Management Board Report on the Business of BRE Bank Group SA in H1 2010

Warsaw, August 4, 2010

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I. Main achievements of BRE Bank Group in H1 2010.

I.1 Positive trends in business development

H1 2010 was a period with a number of markedly positive trends in the business development of BRE Bank and BRE Group's subsidiaries, including:

- Further strong growth in the number of BRE Bank's clients, which exceeded 3.5 million clients at the end of June 2010, mainly as a result of the growing number of retail clients, which within 6 months of 2010 increased by 229 thousand, and compared to June 2009 - by 476 thousand (+7.0% YtD, +15.8% YoY).
- Continued growth in deposits – amounts due to customers grew by PLN 1.7 billion over 6 months of 2010 and by PLN 5.6 billion over the whole year, totalling PLN 44.5 billion at the end of June 2010 (+3.9% YtD, +14.5% YoY).
- Improved match of currency and term structure of funding thanks to new FX loans taken up and to the extension to longer tenors of loans that were initially maturing in 2010- 2011.
- Signs of recovery in lending activity, especially in Q2 2010, when non-mortgage and mortgage loans for retail clients were markedly on the rise. Total loans and advances to customers amounted to PLN 55.6 billion at the end of June 2010, up by PLN 3.1 billion over 6 months of 2010 and by PLN 0.7 billion over the whole year (+5.9% YtD, +1.3% YoY).
- Enriched offer by new innovative products, both for corporate clients (especially iBRE FX – Internet online currency exchange platform), and retail clients (e.g. automatic pre-approved loan limit offer, BILIX – electronic bill presentment and payment system).
- Positive impact of the recovery in the economy on business operations of a majority of the Group's subsidiaries, especially Dom Inwestycyjny BRE Banku and BRE Ubezpieczenia.

I.2. Profitability improved

The return to sound financial results was a success of BRE Bank Group in H1 2010. The Group generated a pre-tax profit of PLN 328.8 million, against PLN 16.2 million a year ago, which was 20 times more, whereas net profit attributable to owners of BRE Bank (PLN 239.7 million) was 15 times higher.

The results improvement was achieved thanks to:

- A 4.9% increase of income from banking operations, especially commission income, which grew by 23.7% YoY (up from PLN 280.0 million to PLN 346.3 million) as a result of an increased number of clients transactions and driven by improved cross-selling with growing income from insurance and brokerage activity.
- Significant drop in impairment losses on loans and advances from PLN 648.9 million in H1 2009 to PLN 380.6 million in H1 2010 (-41.3% YoY), mainly due to the lack of the necessity of creating provisions related to derivative transactions in H1 2010.

- Continued cost discipline: thanks to strict cost management total costs grew slower than income (+3.8% YoY, up from PLN 604.5 million to PLN 627.2 million). Hence, the cost/income ratio of BRE Bank Group decreased to 51.2% as of 30.06.2010 against 52.1% at the end of H1 2009.

Financial results are discussed in more detail in chapter IX.

I.3. New growth strategy for 2010-2012

On 1 March 2010, the Bank announced its strategy for the years 2010-2012. It focuses on profitable growth in the Group's two main areas of activity: Retail Banking as well as Corporates & Financial Markets.

- In Retail Banking, the target is to increase revenues by growing the customer base and by cross selling to existing clients. It is planned to especially grow revenues in the most attractive client segments by focusing on existing and potential affluent customers. The Bank's goal is to increase revenues by: (i) attracting new customers through the broad functionality of current account products, (ii) increasing the number of products provided to customers for whom the Bank is not currently the bank of first choice, and (iii) segmenting the retail customer base through the use of CRM system to better target the offering of certain products and services as a function of the needs of individual customer groups. The range of products and services the Bank intends to cross sell includes: (i) non-mortgage lending products which shall be supported by innovative automatic pre-approved loan limit offers for customers, (ii) mortgage loans including foreign currency-denominated loans and (iii) other products such as transaction products, mutual funds, brokerage and bancassurance products. It is planned that the number of clients will grow further to more than 4 million clients in 2012.
- In Corporates & Financial Markets the Bank intends to solidify its strong corporate and investment banking position by more effective use of the corporate network and by focusing on new attractive areas of growth. In particular, it is planned to develop transactional banking services business and to increase cross selling of investment banking products to the Bank's corporate client base. In addition, the Bank intends to exploit attractive areas of growth, including: (i) servicing public finance business with focus on attractive risk/return profiles, (ii) business opportunities with Polish subsidiaries of international corporations, including Commerzbank's customers and (iii) financing projects conducted with the use of EU funds. The Bank also aims at becoming the market leader in transactional banking services by reaching more customers via BRE's networkbut also through the network of MultiBank's branches and through an intensified cooperation with the Bank's subsidiaries. Furthermore, the Bank will continue the development of innovative products (including those offered via iBRE platform, innovative cash management products, expansion of its payment card offering, improving PLN cash payments and by fully automating outgoing international payments), and intends to leverage its strong relations with exporters and importers. In light of the gradually improving Polish economy, the Bank also intends to focus on increasing the volume of corporate and investment banking products and services such as debt origination, and products supporting risk management (such as foreign exchange options, forward contracts, interest rate derivatives and commodity swaps).

In order to support the implementation of the strategy for 2010-2012 and provide for a Tier 1 capital ratio (which at the end of 2009 stood at 6.62% and was comparatively low against the background of the Polish banks) in line with potential new requirements both regulatory and those of the marketplace on 30 March 2010, the Ordinary General Meeting of BRE Bank took a decision on increasing the capital by up to PLN 2 billion through an issue of shares with pre-emptive rights.

I.4. Capital increase of almost PLN 2 billion through new issue of shares

The issue of new shares with pre-emptive subscription rights raised PLN 1,979.4 million and was a great success in H1 2010. The equity raised, significantly increased the Bank's capital base and will allow for its further expansion. It should be emphasised that the issue enjoyed great interest of domestic and international investors, despite other competitive offerings on the market. All the offered shares (12,371,200) were subscribed (with 1.6 times oversubscription) .

The subscription period to exercise pre-emptive rights lasted from 19 to 26 May. The issue was addressed to investors entitled to exercise pre-emptive rights (which give priority to the existing shareholders to acquire shares of the new issue pro rata to their current holdings) and to participate in additional subscriptions. A shareholder holding 12 pre-emptive rights was entitled to subscribe for 5 shares of the new issue at the issue price of PLN 160 per share.

In the subscription period, the investors placed 3,683 subscriptions for 12,287,554 shares and exercised 99,3% of the pre-emptive rights. In accordance with its previous declarations, Commerzbank, BRE Bank's strategic shareholder holding 69.78% of shares, fully exercised its pre-emptive rights.

Moreover, as part of additional subscriptions, investors subscribed for 7,050,232 shares. Consequently, the demand for the Bank's shares exceeded by 6,966,586 the number of shares offered.

Allotment of the new shares took place on 9 June 2010, and the first listing of the Allotment Certificates (PDA) was on 17 June 2010.

As at 30 June the issue was not registered yet. PDA were traded on the stock exchange, and in the Bank's capital the funds raised in the issue (less the costs of the issue) were disclosed under the item "Paid not registered capital”.

On 16 July 2010 the new amount of Bank’s share capital was registered in the National Court Register. As at 16 July 2010 Bank’s share capital (totally paid) amounted to PLN 168,248,328.

I.5. Realisation of important projects

In H1 2010, actions were taken within the following projects important for BRE Bank Group’s business activity:

- Implementation of the MIFID project (Market in Financial Instruments Directive) in order to adjust the operation to legal changes related to the above directive. For that purpose, action was taken so as to strengthen the protection of the clients investing in financial instruments, as well as to increase the transparency of the financial instruments offering. Segmentation of existing corporate clients was performed so as to adjust the scope of the information provided on products and investment services and the related risks to individual needs of each client. The new product rules, effective as of 18 June 2010, contain more information, according to the MiFID requirements. As far as retail clients are concerned, on the basis of an adequacy test provided by the client and characteristics of this activity in acquiring financial instruments, employees qualify products as adequate or inadequate for the client, and such information will be available for operational purposes in the main operating system Globus and in CRM system (Customer Relationship Management). Also, modifications related to the MIFID directive were carried out within the “Derivatives Trading” project.

- Continuation of the AIRB project (Advanced Internal Ratings Based approach) consisting in the implementation of the internal ratings based approach for the purpose of determining the capital requirement for credit risk. In December 2009, the Bank applied to the Polish and German financial supervision for consent to apply the approach. In Q2 2010, KNF carried out a topical inspection in the Bank aimed at verification of BRE Bank SA’s readiness for the application of the internal ratings based approach. The inspection included an analysis of all credit risk management models covered by AIRB phase 1 as well as credit processes, supporting IT tools, and a capital requirement calculation tool. Works on the implementation of the AIRB method were carried out also by BRE Leasing and by BRE Bank Hipoteczny.
- Beginning of implementation of a new CRM system in Retail Banking, starting with MultiBank. The CRM will allow for more precise specification of client groups within the overall client base, who are potential purchasers of a given product. Thus, marketing campaigns can be addressed in a focused way to more precisely defined client groups.
- Finalisation of the “Altamira Get Together” project – the unification of the source code of Altamira (main computer system of Retail Banking) for mBank and MultiBank. This will allow for increased efficiency, reduction of the costs of system maintenance and improved programming in the future.
- Implementation of a new call center platform for Retail Banking; in H1 2010 the first phase of the project was completed for clients of the branches in the Czech Republic and Slovakia.

Moreover, in H1 2010, important regulations were introduced with the aim of rationalising project management at the Bank, both with respect to the decision-making process, as well as the mode of monitoring and reporting on project implementation. To that end, also organisational changes were made in the IT area – formation of the BRE Bank IT Projects Committee and the Chief Architect Bureau. The Bureau will be responsible for long-term planning and development of infrastructure as well as for setting the future direction for the Bank's IT infrastructure. Those changes also included changes in the functions of existing departments and discontinuation of the operation of BRE Systems and insourcing of its employees at the Bank.

I.6. Awards and distinctions

The operation of the Bank and its subsidiaries in H1 2010 was appreciated by both the clients and external experts, which was reflected in a number of awards and distinctions. The most important of these include:

- The “Thornless Rose” award for the best bank recommended by the largest companies in Poland in the ranking organised by *Home & Market* monthly. The ranking concerned the quality of service.
- Honorary distinction and promotion logo of the 11th edition of the Entrepreneur-Friendly Bank competition, organised by the Polish Chamber of Commerce.
- "Europrodukt” title awarded in the competition organised under the patronage of the Ministry of Economy and the Polish Agency for Enterprise Development for:
    - iBRE FX – Internet online currency exchange platform,

  - Prepaid Payment Cards and iBRE CARDS module,
  - Quality Management Model in the SME segment.

- Three golden medals in the Quality Forum "Quality International 2010" competition organised by the Ministry of Regional Development, the Polish Agency for Enterprise Development, ISO Forum and *Forum Biznesu* (monthly magazine published by *Dziennik Gazeta Prawna* daily) for:

  - model of service quality management in the SME segment,
  - BRE Collection - Innovative Platform of Comprehensive Management of Receivables,
  - Multiproduct credit line for SMEs.

- European Medal awarded by the European Economic and Social Committee, the Office for the Committee of European Integration and Business Centre Club for BRE Collection as one of the most innovative platforms on the market.
- "Best Private Banking in Poland" title granted by *Euromoney Magazine* already for the second time in a row to BRE Private Banking & Wealth Management.
- 3rd place in the category "Best Investor Relations in Poland" in the "European Investor Relations" ranking run by *Institutional Investor* and nomination to the award for the best investor relations in Poland ("Best Investor Relations by a Polish company") in the ranking of *IR Magazine*.
- 2nd place in the "Best Managed Companies in the Central and Eastern Europe" ranking organised by *Euromoney* monthly in "the most accessible senior management" category .
- "Złoty Bank 2009" (Golden Bank 2009) award for mBank, granted by internet surfers in the ranking "Złoty Bankier" (Golden Banker), and the winning categories were as follows:

  - Best account for an internet surfer,
  - Best credit card,
  - Best company account for an Internet entrepreneur,
  - Best loan for companies.

- MultiBank was the leader in the Banking category (best quality as far as organisation, time and place of service and product offer are concerned) according to "Service Quality Indicator in Poland" (calculated by a specialised portal on the basis of opinions of 200 thousand users); mBank obtained the highest level of client satisfaction.
- Dom Inwestycyjny BRE Banku won recognition in the ranking by *Rzeczpospolita* daily for the best financial institution in the category of brokerage houses, and the WarsawScan ranking considered its analyses to be of the highest quality.

II. Macroeconomic Situation in H1 2010

II.1. Signs of Economic Improvement in H1 2010

The rate and the structure of GDP suggest that the Polish economy has moved out of the slow-down. GDP grew by **3.0% YoY** in Q1 2010 and is estimated to have grown by a similar rate in Q2.

The signs of economic improvement included the following developments:

- The volume of foreign trade volume increased, including exports which grew by ca. 10% YoY; the contribution of foreign demand was crucial: symptoms of recovery in the global economy, especially the German economy, considerably boosted both exports and imports.

- Growth of industrial output accelerated starting in April to 14.5% in June, among others driven by significant growth in production for exports.

- The situation on the labour market stabilised as a result of growing economic activity. The official unemployment rate decreased from 12.9% at the end of Q1 to 11.6% in June. In Q2, employment in the corporate sector grew for the first time in more than a year (up by 1.1% YoY in June). This was accompanied by moderate growth of salaries in the corporate sector, resulting in real growth of total salaries by ca. 2.0% YoY in Q2.

- Private consumption remained stable in Q1 2010 and grew by 2.2% YoY. Private consumption is expected to have grown at a moderate rate in Q2 2010 thanks to stabilisation on the labour market.

Investments fell by 12.4% YoY in Q1. The decrease of investment demand was due to:

- falling public investments as a result of unfavourable weather conditions,
- falling private investments (according to the Central Statistical Office [GUS], down by 19.8% YoY in the segment of corporations).

The decrease of investments, which was the strongest since the outset of the financial crisis, seems to be only temporary: with improvement of conditions for infrastructure investments (recovery in the construction sector signalled in Q2), the negative rate of total investments should have been lower in Q2 2010.

