BRE BANK SA

Our people make the difference.

Management Board Report on the Performance of BRE Bank Group SA in H1 2011

Warsaw, August 3, 2011

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I. Major achievements of BRE Bank Group in H1 2011

I.1. Sustainable improvement in the financial performance of BRE Bank Group

In H1 2011, BRE Bank Group reported a pre-tax profit of PLN 716.0 million, compared to PLN 328.8 million earned in H1 2010 constituting an increase of PLN 387.2 million or 117.8%. The net profit attributable to the shareholders of the Bank reached PLN 542.9 million, compared to PLN 239.7 million in the previous year constituting an increase of PLN 303.2 million or 126.5%.

The strong improvement of the Group's financial performance in H1 2011 was predominantly driven by:

- Continued **dynamic growth of core income**, i.e. net interest income and net fee and commission income which totalled PLN 1,464.6 million representing a rise of 24.8% compared to H1 2010, when it reached PLN 1,173.1 million. Improving deposit margins and growth of loans volumes have supported the growth of net interest income while the growth in fee and commission income is attributed to increased sales of loans, insurances and other financial products.
- **Solid results in lending** to corporate and retail clients. The value of gross loans to corporate clients excluding reverse repo/buy sell back transactions and including the loans of Intermarket Group and Magyar Factor intended for sale increased by 6.0% or PLN 1,327.9 million while the value of retail loans increased by 4.8% including fx effect or PLN 1.6 billion compared to the end of 2010.
- **Cost discipline** accompanying business development: the cost-to-income ratio fell to 48.5% from 51.2% reported at the end of H1 2010. After the first 6 months of 2011, total income was 18.6% higher compared to the H1 2010, while costs increased by 12.3%.
- Consistent implementation of a **prudent risk management policy** combined with encouraging economic trends supported a reduction in overall cost of risk from 140 bps in H1 2010 to 84 bps in H1 2011; the Group's risk parameters were also improved following the disposal of a part of retail loan portfolio of the Bank (more information in Chapter I.2.2. Major transactions).
- Continued business expansion and implementation of the strategy announced in 2010 reflected in:
    - **Effective acquisition of retail clients** despite intensified marketing and pricing campaigns introduced by a number of competitor banks. The number of clients in the first six months of 2011 rose by 4.8% to reach 3,796 thousand.
    - **Increase in product penetration** among the Bank's retail clients, reflected incontinued improvement of the cross-selling ratio from 2.81 at the end of 2010 to 2.99 at the end of June 2011, despite a considerable rise in the number of new clients.
    - **Continued rise in the number of corporate clients and selective expansion of the corporate banking network;** a total of 365 new corporate clients were added in the first six months of 2011 reaching 13,636 while the Group continued to expand its corporate banking network in areas displaying high growth potential.

The improvement in the Group's financial performance translated into a further enhancement of BRE Group's profitability ratios:

- Gross ROE rose to 20.6% from 15.6% at the end of 2010 and 14.0% at the end of H1 2010;
- Net ROE increased to 15.9% from 11.8% at the end of 2010 and 10.8% at the end of H1 2010.

The capital ratios for BRE Bank Group continued to improve supported by the full retention of profits for 2010. At the end of June 2011, the capital adequacy ratio stood at 16.08% (compared to 15.90% at the end of 2010 and 12.03% a year earlier), while Core Tier 1 ratio stood at 10.70% (compared to 10.40% in December 2010 and 6.68% in June 2010).

I.2. Important transactions announced by BRE Bank Group in H1 2011

I.2.1.Ownership changes within BRE Bank Group

On January 31, 2011, BRE Bank Group **became the sole owner of BRE Leasing** following the acquisition of the 49.9% stake it did not own from Commerz Real AG (a 100% subsidiary of Commerzbank AG). The transaction will further enhance the cross-selling potential within BRE Bank Group.

The ownership changes took place also in factoring subsidiaries. On April 8, 2011, a preliminary binding agreement was concluded between entities of BRE Bank Group and entities of Erste Group. Under this agreement the Group will sell its stakes in Intermarket Bank AG and Magyar Factor zRt. to Erste Group entities and will acquire from Intermarket Bank AG its respective stakes in Polfactor SA and Transfinance a.s.

As a result of this transaction BRE Bank Group will become the sole owner of Polfactor SA and Transfinance a.s., leading factoring providers in Poland and in the Czech Republic respectively.

The transaction is aiming at unwinding the international factoring operations of BRE Bank Group. The Group will concentrate on factoring activities in Poland and Czech Republic, where it is also present with banking operations (mBank Czech Republic).

The transaction was concluded on July 28, 2011, following the receipt of all necessary regulatory approvals and the materialisation of all contractual suspending conditions.

I.2.2. Sale of part of Retail Loan portfolio

On June 7, 2011, BRE Bank concluded a disposal of a part of retail loan portfolio with the total nominal value of PLN 621.5 million to Prokura Niestandaryzowany Sekurytyzowany Fundusz Inwestycyjny Zamknięty, a part of Kruk Capital Group. The book value of this portfolio stood at PLN 449.6 million. The positive impact of the transaction (including costs of this transaction) to the pre-tax result of BRE Bank Group amounted to approximately PLN 89.3 million. The Group's decision to sell a part of retail loan porfolio was a result of a detailed analysis of market prices for similar receivables as well portfolio purchase offers the Group had received from specialized collection firms.

I.3. Major project initiatives conducted by BRE Bank Group in H1 2011

Over the course of the first half of 2011 a number of projects aimed at further intensification of existing product sales, service enhancement and acquisition of new clients have been initiated or expanded. These include:

I.3.1. Corporate Network Enhancement and "Branch of the Future" Project

As a result of a detailed analysis of the territorial layout of small and medium enterprises in Poland additional new locations were identified and marked for the future roll-out of the Bank's corporate banking presence.

During the first half of 2011, 2 new branches were opened: in Nowy Sącz and Toruń. A new corporate bureau in Piotrków Trybunalski was also opened. Consequently, as of June 2011 the Group operated 26 dedicated corporate branches and 20 corporate bureaus.

Additional 3 corporate branches are scheduled for opening over the course of the second half of 2011: Warsaw IV, Wałbrzych and Koszalin. The unit in Koszalin will serve as a pilot model of the so called "Branch of the Future" concept, combining corporate and retail banking offering (MultiBank) with the aim of achieving additional cost and operational synergies.

I.3.2. Continuation of Cross Border Business Enhancement Project

The aim of the “Cross Border” project is to facilitate the cross border co-operation within Commerzbank Group with regards to services rendered to German-speaking international clients that conduct their business activities in more than one country. The project, when completed, should result in significant harmonization of services and offers within the Commerzbank Group. The harmonization involves, among others, a revised organization of servicing of international clients, utilization of dedicated CRM infrastructure, close co-operation of Commerzbank and BRE Bank product sales forces and streamlining of cross boarder credit processes. As a result, a number of German-speaking clients operating in Poland have already been acquired and serviced through the joint efforts of Commerzbank Group and BRE Bank Group.

I.3.3. Enhancement of Investment Banking Offering for Corporate Clients

Throughout the course of the first half of 2011 a number of specific initiatives were initiated and carried out in order to strengthen the investment banking product offering of BRE Bank Group. These included among others:

- Increasing of cross selling of Treasury products to existing and new corporate clients through more active marketing efforts.
- Upgrading of iBRE FX electronic platform enabling increased and more efficient product sales to corporate clients.
- Improvement of derivative product sales processes jointly elaborated by Corporate and Risk areas involving comprehensive sales training programs for Relationship Managers, Credit Officers and Dealers.

The efforts to enhance the Investment Banking offering of the Group will continue through the course of the second half of 2011.

I.4. Awards and distinctions

Throughout the course of the first half of 2011 BRE Bank along with its subsidiaries was appreciated both by customers and external experts and celebrated a number of prestigious distinctions. The most important of these include:

- BRE Bank was named the best bank in Poland by the renowned Euromoney Magazine in the Euromoney Awards for Excellence contest for 2011. BRE Bank was ranked first in the Best Bank category, in which banks are assessed in terms of their financial standing and performance, and their position on the domestic market. Euromoney Magazine’s jury highlighted that BRE Bank developed faster than peers and reported financial results above expectations of analysts.
- BRE Bank was named best bank in Poland, according to the prestigious Global Finance magazine within the Best Emerging Market Bank in the CEE category. Earlier, in November 2010 BRE Bank had been named the Best Corporate Internet Bank in the CEE.
- BRE Bank was again acknowledged as an entrepreneurs-friendly bank in the 12th edition of the competition organised by the Polish Chamber of Commerce and the Polish-American Small Business Advisory Foundation.
- BRE Bank was awarded the title of the Warsaw Stock Exchange’s Company of the Year for 2010 in an internet survey conducted by inwestycje.pl. The verdict was based on votes of inwestycje.pl readers, selecting the best companies as well as an assessment of their financial ratios and transparency of financial reporting.
- The Private Banking and Wealth Management areas of BRE Bank were again awarded the „Best Private Banking in Poland” award by the prestigious Euromoney Magazine.The award comes on the back of earlier recognitions in 2007, 2009 and 2010.

- mBank was granted a distinction at the 6th E-Economy Congress, organised by the Polish Bank Association. Furthermore the express funds transfer introduced by mBank in 2010 was acknowledged as the "Project of the year in 2010".
- Ernest Pytlarczyk and Marcin Mazurek won the prestigious contest for the best economic analysts for 2010, organised by the National Bank of Poland. Apart from the first prize in the main category, the analyst team of BRE Bank won first prizes in the categories for best forecasts for inflation and balance of payments and the third prize for best forecasts of gross domestic product. The contest was organised by the National Bank of Poland and included forecasts for the year 2010. 34 analyst teams participated in the contest.
- BRE Bank was named among the best Employers in the TOP 100 Ideal Employer of 2011 ranking prepared on the basis of surveys carried out among students.
- The Stock-Exchange daily Parkiet in its annual ranking awarded DI BRE (BRE Bank Group's brokerage house) the title of the Brokerage House of the Year. Kamil Kliszcz from DI BRE was ranked among the leading capital market analysts.

II. Economy and the banking sector in H1 2011

II.1. Continued economic improvement in H1 2011

The GDP growth and its structure suggest that the recovery of the Polish economy continues. In Q1 2011, GDP grew by 4.4% year on year, and is estimated to have grown at a similar rate in the second quarter of the year.

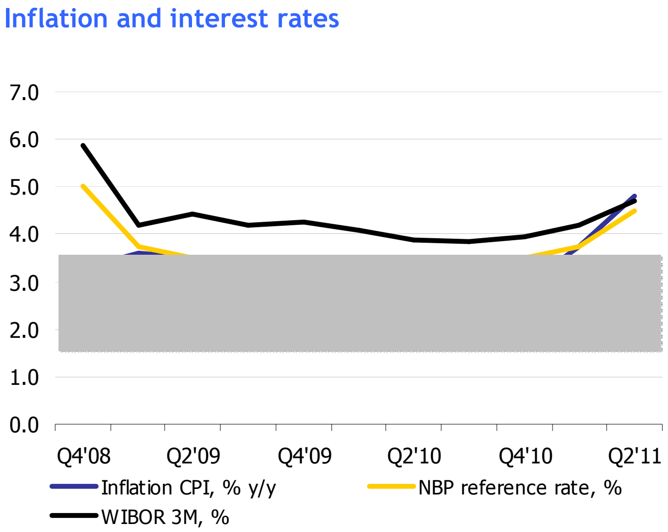
The key points underpinning the performance of the Polish economy were as follows:

- Stable growth of industrial output at 10% annual rate in Q1 2011 and approximately 7% annual rate in Q2 2011 (the slowdown was partly caused by factors which have been so far recognized as temporary elements related to a broader slowdown in global trade activity as well as by certain base effects).
- Stabilization on the labour market resulting from rising economic activity. Following an increase to 13.2% in February 2011, the official unemployment rate fell to 11.8% in June, while employment in the corporate sector rose by approx. 4% (3.3% annual rate in June) in H1 2011 The labour market improvement was accompanied by a moderate growth in salaries in the corporate sector.
- Private consumption remained stable in Q1 2011 and grew by 3.9% year on year. Consumption is expected to be the major driver of Polish economic growth in the coming quarters.
- Investments increased by a 6% annual rate in Q1 2011. The rise in investment demand was driven by: public investments related with the inflow of EU funds and EURO 2012 related investments as well as a gradual revival of private investments.

II.2. Monetary policy

The first half of 2011 saw a strong rise in inflation from 3.1% at the end of 2010 to a psychological level of 5% in May 2011 and has decreased to 4.2% YoY in June 2011. Base inflation increased from 1.6% at the end of 2010 to 2.4% in June 2011. Initially, the price increases were driven by the situation on the commodity markets (record high growth in oil prices) in the aftermath of the unrest in North Africa as well as natural disasters fuelling the rise in food prices. Currently, the inflation rate is expected to slow down due to reduced growth in prices of seasonal food and fuels. It is expected that base inflation will continue to rise.

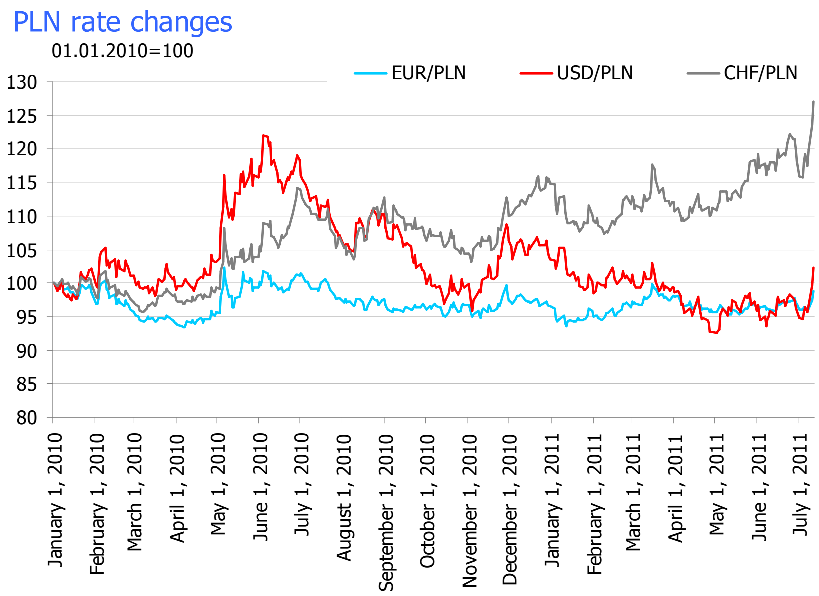
Through the course of the first half of 2011, the Monetary Policy Council (RPP) announced four interest rate hikes (by 25 bps in January, April, May and June); the main reference rate rose from 3.5% (in December 2010) to 4.5% in June 2011.



