BRE BANK SA

MANAGEMENT BOARD REPORT

ON THE BUSINESS ACTIVITY

OF THE BRE BANK GROUP

in H1 2008

Warsaw, 10 September 2008

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External Environment of the BRE Bank Group

I. Macroeconomic Situation in H1 2008

The Polish economy is at the stage of gradual fall of the GDP rate. GDP growth was 6.1% YoY in Q1 2008 (compared to 7.3% in Q1 2007), largely driven by the high growth of consumption (5.6% YoY) while the growth of investments slowed down (to 15.7% YoY).

Consumer demand remains strong as demonstrated by the high growth of retail sales at 17.4% YoY in H1 2008.

The gradual slow-down of the growth of investments is one of the main threats to the outlook of Poland's economic growth. The lower investment demand is due to a deteriorating market climate, rising costs and falling growth of corporate profits, a less strong outlook of exports (among others due to the strong appreciation of the zloty) and rising interest rates. The inflow of foreign direct investments is also decreasing gradually.

The deteriorating climate in the external environment and the strong appreciation of the zloty pose the risk of a growing current account gap. The C/A gap was record-high at almost EUR 2.3 billion in June, up from 3.7% of GDP in 2007 to around 4.4% in July 2007 – June 2008. Although the growth rate of exports in that period remained high (16.8%), it was below the growth rate of imports (19.1%).

Other symptoms of a weaker economic climate include the falling growth rate of industrial output, down from 10.7% in H1 2007 to 8.5% YoY in H1 2008.

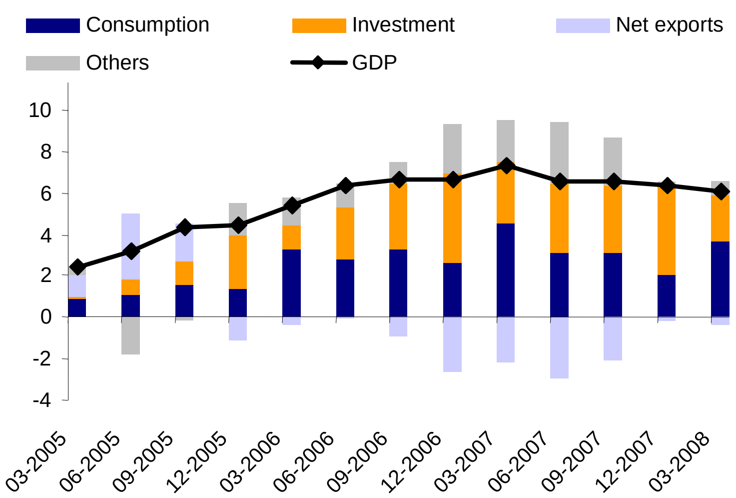
Due to the strong appreciation of the zloty (up by around 16% against the US dollar and by around 11% against the euro year to date), many exporters are reporting a strong decrease of the profitability of production. The economic outlook is perceived as sharply deteriorating, both according to exporters and the entire corporate sector.

Although the outlook of the Polish economy is weaker, strong inflation and wage pressures continue. The CPI grew by 0.6 percentage points year to date and reached 4.6% in June 2008; it is expected to continue rising in Q3 2008.

In reaction to these threats, the Monetary Policy Council (RPP) raised the interest rates four times in H1 2008, most recently in June 2008 to 6.00%. However, due to the persisting rise of the prices of food and fuels and the deregulation of the domestic energy sector, the monetary authority's capacity to impact prices is limited, as reflected in the continued increase of core inflation. The correction on commodity markets over the past weeks and the stabilising food prices suggest that these inflation pressures are gradually disappearing.

On the other hand, wage pressures remained strong (average wages in the national economy were up by 11.6% YoY in Q2 2008), although the growth of employment in the corporate sector is gradually slowing down since early 2008 (to 4.8% YoY in June). The latter statistics may represent a turning point on the labour market key to the monetary policy. After a period of fast rising yields since early July, the interest rate market has discounted the lower inflation pressure scenario and the first interest rate cuts are already discounted in a one-year horizon.

GDP Growth Structure (percentage points)

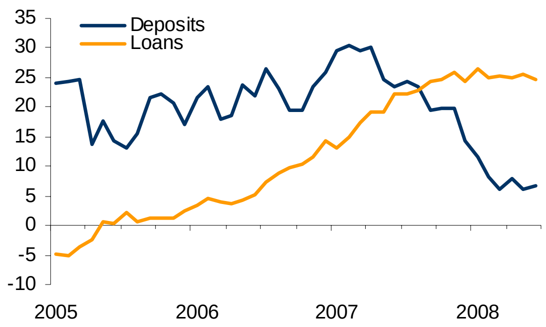


II. Situation of the Banking Sector in H1 2008

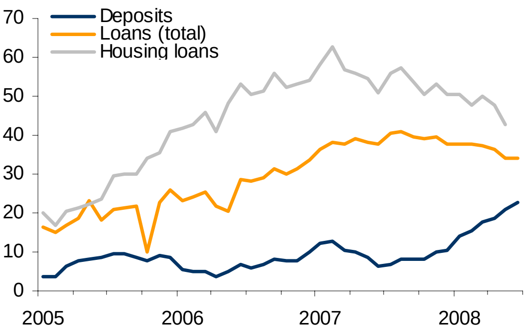
The first half of 2008 was characterised by very fast growth of household deposits. They grew by close to PLN 30 billion year to date, and by a record-high 22.6% YoY at the end of June 2008. This was mainly a result of reallocation of assets from the capital market, although the growth of deposits was also driven by rising interest rates and fast growing wages and other household income.

Growth of Loans and Deposits in the Banking Sector (%)

Enterprises



Households



Corporate deposits were down by PLN 5.6 billion year to date at the end of June 2008. Due to declining financial results of companies (affected by the fast growth of wages, commodity prices, and other costs), the growth rate of corporate deposits is unlikely to rise significantly in the coming quarters.

Companies are increasingly prone to invest their own funds due to restricted access to bank loans. While the growth rate of loans and advances to non-financial companies remained close to 25% YoY in June 2008, it hardly grew over the past year.

The growth rate of household loans was stable in June 2008 (at around 34% YoY) but it was down by around 3 percentage points QoQ. The gradual decrease of the growth rate of household loans since mid-2007 was mainly driven by the falling growth rate of house loans. The growth rate of all loans and advances to non-financial clients went down to 27.6% at the end of Q2 2008 but was almost 10 percentage points higher than the growth rate of liabilities to clients. This means that banks were forced to finance the growth of loans by attracting more deposits and looking for other sources of funding.

Preliminary Financial Results

The total assets of the banking sector were PLN 881.5 billion at the end of June 2008, up by 10.8% year to date and up by 21.1% year on year. Loans and advances to non-financial clients, including in particular house loans, remained the primary driver of the continued high growth rate of assets in the sector.

According to preliminary statistics from the Financial Supervision Authority (KNF), banks operating in Poland generated a net profit of PLN 8.6 billion in H1 2008, up by 20.5% year on year. The banks' income continued to grow at a rate higher than costs, although the growth rate of costs was rising steadily. The profit on banking operations grew by 18.6% year on year, mainly driven by growth of the net interest income by almost 25% thanks to a dynamically growing loans portfolio and rising interest rates.

The downturn on the equity markets and the outflow of assets from investment funds over the past months caused a decrease in the banks' net commission income from transactions related to the capital markets (e.g., distribution of investment fund shares). The banks managed to partly offset the decreasing income with commissions on sales of other products, including insurance; however, the net commission income grew by only 5.8% year on year and the share of the net commission income in the profit on banking operations fell from 25.9% in H1 2007 to 23.2% in January-June 2008.

The growth rate of the overhead costs of commercial banks was rising: overheads were up by over 15% year on year in H1 2008. The growth was mainly driven by the expansion of the branch networks and the resulting increase of the headcount.

The negative net impairment provisions were over PLN 1.4 billion in H1 2008, more than double the H1 2007 figure and 87% of the net provisions in all of 2007. As a result, the provisions were at 6.4% of the profit on banking operations, compared to only 3.8% in H1 2007. The provisions grew mainly due to expansion in lending. The share of non-performing loans in the gross loans and advances of commercial banks to non-financial clients fell from 6.5% at the end of June 2007 to 5.4% at the end of 2007 and 4.9% at the end of June 2008.

As income grew more than costs, the C/I ratio further improved: it was down by 2 percentage points to 51.1% at the end of June. The return on equity (ROE net) of commercial banks was 27.7%, modestly lower than a year earlier.

Capital Adequacy of Commercial Banks

The average capital adequacy ratio of commercial banks was down from 12.3% at the end of June 2007 to 12% at the end of 2007 to 10.7% at the end of H1 2008. According to statistics from the Financial Supervision Authority, the ratio fell in H1 2008 due to the obligation of including the operational risk requirement in the calculation of the overall capital requirement as of the beginning of 2008: the operational risk requirement was PLN 4.8 billion at the end of June 2008 (meanwhile, the credit risk requirement grew by PLN 2.8 billion in H1 2008). As a result, the structure of the overall capital requirement changed: the share of the credit risk requirement fell from 94.4% at the end of 2007 to 86.3% at the end of June 2008. The share of the operational risk requirement was 10.7% and the share of the other risks went down from 5.6% at the end of 2007 to 3% at the end of June 2008.

The observed fast expansion of the banking sector and the falling capital adequacy ratios prompted many banks to intensify measures aimed at preventing further decrease of the ratios, including a change of the dividend policy of allocating a growing part of generated profits to pay out dividend. While commercial banks allocated most profits for dividend in the past two years, the policy reverted at the distribution of 2007 profits as 60% of profits available for distribution, i.e., PLN 11.6 billion was allocated to equity and 40% for dividend.

Expansion of the Branch Network and Headcount Growth

According to statistics published by the Financial Supervision Authority, the number of bank branches grew by 456 in H1 2008. According to estimates, banks plan to open another 1,400-1,600 branches by the end of the year. Branch networks are developed both by large top 10 banks and many smaller banks mainly focused on consumer finance. Banks grow the number of own branches and develop partner branch networks.

The branch network expansion was coupled with growth of the headcount: in H1 2008, employment in the banking sector grew by almost 6.5 thousand people (by comparison, employment grew by 9.2 thousand in all of 2007).

III. BRE Bank Shareholders and Stock Performance on the WSE

Commerzbank Auslandsbanken Holding AG is a shareholder of BRE Bank that held more than 5% of the share capital and votes at the General Meeting: it held 69.8% of the share capital and votes at the General Meeting of BRE Bank SA at 30 June 2008. It is a 100% subsidiary of Commerzbank AG (CB). BRE Bank shares were transferred from CB to the subsidiary in November 2005 as an organisational measure where CB moved its foreign stakes to a relevant holding company. In practice, CB is BRE Bank's major shareholder since 1995 when it held 21% of the Bank's shares, gradually growing its stake to 50% in 2000 and to 72.16% in 2003. The stake was reduced modestly as of 2005 following the maturity of management stock option programmes.

The remaining 30.2% of shares are in free float, mainly traded by financial investors (ca. ¾ of the free float) and other investors, including private individuals. Their stakes in BRE Bank remain below 5% and they are not required to report their acquisitions.

BZ WBK AIB Asset Management S.A., which held more than 5% of BRE Bank shares at 31 December 2007, sold the shares in H1 2008.

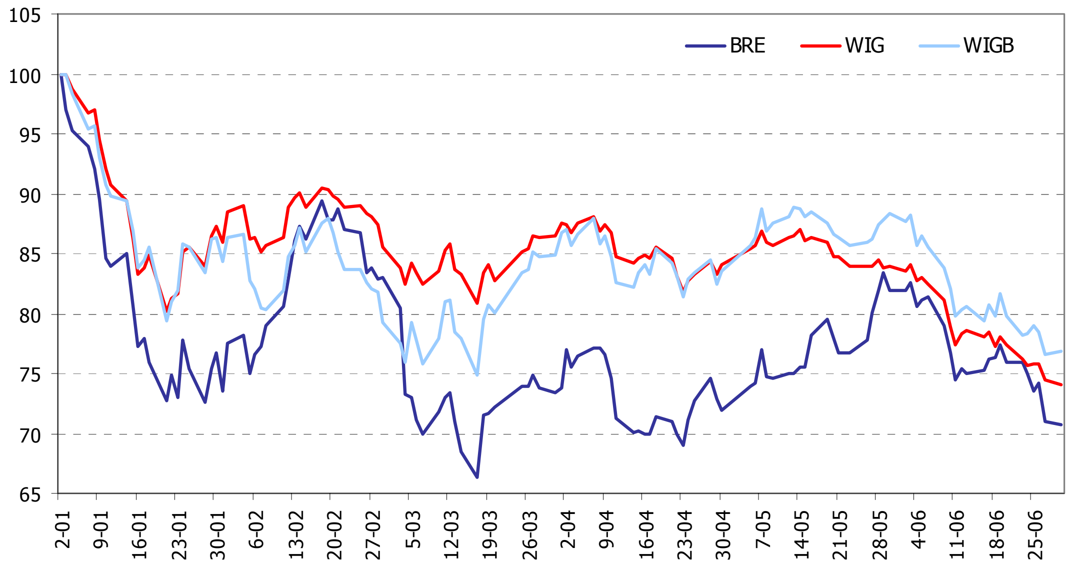
BRE Bank stock fell sharply, by 29.2% in H1 2008. Meanwhile, the WIG index lost 25.9% and WIG-Banks lost 23.1%. The BRE stock price fell from PLN 500 on 2 January (the H1 2008 high) to PLN 354 on the last day of June 2008.