II.2. Monetary Policy

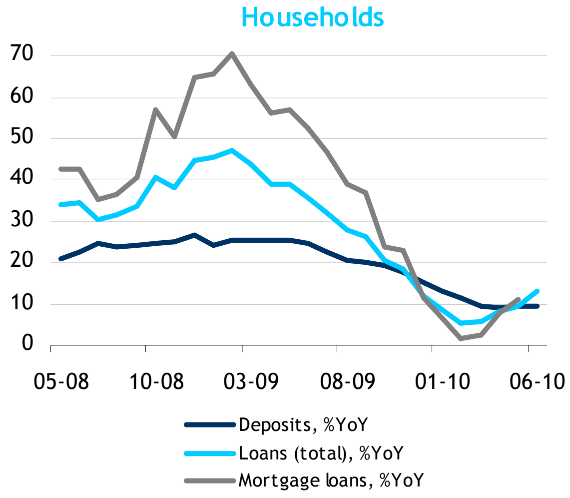
Inflation decreased strongly in H1 2010 from 3.5% at the end of 2009 to 2.3% in June. The decrease was mainly driven by the negative effect of a very high statistical base in 2009 (prices grew sharply in H1 2009 as a result of depreciation of the zloty). Inflation fell the most in Q1. The decrease of CPI slowed down in Q2 and inflation grew modestly in June.

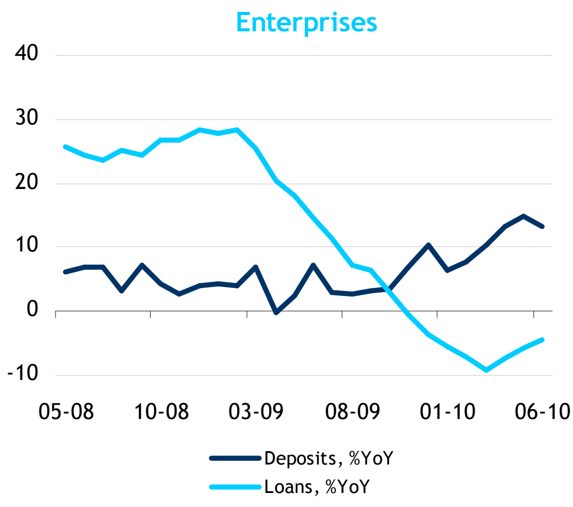
The main interest rates remained unchanged in H1 2010. However, the Monetary Policy Council (RPP) restricted its policy bias considerably at the June meeting. The communication published after the meeting as well as statements of some RPP members announcing an interest rate increase later this year drove market expectations of a tighter monetary policy in the coming months. At least one 25 bp rate hike is expected this year.

II.3. Banking Sector

The banking sector in H1 2010 was characterised by the following developments:

- Relative stability of the growth rate of retail deposits at 9.3% YoY at the end of June. Retail deposits were up by PLN 15.4 billion in H1 2010 and up by PLN 32.4 billion in H1 2009. The growth was driven by a stable situation on the labour market (gradually growing employment, higher real growth of salaries) and curbed by the continuing positive balance of inflows and outflows in investment funds.
- Growth in corporate deposits, which were up by 13.2% YoY at the end of June. Corporate deposits grew by PLN 2.7 billion in H1 2010 and fell by PLN 1.3 billion in H1 2009. These statistics demonstrate further improvement of the financial results of Polish companies as well as still strongly limited investments.
- Retail loans improved significantly in H1 2010: they were up by 13.0% YoY at the end of June, growing by PLN 38.5 billion in H1 2010 and by PLN 30.5 billion in H1 2009. Net of the fx effect, retail loans were up by 10.4% YoY at the end of June. The strong improvement in retail loans resulted from gradual stabilisation on the local labour market combined with growing economic activity, which strengthened the creditworthiness of households.
- Corporate loans remained on the decrease in H1 2010: they were down by 4.5% YoY at the end of June (down by 2.5% YoY net of the fx effect). Following a strong decrease in volumes of loans to enterprises by PLN 11.2 billion in H2 2009, the volumes increased by PLN 1.0 billion in H1 2010 (they grew by PLN 3.0 billion in H1 2009). Demand for loans to enterprises remained low in the absence of significant improvement of investments and in view of high corporate deposits.





II.4. Capital Market

The situation on the local capital market in H1 2010 was mainly influenced by the global sentiment. Mounting fiscal problems of the periphery eurozone economies boosted risk aversion, resulting among others in an outflow of capital from the emerging economies, among others Central and Eastern Europe. In addition, the announced fiscal consolidation initiatives in the eurozone brought about growing uncertainty about the pace of its economic recovery from recession. These factors additionally augmented market uncertainty and caused in a correction of the uptrend which began in March 2009 as well as growing volatility on the capital market. As a result, the WIG index lost 1.48% year to date at the end of June 2010.

At the end of June, the capitalisation of local companies listed on the exchange was PLN 450.2 billion v. PLN 421.2 billion at YE 2009 (up by 6.9%). Over this period, 11 companies were listed (including PZU and Tauron, privatised by the State Treasury) while 7 companies were delisted. In H1 2010, the value of trading in stocks at sessions totalled PLN 198.6 billion, up by 35.5% YoY.

The position of investment funds further improved in H1 2010. The net assets of investment funds totalled PLN 102 billion at the end of June 2010 v. PLN 93.6 billion at YE 2009. The growth in investment fund assets resulted from a positive balance of inflows and outflows (PLN 5.8 billion in H1 2010) as well as an improved management performance. However, due to the impact of the fiscal crisis on the capital markets, the net assets of investment funds went down by PLN 2.7 billion in May-June 2010 while the balance of inflows and outflows in June was slightly below zero (ca. –PLN 35 million).

II.5. Factors Influencing the Banking Sector in H2 2010

The expected directions of growth in the Polish economy in H2 2010 should have a positive impact on the environment of the banking sector including BRE Bank, in particular:

- In H2 2010, as the situation on the labour market gradually improves, the real growth in total salaries shall increase, which should boost retail deposits. The growth in retail deposit volumes will be curbed by rising inflation, contributing to the reduction of real interest rates.
- Corporate deposits in H2 2010 shall be helped by continuing growth of economic activity as demonstrated by high growth of industrial output and exports. However, gradual growth of private investments financed initially with companies' own funds may slow down the growth rate of corporate deposits.
- Improvement on the labour market and the resulting improvement in the creditworthiness of households will support growth in retail lending, in particular mortgage loans which have a lower risk profile and already picked up significantly in Q2.
- Growing economic activity will result in growing demand for corporate loans in H2. In the first place, demand for working capital loans should increase considerably thanks to continuing expansion of industrial output and exports. Expansion of investment loans will come after some delay because companies' own funds will be the main source of funding in the early phase of the new investment cycle.

III. Outlook of BRE Bank Group in H2 2010

Many factors suggest that BRE Bank Group will close 2010 with sound business and financial results. The main factors include:

- Positive impact of developments in the economic environment on BRE Bank Group's business (expected growth of demand for loans among retail and corporate clients, continued high level of deposits).
- Consistent implementation of the Bank's profitable growth strategy for 2010 – 2012 (as outlined in Section I.3).
- Growth of the Bank's equity by almost PLN 2 billion as a result of the issue of shares completed in Q2 2010, opening further opportunities of expansion.
- Continuation of a prudent provisioning of the loan portfolio.

- Further tailoring of the products and services offering to clients' needs thus improving cross selling and new clients acquisition. In Retail Banking, this includes facilitations for borrowers under framework loan limits and Framework Loan Agreements, and an offering of EUR mortgage loans; in Corporates and Markets, this includes a special offering addressed to the public sector, development of the iBRE platform which further automates service and further development of the cash management services.

- Continuous improvement of the distribution network, including both branches (45 outlets serving corporate clients and 298 outlets serving retail clients in Poland and abroad) and integrated internet platforms with advanced functionalities.

IV. BRE Bank Shareholders and Share Price on the WSE

IV.1. BRE Bank Shares at the end of June 2010

- 29,690,882 –total number of BRE Bank shares, including: 29,669,382 shares in exchange trading, 21,500 registered shares.
- Nominal value: PLN 4 per share.
- BRE Bank share capital: PLN 118,763,528 (fully paid up, as at 30.06.2010).
- 12,371,200 allotment certificates in exchange trading (from 17.06.2010).
- In the Bank's equity, PLN 1,966.3 million from a new issue of shares at the end of June was shown as "Paid. not registered capital"; the court registered the issue on 16 July 2010, as a result BRE Bank share capital is up to PLN 168,248,328.
- BRE Bank's shares listed on the WSE since 1992.
- Shares participate in WSE indices: WIG, WIG20, and WIG Banks; shares also participate in indices WIG 20 short, WIG 20 lev, and WIG PL.
- There are no preferred shares, each share represents one vote at the General Meeting.

The shareholding structure after the acquisition of shares of the new issue was as follows:

- Commerzbank – 69.8%
- Polish pension funds – 15.6%
- Foreign investment funds – 7.1%
- Polish investment funds – 5.5%
- Retail clients – 1.4%
- Foreign pension funds – 0.6%

Local investors (including retail investors) hold 22.6% of shares and 75.0% of free float shares.

IV.2. Performance of BRE Bank Shares on the WSE

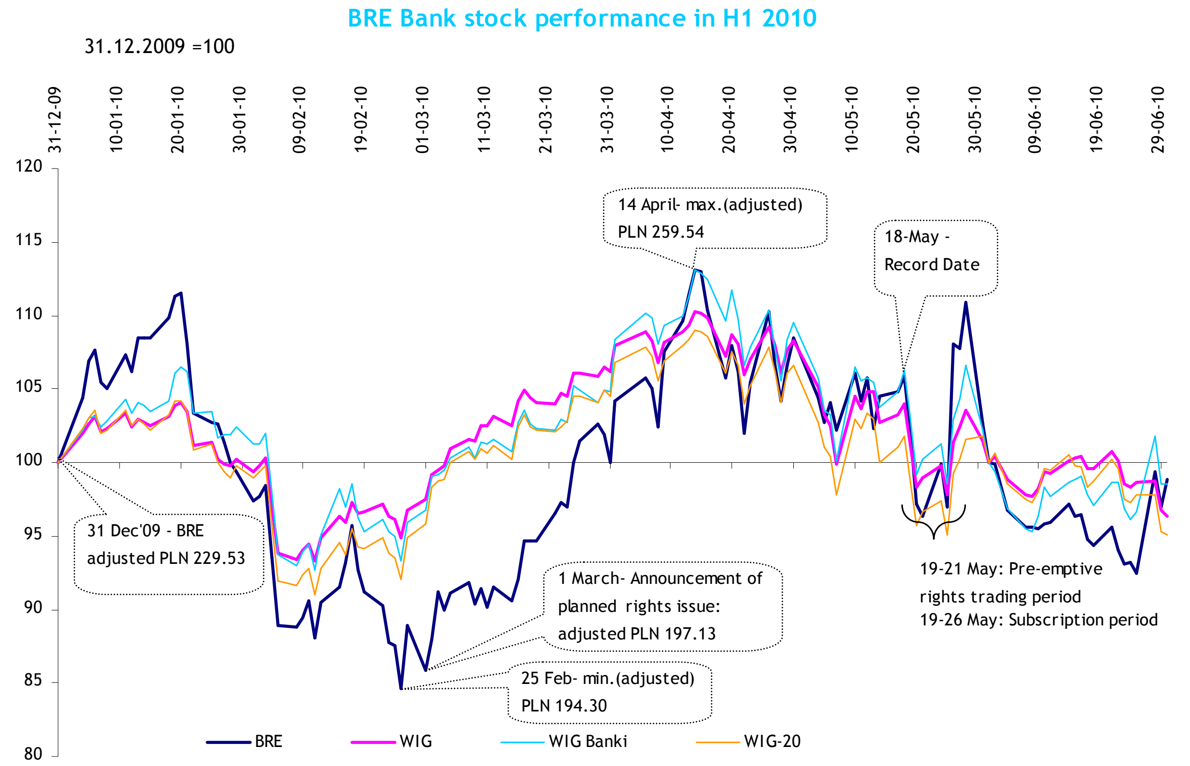
The performance of BRE Bank shares in H1 2010, particularly in mid-May, was significantly impacted by the issue of shares with pre-emptive rights (see Section I.4 for more information).

When a company listed on the WSE issues shares with pre-emptive rights whose issue price is lower than the current market price ex-rights, the market price of the shares is automatically adjusted for the theoretical price of the pre-emptive rights to the theoretical ex-rights price (TERP). The shareholders have the right to buy shares at a lower price; this right is priced and excluded from the price of the shares on the first day of trading in the shares ex-rights. The procedure of pricing the pre-emptive rights and adjusting the reference price of shares of the company which issues the pre-emptive rights is set out in detail in the official WSE document "Detailed Exchange Trading Rules". (http://www.gpw.pl/zrodla/e_ogieldzie/regulacje/szog_wse.pdf).

The last day of trading when the acquisition of BRE Bank's existing shares enabled the buyer to acquire pre-emptive rights was 13 May 2010. BRE Bank's share price was PLN 266 at the closing on that day. According to the formula set out in the above-mentioned document, BRE Bank's pre-emptive right was priced at PLN 31.2. BRE Bank's reference share price on 14 May was determined on the basis of the closing price of 13 May as the theoretical ex-rights price set at PLN 234.8.

In order to ensure comparability of BRE's share price in the last 6 months, the price of BRE Bank shares until 13 May 2010 in the chart below is adjusted with a ratio of 0.88275 calculated as follows: TERP of 13 May 2010 (PLN 234.82) to the closing price of 13 May 2010 (PLN 266).

The closing price of 30 June 2010 was PLN 227, which was 1.1% less than TERP of 31 December 2009 (TERP PLN 229.5). Over that period, the WSE indices performed as follows: WIG down by 1.5%, WIG20 down by 1.5%, WIG-Banks down by 4.9%.



