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Chairman of the Risk Committee*

Frankfurt / Main, Germany
22nd of February 2010

Report on the activities of the Risk Committee of the Supervisory Board of BRE Bank S.A. for 2009

The Risk Committee (RC) of the Supervisory Board of BRE was established in 2004. Its current composition was defined in 2008. The RC carried out its activities in 2009 pursuant to the rules set in the By-Laws of BRE Bank S.A. The structure of the Risk Committee has remained unchanged since the end of 2008, namely with the following members:

Mr Michael Schmid (Chairman of the Risk Committee and Member of the Supervisory Board)
Dr Andre Carls (Member of the Supervisory Board)
Mr Maciej Lesny (Chairman of the Supervisory Board)
Mr Waldemar Stawski (Member of the Supervisory Board)

As intended, the Risk Committee held its meetings on a quarterly basis in 2009, namely in March, May, September and November 2009. The minutes of the Risk Committee were presented to and approved by the full Supervisory Board. According to the tasks outlined in the By-Laws of BRE, the Risk Committee exercised regular supervision of credit risk, market risk and operational risk in the course of 2009 – based on the reports presented by the BRE Chief Risk Officer (CRO), Member of the Management Board, and on the quarterly risk reports as well as other documentation submitted to the Risk Committee on a regular basis. Special topics of 2009 can be followed in the RC agendas.

Operations

In 2009 the Risk Committee analysed, discussed and voted on nearly 100 cases/issues according to the parameters defined by the Supervisory Board. Some of these were classified as “out of policy” and were therefore recommended by RC as to decline.

Portfolio analyses, which were initiated in 2008, were carried on in 2009. In particular, a restructuring process of the FX Options portfolio took place and was closely observed by the Risk Committee. The LLP in consumer loan business mainly resulting from one product family was analyzed and led to the RC advice to improve the process and controlling tools. Developer portfolio was another subject of discussions.

The awareness of the bulk risks, which started with a process in 2008 due to the higher increase of CVaR, was continued in 2009. A new bulk risk definition and its structure were defined with the levels depending on PD, EAD and LGD. The Risk Committee intends to guide the process of reducing relevant exposures with the aim to decrease unexpected loss (UL) risk.

The development of the Polish market and possible impacts on BRE Bank S.A. were regularly discussed during the meetings.

The Risk Committee has supported and monitored the process of sharpening of the credit conditions in BRE Bank as a reaction to the deteriorating financial situation in the world.

Due to the increase of LLP during 2009, the Risk Committee has requested that the list of new LLP shall be reported to the RC Chairman on a monthly basis. Moreover, defaulted exposures shall be presented to the Risk Committee in case the set LLP parameters exceed.

In the last quarter of 2009 the Risk Committee initiated a discussion of the credit risk strategy. BRE provided the current version of the guideline thereto for 2010, defining e.g. rating cutoffs, LtV etc. The RC Chairman agreed on the final result in December 2009, which shall be presented at the next RC meeting.

On the organisational side, the Risk Committee recommended to strengthen the Intensive Care activities with the direct report to the CRO. In addition, a new credit application format for the performing loans was introduced.

Regulatory issues:

KNF audit on derivatives took place and the findings were presented to the Risk Committee. These findings as well as those of the Internal Audit were dealt with and the progress was regularly reported during RC meetings. As a result, BRE was asked by RC to set up steering tools using ratings, RD and to strengthen EL in order to make the credit risk decisions more risk-return-oriented.

The Basle II project, namely introduction of AIRB standards in BRE, was monitored and discussed by the Risk Committee on a regular basis. The project achieved a number of milestones in 2009 and the application on AIRB implementation had been submitted to KNF before year end, as it was scheduled in the project plan. It will be carried on in 2010 and is planned to be completed in the second half of 2010.

Last but not least, the process of issuing recommendations by the Risk Committee was amended in order to fulfill the KNF requirements. An interim solution ensuring an efficient decision-making process at BRE was introduced. The final version including adjustments of the rules and regulations for the Risk Committee, adopted by the Supervisory Board, will be implemented shortly.

Michael Schmid
Chairman of the Risk Committee