The BRE stock price fell most sharply after the publication of BRE Bank's report on changes on the Bank's Management Board. The report was published before the opening of trading on 4 March. On that date, BRE stock lost 9.0% against the closing price of 3 March 2008. The stock was at its low of PLN 331.8 on 17 March.

After a month-long series of meetings of the new BRE CEO with Polish and international investors, investor perception of the Bank improved and the stock price rose.

All WSE listed bank stocks fell in H1 2008. PKO BP was the best performer as it lost only 9.9%. BZ WBK was the worst performer, falling by a high 45.4%.

BRE Bank Stock Price on the WSE, H1 2008
2.01.=100%



Activity of the BRE Bank Group in H1 2008

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

The net profit attributable to the shareholders of the holding company of the BRE Bank Group was PLN 640.3 million net at the end of June 2008, compared to PLN 403.9 million. The profit before tax (PLN 721.0 million before tax) was up by PLN 190.4 million or 35.9% year on year, mainly driven by the profit on continued operations, up by PLN 205.7 million (47.1%); meanwhile, the profit on discontinued operations was down by PLN 15.3 million year on year.

The profit on discontinued operations at PLN 94.2 million in 2007 was largely driven by the profit on the sale of the subsidiary SAMH (PLN 89.5 million); by comparison, the profit on discontinued operations at PLN 78.9 million in 2008 mainly included the result of the merger of the subsidiary PTE Skarbiec-Emerytura with PTE Aegon stated in the BRE Bank Group accounts at PLN 67.2 million. The financial effect of the transaction at the net profit level included another additional component: a recognised deferred asset of PLN 61.6 million deducted from the income tax charge. As a result, the total net profit on the transaction was PLN 128.8 million.

In addition to the merger of the pension fund companies, another one-off event in H1 2008 was the sale of a block of Vectra shares; the profit on this transaction was PLN 137.7 million. The profit before tax net of the effect of the two one-off events (totalling PLN 204.9 million) was PLN 516.1 million. The profit of H1 2007 net of the financial effect of the sale of SAMH was PLN 441.1 million. Consequently, the profit on the recurrent core business was up by 17.0%.

This was possible thanks to continued positive trends in the profitability of the core business including growth of the net interest and commission income. The net other operating income and costs improved year on year, mainly driven by the sale of property by the subsidiary BRE.locum. At the same time, a weaker climate and conditions on the financial markets caused a decrease in the trading income and a higher risk cost charge.

The high profitability of business demonstrated by the results of 2008 combined with a strict cost discipline helped to improve the profitability and effectiveness ratios year on year. The return on equity of the BRE Bank Group (profit before tax on continued and discontinued operations to average equity net of the profit of the period) was 44.1% in H1 2008, compared to 40.7% in H1 2007 (ROE before tax for continued operations at 39.2% in H1 2008 and 33.5% in H1 2007).

The return on equity (before tax) in both periods net of the effect of the one-off transactions was similar, at 31.5% in 2008 and 33.8% in 2007. The Group's cost/income ratio including discontinued operations (CIR measured as overhead costs and amortisation/depreciation to income including net other operating income and costs) was 47.5% in H1 2008, compared to 53.4% in H1 2007. CIR net of the one-off transactions was 55% in H1 2008, 3 percentage points lower than in H1 2007.

The main drivers of the financial results apart from the one-off transactions included:

1. Growth of the loans portfolio and customers' deposits thanks to expansion of retail banking and continued upturn in the corporate loans market, which was decisive to improvement of the balance-sheet structure in terms of the profitability of business. The loans portfolio grew by 17.7% (around PLN 6 billion) year on year, and its percentage share in the balance sheet total grew to 61.5% at the end of June 2008r. These trends were reflected in the steady growth of income on regular business.
2. Significant growth in fx trading with customers enabling to grow the fx income.
3. Deteriorating financial market situation in Q2 2008, resulting in falling prices of securities and consequently falling income on the valuation of securities recorded under other trading income.
4. Significant contribution of the subsidiaries to the Group's results. The accounting profit before tax generated by the Group subsidiaries (including both continued and discontinued operations) totalled PLN 155.4 million,

compared to PLN 117.6 million in H1 2007, up by 32%. The subsidiary BRE.locum made a significant contribution: its profit before tax was PLN 39.8 million, up by a factor of 6 year on year.

5. Strict cost discipline, both at the Bank and the subsidiaries.
6. Continued high quality of the loans portfolio resulting in relatively low credit and loans impairment provisions charged to the costs of the Group. However, the charge grew year on year due to the Bank's unusual positive net provisions after considerable release of provisions in H1 2007.

From the perspective of the Bank's growth, expansion of the branch network in H1 2008 was very important. 13 new corporate offices were opened as sales units of the existing branch network. There were 17 corporate offices in operation at the end of June 2008. The retail banking distribution network added 19 mBank branches (totalling 136) and 9 MultiBank branches (totalling 122).

Business expansion coupled with expansion of the sales network necessitated a higher headcount. The headcount of the Bank grew by 473 persons year to date in H1 2008 (equivalent to 349 new FTEs). The average headcount of the Group was 6,688 persons in H1 2008, compared to 5,624 persons in H1 2007 and 5,826 in all of 2007.

Another major event of H1 2008 was a change on the authorities of the Bank: the Supervisory Board and the Management Board whose term of office ended on 14 March 2008. The changes are presented in detail in Chapter XII of this Report.

II. BRE Bank Group Business Lines and Areas

The BRE Bank Group business lines and areas at 30 June 2008 were as follows:

<table>
<tr><th colspan="4">BRE Bank Group</th></tr>
<tr><td>Lines</td><td colspan="2">Corporations and Financial Markets</td><td>Retail Banking</td></tr>
<tr><td rowspan="2">Bank</td><td>Corporates and Institutions</td><td>Trading and Investments</td><td></td></tr>
<tr><td>▪ Corporations (Capital Groups)
▪ Large Companies
▪ SMEs
▪ Financial Institutions</td><td>▪ Risk and Liquidity Management
▪ Financial Markets
▪ Proprietary Investments</td><td>▪ mBank (mass retail customers and microenterprises)
▪ MultiBank (affluent and aspiring retail customers)
▪ Private Banking (high net work individuals)</td></tr>
<tr><td rowspan="3">Consolidated companies</td><td>▪ BRE Bank Hipoteczny SA
▪ BRE Leasing Sp. z o.o.
▪ The Intermarket Group
- Intermarket Bank AG
- Polfactor SA
- Transfinance a.s.
- Magyar Factor zRt
▪ Dom Inwestycyjny BRE Banku SA
▪ BRE Corporate Finance S.A.
▪ BRE Holding Sp. z o.o.</td><td>▪ BRE Finance France SA
▪ Tele-Tech Investment Sp. z o.o.
▪ Garbary Sp. z o.o.</td><td>▪ emFinanse Sp. z o.o.
▪ BRE Wealth Management SA</td></tr>
<tr><td>Asset Management */</td><td colspan="2">▪ Aegon PTE SA</td></tr>
<tr><td>Other subsidiaries</td><td colspan="2">▪ BRE.locum SA
▪ Centrum Rozliczeń i Informacji CERI Sp. z o.o.</td></tr>
</table>

*/ Discontinued operations

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

The list of consolidated companies changed after H1 2007 and the end of 2007. The area of Corporates and Institutions now includes the subsidiary BRE Holding. It was established by BRE Bank SA as its only shareholder in November 2007. The shares were transferred in restructuring of the BRE Bank Group in order to ensure effective co-operation with selected corporate banking line companies. The company owns 50.004% of shares in BRE Leasing Sp. z o.o., 50% of shares in Polfactor SA and 75.71% of shares in BRE Bank Hipoteczny (total value of shares is PLN 171 million)

In Asset Management, the company PTE Skarbiec Emerytura was replaced by Aegon PTE S.A. in result of the merger of the companies on 30 June 2008. The consolidated balance sheet at 30 June 2008 shows the Group's share in the net assets of Aegon PTE S.A. whereas the consolidated profit and loss account for H1 2008 shows the profit generated by PTE Skarbiec Emerytura SA in the period and the result of PTE's merge.

Except Aegon S.A. all subsidiaries are consolidated using acquisition accounting, pursuant to the IFRS. The business profile and the Bank's stake in the equity of the consolidated companies of the BRE Bank Group are shown in the table:

	Company	Business segment	BRE Group's share in equity
1.	BRE Bank SA	Bank	
2.	BRE Bank Hipoteczny SA	Bank	100%
3.	DI BRE Banku SA	Brokerage house	100%
4.	BRE Corporate Finance SA	Advisory	100%
5.	BRE Holding Sp. z o.o.	Special purpose vehicle	100%
6.	emFinanse Sp. z o.o.	Sale of credit products	100%
7.	Centrum Rozliczeń i Informacji CERI Sp. z o.o.	Settlement services	100%
8.	BRE Wealth Management SA	Asset management	100%
9.	Garbary Sp .z o. o	Management of proprietary real estate	100%
10.	Tele-Tech Investment Sp. z o.o.	Special purpose vehicle	100%
11.	BRE Finance France SA	Special purpose vehicle	99.98%
12.	BRE.locum SA	Real estate developer	79.99%
13.	Transfinace a.s.	Factoring	78.11%
14.	Polfactor SA	Factoring	78.12%
15.	Magyar Factor zRt	Factoring	78.12%
16.	Intermarket Bank AG	Factoring	56.24%
17.	BRE Leasing Sp. z o.o.	Leasing	50.004%
	Aegon PTE SA*/	Pension fund	49.67%

*/ In relation to the merger of PTE Skarbiec-Emerytura SA and Aegon PTE SA of 30 June 2008, the share of the Group in the net assets of Aegon PTE SA was recognized in the consolidated Balance Sheet as at 30 June 2008. The shares of Aegon PTE SA were classified as assets held for sale and they were valued at the carrying value being lower than the fair value less any cost to sell. Simultaneously, the profit generated by PTE Skarbiec-Emerytura SA within the first half of 2008 was presented in the consolidated Profit and Loss Account for the first half of 2008.

III. The BRE Bank Group in the Financial Services Market in H1 2008

BRE Bank is a top Polish bank by assets and equity. The BRE Bank Group had the following position among banks listed on the Warsaw Stock Exchange at the end of June 2008:

- Assets – third position;
- Loans – third position;
- Deposits – fourth position;
- Equity – sixth position.

Most of the Group subsidiaries also rank high in their segments of the financial services market. The table below presents the market share and position of the Bank and selected subsidiaries at the end of 2007 and H1 2008.

Business segment	***Market Position, June 2008*/***	***Market Share***	
Corporate Banking		**06.2008**	**12. 2007**
Corporate loans		6.7%	6.5%
Corporate deposits		10.1%	9.3%
Leasing	3	11.6%	9.3%
Factoring			
Poland	3	10%	18%
Austria	1	60%	60%
Hungary	2	13.2	13.7%
Czech Republic	3	17.0%	19.3%
Retail Banking (mBank+MultiBank)			
Total loans		5.6%	5.2%
Mortgage loans		9.9%	9.5%
Total loans granted in Jan-May 2008	2		
Deposits and investment funds		3.7%	3.1%
Investment Banking			
Financial markets			
T-bills and bonds		16.1%	18.4%
IRS/FRA		23.7%	19.9%
FX spot and forward		5.5%	7.72%
WIG 20 options		15.8%	16.0%
Non-Treasury debt securities (outstanding debt)			
short-term debt securities	3	18.5%	17.9%
corporate bonds	2	18.9%	18.2%
bank debt securities	1	31.8%	27.6%
Brokerage			
trading in stocks	8	5.2%	6.6%
trading in bonds	4	4.6%	3.8%
derivative transactions	2	11.9%	11.7%
options	1	32.5%	24.9%

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

**/ Where determinable*

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

IV.1. Corporates and Institutions

This area of the BRE Bank Group's business includes current accounts, term deposits, custody of securities, fx and derivative products, sell-buy-back and buy-sell-back transactions with the Bank's clients, investment products, credit and debit cards, working capital and investment loans, financial and operating leasing of cars, machinery, office equipment, real property, and lease service of those fixed assets. In this area, the Bank finances large projects with loans, both single-handedly and in syndications with other banks.

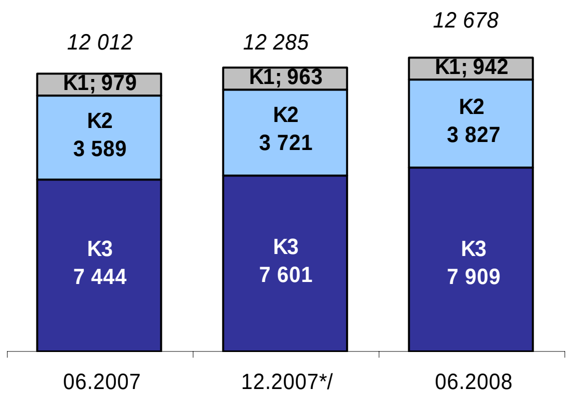
The Bank's offer in this area addresses large corporations, small and medium-sized enterprises, and local governments. Foreign trade service is an important part of the Corporates business. The Bank's products for enterprises include fx transactions, foreign transfers, cheques, collections, short-term loans, and a range of financial products: factoring, forfaiting, letters of credit, bank guarantees, etc. Customers are also offered financial instruments hedging against fx risk and financial instruments used to manage interest rate risk, including FRA (forward rate agreements), IRS (interest rate swaps), interest rate options, CIRS (currency interest rate swaps).

In this area, the Bank co-operates with domestic and foreign financial institutions raising loans in the international inter-bank market. The Bank also has access to credit lines designated for financing of imports and refinancing of investment loans to SMEs, mainly provided by the European Investment Bank.