P/BV (price/book value) was 1.5 at 30.06.2010 v. 1.3 at 30.06.2009 and 1.9 at 31.12.2009. P/E (price/earnings) was 19,8 in H1 2010 (earnings in the last 4 quarters) v. 59.9 in 2009

V. Composition of BRE Bank Group

At 30 June 2010, the composition of BRE Bank Group by business lines and areas was as follows:

<table>
<tr><th colspan="4">BRE Bank Group</th></tr>
<tr><td>Line</td><td colspan="2">Corporates & Markets</td><td>Retail Banking</td></tr>
<tr><td rowspan="2">Bank</td><td>Corporates & Institutions</td><td>Trading & Investments</td><td></td></tr>
<tr><td>▪ Corporations (capital groups)
▪ Large Companies
▪ SMEs
▪ Financial Institutions
▪ Structured & Mezzanine Finance</td><td>▪ Risk and Liquidity Management
▪ Financial Markets</td><td>▪ mBank (mass retail customers and microenterprises)
▪ MultiBank (affluent retail customers)
▪ Private Banking (high net worth individuals)</td></tr>
<tr><td rowspan="2">Consolidated subsidiaries</td><td>▪ BRE Bank Hipoteczny SA
▪ BRE Leasing Sp. z o.o.
▪ 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.
▪ BRE Gold FIZ Aktywów Niepublicznych
▪ Tele-Tech Investment Sp. z o.o.
▪ Garbary Sp. z o.o.</td><td>▪ BRE Finance France SA</td><td>▪ BRE Wealth Management SA
▪ Aspiro Sp. z o.o.
▪ BRE Ubezpieczenia TUiR SA
▪ BRE Ubezpieczenia Sp. z o.o.</td></tr>
<tr><td>Other subsidiaries</td><td colspan="2">▪ BRE.locum SA
▪ Centrum Rozliczeń i Informacji CERI Sp. z o.o.</td></tr>
</table>

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.

Under the IFRS, all subsidiaries are consolidated using acquisition accounting. The business profile of the consolidated subsidiaries and the stake held by the Bank are presented in Note 1 to the IFRS Condensed Consolidated Financial Statements for the first half of 2010. In addition, their business is briefly described here in sections on relevant business lines.

VI. BRE Bank Group's Corporates & Markets Area

VI.1. Corporates and Institutions (BRE Bank)

In H1 2010, market conditions were still difficult, investments were very low, resulting in falling corporate loans, increased price competition in public sector funding, and continued growth of the number of corporate bankruptcies.

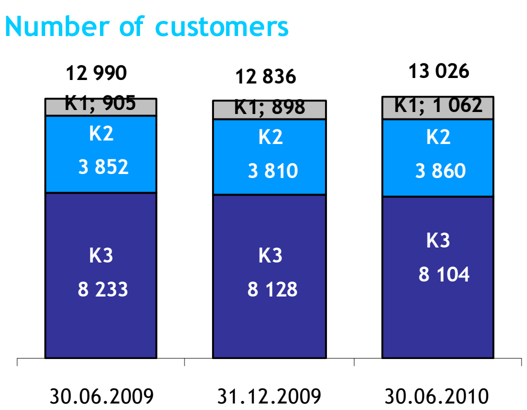
BRE Bank's initiatives in the corporate banking area curbed the impact of the unfavourable market conditions on growth in the area. The number of corporate clients grew, the market share was at high level, the revenues from transactional banking increased, and the profitability of products co-financed by EU funds improved.

BRE Bank was very active and effective in serving the public sector. In H1 2010, there were 428 open bids in the sector; BRE Bank participated in 82 tenders and won 30 of them.

VI.1.1. Corporate Clients

In H1 2010, BRE Bank acquired 1,057 new corporate clients, of which 56.7% were K3 clients and 34.4% were K2 clients. The total number of clients was 13,026 companies at the end of June 2010, up by 190 companies YtD.

K1 is the segment of the largest corporations with annual sales over PLN 500 million, K2 is the segment of medium sized corporations with annual sales between PLN 30 and 500 million and K3 is the segment of SME's with annual sales between PLN 3 and 30 million.



The volume of corporate loans and deposits is presented in chapter IX in the Section on the Statement of Financial Position.

The corporate loans market grew only by 0.2% in H1 2010. The market share of BRE Bank's lending to enterprises remained stable and amounted to 6.3% at the end of June 2010.

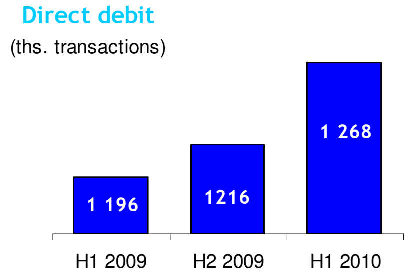
The corporate deposits market grew by 1.5% in H1 2010. The market share of BRE Bank's corporate deposits was 8.3% at the end of June 2010 vs. 8.6% at 2009 YE.

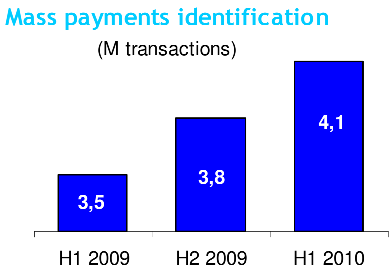
BRE Bank SA is implementing its new strategy by intensifying its activity in serving the public sector. The market share in public sector loans was 1.2% at the end of June 2010 vs. 0% at the end of June 2009 and 0.8% at 2009 YE. The market share in public sector deposits was 2.1% at the end of June 2010 vs. 1.2% at the end of June 2009 and 0.1% at 2009 YE.

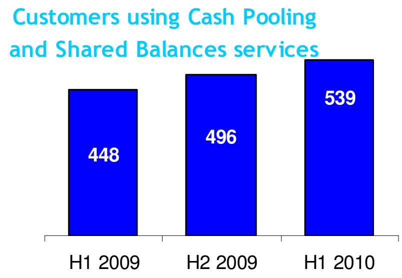
VI.1.2. Development of Transactional Banking

The constantly developed cash management offer supports long-term customer relationships and helps to grow the volume of transactions involving the identification of payments and the number of customers using advanced cash management products.

The number of direct debits processed in H1 2010 was 1,298 thousand, up by 8.6% YoY. The number of identifications of trade payments and income from such services grew dynamically. More than 4.1 million transactions were processed in January-June 2010, up by 18.4% YoY. Income from these services grew by 14.1% YoY. The number of customers using the most advanced bank account consolidation facilities grew by 20.3% YoY in 2010; 539 customers were using Cash Pooling and Shared Balances services at the end of June 2010.







The development of transactional banking in H1 2010 is also reflected in the following statistics:

- The number of local money transfers executed by corporate clients in H1 2010 was up by 40.1% YoY;
- The number of international money transfers was up by 10.2% YoY; the number of SEPA transfers grew the most dynamically, by 145.2% YoY;
- The volume of cash services provided to corporate clients grew by 19.6% YoY;
- The number of issued corporate cards grew by more than 51.4% YoY.

VI.1.3. Development of the Offering

The product offering was considerably improved in H1 2010. The main implementations included:

- iBRE FX – an internet online currency exchange platform: it supports on-line fx transactions as an additional channel of access to financial markets. The platform supports quick and effective foreign exchange transactions at the best exchange rate currently quoted on the interbank market. The Info FX tab is a new and unique solution: it tracks current exchange rates of different currency pairs, thus enabling the optimum currency buy or sell decisions;
- iBRE 2.0 – new version of the internet banking platform. The development of the internet platform focused on improvement of the system's user-friendliness and the addition of functionalities facilitating communication between clients and the Bank. iBRE 2.0 has a new layout and many new functionalities including the communication module, an interactive calendar, a notification system, and multiple languages (iBRE Trade).
- HAL-CASH mobile transfers: BRE Bank is Poland's only settlement bank to offer this modern cash transfer service between counterparties in different countries. Local and international HAL-CASH settlements give access to ATM cash withdrawals without payment cards;
- Payment Bridge: facilitations for Commerzbank Group clients in Poland. The service forwards inbound local transfers to accounts opened for these clients with BRE Bank SA.

VI.1.4. Growth of Sales of Banking Products with EU Financing

Income from sales of products related to EU co-financing grew by ca. 11.3% YoY in H1 2010. Income from loans related to EU financing grew by 80.8% YoY in H1 2010.

VI.1.5. Structured Finance, Project Finance and Syndicated Loans

In 2010, BRE Bank participated in four syndicated loans. BRE's new and refinanced exposure under syndicated loans was ca. PLN 496.7 million (some exposures were in EUR). The Bank granted four bilateral loans totalling PLN 76 million. The volume of loans granted in H1 2010 totalled PLN 572.7 million.

At 30.06.2010, the total portfolio stood at PLN 4.8 billion versus PLN 4.4 billion a year ago.

VI.1.6. Proprietary Investments

At 30.06.2010, the total value of the Group's proprietary investments portfolio (excluding the consolidated companies: Garbary and Tele-Tech Investment Sp. z o.o.) amounted to PLN 136.0 million v. PLN 179.3 million at 31.12.2009. The change of the proprietary investments portfolio value at cost was due primarily to redemption of bonds by a client.

At the end of H1 2010, the largest proprietary investments of the Group were PZU S.A. shares at fair value of PLN 204.1 million and bonds issued by clients under mezzanine finance programs worth PLN 19.9 million.

VI.1.7. Financial Institutions

Corporate Banking also includes relations with financial institutions, mainly borrowings from other banks and placements with other banks.

The number of correspondent banks with which BRE Bank has exchanged swift keys was 1,612 at the end of June 2010.

At the end of H1 2010, the Bank had 34 nostro accounts, down by 1 year to date. There were 108 loro accounts in PLN (8 new accounts were opened, 5 accounts were closed). In addition to PLN accounts, the Bank operates 6 accounts of other banks in other currencies.

At 30 June 2010, the Bank had 22 active borrowings totalling the equivalent of PLN 21,917 million, of which PLN 21,710 million were drawn. In H1 2010, the Bank repaid one loan in EUR in the equivalent of PLN 207 million; took three new loans: two in USD and one in CHF; and extended 6 tranches of loans in CHF totalling the equivalent of PLN 11,180 million. The net borrowings drawn were up by PLN 3, 826 million year to date. More than one half of the increase was due to fx differences.

BRE Bank's exposure under loans granted to other banks at 30 June 2010 totalled the equivalent of PLN 1,169 million. The Bank's portfolio included 55 short-term and long-term active loans granted to other banks. In H1 2010, the Bank signed 16 new credit agreements totalling the equivalent of PLN 870 million.

VI.1.8. BRE Bank's Custodian Services

BRE Bank's custody clients are mainly local and foreign financial institutions, banks which offer custodian and investment services, pension funds and investment funds, insurance companies, asset management institutions, and non-financial institutions.

The Bank provides services including settlement of transactions in securities registered in local and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, maintenance of asset registers of pension funds and investment funds, monitoring the valuation of their assets, and processing corporate actions.

The Bank's custodian services grew dynamically in H1 2010. The Bank acquired new clients, mainly investment funds. In H1 2010, the Bank started to provide services to 54 investment funds; as a result, the number of investment fund clients doubled and reached a market share of around 20%. Another 51 funds managed by 12 different fund managers are pending the start of service.

At the end of June 2010, the total assets of clients covered by the Bank's custodian services increased by 10% year to date and reached the highest level ever in the history of this business of BRE Bank SA.

VI.2. Trading and Investments

In H1 2010, in the context of a very dynamically growing market of Treasury bonds and interest rate derivatives, the Bank remained a leading player, growing its market share to 6.8% for bonds and 21.6% for IRS/FRA.

In view of the position of the Polish Financial Supervision Authority (KNF) concerning the requirement of separate licences to be held by banks for their proprietary trading in instruments admitted to regulated trading, trading in WSE listed stocks was suspended as of May 2010 while trading in stock derivatives was limited to the hedging of positions in derivatives.

In the origination of debt securities, several issues of mid-term debt were completed on behalf of clients including Artic Paper, NFI Empik, Polnord, Magellan, Echo Investment.

BRE (in syndication with three other banks) placed PLN 900 million of municipal bonds issued by the City of Warsaw maturing in 7 to 12 years.

The market share in short-term securities decreased to ca. 17% following a PLN 2 billion PGNiG issue, which the Bank did not participate in, as well as reduced issues by banks such as BGŻ, BBH, WestLB, Polbank, AIG.

The Bank had the second position and a 21% market share in mid-term corporate and bank debt.

Several initiatives were launched in order to increase the volume of fx transactions, mainly aiming to attract new corporate banking clients.

VI.3. Corporates & Markets Subsidiaries

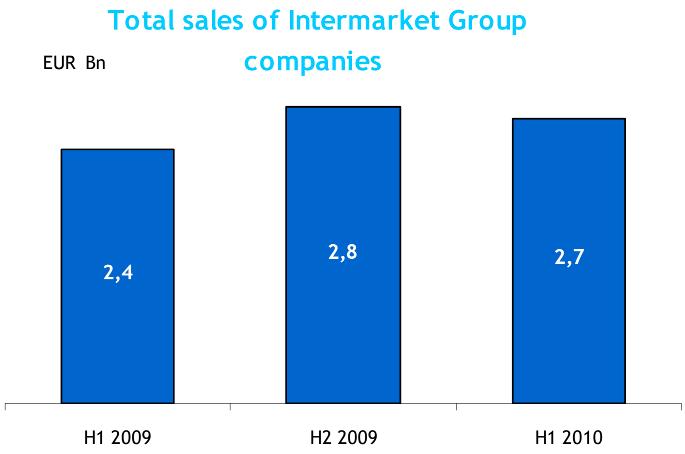
The following subsidiaries are included in the Corporates & Markets segment:

VI.3.1. Intermarket Group

Intermarket Group includes Intermarket Bank AG (Austria), Polfactor SA (Poland), Transfinance a.s. (Czech Republic), Magyar Factor zRt. (Hungary), Transfactor Slovakia a.s. (Slovakia) and S-Factoring d.d. (Slovenia) and provides factoring services in six countries in Central and Eastern Europe.

After a decrease in 2009 vs 2008, the sales of Intermarket Group in H1 2010 grew by 11% YoY and reached EUR 2.7 billion.

All the biggest companies of the Group (except the Slovak and the Slovene company) reported growth, which was mainly driven by growing activity of existing customers and acquisition of new contracts.



The profit before tax of Intermarket Group subsidiaries consolidated with BRE Bank (i.e., Intermarket Bank, Polfactor, Transfinance and Magyar Factor) was PLN 13.6 million in H1 2010 v. a pre-tax loss of PLN 20.6 million in H1 2009 due to write-offs of the investment in the Romanian factor Compania de Factoring IFN SA (sold in October 2009). Intermarket Group's loan loss provisions decreased by 25% YoY and its overhead costs dropped by 16% YoY.

