BRE BANK SA

Our people make the difference.

Management Board Report on the Performance of BRE Bank Group SA in H1 2013

Warsaw, August 1, 2013

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I. BRE Bank Group - H1 2013 summary

I.1. Continuous improvement of BRE Bank Group's financial standing

During the first half of 2013, BRE Bank Group generated total income amounting to PLN 748.8 million in comparison to PLN 817.8 million in H1 2012 (PLN -69.0 million, i.e. -8.4%). Net profit attributable to BRE Bank shareholders amounted to PLN 596.4 million compared to PLN 650.6 million a year earlier (PLN -54.2 million, i.e. -8.3%).

The main factors determining the changes in the results were the following:

- **Decrease of core income**, i.e. net interest income and net fee and commission income that altogether amounted to PLN 1,457.8 million, representing a decrease of 5.7% compared to H1 2012, when they amounted to PLN 1,545.5 million. Net interest income was negatively affected by the monetary easing but was partially mitigated by deposit re-pricing efforts of the Bank. Net fee and commission income was under pressure of lower interchange fees.

- **Increase of loans and advances** to both corporate and retail customers. Excluding reverse repo/buy sell back transactions and FX fluctuations, gross loans and advances to corporate customers increased by approximately 1.7% in H1 2013. Retail loans, excluding the FX effect, increased by approximately 0.9%.

- **Maintaining strong cost discipline in a challenging market environment**: cost to income ratio increased to 46.7% compared to 43.5% at the end of H1 2012. In H1 2013, total revenue decreased by 4.5% compared to a previous year, while costs increased by 2.6%.

- **Continued cautious risk management policy** resulting in the decrease of risk costs from 66 basis points in H1 2012 to 55 bps at the end of June 2013.

- Further business expansion as demonstrated by:

    - **Strong retail customer acquisitions** supported by the launch of a new online retail banking platform (new mBank); at the end of H1 2013 there were 4,269 thousand retail customers, representing an increase of 6.8% compared to the end of June 2012.

    - **Increase of retail customer product penetration** reflected in further improvement of cross-selling ratio amounting to 3.27 in H1 2013 compared to 3.16 a year earlier.

    - **Growing number of corporate customers** reaching 15,602 in H1 2013 (an increase of 949).

- As a result of the aforementioned developments and profit retention, the Group reported the following profitability ratios in the reported period:

    - Gross ROE of 16.0% compared to 20.2% at the end of H1 2012,

    - Net ROE of 12.8% compared to 16.0% in H1 2012.

The capital adequacy ratios of BRE Bank Group remained at a sound and stable level. The capital adequacy ratio stood at 18.18% at the end of June 2013 compared to 14.84% a year earlier, while Core Tier 1 ratio amounted to 13.10% compared to 10.10% at the end of June 2012. The change is mainly a result of the implementation of the AIRB methodology for the calculation of capital charge and own funds.

I.2. Key projects of BRE Bank Group in H1 2013

In the first 6 months of the year, a number of key projects related to the strategy announced in 2012 were developed. The projects of utmost importance were as follows:

I.2.1. Rebranding of BRE Bank Group

On June 4, 2013, BRE Bank announced the commencement of rebranding proceedings of the Group, which will ultimately lead to the replacement of BRE Bank and MultiBank brands with mBank brand. The decision of introducing a homogenous brand for the whole BRE Bank Group (including subsidiaries) aims at full exploitation of the Group's potential. It is a response to the changing reality in which the market requires from the Bank greater flexibility, simplicity and adaptation. The creation of a single brand will enable the Bank to strengthen its position in the banking market with optimal use of marketing budgets.

The choice of mBank as the leading brand for the Group was predominantly driven by its popularity among Customers as well as potential for further, dynamic development. Having operated on the Polish market for 12 years, and in the Czech Republic and Slovakia for 5 years, mBank brand has become a synonym of friendly and innovative banking.

The changes are planned mainly in the field of image adjustment, though their principal goal is to create coherent banking offer that unites the experience of BRE Bank together with retail brands: mBank and MultiBank, as well as Private Banking & Wealth Management. As a consequence of these changes, Customers will have access to the best products and financial services, heretofore offered under a few signboards, in one place.

The new logo of BRE Bank Group does not imply a change to the model of neither corporate nor retail Customer service. Advisors in branches will remain at Customers' disposal. Refreshed branches will obtain a more ergonomic and modern appearance, suitable for diversified needs of different customer groups.

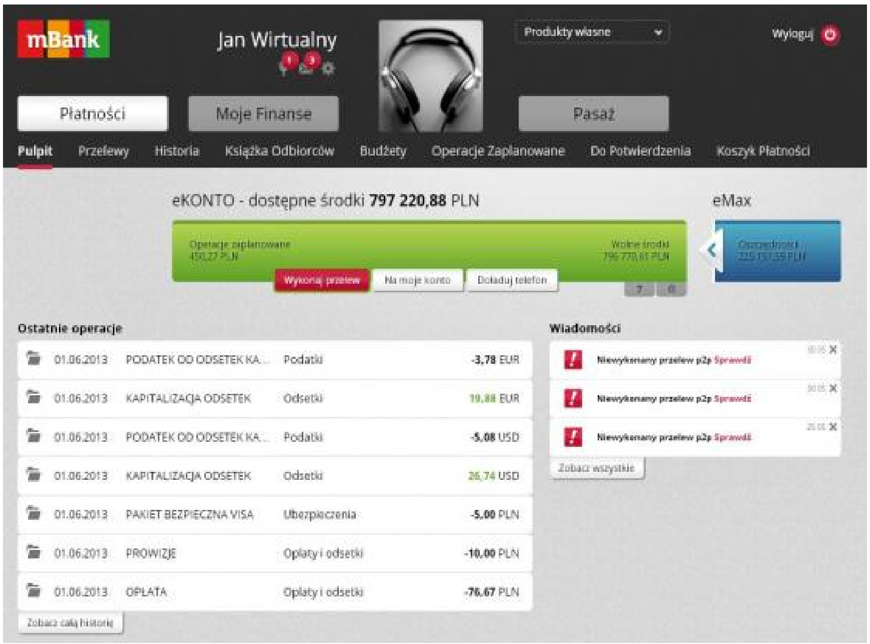
Rebranding of BRE Bank, MultiBank and subsidiary companies will have finished by the end of November 2013. By then, currently used logos will have been replaced with new ones. Moreover, at the website of mBank, apart from retail offers, it will be possible to find tabs referring to corporate banking, private banking and subsidiaries.

Rebranding is an opportunity to refresh the existing mBank's brand. The new transactional platform of mBank, which was prepared as a part of the New mBank project (further details in chapter I.2.2.), reflects the new concept of branding and its color scheme.

1.2.2. Launch on new mBank

On June 4, 2013, a new online retail banking platform was launched as a part of the New mBank project. Works on the project were conducted from Q1 2012 and the service launch coincided with the announcement of BRE Bank Group rebranding.

The core idea guiding BRE Bank during the platform design was to simplify it, making it more ergonomic and quicker in use. This was accomplished through minimizing the number of clicks and screens necessary to make a transfer, check the account's history or buy another banking product. These features enable customers to save time and facilitate comprehension of one's past, present and even forthcoming financial standing. The new platform seeks to encourage customers to make use of products and services more frequently.



Each and every element of the new platform was thoroughly considered and designed entirely from scratch. Visually, it is concordant with the new branding concept of the Group, presenting new mBank logo. There is a world of difference between the new mBank interface and the previous one.

The new platform is not only about the design but it also introduces over 200 new features and improvements, among which there are *inter alia*:

- discount programme mOKAZJE, through which it is possible to earn money while shopping, since it partially reimburses expenses, without requiring clients to take any additional actions;
- „smart" transaction search engine, in other words „finding instead of searching"; simple skimming through transactions and the results are displayed in real time;
- Personal Financial Management (PFM) which facilitates managing household budget in order not to be surprised with the balance on one's current account at the end of the month; the system shows when and on what was the money spent in a clear and transparent way, as well as forecasts how much of it will remain until the end of a particular month;
- transactions via SMS and Facebook, due to which it is not necessary to remember accounts numbers: being friends in social network or having one's mobile phone number is sufficient; transfers are like messages to which money is attached;
- mGRA, the first Polish example of implementing so-called gamification in an online banking platform. This module simplifies learning about new tools, services and functions of mBank. The game explains in a friendly way how to use the introduced new features and rewards for providing correct solutions to the exercises.

In Q1 2013, the design team of New mBank participated in a prestigious conference – Finovate Europe, during which the project of new online retail banking platform of mBank was presented. The presentation itself was considered to be one of the bests in London and New mBank was named "Best of Show".

The new online retail banking platform will also be launched in the Czech Republic and Slovakia.

Works on the second phase of the project will be conducted in H2 2013. Apart from further development of previously mentioned features, new and innovative ones will be implemented.

I.3. Distinctions and awards

In the first half of the year, BRE Bank and its subsidiaries were appreciated by both the clients and external experts, which was reflected in numerous awards and distinctions granted to the Bank.

The most important of these include:

- BRE Bank was named "Best Bank in Poland" in the annual contest „Best Emerging Market Banks in Central and Eastern Europe" organized by Global Finance Magazine. The international jury based their assessment on a research conducted via surveys, thoroughly gleaned information as well as analysts' and banking advisors' assessment. There were several factors taken under consideration, *inter alia*: growth in assets, financial results, quality of customer service and competitive pricing. Innovative approach was yet another criterion of the utmost importance.

- MultiBank was granted an award for the Quality of Service, winning in the "area of finance" category for the fifth time. Users of the website jakoscobslugi.pl were the jury. Winners of the contest are included in the TOP 100 ranking and are named "the friendliest company". They also obtain a sign of high service quality – "Gwiazda Jakości Obsługi". Polish Customer Satisfaction Index, which is based on the customers' assessment, amounted to 93.6% for MultiBank, while overall index in the area of finance (banking, finance, insurance) was 69.0%. MultiBank's score was the highest among all classified financial institutions included in the research.

- In the contest organized by the Banking-Magazine, mBank's information service was named the best website among all Polish banks' websites in the category of commercial banking. The jury assessed 33 websites of commercial banks and 371 of cooperative banks paying careful attention to the layout and, most importantly, usefulness, lucidity and clarity of information provided. Additional points were also granted for an appropriate graphic composition and other functionalities.

- Private banking of BRE Bank was named the best in Poland for the sixth time by the Euromoney Magazine – a prestigious British financial magazine. The quality of provided services together with customer service and a range of offered products were assessed. Annually, Euromoney conducts a survey among financial institutions offering services to affluent clients worldwide. In Poland, services provided by BRE Private Banking & Wealth Management have been winning this ranking year on year since 2007.

- Once more, MultiBank topped the ranking of "Jakość na bank TNS Polska". The research was conducted by the TNS Polska, Deloitte and Puls Biznesu. Mysterious customers visited 22 banks, assessing the standard of provided services (*inter alia* aesthetics of the branch, appearance of the employee, neatness of the workplace and, most importantly, the analysis of needs and presentation of the offer). MultiBank improved its last year's result by 1.5 p.p. (record-breaking result of 83.3%).

- Dom Inwestycyjny BRE Banku (DI BRE) was once more appreciated by the domestic brokerage analysts. In the ranking of top stock exchange analysts, the following DI BRE's analysts were distinguished: Kamil Kliszcz and Iza Rokicka (the collation was prepared by Gazeta Giełdy Parkiet based on the anonymous surveys conducted within a group of 21 stock exchange analysts).

- BRE Bank is found to be one of the top companies in reference to employing talented people in the Employer Branding Stars contest. It is a contest of campaigns directed to employers and labor market, whose organizers are HRstandard.pl – HR area website, and Employer Branding Institute (qualified pieces of work were assessed by the jury comprising of HR, internal communication, PR, media, employer branding, advertising, marketing and social media experts).

II. Strategy for Years 2012 – 2016 and its realization

A number of BRE Bank Group activities during H1 2013 were based on the principles of the Strategy for 2012-2016 approved by the Supervisory Board on July 25, 2012.

The core concept underlying the Strategy is „One Bank" – an organization that is more integrated and customer-centered.

The integration as part of „One Bank" refers to all the aspects of Bank's activities, i.e. business lines (e.g. Corporate and Investment Banking offers' integration or integrated offer for Retail Customers), cultural activities (e.g. common and determined system of values and the development of instruments supporting internal employees' rotation) as well as financial activities (excelling in integrating the management of Bank's balance and profit and loss account).

The programme of implementing the Strategy includes strategic initiatives that center upon the following categories ("5C"):

- **Customers:** creating an entirely new quality of retail banking – New mBank (further details in chapter I.2.2.). The area of small and medium-sized companies became an important element of customer-centered organization. Present business model supports their development on every stage of their life cycle. Additionally, the Bank commenced the process of meeting customers' demands as a part of "One Network", in other words - universalization of branches network. In the nearest future, a gradual infrastructure integration of current retail and coprorate branches will begin.
- **Capital:** obtaining, as one of the firsts in the country, the Polish Financial Supervisory Authority (PFSA) acceptance as well as BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht) acceptance for full implementation of the Advanced Internal Ratings-Based Approach methodology (AIRB). Furthermore, in order to improve managing the decisions regarding the choice between returns and risk level, the Bank commenced working on a wider scope of implementing Risk Adjusted Performance Measure (RAPM) system. In H1 2013, the Bank continued a project that is to improve binding balance and profit and loss account management as well as monitor opportunities for further diversification of broader funding sources.
- **Competences:** concentrating on building strategic competences, which will provide a permanent advantage over competitors as far as cooperation with customers is concerned. In case of Corporate Banking, the pressure is put on regular integration of basic banking offer with financial solutions and advisory offered within Investment Banking as well as via specialist subsidiaries. Moreover, simultaneously built sector expertise of advisors is incrementaly becoming a characteristic of the Bank's relations with corporate customers. In Retail Banking, the mobile banking project is realised with 5 other banks, which goal is to build a common infrastructure for mobile payments in Poland.
- **Culture:** the concept of „One Team" based on strategic-goals oriented employees. The core idea of changes in the organization's culture is management based on cooperation, trust and open communication. The Bank has taken up several internal initiatives that aim at increasing internal rotation and employees' engagement.

- **Costs:** increasing the efficiency via internal processes optimalization (e.g. branch infrastructure integration focused on one brand, marketing costs etc.)

The condition to develop the Strategy is *inter alia* its comprehension and support of employees. In H1 2013, the Bank continued the One Bank Academy project launched in 2012, covering workshops on One Bank Strategy dedicated to BRE Bank employees and conducted by experienced managers.

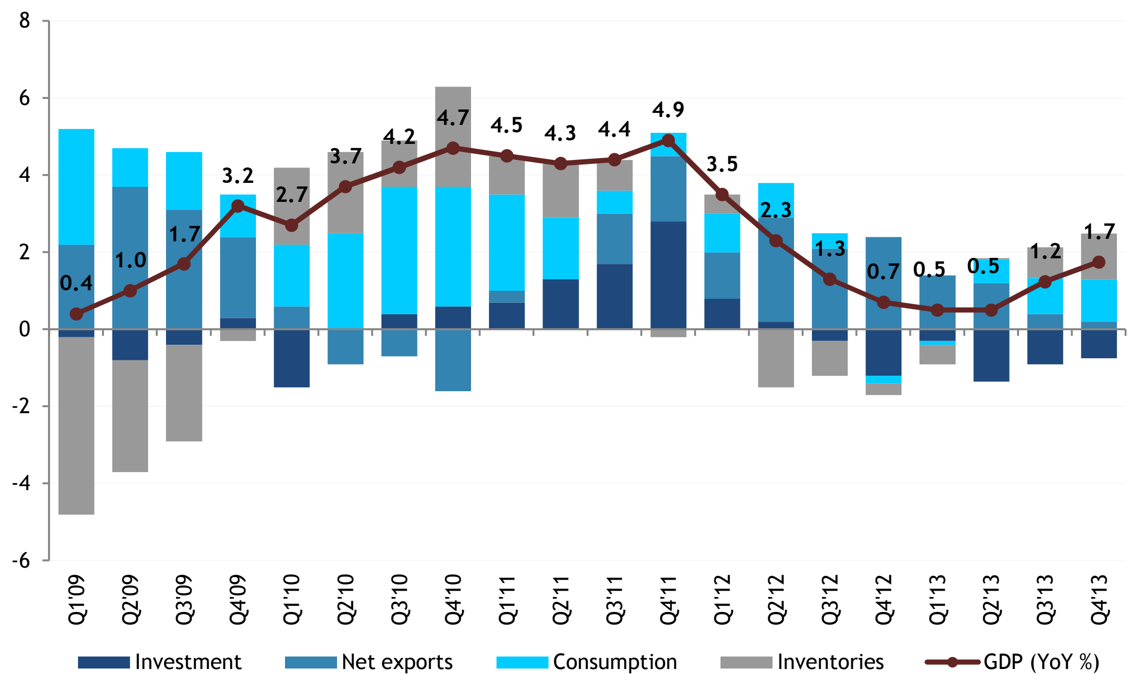
III. Economy and the banking sector in H1 2013

III.1. Economic slow-down hits the bottom

In H1 2013, the Polish economy was growing at a rate close to zero: GDP grew by 0.5% year on year in the first three months and, based on available data, the economy is estimated to have grown at a similar rate in Q2, as its growth probably did not slow down. This suggests that the current phase of the market cycle hit the bottom in Q1. The signals generated in the last few months justify some cautious optimism about the short- and mid-term outlook of the Polish economy. Their sequence corroborates the expectations of the recovery mechanisms.

First of all, real incomes of the population increased dynamically in H1 2013 owing to low (and decreasing) inflation as much as still growing nominal wages and social benefits in conditions of a relatively stable labour market which is resilient to the downturn. As a result, the growth rate of private consumption was positive though low in H1 2013 while households gradually rebuilt their savings. A relatively low growth rate of retail sales, especially in the first three months of the year, corroborates this diagnosis; however, it is important to note that consumers were actively buying durable goods in Q2, a good prospect for the coming months. The improving sentiment of households and increasingly optimistic expectations of their financial standing also suggest that consumption is bound to be soon back on track of growth.

Contribution to GDP growth



Second, investments continued to decrease in H1 2013. According to the Polish Central Statistical Office (GUS), the growth rate of gross investments in fixed assets was negative at -2% year on year.

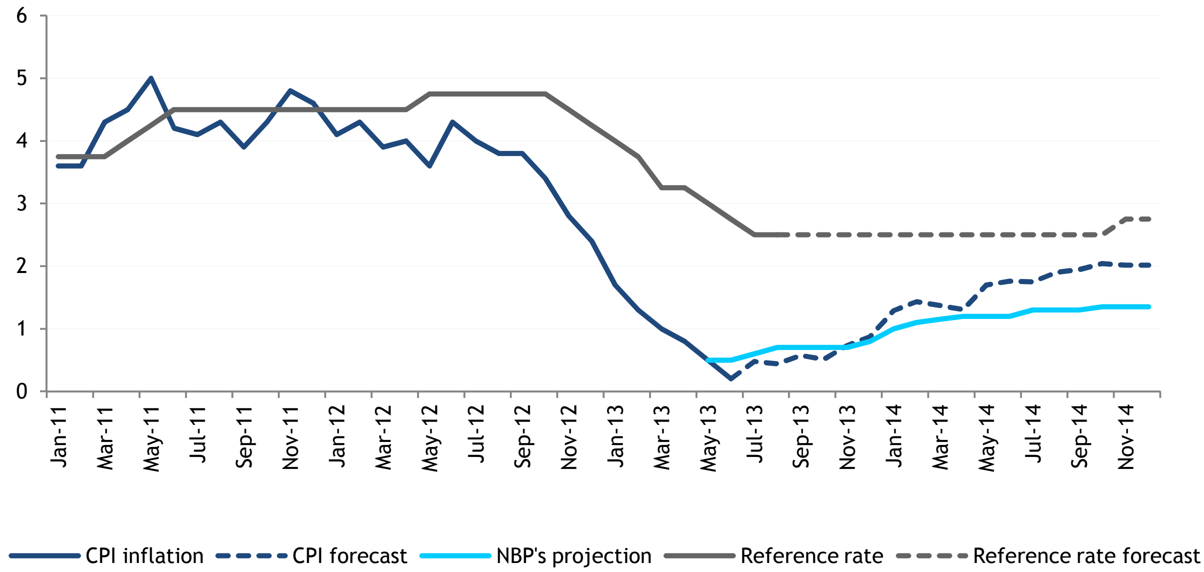
The outlook of investments remained ambiguous in the next quarter. As a result of the significant base effect, the construction sector reported a record-low growth rate while the growth of investments in machinery and equipment most probably accelerated. This is evident in the significant improvement of the growth rate of production of investment goods. As a result, in the opinion of the Bank, investments remained a factor constraining economic growth also in Q2; however, the situation in the sector of investment goods is bound to improve. In the first place, the gigantic base effect in public infrastructure will disappear and new contracts under the new EU financial perspective will come into play. As a secondary effect, investments in machinery and equipment will accelerate as companies must first start to believe in improvement of the economy.

