Management Board Report on the Performance of BRE Bank Group SA in H1 2012

Warsaw, August 2, 2012

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I. Major achievements of BRE Bank Group in H1 2012

I.1. Sustainable improvement in the financial performance of BRE Bank Group

In H1 2012, BRE Bank Group reported a pre-tax profit of PLN 817.8 million, compared to PLN 716.0 million earned in H1 2011 constituting an increase of PLN 101.8 million or 14.2%. Net profit attributable to the shareholders of BRE Bank reached PLN 650.6 million, compared to PLN 542.9 million in the previous year constituting an increase of PLN 107.7 million or 19.8%.

The improvement of financial performance in H1 2012 was predominantly driven by:

- **Continued growth in income from banking operations**, i.e. net interest and net fee and commission income, which totaled PLN 1,545.5 million representing a rise of 5.7% compared to H1 2011, when it reached PLN 1,462.8 million. The considerable growth in net interest income was supported by a rise in loan volumes and higher nominal interest rates, while net fee and commission income growth was predominantly driven by higher commissions on payment cards and money transfers.
- **Increased lending** to corporate and retail clients. The value of gross loans to corporate clients excluding reverse repo/sell buy back transactions clients increased by PLN 1,163.0 million in H1 2012 or 4.3%, compared to the end of 2011. Furthermore, the growth observed in retail lending continued in H1 2012 (+PLN 102.2 million, +0.3% including the FX effect).
- **Cost discipline** accompanying business development: the cost/income ratio fell to 43.5% from 47.9% at the end of H1 2011. After the first six months of 2012, total income was 7.7% higher compared to 2011, while costs decreased by 2.2%.
- Continued **cautious risk management policy** reflected in a drop in risk costs to 65 bps in H1 2012, compared to 84 bps in H1 2011 (excluding the impact of the disposal of a part of retail loan) and 72 bps at the end of 2011.
- Continued business expansion demonstrated by:
    - **Effective acquisition of retail clients** despite intensive marketing and pricing campaigns on the market; compared to the end of 2011, the number of clients reached 3,995 thousand at the end of H1 2012 (+2.6%).
    - **Increase in product penetration** among the Bank's retail clients, reflected in continued improvement of the cross-selling ratio from 2.99 at the end of June 2011 to 3.16 at the end of June 2012, despite a significant rise in the number of new clients.
    - **Growing number of corporate customers**; during H1 2012 the number of corporate customers rose by 676 to 14,653, the highest number on record.

Owing to the positive financial performance of BRE Bank Group, the profitability ratios remained stable:

- Gross ROE stood at 20.2% (compared to 21.0% at the end of 2011 and 20.6% in H1 2011);
- Net ROE stood at 16.0% (compared to 16.4% at the end of 2011 and 15.9% in H1 2011).

The capital ratios of BRE Bank Group remained at a safe level, supported by the full retention of profits for 2011. The capital adequacy ratio stood at 14.84% at the end of June 2012 (compared to 14.96% at the end of Q4 2011 and 16.08% in June 2011), while Core Tier 1 ratio stood at 10.10% (compared to 9.59% in December 2011 and 10.70% in June 2011).

I.2. Important transactions announced by BRE Bank Group in H1 2012

I.2.1.Ownership changes within BRE Bank Group

On June 28, 2012, the share capital of Aspiro was increased by PLN 109.3 million by way of issuing 109,342 B-series ordinary registered shares. The shares were acquired by BRE Bank in a private placement and covered by a non-financial contribution in the form of 12,941,177 ordinary registered shares of BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A. The transaction was a result of reorganisation of the retail sales network.

I.3. Major project initiatives conducted by BRE Bank Group in H1 2012

Over the course of the first half of 2012 a number of projects aimed at further intensification of existing product sales, service enhancement and acquisition of new clients as well as further development of reporting standards have been initiated, expanded or finalized. These include:

I.3.1. Development of New mBank

New mBank will be one of the most modern retail banking platforms world-wide. It will respond to the changing needs of clients who are becoming more active users of advanced technologies. New mBank will encompass a full transactional banking, personal finance management, merchant offers, discounts, video chats with advisor, social media integration and more supported by a modern user interface helping to build trust, advocacy and long term relationships and engagement with the Bank. Access to the full banking system will be made available not only from computers but also mobile devices such as smartphones and tablets. The Bank expects the first release of New mBank to take place in Q1 2013.

I.3.2. Online version of BRE Bank Group's Annual Report

BRE Bank Group, as a first bank on the Polish market, launched an online version of its annual report providing investors, analysts, journalists and other interested parties with a convenient and highly interactive access to the Group's audited financial data. The traditional content of the annual report is enhanced with multimedia materials, interactive graphs, tables as well as selective download and printing functionalities.

The user experience of the online Annual Report is further strengthened with an interactive tool to data analysis called BRE Analyzer. The 2011 online Annual Report of BRE Bank Group is available at www.raportroczny.brebank.pl in both Polish and English versions.

I.3.3. Innovative and convenient tool for data analysis - BRE Analyzer

BRE Analyzer allows users to interactively analyze and customize BRE Bank Group's financial and business data across many different dimensions. Items and key ratios are presented in customizable data tables and on graphs. The user can switch between quarters and years as well as choose between three currencies (EUR, PLN, USD). The data covers all periods from the first quarter of 2006 and can be easily exported to a separate Excel worksheet. The structure of the service is divided into five categories to facilitate navigation and effective data search:

- Summary of key financials and ratios;
- Profit and loss account, with details on each position;
- Balance sheet, where apart from standard items also FX structure and portfolio quality data are available (including non-performing loans and NPL ratio);
- Business data split between: Retail Banking (Poland, mBank CZ and mBank SK separately) and Corporate and Financial Markets;
- Solvency, with a comprehensive report on the Group's regulatory capital.

BRE Analyzer can be accessed at www.breanalyzer.brebank.pll.

I.3.4. Euro Medium Term Note Programme

The Management Board of BRE Bank informed on April 12, 2012 that BRE Finance France (a subsidiary of BRE Bank, in which the Bank holds 99.98% of shares) as the issuer and BRE Bank as the issue underwriter signed an agreement for a Euro Medium Term Note Programme (EMTN) for a total amount of up to EUR 2 billion. Under the EMTN Programme, the issuer will have a right to issue debt securities in multiple tranches, various currencies and with diverse interest structure. The Luxembourg Stock Exchange admitted the Programme to trading. The debt securities will be unconditionally and irrevocably guaranteed by BRE Bank. The Bank agreed to extend future guarantees of payment of any amounts payable on debt securities issued under the Programme.

Fitch Ratings and Moody's Investors Service assigned ratings for the Euro Medium Term Note Programme. Fitch assigned a Long-term senior unsecured debt rating of "A" and a Short-term senior unsecured debt rating of "F1", which corresponds to BRE Bank's rating. Moody's assigned a provisional rating of (P) "Baa2" (the rating is on review for possible downgrade) to the backed senior unsecured debt i.e. in accordance with the level and outlook of BRE Bank's long-term rating. Final ratings for debt securities issued under the Programme will be assigned at the time of issue of particular tranches. Receipts from the issue of debt securities will be remitted by the issuer to BRE Bank as issue underwriter in form of a cash deposit. The funds will be used to finance general banking operations of BRE Bank.

Decisions on a potential issuance of bonds under the Programme will depend on the prevailing market conditions. The Programme provides an additional source of long-term funding for the Bank.

I.3.5. Continued implementation of the Cross Border project

As part of ongoing efforts to facilitate cross border cooperation within Commerzbank Group in the scope of servicing international German-speaking customers the Bank launched a new initiative aimed at exchanging information on international clients with Commerzbank. The project is expected to boost the Bank's profits generated by the existing shared clients and increase the number of new corporate clients acquired as a result of this cooperation. The primary goal of the project is to unlock the full potential of Commerzbank's SME clients operating in Poland directly or through their daughter-companies by offering them directly the products and services available to the Bank's domestic clients.

Consequently, an automated process for cyclical generation and secure transfer of selected information between the Bank and Commerzbank was established supporting a more efficient identification and targeting of most suitable international clients. The Bank expects to benefit from increasing international client business as a meaningful contributor to existing corporate banking product sales.

I.4. Awards and distinctions

In the past six months, BRE Bank and its subsidiaries were appreciated both by the clients and external experts. The most important of these distinctions include:

- BRE Bank was named the best bank in Poland in the annual "Best Emerging Market Banks in Central and Eastern Europe" contest organised by Global Finance magazine. The international jury applied the following criteria for choosing the winners: growth in assets, profitability, customer service and competitive pricing. Innovative products were yet another major criterion.
- BRE Bank was named "Bank of the Last 20 Years" in the Best Bank contest organised by Gazeta Bankowa, and awarded a special prize for being the most frequently awarded bank in the contest's history.

- BRE Bank was granted the Honorable Distinction and Promotional Emblem of Entrepreneur-Friendly Bank with 7 Gold Stars. This annual contest is organised by the Polish Chamber of Commerce and the Polish-American Small Business Advisory Foundation. BRE Bank received special praise for the development of its SME Service Quality Formula and the ensuing top standards of customer service, product mix providing clients with measurable and tangible benefits, as well as high culture of cooperation between bankers and entrepreneurs.
- MultiBank won the "Quality You Can Bank On" ranking prepared by TNS Polska, Deloitte and Puls Biznesu. As a part of the ranking, mysterious clients visited branches of 22 banks to assess the customer service standards (among others: the aesthetic qualities of the branches, the appearance of the employees and their work stations, but first of all, the analysis of the customer's needs and the presentation of products and services).
- For the third time in a row mBank received the “Golden Banker” award granted by Internet users. The retail arm of BRE Bank triumphed in three categories: the best private account for Internet users, the best mobile banking and the best business account for Internet entrepreneurs. Moreover, since mBank scored the highest number of points in all the categories, it also won the title of “Golden Bank of 2011”.
- BRE Bank received the “The Best Bank of the Year” award of the private equity industry in the “Diamonds of Private Equity” contest. The criteria included the number, value and diversity of new investment projects subject to financing. The contest aims to promote persons, companies and institutions active in the private equity market, who contribute to the growth of Polish enterprises and are exceptional in their high professional standards, economic efficiency and innovation.
- For the fifth time, the private banking services offered by BRE Bank were awarded the title of “Best Private Banking in Poland” by British financial Euromoney Magazine. BRE Private Banking & Wealth Management won this title also in 2007, 2009, 2010 and 2011. Euromoney experts choose the best banks in each country, taking into account the range of services on offer, customer relations, product mix, average growth in deposits from clients, changes in the number of clients, assets under management and profit.
- The team of analysts representing Dom Inwestycyjny BRE Banku (DI BRE) was named the best on the market in the annual ranking of Forbes magazine. The fund managers assessed the professionalism, the range of products and services offered, and the quality and usefulness of reports compiled by the analysts of the largest domestic brokerage houses. Moreover, DI BRE topped the annual ranking of Gazeta Giełdy Parkiet and was named Brokerage House of the Year.
- Krzysztof Olszewski was named the best banking spokesperson in Poland, while his deputy, Piotr Rutkowski, came third in the “Survey of journalists” opinion about banks and their Public Relations policy”, prepared by ARC Rynek i Opinia institute. The press teams of mBank and MultiBank (operating jointly since 2011) were appreciated for the fastest communication on the market and professionalism of the team members, their proactive approach and understanding of the specificity of journalist work.
- mBank was named the second best bank in the Czech Republic in the prestigious Golden Wallet 2012 contest. This plebiscite is organised by Měšec.cz, one of the major opinion-forming financial web portals in the Czech Republic. The Czech branch of mBank came second only to the domestic Fio bank, which won by a fraction of a point.
- BRE Bank was ranked first by the National Bank of Poland in a summary of the performance of banks aspiring to the role of Money Market Dealer in 2013. The evaluation covered the period from 1 November 2011 to 30 April 2012. When choosing the entities to act as Money Market Dealers in a given calendar year, the NBP applies seven qualifying criteria of the Dealer Activity Index (DAI) connected with the candidate’s settlement and offering potential as well as the candidate’s activity on the market of unsecured interbank deposits, conditional operations, FX

swap, domestic interest rate derivatives FRA and IRS and domestic interest rate derivatives OIS. The above-mentioned areas correspond to the turnover, volumes and transactions in PLN with the initial maturity of up to one year. NBP ranks the candidate banks based on the total score achieved in the evaluation period.