VI.3.2. Polfactor SA

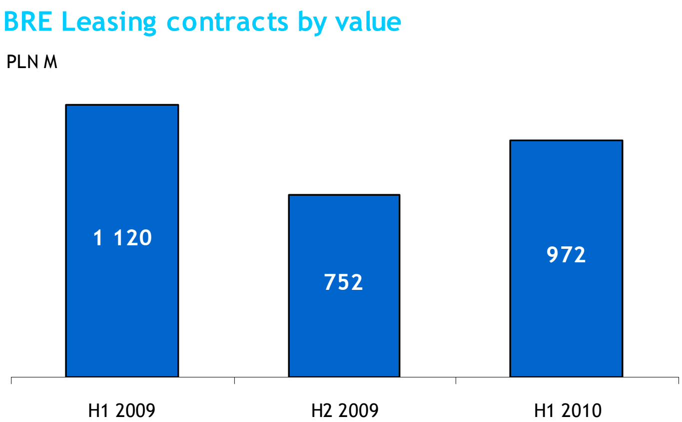
The factoring market in Poland is back on track of growth in 2010. Polfactor reported growth of sales by 18.6% year on year and remained the fourth biggest factor in the Polish Factors Association with a market share of 11.1%. Factoring with recourse remained its leading product.

The company's profit before tax was PLN 5.1 million, up by 5% year on year, mainly owing to lower write-offs of factoring receivables and a strict cost discipline.

The company was nominated in the "Best SME Factoring Offer" category in the Polish Economic Drivers competition organised by the financial newspaper *Gazeta Finansowa* (for the second consecutive year, first nomination in 2009) in recognition of the high quality of the factoring offer of the company, which in June 2010 celebrated its 15th anniversary.

VI.3.3. BRE Leasing Sp. z o.o.

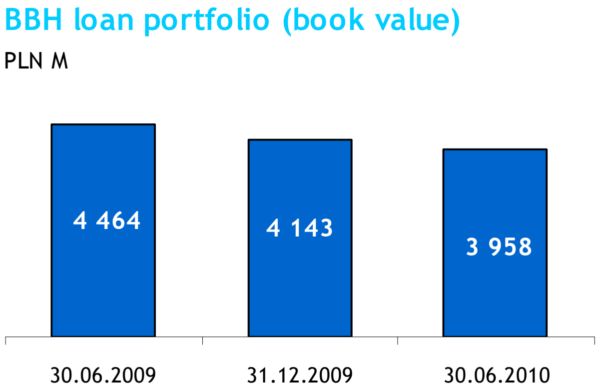
Leasing contracts signed by BRE Leasing in H1 2010 amounted to PLN 972 million (down by 13.2% year on year). This was mainly due to the fact that the real estate leasing market, where the company has a leading position, shrank by over 30%.



The pre-tax profit of BRE Leasing was PLN 27.4 million in H1 2010, a five -time increase year on year. The growth resulted from lower loan loss provisions at PLN 11.0 million in H1 2010 compared to PLN 59.7 million in H1 2009.

VI.3.4. BRE Bank Hipoteczny SA (BBH)

The gross loan portfolio of BBH decreased by 4.4% year to date and amounted to PLN 3.96 billion. Mortgage bonds issued by BBH totalled PLN 2,084 million at the end of H1 2010, including PLN 50 million of mortgage loans issued in H1 2010.



In H1 2010, BBH resumed new lending after an so-called “frozen period” which had started in Q4 2008 as a result of the financial crisis.

In H1 2010, BBH reported a pre-tax profit of PLN 22.5 million (up by 35.1% year on year).

VI.3.5. Dom Inwestycyjny BRE Banku SA (DI BRE)

The number of securities accounts operated by DI BRE amounted to 238,831 at the end of June 2010. In H1 2010, DI BRE participated in 11 large transactions including two sales of shares by the State Treasury in Accelerated Bookbuilding (sale of a block of shares of Grupa Lotos worth PLN 406 million and sale of a block of shares of Lubelski Węgiel Bogdanka SA worth PLN 1.1 billion), acted as Local Bookbuilder for the IPO of Tauron S.A., and acted as Selling Agent of BRE Bank shares in an issue with pre-emptive rights. Moreover, DI BRE co-operated with BRE Bank Group in its issue of three series of bonds of the Capital City of Warsaw and two public issues of mortgage bonds of BRE Bank Hipoteczny S.A.

The company generated a profit before tax of PLN 17 million in H1 2010 v. PLN 16.8 million in H1 2009.

VI.3.6. BRE Corporate Finance SA (BRE CF)

In H1 2010, BRE Corporate Finance SA closed several major finance deals and acted as financial advisor in the IPO of Morpol SA on the Norwegian stock exchange in Oslo. The company participated in corporate finance projects which will continue in Q3 2010. It signed two contracts concerning financial advisory and selected IPO functions. Both projects are implemented in co-operation with DI BRE Banku where BRE CF is a sub-contractor of DI BRE.

VI.3.7. BRE Holding Sp. z o.o.

BRE Holding sp. z o.o. was established by BRE Bank as the only shareholder in November 2007. The company’s assets include shares of BRE Bank Hipoteczny SA, Polfactor SA and BRE Leasing Sp. z o.o. worth PLN 185 million in total. The company’s main source of revenue in H1 2010 were dividends amounting to PLN 875 thousand.

VI.3.8. BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (BRE Gold FIZAN)

BRE Gold FIZAN is a closed-end investment fund of non-public assets. The fund issued investment certificates which were all acquired by BRE Bank SA. Following revaluation of all investment certificates twice in H1 2010, their value increased to PLN 229.6 million at 30.06.2010. Pre-tax profit for H1 2010 was PLN 3.5 million.

The fund's only asset is a stake of PZU S.A. shares. On 12 May and 13 May 2010, the fund sold 70,490 PZU S.A. shares (10.8% of the held stake of shares).

VI.3.9. Tele-Tech Investment Sp. z o.o. (TTI)

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

- other financial services excluding insurance and pension funds;
- other business and management advisory;
- financial holding operations.

At the end of 2009, TTI had in its portfolio bonds of a client and a fractional stake in the company BRE Finance France SA (0.004%).

VI.3.10. 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 currently) subject to protection as historical monument. Due to on-going litigation and existing collateral, company Garbary cannot dispose of this real estate.

VI.3.11. BRE Finance France

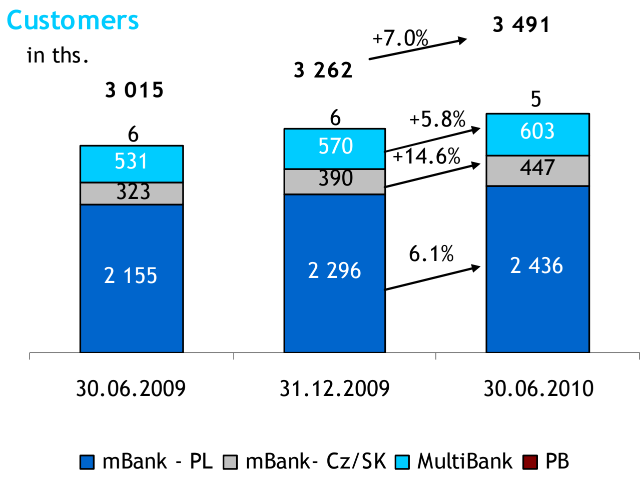
The company is an SPV, whose core business includes raising funds for BRE Bank in international markets through issues of euronotes. In December 2009, the company redeemed the last outstanding tranche of notes. In H1 2010 it did not issue any euronotes.

VII. Retail Banking

The Retail Banking business model is based on a multi-brand (mBank in Poland, the Czech Republic and Slovakia; MultiBank; BRE Private Banking) and multi-channel strategy with an integrated internet platform used by the Bank to offer a broad range of products and services. The model serves to provide different customer groups with services tailored to their needs. Thanks to this modern business model, the number of customers is growing dynamically.

VII.1. Dynamic growth of customer base

At the end of H1 2010, the number of customers was close to 3.5 million, and grew by 229 thousand year to date and by 476 thousand year on year. This dynamic growth was achieved as a result of our modern and renowned internet banking services and our innovative, attractive product and services offering. The figure below presents the growth of the customer base by units.



Customers served in Poland include individuals as well as microenterprises. There were 376.0 thousand microenterprise customers at the end of June 2010 (the majority – 279.7 thousand at mBank). Their number grew by 19.9 thousand year to date (+5.6%).

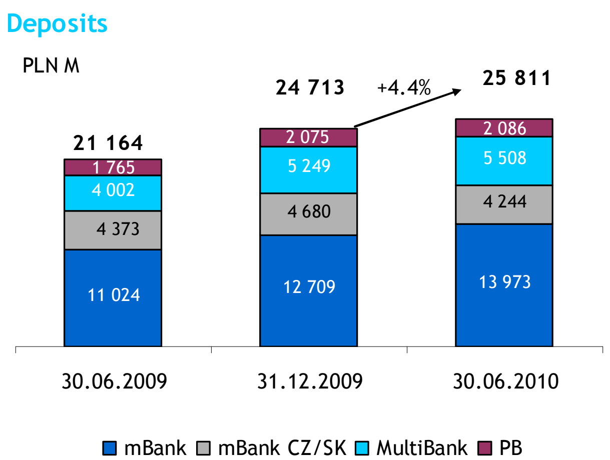
VII.2. Business development

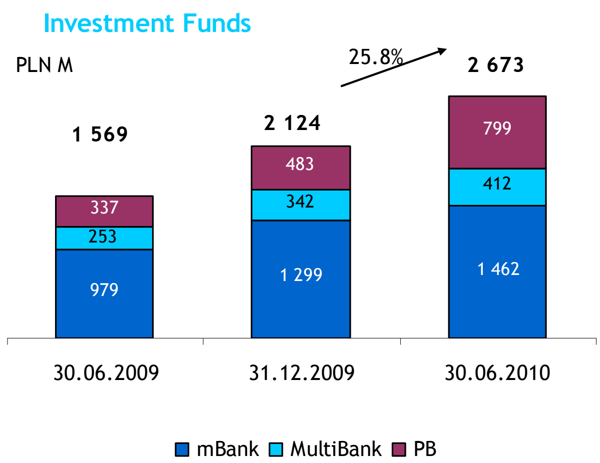
VII.2.1. Deposits and Investment Funds

mBank and MultiBank offer a broad range of accounts and deposits. Customers may also buy participation units of around 300 local and close to 200 foreign investment funds (funds supermarket).

Assets of Retail Banking customers amounted to PLN 28.5 billion at the end of June 2010, including PLN 25.8 billion in bank accounts and deposits and PLN 2.7 billion in investment funds. Deposits grew by PLN 1.1 billion (+4.4%) YtD. Deposits grew by PLN 4.6 billion year on year and are increasingly important source of funding.

Deposits of mBank in Poland grew very dynamically by 9.9% YtD. Deposits of MultiBank grew by 4.9%. Deposits in the Czech Republic and Slovakia decreased by 9.3%, as a result of adjustment in the Bank's pricing policy.



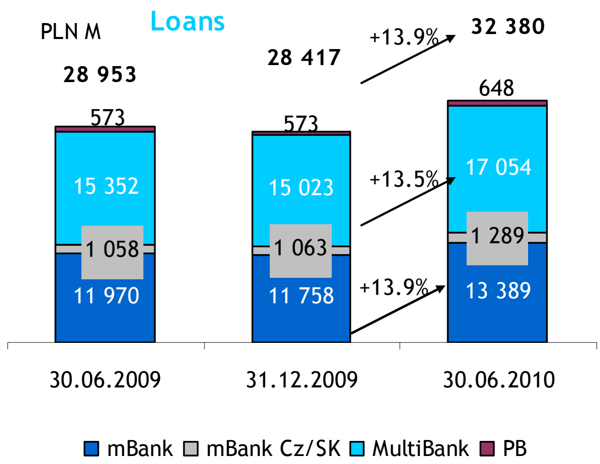


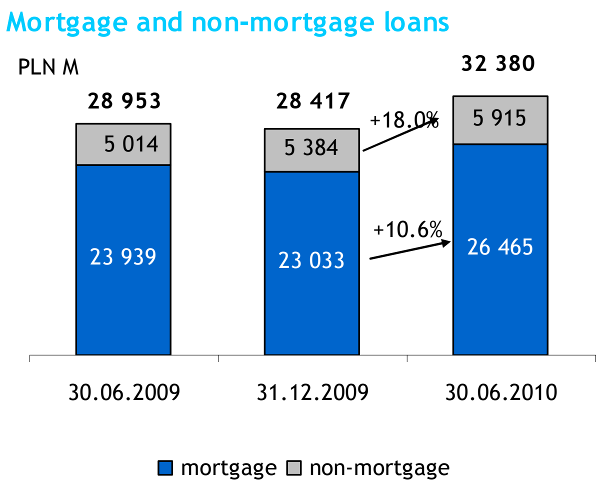
Assets in investment funds grew by PLN 549 million (+25.8% YtD) thanks to considerable improvement on the capital markets and an extended offering of funds. Private Banking customers showed particularly strong interest in investment funds as their assets invested in fund participation units grew by 65% year to date.

VII.2.2. Loans for retail clients

Loans granted by Retail Banking in Poland amounted to PLN 31.1 billion at the end of June 2010, including PLN 13.4 billion granted to mBank customers and PLN 17.0 billion granted to MultiBank customers. The borrowers included individuals as well as microenterprises, whose loans totalled PLN 2.9 billion (mainly in MultiBank: PLN 2 billion). The loan portfolio of Private Banking customers reached PLN 648 million. In addition, loans granted to mBank customers in the Czech Republic and Slovakia amounted to the equivalent of PLN 1.3 billion. Total loans granted to Retail Banking customers amounted to PLN 32.4 billion, up by 13.9% year to date. However, it should be noted that FX loans, in particular CHF mortgage loans, represent a large part of the portfolio; consequently, the growth rate was strongly driven by FX rate development, in particular the depreciation of PLN against CHF. Net of the FX effect, the loan portfolio grew by 4.6% vs. the end of December 2009.

