BRE BANK SA

MANAGEMENT BOARD REPORT ON THE BUSINESS OF BRE BANK SA

in 2008

Warsaw, 27 February 2009

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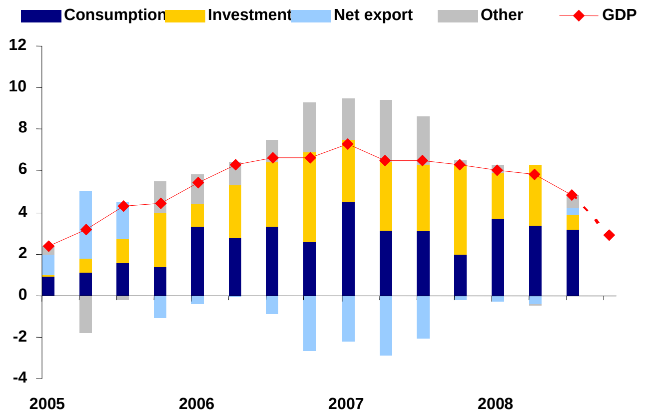
External Environment of the BRE Bank Business

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)



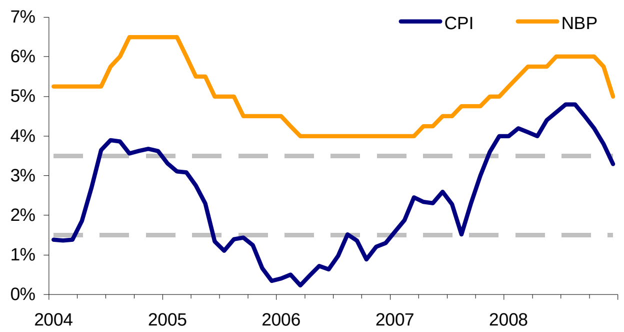
Import followed the decline in investment growth, and its growth dropped to 5.9% YoY, which allowed – for the first time in 2005 – to achieve a positive contribution of the foreign trade balance into the growth of GDP (0.3 percentage point). It is worth noting that the symptoms of economic slow-down, 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 (%)



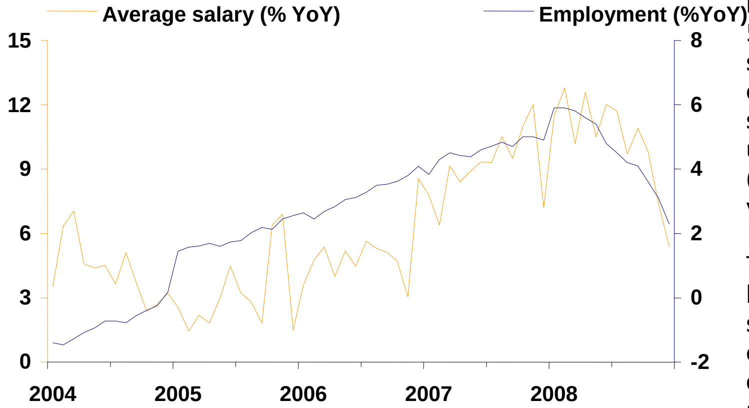
The quickly worsening prospects of economic growth and the weaker inflation pressure motivated the Monetary Policy Council to start, in November 2008, a series of interest rate reductions. The reference rate of the NBP was reduced by 25 basis points, and in December by another 75 basis points (to the 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 registered unemployment 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.

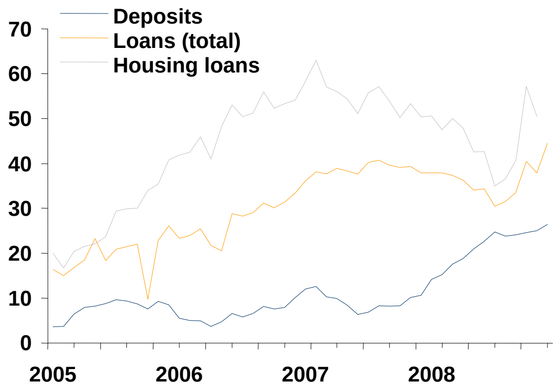
II. Banking sector in 2008

II.1 Situation in the deposit and loan market

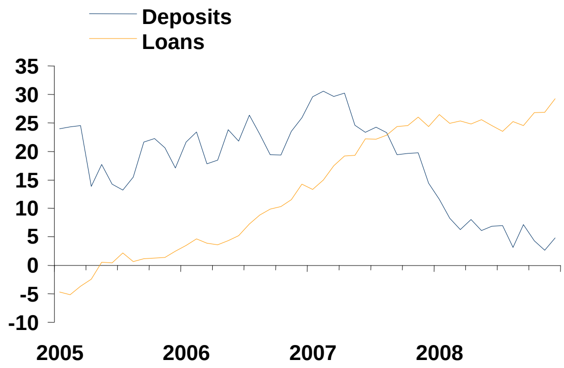
Receivables dynamics of the banking sector reached in 2008 a record-high level of 36.1% YoY. This was largely caused by the significant weakening of the Polish zloty, which increased the value of loans extended in foreign currencies. Growth of the zloty-denominated loan reached a little over 20% during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