The last three hikes were related to the record high annual inflation rate, and were seen by RPP as early intervention attempt. The fears of weakening rate of economic growth and even a slight fall in the annual inflation rate would speak against any further interest rate increases. On the other hand, the continued economic recovery and consistent growth in base inflation may translate into further monetary tightening in the autumn of this year.

II.3. Foreign currency market developments

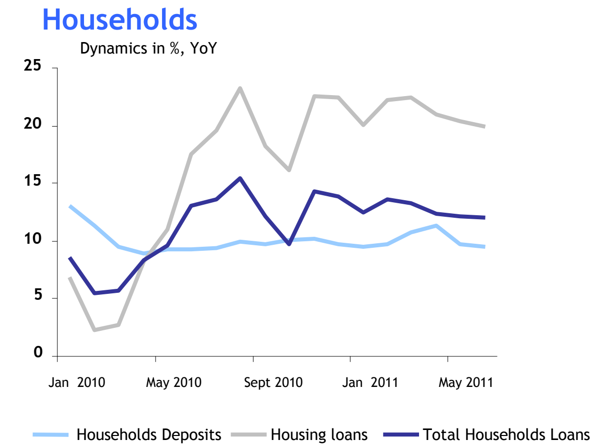
Throughout the first half of 2011, the Polish Złoty remained stable and resistant to volatility in risk aversion (lately, the volatility has been observed mainly due to debt struggles of the peripheral states of the Euro zone, where the biggest risk for PLN can be recognised). Stronger appreciation was not supported neither by the combination of global factors nor by fund flows, which have reduced from the viewpoint of the Polish currency (broadening balance of payments, reduced number of loans granted in foreign currencies). The PLN fluctuations have been successfully restrained by Bank Gospodarstwa Krajowego intervening on the market. The Polish Złoty may appreciate strongly only if the global sentiment improves and the economic and investment growth in Poland accelerates markedly, yet in view of the current situation in the Euro zone, this scenario seems unlikely to materialise (see record high CHF/PLN quotations).

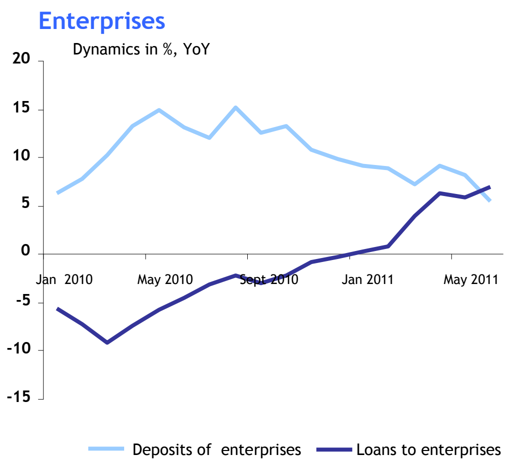


II.4. Banking sector

The Polish banking sector performance in H1 2011 was characterised by the following developments:

- Stabilization of the growth rate of retail deposits at 8.9% YoY at the end of June. In the first half of 2011, retail deposits rose by PLN 13.6 billion YtD. The growth was supported by the stabilization on the labour market but was limited by the persistent positive balance of inflows and outflows reported by investment funds.
- Growth in corporate deposits: the annual growth rate reached 8.5% at the end of June 2011. The relatively stable downward trend in the growth rate of corporate deposits observed from the beginning of 2011 is a sign of a gradual slowdown in corporate liquidity driven among others by rising investment activity.
- The retail loan market saw a significant rebound in the first half of 2011: retail loans grew by 9.2% YoY in June, while the volume increased by PLN 22.2 billion. Corrected for FX effect, the annual growth rate of retail lending reached 7.7% in June 2011. The continued improvement on the retail credit market (+15,3% YoY in June) was possible mainly due to mortgage lending growth. Since February 2011, the value of consumer loans remained stable at around PLN 135 billion.
- During the first half of 2011, a new upward trend emerged in the growth rate of corporate loans. In May 2011, corporate loans rose by an annual rate of 5.9%. The high growth rate of investment loans (8.5% year on year in May) is a sign of continuing investment revival. Since March 2011, we have also been observing a positive growth rate of overdraft facilities (the downward trend reversed at the beginning of 2011).





II.5. Changes in recommendations of the Polish Financial Supervision Authority (KNF) concerning banks

During the past six months, Recommendation T and two other major amendments to existing regulatory recommendations were introduced.

II.5.1. Recommendation T

The recommendation on good practices in managing the risk of retail credit exposures adopted in February 2010, came into force already in 2010. The part of the Recommendation aimed at improving risk management entered into force in the middle of the year, while its remaining provisions became effective from December 23, 2010. The Recommendation imposed additional restrictions on testing of the creditworthiness of clients, which practically eliminated loans granted solely on the basis of personal ID or loans not requiring proof of revenue. Under the provisions of Recommendation T banks should asses the client's standing not only based on the certificates on income, assets or family situation provided by the client, but also through the Credit Information Bureau (BIK) and analysis of the client's past track record.

In addition, the Recommendation was intended to prevent clients from excessive borrowing, which occurs when credit instalments exceed the borrower's payment capacity. Recommendation T set the permissible proportion between the client's income and all his credit instalments, i.e. the so-called DTI ratio (debt to income). In the case of borrowers earning no more than the national average, the ratio cannot exceed 50%, otherwise it cannot be higher than 65% (regardless of the loan currency).

II.5.2. Amended Recommendation S

The amendment to Recommendation S adopted in January 2011 introduced new restrictions on mortgage loans extended in foreign currencies. The amendment stipulates that all the credit instalments of a given borrower cannot exceed 42% of his net income. Furthermore, regardless of the lending period, banks will be obliged to calculate the borrower’s creditworthiness as if the loan was granted for 25 years.

The majority of new provisions will enter into force in 2012, while the risk-related regulations (risk assessment, monitoring, etc.) became effective in July 2011. The Recommendation obliges the management board of the bank to develop a mortgage loan portfolio management policy and to assess it periodically. Additionally, on a regular basis, banks should analyse how fluctuations in foreign exchange rates and interest rates affect the credit risk. Moreover, the KNF recommends that banks monitor the changes in real estate market and the value of real estate accepted as loan collateral.

II.5.3. KNF Resolution of June 2011 on capital requirements for particular risk types

The aforesaid Resolution, amending KNF Resolution No. 76/2010 on the scope and detailed rules for specifying capital requirements for individual risk types will enter into force on June 30, 2012. The major change will be introduced by the provision stipulating that "retail exposures for which the amount of principal or interest instalment depends on fluctuations in the exchange rate of a currency or currencies other than the currencies in which the debtor is remunerated shall be assigned a 100% risk weight", instead of 75% assigned so far.

II.6. Factors influencing the banking sector in H2 2011

The expected directions of growth of the Polish economy in H2 2011 should have a relatively positive impact on the banking sector, including BRE Bank. In particular:

- The growth in retail deposits will be boosted by the gradual improvement on the labour market and the rise in risk aversion, on the other hand, high inflation and the possibility of persisting negative real interest rates on deposits should be an important mitigating factor of that growth.

- In the second half of 2011, corporate deposits will be affected by the continued strong economic activity. However, the gradual revival of private investments, which at their early stage are funded from companies' own funds, is expected to reduce the growth rate of corporate deposits.

- The improvement on the labour market and the resulting rise in creditworthiness of households are expected to support growth in retail lending, especially mortgage lending which has a lower risk profile. The housing and demographic situation (consistent increase in the number of households) may support growth in the value of housing loans (in particular PLN loans). The regulations of the Polish Financial Supervision Authority (KNF) introduced in January 2011 presented in the section II.5 should on the other hand act as a restraining factor for growth in this segment. Since November 2010, the value of new consumer loans granted has been decreasing systematically due to Recommendation T. However, the restrictions will improve the quality of loans in this segment, which in turn should favour a rise in supply, while the economic recovery is expected boost demand.

- Growing economic activity will result in a rise in demand for corporate loans in the second half of 2011. The demand for working capital loans and investment loans is expected to rise further thanks to the continuing expansion of industrial output and exports. However, the expansion of investment loans will be somewhat delayed, as at the early stage of a new investment cycle companies tend to use their own funds as the main funding source.

III. Outlook of BRE Bank Group for H2 2011

A sound performance of the Polish economy throughout the remaining months of 2011 should provide support for the Group's growth prospects translating into a solid revenue performance and product sales. With asset quality trends continuing to be encouraging, the Group's prudent risk management strategy will remain the underpinning factor for the development of risk provisioning charges.

The positive outlook for the Polish banking sector and BRE Bank for the second half of 2011 will however also remain dependent on the economic and financial markets developments in the Euro zone and globally.

The continued turbulence in the financial markets driven by uncertainty surrounding the solvency of EU's peripheral economies may have a negative effect on investor and corporate confidence in Poland, potentially translating into reduced investments and Złoty weakening as well as damaging consumer confidence in Poland.

The Polish economy has remained relatively resilient to external shocks supporting the strong performance of BRE Bank Group that translated into sound revenue performance and accelerating product sales. The Group remains on a solid track to deliver on its strategic performance targets and continues to see strong growth potential in the markets and segments it operates in.

BRE Bank Group's strong capital base and ample liquidity put it in a position of strength to take advantage of a solid market environment in Poland and to maintain the relevant safety buffers in the event of a more adverse market development scenario.

IV. BRE Bank Shareholders and Share Price on the WSE

IV.1. BRE Bank SA Shares at the end of June 2011

In the first half of 2011 the number of shares of BRE Bank remained stable in comparison to the end of 2010 with the following key characteristics as of June 30, 2011:

- Total number of BRE Bank shares: 42,086,674 ordinary and bearer shares (additionally, under the long term incentive program 15,864 shares were issued, which were registered by the National Depository for Securities on July 18, 2011).
- There are no preferred shares, each share represents one vote at the General Meeting.
- Nominal value: PLN 4 per share.
- BRE Bank share capital: PLN 168,346,696, fully paid up.
- Shares are listed on the Warsaw Stock Exchange (WSE) since 1992.
- Shares participate in the following WSE indices: WIG, WIG20, and WIG Banks; shares also participate in indices WIG 20 short, WIG 20 lev, WIG PL and since February 2011 in Respect Index.

BRE Bank has a strategic shareholder: Commerzbank AG, which has been BRE Bank's major shareholder for a number of years – initially directly, and currently through a 100% owned subsidiary, Commerzbank Auslandsbanken Holding AG.

The stake of Commerzbank has been gradually rising, from 21% in 1995 through 50% in 2000, to the level of 72.16% in 2003. Since 2005, the stake has been reducing slightly due to the execution of a management options scheme at BRE Bank. Commerzbank Auslandsbanken Holding AG held 69.74% of BRE Bank shares and votes at the General Meeting as of June 30,2011. It was the sole shareholder whose stake exceeded 5% of shares of BRE Bank SA at the time.

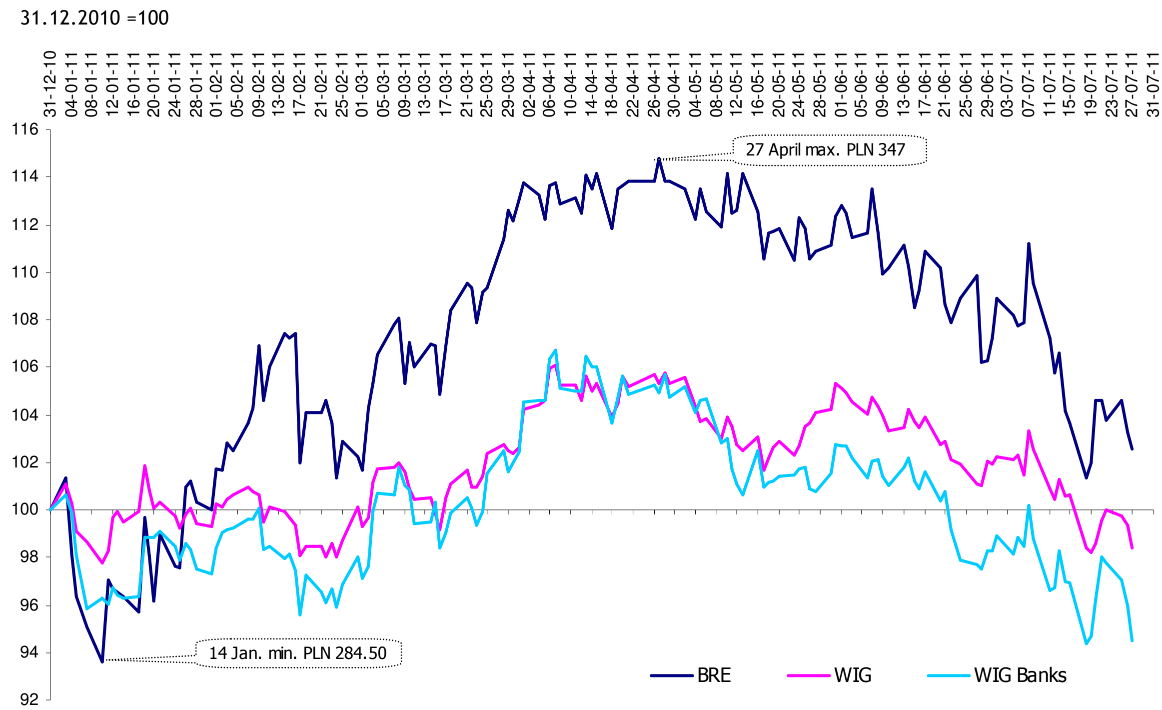
After H1 2011, ING Open Pension Fund informed that as a result of acquiring BRE Bank SA shares through transactions on the Warsaw Stock Exchange, settled on July 5, 2011, it became a holder of over 5% of the votes at the General Meeting.