In view of the weak domestic demand and the high sensitivity of imports to the downturn on the market, net exports had a stabilising impact in H1 2013. The narrowing trade gap and current account gap suggest an improving external balance of the Polish economy and set Poland apart among the emerging markets.

Inflation and Interest Rates

The first half of the year was a time of dynamic deflation: while inflation at 1.7% year on year was well within the limits of acceptable deviation from the NBP target in January, it fell to a record-low 0.2% year on year in June. However, in the opinion of the Bank, the time of falling inflation is over, inflation is likely to rise slowly in the coming months and reach 1.0% at the year's end. Next year, the demand effect arising from the accelerating economy will be accompanied by a high base effect, allowing inflation to return closer to the NBP target than suggested by the projections of the central bank itself.

Inflation CPI and NBP reference rate



The Monetary Policy Council (RPP) started the year with the intent of relaxing the monetary policy and continued the rate cutting cycle initiated in November. The Council made 25 bp cuts at its January and February sessions. In the next months, the Council continued an expansive monetary policy. The Council cut the rates by 50 bp at its March session. Subsequent cuts, by 25 bp each, took place in May and June. The monetary policy relaxation process ended in July and the Polish economy entered the second half of the year with a reference rate of 2.50%.

The key factors of the monetary policy at the end of H1 were, once again, the FX rate and the stability of the Treasury bond market. The prices of T-bonds started to fall in late May in the wake of a sharp increase of expectations that the US monetary policy will tighten, which prompted a weakening of the zloty to a level unheard of in a year. On June 7, 2013, the National Bank of Poland intervened on the FX market to stabilise it and curb its volatility.

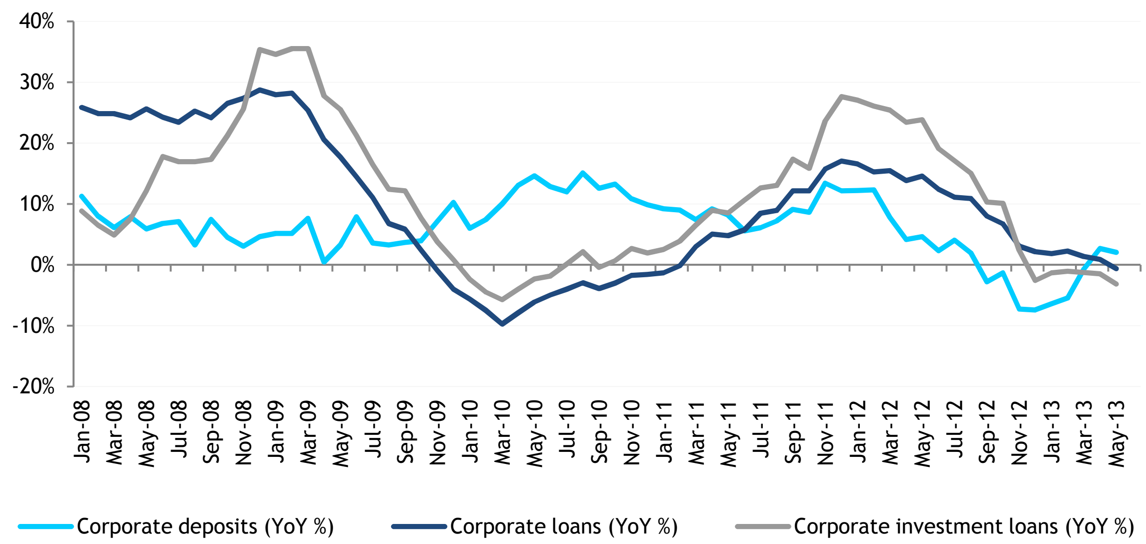
III.2. Money supply and the banking sector mirroring the economy

Developments in the banking and financial sector mirror the trends observed over the past months in the real economy as presented in the previous section. The key of those include:

- continued monetary policy relaxation process, resulting in a decrease of market rates, from interest rates on the interbank market to interest rates on retail deposits and private sector loans;
- change in the structure of households' assets resulting from overall improvement of the sentiment and decrease of interest rates on deposits;
- gradual (and only in selected segments) unfreezing of lending to the private sector combined with a still limited propensity to enter into long-term financial commitments.

Interest rates on bank deposits decreased as a result of the NBP rate cuts in H1 2013. According to the National Bank of Poland, the average interest rate on PLN deposits opened in May 2013 was only 2.81% (v. 4.22% in December 2012 and 4.68% a year ago). Interest rates on corporate deposits decreased in similar proportion. The reduction of interest rates hindered the attractiveness of term deposits and savings accounts. The change in the preferences of households was additionally driven by the stabilisation of the labour market and the improvement of consumer sentiment. As a consequence, the share of term deposits and savings accounts in total deposits of households began to shrink. In May, current accounts balances were greater than term deposits for the first time in almost two years. The growth rate of term deposits decreased sharply from 14.8% in December 2012 to only 3.8% in May 2013. At the same time, the deceleration of the growth rate of household deposits was accompanied by acceleration of net cash flows into investment funds.

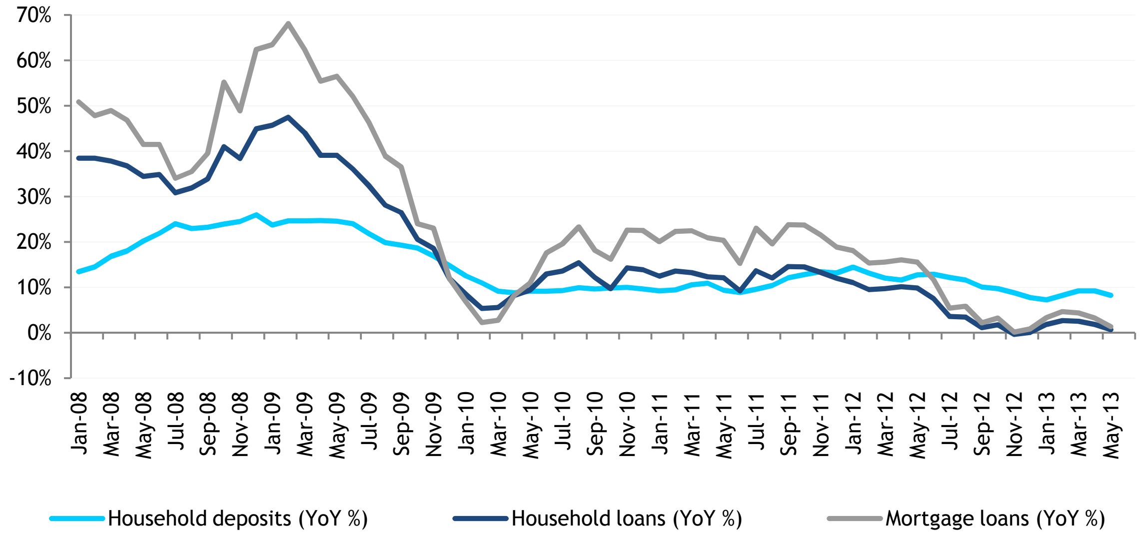
Enterprise loans and deposits



Corporate bank account balances and their growth rate both increased in H1 2013. This was the result of the improvement in corporate revenues combined with a stricter expense and cost discipline.

So far, the impact of the expansive monetary policy on lending on the market has been practically negligible. As for households, while the amount of loans increased substantially, this was mainly driven by the weakening of the zloty in May and June, resulting in an increase in the amount of loans denominated in foreign currencies. The growth rate of household loans net of the FX effect remained low; consumer loans were the only category to report a high increase. In the opinion of the Bank, these developments are in line with the expectations due to both the nature of such loans and their purpose (acquisition of durable goods). The leading role of consumer loans also comes as a response to the more relaxed policy of the Polish Financial Supervision Authority in this area (Recommendation T) combined with PFSA's restrictive policy for housing loans (Recommendation S).

Household loans and deposits



While the housing loan market is affected by the restrictive policy of the Polish Financial Supervision Authority and the expiration of the *Rodzina na Swoim* (A Family's Own Place) programme, demand factors – the financial standing of households and expectations of its future improvement – remain of key importance. As a consequence, the growth rate of real estate loans remains historically low, both in terms of the volume of loans and new lending, where a decrease of more than 20% year on year was reported already in Q1 2013.

Corporate loan statistics leave little room for optimism as well. While the current situation in terms of loan volumes can only be described as stagnation, the growth rate of loans remains very low. That companies have little interest in credit products is corroborated among others by regular surveys conducted by the National Bank of Poland. In the opinion of the Bank, corporate lending will remain limited until the end of the year.

III.3. Changes in the Recommendation S of the Polish Financial Supervision Authority (PFSA)

On June 18, 2013, the Polish Financial Supervision Authority issued an amendment of the Recommendation S concerning good practices related to the management of mortgage-secured credit exposures. Moreover, the amended Recommendation is binding not only for the banks licensed in Poland, but also for branches of credit institutions operating in Poland. Compared to the previous provisions of the Recommendation S, some were either alleviated or made more flexible, while others were tightened or refined (*inter alia* in the field of customer relations and the role of the Supervisory Board).

In particular, changes regard the following matters: foreign currency loans, maximum lending period, maximum period of time taken into account in order to assess one's creditworthiness, limits regarding debt-to-income (DtI) ratio and loan-to-value (LtV) ratio, as well as minimum own financial contribution and customers obtaining casual or unstable revenue.

The most important changes in Recommendation S include:

- adjusting the Recommendation to solutions assumed in amended Recommendation T;
- excluding from the Recommendation credit exposures regarding financing non mortgage-secured real estate;
- further restrictions related to crediting in foreign currency – foreign currency loans, indexing or denominating in foreign currency shall become a product offered solely to customers generating income in the loan currency, assuring regular debt servicing and repayment;
- a more flexible approach towards DtI ratio – the ratio shall be determined by the Management Board of the bank and furthermore approved by the Supervisory Board of the bank within the strategy of risk management. The bank shall take into consideration situations in which DtI ratio exceeds 40% for customers with revenue smaller than the average level of income in a particular region as well as 50% for other customers;
- changing the approach towards LtV ratio – in case of mortgage-backed credit exposures, LtV ratio shall not exceed the level of 80% at the moment of granting a loan or 90% when either a part of exposure exceeding 80% of LtV ratio is appropriately insured or the debtor presented an additional collateral. From January 2014, the own financial contribution in the acquisition of residential real estate on credit shall amount to at least 5% and will increase by 5 pp every year until reaching 20% of own financial contribution in 2017. The level of contribution will also be dependent on additional collateral.

Additionally, according to the PFSA, the bank shall recommend retail customers a credit repayment period not longer than 25 years. In case of customer's decision on a longer period, the bank shall not grant the loan for a period longer than 35 years. If the predicted exposure repayment period is longer than 30 years, the bank shall assume at maximum a 30-year period in the creditworthiness analysis.

The amended Recommendation S becomes effective not later than on January 1, 2014. A part of the Recommendation related to a collateral and risk evaluation shall enter into force on July 1, 2014.

III.4. Factors impacting the banking sector until the end of 2013

In the opinion of the Bank, economic growth will accelerate in H2 2013. As consumption gets back on track of growth, the outlook of companies in terms of demand and financial standing improves and the uncertainty around the trajectory of market developments decreases, companies' propensity to invest will rise. The Bank expects GDP to grow by 1.7% year on year at the end of 2013 and by ca. 1% in all of 2013. In 2014, following the end of fiscal tightening and the launch of new public investments, economic recovery will rest on more lasting foundations.

The NBP rate cuts in H1 2013 were reflected in a decrease of corporate deposits, a reduction of the share of term deposits and savings accounts of households in total deposits, and net cash flows into investment funds. In the opinion of the Bank, these developments will continue into the coming months.

The restrictive policy of the Polish Financial Supervision Authority and the expiration of the *Rodzina na Swoim* (A Family's Own Place) programme have had a significant impact on the housing loan market and there are no signs of its improvement in H2 2013. In the opinion of the Bank, corporate lending will also remain limited until the end of the year. The Bank expects the growth rate of corporate loans to reach 1.0% in 2013 and to rise up to 3.2% in 2014.

IV. BRE Bank Shareholders and share price on the WSE

IV.1. BRE Bank shares as of June 30, 2013

The following key characteristics of BRE Bank shares can be highlighted:

- Total number of BRE Bank shares: 42 141 986 ordinary and bearer shares.
- In 2013, the total number of shares increased by 3 010 due to an employee incentive programme.
- There are no preferred shares.
- Nominal value per share: PLN 4.00.
- Registered share capital: PLN 168 568 thousands, fully paid up.
- BRE Bank shares have been listed on Warsaw Stock Exchange (WSE) since 1992.
- The shares participate in the following WSE indices: WIG, WIG20 and WIG Banks as well as WIG 20 short, WIG 20 lev and WIG-PL.

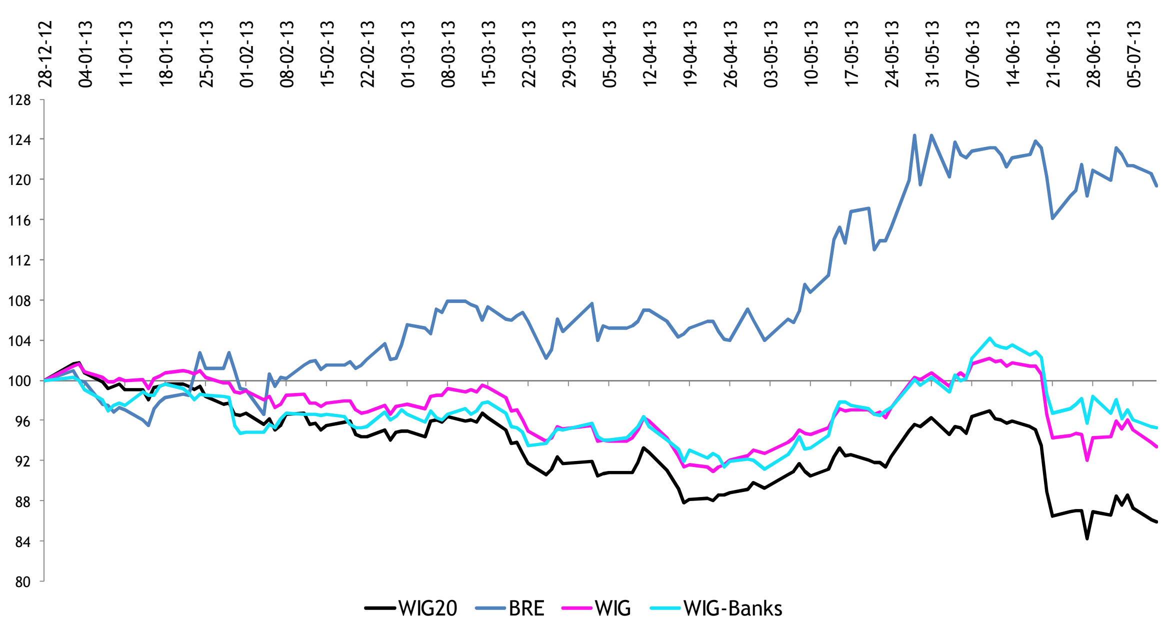
The strategic shareholder of BRE Bank is Commerzbank AG. As of June 30, 2013, Commerzbank had 69.61% of shares and votes at the General Meeting.

Furthermore, the 5-percent threshold of shares and votes at the General Meeting, binding to inform about owned shares, was exceeded by ING Otwarty Fundusz Emerytalny.

IV.2. BRE Bank stock performance

The closing price of BRE Bank shares on the last stock exchange session in H1 2013 (June, 28) stood at PLN 383.00, which means that, in comparison to the price of the last 2012 working day, it increased by 20,9%. Over that period, the main WSE indices performed as follows: WIG, WIG20, WIG-Banks displayed respective decreases: 5.7%, 13.1%, 1.6%. Bank's capitalization as of June 28, 2013, was PLN 16.1 billion, thus it was higher by PLN 2.4 billion compared to December 31, 2012.

BRE Bank stock performance on the WSE - relative changes vs. WIG, WIG20 and WIG-Banks



Consequently, the P/BV (price / book value) multiple for BRE Bank shares stood at 1.7x at the end of June 2013 compared to 1.4x a year earlier. The P/E (price / earnings) multiple stood at 13.5x after the first half of 2013 compared to 9.6x a year earlier.

V. Composition of BRE Bank Group

The main subsidiaries included: BRE Leasing, BRE Bank Hipoteczny, Dom Inwestycyjny BRE Banku, BRE Faktoring as well as the insurance company BRE Ubezpieczenia. In total, 15 companies were consolidated at the end of H1 2013.

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

BRE Bank Group

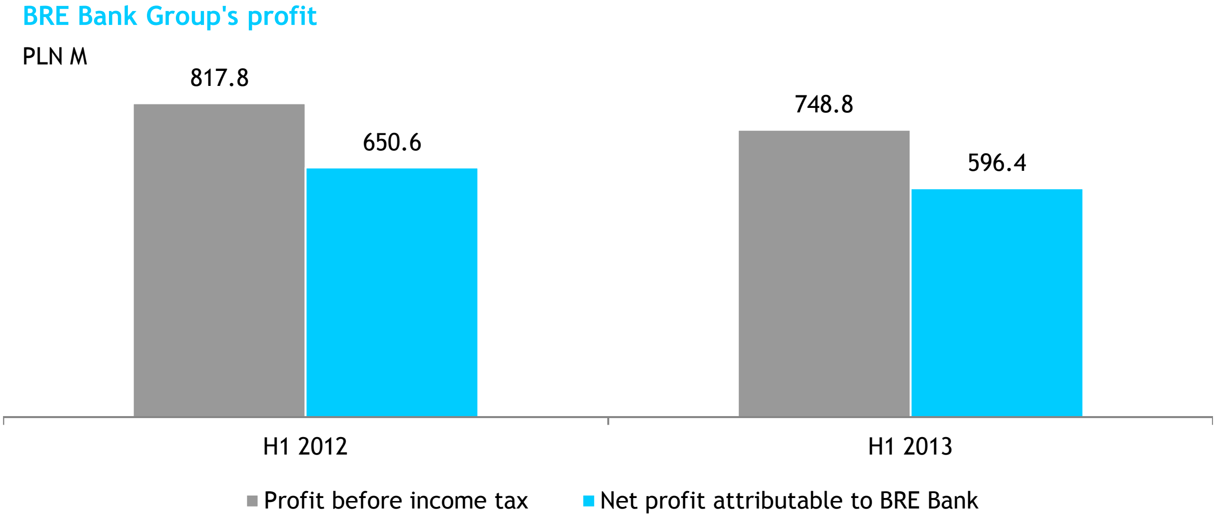
Segment	**Corporates and Financial Markets**		**Retail Banking**
	Corporates and Institutions	**Trading and Investment Activity**	
Bank	▪ Corporations (capital groups) ▪ Large Companies ▪ SMEs ▪ Structured & Mezzanine Finance	▪ Risk and Liquidity Management ▪ Financial Markets ▪ Financial Institutions ▪ Brokerage Activities	▪ mBank (retail customers and microenterprises) ▪ MultiBank (affluent retail customers) ▪ Private Banking
Consolidated subsidiaries	▪ BRE Leasing Sp. z o.o. ▪ BRE Faktoring SA ▪ Transfinance a.s. ▪ BRE Holding Sp. z o.o. ▪ Garbary Sp. z o.o.	▪ Dom Inwestycyjny BRE Banku SA ▪ BRE Finance France SA	▪ BRE Wealth Management SA ▪ Aspiro SA ▪ BRE Ubezpieczenia TUiR SA ▪ BRE Ubezpieczenia Sp. z o.o. ▪ BRE Agent Ubezpieczeniowy Sp. z o.o. ▪ BRE Bank Hipoteczny SA
	Other subsidiaries	▪ BRE.locum SA ▪ BRE Centrum Operacji Sp. z o.o.	