I. Factors and events affecting the results of BRE Bank

Net profit generated by BRE Bank in 2008 amounted to PLN 829.5 million (PLN 901.5 million in pre-tax terms) compared with PLN 637.2 million (pre-tax profit of PLN 788.4 million) reported in the previous year, which represents an increase of 30.2%. The pre-tax profit rose by 14.3%.

Higher profitability was a consequence of a major rise in income from core activities – the interest result was by 43.2% higher, while the result from fees and commissions increased by 10.4%. Indeed, the income from dividends rose by PLN 31 million (+82.1%), in particular, due to healthy results reported by the subsidiaries in 2007.

Similarly to the previous year, the results were considerably impacted by one-off capital transactions which in 2008 included the disposal of the stake in Vectra SA, with a profit of PLN 137.7 million and the sale of Aegon PTE with impact on the non-consolidated pre-tax profit of BRE Bank amounted to PLN 134.4 million.

On the income side, the result from trading activity decreased by 5.3% comparing with the previous year. It was caused by a downturn in the economy and unfavourable shift in foreign exchange rates and interest rates on the interbank market. This resulted in negative valuation of options and CIRS instruments (PLN 56.6 million) and negative result from financial instruments seen in Q4 of 2008.

On the costs side, the Bank reported a 23.4% rise in overhead costs which was triggered by an increase in the scale of business both in Poland and in the Czech Republic and Slovakia, consisting of the expansion of the branch network, a rise in employment and setting up provisions for bonuses (in line with the results generated by the Bank).

The Bank's result for 2008 was also burdened with provisions set up for loans amounting to PLN 218.7 million against PLN 58.2 million a year ago. There are two main reasons for this: worsening financial standing of borrowers - corporate clients and rising portfolio of retail loans which created a need for setting up higher portfolio provision. In addition, for retail loans portfolio Loss Identifiacation Period (LIP factor) was extended in 2008, which resulted in increasing the provisions by approximately PLN 6 million. Another factor was the need for setting set up provisions of PLN 27.7 million for loans related to derivative transactions.

The majority of the negative factors was felt mainly in Q4 of last year. In consequence, the result reported in Q4 2008 was negative (pre-tax loss of PLN 17.9 million) and concomitant with a slowdown in retail lending and a decrease in commission income.

However, the high profitability reported in the previous quarters allowed for generating a profit for 2008 in excess of the figure reported a year before, and for maintaining a high profitability of operations expressed in a satisfactory level of financial ratios. At the end of 2008, BRE Bank's rate of return on equity (calculated as relation between pre-tax profit and the average equity level excluding current profit) reached 31.1% against 32.8% in the previous year. The cost-to-income ratio stood at 52.3% compared with 54.3% in 2007, whereas the solvency ratio fell slightly to 10.04% against 10.65% in 2007.

The main drivers of the 2008 financial result included:

1. Income from one-off capital transactions totalling PLN 272.1 million.
2. The continuing rise of interest income. The credit portfolio - in particular, retail clients' portfolio, accompanied by a slightly lower growth dynamics of lending to corporate clients, and an increase in clients' deposits affected positively the balance sheet structure as far as profitability of operations is concerned. These trends have been reflected in a permanent growth of income from recurring activity. The rise in the loan portfolio accounted for 60.2% (approx. PLN 15.9 billion) in 2008, which was translated into an adequate increase in its share in the balance sheet total at the year's end (to 58.4% versus 54.5 in 2007).
3. The significant increase in the volume of foreign exchange transactions with clients, mirrored in a considerable rise in the FX income.
4. The impact of deteriorating market conditions and liquidity situation on the interbank market. These conditions limited the , increased costs of funding to finance and had an adverse influence on the valuation of liquidity and derivative instruments.

5. An increase of credit provisions related to effects of the economic slowdown in terms of the Bank's clients' financial standing.
6. The continued expansion of the retail and corporate branch network, and the implementation of mBank's transborder expansion project.
7. Strict cost management, taking into account the topline growth dynamics and growth of revenues.

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 IXI.

