BRE BANK SA

MANAGEMENT BOARD REPORT ON THE BUSINESS OF THE BRE BANK GROUP in 2008

Warsaw, 27 February 2009

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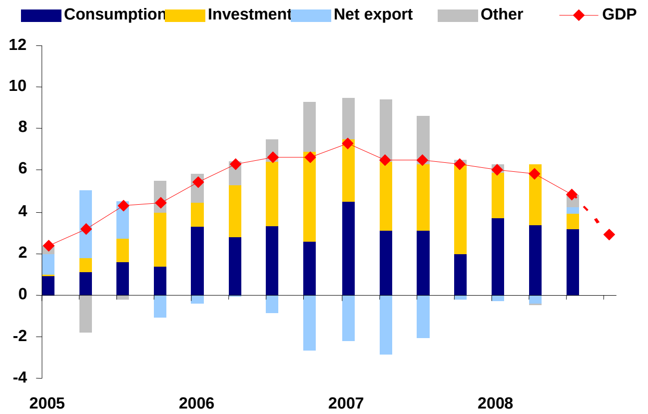
External Environment of the BRE Bank Group's Business

I. Poland's economy in 2008

I.1. Economic slowdown

In 2008, the symptoms of cyclical weakening of economic activity grew stronger with every quarter. The GDP dynamics fell from 6.0% YoY in Q1 to 2.9 YoY in Q4. According to preliminary figures of the Central Statistical Office, the GDP growth rate was 4.8% throughout 2008, versus 6.7% in 2007. Growth rate of investments dropped faster and reached only 3.5% YoY in Q4 (BRE estimation), compared to over 15% in the 1st half of 2008. Individual consumption was the factor which allowed to maintain a relatively high dynamics of the GDP, as it kept growing at more than 5.4% YoY.

Elements of the GDP growth (in percentage points)



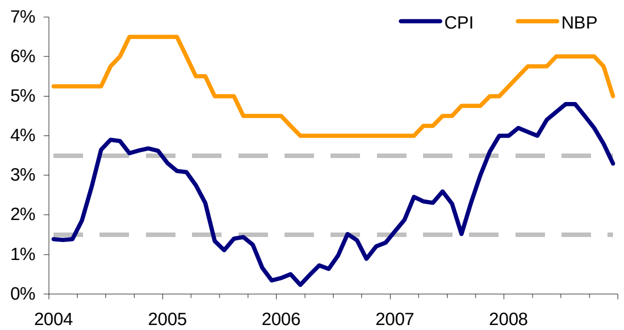
Import followed the decline in investment growth, and its growth dropped to 5.9% YoY, which allowed – for the first time in 2005 – to achieve a positive contribution of the foreign trade balance into the growth of GDP (0.3 percentage point). It is worth noting that the symptoms of economic slow-down, recorded in Q3, appeared before the breakdown of liquidity in the Polish interbank market and the resulting limitations in access to credits.

I.2 Decrease of inflation and cut in NBP interest rates

Inflation measured with the CPI reached its highest level (4.8% YoY) in July and August of 2008 and dropped systematically since, reaching the level of 3.3% YoY in December 2008, thus returning to the range of allowed deviations from the NBP target. The downward trend of inflation should remain in place in 2009, allowing the CPI to come near the official inflation target not later than at the end of this year.

Reduction of inflationary pressure is caused primarily by the falling prices of raw materials and low dynamics of foodstuffs prices. Core inflation (excluding food and fuel prices) remained higher until November 2008 (2.9% YoY), but starting from December, this index should also drop. A certain obstacle to faster decrease of inflation is the strong depreciation of the zloty, observed from the end of July 2008 (by almost 30% in relation to the Euro and by about 50% in relation to the US dollar), but under the conditions of weaker economic activity, the consequences of weaker national currency have a smaller influence on price dynamics.

Consumer Price Index (%, YoY) and intervention rate of the NBP (%)



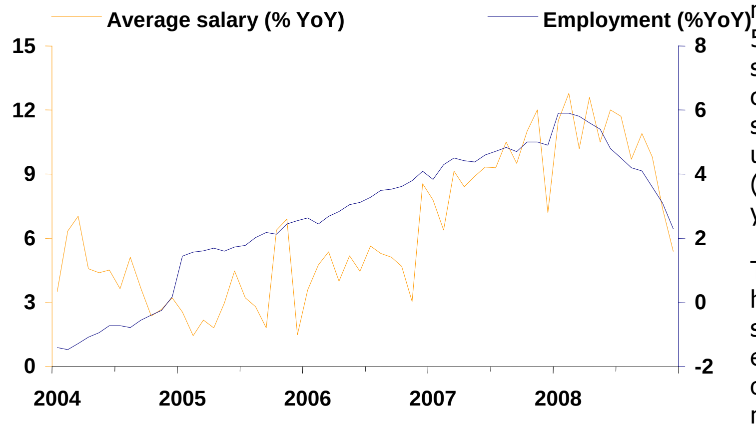
The quickly worsening prospects of economic growth and the weaker inflation pressure motivated the Monetary Policy Council to start, in November 2008, a series of interest rate reductions. The reference rate of the NBP was reduced by 25 basis points, and in December by another 75 basis points (to the level of 5%).
An additional argument to alleviate the monetary policy in Poland were the dramatic interest rate reductions, made by many other central banks.

To prevent the consequences of liquidity disruptions in the interbank market, and difficulties in access to financing in foreign currencies, the NBP launched operations supporting repo in PLN, and currency swaps for EUR, USD and CHF. Requirements regarding collateral provided by banks for transactions with the NBP were reduced.

I.3. Worse situation in the labor market

The economic slow-down has already been reflected in the worsening situation in the labor market. The level of employment in industrial production has been falling already since spring of 2008, and the annual growth of employment in the whole enterprise sector dropped from almost 6% in the beginning of the year to 2.3% at its end. In November and December, a decline in the number of employees was recorded. In the course of 2009, employment growth can turn into negative values, which in turn would significantly reduce the pressure on salary increases.

Growth of average salary in enterprise sector (*% YoY, left axis*), **and employment rate** *(%, right axis)*



The growth rate of salaries in the enterprise sector dropped already from the more than 11% during Q1 of 2008 to 5.4% in December. This downward trend shall probably be continued in 2009. The consequence of the worsening economic situation is the quite strong growth of the unemployment rate, recorded in December (to about 9.5%, compared to 11.4% a year earlier).

The scale of employment decline is much higher than if it were caused by just seasonal changes. This could mean that enterprises have already begun adaptation of their headcount to the worsening macroeconomic conditions.

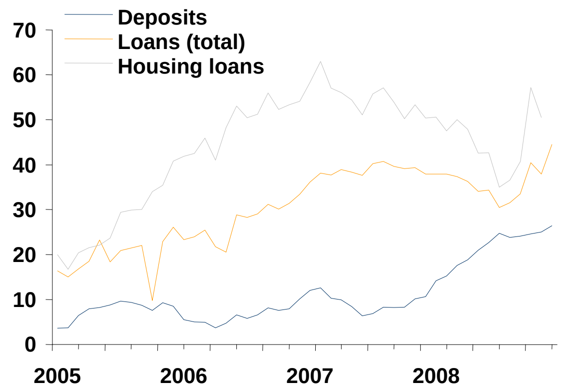
II. Banking sector in 2008

II.1 Situation in the deposit and loan market

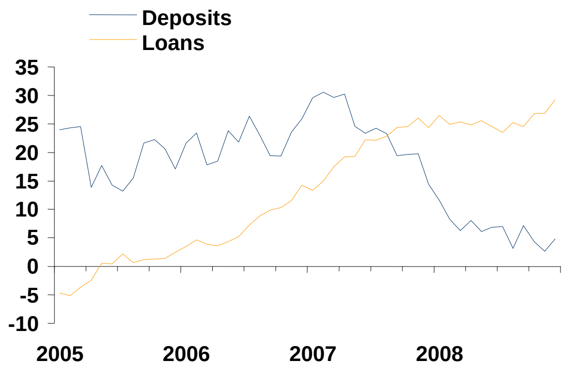
Receivables dynamics of the banking sector reached in 2008 a record-high level of 36.1% YoY. This was largely caused by the significant weakening of the Polish zloty, which increased the value of loans extended in foreign currencies. Growth of the zloty-denominated loans reached a little over 20% during the same period.

The zloty-denominated value of household liabilities tied to housing loans extended in foreign currencies grew in 2008 by more than 100%. The value of all loans extended to households in 2008 grew by 45%. The growth of loans for enterprises achieved the highest level in ten years, of almost 29% at the end of 2008. Also in this case, the increase in the value of zloty-denominated receivables of banks was partly due to exchange rate fluctuations.

Households
Dynamics of deposits and loans (%, YoY)



Enterprises
Dynamics of deposits and loans (%, YoY)



Deposits and other liabilities of the banks grew at a slower rate than receivables, but their dynamics reached in December 2008 the highest level since the end of 1999 (20.8% YoY). This was caused primarily by the rapid growth of household deposits (26.8% YoY). Customers were encouraged to increase their level of savings by the interest rates on deposits, which rose as the result of competition among banks; as well as by the attempt to create financial reserves with relation to the worsening macroeconomic conditions and growing risk of losing sources of permanent income.

The growth rate of enterprises' deposits remained low and further weakened throughout 2008 (4.9% YoY), which reflected the worsening dynamics of profits and increased use of own funds to cover ongoing financial needs. In order to fill the gap between the growth of credits and deposits, the banks had to extensively use foreign financing, which was reflected in 2008 in the increase of foreign liabilities by almost PLN 108 billion, with half of this growth recorded in the last quarter of the year. Also in this case, depreciation of the Polish currency had a significant influence on accelerated growth of the zloty-denominated value of these liabilities.

II.2 Banks' Financial Results

According to the preliminary data of the Polish Financial Supervision Authority (non-consolidated data) in 2008 banks reached PLN 18.1 billion pre-tax profit, 8.3% higher, than in 2007. Net profit grew by 7.9% (from 13.7 in 2007 to 14.8 in 2008).

Increase of results was not accompanied by increase of efficiency. ROE net remained at a similar level of 22.4% versus 22.5% previous year, but C/I ratio has improved from 56.3% at the end of 2007 to 53.9% at the end of 2008. Solvency ratio decreased from 12.1% to 10.8% at the end of December 2008.

Financial crisis together with economic slowdown influenced on bank results in Q4 2008 when pre-tax profit amounted to PLN 2.7 billion, while in previous three quarters it amounted to PLN 5 billion. From the third quarter 2008 provisions started to grew rapidly. During first half of the year banks created net provisions at the level of about PLN 700 million quarterly, but in Q3 provisions amounted to PLN 1.1 billion and to more than PLN 2 billion in Q4. For whole 2008 net provisions amounting to PLN 4.7 billion were higher by 173% in comparison to 2007. Non performing loans constituted 4.4% of total loan portfolio versus 5.2% in 2007.

Financial crisis was reflected in the crisis of trust among banks operating in Poland, which in the fall of 2008 caused a standstill in the interbank market. Banks which had surplus of cash preferred to deposit it with the NBP, or invest in debt securities. In consequence, interest rates in the interbank market rose significantly above the rates of the NBP.

Due to the significant difficulties in acquiring financing in the interbank market, the banks focused on financing their operations with customer deposits. This led to a battle for deposits, their interest rates in many banks reached the level of 8-10% p.a., thus significantly exceeding the level of interest rates in the interbank market.

II.3 New banks and changes in ownership structure

During 2008, a lot of attention was devoted to the debut of two new players, announced for the autumn: Alior Bank and Allianz Bank. The first one belongs to the Carlo Tassara banking group, which invested EUR 400 million into this bank – this is a record amount in Poland, in terms of building a new bank from scratch. Initial equity of Alior Bank reached the level of PLN 1.5 billion, which instantly placed this institution among the top ten largest banks in Poland. The launch occurred in November, the offer comprised several new products for the Polish market, and the bank enjoyed dynamic development.

Allianz Bank commenced operations in early December. From the very start, this bank was seen rather as a side business of a large insurance company.

GE Money Bank finalized the acquisition of Bank BPH (the so-called „mini BPH", the smaller part of Bank BPH remaining after its division in 2007).

In the wake of problems tied to the global financial crisis, the AIG Group decided to sell AIG Bank Polska. One of the potential buyers – the only one which revealed this intention – is PKO BP.

III. 2008 at the Warsaw Stock Exchange – deep bear market

2008 was the worst time in the history of the Warsaw Stock Exchange. The deepening global financial crisis, combined with the increasing collapse of the world's largest economies, led to withdrawal of foreign capital from the WSE, and a decrease of all the indices. The downward trends increased in the second half of the year, and the drop of indices was particularly sharp after the bankruptcy of Lehman Brothers in September. As a result, WIG fell by about 50%. So far, the year 1994 was the worst, when the broad market index lost 40%. In consequence the WSE was among the weakest stock markets of the world in 2008, despite the fact that such a deep decline of share prices was not justified by the relatively good condition of the Polish economy. Market indices in countries in economic recession fared better: the London FTSE lost 32%, and the New York's Dow Jones 34%.

The market value of companies listed at the WSE decreased with each month in 2008. Capitalization of companies listed at the WSE fell by over PLN 625 billion during the year (to about PLN 450 billion). The largest drops were suffered by blue chip companies. From among the largest companies, the price of TP SA shares dropped the least – by only 15%. On the other end of the scale was Polnord, whose shares lost almost 80%.

Despite the bear market, 2008 saw the IPOs of 94 companies in all the markets of the Warsaw Stock Exchange: 33 on the main market of the WSE, and 61 on the NewConnect alternative market. The value of IPOs exceeded PLN 9.5 billion. The new entrants included 3 foreign companies: Atlas Estates Ltd. (Guernsey), Belvedere (France) and NWR (Czech Republic). In comparison to 2007, the total number of IPOs in Warsaw dropped only by 11. According to data of the European Federation of Stock Exchanges (FESE), after 11 months of 2008 the Warsaw stock market was the first in Europe in terms of number of IPOs, ahead not only of all stock exchanges of Central and Eastern Europe, but also of such established markets as London, Euronext or OMX.

In 2008, companies already listed in the market collected new funding thanks to secondary offerings (SPO). The value of secondary offerings reached about PLN 2 billion.

The behavior of indices and stock prices was also strongly influenced by a negative funds flow. According to data collected by analysts of Brokerage House of BZWBK, outflow from investment funds amounted to PLN 33 billion in 2008, while in 2007 their customers paid in PLN 32.4 billion. At the end of December 2008, Polish investment funds kept shares worth PLN 25.4 billion in their portfolios, which was 60% less than a year earlier.

The net value of share purchases made by Polish pension funds in 2008 amounted to PLN 9.6 billion. The average proportion of shares in the pension fund portfolios amounted to 21.6% at the end of December 2008 - the lowest value in the whole history of pension funds in Poland. The value of shares in the pension fund portfolios at the end of 2008 amounted to PLN 29.9 billion, which means a 38% decrease in the course of one year.

At the end of 2008, Polish institutional investors held share portfolios corresponding to 12% of the market capitalization of companies listed at the WSE, and over 49% of their shares in trade.

Activities of the BRE Bank Group in 2008

I. Factors and Events Driving the Results of the BRE Bank Group

The profit after tax, attributed to the parent company of the BRE Bank Group, achieved at the end of 2008, amounted to PLN 857.5 million (before tax: PLN 1,000.1 million), compared to 2007 result of PLN 710.1 million (before tax: PLN 954.5 million). Thus, the profit before tax earned in 2008 was higher than the previous year's result by PLN 45.6 million, or by 4.8%. This is tied to an increase by PLN 21.6 million (growth by 2.6%) of the result on continued operations, as well as to the result on discontinued operations (increase of PLN 24 million, or by 22%).

A significant portion of the result on discontinued operations in 2007, on the level of PLN 109 million, was attributed to the result on the sale of the SAMH company (PLN 89.5 million). In 2008, result on discontinued operations, amounting to PLN 133 million, included primarily the effect of merger of the companies PTE Skarbiec-Emerytura and Aegon PTE, and the sale of Aegon, in the amount of PLN 121.3 million.

Despite a poor result in Q4 (only PLN 44.9 million), the high profitability of the previous quarters allowed to achieve in 2008 a profit level higher than for 2007, and to maintain high business profitability, expressed in a satisfactory level of the financial indices. The return on equity of the BRE Bank Group (calculated as profit before tax on continued and discontinued operations as a percentage of average annual funds, excluding current profit) amounted to 30.8% at the end of 2008, compared to 35.9% in 2007 (ROE before tax of continued operations was 26.7%, compared to 31.8%, respectively).

Similarly as during the previous year, capital transactions influenced the realized results. In 2008, this included the sale of the Vectra SA shares, with a profit on the level of PLN 137.7 million and the sale of Aegon PTE (in 2007 – sale of SAMH). Return on equity (before tax) during both periods, not including the effect of one-time transactions, amounted to: 22.8% in 2008 and 32.5% in 2007.

High profitability was accompanied by constant cost discipline. The Group's cost/income ratio including discontinued operations (CIR measured as overhead costs and amortization/depreciation to income including net other operating income and cost) was 55.1% at the end of 2008, compared to 55.5% in 2007. Without one-time transactions, the level of CIR in 2008 reached 60.6% and was higher by 2.8 percentage points than the level obtained in 2007, which was a year of especially high profits, achieved in a favorable economic environment.

The main drivers of the financial results in 2008 included:

1. Ongoing growth of the loans portfolio – primarily of individual customers, with a slightly reduced growth of loans to corporate customers - and customers' deposits, which slowed down slightly during Q4 of 2008, had a positive influence on the balance-sheet structure in terms of the profitability of business. These trends were reflected in the steady growth of income on the regular business. Growth of the loan portfolio in 2008 reached 54.8% (about PLN 18.5 billion), leading to an appropriate increase of its share in the balance sheet amount, to the level of 63.1% at year's end.
2. A significant growth of turnover on currency transactions with customers, reflected in the significant growth of result on FX items.
3. The influence of worsening market conditions and of liquidity on the reduced opportunity to generate income, increased cost of acquiring funds to finance business, as well as negative influence of liquidity and derivative instruments on the valuation.
4. Significant increase of loan loss provisions, tied to the influence of market conditions on the situation of Bank's customers.
5. Including the BRE Ubezpieczenia company into full consolidation, which caused a reduction of the Group's result by about PLN 40 million.
6. Continued development of the network of retail and corporate branches, as well as roll-out of the project of mBank's foreign expansion.
7. Strict cost discipline, both at the Bank and the subsidiaries.

II. Shareholders and BRE Bank Share Price on WSE

II.1 Commerzbank AG – the majority shareholder of BRE Bank

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

The stake of Commerzbank has been gradually rising, from 21% in 1995 through 50% in 2000, to the level of 72.16% in 2003. As of 2005, this stake has been reduced slightly due to the execution of the management options program at BRE Bank.

Commerzbank is the second largest private German bank, with an extensive network of branches in Germany and Europe. In 2008 a decision was made that it would acquire Dresdner Bank AG. This merger, one of the largest in the history of the German banking sector, shall be finalized in 2009.

