Bank AG and provided financing (EUR 3.7 million) and credit exposure (EUR 4.1 million) to the Romanian Compania de Factoring IFN SA in which Intermarket Bank AG holds a 50% stake. The influence on the net result of the BRE Group in H1 2009 with respect to the provisions set up for Intermarket Bank's exposure to the Romanian company will amount to EUR 4.4 million. In accordance with the recommendation of the Supervisory Board of Intermarket Bank put forward on 22 June 2009, the Management Board of the Company took actions aimed at disposing of its stake in the Romanian company.

IV.3.2. Polfactor SA

(Company operating in Poland) - in the first half of 2009 the sales reached PLN 1,785 million, which accounts for a year-on-year increase of 10%, whereas in the same period, the sales of the companies associated in the Polish Factors Association fell by 12%. The highest growth rate was reported in export factoring (more than 30% year-on-year) whose share in the Company's sales rose from 7% to 9%, thereby making Polfactor the largest Polish export factor within the Factors Chain International. Due to growing interest of clients in non-recourse factoring, Polfactor doubled its sales of the product.

As at the end of June 2009, Polfactor SA reported a pre-tax result of PLN 4.4 million. The 30% year-on-year fall in the pre-tax result is a consequence of the need for higher provisions for receivables.

IV.3.3. Dom Inwestycyjny BRE Banku SA

In the first half of 2009 DI BRE reported a pre-tax profit of PLN 16.8 million, up 11% compared with the figure reported in H1 2008. The share of DI BRE in all segments of the capital market has risen considerably. As regards securities trading, the share of DI BRE exceeded 7.4% (up more than 37% compared with 2008). Equally high growth in share was reported by DI BRE on the markets for derivatives. DI BRE acted as an agent in the case of 15.7% of all transactions in forward contracts (a rise of more than 33% compared with 2008) and 33.8% of option transactions (increase by more than 18%).

DI BRE in cooperation with BRE Corporate Finance (BCF) organised and carried out the successful IPO transaction for the company Lubelski Węgiel Bogdanka SA. The offer was highly popular with both institutional and individual investors - very high oversubscription was reported in both tranches. DI BRE sold all the shares offered in the public offering and raised PLN 528 million for the issuer.

At the moment, DI BRE maintains more than 177,000 investment accounts and is the leader in on-line brokerage services.

IV.3.4. BRE Bank Hipoteczny SA

In H1 2009, BBH generated PLN 16.7 million in pre-tax profit (down by 30.6% compared with H1 2008 and by 42.8% compared with H2 2008). The fall in pre-tax profit is a consequence of increasing costs of financing. The main source of financing the operations of BBH are mortgage bonds.

Special attention should be paid to very good quality of the credit portfolio held by BBH, which is reflected by the fact that at the end of H1 2009 the Loan Loss Provisions (LLP) accounted for 0.28% of the gross value of the portfolio (0.26% at the end of 2008).

IV.3.5. BRE Leasing sp. z o.o.

The value of leasing agreements concluded by BRE Leasing in H1 2009 totalled PLN 1,120 million (down by 38.8% compared with H1 2008 and by 28.5% compared with H2 2008). The drop in sales was caused by reduced demand for leasing services. In H1 2009, BRE Leasing generated a pre-tax profit of PLN 4.8 million (down by 81.7% compared with H1 2008). The Company's result was reduced on a year-on-year basis due to lower sales and the need for setting up impairment provisions resulting from the deteriorating macroeconomic situation.

IV.3.6. BRE Holding sp. z o.o.

In the first half of 2009, the main source of the Company's income, in accordance with the principles of its incorporation, included dividends from Polfactor SA and BRE Leasing sp. z o.o. totalling PLN 16.8 million. At the same time, the Company increased its exposure to BRE Leasing sp. z o.o. by PLN 14.3 million by increasing the share capital of BRE Leasing.

IV.3.7. BRE Corporate Finance SA

In Q2 2009 the Company proceeded with preparations of WZF Polfa Warszawa SA for the planned sale of the company by the State Treasury. The BRE CF team has drawn up the pre-privatisation analyses, a part of which has already been approved by the Ordering Party.

The overall economic conditions forced the clients of BRE CF to withdraw or resign from the scheduled M&A transactions. Consequently, the Company focused on attracting smaller-scale projects connected with services in the corporate finance area, including financial restructuring projects

The income from sales of services in H1 2009 amounted to PLN 2.63 million compared with PLN 3 million in H1 2008. The Company reported a pre-tax loss of PLN 0.7 million (last year, the loss amounted to PLN 0.9 million).

IV.3.8. Tele-Tech Investment Sp. z o.o. (TTI)

This is a special purpose vehicle (SPV), whose core business includes:

- investment in securities, trading in debt,
- proprietary transactions in securities,
- management of controlled businesses,
- business and management consulting.

At the end of June 2009 TTI had in its portfolio the bonds of Autostrada Wielkopolska SA and a very small stake in the company BRE Finance France SA (0.004%).

IV.3.9. Garbary Sp. z o.o.

The company is part of the Bank's portfolio since May 2004 following the restructuring of the Bank's investment in the debt securities of Tele-Tech Investment Sp. z o.o. Garbary's only asset is a piece of land with buildings at 101/111 Garbary St., Poznań, including a meat plant facility (not in use) subject to protection as historical monument. Due to on-going litigation and existing collateral, BRE Bank cannot dispose of the shares of Garbary Sp. z o.o. or use them as security.

IV.4. Subsidiaries of Trading and Investments Business Line

IV.4.1. BRE Finance France SA

It is a SPV, whose core business included acquiring for BRE Bank financing from international markets through the issue of euro notes under the Euro Note Issue Programme (EMTN) up to EUR 1.5 billion.

At the end of June 2009, the company had only one outstanding tranche of notes for $ 10 million, with maturity date in December 2009.

V. Retail Banking

This business area includes retail customers' current accounts, savings accounts, term deposits, structured deposits, investment products, credit and debit cards, financial settlements, bill-of-exchange and cheque transactions, guarantees, mortgage and consumer loans. The offering also includes on-line brokerage and insurance services. The offer is complemented by an e-commerce platform and an independent virtual cell phone operator mBank mobile.

Customers mainly include private individuals as well as microenterprises (mBank). The Line also covers Private Banking services.

Since November 2007, mBank serves clients outside Poland, in the Czech Republic and Slovakia. In view of the global financial crisis, mBank's expansion to new markets (other than the Czech Republic and Slovakia) has been put on hold.

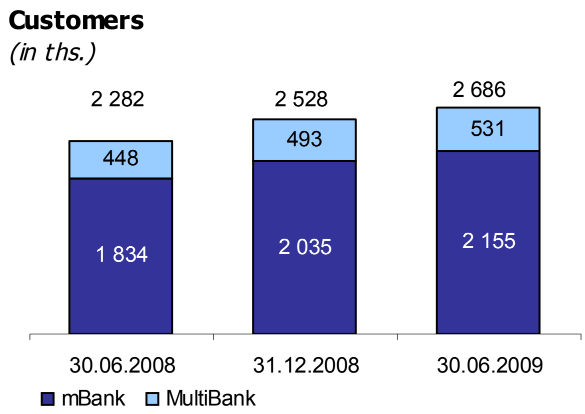
V.1 Retail Banking in Poland – mBank and MultiBank

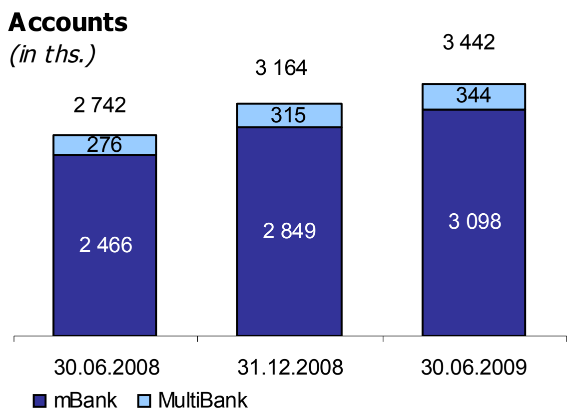
V.1.1. Customers and Accounts

The number of customers grew by almost 158 thousand in H1 2009 (up by 6.2%) to almost 2.7 million at the end of June 2009. There were 339.2 thousand microenterprise customers (12.6% of total number of customers). The number of microenterprise customers grew by 27.2 thousand year to date.

The number of accounts grew faster (up by 8.8%). The number of accounts reached over 3.4 million at the end of June.

The charts below present these developments at mBank and MultiBank.



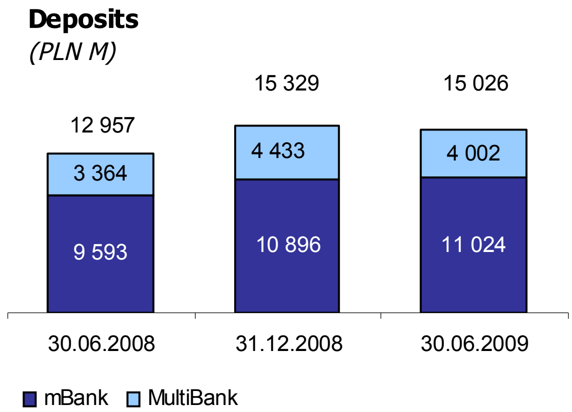


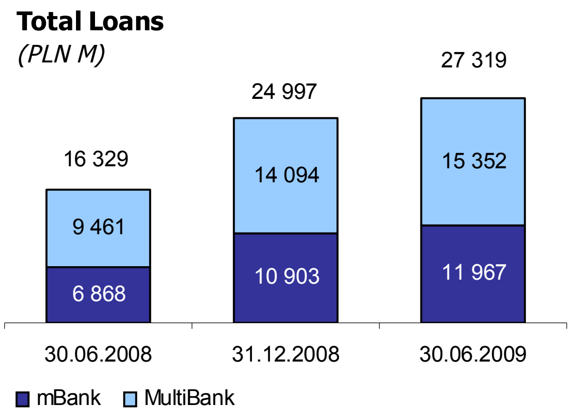
V.1.2. Deposits

Deposits fell by 2% in H1 2009 (down by PLN 303 million) and stood at PLN 15.0 billion; the decrease was reported only at MultiBank (deposits down by 10%) while mBank deposits grew modestly. The Bank generally decided to stay away from the "deposit price war" at the turn of 2008 and 2009 and refused to offer aggressive interest rates on deposits; as a result, deposits decreased over H1 2009. However, promotions started in Q2 2009 helped to grow deposits in Q2 (up by 5.2% QoQ).