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

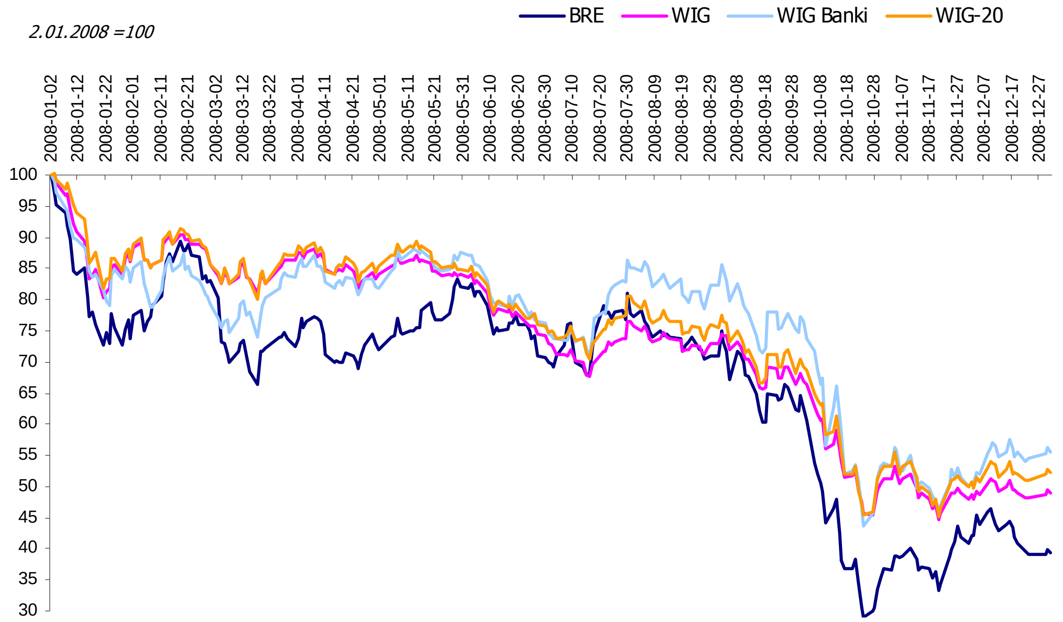
In 2008, all banks listed at the WSE suffered a decline of their stock price. The stocks of BRE Bank performed worse than the broad market and banking sector. After very large increases observed in 2006 and 2007, when the price of BRE Bank stocks grew the most among all banks listed at the WSE (by 97.1% 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.

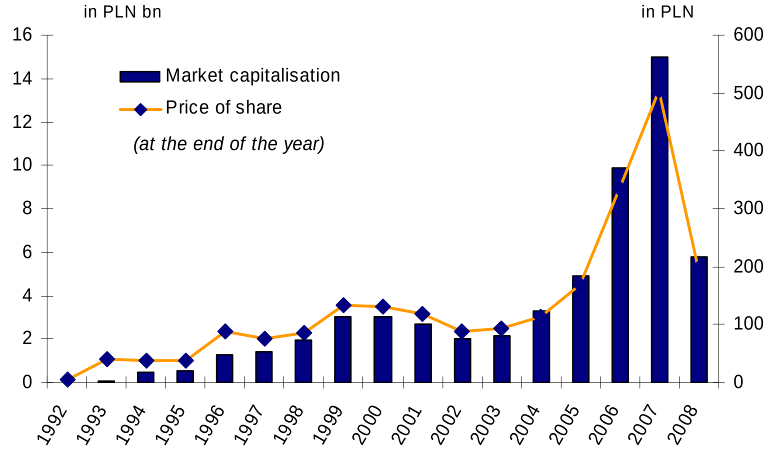
The most difficult time for the listing of BRE Bank stocks, and for the whole stock market and the banking sector in 2008, was Q4 when the BRE stock price dropped by 39%. Accumulation of negative consequences of the crisis was felt in October, when the BRE stock price fell by 43%, WIG-25 index dropped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

III.1. Corporates and Institutions

III.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.

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

III.1.2. BRE Bank Corporate Banking Deposits and Loans – market share

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.

III.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.

III.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.

III.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.

III.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 Export Credit Insurance Corporation (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.

III.2 Trading and Investment

III.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 (3^{rd} place) ; in the Fitch Polska ranking for arrangers of debt securities issues (1^{st}-3^{rd} places, depending on issuers category).

III.2.2. Proprietary Investments

As of 31 December 2008, total value of proprietary investments portfolio (including Garbary Sp. z o.o and Tele-Tech Investment Sp.z o.o). was as of value at cost PLN 250.9 million (decrease by 183 million year on year). The reduction in the portfolio value at cost compared to 31 December 2007 was mainly driven by:

- decrease: sale of securities totalling PLN 125 million (Vectra SA, Vectra Inwestycje SA);
- decrease: redemption of bonds totalling PLN 80 million (Internet Group SA, Marvipol SA, JM Holdings S.a.r.l.);
- increase: bonds acquisition/the registration of an increase of the share capital totalling PLN 22 million (Internet Group S.A., Garbary Sp. z o.o.)