IV.1.1. Growing Number of BRE Bank Corporate Customers

The Bank's very active customer acquisition produced positive results in H1 2008. BRE Bank acquired 1,255 new corporate customers year to date, of which 73% were K3 customers and 22% were K2 customers. The number of corporate customers totalled 12,678 companies at the end of June 2008, up by 393 companies year to date.

Number of customers



*/ after resegmentation

In the Bank's classification, K1 is the segment of the largest corporations with annual sales over PLN 1 billion; K2 is the segment of corporations with annual sales between PLN 30 million and PLN 1 billion; K3 is the segment of SMEs with annual sales between PLN 3 and 30 million.

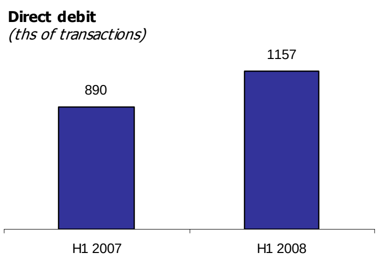
At the end of June 2008, a large percentage of K3 customers (59.2%) used EFFECT line product packages (EFFECT Plus, EFFECT Financial, EFFECT Investments).

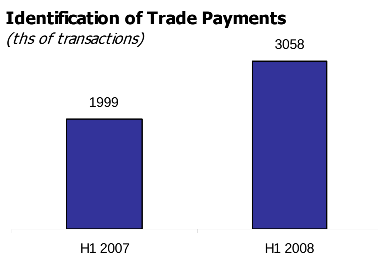
IV.1.2. Growing Sales of BRE Bank Corporate Banking Products

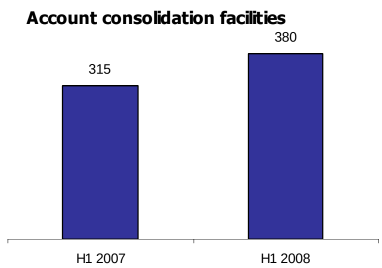
BRE Bank Corporate Banking Deposits and Loans
At the end of June 2008, BRE Bank's market share in corporate deposits was 10.1%, compared to 9.3% in December 2007. The corporate deposits market fell by 2.3% in H1 2008 but BRE Bank deposits rose by 5.3%.

The market share of BRE Bank's loans granted to enterprises was 6.7% at the end of June 2008, compared to 6.5% at the end of December 2007. The market share increased as the Bank's loans grew more (up by 17.4%) than the loans in the banking sector (up by 13.5%).

Cash Management
Ongoing expansion of the cash management offer supports long-term customer relationships and helps to grow the volume of transactions involving the identification of payments and the number of customers using advanced cash management products. The number of direct debits processed in H1 2008 was 1,157 thousand, up by 30.0% year on year. The number of identifications of trade payments grew dynamically: in January-June 2008, there were almost 3.1 million transactions, up by 53.0% year on year. The number of customers using bank account consolidation facilities grew by 106.5% year on year in H1 2008. New product solutions were offered in H1 to companies, including electronic presentation of invoice images and invoice discounting, as well as on-line opening of deposits in the iBRE system. These solutions should respectively grow the sales of discounting products and corporate deposits.







Banking Products with EU Financing
The sales of loans and guarantees related to EU financing were up by 1.24% year on year in H1 2008. The low growth rate of the sales was due to delays in opening of application rounds by the public administration under operational programmes in implementation in 2007-2013.

Trade Finance
The sales of (import and export) documentary letters of credit were up by 15.2% year on year in H1 2008. The total income generated on sales of trade finance products grew by 19.9% year on year.

Financial Instruments
The profit on the sales of financial instruments to corporate customers was nearly PLN 104 million in H1 2008, up by 35.3% year on year.

Project Finance and Syndicated Loans
BRE Bank was one of the most active participants of the Polish syndicated loans market in H1 2008 (according to the daily *Rzeczpospolita*, BRE Bank arranged and participated in the highest number of transactions on the market). BRE Bank participated in eight syndicated transactions. BRE's total exposure under the transactions was at the equivalent of EUR 169.3 million.

In addition, 5 bilateral loans totalling around EUR 107.8 million were granted. Four of the loans totalling around EUR 83.2 million were granted to companies in Thailand, Russia and Ukraine in order to develop industrial facilities under insurance from the Export Credit Insurance Corporation KUKE. Major transactions in H1 2008 included syndicated loans to a Polish oil company arranged by BRE Bank and a loan with KUKE insurance to a Russian wood sector company.

The portfolio of syndicated loans and project finance was PLN 2,537 million at the end of June 2008, compared to PLN 2,180 million at the end of 2007.

IV.1.3. Corporate Branch Network Expansion

In H1 2008, BRE Bank continued to optimise and rearrange the functionality and image of the corporate branch network and to open corporate offices as sales units of the existing branch network. By the end of June 2008, 17 Corporate Offices were operational. The final 3-6 Corporate Offices will be opened soon. The Corporate Offices project is expected to be completed by Q3 2008. Opole and Bydgoszcz Corporate Branches completed functional and image modernisation to enable the functionality of a business centre (venue of business and professional meetings). Częstochowa, Katowice, and Zielona Góra Corporate Branches will be modernised by the end of the year. The Third Warsaw Corporate Branch opened in June 2008.

IV.1.4. Financial Institutions

BRE Bank's exposure under loans granted to other banks totalled the equivalent of PLN 803.3 million at 30 June 2008. The Bank's portfolio included 136 active short- and long-term loans granted to other banks. Exposure under loans granted grew by the equivalent of PLN 157.5 million year to date. In January-June 2008, 65 new credit agreements totalling the equivalent of PLN 608.1 million were signed. The average margin on loans granted to other banks was 1.24% p.a. in that period.

In January-June 2008, BRE Bank took 5 new loans, mainly in CHF, totalling the equivalent of PLN 3,995 million. In this period, 4 loans totalling the equivalent of PLN 1,318 million were repaid. The value of credits drawn grew to PLN 9,137 million at the exchange rate of 30 June 2008.

In January-June 2008, 6 loro accounts were opened and 4 loro accounts were closed.

IV.1.5. Corporates and Institutions Subsidiaries

BRE Leasing

BRE Leasing's contracts totalled PLN 1,830 million in H1 2008, up by about 22.0% year on year (while the leasing market grew by 16%). The company generated a profit before tax of PLN 26.2 million in H1 2008, up by 3.6% year on year. BRE Leasing's good performance is attributable to its diversified portfolio of products and co-operation within the Commerzbank Group which gives the company access to sources of funding. In Q2 2008, the company started co-operation with BRE Bank Retail Banking in selling leasing products to mBank and MultiBank microenterprise customers and with BRE Ubezpieczenia in order to maximise income from sales of leasing insurance. The on-line BREL Client Portal was launched.

Factoring – The Intermarket Group

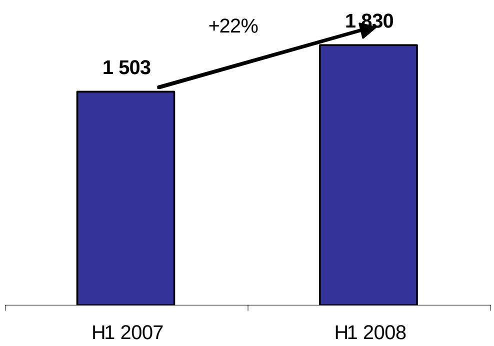
The sales of the Intermarket Group companies totalled EUR 3.1 billion in Q1-2 2008, up by 10% year on year. The pre-tax profit of the companies of the Intermarket Group consolidated by BRE Bank was PLN 28.1 million (up by 7.0% YoY).

The Polish company Polfactor's sales were PLN 1.6 billion. Its pre-tax profit was PLN 6.2 million in Q1-2 2008 (up by 12% YoY).

The Polish factoring market (companies grouped in the Polish Factors Association) grew by a record-high 104% in H1 2008. The market growth was mainly driven by ING Commercial Finance which strengthened its leading position won in 2007 (market share of 41% v. 25% in 2007, sales up by 230% year on year). This was the main reason why Polfactor's market share in Poland fell from 18% to 10% in H1 2008. Polfactor still has the third market position.

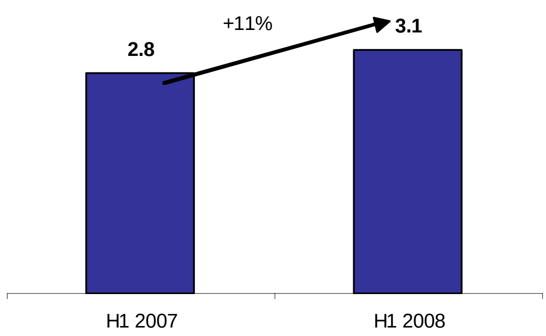
Value of agreements concluded by BRE Leasing

PLN M



Value of Intermarket Group tournover

EUR bn



Dom Inwestycyjny BRE Banku (DI BRE)

Dom Inwestycyjny BRE Banku generated a profit before tax of over PLN 15 million in H1 2008, corresponding to annualised ROE of 84%. The market share of DI BRE is presented in the table in Chapter III of this Management Board Report.

The market share in trading in stocks decreased due to less active trading by retail customers and dynamically growing activity of remote members of the Warsaw Stock Exchange (the remote members' share was 3.12% in Q1 2007, 8.25% in Q1 2008 and almost 10% in Q2 2008). DI BRE does not conduct own account transactions on the secondary stock market (dealing). Despite the negative market trends, the share of transactions for institutional customers key to the stable brokerage business in total trading on the WSE was growing.

The very unfavourable market conditions did not prevent DI BRE from completing three successful initial public offerings this year (Optopol SA: PLN 66 million, Unibep SA: PLN 71 million, Komputronik SA: PLN 24.6 million) totalling over PLN 161 million.

BRE Corporate Finance

The past 6 months did not favour M&A or IPO transactions. As a result, the company continued preparations for planned transactions in long-term projects.

Several strategic financial advisory projects were completed. In June 2008, the proposal of DI BRE, BRE Corporate Finance and the law firm White & Case won a closed tender with the participation of 6 advisory consortia for the development and implementation of the initial public offering of the company Lubelski Węgiel Bogdanka SA. The transaction value is estimated at PLN 300-600 million.

The sales of services were PLN 3 million by the end of Q2 2008, the loss before tax was PLN 0.9 million.

BRE Bank Hipoteczny (BBH)

The total (balance sheet and off balance sheet) loans portfolio of BRE Bank Hipoteczny was PLN 4.5 billion at the end of June 2008, up by 22.4% year on year. The balance sheet total was PLN 3.9 billion, up by 37.1% year on year, and the profit before tax was PLN 24.0 million (compared to PLN 17.5 million at the end of June 2007). ROE was 17.8% at the end of H1 2008, compared to 15% at the end of H1 2007.

BRE Bank Hipoteczny issued PLN 650 million of mortgage bonds in H1 2008. The total liabilities under issued mortgage bonds are over PLN 1.8 billion, nearly one half of the Bank's total liabilities.

IV.2. Trading and Investments

Trading and Investments covers trading in financial instruments, purchase and sale of securities on own account, i.e., transactions in securities including Treasury bills and bonds, NBP monetary bills, placements and deposits, and currency swaps. The Bank is a participant of the securities market and focuses on the purchase and sale of securities in the primary and secondary market as well as repo and reverse repo transactions. In addition, the Bank engages in sell-buy-back and buy-sell-back transactions in the inter-bank market. The Bank is also a participant of the money market in inter-bank transactions, and enters into agreements for the issue of securities (bonds, investment bills, certificates of deposit) both single-handedly and in syndications with other banks. The Bank earns capital gains on its proprietary investments portfolio including direct and indirect holdings acquired with a view to high long-term returns.

IV.2.1. Financial Markets

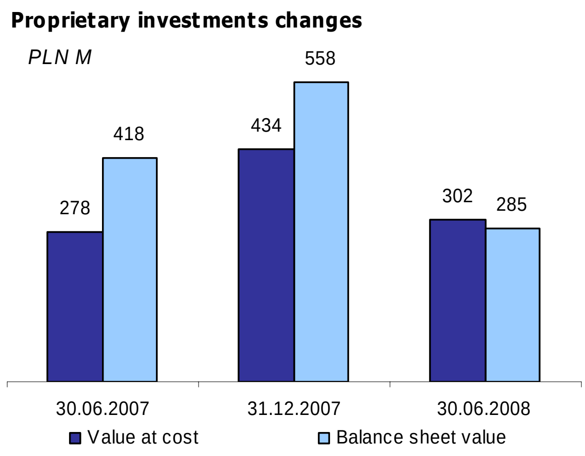
Operations on financial markets reported good performance of most trading portfolios (excluding the equities portfolio and the portfolio of variable coupon Treasury bonds). Good results were also reported on transactions with customers thanks to growing volumes of derivative transactions.

In addition, the major business activities of the period include:

- Outstanding short-term securities up by around PLN 260 million (+10%) to PLN 2.6 billion, mainly driven by increased issues for Volkswagen Bank, EFL, BRE Leasing, AIG Bank, Żywiec and a new issue scheme for BGŻ Bank;
- Outstanding mid-term securities up by around PLN 900 million (+17%) to over PLN 6 billion, mainly driven by new issues for bank clients (BRE Bank Hipoteczny, Getin Bank, Lukas Bank, BGŻ) and corporate clients (NFI Empik, PKE, TVN); despite these issues, the debt origination market grew much less dynamically than in 2007, in particular issues of mid-term corporate bonds, due to limited demand from investors despite rising credit spreads;
- Spectacular growth of the volume and margins of fx options sold to clients (margins in January-June at almost 100% of the margins earned in all of 2007; very good results on sales of other fx derivative instruments and investments – deposits, short-term debt);
- Sales of structured deposits by MultiBank up considerably; meanwhile, sales to Private Banking clients were down;
- Completed implementation of the Murex system: the valuation and transaction data module for corporate dealers is the main driver of the spectacular growth of the sales of fx options to clients;
- Continued development of the K+ system financial instruments base to offer more structured products to customers;
- Start of an IT project implementing an on-line fx transaction platform for the Bank's customers;
- Retained very high market share in interest rate instruments (23.7% market share in PLN IRS and FRA; 16.5% in Treasury bonds and bills) and debt origination (first position in issues of bank debt, second position in issues of mid-term corporate bonds, third position in issues of commercial papers).