Under IFRS, all subsidiaries are consolidated using acquisition accounting. The business of selected subsidiaries is briefly described in sections covering the relevant business lines.

VI. Financial results of BRE Bank Group in H1 2013

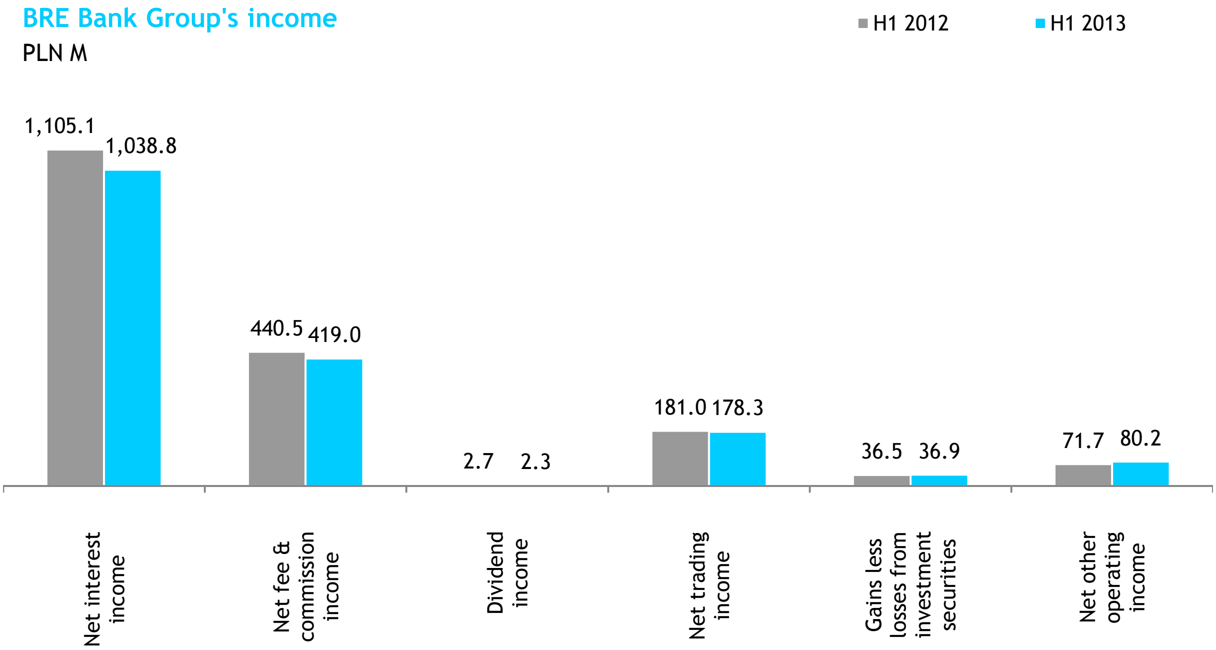
VI.1. Profit and Loss account of BRE Bank Group

During H1 2013 BRE Bank Group generated a profit before income tax of PLN 748.8 million in comparison to PLN 817.8 million registered in H1 2012 (PLN -69.0 million, i.e. -8.4%). Net profit attributable to BRE Bank shareholders amounted to PLN 596.4 million compared to PLN 650.6 million a year earlier (PLN -54.2 million, i.e. 8.3%).



Income of BRE Bank Group

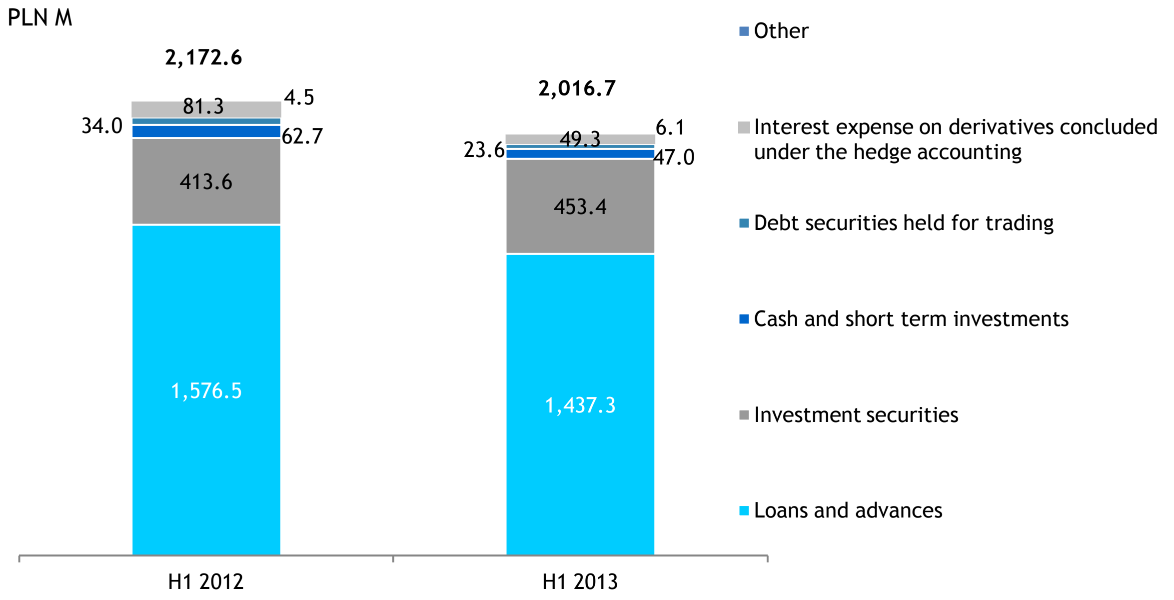
In H1 2013, total income generated by BRE Bank Group amounted to PLN 1,755.5 million compared to PLN 1,837.5 million a year earlier, which represents a decrease of PLN 82.0 million, i.e. 4.5%. The decrease was predominantly driven by cyclically lower net interest income and net fee and commission income.



In H1 2013 **net interest income** remained the Group's largest revenue source (59.2%) reaching PLN 1,038.8 million compared to PLN 1,105.1 million in H1 2012, representing a decrease of PLN 66.3 million, i.e. 6.0%.

The net interest margin of BRE Bank Group, calculated as net interest income to average interest-bearing assets, stood at 2.1% in H1 2013 v. 2.4% in H1 2012.

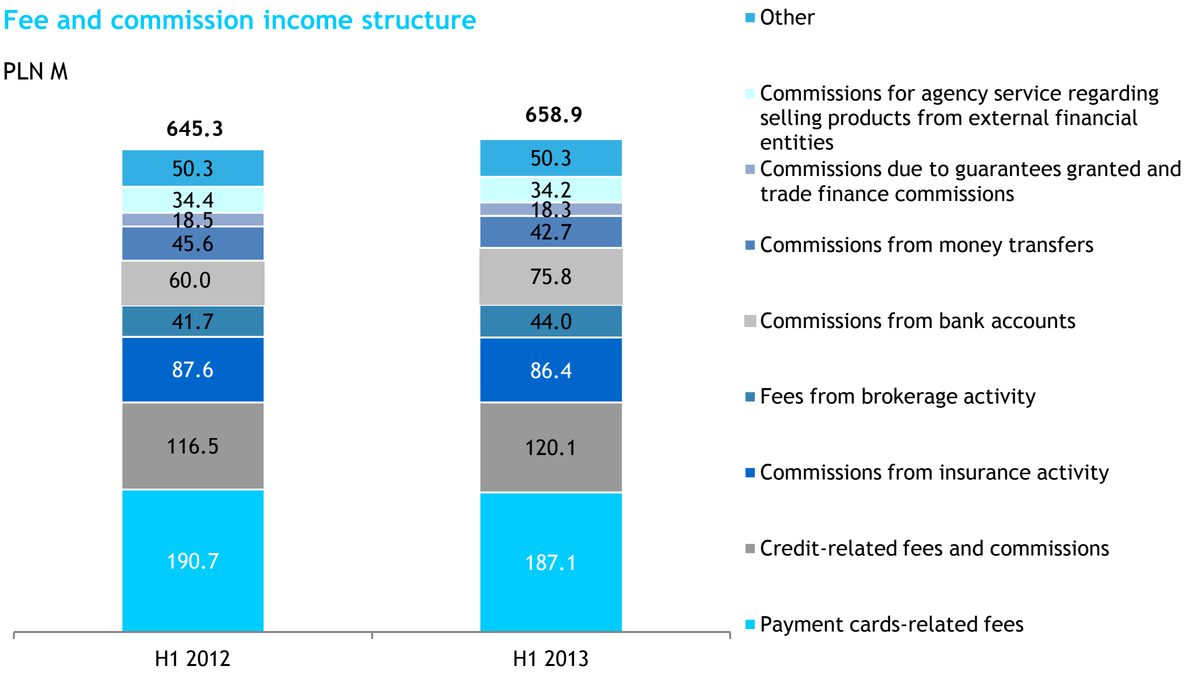
Interest income structure



BRE Bank Group's net interest income decreased by PLN 155.9 million (i.e. 7.2%). Loans and advances to customers remained the main source (71.3%) of interest income. Interest income on loans and advances to customers decreased by PLN 139.2 million, i.e. 8.8% compared to the previous year. This was predominantly driven by lower levels of market interest rates, triggered by loosening of the monetary policy by the Monetary Policy Council. The decrease was partially compensated by higher average volume of loans and advances in H1 2013 compared to H1 2012. The growth of average volume of investment securities in the reported period resulted in an increase of related interest income by PLN 39.8 million (i.e. 9.6%). Interest income on debt securities held for trading decreased by PLN 10.3 million (i.e. 30.5%) as a result of lower average volume of these instruments. Interest income on cash and short term deposits decreased by PLN 15.7 million (i.e. 25.0%) compared to H1 2012. At the same time, a decrease in interest income on derivative securities amounting to PLN 32.1 million (i.e. 39.4%) was reported. Both changes were mainly driven by the decreasing interest rates in H1 2013.

Compared to H1 2012, interest expenses in H1 2013 decreased by PLN 89.6 million (i.e. 8.4%). In particular, as a result of the Bank's active margin management as well as the lower yield environment, interest expenses related to customer deposits decreased by PLN 56.0 million (i.e. 7.5%), while interest expenses associated with bank deposits were lower by PLN 64.2 million (i.e. 32.6%). In the reported period, interest expenses from issuing debt securities increased by PLN 23.7 million (i.e. 30.1%) due to interest expenses generated by the issue of EUR 500 million eurobonds in Q4 2012.

Net fee and commission income, accounting for 23.9% of BRE Bank Group income in H1 2013, declined compared to H1 2012. In H1 2013 it amounted to PLN 419.0 million, which represents a decrease of PLN 21.5 million (i.e. 4.9%) compared to H1 2012. Fee and commission income as well as fee and commission expenses were both higher compared to H1 2012, by 2.1% and 17.2% respectively.



Commissions from bank accounts and fees from brokerage activity registered the highest increases of 26.2% and 5.6% respectively driven by higher customer activity as well as growing number of accounts. Furthermore, the turnover on the Warsaw Stock Exchange increased in H1 2013 compared to H1 2012. Commissions from credit cards decreased by 1.9% compared to H1 2012, due to a decrease of interchange fees, which was partially compensated by greater number of transactions executed by clients.

An increase in fee and commission expense was driven by higher sales volumes. The largest increase was registered in payment cards-related fees (30.1% v. H1 2012).

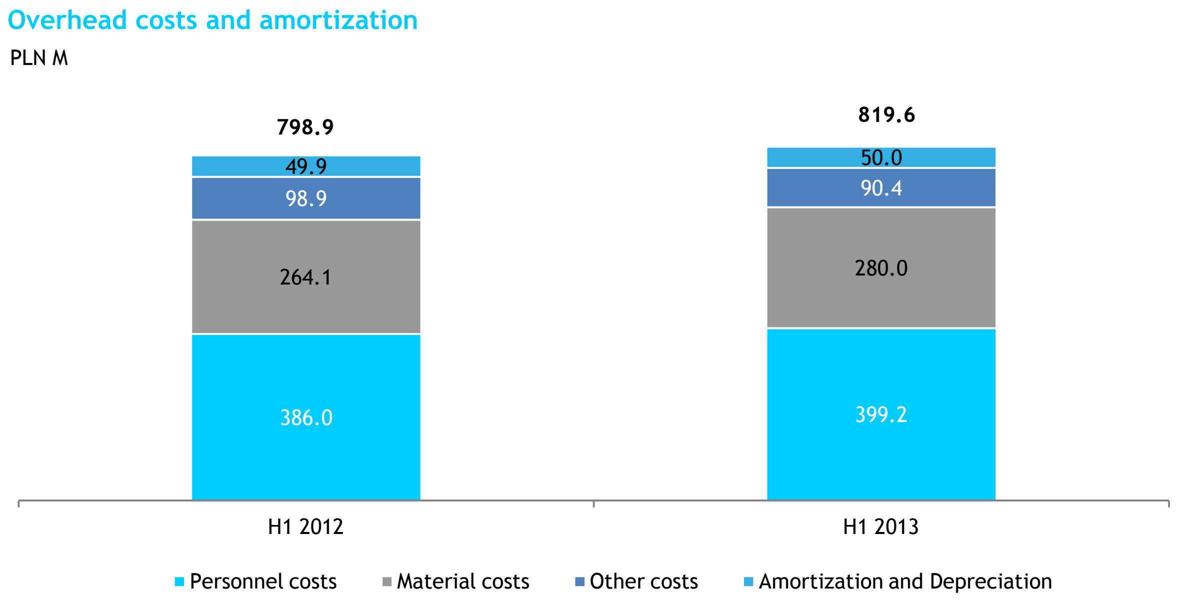
Net trading income amounted to PLN 178.3 million in H1 2013, representing a decrease of PLN 2.7 million (i.e. 1.5%) compared to H1 2012. Net profit on foreign exchange was lower by PLN 9.2 million (i.e. 6.1%) compared to H1 2012 due to reduced client activity in that area. In H1 2013, other trading income increased by PLN 6.5 million (i.e. 23.0%) in the reported period due to the improved result on the interest rate derivatives.

Gains and losses on investment securities remained at a similar level in comparison to 2012 and amounted to PLN 36.9 million. In H1 2013, BRE Bank Group realized gains on the disposal of bonds of PLN 23.8 million as well as its shares in VISA (PLN 11.9 million) and MasterCard (PLN 1.5 million).

Net other operating income amounted to PLN 80.2 million in H1 2013 and was higher by PLN 8.4 million (i.e. 11.7%) compared to H1 2012. This increase relates mostly to the release of provisions for certain future liabilities.

Costs of BRE Bank Group

Total overhead costs of BRE Bank Group (including amortization and depreciation) reached PLN 819.6 million and were higher by 2.6% compared to H1 2012.



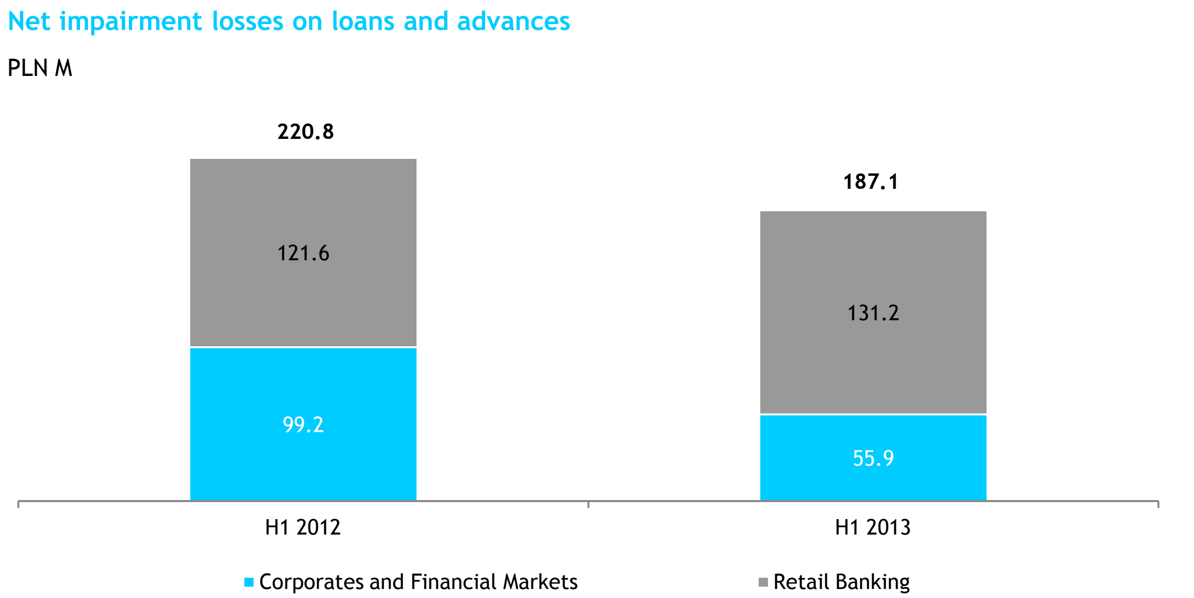
The increase in personnel costs of PLN 13.2 million (i.e. 3.4%) was mainly driven by a higher proportion of variable compensation accrued in H1 2013 compared to H1 2012. At the end of H1 2013, there were 6,107 employees of BRE Bank Group compared to 6,145 at the end of H1 2012. Material costs increased by PLN 15.9 million (i.e. 6.0%), predominantly due to higher marketing costs related to the campaign of New mBank as well as higher costs in the field of information technology.

Consequently, BRE Bank Group's efficiency, measured by the cost/income ratio, deteriorated from 43.5% at the end of H1 2012 to 46.7% in H1 2013.

Net impairment losses on loans and advances

In H1 2013, net impairment losses on loans and advances in BRE Bank Group amounted to PLN 187.1 million, compared to PLN 220.8 million in H1 2012, representing a decrease of PLN 33.7 million, i.e. 15.2%.

The credit risk costs in Retail Banking amounted to PLN 131.2 million compared to PLN 121.6 million a year earlier, which was driven by higher impairments related to non-mortgage loans.



Net impairment losses on loans and advances in Corporates and Financial Markets amounted to PLN 55.9 million in H1 2013, compared to PLN 99.2 million in 2012 driven by a release of provisions for certain exposures registered in Q1 2013.

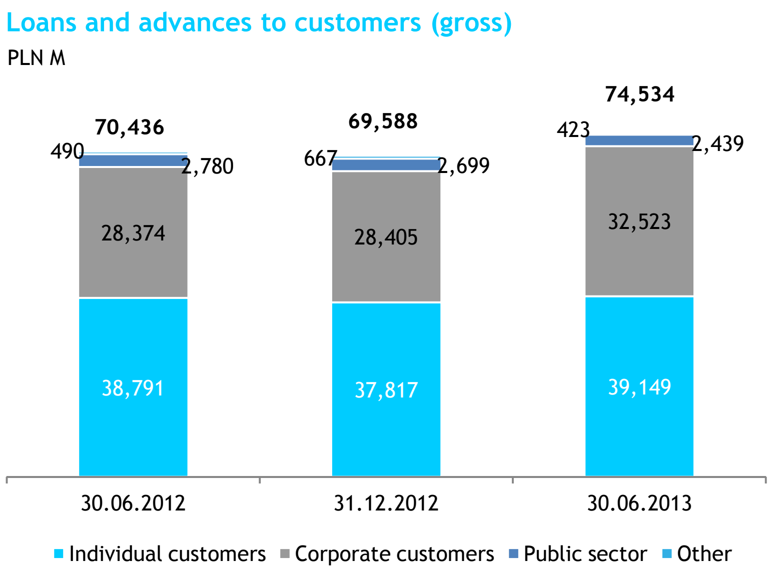
VI.2. Changes in the consolidated statement of financial position

Changes in the assets of BRE Bank Group

In H1 2013, the assets of BRE Bank Group increased by PLN 5,995.5 million (i.e. 5.9%) compared to the end of 2012, amounting to PLN 108,231.5 million as of June 30, 2013.