Both, mBank and MultiBank, offered structured deposits in H1 2009. Those deposits totalled PLN 448 million at the end of June 2009.

The volume of deposits was affected by rising interest in investment funds: clients were moving cash from term deposits and current accounts to invest in fund shares. The amount invested in funds via mBank and MultiBank grew by PLN 208 million (20.3%) year to date and reached PLN 1,232 million.





V.1.3. Loans

Retail loans increased by 9.3% in H1 2009. The growth rate was much lower than in last 12 months, when the retail loans portfolio grew by a high 67.3%.

The structure of the loans portfolio by product category was as follows:

- mBank: 81.0% mortgage loans, 5.1% credit lines, 4.3% credit cards, 9.6% other;
- MultiBank: 84.8% mortgage loans, 5.3% credit lines, 1.4% credit cards, 8.5% other.

Balance-sheet retail mortgage loans were PLN 22,235.2 million at the end of June 2009 (PLN 9,693.8 million at mBank, PLN 12,541.4 million at MultiBank). The balance-sheet mortgage loans grew by PLN 1,499.8 million or 7.2% in H1 2009 (PLN 678.7 million at mBank, PLN 821.1 million at MultiBank). It should be noted that the growth also included the depreciation of PLN against CHF, the currency of the vast majority of mortgage loans.

The table below presents the profile of the retail mortgage loans portfolio:

Retail Mortgage Loans	Total	PLN	FX
Balance-sheet value (PLN billion)	22.23	2.35	19.88
Average maturity (years)	23.37	20.57	23.80
Average value (PLN thou.)	265.57	209.20	274.31
Average Loan To Value (LTV)	85.3%	55.7%	89.7%
Non Performing Loans (NPL)	0.43%	1.45%	0.31%

In the mortgage loans segment lending slowed down because of much higher margins, entailing lower demand of this type of products. In the case of cash loans, the lending policy was tightened in view of problems with the quality of the portfolio and the required additional provisions.

V.1.4. Adjustment of the Lending Policy

In view of the deteriorating quality of the consumer loans portfolio (mainly cash loans), BRE Bank adjusted its lending policy in a way that should significantly improve the risk level. The adjustment resulting from a weaker financial position of potential borrowers mainly includes stricter parameters of client creditworthiness assessment and scoring. Due to higher default rates of clients acquired via third-party intermediaries, the Bank is also rearranging its client acquisition model in order to focus on the sales personnel in the Bank's own network and to improve cross-selling. The credit granting and monitoring process is also subject to a range of modifications. Credit decision-making has been centralised more than before. Enforcement scenarios have been adjusted. Finally, the structure of the product has been revised: after the modifications implemented in May, the product is now much easier to use, especially for clients with less financial expertise.

V.1.5. Credit and Debit Cards

There were 463.2 thousand credit cards issued by the end of June 2009 (316.5 thousand at mBank, 146.6 thousand at MultiBank), up by 71.6 thousand cards year to date.

There were 2,252.0 thousand debit cards issued by the end of June 2009 (1,759.6 thousand at mBank, 492.4 thousand at MultiBank), up by 264.2 thousand cards year to date.

According to data available at the end of June 2009, the market share of Retail Banking credit cards by granted credit was 5.3%.

V.1.6. Expansion of the Branch Network

mBank's distribution network had 170 locations (67 mKiosks, 21 Financial Centres, 82 Partner mKiosks) at the end of June, up by 9 locations year to date.

MultiBank's distribution network had 134 outlets (80 Financial Services Centres and 54 Partner Outlets including 51 Branches of the Future, both Financial Services Centres and Partner Outlets) compared to 131 outlets at the end of 2008. The rate of expansion of the branch network was reduced as part of cost rationalisation under the BREnova project.

V.2. Retail Banking abroad - mBank in the Czech Republic and Slovakia

The activity of mBank in the Czech Republic and Slovakia was growing dynamically in H1 2009. mBank served 322.9 thousand clients at the end of June (244.5 thousand in the Czech Republic and 78.4 thousand in Slovakia). mBank acquired 78.8 thousand new clients year to date.

Client deposits reached EUR 978.4 million at the end of June (EUR 745.1 million at mBank in the Czech Republic, EUR 233.3 million at mBank Slovakia). The balance-sheet deposits grew by EUR 182.4 million year to date (up by 22.9%; EUR 134.9 million at mBank CZ, EUR 47.5 million at mBank SK).

Loans were up by EUR 56 million (31.0%) and reached EUR 236.9 million.

Importantly, in H1 Czech and Slovak customers were offered the same functionality of current accounts as available in Poland.

V.3. Private Banking (PB)

Private Banking had 5,867 customers at the end of June 2009, down by 20.1% (1,474 customers) year to date. Restructuring helped to improve the quality of the client base.

The debt of Private Banking clients was PLN 572.8 million compared with PLN 478.9 million at the end of 2008 (up by 19.6%). Clients' assets under management invested via BRE PB (including deposits, asset management products and financial market products) were PLN 4,162.5 million at the end of June, down by PLN 408 million year to date.

The major events in Private Banking in 2009 included:

- BRE PB and Wealth Management offered art banking to clients as an alternative to capital market instruments.
- The investment programme 'Akumulacja' was added to the offer; it combines security and return on high-interest bank deposits with the advantages of a selected, top-class investment product.
- On 30 June 2009, BRE PB&WM held the investment forum "Emerging Markets: The Best Investment Location?" featuring speakers: Dr Mark Mobius (Franklin Templeton), Dr Ludwik Sobolewski (WSE), Dr Krzysztof Rybiński (Ernst & Young) and BRE PB&WM representatives.

VI.4. Subsidiaries of Retail Banking

V.4.1. emFinanse sp. z o.o.

As at 30 June 2009 the Company focused on preparing for new operations consisting in selling credit products of mBank and MultiBank and in extending the range of products by those offered by other banks. For this purpose, the process of transferring the sales force from mBank and MultiBank to the structures of the Company was completed and advanced negotiations with product providers were conducted. In Q2 2009 the process of structure's unification in regions and legal works aiming at the change of authorities and name of the company (future name Aspiro) started.
On 25 June, BRE Bank, being the only shareholder of the Company, decided to invest PLN 10 million to recapitalize the Company. The funds will be allocated for financing the Company's operations by the time it reaches the target model.

V.4.2. BRE Ubezpieczenia TU S.A.

In the first half of 2009, the operations of the BRE Ubezpieczenia Companies were focused on further development of the three main business lines: Internet platform (direct), classic bancassurance and services for a leasing company. As regards operations in the direct channel, steps were taken to improve the effectiveness of sales through the use of telemarketing, and to boost the cross-selling ratio. The steps included: combining the offer of motor insurance with property insurance and tourist insurance with motor insurance, prolonging the offer "The Lowest Price Guarantee" and mailing campaigns for the clients of mBank.

In the area of classic bancassurance the activities were focused on satisfying the needs of the clients of the BRE Bank Group subsidiaries with respect to insurance products which are complementary to the offer of banking products. Special attention was paid to the implementation of products dedicated to cross-selling to holders of credit cards, settlement and savings accounts and mortgage loans, and to the extension of the insurance offer for micro-companies. Moreover, the offer was enriched with savings products in the form of deposit policies.

However, due to a slump in lending in the scope of mortgage and cash loans, the income from premiums fell by more than 60-70%.

Besides the aforesaid areas, BRE Ubezpieczenia has been continuing the development of comprehensive insurance services for BRE Leasing sp. z o.o. The Company was focused on systemic support for the processes of offering, concluding agreements as well as on post-sales support service, claim settlement monitoring and education for the sales network. In terms of co-operation with BRE Leasing, the Company reported a fall by approx. 30% in sales of insurance policies, which is a direct consequence of diminishing sales of leasing services.

The financial result reported by the BRE Ubezpieczenia Companies in the first half of 2009 (PLN 15.1 million) was better than PLN 6.4 million a year ago due to reduction in marketing expenses, better-than-expected claim ratio for products, rising portfolio of bridging insurance accompanying mortgage loans (the actual insurance period turned out to be much longer than it was expected previously) and income from the services provided to BRE Leasing sp. z o.o. The co-operation with BRE Leasing started in mid-2008.

V.4.3. BRE Wealth Management SA

After a difficult beginning of the year and after hitting a low in February, the Warsaw Stock Exchange saw the best quarter in terms of rate of return from the WIG20 index (growth of more than 23%). Throughout the first six months of the year the WIG20 index rose 4.1%, while in the same period the results generated by BRE Wealth Management S.A. from the aggressive strategy turned out to be slightly better and the rate of return reached 4.5%.

Despite unfavourable market environment, the Company reported a rise in assets of approx. 14% in H1 2009. As at the end of 2008, the value of assets under management reached PLN 795 million, while at the end of June

2009, the assets accounted for PLN 910 million. The rise in assets was reported in the low-margin products categories, while the assets connected with portfolios of shares (high-margin products) remained unchanged. To a great extent, the positive balance of assets was a consequence of launching new products in 2008: PROFIT OPTION, AXA ACTIVE FUND PORTFOLIO, TREASURY STRATEGY and TREASURY PLUS. Moreover, in 2009, for the first time in its history, the Company introduced its products in external distribution networks (outside BRE Private Banking). Since April 2009, the Active Fund Portfolio has been distributed by mBank, MultiBank and Xelion. Additionally, the Company entered into talks about external distribution of the Profit Option and the Individually Managed Portfolios.

In order to extend the brokerage operations and due to amendments to the Investment Funds Act, works are in progress on standardising the model for distribution of participation units in investment funds, which will be implemented by BRE WM.

In the first half of 2009 the Company reported a pre-tax profit of PLN 0.9 million (including PLN 1 million impairment provision for shares in BRE Property Partner).