IV.2.2. Proprietary Investments Portfolio

At the end of June 2008, the proprietary investments portfolio was PLN 302 million at cost (book value PLN 285,2 million, including book value of consolidated companies Garbary and TTI)) down by PLN 132 million year to date.



This was due to the sale of a block of Vectra S.A. shares (PLN 125 million), redemption of mezzanine finance instruments, and registered increase of the share capital of Garbary Sp. z o.o. The profit on the sale of Vectra shares net of additional costs was PLN 137.7 million.

The largest investments in the portfolio at the end of June 2008 were bonds at PLN 146.1 million issued under mezzanine finance transactions. In addition, other major investments in the Bank's portfolio included:

- 0.76% of shares of PZU S.A., balance-sheet value PLN 74.0 million;
- 100% of shares of Garbary Sp. z o.o., balance-sheet value PLN 56.4 million.

IV.2.3. Trading and Investments Subsidiaries

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

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

a) Investment in securities, trading in debt;
b) Proprietary transactions in securities;
c) Management of controlled businesses;
d) Business and management consulting.

At the end of June 2008, TTI's portfolio included bonds of Autostrada Wielkopolska SA and a notional stake in BRE Finance France SA (0.004%).

BRE Finance France SA

BRE Finance France SA is another SPV whose core business was to raise funds for BRE Bank in international markets through issues of Euro Notes under a Euro Medium Term Notes (EMTN) programme up to EUR 1.5 billion.
At the end of June 2008, there was only one last tranche under the programme at US$ 10 million maturing in December 2009. The company is not planning any further issues.

Garbary Sp. z o.o.

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

V. Retail Banking and Private Banking Line

This business line includes retail customers' current accounts, savings accounts, term deposits, investment products, credit and debit cards, financial settlements, bill-of-exchange and cheque transactions, guarantees, mortgage and consumer loans. The offer also includes on-line brokerage accounts and insurance services. Customers mainly include private individuals as well as microenterprises (mBank) and SMEs (MultiBank). The line also covers Private Banking services.

As of November 2007, mBank serves customers outside Poland: in the Czech Republic and Slovakia.

V.1. Dynamic Growth of mBank and MultiBank

V.1.1. Business Expansion in Poland

Customers

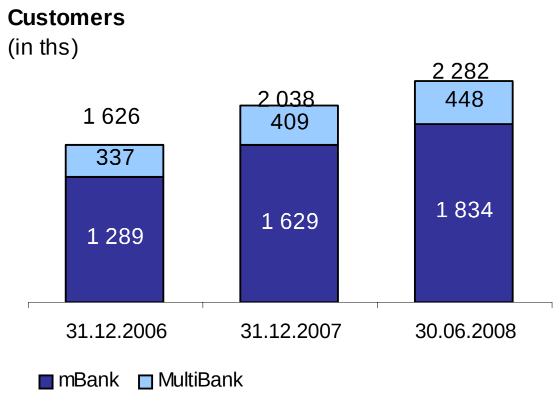
BRE Bank's Retail Banking Line had 2,281.4 thousand customers at the end of June 2008 (including 1,833.7 thousand at mBank and 447.7 thousand at MultiBank). The number of customers grew by 243.4 thousand year to date (up by 11.9%; 205.1 thousand at mBank, 38.3 thousand at MultiBank).

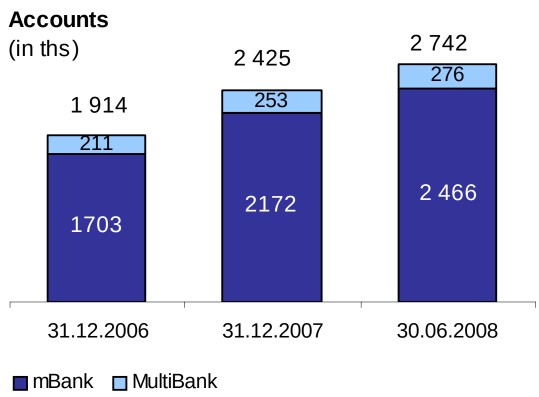
The Bank had 264.4 thousand microenterprise customers (196.5 thousand at mBank, 67.9 thousand at MultiBank). The number of new microenterprise customers acquired year to date was 28.8 thousand (up by 12.2%; 23.2 thousand at mBank, 5.6 thousand at MultiBank).

Accounts

The Retail Banking Line had 2,742.1 thousand accounts at 30 June 2008 (2,466.1 thousand at mBank, 276.0 thousand at MultiBank). The number of accounts grew by 317.2 thousand year to date (up by 13.1%; 294.1 thousand at mBank, 23.1 thousand at MultiBank).

There were 317.8 thousand microenterprise accounts (249.9 thousand at mBank, 67.9 thousand at MultiBank), up by 34.6 thousand year to date (up by 12.2%; 28.8 thousand at mBank, 5.8 thousand at MultiBank).





Deposits

BRE Bank Retail Banking deposits were PLN 12,957.0 million at the end of H1 2008 (PLN 9,592.6 million at mBank, PLN 3,364.4 million at MultiBank).

The balance-sheet deposits grew by PLN 2,593.8 million year to date (up by 25.0%; PLN 1,962.5 million at mBank, PLN 631.3 million at MultiBank).

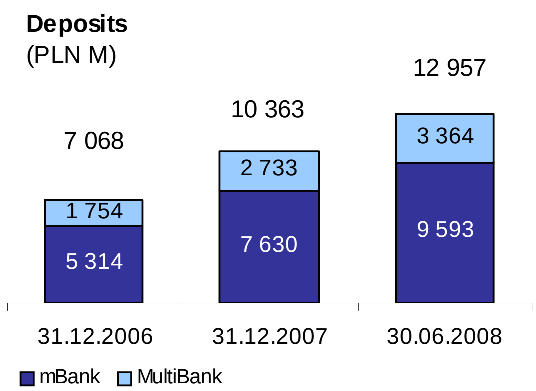
According to statistics at the end of June 2008, the market share of the BRE Bank Retail Banking Line deposits was 4.4%.

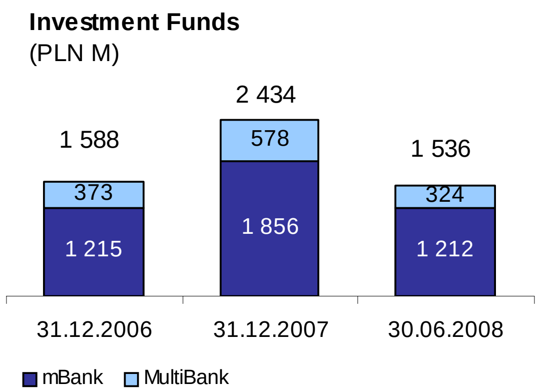
Investment Funds

Investment fund assets of BRE Bank retail customers were PLN 1,536.1 million at the end of June 2008 (PLN 1,211.7 million at mBank, PLN 324.4 million at MultiBank).

Investment fund assets decreased by PLN 898.3 million in January-June 2008 (down by 36.9%; PLN 644.4 million at mBank, PLN 253.9 million at MultiBank).

The market share of the BRE Bank Retail Banking Line's investment funds was 1.6% at the end of June 2008.





Loans

Balance-sheet loans were PLN 16,328.5 million at the end of June 2008 (PLN 6,867.9 million at mBank, PLN 9,460.6 million at MultiBank). Loans were up by PLN 3,191.2 million year to date (up by 24.3%; PLN 1,469.1 million at mBank, PLN 1,722.1 million at MultiBank).

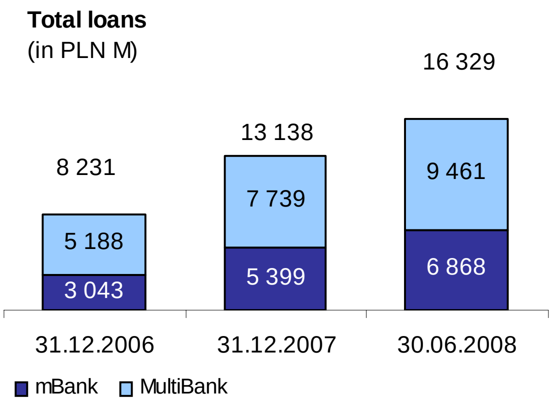
All microenterprise loans were PLN 1,544.7 million at the end of June 2008 (PLN 270.5 million at mBank, PLN 1,274.2 million at MultiBank), of which 32.4% were mortgage loans (20.3% at mBank, 35.0% at MultiBank).

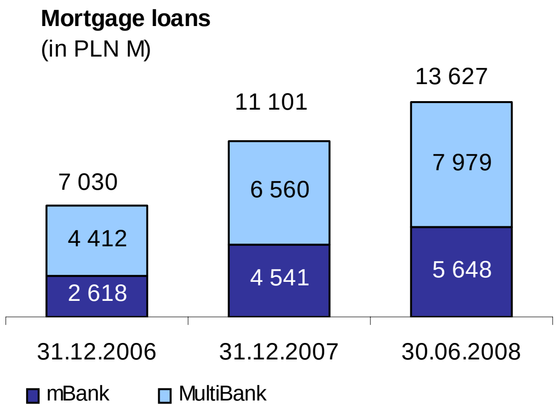
Structure of the Credit Portfolio:

- mBank: 82.2% mortgage loans, 5.4% credit lines, 4.3% credit cards, 8.0% other;
- MultiBank: 84.3% mortgage loans, 5.8% credit lines, 1.5% credit cards, 8.4% other.

The balance-sheet mortgage loans were PLN 13,627.3 million at the end of June 2008 (PLN 5,648.5 million at mBank, PLN 7,978.8 million at MultiBank), including mortgage loans to retail customers at PLN 13,126.1 million (PLN 5,593.7 million at mBank, PLN 7,532.4 million at MultiBank). The balance-sheet mortgage loans were up by

PLN 2,526.2 million in January-June 2008 (up by 22.8%; PLN 1,107.7 million at mBank, PLN 1,418.5 million at MultiBank).





Cards

The number of credit cards issued by the end of June 2008 was 305.1 thousand (197.5 thousand at mBank, 107.6 thousand at MultiBank). The number of credit cards grew by 54.4 thousand year to date (up by 21.7%; 35.4 thousand at mBank, 19.0 thousand at MultiBank).

The number of debit cards issued by the end of June 2008 was 1,709.4 thousand (1,315.3 thousand at mBank, 394.1 thousand at MultiBank). The number of debit cards grew by 254.7 thousand year to date (up by 17.5%; 205.3 thousand at mBank, 49.4 thousand at MultiBank).

According to data at the end of May 2008, the market share of the BRE Bank Retail Banking Line in credit cards was 3.4% by the amount of debt under cards.

eBroker and MultiBank Brokerage Service

There were 96.6 thousand eBroker accounts by the end of June 2008, up by 13 thousand in H1 2008. There were 15.6 thousand MultiBank Brokerage Service accounts, up by 3 thousand year to date. Trading in the accounts represented 21.4% of DI BRE's volume of trading in stocks in H1 2008.

Insurance Sales

Retail Banking includes the mBank Car Insurance Supermarket and the MultiBank Insurance Centre. In addition to car insurance, the offer includes credit insurance packages, house insurance, travel insurance, a BRE Wealth Management programme with investment policies, an investment programme for Private Banking customers, BRE Leasing insurance, and MultiBank structured products.
A total of 73,144 insurance contracts were signed in H1 2008 and the premiums written were PLN 20.5 million.

Expansion of the Distribution Network

mBank

mBank's network had 136 locations (64 mKiosks, 16 Financial Centres, 56 Partner mKiosks).

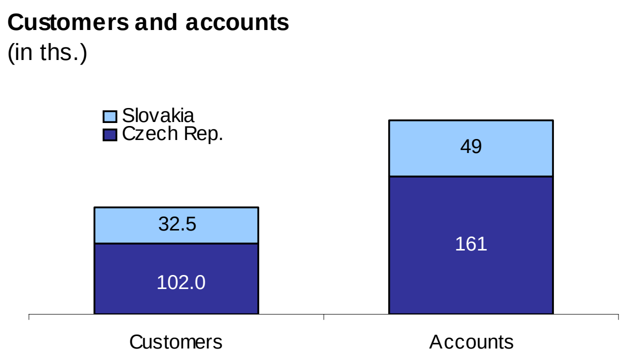
MultiBank

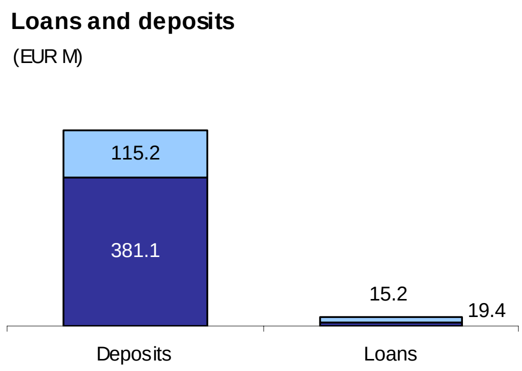
MultiBank had 122 outlets (73 Financial Services Centres and 49 Partner Outlets including 39 Branches of the Future, both Financial Services Centres and Partner Outlets).