BRE Bank's Proprietary Investments (in PLN million)	31.12.2007	31.12.2008	Change	
			Value	%
Value at cost	433.9	250.9	-183.0	-42.2
Balance sheet value	558.4	234.3	-324.1	-58.0

At the end of 2008, the most significant capital investment of the portfolio was 0.76 % of shares in the equity of PZU S.A. with a balance-sheet value of PLN 74 million and 100% of shares in the equity of Garbary Sp. z o.o. with a balance-sheet value of PLN 56.4 million. Furthermore, the portfolio included bonds issued by clients in terms of mezzanine finance totalling PLN 95.1 million.

IV. 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.

IV.1. Retail banking: mBank and MultiBank

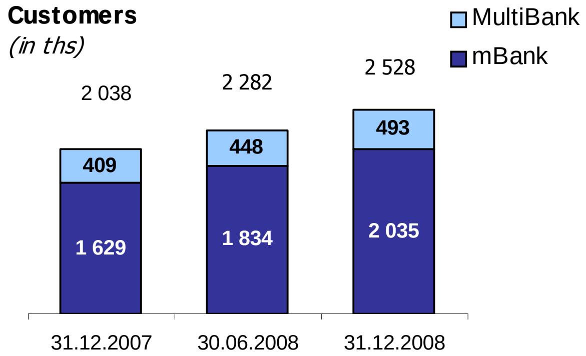
IV.1.1. Customers and accounts

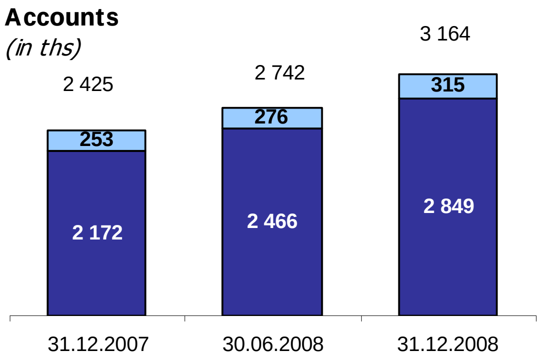
At the end of 2008, the BRE Bank's Retail Banking Line in Poland had 2,528.2 thousand customers (of which mBank 2,035.1 thousand and MultiBank 493.1 thousand). The number of customers grew by 490.2 thousand (+24.1%, mBank 406.5 thousand, MultiBank 83.7 thousand).

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 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)



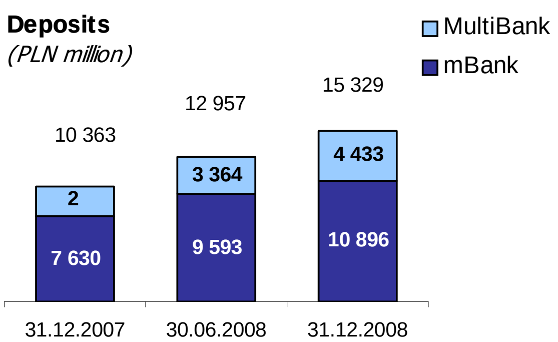


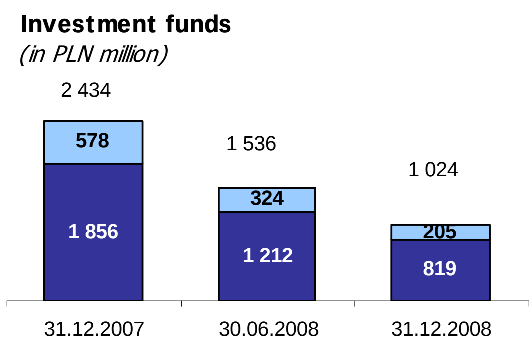
IV.1.2. Deposits and investment funds

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).





IV.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.

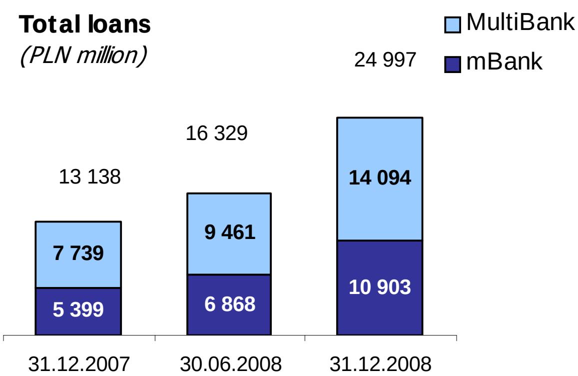
All loans to micro-enterprises totaled PLN 1,971.3 million (mBank PLN 449.1 million, MultiBank PLN 1,522.2 million), of which 31.0% were mortgage loans (mBank 32.4%, MultiBank 30.7%).