The loan portfolio grew by almost PLN 4 billion year to date, in particular MultiBank's loans (up by PLN 2 billion) and mBank's loans in Poland (up by PLN 1.6 billion). The loan portfolio in the Czech Republic and Slovakia grew by PLN 226 million and the Private Banking loan portfolio by PLN 75 million.





The structure of the loan portfolio at the end of June 2010 was as follows:

- mBank Poland: 79.8% mortgage loans, 4.2% credit lines, 4.5% credit cards, 11.5% other;
- MultiBank: 83.7% mortgage loans, 5.2% credit lines, 1.5% credit cards, 9.5% other.

The loan portfolio structure is dominated by **mortgage loans**, which accounted for 81.7% of all loans granted at the end of June 2010. The growth rate of mortgage loans was lower than the growth rate of the total portfolio year to date and amounted to 10.6% (+PLN 3.4 billion), driven by the depreciation of PLN against CHF and by enhanced new sales. In the Bank and across the sector, a strong fall in demand for mortgage loans in 2009 was followed by signs of recovery in Q2 2010, as mortgage loans grew by 16.3% quarter on quarter.

The table below presents a summary description of the mortgage loan portfolio at 30 June 2010 v. 30 June 2009 (only loans granted to individuals in Poland).

Retail mortgage loans (Poland)	Total		PLN		FX	
	30.06.2009	30.06.2010	30.06.2009	30.06.2010	30.06.2009	30.06.2010
Balance sheet value (PLN billion)	22,23	24,50	2,35	2,25	19,88	22,25
Average maturity (years)	23,37	22,97	20,57	19,94	23,80	23,40
Average value (PLN ths.)	265,57	279,49	209,20	206,46	274,31	289,86
Average LTV (w %)	85,30%	82,39%	55,70%	55,81%	89,70%	86,59%
NPL	0,43%	0,74%	1,45%	2,87%	0,31%	0,53%

Only the value of fx mortgage loans grew year on year. The percentage of non-performing loans (NPL) increased; it is higher for PLN loans. The quality of the mortgage loan portfolio was declining slightly as a result of the ageing of the portfolio.

Non-mortgage loans (NML) grew by PLN 531 million (+18.0%) year on year. Their balance amounted to PLN 5,915 million at the end of June 2010. These include credit lines, credit cards, and consumer loans. According to the Bank's strategy 2010-2012, published in March 2010, intensive sales of NML to the existing customer base should be a source of growing revenue in retail banking.

Cash loans and credit cards loans were growing the fastest in H1 2010. Sales of revolving loans also increased - their monthly sales volumes quadrupled between January and June.

The sales of non-mortgage loans in mBank were mainly driven by the newly introduced automatic pre-approved loan limit offers (February 2010). As a result, sales of consumer loans doubled, sales of cash loans tripled, and revolving loans quadrupled between January and June.

In MultiBank, the volumes of Cash Loans for companies grew the most as a result of introduced sales under guaranteed limits. Credit cards and cash loans had the highest share in loans granted to individuals.

VII.2.3.Cards

The growth of credit card loans was mainly driven by an increase in the number of credit cards by 40.3 thousand year to date to 539.3 thousand cards at the end of June, including 372.9 thousand cards issued to mBank customers and 166.4 thousand cards issued to MultiBank customers. The average debt per card was PLN 1,614.3 in mBank and PLN 1,537.2 in MultiBank at the end of June 2010.

The number of issued debit cards was 2,748.4 thousand at the end of June (2,158.1 thousand in mBank, 590.3 thousand in MultiBank), up by 111.9 thousand year to date.

VII.2.4. Development of quasi-banking services

Brokerage and insurance services provided, as a result of Retail Banking's comprehensive offering strategy, are a big advantage for customers and a growing source of revenue for BRE Bank Group.

In the context of recovery on the capital markets, the number of customers using **brokerage services** grew in H1 2010. In mBank, eBroker customers had 174 thousand securities accounts, up by 29 thousand year to date. In MultiBank, Brokerage Service customers had 29 thousand accounts (up by 9 thousand). Transactions in these accounts in H1 2010 represented 26.1% of all transaction concluded by DI BRE Banku.

Insurance products (motor, travel, and real property insurance) are sold via MultiBank's Insurance Centre and mBank's mInsurance module (including the very popular Car Insurance Supermarket). Insurance products are also sold by the subsidiary BRE Ubezpieczenia TUiR (see "Retail Banking Subsidiaries"). In addition to classical insurances, it offers bancassurance products (insurance of mortgage loans, insurance packages for credit cards and current accounts).

VII.3. Rationalisation of the Branch Network

The retail branch network in Poland and abroad was streamlined in H1 2010. In Poland, mBank's distribution network had 130 locations at the end of H1 2010 (65 mKiosks, 23 Financial Centres, 42 partner mKiosks) compared to 142 locations at the end of 2009. The branch network is managed by the subsidiary Aspiro Sp. z o.o. since July 2009 (see “Retail Banking Subsidiaries”).

The number of mBank’s locations decreased from 27 to 24 in the Czech Republic (15 mKiosks and 9 Financial Centres), and from 16 to 11 in Slovakia (5 mKiosks and 6 Financial Centres).

MultiBank has 133 locations (72 Financial Services Centres – CUF and 61 Partner Outlets - PP, including 51 Branches of the Future, with CUF and PP) compared to 134 locations at the end of 2009.

VII.4. Offer Development

The development of the product offering continued in H1 2010. New and significantly modified products and sales support initiatives included:

MultiBank

- Launch of the MasterCard Debit AQ card and the MasterCard Gold credit card;
- Subscription for the Investment Deposit “Blooming Profits”;
- Subscription for the Investment Deposit “Market Sharks”;
- Many promotion campaigns, Active Fund Portfolio Competition, MotoCompetition;
- New partners in discount programmes;
- Active participation in the issue of shares of BRE Bank, PZU and Tauron.

mBank

- Automatic pre-approved loan limits – an individual credit limit for customers, determined on the basis of the customer’s relationship history, known to the customer via the transaction system, where it can be accepted by the customer. It covers three products: credit line, credit card, and cash loan; the customer may choose the credit product from the Bank;
- Cash loans for microenterprises;
- Subscriptions for three structured deposits;
- EUR car loans;
- Instalment loans under credit cards;
- Active participation in the issue of shares of BRE Bank, PZU and Tauron.

mBank abroad

- In Slovakia, mBank launched mFondy (a counterpart to the Investment Funds Supermarket) and SEPA transfers.
- In the Czech Republic, mBank introduced voluntary insurance of debit cards and credit cards (Fraudulent usage, Travel insurance, Credit Protection Insurance) offered in partnership with Cardiff.
- New product added to the offering: modified mortgage loans *Hipoteka Light* (early payment fee and no balancing account but more attractive prices of the product).

VII.5.Retail Banking Subsidiaries

The following subsidiaries are included in the Retail Banking segment:

VII.5.1. Aspiro Sp. z o.o.

Aspiro Sp. z o.o. continues the strategy of offering mBank and MultiBank products as well as complementary third-party products to customers. Aspiro currently sells products of 14 partners including mortgage loans, business products, cash loans, and leasing. Distribution has national coverage via the mBank distribution network managed by Aspiro. In H1 2010 Aspiro achieved a pre-tax profit of PLN5.6 million (PLN -0.2 million in H1 2009).

On 21.06.2010, the General Meeting passed a resolution to transform the company into a joint stock company.

VII.5.2. BRE Wealth Management

BRE Wealth Management offers a broad range of products and investment strategies to customers who invest at least PLN 2 million. The company offers standard investment strategies whose risk profile matches the customer's investment profile, as well as specially, customised investment solutions. It also offers tax and inheritance optimisation, real property investments, and alternative assets, e.g., art banking.

In H1 2010, the company extended its offering to services of investment analysis, financial analysis and other recommendations for financial instruments. The company introduced a new investment strategy (Individual Conservative Strategy) and the Stable Asset Portfolio (in the management of debt instrument portfolios).

In H1 2010, sales of investment fund shares grew dynamically to PLN 424 million. Assets amounted to PLN 875 million at the end of June (up by ca. 0.5% year to date)

VII.5.3. BRE Ubezpieczenia TUiR S.A.

BRE Ubezpieczenia offers classical bancassurance products (insurance of mortgage loans, insurance packages for credit cards and current accounts), motor, travel, and real property insurance. The company also offers insurance packages to BRE Leasing's customers (including insurance policies, supervision of claims handling). Policies are sold via MultiBank branches, the distribution network managed by Aspiro, the Private Banking distribution network, and the mBank and MultiBank internet platforms.

In H1 2010, gross written premium on bancassurance products reached at PLN 287 million (+73% YoY). The premiums written on products sold via the internet platform in the direct channel grew to PLN 42 million, up by 31% YoY. Premiums written for BRE Leasing customers decreased by 7.4% as the value of leased assets dropped.

VIII. Other Consolidated Companies

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

In H1 2010, CERI continued its co-operation with BRE Bank Corporate Banking (introduction of automation of selected products, e.g., Post Giro, introduction of additional IPM functionalities), Retail Banking (growing number of transactions in mortgage lending) and BRE Group subsidiaries, including support for electronic and paper archives.

In H1 2010, electronic and paper archives services provided to Commerzbank were largely extended. In addition, the company expanded its co-operation with third-party customers including Financial Agencies. The share of revenue from third-party customers in total revenue was 14.0% in H1 2010.

The company generated a pre-tax profit of PLN 1.5 million in H1 2010 v. a loss of PLN 11 thousand at the end of June 2009.

BRE.locum S.A.

BRE.locum sold 109 apartments in H1 2010 compared to 74 apartments in H1 2009. At the end of H1 2010, the company offered for sale 312 apartments in completed properties as well as 164 apartments in an ongoing project in Warsaw and 134 apartments in an ongoing project in Poznań.

BRE Bank's property development subsidiary generated a profit before tax of PLN 6.2 million in H1 2010, down by PLN 16.9 million year on year. The profit of H1 2009 was largely driven by amendments of the company's accounting rules added PLN 13.5 million to the result of BRE.locum.

IX. Financial Results of BRE Bank Group in H1 2010

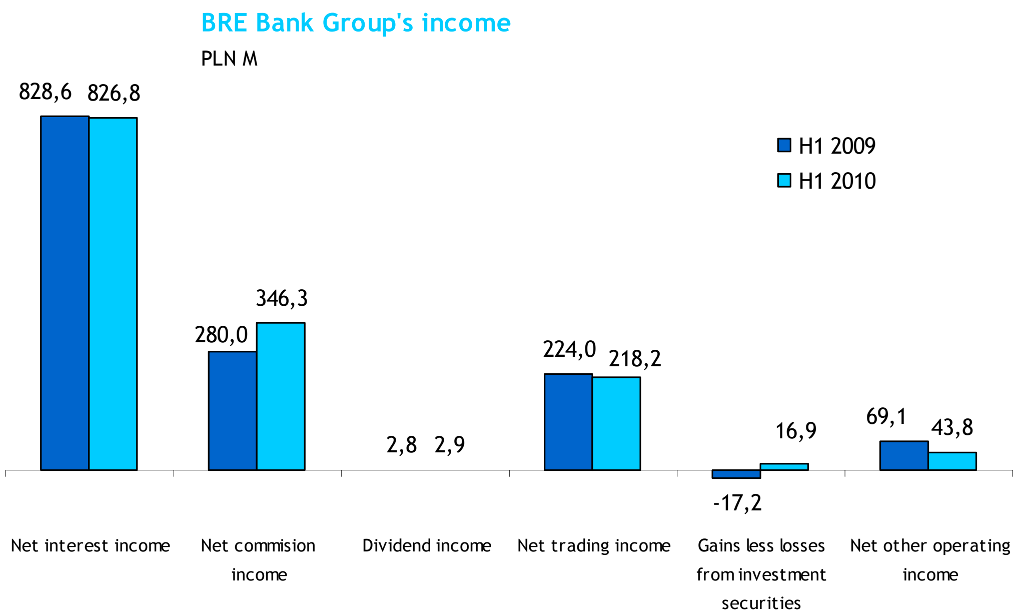
IX.1. Profit and Loss Account of BRE Bank Group

BRE Bank Group generated a profit before tax of PLN 328.8 million in H1 2010, which was over 20 times more than in H1 2009 (PLN 16.2 million). Net profit attributable to the owners of the Bank was PLN 239.7 million or 15 times more than in H1 2009.

This marked improvement of the financial results was possible thanks to strong income growth, much lower net loan loss provisions, and continued cost discipline.

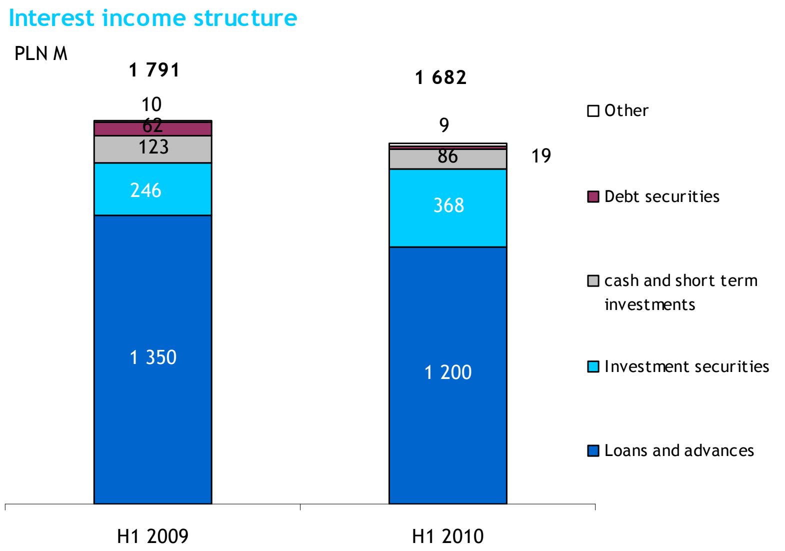
IX.1.1. Income of BRE Bank Group

BRE Bank Group's income in H1 2010 was PLN 1,455.0 million, up by PLN 67.7 million (4.9%) YoY. The growth was mainly driven by much improved net commission income and a positive contribution of gains less losses from investment securities.