V.1.2. mBank Expansion in the Czech Republic and Slovakia

At the end of June 2008, mBank had 134.5 thousand foreign customers and 210.5 thousand accounts.
Deposits converted into EUR grew to EUR 496.3 million. The loans portfolio was at the equivalent of EUR 34.6 million.

The figures below present a break-down of these volumes into the Czech Republic and Slovakia:





V.2. Private Banking

Customers

The Bank had 7,542 Private Banking customers at the end of June 2008. In this period, 258 customers were acquired and accounts of 430 customers were closed in the restructuring of the customer base year to date. As a result, the number of customers went down by 172 (down by 2.2%) year to date. The restructuring process improved the quality of the customer base.

Loans

The Private Banking customers' debt was PLN 423.2 million at the end of June 2008, down by PLN 95.7 million (18.4%) year to date. Due to the negative sentiment on the stock exchange, clients are repaying brokerage loans.

Assets under Management

Customers' assets under management invested via BRE PB (including deposits, asset management products and financial market products) totalled PLN 4,624.7 million at the end of June 2008, down by PLN 183.3 million (3.8%) year to date.

a) Banking Products

Assets in current accounts and deposits were PLN 2,539.4 million at the end of June 2008, up by PLN 276.3 million (12.2%) year to date. The growth was driven by clients switching to safer products. Combined investment and insurance products based on deposits and bonds are increasingly popular.

b) Asset Management and Wealth Management Products

Customers' investment in Asset Management Products totalled PLN 1,744.7 million at the end of June 2008, down by PLN 316.7 million (15.4%) year to date; in absolute numbers, the decrease was half the decrease of the WIG exchange index in the period (down by 26.1%).

c) Financial Market Products

Assets totalled PLN 340.6 million at the end of June 2008, down by PLN 142.9 million (24.6%) year to date, mainly due to one client transferring assets to the Banking Products line.

The product offer was expanded in H1 2008. A new product "Option for Profit" and an investment and insurance product Active Funds Portfolio were added. The offer also includes investment funds from three Polish providers: TFI Noble Fund, TFI Quercus and TFI AIG and foreign funds from HSBC. The offer includes the products and services of a new subsidiary, BRE Property Partner where clients can buy property on the primary market on preferential terms with the option of leveraging the investment with a loan from BRE Bank.

V.3. Consolidated Retail Banking Subsidiaries

BRE Wealth Management SA (BRE WM)

The company reported very good results in H1 2008 despite the continued market downturn. Its assets under management grew from PLN 634.5 million (at 31 December 2007) to PLN 749 million (at 30 June 2008) while most competitors' assets under management fell sharply due to negative performance and an outflow of assets.

In June 2008, the company launched a new investment strategy: the Treasury Strategy addressed to portfolio customers who do not accept volatility of portfolios under other strategies and want to exit the investment.

Assets of BRE Wealth Management customers at the end of H1 2008 were invested in a much broader range of products compared to the end of 2007. New products on offer include: "Option for Profit", Guaranteed Income Strategy, and Active Funds Portfolio. In the long-term, product diversification provides the company with improved income safety.

emFinanse Sp. z o.o.

In H1 2008, the BRE Bank Management Board accepted a recommendation of the emFinanse Supervisory Board and decided to restructure the company in order to strengthen the sales network of BRE Bank retail banking products. The change includes among others the conversion of emFinanse outlets into a sales network of BRE Bank retail banking products. The company will continue its business but in a limited scope. Most of emFinanse sales were mBank and MultiBank products. In restructuring, the emFinanse model will be integrated with the mBank and MultiBank model. The process will be implemented in stages and should be completed by the end of 2008.

VI. Other Consolidated Companies

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

The company's core business includes settlements and archiving services, in particular: electronic archives, paper archives, identification of mass payments, payments identification system, data feed, mass mail. The company also performs domestic and international settlements.

In H1 2008, the company continued to improve its co-operation with the Bank (Corporate Banking and Retail Banking, including mBank Czech Republic/Slovakia), BRE Bank Group subsidiaries and external clients. Income from external clients accounted for 16.7% of the company's total income, compared to 16.1% at the end of 2007. The company's profit before tax was PLN 712 thousand in H1 2008, up by 40% year on year.

BRE.locum SA

BRE.locum SA is a real estate developer which mainly invests in residential property and provides property management services. The company operates since 2001 in Łódź, Wrocław, Kraków and Warsaw.

The company's profit before tax was record-high, at PLN 39.8 million in H1 2008, almost 6 times as much as in H1 2007. The profitability of BRE.locum is very volatile: the company recognises income only from apartments actually sold to customers. Therefore, the company's results depend on the implementation timetable and settlement of investments. The company reported its excellent financial result thanks to the sale of apartments in Warsaw (Port Praski and Park Mokotów Stage 3) and in Łódź.

VII. Financial Results of the BRE Bank Group in H1 2008

VII.1. Changes in the Assets of the BRE Bank Group

The balance sheet total was PLN 64.5 billion at 30 June 2008, up by 15.2% year to date. The consolidated assets as at 30 June 2008 compared to 31 December 2007 are shown below.

ASSETS	30.06.2008		31.12.2007		Change
	PLN'000	%	PLN'000	%	%
Cash and balances with the Central Bank	2 901 134	4.5%	2 003 535	3.6%	44.8%
Debt securities eligible for rediscounting at the Central Bank	24 536	0.0%	23 259	0.0%	5.5%
Loans and advances to banks	4 747 696	7.4%	2 089 936	3.7%	127.2%
Trading securities	4 152 725	6.4%	4 257 982	7.6%	-2.5%
Derivative financial instruments	2 501 342	3.9%	2 272 638	4.1%	10.1%
Loans and advances to customers	**39 659 568**	**61.5%**	**33 682 665**	**60.2%**	**17.7%**
Investment securities	5 189 224	8.0%	6 386 574	11.4%	-18.7%
- Available for sale	5 189 224	8.0%	6 386 574	11.4%	-18.7%
Non-current assets held for sale	416 150	0.6%	336 078	0.6%	23.8%
Pledged assets	2 590 976	4.0%	2 812 277	5.0%	-7.9%
Investments in associates	13 675	0.0%	4 823	0.0%	183.5%
Intangible assets	408 135	0.6%	404 967	0.7%	0.8%
Tangible fixed assets	715 880	1.1%	670 213	1.2%	6.8%
Deferred income tax assets	209 543	0.3%	116 290	0.2%	80.2%
Other assets	959 666	1.5%	880 663	1.6%	9.0%
Total assets	**64 490 250**	**100.0%**	**55 941 900**	**100.0%**	**15.3%**

Loans and advances grew the most by value, by PLN 5,976.9 million net. With the high growth at 17.7%, much above the growth in the balance sheet total, this asset category accounted for 61.5% of the total assets, compared to 60.2% at the end of December 2007.

Amounts due from banks grew at the high rate, up by 127.2% (PLN 2,657.7 million), mainly driven by the relatively high PLN placements with banks.

The portfolio of trading securities down by 2.5% year to date; the portfolio of investment securities fell by 18.7% (PLN 1,197.4 million).

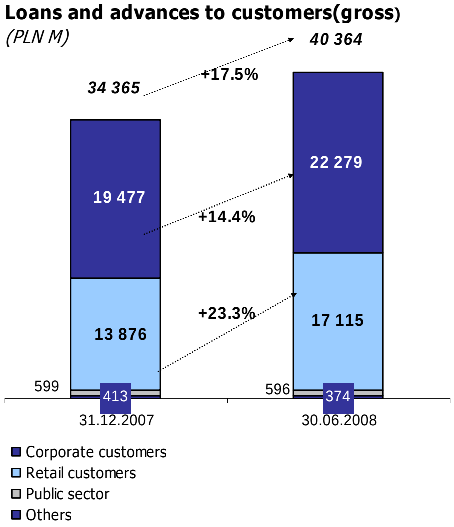
VII.1.1. Description of the Loans Portfolio

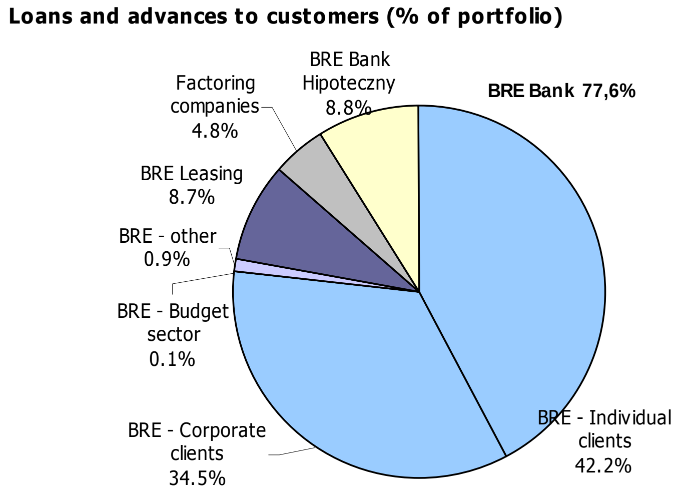
The largest item of the consolidated assets of the BRE Bank Group are loans and advances to customers. Their structure is shown in the figure below.

The largest share is that of corporate loans (55.2%). However, their share is slowly but steadily decreasing to the advantage of retail loans which were 42.3% of the portfolio at the end of June 2008, compared to 35.2% at the end of June 2007 and 40.4% at the end of December 2007.

Retail loans grew by 23.3% (PLN 3.2 billion) while corporate loans were up by 14.4% (PLN 2.8 billion). Local government loans were low at PLN 600 million at the end of June 2007 and at the end of June 2008.

The structure of the BRE Bank Group's loans portfolio by creditor is shown in the following figure. Over ¾ of all loans were granted by BRE Bank; here, the retail loans portfolio is accounts for the majority of all loans. About ¼ of total loans includes the BRE BH portfolio and the factoring and leasing portfolios. BRE BH is the second largest creditor after BRE Bank; its balance-sheet loans portfolio was PLN 3.6 billion at the end of June 2008. Loans and advances also include amounts due under financial leasing at PLN 3.4 billion net.





VII.1.2. Quality of the Loans Portfolio

A major criterion of the evaluation of the quality of the credit risk portfolio is the portfolio structure and valuation based on the provisions of the International Accounting Standards (IAS) 39 and 37 concerning the identified impairment exposures portfolio and relevant provisions.

The default ratio for the BRE Bank Group risk portfolio under IAS 39 and IAS 37 was 1.55% at the end of H1 2008, compared to 1.61% at the end of 2007 and 2.19% at the end H1 2007.

The default ratio for the balance-sheet credit risk portfolio was 2.19% (down from 2.33% at the end of 2007 and 3.05% at the end of H1 2007..

Taking into consideration a significant increase of the portfolio in H1 2008, the quality of portfolio can be regarded as stable (default exposure at the end of H1 2008 was PLN 908 million compared to PLN 830 million at the end of 2007).

The ratio of provisions to default credit exposure fell to 65.2% at the end of H1 2008, compared to 69.3% at the end of 2007 for the whole credit risk portfolio. The main reason for the decrease in the ratio was the sale of PLN 21.5 million of retail loans (100% coverage) and positive projections of repayment of new default exposures.

VII.2. Liabilities of the BRE Bank Group

Changes in the Group's liabilities in H1 2008 are shown in the table below.

LIABILITIES AND EQUITY	30.06.2008		31.12.2007		Change
	PLN'000	%	PLN'000	%	%
Amounts due to other banks	16 365 665	25.4%	12 245 867	21.9%	33.6%
Derivative financial instruments and other trading liabilities	2 555 426	4.0%	2 164 214	3.9%	18.1%
Amounts due to customers	36 383 973	56.4%	32 401 863	57.9%	12.3%
Debt securities in issue	2 191 871	3.4%	2 928 414	5.2%	-25.2%
Subordinated liabilities	1 993 213	3.1%	1 661 785	3.0%	19.9%
Other liabilities	885 956	1.4%	879 975	1.6%	0.7%
Current income tax liabilities	100 213	0.2%	134 234	0.2%	-25.3%
Deferred income tax liabilities	426	0.0%	455	0.0%	-6.4%
Provisions	83 723	0.1%	71 227	0.1%	17.5%
Liabilities held for sale	-	0.0%	12 543	0.0%	-100.0%
Total liabilities	**60 560 466**	**93.9%**	**52 500 577**	**93.8%**	**15.4%**
Total equity	**3 929 784**	**6.1%**	**3 441 323**	**6.2%**	**14.2%**
Total equity and liabilities	**64 490 250**	**100.0%**	**55 941 900**	**100.0%**	**15.3%**

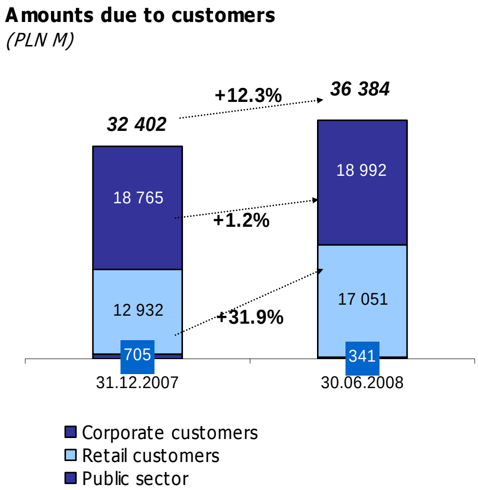
The Group's liabilities to customers grew by PLN 3,982.1 million (12.3%) in H1 2008; their share in the total liabilities was 56.4%, compared to 57.9% at the end of 2007. However, the growth would be insufficient to offset the growth in the loans portfolio, up by PLN 5,976.9 million, and in other asset categories.