On July 8, 2011, ING Open Pension Fund held 2,290,882 shares on its securities account, that is 5.44% of BRE Bank's share capital and of the number of votes that can be cast at the Bank's general annual meeting.

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

The closing price of BRE Bank shares on June 30, 2011 stood at PLN 325.90, which was 7.2% more than the price of 31 December 2010. Over that period, the main WSE indices performed as follows: WIG up by 1.9%, WIG20 up by 2.1%, WIG-Banks down by 1.7%.

BRE Bank share performance in H1 2010



The P/BV (price/book value) multiple stood at 1.8x as of June 30, 2011 v. 1.5x a year earlier. The P/E (price/earnings) multiple stood at 25.4x as of June 30, 2011 (earnings in the last 4 quarters) v. 19.8x a year earlier.

V. Composition of BRE Bank Group

Along with the development of its operations, BRE Bank established or acquired companies offering products and services complementary to its banking offer to meet needs of BRE Bank Group's customers. The main subsidiaries at the end of June 2011 included: BRE Leasing, BRE Bank Hipoteczny, Dom Inwestycyjny BRE Banku, Polfactor as well as the insurance company BRE Ubezpieczenia. In total, 17 companies were consolidated at the end of June 2011.

The composition of BRE Bank Group by business segments and areas was as follows:

<table>
<tr><th colspan="4">BRE Bank Group</th></tr>
<tr><td>Segment</td><td colspan="2">Corporates & Financial 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
▪ Structured & Mezzanine Finance</td><td>▪ Risk and Liquidity Management
▪ Financial Markets
▪ Financial Institutions */</td><td>▪ mBank (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 Leasing Sp. z o.o.
▪ Intermarket Group
- Intermarket Bank AG
- Polfactor SA
- Transfinance a.s.
- Magyar Factor zRt
▪ BRE Holding Sp. z o.o.
▪ BRE Gold FIZ Aktywów Niepublicznych
▪ Garbary Sp. z o.o.</td><td>▪ Dom Inwestycyjny BRE Banku SA*/
▪ BRE Bank Hipoteczny SA*/
▪ BRE Finance France SA</td><td>▪ BRE Wealth Management SA
▪ Aspiro SA
▪ 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>

*/until Q2 2010 under Corporates & Institutions

At the beginning of Q3 2010 certain activities that are presented in the Corporates and Financial Markets segment were reassigned between its two sub-segments. The reassignment comprised a shift of the following areas from Corporates and Institutions to Trading and Investments: (a) Financial Institutions, (b) Subsidiaries: DI BRE Bank SA, BRE Bank Hipoteczny.

The amendments were made in order to better reflect business lines organisational responsibilities and performance measurement requirements and to better leverage the existing cooperation between business lines at the Bank level with subsidiaries.

Under IFRS, all subsidiaries are consolidated using acquisition accounting. Their business is briefly described in sections on relevant business lines.

VI. BRE Bank Group's Corporates & Financial Markets Segment

The Bank offers its corporate banking customers in its Corporates and Financial Markets segment a broad range of products and services, including current accounts, internet banking based cash management services, term deposits, foreign exchange transactions, short-term financing and investment loans, cross-border credit, project finance and trade finance solutions, structured and mezzanine finance services, and investment banking services and products. The Bank distributes its products and services through a fully dedicated network of corporate branches and offices, as well as through its corporate banking internet platform iBRE.

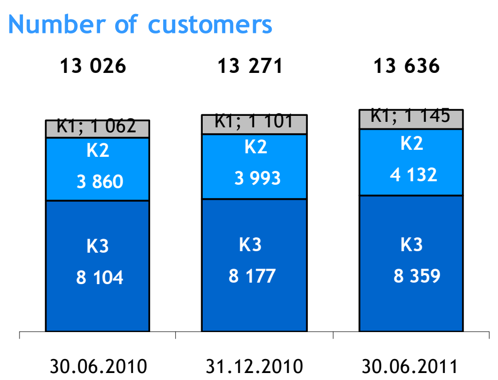
VI.1. Corporates and Institutions (BRE Bank)

Market conditions in H1 2011 improved slightly compared to the same period a year earlier. While the beginning of the year suggested a more pronounced corporate investment activity, the end of H1 saw a moderation in output. A number of forward-looking economic indicators deteriorated, whilst the growing utilisation of production capacity did not translate into substantially increased investment activity by corporations.

In the context of the prevailing conditions, BRE Bank's efforts in the corporate banking segment focused on maximising the existing market potential. With continued focus on identifying new high potential clients, BRE Bank was able to increase the number of corporate clients to a record level of 13,636 entities. Furthermore, the Bank's market shares in key products were maintained or expanded while the growth of the segment's net income continued to be supported by transactional banking revenues, an area of the Bank's strategic focus due to its high growth potential and significant client interest.

A 20% rise in project finance related lending is a notable example of BRE Bank's product strength and ability to service the particular corporate client needs in a changing market environment.

VI.1.1. Increase of Corporate Clients' Base



Throughout H1 2011, BRE Bank acquired 1,130 new corporate clients, of which 62.5% were K3 clients and 31.6% were K2 clients. The total number of clients reached 13,636 companies at the end of June 2011, up by 365 companies since the end of 2010.

K1 represents the segment of the largest corporations with annual sales of 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.

VI.1.2. Loans and Deposits

The volume of corporate loans and deposits is presented in detail in chapter IX under the Section covering changes in the Statement of Financial Position.

The corporate loans market grew by 8.0% in H1 2011. The market share of BRE Bank's lending to enterprises remained stable at 6.2% at the end of June 2011. Companies maintained a more cautious investment stance than it had been anticipated at the beginning of the year and utlised spare financial resources previously allocated in deposits.

The corporate deposits market declined by 2.3% in H1 2011. The market share of BRE Bank's corporate deposits increased to 9.4% at the end of June 2011 compared to 8.6% at the end of 2010 and 8.4% at the end of June 2010.

BRE Bank, in line with its strategy, continued to intensify its activity in serving the public sector. The Bank's market share in loans granted to local governments at the end of June 2011 reached 4.6% compared to 4.1% at the end of 2010 and 1.2% at the end of June 2010.

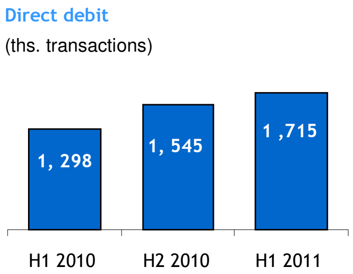
VI.1.3. Structured Finance, Project Finance and Syndicated Loans

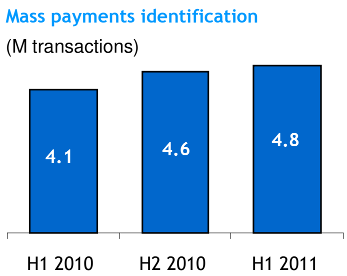
This area of the Bank's Corporate Banking business includes M&A finance, project finance, syndicated loans and mezzanine finance. Throughout H1 2011, the Bank remained a major player on the market for syndicated loans and participated in 11 syndicated loan transactions. BRE Bank's newly generated and refinanced existing exposures in respect of syndicated loans totalled PLN 1,974 million (a part of exposures in EUR). The Bank also finalized 3 bilateral loans totalling PLN 112 million. The total value of loans and guarantees granted and issued by the Bank throughout H1 2011 amounted to PLN 2,216 million, compared to PLN 573 million a year earlier.

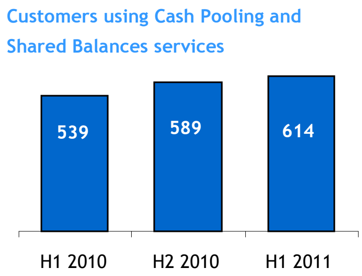
VI.1.4. Transactional banking

BRE Bank Group's comprehensive cash management offer, which enhances the Group's long-term relationships with corporate clients is a growing contributor to the income of the Corporates and Institutions business line and has been characterised by steady overall increase in sales of both standard and complex client solutions.

As of June 30, 2011, the number of Direct Debit transactions executed reached 1,715 thousand, which represents an annual increase of 32.1%. The number of Trade Payment Identification transactions has also been growing dynamically. The number of transactions executed from January to June 2011 exceeded 4.8 million and represented a 16.9% annual increase. During the first six months of 2011, the group of clients using the most sophisticated solutions involving cash pooling on bank accounts rose by 13.9% compared to June 2010. At the end of June 2011 there were 614 clients using the Cash Pooling and Shared Balance offer.







The following figures illustrate the development of transactional banking in H1 2011:

- The number of domestic transfers made by corporate clients in H1 2011 grew by 45.3% YoY.
- Compared to H1 2010, the number of foreign transfers increased by 21.9%; the highest rise was observed in the case of SEPA transfers which surged by 77.9% in the discussed period.
- The volume of cash processing services for corporate clients rose by 23.9% YoY.
- The number of all corporate cards issued increased by 209.4% YoY.

VI.1.5. Corporate banking area offer development

The Transactional Banking area of BRE Bank continued its efforts to expand the product offer, streamline processes and implement solutions aimed at increasing the satisfaction of the Bank's clients. In that context, the following important undertakings during H1 2011 have taken place:

- **Offer of Electronic Money Instruments**. BRE Bank, in cooperation with MasterCard launched an issue of cards in the form of electronic money becoming the first institution to offer this solution to its corporate clients. BRE Bank offers two cards: MasterCard eMoney PayPass, a reloadable card suitable for contactless payments, and MasterCard eMoney, an electronic card substitute for cash that cannot be reloaded once utilised.
- **Completed implementation of all products within the CashBREaker project**. The two-year project aimed at developing and implementing the Central Cash Management System in BRE Bank Group was completed. CashBREaker is a central cash management system used by MultiBank units, BRE Bank corporate branches and sorting offices cooperating with the Group. This solution made it possible to reduce costs and optimize cash processing in the entire Bank.
- **Modification of the Integrated Bank Account Agreement (ZURB) documentation.** To maximise clients' convenience, the Bank introduced modifications aimed at streamlining the process of signing of new agreements, and made necessary changes in the already signed agreements at the request of clients. The modifications are expected to improve the effectiveness of product documentation management and to make the offer even more flexible. The modified application for opening ZURB sets a new market standard in terms of transparency, conciseness and compliance with the applicable regulations and good practices.

VI.2. Subsidiaries within the Corporates & Institutions area

VI.2.1. Intermarket Group

Subsidiaries of the Intermarket Group, which as of June 30, 2011 consisted of: Intermarket Bank AG (Austria), Polfactor SA (Poland), Transfinace a.s. (Czech Republic), Magyar Factor zRt. (Hungary), Transfactor Slovakia a.s. (Slovakia) and S-Factoring d.d. (Slovenia), provide factoring services to small and medium size enterprises in six countries of Central and Eastern Europe.

Pre-tax profit for H1 2011 of the Intermarket Group reached PLN 21.0 million compared to a pre-tax profit of PLN 13.6 million in H1 2010 (+55% YoY). Improvement of the pre-tax profit was possible thanks to higher income (+13% YoY) and a lower level of provisions against non-performing loans (-35% YoY).

In accordance with information specified in section I.2.1., on the basis of an agreement dated April 8, 2011, on July 28, 2011, BRE Bank Group sold its shares held in Intermarket Bank AG (Austria) and Magyar Factor zRt (Hungary) to entities from Erste Group. The transfer of control of respective entities under the agreement became effective on July 28, 2011 and as such, the consolidated financial statements of BRE Bank Group for H1 2011 do not reflect the conclusion of the transaction.

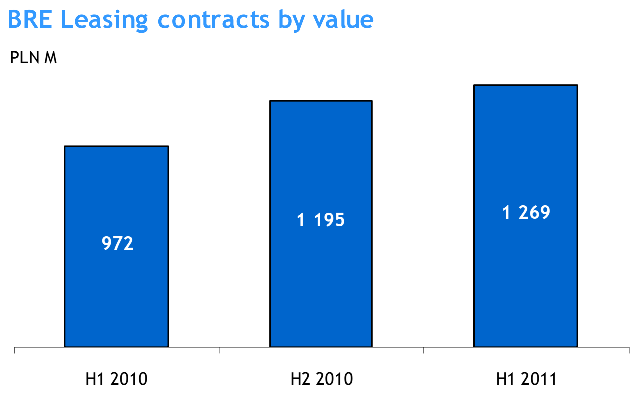
At the same time, BRE Bank Group became the sole owner of the companies Polfactor S.A. and Transfinance a.s., entities operating on the Polish and the Czech market respectively.

VI.2.2. Polfactor SA

In H1 2011, the factoring market in Poland continued to grow. Polfactor, reporting an increase in turnover by 14.1% YoY, maintained its fifth position among companies associated in the Polish Factors Association with a market share of 8.1%. Recourse factoring remained the company’s leading product.

Pre-tax profit for H1 2011 stood at PLN 8.0 million, (+57% YoY), helped by a 22% income growth and a release of provisions booked against non-performing receivables (+PLN 0.7 million).

VI.2.3. BRE Leasing Sp. z o.o.



The value of leasing agreements executed by BRE Leasing in the first six months of 2011 reached PLN 1,269 million constituting an increase of 30.6% compared to H1 2010, driven primarily by movables leasing year-on year growth of 58.2%

The pre-tax result reported by BRE Leasing for the first six months of 2011 stood at PLN 26 million representing a decrease of 5.1% compared to the same period a year earlier.

The decrease in pre-tax result was caused by lower margins on newly signed leasing agreements, compared to expired agreements.

VI.2.4. BRE Holding Sp. z o.o.

BRE Holding sp. z o.o. was established in November 2007 with BRE Bank as its sole shareholder. The assets of BRE Holding comprise shares in BRE Bank Hipoteczny SA, Polfactor SA and BRE Leasing Sp. z o.o., valued at PLN 437 million in total. In H1 2011, the main source of revenue generated by BRE Holding were dividends totalling PLN 14.7 million.