Assets	30.06.2013		31.12.2012		Δ in PLN M	Δ in %
	PLN M	in %	PLN M	in %		
Cash and balances with Central Bank	2,039.8	1.9%	4,819.2	4.7%	(2,779.4)	(57.7%)
Loans and advances to banks	4,828.5	4.5%	3,944.6	3.9%	883.9	22.4%
Trading securities	1,741.7	1.6%	1,150.9	1.1%	590.9	51.3%
Derivative financial instruments	2,544.4	2.4%	2,802.7	2.7%	(258.3)	(9.2%)
Loans and advances to customers	71,904.3	66.4%	67,059.3	65.6%	4,845.0	7.2%
Investment securities	22,682.0	21.0%	19,993.4	19.6%	2,688.6	13.4%
Intangible assets	415.4	0.4%	436.1	0.4%	(20.7)	(4.7%)
Tangible fixed assets	736.7	0.7%	773.9	0.8%	(37.2)	(4.8%)
Other assets	1,338.7	1.2%	1,255.9	1.2%	82.7	6.6%
Total Assets	**108,231.5**	**100.0%**	**102,236.0**	**100.0%**	**5,995.5**	**5.9%**

At the end of H1 2013, loans and advances to customers maintained the largest share in the balance sheet (66.4% of total assets compared to 65.6% at the end of 2012). The volume of net loans and advances to customers increased by PLN 4,845.0 million (i.e. 7.2%) compared to the end of 2012.



In H1 2013, loans and advances to retail customers increased by PLN 1,332.9 million (i.e. 3.5%) compared to the end of 2012 (excluding the FX effect, retail loans increased by 0.9%) while mortgage loans increased by 2.5%.

At the same time the volume of loans and advances to corporate customers increased by PLN 4,117.9 million (i.e. 14.5%) or 1.7% after adjusting for reverse repo / buy sell back transactions and FX fluctuations.

Gross loans and advances to the public sector decreased by PLN 259.7 million, i.e. 9.6%.

Having increased from 19.6% at the end of 2012 to 21.0% in H1 2013, investment securities constituted the Group's second largest asset category. An increase of PLN 2,688.6 million (i.e. 13.4%) was reported in H1 2013.

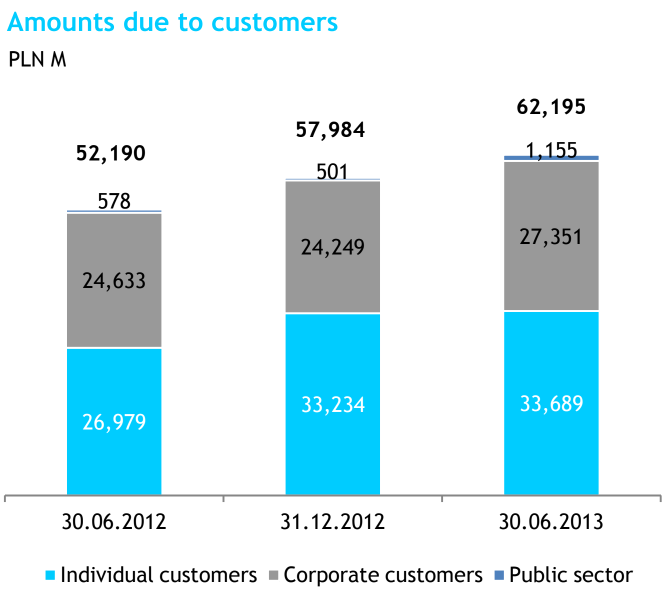
Changes in the liabilities of BRE Bank Group

The table below presents the changes in the liabilities of BRE Bank Group in H1 2013:

Equity and Liabilities	30.06.2013		31.12.2012		Δ in PLN M	Δ in %
	PLN M	in %	PLN M	in %		
Amounts due to other banks	23,427.6	21.6%	21,110.9	20.6%	2,316.7	11.0%
Derivate financial instruments	3,087.8	2.9%	3,476.7	3.4%	(388.9)	(11.2%)
Amounts due to customers	62,195.2	57.5%	57,983.6	56.7%	4,211.6	7.3%
Debt securities in issue	4,904.9	4.5%	4,892.3	4.8%	12.6	0.3%
Subordinated liabilities	3,348.0	3.1%	3,222.3	3.2%	125.7	3.9%
Other liabilities	1,580.0	1.5%	1,840.2	1.8%	(260.2)	(14.1%)
Total Liabilities	**98,543.5**	**91.0%**	**92,526.0**	**90.5%**	**6,017.5**	**6.5%**
Total Equity	**9,688.0**	**9.0%**	**9,710.0**	**9.5%**	**(22.0)**	**(0.2%)**
Total Equity and Liabilities	**108,231.5**	**100.0%**	**102,236.0**	**100.0%**	**5,995.5**	**5.9%**

Amounts due to customers, which accounted for 57.5% of liabilities in H1 2013, remained the dominant funding source of BRE Bank Group. Compared to the end of 2012, their share has increased.

Amounts due to customers increased by PLN 4,211.6 million (i.e. 7.3%) in H1 2013, amounting to PLN 62,195.2 million.



Amounts due to retail customers increased by PLN 455.5 million (i.e. 1.4%) in H1 2013. Term deposits decreased by 24.6% due to the expiry of negotiated deposits offered to customers during 2012.

At the same time, amounts due to corporate customers increased by PLN 3,102.7 million (i.e. 12.8%), largely due to the increase of repo transactions. Excluding repo transactions, in H1 2013, amounts due to corporate customers decreased by 3.9%.

Amounts due to public sector increased in the reported period by PLN 653.4 million (i.e. 130.4%) and amounted to 1,154.6 million at the end of H1 2013.

Amounts due to other banks increased by PLN 2,316.7 million (i.e. 11.0%) to reach PLN 23,427.6 million compared to the end of 2012. The share of this source of funding for the Group increased from 20.6% at the end of 2012 to 21.6% in H1 2013.

The share of equity in the liabilities of BRE Bank Group decreased to 9.0% in H1 2013 compared to 9.5% at the end of 2012 driven by growth of the balance sheet as well as dividend distribution (PLN 421,4 million) in May 2013.

VI.3. Performance Indicators

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

	30.06.2013	30.06.2012
Net ROA	1.14%	1.38%
Gross ROE	16.0%	20.2%
Net ROE	12.8%	16.0%
C/I	46.7%	43.5%
CAR	18.18%	14.84%
Core Tier 1	13.10%	10.10%

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

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

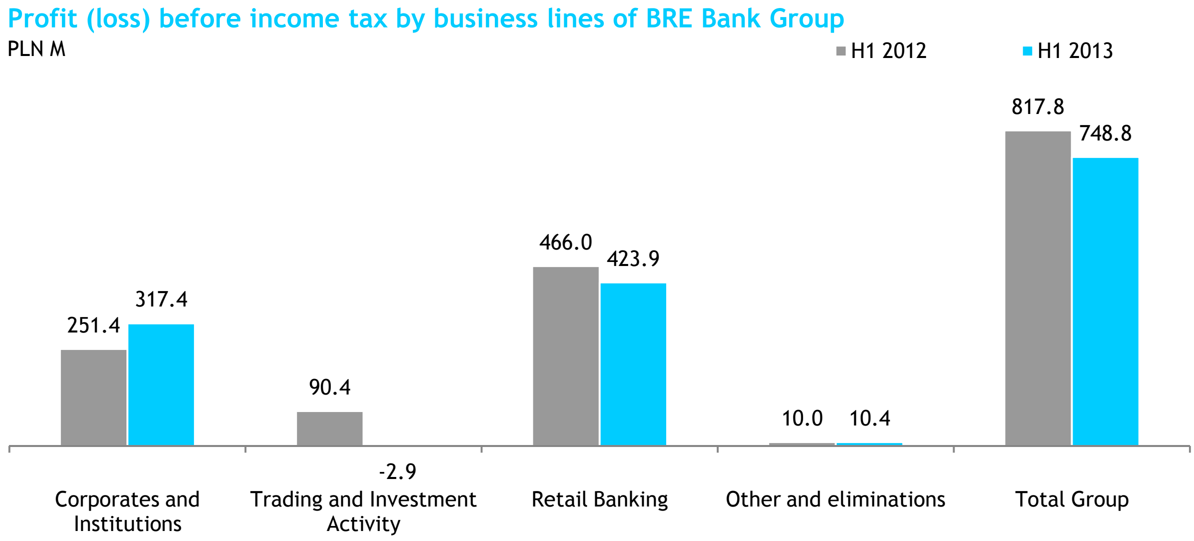
Net ROE = Net profit (including minority shareholders) / Equity (including minority shareholders, excluding current year's profit)

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

The capital adequacy ratio of BRE Bank Group stood at 18.18% at the end of June 2013 v. 14.84% at the end of H1 2012. The Core Tier 1 ratio stood at 13.10% and 10.10%, respectively. The change is mainly the result of the implementation of the AIRB methodology for the calculation of capital charge and own funds.

VI. 4. Contribution of business segments and business lines

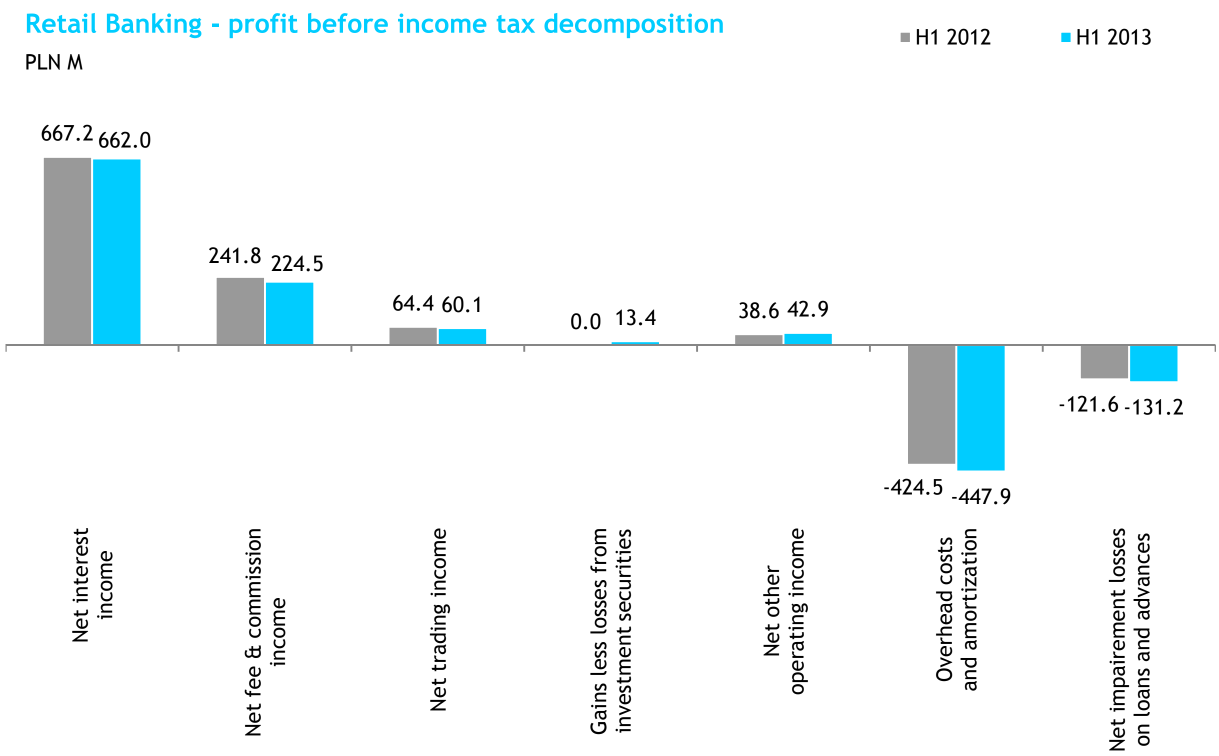
In H1 2013, the segment of Retail Banking was the largest contributor to the Group's profit before income tax. Its contribution remained almost stable with 57.0% at the end of H1 2012 compared to 56.6% at the end of H1 2013. The contribution of Corporates and Financial Markets constituted 42.0% of the Group's profit before income tax. This included results from Corporate Customers and Institutions (42.4%) and Trading and Investment Activity (-0.4%).



Retail Banking

Results of the segment - summary

In H1 2013, the Retail Banking segment reported profit before income tax amounting to PLN 423.9 million, which represents a decrease of PLN 42.2 million (i.e. 9.0%) compared to H1 2012.



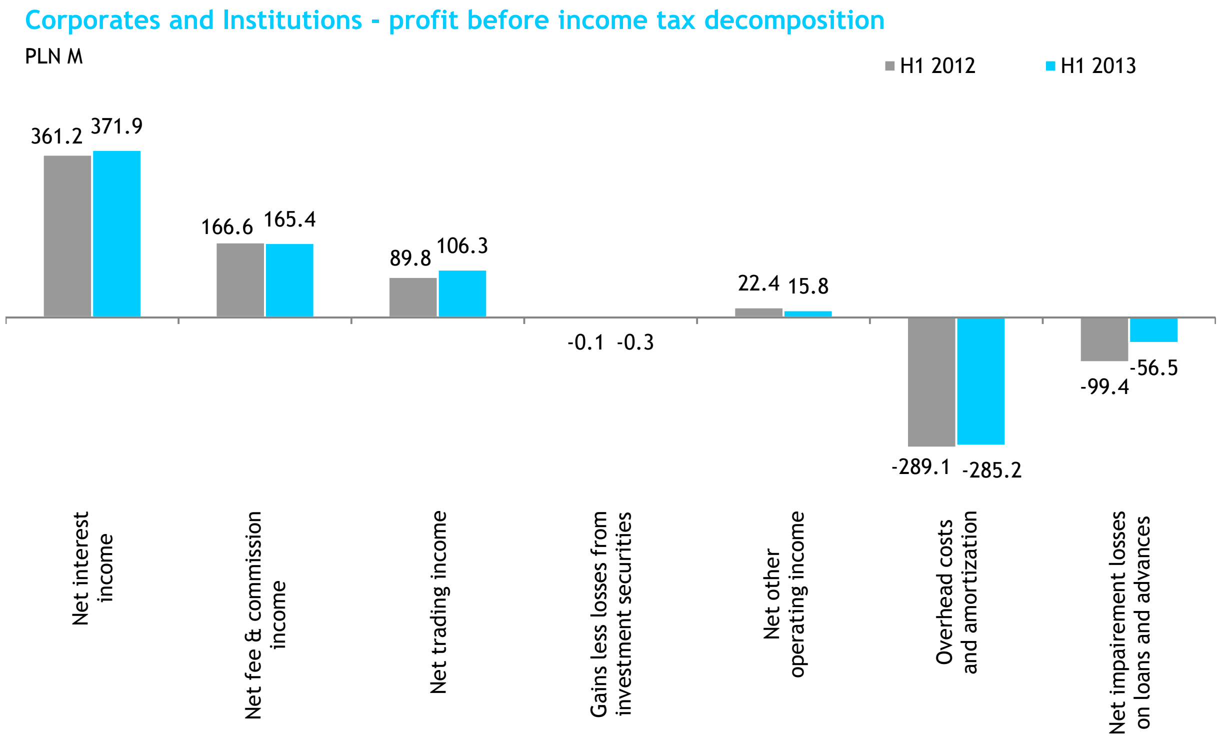
The following factors influenced the gross income result of Retail Banking in H1 2013:

- **Decrease of total income** by PLN 9.1 million (i.e. 0.9%) to PLN 1,003.0 million compared to H1 2012. The net interest income remained at a similar level compared to the previous year, while net fee and commission income decreased by PLN 17.3 million (i.e. 7.2%).
- **Increase of overhead costs** (including amortization and depreciation) by PLN 23.5 million (i.e. 5.5%) to PLN 447.9 million compared to H1 2012, which was largely driven by the increase in personnel expenses and material costs.
- **Increase of net impairment losses on loans and advances** compared to H1 2012 (an increase of PLN 9.6 million, i.e. 7.9%).

Corporates and Institutions

Results of the segment - summary

In H1 2013, the Corporate Banking segment reported gross income amounted to PLN 317.4 million, which means an increase of PLN 66.0 million (i.e. 26.3%) compared to H1 2012.



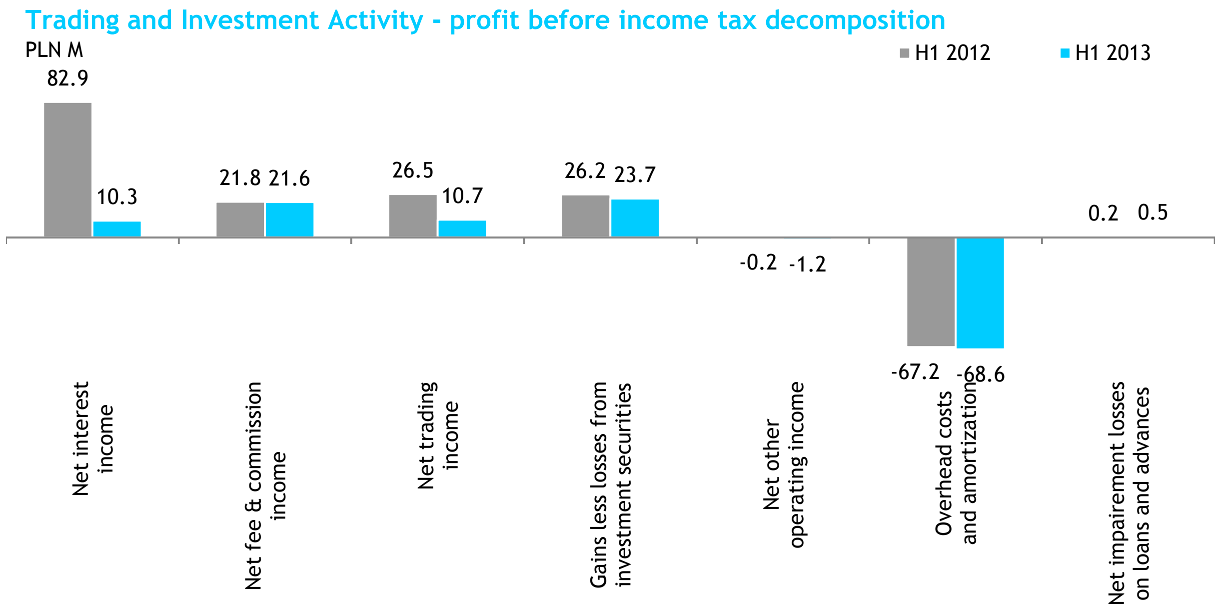
The following factors influenced the gross income result of Corporates and Institutions clients in H1 2013:

- **Increase of total income** by PLN 19.1 million (i.e. 3.0%) to PLN 659.1 million compared to H1 2012. Net interest income improved by PLN 10.7 million (i.e. 3.0%), while net fee and commission income remained stable. In the reported period, net trading income was higher by PLN 16.4 million, i.e. 18.3%.
- **Decrease of overhead costs** (including amortization and depreciation) by PLN 4.0 million (i.e. 1.4%) to PLN 285.2 million compared to H1 2012 resulting from lower amortization and depreciation costs.
- **Decrease of net impairment losses on loans and advances** by PLN 43.0 million. The change resulted from positive balance of net impairment losses in Q1 2013.

Trading and Investment Activity

Results of the segment - summary

In H1 2013, Trading and Investment Activity segment reported gross loss of PLN 2.9 million compared to gross income of PLN 90.4 million in H2 2012.