At the end of 2008, in consequence of the global financial crisis, Commerzbank used the German government program of assistance for the financial sector and received EUR 8.2 billion which increased its equity by 10%. It received a second capital injection of EUR 10 billion, from the state-controlled SoFFin fund. In return, the German state received from Commerzbank a minority package of its shares (25% of shares plus one share), which is sufficient to block decisions made by the Commerzbank Management Board and by the general meeting of shareholders.

Despite these ownership changes, BRE Bank- according to declarations made by the Commerzbank Management Board – is to remain a part of the Commerzbank Group and is its most important company in Central and Eastern Europe.

As Dresdner Polska – a subsidiary of the acquired Dresdner Bank – operates in Poland, BRE Bank established, in January 2009, a task force whose duty is to analyze the opportunities and consequences of potential merger of operations in Poland.

At the end of 2008, Commerzbank Auslandsbanken Holding AG held 69.78% of shares and votes at the General Meeting. The remaining 30.22% of shares are free float, mainly traded by financial investors (about ¾ of free float). Among them, according to a notification submitted to BRE Bank, was at the end of 2008 the Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK, which held a package of 5.05% of shares and votes at the General Meeting. The remaining shares are traded by other investors, including private individuals. As their stakes in BRE Bank tend to remain below 5%, they are not required to report their acquisitions.

Due to the developments of Commerzbank Group, rating agencies reduced its ratings (Fitch downgraded the individual rating from B/C to C, and Moody's reduced the financial power forecast C from stable to negative).
In consequence, ratings of BRE Bank changed, which is discussed in detail in Chapter XIII.

II.2 Strong drop in the price of BRE Bank shares at the WSE

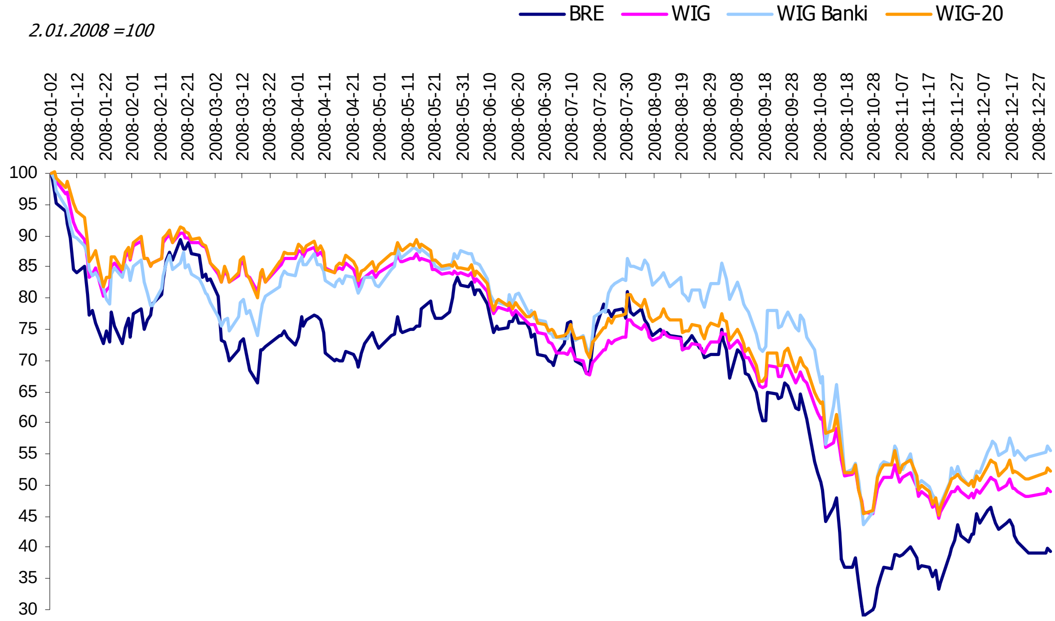
In 2008, all banks listed at the WSE suffered a decline of their stock price. The stocks of BRE Bank performed worse than the broad market and banking sector. After very large increases observed in 2006 and 2007, when the price of BRE Bank stocks grew the most among all banks listed at the WSE (by 97.1% and 47.2%, respectively), in 2008 the BRE Bank stock price fell significantly. In 2008 the BRE Bank stock price fell by 60.7% - this was one of the worst results among all WSE-listed banks. Sub-index WIG-Banks lost 43.8%, and WIG 51%.

BRE stocks started 2008 with a price of PLN 500, and closed at PLN 196.5. The lowest price of BRE Bank stocks was recorded on October 24, when it amounted to PLN 145.

Capitalization of the Company as at December 31, 2008 amounted to PLN 5.8 billion (EUR 1.4 billion), as opposed to PLN 15.0 billion at the end of 2007.

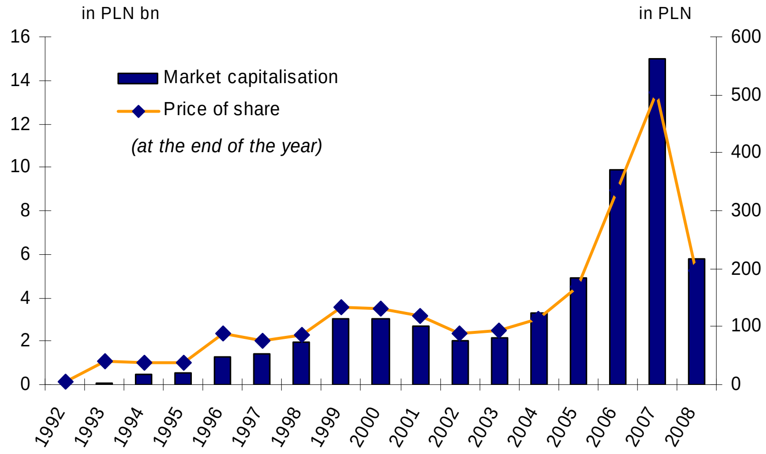
The most difficult time for the listing of BRE Bank stocks, and for the whole stock market and the banking sector in 2008, was Q4 when the BRE stock price dropped by 39%. Accumulation of negative consequences of the crisis was felt in October, when the BRE stock price fell by 43%, WIG-25 index dropped by 25%, and the WIG-Banks index by 30%.

BRE Bank Stock Performance 2006-2007
relative to WIG, WIG 20 and WIG Banks Indices
(2.01.2008 =100)



The price of BRE Bank stock in 2008 was influenced primarily by the situation in the stock market, dominated by large decreases and seen particularly strongly in the banking sector. The change of BRE Bank's CEO, in March 2008, was an event which had a particularly strong, negative influence on the situation of BRE Bank stock price. The trust of investors was largely rebuilt thanks to actions of the Management Board and Investor Relations Department in May, when a series of meetings of the new CEO with institutional investors was held. One must keep in mind that so far BRE Bank was seen as the leader of growth in the Polish market. According to analysts, this could change due to the slow-down expected in 2009, which manifested itself already in Q4 of 2008, in particular in the mortgage loan market.

BRE Bank stock price and capitalization, 1992-2008



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III. Composition of the BRE Bank Group

As at December 31, 2008 the composition of BRE Bank Group along business lines and areas was as follows:

BRE Bank Group

Lines	Corporations & Markets		Retail Banking
	Corporates & Institutions	Trading & Investment	
Bank	▪ Corporations (capital groups) ▪ Large Companies ▪ SMEs ▪ Project Finance ▪ Financial Institutions	▪ Risk and Liquidity Management ▪ Financial Markets ▪ Proprietary Investments	▪ mBank (mass retail customers and microenterprises) ▪ MultiBank (affluent retail customers) ▪ Private Banking (high net work individuals)
Consolidated subsidiaries	▪ BRE Bank Hipoteczny SA ▪ BRE Leasing Sp. z o.o. ▪ the Intermarket group - Intermarket Bank AG - Polfactor SA - Transfinance a.s. - Magyar Factor zRt ▪ Dom Inwestycyjny BRE Banku SA ▪ BRE Corporate Finance SA ▪ BRE Holding Sp. z o.o.	▪ BRE Finance France SA ▪ Tele-Tech Investment Sp. z o.o. ▪ Garbary Sp. z o.o.	▪ BRE Wealth Management S.A. ▪ emFinanse Sp. z o.o. ▪ BRE Ubezpieczenia TU SA ▪ BRE Ubezpieczenia Sp. z o.o.
	Other subsidiaries	▪ BRE.locum SA ▪ Centrum Rozliczeń i Informacji CERI Sp. z o.o.	

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

The list of consolidated companies changed slightly in comparison to the situation at the end of 2007. It currently includes BRE Holding (consolidated during H1 of 2008). This company has been established with relation to the internal restructuring of BRE Bank Group, its goal is to assure effective cooperation with companies from the corporate banking area. The company holds 50.004% of shares in BRE Leasing Sp. z o.o., 50% of shares in Polfactor SA and 75.71% of shares in BRE Bank Hipoteczny.

The list of consolidated companies includes, for the first time, the companies BRE Ubezpieczenia TU SA and BRE Ubezpieczenia Sp. z o.o., operating within the Retail Banking area. The Asset Management line, reported in 2007 under discontinued operations, was removed from consolidation – at the end of 2007, the company PTE Skarbiec Emerytura was consolidated in this line. As at December 31, 2008 the Group did not have any holdings in this area. This was due to the merger of PTE Skarbiec Emerytura with Aegon PTE SA, effected on June 30, 2008 and to the sale of Aegon shares held by the Bank, which was closed on December 30, 2008.

According to IFRS, all companies are consolidated under the full method.

The business profile and the Bank's stake in the equity of the consolidated companies are shown in the table below:

	Company	Business profile	BRE Group's Stake in Equity
1.	BRE Bank Hipoteczny SA	Bank	100%
2.	DI BRE Banku SA	Brokerage house	100%
3.	BRE Corporate Finance SA	Advisory	100%
4.	BRE Holding Sp. z o.o.	Special-purpose vehicle	100%
5.	emFinanse Sp. z o.o.	Sale of credit products	100%
6.	Centrum Rozliczeń i Informacji CERI Sp. z.o.o	Settlement service	100%
7.	BRE Wealth Management SA	Portfolio management	100%
8.	BRE Ubezpieczenia TU SA	Insurance business	100%
9.	BRE Ubezpieczenia Sp. z o.o.,	Insurance business	100%
10.	Garbary Sp .z o. o	Management of own real estate	100%
11.	Tele-Tech Investment Sp. z o.o.	Special-purpose vehicle	100%
12.	BRE Finance France SA	Special-purpose vehicle	99.98%
13.	BRE.locum SA	Property developer	79.99%
14.	Transfinace a.s.	Factoring	78.11%
15.	Polfactor SA	Factoring	78.12%
16.	Magyar Factor zRt	Factoring	78.12%
17.	Intermarket Bank AG	Factoring	56.24%
18.	BRE Leasing Sp. z o.o.	Leasing	50.004%

IV. The BRE Bank Group in the Financial Services Market in 2008

BRE Bank is a leading Polish bank in terms of assets and equity. At the end of 2008, BRE Bank was the third largest bank listed on the Warsaw Stock Exchange by assets and the portfolio of credits and loans to non-financial clients and the public sector and the fifth largest by deposits and liabilities to customers (consolidated figures).

Most of the Group subsidiaries also rank high in their sectors of the financial services market. The table below presents the market share and position of the Bank and selected subsidiaries at the end of 2008 compared to 2007 and 2006.

Business category :	Market position 2008 *	Share		
Corporate banking		**2008**	**2007**	**2006**
Corporate loans		6.4%	6.5%	5.9%
Corporate deposits		9.1%	9.3%	8.6%
Leasing	2	12.2%	9. 3%	11.1%
Factoring				
Poland	3	10.5%	18%	21%
Austria	1	57%	60%	59%
Hungary	2	14.3%	13.7%	13.5%
Czech Republic	3	16.0%	19.3%	24.5%
Retail banking (mBank+MultiBank)				
Total loans		6.8%	5.2%	4.4%
Housing loans	2	11.1%	10.5%	9.0%
Deposits and investment funds		4.0%	3.1%	2.6%
Investment banking				
Financial markets				
Treasury bills and bonds		13.6%	18.4%	10.8%
IRS/FRA		22.9%	19.9%	21.5%
FX spot and forward		6.2%	7.72%	7.70%
WIG-20 options		15.3%	16.0%	24%
Non-Treasury securities (debt)				
Short-term debt securities	4	12.0%	17.9%	13.1%
Commercial papers	2	19.0%	18.2%	13.0%
Bank debt securities	1	27.0%	27.6%	31.9%
Brokerage				
Equities trading	8	5.4%	6.6%	6.1%
Bonds trading	4	5.3%	3.8%	3.0%
Derivative transactions	3	11.8%	11.7%	13.4%
Options	1	28.5%	24.9%	35.9%

Source: Own calculations based on data from BRE Bank, NBP, WSE, Fitch Polska, Polish Association of Leasing Companies, press reports

**/ where determinable*

V. Growth of the BRE Bank Group's Corporations and Markets Business

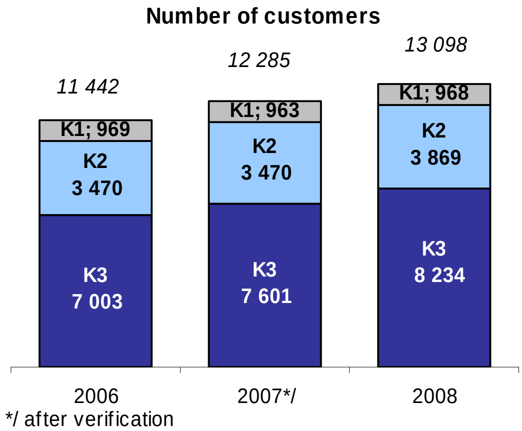
V.1. Corporates and Institutions

V.1.1. Corporate Customers and Dedicated Offer

Corporate Banking customers were assigned to three segments:

- K1 segment covers capital groups and large enterprises with sales over PLN 1 billion per year. K1 customers require professional advisory focused on structured finance, capital markets, and innovative products. BRE Bank offers advanced financial instruments, technological solutions for cash management instruments tailored to the customers' expectations, and advisory on capital transactions.
- K2 segment covers medium-sized enterprises with sales between PLN 30 million and PLN 1 billion per year; the number of customers in this segment shall grow thanks to active acquisition of companies which require a high quality and a broad range of financial products and expect top service standards combined with advisory on financial services. The strategic K2 products include structured foreign trade finance, including both current and long-term financing, mainly using discounting (discounting of trade debt with and without recourse), as well as fx products, derivative instruments, basic and advanced cash management using Electronic Distribution Channels, and investment finance.
- K3 segment covers small and medium-sized enterprises with sales up to PLN 30 million per year which carry full accounting records, in particular foreign trade companies; the share in this market segment shall grow significantly. The strategic product offering targeting K3 customers is based on the EFFECT

Package line (EFFECT, EFFECT Plus, EFFECT Financial, EFFECT Investments) which provides a comprehensive banking service matched to the company's business profile and growth phase. Risk products are available under a simple and speedy procedure of limits.



BRE Bank acquired 2,433 new corporate customers in 2008, of which 76% were K3 customers and 19% were K2 customers. The drop in the number of customers was attributed to the closing of inactive customer accounts in a one-off initiative of customer base verification

The number of corporate customers totaled 13,098 companies at the end of 2008 (up by 813 companies year on year).

According to plans, a network of corporate offices was established, and some of corporate branches were modernized.

V.1.2. BRE Bank Corporate Banking Deposits and Loans

In 2008 the market of corporate loans (includes only state-owned, private and cooperative enterprises, without state budget institutions and non-bank financial institutions such as leasing companies, insurance companies, pension funds etc.) grew by 29.3%. At BRE Bank, this dynamics was slightly slower at 27.2%. The market share of BRE Bank's loans granted to enterprises was 6.4% at the end of December 2008, compared to 6.5% at the end of 2007.

The value of corporate deposits (definition of corporations being the same as for credits) at the end of December 2008 was higher by 2.8% from the level at the end of 2007. The market of corporate deposits grew by 4.9% during the same period. The share of BRE Bank's corporate deposits in the total corporate deposits market amounted to 9.1% at the end of December 2008, compared to 9.3% in December 2007 and 10.9% at the end of November 2008. A significant decline of deposits during the last days of the year resulted from aggressive quotations for deposits (shown in balance sheets at year end) of the largest enterprises by some banks.

V.1.3 Strategic product lines

Cash management

The constantly enlarged offer of cash management services allows the bank to increase the scope of transactions with identification of receivables, and the number of customers using advanced cash management products.

The number of direct debits processed in 2008 reached 2,419 thousand, which was 35% more than the number of transactions processed in 2007. The number of identifications of mass payments grew dynamically. From January to December 2008, the number of processed transactions exceeded 6.5 million, and was higher by 51% from the number of transactions processed in 2007. In 2008, the number of customers consolidating cash in their accounts rose by 32%, at the end of December 2008 there were 416 customers using Cash pooling and Shared balanced services.

Bank products with EU co-financing

In 2008, the sale of products with EU co-financing rose by 31%, compared to the previous year. Commission income on these transactions amounted to PLN 3.3 million. According to *Gazeta Prawna* (issue of 11.02.2009), BRE Bank with PLN 400 million was the second largest provider of loans to finance investments involving EU funds in 2008, with PKO BP taking the first place.

Financial instruments

In 2008, the profit realized on sale of financial instruments to corporate clients was close to PLN 207 million, and was higher by 29.9% from the 2007 result.

V.1.4. Offer development

In 2008, the product offer was significantly enlarged, with the most important new launches including:

- iBRE Invoice. Net – a system combining the electronic invoice issue and presentation with the possibility for their approval and payment by the debtor.
- iBRE Connect – a solution that is unique in the market, allowing to increase the effectiveness of corporate finance management – cooperation with the SAP accounting and financial system, and with SYMFONIA FORTE. In 2009, the functionalities shall be enlarged to include users of the SYMFONIA PREMIUM accounting and financial system.
- Automatic deposit quotation – this solution enables automatic quotation of deposits for customers, on the basis of standard interest rate or personalized interest rates, depending on the potential of the given customer, deposit maturity, transaction currency and amount. The development of the product will allow to increase the Bank's deposit base and limit its operating risk.
- SEPA transfer order – a modern payment instrument, regulated by the SEPA Transfer Order System, designated for processing EUR-denominated transfers under the Single Euro Payments Area.
- Functionality of the TRADE FINANCE module under iBRE was enlarged to include own guarantees. The modification enables the submission of orders for providing a guarantee, changing the amount or maturity of active guarantees, and other orders regarding active guarantees.

V.1.5. Development of the branch network

2008 was a year of development of the BRE Bank branch network. 17 corporate offices were opened all over Poland, at the end of 2008 the Bank had a total of 21 such offices. A new, third branch in Warsaw has been opened, which brought the total number of branches to 24. The corporate network underwent further optimization and re-arrangement in terms of functionalities and image.