VI.2.5. BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (BRE Gold FIZAN)

All the investment certificates issued by this fund have been acquired by the Bank. The value of the investment certificates stood at PLN 252.7 million as of June 30, 2011. The fund's assets include PZU shares and funds received from dividends. At the end of June 2011, BRE Gold FIZ's investment in PZU comprised 471,170 shares.

VI.2.6. 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 (currently not in use) subject to protection as a historical monument. Due to an on-going litigation process, the company Garbary cannot sell or encumber the property.

VI.3. Trading and Investments

Over the course of H1 2011 various initiatives aimed at enhancing currency transactions helped BRE Bank's sales of FX instruments (spot & forward) increase significantly, by more than 40% YoY.

Furthermore, similar initiatives are currently taking place at the Bank as part of a strategic project designed to enhance the sales of other treasury and investment banking products to corporate clients. Additional details of the project are presented in I.3.3. section.

During the last six months, BRE Bank retained its position of one of the leading players on the market for trading of treasury bonds and interest rate derivatives. BRE Bank's share in the treasury bills and bonds market grew to 7.9% (compared to 6% at the end of 2010). On the IRS/FRA market, the Bank established a share of 16.7% (as of May 2011), compared to 19.0% at the end of 2010.

The value of short-term debt securities placed on the market by BRE Bank stood at PLN 2.2 billion after the first six months of 2011. The Bank's market share stood at 13.6%, compared to 14.6% at the end of 2010.

With a market share of 18.8%, BRE Bank became the second largest player on the rapidly growing market for arranging corporate bonds. BRE Bank organised a number of important new issues, including those of Echo-Investment, Arctic Paper, Katowicki Holding Węglowy and Magellan. After the first six months of 2011, the value of corporate bonds placed by BRE Bank stood at PLN 3.6 billion compared to PLN 3.2 billion at the end of 2010.

BRE Bank's market share as arranger of bank debt securities fell from 22.5% at the end of 2010 to 18.2% in June 2011, while the value of securities placed stood at PLN 2.6 billion (compared to PLN 2.4 billion at the end of 2010). The largest project conducted in the first six months of 2011 was the PLN 500 million bond issue of BRE Bank Hipoteczny arranged by BRE Bank.

VI.3.1. Financial Institutions

Relations with Financial Institutions are managed by the Trading & Investments business line (until H1 2010 presented under Corporates & Institutions). The activities include funding from other banks and placements with other banks.

As of June 30, 2011, the Bank had 27 active borrowings totalling the equivalent of PLN 24,026 million, of which PLN 21,535 million were drawn. The net borrowings drawn were down by PLN 120 million year to date.

In H1 2011, the Bank repaid one loan in EUR and a portion of a CHF loan for a total amount of PLN 895 million (by the FX rate from the repayment date). The payments were made before their contractual maturity. During the same period the Bank took three new loans: two in EUR, one in CHF and 2 credit lines from the European Investment Bank (EIB) to support the financing of small and medium enterprises in Poland. The total equivalent of new loan agreements stood at PLN 1,040 million.

BRE Bank's exposure relating to loans granted to other banks as of June 30, 2011 totalled the equivalent of PLN 1,354 million. The Bank's portfolio included 48 short-term and long-term active loans granted to other banks.

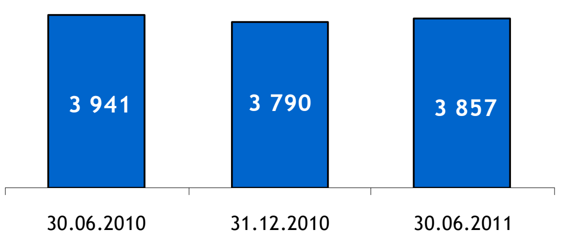
VI.4. Trading & Investments subsidiaries

VI.4.1. BRE Bank Hipoteczny SA (BBH)

BRE Bank Hipoteczny SA is a specialised mortgage bank. It offers the following services to its customers: loans for commercial developers, loans for residential developers and loans for local governments. The company issues mortgage and public bonds to finance its lending operations.

BBH loan balance sheet portfolio

PLN M



BBH's balance sheet loan portfolio grew by 1.8% to PLN 3.9 billion compared to YE 2010. At the end of H1 2011, the nominal value of mortgage bonds issued by BBH amounted to PLN 1.9 billion.

In H1 2011, BBH reported a pre-tax profit of PLN 12.8 million (-43% YoY) due to reduced interest income (-PLN 5.4 million) and higher impairment charges (+PLN 6.6 million).

VI.4.2. Dom Inwestycyjny BRE Banku SA (DI BRE)

DI BRE's institutional trading desk provides services to major Polish institutional investors (pension funds, mutual funds and asset management firms) as well as selected international funds while its retail platform serves a significant number of retail clients active on the WSE.

During H1 2011, DI BRE opened 9 thousand new brokerage accounts. As a consequence, the number of accounts reached 292.4 thousand.

In H1 2011, DI BRE was joint book runner on the initial public offering of Kruk, a company specializing in the collection of overdue receivables, for a total amount of PLN 369 million. DI BRE's share in the turnover on the equity market reached 4.7%, ranking it as 8th on the market. The company held the 2nd position in the market for forward transactions with a market share of 14.1% and the 6th position in options trading with a 5.3% market share.

DI BRE generated a pre-tax profit of PLN 16.6 million during H1 2011 compared to PLN 16.9 million in H1 2010.

VI.4.3. BRE Finance France SA

BRE Finance France is a special purpose vehicle (SPV) set up for the purpose of acquiring funds for BRE Bank from the international capital markets through the issuance of Eurobonds. In H1 2011, the SPV was not active.

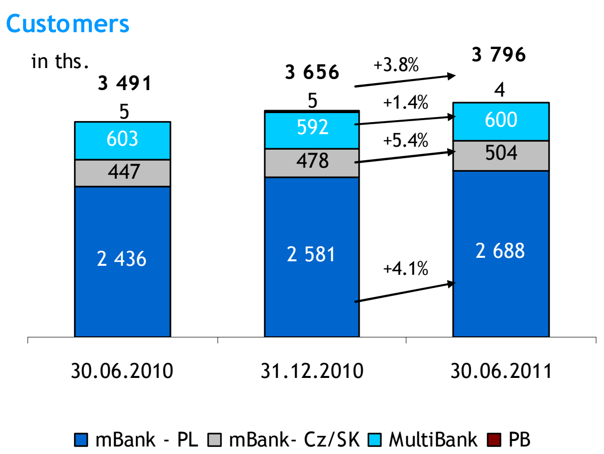
VII. BRE Bank Group's Retail Banking Segment

The Group's Retail Banking business model is based on a multi-brand (mBank, MultiBank, BRE Private Banking) and a multi-channel distribution approach (branches, internet, telephone, mobile phones). An integrated internet platform is the central pillar of the Bank's broad product and service offering. The Bank's ability to provide different customer groups with a broad range of products and services tailored to their needs has been the key driver supporting the rapid and steady growth in the number of customers.

mBank and MultiBank are the Group's two Retail Banking brands. mBank targets young, self-directed customers seeking low-cost banking alternatives, as well as micro-businesses. Multibank appeals to affluent customers and micro-businesses seeking highest-quality, seamless and personalized service.

VII.1. Retail customers

Over the past several years the Bank has remained a consistent market leader in attracting new customers to its retail offering. As of June 30, 2011, the number of retail customers of the Bank reached nearly 3.8 million following an addition of 140 thousand new customers in the first half of 2011.



Compared to June 30, 2010, the number of retail customers expanded by 305 thousand. The graph presents the growth of the Bank's retail customer base.

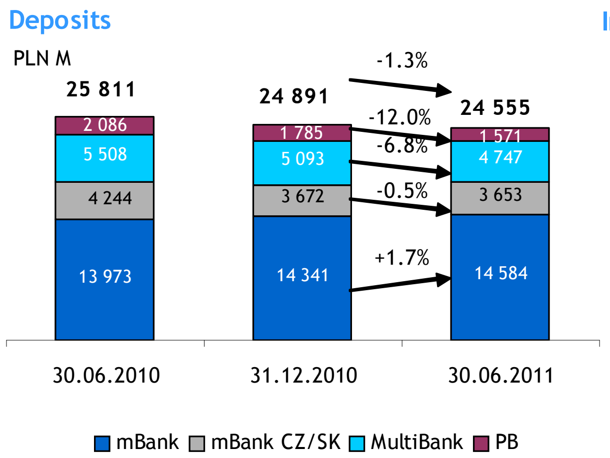
Retail customers served by the Bank in Poland include individuals as well as microenterprises. There were 399.3 thousand microenterprise customers at the end of June 2011. The number of microenterprise clients grew by 9.6 thousand over the first six months of 2011.

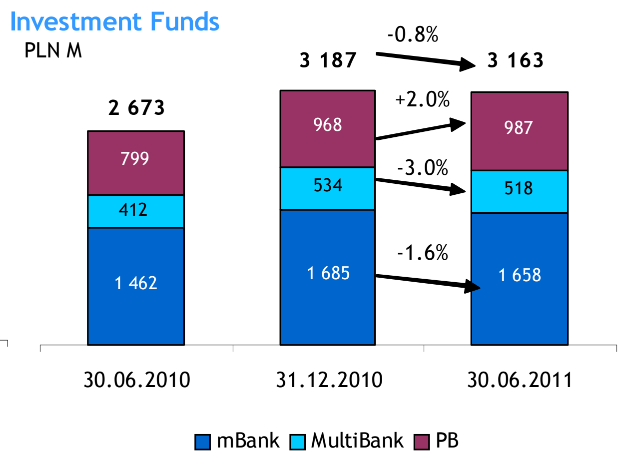
VII.2. Product offering

VII.2.1. Deposits and Investment Products

mBank and MultiBank offer a broad range of accounts, deposits and investment products. Through the Bank's dedicated "funds supermarket" BRE Bank's retail customers can purchase participation units of local and foreign investment funds and a broad range of other financial products offered by a number of third party providers matching their specific investment criteria.

A detailed breakdown of the development of the Bank's deposits and investment fund balances is presented in the graph below:





Total assets of retail customers of the Bank amounted to PLN 27.7 billion at the end of June 2011, comprising PLN 24.6 billion in bank accounts and deposits and PLN 3.2 billion in investment fund assets.

In H1 2011 retail deposits of the Bank decreased slightly by PLN 0.3 billion reflecting the Group's decision to focus on enhancing deposit margins as it continued to benefit from its strong liquidity base.

VII.2.2. Loans

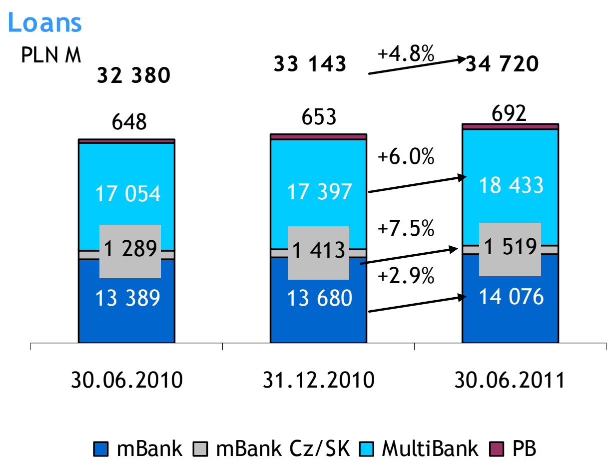
The value of gross loans granted to Retail Banking clients in Poland, Czech Republic and Slovakia stood at PLN 34.7 billion as of H1 2011 constituting an increase of PLN 1.6 billion or 4.8% compared to year – end 2010. The credit portfolios of MultiBank and mBank in Poland reported the highest growth of PLN 1 billion and PLN 0.4 billion respectively. In the Czech Republic and Slovakia, the credit portfolio rose by PLN 106 million, while the Private Banking portfolio increased by PLN 39 million. The dynamics of retail loans in H1 2011 was predominantly influenced by the following factors:

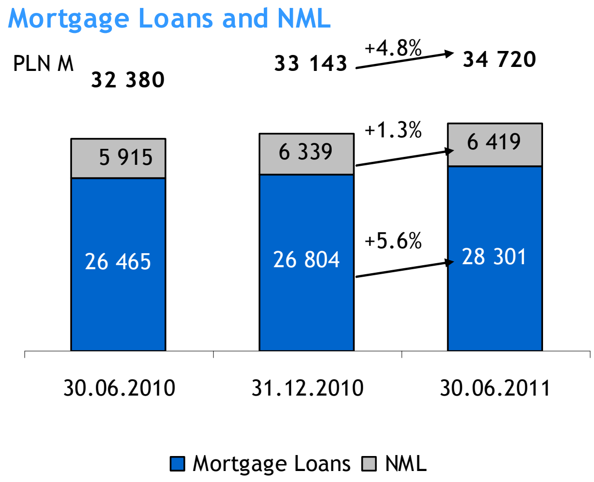
- appreciation of CHF against PLN (63% of the Bank's retail loans are denominated in CHF)
- A PLN 449.6 million reduction in the gross value of retail loans resulting from the sale of a non performing loan portfolio to Grupa Kapitałowa KRUK, referred to in the section I.2. 2

Sales of mortgage loans increased markedly in Q2 2011 following a relatively slow start typical to a first quarter of the year. The dynamic Q2 2011 growth rates in new mortgage loan sales were driven by solid customer demand for both PLN and EUR denominated products. In addition, the Bank has streamlined certain mortgage documentation processing functions, which helped reduce the credit decision time from about two weeks in 2010 to only several days in Q2 2011 helping to accelerate the sales in that period.

Sales of non-mortgage loans also accelerated in Q2 2011 with cash loans registering the most dynamic growth rates helped by the Bank's newly implemented system for global loan limit pre-approvals for selected high quality clients. The system allows selected clients to instantly access their pre-approved credit limit information and apply for a specific type of loan on that basis.

The following graph presents the recent development of the Bank's retail loan portfolio.