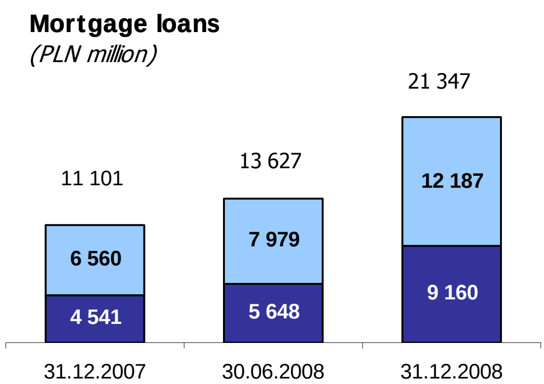
<u>Structure of the credit portfolio:</u>

- 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%).



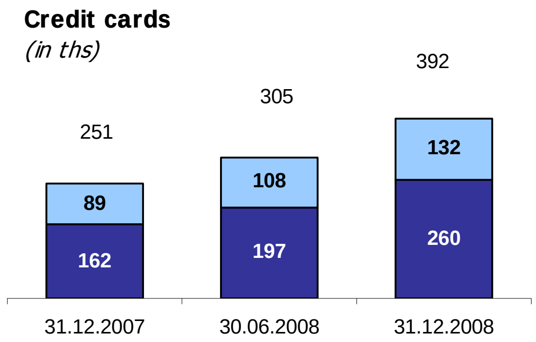


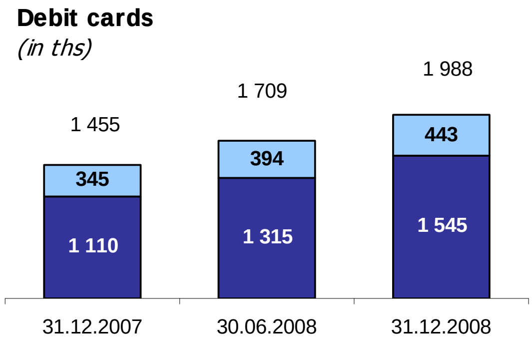
IV.1.4 Cards

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).





IV.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).

IV.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.

MultiBank

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.

IV.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).

IV.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

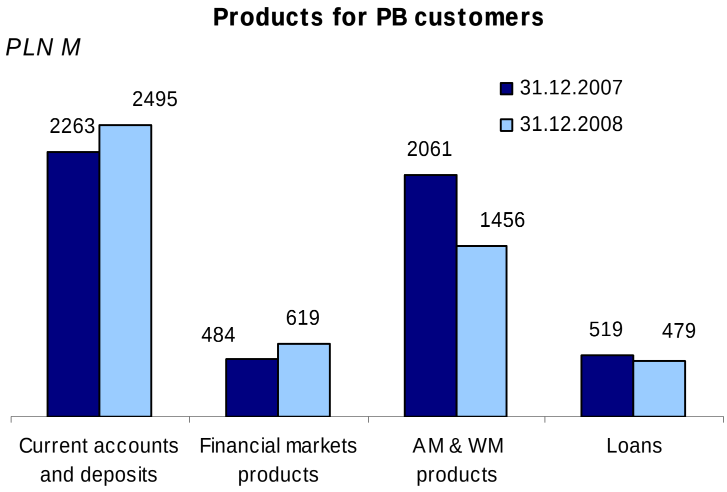
Assets in current accounts and deposits stood at PLN 2,495.0 million at the end of December 2008; up by PLN 231.8 million from the end of 2007 (+10.2%). The increase is caused by conversion of customers' assets to safe products. Insurance and equity products, based on investments in deposits, are very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



V. Financial results of the BRE Bank Group in 2008

V.1. Changes in the balance sheet in 2008

BRE Bank's balance sheet total was PLN 72.4 billion at 31 December 2008, up by 49.6% year on year. Changes of main items of BRE Bank assets and liabilities are presented below:

	31.12.2008		31.12.2007		Change
ASSETS	**PLN thou.**	**%**	**PLN thou.**	**%**	**%**
Cash and transactions with the central bank	2 491 851	3.4%	1 998 380	4.1%	24.7%
Amounts due from banks	6 065 581	8.4%	2 166 310	4.5%	180.0%
Trading securities	4 969 212	6.9%	4 575 320	9.5%	8.6%
Loans and advances to clients	42 257 165	58.4%	26 378 887	54.5%	60.2%
Investment securities	5 498 171	7.6%	6 226 318	12.9%	-11.7%
Assets under pledge	3 443 989	4.8%	2 812 277	5.8%	22.5%
EQUITY AND LIABILITIES					
Liabilities to other banks	20 142 760	27.8%	7 931 827	16.4%	153.9%
Liabilities to clients	37 438 494	51.7%	32 734 316	67.7%	14.4%
Total equity	**3 624 147**	**5.0%**	**3 080 133**	**6.4%**	17.7%
BALANCE SHEET TOTAL	**72 355 392**	**100.0%**	**48 368 737**	**100.0%**	49.6%

The growth in assets by 24 billion was mainly driven by the growth in loans and advances granted to clients. Loans and advances grew by 15.9 billion, namely by 60.2 % year on year, and the share in assets grew from 54.5% to 58.4%. Since the large share of the credit portfolio is FX loans, zloty depreciation has a significant impact on such a strong dynamics.