V.1.6. Project financing and syndicated loans

In 2008, BRE Bank participated in 10 syndicated transactions. BRE's total exposure under the transactions was at the equivalent of EUR 256.2 million,

The Bank granted 7 bilateral loans totaling around EUR 146 million. Five of them, for a total of about EUR 111.5 million, went to companies in Russia (4) and Thailand (1) to construct industrial property with KUKE insurance.

Significant transactions included two syndicated loans for PKN Orlen – one for EUR 300 million, with BRE Bank exposure at EUR 50 million, the other for EUR 325 million with BRE's exposure at EUR 50 million; and a KUKE insured loan for a Russian company from the wood sector, for EUR 44.3 million.

The portfolio of syndicated loans and project finance was at PLN 2.4 billion. The value of loans extended in 2008 totaled PLN 1.7 billion.

V.2 Trading and Investment

V.2.1. Financial markets

Activity in the financial markets yielded good results in 2008, primarily thanks to the very good three quarters (with record-breaking Q3), which allowed to neutralize the relatively poor results of Q4 in the whole-year perspective. Significant changes in 2008 business included:

- In issues of debt securities:
  - outstanding short-term debt securities dropped by about PLN 0.9 billion YoY, to the level of PLN 1.6 billion at year end,
  - significant decrease of the outstanding mid-term debt securities (from about PLN 2.4 billion in 2007 to PLN 0.8 billion in 2008), primarily due to lack of demand among investors during H2 of 2008,
  - new issue programs signed with the following companies: Rabobank, Nordea Bank, BGŻ, Polbank, Toyota, TVN, Polnord, Polfactor, Tauron Polska Energia,
- In cooperation with Retail Banking:
  - continuing increase of the volume of structured investment deposits for MultiBank customers,
  - finalized work with mBank on introducing structured deposits into the offer,

- commencement of cooperation on structured deposits with BRE Wealth Management,

- In trading activity:
  - start of implementation of an on-line fx transaction platform for the Bank's customers,
  - despite unfavorable market conditions in Q4 (very low market liquidity, reduced limits on contractors) – retained top market positions in key market segments, including the Primary Dealership Ranking by the Ministry of Finance for dealers of Treasury bonds & bills (3rd place) ; in the Fitch Polska ranking for arrangers of debt securities issues (1st-3rd places, depending on issuers category).

V.2.2. Proprietary investments

As at December 31, 2008 the total value of proprietary investment portfolio (without the consolidated companies Garbary and Tele-Tech Investment Sp. z o.o.) amounted to PLN 187.9 million at cost (decrease, compared to the end of 2007, by PLN 185.9 million). The decrease of portfolio value at cost, compared to December 31, 2007 was due primarily to:

- reductions resulting from the sale of securities for a total of PLN 125 million (Vectra SA, Vectra Inwestycje SA);
- reductions resulting from buy-out of bonds for a total of PLN 80 million (Internet Group SA, Marvipol SA, JM Holdings S.a.r.l.).

Proprietary investments of BRE Bank (PLN M)	31.12.2007	31.12.2008	Change	
			Value	%
Value at cost	373,8	187,9	-185,9	-49,7
Balance sheet value	505,0	177,8	-327,2	-64,8

At the end of 2008, the largest capital investment in the Bank's proprietary investments portfolio was the 0.76% stake in the equity of PZU SA, with balance sheet value of PLN 74 million. The portfolio included also bonds issued by customers under mezzanine finance programs, worth PLN 95.1 million.

V.3. Subsidiaries of Corporates and Institutions

V.3.1. The Intermarket Group

In 2008, the composition of the Intermarket Group has not changed from the past year. It comprised the following companies: Intermarket Bank AG (Austria), Polfactor SA (Poland), Transfinance a.s. (Czech Republic), Magyar Factor zRt. (Hungary), Transfactor Slovakia a.s. (Slovakia), Compania de Factoring IFN SA (Romania) and S-Factoring d.d. (Slovenia). The Intermarket Group has a presence in 7 countries and operates over 20 branches.

The Intermarket Group sales totalled EUR 6.0 billion after 12 months of 2008, compared to EUR 5.7 billion in 2007, which means an increase of turnover by 9%.

The profit before tax of the Intermarket Group companies consolidated with BRE Bank (Intermarket Bank, Transfinance, Polfactor and Magyar Factor) for 2008 amounted to PLN 49.2 million (decline by 5% YoY).

V.3.2. Polfactor SA

Polfactor still is among the top factoring companies in Poland, but in 2008 the ranking saw quite significant changes.

The factoring market grew after Q3 2008 almost two-fold; Polfactor increased its sales by around 1%. This was caused by the withdrawal of several important customers in 2007, whose lost turnover was compensated for only in Q4 2008. The Polfactor market share fell from 18% in 2007 to 10.5% at the end of 2008.

Turnover for 2008 amounted to PLN 3.4 billion (growth by 3% YoY), which accounts for circa 15% of the Group's turnover. Profit before tax in 2008 amounted to PLN 12.5 million, compared to PLN 12.6 million in 2007 (YoY decrease by 1%).

In 2008, the Company acquired 51 new customers. The principal sales channel is BRE Bank (accounting for 65% of new customers).

V.3.3. BRE Leasing Sp. z o.o.

The value of leasing contracts signed by BRE Leasing in 2008 totaled PLN 2,917 million (5.5% increase, in comparison to 2007).

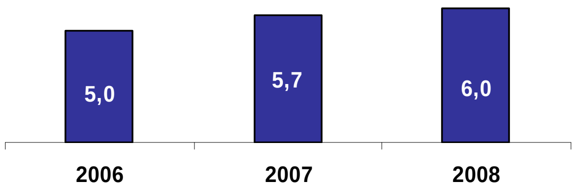
The profit before tax of BRE Leasing in 2008 amounted to PLN 34 million, which represented a 32% decline year-on-year. This decline is caused by allowances for uncollectible accounts for PLN 37 million, set up in 2008 (PLN 7.7 million in 2007), and worsening of the situation in the leasing market in H2 of 2008.

In 2008, BRE Leasing ranked second in the market in terms of value of leased assets, right after EFL and ahead of Raiffeisen-Leasing. The market share of BRE Leasing amounted to 12.2% in 2008.

Q2 2008 saw the commencement of cooperation with the Retail Banking division of BRE Bank on the sales of leasing products to entrepreneurs – clients of mBank and MultiBank, as well as the start of cooperation with BRE Ubezpieczenia to maximize revenues on the sale of insurance for leased assets.

In July 2008, BRE Leasing launched the Internet "BREL Customer Portal". The Portal was created for the convenience of the customers, to facilitate access to data. It provides online access to data on leasing contracts, fleet management contracts and settlements.

Total Sales of the Intermarket Group Companies *(EUR B)*



BRE Leasing Contracts by Value (PLN M))

V.3.4. BRE Bank Hipoteczny SA (BBH)

The balance sheet loan portfolio of BBH totaled PLN 4,322 million. Compared to the end of 2007, this was an increase by 34% (not including interest and credit impairment provisions). The value of issued mortgage bonds amounts to PLN 911 million, of which PLN 809 million is attributed to mortgage covered bonds, and PLN 102 million to public sector covered bonds.

In 2008, BBH felt the first consequences of the crisis in the international financial markets – decline of demand for mortgage bonds, higher refinancing costs, increased dependency on external financing sources (BRE Bank and Commerzbank), difficulties in acquiring funding in the interbank market, and increased credit risk.

Due to the difficult market situation and limited access to refinancing sources, in Q4 2008 the Bank suspended the granting of new loans.

In spite of the more difficult operating conditions and market environment, the Bank met its business goals and its results at the end of 2008 matched the plan. In 2008, the profit before tax of BBH totaled PLN 53 million, which represents a year-on-year increase by 22%.

V.3.5. Dom Inwestycyjny BRE Banku S.A.

In 2008, operations processed through DI BRE accounted for 5.4% of the value of all transactions concluded in the stock market. The current share of DI BRE Bank in the options market exceeds 28%. In the ranking of the most active brokerage companies, DI BRE had the third position in futures trading (11.8% market share) in 2008.

Highly unfavorable market conditions were not an obstacle for DI BRE in organizing three offers in the primary market from the beginning of the year, all ending with full success (within the two largest - Optopol SA: PLN 66 million, Unibep SA: PLN 71 million).

In the prestigious ranking of the best brokerage houses in the IPO market, prepared by the *Puls Biznesu* daily, Dom Inwestycyjny BRE Banku ranked second. The ranking included all IPOs on the main market in 2008. Points were given for:

- the value of completed IPOs
- the number of companies floated at the WSE
- return rate of the new entrants on IPO date
- return rate on the new entrants issue price until January 13, 2009.

The Analysts' Team of DI BRE Bank won in the 7th Ranking of Stock Market Analysts, published in the *Gazeta Giełdy Parkiet* (December 31, 2008).

DI BRE Bank's profit before tax exceeded PLN 25.9 million in 2008. Together with BRE Corporate Finance, DI BRE Bank is preparing the IPO of the Bogdanka coal mine (worth PLN 300-400 million), which is planned for H1 of 2009.

V.3.6. BRE Corporate Finance S.A.

In 2008, the Company was engaged in projects in three main areas of its business, that is corporate finance advisory, M&A transactions and IPO transactions. In the area of corporate finance advisory, projects were carried out for such customers as: Warta, PZU Życie, MPT, Interferie, BBI Development and Euro-net Sp. z o.o. In the M&A area, seven projects were ongoing, of which in four cases BCF was representing the buyer (Sanwil, Merlin, ZUE, CMC), and in the remaining three, the seller.

BCF in consortium with DI BRE prepared two successful IPOs for the stocks of Optopol and Unibep.

The company was engaged also in active acquisition, which resulted in new projects including corporate finance advisory for Ciech and Balfour Beaty, M&A advisory for Euroapteka, Apexim and Royalton Partners.

During Q4 2008, situation in the financial markets worsened, which in consequence was reflected in the results of BRE Corporate Finance S.A. Some of the transactions were cancelled or moved to a later date.

In 2008, the Company incurred a loss before tax in the amount of PLN 2 million (revenues on active projects totaled 5.4 million zloty).

V.3.7. BRE Holding Sp. z o.o.

BRE Holding Sp. z o.o. was established in November 2007 by BRE Bank as the sole partner.

The company's assets include stocks and shares in the companies: BRE Bank Hipoteczny SA, Polfactor SA and BRE Leasing Sp. z o.o., whose total value amounts to PLN 171 million. These shares and stocks were contributed in kind into the company by BRE Bank in February 2008. Transfer of ownership of these shares and stocks is the result of internal restructuring of BRE Bank Group, whose goal is to assure effective cooperation with selected companies from the corporate banking area.

In 2008, the main source of the company's revenues were dividends received from Polfactor SA and BRE Leasing Sp. z o.o., totaling PLN 11.6 million. Those funds shall be paid to the Bank in Q1 2009, in the form of dividend.

V.4. Subsidiaries of Trading and Investments

V.4.1.Tele-Tech Investment Sp. z o.o. (TTI)

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

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

At the end of 2008, TTI had in its portfolio the bonds of Autostrada Wielkopolska SA and a very small stake in the company BRE Finance France SA (0.004%).

V.4.2. BRE Finance France SA

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

At the end of 2008, the company had only one outstanding tranche of notes for $ 10 million, with maturity date in December 2009. The company is not planning any further issues.

V.4.3. Garbary Sp. z o.o.

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

VI. Retail Banking and Private Banking

This business area includes current accounts for individual customers, savings accounts, term deposits, investment products, credit and debit cards, financial settlements, operations involving bills of exchange, cheques and guarantees, mortgage and retail loans. The offer includes also Internet-based brokerage services, and insurance services. The offer is supplemented with the e-commerce platform and the first in Poland independent virtual mobile operator – mBank mobile.

Clients include primarily individuals, but also micro-enterprises (mBank), small and medium-sized enterprises (MultiBank). This line includes also Private Banking services.

As of November 2007, mBank commenced servicing customers outside Poland, namely in the Czech Republic and Slovakia.

This dynamically growing business area, which contributed approximately ¼ of the profit before tax of the BRE Bank Group in 2008, outperformed most of its business targets published a year ago :

- The number of mBank and MultiBank customers in Poland exceeded 2.5 million, compared to planned 2.4 million.
- The value of credit portfolio reached the level of PLN 25 billion (which means an increase of 90.3%). It should be kept in mind that this is largely due to depreciation of the Polish currency in relation to the CHF, which is the currency of most mortgage loans. The portfolio of loans granted and denominated in CHF rose by 67%.
- Deposits of retail customers (including Private Banking) rose from PLN 12.7 billion to PLN 17.8 billion, compared to the planned PLN 14.9 billion.
- The Bank developed structured products (deposits) for customers of mBank, MultiBank and for the affluent customers serviced by BRE Wealth Management.
- The number of branches increased significantly – primarily small franchise mKiosks (+50), but also Financial Services Centers of MultiBank (+14).

Due to the spreading financial crisis, the expansion of mBank in other markets (aside from Czech Republic and Slovakia) was put on hold. At the end of 2008, the granting of new mortgage loans was strongly reduced.

VI.1. Retail banking: mBank and MultiBank

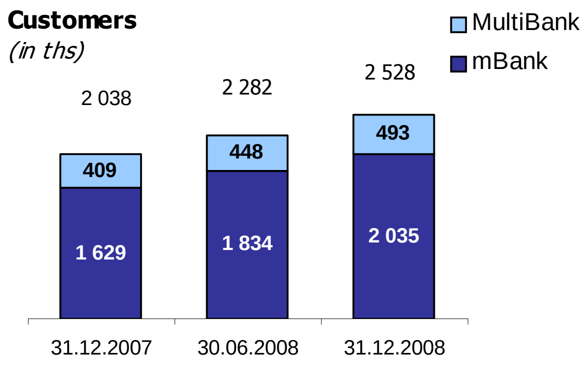
VI.1.1. Customers and accounts

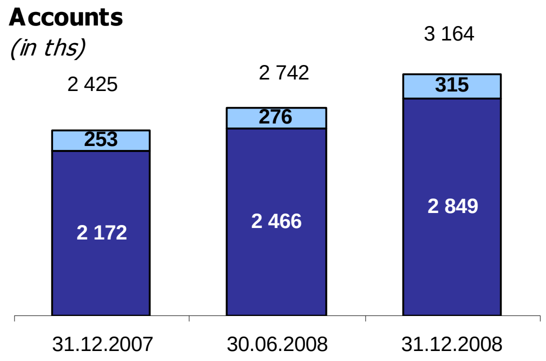
At the end of 2008, the BRE Bank's Retail Banking Line in Poland had 2,528.2 thousand customers (of which mBank 2,035.1 thousand and MultiBank 493.1 thousand). The number of customers grew by 490.2 thousand (+24.1%, mBank 406.5 thousand, MultiBank 83.7 thousand).

The Bank had 312.0 thousand of micro-enterprise customers (mBank 238.1 thousand, MultiBank 73.9 thousand). Since the beginning of 2008, the number of new micro-enterprise customers rose by 76.4 thousand (+32.4%, mBank 64.8 thousand, MultiBank 11.6 thousand).

As at December 31, 2008, the Retail Banking Line in Poland had 3,163.9 thousand accounts (mBank 2,848.7 thousand, MultiBank 315.2 thousand). In 2008, the number of accounts rose by 739.0 thousand (+30.5%, mBank 676.7 thousand, MultiBank 62.3 thousand)

There were a total of 375.3 thousand accounts of micro-enterprises (mBank 301.5 thousand, MultiBank 73.8 thousand) Their number rose during the year by 92.1 thousand (+32.5%, mBank 80.4 thousand, MultiBank 11.7 thousand)



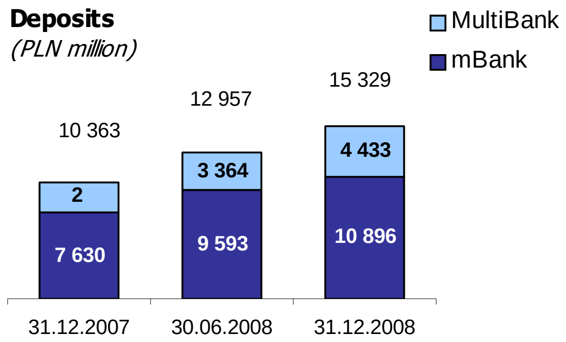


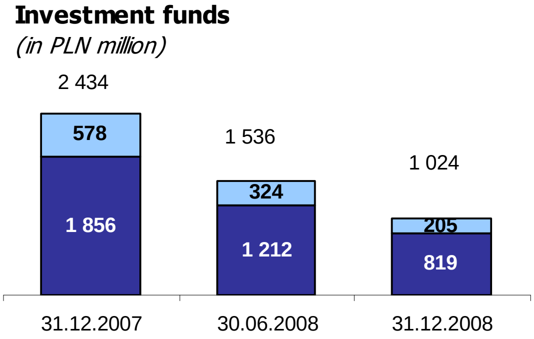
VI.1.2. Deposits and investment funds

At the end of 2008, the level of deposits in the Retail Banking Line totaled PLN 15,329.3 million (mBank PLN 10,895.8 million, MultiBank PLN 4,433.5 million), of which 10.1% were deposits of micro-enterprises (mBank 7.4%, MultiBank 16.8%). The balance-sheet deposits grew in 2008 by PLN 4,966.1 million (up by 47.9%, mBank PLN 3,265.7 million, MultiBank PLN 1,700.4 million).

The cash deposited by retail customers of BRE Bank in investment funds (IF) totaled PLN 1,024.4 million at the end of 2008 (mBank PLN 819.3 million, MultiBank PLN 205.1 million).

Within one year, due to the slump at the WSE, assets of IF fell by PLN 1,410.0 million (-57.9%, mBank PLN 1,036.8 million, MultiBank PLN -373.2 million).





VI.1.3. Loans

Balance-sheet loans at the end of 2008 amounted to PLN 24,997.2 million (mBank PLN 10,903.0 million, MultiBank PLN 14,094.2 million). Loans were up by PLN 11,859.9 million in 2008 (90.3%; mBank PLN 5,504.2 million, MultiBank PLN 6,355.7 million).

The BRE Bank Retail Banking Line's market share in retail loans was 6.4% at the end of 2008.

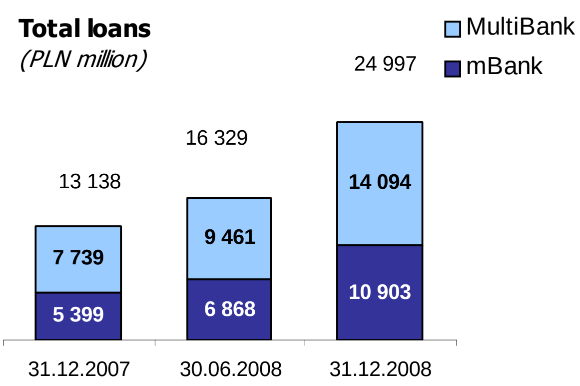
All loans to micro-enterprises totaled PLN 1,971.3 million (mBank PLN 449.1 million, MultiBank PLN 1,522.2 million), of which 31.0% were mortgage loans (mBank 32.4%, MultiBank 30.7%).