II. Strategy for Years 2012 – 2016

On July 25, 2012 the Supervisory Board of the Group approved the Bank's 2012 - 2016 strategy.

The main idea behind the new strategy is the theme of "One Bank" for clients and employees. BRE Bank aspires to become an organization with a coherent corporate culture and values shared by all employees, who are highly engaged in building the success of the Bank. In addition, the three main brands operated by BRE Bank will be replaced by "mBank" while the Bank's network will comprise universal branches integrating sales and post-sale activities for individual clients, microenterprises, SMEs and corporations including banking services and the offering of our Group subsidiaries.

A number of universal principles that have underpinned the previous (2010 - 2012) strategy of the Bank remain in place:

- Balanced and profitable organic growth;
- Disciplined approach towards managing of the cost base;
- Prudent risk management;
- Maintenance of adequate capital levels to reflect both stricter regulatory requirements and allow for further growth in attractive areas.

As part of the new strategy, the Bank will work towards optimizing its balance sheet from both profitability and structural perspective increasing the share of customer deposit funding, further diversifying the broader funding base as well as increasing the share of higher yielding assets. Balance sheet optimization will define specific strategic initiatives undertaken in respective business lines. As such the development directions for the Retail and Corporates & Financial Markets segments will comprise:

- Strengthening of the Group's position in the segment of larger corporations (K2) where there is significant cross-selling potential for high margin products providing integrated solutions across financing, advisory, transactional and other non-credit products and increasing the Bank's competence with respect to servicing small and medium enterprises, especially in the area of integrated financial solutions.
- Continued development of the Group's Retail Banking offering ensuring that clients receive highly innovative and most convenient transactional solutions with the Bank remaining the leader in technological innovation and being perceived as a financial institution that sets the standards of modern banking.

BRE Bank's actions in years 2012 - 2016 will be organized by the following financial targets:

- Loans to deposits ratio: c. 115% by 2016;
- Net Stable Funding ratio (NSFR): min. 110%;
- Core Tier 1 ratio: c. 10%;
- Revenue growth: 6% CAGR;
- Cost/Income ratio (C/I): max. 48%;
- Gross RoE: min. 15%;
- Net RoA: min. 1.4%.

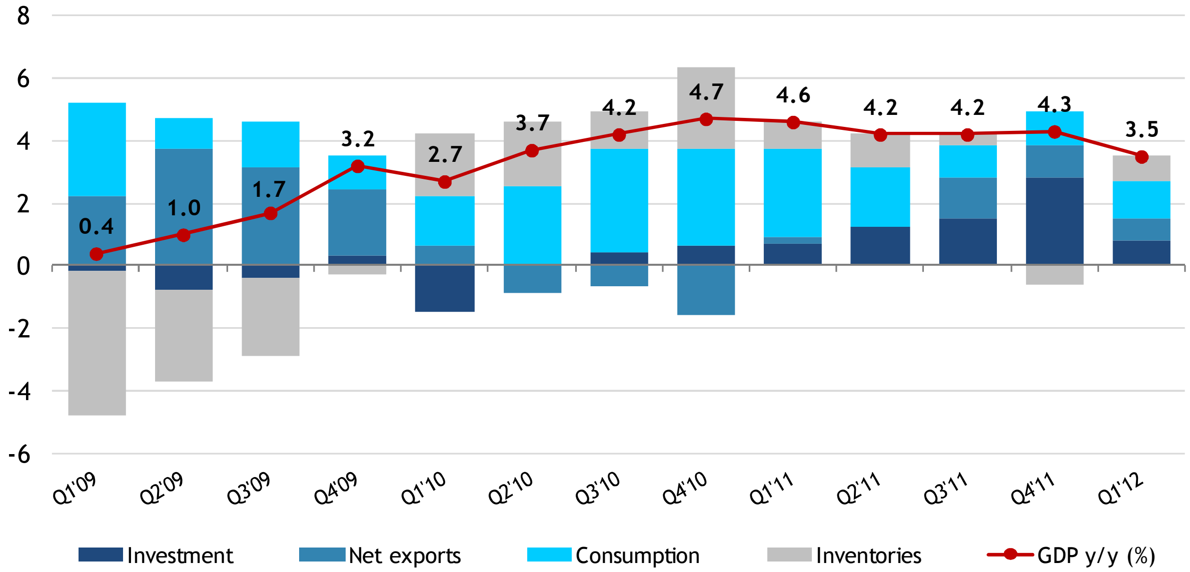
III. Economy and the banking sector in H1 2012

III.1. Increasingly evident economic slow-down in H1 2012

The GDP growth rate decreased from 4.3% in Q4 2011 to 3.5% YoY in Q1 2012. GDP data suggests that cyclical slow-down will affect the Polish economy in the coming quarters:

- Completion of infrastructure projects will significantly curb investments. The growth rate of investments already decreased from 9.7% YoY in Q4 2011 to 6.7% in Q1 2012, mainly due to lower growth of investments in plant and machinery. The cyclical slow-down is starting to affect investments related to production and expectations of future demand in the private sector.
- Private consumption grew by 2.1% YoY in Q1 2012 (similar to Q4 2011). Retail sales also slowed down in Q2 2012. Forward-looking indicators (expected financial standing of households, growth rate of assets) indicate further decrease of the growth rate of consumption in the coming quarters. Consumption is not being helped by the deteriorating situation on the labour market.
- In H1 2012, the situation on the labour market clearly deteriorated: number of jobs decreased by 21 thousand year to date, and the trend is expected to continue in the coming months. The annual growth rate of wages and salaries remains at a modest 4.0%.
- Public consumption will be reduced in connection with the currently introduced consolidation of public finances. Public consumption decreased by 1.3% YoY, which clearly indicates that fiscal policy will not support GDP growth in the coming quarters.
- In Q1 2012, the balance of foreign trade added 0.7 p.p. to GDP growth although the growth rate of exports and imports decreased (to 4.8% and 3.2% YoY, respectively, compared to 7.9% and 5.0% in Q4 2011). Net exports will not support the economy in the coming quarters due to the slow-down of global demand.

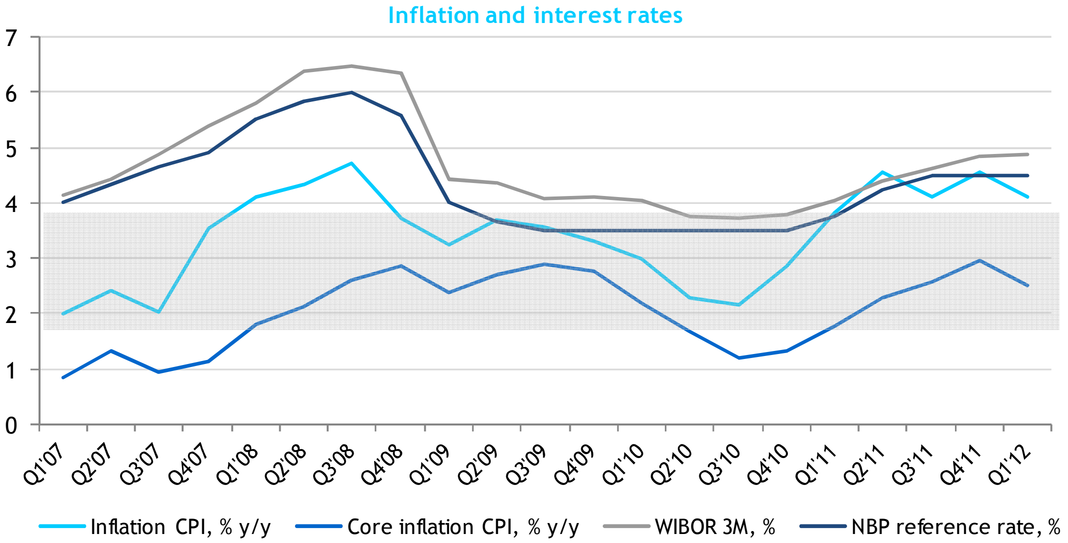
Contribution to GDP growth YoY (%)



III.2. Monetary policy

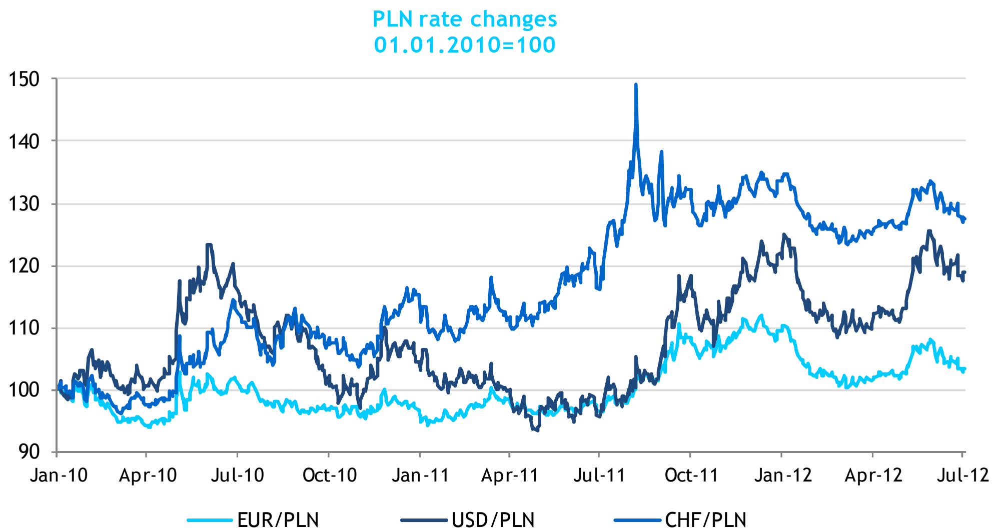
In H1 2012, inflation remained elevated; it fell to 3.6% YoY in May, but it will rebound again in the summer to around 4% due to the base effect and EURO2012. Only in the autumn will inflation fall considerably thanks to the base effect and falling food and fuel prices. The Bank expects inflation to fall below 3% at the end of the year.

In H1 2012, the Monetary Policy Council (RPP) raised the interest rates by 25 b.p. (in May); the NBP's reference rate is now at 4.75%. The decisions to tighten the monetary policy were mainly driven by persistent overshooting of the inflation target. Currently, the Council's rhetoric is increasingly influenced by the increasing economic slow-down and low interest rates worldwide (in particular, actions of the European Central Bank). In view of increased inflation in the summer and in the context of the Council's efforts to maintain credibility, the Bank expects its rhetoric to relax gradually and the rates to be cut at the turn of 2013 (the market expects a 25 b.p. reduction in December 2012).



III.3. Foreign currency market developments

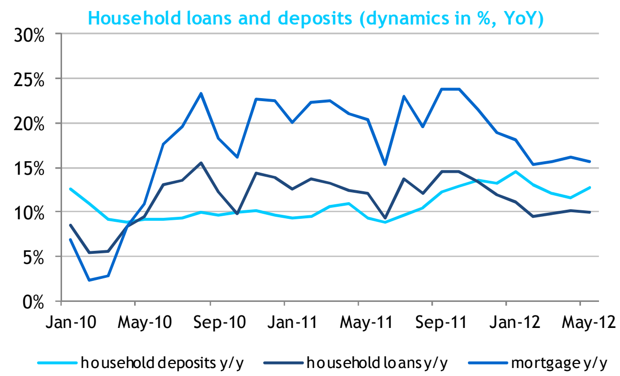
In Q1 2012, the Polish currency strengthened significantly owing to a better expectations in Europe and a reaction after the "speculative attacks" in late 2011 related to the debt level and interventions of Bank Gospodarstwa Krajowego and NBP on the foreign currency market. In Q2 2012, the exchange rate of the zloty was influenced by the European debt crisis and political changes in Greece. However, expectations of a quantitative easing in the US and LTRO in the euro zone support the zloty and subsequent peaks reached under the pressure of growing global risk aversion have been lower. The zloty should be increasingly seen as a safe currency. The Bank expects the zloty to strengthen in the mid term (with a correction in Q4 2012 due to lower GDP growth and more tolerance on the part of the NBP towards limited depreciation of the Polish currency). Zloty should have a chance of structural appreciation in 2013 as the balance of payments improves.