High growth was reported mainly for the credit portfolio of retail clients (over 80% granted in CHF), which reported an annual growth by about PLN 12.7 billion (+92.4%) whereas the corporate credits grew by PLN 3.0 billion (+23.6%).

Amounts due from banks maintained at a high level at the end of 2008, increasing by PLN 3.9 billion compared to the end of 2007.

On the liabilities side, amounts due to other banks were PLN 12.2 billion higher (+153.9%). The annual increase of funds from the interbank market is an effect of acquired by the Bank credit lines in Swiss francs, being the source of financing for housing loans, granted in that currency. The credit line growth in the Bank in 2008 reached PLN 10.8 billion. The growth of the equivalent of foreign exchange credits in zloty was connected with a significant increase of foreign exchange rates.

Despite a slower growth (by PLN 4.7 billion, 14.4%) liabilities to customers remained the main position of liabilities. However the increase concerns only individual clients, whose deposits grew at the end of 2008 by PLN 8.2 billion (+65.1%). Funds deposited by corporate clients dropped by PLN 2.9 billion throughout 2008. The drop

occurred mainly in Q4 of 2008 and it was connected with three factors resulting from the financial crisis, observed among major depositaries:
- the need to finance current activities from own funds as a result of delays in income from receivables of clients,
- prevention activities aimed at risk diversification - depositing financial surplus in different banks,
- outflow of deposits to other banks connected with their attractive quoting, caused by the search for financing sources in the period of lack of market liquidity.

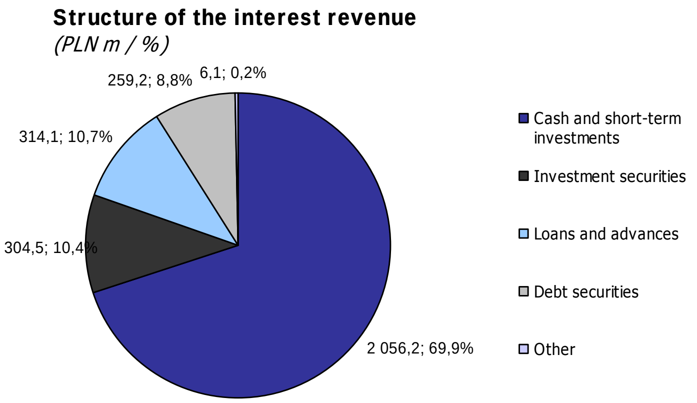
The share of equity in the sum of financing means in 2008 decreased from 6.4% to 5.0% of the balance sheet total.

V.2. Profit and Loss Account of BRE Bank

The pre-tax profit of BRE Bank in 2008 amounted to PLN 901.5 million against the reported result in 2007 of PLN 788.4 million, up by 14.3%. The table Profit and Loss Account is shown in the table below.

Profit and Loss Account	**Year end on 31 December**		**Change**
PLN thousands	**2008**	**2007**	**in %**
Interest income	2 940 153	1 860 514	58,0%
Interest expense	(1 812 886)	(1 073 212)	68,9%
Net interest income	**1 127 267**	**787 302**	**43,2%**
Fee and commission income	704 842	566 875	24,3%
Fee and commission expense	(280 876)	(182 770)	53,7%
Net fee and commission income	**423 966**	**384 105**	**10,4%**
Dividend income	68 681	37 726	82,1%
Net trading income, including:	447 478	472 361	-5,3%
Foreign exchange result	*482 361*	*427 530*	12,8%
Other trading income	*(34 883)*	*44 831*	-177,8%
Income from investment securities	265 457	132 038	101,0%
Other operating income	43 742	59 266	-26,2%
Impairment losses on loans and advances	(218 747)	(58 222)	275,7%
Overhead costs	(1 070 917)	(867 905)	23,4%
Amortization and depreciation	(159 798)	(138 952)	15,0%
Other operating expenses	(25 642)	(19 291)	32,9%
Operating profit	**901 487**	**788 428**	**14,3%**
Pre-tax profit	**901 487**	**788 428**	**14,3%**
Income tax	(71 956)	(151 197)	-52,4%
Net profit	**829 531**	**637 231**	**30,2%**

The net interest income reported high growth by PLN 340 million YoY. This was caused mainly by a significant increase in interest-bearing assets, since the interest margin, calculated as net interest income to average interest-earning assets was 2.2% as in 2007. The net interest income in 2008 was also helped by changes in the balance sheet structure. Creating a more efficient balance sheet structure is connected with an increasing share of retail activity in both assets and liabilities of the Bank.