VI. Other consolidated subsidiaries

BRE.locum SA

In H1 2009, the company's pre-tax profit was PLN 23.1 million, down 42% on a year-on-year basis (PLN 39.8 million in H1 2008). Periodic fluctuations of the Company's profit result from recognizing income at the time when the ownership title to a flat is transferred to a client (IFRS 18). Moreover, the result generated by the company in H1 2009 was influenced positively by an adjustment of PLN 14.2 million connected with amendments to the accounting principles. The adjustment was significantly eliminated at the moment of consolidation with BRE Bank. BRE.locum holds an attractive land bank which is financed mainly with its own funds. In the future, the Company plans to build on that land 2,154 flats accounting for 136,000 square meters in total area. At the moment, one investment project is being implemented in Warsaw. The remaining projects have been completed and the flats have been offered for sale. As at the end of June, the Company's offer included 290 flats in the already completed projects and 237 flats in the project currently implemented in Warsaw.

Centrum Rozliczeń i Informacji CERI sp. z o.o.

In the first half of 2009, the company reported a pre-tax result of PLN - 11,500 compared with PLN 712,000 in H1 2008.

CERI continued co-operation with corporate and retail banking of BRE Bank. The offer of services for Commerzbank was extended. Moreover, the Company has been continuing co-operation with subsidiaries of the BRE Bank Group and with its former external clients.

The share of income generated with the external client segment in the total income accounted for 13.7% in the first half of 2009.

VII. Financial results of BRE Bank Group in H1 2009

For the sake of comparability, the financial data of H1 2008 include the results of the insurance companies which were only consolidated as of the end of 2008. As a result, the data at the end of June 2008 differ slightly from the data published a year ago. The differences in the Profit and Loss Account and the Consolidated Statement of Financial Positions are presented in Note 2.31 to the H1 2009 Consolidated Financial Statements under the International Financial Reporting Standards.

VII.1. Changes in the Consolidated Statement of Financial Positions in H1 2009

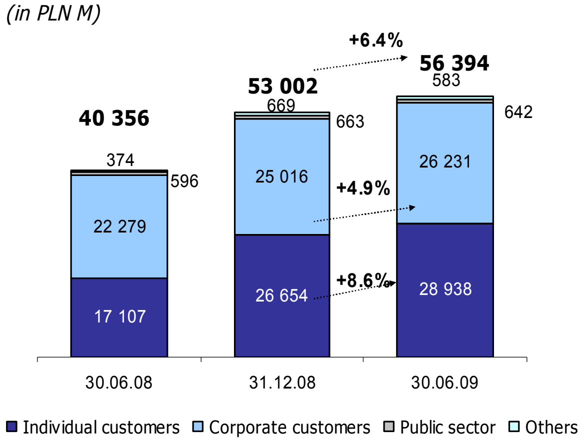
VII.1.1. Changes in the Assets of BRE Bank Group

The assets decreased slightly in H1 2009 and increased by 25.5% year on year.

	30.06.08	31.12.08		30.06.09		31.12.08=100
ASSETS	**PLN M**	**PLN M**	**%**	**PLN M**	**%**	**%**
Cash, transactions with the central bank	2 901.0	2 512.3	3%	4,334.0	5.4%	172.5%
Bills eligible for rediscounting at the central bank	24.5	9.2	0.0%	12.3	0.0%	133.7%
Amounts due from banks	4 747.7	6 104.1	7.4%	1 994.1	2.5%	32.7%
Trading securities	4 183.7	4 624.6	5.6%	835.3	1.0%	18.1%
Derivative financial instruments	2 501.3	5 632.9	6.8%	3 533.0	4.4%	62.7%
Loans and advances to customers	39 651.7	52 142.5	63.1%	54 894.0	67.8%	105.3%
Investment securities	5 162.9	5 502.3	6.7%	9 752.9	12.1%	177.3%
- Available for sale	5 162.9	5 502.3	6.7%	9 752.9	12.1%	177.3%
Fixed assets for sale	416.2	0.0	0.0%	0.0	0.0%	
Assets under pledge	2 591.0	3 445.3	4.2%	2 927.1	3.6%	85.0%
Investment in affiliates	13.7	17.0	0.0%	1.2	0.0%	7.1%
Intangible fixed assets	410.6	438.5	0.5%	439.9	0.5%	100.3%
Fixed assets	717.0	814.5	1.0%	795.7	1.0%	97.7%
Deferred income tax assets	216.8	327.6	0.4%	359.6	0.4%	109.8%
Other assets	962.3	1 034.5	1.3%	1 053.4	1.3%	101.8%
Total assets	**64 500.6**	**82 605.2**	**100.0%**	**80 932.5**	**100.0%**	**98.0%**

Loans and advances to customers grew the most year on year in nominal terms: they were up by PLN 15.2 billion (38.4%). The dynamic growth was particularly strong in the retail loans portfolio, up by 69.1% or PLN 11.8 billion year on year. Meanwhile, the corporate loans portfolio grew by 17.7% or PLN 4.0 billion. Importantly, more than half of the reported growth in the loans portfolio resulted from the depreciation of the zloty and the conversion of the old portfolio of fx loans (mainly in CHF) at an exchange rate which was over 40% higher.

Loans and advances to customers (gross)
(in PLN M)



The growth rate of loans slowed down significantly in H1 2009; it was still partly driven by the depreciation of the zloty, especially in Q1 2009, followed by a slight strengthening of the local currency. As a result, retail loans grew by PLN 2.3 billion or 8.6% in H1 2009. Meanwhile, corporate loans grew less, by ca. PLN 1.2 billion or 4.9%. Total loans grew by 6.4% gross and 5.3% net, i.e. by PLN 2.8 billion.

The moderate growth rate of the loans portfolio was accompanied by little change in the structure of the portfolio: the share of retail loans grew from 50.3% to 51.3% of the gross portfolio while the share of corporate loans fell from 47.2% to 46.5%.

Amounts due from banks decreased both year to date (down by PLN 4.1 billion) and year on year (down by PLN 2.8 billion). Likewise, the portfolio of trading securities decreased by PLN 3.8 billion year to date and by PLN 3.3 billion year on year. Meanwhile, investment securities grew by PLN 4.6 billion year on year and by PLN 4.3 billion year to date. These changes mainly concerned the structure of current assets, while their share in the total assets remained at almost 25%, a safe level in terms of liquidity.

Derivative financial instruments decreased in H1 2009 with the closing of those contracts whose valuation increased the most due to the volatility of the PLN exchange rate at the turn of 2008 to 2009 and as a result of the reduced number of new transactions in derivative instruments.

VII.1.2. Liabilities

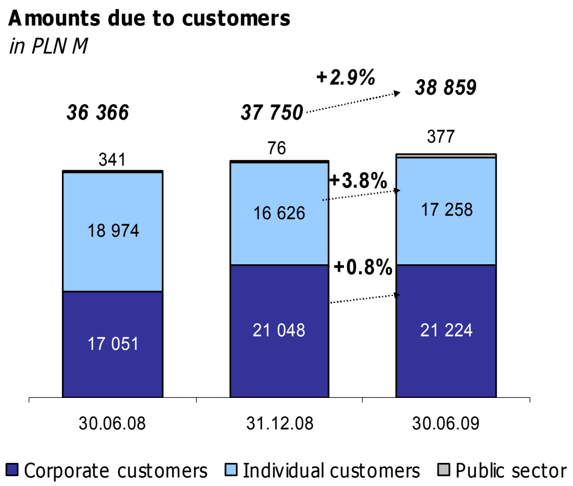
Changes in the Group's liabilities in H1 2009 are shown in the table below.

LIABILITIES AND EQUITY	30.06.08	31.12.08		30.06.09		31.12.08
	PLN M	PLN M	%	PLN M	%	%
Liabilities to the central bank	-	1 302.5	1.6%	1 537.2	1.9%	118.0%
Liabilities to other banks	16 365.7	27 488.8	33.3%	27 189.4	33.6%	98.9%
Derivative financial instruments and other trading liabilities	2 555.4	6 174.5	7.5%	3 860.6	4.8%	62.5%
Liabilities to customers	36 366.1	37 750.0	45.7%	38 859.1	48.0%	102.9%
Liabilities under issued debt securities	2 191.9	1 790.7	2.2%	1 607.5	2.0%	89.8%
Subordinated liabilities	1 993.2	2 669.5	3.2%	2 789.4	3.4%	104.5%
Other	1 121.8	1 381.2	1.7%	1 018.2	1.3%	73.7%
Total liabilities	**60 594.1**	**78 557.2**	**95.1%**	**76 861.4**	**95.0%**	**97.8%**
Total equity	**3 906.5**	**4 048.0**	**4.9%**	**4 071.1**	**5.0%**	**100.6%**
Total liabilities and equity	**64 500.6**	**82 605.2**	**100.0%**	**80 932.5**	**100.0%**	**98.0%**

Liabilities to customers, the main source of funding the business of the Group, increased by 6.9% or PLN 2.5 billion year on year. They reached PLN 38.9 billion at 30 June 2009, representing 48.0% of the total liabilities and equity, compared with 45.7% at the end of 2008. Liabilities to retail and corporate customers decreased in early 2009, but then the trend reverted, especially concerning corporate clients.

Client deposits increased by 2.9% in H1 2009. Corporate deposits were growing at the rate of 3.8% while retail deposits grew by 0.8% year to date.

These trends in deposits were on the one hand due to deposit holders' behaviour necessitated by the needs of funding current business and diversifying risks, and on the other hand by the behaviour of banks seeking to attract funding at a time of liquidity shortage in the market.



As the growth rate of deposits was lower than the growth rate of the loans portfolio, funding from the interbank market, which is a complementary source of financing the business activity, increased in H1 2009. Interbank funding increased by PLN 10.8 billion (66.1%) year on year, mainly with credit lines obtained by the Bank on the Swiss franc to finance the portfolio of CHF housing loans. Liabilities to other banks decreased slightly year on year due to a decrease in liabilities under sell-buy-back transactions (down by ca. PLN 1.2 billion) while credit lines grew by ca. PLN 0.8 billion due to a change of fx rates.