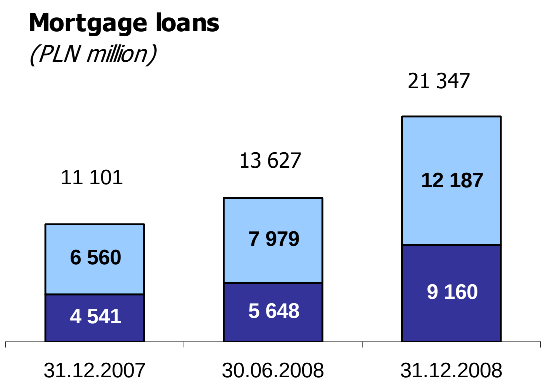
Structure of the credit portfolio:

- mBank: 84.0% mortgage loans, 4.5% credit lines, 3.6% credit cards, 7.9% other;

- MultiBank: 86.5% mortgage loans, 4.5% credit lines, 1.3% credit cards, 7.7% other.

The BRE Bank Retail Banking balance-sheet mortgage loans totalled PLN 21,347.3 million zloty at the end of December 2008 (mBank PLN 9,160.4 million zloty, MultiBank PLN 12,186.9 million), including mortgage loans for individual customers at PLN 20,735.4 million. In 2008, balance-sheet mortgage loans rose by PLN 10,246.2 million (+92.3%; mBank 4,619.6 million, MultiBank PLN 5,626.6 million). The growth in portfolio value is partly due to the higher exchange rate of the CHF. CHF mortgage portfolio rose from CHF 4,028.3 million at the end of 2007 to CHF 6,726.2 million at December 31, 2008 (+67%).



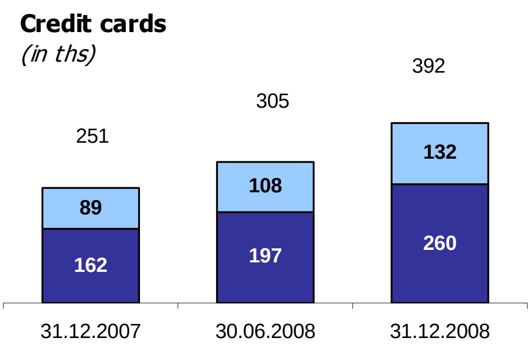


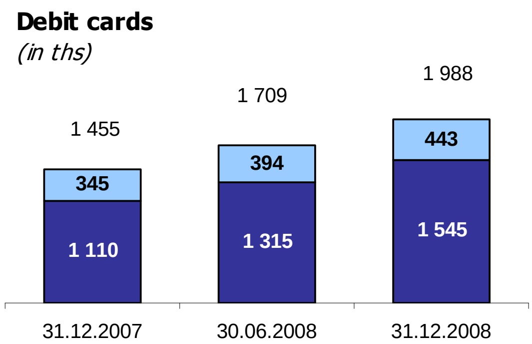
VI.1.4 Cards

The number of credit cards issued by the end of December 2008 was 391.5 thousand (mBank 259.5 thousand, MultiBank 132.0 thousand). The number of credit cards grew by 140.8 thousand in 2008 (+56.2%; mBank 97.4 thousand, MultiBank 43.4 thousand).

According to figures available at the end of November 2008, the share of BRE Bank Retail Banking Line in the credit card market, in terms of outstanding debt level, was 4.4%.

The number of debit cards issued by the end of December 2008 was 1,987.8 thousand (mBank 1,544.6 thousand, MultiBank 443.2 thousand). The number of credit cards grew by 533.1 thousand in 2008 (+36.6%; mBank 434.6 thousand, MultiBank 98.5 thousand).





V.1.5. Expansion of the Distribution Network

mBank

mBank's network includes 161 locations (68 mKiosks, 16 Financial Centers and 77 Partner mKiosks). 58 new locations were opened in 2008 (7 mKiosks, 1 Financial Center and 50 Partner mKiosks).

MultiBank

The MultiBank distribution network had 131 outlets (79 Financial Services Centers and 52 Partner Outlets, including: 48 Branches of the Future, both Financial Services Centers and Partner Outlets). In 2008, 22 new outlets were opened (14 Financial Services Centers and 8 Partner Outlets).

VI.1.6 Novelties in the offer

mBank

mBank and MultiBank started issuing payment cards with microchip.
New cards were introduced:

- branded card Visa Rossmann
- Visa Platinum card.
- debit card to the eMax EUR account and debit card to the eMax GBP account.

mBank Mobile implemented a new functionality, enabling charging the phone with an SMS.

<u>MultiBank</u>
In 2008, new insurance products were launched:
- „Safe Repayment" package for mortgage loans,
- group insurance of personal real property for micro-enterprise credits,
- „Safe Repayment" package insurance for micro-enterprise loans.

Sales of motor vehicle insurance at the Call Center was also launched, and a phone-based sales action for the Accidents Insurance "My Protection" for credit card holders.

In 2008, MultiBank added structured products into its offer, including the structured deposits: Cappuccino, Solar, Laponia and Samba.

Black Credit Card was introduced, for members of the Aquarius club, and a new branded card Visa Murator which allows its holders to profit from discounts while shopping in more than 300 selected stores from the construction and interior decoration sector. Business customers were offered a new account, MultiKonto Business Net.

VI.1.7. mBank – Czech Republic and Slovakia

Customers
At the end of 2008, mBank had 244.1 thousand customers in the Czech Republic and Slovakia (mBank CZ 185.5 thousand, mBank SK 58.6 thousand). Since the beginning of 2008, the number of customers rose by 218.3 thousand (mBank CZ 167.9 thousand, mBank SK 50.45 thousand).

Accounts
At the end of December 2008, the number of accounts reached 389.3 thousand (mBank CZ 299.0 thousand, mBank SK 90.3 thousand). In 2008, the number of accounts rose by 352.9 thousand (mBank CZ 274.6 thousand, mBank S 78.3 thousand)

Deposits
Deposits in the Czech Republic and Slovakia totaled EUR 796.0 million at the end of 2008 (mBank CZ EUR 610.2 million, mBank SK EUR 185.8 million), which represents an annual increase by EUR 787.5 million (mBank CZ EUR 605.9 million, mBank SK EUR 181.7 million).

Loans
Balance-sheet loans at the end of 2008 amounted to EUR 180.9 million (mBank CZ EUR 108.8 million, mBank SK EUR 72.1 million). The loans are growing dynamically, month-on-month (+ EUR 22.2 million).

VI.2. Private Banking

Customers

The Bank had 7,341 Private Banking customers at the end of 2008; up by 524 customers year on year. Accounts of 684 customers were closed in 2008, in the process of customer base restructuring. This represents a decrease of customers by 421, in comparison to the end of 2007. The quality of customer base improved as a result of restructuring.

Loans

The Private Banking customers' debt was PLN 478.9 million at the end of December 2008. From the beginning of the year, debt dropped by PLN 40.1 million (-7.7%), which was due to the closing of brokerage limits by customers as the result of unfavorable stock market situation.

Assets under management

Customers' assets under management invested via BRE PB (including deposits, asset management products and financial market products) totaled PLN 4,570.0 million at the end of 2008, which represents a decrease by PLN 238.2 million since the beginning of the year (-5.0%).

a) Banking Products

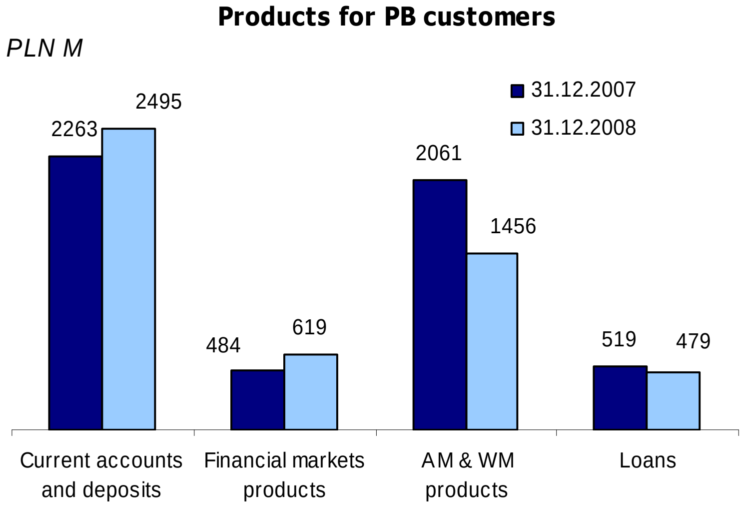
Assets in current accounts and deposits stood at PLN 2,495.0 million at the end of December 2008; up by PLN 231.8 million from the end of 2007 (+10.2%). The increase is caused by conversion of customers' assets to safe products. Insurance and equity products, based on investments in deposits, are very popular.

b) Asset Management & Wealth Management products

Customers' assets under management in the Asset Management Products line reached PLN 1,456.5 million at the end of December 2008, which represents a year on year decrease by PLN 605.0 million (-29.3%). The decrease was smaller than the drop in the WIG stock market index, which lost more than 50%, although the valuation of most products under this line depends on the valuation of instruments listed at the stock market.

c) Financial Markets Products

Assets totaled PLN 618.5 million at the end of December 2008. This represented an increase by PLN 135.0 million (+27.9%) year on year. This increase is tied to conversion to safe products, caused by the crisis in the financial markets.



VI.3. Subsidiaries of Retail Banking

VI.3.1. emFinanse Sp. z o.o.

During H1 of 2008, the Management Board of BRE Bank accepted the recommendation of the Supervisory Board of the emFinanse company and made a decision on its restructuring, strengthening the sales network of BRE Bank Retail Line products. The changes included transformation of the emFinanse outlets into a sales network of BRE Bank Retail Line products. The company will continue operations in a limited scope (mBank Mobile).

VI.3.2. BRE Ubezpieczenia TU SA and BRE Ubezpieczenia Sp. z o.o.

The company BRE Ubezpieczenia TU SA operates since 2007 and is engaged in insurance business in the areas of "Other personal insurance and property insurance". Policies are sold through the Internet insurance platform and through the agent – the second company operating in the field of insurance – BRE Ubezpieczenia Sp. z o.o, 100% owned by BRE Ubezpieczenia TU SA.

Sale of insurance products, measured as gross premium written totaling PLN 424.1 million, was up by 35% compared to 2007. Sales results of BRE Ubezpieczenia in each of the categories: the Internet Platform (mBank's Motor Insurance Supermarket, MultiBank's Insurance Center), Bancassurance and policies for customers of Private Banking and BRE Wealth Management, were higher in terms of premium written than in 2007.

BRE Ubezpieczenia commenced cooperation with BRE Leasing. Under the joint project, BRE Ubezpieczenia develops insurance products for customers of BRE Leasing, coordinates and supports the sales of insurance and provides insurance services, supervises claims handling.

Despite the positive (PLN +6.8 million) company result, consolidation of the companies under the full method brought the Group's profit down by PLN 40.3 million.

VI.3.3. BRE Wealth Management S.A.

Assets under management totaled PLN 795 million zloty at the end of 2008, up by PLN 161 million year on year (+25%). The company offers fourteen investment strategies, including stock-based, debt-based, income-based, conservative and treasury, as well as strategy based on multiple asset classes. Despite significant worsening of the market situation during Q4 2008, the results of all strategies were significantly better than benchmarks.

In 2008, the Company's profit before tax totaled PLN 0.8 million.

VII. Other consolidated subsidiaries

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

In 2008, the number of processed payment settlement transactions reached 29.1 million (in 2007: 20.5 million transactions).

The Company developed cooperation with the Corporate Banking Line and Retail Banking Line of BRE Bank (including the implementation of SEPA foreign transactions), with companies of the BRE Bank Group (maintenance of chancellery), and broadened the scope of services for Commerzbank in the area of Paper Archives.

Cooperation with external customers, such as postal agencies, is also being developed. New customers include Bank Pocztowy and Infosys BPO Poland Sp. z o.o. in the area of Electronic and Paper Archives. Revenue on services for external customers accounted for 16.3% of total revenues in 2008.

The profit before tax for 2008 totaled PLN 383 thousand, down from the PLN 793 thousand at the end of 2007.

BRE.locum S.A.

BRE.locum S.A. is a real estate developer. In 2008, the profit before tax totaled PLN 36.7 million, which was PLN 10.7 million less than in 2007. The profitability of BRE.locum fluctuates significantly – the company shows in its revenues only those apartments which were actually completed and handed over to buyers. Therefore, the Company's result depends on the schedule for project completion and settlement.

In addition, BRE.locum's results were negatively influenced by the worsening situation in the housing market, reflected in the gradual decrease in the number of preliminary sales contracts. This was particularly pronounced in Q4 2008, when the decrease in the number of preliminary sales contracts was compounded by the standstill in the market of housing loans. This situation can have a negative influence on BRE.locum's results in the coming years.

VIII. Financial results of the BRE Bank Group in 2008

VIII.1. Changes in the Consolidated Balance Sheet in 2008

The BRE Bank Group's balance sheet total was PLN 82.6 million at December 31, 2008 - up by 47.7% year on year.

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

	31.12.2008		31.12.2007		Change
ASSETS	PLN thous.	structure	PLN thous.	structure	2008/2007
Cash and transactions with the central bank	2 512 333	3.0%	2 003 535	3.6%	25.4%
Bills eligible for rediscounting at the central bank	9 238	0.0%	23 259	0.0%	-60.3%
Amounts due from banks	6 104 093	7.4%	2 089 936	3.7%	192.1%
Trading securities	4 624 621	5.6%	4 257 982	7.6%	8.6%
Derivative financial instruments	5 632 872	6.8%	2 272 638	4.1%	147.9%
Loans and advances to customers	52 142 477	63.1%	33 682 665	60.2%	54.8%
Investment securities	5 502 312	6.7%	6 386 574	11.4%	-13.8%
Fixed assets for sale	-	0.0%	336 078	0.6%	-100.0%
Assets under pledge	3 445 281	4.2%	2 812 277	5.0%	22.5%
Investments in affiliates	16 953	0.0%	4 823	0.0%	251.5%
Intangible assets	438 452	0.5%	404 967	0.7%	8.3%
Fixed assets	814 469	1.0%	670 213	1.2%	21.5%
Deferred income tax assets	327 558	0.4%	116 290	0.2%	181.7%
Other assets	1 034 543	1.3%	880 663	1.6%	17.5%
Total assets	**82 605 202**	**100.0%**	**55 941 900**	**100.0%**	**47.7%**

Credits and loans grew the fastest in nominal terms, by PLN 18.5 billion (54.8%). High growth trend was seen especially in the loan portfolio of individual customers, which grew by 92.1% year on year, which translates into nominal increase of PLN 12.8 billion. The growth of corporate credit portfolio reached 28.4% year on year, which accounted for PLN 5.5 billion of nominal growth.

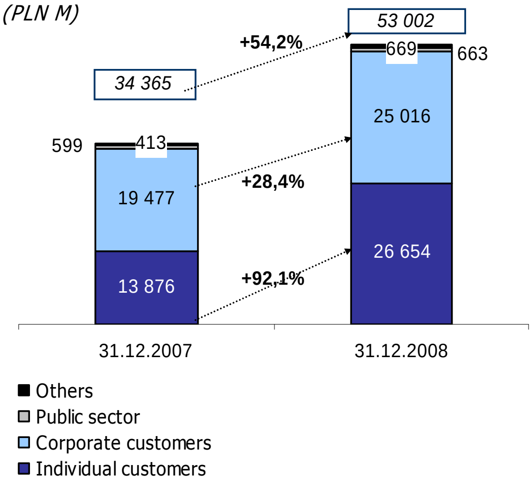
Amounts due from banks, similarly as during the previous quarters, remained on a high level and grew almost two-fold compared to the end of 2007 (growth by circa PLN 4 billion). However, in comparison to the highest annual level seen in Q3 2008, the amounts due from banks fell by about PLN 0.9 billion, or by 12.3%. A reverse trend was noted in the portfolio of investment securities, which compared to the end of 2007 dropped by circa PLN 0.9 billion, and noted an increase of similar level (PLN 0.9 billion) during Q4 2008. During the same period, trading securities increased slightly in comparison to 2007, and to the previous quarter, by circa PLN 0.4 billion. This means that as business was developed, the Bank maintained an adequate level of high liquidity assets (cash at the NBP, amounts due from banks, securities), which guarantees a high degree of security.

VIII.1.2. Description of the loan portfolio

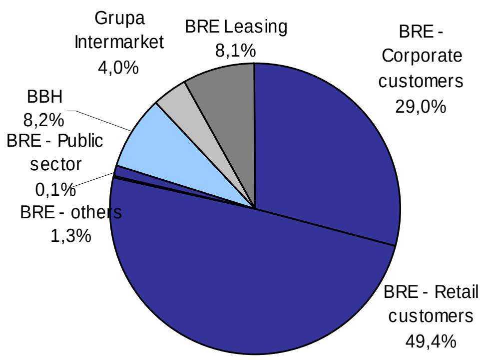
In 2008, due to the very high dynamics of loans to retail customers at BRE Bank, their share in the consolidated portfolio rose to 50.3%, compared to 40.4% at the end of 2007. Mortgage loans were the main driver of growth, accounting for more than 80% of all retail loans (86.5% of the MultiBank loan portfolio, and 84% at mBank).

Corporate loans also rose significantly by PLN 5.5 billion, including over PLN 3 billion in BRE Bank. BRE Leasing achieved a significant dynamics of loans, with credit portfolio growing by PLN 1.3 billion, and BBH with portfolio growth by PLN 1.1 billion.

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



Loans and advances to customers (net)
(% of consolidated portfolio)



Out of loans and advances to customers (gross) in BRE Bank Group at the end of 2008 receivables classified as "default" were 2.2% versus 2.3% in 2007.

Provisions for loans and advances to customers amounted to PLN 859,7 million, including PLN 166,9 million of impairment provisions for exposure analyzed according to portfolio approach (Incurred But Not Identified – IBNI) versus PLN 682.7 million. IBNI provisions in 2007 amounted to PLN 112.4million.

The coverage ratio of receivables classified as "default" by provisions reached 59.2% compared to 71.2% a year ago. The main reason of coverage ratio decrease was a positive estimation of repayment of new default exposure.