Net interest income was the main source of income of BRE Bank Group in H1 2010. It amounted to PLN 826.8 million and remained stable YoY. Both interest income and interest expenses of the Group decreased as a result of reductions of nominal base interest rates over that period. Consequently, a 6.1% decrease of interest income was offset by an 11.2% decrease of interest expenses

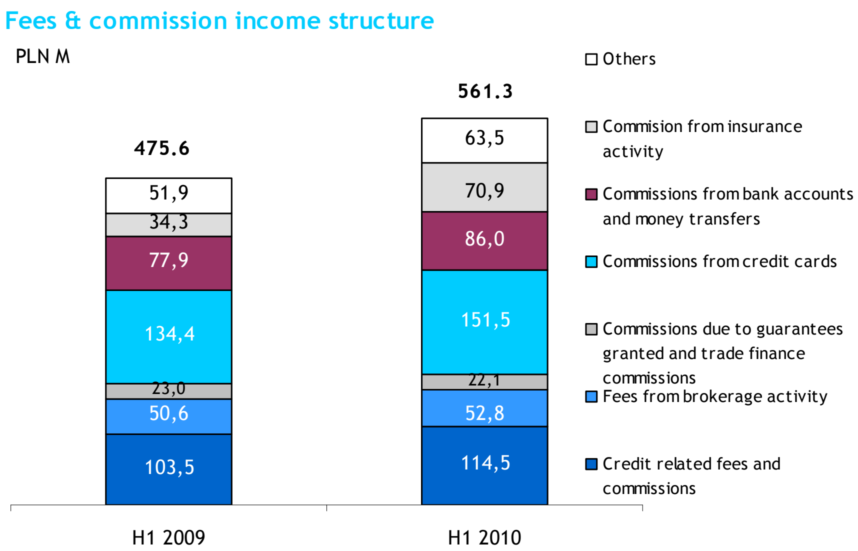
BRE Bank Group's interest margin (calculated as net interest income to average interest-earning assets) was 2.1% p.a. in H1 2010 vs. 2.3% p.a. in 2009. The decrease resulted from a growing share of investment securities in interest-earning assets. At the same time, under a risk adjusted perspective, which compares NIM to RWA it should be noted, that the net interest income to average RWA ratio was up to 3.1% in Q2 2010 compared to 2.93% for the full year 2009.



The main source of interest income (71.4%) were loans and advances. Interest income on loans and advances was PLN 149.9 million lower YoY. As a result of a significant growth in the volume of investment securities, interest income from this source increased by PLN 122.1 million or 49.7%. Reduced nominal interest rates caused a decrease in interest income on short-term funds. Interest income from debt securities held for trading decreased because the volume of debt securities went down.

Interest expenses paid to banks and clients decreased, as did the interest expenses of debt securities in issue (respectively down by PLN 81.1 million and PLN 21.4 million YoY). These interest costs decreased as a result of lower reference rates in H1 2010.

Net commission income accounted for 23.8% of BRE Bank Group's income and grew dynamically YoY. It stood at PLN 346.3 million in H1 2010, up by PLN 66.4 million or 23.7% YoY. The growth rate of commission income (18.0% YoY) was almost double the growth rate of commission expenses (9.9%).



Commission income from the insurance business grew the most (+106.7%) as a result of growing sales of insurance products, including bancassurance (in particular insurance of cards and accounts) by the subsidiary BRE Ubezpieczenia. The capital market recovery resulted in growth of commission income from the distribution of investment fund shares from outside the Group.

Trading income decreased YoY but increased QoQ. It stood at PLN 218.2 million in H1 2010, down by PLN 5.7 million or 2.6% YoY due to a lower fx result, down by PLN 44.1 million or 18.2% YoY. During H1 2009, a very high trading acitivity of clients was recorded driven by extraordinary high volatility of the markets during the financial crisis. In 2010 net trading income markedly improved during Q2 vs.Q1 but overall did not fully reach the excellent level of H1 2009. Also a change of requirements for Group clients concluding fx transactions should be mentioned reflecting a prudent approach to risk management.

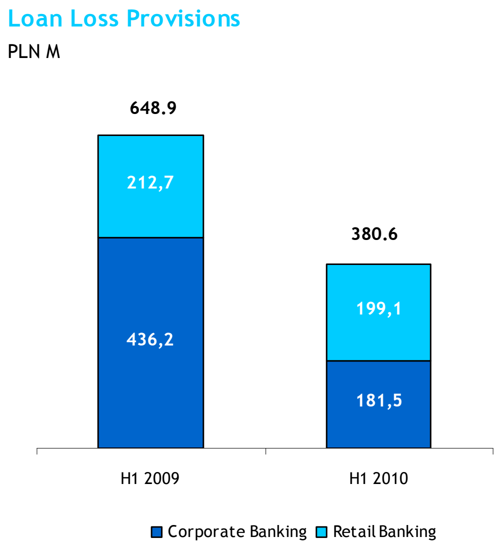
These factors resulted in a lower number of concluded fx transactions. Other trading income in H1 2010 was up by PLN 38.4 million YoY, mainly due to the revaluation of interest based derivative instruments in H1 2010.

Profit on investment securities stood at PLN 16.9 million in H1 2010 and included income on the sale of 10.8% of PZU shares by the subsidiary BRE Gold FIZAN. In H1 2009, the Group posted a loss on investment securities (-PLN 17.1 million) as a result of negative valuation of a Romanian subsidiary recognised by Intermarket Bank.

Net other operating income and expenses stood at PLN 43.8 million in H1 2010, down by PLN 25.3 million YoY. The decrease was mainly due to above-average income of the subsidiary BRE.locum realised in H1 2009 as well as to a one-off provision against legal risk of PLN 13.8 million recognised in June 2010.

IX.1.2. Impairment losses on loans and advances

Net loan loss provisions of BRE Bank Group stood at PLN 380.6 million in H1 2010 v. PLN 648.9 million in 2009, down by 41.3%.



Provisions decreased significantly both in the Bank (PLN 361.8 million in H1 2010 v. PLN 578.7 million in 2009) and in the subsidiaries (PLN 18.7 million in H1 2010 v. PLN 70.2 million in 2009).

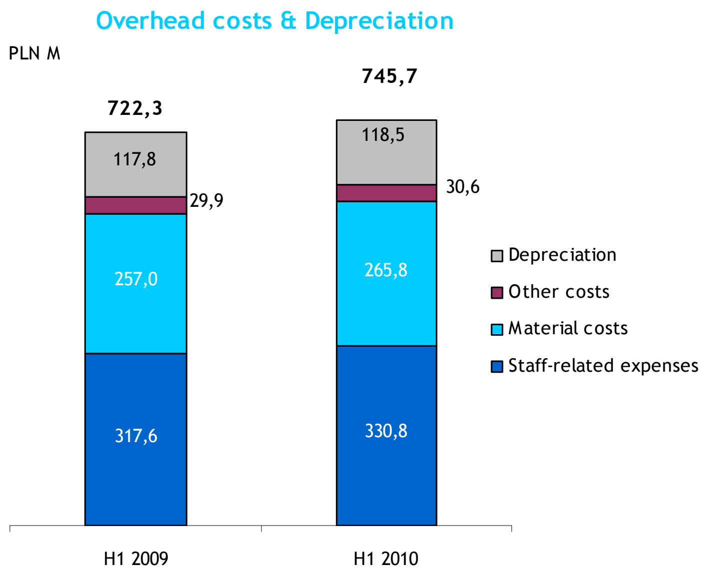
The cost of credit risk decreased as a result of an improvement in the financial standing of Group clients and in particular due to a significant decrease of provisions set up in the Corporates & Markets segment.

In H1 2009, the Bank recognised PLN 285.5 million of provisions against liabilities of clients under derivative transactions. As a result of adequate provisions set up in previous periods, undertaken restructuring measures, changes to the policy of selling derivative instruments and monitoring of exposures, the loan loss provisions created in Corporates & Markets area decreased from PLN 436.2 million in H1 2009 to PLN 181.5 million in 2010.

Changes to the credit policy towards retail clients introduced in 2009, including the withdrawal from granting cash loans to clients without a previous relationship in the Bank, helped to reduce net loan loss provisions in Retail Banking (PLN 199.1 million in H1 2010 v. PLN 212.7 million in 2009), despite the recorded growth of the loan portfolio.

IX.1.3. Costs of BRE Bank Group

Overhead costs in H1 2010 were up by PLN 22.7 million or 3.7% YoY. Costs including depreciation (which remained virtually flat, up by 0.6%) stood at PLN 745.7 million, up by 3.2% YoY.



Costs were up YoY due to the following factors:

- Personnel costs were up by PLN 13.2 million (+4.2%) as a result of reserves for bonuses (driven by a marked YoY improvement of BRE's pre-tax result) and sales driven quarterly bonuses paid out in Retail Banking

- Maintenance costs up by PLN 8.8 million or 3.4% mainly due to higher costs of advertising campaigns both in retail and corporate banking as well as higher IT costs and costs of subsidiaries.

IX.2.Changes in Consolidated Statement of Financial Position

IX.2.1. Changes in Assets of BRE Bank Group

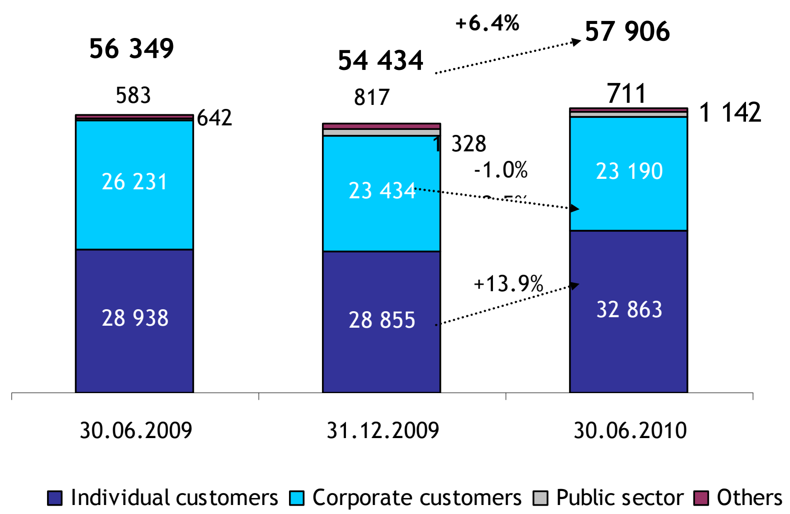
Assets of the Group grew by PLN 7,887,5 million (+9.7%)in H1 2010 and reached PLN 88,911.4 million at 30 June 2010.

Assets	30.06.2009 PLN M	31.12.2009 PLN M	31.12.2009 in %	30.06.2010 PLN M	30.06.2010 in %	30.06.2010 Δ in PLN M	30.06.2010 31.12.2009 =100%
Cash and balances with Central Bank	4 333,8	3 786,8	4,7%	888,8	1,0%	(2 898,0)	23,5%
Loans and advances to banks	1 994,1	2 530,6	3,1%	5 461,7	6,1%	2 931,1	215,8%
Trading securities	835,3	1 065,2	1,3%	657,0	0,7%	(408,2)	61,7%
Derivative financial instruments	3 533,0	1 933,6	2,4%	1 852,6	2,1%	(81,0)	95,8%
Loans and advances to customers	**54 894,0**	**52 468,8**	**64,8%**	**55 581,1**	**62,5%**	**3 112,3**	**105,9%**
Investment securities	**9 752,9**	**13 120,7**	**16,2%**	**18 930,5**	**21,3%**	**5 809,8**	**144,3%**
Pledged adssets	2 927,1	3 516,5	4,3%	3 072,4	3,5%	(444,1)	87,4%
Intangible assets	439,9	441,4	0,5%	412,7	0,5%	(28,7)	93,5%
Tangible fixed assets	795,7	786,4	1,0%	766,2	0,9%	(20,2)	97,4%
Others	1 426,7	1 373,9	1,7%	1 288,4	1,4%	(85,5)	93,8%
Total Assets	**80 932,5**	**81 023,9**	**100,0%**	**88 911,4**	**100,0%**	**7 887,5**	**109,7%**

Loans and advances remained the largest balance-sheet item at the end of H1 2010 with a share of 62.5% of total assets (v. 64.8% at the end of 2009). Their net volume increased by PLN 3,112.3 million or 5.9% Ytd. The increase was largely driven by the depreciation of the zloty. Net of that effect, the loan portfolio would be higher by 0.2% YtD.

Loans and advances to customers (gross)

PLN M



The gross portfolio grew by 6.4%. Retail loans grew the most (up by PLN 4,008 million or 13.9%). This was due to the depreciation of the zloty, especially against CHF, but also against EUR which are the 75% of currencies of retail loans, as well as thanks to increased sales of mortgage loans, granted mainly in EUR, in the last months of H1 2010. Credits and loans granted to corporate clients decreased by PLN 243 million (-1,0%) as a result of sluggish demand from this group of clients.

Investment securities were the second largest item of assets. They grew by PLN 5,809.8 million or 44.3% in H1 2010. The growth was mainly driven by newly acquired customer deposits and funds raised in the issue of BRE Bank shares, which were allocated in securities. Deployment of these funds shall occur in line with growing credit demand

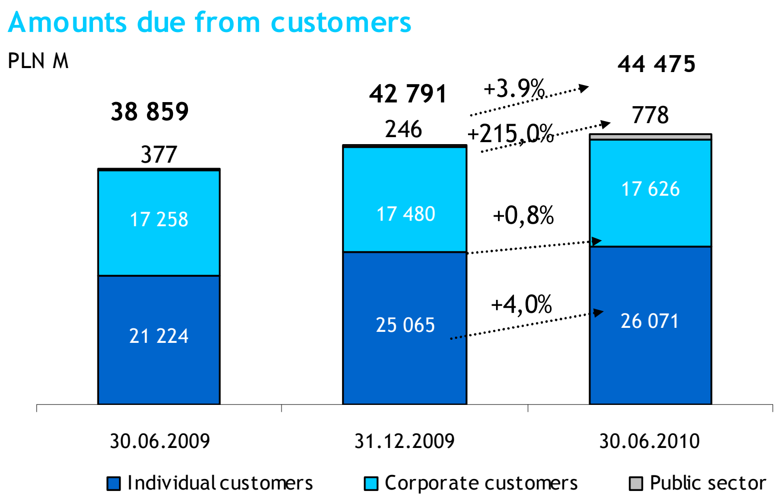
Loans and advances to banks grew by PLN 2,931.1 million or 115.8% in H1 2010. The growth was attributable to a more dynamic activity in the area of interbank deposits, which had been very limited during the global financial crisis. The Group moved cash from the central bank to such deposits. Cash and balances with Central Bank decreased by PLN 2,898.0 million in H1 2010.