As of June 30, 2011, the Bank's retail credit portfolio structure in Poland was as follows:

- 83.0% mortgage loans,
- 6.5% credit lines and overdraft facilities,
- 5.6% cash loans,
- 4.2% credit and charge cards,
- 0.4% other.

VII.2.3. Cards

H1 2011 marked another period of dynamic growth of the number of credit cards issued reaching 603.4 thousand in June. This represents an increase by 32.9 thousand units.

The number of debit cards issued by the Bank stood at 3,497.1 thousand as of June 30,2011, which represented an increase by 472.3 thousand debit cards v. December 2010.

The Bank continued to put strong emphasis on innovation and enhanced its card product offering. Examples of new initiatives in this area include the issuance of 30,000 prepaid cards for Korona Kielce football club and of 14,000 eMoney Cards for the participants in Poland's largest music festival – Open'er.

VII.2.4. Brokerage and insurance

The brokerage and insurance services provided through the Retail Banking distribution channels bring considerable benefits for the Bank's clients and constitute a growing source of income for BRE Bank Group.

In H1 2011, a significant rise in the number of retail clients utilising the Bank's brokerage services was registered. As part of its eMakler service, mBank serviced 201.7 thousand investment accounts, up by 8.6 thousand accounts compared to 2010 whereas MultiBank serviced 35.6 thousand investment accounts up by 1.2 thousand accounts compared end of 2010.

The Bank's insurance policies (motor, tourist, real property insurance) are distributed by MultiBank's Insurance Centre and via the mUbezpieczenia offer operated by mBank (in particular through the widely popular Car Insurance Supermarket). In addition, insurance policies are also sold by BRE Ubezpieczenia TUiR (see "Retail Banking subsidiaries" for further information). Apart from traditional insurance, BRE Ubezpieczenia offers bancassurance products (mortgage loan insurance, insurance packages related with credit cards and current accounts) which continue to register strong interest from the Bank's clients.

VII.2.5. Retail offer development

The continued and dynamic growth of BRE Bank's retail client base is the result of the Bank's constant focus on innovation and addressing of client's changing needs. Throughout H1 2011, efforts to further develop the Bank's retail offering continued. New or strongly modified products across loans, deposits and investments as well as new processes supporting sales were introduced in both mBank and MultiBank and included:

MultiBank

- Launch of the express on-line transfer making it possible to credit the beneficiary's account held with another bank within 15 minutes, without the need to wait for the next interbank clearing session,
- Modification of the rules for granting consumer loans, allowing the clients to enter into agreements by phone, without the need to sign a Framework Credit Agreement,
- Launch of "PIT loan", a loan available on preferential terms to those obliged to make a surcharge on their 2010 income tax,
- Introduction of a special loan offer dedicated to car dealers cooperating with MultiBank for the purchase of vehicles from importers,
- Launch of 3, 6, 9 and 12-month Daily Profit Deposits: term deposits with daily capitalization of interest,
- Launch of Active Funds Portfolio PRO with a regular premium,
- Savings Centre offer enlarged with funds managed by AXA TFI,
- Second subscription of Allianz Platinum FIZ, a prestigious investment product,
- Launch of new insurance: "My apartment",
- Launch of a new card in the portfolio of prestigious MultiBank cards family: MasterCard World Signia,
- Introduction of MasterCard Business card with PayPass technology in the debit cards offer dedicated to corporate clients,
- Acquisition of additional partners to discount programmes.

mBank in Poland

- Launch of the express online transfer making it possible to credit the beneficiary's account held with another bank within maximum 15 minutes, without the need to wait for the next interbank clearing session,
- Modification of the rules for granting consumer loans, allowing the clients to enter into agreements by phone, without the need to sign an Open Product Agreement,
- Phone loan available in 15 minutes; standard cash loan available to all the regular clients to whom the "Offer for You" was made,
- Cash payments and withdrawals made available to mBank clients in 72 MultiBank branches,
- Launch of a new version of the on-line service for mobile devices: "mBank light" with broadest functionalities available in the market,
- Implementation of a new automatic telephone service,
- Launch of 3 and 6-month PLUS Deposits: term deposits with daily capitalization of interest,
- Start of subscription for 4 new structured deposits,
- Launch of Active Funds Portfolio PLUS with a regular premium,

- Investment Funds Supermarket offer enlarged with funds managed by AXA TFI,
- Launch of new apartment insurance - Mieszkanie24h.

mBank in the Czech Republic and Slovakia

- Introduction of an overdraft for business customers and a new insurance product covering bill payment protection available to individuals at mBank CZ,
- Introduction of insurance policies for debit and credit cards as well as SEPA direct debit service at mBank SK.

VII.3. Branch network

The size and scope of the Bank's retail branch network reflects its focus on areas with high growth potential as well as the bank's focus and strength of other distribution channels (including internet, mobile and telephone banking) which continue to attract a rapidly growing number of client interactions effectively supporting the traditional branch based service offering.

Since July 2009, the mBank distribution network has been managed through Aspiro, a subsidiary offering a wide range of financial products of the Group as well as products of third parties. As of June 30 2011, the mBank network covered 106 locations (25 Financial Centres, 63 mKiosks, and 18 partner mKiosks) across Poland.

The number of foreign mBank outlets remained unchanged compared to the end of 2010. In the Czech Republic, the network consists of 26 outlets (9 financial centres and 17 mKiosks), and 9 in Slovakia (4 financial centres and 5 mKiosks).

MultiBank operates 134 outlets (72 Financial Service Centres and 62 Partner Outlets), compared to 133 outlets at the end of 2010. The MultiBank network is focussed predominantly on larger urban areas reflecting the affluent target client group it services.

VII.4.Retail Banking Subsidiaries

VII.4.1. Aspiro S.A.

As of June 30, 2011, Aspiro offered products of 24 different financial services companies, including mBank and MultiBank. Currently, the offer comprises 53 products, including: mortgage loans, cash loans, insurance products, investment products, leasing and factoring.

Products are distributed throughout the country in 25 Financial Centres, 63 mKiosks, 21 Partner mKiosks and 32 Agency Service Points.

The first six months of 2011 were marked by growing sales of financial products through Aspiro S.A. with increasing monthly dynamics in Q2 2011.

In Q2 2011, Aspiro reported an increase of over 40% in sales of BRE Bank mortgage products, compared to Q1 2011. Moreover, the company reported a visible increase in sales of mortgage products offered by third party banks (+36% v. Q1 2011).

The company keeps developing its sales activities of car loans at dealership networks. It systematically broadened the number of contracting parties, which as of June 30, 2011 reached over 205 entities across the country.

The company closed H1 2011 with a pre-tax profit of PLN 4.1 million, against PLN 5.6 million in H1 2010.

VII.4.2. BRE Wealth Management (BRE WM)

In H1 2011, BRE WM's services offer was strengthened by more complex fund picking stategies and benchmark fund portfolio recommendations. Additionally, a new advisory focussed model in respect of all assets, both financial assets as well as non financial assets was implemented. In that context, 60 new agreements for investment advisory services have been concluded with clients since the beginning of the year. As of June 30, 2011, assets under management reached PLN 3.6 billion, while pre-tax profit generated over the course of the first six months of the year reached PLN 6.3 million compared to PLN 4.0 million a year earlier.

VII.4.3. BRE Ubezpieczenia TUiR S.A.

In H1 2011, gross written premiums in the area of bancassurance reached PLN 556.3 million and were up 93% compared to a year earlier, driven by better sales of policies connected with mortgage and cash loans. Gross written premiums for products sold via the internet platform also increased markedly reaching PLN 65.7 million (+62% year on year). Gross written premiums generated in cooperation with BRE Leasing reached PLN 60.4 million (+21% YoY).

In H1 2011, pre-tax profit in the statutory statements of the company reached PLN 26.5 million compared to PLN 12.7 million a year earlier (+108.7% YoY).

VIII. Other activities of BRE Bank Group

VIII.1. BRE Bank's Custody Services

BRE Bank's custody clients comprise 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 of the valuation of their assets and the processing of corporate actions.

The Bank's custody services expanded in H1 2011. The Bank continued to acquire new clients, mainly investment funds. During the first half of 2011, the total assets of clients covered by the Bank's custody services increased by 9%.

VIII.2. Centrum Rozliczeń i Informacji CERI Sp. z o.o. (Centre for Settlements and Information CERI)

The core business of the company includes providing services such as settlements, database servicing, electronic data and document archiving and input of data to systems for BRE Bank Group and for Commerzbank Group companies as well as other entities.

In H1 2011, CERI continued its cooperation with BRE Bank's corporate and retail banking areas as well as with certain Group subsidiaries. The cooperation was expanded further through the addition of transaction settlements support functions, widening of the scope of document transportation assignments and archiving.

The company continues to broaden its cooperation with external parties such as financial agencies with 15.3% of its total income generated by non-Group clients as of June 2011 compared to 14.5% a year earlier.

VIII.3. BRE.locum S.A.

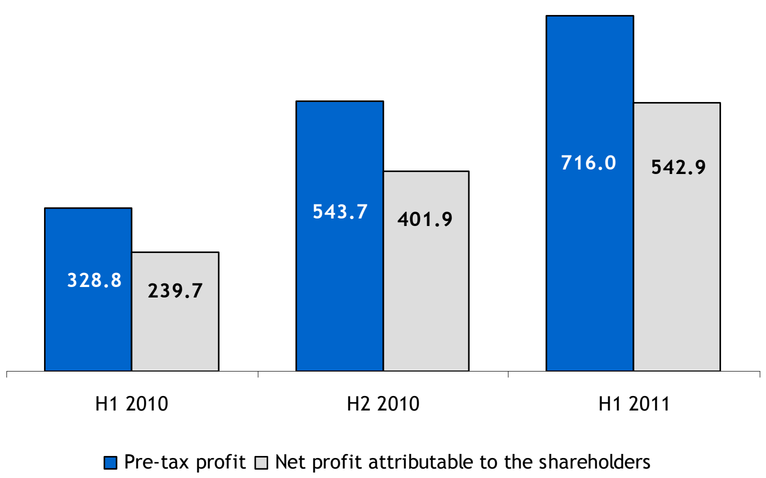
BRE.locum SA is a property developer operating on the primary market of residential real estate. in H1 2011 the company sold 103 apartments compared to 109 apartments in the same period a year earlier. At the end of H1 2011, the company offered 241 apartments for sale in completed properties as well as 118 apartments as part of an ongoing project in Warsaw and 224 apartments in an ongoing project in Cracow.

IX. Financial Results of BRE Bank Group in H1 2011

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

In H1 2011, BRE Bank Group reported a pre-tax profit of PLN 716.0 million, compared to PLN 328.8 million earned in the same period a year earlier (+ PLN 387.2 million or 117.8% YoY). The net profit attributable to the shareholders of the Group reached PLN 542.9 million, compared to PLN 239.7 million in the previous year constituting an increase of PLN 303.2 million or 126.5%. The considerable year-on-year increase was possible mainly thanks to rising core revenues of BRE Bank Group coupled with a reduction in cost of risk.

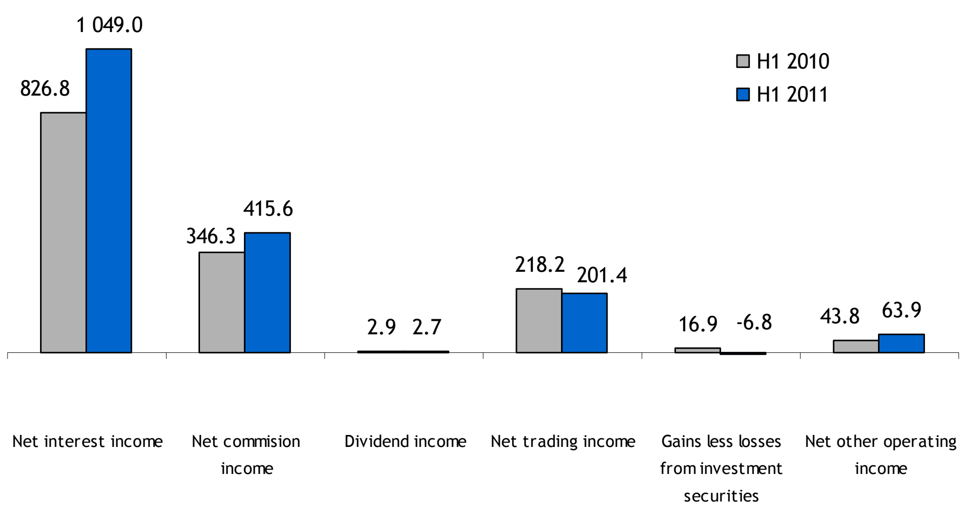
BRE Bank Group's profit
PLN M



IX.1.1. Income of BRE Bank Group

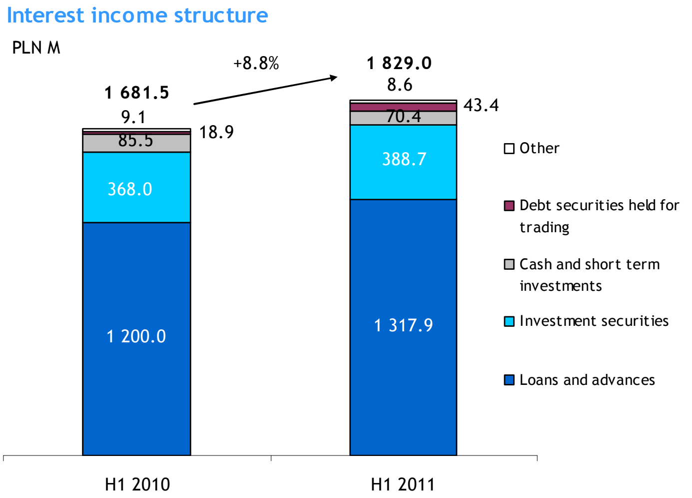
In H1 2011, BRE Bank Group generated a total income of PLN 1,725.8 million, compared to PLN 1,455.0 million earned a year before (+PLN 270.8 million or 18.6% YoY). The increase was driven mainly by a considerable improvement in net interest income and net fee and commission income.