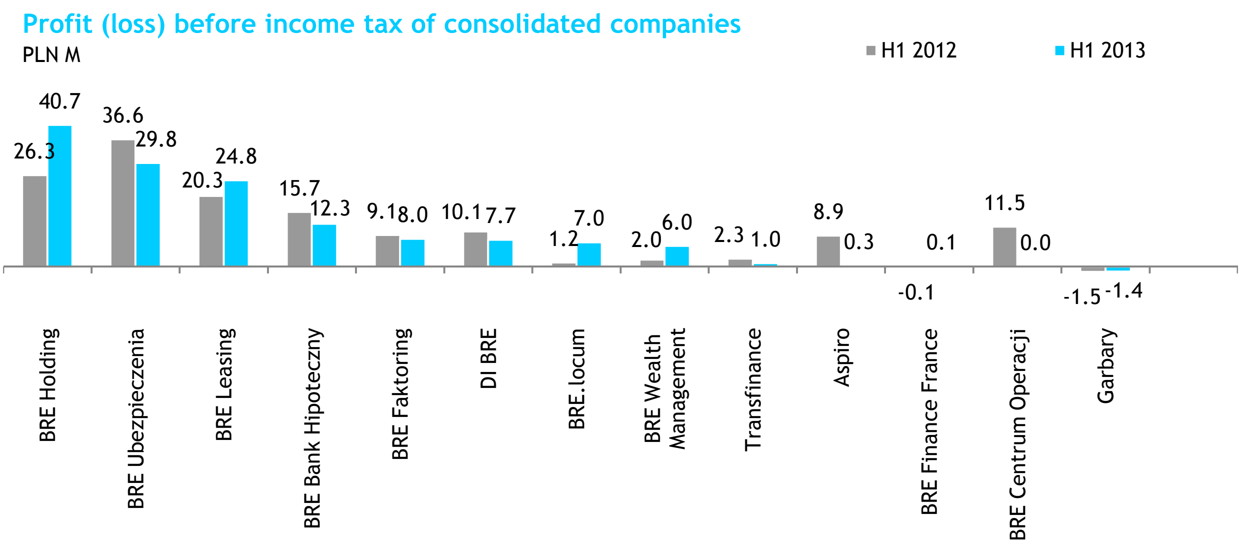


The following factors influenced the results of Trading and Investment Activity segment in H1 2013:

- **Decrease of total income** by PLN 92.1 million to PLN 65.2 million, compared to H1 2012, i.e. by 56.8%. Net interest income, strongly impacted by the changes in yield environment, decreased by PLN 72.6 million (i.e. 87.6%) and amounted to PLN 10.3 million. Net fee and commission income remained stable year on year, while the results of trading and investment activity decreased by PLN 15.7 million (i.e. 59.4%). Similar to the previous year, gains less losses on investment securities resulted from the disposal of government bonds held by the Bank.
- **Increase of overhead costs and depreciation** by PLN 1.4 million (i.e. 2.1%), predominantly driven by higher costs of amortization and depreciation.

VI.5. Financial results of BRE bank Group subsidiaries

In H1 2013, the consolidated profits before income tax generated by BRE Bank Group subsidiaries amounted to PLN 137.5 million compared to PLN 144.1 million in H1 2012. In particular, the following subsidiaries improved their results in a year on year comparison: BRE Leasing, BRE Wealth Management and BRE.locum. The graph below presents the profit before income tax of subsidiaries in H1 2013 compared to H1 2012.



VI.6. Financial results of BRE Bank Group in Q2 2013

In Q2 2013, BRE Bank Group reported gross income of PLN 348.9 million compared to PLN 399.9 million in the previous quarter.

Consolidated income statement	Q2 2013 (PLN thou.)	Q1 2013 (PLN thou.)	Δ in PLN thou.	Δ in %
Interest income	982,464	1,034,266	(51,802)	(5.0%)
Interest expenses	(447,302)	(530,640)	83,338	(15.7%)
Net interest income	**535,162**	**503,626**	**31,536**	**6.3%**
Fee & commission income	350,039	308,896	41,143	13.3%
Fee & commission expenses	(128,576)	(111,360)	(17,216)	15.5%
Net fee & commission income	**221,463**	**197,536**	**23,927**	**12.1%**
Dividend income	2,283	26	2,257	87x
Net trading income, including	102,460	75,798	26,662	35.2%
Foreign exchange result	*74,482*	*68,978*	*5,504*	*8.0%*
Other trading income and hedge accounting result	*27,978*	*6,820*	*21,158*	*310.2%*
Gains less losses from investment securities	36,160	774	35,386	46x
Other operating income	82,479	93,029	(10,550)	(11.3%)
Net impairment losses on loans and advances	(159,459)	(27,654)	(131,805)	476.6%
Overhead costs	(372,216)	(356,928)	(15,288)	4.3%
Amortization and depreciation	(45,660)	(44,774)	(886)	2.0%
Other operating expenses	(53,727)	(41,574)	(12,153)	29.2%
Operating profit	**348,945**	**399,859**	**(50,914)**	**(12.7%)**
Profit before income tax	**348,945**	**399,859**	**(50,914)**	**(12.7%)**
Income tax expense	(75,987)	(75,248)	(741)	1.0%
Net profit (loss)	**272,958**	**324,611**	**(51,654)**	**(15.9%)**
- attributable to BRE Bank SA	**272,504**	**323,946**	**(51,443)**	**(15.9%)**
- attributable to minority interest	454	665	(211)	(31.7%)

The profit before income tax in Q2 2013 was predominantly driven by the following factors:

- **Increase of net interest income** by PLN 31.5 million (i.e. 6.3%), as interest expenses fell more rapidly than interest revenues. In this quarter, net interest income on loans and advances decreased by 4.6%, while interest costs on customer deposits decreased by 22.7% driven by active offer re-pricing conducted by the Bank.
- **Increase of net fee and commission income** by PLN 23.9 million (i.e. 12.1%) resulting from improved results of lending activity (+22.6%), insurance activity (+43.4%) and brokerage activity (+26.6%)
- **Improved results of trading activity** in Q2 2013 by PLN 26.7 million (i.e. 35.2%), largely driven by FX results higher by 8.0% as well as results on other trading activity and hedge accounting higher by 310.2%.

- **Increase of overhead costs (including amortization and depreciation)** by PLN 16.2 million (i.e. 4.0% quarter on quarter) due to the increase in material costs in the field of marketing and IT.
- **Higher net impairment losses on loans and advances** (by PLN 131.8 million) due to impairments in Corporates and Financial Markets segment, which were reported to amount to PLN 79.4 million compared to positive balance of reserves in the previous quarter as well as increasing impairments in Retail Banking segment, which amounted to PLN 80.1 million.

The balance sheet total of BRE Bank Group as of June 30, 2013 reached PLN 108,232.5 million compared to PLN 103,139.4 million at the end of March 2013.

Loans and advances to customers increased in Q2 2013 by PLN 5,220.7 million, mainly due to the increase of loans to retail customers by 2.4% and loans to corporate clients by 16.5% (3.5% after adjusting for reverse repo / buy sell back transactions and FX fluctuations). At the same time, share of net loans in total assets increased to 66.4% at the end of Q2 2013, compared to 64.7% share in Q1 2013.

Amounts due to customers increased by PLN 3,663.2 million, including a decrease of 4.0% within retail customers and an increase of 20.8% within corporate customers (excluding the influence of repo transactions, amounts due to corporate customers increased by 4.0%).

VII. BRE Bank Group's Corporates and Financial Markets Segment

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

VII.1. Corporates and Institutions

After stabilization observed in Q1 2013, Q2 2013 brought a slight recovery resulted in an increase of loans to enterprises by 3.4%, while deposits of enterprises increased by 0.6%.

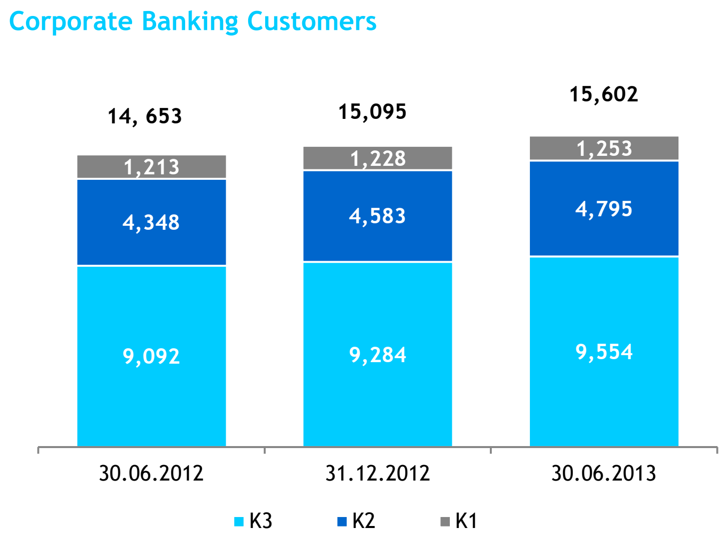
During H1 2013, corporate client base of the Bank was increased to a record-breaking number of 15,602.

The acquisition of new clients impacted positively a rise of the value of funds deposited in current accounts that forms a basis for further development of the transactional banking area, which is of special interest for the Bank due to its growth potential, clients' interest and further cooperation strengthening.

VII.1.1. Increase of corporate client base

In H1 2013, BRE Bank acquired 1,350 new corporate clients, of which 71.7% were K3 clients and 24.2% were K2 clients. The total number of clients reached 15,602 companies at the end of June 2013 (+507 compared to the end of December 2012).

K1 represents the segment of the largest corporations with annual sales of over PLN 500 million; K2 is the segment of medium sized corporations with annual sales between PLN 30 and 500 million and K3 is the segment of small and medium sized companies with annual sales between PLN 3 and 30 million.



VII.1.2. Product and service offer

The data presented in chapter VII.1.2. is based on internal management information of the Bank.

Loans and deposits

Loans granted to corporate clients by BRE Bank (excluding repo transactions) reached PLN 24,289.9 million at the end of June 2013 compared to PLN 24,222.8 million a year earlier and were up by 4.9%.

In H1 2013, the market for loans to enterprises increased by 3.4% compared to the end of 2012. The market share of BRE Bank's lending to enterprises stood at 6.3% at the end of June 2013 and remained unchanged as compared to the end of 2012.

The corporate deposits market (excluding repro transactions) reached PLN 20,670.6 million at the end of June 2013 compared to PLN 20,572.4 million a year earlier and increased by 2.6%.

Deposits placed by enterprises remained practically unchanged (+0.6%) compared to the end of 2012. The market share of BRE Bank's deposits also remained unchanged and stood at 8.7%.

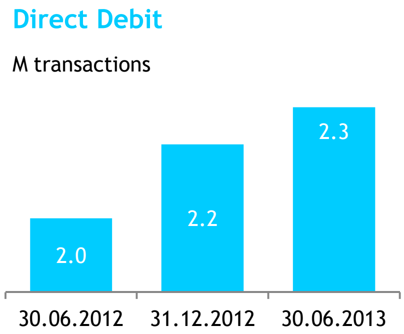
Structured Finance, Project Finance and Syndicated Loans

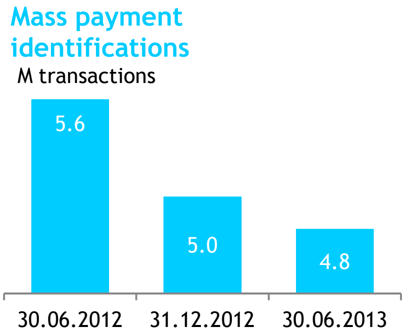
This area of the Bank's Corporate Banking business offers, among others, the following forms of financing: acquisition finance, project finance, mezzanine finance, syndicated loans. The Bank is an important player in this market segment and contributed more than PLN 954 million to 20 syndicated and bilateral loans in H1 2013.

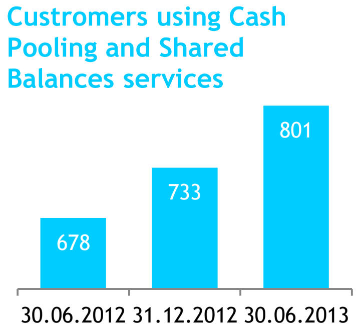
Development of transactional banking

BRE Bank Group's comprehensive cash management offer, supporting the Group's long-term relationships with corporate clients, resulted in a further increase of payment identification transactions and the number of clients using advanced cash management solutions.

In H1 2013, the number of Direct Debit transactions reached 2,304 thousand, which represents an increase of 15.2% year on year. The number of Trade Payment Identification transactions stood at 4.8 million and was lower by 13.5% compared to H1 2012. In H1 2013, the number of clients using the most sophisticated solutions involving cash pooling on bank accounts rose by 18.1% (compared to June 2012). At the end of June 2013, there were 801 clients using Cash Pooling and Shared Balance offers.







The following figures illustrated the development of transactional banking in H1 2013:

- The number of domestic transfers made by corporate clients in H1 2013 increased by 17.1% year on year;
- The number of foreign transfers increased by 10.3% in H1 2013 year on year with the highest increase observed in the case of SEPA transfers which increased by 48.3% in the reported period;
- The total number of corporate cards issued grew by more than 155% year on year; the most dynamic growth (+215%) was observed in cards issued as Electronic Money Instrument;
- Over 392 thousand cards were issued as Electronic Money Instrument; the growth was driven by cards issued under the Harley Davidson project and the Orange Cash project;
- The number of iBRE system users rose by 10.9%. Currently, there are 68,346 active authorisations allowing the entitled employees of BRE Bank's clients to cooperate with the Bank.

Development of the Corporate Banking offer

In H1 2013, the Transactional Banking of BRE Bank continued its efforts to expand the offer of products and solutions dedicated to corporate clients of the Bank. The area's major projects included:

- Signing of a cooperation agreement with Bank Gospodarstwa Krajowego (BGK) concerning the **Portfolio Guarantee Line de minimis**, in March 2013. The agreement was signed within the framework of the government programme "Support for Entrepreneurship using BGK sureties and guarantees" financing guarantees for the repayment of revolving loans assumed by micro-enterprises as well as small and medium-sized enterprises. The limit of guarantees assigned to BRE Bank by BGK amounts to PLN 900 million, which allows BRE to grant about 1.5 billion of working capital loans backed by guarantees. The BGK credit guarantees were offered to BRE Bank clients at the beginning of April 2013.
- Launch of the **SCORE Service**. BRE Bank launched a new service based on SWIFT For Corporates. SCORE allows the Bank to satisfy the requirements of cross-border capital groups or large corporations which use a centralised model for managing cash held by their subsidiaries located worlwide. SWIFT messages delivered directly to the client via SCORE provide access to information on executed instructions and balances of accounts kept with BRE Bank.
- Introduction of **Private label cards.** Private label cards bear no logo of any payment organisation and allow the issuer to restrict their acceptance, e.g. to a specific retail chain or a single retailer. With no additional financial cost, companies may issue cards accepted only in their outlets, thus ensuring that funds will ultimately return to the company.

- **Visa Money Currency Prepaid Card**. This bearer card is issued as electronic money instrument, either in a the standard design or in a design selected individually by the client. Since it may be settled in one of the following currencies: the US dollar, euro or British pound, the currency card is dedicated especially to payments made abroad. The card may be used for cashless transactions in shops and in the Internet, and for ATM withdrawals. All the transactions are settled in the card account currency, thus avoiding any additional conversions (in the case of transactions made in the card account currency). This new product is a flexible payment solution dedicated to companies whose clients make transactions in foreign currencies.

- **BlueCash Instant Transfer** – this new service offered by the Bank allows for instant execution of domestic credit transfers in the Polish zloty within a group of 25 banks. The new solution is available in iBRE electronic banking system to the Bank's clients authorised to submit domestic transfers. Under the BlueCash Instant Transfer service the beneficiary's bank account is credited within 15 minutes after authorisation of the payment order in the iBRE system, on condition that BRE Bank SA (the payer's bank) and the beneficiary's bank are available in the BlueCash payment system.

- **Comprehensive cashless service during the Harley Davidson Super Rally** in Poland. The payment process was based on prepaid cards issued by BRE Bank, featuring the logo of the Harley Davidson Club. The cards were the only means of payment used by Harley Davidson enthusiasts during the rally. BRE Bank was the only bank in Poland to organise a cashless payment system during a mass event, and to provide the participants, sub-contractors and organisers with uniform payment rules as well as secure and fast cash payments.

VII.1.3. Corporate Banking network

BRE Bank serves its corporate customers through the network of 29 branches and 18 corporate bureaus In January 2013 the corporate bureau in Ostroleka was closed.

VII.2. Subsidiaries within the Corporates and Institutions area

BRE Faktoring SA

In H1 2013, BRE Faktoring reported a turnover of PLN 3.5 billion (+7.7% year on year) and achieved the seventh position among companies associated in the Polish Factors Association with a market share of 8.0%.

The profit before income tax of BRE Faktoring in H1 2013 reached PLN 8.0 million, which represents a decrease by 12.2% year on year. The reduction was driven by falling revenues caused by lower market interest rates.

Transfinance a.s.

Transfinance a.s. provides factoring services to small and medium-sized enterprises in the Czech Republic. In H1 2013, Transfinance recorded a turnover of PLN 1.8 billion (+5.8% compared to 2012). Considerable growth in domestic and export factoring (+13.0% and +9.5% year on year respectively) was combined with a decline in import factoring (-25.9% year on year).

In H1 2013, profit before income tax reached PLN 1.0 million, representing a decrease by 54.6% year on year, mainly driven by lower revenues (-5.4% year on year) and higher impairment losses on loans and advances (+20.8% year on year), decreasing market interest rates and declining fee and commission margin.

BRE Leasing Sp. z o.o.

The value of leasing contracts concluded by BRE Leasing in H1 2013 stood at PLN 1,264.1 million, representing an increase by 41.8% year on year. The value of leasing contracts concluded in the movables sector reached PLN 898.2 million (+8.2% year on year), while the value of real estate leasing contracts amounted to PLN 366.0 million (representing a five-fold increase compared to H1 2012). The market share of BRE Leasing stands at 7.9% (5.9% in the movables market and 46.2% - the leading position in the real estate market).

The profit before income tax of BRE Leasing in H1 2013 stood at PLN 24.8 million (+22.1% year on year).

BRE Holding Sp. z o.o.

BRE Holding Sp. z o.o. was established in November 2007 with BRE Bank as its sole shareholder. The assets of BRE Holding comprise shares in BRE Bank Hipoteczny SA, BRE Faktoring SA, BRE Leasing Sp. z o.o. and BRE.locum SA, valued at PLN 536.1 million. In H1 2013, the main source of revenues generated by BRE Holding were dividends totalling PLN 40.7 million.

VII.3. Trading and Investment Activity

The Trading and Investment Activity of the Bank comprises:

- Management of the Bank's liquidity as well as its assets and liabilities (including deposit and loan portfolio interest risk management). In order to manage the Bank's liquidity a number of transactions are executed, including money market transactions, currency swaps, interest rate derivative transactions, T-bond, T-bill and NBP bill purchase transactions, as well as repo transactions.
- Management of the Bank's interest rates and currency risk, trading in FX interbank instruments (spot transactions and derivatives), trading in interest rate instruments (T-bonds and T-bills, interest rate derivatives), commodity derivatives, shares, and equity and stock index derivatives.

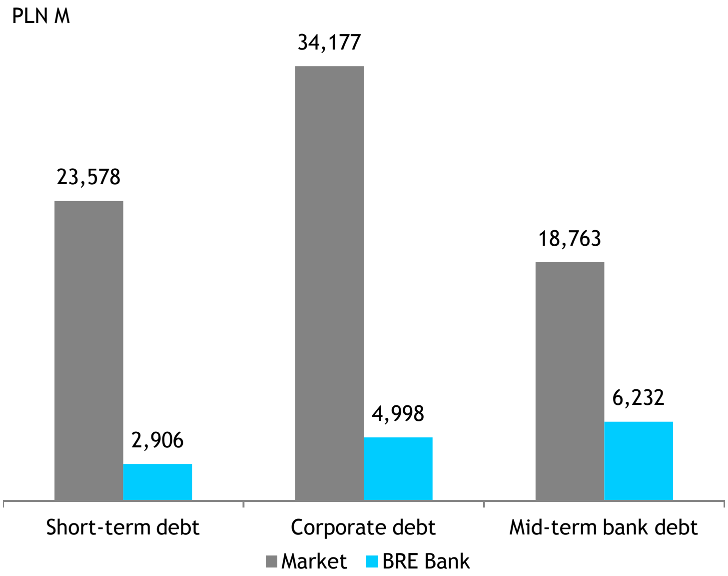
- Origination of debt securities for corporate banking clients and banks, as well as trading in these securities.
- Direct sale of financial market products to corporate banking clients and non-banking financial institutions (such as e.g. insurance companies, pension and investment funds and companies managing assets) and selected private banking clients.