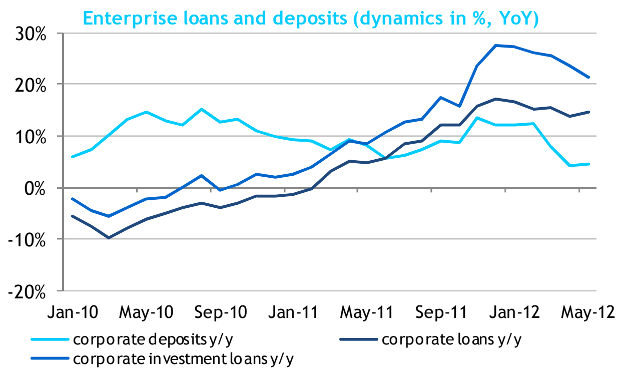


III.4. Banking sector

In the past six months the Polish banking sector was characterised by the following developments:

- Stabilisation of the growth rate of retail deposits: 12.8% YoY growth at the end of May. Retail deposits increased by PLN 10.1 billion between December 2011 and May 2012. The growth trend reversed (negative month-on-month growth) in March and April as more cash was channelled to investment funds. In the context of the upcoming slow-down (retail deposits have anti-cyclical properties) and the need to rebuild the record-low rate of savings (it was 1.7% in 2011), household deposits will maintain a double-digit growth rate in the coming months.
- In March and April, corporate deposits decreased by 3% month on month, while the trend reversed seasonally in May. The year-on-year growth rate decreased to 4.6% (in May); we expect it to remain low until the end of the year (in Q4, it will be additionally reduced by the effect of a high base of 2011).
- The annual growth rate of retail loans has been decreasing since the beginning of the year (it was 5% net of the FX effect in May) but the volume of loans is growing slowly month on month (by ca. 0.2%-0.5%).
- Contrary to some expectations from early 2012, no collapse could be observed on the mortgage loans market following the implementation of Recommendation SII: the volume of mortgage loans net of the FX effect increased by 0.3%-0.5% month on month, while newly sold loans in January - May were only PLN 3 billion, or 18%, lower than in the same period of 2011. New loans are expected to decrease by ca. 17%, in all of 2012. The currency structure of new loans changed considerably: the share of loans denominated in PLN increased to 95% (78% in December 2011), while that of CHF loans decreased to 0.1%.
- The value of consumer loans oscillates in the range of PLN 131.5-132.5 billion in 2012 (the year-on-year growth rate remained negative for five quarters). The share of irregular loans remains stable but high (ca. 18%); combined with the regulations imposed by Recommendation T, this squeezes the space for consumer lending in the coming quarters.
- In Q2 2012, the growth rate of corporate loans entered a downward trend (it was 11.7% YoY net of the FX effect in May) in line with the decreasing growth rate of investments. The path of growth in investment loans is similar as in 2009; in late 2012, it will be additionally affected by the effect of a high base of 2011. The effect will result in a decrease of the year-on-year growth rate of corporate loans to ca. 2% at the end of 2012.





III.5. Changes in recommendations of the Polish Financial Supervision Authority (KNF) concerning banks

Recommendation S

The amendment to Recommendation S adopted in January 2011 introduced new restrictions on mortgage loans extended in foreign currencies. The amendment stipulates that all credit instalments of a given borrower cannot exceed 42% of his disposable income. Furthermore, regardless of the lending period, banks will be obliged to calculate the borrower’s creditworthiness as if the loan was granted for 25 years.

In July 2011, the risk-related provisions (risk assessment, monitoring, etc.) became effective. The Recommendation obliges the management board of a bank to develop a mortgage loan portfolio management policy and to assess it periodically. Additionally, on a regular basis, banks should analyse how fluctuations in foreign exchange rates and interest rates affect the credit risk. January 1, 2012, was the effective date of the part of KNF's Recommendation SII stipulating that clients should repay their loans in the currency in which they earn and that the monthly instalment of a currency loan should be no higher than 42% of the borrower's disposable income. At the same time, Recommendation S II established more stringent criteria for calculating the creditworthiness of clients interested in EUR or CHF loans.

Moreover, the KNF recommends banks to monitor the changes in the real estate market and the value of real estate accepted as loan collateral.

Planned amendments to Recommendation J

Recommendation J was adopted based on the Banking Law Act and presents the good practices in managing the credit risk related with mortgage-backed credit exposures or exposures which will ultimately be backed by mortgages, regulating the banks' approach to the collection and processing of data on the real estate market comprised in banks' internal databases or in interbank databases. The provisions will be binding on all the banks having more than 10% of mortgage-backed exposures in their credit portfolios.

Recommendation J complements Recommendation S on good practices in managing credit exposures financing real estate and mortgage-backed credit exposures, and Recommendation T on good practices in managing the risk of retail credit exposures, and consequently, sets the minimum criteria for database reliability indicated in Recommendation S.

III.6. Factors influencing the banking sector in H1 2012

In H2 2012, we expect GDP growth to slow down to under 2% YoY; this scenario is increasingly suggested by macroeconomic factors published monthly (industrial production, retail sales, unemployment rate). However, the slow-down is happening relatively smoothly compared to 2008 – 2009 with companies prepared for less economic activity, as demonstrated by the absence of dramatic falls of the sentiment indicators, gradual reduction of employment, as well as the still positive (though low) growth of real wages and salaries. Expectations of a relatively smooth slow - down in the Polish economy in H2 2012 justify the expectation of continuation of the currently observed trends in loans and deposits. Retail deposits have anti-cyclical properties; hence, supported by the need to rebuild the rate of savings, they should remain relatively high (especially if uncertainty persists on the financial markets as it tends to discourage investments in higher risk instruments). On the other hand, deterioration of the situation on the labour market and greater uncertainty will reduce demand for retail loans as well as corporate loans through lower consumer demand and reduced investments. Weaker financial results of companies will also result in a reduction of the growth rate of corporate deposits. However, these developments should not be sudden; thus, the conditions in the environment of banks will remain stable.

IV. Outlook for BRE Bank Group for H1 2012

With the Polish economy entering a phase of slower growth, banks including BRE Bank Group, will face decelerating credit demand and upward pressure on cost of risk. In this environment, the Group's prudent risk management strategy will remain the underpinning factor for the development of risk provisioning charges, while focus on maintaining strong cost control should continue to support the Group's financial performance.

The outlook for the Polish banking sector and BRE Bank for H2 2012 will also remain dependent on the economic and financial markets developments in the Euro zone and globally.

The continued turbulence in the financial markets driven by uncertainty surrounding the solvency of EU's peripheral economies may have a negative effect on investor and corporate confidence in Poland.

The Group continues to see strong potential in the markets and segments it operates in.

BRE Bank Group's strong capital base and ample liquidity put it in a position of strength to take advantage of a solid market environment in Poland and to maintain the relevant safety buffers in the event of a more adverse market development scenario.

V. BRE Bank Group Shareholders and Share Price on the WSE

V.1. BRE Bank Shares at the end of June 2012

In H1 2012, the number of shares of BRE Bank Group remained stable in comparison to the end of 2011 with the following key characteristics as of June 30, 2012:

- Total number of BRE Bank shares: 42,102,746 ordinary and bearer shares.
- There are no preferred shares, each share represents one vote at the General Meeting.
- Nominal value: PLN 4 per share.
- BRE Bank share capital: PLN 168,411 thousand, fully paid up.
- Shares are listed on the Warsaw Stock Exchange (WSE) since 1992.
- Shares participate in the following WSE indices: WIG, WIG20, and WIG Banks; shares also participate in indices WIG 20 short, WIG 20 lev, WIG PL.

BRE Bank has a strategic shareholder: Commerzbank AG, which has been BRE Bank's major shareholder through a 100% owned subsidiary, Commerzbank Auslandsbanken Holding AG.

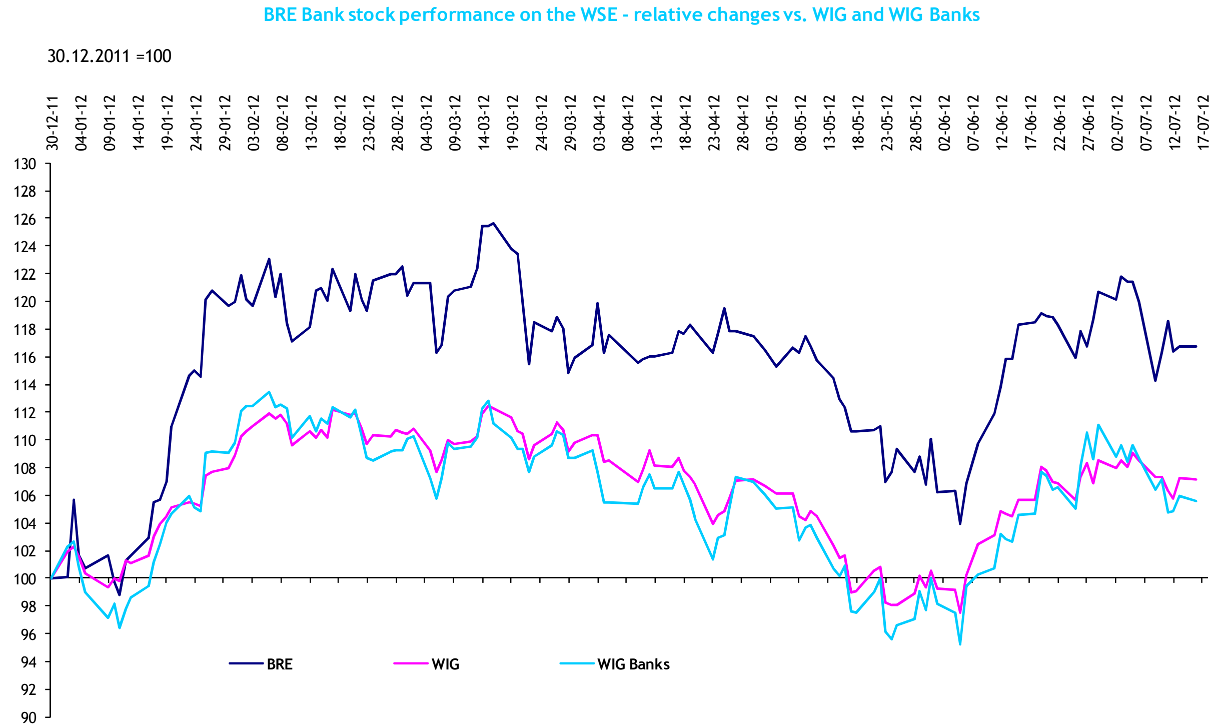
The stake of Commerzbank has been gradually rising, from 21% in 1995 through 50% in 2000, to 72.16% in 2003. Since 2005, the stake has been reducing slightly due to the execution of a management options scheme at BRE Bank.

As of June 30, 2012 Commerzbank Auslandsbanken Holding AG held 69.72% of BRE Bank shares and votes at the General Meeting.

Additionally, ING Open Pension Fund exceeded the 5% threshold of shares and votes at the General Meeting, obligating to announce the share purchase. As of December 31, 2011, ING Open Pension Fund held 6.56% of BRE Bank's share capital and votes at the Annual General Meeting.

V.2. Performance of BRE Bank Shares on the WSE

The closing price of BRE Bank shares on the last stock exchange session in H1 2012 (June, 29) stood at PLN 296.90, which was 20.7% more than the price of December 31, 2011. Over that period, the main WSE indices performed as follows: WIG up by 8.6%, WIG20 up by 6.1%, WIG-Banks up by 11.1%. At the end of June, BRE Bank's capitalization stood at PLN 12.5 billion and was higher by PLN 2.1 billion compared to December 30, 2011.



The P/BV (price/book value) multiple stood at 1.4x at the end of June 2012 compared to 1.8x a year earlier. The P/E (price/earnings) multiple stood at 9.6x after the first half of 2012 compared to 12.6x a year earlier.

VI. Composition of BRE Bank Group

Along with the development of its operations, BRE Bank established or acquired companies offering products and services complementary to its banking offer to meet the needs of BRE Bank Group's customers. The main subsidiaries at the end of June 2012 included: BRE Leasing, BRE Bank Hipoteczny, Dom Inwestycyjny BRE Banku, BRE Faktoring as well as the insurance company BRE Ubezpieczenia. In total, 16 companies were consolidated at the end of June 2012.