BRE Bank Group's income
PLN M



Net interest income remained the largest contributor to total income of BRE Bank Group in H1 2011 and amounted to PLN 1,049.0 million, compared to PLN 826,8 million generated in H1 2010 (+26.9% YoY). Interest income was up 8.8% and was driven mainly by a considerable growth in credit volumes and higher nominal interest rates. Moreover, the interest income in H1 2011 was positively affected by the disposal of a part of retail loan portfolio. Compared to the previous year, interest costs in H1 2011 fell by 8.7% driven by lower costs of client deposits.

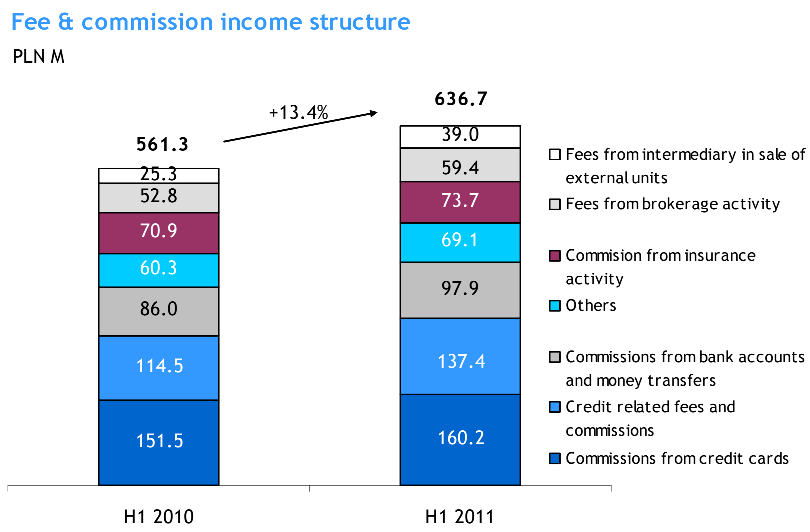
The increase of BRE Bank Group's net interest margin was a key driver of the significant improvement in net interest income. The margin, calculated as a relation between the net interest income and the average interest-earning assets, amounted to 2.5% in H1 2011, compared to 2.1% a year earlier.



Loans and advances continued to be the main source of interest income (72.1%), rising by PLN 117.9 million, or 9.8%, compared to the previous year. The rise in nominal interest rates caused an increase in interest income earned from investment securities by PLN 20.7 million or 5.6%. Interest income derived from debt securities held for trading surged by PLN 24.6 million or 129.9% and was driven by a considerable increase in the volume of this asset category. At the same time, a decrease by PLN 15.0 million or 17.6% was recorded in interest income from cash funds and short-term deposits.

The decline of interest expenses is attributed to lower costs in respect of settlements with banks and clients with a PLN 83.2 million or 10.5% reduction compared to a year earlier, resulting from the withdrawal of promotional terms and conditions for deposits that were previously offered to clients.

Net fee and commission income accounted for 24.1% of BRE Bank Group's income. It grew dynamically compared to H1 2010. It reached PLN 416.6 million in H1 2011, which represents an increase by PLN 69.3 million or by 20%. The net fee and commission income has been growing at a much higher rate than fee and commission costs (13.4% compared to 2.9% YoY growth respectively).



The Group reported a rise in nearly all of its fee and commission income drivers. The largest growth was observed in commission income from lending, intermediation in the sale of products offered by third parties, payment card services and account maintenance. The strong result is a consequence of intensified cross-selling initiatives, effective acquisition of clients and the growth in the number of accounts.

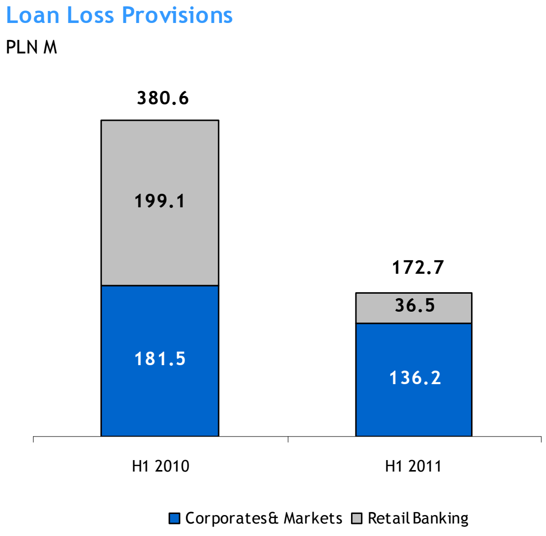
Net trading income in H1 2011 amounted to PLN 201.4 million, constituting a reduction of PLN 16.8 million or 7.7% compared to H1 2010. The decrease was caused by a reduction in net FX income which compared to the previous year decreased by PLN 18.3 million or 9.2%. The reduction is explained by the falling share of currency loans in new sales of mortgage loans and by lower hedging activities of the corporate client base due to an overall lower FX volatility in H1 2011 compared to the prior year . In turn, net income from other trading operations rose by PLN 1.5 million year on year.

In H1 2011, **net result on investment securities** brought about a negative contribution of PLN 6.8 million. This amount includes impairment of equity securities available for sale amounting to PLN 4.8 million which relates to the impairment losses for the writhe-down of the carrying value of Magyar Factor zRt's assets to fair value due to classification the subsidiary to assets held for sale. Also, the H1 2010 result was supported by the sale of a PZU stake by BRE Gold FIZ for PLN 16.9 million.

Net other operating income rose by PLN 20.1 million in H1 2011 compared to the prior year reaching PLN 63.9 million. The strong result can be attributed predominantly to higher income from insurance business of BRE Ubezpieczenia TUiR SA.

IX.1.2. Net impairment of loans and advances

In H1 2011, net impairment of loans and advances in BRE Bank Group amounted to PLN 172.7 million, compared to PLN 380.6 million a year before and which constitutes a decrease of 54.6%. A considerable reduction in the provisions set up at the Bank was registered (PLN 146.6 million in H1 2011 compared to PLN 361.8 million in H1 2010), while the subsidiaries saw a PLN 7.4 million increase in credit provisions (PLN 26.1 million in H1 2011, compared to PLN 18.7 million in H1 2010).

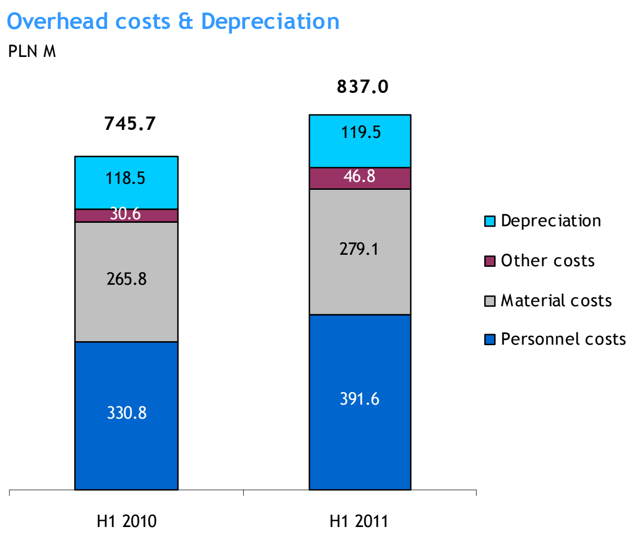


The reduction in cost of risk was helped by a general improvement in the financial standing of the Group's clients and a major reduction in net impairments in the Retail Banking area (PLN 36.5 million in H1 2011 compared to PLN 199.1 million in H1 2010). It should be noted, that net impairment level in Retail Banking was positively impacted by the sale of a part of loan portfolio, which resulted in a release of PLN 81.8 million of loan loss provisions.

The value of loan loss provisions in the Corporates and Financial Markets Segment reached PLN 136.2 million in H1 2011, compared to PLN 181.4 million a year before. The reduction was possible thanks to better quality of the loan portfolio driven by an improved macroeconomic environment and the positive effects of restructuring actions taken.

IX.1.3. Costs of BRE Bank Group

Including depreciation (which rose only slightly by 0.8%), total overhead costs of BRE Bank Group reached PLN 837.0 million, which represents an increase of 12.3% compared to H1 2010.



The growth in personnel costs (by PLN 60.8 million or 18.4%) resulted mainly from higher provisions for incentive bonuses compared to H1 2010 as a consequence of improved business performance. Moreover, a 7% rise in employment in BRE Bank Group was noted as a result of sound business growth. The non-personnel costs in H1 2011 grew by PLN 13.3 million, or 5%, driven by increased marketing expenditures and higher external advisory costs connected with the strategic initiatives run at BRE

Bank Group. The rise in non-personnel costs was also a result of new principles for the Bank Guarantee Fund contribution, which doubled compared to H1 2010.

Overall, effective resource management allowed BRE Bank Group to further improve its productivity measured by the cost-to-income ratio which stood at 48.5% compared to 51.2% at the end of H1 2010.

IX.2.Changes in the Consolidated Statement of Financial Position

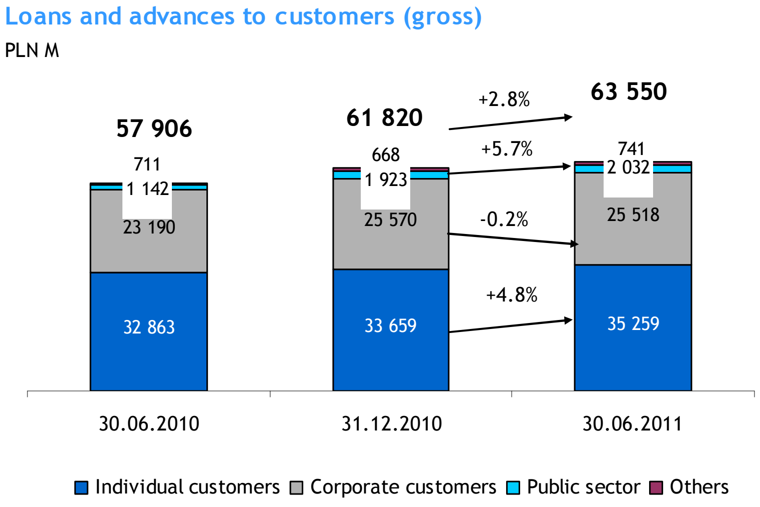
IX.2.1. Changes in Assets of BRE Bank Group

In H1 2011, the Group's assets decreased by PLN 1,334.1 million or 1.5%. As of June 30, 2011, the total assets stood at PLN 88,706.9 million.

	30.06.2011		31.12.2010			
Assets	PLN M	in %	PLN M	in %	Δ in PLN M	31.12.2010 =100%
Cash and balances with Central Bank	1 799.3	2.0%	2 359.9	2.6%	(560.6)	76.2%
Loans and advances to banks	2 800.0	3.1%	2 509.4	2.8%	290.6	111.6%
Trading securities	1 394.7	1.6%	1 565.7	1.7%	(171.0)	89.1%
Derivative financial instruments	1 044.4	1.2%	1 226.7	1.4%	(182.3)	85.1%
Loans and advances to customers	60 110.3	67.7%	59 370.4	65.9%	739.9	101.2%
Investment securities	16 671.8	18.8%	18 762.7	20.9%	(2 090.9)	88.9%
Assets held for sale	1 252.3	1.4%	-		1 252.3	
Pledged adssets	1 225.4	1.4%	1 830.8	2.0%	(605.4)	66.9%
Intangible assets	412.0	0.5%	427.8	0.5%	(15.8)	96.3%
Tangible fixed assets	759.9	0.9%	777.6	0.9%	(17.7)	97.7%
Others	1 236.8	1.4%	1 210.0	1.3%	26.8	102.2%
Total Assets	**88 706.9**	**100.0%**	**90 041.0**	**100.0%**	**(1 334.1)**	**98.5%**

In the above table and in BRE Bank Grup's IFRS Condensed Financial Statements for the first half of 2011 the item "Non-current assets held for sale" as of June 30,2011 includes net loans and advances to customers of Intermarket Bank AG and Magyar Factor Zrt. for a total amount of PLN 1,194.3 million (gross PLN 1,226.0 million). At the end of 2010 they were presented in "Loans and advances to customers". For the purpose below comparisons, as of June 30, 2011, they are included in "Loans and advances to customers"

Loans and advances to customers, accounting for 69.1% of total assets at the end of H1 2011 continued to have the largest share in the Group's balance sheet (compared to 65.9% at the end of 2010). The net volume of loans and advances to customers grew by PLN 1,934.2 million or +3.3% compared to the end 2010. The gross portfolio value grew by 2.8% and was affected by the disposal of a part of retail loan portfolio in the amount of PLN 449.6 million (see section I.2.2).



The largest increase of PLN 1,599.8 million or 4.8% was observed in loans and advances to individuals, driven by PLN depreciation, especially against CHF, and the increase in the sales of both non-mortgage and mortgage loans. Excluding the PLN depreciation effect, the rise in loans and advances extended to individual clients amounted to PLN 676.7 million or 2%.

During H1 2011, loans and advances to corporate clients remained almost flat (decreasing by PLN 51.9 million, or 0.2% compared to the end of 2010). However, when excluding reverse repo / buy sell back transactions, the value of loans granted to corporate clients increased by PLN 1,327.9 million or 6%. Finally, the gross value of loans and advances extended to the public sector increased by PLN 109.3 million or 5.7%.

The second largest asset item were investment securities. In H1 2011, their value decreased by PLN 2,091.2 million or 11.1% driven by a gradual deployment of liquidity towards customer lending and an increase of loans and advances to banks.

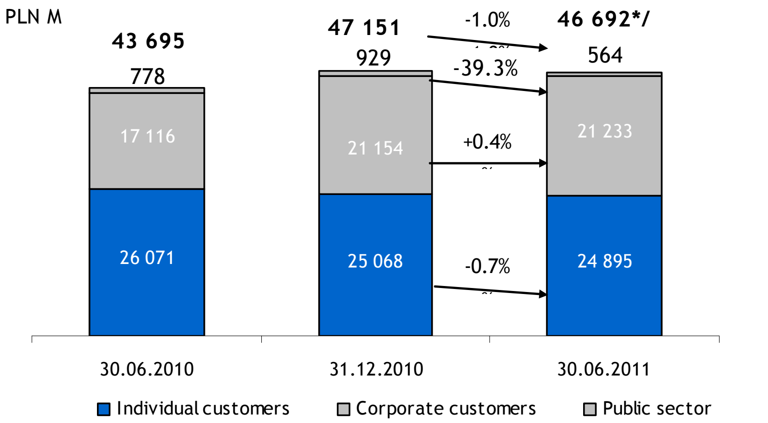
IX.2.2. Changes in Liabilities of BRE Bank Group

The table below presents the changes in the liabilities of BRE Group in H1 2011.