In H1 2013, BRE Bank organised or co-organised many bond issues on the domestic market for corporate issuers and banks, in particular for:

- BGŻ Bank SA – PLN 3.5 billion mid-term debt instrument issue programme;
- Bank Pocztowy SA – PLN 300 million short-term D-series bond issue programme;
- Sygnity SA – PLN 100 million mid-term bond issue programme;
- Elemental Holding SA – PLN 30 million mid-term bond issue programme;
- Gino Rossi SA - PLN 35 million bond issue programme;
- Eurocash SA – PLN 500 million bond issue programme.

In H1 2013 the Bank maintained its leading position on the market of treasury securities and interest rate derivatives. At the end of May 2013, the Bank's market share in the treasury bills and bonds segment accounted for 9.0% and was similar to that reported at the end of 2012. The Bank's market share in IRS/FRA transactions reached 25.7% at the end of May 2013, compared to 24.5% at the end of 2012.

BRE Bank in Non-Treasury Debt Market
as of 30.06.2013



The value of short-term debt securities placed on the market reached PLN 2.9 billion at the end of June 2013. The Bank attained a market share of 12.3% (data based on Fitch Polska).

With a market share of 14.6%, BRE Bank became the second player on the dynamically growing corporate bonds market. BRE Bank organised a range of new major issues, including Echo-Investment SA (PLN 280 million), Magellan (PLN 99 million), Eurocash SA (PLN 140 million), Sygnity SA (PLN 40 million), EFL SA (PLN 40 million), Gino Rossi SA (PLN 20 million). At the end of June 2013, the issued and unredeemed corporate bonds totalled approximately PLN 5 billion.

BRE Bank Group secured a share of 33.2% in the market for bank's debt securities (excluding the road bonds issued by BGK), compared to 29.8% at the end of 2012, while the issued and unredeemed securities amounted to c. PLN 6.2 billion compared to PLN 5.9 billion at the end of 2012. The largest issues in 2012 included the securities issue totalling PLN 228 million for BGŻ, the PLN 150 million issue for BOŚ Bank, and the issue of covered bonds for BBH amounting to PLN 80 million. Other major transactions arranged by BRE Bank covered the bond issue for Meritum Bank worth PLN 59 million and the bond issue for Santander Bank amounting to PLN 30 million.

Enhancement of sales of investment banking products

In 2013, there were further changes in order to boost the sales of financial market products. The key initiatives aimed at increasing the transaction volumes and net income generated from cooperation with clients included:

- Within the new sales structure, in addition to the existing positions: dealer (for client service) and financial market specialist (for sales of derivative products), in Q4 2013 the following new positions will be introduced:
  - specialist for structured finance projects (sales of transactions hedging projects implemented by DFS, BRE Leasing, BBH) and
  - specialist for sales of *commodities* products.

In addition, in June 2013 the structure of residents of the Financial Markets Sales Department (DSM) changed in branches and three centralised dealer teams were formed (Warsaw, Poznań, Cracow), while the representation of DSM specialists was maintained in leading branches.

- At the same time, it should be stressed that the consistently implemented sales strategy produced results in the form of:
  - growth in the number of closed transactions hedging structured finance projects by 100% compared to the end of 2012,
  - growth in margin on derivative transactions by 97% year on year,
  - further growth in the number of clients actively concluding derivative transactions.
- New changes in the iBRE FX platform accelerated system operation, improved its ergonomics and functionality. In addition, the acquisition measures taken caused a growth in the number of transactions executed via the platform up to 81% in total and the volume up to 36% in total.
- As part of improving processes, product documentation was simplified and the time necessary to sign and register the standard DSM framework agreement was shortened to 1 day.

The Bank continues to work on new functionalities of the iBRE FX platform and financial market products which will allow BRE to expand its cooperation with clients. At the same time, BRE Bank works on processes which determine the quality of cooperation with the Bank and satisfaction from BRE Bank's services.

VII.3.1. Financial Institutions

Relations with financial institutions included in the Trading and Investment Activity business line are focused on funding from other banks and placements with other banks.

As of June 30, 2013, the Bank had 25 active loans amounting to the equivalent of PLN 25,532 million, of which PLN 20,376 million were drawn. In H1 2013, 4 loans in EUR (including facilities from EIB and from KfW), totalling PLN 418 million, were repaid. Additionally, the Bank contracted 2 new loans in EUR (including the facility from EIB) amounting to PLN 520 million in total. BRE Bank’s total exposure under loans from other banks was by PLN 463 million higher than at the end of 2012. At 2012 exchange rates, the decrease would amount to PLN 313 million.

The Bank’s exposure under loans granted to other banks reached the equivalent of PLN 291.7 million as of June 30, 2013. The Bank’s portfolio included 30 active short-term and long-term loans granted to other banks.

Finally, the Bank maintained its leading position in export financing (mid-term loans insured with the Export Credit Insurance Corporation - KUKE) and continued to foster trade finance relations with correspondent banks.

VII.3.2. BRE Bank's custody services

BRE Bank's custody clients comprise local and foreign financial institutions, banks which offer custodian and investment services, pension funds and investment funds, insurance companies, asset management institutions, and non-financial institutions.

The Bank provides services including settlement of transactions in securities registered in local and foreign markets, safe-keeping of clients' assets, maintenance of securities accounts and registers of securities in non-public trading, maintenance of asset registers of pension funds and investment funds, monitoring of the valuation of their assets and the processing of corporate actions.

H1 2013 was very successful for BRE Bank in terms of the Bank's custody services. The number of investment funds and pension funds remained at the level reported in 2012, which was a record-high year in terms of growth in the number of serviced funds. The total value of net assets of serviced investment and pension funds grew by approximately 23% compared to H1 2012.

VII.4. Trading and Investment Activity subsidiaries

Dom Inwestycyjny BRE Banku SA (DI BRE)

DI BRE is a brokerage services firm providing services to major Polish institutional investors (pension funds, investment funds and asset management firms) as well as selected international funds and retail clients active on the WSE.

At the end of H1 2013, DI BRE had 281.2 thousand clients.

DI BRE (acting as the offering side) arranged in H1 2013 the PLN 45 million IPO of Tarczyński SA, as well as took part in the IPO of PHN company and two ABB transactions of Kruk SA. DI BRE's share in the turnover on the equity market reached 4.0%, ensuring the ninth position on the market. The company was ranked second in the forward transactions market with a market share of 17.5%. On the options market, DI BRE was a leader with a share of 20.0%.

In H1 2013, DI BRE generated a profit before income tax of PLN 7.7 million, which was lower by PLN 2.4 million, i.e. 23.8% compared to H1 2012, due to a significant year on year decrease in net interest income (PLN -1.1 million year on year).

BRE Finance France SA (BFF)

BRE Finance France is a special purpose vehicle set up to acquiring funds on the international markets through the issue of eurobonds. In 2012, the Euro Medium Term Note Programme was renewed. The company issued EUR 500 million bonds maturing in 2015.

As of June 30, 2013, profit before income tax was PLN 52.0 thousand compared to a loss of PLN 118.0 thousand reported a year before.

VIII. BRE Bank Group's Retail Banking Segment

The Retail Banking business model has been based on a multi-brand portfolio (mBank, MultiBank and BRE Bank's Private Banking), but since the beginning of 2012 both brands mBank and MultiBank are presented as "Retail Banking in Poland". Retail Banking customers also include the most affluent Private Banking clients to whom a broad range of products and investment strategies is offered by BRE Wealth Management.

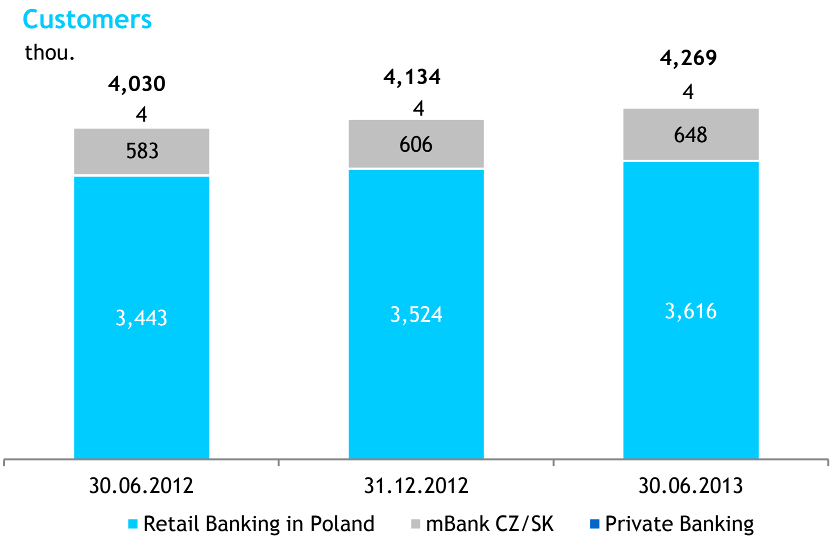
Historically, mBank has been targeting young, self-directed customers seeking low-cost banking alternatives, as well as microenterprises. MultiBank has been appealing to affluent customers and micro-businesses seeking highest-quality, seamless and personalized service. Currently, the Bank leads the process of product and services consolidation under one retail banking brand mBank (more information on rebranding in chapter I.2.1. Rebranding of BRE Bank Group).

The wide range of products and services is offered through an integrated Internet platform. Such model enables to provide different segments of customers with services tailored to their needs and is the key driver supporting the dynamic growth in the number of customers.

VIII.1. Retail customers

Over the past several years, the Bank has remained a consistent market leader in attracting new customers to its retail offering. As of June 30, 2013, the number of retail customers of the Bank reached nearly 4.3 million following an addition of 134.7 thousand new customers in the first half of 2013 and 239.0 thousand year on year.

The graph presents the growth of the Bank's retail customer base in the past years.



Retail customers served by the Bank in Poland include individuals as well as microenterprises. There were 436.0 thousand microenterprise customers at the end of June 2013, of which 10.7 thousand (+2.5%) were acquired in 2013.

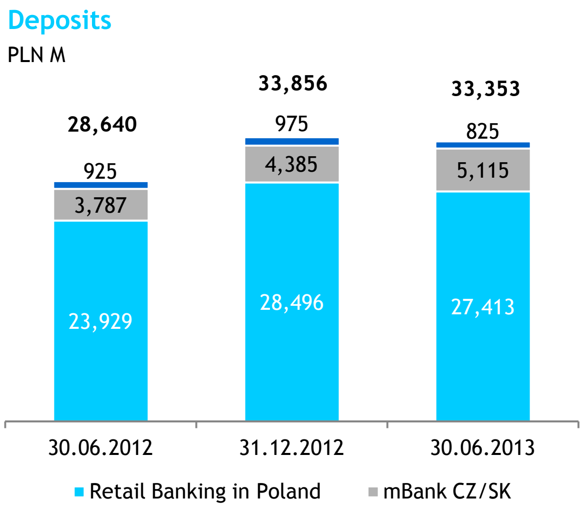
VIII.2. Product offering

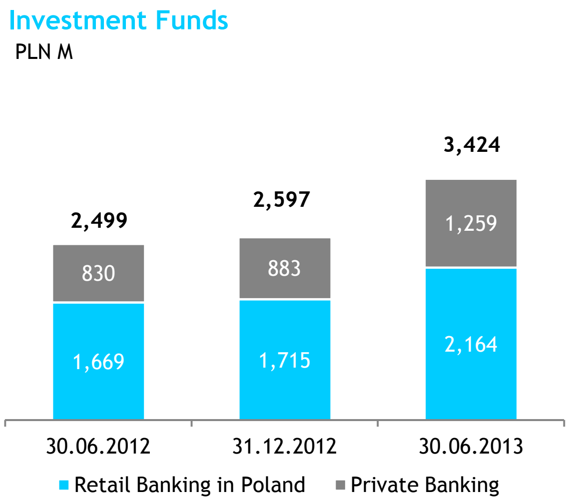
The data presented in chapter VIII.2. is based on internal management information of the Bank.

Deposits, investment products and brokerage services

Due to lower and lower interest rates environment, among retail Customers of BRE Bank, an interest in investment products is growing. Increasingly, Customers decide on transferring their savings from basic savings products such as term deposits and saving accounts to investment funds available in the Bank's offer (*inter alia* FIO – "funds supermarket" through which BRE Bank customers can acquire participation units of local and foreign investment funds, matching individual investment preferences; FIZ; as well as UFK available within mSAVER / MultiSaver plus).

A detailed breakdown of the development of the Bank's deposits and investment fund balances is presented in the graphs below, thereby assuring that retail Customers' assets remain on upward trend.





At the end of June 2013, retail deposits reached PLN 33,353 million (a decrease by PLN 503 million or 1.5% compared to the end of 2012), while assets held in investment funds increased by PLN 826.5 million or 31.8% compared to the end of 2012 and reached PLN 3,424 million.

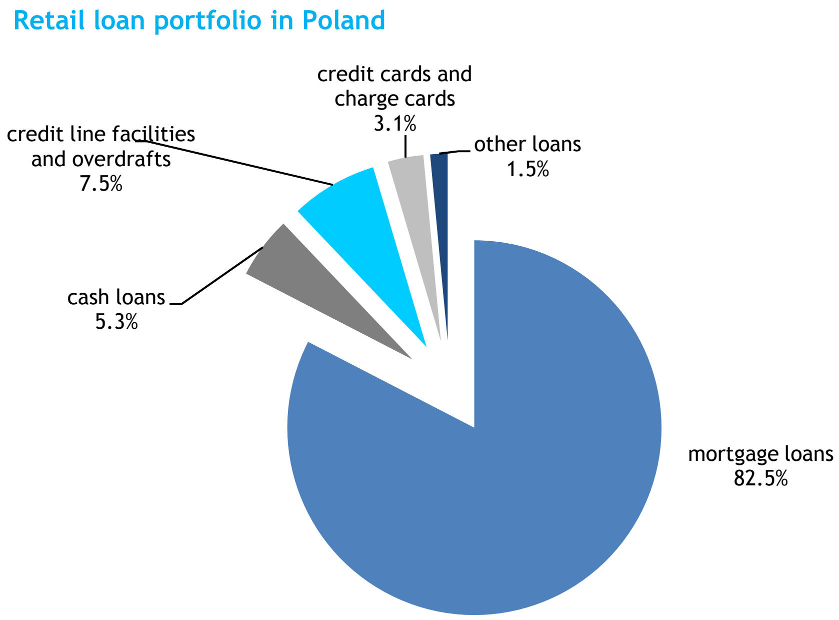
In H1 2013, interest market rates decreased to a historically low level directly affecting the attractiveness of interest on deposits offered by banks. Despite a significant decrease of the Bank's average interest rates on retail deposits, there was no relevant decline of their balances (-1.5% compared to the end of 2012). Additionally, owing to an attractive offer of mBank and MultiBank available via i.a. "Investment Funds Supermarket", increased customer interest in investment products generating potentially higher rates of return than deposits was observed. As a result, retail customers' assets in investment funds increased by PLN 826.5 million (i.e. 31.8%) compared to the end of 2012 and reached PLN 3,424 million.

Within brokerage services, in H1 2013, the number of customers remained at a stable level despite the downturn in the financial markets and lack of new share issues on the primary market.

Loans

The value of gross loans granted to Retail Banking clients in Poland, Czech Republic and Slovakia stood at PLN 38,607 million at the end of June 2013, constituting an increase of PLN 1,342 million or 3.6% compared to the end of 2012.

At the end of H1 2013, the structure of the Bank's retail loan portfolio in Poland was as follows:

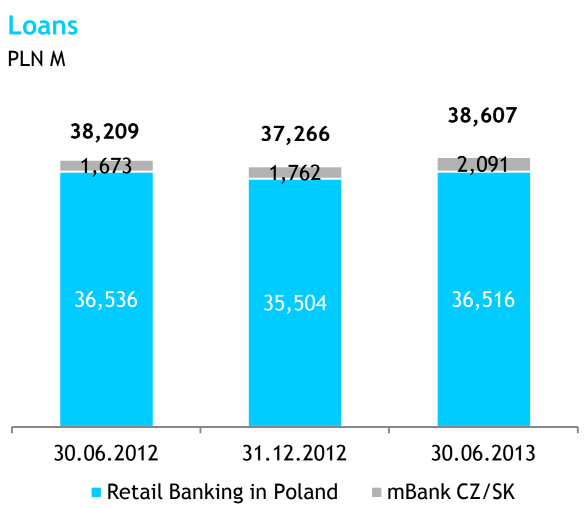


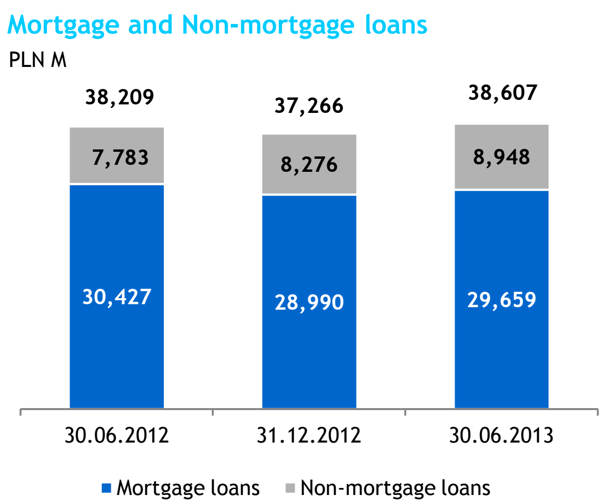
Mortgage loans to retail customers in Poland as of June 30, 2012, December 31, 2012 and June 30, 2013 had the following characteristics:

Mortgage loans to households	30.06.2012	31.12.2012	30.06.2013
Balance sheet value (PLN billion)	28.6	27.2	27.6
Average maturity (years)	21.2	21.6	21.2
Average value (PLN thousand)	295.6	280.9	286.4
Average LTV (%)	83.5%	79.4%	81.9%
NPL ratio	1.5%	1.8%	1.9%

In H1 2013, the non-mortgage loan portfolio grew by PLN 672.1 million or 8.1% comparing to the end of 2012. The fastest growth was registered in cash loans and credit line facilities resulting from the increasing interest of existing clients in the pre-assigned global credit limits.

The following graphs present details of the development of the retail loans portfolio:





Cards

The Bank maintained a high growth rate of issued cards, including both debit and credit cards, supported by demand from existing and new customers.

At the end of June 2013, the number of issued credit cards reached 731.4 thousand, an increase by 68.7 thousand compared to a year earlier.

The number of debit cards issued by the Bank as at the end of June 2013 reached 5,438.4 thousand. In the period of 12 months the number of cards increased by 654.9 thousand or 13.7%.

The Bank continued to put strong emphasis on innovation and enhanced its card product offer. In H1 2013 the offer of credit cards was enhanced by: World Elite MasterCard, Visa Premium, Visa Miles & More, Visa Miles & More Premium.

Insurance services

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

Retail Banking offer development

The continued dynamic growth of BRE Bank's retail customer base is the result of the Bank's constant focus on innovation and addressing of customer's changing needs. In H1 2013 efforts to further develop the Bank's retail offering continued. New or strongly modified products across loans, deposits and investments as well as new processes supporting sales were introduced in Retail Banking and included:

For individual customers:

- Introduction of a new product: Insurance for Revolving Loan Repayment dedicated to individual customers of mBank and MultiBank. The insurance covers: death and total, permanent or temporary incapacity to work as a result of an accident.
- Implementation of the application allowing for transfer the history of operations from the customer's main bank (the bank which maintains the customer's main bank account) to mBank. The history is used by credit analysts to assess the customer's credit risk.
- Implementation of opening online a savings account in PLN and foreign currencies and a deposit with the account for new customers.
- Launch of a fully-remote credit process for new customers in the area of non-mortgage loans of mBank and MultiBank.
- Change of credit limit from PLN 20 thousand to PLN 100 thousand available online to new customers of mBank and MultiBank.
- Introduction of individual customer and company service provided by Experts of MultiBank in the outlets of mBank.