The share of the equity of the Group in all sources of funding was 5% at the end of June 2009 compared with 6% at the end of H1 2008 and 4.9% at the end of 2008.

Own funds (category of CAR calculation) in H1 2009 due to the full retention of profit (no dividend pay-out) added to Tier 1 equity. Also an increase in supplementary capital was registered through the addition of obtained subordinated loans and completed bonds issues in 2008 in the total amount of CHF 180 million. In addition, the equity grew year on year and year to date thanks to the appreciation of CHF against the zloty.

As a result, own funds of the Group stood at PLN 6.3 billion at the end of June 2009, up by PLN 1.9 billion year on year and up by ca. PLN 0.4 billion year to date. Meanwhile, the capital requirement increased from PLN 3.8 billion at the end of June 2008 to PLN 4.7 billion at the end of 2008 and fell modestly to PLN 4.5 billion at the end of June 2009. The decrease of the capital requirement in H1 2009 was largely driven by a decrease of the credit risk requirement following a change of the structure of assets. As a result, the Capital Adequacy Ratio of BRE Bank Group reached 11.08% at the end of June 2009 vs. 10.04% in December 2008)

VII.2. Profit and Loss Account of BRE Bank Group

BRE Bank Group generated a profit before tax of PLN 16.2 million on continued operations only in H1 2009 compared with PLN 701.1 million (thereof PLN 622.2 million on continued operations) in H1 2008. It should be noted that there were two one-off transactions in H1 2008: the sale of a block of shares of Vectra and the effect of the merger of two pension fund companies, Skarbiec Emerytura and Aegon, both held for sale. The total profit on these transactions was PLN 205 million.

However, the main reason for the substantial difference in the results of these periods was not the absence of a profit on one-off transactions, but the loss loan provisions of PLN 648.9 million. LLPs were 10 times higher than in H1 2008.

As the discontinued operations in H1 2008 are shown separately under the profit before tax, the individual profit and loss account items are compared below only for the continued operations.

Profit and Loss Account	**H1 2008**	**H1 2009**	**H1 2008=100**
Continued operations	**PLN M**	**PLN M**	**%**
Interest income	**1,597,8**	**1,790.7**	**112.1%**
Interest cost	**(954.6)**	**(962.1)**	**100.8%**
Net interest income	**643.2**	**828.6**	**128.8%**
Commission income	415.5	475.6	114.5%
Commission cost	(127.7)	(195.7)	153.2%
Net commission income	**287.7**	**280.0**	**97.3%**
Dividend income	3.7	2.8	75.7%
Trading income	254.2	224.0	88.1%
FX income	*260.5*	*242.1*	*93.0%*
Other trading income	*(6.3)*	*(18.2)*	*288.9%*
Income from investment securities	137.8	(17.2)	-12.5%
Other operating income	180.7	156.7	86.7%
Net loss loan provisions	(67.9)	(648.9)	956.0%
Overhead costs	(619.9)	(604.5)	97.5%
Depreciation	(94.0)	(117.8)	125.3%
Other operating costs	(103.4)	(87.6)	84.7%
Operating profit	**622.2**	**16.2**	**2.6%**
Profit (loss) before tax of continued operations	**622.2**	**16.2**	**2.6%**
Income tax	(50.9)	(5.6)	11.0%
Net profit (loss) of continued operations	**571.3**	**10.6**	**1.9%**
Discontinued operations	**-**	**0.0**	
Profit (loss) before tax of discontinued operations	**78.9**	**0.0**	
Income tax	(2.3)	0.0	
Net profit (loss) of discontinued operations	**76.6**	**0.0**	

Net profit (loss) of continued and discontinued operations	**647.9**	**10.6**	**1.6%**
Net profit (loss) of continued and discontinued operations attributable to:	**-**	**0.0**	
- BRE Bank shareholders	623.8	15.7	2.5%
- minority interests	24.1	(5.1)	-21.2%

VII.2.1 Income

BRE Bank Group generated an income of PLN 1,387.3 million in H1 2009, down by 1.2% or PLN 16.6 million year on year but up by 9.6% or PLN 121 million net of the one-off transactions. The increase was possible thanks to a growing net interest income, both at the Bank and the subsidiaries; meanwhile, the net commission income (of the Bank) and the trading income decreased.

The net commission income was up by 28.8% year on year: it was PLN 828.6 million compared with PLN 643.2 million in H1 2008.

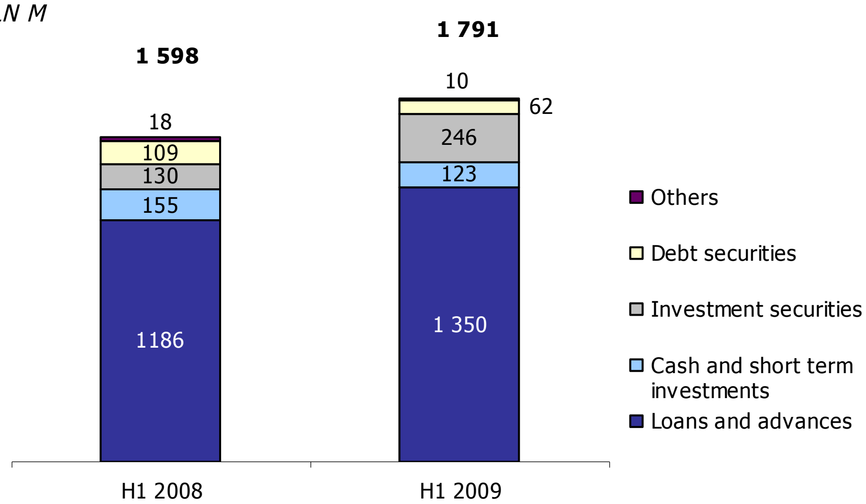
The interest margin of BRE Bank Group (net interest income to average interest-earning assets) was 2.3% p.a. in H1 2009 and was stable year on year. The interest margin in 2009 was driven by opposite factors in the assets and the liabilities. On the one hand, the structure of assets improved and margins on credit products generally increased. On the other hand, the share of interbank funding in all sources of funding increased while deposit margins decreased as a result of growing competition in the sector and falling interest rates.

The BRE Bank Group's net interest income grew mainly owing to Retail Banking where the net interest income was up by 63% (i.e. PLN 190 million) year on year.

Loans and advances to customers remained the main source of interest income (over three-fourths of the total). This income was up by PLN 164 million year on year. Investment securities were an important source of interest income in H1 2009: they generated PLN 116 million of interest income more than in H1 2008.

Meanwhile, interest on cash and deposits with other banks decreased as the share of this item in the total assets fell significantly.

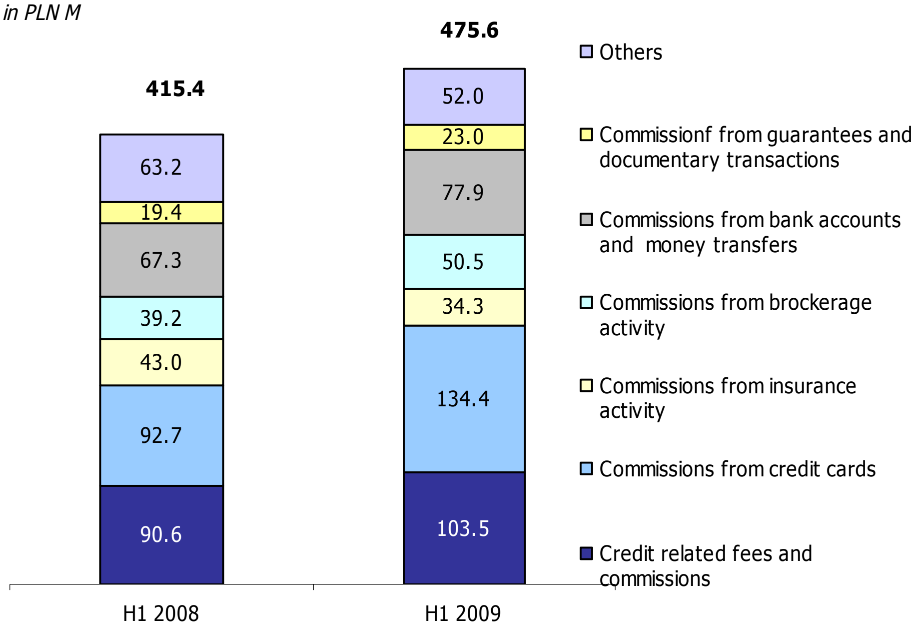
Structure of interest revenues
in PLN M



The Group's net commission income decreased modestly by 2.7% year on year. The lower net commission income in 2009 was affected by higher commission costs, which grew at a higher rate than commission income. On the income side, commissions on payment cards, loans, and accounts grew the most. At the same time, income from the insurance business decreased. The growth rate of commission income decreased mainly in Retail Banking, whereas Corporates and Institutions reported a modest increase in commission income; as a result, the share of Corporates and Institutions in the Group's commission income grew to 69.4%.

Payment card fees were the main source of commissions; commissions and fees on loans also increased year on year; commissions and fees on accounts and bank transfers also increased.

Structure of fee and commission income
in PLN M



The trading income was PLN 224 million at the end of June 2009, down by 11.8% (PLN 30 million) year on year, mainly due to the cost of valuation of financial instruments including fx options. Other trading income was down by PLN 11.9 million due to the negative valuation of interest-rate instruments. The fx income net of the impact of the negative valuation of fx options was stable at more than PLN 266.6 million. The impact of the negative valuation of fx options recorded in June 2009 was ca. PLN 24 million and was the only such charge to the trading results in H1 2009.

The trading income attributable to the Bank's Trading and Investments activity grew year on year, whereas the trading income of Corporates and Retail Banking decreased year on year. As a result, the share of Trading and Investments in the trading income of the Group grew to 43% from 28% in 2008.

No equity transactions were closed in H1 2009; by comparison, a capital gain of PLN 137.7 million on the sale of Vectra SA was reported as part of the continued operations in Q1 2008. The loss on investment securities reported in 2009 relates to the results of the subsidiary Intermarket, which recognised a negative valuation of its Romanian subsidiary with a negative contribution of ca. PLN 17 million to the results.