VIII.1.3. Liabilities

Changes in the Group's liabilities in 2008 are shown in the table below:

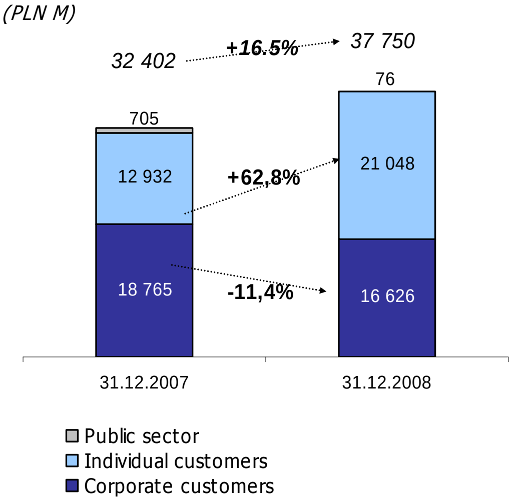
LIABILITIES	31.12.2008		31.12.2007		Change
	PLN thou.		PLN thou.		2008/2007
Liabilities to Central Bank	1 302 469	1.6%	-		
Liabilities to other banks	27 488 807	33.3%	12 245 867	21.9%	124.5%
Derivative financial instruments and other trading liabilities	6 174 491	7.5%	2 164 214	3.9%	185.3%
Liabilities to customers	37 750 027	45.7%	32 401 863	57.9%	16.5%
Liabilities under issued debt securities	1 790 745	2.2%	2 928 414	5.2%	-38.8%
Subordinated liabilities	2 669 453	3.2%	1 661 785	3.0%	60.6%
Other liabilities	996 280	1.2%	879 975	1.6%	13.2%
Current income tax liability	218 807	0.3%	134 234	0.2%	63.0%
Deferred income tax liability	81	0.0%	455	0.0%	-82.2%
Provisions	166 006	0.2%	71 227	0.1%	133.1%
Liabilities for sale	-	0.0%	12 543	0.0%	-100.0%
Total liabilities	**78 557 166**	**95.1%**	**52 500 577**	**93.8%**	**49.6%**
Total equity	**4 048 036**	**4.9%**	**3 441 323**	**6.2%**	**17.6%**
Total liabilities and equity	**82 605 202**	**100.0%**	**55 941 900**	**100.0%**	**47.7%**

Liabilities to customers, which are the main source of financing for the Group's operations, increased by PLN 5.3 billion (or +16.5%) year on year and reached PLN 37.8 billion at year end (48% of total liabilities. Deposits from individual customers showed a significant growth rate, to a large extent as a result of the inflow of funds withdrawn from investment funds.

In Q4, 2008 deposits from individual customers continued the previous relatively high growth trend (an increase by PLN 2.1 billion, or 11.4%), while deposits from corporate customers declined by about 12.8% (PLN 2.5 billion), which resulted in a drop of liabilities to corporate customers year on year.

The decline of corporate deposits in the fourth quarter was caused by three factors produced by the global financial crisis, which affected the biggest deposit holders:
- the need to cover ongoing financing needs from own resources due to delayed collection of receivables from contractors;
- preventive measures – to increase risk diversification by dispersing excess funds among deposits with various banks;
- outflow of deposits to other banks that offered attractive interest rates in search for sources of funding in the time of lack of liquidity in the market.

Amounts due to customers
(PLN M)



Credit lines, issues of bonds, and subordinated debt were supplementary sources used to finance the assets' growth in the reporting period.

Interbank funding (liabilities to other banks) grew by 125% (PLN 15.2 billion) year on year in 2008, mainly thanks to acquired credit in the CHF used to finance the portfolio of housing loans denominated in that currency. In 2008, credits from banks increased by PLN 10.8 billion for the Bank and PLN by 2.4 billion for the other companies from the Group (mainly BRE Bank Hipoteczny and BRE Leasing). The growth of the PLN-equivalent value of loans in foreign currencies was also enhanced by a significant appreciation of foreign currencies.

As of the end of 2008, the share of equity in sources of funding at the Group's level was 4.9%, as compared to 6.2% at year-end 2007, which means a slight decline connected with an increase in the share of liabilities to other banks in the liabilities structure.

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

The BRE Bank Group generated a profit before tax on continued and discontinued operations of PLN 1000.1 million, compared to PLN 954.5 million in 2007. Hence, the profit before tax in 2008 was higher by PLN 45.6 million, or 4.8%, than in the prior year, which resulted from an increase in both the profit on continued and discontinued operations by PLN 21.6 million (or 2.6%) and by PLN 24 million (or 22%), respectively. The main contributors to the profit on operations discontinued in 2007, at a level of PLN 109 million, was the profit on sale of SAMH company (PLN 89.5 million), while in 2008 the profit on discontinued operations (PLN 133 million) was mainly generated by the Group's effect of the merger of PTE Skarbiec-Emerytura and Aegon PTE, and the sale of Aegon (a profit of PLN 121.3 million).

As discontinued operations are shown separately at the pre-tax profit level, the particular profit and loss account items are discussed below for continued operations.

A consolidated profit before tax on continued operations totalled PLN 867.1 million as at the end of 2008, as compared to PLN 845.6 million in 2007, i.e. it was 2.6% higher (by PLN 21.6 million). In 2008, the BRE Bank Group generated a total income of PLN 2,686.4 million, which means a 22% increase (by PLN 484 million) year on year. Excluding a one-off transaction of sale of Vectra SA shares, the Group's income rose by 15.8% (about PLN 347 million).

A relatively high increase in income was achieved in considerably deteriorated market conditions, as a result of the financial crisis. The turmoil had a particularly adverse impact on the Group's performance in the last three months of 2008, when the Group was compelled to create additional provisions for loans and make a negative valuation of derivative instruments. The resulting additional charge on the Bank's result was estimated at PLN 84 million.

Income on core operations increased in 2008 from the previous year levels owing to the expansion of operations and the ability to defend yields.

Profit and Loss Account	**Year ended on 31 December**		**Change**
	2008	**2007**	**2008/2007**
Continued Operations			
Interest income	3 637 222	2 355 279	54.4%
Interest cost	(2 244 770)	(1 327 496)	69.1%
Net interest income	**1 392 452**	**1 027 783**	35.5%
Commission income	844 463	785 237	7.5%
Commission cost	(292 997)	(220 959)	32.6%
Net commission income	**551 466**	**564 278**	-2.3%
Dividend income	9 429	2 327	305.2%
Trading income, including:	**483 855**	**486 468**	**-0.5%**
FX income	*517 314*	*434 956*	18.9%
Other trading income	*(33 459)*	*51 512*	-165.0%
Income from investment securities	**135 765**	**3 834**	**3441.1%**
Other operating income	266 505	249 661	6.7%
Net credit impairment provisions	**(269 144)**	**(76 810)**	**250.4%**
Overhead costs	**(1 346 601)**	**(1 103 319)**	**22.1%**
Amortisation and depreciation	(203 475)	(176 325)	15.4%
Other operating costs	(153 106)	(132 342)	15.7%
Operating profit	**867 146**	**845 555**	2.6%
Profit (loss) before tax – continued operations	**867 146**	**845 555**	2.6%
Income tax	(108 435)	(184 578)	-41.3%
Net profit on continued operations, including profit of minority shareholders	**758 711**	**660 977**	14.8%
Discontinued Operations			
Profit before tax on discontinued operations	**132 969**	**108 990**	22.0%

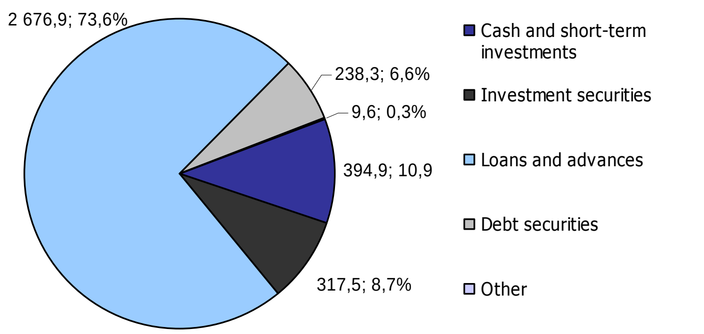
Income tax	(2 336)	(22 350)	-89.5%
Net profit on the discontinued operations, including profit of minority shareholders	**130 633**	**86 640**	50.8%
Net profit on continued and discontinued operations, including profit of minority shareholders, including:	**889 344**	**747 617**	19.0%
Profit of minority shareholders	31 885	37 523	-15.0%
Net profit	**857 459**	**710 094**	20.8%

Net interest income rose by 35.5% year on year to PLN 1,392.4 million, as compared to PLN 1,027.8 million in 2007. The higher net interest income was mainly achieved by the Bank (43.2%), while the subsidiaries' contribution was somewhat lower (6.6%). The BRE Bank Group's interest margin (net interest income to average interest-earning assets) was 2.3% p.a. in 2008, i.e. at the prior year's level.

In 2008 the key drivers of the net interest income growth trend were changes in the balance sheet structure and higher interest margins on certain banking products. A more effective balance sheet structure was possible through a higher contribution of Retail Banking to the Bank's assets and liabilities, a growing loans portfolio, and a better match of the FX structure of the balance sheet, combined with an increase in equity. The positive impact of changes in the profitability of operations was partially offset by some adverse tendencies: rising costs of funding and declining interest margins as a result of more and more fierce competition.

The Retail Banking Line made the highest contribution to the net interest income of the BRE Bank Group (increase by 57.6%, or PLN 248.6 million). Meanwhile, the net interest income of Corporations and Financial Markets grew by 20.3%, or PLN 125.9 PLN million.

Structure of interest revenues
(PLN M / %)



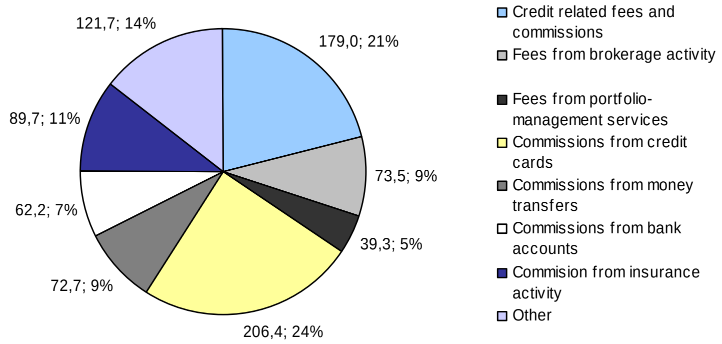
This chart presents the structure of interest revenues by product category.

The vast majority (73.6%) of the revenues was generated by advances and loans. The interest revenues on these products reached over PLN 2.7 billion in 2008, up by around PLN 1.0 billion year on year.

10.9% of the revenues were generated by interbank deposits, 8.7% by investment securities, and 6.6% by trading debt securities.

Despite an over 10% increase at the Bank's level, net commission income showed a slight 2.3% decline at the Group's level. The 2008 commission level was affected by the consolidation of BRE Ubezpieczenia (insurance), made for the first time, which lowered the net commission income of the Group by about PLN 40 million. The commission margin slowdown is a result of a decline of commission income generated by companies from Corporations (mainly by Dom Inwestycyjny, where commission income declined by PLN 32.7) because of the deteriorating situation in the money and capital markets. Despite this trend, Corporations and Financial Markets maintained the largest share in the Group's commission income structure (62.4%).

Structure of fee and commission income (PLN M / %)



This chart presents fee and commission income by product category.

Credit card fees & commissions became a new leader, followed by credit related fees and commissions and – a new item of the Group's revenues – insurance commissions and fees, as a result of consolidation of the insurance companies. Brokerage commissions & fees, which played a significant role in 2007 (PLN 138.6), nearly halved in 2008 to PLN 73.5 million.

Trading income amounted to PLN 483.8 million at year end 2008, which means a small decline (by 0.5%) year on year. It was caused by a downturn in the economy and unfavourable shift in foreign exchange rates and interest rates on the interbank market, which resulted in negative valuation of options and CIRS (PLN 56.6 million) and negative result from financial instruments (PLN 28.5 million) shown in the Bank's results. recognised in the Bank's earnings. The ultimate result on the Group's trading operations was shaped by FX gains/losses (higher by 18.9%, or PLN 82.4 million year on year) and a loss on other trading operations (a profit in the prior year).

The deepest decline in trading income (26.5%) was recorded by Trading and Investments. Similarly, Corporations and Institutions posted trading income lower by approx. 6% in 2008. And Retail Banking saw a 58% increase in this category of income, which raised its share in the Group's income structure to 34%, from 21% in the prior year.

A considerable income on investment securities amounted to PLN 135.8 million (PLN 3.8 million in 2007) as a result of a single transaction: sale of Vectra (PLN 137.7 million).

In 2008 other operating income (other operating revenues/costs netted) was comparable to the prior year's level. Essentially, it consisted of income earned by BRE.locum (real estate company) in the first half of 2008.

Increased credit and loan impairment write-offs made in 2008 (leading to the end-year balance of PLN 269.1 million, as compared to PLN 76.8 million in 2007) had a considerable impact on the Group's performance. The increase in such provisions was posted both at Bank (PLN 160.5 million) and subsidiaries (PLN 31.8 million). Such a significant increase year on year was mainly connected with a low reference base after the mass release of provisions in 2007. In addition, the portfolio provision increased due to the sizeable growth of the retail loans portfolio and the deterioration of the financial condition of borrowers brought about by the credit crunch.

Under the higher provisions registered in the Bank in 2008 PLN 27.7 million referred to loans related to derivatives. In addition, the LIP factor was extended 2008, which resulted in increasing the provisions by approximately PLN 6 million

The most abrupt increase in provisions occurred in Q4, 2008. For the Group, it totalled PLN 130.5 million, of which PLN 99.3 million attributable to the Bank and PLN 31.2 million to subsidiaries. Thus, at the Bank the increase of loan provisions in the fourth quarter exceeded the previous quarter level by around PLN 43.5 million. Provisions rose both in Retail Banking (by PLN 20.9 million) and Corporations and Financial Markets (by PLN 22.6 million). The adverse impact of the financial crisis was compensated to a large extent by successful collection efforts, repayments of loans and released provisions, which affected the net provision level.

Operating costs were up by 22.1% (about PLN 270.4 million) year on year in 2008, and the increase was generated predominantly by the Bank (by PLN 223.8 million) with a smaller contribution of the other companies from the Group. It should be noted that those costs were growing at a slower pace than the income of the Group, which amounted to about PLN 484 million, of which PLN 347 million after eliminating a one-off transaction.

In 2008 overhead costs rose by 22% year on year, i.e. by PLN 243.3 million. The highest increase occurred in the tangible cost category (by 25.4%, or PLN 113.7 million in zloty terms). The main reasons behind such growth of tangible expenses were the expansion of the branch network and development of operations, including mBank and Multibank outlets. Personnel costs were higher by PLN 110.7 million (17.6%), above all because of the expansion that led to additions of headcount and salaries.

Depreciation and amortisation write-offs increased by 15.4% (PLN 27.1 million) in the reporting period.

VIII.3. Performance Indicators

The key performance indicators (jointly for continued and discontinued operations) of the BRE Bank Group at the end of 2008 (and compared to 2007) were as follows:

	Actual 2008	***Actual 2007***
ROA (net)	1.3%	1.5%
ROE (before tax)	30.8%	35.9%
ROE (net)	27.4%	28.1%
CIR	55.1%	55.5%
Capital Adequacy Ratio	10.04%	10.16%

ROA= Net profit (including minority shareholders)/Balance sheet total

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

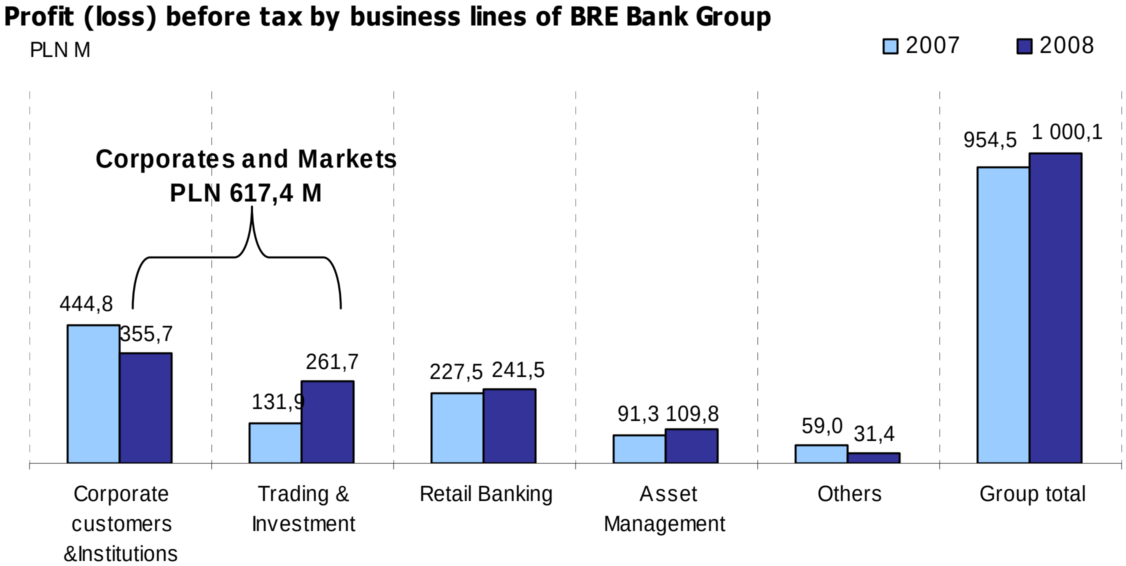
ROE (net) = Net profit (including minority shareholders) / Equity (including minority shareholders, excluding this year's profit)

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

As far as the capital adequacy ratio in 2008 is concerned, its decline was partially caused by an increase in risk-weighted assets from PLN 39.1 billion to PLN 58.9 billion (triggered by the zloty's depreciation to a large extent). Simultaneously, the depreciation of the zloty led to an increase in the Bank's equity, as the value of the Swiss franc was growing – as the currency of subordinated loans amounting to CHF 180 million, is included in equity. They consist of subordinated notes of a new issue, with a nominal value of CHF 90 million and an indefinite maturity (so called Note Issuance Facility Agreement) and a subordinate loan of CHF 90 million with a 10-year time to repayment.

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

The chart below shows the profits of the BRE Bank Group's main business areas in 2008 compared to 2007. As it shows, Trading & Investments was the area that generated a significant increase in profits – mainly as a result of a one-off event. The decline in the Corporate Customers & Institutions result I was mostly the effect of additional provisions established for PLN 120.7 million. Retail Banking's performance was slightly better than in the prior year, was burdened with losses that were generated by the start-up operations in the Czech Republic and Slovakia and with the accounting effect of consolidation of the insurance companies.



IX.1. Corporations and Financial Markets

In 2008, this business segment, responsible for cooperation with corporate customers, generated a profit before tax of PLN 617.4 million (of which PLN 137.7 million on a one-off transaction executed in Q1, 2008), i.e. higher by PLN 40.7 million (or 7.1%) year on year. The share of Corporations and Financial Markets in the Group's profit was 61.7% (the one-off transaction included).

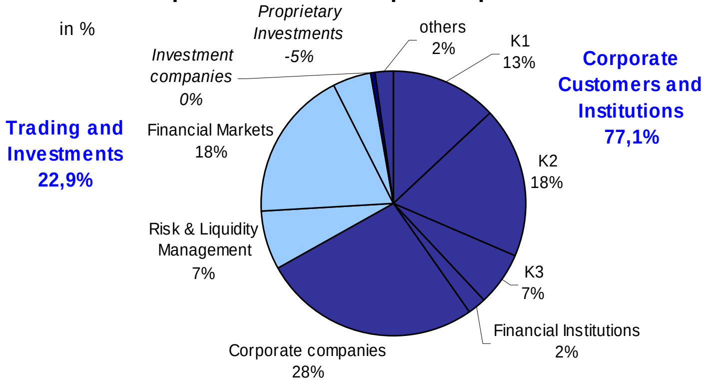
As compared to the previous year, this business line recorded a significant increase in net interest income by 20.3% (PLN 125.9 million) as a result of the growth of assets by 30.6% (PLN 13.3 billion) and an even higher increase in liabilities by 40.2% (PLN 16.6 billion).