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

<table>
<tr><th colspan="5">BRE Bank Group</th></tr>
<tr><td>Segment</td><td colspan="3">Corporates & Financial Markets</td><td>Retail Banking</td></tr>
<tr><td rowspan="2">Bank</td><td colspan="2">Corporates & Institutions</td><td>Trading & Investments</td><td></td></tr>
<tr><td colspan="2">▪ Corporations (capital groups)
▪ Large Companies
▪ SMEs
▪ Structured & Mezzanine Finance</td><td>▪ Risk and Liquidity Management
▪ Financial Markets
▪ Financial Institutions</td><td>▪ mBank (retail customers and microenterprises)
▪ MultiBank (affluent retail customers)
▪ Private Banking (high net worth individuals)</td></tr>
<tr><td rowspan="2">Consolidated subsidiaries</td><td colspan="2">▪ BRE Leasing Sp. z o.o.
▪ BRE Faktoring SA
▪ Transfinance a.s.
▪ BRE Holding Sp. z o.o.
▪ BRE Gold FIZ Aktywów Niepublicznych
▪ Garbary Sp. z o.o.</td><td>▪ Dom Inwestycyjny BRE Banku SA
▪ BRE Bank Hipoteczny SA
▪ BRE Finance France SA</td><td>▪ BRE Wealth Management SA
▪ Aspiro SA
▪ BRE Ubezpieczenia TUiR SA
▪ BRE Ubezpieczenia Sp. z o.o.
▪ BRE Agent Ubezpieczeniowy Sp. z o.o.</td></tr>
<tr><td>Other subsidiaries</td><td colspan="3">▪ BRE.locum SA
▪ BRE Centrum Operacji Sp. z o.o.</td></tr>
</table>

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

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

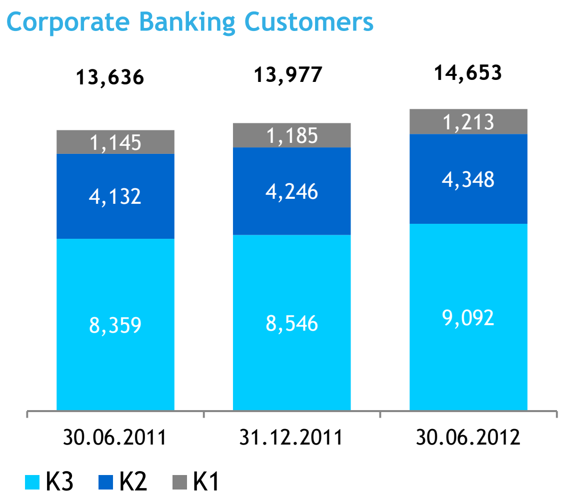
The Bank offers its corporate banking customers in its Corporates and Financial Markets segment a broad range of products and services, including current accounts, internet banking based cash management services, term deposits, foreign exchange transactions, short-term financing and investment loans, 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 corporate banking internet platform iBRE.

VII.1. Corporates and Institutions (BRE Bank)

H1 2012 was marked by more difficult market conditions than H1 2011. The economy slowed down and the vast majority of economic indicators declined.

By focusing on identification of high-potential clients, BRE Bank expanded its corporate customer base to a record-high 14,653 companies. Corporate Banking results were increasingly driven by growing income from transactional banking, sales of financial instruments and structured finance projects.

VII.1.1. Corporate Client Base



Throughout H1 2012, BRE Bank acquired 1,541 new corporate clients, of which 75.5% were K3 clients and 20.6% were K2 clients. The total number of clients reached 14,653 companies at the end of June 2012, up by 676 companies since the end of 2011.

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 SME's with annual sales between PLN 3 and 30 million.

VII.1.2. Loans and Deposits

The volumes of corporate loans and deposits are presented in Section X devoted to changes in the Statement of Financial Position.

The corporate loans market grew by 1.4% in H1 2012. The market share of BRE Bank's lending to enterprises remained stable at 6.7% at the end of June 2012 compared to 6.8% in December 2011 and 6.3% in March 2012. Companies maintain a more cautious investment stance and utilise spare financial resources previously allocated in deposits.

The corporate deposits market declined by 10.2% in H1 2012. The market share of BRE Bank's corporate deposits was 9.3% at the end of June 2012 compared to 8.8% at the end of March 2012 and 9.9% at the end of 2011.

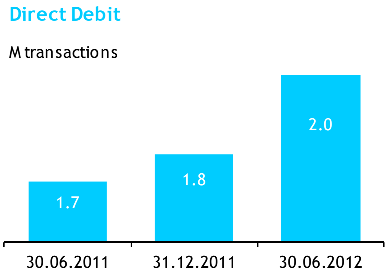
The Bank's market share in loans granted to local governments was 5.5% at the end of June 2012 compared to 6.7% at the end of 2011 and 4.6% at the end of June 2011.

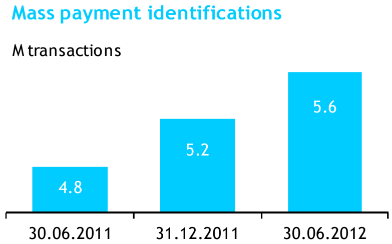
VII.1.3. Structured Finance, Project Finance and Syndicated Loans

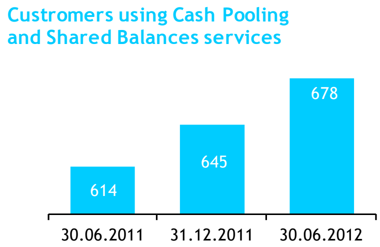
This area of the Bank's Corporate Banking business offers, among others, the following forms of financing: project finance, mezzanine finance, syndicated loans. The Bank is an important player in this market segment and contributed more than PLN 576 million to 10 syndicated and bilateral loans in H1 2012.

VII.1.4. Transactional Banking

As of June 30, 2012, the number of processed direct debits reached 2.0 million, which represents an annual increase of 16.6%. The number of Trade Payment Identification transactions also grew dynamically. Close to 5.6 million transactions were processed in the first six months of 2012, representing a 16.7% annual increase. The number of clients using the most advanced bank account consolidation facilities grew by 10.4% in H1 2012 YoY. At the end of June 2012 there were 678 clients using the Cash Pooling and Shared Balance offer.







The following figures illustrate the development of transactional banking in H1 2012:

- The number of domestic transfers made by corporate clients in H1 2012 increased by 29% YoY;
- Compared to H1 2011, the number of foreign transfers increased by 20%;
- The volume of cash processing services for corporate clients rose by 12% compared to H1 2011;
- The number of all corporate cards issued increased by over 321% compared to H1 2011.

VII.1.5. Corporate Banking offer development

The Corporate Banking area continued to expand the range of offered products, improve processes and implement solutions designed to increase satisfaction of the Bank's corporate clients. The major projects in H1 2012 included:

- **Instant domestic payments.** On June 12, 2012, the National Clearing House (KIR SA, operator of Poland's clearing system) launched a new domestic clearing system, EXPRESS ELIXIR, designated for instant interbank transfers. As a result, the expected time from debiting the debtor's account to crediting the creditor's account became as short as several seconds. After the UK, Poland is the second European country to launch such a system. BRE Bank's corporate clients were among the first in Poland to use EXPRESS ELIXIR on the first day of operation.
- **Escrow accounts for developers**. On April 29, 2012, a new law took effect which introduces protection for natural persons who buy homes and apartments from developers. One of the key requirements of the law is that developers must open special escrow accounts, where buyers deposit their funds. A bank which operates an escrow account is responsible for payments from the account to the developer conditional on criteria set in the agreement (status of the construction process). The mechanism is designed to protect the funds of natural persons from arbitrary use by a developer. BRE Bank has developed a service package to open and maintain escrow accounts required by the new law.
- **Silesian Public Services Card**. BRE Bank, in cooperation with Asseco, signed an agreement with the Municipal Transportation Union of the Upper Silesian Industrial Region and launched the Silesian Public Services Card project. In the coming years, BRE Bank will issue several thousand multi-functional and identification pre-paid cards used among others in public transport and other public services in the region. Cards will be equipped with a payment application provided by the Bank. BRE Bank will also support the infrastructure for cashless payments and card recharges and provide clearing for the entire system to be developed in the Upper Silesia.
- **Electronic debt payment**. Electronic version of the product "debt payment with deferred due date". The solution provides purpose finance to clients where the Bank pays the client's trade debt documented with invoices issued by suppliers approved by the Bank. The project is based on the legal structure of debt purchase and offers an interesting alternative to classical finance with working capital loans.
- **Further expansion of iBRE Connect services.** BRE Bank systematically expands the functionalities of services which integrate the iBRE internet banking system with financial and accounting systems of corporate clients (iBRE Connect service package). The software is offered at different

complexity and technological levels. The most advanced software supports continued online communication through web service technologies.

VII.1.6. Corporate Banking branch network

In H1 2012, the Group operated 29 branches and 19 corporate bureaus.

VII.2. Subsidiaries within the Corporates & Institutions area

VII.2.1. Transfinance a.s.

Transfinance provides factoring services to small and medium sized enterprises in the Czech Republic and is the third biggest player on the factoring market.

In H1 2012, the turnover of Transfinance reached PLN 1.7 billion representing an increase of 12.7% compared to H1 2011 driven by considerable growth in import factoring and stable increase in domestic and export factoring.

As a result, the pre-tax profit in H1 2012 amounted to PLN 2.3 million (+2.3% compared to H1 2011) as higher income offset an increase of impairment charges on factoring receivables.

VII.2.2. BRE Faktoring S.A. (former Polfactor S.A.)

BRE Faktoring S.A., one of the leaders of the domestic factoring market, operates in Poland and provides factoring services for domestic, export and import transactions.

In H1 2012, the turnover of BRE Faktoring reached PLN 3.5 billion representing an increase of 46.7% compared to the same period a year earlier. In the reporting period, the company grew nearly twice as fast as the market, which rose by 26.8% (according to the Polish Factors Association). The growth was driven by export factoring (+87.4% compared to H1 2011) and domestic factoring (+38.5% compared to H1 2011).

As a result, the pre-tax profit in H1 2012 reached PLN 9.1 million or +12.7% compared to H1 2011. The improved performance in H1 2012, the second consecutive year, was driven by the dynamic increase in sales which translated into higher net interest income and net fee and commission income.

VII.2.3. BRE Leasing Sp. z o.o.

BRE Leasing is a leading leasing company in Poland.

The value of leasing agreements executed by BRE Leasing in H1 2012 reached PLN 891 million and were lower by 29.8% compared to H1 2011 due to more difficult market conditions. 93% of the agreements were concluded in the movables sector.

Consequently, the pre-tax profit of BRE Leasing in H1 2012 stood at PLN 20.3 million or -21.8% compared to H1 2011. The reduction was driven by the decreasing number of new leasing agreements and intensifying market competition.

VII.2.4. 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 and BRE Leasing Sp. z o.o., valued at PLN 460 million in total. Additionally, BRE Holding holds a stake of 79.99% in BRE.locum S.A. (see IX.2. BRE.locum S.A.). In H1 2012, the main source of revenue generated by BRE Holding were dividends totalling PLN 26.2 million.

VII.2.5. BRE GOLD Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (BRE Gold FIZAN)

All the investment certificates issued by the company have been acquired by BRE Bank. The value of the investment certificates stood at PLN 248.7 million as of June 30, 2012. The fund’s assets include

PZU shares and funds received from dividends. At the end of June 2012, BRE Gold FIZ's investment in PZU comprised 471,170 PZU shares.

VII.2.6. Garbary Sp. z o.o.

The company was included in the Bank's portfolio in May 2004. The only asset of Garbary is a piece of land with buildings at 101/111 Garbary St. in Poznań, comprising a meat plant facility (currently not in use) subject to strict protection as a historic monument.

VII.3. Trading and Investments

Various initiatives aimed at enhancing the effectiveness of selling currency transactions in the Treasury Sales area were undertaken. Among them dedicated groups of specialists responsible for offering hedging products against FX, IR & commodity risks (Financial Markets Specialists) and transactional service and FX platform support dedicated to SME Clients (SME Specialists) were appointed.

At the same time a number of initiatives aimed at increase of FX transactions volume were continued (new fully integrated with iBRE trading platform).

As a result sales volumes of FX spot & forward transactions increased by 23% YoY.