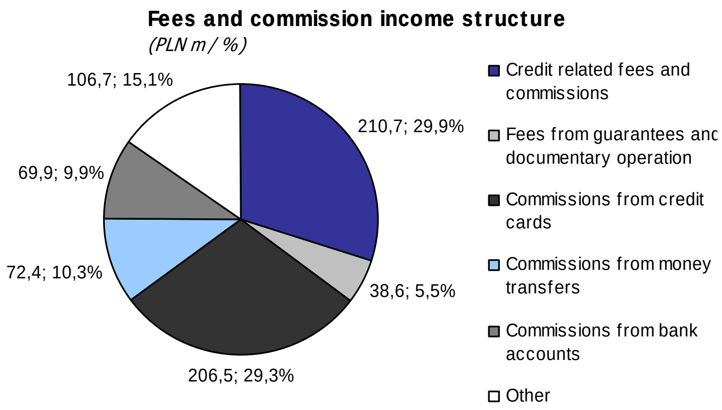


This pie chart presents a structure of interest income by product generating category.

The vast majority (69.9%) of net interest income was from loans and advances.

Classification of net interest income by client category shows that 35.0% of the income came from retail clients, 34.5% - from corporate clients and approx. 15% from the banking sector and 15% from the budget sector.

The net commission income in 2008 was up by 24.3% year on year and amounted to PLN 704.8 million, against PLN 566.9 million in 2007.



The main source of the income were lending fees and commissions, which also shown greatest growth (+64,5%) as a result of considerable increase in the number and value of granted loans and bankassurance agreements. Income from payment card fees came second. Thanks to a growing number of issued cards and transactions executed by means of the cards, this type of income was by 35.1% higher than in 2007. Fees for account maintenance rose by 20%, whereas all the other were similar to those in 2007.

At the end of 2008, trading income was at PLN 447.5 million, a decrease by 5.3% 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. The total trading income of the Bank involves income from net exchange items up by 12.8% (by PLN 54.8 million), compared to last year, with a loss on other trading activity against a positive result shown in previous year.

High income from investment securities at PLN 265.5 million, up by over 100% compared to 2007, involved income from the sale of Vectra (PLN 137.7 million) and income related to the merger of PTE Skarbiec Emerytura and Aegon and, next, disposal of shares held.

The Bank's result was significantly affected by the balance of provisions for loans at PLN 218.7 million, against PLN 58.2 million year on year. The last year's level was considerably exceeded, which was, above all, due to the low basis of comparison resulting from significant releases of provisions in 2007. Growth in portfolio provisions was combined with a significant increase in retail loans portfolio and worsening financial standing of borrowers in the crisis situation.

Under the higher provisions registered in the Bank in 2008 PLN 27.7 million referred to loans related to derivatives, whose negative result also affected the already mentioned trading income. In addition, the LIP factor was extended 2008, which resulted in increasing the provisions by approximately PLN 6 million.

The highest growth of provisions (PLN 99.3 million) took place in Q4 2008. Thus, the increase in credit provisions in Q4 in the Bank exceeded that of the previous quarter by approx. PLN 43.5 million, which was caused by both the growth of provisions in Retail Banking (by PLN 20.9 million) and in Corporate Banking as well as Financial Markets (by PLN 22.6 million). Negative consequences of the financial crisis, reflected in the growth of provisions, were, to a great extent, eliminated by positive consequences of debt collection activities, repayment of loans and releases of provisions, which affected net provisions.

BRE Bank Group Overhead Cost amounted to PLN 1, 070.9 million and went up by 23.4% compared to costs YoY. The highest growth was observed in personnel costs, up by 24.5 % YoY, mainly as a consequence of expansion combined with an increase in employment, pay rises and provisions set up for bonuses.

The growth of non-personnel costs by 18.9% resulted from development of the branches network and Bank's operations, including transborder expansion of mBank.