The business line's profitability in 2008 was the outcome of the growing share of core operations, the one-off transaction executed in the first quarter of the year, an increase in costs and the bearish trends in the money and capital markets. Due to higher costs of risk, a negative valuation of derivative instruments and a seasonal increase in operating costs, the business line's profit rose by only PLN 11.5 million in the fourth quarter, despite the record-breaking quarterly increase in net interest and commission income (by 9% as compared to the prior quarter).

The contribution of Corporations and Financial Markets subsidiaries to the line's profit remained high at about 34-35% (ex one-off transactions). The largest contributors to the profit are: BRE Bank Hipoteczny S.A., BRE Leasing Sp. z o.o., Dom Inwestycyjny and Intermarket Bank AG.

Corporations and Financial Markets consists of the following areas: Corporate Customers and Institutions (key area of cooperation with customers) and Trading & Investments (liquidity & risk management).

Corporates & Markets pre-tax profit structure



*/after BSS costs allocation and consolidation adjustments

This chart shows, that the major part of the profit was generated by Corporate Customers and Institutions (PLN 355.7 million) which covers the key area of customer relationships. It should be noted that the subsidiaries made a large contribution to the profit. The largest contributions came from BRE Bank Hipoteczny SA, BRE Leasing Sp. z o.o., and Intermarket Bank AG.

The profit of Trading and Investments (PLN 261.7 million) included profits on financial market transactions and risk and liquidity management. The good performance of Proprietary Investments was mainly due to the sale of a stake in Vectra.

IX.2. Retail Banking and Private Banking

The Retail Banking and Private Banking Line, which was the fastest growing segment in previous years, generated a 6.2% increase in profit before tax in 2008, to PLN 241.5 million, compared to PLN 227.5 million in 2007. The relatively small increment in 2008 is the result of the consolidation of BRE Ubezpieczenia (insurance), which reduced the business line's profit by about PLN 40 million.

The high profitability of the business line in 2008 was achieved despite expenditures incurred to finance new retail banking outlets, including its cross-border expansion, and despite higher costs of loan provisions as compared to the previous year.

The business line's contribution to the Group's profit before tax was at about 24% both in 2008 and 2007.

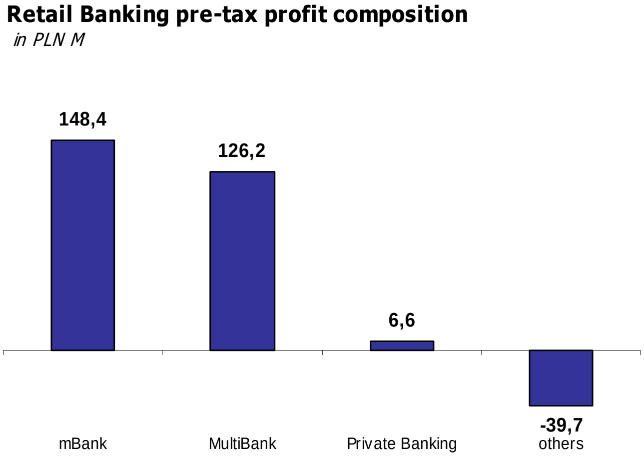
In 2008, this business line recorded the highest increase in net interest income in the Group (by 57.6%), which raised the business line's share in the Group's net interest income by 7 percentage points to 48.8%. The significant growth of profits was largely driven by a dynamic increase in the loans portfolio, mainly the portfolio of mortgage loans (by 100% as compared to year-end 2007 and by 36% as compared to 30 September 2008, i.e. by PLN 10.7 billion and PLN 5.7 billion, respectively), fuelled both by development of operations and FX rate effects.

The business line's net commission income in 2008 was lower by PLN 27 million, compared to the previous year, above all due to an adverse impact of consolidation of BRE Ubezpieczenia (PLN -52 million) and a lending slowdown (new loans).

Therefore, the share of income from this area of operations in total net commission income of the Group declined from 32.1% in 2007 to 28.8% in 2008.

The dynamic expansion of the Retail Banking branch network also triggered a significant increase in overhead costs – by 42.4%, or PLN 197.8 million – above the average growth rate for the Group, but still below the business line's growth of income by PLN 304.9 million in total.

The fourth quarter was a period of significant decline in financial performance, despite relatively high revenues. The main reasons were an increase in overhead costs (typical for the year-end period) and an above-average increase in impairment write-offs for loans.



From among the units of that business line, mBank made the largest contribution to its profit before tax (despite a loss of PLN 89.2 million recorded by its branches in the Czech Republic and Slovakia).

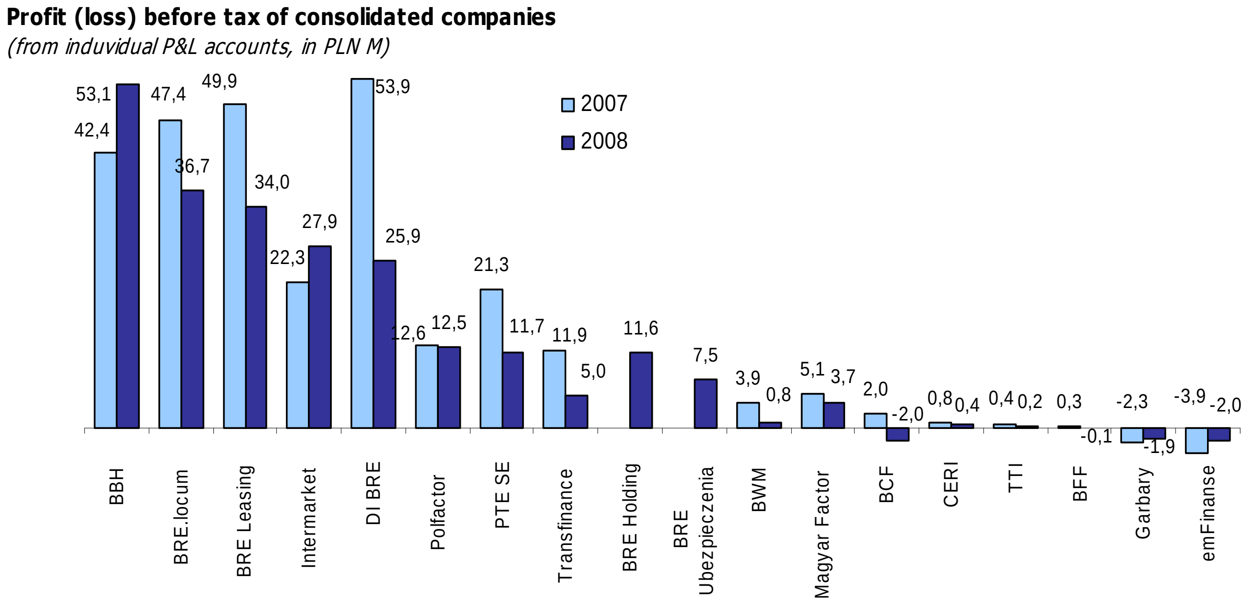
The negative item "Others" includes the results of the subsidiaries of the business line, but first of all a negative accounting effect of consolidation of the insurance companies. At the pre-tax profit level, this operation detracted PLN 29 million from the final result.

IX.3. Asset Management

This segment saw a profit before tax of PLN 109.8 million in 2008, compared to PLN 91.3 million in the previous year. The key drivers of 2008 performance were: the financial effect of the merger of PTE Skarbiec Emerytura and Aegon PTE S.A. and the sale of the amalgamated PTE.

IX.4. Financial Results of Consolidated Companies

Despite a generally weaker performance of the consolidated companies in 2008 (their joint profit before tax amounted to PLN 224.4, as compared to PLN 268.1 million in 2007); they had still a vital contribution to the financial result of the BRE Bank Group. The share of the consolidated companies to the Group's pre-tax profit was 21.3% in 2008, as compared to 28.1% a year earlier (calculated as the sum of accounting results of the consolidated companies in proportion to the Group's consolidated profit before tax).



The above chart shows that BRE Bank Hipoteczny was the only subsidiary that significantly improved its performance. The reasons of the less favourable performance of the subsidiaries are described in the part that presents the development of particular business lines.

The chart includes the financial result of PTE Skarbiec Emerytura, which was already excluded from the consolidated accounts as at the end of 2008. However, before it was excluded from the companies portfolio (June 2008) it generated a profit before tax of PLN 11.7 million.

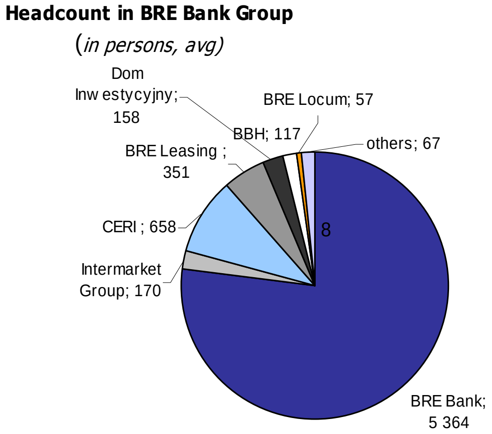
X. Headcount of the BRE Bank Group

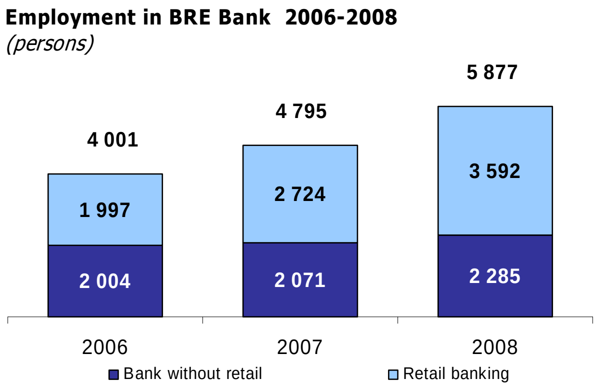
The average headcount of the BRE Bank Group during 2008 was 6,982 persons and was higher by 1,156 staff year on year. The bulk of that increase was produced by BRE Bank, where the headcount rose by 990 persons to 5,364 (annual average). The chart below presents the structure of headcount in the BRE Bank Group.

At the end of 2008, 5,877 persons were employed in BRE Bank, 1,082 persons more than at the end of 2007. The highest growth was recorded in Retail Banking (+868 persons to 3,592, including the support area) in connection with the expansion of the branches network in Poland, but also in the Czech Republic and Slovakia.

In Full-Time Equivalent terms, the headcount of BRE Bank was much lower and totalled 4,542 full time jobs at the end of 2008 (3,869 FTEs at the end of 2007), of which 2,322 FTEs in retail banking (+439 FTEs). Such a big difference is largely caused by the fact that many employees of MultiBank partner outlets are hired as 1/10 of FTE.

The Bank's employees are well educated (68.3% are college & university graduates) and relatively young (73.8% under 35).





X.1. BRE Bank's Incentive System

The remuneration policy is one of the central elements of the company's human resources strategy. It plays a key role in the development of its corporate culture. It is also used to build the competitive advantage in the market by recruiting and retaining skilled employees. BRE Bank's remuneration policy sets a relatively high share of bonuses in the total pay. The close link between total remuneration and the Bank's financial performance and quality standards strengthens the employees' motivation and commitment and the Bank's competitiveness by ensuring a high level of remuneration, while keeping fixed personnel costs under control.

Main principles of BRE Bank's remuneration policy:

- an employee's remuneration includes a basic salary and a variable part (bonus);
- the variable remuneration depends on the performance of the unit, team, and company: it is an award for the accomplishment of objectives and targets set in the annual planning process;
- Top Performers, i.e. employees with the highest achievements and appraisals, according to BRE Bank's standards, may earn salaries at the top market level.

BRE Bank's bonus system awards performance at and above quantitative standards taking into account the evaluation of performance style against the code of corporate values (DROGA) as an important condition of bonus payment.

In addition, the incentive system includes a stock options programme for the Bank's key managers. This program was approved by the Extraordinary General Meeting of Shareholders on 27 October 2008.

Eligible participants of the programme are:

- Members of the Management Board of the key subsidiaries of the BRE Bank Group;
- Directors of the Bank;
- Key managers.

A maximum allocation under the programme is 700,000 stocks. The programme duration covers 10 years (2009-2019) and the first 3 lots are intended to be initiated in 2009. The execution phase will start after 1 May 2010.

XI. Investments

In 2008, the BRE Bank Group's investments totalled PLN 379.7 million (PLN 285.4 million in 2007), of which PLN 240.8 million for BRE Bank.

The vast majority of the expenditures in the area of logistics and security were allocated to the development and upgrade of the corporate banking branch network, implemented in 2008 under the Hypernova Project:

- Adaptation of space for a new Corporate Branch Warszawa Praga;
- Relocation of the Corporate Branch in Opole to new premises.

The corporate branch network expansion project included the adaptation of space of Business Offices. New Business Offices were opened in Bielsko Biała, Bydgoszcz, Gdańsk, Kraków, Olsztyn, Poznań, Rzeszów, Szczecin and Wrocław.

The investment projects in foreign branches in the Czech Republic and Slovakia were continued.

In the IT areas, the 2008 capital expenditure budget was mainly used to continue the upgrades and development of key components of the IT infrastructure. These initiatives covered IT systems used in all core business areas and their objectives were both to implement a new functionality and to ensure improved accessibility and continuance of operations of existing IT solutions. The main projects included:

- Next stage of development of the GLOBUS system and applications that cooperate with it.
- Implementation of the ADONIS system (process management application) and a WLAN system, as well as implementation of the Halcash clearing system.
- Upgrade of the Global Position Master system (GPM).
- Continued development of the HERMES and ALTAMIRA systems.
- Further implementations in the Kondor+ system.
- The e-learning system was expanded and now covers the entire BRE Bank Group.
- Development of the AXAPTA system (purchases support and settlements).
- Implementation of ALGO (margin and collateral management system for custody services).

In the Retail Banking areas, the IT development efforts focused on the upgrade of the Altamira system in connection with the conversion of the Slovak koruna into the euro. This project was completed successfully and on time, and below the original budget.

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

BRE Bank attaches major importance to the risk mitigation and management process. This is dealt with on a day to day basis by relevant organisational units of the Bank that are responsible for the risk control process or for active risk management. To ensure that risk management duties are properly fulfilled, the Management Board of the Bank has established appropriate committees, consisting of representatives of the Management Board and senior management. In 2008, the particular risk areas were dealt with by the Credit Committees of the Management Board, the Assets and Liabilities Management Committee of the BRE Bank Group; the BRE Bank Capital Management Committee, the BRE Bank Risk Committee and the Investment Committee. There is also a Risk Committee at the level of the Supervisory Board, which approves risk management strategies and policies.

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

Detailed descriptions of risks connected with the business of the BRE Bank Group as well as their measurement are described in point 3 of the "Consolidated Financial Statements for 2008 under the International Financial Reporting Standards".

XII.1. Harmonisation with Basel 2 Requirements

The Bank realises the project of implementation of advanced methods of calculation of the capital requirements and capital adequacy ratio (AIRB). The goal of the project is to prepare the Bank to meet the AIRB Basel 2 requirements and to prepare a request for approval of advanced methods, to be submitted to the Polish Financial Supervision Authority (KNF).

The extremely high complexity and scope of the preparation process to implement the AIRB methods, the Basel 2 AIRB project was ranked a top priority by the Bank's Management Board and the implementation of tasks under the project involves employees of the Bank, a consulting company that supports the Bank and a big team of experts from Commerzbank who support particular project tasks.

The strategic goal of the project is to ensure the appropriate development potential for the BRE Bank Group by the optimisation of the level and structure of risk-weighted assets and, in consequence, by a better match of the structure and level of capital requirements to the risk profile of the Group's business operations.

The involvement of the strategic shareholder of BRE Bank creates a significant value added, not only in the form of operating support in the course of implementation of particular project tasks, but also due to transfers of knowledge, experiences and solutions, both methodological and IT ones, developed and accumulated by Commerzbank in the course of its Basel 2 AIRB project. Such solutions are adapted to take account of the specific needs and functional conditions of BRE Bank and, what's important, to reflect the specific characteristics of Poland's market.

XII.2 Credit Risk

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

The Bank applies credit portfolio risk measurement methods based on the estimation of Expected Loss and Credit Value at Risk, using the extended CreditRisk+ model, which incorporates, among other things, correlations between various sectors of the economy and residual risk. The daily monitoring of credit risk involves the verification of internal ratings and events of default as defined under Basel 2 and the IFRS.

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

In order to fulfil the expectations of the banking regulator, and in particular the guidelines outlined in Recommendation S, the Bank improved risk measurement and controlling tools in 2008, drawing upon the experience of renown consultants.

BRE Bank also monitors the credit risk of the Group subsidiaries that generate such risk. The monitoring process covers two areas: direct personal supervision and procedures & reports. In the former area, risk supervision consists in ensuring the proper representation of the risk management services on the supervisory boards of relevant subsidiaries. In the latter area, the goal is to ensure that business activities are based on safe credit risk procedures and on the controlling of existing credit risk through a system of reports and analysis. Credit risk assessment procedures applied by the subsidiaries of the Group are based on the Bank's solutions and always consulted with the Head Office of the Bank.

XII.3. Liquidity Risk

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

The Bank also monitors regularly the concentration of financing, especially for the deposit base, and the balance of liquidity reserves. The Bank has put in place contingency procedures in case there is a threat of losing the financial liquidity. After collapse of Lehman Brothers the contingency plan has been activated as a precaution measure. It should be stressed, however, that the Bank's funding and liquidity remain on the safe level.

In 2008, the liquidity of the Bank was kept at safe level. The main security of liquidity during the crisis was the portfolio of treasury securities and short-term interbank deposits.

XII.4. Market Risk

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

In Q1 – Q3, 2008, market risk measured by VaR remained at a moderate level in relation to the market risk limits and stress-testing control figures. According to the regularly conducted stress tests, the level of market risk remained within a safe range of values below the limit. However, in Q4, 2008, in the course of the unwinding financial crisis, key risk factors saw a sharp turn of the trends as experienced higher volatility, which increased the market risk level (as compared to previous quarters). In such situation, the market risk positions were managed under special supervision, in order to, inter alia, optimize the risk exposure level and position hedging costs, which increased as a result of limitations of liquidity of financial instruments and higher buy-sell spreads.

Value at Risk

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

As the VaR calculation process uses precise measures of financial instrument valuation, the VaR amount monitored by the Bank correctly reflects the market risk of non-linear financial instruments, e.g. options. The VaR calculation model undergoes back-testing verifications on an ongoing basis. The results of such checks confirm that the model is correct. The table below presents the structure of market risk as measured by VaR (confidence level 97.5% for the periods shown) of the Bank's position.