During the first six months of 2012, BRE Bank retained its position of a leading player on the market for trading of treasury bonds and interest rate derivatives. BRE Bank's share in the treasury bills and bonds market grew to 7.6% (as of May 2012) compared to 7.4% at the end of 2011. On the IRS/FRA market, the Bank established a share of 21.9% (as of May 2012), compared to 18.6% at the end of 2011.

BRE Bank retained its leading position on the non-government debt securities market.

As of June 30, 2012, outstanding of short-term debt securities amounted to PLN 4.5 billion. The Bank's market share stood at 20.3%, compared to 16.9% at the end of 2011 (second position in the market).

BRE Bank became the second largest player on the market for arranging corporate bonds with a market share of 15.9%, BRE Bank organised a number of new issues, including those of Echo-Investment, Polnord, Katowicki Holding Węglowy and Magellan. After the first six months of 2012, the value of outstanding corporate bonds placed by BRE Bank stood at PLN 4,639 million compared to PLN 4,585 million at the end of 2011.

BRE Bank's market share as arranger of bank debt securities increased from 22.0% at the end of 2011 to 23.2% in June 2012, BRE Bank has second position in the market with value of outstanding stood at PLN 4.0 billion (compared to PLN 3.4 billion at the end of 2011). The largest project conducted in the first six months of 2012 was the PLN 400 million covered-bond issue of BRE Bank Hipoteczny, and PLN 155 million bond of BGŻ Bank.

On June 15, 2012, after obtaining brokerage license from the PFSA (KNF), the Bank's Brokerage Bureau commenced its operations.

VII.3.1. Financial Institutions

Relations with Financial Institutions are managed by the Trading & Investments business line. The activities include funding from other banks and placements with other banks.

As of June 30, 2012, the Bank had 25 active borrowings totalling the equivalent of PLN 25,836 million, of which PLN 21,918 million were drawn. In H1 2012, two term loans in CHF and one in USD for a total amount of PLN 800 million were repaid at maturity. The net borrowings drawn were up by PLN 1,199 million year to date.

BRE Bank's loans granted to other banks as of June 30, 2012 reached PLN 375 million. The Bank's portfolio included 35 short-term and long-term active loans granted to other 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.

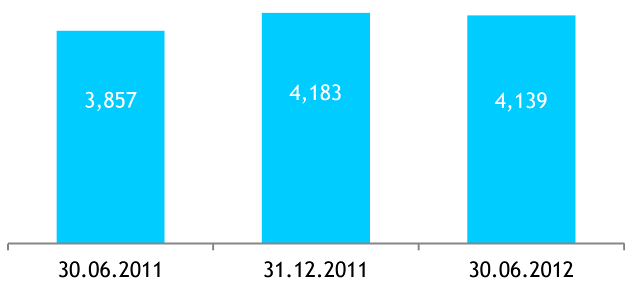
The Bank's custody services expanded in H1 2012. The Bank continued to acquire new clients, mainly investment funds. During the first half of 2012, the total assets of clients covered by the Bank's custody services increased by 20% YoY, reaching record high level.

VII.4. Trading & Investments subsidiaries

VII.4.1. BRE Bank Hipoteczny SA (BBH)

BRE Bank Hipoteczny SA is a specialised mortgage bank. It offers the following services to its customers: loans for commercial developers, loans for residential developers and loans for local governments. The company issues mortgage and public bonds to finance its lending operations.

BBH loan portfolio (book value)
PLN M



BBH's balance sheet loan portfolio decreased by 1.0% to PLN 4.1 billion compared to YE 2011. At the end of H1 2012, the nominal value of mortgage bonds issued by BBH amounted to PLN 2.2 billion.

In H1 2012, BBH reported a pre-tax profit of PLN 15.7 million (+22.7% YoY) due to higher interest income (+PLN 5.6 million) and lower impairment charges (-PLN 3.8 million).

VII.4.2. Dom Inwestycyjny BRE Banku SA (DI BRE)

DI BRE's institutional trading desk provides services to major Polish institutional investors (pension funds, mutual funds and asset management firms) as well as selected international funds, while its retail platform serves a significant number of retail clients active on the WSE.

In H1 2012, the number of DI BRE's clients was stable and stood at 291.9 thousand.

DI BRE (acting as the offeror) conducted the initial public offering of Solar Company SA, in which the owners raised PLN 156 million. It was not only the largest IPO on the WSE in H1 2012, but also one of only a few offerings in which all the initially offered shares were sold to investors. DI BRE's share in the turnover on the equity market reached 5.0%, equivalent to the position of the eighth biggest market participant. Moreover, the activity of DI BRE in futures trading gave it the first position on this market and a market share of 14.9%. DI BRE was also the fifth player in options trading with a market share of 7.8%.

In H1 2012, DI BRE generated a pre-tax profit of PLN 10.1 million, compared to PLN 16.6 million in H1 2011.

VII.4.3. BRE Finance France SA

BRE Finance France is a special purpose vehicle (SPV) set up for the purpose of acquiring funds for BRE Bank on the international capital markets through the issuance of Eurobonds. In H1 2012, the SPV was not active (see I.3.4. Euro Medium Term Note Programme).

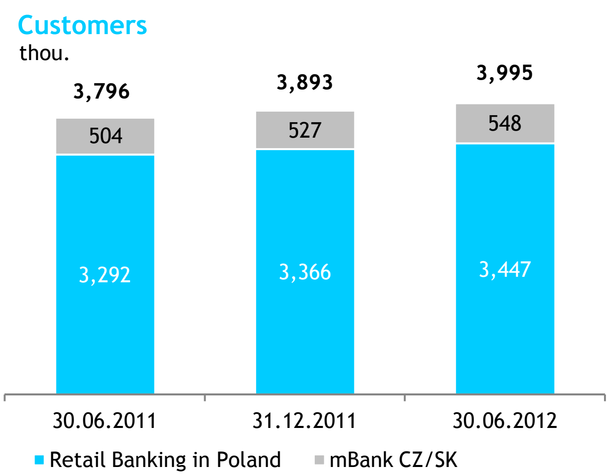
VIII. BRE Bank Group's Retail Banking Segment

The Bank's retail banking business model is based on a multi-brand (mBank, MultiBank, BRE Private Banking) and a multi-channel distribution approach (branches, internet, telephone, mobile phones). An integrated internet platform is the central pillar of the Bank's broad product and service offering. The Bank's ability to provide different customer groups with a broad range of products and services tailored to their needs has been the key driver supporting the steady growth in the number of customers.

mBank and MultiBank are the Group's two Retail Banking brands. mBank targets young, self-directed customers seeking low-cost banking alternatives, as well as micro-businesses. MultiBank appeals to affluent customers and micro-businesses seeking highest-quality, seamless and personalized service. Retail Banking customers also include the most affluent Private Banking clients. The subsidiary BRE Wealth Management offers a broad range of products and investment strategies for the most affluent clients.

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, 2012, the number of retail customers of the Bank reached nearly 4.0 million following an addition of 102.0 thousand new customers in the first half of 2012.



Compared to June 30, 2011, the number of retail customers expanded by 198.8 thousand. The graph presents the growth of the Bank's retail customer base.

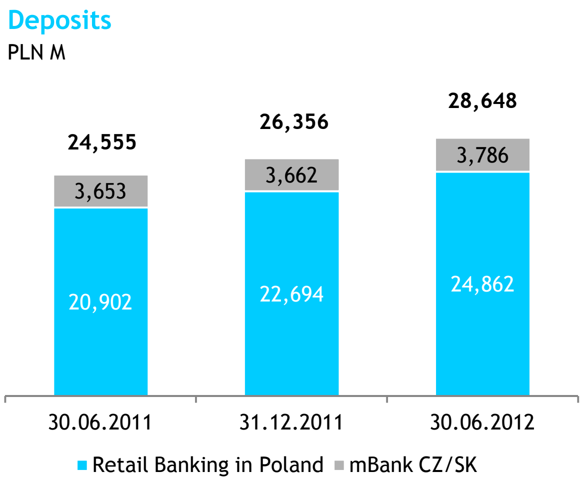
Retail customers served by the Bank in Poland include individuals as well as microenterprises. There were 418.2 thousand microenterprise customers at the end of June 2012. The number of microenterprise clients grew by 8.9 thousand over the first six months of 2012.

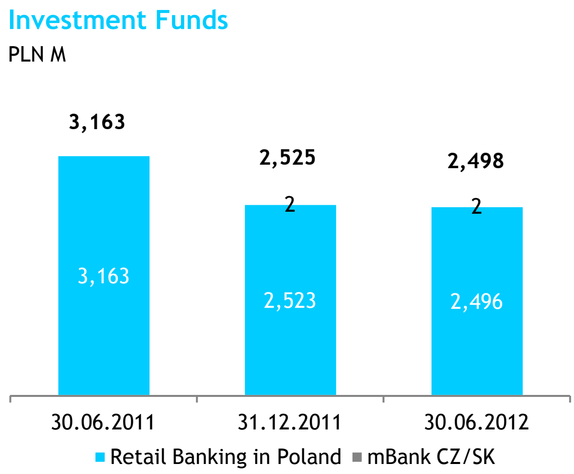
VIII.2. Product offering

VIII.2.1. Deposits and Investment Products

mBank and MultiBank offer a broad range of accounts, deposits and investment products. Through the Bank's dedicated "funds supermarket" BRE Bank's retail customers can purchase participation units of local and foreign investment funds and other financial products offered by a number of third party providers matching their specific investment criteria.

A detailed breakdown of the development of the Bank's deposits and investment fund balances is presented in the graph below:





Total assets of retail customers of the Bank amounted to PLN 31.1 billion at the end of June 2012, comprising PLN 28.6 billion in bank accounts and deposits and PLN 2.5 billion in investment fund assets.

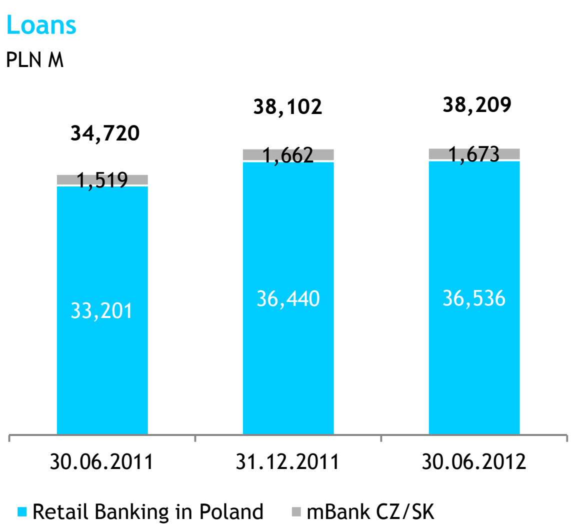
In H1 2012, retail deposits of the Bank increased by PLN 2.3 billion.

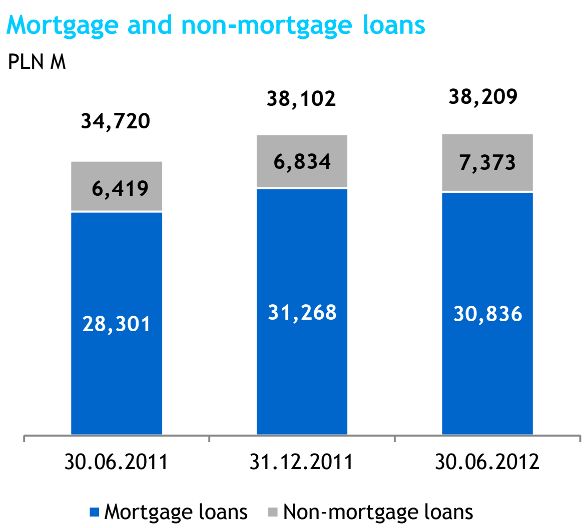
VIII.2.2. Loans

The value of gross loans granted to Retail Banking clients in Poland, Czech Republic and Slovakia stood at PLN 38.2 billion as of H1 2012 constituting an increase of PLN 107.1 million or 0.3% compared to the end of 2011. The credit portfolios of MultiBank and mBank in Poland reported the highest growth of PLN 87.8 million and PLN 93.9 million respectively. In the Czech Republic and Slovakia, the credit portfolio rose by PLN 10.9 million, while the Private Banking portfolio decreased by PLN 85.5 million.

In H1 2012, the fastest growth was observed in the non-mortgage loan portfolio (+7.9% compared to the end of 2011). The growth was predominantly driven by sales within the global pre-approved credit limits.