The other operating income (net other operating income and cost) was PLN 69.1 million in H1 2009, down by ca. PLN 8 million year on year. The other operating income in 2009 included PLN 18.3 million of provisions against the impairment of assets in the funding of Compania de Factoring, the Romanian subsidiary in the Intermarket Bank AG Group portfolio.

VII.2.2. Net Loan Loss Provisions

The Group's results in H1 2009 were significantly impacted by net loan loss provisions at PLN 648.9 million compared with PLN 67.9 million in H1 2008. The provisions were up year on year both at the Bank (up by PLN 515.1 million) and the subsidiaries (up by PLN 65.9 million). Almost 50% or ca. PLN 285.5 million of provisions set up at the Bank in H1 2009 (PLN 215.3 million in Q2 2009) were loan loss provisions against clients holding liabilities under derivative transactions. The amount of provisions set up against derivative instruments results from conservative assumptions made as part of restructuring measures taken by the Bank.

Loan loss provisions were up year on year mainly in Corporates and Financial Markets (up by PLN 406.1 million); 70% of these provisions were set up against loans related to derivative transactions.

Provisions in Retail Banking also increased significantly (by PLN 172.6 million), mainly against consumer loans. These were PLN 212.7 million in H1 2009 compared with PLN 40.0 million in H1 2008. The main issue were cash loans: their portfolio was ca. PLN 900 million at the end of June. The related provisions were PLN 126.4 million, including PLN 102.2 million against loans granted to new/non-own customers. These cash loans are not granted any more since May 2009 and the portfolio quality issue should gradually be resolved.
It should be noted that the issue affected a relatively small portion of the retail portfolio. Mortgage loans, which represent around three-fourths of the retail portfolio, continued to be of good quality; provisions against mortgage loans created in H1 2009 are about PLN 3.0 million.

VII.2.3. Overhead costs and depreciation

Overhead costs were down by 2.5% (ca. PLN 15.4 million) year on year; costs at the Bank decreased while they increased slightly in the subsidiaries. It should be noted that the overhead costs in the subsidiaries increased mainly as a result of fx rate movements (EUR vs PLN) in the foreign subsidiaries of the Intermarket Group where overhead costs expressed in local currencies increased much less sharply.

Personnel costs decreased in H1 2009: they were down by PLN 33 million year on year, mainly at the Bank. The Bank's personnel costs decreased, mainly as a result of workforce reductions in Q1 2009 and lower allocations for bonuses and management stock options.

Maintenance costs increased year on year mainly due to the following:
- increase of charges like rents, office maintenance, postal fees and telephone bills related to increased operations;
- increase of energy and fuel prices;
- expansion of the retail and corporate branch network in 2008;
- increase of allocations to the Bank Guarantee Fund and the Financial Supervision Authority, which more than doubled.

Also, the share of depreciation in Group's costs increased: depreciation grew by PLN 23.8 million or 25.3 % year on year in H1 2009. Depreciation increased mainly due to the expansion of the branch network, bank systems and leased assets following the growth of sales in 2008.

The implementation of the BREnova project involving strict cost discipline and effective resources management helped BRE Group to report satisfactory effectiveness of operations as measured by the cost/income ratio, which went down to 52.1% in Q2 vs. 53.4% in Q1 2009.

VII.3. Key Performance Indicators

BRE Bank Group's key performance indicators (jointly for continued and discontinued operations) at the end of H1 2009 (for comparison, in H1 2008 recaltulated with inclusion of BRE Ubezpieczenia) were as follows:

	H1 2008	***H1 2009***
ROA net	2.1%	0.03%
ROE before tax	42.9%	0.8%
ROE net	39.7%	0.5%
CIR	48.3%	52.1%
Capital adequacy ratio	9.23%	11.08%

ROA= Net profit (including minority shareholders) / Total Assets

ROE before tax = Profit before tax / Equity (including minority shareholders, excluding this year's profit)

ROE net = Net profit (including minority shareholders) / Equity (including minority shareholders, excluding this year's profit)

CIR = Overhead costs + depreciation / Income (including net other income and cost)

The capital adequacy ratio was 11.08% at the end of June 2009 compared with 10.04% at the end of 2008 and 9.23% at the end of June 2008. CAR increased due to a significant growth in own funds compared to the capital requirement; the capital requirement decreased slightly year to date.

VIII. Contribution of Business Lines to the Results of BRE Bank Group

The chart below presents the results of the main business areas of BRE Bank Group after H1 2009 compared with H1 2008.

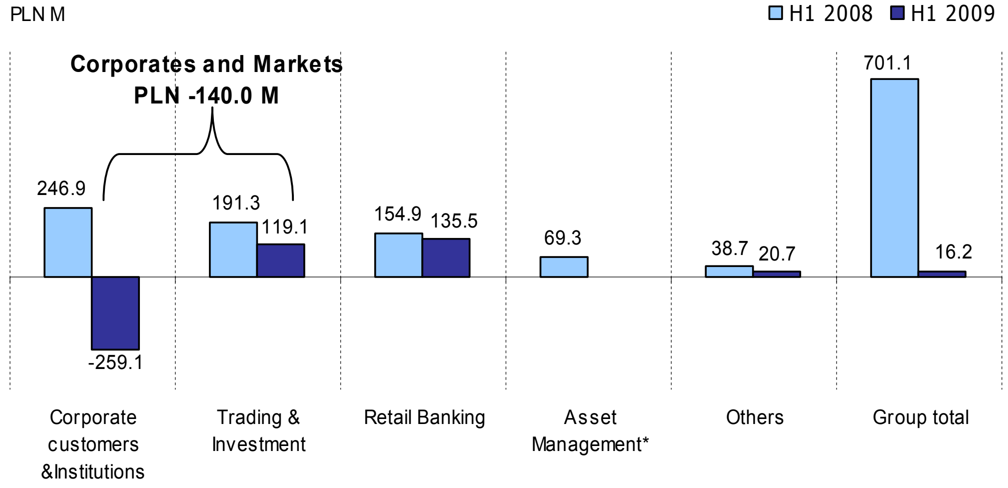
The results of the area Corporates and Institutions decreased strongly. This was mainly driven by additional loan loss provisions of PLN 434.6 million compared with PLN 28.5 million a year earlier. The main charge was PLN 285.5 million of provisions against options, allocated in their entirety to this business area. It should be noted that the area reported an increase of the net interest income by 11.2% (from PLN 315.4 million to PLN 350.7 million).

The main driver of the decrease in the results of Trading and Investments area in H1 2009 was the absence of major one-off transactions; by comparison, the sale of Vectra in 2008 contributed an income of PLN 137.7 million to the area.

The result of Retail Banking was down by 12.5% year on year. On the one hand, the interest income was up by 63%, and on the other hand, provisions increased more than five-fold (PLN 212.7 million compared with PLN 40.0 million in H1 2008). As lending was much less active, especially mortgage loans, the commission income of the segment decreased from PLN 92.2 million a year earlier to PLN 68.1 million in H1 2009.

The Asset Management business presented in the chart below was treated as a discontinued operation in 2008. The merged pension funds PTE Skarbiec Emerytura and PTE Aegon (BRE was a shareholder of both funds) were sold before the end of 2008. BRE Bank Group no longer had any Asset Management operation in 2009.

Result before tax by business lines of BRE Bank Group



*/ discontinued operations

VIII.1. Corporations and Financial Markets

The segment generated a loss before tax of PLN 140 million in H1 2009, down by PLN 578 million year on year. The difference was mainly driven by loan loss provisions, which were up by PLN 408 million; the one-off transaction (sale of Vectra at a capital gain of PLN 137.7 million reported in 2008); and the additional cost of ca. PLN 35.3 million related to Compania de Factoring, a subsidiary of the Intermarket Bank Group.

The income net of the cost of Compania de Factoring was PLN 721.6 million in H1 2009, comparable to the income of H1 2008 net of the one-off transaction (PLN 728.4 million).

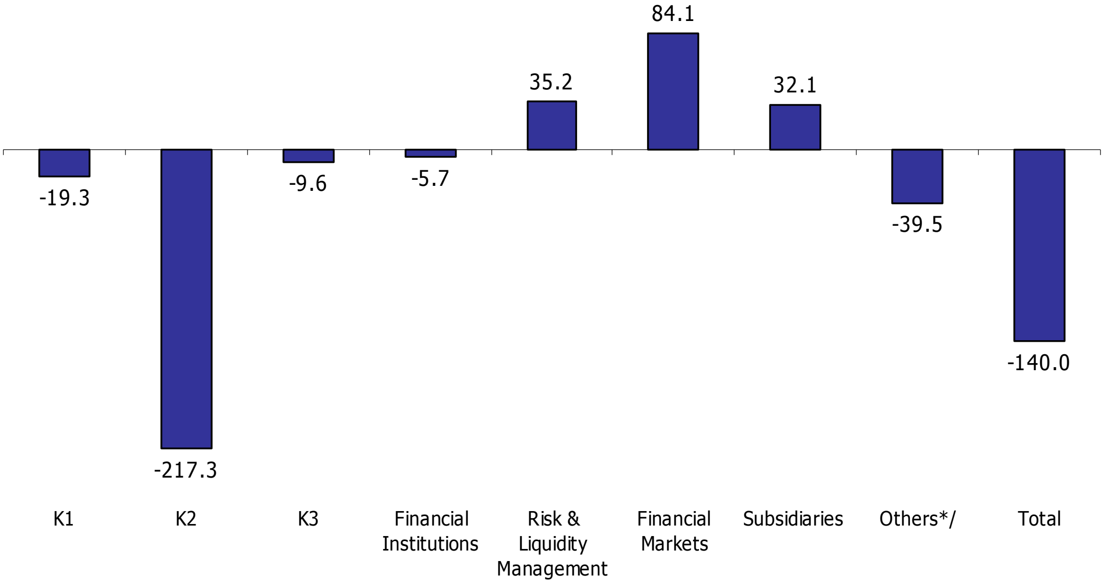
The net commission income was up by 6.5% (PLN 11.6 million) year on year. The net interest income was down by 3.4% (PLN 12.1 million), mainly due to higher internal cost of money at the Bank. The trading income was down by 14.5% (PLN 26.2 million) year on year, mainly due to the cost of valuation of fx options and a lower valuation of interest-rate instruments combined with a higher fx result.