VaR (PLN thousand)	2008				2007			
	31.12.2008	average	maximum	minimum	31.12.2007	average	maximum	minimum
Interest Rate Risk	5 409	4 649	8 173	2 378	4 722	5 189	9 587	3 449
FX Risk	3 301	927	3 301	378	455	976	2 454	182
Share Price Risk	66	273	906	11	155	260	944	6
VaR total	8 623	5 309	11 575	2 336	5 041	5 754	10 275	3 530

In 2008 the utilisation of the VaR limits was at a safe level and, on average, amounted to 27% for the trading portfolio of the Financial Markets Department (FMD) and 24% for the portfolio of the Treasury Department (TD).

VaR is mainly affected by the portfolios of interest-rates-sensitive instruments (which are usually part of the banking book), such as Treasury bonds, commercial papers, IRS and CIRS, and - to a lower degree - by the portfolios of fx-rates-sensitive instruments (trading book), such as fx options and fx swaps. In Q4, 2008, the implied volatility of fx options was a key risk factor, in addition to fx rates, for the trading portfolio of the FMD. The other groups of risk factors had a relatively lower impact on VaR.

Stress-testing

Stress-testing is another measure of market risk supplementary to Value at Risk. Stress-testing determines the hypothetical change in the present value of the Bank's portfolios that would occur as a result of the risk factors moving to specific extreme values within a one-day horizon. The Bank uses two methods of stress-testing: one where the scenarios of changes of the risk factors are based on large changes in market parameters observed in past crisis situations and the other where the scenarios are based on large, extremely correlated changes of risk factors by the same proportion in each category. The stress-testing process is subject to a limit set as a control figure. The average value of stress-testing (based on observed past crisis situations) was PLN 20 million for the trading portfolios of the Financial Markets Department and PLN 42 million for the portfolios of the Treasury Department in 2008.

Interest Rate Risk of the Banking Book

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

In 2008, the level of interest rate risk was moderate for the position held in PLN and CHF and low for the positions in US$ and EUR owing to the relatively small gaps in the interest rate positions maintained in these currencies.

XII.5. Operational Risk

From July 2003 on, every organisational unit of the Bank is required to identify and record operational losses in a central database created and supervised by the Financial Risk Department. The main purpose is to develop a sufficiently extensive set of historical data concerning loss events occurring at the Bank in order to enable it to identify, analyse, monitor, and control operational events and losses that occur in particular business areas of the Bank. This approach is consistent with the requirements of the New Capital Accord (Basel 2).

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

BRE Bank has implemented the process of self-assessment of operational risk, which is run in all organisational units of the Bank once a year. Weaknesses identified in the course of the self-assessment process are analysed by experts from organisational units to determine methods and to take actions to eliminate them. At the same time, BRE Bank collects data and reports on a set of key operational risk factors related to the Bank's business. The set of risk factors is gradually extended to include new risks used in ongoing risk monitoring.

In October and November 2008, BRE Bank held its annual workshops on the analysis of operational risk scenarios with the participation of representatives of organisational units from all of the Bank's business lines. The workshop participants discussed and prepared a total of 32 risk scenarios, which were then presented at a meeting of the Risk Committee in the end of November 2008. The Risk Committee obliged particular organisational units and business lines of the Bank to identify and discuss actions that should lead to a reduction of the operational risk identified during the workshops on the analysis of operational risk scenarios.

XIII. Financial Ratings of BRE Bank and Group Subsidiaries

On 2 September 2008 Moody's and Fitch (rating agencies), as a result of the reduction of Commerzbank's rating (or rating outlook for Fitch) after the announcement of the planned acquisition of Dresdner Bank and the risk that – in the opinion of both agencies – may emerge in a medium term as a result of the merger of those two German banks, put the ratings of BRE on the watch list due to their possible decrease. On 12 November 2008 Moody's changed the financial strength rating outlook (BFSR) "D" for BRE Bank from positive to stable and maintained the existing long- and short-term ratings, while deleting the Bank from the watch list. As at the end of 2008, Fitch still kept the long-term rating on the watch list.

It should be noted that the fact that the existing rating was maintained is a success in the light of the mass reduction of ratings of financial institutions in 2008, especially as the adverse factor under assessment was beyond BRE Bank's control, i.e. the merger of Commerzbank and Dresdner Bank. The rating agencies are perfectly aware of BRE Bank's situation and kept the Bank's ratings unchanged despite adverse external circumstances. For example BRE Bank Hipoteczny was not able to defend its ratings – Moody's lowered its long-term rating to Baa1.

XIII.1 Fitch Ratings

As at the end of December 2008 BRE Bank's Fitch rating were as follows:

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

Since 2 September 2008, the long-term rating A- is on the watch list – outlook negative.
After the end of the year, in January 2009, the support rating was put on the watch list – outlook negative.

BRE Leasing also holds Fitch rating, which was unchanged in 2008: long-term rating A-, short-term rating F2, support rating 1 and rating outlook – stable. As for BRE Bank, the long-term and support ratings are on the watch list – outlook negative.

XIII.2. Moody's Investors Service Ratings

In 2008 this agency did not change the rating of BRE Bank; however it changes the financial strength rating outlook D from positive to stable. As at the end of December 2008, this rating was as follows:

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

In the beginning of 2009 the outlook for the A2 rating was changed from stable to negative.

The following subsidiaries of BRE Bank had also Moody's rating as at the end of 2008:

- BRE Bank Hipoteczny S.A. – long-term deposits rating was lowered from A3 to Baa1 in 2008; the other ratings – for short-term deposits and financial strength – were unchanged: P-2 and D-, respectively (outlook stable); in addition A2 for mortgage bonds in the local currency and foreign currencies issued so far by the Bank and A2 for the Programme of Mortgage Bonds Publicly Traded, worth PLN 500 million at par. On 25 June 2007 Moody's published a temporary rating at (P) Aa3 for the public mortgage bonds to be issued under a Mortgage Bonds Issue Programme worth PLN 2 billion. The ratings of individual series of public mortgage bonds will be confirmed on the date of issue of given series.
- Intermarket Bank AG: A2 rating of long-term deposits, P-1 rating for short-term deposits and C rating of financial strength.

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, remained unchanged in 2008.

XIV. Corporate Governance

XIV.1. Good Practices and Sector Ethics Codes

In its business, the Bank complies with all applicable legislation, including Banking Law, regulations of supervisory authorities, and internal regulations. As a public company, the Bank not only observes the disclosure requirements under binding legislation, but also strives to inform investors about its performance as well as short-term and long-term plans.

In addition, as a stock-exchange listed company, the Bank undertook to comply with the market principles of corporate governance. Corporate governance means all the measures and regulations aimed to ensure equilibrium between the interests of all stakeholders of a company (investors, managers, employees, and suppliers) in order to support its growth.

The Polish corporate governance rules compiled in the "Good Practices in Public Companies" were first established by the authorities of the Warsaw Stock Exchange in September 2002. The Good Practices comprise the core rules of a business code of ethics to be followed by listed companies in day-to-day business. The new version of the rules, "Good Practices in Public Companies 2005", took effect on 1 January 2005 and remained in force until the end of 2007.

A new document, "Good Practices of WSE Listed Companies", came into force on 1 January 2008. In keeping with the new principles, BRE Bank prepared a separate compliance report as a part of the 2008 Annual Report, published together with this Management Board Report.

In addition, the Bank voluntarily agreed to adhere to the sector good practices, i.e. "Good Banking Practice Standards, as soon as in 1995. This document was prepared by the Polish Banks Association (first as "Good Banking Practice Code).

This document regulates the principles applicable to:

- conduct of banks in relationships with their customers;
- mutual relationships of banks;
- advertising;
- conduct of a bank's employee;
- processing of customers' complaints and claims.

In 2008 the Polish Financial Supervision Authority (KNF) promulgated the Good Practices in Financial Market Canon. As its regulations are in line with the Good Banking Practice Standards that latter have been only enhanced by the provision: "Good Banking Practices, which are followed by banks, incorporate the provisions of the Good Practices in Financial Market Canon". Therefore, the Bank will automatically declare its will to adhere to the Canon by making an appropriate adjustment to its internal regulations.

XIV.2. New Corporate Governance Regulations at BRE Bank

The organisational structure of the Bank includes the Compliance Bureau (CB). It is the owner of the compliance policy. The essence of the compliance policy is to ensure that the Bank complies with applicable laws and regulations and standards of conduct for financial institutions. As part of its compliance policy BRE Bank puts particular emphasis on the following areas:

- anti-money laundering and terrorist financing measures;
- proper handling of confidential information (i.e. information that, if disclosed, could lead to a change of prices of the Bank's shares or other instruments linked with them in a regulated market;
- personal data protection;
- supervision over legal compliance of brokerage and custody operations;
- conflict of interest prevention;
- adherence by members of the governing bodies and employees of the Bank to the gift policy principles (gift giving and receiving);
- law compliance reviews of outsourcing agreements entered into by the Bank;

- disclosure requirements – publication and submission to regulators of reports on events relating to the Bank's operations in accordance with applicable laws and regulations;
- advice to organisational units of the Bank in the scope of application of new and existing laws and market standards.

In 2008 the Compliance Bureau prepared two documents, which significantly improved the transparency of the Bank's operations. The first document is the "Gift giving and taking policy applicable to employees of BRE Bank SA". Its objective was to create transparent and uniform standards that would apply in gift giving and receiving situations in connection with work for BRE Bank. it is also a preventive standard intended to avoid frauds, and especially corruption involvement.

The document includes, *inter alia*, the definition of a 'gift', "hard bans " – for example a ban on accepting gifts in cash or cash equivalents, and the description of exceptions to the Policy, in particular if gift giving or taking is in compliance with tradition or a custom and on the same terms – without any unclear differentiation of the attitude toward customers.

The second document is the "Conflict of Interest Management Policy of BRE Bank". It describes how to prevent conflicts of interest and the conduct recommended if such a situation arises. It lists three special situations that should be avoided:

- an employee should have no financial commitments or obligations to a business that is a client of the Bank, especially if it is served by that employee;
- an employee should not serve his or her relatives or friends;
- an employee should not be employed (under the Labour Code or Civil Code) by a competitor.

Employees of the Bank may be members of supervisory boards of companies that are clients of the Bank, however only in exceptional circumstances and upon the consent of the Bank's Management Board.

XIV.3. Investor Relations

The information policy towards shareholders and analysts is another tool used by the Bank and Group to improve the transparency of its operations. In 2008 Investor Relations (IR) officers had a total of 174 individual meetings with investors and securities analysts (over three meetings a week on average). A total of 340 shareholders took part in those meetings. The volume of ongoing contacts of IR with analysts and investors (phone and email) exceeded 1,600 in 2008.

Investors and securities analysts had an opportunity to participate (in person or online) in four quarterly presentations of earnings. All meetings of analysts with the Management Board in connection with the presentations of quarterly earnings in 2008 were transmitted on-line and put on the website (archive recordings). The Bank took part in four international investor conferences (in London, New York City and Prague). In addition, Investor Relations arranged six international and two domestic road-shows. After the publication of the first quarter earnings, IR organised an already traditional road-show to Milan, Paris and Stockholm with the participation of the President of the Management Board.

Road-shows were a vital component of an extensive IR campaign initiated to announce changes on the Management Board of the Bank. In May, IR arranged a road-show (London, Frankfurt, Paris, New York City and Boston) for President M. Grendowicz and in November for President K. Katerbau. Face-to-face meetings with key investors significantly reduced the uncertainty level in the market, which rose after the changes in the governing bodies of BRE Bank in March. The positive effects of those visits soon became apparent after the valuation of the Bank's shares improved as compared to its peer group.
In February and May 2008 IR arranged two local road-shows in Poland for institutional investors. It consisted of 30 meetings (with participation of the President of the Management Board) with managers of leading investment and pension funds active in Poland's market.

The market appreciated the efforts of BRE Bank's IR staff – which is confirmed by the Excellent Reputation Company Award in the category of finance in the PremiumBrand Ranking of Listed Companies 2008. In addition the IR Team of BRE Bank became a finalist of the "*IR Magazine 2008 Awards*" in the category: "Best IR in a Polish Company". The IR Team of BRE Bank was also ranked first by the Individual Investors Association in the category 'Banking IR' (score 66.96; maximum = 100). The Bank was ranked first in three categories: WWW sites, annual reports and corporate governance. In addition, for the second time in a row, BRE Bank won the financial institutions category in the contest: "The Best Annual Report" (for 2006 and 2007) organised by the Institute for Accounting and Taxation.

XV. BRE Bank and Corporate Social Responsibility

For many years BRE Bank has worked on non-commercial initiatives guided by the understanding of the growing importance and impact of sponsorship and charity work. In 2008 the Bank focused on support for entrepreneurship, the competitiveness and quality of the business environment, and promotion of innovative business solutions. More information is included in the annual publication the "BRE Bank's Social Responsibility Report". Below, we present two main aspects of our efforts – Innovators Ranking and BRE Bank Foundation.

Top Innovators Ranking

The key and largest project in the area of social responsibility was the fourth innovation ranking compiled in co-operation with the Polish Confederation of Private Employers *Lewiatan*, Dun&Bradstreet, Rzeczpospolita and Manager Magazin.

It is a tradition that the research produces a Polish Economy Innovation Report and a Top Innovative Companies Ranking, consisting of four categories: microbusiness (up to 9 employees), small enterprises (10-49 employees), medium-sized enterprises (50-249 employees) and large companies (over 249 employees). As in the previous years, regional sub-rankings were also published. The 2008 novelty was sub-rankings by innovation type: innovative product, process, organisation and marketing, as well as a list of leading companies that implemented innovative solutions with the use of the EU's funds.

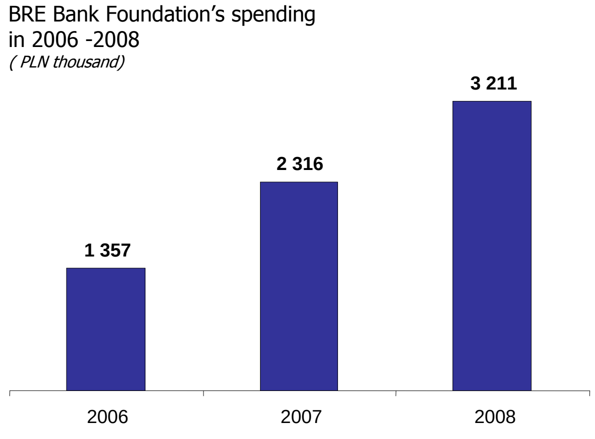
The research outcomes and winners were presented at the Innovation Gala held at BRE Bank's Head Office on 10 December 2008. At the Gala, over 20 companies were awarded with the Tuning Fork of Innovation 2008.

In addition, a dedicated portal (www.innowacyjnefirmy.pl) was developed for the purposes of the project. It presents the research methodology, timetable, as well as previous and last edition broadcasts. The portal also includes videos with interviews with partners and winners of the ranking and the presentation of this year's Innovation Gala.

The partners of the project have planned a series of regional conferences to be arranged in the beginning of 2009. This will be an excellent opportunity to promote local innovative companies and to discuss various innovation-related topics with the participation of scientists and entrepreneurs.

BRE Bank Foundation

Social responsibility initiatives are mainly co-ordinated by the BRE Bank Foundation, a public charity organisation active mainly in the field of education and science. The Foundation also supports initiatives in the area of health care and welfare, as well as culture and arts.



In 2008 the Management Board of the Foundation examined over 950 applications for financial assistance to support projects, programmes, social campaigns, ad hoc financial aid and other.

In line with the adopted strategy, funds are allocated in conformity with the following statutory spending structure:

- Education, science, entrepreneurship support - 60%
- Health care and welfare – 25%
- Culture, national heritage – 15 %.

Major projects financed by the Foundation in 2008:

1. The BRE Bank Foundation and the CASE Foundation continued their co-operation under the agreement of 16 December 2005; they jointly initiated and organised seminars and conferences for researchers, experts and practitioners of management concerning the transition of the Polish economy, in particular the banking sector, and publications on economics and finance;

2. Foundation for Education in Entrepreneurship (FEP) – support for a Bridge Scholarship Programme (assistance to freshmen college and university students from unprivileged backgrounds) was continued. The BRE Bank Foundation funded 50 scholarships in 2008. As part of the continued cooperation with the FEP, another joint project was also carried on: Contest for FEP Scholarship Holders. Under this project, the Foundation financed 50 scholarships for the winners.
3. University Entrepreneurship Incubators Foundation – BRE Bank Foundation co-funded the next edition of a business plan competition for students organised by University Entrepreneurship Incubators;
4. The Polish Fund for Children – in 2008 the Foundation supported the Assistance for the Very Gifted Programme and funded awards in the national stage of the EU Young Scientists Competition;
5. The "Help Before It's Too Late" Foundation for Children received a donation to cover the medical costs of 300 children.
6. The Synapsis Foundation received a donation for the renovation of the Centre for Autistic Children;
7. The ABCXXI Foundation "All Poland Reads to Children"– donation for its campaign.

In 2008 BRE Bank was ranked among Top 10 "Philanthropy Leaders" for the second time. The ranking is prepared by the Donors Forum in co-operation with the Warsaw Stock Exchange and Forbes monthly magazine. BRE Bank was ranked 8th in the category of the companies that allocated most funds to social purposes and 9th among the organisations that donated the largest share of their pre-tax profits.

XVI. Main Awards and Distinctions in 2008

Entrepreneur-Friendly Bank

BRE Bank was a winner the 10th Edition of the Entrepreneur-Friendly Bank competition, receiving the winner title and 6 Golden Stars. In the category of branches, Promotional Logos was granted to Corporate Branches in Wrocław and Kraków. Mr Krzysztof Gerlach, SME Banking Director, was honoured with the name of the Banker of Polish Business. The competition is organised by organised by the Polish Chamber of Commerce, the Polish-American SME Advisory Foundation, and the Warsaw Institute for Banking.

The jury awarded BRE Bank for its professional advisory support, consistent friendly approach to institutional clients and continuous product innovations.

Best Financial Institution in the *Rzeczpospolita* Ranking

In the ranking published in June 2008 BRE Bank won the financial institutions category. The jury assessed performance indicators and changes of the loans and deposits portfolios.

In the same ranking, Dom Inwestycyjny BRE Banku won the category of brokerage houses. In this case the jury's assessment was focused on ROE, Return on Equity. Other key criteria included the trend of revenues and net profits, which indirectly reflects the performance of brokerage houses in the public offering market. In addition, the jury took into account turnovers in the securities and futures markets and their growth rates.

Other awards:

- BRE Bank again won the financial institutions category in The Best Annual Report competition organised by the Institute for Accounting and Taxation.
- BRE Private Banking & Wealth Management was ranked second best in the private banking category (according to Manager Magazine).
- BRE Bank was ranked second best in the best Polish corporate website ranking. Hallvarsson & Halvarsson assessed corporate websites of the 16 largest companies in Poland.
- BRE Bank won the Honourable Award of the Association for the Financial Safety of Citizens of the Republic of Poland for its support to financial education under the Corporate Social Responsibility initiatives in 2007.
- eKONTO offered by mBank was named the best account for the modern Customer in the expert ranking of Gazeta Wyborcza.