V.3 Performance Indicators

Performance indicators at BRE Bank at the end of 2008 (compared to those at the end of 2007) were as follows:

	Performance 2008	*Performance 2007*
ROA after tax	1.4%	1.5%
ROE before tax	31.1%	32.8%
ROE after tax	28.6%	26.5%
CIR	52.3%	54.3%
Solvency ratio	10.04%	10.65%

Average monthly value

ROA net = net profit/ balance sheet total

ROE before tax = Profit before tax / Equity (excluding this year's profit)

ROE net = Net profit / Equity excluding this year's profit)

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

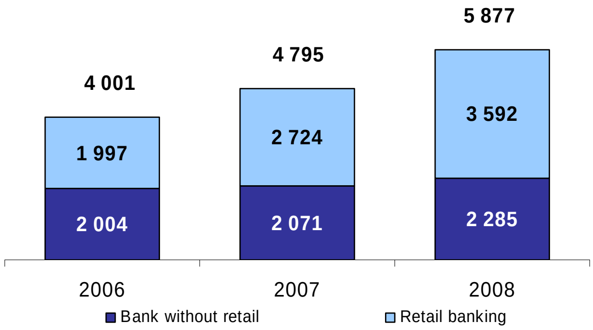
VI. Headcount of the BRE Bank

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).

Employment in BRE Bank 2006-2008
(persons)



VI.1. BRE Bank's Incentive System

The remuneration policy is one of the crucial 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 will be initiated in 2009. The execution phase will start after 1 May 2010.

VII. Investments

In 2008, BRE Bank s investments totalled PLN 240.8 million. 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 objective 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.

VIII. Main Risks of BRE Bank 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 have 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 Commitee. There is also a Risk Committee at the level of the Supervisory Board, which approves risk management strategies and policies.

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

VIII.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).

Due to the 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, experience 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.

VIII.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.

VIII.3. Liquidity Risk

The purpose of liquidity risk management is to assure and maintain the capacity of the Bank to honour both its current and future liabilities, taking into account the costs of liquidity. BRE Bank monitors financial liquidity on a daily basis, using cash flow analysis methods. Liquidity risk measurement is based on an 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 to be activated in the event of a sharp deterioration of its liquidity position.
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.

VIII.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 Financial Market Department. 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.

VIII.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.

IX. Financial Ratings of BRE Bank

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.

IX.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.

IX.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.

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.

X. Corporate Governance

X.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.

X.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.

X.3. Investor Relations

The information policy toward 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 arrange 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.

A road-shows was 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 Teams 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.

XI. 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.

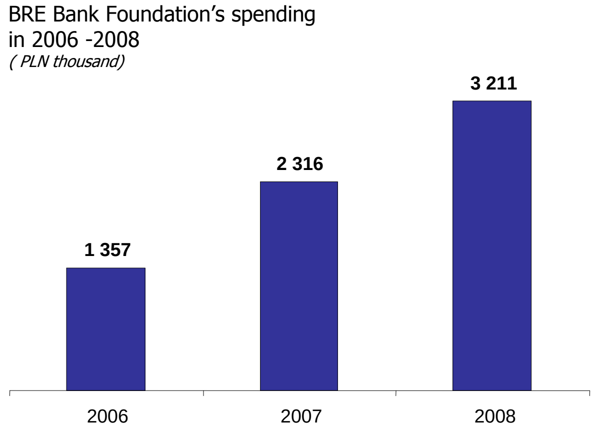
The research outcomes and winners were presented at the Innovation Gala held at BRE Bank's Head Office on 10 December 2008. At the Gala, over 20 companies were awarded with the Tuning Fork of Innovation 2008.

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.

XII. 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.

XIII. BRE Bank Targets for 2009

XIII.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 slump 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 will 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 will stop. It may only slightly exceed the inflation rate. Deteriorating labour market condition and the weakened zloty will 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.

XIII.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 will 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 will 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.

XIII.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 – what's more important – 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 slump.

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 (additional revenues of PLN 4-5 million in 2009);
- 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 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 (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 to a more selective growth in those 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.

XIV. 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.

XV. 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.

XV.1. Supervisory Board

XV.1.1. 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).

1. Maciej Leśny – Chairman of the Supervisory Board (independent)
2. Martin Blessing – Deputy Chairman of the Supervisory Board (to 5 September 2008)
3. Achim Kassow – Member of the Supervisory Board
4. Teresa Mokrysz – Member of the Supervisory Board (independent),
5. Michael Schmid – Member of the Supervisory Board
6. Waldemar Stawski – Member of the Supervisory Board (independent)
7. Jan Szomburg – Member of the Supervisory Board (independent)
8. Marek Wierzbowski - Member of the Supervisory Board (independent)
9. 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.

XV.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.

XV.2. Management Board of BRE Bank

XV.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 appointed a new Management Board

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)
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 of 5 September 2008. She has been with Commerzbank Group since 1994 and since 2004 she has been a member of the Management Board and Finance Director 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, Markets and Investment Ban Division 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.

XV.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 earned 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). And 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 share in 2010 – 2018.
The description of that programme and its valuation are 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 (the BRE Bank SA 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.

XVI. 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 BRE Bank SA 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 BRE Bank SA, 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 BRE Bank SA 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	