The Corporations and Financial Markets' assets were up by 10% (PLN 4.8 billion) in H1 2009; the Line's liabilities grew more, by 28.3% (PLN 12.4 billion).

The subsidiaries contributed PLN 32.1 million to the results of the segment in H1 2009 compared with PLN 103 million in H1 2008, mainly due to a large difference of PLN 40 million in the results of Intermarket Bank and the result of BRE Leasing, down by over PLN 20 million due to a high cost of loan loss provisions.

The Corporations and Financial Markets area includes sub-segments: Corporates and Institutions which covers the key area of customer relations, and Trading and Investments, the area of liquidity and risk management.

Contributors to the result before tax of Corporates & Financial Markets
PLN M



*/ cost of financing and consolidation adjustments

VIII.1.1. Corporates and Institutions

The segment generated a loss before tax of PLN 259.1 million in H1 2009, mainly due to high loan loss provisions at PLN 434.6 million, up by PLN 406.1 million year on year. The high provisions were mainly set up against loans related to derivative instruments (PLN 285.5 million).

The net interest income grew by 11.2% and the net commission income grew by 2.4% in H1 2009. The trading income was down by over PLN 50 million (45.7%) year on year due to a negative valuation of fx options as well as less active business of clients.

Overhead costs decreased modestly (by 0.7%) in 2009, mainly due to a cost reduction by 5.6% at the Bank; in the context of a growing number of business outlets in 2008, this demonstrates tight cost management and high productivity.

VIII.1.2. Trading and Investments

The profit before tax of the business area was PLN 119.1 million in H1 2009 compared with PLN 191.3 million in H1 2008, which included PLN 137.7 million on a one-off transaction (sale of Vectra S.A.); as a result, the profit on recurrent transactions more than doubled year on year.

The main income item in H1 2009 was the fx income at PLN 115.9 million, up by 40.5% (PLN 33.4 million) year on year. Meanwhile, the other trading income affected by unfavourable market trends was negative at PLN 20.5 million in H1 2009, mainly due to a negative valuation of securities.

The profit before tax of the Line was mainly generated by the Bank; the subsidiaries made a marginal contribution to the profit.

VIII.2. Retail Banking and Private Banking

The Retail Banking and Private Banking segment, recorded an increase in income by over 35% (PLN 173 million) to PLN 662 million in H1 2009 compared with PLN 488 million in H1 2008.

The net interest income grew sharply (by 63%); as a result, the share of the Line in the Group's net interest income grew by over 12 percentage points to 59%. The sharp increase was driven mainly by the growth of the loan portfolio, particularly mortgage loans thanks to weaker rate of exchange of the PLN.

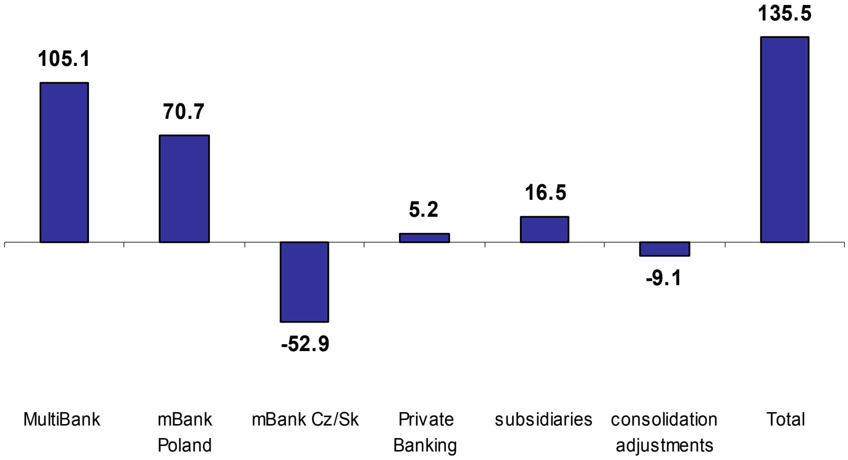
The net commission income of the segment was down by PLN 24 million year on year in H1 2009, due mainly to the slow-down of new lending business. As a result, the share of the Line in the Group's total net commission income fell from 30.2% in 2008 to 24% in 2009.

The sharp increase in the income of the segment was accompanied by much less increase of overhead costs which went up by 6.7%. This was possible thanks to the cost discipline across the Group as well as lower costs of branch network expansion.

Despite the positive trends in income and productivity of business in H1 2009, the segment generated a profit before tax of PLN 135.5 million, down by PLN 19.4 million year on year. This was due to loan loss provisions which were 5 times higher (up by PLN 173 million) year on year. The increase in provisions in Retail Banking was ca. 45-55% QoQ throughout 2008 and was closely related to the fast growth of the loan portfolio. In 2009, the QoQ increase in provisions was 42% in Q1 and 58% in Q2, adding additional LLP charges.

Contributors to the profit before tax of Retail Banking

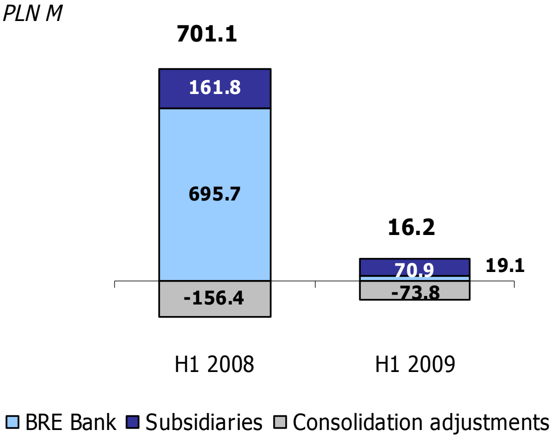
PLN M



VIII.3. Financial Results of Consolidated Companies

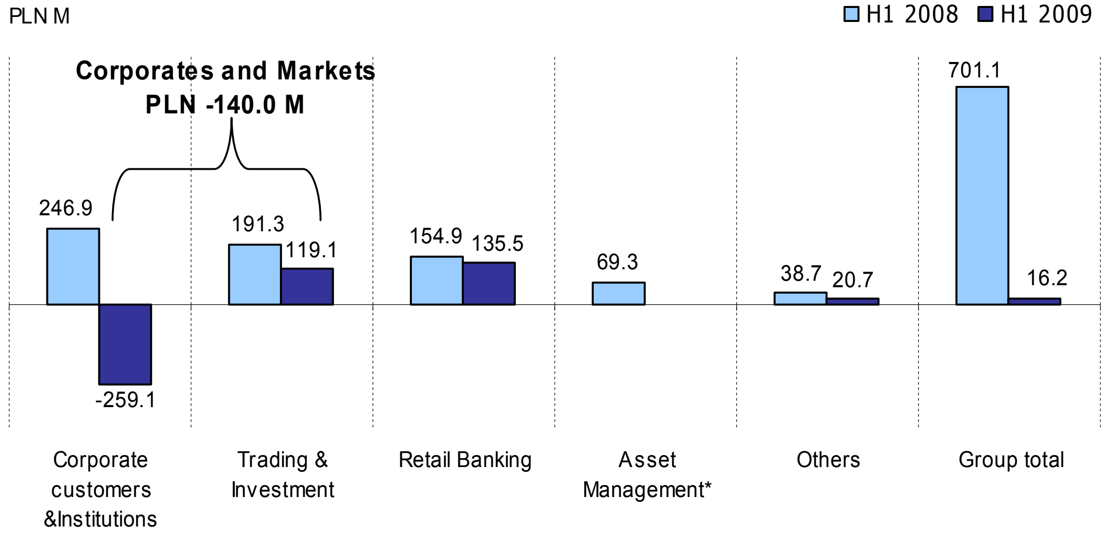
Contribution of BRE Bank Group subsidiaries to profit before tax

PLN M



Although generally the results of the consolidated companies were down in H1 2009, they generated a total profit of PLN 70.9 million compared with PLN 161.8 million in H1 2008 (including BRE Ubezpieczenia which was not consolidated in 2008 and PTE Skarbiec Emerytura – sold at the end of 2008), making up for a dominant contribution to the results of the BRE Bank Group. As presented in the chart, the contribution of the Bank to the consolidated profit was PLN 19.1 million in H1 2009 due to the loan loss provisions compared with PLN 695.7 million in H1 2009.

Result before tax by business lines of BRE Bank Group



* / BRE Ubezpieczenia TU SA result in H1 2008 deducted by the amount of activated acquisition costs for consolidation purposes reached PLN -14 million.

As presented in the chart above, BRE Ubezpieczenia, DI BRE and BRE Holding showed improved results. The main factors of the lower profits of the other companies are discussed in the section devoted to the development of the business lines.

IX. Main Risks of the BRE Bank Group's Business

BRE Bank attaches major importance to controlling and managing the risks in its business. This is dealt with on a current basis by special organisational units of the Bank responsible for risk controlling as well as units actively managing risks. In order to support risk management, the Bank's Management Board appointed respective committees, including representatives of the Management Board and top management staff. In H1 2009, the particular risk areas were dealt with by: the Credit Committee of the Management Board, the Assets and Liabilities Committee of the BRE Bank Group, the Capital Management Committee, the BRE Bank Risk Committee and the Investment Committee. There is also a Risk Committee at the Supervisory Board level which approves the Bank's risk management strategies and policies.

BRE Bank monitors credit risk, operational risk, market risk, liquidity risk, and interest rate risk of the banking book in the BRE Bank Group using risk measures applied by BRE Bank and taking account of differences in the profile and scale of business of the Group subsidiaries.

IX.1. Harmonisation with Basel II Requirements

The Bank has been implementing the advanced internal rating-based (AIRB) approach to calculating capital requirements and the solvency ratio. The effect of implementing this project will be preparing the Bank for meeting the requirements of AIRB Basel II and drawing up an application to KNF in order to obtain its consent for using the advanced internal rating-based approach.

Due to high complexity and comprehensiveness of the preparation process for implementing the AIRB methods, the Basel II AIRB project received top priority from the Management Board, and the bank employees, the employees of a consultancy company supporting the Bank as well as a large team of specialists from Commerzbank participate in the implementation of the project tasks.