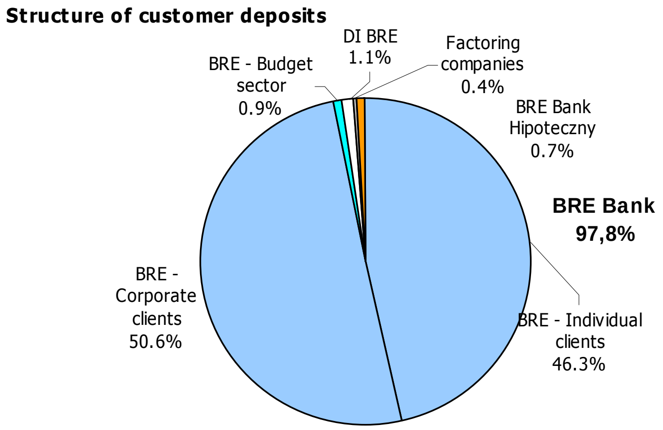
Additional sources of financing included liabilities to other banks. Those were up by PLN 4,119.8 million year to date in H1 2008, mainly thanks to obtained credit lines in the Swiss franc used to finance the growing portfolio of housing loans granted mainly in the Swiss franc.

In addition, the Bank financed assets with issues of bonds and subordinated loans. The subordinated loans translated into PLN totalled PLN 1,993.2 million at the end of June 2008. The majority of the subordinated loans (PLN 1,609.8 million) were added to the Bank's equity in the calculation of the capital adequacy ratio.

The share of equity in total sources of financing down from 6.2 % at the end of December 2007 to 6.1% at the end of H1 2008.

The figures below present the dynamics and structure of liabilities to customers. In H1 2008, retail customers' funds grew much faster, up by 31.9% (PLN 4,118.9 million) year to date. Corporate customers' deposits grew by 1.2% (PLN 227.2 million) and represented 52,2% of the total liabilities to customers at the end of H1 2008. Local governments' deposits fell from PLN 705 million to PLN 341 million, and had a notional share in liabilities to customers. The majority of total deposits (97.8%) were BRE Bank deposits.





VII.2.1. Changes in the Equity of the Group

The equity of the Group grew by 14.2% in H1 2008 and accounted for 6.1% of the balance sheet total at the end of H1 2008. Changes in the equity are shown in the table below and presented in more detail in the IFRS Consolidated Financial Statements for the first half of 2008.

Equity *(PLN'000)*	**30.06.2008**	**31.12.2007**	**Change (%)**
Capital and reserves attributable to the Bank's equity holders	**3 798 085**	**3 324 511**	**14.2%**
Share capital:	**1 521 294**	**1 517 432**	**0.3%**
- Registered share capital	118 752	118 643	0.1%
- Share premium	1 402 542	1 398 789	0.3%
Other reserves	**(94 688)**	**74 204**	**-227.6%**
Retained earnings:	**2 371 479**	**1 732 875**	**36.9%**
- Profits from the previous years	1 731 154	1 022 781	69.3%
- Profit from the current year	640 325	710 094	-9.8%
Minority interests	**131 699**	**116 812**	**12.7%**
Total equity	**3 929 784**	**3 441 323**	**14.2%**

Equity grew by PLN 488.5 million in H1 2008, mainly due to the retention of the entire net profit of 2007. The revaluation reserve had a negative impact on the equity, mainly due to the sale of Vectra shares whose valuation (PLN 139.1 million) was moved from the equity to the income statement.

The registered share capital grew by PLN 109 thousand in H1 2008 due to the execution of the Management Stock Options Programme. The Second Management Stock Options Programme opened in May 2003 was closed in H1 2008. The Programme provided for the allocation of 500,000 options to Bank Managers between 1 June 2005 and 30 June 2008. The options give the right to acquire 500,000 newly issued shares of the Bank. 496 955 shares were acquired by the end of June 2008 under the Programme, including 27,269 shares acquired in H1 2008. In addition, 2,945 shares were acquired in late June 2008 and registered by the National Depository for Securities on 10 July 2008; they are not included in the figures at the end of June 2008.

There were 29,687,937 (registered) ordinary shares at 30 June 2008.

VII.3. Profit and Loss Account of the BRE Bank Group

The BRE Bank Group generated a profit before tax (from continued and discontinued activity) at PLN 721.0 million in H1 2008, up by 35.9% year on year.

As the discontinued operations are shown separately under the profit before tax, the individual profit and loss account items are discussed below for the continued operations.

Profit and Loss Account	H1 2008	H1 2007	Change
Continued operations			
Interest income	1 596 864	1 039 001	53.7%
Interest expense	(954 623)	(570 071)	67.5%
Net interest income	**642 241**	**468 930**	**37.0%**
Fee and commission income	432 901	386 075	12.1%
Fee and commission expense	(127 452)	(96 587)	32.0%
Net fee and commission income	**305 449**	**289 488**	**5.5%**
Dividend income	3 733	2 159	72.9%
Net trading income, including:	254 467	258 282	-1.5%
Foreign exchange result	*260 461*	*208 443*	25.0%
Other trading income	*(5 994)*	*49 839*	-112.0%
Gains less losses from investment securities	137 817	7 161	1824.5%
Other operating income	176 992	76 928	130.1%
Impairment losses on loans and advances	(67 868)	(5 866)	1057.0%
Overhead costs	(613 627)	(521 919)	17.6%
Amortization and depreciation	(93 732)	(88 344)	6.1%
Other operating expenses	(103 379)	(50 413)	105.1%
Operating profit	**642 093**	**436 406**	**47.1%**
Profit before income tax from continued operations	**642 093**	**436 406**	**47.1%**
Income tax expense	(54 248)	(90 949)	-40.4%
Net profit from continued operations, including minority interest	**587 845**	**345 457**	**70.2%**
Discontinued operations			
Profit before income tax from discontinued operations	**78 908**	**94 199**	**-16.2%**
Income tax expense	(2 336)	(20 037)	-88.3%
Net profit from discontinued operations, including minority interest	**76 572**	**74 162**	**3.2%**
Net profit from continued and discontinued operations, including minority interest, of which:	**664 417**	**419 619**	**58.3%**
Net profit attributable to minority interest	24 092	15 753	52.9%
Net profit	**640 325**	**403 866**	**58.5%**

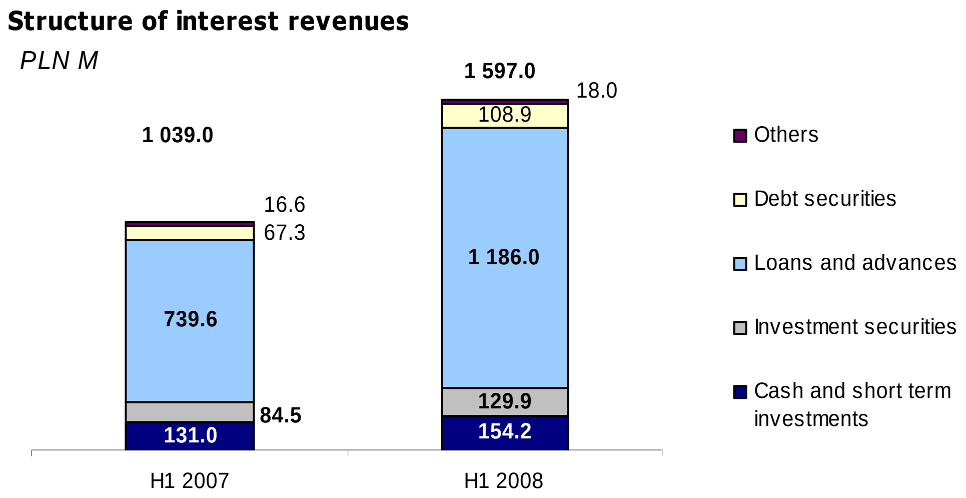
The consolidated profit before tax of the continued operations grew by 47.1% or PLN 205.7 million in H1 2008 and was PLN 642.1 million. Net of the one-off transaction of sale of Vectra SA, the profit before tax grew by 15.6% (close to PLN 70 million).

The net interest income grew by 37% year on year. It was PLN 642.2 million, compared to PLN 468.9 million in H1 2007. The higher net interest income was possible thanks to growth both at the Bank and the subsidiaries.

The BRE Bank Group's interest margin (net interest income to average interest-earning assets) was 2.3% in 2008, stable year on year. The positive impact of the improved profitability of business was offset by negative trends of growing costs of funding and interest margin squeeze due to growing competition. The net interest income in 2008 was helped by changes in the balance sheet structure and growing interest margins on some banking products. A more effective balance sheet structure was possible through a higher contribution of Retail Banking to the Bank's assets and liabilities, a growing portfolio of corporate loans, and a better match of the currency structure of the balance sheet combined with an increase in own funds.

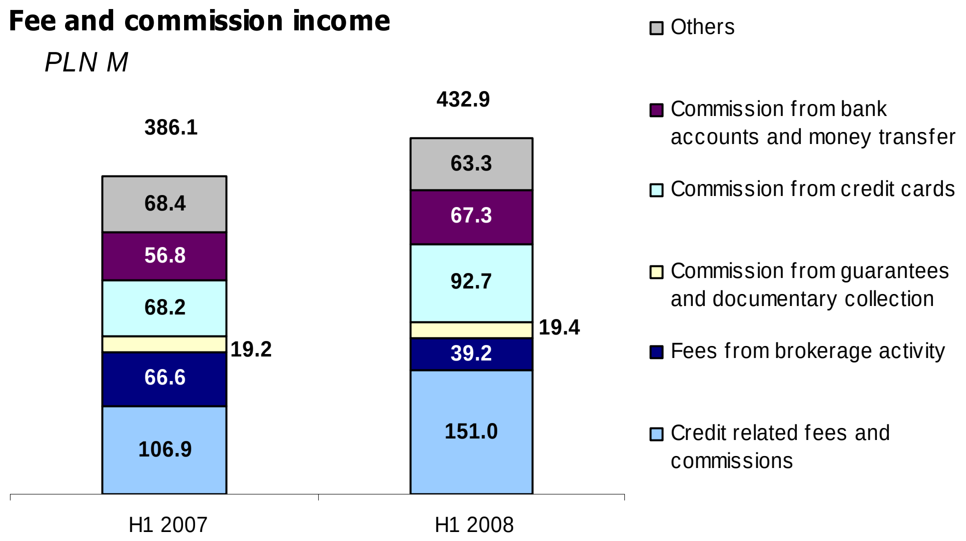
The net interest income of the Retail Banking Line, up by over 53.5% YoY or PLN 105 million, made the greatest contribution to the growth of the net interest income of the BRE Bank Group. Meanwhile, the net interest income of Corporations and Financial Markets grew by 26.5% or PLN 75 million.

The figure below presents the level and structure of the net interest income in H1 2008 compared to H1 2007.



The net commission income grew by 5.5% year on year in H1 2008, the lowest growth of all income items, and was PLN 305.4 million, compared to PLN 289.5 million in 2007. However, even at this growth rate, the net commission income remained the second largest income item of the Group. The growth rate declined mainly due to the falling commission income of Corporations Line subsidiaries due to the weaker conditions on the money and capital markets. Nevertheless, Corporations and Financial Markets again made the largest contribution to the net commission income at 55.7% of the Group's income. Thanks to continued high growth of Retail Banking income by 18% year on year, the contribution of the Retail Banking Line to the Group's net commission income grew steadily to 36.3% at the end of June 2008.

The figure below shows the change in the level and structure of the net commission income between H1 2007 and H1 2008.



The trading income at PLN 254.5 million at the end of June 2008 was down modestly by 1.5% year on year due to falling other trading income, which was negative in 2008 (around PLN 6 million) but positive in 2007 (PLN 50 million). This was driven by the declining market climate, especially in Q2 2008, and the resulting higher credit spread, causing negative valuation of non-Treasury securities, and falling prices of securities and equities, affecting the performance of the portfolio of instruments.

Market prices of Treasury bonds fell sharply in Q2, pushed by rising interest rate hike expectations and strong supply of Treasury papers mainly due to investment fund share redemptions and sales by foreign investors whose risk aversion grew. As a result of prevailing supply and low liquidity in the market, the prices of Treasury bonds fell sharply.

Meanwhile, the fx income grew significantly, by 25% or over PLN 50 million, which offset the falling income from the portfolios of securities.

Retail Banking reported the highest growth rate of the trading income at 45.6%; its contribution to the trading income of the Group grew to 29%, compared to 19% in 2007. In spite of a lower growth rate, the contribution of Corporates and Institutions remained the highest at 42%, compared to 38% in 2007. The contribution of Trading and Investments to the Group's trading income was lower than before, at 29% (42% in 2007). The growth in the Group's trading income was reported mainly by the Bank whose contribution was overwhelming at 95%.

The income from investment securities grew year on year thanks to the profit on the sale of Vectra SA at PLN 137.7 million.

The net other operating income (other operating income and costs) was high, especially in Q1 2008, mainly thanks to the profits of the real property subsidiary BRE.locum driven by good market conditions and retained high prices. The subsidiary's income in Q2 was much lower, but its semi-annual income was up by around PLN 39 million year on year.