As far as mortgage loans are concerned, the bank ceased to offer loans in CHF, whereas loans in other foreign currencies turned out to be less popular among clients. As a consequence, the share of loans denominated in PLN in the total sales of mortgage loans grew to 65.6% in H1 2012 compared to 32.7% in H1 2011.





As of June 30, 2012, the Bank's retail credit portfolio structure in Poland was as follows:

- 85.2% mortgage loans,
- 6.3% credit lines and overdraft facilities,
- 4.4% cash loans,
- 2.8% credit and charge cards,
- 1.3% other.

VIII.2.3. 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. The number of credit cards grew by 32.2 thousand in the first six months of 2012 and reached 662.7 thousand at June 30, 2012.

The number of debit cards issued by the Bank stood at 4,342.3 thousand as of June 30, 2012, which represented an increase by 354.0 thousand debit cards compared to December 2011.

VIII.2.4. Brokerage and insurance

The brokerage and insurance services provided through the Retail Banking distribution channels bring considerable benefits for the Bank's clients and constitute a growing source of income for BRE Bank Group.

In H1 2012, the number of retail clients utilising the Bank's brokerage services was stable. As part of its eMakler service, mBank serviced 201.3 thousand investment accounts, up by 0.6 thousand accounts compared to the end of 2011, whereas MultiBank serviced 32.4 thousand investment accounts, down by 0.4 thousand accounts compared to the end of 2011.

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 (see "Retail Banking subsidiaries" for further information). 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.

VIII.2.5. Retail Banking offer development

The continued and dynamic growth of BRE Bank's retail client base is the result of the Bank's constant focus on innovation and addressing of client's changing needs. Throughout H1 2012, 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 both mBank and MultiBank and included:

- introduction of the option of opening a personal account remotely, without having to sign an agreement in the presence of a courier or at a point of sale,
- reduction of formalities necessary to open a corporate account - self-employed individuals who operate a one-person business may open a corporate account with mBank using only an ID card,
- introduction of guaranteed credit limits for corporate clients, available online within 15 minutes without signing or presenting any additional documents,
- introduction of an innovative programme aiming to facilitate systematic savings for clients: when a client makes a card payment in a shop, withdraws cash from an ATM or makes a money transfer, the bank automatically transfers some cash of the client to the savings account.

- access to investments in derivative instruments: WIG20 futures contracts available to investors who use the brokerage service.

mBank in Poland

- addition of further MultiBank branches to the group of branches which provide cash services to mBank clients and elimination of minimum cash payment and withdrawal limits,
- introduction of World MasterCard, which replaced MasterCard Gold and added the loyalty programme World MasterCard Rewards,
- promotion targeting students who open the eKONTO personal account - as part of the promotion, students can use all ATMs in Poland and abroad free of charge for one year,
- extension of mobile banking functionalities: clients can execute all transfers from mobile devices without having to pre-define the recipient. To ensure customer comfort and safety, the bank introduced the option of separate authorisation limits in mobile channels.

MultiBank

- launch of the credit card World MasterCard® Aquarius which allows bank clients among others to participate in the loyalty programme World MasterCard Rewards, replacing the MasterCard Aquarius card,
- launch of the light version of the online service (MultiBank Lajt), which enables easy logon to the account from any phones with any operating systems as well as Apple user applications on an iPad, iPhone, or iPod Touch,
- introduction of Trade & Services MultiPackage combining corporate account with a lease of a payment terminal delivered within two business days from the signing of the agreement.

mBank in the Czech Republic and Slovakia

- mBank CZ and mBank SK introduced new aplication for internet banking for smartphones with Android system and updated existing aplications for iPhone and iPad,
- In May 2012 mBank CZ and SK launched a new advertising campaign. The campaign aims to increase brand awareness and new clients acquisition.

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, 2012, the mBank network covered 95 locations (25 Financial Centres, 62 mKiosks, and 8 partner mKiosks).

The number of foreign mBank outlets remained unchanged compared to the end of 2011. In the Czech Republic, the network consists of 26 outlets (17 mKiosks and 9 financial centres), and 9 in Slovakia (5 mKiosks and 4 financial centres).

MultiBank operates 133 outlets (71 Financial Service Centres and 62 Partner Outlets), compared to 135 outlets at the end of 2011. The MultiBank network is focussed predominantly on larger urban areas reflecting the affluent target client group it services.

VIII.4.Retail Banking Subsidiaries

VIII.4.1. Aspiro S.A.

As at the end of H1 2012, Aspiro offered products of 25 different financial services companies, including mBank and MultiBank. Currently, the offering covers 52 products, including: mortgage loans, cash loans, insurance products, investment products, leasing and factoring.

Products are distributed throughout the country in 25 Financial Centres, 62 mKiosks, 8 Partner mKiosks and 30 Agent Service Points.

In H1 2012, the total income on sales of the core product categories grew by 15% compared to H1 2011. In the reporting period, Aspiro continued the considerable growth in the sales of investment and insurance products, which surged tenfold compared to H1 2011.

Moreover, the sales of car loans rose by 70% YoY driven by the increasing number of contracting car dealers, which stood at 260 in H1 2012 (205 in 2011), stabilised sales network, and introduction, jointly with MultiBank, of attractive loan offers.

As far as cooperation with third party banks is concerned, Aspiro continued to expand its offer dedicated to individuals.

The company closed H1 2012 with a pre-tax profit of PLN 8.9 million, against PLN 4.1 in H1 2011.

On June 28, 2012, the share capital of Aspiro increased by PLN 109.3 million by way of issuing 109,342 B-series ordinary registered shares. The shares were acquired by BRE Bank in a private placement and covered by a non-financial contribution in the form of 12,941,177 ordinary registered shares of BRE Ubezpieczenia Towarzystwo Ubezpieczeń i Reasekuracji S.A. The transaction resulted from the reorganisation of the retail sales network.

VIII.4.2. BRE Wealth Management (BRE WM)

In H1 2012, BRE WM continued to develop its new advisory model in respect of assets, both financial as well as non-financial assets. The offer was addressed to clients whose assets under management exceed PLN 2 million. The investment offer was extended to include investment certificates of closed-ended funds as well as products based on insurance capital funds. At the end of H1 2012, assets under management stood at PLN 3.6 billion, which is similar to the figure reported in H1 2011.

In H1 2012, the company generated a consolidated pre-tax profit of PLN 2.0 million, compared to PLN 6.3 million in H1 2011. The statutory pre-tax profit in H1 2012 reached PLN 3.9 million.

VIII.4.3. BRE Ubezpieczenia TUiR S.A.

In H1 2012, the bancassurance activity related to investment products reported the most dynamic growth. Gross written premiums in the bancassurance area amounted to PLN 2,554.7 million (including PLN 2,439.1 million from investment products), compared to PLN 565.8 million in H1 2011 (including PLN 448.1 million from investment products). Gross written premiums related to products sold via the Internet platform reached PLN 76.9 million or +17% YoY. Gross written premium resulting from the cooperation with BRE Leasing amounted to PLN 56.3 million or -7% YoY.

The pre-tax profit amounted to PLN 36.6 million, compared to PLN 28.1 million in H1 2011 (+29.4% YoY).

IX. Other activities of BRE Bank Group

IX.1. BRE Centrum Operacji Sp. z o.o.

The core business of the company includes providing services such as settlements, database servicing, electronic data and document archives and input of data to systems for BRE Bank Group.

CERI continued its cooperation with BRE Bank's corporate and retail banking of as well as with certain Group subsidiaries.

In H1 2012, the company reported a pre-tax profit of PLN 11.5 million, compared to a loss of PLN 0.2 million in H1 2011. The pre-tax profit was impacted by the recognition of the profit on the sale of CERI International Sp. z o.o. in Q1 2012.

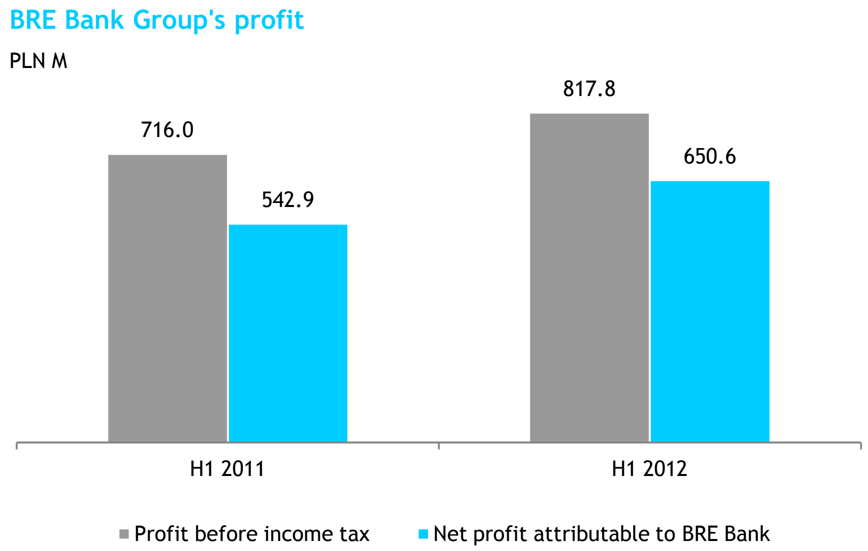
IX.2. BRE.locum S.A.

BRE.locum SA is a property developer operating on the primary market of residential real estate. In H1 2012, the company sold 80 apartments compared to 103 apartments in the same period a year earlier. At the end of H1 2012, the company offered 235 apartments for sale in completed properties as well as 426 apartments as part of an ongoing projects in Cracow, Wrocław, Łódź and Sopot.

X. Financial Results of BRE Bank Group in H1 2012

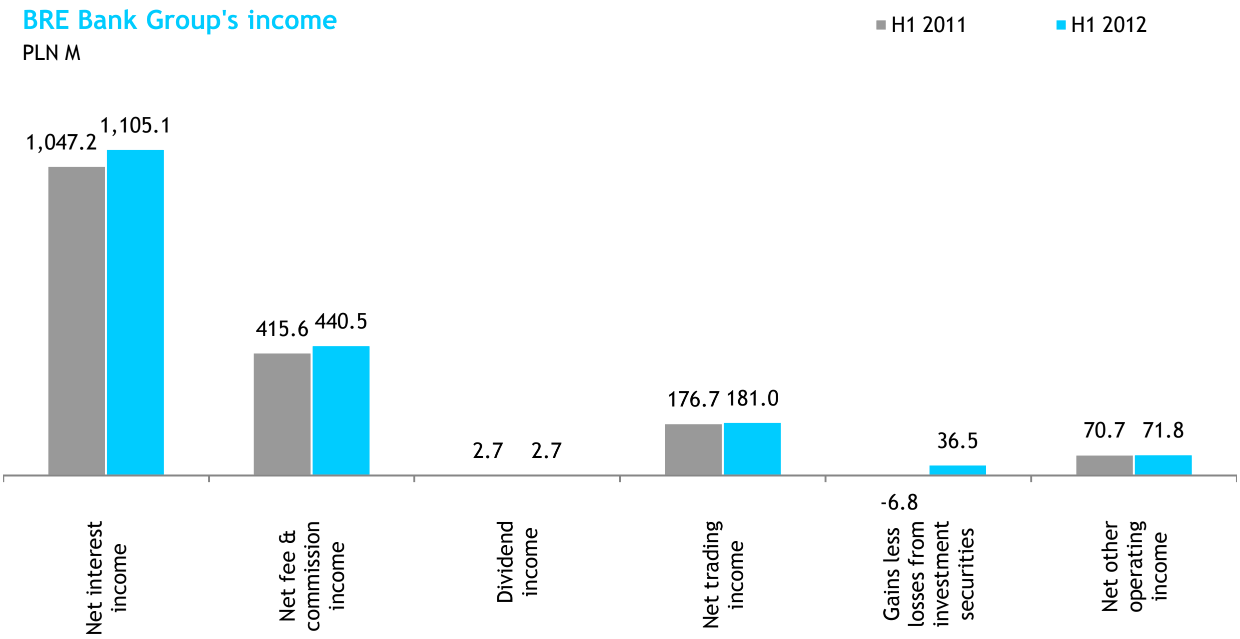
X.1. Profit and Loss Account of BRE Bank Group

During the first six months of 2012 the Group generated a pre-tax profit of PLN 817.8 million compared to PLN 716.0 million in H1 2011 (+PLN 101.8 million, +14.2%). The net profit attributable to the shareholders of BRE Bank stood at PLN 650.6 million compared to PLN 542.9 million a year earlier (+PLN 107.7 million, +19.8%). The main drivers of this significant annual improvement was an increase of BRE Bank Group's revenue combined with a reduction of operating costs, as well as, stable risk provisioning charges.