For companies:

- Offering BGK's de minimis guarantees at mBank and MultiBank (see chapter VII.1.2. Product and service offer).

- Enabling the opening of company account for new clients entirely online.
- Making opening accounts possible for limited liability companies, associations, foundations and cooperatives.
- European Investment Bank (EIB) supported loans addressed to sole proprietors, representatives of freelance professions, as well as partnerships and companies which employ less than 250 persons.

The Czech Republic and Slovakia mBank offer enhancement

- Making the transfer of credit line facility from other Bank available to customers.
- Enabling the online increase in card and credit line facility limits.
- Extending the availability of call center (up to seven days per week).

VIII.3. Branch network

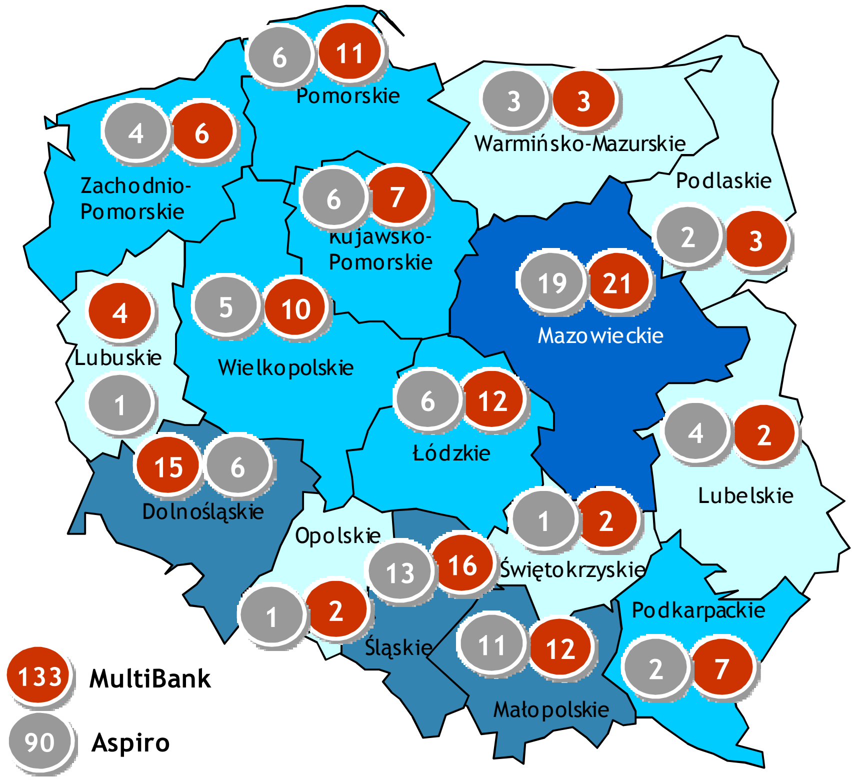
The size and scope of the Bank's retail branch network reflects its focus on areas with high growth potential as well as the bank's focus and strength of other distribution channels (including internet, mobile and telephone banking) which continue to attract a rapidly growing number of client interactions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

Since July 2009, the mBank distribution network has been managed through Aspiro, a subsidiary offering a wide range of financial products of the Group as well as products of third parties. As of June 30, 2013, the mBank network covered 90 locations (23 Financial Centres, 61 mKiosks and 6 partner mKiosks) and 21 Agent Service Points across Poland.

The number of foreign mBank outlets remained unchanged compared to the end of 2012. In the Czech Republic, the network consists of 26 outlets (9 Financial Centres and 17 mKiosks), and 9 in Slovakia (4 Financial Centres and 5 mKiosks).

MultiBank operates through 133 outlets (71 Financial Service Centres and 62 Partner Outlets) and the number remained unchanged compared to the end of 2012. The MultiBank network is focused predominantly on larger urban areas reflecting the affluent target client group it services.

The following map presents mBank and MultiBank branch network in Poland:



VIII.4.Retail Banking Subsidiaries

Aspiro S.A.

In H1 2013, Aspiro offered products of 26 different financial companies, including mBank and MultiBank. Currently, the offering covers 56 products, including: mortgage loans, cash loans, insurance products, investment products, leasing and factoring. Distribution takes place across the country in 111 outlets (23 Financial Centres, 61 mKiosks, 6 partner mKiosks and 21 Agent Service Points).

In H1 2013 there was a 54.7% growth in cash loans year on year. In the area of investment products a 36.7% decrease was reported compared to H1 2012, combined with low sales of mortgage loans (-54.7% year on year). The decrease in sales in the area is related mainly to the deterioration of the market situation.

In the car loans area the sales increased by 25.4% year on year and amounted to PLN 94 million.

The company closed H1 2013 with a profit before income tax of PLN 340 thousand, reporting deterioration in financial data year on year compared to PLN 8.9 million in H1 2012, due to the changes in the system of settlements between the Bank and the company.

BRE Wealth Management (BWM)

In H1 2013 BWM continued to develop its offer in the scope of comprehensive asset management. The number of clients covered by investment advisory service grew by 16% compared to the end of 2012.

In H1 2013 within asset management the offer of strategy in management was modified and a new strategy was introduced in the offer – Aggressive strategy of Small and Medium-Sized Enterprises. At the end of H1 2013 the BWM offer contained individual strategies and 7 benchmark strategies, as well as one absolute return strategy.

The strategies managed by BRE Wealth Management brought high rates of return. As of June 30, 2013, BWM held assets under management worth PLN 4.5 billion, which represents an increase by PLN 863.8 million (23.7%) compared to the end of 2012.

In H1 2013, the company generated a consolidated profit before income tax of PLN 6.0 million, compared to PLN 2.0 million in H1 2012.

BRE TUiR SA and BRE Ubezpieczenia Sp. z o.o., BRE Agent Ubezpieczeniowy Sp. z o.o.

In H1 2013, gross written premium generated by the direct business rose by 7.6% (in terms of sales, according to estimates) to PLN 82.7 million compared to 2012. Gross written premium in the bancassurance area amounted to PLN 124.4 million (excluding investment products), which represents a growth by 8.0% compared to 2012. The reported growth is a result of increase in sales of cash loans.

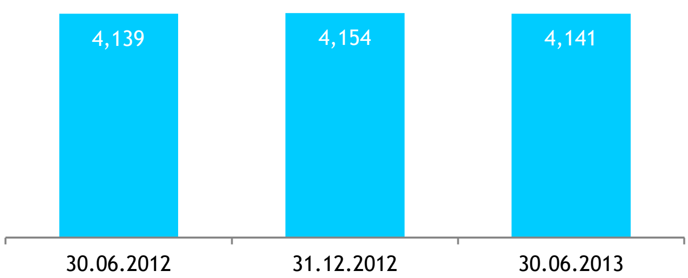
In H1 2013 BRE Ubezpieczenia Group generated a profit before income tax of PLN 29.8 million, which represents a decrease by PLN 6.8 million year on year. The decrease was triggered by the fact that the profit before income tax of 2012 included also the financial results of BRE Agent Ubezpieczeniowy Sp. z o.o. for 2011 (effect PLN 4.4 million). In H1 2013 BRE Ubezpieczenia Group reported a growth in profit on insurance to cash loans and car loans as well as insurance to cards and bank accounts. The observed decrease in profit on insurance to mortgage loans is related to limiting lending activity by the Bank. Slightly lower revenues from investment activity are the result of interest rate cuts and lower valuation of the T-bonds as of June 30, 2013. In H1 2013, costs were at a lower level year on year, which was impacted by restrictive cost policy, especially in the scope of advertising campaigns.

BRE Bank Hipoteczny SA (BBH)

BRE Bank Hipoteczny specialises in offering mortgage loans to commercial and residential developers as well as local governments. The company issues mortgage and public bonds to finance its lending operations.

In H1 2013, BBH's loan portfolio remained almost unchanged compared to the level reported at the end of 2012 and amounted to PLN 4.1 billion (-0.3%). At the end of H1 2013, the nominal value of covered bonds issued by BBH amounted to PLN 2.3 billion.

BBH loan portfolio (book value)
PLN million



In H1 2013, BBH reported a profit before income tax of PLN 12.3 million (PLN -4.0 million i.e. -21.9% year on year). The decrease in profit before income tax was triggered by an increase of impairment losses (PLN +4.0 million year on year).

IX. Other activities of BRE Bank Group

BRE Centrum Operacji Sp. z o.o. (BRE CO)

BRE Centrum Operacji provides BRE Bank's retail and corporate banking and BRE Bank Group subsidiaries with services related to settlements and database administration, electronic and traditional archives, and data processing.

In H1 2013, BRE CO provided its services to BRE Bank's corporate and retail banking as well as to selected BRE Bank Group subsidiaries and to CERI International in the scope of outsourcing services in the area of: IT, logistics, security.

At the end of H1 2013, BRE CO generated a profit before income tax amounting to PLN 30.0 thousand (PLN 11.5 million in H1 2012). The high profit before income tax in H1 2012 was related to the sale of shares in CERI International (PLN 10.3 million).

Lower profit before income tax in 2013 compared to 2012 (excluding the transaction of CERI sale) is related to the decrease in revenues from servicing the remaining clients. In addition, in 2013 the Company reported lower revenues from CERI service within support services (PLN -0.8 million).

BRE.locum S.A.

BRE.locum is a property developer operating on the primary market for residential estate. In H1 2013, the company sold 149 apartments via preliminary agreements in comparison to 80 apartments sold a year earlier. At the end of June 2013, the company was offering 371 apartments, including 244 in completed projects and 127 apartments in ongoing projects.

In H1 2013, BRE.locum reported a profit before income tax of PLN 7.0 million (PLN 1.2 million a year earlier).

X. Main change directions and types of risk of the BRE Bank Group's activities

X.1. Main directions of change in the risk area

BRE Bank Group manages risks on the basis of regulatory requirements and best market practice, by developing risk management strategies, policies and various guidelines.

Currently, in accordance with the BRE Bank Group's Strategy for 2012-2016 "One Bank for Clients and Employees" approved by the Management Board and Supervisory Board, the Bank is in the midst of modernizing the organisational structure of its risk area, which aims to reflect the client-centric approach and integrated responsibility for all risk types.

The change concept redefines risk management in the Group and is based on the following three lines of defence reflecting as follows:

- Primary responsibility of Business for risk - risk management through business operations
- Responsibility of the risk area - defining processes and risk measurement. Constructive and critical analysis of Business proposals and decisions, independent risk control and reporting
- Role of internal audit defined as identification of improvements in procedures and cooperation between the risk area and business.

The risk responsibility area focuses on the following issues forming the pillars supporting the management of the modernized structure:

- CLIENT-CENTRIC APPROACH: understanding the needs of the risk area clients;
- ONE RISK: integrated approach to risk management;
- RISK V. RATE OF RETURN: defining the Bank's risk appetite on the basis of long-term relationship between risk and rate of return.

A detailed plan for introducing the aforesaid changes will be presented in H2 2013.

X.2. Main risks of BRE Bank Group's business

The Management Board of the Bank takes measures necessary to ensure that the Bank manages all significant risks arising from the implementation of the adopted business strategy.

Within the Group's risk inventory process implemented under the principles of ICAAP (Internal Capital Adequacy Assessment Process), the following risks were identified in the operation of the Group:

- credit risk
- market risk
- operational risk
- business risk
- liquidity risk
- capital risk
- insurance risk
- reputation risk
- strategic risk.

The Bank monitors all the aforementioned risks within ICAAP. Due to the specificity and characteristics of the portfolio, this section presents the rules of monitoring credit risk, operational risk, liquidity risk, market risk of the trading book as well as interest rate risk of the banking book in BRE Bank Group using risk measures applied by BRE Bank and taking into account differences in the profile and scale of business of particular Group's entities.

X.3. Credit risk

Credit risk is perceived as the most important risk to which BRE Bank is exposed. Moreover, BRE Bank exercises control over credit risk in the Group subsidiaries generating this type of risk.

The Bank measures and monitors credit portfolio risk and related risks (residual, concentration risks) based on the estimation of Expected Loss and model of economic capital for credit risk estimating the so-called unexpected loss calculated on the basis of the extended CreditRisk+ (ECVar) model, which incorporates correlations between various sectors of the economy and parameters characteristic of individual credit portfolios. The on-going monitoring of credit risk involves the verification of internal ratings and events of default as defined under Basel II and the IFRS.

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

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

An additional tool for credit portfolio risk assessment are stress tests which supplement the risk measurement by ECVaR method and show the income and capital position of the Bank (especially in the context of the internal ratings-based approach) under the negative scenario. The analyses of stress test impact on the economic and regulatory capital for covering credit risk are carried out on a quarterly basis.

Stress tests for credit risk are conducted in accordance with the following two patterns:

- analyses of the sensitivity of results produced by the model of economic and regulatory capital and the development of income statement to one-dimensional assumptions concerning economic and financial events impacting on the size of credit risk - the so-called sensitivity analyses. They allow the Bank to identify single processes which may individually exert a significant impact on the Bank's financial standing;
- analyses of the amounts of economic and regulatory capital and income statement based on comprehensive assumptions about unfavourable macroeconomic situation – the so-called macroeconomic tests in which an econometric model forecasts the values of input parameters used by the economic capital model (PD, LGD) based on assumptions of the Chief Economist about the development of a complete set of macro-parameters under the negative economic scenario. The risk parameters developed in accordance with the above scenario underlie the calculation of the Bank's capital and results.

X.3.1 Quality of the loan portfolio

The share of default exposures in gross loans and advances to clients as of June 30, 2013 was 4.9% compared to 5.2% at the end of 2012. Provisions for loans and advances increased from PLN 2,528.5 million at the end of December 2012 to PLN 2,629.4 million at the end of June 2013, including PLN 207.5 million of IBNI (Incurred But Not Identified) loss provision (PLN 198.7 million at the end of 2012).

The ratio of provisions to default loans (coverage ratio) stood at 66.4%, compared to 64.1% at the end of 2012.

The table below presents the quality of the credit portfolio of BRE Bank Group at the end of June 2013 compared to the end of December 2012 and the end of June 2012.

Quality of BRE Bank Group's Loan Portfolio	30.06.2013	31.12.2012	30.06.2012
Loans and advances to customers (gross)	74,533,679	69,587,787	70,435,977
Not impaired	70,888,575	65,955,528	66,991,335
Impaired	3,645,104	3,632,259	3,444,642
Impaired as % of gross exposure	4.89%	5.22%	4.89%
Provisions for loans and advances to customers	(2,629,374)	(2,528,533)	(2,546,580)
Provisions for not impaired exposures	(207,523)	(198,712)	(222,740)
Provisions for impaired exposures	(2,421,851)	(2,329,821)	(2,323,840)
Coverage ratio for impaired exposures	66.44%	64.14%	67.46%
Coverage ratio for gross portfolio	3.53%	3.63%	3.62%

X.4. Liquidity risk

The purpose of liquidity risk management is to assure the capacity of the Bank to honour both its current and future liabilities, taking into account the costs of liquidity.

Liquidity risk management involves the analysing and limiting of various risk measures, including the mismatch gap being the core measure. It covers all the assets, liabilities and off-balance sheet items of BRE Bank in all the currencies, analysed both in the short term and in the long term. The Bank secures an adequate liquidity level by means of active management of the structure of future cash flows and maintenance of sufficient liquidity surplus. In H1 2013, BRE Bank maintained a high liquidity surplus in a portfolio of liquid Treasury and monetary securities which may be pledged or sold at any time without any considerable loss in value.

In accordance with PFSA Resolution No. 386/2008 on establishing liquidity measures binding on banks, BRE Bank calculates the supervisory liquidity measures defined in the Resolution. In H1 2013, the supervisory liquidity measures were not exceeded. At the end of H1 2013, measure M2 was at 1.7 while measure M4 was at 1.3. Moreover, in accordance with the Resolution, the Bank conducts an in-depth analysis of long-term liquidity and sets limits on exposures to long-term assets. In addition, the analysis examines the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts. The Bank also monitors the variability of the balance sheet and off-balance sheet items, in particular open credit line facilities and overdraft facilities.

The on-going analysis covers not only liquidity under normal conditions but also examines a situation involving a potential liquidity loss. In order to determine the Bank's resistance to major unfavourable events, the Bank conducts scenario analyses covering extreme assumptions on the operation of financial markets and behavioural events relative to the Bank's clients. The Bank has put in place contingency procedures in case of a threat of financial liquidity loss.

In H1 2013, the liquidity and funding of the Bank remained at safe levels. It was a result of adequate management of both short-term liquidity (Treasury Department) and the Bank's balance sheet structure (ALCO). The Bank’s long-term activity focuses on growth determined by funding opportunities and the profitability of business. In order to maintain liquidity, BRE Bank diversifies stable sources of funding by client, product, and currency category while optimising the profitability of the balance sheet.

X.5. Market risk

In its market risk management processes, the Bank follows the principles and requirements set out in the resolutions and recommendations of the Polish Financial Supervision Authority (PFSA) which address issues related to market risk management, in particular Recommendations A and I.

The cardinal principle of organisation of the market risk management process stipulates separation between the market risk monitoring and control function and the functions related with opening and maintaining open market risk positions. The market risk monitoring and control functions are performed by the Risk Department (DRF) and the Financial Operations Control Department (DKF) in the Risk Area of the Bank supervised by the Chief Risk Officer, whereas operational management of market risk positions takes place in the Financial Markets Department (DFM), the Brokerage House (BM) and the Treasury Department (DS) supervised by the Member of the Management Board of the Bank responsible for the Investment Banking Area. Moreover, investment positions sensitive to market risk factors (prices of shares listed on the Warsaw Stock Exchange) are managed by the Structured and Mezzanine Finance Department (DFS), which is a part of the Corporate Banking Area.

In its business, the Bank is exposed to market risk, i.e., the risk of unfavourable changes in the present value of financial instruments in the Bank's portfolios due to changes in market risk factors: interest rates, FX rates, prices of securities, implied volatility of options, and credit spreads. The Bank identifies market risk related with positions of the trading book measured at fair value (using the direct measurement method or the model measurement method) which may materialize in the form of losses reflected in the Bank's financial performance. Moreover, the Bank attributes market risk to banking book positions, regardless of the methods for calculating earnings generated from those positions used for the purpose of accounting reporting. In particular, in order to measure the interest rate risk of retail and corporate banking products without a fixed interest revaluation date or with rates administered by the Bank, the Bank uses replicating portfolio models. Market risk measures of the interest positions of the banking book are calculated with the use of net present value (NPV) models. Market risk exposure is quantified by measurement of Value at Risk (VaR) and by the calculation of stress test values.

Market risk, in particular interest rate risk of the banking book, is also quantified by measurement of Earning at Risk (EaR) of the banking book.

In order to limit the level of exposure to market risk, BRE Bank Risk Committee sets binding VaR limits as well as stress test limits, which are control numbers, by portfolio of the Bank.

Value at Risk

In H1 2013, Bank's market risk exposure, as measured by the value at risk (VaR, for one day holding period, at 97.5% confidence level), was on a moderate level in relation to the established VaR limits. The average utilisation of VaR limit for Financial Markets Department, whose positions consist primarily of trading book portfolios, amounted to 19% (PLN 1.1 million), for the Brokerage Bureau (BM) 17% (PLN 0.3 million), while for the Treasury Department, whose positions are classified solely to the banking book, it was 61% (PLN 13.3 million). The average utilization of the VaR limit for the position of the Structured and Mezzanine Finance Department (DFS) in shares listed on the Warsaw Stock Exchange accounted for 64% (PLN 4.8 million). The VaR figures for BRE Bank's portfolio ware driven mainly by portfolios of instruments sensitive to interest rates – the banking book portfolios of Treasury and debt securities managed by the Treasury Department and the trading book portfolios and interest rate exchange positions managed by the Financial Markets Department and portfolios of instruments sensitive to share prices (PZU shares in particular) - DFS portfolio of shares listed on the Warsaw Stock Exchange. The DFM portfolios of instruments sensitive to changes in exchange rates had a relatively low impact on the Bank's risk profile, while the exposure of BM and DFS portfolios to equity price risk and risk of implied variability of options traded on the Warsaw Stock Exchange was even lower.