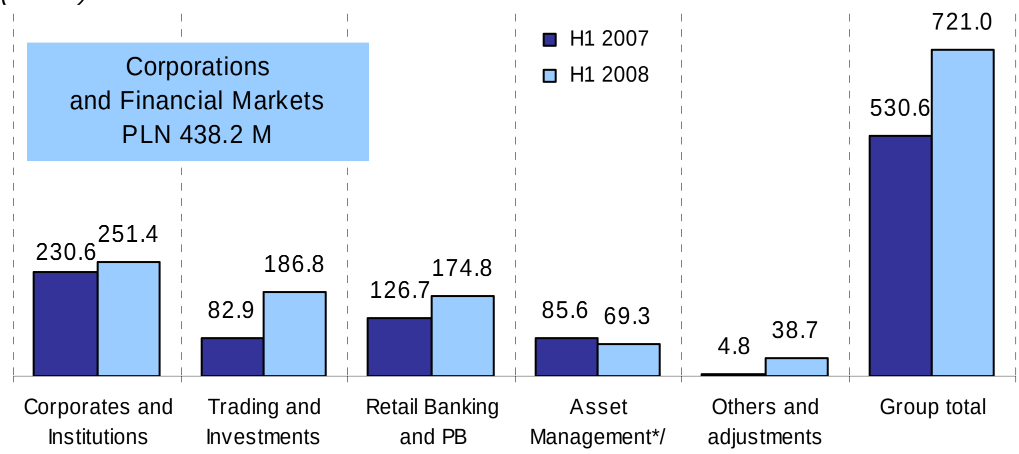
Credit and loans impairment provisions were PLN 67.9 million in H1 2008, up by PLN 62 million year on year, mainly at the Bank as the subsidiaries' provisions were up only modestly year on year. The Bank set up provisions at PLN 63.6 million, compared to net provisions of almost nil in H1 2007.

Overhead costs were up by 17.6% or PLN 91.7 million year on year in H1 2008. The highest growth occurred in payroll costs, up by PLN 64.2 million or 22.7%, mainly due to business expansion necessitating adequate headcount growth as well as created bonus provisions. Maintenance costs grew by 9.3% or PLN 20.8 million year on year. The growth in maintenance costs was mainly a result of the expanding branch network and the expansion of business operations including mBank's transborder expansion.

VII.4. Financial Results by Business Line

The presented results of the BRE Bank Group's business lines refer to the financial report which presents both continued and discontinued operations under the relevant result categories.

Pre-tax profit of business segments of BRE Bank Group
(PLN M)



*/ Discontinued operations

VII.4.1. Results of Corporations and Financial Markets

The Line generated a profit before tax of PLN 438.3 million in H1 2008 (including PLN 137.7 million on a one-off transaction closed in Q1 2008), up by PLN 124.7 million (39.8% YoY). The contribution of Corporations and Financial Markets to the Group's profit including the one-off transaction was 61%. Nearly all profit components improved year on year but the core business grew the most.

The results of the Line in H1 2008 were driven by ongoing positive sales trends and improving productivity on the one hand, and a slightly worse climate on the securities market and higher costs of credit risk on the other hand. The one-off transaction of sale of Vectra also had a major impact.

Both assets (up by 21% from PLN 39.9 billion to PLN 48.3 billion) and liabilities (up by 15.9% from PLN 38.1 billion to PLN 44.2 billion) grew significantly year on year. The dynamic growth of business was mainly reflected in the very high net interest income (PLN 355.6 million) and net commission income (PLN 177.7 million). The ongoing positive trends in financial and fx markets, especially in Q1, enabled an equally high fx income (PLN 187.4 million) driven, among others, by customers' active trading on the fx market and an effective hedging strategy pursued by BRE Bank.

The contribution of Corporations and Financial Markets subsidiaries to the Line's profit remained high (32-34% net of one-off transactions). The largest contributions came from BRE Leasing Sp. z o.o., BRE Bank Hipoteczny S.A., DI BRE, and Intermarket Bank AG.

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

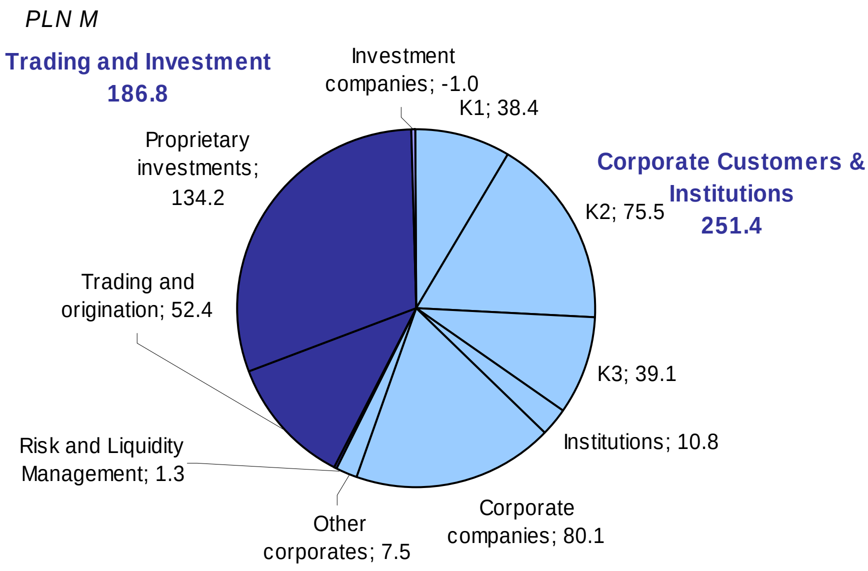
Corporates and Institutions

The profit before tax at PLN 251.4 million generated in H1 2008 was up by 9% or PLN 20.8 million year on year, mainly thanks to a higher income on the core business, in spite of higher credit risk costs (positive PLN 6.0 million in June 2007 v. negative PLN 28.6 million in June 2008).

Particularly high year-on-year growth was reported for the net interest income (up by around PLN 63.4 million) due to strong growth in both loans and deposits. In addition, the growth in costs (2%) was much lower, improving the productivity of business.

The contribution of Corporates and Institutions to the profit before tax of Corporations and Financial Markets remained high at 57.4% including a one-off transaction and 83.6% excluding the one-off transaction, compared to 73.5% last year, as a result of a growing share of recurrent customer transactions in the Group's results.

Corporates and Markets pre-tax profit structure after H1 2008



Trading and Investments

The business area generated a profit before tax of PLN 186.8 million in H1 2008 (including PLN 137.7 million on the one-off transaction of sale of Vectra SA), compared to PLN 82.9 million in H1 2007.

The structure of the segment's profit in 2008 was dominated by a very high income on investment securities at the cost of the contribution of the other income items: trading income and net interest income.

The Line's profit before tax was mainly generated by the Bank while the subsidiaries made a marginal contribution to the profit.

VII.4.2. Results of Retail Banking and Private Banking

The Retail Banking and Private Banking Line, which had grown the fastest in earlier periods, also grew fast in H1 2008: its profit before tax was up by 37.9% and reached PLN 174.8 million compared to PLN 126.7 million in H1 2007. The high profitability of the Line in 2008 was achieved in spite of a heavy cost of new retail branches, including transborder expansion, as well as higher credit provisions cost year on year.

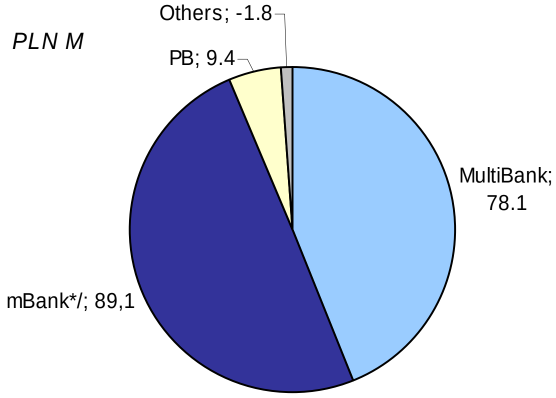
The contribution of Retail Banking to the Group's pre-tax profit remained stable at around 24% in the past periods.

The Line's net interest income (up by 53.5%) and net commission income (up by 18%) grew the most in the entire Group in H1 2008. As a result, the Line's contribution to the Group's total net interest and commission income grew from 38.1% in 2007 to 43.2% in 2008.

As shown in the figure, the main contribution to the profit came from mBank which generated a profit before tax of PLN 126.6 million in Poland. Meanwhile, its transborder expansion entailed heavy costs, mainly costs of marketing, which reduced the profit to PLN 89.1 million.

The profit before tax of MultiBank was PLN 78.1 million and that of Private Banking was PLN 9.4 million. The item "Other" includes the results of the subsidiaries of the Line (BWM reported an individual profit of PLN 1.1 million, emFinanse reported a loss of ca. PLN 1 million) as well as the cost of financing and consolidation adjustments.

Structure of Retail Banking and PB pre-tax profit



*/with losses of PLN -37.5 M in Czech Rep. and Slovakia

The significant growth in profit was largely driven by the dynamic growth in the loans portfolio, mainly the portfolio of mortgage loans carrying a low credit risk (portfolio up by 24% year to date, or by over PLN 2.6 billion), which boosted a sharp growth in the net interest and commission income offsetting the ongoing interest margin squeeze. The net commission income was mainly driven by new insurance products combined with mortgage loans (bancassurance) offered by the Retail Banking Line as well as income from the sale of investment fund products.

Thanks to dynamic expansion of the branch network, the Retail Banking Line reported a significant increase in overhead costs, up by approximately 39% or PLN 81.2 million, more than the Group's average growth but much less than the growth of the Line's income, up by PLN 154.6 million.

VII.4.3. Asset Management: Discontinued Operations

In the presentation of the consolidated profit and loss account, this business segment is shown as discontinued operations at the pre-tax profit level and includes in 2008 mainly the result of the merger of the subsidiary PTE Skarbiec-Emerytura with PTE Aegon. The merger was carried out pursuant to Article 492.1.1 of the Code of Commercial Partnerships and Companies by means of transferring all assets of the acquired company PTE Skarbiec-Emerytura S.A. to the acquiring company Aegon PTE SA in exchange for a transfer of Aegon PTE shares to BRE Bank, the shareholder of PTE Skarbiec-Emerytura.

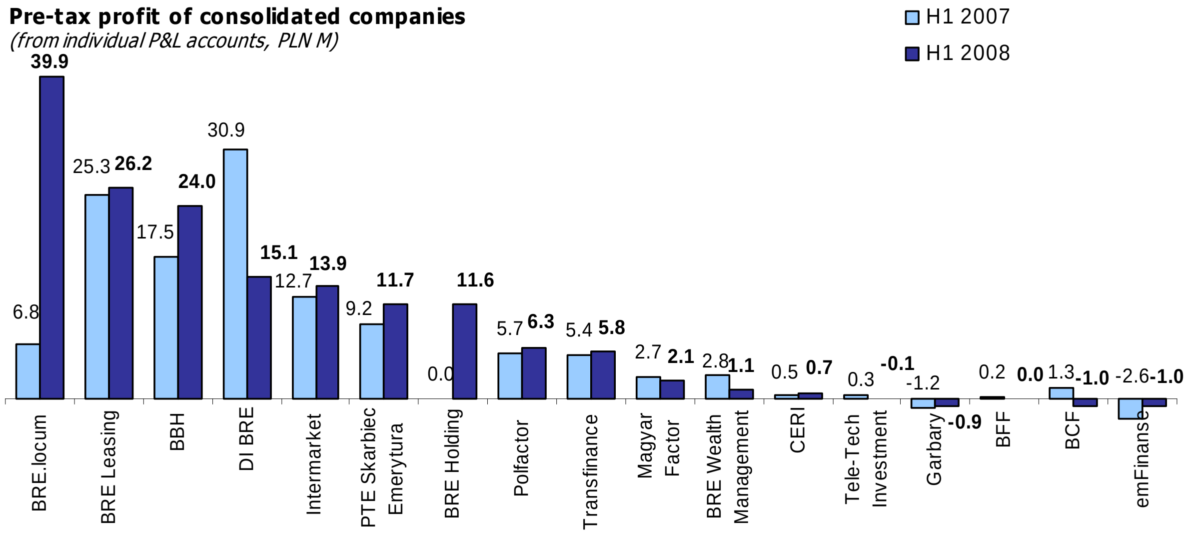
The profit of this business segment in 2007 mainly included the profit on the sale of the subsidiary SAMH.

In segment reporting of both periods, this business is shown under individual P&L items including intra-Group transactions.

According to the internal reporting format, the segment reported a profit of PLN 69.3 million in 2008, which was less than in 2007 (PLN 85.6 million).

VII.5. Financial Results of Consolidated Companies

In H1 2008, despite more difficult conditions on the financial markets, most of the subsidiaries of the BRE Bank Group reported better results than in H1 2007, as shown in the figure below.



The profit of BRE.locum grew by an impressive rate, i.e., almost by a factor of 6 year on year, as the sales of many completed property development projects were booked in early H1 2008.

BRE Leasing, BRE Bank Hipoteczny and Intermarket Group companies reported very good results.

The months-long downtrend on the stock exchange had an adverse impact on the results of DI BRE; its profit of H1 2008 was a half of that reported in H1 2007.

The total profit before tax of the consolidated subsidiaries of the BRE Bank Group was PLN 155.4 million in H1 2008, up by 32.4% year on year.

VII.6. Key Performance Indicators

The BRE Bank Group's key performance indicators (jointly for continued and discontinued operations) at the end of H1 2008 compared to H1 2007 were as follows:

	H1 2008	H1 2007
ROA	2.2 %	1.8%
ROE before tax	44.1%	40.7%
ROE net	40.6%	32.2%
CIR	47.5%	53.4%
CAR	9.23%	10.44%

ROA= Net profit annualised (including minority shareholders) / average balance sheet total

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

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

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

The capital adequacy ratio (CAR) was down from 10.44% in June 2007 to 9.23% in June 2008 due to dynamic expansion of business operations resulting in an increase of the credit risk requirement by over 30 percent and the addition of the operational risk capital requirement pursuant to new regulations.

However, it should be stressed that the addition of funds raised through an issue of subordinated bonds at CHF 90 million and a subordinated loan (in the same amount) to the Bank's equity would increase the capital adequacy ratio by 79 bp to 10.02% at the end of June 2008. The Financial Supervision Authority approved the addition of the funds raised in the issue of bonds on 1 July 2008 and the addition of the subordinated loan on 12 August 2008.