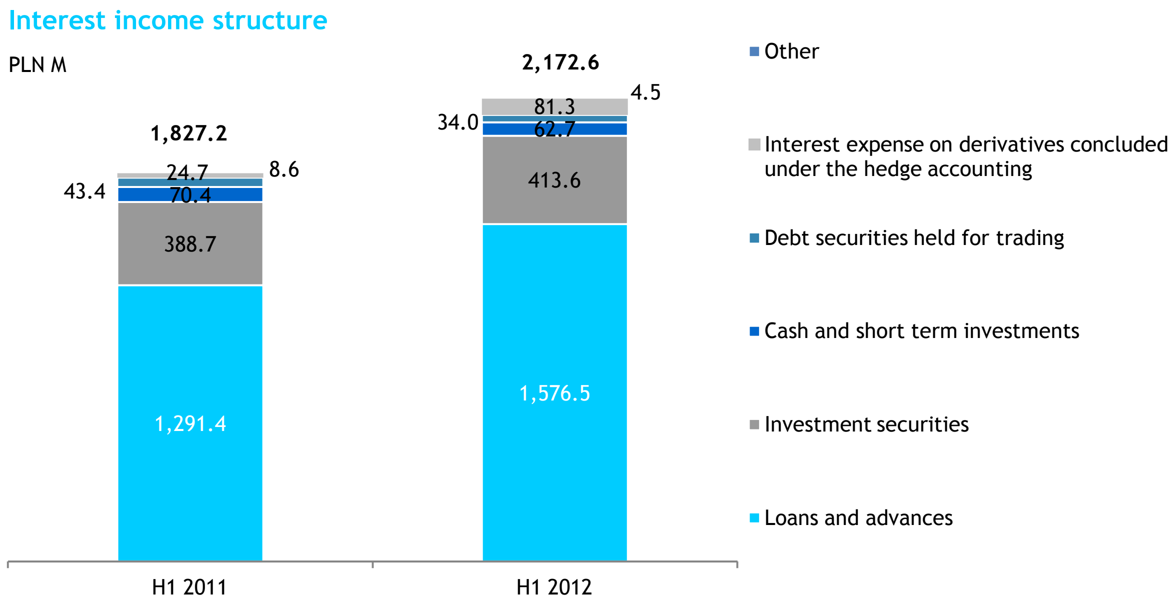
X.1.1. Income of BRE Bank Group

Revenues generated by BRE Bank Group in H1 2012 stood at PLN 1,837.5 million compared to PLN 1,706.0 million a year ago constituting an improvement of PLN 131.5 million or 7.7%. The increase was predominantly driven by a significant improvement in net interest income and net fee and commission income as well as a markedly improved result on investment securities.



Net interest income remained the main source of revenue of BRE Bank Group in H1 2012. It amounted to PLN 1,105.1 million compared to PLN 1,047.2 million in H1 2011, an increase of PLN 57.9 million or 5.5%. An increase of interest income by 18.9% was predominantly driven by a significant increase of credit volumes and higher nominal interest rates. The interest expenses in H1 2012 was up by 36.9% YoY. The increase was mainly driven by higher volumes of customer deposits.

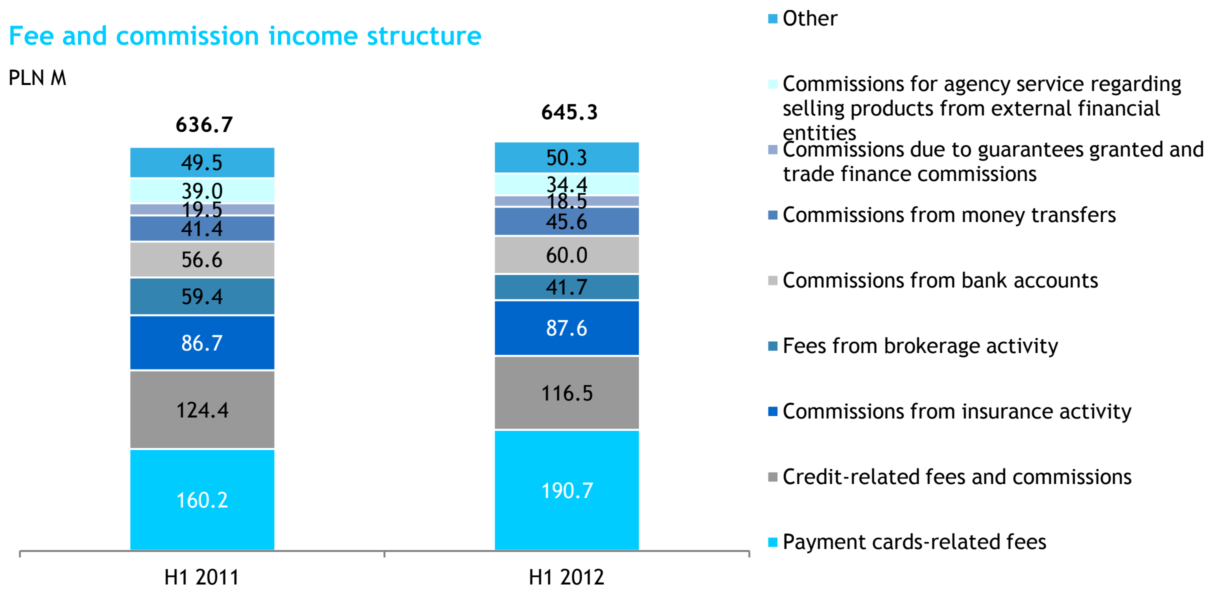
The net interest margin of BRE Bank Group, calculated as net interest income over average interest-bearing assets, stood at 2.4% in H1 2012 compared to 2.5% in H1 2011.



Loans and advances remained the main source of interest income (72.6%). Income from loans and advances increased by PLN 285.1 million or 22.1% YoY. An increase of nominal interest rates resulted in an increase in interest income from investment securities by PLN 24.9 million or 6.4%. A decrease in interest income from held-for-trading debt instruments (by PLN 9.4 million or 21.7%) was a result of a decrease in the volume of this asset class. Interest income from cash and short-term deposits was down by PLN 7.7 million or 10.9% YoY in H1 2012. Interest income from derivatives classified for the banking portfolio increased considerably by PLN 56.6 million or 229.1% YoY in H1 2012.

Interest cost increased by PLN 287.6 million or 36.9% YoY in H1 2012, mainly as a result of higher interest expenses arising from amounts due to customers driven by higher deposit balances and certain promotional terms of deposits offered to most prospective corporate banking clients.

Net fee and commission income, whose contribution to the revenue of BRE Bank Group decreased to 24.0%, stood at PLN 440.5 million, representing an increase of PLN 24.9 million or 6.0% YoY. Commission income was up by 1.3% YoY while commission expenses was down 7.4% YoY in H1 2012.



The strongest increase in commission income was generated by commissions for payment cards-related services (up by 19.0%) and commissions for money transfers (up by 10.1%). This was driven both by effective activation of clients and a growing number of current accounts. At the same time, brokerage fees decreased by 29.8% as a result of lower turnover on the Warsaw Stock Exchange compared to H1 2011.

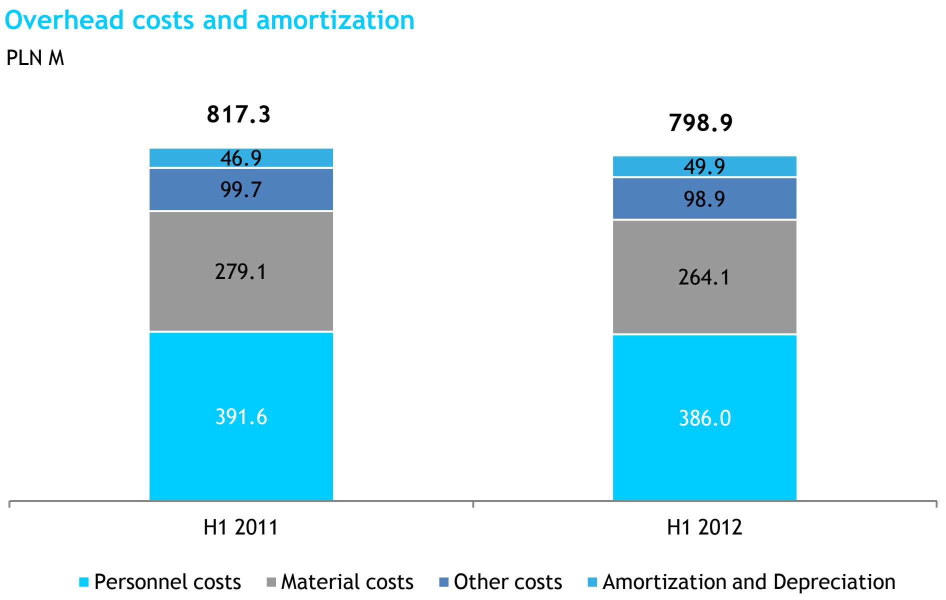
Net trading income stood at PLN 181.0 million in H1 2012, up by PLN 4.3 million or 2.4% YoY. Within trading income, the result on foreign exchange transactions decreased by PLN 6.6 million or 4.1% YoY in H1 2012. The decrease was mainly driven by lower sales of foreign currency loans. Other net trading income increased by PLN 10.9 million or 62.6% YoY.

Gains less losses from investment securities reached PLN 36.5 million in H1 2012 compared to a narrow loss in H1 2011 supported by disposals of available-for-sale financial assets.

Net other operating income and expenses stood at PLN 71.8 million in H1 2012, an increase of PLN 1.1 million YoY. The increase was mainly driven by increased result from insurance activities.

X.1.2. Costs of BRE Bank Group

Costs of BRE Bank Group including amortization and depreciation stood at PLN 798.9 million in H1 2012, representing a 2.2% decrease compared to H1 2011.



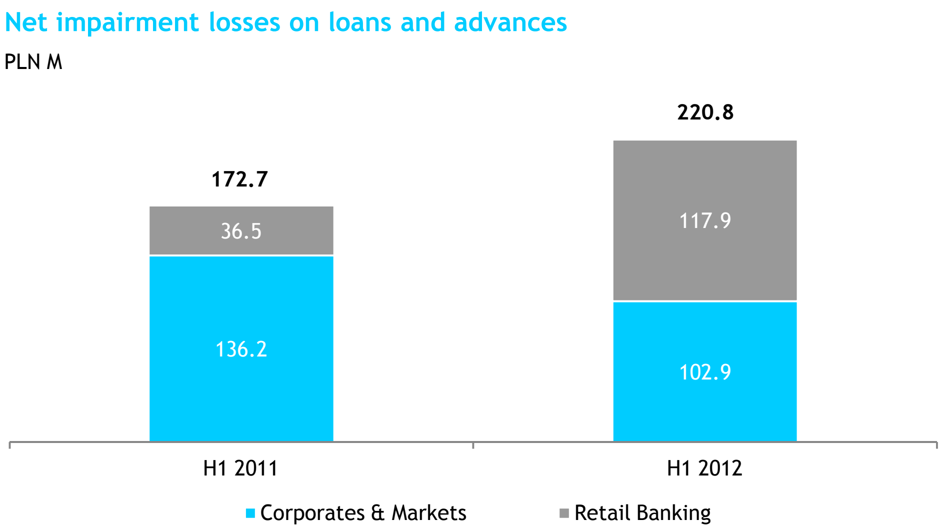
Personnel costs decreased by PLN 5.6 million or 1.4%, owing to lower incentive bonus provisions compared to H1 2011 and stabilisation of growth of Group headcount. A decrease of material costs, down by PLN 15.0 million or 5.4%, was driven by lower marketing spending as well as lower costs of external services.

As a result, further improvement of productivity as measured by the cost/income ratio was achieved. The ratio stood at 43.5% at the end of H1 2012 compared to 47.9% at the end of H1 2011.

X.1.3. Net impairment of loans and advances

Net loan loss provisions of BRE Bank Group stood at PLN 220.8 million in H1 2012 compared to PLN 172.7 million in H1 2011, up by PLN 48.1 million or 27.9%.