IX.2.2. Liabilities

The table below presents changes in the liabilities of BRE Group in H1 2010.

Equities and Liabilities	30.06.2009	31.12.2009		30.06.2010			
Liabilities	PLN M	PLN M	in %	PLN M	in %	Δ in PLN M	31.12.2009= 100%
Amounts due to Central Bank	1 537,2	2 003,8	2,5%	2 022,7	2,3%	18,9	100,9%
Amounts due to other banks	**27 189,4**	**25 019,8**	**30,9%**	**28 380,8**	**31,9%**	**3 361,00**	**113,4%**
Derivative financial instruments and other trading liabilities	3 860,6	1 935,5	2,4%	2 065,8	2,3%	130,3	106,7%
Amounts due to customers	**38 859,1**	**42 791,4**	**52,8%**	**44 474,8**	**50,0%**	**1 683,40**	**103,9%**
Debt securities in issue	1 607,5	1 415,7	1,7%	1 335,5	1,5%	(80,2)	94,3%
Subordinated liabilities	2 789,4	2 632,0	3,2%	2 982,1	3,4%	350,1	113,3%
Others	1 018,1	954,5	1,2%	975,0	1,1%	20,5	102,1%
Total liabilities	**76 861,3**	**76 752,7**	**94,7%**	**82 236,7**	**92,5%**	**5 484,0**	**107,1%**
Total Equity	**4 071,1**	**4 271,2**	**5,3%**	**6 674,7**	**7,5%**	**2 403,5**	**156,3%**
Total equity and liabilities	**80 932,5**	**81 023,9**	**100,0%**	**88 911,4**	**100,0%**	**7 887,5**	**109,7%**

Amounts due to clients remained BRE Bank Group's major source of funding at 50.0% of total liabilities and equity at 30 June 2010. Amounts due to customers grew by PLN 1,683.4 million or 3.9% in H1 2010 and reached PLN 44,474.8 million.



The growth was mainly driven by amounts due to retail clients (up by PLN 1,006.8 million) as a result of the pursued effective marketing policy of broading the client base.

Amounts due to corporate clients increased by 0.8% Ytd.

It should be noted that amounts due to the public sector more than tripled in H1 2010 and reached PLN 778 million as a result of the Bank's active focus on this market segment.

Amounts due to banks grew by PLN 3,361 million or 13.4% YtD. The growth was mainly driven by the depreciation of the zloty against foreign currencies as well as by the growth of long-term borrowings taken by the Bank. In 2010, BRE Bank received three loans from Commerzbank: a two in USD amounting to USD 200 million and one amounting to CHF 350 million. The borrowings in CHF are the source of funding of the mortgage loans portfolio while the USD loans lines will be used to finance the corporate banking business. A additional source of funding is a two-year EUR 200 million deposit of Commerzbank.

The share of BRE Bank Group's equity in total liabilities and equity was 7.5% at the end of June 2010 v. 5.3% at 2009 YE. The growth was mainly driven by the new issue of BRE Bank shares in H1 2010. Until the increased share capital is registered by the court, the funds raised in the issue are recognised as "Paid, not registered capital".

IX.3. Performance Indicators

The key performance indicators of BRE Bank Group were as follows:

	30.06.2009	30.06.2010
ROA net	0.03%	0.60%
ROE before tax	0.8%	14.0%
ROE net	0.5%	10.8%
C/I	52.1%	51.2%
CAR	11.08%	12.03%
Tier 1	6.20%	6.68%

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

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

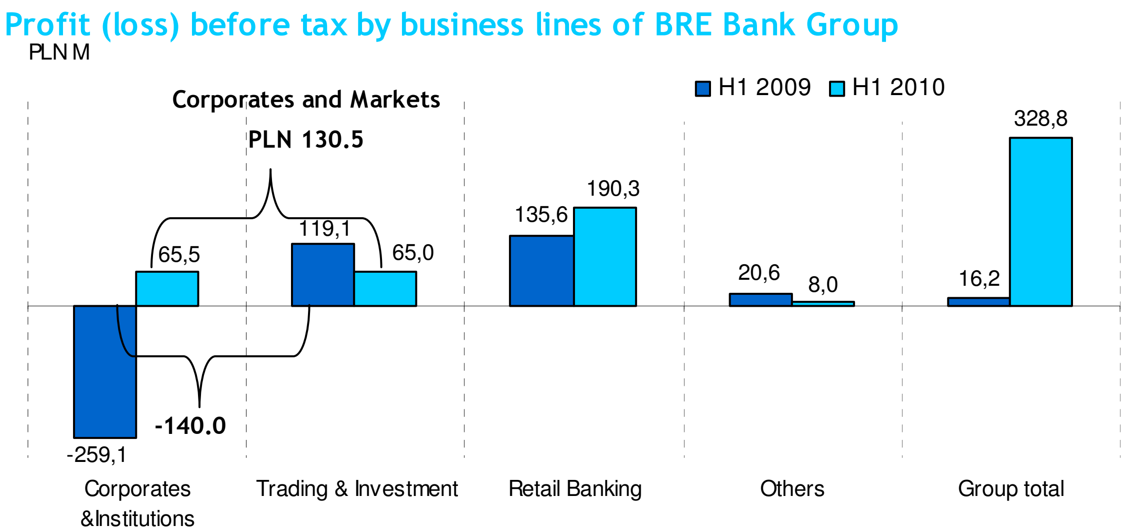
ROE net = Net profit (including minority shareholders) / Equity (including minority shareholders, excluding this year's profit)

C/I = Administrative costs + depreciation Income (including net other income and cost)

Tier 1 ratio of 6.68% and CAR of 12.03% at 30.06.2010 does not include the increase of the share capital following the new issue of shares, which was registered by the court after the end of H1 2010 on 16.07.2010. Pro forma tier 1 ratio would be 10.11% including PLN 1,966.3 million recognised in Group equity as paid, not registered share capital, pro forma CAR would be at 15.45%.

IX.4. Contribution of the Business Lines to the Profit of BRE Bank Group

The figure below shows the profit before tax of BRE Bank Group's business areas in H1 2010.



Corporates and Institutions

The business line generated a profit before tax of PLN 65.5 million in H1 2010 v. a loss of (PLN 259.1 million) in 2009. The strong improvement in profit was mainly due to:

- Increased income from the core business: net interest income up by PLN 15.8 million, net commission income up by PLN 4.1 million, trading income up by PLN 20.7 million;
- Income on sale of part of PZU shares at PLN 16.9 million v. a loss from investment securities at (PLN 17.1 million) in H1 2009 due to negative valuation of a Romanian subsidiary recognised by Intermarket Bank;
- Strongly reduced loan loss provisions; in particular, loan loss provisions related to derivative instruments decreased: PLN 35.7 million of such provisions were released in H1 2010 while PLN 285.5 million of provisions were set up in H1 2009;

Trading and Investments

In H1 2010, the business line generated a profit before tax of PLN 65.0 million v. a profit before tax of PLN 119.1 million in H1 2009. The profit of the segment decreased mainly due to fx income, down by PLN 76.3 million as a result of very high fx income in H1 2009 when large volumes of fx derivative transactions were settled. Other trading income was up by PLN 40.0 million thanks to positive valuation of interest derivatives in 2010.

Retail Banking

The segment generated a profit before tax of PLN 190.3 million in H1 2010 v. PLN 135.6 million in H1 2009 (up by 40.4% YoY) mainly due to following factors:

- Commission income nearly doubled (up by 96.8%, +PLN 65.9 million) mainly due to strong increase of income from the insurance business, account fees, payment card fees, and the increased distribution of investment fund participation units from outside the Group;
- Trading income was up by PLN 10.0 million as a result of growing sales of EUR mortgage loans.
- Loan loss provisions were down by PLN 13.5 million, driven by the withdrawal from sales of cash loans to clients with no previous history with the Bank. As a result, provisions created for cash loans for new clients were PLN 49.4 million in H1 2010 vs. PLN 102.2 million in H1 2009;

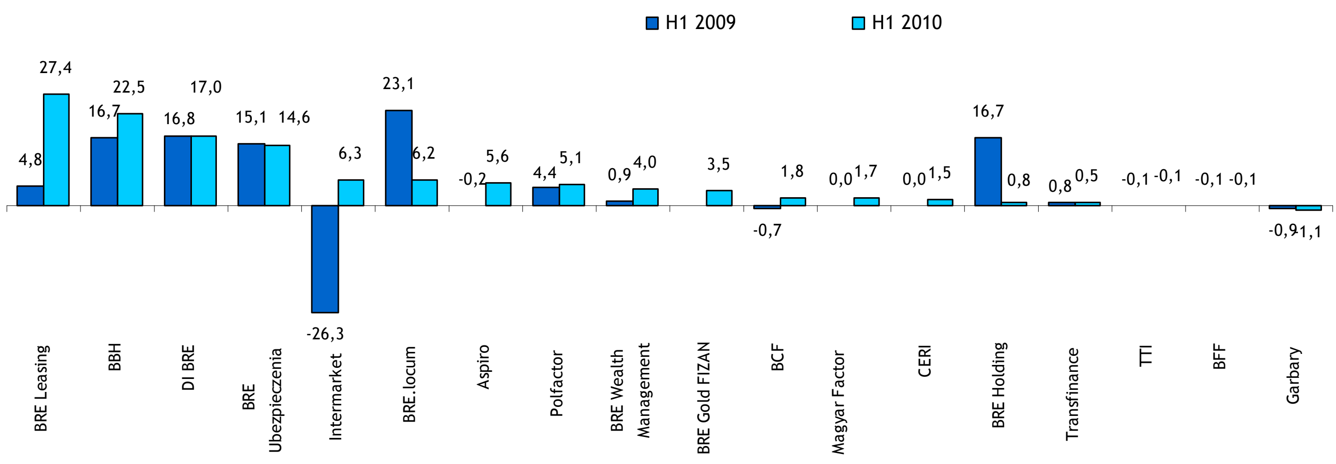
IX.5. Financial Results of BRE Bank Group Subsidiaries

The consolidated companies in total generated a profit before tax of PLN 117.2 million in H1 2010 v. PLN 70.9 million in H1 2009. The financial results improved YoY among others in the following companies: BRE Leasing, and Intermarket Bank, which last year set up provisions for a Romanian subsidiary.

The figure below presents the profits of the subsidiaries in H1 2010 and H1 2009.

Profit (loss) before tax of consolidated companies

(before mutual transactions and consolidation adjustments, in PLN M)



IX.6. Financial Results of BRE Bank Group in Q2 2010

BRE Bank Group generated a profit before tax of PLN 171.0 million in Q2 2010 vs. PLN 157.8 million in Q1 2010.

Consolidated income statement	Q1 2010	Q2 2010	Change	
	PLN ths	PLN ths	PLN ths	Q1=100%
Interest income	821 758	859 743	37 985	104,6%
Interest expenses	(431 221)	(423 489)	7 732	98,2%
Net interest income	390 537	436 254	45 717	111,7%
Fee and commission income	278 558	282 746	4 188	101,5%
Fee and commission expenses	(104 665)	(110 297)	(5 632)	105,4%
Net fee and commission income	173 893	172 449	(1 444)	99,2%
Dividend income	330	2 611	2 281	791,2%
Net trading income, including	96 171	122 058	25 887	126,9%
Foreign exchange result	*83 270*	*114 756*	*31 486*	*137,8%*
Other trading income	*12 901*	*7 302*	*(5 599)*	*56,6%*
Gains less losses from investment securities	-	16 896	16 896	
Other operating income	52 131	93 268	41 137	178,9%
Net impairment losses on loans and advances	(177 061)	(203 500)	(26 439)	114,9%
Overhead costs	(294 937)	(332 220)	(37 283)	112,6%
Amortization and depreciation	(59 201)	(59 334)	(133)	100,2%
Other operating expenses	(24 089)	(77 477)	(53 388)	321,6%
Operating profit	157 774	171 005	13 231	108,4%
Profit before income tax	**157 774**	**171 005**	**13 231**	**108,4%**
Income tax expenses	(35 183)	(39 612)	(4 429)	112,6%
Net profit	**122 591**	**131 393**	**8 802**	**107,2%**
- attributable to owners of BRE Bank	115 416	124 251	8 835	107,7%
non-controlling interests	7 175	7 142	(33)	99,5%

The financial results of BRE Bank Group in Q2 2010 were driven by the following factors:

- Net interest income was up by PLN 45.7 million thanks to higher interest income from investment securities and lower average interest cost of deposits.
- Net trading income was driven by the foreign exchange result. FX result was up by PLN 31.5 million as a result of higher volatility in the financial markets and growth in the volume of sold EUR mortgage loans; combined with the depreciation of the zloty against foreign currencies, this resulted in growth of income from fx margins. In addition, PLN 8.2 million of provisions against derivatives were released in Q2.
- Gains from investment securities were up due to income of PLN 16.9 million on the sale of part of the PZU shareholding.
- Loan loss provisions were up (by PLN 26.4 million) driven by Corporates and Institutions due to a few defaults on companies.
- Increase of overhead costs and depreciation by 10.6% QoQ driven by business growth. Overhead costs up by 12.6% QoQ, personnel costs up by 7.7% due to sales-driven quarterly bonuses paid in Retail Banking; material costs up by 21.1% due to higher marketing expenditures (by PLN 14 million)and other costs (IT, subsidiaries)by PLN 11million; stable level of depreciation QoQ

BRE Bank Group's balance sheet total reached PLN 88,911.4 million at 30 June 2010 v. PLN 84,751.4 million at 31 March 2010, up by 4.9%.

The highest nominal increase in assets in Q2 was reported in loans and advances to customers (mainly due to the depreciation of the zloty against foreign currencies) and investment securities (up by PLN 4,675.5 million and PLN 3,598.0 million, respectively). As a result, the share of loans and advances to customers in total assets grew from 60.1% at 31 March to 62.5% at 30 June. The highest nominal decrease in Q2 was reported in loans and advances to banks and in cash and balances with the Central Bank (down by PLN 2,818.2 million and PLN 1,005.4 million, respectively).