The return on equity (before tax) net of one-off transactions was 31.5%; the cost/income ratio net of one-off transactions was 55.0%.

VIII. Expected Achievement of 2008 Targets

At the time of publication of the 2007 financial results, the Bank's Management Board released the business targets for 2008. After H1 2008, it appears that the achievement of the annual business targets of the BRE Bank Group is not threatened in all business areas. The table below presents the achievement of the targets in H1 2008.

Item	Target 2008 (YoY growth)	H1 2008 (YTD growth)
BRE Bank Group		
Deposits	18.5%	12.3%
Loans	34.0	17.8%
Assets	21.0	15.6
Corporations and Financial Markets		
Customers	1 052	393
Loans	17.0%	15.0%
Sales of factoring subsidiaries	20%	10%
Value of new leasing contracts	20%	21.6%
Retail Banking and Private Banking		
Customers	18.0%	12.7%
Loans	42.0%	24.4%
Customer deposits and investments	25.0%	18.0%

In addition, the corporate office network is growing fast: of 20 offices expected to open by the end of 2008, 17 are now operational, including 14 opened in H1 2008. The product offer for corporate and retail customers is expanding (e.g., structured products). The market share of corporate and investment banking is maintained, the market share of retail banking improves steadily. For instance, the market share in mortgage loans grew from 9.5% to 9.8% in H1 2008.

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

BRE Bank attaches major importance to controlling and managing the risks in its business. This is dealt with on a current basis by special organisational units of the Bank responsible for risk controlling as well as units actively managing risks. In order to support risk management, the Bank's Management Board appointed respective committees, including representatives of the Management Board and top management staff. In H1 2008, the particular risk areas were dealt with by the following Credit Committees: Credit Committee of the Management Board, Credit Committee of Retail Banking and Private Banking, the Assets and Liabilities Management Committee of the BRE Bank Group, the Capital Management Committee, and the BRE Bank Risk Committee. There is also a Risk Committee at the Supervisory Board level which approved the Bank's risk management strategies and policies.

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

Detailed descriptions of the risks in the business of the BRE Bank Group as well as their measurement are contained in Section 3 of IFRS Consolidate Financial Statements for the first half of 2008.

IX.1. Harmonisation with Basel II Requirements

The Bank completed successfully a strategic project of implementation of the New Capital Accord (Basel II). As a result of project work, the Bank complies with the regulatory reporting requirements (NCA Pillar 3, COREP) and has harmonised its business processes, risk controlling and capital management to the new conditions under the now binding Resolutions of the Banking Supervision Commission transposing EU Directives on Basel II into Polish regulations.

A very important added value of co-operation with the strategic shareholder in the Basel II project is the Bank's implementation of new effective rating and scoring systems which use advanced methodologies and improve the Bank's business operations. It should be stressed that the implemented solutions effectively reflect and incorporate the specificity of the Polish market.

IX.2. Credit Risk

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

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

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

In order to fulfil the expectations of the banking regulator, in particular the guidelines contained in Recommendation S, the Bank plans to draw upon the experience of renown consultants and develop risk measurement and controlling tools in 2008. The Bank plans to complete the implementation of an advanced reporting system enabling in-depth analysis.

In view of the launch of retail banking operations in the Czech Republic and Slovakia in 2007 and the start of operations in the UK market in 2008, the Bank plans to continue with its internal, coherent and centralised system of credit risk management independent of business operations.

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

The current credit risk position is presented in detail in Section 3.2 of IFRS Consolidate Financial Statements for the first half of 2008.

IX.3. Liquidity Risk

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

The Bank also monitors regularly the concentration of financing, especially in the deposit base, and the balance of liquidity reserves. The Bank has put in place contingency procedures in the event of a sharp deterioration of its liquidity position. In H1 2008, the liquidity of the Bank remained at a safe level

IX.4. Market Risk

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

In H1 2008, the market risk measured by VaR remained at a safe moderate level in relation to the market risk limits and control figures. According to the regularly conducted stress tests, the level of market risk remained within a safe range of values below the limit.

Value at Risk

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

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

BRE Bank VaR (PLN'000)	6 month before 30 June 2008				6 months before 30 June 2007			
	30.06.2008	Average	Maximum	Minimum	30.06.2007	Average	Maximum	Minimum
Interest rate risk	4 492	4 113	5 751	2 596	6 138	5 635	9 587	3 533
FX risk	570	579	1 270	378	839	946	1 804	182
Risk of stock prices	103	427	906	88	134	414	944	106
VaR total	4 392	4 306	5 975	2 792	6 604	6 324	10 275	3 988

VaR is mainly determined by the portfolios of instruments sensitive to interest rates, such as Treasury bonds, commercial papers, IRS and CIRS, and in the second place by the portfolios of instruments sensitive to fx rates such as fx options and fx spots. Other risk factor categories have a relatively lower impact on VaR.

Stress-testing

Stress-testing is another measure of market risk supplementary to Value at Risk. Stress-testing determines the hypothetical change in the present value of the Bank's portfolios which would occur as a result of the risk factors moving to a specific extreme value within a one-day horizon. The Bank uses two methods of stress-testing: one where the scenarios of changes of the risk factors are based on large changes in market parameters observed in past crisis situations, and the other where the scenarios are based on large, extremely correlated changes of risk factors by the same proportion in each category. The stress-testing is subject to a limit set as a control figure. The average value of stress-testing (based on observed past crisis situations) was PLN 16 million for the trading portfolios of the Financial Markets Department and PLN 43 million for the portfolios of the Treasury Department in H1 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 maturity gap analysis of instruments contained in the banking book. One of the aggregate measures used is the Earnings at Risk method (EaR). The EaR indicator determines the potential loss (decrease of the net interest income) which 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 client option. The rate of utilisation of internal interest rate risk limits of the banking book is monitored on a daily basis.

In H1 2008, the level of the interest rate risk was moderate for the position held in PLN and low for the positions in USD, EUR and CHF owing to the relatively small gaps in interest rate positions maintained in these currencies.

IX.5. Operational Risk

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

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

BRE Bank has implemented the process of self-assessment of operational risk, which is carried out in all organisational units of the Bank once a year. 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 addition, in late 2007, the Bank implemented a new tool used to identify risks of potentially rare but serious operational risk events (operational risk scenarios). In October and November 2007, BRE Bank held the first workshop on the development of operational risk scenarios with the participation of organisational units of all of the Bank's business lines. The workshop participants discussed and prepared a total of 32 risk scenarios presented at a meeting of the Risk Committee in January 2008.

X. Financial Rating of BRE Bank and Group Subsidiaries

X.1 Fitch Ratings

Fitch did not change BRE Bank's ratings in H1 2008. At the end of June 2008, Fitch rating of BRE Bank was as follows:

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

BRE Leasing also holds Fitch rating, which was unchanged in H1 2008, as follows: long-term rating A-, short-term rating F2, support rating 1, outlook stable.

X.2. Moody's Investors Service Rating

In H1 2008, Moody's did not change BRE Bank's rating. At the end of June 2008, Moody's rating was as follows:

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

The following subsidiaries of BRE Bank are also rated by Moody's:

- BRE Bank Hipoteczny SA: long-term and short-term deposits rating A3 and P-2, financial strength rating D-, rating A2 for mortgage bonds in the local currency and in foreign currencies already issued by the Bank, A2 for the Programme of Mortgage Bonds publicly traded worth PLN 500 million at par. On 25 June 2007, Moody's published a temporary rating at (P) Aa3 for public mortgage bonds to be issued under a Mortgage Bonds Issue Programme worth PLN 2 billion. The rating of individual series of public mortgage bonds will be confirmed on the date of issue of the series;
- BRE Finance France SA: A2 rating of euronotes issued by BRE Finance France;
- Intermarket Bank AG: A2 rating of long-term deposits, P-1 rating of short-term deposits, C rating of financial strength.

In addition to rating by these two agencies, BRE Bank also holds BBBpi rating from Standard & Poor's (prepared on the basis of publicly available information), the fourth grade on a scale of 8, unchanged in H1 2008.

XI. 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, appointed PricewaterhouseCoopers Sp. z o.o. ("PwC") as Auditor to audit the financial statements of the Bank and the consolidated financial statements of the BRE Bank SA Group for 2008.

PwC (with its seat at 14, Al. Armii Ludowej, 00-638 Warsaw), is Registered Auditor No. 144 authorised to audit financial statements. The Bank has used PwC's audit services in the past years.

XII. Changes on the Authorities of the Company

In H1 2008, the composition of the authorities of the Bank changed before the end of the term of the Supervisory Board and the Management Board on the date of the 21st Ordinary General Meeting held on 14 March 2008.

XII.1. Changes on the Supervisory Board of BRE Bank

The composition of the Supervisory Board and the functions of its Members between the beginning of 2008 and 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 of the Composition of the Supervisory Board as of 14 March 2008

The 21st Ordinary General Meeting elected a Supervisory Board of the next term with a changed, larger composition. Currently the BRE Bank Supervisory Board has 9 Members (including 5 independent members under the criteria set out in the Good Practice of WSE Listed Companies).

1. Maciej Leśny - Chairman of the Supervisory Board (independent member)
2. Martin Blessing - Deputy Chairman of the Supervisory Board
3. Achim Kassow - Member of the Supervisory Board

4. Teresa Mokrysz - Member of the Supervisory Board (independent member)
5. Michael Schmid - Member of the Supervisory Board
6. Waldemar Stawski - Member of the Supervisory Board (independent member)
7. Jan Szomburg - Member of the Supervisory Board (independent member)
8. Marek Wierzbowski- Member of the Supervisory Board (independent member)
9. Martin Zielke - Member of the Supervisory Board.

The term of the Supervisory Board ends on the date of the General Meeting in 2011.

On the date of election of the Supervisory Board of the next term, the Supervisory Board elected members of its Committees from among its members. The composition of the Committees is as follows:

Executive Committee:
Maciej Leśny – Chairman
Martin Blessing – Member
Achim Kassow – Member
Jan Szomburg – Member

Audit Committee
Martin Zielke – Chairman
Martin Blessing – Member
Maciej Leśny – Member
Jan Szomburg – Member

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

After the end of H1 2008, the composition of the Supervisory Board changed again. Mr Martin Blessing, currently President of the Board of Commerzbank, stepped down, while Mr Andre Carls, Member of the Management Board and Head of Finance until 14 March 2008, was elected by the Supervisory Board in his place. Mr Carls was appointed Deputy Chairman of the Supervisory Board and member of all three Committee: Executive, Audit and Risk.

After resignation of a Supervisory Board Member, a new Member can be elected pursuant to § 19 of the BRE Bank By-laws. The relevant resolution of the Supervisory Board must be approved by the next Ordinary General Meeting of BRE Bank

XII.2. Changes on the Management Board of BRE Bank

The composition of the Management Board between 1 January 2008 and 14 March 2008 was as follows:

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

The Supervisory Board appointed a new Management Board on 14 March 2008. The BRE Bank Management Board consists of 6 Members whose term ends on the date of the General Meeting in 2013.

1. Mariusz Grendowicz – President of the Management Board, General Director of the Bank
2. Andre Carls – Deputy President of the Management Board, Head of Finance
3. Wiesław Thor – Deputy President of the Management Board, Head of Risk Management
4. Bernd Loewen – Management Board Member, Head of Investment Banking (temporarily acting Head of Corporate Banking)
5. Jarosław Mastalerz – Management Board Member, Head of Retail Banking
6. Christian Rhino – Management Board Member, Head of Operations and IT

8th of August 2008 BRE Bank SA received information on the agreement of Polish Financial Supervision Authority in regard to Mariusz Grendowicz taking up the position of the Bank Management Board President

The term of the Management Board ends on the date of the General Meeting in 2013.

After the end of H1 2008, the composition of the Management Board also changed. The Supervisory Board at its meeting of 5 September 2008 appointed Ms Katrin Katerbau to the BRE Bank Management Board to replace Mr Andre Carls. Ms Katerbau has been with the Commerzbank Group since 1994, and was Board Member and CFO of comdirect bank AG in 2004 - 2008.

In addition, on 19 May 2008, the Chairman of the Supervisory Board of BRE Bank SA decided to recommend to the Bank's Supervisory Board at its meeting this autumn the candidature of Mr Przemysław Gdański to be appointed Management Board Member and Head of Corporate Banking. On the Supervisory Board Meeting on 5 September Mr Gdański was appointed Board Member responsible for Corporate Banking starting from 19 November. He will take over the responsibilities from Mr Bernd Loewen (who manages the Corporate Banking and the Investment Banking areas as of March 2008). Mr Przemysław Gdański was recently Bank Pekao S.A. Deputy President for Corporate Banking, Markets and Investment Banking.

XIII. Statements of the Management Board of the Bank

True and Fair Picture in the Presented Reports

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

- IFRS Consolidated Financial Statements for the first half of 2008 and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of the BRE Bank Group as well as its financial performance;
- Management Board Report on the Business Activity of the BRE Bank Group in H1 2008 presents a true picture of the developments, achievements, and situation of the BRE Bank Group, including a description of the main risks and threats.

Appointment of the Auditor

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

Signatures of Members of the Management Board of BRE Bank SA

Date	Name	Position	Signature
10.09.2008	Mariusz Grendowicz	President of the Management Board, General Director of the Bank	
10.09.2008	Wiesław Thor	Deputy President of the Management Board, Head of Risk Management	
10.09.2008	Karin Katerbau	Member of the Management Board, Head of Finance	
10.09.2008	Bernd Loewen	Member of the Management Board, Head of Investment Banking	
10.09.2008	Jarosław Mastalerz	Member of the Management Board, Head of Retail Banking	
10.09.2008	Christian Rhino	Member of the Management Board, Head of Operations and IT	