The other companies from the BRE Bank Group won the following awards:

- Dom Inwestycyjny BRE Banku:
    - second best in the brokerage house ranking, category: IPO, ranking of "Puls Biznesu" daily

- winner of the 7th Ranking of Securities Analysts, published by "Parkiet" stock-exchange daily, GG Parkiet, (December 2008).

- Polfactor was awarded by "Gazeta Finansowa" in the category: "Best Products for Business in 2008 - 2009", for its factoring offer for companies.
- BRE Leasing:
  - award in the category: "Leasing Offer for Companies" in the poll of "Gazeta Finansowa" weekly magazine: "Best Products for Business in 2008 – 2009" – for the product BREL48
  - another award from "Home&Market" magazine for the "Best Business Partner" in 2008; category - Leasing.

XVII. BRE Bank Group's Targets for 2009

XVII.1. External Environment in 2009 – Macroeconomic Scenario

In 2009 Poland's GDP growth rate is expected to slow down. The main reason of the GDP slowdown is likely to be investments, which may even decline year on year. There is also a high risk of a significant decrease in households' consumption trend. A lower increase in households' income, as a result of a slower increase of salaries and a lower employment, as well as higher costs of debt resulting from the zloty's depreciation, will trim down the consumer spending growth rate.

Lower investments and weaker consumer demand in Poland and other countries could lead to a decline of employment by about 1-2% year on year and an increase of the unemployment rate to approx. 12% at the end of 2009. The recent fast growth of salaries and wages should stop. It may only slightly exceed the inflation rate. Deteriorating labour market condition and the weakened zloty might dissuade emigrants from coming back to Poland, while the recession in their host countries may compel them to return.

Taking into account a still deteriorating condition of the economy and the declining pressure on pay rise, it is expected that inflation will continue the present downwards trend, which is also reinforced by cheap fuels and moderate food-price inflation. The fading inflation pressure and deepening decline of business activity will justify further interest rate cuts by the central bank. Both investors and analysts expect that the basic rate will be reduced to 3% by the end of 2009, with a slightly deeper cut still possible.

XVII.2. Scenario for the Banking Sector

In 2009 the growth rate for household deposits is likely to drop significantly from 26.5% year on year at the end of 2008 to 10% year on year, as a result of both a lower increase of income and diminishing outflows of funds from the capital market. Declining interest rates might also dishearten prospective deposit holders. The rising prices of bonds might cause that part of savings will be absorbed by debt securities. The capital market may also become more attractive for investors (however no sooner than in the second half of the year).

The corporate deposit trend should be the continuance of the situation from the end of 2008 (a 5% increase). The growth potential in that segment will be limited by lower earnings of companies, which however may be partially offset by an increase of the PLN value of foreign currency deposits. As a result, the ultimate growth rate for corporate deposits may decline to about 8-9% in 2009.

Difficulties to access external sources of funding faced by banks, a high increase of credit risk and a gradual decline of the demand for loans may lead to a lending slowdown. The reported growth of loans will be rather a product of accounting adjustments compelled by the depreciation of the zloty (leading to an increase of the PLN value of foreign currency loans, especially mortgages). All those factors substantiate the conclusion that housing loans will increase by about 15% in the entire 2009. Assuming that consumer loans will rise by 10%, the total growth of loans to households should amount to about 12%.

The lending slowdown is even more visible in the corporate sector: as soon as in the end of 2008 the actual lending growth rate (adjusted for zloty depreciation) fell below zero month on month. In 2009 corporate credit should not increase by more than 5-10%. For the entire economy, this gives the maximum credit growth rate of 10% year on year. If so, the credit growth rate will drop near to the deposit growth rate for the first time for many years.

XVII.3. BREnova - Response to Market Challenges

The BREnova Programme is BRE Bank's response to the elevated uncertainty in 2009, both in the economy and in the banking system. Its utmost priority is to ensure efficient performance in the time of economic slowdown. The BREnova Programme is a package of initiatives on both revenue and cost side. It is intended to redraft the existing business model, both in corporate and retail banking. The Programme has been developed on two main pillars:

- higher revenues – as a result of a changed revenue structure, intensified cross-selling, development of the product offer, product innovations, etc.
- optimised costs and – very importantly – consistent monitoring of costs and continuous improvement of cost management (in short- and long term).

By launching long-term initiatives, BREnova ensures stable growth during the slowdown in the economy and a solid foundation for further development. The changes are to be long-term in order to prepare the ground for future success, and not only to provide an immediate response to the market decline.

Corporations & Financial Markets

In the face of the rather inevitable difficulties in 2009, the key challenge for this area is to keep income at the 2008 level, despite the economic slowdown. The plan assumes a 3% increase in income.

Various initiatives to improve the business model have been worked out. They include:

- achieving higher credit margins, increasing income on risk-weighted assets (review of margins);
- focusing on profitability, not on higher volumes;
- intensifying product development initiatives that do not freeze capital: cash management, trade finance, transaction services;
- developing electronic products (iBRE), including dedicated products for collection processes and identification solutions (telecom, gas, energy, online shops);
- intensifying cross-selling for the existing customer base and product cross-selling between companies from the BRE Bank Group;
- deploying advanced tools to support the above activities: CRM, MIS.

Retail Banking

The most important challenge for the Retail Bank is to increase income in non-mortgage business segments.
In 2009 monthly income before risk costs should increase by a single digit rate. (December 2008/December 2009), however the annual income of Retail Banking for 2009 will be lower as compared to 2008.

This is a result of the considerable reduction of growth of mortgage sales. The share of mortgages in Retail Banking's total income should decline during 2009 from 35% at the end of 2008 to approximately 20% in December 2009.

In consequence, income on non-mortgage products should increase by up to 30%. This, in turn, should l ensure a much more stable income base for Retail Banking, which should be considered a top priority target. The main sources of that income should be:

- The continued growth of the customer base by maintaining the existing client acquisition l(mBank and MultiBank will continue their successful growth strategy), initiating marketing campaigns and continuing the enhancement of the current account functionality.
- Increase revenues per customer via cross-selling and changes in the pricing model.
- Increase cross-sell ratio to existing customer base, thereby enhancing revenues from non - mortgage lending and from deposits and saving products.

In the Czech Republic and Slovakia the top priority task will be the adaption of the business model by focusing to a more selective growth in those markets while focusing on deposit products. The sales network that is being prepared for mortgage products shall be modified accordingly. The product offer, functionality of accounts and customer service (mQuality) will also improve significantly.

Simultaneously, it must be noted that the macro conditions are unfavourable to enter new markets (GDP in Hungary: -1.6%, in Rumania: +1.8%). The research of the prospective markets will be continued to ensure that the Group is ready to enter when the economy starts to revive.

Cost Optimisation

Cost streamlining and improved cost monitoring with the use of advanced management tools are the next component of BREnova.

In the area of logistics, savings will be generated due to the optimisation of office space leases, as well as fleet and company phone expenses. IT projects aimed at the optimisation of the cost base will also be implemented at BRE Bank's subsidiaries. The expansion of the branch network will be stopped.

In the area of personnel costs, planned initiatives aim at a reduction of headcount in those units in the organisation that show the lowest cost efficiency. In addition, HR expenses will be cut by decreasing, stock incentive schemes, salary rises, bonuses schemes, as well as training and business travelling costs.

Simultaneously, changes in the macroeconomic environment (interest rates, GDP, household consumption, fx rates, unemployment, pay growth) and the situation in the banking system (deposits and loans, non-performing loans, bankruptcies) will be monitored on an ongoing basis. Depending on more or less favourable conditions, the cost policy will be more or less restrictive.

XVIII. Appointment of the Auditor

On 14 March 2008, the Bank's Ordinary General Meeting, acting pursuant to § 11(n) of the Bank's By-laws, approved the appointment of PricewaterhouseCoopers Sp. z o.o. ('PwC') as auditor responsible for the audit of the financial statements of the Bank and the consolidated financial statements of the BRE Bank Group for 2008.

PwC (with its registered office at 14, Al. Armii Ludowej, 00-638 Warsaw) is a registered auditor no. 144 authorised to audit financial statements.

The Bank has used PwC's audit services in the past years – for a total period longer than 7 years. Since PwC is the auditor of the financial statements of the strategic shareholder of the Bank, the change of the auditor depends on the change (if any) of the auditor of Commerzbank. Therefore, in this section BRE Bank does not follow Rule 4.8 of the Good Practices of WSE Listed Companies, which require a change of the auditor every 7 years. However, if it is assumed that the above 7-year period commenced on the effective date of this version of the Good Practices (i.e. 1 January 2008) r., the Bank would be in compliance with the above Rule. The Warsaw Stock Exchange has accepted the above interpretation.

The remuneration of the auditor is presented in section 47 of the Notes to the Financial Statements of the BRE Bank S.A. Group for 2008, prepared in accordance with the International Financial Reporting Standards.

XIX. Authorities of BRE Bank

In addition to the following information, the procedures of the General Meeting and the procedures of the Supervisory Board and the Management Board are presented in the "BRE Bank SA Corporate Governance Compliance Report" attached to this Management Board Report.

XIX.1. Supervisory Board

XIX.1.9. Composition of and Changes in the Supervisory Board

Pursuant to the BRE Bank By-laws and Rules of the Supervisory Board, the Supervisory Board consists of not less than five members. Previously, the term of office of the Supervisory Board was two years, ending on the date of the General Meeting which will approve the Bank's results for 2007. The term of office of the Supervisory Board elected by the General Meeting of 14 March 2008 is longer - three years.

The composition of the Supervisory Board and the functions of its Members from the beginning of 2008 to 14 March 2008 were as follows:

1. Maciej Leśny – Chairman of the Supervisory Board, Chairman of the Executive Committee
2. Martin Blessing – Deputy Chairman of the Supervisory Board, Deputy Chairman of the Executive Committee
3. Nicholas Teller – Member of the Supervisory Board, Member of the Executive Committee
4. Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee
5. Gromosław Czempiński – Member of the Supervisory Board
6. Achim Kassow – Member of the Supervisory Board
7. Teresa Mokrysz – Member of the Supervisory Board
8. Michael Schmid – Member of the Supervisory Board

Changes in effect from 15 March 2008

For the next term, the 21st General Meeting appointed a Supervisory Board in an enlarged and changed composition. At present, the Supervisory Board of BRE Bank consists of 9 members (of which 5 independent members – in accordance with the requirements of the Good Practices of WSE Listed Companies).

9. Maciej Leśny – Chairman of the Supervisory Board (independent)
10. Martin Blessing – Deputy Chairman of the Supervisory Board (to 5 September 2008)
11. Achim Kassow – Member of the Supervisory Board
12. Teresa Mokrysz – Member of the Supervisory Board (independent),
13. Michael Schmid – Member of the Supervisory Board
14. Waldemar Stawski – Member of the Supervisory Board (independent)
15. Jan Szomburg – Member of the Supervisory Board (independent)
16. Marek Wierzbowski - Member of the Supervisory Board (independent)
17. Martin Zielke – Member of the Supervisory Board

The term of office of the Supervisory Board will expire in 2011 on the date of the General Meeting.

Further changes in the composition of the Supervisory Board occurred during the year. Mr. Martin Blessing stepped down as of 4 September 2008 and was as of 5 September 2008 substituted by Mr. Andre Carls. Mr. Carls is also the Deputy Chairman of the Supervisory Board and a member of each of the three Committees: Executive, Risk and Audit Committee. With effect of March 15, 2008 he was appointed as Member of the Management Board, Managing Director for Finance and stepped down as of 4 September 2008 in order to become Deputy Chairman of the Supervisory Board.

In case of resignation of a member, he or she may be replaced by the Supervisory Board pursuant to §19 of BRE Bank's By-laws. The subject decision of the Supervisory Board was approved by the Extraordinary General Meeting of BRE Bank.

The present composition of the Committees is as follows:

Executive Committee:
Maciej Leśny – Chairman
Andre Carls – Member
Achim Kassow – Member
Jan Szomburg – Member

Audit Committee:
Martin Zielke – Chairman
Andre Carls – Member
Maciej Leśny – Member
Jan Szomburg – Member.

Risk Committee:
Michael Schmid – Chairman
Achim Kassow – Member
Maciej Leśny – Member
Waldemar Stawski – Member

The professional CVs of the Supervisory Board Members are published on the Internet, on the BRE Bank home page, section: Authorities of the Bank.

XIX.1.2. Principles of Determining Remuneration for Members of the Supervisory Board

The monthly remuneration of Supervisory Board members paid in 2007 and 2008 was determined as a fixed amount in Resolution No. 27 of the 17th General Meeting of BRE Bank on 21 April 2004.

Members of standing committees receive additional monthly remuneration: 50% of the basic monthly remuneration for membership of the first committee and 25% of the basic monthly remuneration for membership of each next committee. The total remuneration for membership of committees must not exceed 75% of the basic remuneration.

The amount of remuneration received by individual members of the Supervisory Board in 2007 and 2008 is presented in Note 45 to the BRE Bank Group Financial Statements for 2008, prepared in accordance with the International Financial Reporting Standards.

XIX.2. Management Board of BRE Bank

XIX.2.1. Composition of the Management Board, Changes in 2008

Pursuant to the BRE Bank By-laws and Rules of the Management Board, the Management Board is composed of at least three members appointed for a joint term of office of 5 years. The Supervisory Board appoints and dismisses the President, the Deputy Presidents and the other members of the Bank's Management Board in keeping with the provisions of the Banking Law. The mandate of a member appointed before the end of a term expires on the same date as the mandates of the other members of the Management Board.

On the date of the General Meeting that approved the Bank's results for 2007, i.e. 14 March 2008, the term of office of the following Management Board expired:

1. Sławomir Lachowski – President of the Management Board and General Director of the Bank
2. Jerzy Jóźkowiak – Management Board Member, Managing Director for Finance
3. Bernd Loewen – Management Board Member, Managing Director for Investment Banking
4. Rainer Ottenstein – Management Board Member, Managing Director for Operations and IT
5. Wiesław Thor – Management Board Member, Managing Director for Risk
6. Janusz Wojtas – Management Board Member, Managing Director for Corporate Banking
7. Jarosław Mastalerz – Management Board Member, Managing Director for Retail Banking

On 14 March 2008 the Supervisory Board of BRE Bank SA appointed Management Board members, as of 15 March 2008, for a joint five-year term of office:

1. Mariusz Grendowicz – President of the Management Board and General Director of the Bank
2. Andre Carls – Vice President of the Management Board and Managing Director for Finance
3. Wiesław Thor – Vice President of the Management Board and Managing Director for Risk
4. Bernd Loewen – Management Board Member and Managing Director for Investment Banking (and also acting Managing Director for Corporate Banking until November 18, 2008)
5. Jarosław Mastalerz – Management Board Member and Managing Director for Retail Banking
6. Christian Rhino – Management Board Member and Managing Director for Operations and IT

Thereafter, the composition of the Management Board changed during the year. Mr Andre Carls was replaced by Ms Karin Katerbau upon the Supervisory Board's decision as of 5 September 2008. She has been with Commerzbank Group since 1994 and since December 2004 she was a member of the Management Board and Chief Financial Officer of comdirect bank AG.

At the same meeting, the Supervisory Board appointed Mr Przemysław Gdański as a member and Managing Director for Corporate Banking with effect of 19 November 2008. He took over Corporate Banking responsibilities from Mr Bernd Loewen (Managing Director for Investment Banking and, from March, acting Managing Director for Corporate Banking). Previously, Mr Przemysław Gdański was a Vice President of the Management Board responsible for the Corporate Banking, Markets and Investment Banking of Bank Pekao S.A.

The term of office of the Management Board will expire in 2013 on the date of the General Meeting.

The professional CVs of the Management Board Members are published on the Internet, on the BRE Bank home page, section: Authorities of the Bank.

XIX.2.2. Remuneration of the Management Board

The terms of contracts and remuneration of the Management Board Members are determined by the Supervisory Board. The Executive Committee is responsible for reviewing matters relating to the principles and amounts of remuneration of the Management Board Members, including determination of remuneration amounts.

The principles of remuneration of the Management Board for 2008 were approved by the Supervisory Board in Resolution No. 65/08 on 24 January 2008. The remuneration consists of a fixed part and a variable part. The fixed part is the basic remuneration and remuneration for management, determined as a certain amount for each member of the Management Board.

The second component is a cash bonus, paid for the previous financial year, and the third component is a bonus in stocks of BRE Bank and of Commerzbank.

The stock bonus is a long-term incentive. However in 2008 the members of the Management Board did not earn any significant income from that programme as the previous manager stock option programme of 2003 expired in the first half of 2008 (a vast majority of shares were allocated in 2006 -2007). Under the incentive programme for the members of the Management Board that was approved by the Ordinary General Meeting of the Bank on 14 March 2008, the members of the Management Board are eligible to acquire bonds and to convert them into shares in 2010 – 2018. The description of that programme is presented in the financial part of the report, in Note 42, "Retained Earnings".

Both the annual cash bonus and the value of shares allocated to each Management Board Member depend on three factors:

- ROE net (BRE Bank Group).
- Execution of the budget in the area of responsibility.
- Individual assessment by the Supervisory Board.

The terms of contracts and remuneration of Management Board members are determined by the Supervisory Board. The Executive Committee is responsible for reviewing matters relating to the principles and the amount of remuneration of the Management Board Members and setting the amount of remuneration.

The amounts of remuneration received by individual members of the Management Board, broken down into the fixed remuneration and the bonus, are presented in Note 45 to the BRE Bank Group Financial Statements for 2008, prepared in accordance with the International Financial Reporting Standards.

XX. Statements of the Management Board of the Bank

True and Fair Picture in the Presented Reports

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

- The annual financial statements and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of the BRE Bank SA Group as well as its financial performance;
- The report of the Management Board concerning the business activities in 2008 presents a true picture of the developments, achievements, and situation of the BRE Bank SA Group, including a description of the main risks and threats.

Appointment of the Auditor

The Auditor authorised to audit financial statements performing the audit of the annual financial statements of the BRE Bank SA Group was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent audit report in compliance with respective provisions of Polish law.

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

Date	*Name*	*Position*	*Signature*
27.02.2009	Mariusz Grendowicz	President of the Management Board, General Director of the Bank	
27.02.2009	Wiesław Thor	Vice President of the Management Board, Managing Director for Risk Management	
27.02.2009	Przemysław Gdański	Member of the Management Board, Managing Director for Corporate Banking	
27.02.2009	Karin Katerbau	Member of the Management Board, Managing Director for Finance	
27.02.2009	Jarosław Mastalerz	Member of the Management Board, Managing Director for Retail Banking	
27.02.2009	Bernd Loewen	Member of the Management Board, Managing Director for Investment Banking	
27.02.2009	Christian Rhino	Member of the Management Board, Managing Director for Operations and IT	