Equities and Liabilities	30.06.2011		31.12.2010			
Liabilities	PLN M	in %	PLN M	in %	Δ in PLN M	31.12.2010 =100%
Amounts due to Central Bank			0.1	0.0%	(0.1)	
Amounts due to other banks	26 258.9	29.6%	28 727.0	31.9%	(2 468.1)	91.4%
Derivative financial instruments and other trading liabilities	1 207.5	1.4%	1 363.5	1.5%	(156.0)	88.6%
Amounts due to customers	46 447.7	52.4%	47 151.0	52.4%	(703.3)	98.5%
Debt securities in issue	1 466.8	1.6%	1 371.8	1.5%	95.0	106.9%
Subordinated liabilities	3 139.8	3.5%	3 010.1	3.3%	129.7	104.3%
Others	2 586.7	2.9%	1 340.2	1.5%	1 246.5	193.0%
Total liabilities	**81 107.4**	**91.4%**	**82 963.7**	**92.1%**	**(1 856.3)**	**97.8%**
Total Equity	**7 599.5**	**8.6%**	**7 077.3**	**7.9%**	**522.2**	**107.4%**
Total equity and liabilities	**88 706.9**	**100.0%**	**90 041.0**	**100.0%**	**(1 334.1)**	**98.5%**

Amounts due to customers, which accounted for 52.6% of liabilities (including Intermarket Bank and Magyar Factor, amounting to PLN 244.5 million, presented as liabilities held for sale in the consolidated financial statements of BRE Bank Group), remain the dominant funding source of BRE Bank Group.

Amounts due to customers



*/ including PLN 244.5 million amounts due to customers by Intermarket Bank and Magyar Factor

The amounts due to customers decreased by PLN 458.7 million or 1.0% to PLN 46,692.2 million in H1 2011. In particular, the reduction is explained by the decrease in amounts due to the public sector customers (a reduction of PLN 364.7 million or 39.3%).

At the end of H1 2011, the amounts due to individual clients were nearly unchanged and stood at PLN 24,895.0 million. Amounts due to corporate clients increased in the analysed period by PLN 79.3 million or 0.4%, and amounted to PLN 21,233.4 million after H1 2011. Excluding repo transactions, amounts due to corporate clients grew by PLN 1,622.7 million or 8.8%.

Compared to the figures reported at the end of 2010, amounts due to banks (including amounts due to banks of Intermarket Bank and Magyar Factor in the amount of PLN 544.4 million) decreased by PLN 1,923.7 million, or by 6.7%. A reduction was also observed in received loans and advances and in the value of repo / sell buy back transactions.

The share of equity in the liabilities of BRE Bank Group rose from 7.9% at the end of 2010 to 8.6% in June 2011.

IX.3. Performance Indicators

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

	30.06.2011	30.06.2010
Net ROA	1.26%	0.60%
Gross ROE	20.6%	14.0%
Net ROE	15.9%	10.8%
C/I	48.5%	51.2%
CAR	16.08%	12.03%
Tier 1	10.70%	6.68%

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

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

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

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

As of June 30, 2011, the capital adequacy ratio of BRE Bank Group stood at 16.08%, compared to 12.03% a year earlier. The Tier 1 ratio stood at 10.70% (6.68% after H1 2010). The capital adequacy ratio rose significantly despite an increase in risk-weighted assets by PLN 2,464.0 million compared to H1 2010.

The improvement of capital adequacy ratio was driven by the capital increase mainly due to:

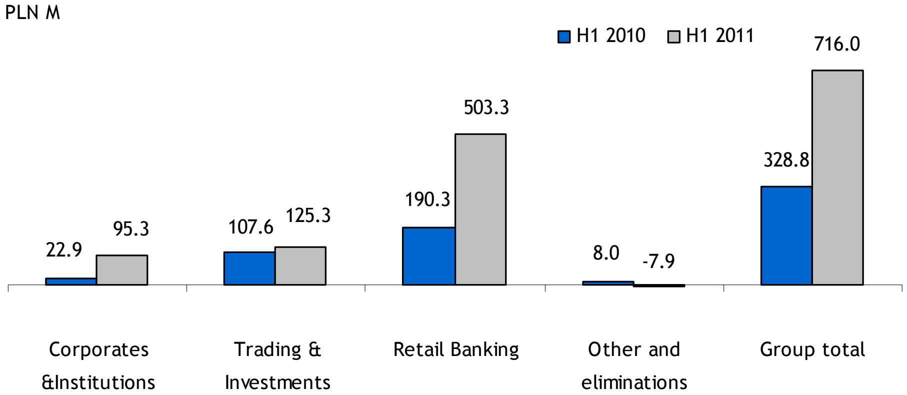
- Issuance of new shares through a rights issue in 2010 adding PLN 1,966.3 million to capital base.
- Retention of 2010 profit.

Moreover, the rise in capital adequacy ratio was further supported by an increase in supplementary capital as a result of the appreciation of CHF, what led to an increase in the PLN value of subordinated debt denominated in CHF.

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

The graph below shows the profit before tax of BRE Bank Group's business areas in H1 2011.

Profit (loss) before tax by business lines of BRE Bank Group



Corporates and Institutions

In H1 2011, Corporates and Institutions generated a pre-tax profit of PLN 95.3 million, compared to PLN 22.9 million in H1 2010. This marked improvement was mainly driven by:

- A rise in core income with net interest income growing by PLN 17.8 million and net commission income up by PLN 7.6 million.
- Improved net other operating income (which was burdened by a PLN 13.8 million provision for legal risk booked in H1 2010).
- Considerably lower impairments of loans and advances (a decrease by PLN 32.4 million or 19.1%).

At the same time, there was a reduction in income from investment securities, which in H1 2010 included one-off proceeds from the sale of a stake in PZU amounting to PLN 16.9 million. In H1 2011, investment securities brought about a negative contribution of PLN 6.2 million mainly resulting from the revaluation of a factoring subsidiary held for sale.

Trading and Investments

In H1 2011, Trading and Investments generated a pre-tax profit of PLN 125.3 million, compared to PLN 107.6 million in H1 2010. The improvement was helped mainly by higher net interest income driven by increased average volumes of securities held for trading. Moreover, there was a reduction in credit risk provisions, in particular due to the release of a PLN 8.3 million of loan loss provisions due to the sale of receivables of Lehman Brothers.

Retail Banking

In H1 2011, Retail Banking generated a pre-tax profit of PLN 503.3 million, compared to PLN 190.3 million in H1 2010. This significant improvement can be predominantly attributed to:

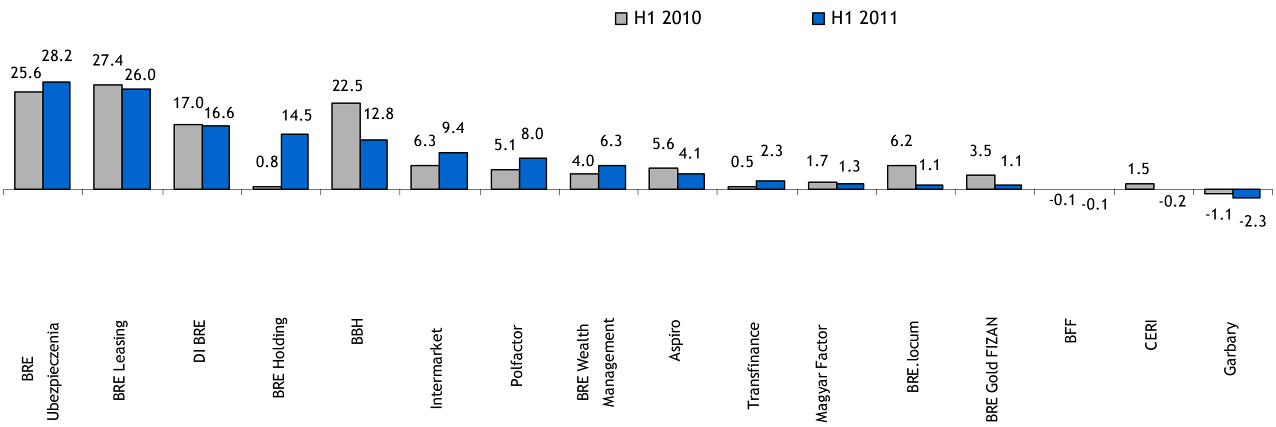
- A rise in the net interest income by PLN 144.6 million or 30.1%, driven by considerable growth in loan volumes (partly driven by depreciation of PLN v. CHF) and a rise in base nominal interest rates.
- A significant increase in net commission income by PLN 66.1 million or 49.4% supported by growth across all main sources of commission income, in particular commissions on payment cards, on bank account maintenance, and commissions from the distribution of participation units in investment funds of third party providers.
- A considerable reduction in impairment charges for loans and advances (a decrease of PLN 162.6 million or 81.7%), which also benefitted from the sale of a retail loan portfolio that led to a release of credit risk provisions to the amount of PLN 81.8 million.

IX.5. Financial Results of BRE Bank Group Subsidiaries

In H1 2011, the consolidated subsidiaries of BRE Bank Group (without Tele-Tech Investment and BRE Corporate Finance, which are not consolidated now) generated a total pre-tax profit of PLN 129.1 million, which was broadly in line with the figures reported a year earlier (PLN 126.4 million). In particular, the following subsidiaries improved their results in a year on year comparison: BRE Ubezpieczenia TUiR, BRE Wealth Management and factoring subsidiaries.

The graph below presents the pre-tax results of the subsidiaries in H1 2011 v. H1 2010.

Profit (loss) before tax of consolidated companies
(in PLN M)



IX.6. Financial Results of BRE Bank Group in Q2 2011

In Q2 2011, BRE Bank Group achieved a record pre-tax profit of PLN 407.0 million, compared to PLN 309.0 million reported in the previous quarter.

Consolidated income statement	Q2 2011	Q1 2011	Change	
	PLN ths	PLN ths	PLN ths	Q1=100%
Interest income	937 489	891 492	45 997	105.2%
Interest expenses	(395 003)	(384 968)	(10 035)	102.6%
Net interest income	**542 486**	**506 524**	**35 962**	**107.1%**
Fee and commission income	330 048	306 663	23 385	107.6%
Fee and commission expenses	(121 840)	(99 275)	(22 565)	122.7%
Net fee and commission income	**208 208**	**207 388**	**820**	**100.4%**
Dividend income	2 652	9	2 643	29466.7%
Net trading income, including	105 808	95 579	10 229	110.7%
Foreign exchange result	*97 612*	82 117	15 495	118.9%
Other trading income and hedge accounting result	*8 196*	13 462	(5 266)	60.9%
Gains less losses from investment securities	(2 511)	(4 294)	1 783	58.5%
Other operating income	72 001	58 917	13 084	122.2%
Net impairment losses on loans and advances	(58 620)	(114 110)	55 490	51.4%
Overhead costs	(367 770)	(349 783)	(17 987)	105.1%
Amortization and depreciation	(60 881)	(58 611)	(2 270)	103.9%
Other operating expenses	(34 338)	(32 638)	(1 700)	105.2%
Operating profit	**407 035**	**308 981**	**98 054**	**131.7%**
Profit before income tax	407 035	308 981	98 054	131.7%
Income tax expenses	(90 611)	(74 958)	(15 653)	120.9%
Net profit	316 424	234 023	82 401	135.2%
- attributable to owners of BRE Bank	313 171	229 708	83 463	136.3%
non-controlling interests	3 253	4 315	(1 062)	75.4%

The financial performance of BRE Bank Group in Q2 2011 was influenced by:

- A rise in net interest income by PLN 36.0 million, mainly due to higher interest income from loans and advances (further supported by a PLN 13.1 million interest income following the sale of a part of a retail loan portfolio – see Chapter I.2.2);
- A higher net income from trading. The FX result rose by PLN 15.5 million due to increased activity of clients on the market for currency instruments and a rise in the volume of mortgage loans in Euro, which combined with PLN depreciation against foreign currencies, translated into a rise in net income from foreign currency loans;
- Lower impairment of loans and advances (down by PLN 55.5 million) observed in Retail Banking further positively influenced by the sale of a part of a retail loan portfolio resulting in a release of loan loss provisions amounting to PLN 81.8 million (see Chapter I.2.2);
- A rise in operating costs by PLN 20.3 million or 5.0% quarter on quarter, driven by continued business growth. Total overhead costs increased by 5.1% while personnel costs grew by 5.6% (resulting from the rise in employment reflecting business growth, higher accruals for incentive compensation and increased training costs). Non-personnel costs rose by 4.5% due to increased expenditures on marketing campaigns. Costs of amortization and depreciation grew by 3.9% quarter on quarter.

As of June 30, 2011, the balance sheet total of BRE Bank Group amounted to PLN 88,706.9 million, compared to PLN 89,049.8 million at the end of Q1 2011.

Loans and advances to clients increased by PLN 1,918.7 million in Q2 2011 driven by strong sales of both non-mortgage and mortgage loans as well as PLN depreciation against foreign currencies.

Consequently, the share of net loans granted to clients in the total assets rose from 66.7% at the end of Q1 2011 to 69.1% in Q2 2011. Customer deposits remained broadly stable.

X. Main Risks of BRE Bank Group's Business

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

X.1. Credit Risk

Credit risk is the most important risk to which BRE Bank Group is exposed, and consequently credit risk management is a priority. BRE Bank exercises control over the credit risk in the Group subsidiaries generating that type of risk.

The Bank measures and monitors credit portfolio risk and related risks (residual, concentration risks) based on the estimation of Expected Loss and Credit Value at Risk, calculated on the basis of the extended CreditRisk+ model (ECVaR), which incorporates, among others, correlations between various sectors of the economy. The ongoing monitoring of credit risk involves the verification of internal ratings and events of default as defined under Basel II and the IFRS.