The strategic goal of the project is to ensure the growth potential for the BRE Bank Group as a result of optimisation of the level and structure of risk weighted assets, and in consequence of improved adjustment of the structure and level of capital requirements to the risk profile resulting from the carried out business activity.

A very important added value resulting from the direct involvement of the strategic shareholder of BRE Bank is not only operational help in implementation of project tasks, but also the know-how in the field of methodology and IT solutions worked out in the process of implementing the Basel II AIRB project at Commerzbank. These solutions are adapted to the requirements and determinants of BRE Bank's operations, and what is very important, they reflect the specificity of the Polish market well.

IX.2. Credit Risk

One of the methods of credit risk mitigation consists of a system of credit decision-making by the competent decision-making bodies. The criterion qualifying a given case to be considered by the appropriate decision-making body is the amount of exposure and the level of risk assigned to the customer and to the implemented transaction (internal rating). In addition, BRE Bank reduces credit risk through diversification of the loans portfolio. This is supported, among others, by the analysis of the structure of the Bank's portfolio and the resulting conclusions, guidelines and recommendations concerning the Bank's exposure to selected sectors and markets.

The Bank applies credit portfolio risk measurement methods based on the estimation of Expected Loss and Credit Value at Risk based on the extended CreditRisk+ model incorporating among others correlations among sectors of the economy and residual risk. Daily monitoring of credit risk involves the verification of internal ratings and events of default as defined under Basel II and the IFRS.

In managing credit risk of its retail business, the Bank focuses on the centralisation and automation of credit processes and intensive use of all available information on its customers. The Bank's policy in this customer segment is based on statistical rating methodologies developed in co-operation with Commerzbank and renown international consultants. In the case of prime-rate customers, the Bank strives to develop its loans portfolio through cross-selling, which helps to improve portfolio quality considerably. In the case of other customers, the Bank's credit policy is appropriately conservative.

Due to the so-called "fx options problem" the Bank developed modifications of the process for concluding transactions derivative with corporate clients in order to increase the security of such transactions.

BRE Bank also monitors the credit risk of the Group subsidiaries which generate credit risk. The monitoring involves two areas: direct personal supervision, and procedures and reports. Direct personal supervision of risk consists in representation of the risk services on the supervisory boards of the relevant subsidiaries. The other area of controls relies on safe credit risk procedures and on controlling of existing credit risk through a system of reports and analyses. Credit risk procedures applied by the subsidiaries of the Group are based on the Bank's solutions and are always consulted with the Head Office of the Bank.

IX.3. Liquidity Risk

The purpose of liquidity risk management is to assure and maintain the capacity of the Bank to honour both its current and future liabilities, taking into the account the costs of achieving liquidity. BRE Bank monitors financial liquidity on a daily basis, using cash flow analysis methods. Liquidity risk measurement is based on an in-house model developed on the basis of analysis of the Bank's specificity, deposit base volatility, concentration of financing, and planned developments of particular portfolios. Daily monitoring covers the following items: the value of cash flow gaps in specific time intervals (mismatch), the value of regulatory liquidity measures, the level of liquidity reserves of the Bank, and the degree of utilisation of regulatory and internal liquidity limits set by the Risk Committee. On an ongoing basis the Bank assesses its liquidity position and the probability of its deterioration based on scenario methodologies. In the situation of a sustained crisis, "stress test" scenarios are being prepared and presented to respective Committees and to the Management Board. They present potential impact of unfavorable factors on Bank's further capability in terms of liquidity and finance security. They are an important element in the process of decision making in the scope of modeling the structure of the Bank's balance sheet.

The Bank also monitors regularly the concentration of financing, especially in the deposit base, and the balance of liquidity reserves. The Bank has put in place contingency procedures in the event of a sharp deterioration of its liquidity position. These procedures which were launched as a precaution after Lehman Brothers declared bankruptcy proved their efficiency. At the end of H1 2009 the liquidity and Bank's financing remained at a level adequate to its needs.

IX.4. Market Risk

In its business, the Bank is exposed to market risk, consisting of interest rate risk, fx risk, and risk attached to changing prices of securities held by the Bank, as well as other risks resulting from variations of market parameters. Market risk is quantified by means of measurement of Value at Risk (VaR) and by applying stress tests and scenario analyses. In order to limit the level of exposure to market risk, the Risk Committee sets binding VaR limits and stress test limits (control figures).

In H1 2009, the market risk measured by VaR remained at a medium level in relation to the market risk limits and control figures. According to the regularly conducted stress tests, the level of market risk remained within a safe range of values below the limit. In the first quarter the key risk factors were highly variable, while in the second quarter they became stable. Market risk positions were still managed under special supervision, among others in order to optimise the exposure to risk and the costs of security positions which increased as a result of limited liquidity of financial instruments and large buy-sell spread.

Value at Risk

Value at Risk (VaR) is the key measure of market risk applied to the portfolios of the trading book and the portfolios of the banking book. VaR is a statistical measure of probable loss (due to current valuation) to which a portfolio is exposed over a period of time at a given confidence level under normal market conditions due to changes in risk factors such as interest rates, fx rates, stock prices, and the volatility of the risk factors (fx rates, interest rates, prices). Probable loss means that a loss lower than the calculated VaR can be expected over a certain period at a pre-determined high probability (confidence level) set for the Value at Risk. VaR is calculated using back-testing based on time series of 254 trading days observed values of all risk factors (1 year) affecting the Bank's portfolios. The Bank monitors VaR at a confidence level of 95% and 97.5% for a one-day holding period, while in H1 2009 the value at risk was limited at the confidence level of 95%.

Due to precise methods of valuation of financial instruments used in the process of measuring VaR, the VaR level monitored by the Bank correctly reflects the market risk of nonlinear derivative instruments such as options. The model of setting the value at risk is subject to systematic historical verification tests.

The table below presents the structure of market risk measured by VaR (confidence level 97.5% for presented periods) of the Bank's position.

(PLN'000)	H1 2009				H1 2008			
	30.06.2009	Average	Maximum	Minimum	30.06.2008	Average	Maximum	Minimum
Interest rate risk	6 040	7 557	8 847	4 881	4 492	4 113	5 751	2 596
FX risk	2 619	2 793	4 310	1 139	570	579	1 270	378
Risk of stock prices	159	158	694	1	103	427	906	88
VaR total	6 847	10 501	14 657	6 485	4 392	4 306	5 975	2 792

Utilization of VaR limits at the 95% confidence level was at a safe level in H1 2009 and on average amounted to 31% for the Financial Markets Department (DFM) portfolio and 57% for the Treasury Department (DS) portfolio.

VaR was mainly determined by the portfolios of instruments sensitive to interest rates (mainly part of the banking book), such as Treasury bonds, commercial papers, IRS and CIRS, and in the second place by the portfolios of instruments sensitive to fx rates (mainly part of the trading book) such as fx options and fx transactions. In Q1 2009, the implied volatility of fx options was still one of the main risk factors, besides fx rates, in the trading portfolio of DFM. In Q2 2009, the risk of variability of fx rates was reduced considerably. Other risk factor categories have a relatively lower impact on VaR.

Stress-testing

Stress-testing is another measure of market risk supplementary to Value at Risk. Stress-testing determines the hypothetical change in the present value of the Bank's portfolios which would occur as a result of the risk factors moving to a specific extreme value within a one-day horizon. The Bank uses two methods of stress-testing: one where the scenarios of changes of the risk factors are based on large changes in market parameters observed in past crisis situations, and the other where the scenarios are based on large, extremely correlated changes of risk factors by the same proportion in each category. The stress-testing is subject to a limit set as a control figure. The average value of stress-testing (based on the observed past crisis situations) was PLN 15 million for the

trading portfolios of the Financial Markets Department and PLN 43 million for the portfolios of the Treasury Department in H1 2009.
Out of scenarios based on large correlated volatility in risk factors in H1 2009 the largest potential loss was observed with strong increase of interest rates (mainly domestic rates). For 15% interest rate increase, an average loss in the DS portfolio would be PLN 43 million, while in DFM PLN 10 million, whereas the implementation of such a scenario would cause mainly (in the part corresponding to portfolios of instruments classified as available for sale) a decrease in the Bank's capital, and to a lesser extent it would influence the P&L account.
Due to the crisis on financial markets which started in autumn 2008 the fx rates and the fx options implied volatility became very important risk factors. The Bank conducts scenarios of PLN rate changes as well as changes of fx options implied volatility. For a scenario of weakening the PLN rate to other foreign currencies by 10% the average potential loss for the Bank in H1 2009 would amount to PLN 14 million, whereas in case of strengthening of the PLN by 10% the Bank would report a profit of PLN 10 million on average. In case of a scenario of a relative decrease in fx options implied volatility by 25% the average increase of Bank's portfolio value would be PLN 5 million, whereas in the case of 50% relative increase in fx options implied volatility the Bank would report a loss of PLN 10 million on average.

Interest Rate Risk of the Banking Book

In order to estimate interest rate risk of the banking book, i.e. its sensitivity to interest rate volatility, the Bank applies methods based on maturity gap analysis of instruments contained in the banking book. One of the aggregate measures used is the Earnings at Risk method (EaR). The EaR indicator determines the potential loss (decrease in the net interest income) which might result from adverse changes in interest rates, assuming that the portfolio is held unchanged for a period of one year. In addition, the Bank monitors the underlying risk, the risk of the yield curve and the customer option. The rate of utilisation of the internal interest rate risk limits of the banking book is monitored on a daily basis.

In H1 2009, the level of the interest rate risk was moderate for the positions held in PLN and CHF and low for the positions in USD and EUR owing to the relatively small gaps in interest rate positions maintained in these currencies. The table below presents the potential decrease in interest income in the period of 12 months, with the assumption that market interest rates change unfavourably by 100 b.p.

in PLN million	H1 2009				2008			
	30.06.2009	Average	Maximum	Minimum	31.12.2008	Average	Maximum	Minimum
PLN	1.65	11.13	28.69	0.08	7.85	19.14	44.79	1.38
USD	0.11	1.07	3.39	0.01	0.06	1.89	5.02	0.01
EUR	3.33	3.19	6.89	0.07	5.04	6.51	11.69	1.49
CHF	16.78	12.76	19.67	7.22	16.30	7.45	18.46	1.49

IX.5. Operational Risk

From July 2003, every organisational unit of the Bank is required to identify and record operational losses in a central database created and supervised by the Financial Risk Department. The main purpose is to develop a sufficiently extensive set of historical data concerning loss events occurring at the Bank in order to be able to identify, analyse, monitor, and control operational events and losses which occur in particular business areas of the Bank. This approach is consistent with the requirements of the New Capital Accord (Basel II).