BRE Bank's VaR

The tables below present VaR statistics comparing the H1 2013 data with 2012 figures (the values presented in the table were calculated for the Bank's portfolio excluding the DFS positions).

PLN thousands	H1 2013				2012			
	28.06.2013	average	max	min	31.12.2012	average	max	min
VaR IR	20,439	13,568	22,806	6,774	6,162	11,146	14,368	6,162
VaR FX	345	318	957	73	132	506	2,004	76
VaR EQ	5,491	4,873	5,491	4,551	4,750	925	4,801	1
VaR	20,011	15,274	23,556	10,840	9,879	11,588	14,779	8,059

VaR IR - Interest rate risk
VaR FX - FX risk
VaR EQ - Stock price risk

BRE Bank Group's VaR

The main sources of market risk of the BRE Bank Group are the Bank's positions. The table below shows VaR statistics (at 97.5% confidence level for a one-day holding period) for BRE Bank Group (i.e. BRE Bank, BRE Bank Hipoteczny, BRE Leasing, Dom Inwestycyjny BRE Banku) in H1 2013 compared to 2012 for individual members of the Group in which market risk positions were identified and their decomposition to the VaRs corresponding to the main risk factor types – interest rate risk (VaR IR), foreign exchange risk (VaR FX), and equity prices risk (VaR EQ). The table below presents VaRs for BRE Bank including the DFS positions together with the PZU shares transferred from BRE GOLD FIZ (BGF) in November 2012.

PLN thousands	H1 2013						2012					
	BRE Group	BRE	BBH	BRE Leasing	DI BRE	BGF	BRE Group	BRE	BBH	BRE Leasing	DI BRE	BGF
VaR IR	13,766	13,568	65	310	15	n/a	11,162	11,146	108	287	20	0
VaR FX	379	318	81	231	9	n/a	526	506	78	238	3	0
VaR EQ	4,897	4,873	0	0	59	n/a	5,955	925	0	0	117	5,839
VaR average	15,378	15,274	95	370	57	n/a	14,800	11,588	111	299	119	5,839
VaR max	23,844	23,556	140	670	94	n/a	18,125	14,779	192	461	237	6,900
VaR min	10,668	10,840	65	214	45	n/a	9,914	8,059	61	201	55	4,345
Last business day	20,739	20,011	106	621	87	n/a	9,999	9,879	129	253	58	n/a

VaR IR - interest rate risk
VaR FX - FX risk
VaR EQ - stock price risk

Stress Testing

Stress testing is an additional measure of market risk which supplements VaR measurement. Stress testing measures the hypothetical change in the present value of the Group's and the Bank's NPL portfolios that would materialise under stress test scenarios as a result of the risk factors moving to specific extreme values within a one-day horizon.

Since February 1, 2013, BRE Bank has been applying a new stress testing methodology in which scenarios assume major changes in each group of risk factors. The total stress test value is the sum of the standard stress test value and the stress test value for scenarios assuming changes in the premium for specific risks, credit risk in particular (credit spreads), included in the interest rates used in debt securities valuation. The standard stress test is calculated for the basic market risk factors, i.e. interest rates, foreign exchange rates, share prices and indices, and their volatility. However, the scenarios assuming changes in interest rates and in their volatility quantify a potential change in the valuation of financial instruments, including debt instruments, which would occur due to a change in the interest rates affecting the general level of interest rates and a change in their volatility.

The tables below show statistics of the stress test values for BRE Bank Group divided into individual entities comprising the Group, and for BRE Bank - divided into individual portfolios.

PLN thousands	ST Base				ST CS				ST total			
	28.06.2013	average	max	min	28.06.2013	average	max	min	28.06.2013	average	max	min
BRE Group	75,908	70,450	107,763	44,599	1,051,199	989,391	1,106,450	879,926	1,127,107	1,059,841	1,201,660	930,413
BRE Bank	75,276	71,020	108,615	45,881	1,048,927	987,100	1,104,232	877,490	1,124,203	1,058,120	1,197,594	928,491
BBH	1,008	1,227	2,461	580	2,272	2,288	2,582	1,990	3,281	3,515	4,691	2,878
BRE Leasing	5,990	6,142	7,301	3,199	0	0	0	0	5,990	6,142	7,301	3,199
DI BRE	968	744	968	629	0	0	0	0	968	744	968	629

PLN thousands	ST Base				ST CS				ST total			
	28.06.2013	average	max	min	28.06.2013	average	max	min	28.06.2013	average	max	min
BRE Bank	75,276	71,020	108,615	45,881	1,048,927	987,100	1,104,232	877,490	1,124,203	1,058,120	1,197,594	928,491
DS	25,129	35,082	48,967	19,147	902,192	884,802	986,433	789,552	927,321	919,884	1,033,633	819,461
DFM	21,714	13,401	34,408	0	146,735	110,025	146,985	86,113	168,449	123,426	169,547	85,555
BM	398	1,096	6,645	0	0	0	0	0	398	1,096	6,645	0
DFS	32,021	32,164	35,524	30,113	0	0	0	0	32,021	32,164	35,524	30,113

ST Base - standard stress test

ST CS - stress test assuming changes in the premium for specific risks, credit spread risk in particular

ST total - ST Base + ST CS

The total stress test values are subject to limits which are control numbers. In H1 2013, the average utilisation of the limits accounted for 51% (PLN 1,059.8 million) for the portfolio of BRE Bank Group, 52% (PLN 1,058.1 million) for the portfolio of BRE Bank, 70% (PLN 3.5 million) for the portfolio of BRE Bank Hipoteczny, 61% (PLN 6.1 million) for the portfolio of BRE Leasing, 37% (PLN 0.7 million) for the portfolio of Dom Inwestycyjny BRE Banku. In addition, limits which are control numbers were imposed on individual portfolios of BRE Bank. The average utilisation of those limits in H1 2013 accounted for 65% (PLN 919.9 million) for the portfolio held by DS, 21% (PLN 123.4 million) for the portfolio held by DFM, 9% (PLN 1.1 million) for the portfolio held by BM, and 64% (PLN 32.2 million) for the portfolio held by DFS. The total stress test value (ST total) is determined mostly by the credit spread stress test (ST CS), originating mainly from the Polish government securities held in the DS portfolio. The value results from the assumptions underlying the calculations, i.e. the scenario assuming a 170 bps rise in the credit spread for Polish government securities.

Interest Rate Risk of the Banking Book

In H1 2013, the interest rate risk of the banking book as measured by EaR (potential decrease of net interest income within 12 months assuming an unfavourable 100 bps change of market interest rates based on a stable value of the portfolio over the period) was moderate for positions in PLN, and low for positions in CZK, USD EUR and CHF. The situation was a consequence of a small mismatch in interest positions denominated in these currencies and a limited potential decrease in market interest rates due to their low current level. At the end of H1 2013, EaR (in PLN million) was 56 for PLN, 0.4 for CHF, 6 for CZK, 5 for EUR, and 1 for USD.

The table below presents the potential decrease in interest income over 12 months assuming an unfavourable 100 bps change of market interest rates in every currency.

PLN million	H1 2013				H1 2012			
	30.06.2013	average	max	min	30.06.2012	average	max	min
PLN	56.4	57.3	116.9	6.7	32.6	14.6	45.5	0.1
USD	1.4	1.0	1.8	0.2	2.3	3.0	5.3	0.4
EUR	5.3	5.3	7.9	1.8	5.7	5.9	11.6	0.0
CHF	0.4	0.4	0.6	0.2	18.6	17.0	25.3	11.5
CZK	5.5	5.2	7.0	2.9	5.0	6.5	9.0	3.6

The changes in the level of EaR value and its fluctuations observed in both analysed periods resulted predominantly from the phased introduction of improvements in the risk estimation methodology. From January 2012 to January 2013, successive product categories were gradually covered by the replicating portfolio method in order to better reflect the reaction of their interest to fluctuations in market interest rates. In addition, at the beginning of 2013, the EaR calculation algorithm was modified by including in it the flexibility of reaction of the interest on selected product categories to changes in market interest rates. This was reflected both in risk measures and the utilisation of limits, in particular for positions in PLN and CHF.

In addition, the Bank was monitoring underlying risk, yield curve risk, and customer option risk of the banking book.

X.6. Operational risk

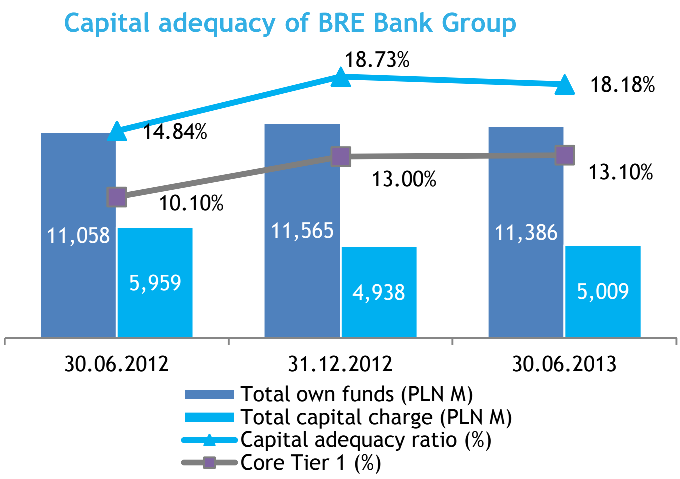
BRE Bank understands operational risk as the possibility of incurring a loss arising from inadequate or defective internal processes, systems, errors or actions taken by a Bank employee or from external events. In particular, operational risk includes legal risk and model risk.

The operational risk control and management system, with its classification of roles and responsibilities, forms an organisational basis and the necessary structures in order to enable expedient and effective control and management of operational risk at every level of the Bank's organisational structure. The PFSA resolutions and recommendations (Recommendation M in particular) constitute a starting point for developing the framework of the operational risk control and management system in BRE Bank Group. In accordance with their provisions, the structure of operational risk control and management covers in particular the role of the Management Board of the Bank, the Bank’s Risk Committee, the Chief Risk Officer, the Risk Department, and the tasks assigned to persons managing operational risk in particular organisational units and business areas of the Bank. The preparation and coordination of the operational risk control and management process at the Bank are gathered in the central operational risk control function while operational risk management takes place in every organisational unit of the Bank and in every subsidiary of the Group. It consists in identifying and monitoring operational risk and taking actions aimed to avoid, limit or transfer operational risk.

The entire operational risk control process is supervised by the Supervisory Board of the Bank through the Risk Committee of the Supervisory Board.

Throughout 2012, operational risk was gradually increasing amid deteriorating macroeconomic conditions. In H1 2013, operational risk was still at an elevated level.

X.7. Capital adequacy



Maintaining an adequate level of capital is one of the main tasks of managing the balance sheet of a bank. The Management Board of the Bank ensures consistency of the capital and risk management process by the system of strategies, policies and procedures for management of particular risks which constitute the ICAAP architecture. Furthermore, in line with the Capital Management Policy applicable at the Bank, the Bank maintains the optimum level and structure of own funds, guaranteeing maintenance of the capital adequacy ratio at a level higher than the statutory minimum and higher than the level recommended by the PFSA, at the same time covering all significant risks identified in the Bank's operations.

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

- maintenance of an optimal level and structure of own funds, with the use of available methods and means
  (retained net profit, issuance of shares, subordinated loans, etc.);
- effective use of the existing capital by applying the system of capital use measures resulting in the reduction of the activity that is not bringing the expected return and development of products with lower capital absorption (e.g. loans partly secured by BGK guarantees under the de minimis portfolio guarantee line).

XI. Rating of BRE Bank and Group subsidiaries

XI.1. Fitch Ratings' rating

Rating of BRE Bank SA

On May 20, 2013, Fitch Ratings affirmed ratings of BRE Bank with a stable outlook for long-term IDR. According to the rating agency, BRE Bank's viability rating reflects its strong liquidity, solid internal capital generation and relatively conservative rules of risk management. Viability rating also takes into account substantial exposure to foreign currency loans, high share of Commerzbank in long-term funding structure as well as weakening Polish economy.

Long-term IDR is influenced by an extremely high probability of potential support from dominant shareholder, if necessary.

Fitch Ratings Ltd. - ratings of BRE Bank	
Long-term IDR	A (stable outlook)
Short-term IDR	F1
Viability rating	bbb-
Support rating	1
Rating of BRE Bank's senior unsecured debt issued under the Euro Medium Term Note Programme (EMTN)	A; F1
Issue of EUR 500 million bonds by BRE Finance France on October 4, 2012	*A*

Ratings of BRE Bank Hipoteczny SA and BRE Leasing Sp.z o.o.

At the end of the first half of 2013 ratings assigned to BRE Leasing and BRE Bank Hipoteczny were as follows:

Fitch Ratings Ltd. - ratings of BRE Bank Hipoteczny and BRE Leasing	
Long-term IDR	A (stable outlook)
Short-term IDR	F1
Support rating	1

The ratings were affirmed on May 20, 2013. Furthermore, Fitch Ratings assigned an "A" rating to mortgage and public sector covered bonds issued by BRE Bank Hipoteczny.

XI.2. Standard & Poor's rating

On June 6, 2013, the rating agency assigned a „BBB+" rating to long-term IDR and „A-2" to short-term IDR. Long-term IDR outlook is negative due to the negative outlook on Commerzbank AG rating. Until June 6, 2013, BRE Bank had a "BBBpi" rating based solely on publicly available information.

The rating on BRE Bank reflects a "bbb-" anchor applied by Standard & Poor's to Polish commercial banks as well as the agency's opinion *inter alia* on the bank's "adequate" business position and capital standing, "adequate" profitability as well as "adequate" risk and liquidity assessment. Stand-alone credit profile (SACP) was rated at "bbb-". Potential support from Commerzbank AG, on which BRE Bank may count since it is a "strategically important" subsidiary, has a positive influence on Bank's long-term rating.

Standard & Poor's - ratings of BRE Bank	
Long-term deposits rating	BBB+ (negative outlook)
Short-term deposits rating	A-2
Stand-alone credit profile (SACP)	bbb-
Rating for Euro Medium Term Note Programme (EMTN)	BBB+
Issue of EUR 500 million bonds by BRE Finance France on October 4, 2012	*BBB+*

XI.3. Moody's Investors Service rating based on publicly available information

Ratings of BRE Bank SA

BRE Bank terminated a rating contract with Moody's Investors Service on March 28, 2013. Furthermore, Bank requested withdrawing ratings for the Bank itself as well as for Euro Medium Term Note Programme (EMTN). Current ratings are based on publicly available information.

On April 29, 2013, Moody's downgraded the long-term rating for BRE Bank from "Baa2" (negative outlook) to "Baa3" (stable outlook) and short-term rating from "Prime-2" to "Prime-3". The Bank's Financial Strength Rating (BFSR) was affirmed at "D (ba2)" with a stable outlook. The rating action was triggered by the downgrading of Commerzbank's rating from "A3" to "Baa1".

Moody's - ratings of BRE Bank based on publicly available information	
Long-term deposits rating	Baa3 (stable outlook)
Short-term deposits rating	Prime-3
Bank's Financial Strength Rating (BFSR)	D (ba2) (stable outlook)
Provisional rating for senior unsecured debt issued under the Euro Medium Term note Programme (EMTN)	(P) „Baa3"
Issue of EUR 500 million bonds by BRE Finance France on October 4, 2012	*Baa3*

XII. BRE Bank's Authorities

Supervisory Board of BRE Bank SA

On April 11, 2013, the 26th General Meeting of BRE Bank appointed Martin Blessing and Wiesław Thor as Members of the Supervisory Board as of April 12, 2013.

Since May 15, 2008, Martin Blessing acts as the CEO of Commerzbank AG directly supervising the operations of Commerzbank Group in Central and Eastern Europe. Moreover, Mr Blessing served as Member of the Supervisory Board of BRE Bank from January 27, 2005 to September 4, 2008.

Wiesław Thor has been working for BRE Bank since 1990: from November 2, 2002 as Member of the Management Board of BRE Bank responsible for Risk Management, and from March 15, 2008, to April 11, 2013, as Vice-President of the Management Board of BRE Bank.

The appointment of new Members of the Supervisory Board increased the number of members of this authority from 10 to 12.

The Supervisory Board has 4 Committees: the Executive Committee, the Risk Committee, the Audit Committee and the Remuneration Committee. Members of particular committees as of June 30, 2013, were as follows:

Executive Committee		Risk Committee		Audit Committee		Remuneration Committee
Maciej Leśny		Dirk Wilhelm Schuh		Stephan Engels		Ulrich Sieber
Martin Blessing		Thorsten Kanzler		Andre Carls		Andre Carls
Andre Carls		Maciej Leśny		Maciej Leśny		Maciej Leśny
Jan Szomburg		Waldemar Stawski		Teresa Mokrysz		Marek Wierzbowski

Management Board of BRE Bank SA

Owing to the expiry of the term of the Management Board of the Bank on the date of the Annual General Meeting in 2013 and due to the appointment of Wiesław Thor as Member of the Supervisory Board, changes to the Management Board of the Bank have been introduced in the first half of 2013.

New Member of the Management Board responsible for risk management is Lidia Jabłonowska-Luba. Furthermore, the Supervisory Board decided that from April 12, 2013, to the day on which the Polish Financial Supervision Authority grants consent to the appointment of Ms Jabłonowska-Luba as Vice-President of the Management Board and Chief Risk Officer, the responsibilities would be temporarily entrusted to Cezary Stypułkowski, President of the Management Board of BRE Bank.

On April 11, 2013, the Supervisory Board of BRE Bank elected the following Members of the Management Board for a joint 5-year term:

1. Cezary Stypułkowski – President of the Management Board, Chief Executive Officer
2. Przemysław Gdański – Vice-President of the Management Board, Head of Corporate Banking
3. Jörg Hessenmüller – Vice-President of the Management Board, Chief Financial Officer
4. Lidia Jabłonowska-Luba – Vice-President of the Management Board
5. Hans-Dieter Kemler - Vice-President of the Management Board, Head of Investment Banking
6. Cezary Kocik - Vice-President of the Management Board, Head of Retail Banking
7. Jarosław Mastalerz - Vice-President of the Management Board, Chief Operations Officer.

The biographies of all the members of BRE Bank's authorities are available at www.brebank.pl.

XIII. Statements of the Management Board of the Bank

True and Fair Picture in the Presented Reports

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

- IFRS Condensed Consolidated Financial Statements for the first half of 2013 and the comparative figures were prepared in compliance with the binding accounting principles and present a true, fair and clear picture of the financial position and the condition of the assets of BRE Bank Group as well as its financial performance;
- Management Board Report on the Business of BRE Bank Group SA in H1 2013 presents a true picture of the developments, achievements, and situation of BRE Bank Group SA, including a description of the main risks and threats.

Appointment of the Auditor

The Auditor authorized to audit the financial statements Ernst & Young Audit sp. z o.o., performing the review of the IFRS Condensed Consolidated Financial Statements for the first half of 2013 of BRE Bank Group SA was appointed in compliance with legal regulations. The audit company and its auditors fulfilled the conditions necessary for an impartial and independent review report in compliance with respective provisions of the Polish law and professional standards.

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

Date	First and last name	Position	Signature
01.08.2013	Cezary Stypułkowski	President of the Management Board, General Director of the Bank	
01.08.2013	Lidia Jabłonowska-Luba	Deputy President of the Management Board	
01.08.2013	Przemysław Gdański	Deputy President of the Management Board, Head of Corporate Banking	
01.08.2013	Jörg Hessenmüller	Deputy President of the Management Board, Chief Financial Officer	
01.08.2013	Hans - Dieter Kemler	Deputy President of the Management Board, Head of Investment Banking & Markets	
01.08.2013	Cezary Kocik	Deputy President of the Management Board, Head of Retail Banking	
01.08.2013	Jarosław Mastalerz	Deputy President of the Management Board, Head of Operations & Information Technology	