The ECVaR model measures frequency and severity of particular losses conditioned also by the exposure value. Thanks to the above, the share of capital charges of particular clients grows more than proportionally along with the rise in the client's exposure, which results in adequate identification of risk concentration by the model.

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 client and to the transaction (internal rating). ECVaR's sensitivity to the size of particular exposures makes it possible to use this model to measure the size of concentration risk and to manage it operationally (amount of economic capital allocated to individual exposures as an additional risk measure in the decision-making process). Identification of the increased ECVaR value generated by a given exposure is a reason for taking the decision at a level one rank higher compared to that stipulated in the standard procedure based on EL-rating (Expected loss rating) and exposure size. The potential ECVaR value is estimated at the time of structuring a limit for the client, which makes it possible to take credit decisions based on the initial calculation of the future concentration risk on the basis of the client's rating and the proposed terms of transaction: volume, collateral and tenor. In such a way, the Bank does not undertake excessive risk when creating and developing the portfolio, i.e. it reduces (closing position)/mitigates credit risk through the credit risk diversification.

An additional tool for credit risk assessment are stress tests which supplement the risk measurement by ECVaR method. The analyses of stress test impact on the economic capital for covering credit risk are carried out on a quarterly basis.

Stress tests of credit risk are two-dimensional, analysed separately and jointly:

- the analysis of sensitivity of ECVaR model indications to assumptions concerning credit exposures (e.g. correlation) – i.e. parametric tests,
- the analysis of extreme credit losses on the assumption of unfavorable macroeconomic situation – i.e. macroeconomic tests in which an econometrical model forecasts values of input parameters for the economic capital model (PD, LGD) based on assumptions of the Chief Economist about macro parameters in the case of three economic variants: a mild recession, a severe crisis and a sudden economic slump.

The risk parameters developed according to the above scenarios form the basis for calculating economic capital both before and after the assumptions of parametric tests are taken into account.

X.1.2. Quality of the Loan Portfolio

The share of default exposures in gross loans and advances to clients at the end of June 2011 was 5.0% v. 5.3% at the end of 2010 and 5.3% after H1 2010.

Provisions for loans and advances decreased from PLN 2,449.8 million at the end of 2010 to PLN 2,214.3 million, including PLN 208.1 million of IBNI (Incurred But Not Identified) loss provision (PLN 215.9 million in 2010).

The ratio of provisions to default loans (coverage ratio) stood at 64.8% v.68.0% at the end of 2010 and 67.6% at the end of June 2010.

X.2. 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 financing, especially the deposit base, and the level of liquidity reserves. The Bank has liquidity contingency procedures in place.

In H1 2011, the Bank's liquidity remained at a solid and safe level and the funding structure was adequate to the current and future needs.

X.3. 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, BRE Bank Risk Committee sets binding VaR limits as well as stress test limits which are control numbers and interest rate repricing gap limits of the banking book. All these limits are monitored and controlled on a daily basis.

Value at Risk

In H1 2011, market risk of the Bank 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 approximately PLN 12 million and the maximum VaR was approximately PLN 14 million. The utilisation of VaR limits was at a safe level and on average amounted to 28% for the portfolio of the Financial Markets Department (DFM), comprising mainly trading book positions, and at a higher level for the portfolio of the Treasury Department , comprising banking book positions (71%). VaR was mainly affected by portfolios of interest-rate-sensitive instruments, i.e. portfolios of debt securities which are mainly part of the banking book, and as regards the trading book, by positions resulting from IRS transactions, and to a lower degree by portfolios of fx-rate-sensitive instruments, such as fx options and fx transactions.

VaR

PLN ths	H1 2010				H1 2011			
	30.06.2010	avg	max	min	30.06.2011	avg	max	min
Interest rate risk	7 615	6 133	8 397	3 895	8 699	11 792	14 480	8 219
FX risk	466	968	2 786	178	135	311	719	51
Stock price risk	71	294	906	45	22	44	160	0
VaR total	7 417	6 395	9 379	3 951	8 748	11 619	14 238	8 118

Stress Testing

Stress testing is an additional measure of market risk which supplement VaR measurement. Stress testing measures the hypothetical change in the present value of the Bank's portfolios that would materialise 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) in H1 2011, market risk remained below set control numbers: the average utilisation of the limits was 82% for the banking book and 25% for the trading book. Under these scenarios, the biggest potential loss was observed on volatility in interest rates (mainly Polish rates): at a 15% increase in interest rates, the average loss of the banking book would be PLN 98 million in H1 2011, and the average loss of the trading book would be PLN 17 million in this period. 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 capital and have a lesser impact on the P&L.

In addition, the Bank conducts stress tests based on observed past crises. The average value from the tests in H1 2011 was PLN 20 million for the trading book and PLN 102 million for the banking book.

Interest Rate Risk of the Banking Book

In H1 2011, the interest rate risk of the banking book as measured by EaR (potential decrease of net 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 – for each currency) 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 2011, EaR (in PLN million) was 53 for PLN, 17 for CHF, 5 for CZK, 5 for EUR, and 1 for USD. In addition, the Bank monitors underlying risk, yield curve risk, and customer option risk of the banking book. The interest rate repricing gap limits were exceeded for one day in H1 2011 in the PLN 3-month bucket. 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.

Scenario analysis - unfavourable 100bp change of market interest rates

In PLN million	H1 2010				H1 2011			
	30.06.2010	avg	max	min	30.06.2011	avg	max	min
PLN	35.1	18.0	48.4	0.1	52.8	51.0	74.0	23.9
USD	1.0	0.7	3.0	0.0	0.8	0.8	2.4	0.0
EUR	3.7	1.6	5.7	0.0	5.1	3.4	8.6	0.1
CHF	16.6	13.4	18.9	9.0	17.1	14.8	22.3	9.3
CZK	5.3	4.7	6.7	3.0	5.2	5.6	7.6	4.2

X.4. Operational Risk

In H1 2011, operational risk was below the level observed in the previous years both in respect of operational losses as well as results received from risk monitoring by means of other risk control tools (see below).

In order to control this risk BRE Bank collects the data about operational events and losses in the central data base, monitors parameters of business and operational processes using key risk factors, carries out self-assessment surveys on operational risk in the Bank's operational units and the capital group subsidiaries, defines risk scenarios in order to identify and then reduce the risk of substantial operational losses. The same rules and standards of the operational risk control, implemented at BRE Bank, are applied to the entire Capital Group and its subsidiaries.

At the same time, in H1 2011 BRE Bank launched new projects aiming at further streamlining of operational risk control methods in order to guarantee a stable basis for the Bank's operation in the future, optimise the level of capital requirement and minimise the impact of operational events and losses on the Bank's operating costs.

X.5. Capital Adequacy

The Management Board of the Bank ensures consistency of the capital and risk management process by the system of strategies, policies and procedures for management of particular risk types which constitute the architecture of the ICAAP process. Furthermore, in line with the Capital Management Policy applicable at the Bank, the Bank maintains the optimum level and structure of equity, guaranteeing maintenance of the solvency ratio at the level higher than the statutory minimum, at the same time hedging against all relevant risks identified in the Bank's operations.

The Capital Management Policy at BRE Bank is based on two basic pillars:

1. Maintaining an optimal level and structure of equity, with the use of available methods and means (retained net profit, subordinated loans, issuance of shares, etc.);

2. Effective use of the existing capital by applying the system of capital use measures resulting in the reduction of anthe activity that is not bringing the expected return and development of products with lower capital absorption.

The solvency ratio improvement throughout last year is presented below (data in PLN million).

Capital adequacy	31.06.2010	31.12.2010	30.06.2011
Total own funds	6 946	8 971	9 734
Total risk weighted assets and off-balance sheet liabilities	52 412	51 335	54 876
Total capital charge	4 619	4 513	4 834
Capital adequacy ratio (%)	**12.03**	**15.90**	**16.08**

X.5.1. The AIRB Project

The Bank filed an application for approval of the internal ratings based approach to calculate the credit risk capital requirement AIRB in December 2009,with the Polish Financial Supervision Authority (UKNF). The competent supervisory authorities, in April and May 2010, carried out an inspection in the Bank aimed at verification of BRE Bank's readiness for the application of the above method. The inspection included an analysis of all the credit risk management models covered by AIRB phase 1 as well as credit processes, supporting IT tools, and a capital requirement calculation tool. The Bank is waiting for an approval of the AIRB approach application by the supervisory authorities, at the same time carrying out works in line with the timeline of the roll-out plan.

XI. Rating of BRE Bank and Group Subsidiaries

XI.1. Fitch Rating

On June 16, 2011 the Fitch Ratings Agency sustained its current long-term A rating for BRE Bank. The obtained rating is a confirmation of a strong capacity for payment of financial commitments. The short-term evaluation has been maintained on the F1 level. The long-term rating outlook has been described as stable. The agency underlined that the individual rating for BRE Bank results from the enhanced position of the Bank, reached as a consequence of the capital increase in 2010 and from retention of the 2010 profit.

Fitch stressed out in its report that BRE has a stable and diversified deposit bases, low concentration of exposure to credit risk and high resistance against difficult market conditions, what is reflected in the pre-tax profit of the Bank.

At the end of June 2011, BRE Bank's Fitch ratings were as follows:

- long-term rating A (third best rating on an 11-grade scale);
- short-term rating F1 (top rating on a 7-grade scale);
- individual rating C/D (sixth best rating on a 10-grade scale);
- support rating 1 (top rating on a 5-grade scale);
- long-term rating outlook for BRE Bank - stable.

On July 20,2011, Fitch assigned a Viability Rating (VR) of 'bbb-' to BRE Bank as a result of changes in the rating scale of the intrinsic creditworthiness. The VRs assesses the same risk factors as individual ratings, but on familiar 19-point long-term rating scale ('aaa", 'aa+', etc.). The individual rating was based on 10-point rating scale.

BRE Leasing also holds Fitch ratings: long-term rating A, short-term rating F1, support rating 1. Similarly to the BRE Bank rating it was reconfirmed on June 16,2011.

XI.2. Moody's Investors Service Rating

At the end of June 2011, 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);
- Bank Financial Strength Rating D (A to E scale), outlook stable.

In its latest credit opinion dated August 2010, Moody's highlighted several factors supporting BRE Bank's individual rating, these included: the scale of activity of BRE Bank Group, its leading positions in mortgage lending as well as in corporate and investment banking, wide and granular retail deposit base and strong offer for various client segments, proven parental support and strong capital base after last year's capital increase.

Moody's did not revise the ratings in H1 2011.

The following subsidiaries of BRE Bank also had Moody's ratings as at the end of June 2011:

- 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;
    - Baa2 – mortgage bonds offered publicly.
- Intermarket Bank AG: long-term deposits rating Baa 2, short-term deposits rating P-2, financial strength rating D+.

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

Supervisory Board of BRE Bank SA

The Annual General Meeting of Shareholders held on 30 March 2011 appointed the Supervisory Board Members for a new three-year term.

At the end of June 2011, the Supervisory Board was composed as follows:

1. Maciej Leśny - Chairman of the Supervisory Board (independent member)
2. Achim Kassow – Deputy Chairman of the Supervisory Board
3. Andre Carls – Member of the Supervisory Board
4. Thorsten Kanzler – Member of the Supervisory Board
5. Teresa Mokrysz - Member of the Supervisory Board (independent member)
6. Sascha Klaus – Member of the Supervisory Board
7. Waldemar Stawski - Member of the Supervisory Board (independent member)
8. Eric Strutz – Member of the Supervisory Board
9. Jan Szomburg – Member of the Supervisory Board
10. Marek Wierzbowski - Member of the Supervisory Board (independent member).

The following persons were appointed to the Committees of the Supervisory Board:

Executive Committee:	Risk Committee:	Audit Committee:
Maciej Leśny	Sascha Klaus	Eric Strutz
Achim Kassow	Thorsten Kanzler	Andre Carls
Andre Carls	Maciej Leśny	Maciej Leśny
Jan Szomburg	Waldemar Stawski	Teresa Mokrysz

On 21 June 2011, the Bank was notified by Achim Kassow, member of the Supervisory Board, of his resignation from the membership in the Supervisory Board, effective as of 12 July 2011.

At the meeting held on 29 June 2011, the Supervisory Board appointed Ulrich Sieber (Member of the Management Board of Commerzbank) as Member of the Supervisory Board as of 13 July 2011 and until the end of the present term of the Supervisory Board. Ulrich Sieber will act as Deputy Chairman of the Supervisory Board and will be a Member of the Executive Committee.

BRE Bank SA Management Board

The composition of BRE Bank's Management Board did not change in H1 2011 and as of 30 June of 2011 was as follows:

1. Cezary Stypułkowski – President of the Management Board, General Director of the Bank,
2. Karin Katerbau – Deputy President of the Management Board, Chief Financial Officer
3. Wiesław Thor – Deputy President of the Management Board, Chief Risk Officer
4. Przemysław Gdański – Member of the Management Board, Head of Corporate Banking
5. Hans-Dieter Kemler – Member of the Management Board, Head of Investment Banking & Markets
6. Jarosław Mastalerz – Member of the Management Board, Head of Retail Banking
7. Christian Rhino – Member of the Management Board, Head of Operations & Information Technology.

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 2011 and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of BRE Bank Group as well as its financial performance;
- Management Board Report on the Business of BRE Bank Group SA in H1 2011 presents a true picture of the developments, achievements, and situation of 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 2011 of 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

Data	First and last name	Position	Signature
03.08.2011	Cezary Stypułkowski	President of the Management Board, General Director of the Bank	
03.08.2011	Karin Katerbau	Deputy President of the Management Board, Chief Financial Officer	
03.08.2011	Wiesław Thor	Deputy President of the Management Board, Chief Risk Officer	
03.08.2011	Przemysław Gdański	Member of the Management Board, Head of Corporate Banking	
03.08.2011	Hans - Dieter Kemler	Member of the Management Board, Head of Investment Banking & Markets	
03.08.2011	Jarosław Mastalerz	Member of the Management Board, Head of Retail Banking	
03.08.2011	Christian Rhino	Member of the Management Board, Head of Operations & Information Technology	