Depending on the value of losses relating to the respective loss event, the organisational units of the Bank which were involved in the generation of the loss-related event are required to determine actions to be taken in order to prevent the occurrence of similar losses in the future. Such actions comprise, depending on the magnitude of the loss arisen, the definition of control mechanisms intended to prevent the emergence of similar events in the future, development of new operational procedures, and independent process audits conducted at the respective organisational units by the Internal Audit Department. Operational loss data is collected both at the Bank and across the Group.

BRE Bank has implemented the process of self-assessment of operational risk, which is carried out in all organisational units of the Bank. The weaknesses identified within the self-assessment process are subject to analysis from specialists employed in organisational units in order to show ways and take actions aimed at eliminating these weaknesses. At the same time, BRE Bank collects data and reports on a set of key operational risk factors related to the Bank's business. The set of risk factors is gradually extended to include new risks used in ongoing risk monitoring.

The Bank periodically conducts workshops on operational risk scenario analysis in which representatives of organisational units from all business lines of the Bank participate. During the workshops risk scenarios are discussed and prepared, and then presented during Risk Committee meetings. Organisational units and business lines of the Bank are obliged to define and discuss activities aimed at limiting operational risks identified during workshops on operational risk scenario analysis.

X. Rating changes of BRE Bank and the Group subsidiaries

X.1. Fitch Ratings

At the end of December 2008, BRE Bank was rated by the agency as follows:

- long-term rating **A-** (the third best grade on a scale of 12)
- short-term rating **F2** (the second best grade on a scale of 6)
- individual rating **C/D** (the sixth grade on a scale of 9),
- support rating **1** (the top grade on a scale of 5)
- long-term rating outlook for BRE Bank – stable.

On 8 May 2009 the agency upgraded the long-term rating of BRE Bank from **"A-" to "A".** This rating has now a stable outlook. Since 2 September 2008, the long-term rating was put on Rating Watch Negative, which suggested a high probability of a downgrade. Meanwhile the agency took the opposite decision.

At the same time, the short-term rating was upgraded from **"F2" to "F1".** The following have been confirmed: individual rating on the current "C/D" level and support rating at the level "1".

The changes in rating of BRE Bank was connected with the decision made by the European Commission on 7 May 2009 regarding consent to the capital aid for Commerzbank offered by Germany's Financial Market Stabilisation Fund (SoFFin). By granting consent to the bailout, the European Commission also agreed for Commerzbank to continue its operations in the area of corporate and retail banking in Central and Eastern Europe.

BRE Leasing has also been rated by Fitch. Its rating in the previous 6 months was also upgraded: long-term rating was upgraded from A- to A, short-term from F2 to F1, whereas the support rating 1 remained unchanged.

The upgraded ratings reflect the strategic importance of both Polish companies in the activity of the Commerzbank Group in Central and Eastern Europe.

X.2. Changes in the Moody's Investors Service rating

At the end of December 2008 the rating was as follows:

- long-term rating of deposits **A2** (the sixth grade on a scale of 21),
- short-term rating of deposits **P-1** (the top grade on a scale of 4), with a stable outlook.
- financial strength rating expressed by grade **D** (on a scale from A to E) with a stable outlook (in September 2008 changed from positive).

At the beginning of 2009 the outlook of the A2 rating was changed from stable to negative. Whereas on 2 March 2009, due to the rating downgrade for Commerzbank the long-term rating for BRE was downgraded from **A2** to **A3,** with a negative outlook (from 26 May this year, it was put on Rating Watch Negative). The short-term ranking was downgraded from **P-1** to **P-2**. The financial strength rating remained at D level with a stable outlook.

The following BRE Bank subsidiaries have also been rated by Moody's as at the end of June 2009:

- BRE Bank Hipoteczny S.A. – in H1 2009, the rating for long-term deposits was downgraded from Baa1 to Baa3, for short-term deposits from P-2 to P3. The financial strength rating remained at D- level (but since 26 May 2009 it has been put on Rating Watch Negative); moreover, at the end of June 2009, the following ratings were granted to the mortgage bonds issued by BBH:
  - Baa1 - for public mortgage bonds offered publicly, within the Programme of public and mortgage bonds, with a nominal value of PLN 2,000,000,000.
  - Baa2 - for mortgage bonds offered publicly, within the Programme of public and mortgage bonds, with a nominal value of PLN 2,000,000,000.
  - Baa2 - for mortgage bonds denominated in local currency and in foreign currencies, issued by the Bank.
  - Baa2 - for mortgage bonds Programme in public offer, with a total nominal value of PLN 500,000,000.

- Intermarket Bank AG: A2 rating for long-term deposits, P-1 rating for short-term deposits and C rating for financial strength.

In addition to Fitch and Moody's rating, BRE Bank holds Standard&Poor's BBBpi credit rating (based on publicly available information). It is the fourth best grade on a scale of 8. In the past 6 months the rating did not change. In H1 2009, it also remained unchanged.

XI. BRE Bank authorities

XI.1. Composition of the Supervisory Board and changes in H1 2009

In accordance with the By-laws and the Rules of the Supervisory Board, the Board is composed of at least 5 members. So far, the Board's term of office had been two years and ended on the day on which the General Meeting approved the Bank's results for 2007. The term of office of the Board appointed during the General Meeting held on 14 March 2008 will be 3 years. At the end of June 2009 the composition of the Supervisory Board was as follows:

1. Maciej Leśny - Chairman of the Bank's Supervisory Board (independent member)
2. Andre Carls - Deputy Chairman of the Supervisory Board
3. Achim Kassow – Member of the Supervisory Board
4. Teresa Mokrysz - Member of the Supervisory Board (independent member)
5. Michael Schmid – Member of the Supervisory Board
6. Stefan Schmittmann – Member of the Supervisory Board
7. Waldemar Stawski - Member of the Supervisory Board (independent member)
8. Jan Szomburg - Member of the Supervisory Board (independent member)
9. Marek Wierzbowski - Member of the Supervisory Board (independent member)
10. Martn Zielke - Member of the Supervisory Board

A change which occurred in the past six months in the composition of the Supervisory Board was the appointment by the XXI General Meeting of BRE Bank held on 16 March 2009 of a tenth Board member - Stefan Schmittmann, Member of the Management Board of Commerzbank AG.

The term of office of the Supervisory Board expires on the day of the General Meeting in 2011.

Business profiles of members of the Supervisory Board are available on the BRE Bank Internet website in the part dedicated the Authorities of the Bank.

XI.2. Composition of the Management Board and changes in H1 2009

In accordance with the By-laws and the Rules of the Management Board, the Management Board of BRE Bank is composed of at least three members appointed for a common five-year term of office. The Supervisory Board appoints and dismisses the President of the Management Board, his Deputies, and other members of the Management Board in accordance with the provisions of the Banking Law. The term of a member of the Management Board appointed before the end of the term of office expires concurrently with the expiration of the terms of other members of the Management Board.

At the end of June 2009 the composition of the Management Board was as follows:

1. Mariusz Grendowicz - President of the Management Board, Chief Executive Officer
2. Wiesław Thor - Vice-President of the Management Board, Chief Risk Officer
3. Przemysław Gdański - Member of the Management Board, Head of Corporate Banking
4. Karin Katerbau - Member of the Management Board, Chief Financial Officer
5. Bernd Loewen - 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, Head of Operations and IT

On 27 March 2009, Bernd Loewen handed in his resignation to the Chairman of the Supervisory Board and the President of the Management Board. He was released from his duties as of 1 July 2009. As of 10 July 2009 Hans - Dieter Kemler was appointed a new member of the Management Board, Head of Investment Banking. He has been working in the banking sector for more than 20 years, his professional career started in the Bond Trading Department of German Dresdner Bank in Frankfurt. He has been working for the Commerzbank Group since 1998. At first, he acted as Head of Corporate Risk Advisory in the bank's Head Office. Since 2005, he has been a member of the second management level of Commerzbank responsible for international public finance.

The term of office of the current Management Board expires on the day of the General Meeting in 2013.

Business profiles of members of the Management Board are available on the BRE Bank Internet website in the part dedicated to the Authorities of the Bank.

XII. Statements of the Management Board of the Bank

True and Fair Picture in the Presented Reports

The Management Board of BRE Bank SA declares that according to its best knowledge:

- Concise IFRS Consolidated Financial Statements for the first half of 2009 and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of the BRE Bank Group as well as its financial performance;
- Management Board Report on the Business Activity of the BRE Bank Group SA in H1 2009 presents a true picture of the developments, achievements, and situation of the BRE Bank Group SA, including a description of the main risks and threats.

Appointment of the Auditor

The Auditor authorized to audit the financial statements PricewaterhouseCoopers Sp. z o.o. (PwC), performing the review of the Concise IFRS Consolidated Financial Statements for the first half of 2009 of the BRE Bank Group SA was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent review report in compliance with respective provisions of the Polish law.

Signatures of the Members of the Management Board of BRE Bank SA

Date	*Name*	*Position*	*Signature*
06.08.2009	Mariusz Grendowicz	President of the Management Board, General Director of the Bank	
06.08.2009	Wiesław Thor	Vice President of the Management Board, Managing Director for Risk Management	
06.08.2009	Przemysław Gdański	Member of the Management Board, Managing Director for Corporate Banking	
06.08.2009	Karin Katerbau	Member of the Management Board, Managing Director for Finance	
06.08.2009	Hans - Dieter Kemler	Member of the Management Board, Managing Director for Investment Banking	
06.08.2009	Jarosław Mastalerz	Member of the Management Board, Managing Director for Retail Banking	
06.08.2009	Christian Rhino	Member of the Management Board, Managing Director for Operations and IT	