The highest nominal increase in BRE Bank Group's sources of funding was reported in amounts due to other banks as a result of the depreciation of the zloty against foreign currencies and a two-year EUR 200 million deposit placed by Commerzbank. Reductions of interest rates on deposits of retail and corporate clients in Q2 2010 resulted in a modest decrease in amounts due to clients (PLN 44,478.8 million at 30 June vs. PLN 44,931.4 million at 31 March).

In June 2010, BRE Bank Group's sources of funding grew by PLN 1,966.3 million of paid, not registered capital as a result of the successful issue of BRE Bank shares, an important step for the subsequent implementation of BRE Bank Group's profitable growth strategy 2010-2012.

X. Main Risks of BRE Bank Group's Business

BRE Bank monitors credit risk, operational risk, market risk, liquidity risk, and interest rate risk of the banking book in BRE Bank Group using risk measures applied by BRE Bank and taking account of differences in the profile and scale of business between particular Group companies. In addition, within the ICAAP process, the Bank monitors other risks to which its business is exposed.

X.1. Harmonisation with Basel II Requirements

The work of the Risk Area is focused on the Basel II AIRB Project (Advanced Internal Ratings Based Approach) which implements internal rating methods of the calculation of the credit risk capital requirement. This is one of the largest and most important projects implemented by the Bank. The importance of the project is highlighted by the fact that its Steering Committee comprises all BRE Bank Management Board Members as well as Commerzbank Managers. The scope of the project covers all relevant aspects of credit risk measurement and corporate governance in the Risk Area. The timeline of the project is 2009 – 2013 due to gradual application of the AIRB method to exposure portfolios of the Bank and BRE Bank Group subsidiaries (BRE Bank Hipoteczny and BRE Leasing).

The application of the internal ratings based approach requires the approval of the Polish Financial Supervision Authority (KNF) and the German Federal Financial Supervisory Authority (BaFin), conditional on a range of criteria. In the process of AIRB implementation, in December 2009, BRE Bank approached both Authorities with an application for approval of AIRB application. In Q2 2010, KNF carried out a topical inspection in the Bank aimed at verification of BRE Bank 's readiness for the application of the internal ratings based approach. The inspection included an analysis of all credit risk management models covered by AIRB phase 1 as well as credit processes, supporting IT tools, and a capital requirement calculation tool.

X.2. Credit Risk

Credit risk is the most important risk to which BRE Bank Group is exposed, and consequently credit risk management is a priority.

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

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

BRE Bank also monitors the credit risk of the Group subsidiaries that generate such risk.

As at 30 June 2010, the Group's credit risk capital requirement stood at PLN 4,135 million and represented 89.5% of the Group's total capital requirement.

Quality of the Loan Portfolio

The share of default exposures in advances and loans to BRE Bank Group clients at the end of June 2010 was 5.3% vs. 4.7% at 2009 YE and 3.4% at the end of H1 2009.

Loan loss provisions increased from PLN 1,964.8 million to PLN 2,324.9 million, including PLN 234.6 million of IBNI (Incurred But Not Identified) loss provisions.

The ratio of provisions to default loans was 67.6% and remained unchanged in comparison to YE 2009.

X.3. Liquidity Risk

The purpose of liquidity risk management is to assure and maintain the capacity of the Bank to honour both its current and future liabilities, taking into account the costs of liquidity. BRE Bank monitors financial liquidity on a daily basis, using cash flow analysis methods. Liquidity risk measurement is based on an internal model developed on the basis of analysis of the Bank's unique features, deposit base volatility, concentration of financing, and planned developments of particular portfolios. Daily monitoring covers the following items: the value of cash flow gaps in specific time intervals (mismatch), the values of supervisory liquidity measures, the level of liquidity reserves of the Bank, and the degree of utilisation of external supervisory limits and internal liquidity limits, which are determined by the Risk Committee of the Bank. The Bank assesses its liquidity position and the probability of its deterioration based on scenario methodologies on an ongoing basis. Stress test scenario results are regularly prepared and presented to respective Committees and to the Management Board.

The Bank also monitors regularly the concentration of funding, especially the deposit base, and the level of liquidity reserves. The Bank has put in place liquidity contingency procedures. In H1 2010, the Bank's liquidity and funding remained on level adequate to the needs.

X.4. Market Risk

In its business, the Bank is exposed to market risk, i.e., the risk of unfavourable change in the present value of the Bank's trading book and the banking book due to changes in market risk factors: interest rates, fx rates, prices of securities, and the volatility of options. Market risk exposure is quantified by measurement of Value at Risk (VaR) and by use of stress tests and scenario analyses based on market performance during previous financial crises. Market risk, in particular interest rate risk, is also quantified by measurement of Earning at Risk (EaR) of the banking book.

In order to limit the level of exposure to market risk, the BRE Bank SA Risk Committee sets binding VaR limits as well as control numbers, stress test limits and maturity gaps of the banking book. All these limits are monitored and controlled on a daily basis.

Value at Risk

In H1 2010, market risk as measured by Value at Risk (one-day horizon, confidence level 97.5%) remained moderate in relation to VaR limits. The average VaR of the Bank's total portfolio (trading book and banking book) was PLN 6.39 million and the maximum VaR was PLN 9.38 million. The utilisation of VaR limits was at a safe level and on average amounted to 15% for the portfolio of the Financial Markets Department (DFM) and to 47% for the portfolio of the Treasury Department (DS). VaR was mainly affected by portfolios of interest-rate-sensitive instruments (which are mainly part of the banking book), such as Treasury securities and interest rate swaps, and to a lower degree by portfolios of fx-rate-sensitive instruments (part of the trading book), such as fx options and fx transactions. The other groups of risk factors had a relatively lower impact on VaR.

VaR

PLN ths	H1 2009				H1 2010			
	30.06.2009	**avg**	**max**	**min**	**30.06.2010**	**avg**	**max**	**min**
Interest rate risk	6 040	7 557	8 847	4 881	7 615	6 133	8 397	3 895
FX risk	2 619	2 793	4 310	1 139	466	968	2 786	178
Stock price risk	159	158	694	1	71	294	906	45
VaR total	6 847	10 501	14 657	6 485	7 417	6 395	9 379	3 951

Stress Testing

Stress testing is an additional measure of market risk supplementary to Value at Risk. Stress testing measures the hypothetical change in the present value of the Bank's portfolios that would occur as a result of the risk factors moving to specific extreme values within a one-day horizon.

In regular stress tests based on scenarios of large extremely correlated changes in risk factors, the same for each group, market risk remained within a safe band in H1 2010, below set control numbers: the average utilisation of the limits was 43% at Treasury Department and 16% at Financial Markets Department (DFM). Under these scenarios, the biggest potential loss was observed on a sharp increase of interest rates (mainly Polish rates): at a 15% increase in interest rates, the average loss on the Treasury Department portfolio would be PLN 36.54 million in H1 2010 and the average loss of DFM would be PLN 4.75 million in January-May. The highest average loss of DFM in June would occur at a 15% decrease of interest rates, amounting to PLN 7.38 million. If the scenario of a 15% increase in interest rates materialised, it would in large part (corresponding to the portfolios of instruments available for sale) reduce the Bank's equity and have a lesser impact on the Bank's P&L.

In addition, the Bank conducts stress tests based on observed past crises. The average value from the tests in H1 2010 was PLN 10.36 million for the DFM portfolio and PLN 57.07 million for the Treasury Department portfolio.

Interest Rate Risk of the Banking Book

In H1 2010, the interest rate risk of the banking book as measured by EaR (potential decrease of interest income within 12 months assuming an unfavourable 100bp change of market interest rates based on a stable value of the portfolio over the period) was moderate for positions in PLN, CHF, and low for positions in CZK, USD and EUR due to the small interest rate position gap in these currencies. At the end of H1 2010, EaR (in million PLN) was 35.11 for PLN, 16.61 million for CHF, 5.31 for CZK, 3.73 million for EUR, and 0.98 million for USD. In addition, the Bank monitors underlying risk, yield curve risk, and customer option risk of the banking book. The maturity gap limits were not exceeded in H1 2010. Interest rate risk was moderate for positions in PLN and CHF and low for positions in USD, EUR and CZK due to the small interest rate position gap in these currencies. The table below presents the potential decrease in interest income over 12 months assuming an unfavourable 100bp change of market interest rates.

PLN M	H1 2009				H1 2010			
	30.06.2009	avg	max	min	30.06.2010	avg	max	min
PLN	1.65	11.13	28.69	0.08	35.11	18.04	48.43	0.11
USD	0.11	1.07	3.39	0.01	0.98	0.70	3.04	0.01
EUR	3.33	3.19	6.89	0.07	3.73	1.61	5.67	0.02
CHF	16.78	12.76	19.67	7.22	16.61	13.37	18.88	8.98
CZK	5.45	4.30	5.45	3.11	5.31	4.73	6.65	2.97

X.5. Operational Risk

In H1 2010, BRE Bank monitored and controlled operational risk using the methods and tools implemented in previous years. In particular, BRE Bank compiles operational event and loss data in its central database, monitors business and operational process parameters using key risk factors, performs operational risk self-assessment surveys of the Banks' organisational units, defines scenarios for identification and mitigation of the risk of very high operational losses.

In addition, all companies of BRE Bank Group continued integrating their operational risk controlling and management systems. The operational risk controlling rules and standards implemented by BRE Bank currently apply to the entire Group and all subsidiaries.

XI. Rating of BRE Bank and Group subsidiaries

XI.1. Fitch Ratings

At the end of June 2010, BRE Bank's Fitch ratings were as follows:

- long-term rating A (second best rating on a 12-grade scale);
- short-term rating F1 (top rating on a 6-grade scale);
- individual rating C/D (sixth best rating on a 9-grade scale);
- support rating 1 (top rating on a 5-grade scale);
- long-term rating outlook for BRE Bank - stable.

Fitch affirmed above ratings on 2 July 2010.

BRE Leasing also holds Fitch ratings: long-term rating A, short-term rating F1, support rating 1.

XI.2. Moody's Investors Service

At the end of June 2010, BRE Bank's ratings were as follows:

- long-term deposits rating Baa1 (eight best on a 21-grade scale), outlook stable;
- short-term deposits rating P-2 (second best rating on a 4-grade scale);
- financial strength rating D (A to E scale), outlook stable.

Moody's did not revise the ratings in H1 2010.

The following subsidiaries of BRE Bank also had Moody's ratings as at the end of June 2010:

- BRE Bank Hipoteczny S.A. –long-term deposits rating Baa3, short-term deposits rating P-3, financial strength rating E+, outlook stable. In addition, BBH issued mortgage bonds had the following ratings:
    - Baa1 – public mortgage bonds offered publicly in a Public and Mortgage Bonds Programme with a total nominal value of PLN 2,000,000,000;
    - Baa2 – mortgage bonds offered publicly in a Public and Mortgage Bonds Programme with a total nominal value of PLN 2,000,000,000;
    - Baa2 – mortgage bonds in the local currency and foreign currencies issued by the Bank.
- Intermarket Bank AG: long-term deposits rating A2, short-term deposits rating P-1, financial strength rating C.

In addition to the ratings granted by these two agencies, BRE Bank also holds a BBBpi rating from Standard & Poor's (prepared on the basis of publicly available information), the fourth grade on a scale of 8.

XII. BRE Bank's Authorities

The composition of the Supervisory Board changed in H1 2010: Michael Schmid was replaced by Sascha Klaus. As of March 2010, he is a Member of the Management Board of Commerzbank Auslandsbanken Holding AG responsible for risk management in Central and Eastern Europe.

At the end of June 2010, the composition of the Supervisory Board was as follows:

1. Maciej Leśny – Chairman of the 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. Sascha Klaus – 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. Martin Zielke – Member of the Supervisory Board.

BRE Bank SA Management Board

The composition of BRE Bank's Management Board did not change in H1 2010 and as of 30 June of 2010 was as follows:

1. Mariusz Grendowicz – President of the Management Board, General Director,
2. Karin Katerbau – Deputy President of the Management Board, Bank Director for Finance,
3. Wiesław Thor – Deputy President of the Management Board, Bank Director for Risk,
4. Przemysław Gdański – Member of the Management Board, Bank Director for Corporate Banking,
5. Hans-Dieter Kemler – Member of the Management Board, Bank Director for Investment Banking,
6. Jarosław Mastalerz – Member of the Management Board, Bank Director for Retail Banking,
7. Christian Rhino – Member of the Management Board, Bank Director for Operations and IT.

On 2 August 2010 the Supervisory Board of BRE Bank, pursuant to § 23 of the By-laws of BRE Bank SA, released Mr. Mariusz Grendowicz from the Management Board of the Bank and from the function of the President of the Management Board and Chief Executive Officer of the Bank.

As a consequence of the above, with the effect from 1 October 2010 the Supervisory Board appointed Mr. Cezary Stypułkowski to the Management Board of BRE Bank SA and for the post of the President of the Management Board of BRE Bank SA. Taking up by Mr. Cezary Stypułkowski of the function of the President of the Management Board is conditional upon issuing by the Financial Supervision Commission of the relevant consent to this extent.

Until taking up by Mr. Cezary Stypułkowski of above mentioned function, the duties of the President of the Management Board shall be temporarily executed by the current Executive Vice-President, Mr. Wiesław Thor.

XIII. 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:

- IFRS Condensed Consolidated Financial Statements for the first half of 2010 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 2010 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 IFRS Condensed Consolidated Financial Statements for the first half of 2010 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 and professional standards.

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

Date	Name	Position	Signature
04.08.2010	Wiesław Thor	Vice -President of the Management Board, Managing Director for Risk Management, Acting President of the Management Board	
04.08.2010	Karin Katerbau	Vice -President of the Management Board, Managing Director for Finance	
04.08.2010	Wiesław Thor	Vice -President of the Management Board, Managing Director for Risk Management	
04.08.2010	Przemysław Gdański	Member of the Management Board, Managing Director for Corporate Banking	
04.08.2010	Hans - Dieter Kemler	Member of the Management Board, Managing Director for Investment Banking	
04.08.2010	Jarosław Mastalerz	Member of the Management Board, Managing Director for Retail Banking	
04.08.2010	Christian Rhino	Member of the Management Board, Managing Director for Operations and IT	