The cost of credit risk in the Retail Banking Segment increased considerably in H1 2012 (PLN 117.9 million at the end of H1 2012 compared to PLN 36.5 million at the end of H1 2011). The change was mainly a result of the low base effect due to the sale of a part of the non-performing portfolio closed in H1 2011, which resulted in a net release of PLN 81.8 million of loan loss provisions associated with the sold portfolio.



Loan loss provisions of the Corporates & Financial Markets reached PLN 102.9 million in H1 2012 compared to PLN 136.2 million in H1 2011. The decrease was driven by the stable portfolio as well as prudent risk management.

X.2.Changes in the Consolidated Statement of Financial Position

X.2.1. Changes in Assets of BRE Bank Group

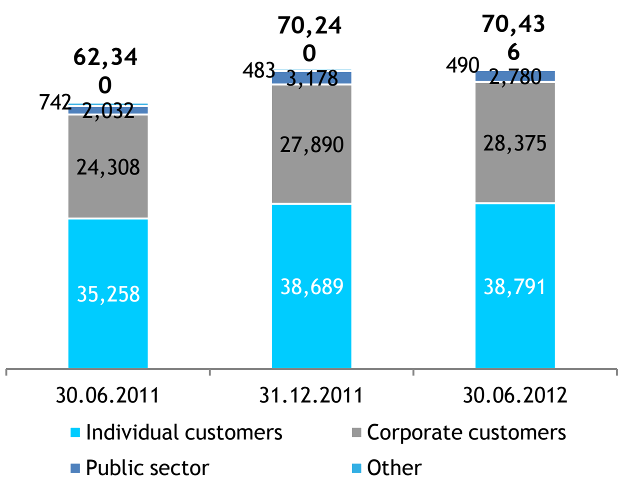
In H1 2012, the assets of the Group decreased by PLN 3,830.8 million or 3.9%. The assets stood at PLN 95,044.8 million at June 30, 2012.

	30.06.2012		30.06.2011		Δ in PLN M	Δ in %
Assets	PLN M	in %	PLN M	in %		
Cash and balances with Central Bank	928.7	1.0%	1,038.4	1.1%	-109.7	-10.6%
Loans and advances to banks	2,499.8	2.6%	4,008.9	4.1%	-1,509.1	-37.6%
Trading securities	866.5	0.9%	991.6	1.0%	-125.1	-12.6%
Derivative financial instruments	1,302.1	1.4%	1,506.6	1.5%	-204.5	-13.6%
Loans and advances to customers	**67,889.4**	**71.4%**	**67,851.5**	**68.6%**	**37.9**	**0.1%**
Investment securities	15,195.0	16.0%	16,697.2	16.9%	-1,502.2	-9.0%
Pledged assets	3,761.2	4.0%	4,339.5	4.4%	-578.3	-13.3%
Intangible assets	409.8	0.4%	436.8	0.4%	-27.0	-6.2%
Tangible fixed assets	796.5	0.8%	832.4	0.8%	-35.9	-4.3%
Other assets	1,395.8	1.5%	1,172.7	1.2%	223.1	19.0%
Total Assets	**95,044.8**	**100.0%**	**98,875.6**	**100.0%**	**-3,830.8**	**-3.9%**

Loans and advances to customers remained the biggest balance sheet item at the end of H1 2012. They accounted for 71.4% of the total assets compared to 68.6% at 2011 year-end. The net volume of loans and advances increased by PLN 37.9 million or 0.1% year to date. The gross portfolio increased by PLN 196.2 million or 0.3%.

Loans and advances to customers (gross)

PLN M



Loans and advances to corporate clients increased the most year to date (by PLN 484.1 million or 1.7%). Net of reverse repo/buy sell back transactions, loans granted to corporate clients grew by 4.3%. Net of the effect of the appreciation of the zloty, loans and advances to retail clients increased by ca. 2.8%.

At the same time, loans and advances granted to retail clients grew by PLN 102.2 million or 0.3% year to date. Net of the FX effect, loans granted to retail clients grew by ca. 2.2%.

The gross volume of loans and advances to the public sector decreased by PLN 398.1 million or 12.5% in the reporting period.

Investment securities were the second largest asset category. The value of investment securities decreased by PLN 1,502.2 million or 9.0% in H1 2012. The share of investment securities in the assets of BRE Bank Group decreased from 16.9% to 16.0% in H1 2012.

X.2.2. Changes in Liabilities of BRE Bank Group

The table below presents changes of the Group's liabilities in H1 2012:

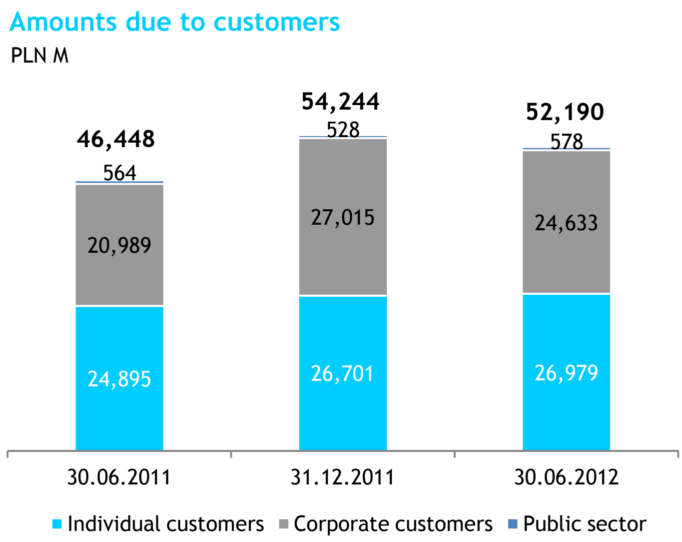
	30.06.2012		31.12.2011		Δ in PLN M	Δ in %
Equity and Liabilities	**PLN M**	**in %**	**PLN M**	**in %**		
Amounts due to other banks	23,900.7	25.1%	27,390.8	27.7%	-3,490.1	-12.7%
Derivative financial instruments	1,920.4	2.0%	1,862.7	1.9%	57.7	3.1%
Amounts due to customers	**52,190.0**	**54.9%**	**54,244.4**	**54.9%**	**-2,054.4**	**-3.8%**
Debt securities in issue	3,162.3	3.3%	1,736.0	1.8%	1,426.3	82.2%
Subordinated liabilities	3,375.4	3.6%	3,456.2	3.5%	-80.8	-2.3%
Other liabilities	1,671.7	1.8%	2,112.9	2.1%	-441.2	-20.9%
Total Liabilities	**86,220.5**	**90.7%**	**90,803.0**	**91.9%**	**-4,582.5**	**-5.0%**
Total Equity	**8,824.3**	**9.3%**	**8,072.6**	**8.1%**	**751.7**	**9.3%**
Total Equity and Liabilities	**95,044.8**	**100.0%**	**98,875.6**	**100.0%**	**-3,830.8**	**-3.9%**

Amounts due to customers remained BRE Bank Group's main source of financing: they accounted for 54.9% of the total liabilities at the end of H1 2012 and their share did not change compared to 2011 year-end.

Amounts due to customers decreased by PLN 2,054.4 million or 3.8% in H1 2012 and stood at PLN 52,190.0 million.

The observed decrease mainly concerned the deposits of corporate clients (down by PLN 2,382.3 million or 8.8%) and resulted from gradual withdrawals of deposits placed on promotional terms. Net of repo transactions, liabilities to corporate clients were down by 5.5%.

Deposits of retail clients stood at PLN 26,978.8 million at the end of H1 2012, an increase of PLN 277.9 million or 1.0% year to date.



In H1 2012, BRE Bank Group (in cooperation with an insurance company) offered insurance linked deposits for retail clients. As a result of the offer, BRE Bank Group raised PLN 2,032.7 million of deposits which were classified as liabilities to corporate clients (as they were deposited by the insurance company). Adding the insurance linked deposits to liabilities to retail clients, liabilities to retail clients grew by 8.7% and liabilities to corporate clients decreased by 16.3%.

Liabilities to the public sector increased by PLN 50.0 million or 9.5% in the reporting period and stood at PLN 578.0 million at the end of H1 2012.

Deposits of banks decreased by PLN 3,490.1 million or 12.7% year to date. The share of this source of financing in the liabilities of BRE Bank Group decreased from 27.7% to 25.1%.

The share of equity in the equity and liabilities of BRE Bank Group was 9.3% at the end of June 2012 compared to 8.1% at the end of December 2011.

X.3. Performance Indicators

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

	30.06.2012	30.06.2011
Net ROA	1.38%	1.26%
Gross ROE	20.2%	20.6%
Net ROE	16.0%	15.9%
C/I	43.5%	47.9%
CAR	14.84%	16.08%
Tier 1	10.10%	10.70%

Net ROA = 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 14.84% at the end of June 2012 compared to 16.08% at the end of H1 2011. The Tier 1 ratio stood at 10.10% and 10.70%, respectively. The reduction of the ratios is explained by an increase of risk-weighted assets, mainly driven by:

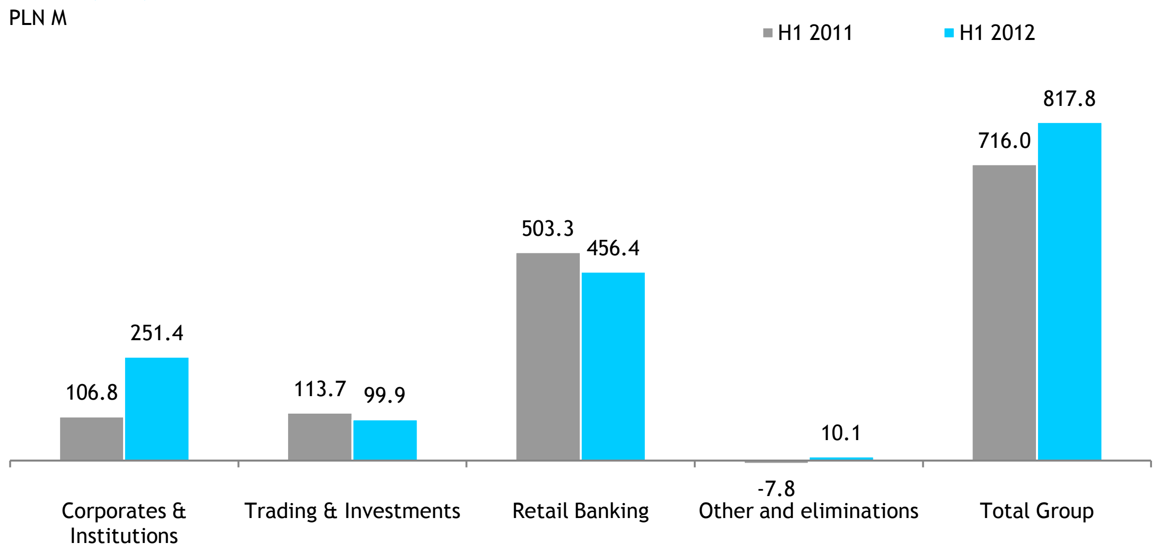
- Increase of risk weights to 100% for retail loans, including mortgage loans, denominated in foreign currencies for persons earning an income in a currency other than the currency of the loan, pursuant to Resolution No. 76/2010 of the Polish Financial Supervision Authority. The impact of the increased risk weights reduced the Tier 1 ratio by ca. 92 bps and the capital adequacy ratio by ca. 134 bps;

Growth of loans granted to retail and corporate clients.

X.4. Contribution of Business Lines to the Profit of BRE Bank Group

The figure below presents the contribution of the Business Lines to the pre-tax profit of BRE Bank Group in H1 2012.

Profit (loss) before income tax by business line of BRE Bank Group



Corporates and Institutions

The segment generated a pre-tax profit of PLN 251.4 million in H1 2012 compared to PLN 106.8 million in H1 2011. The result was mainly influenced by:

- Increase of the net interest income by PLN 50.2 million and lower net fee and commission income by PLN 1.8 million;
- Improved net trading income by PLN 14.9 million resulting from higher corporate clients activity on spot transactions;
- Significantly reduced loan loss provisions (down by PLN 37.8 million).

Trading and Investments

The segment generated a pre-tax profit of PLN 99.9 million in H1 2012 compared to PLN 113.7 million of pre-tax profit in H1 2011.

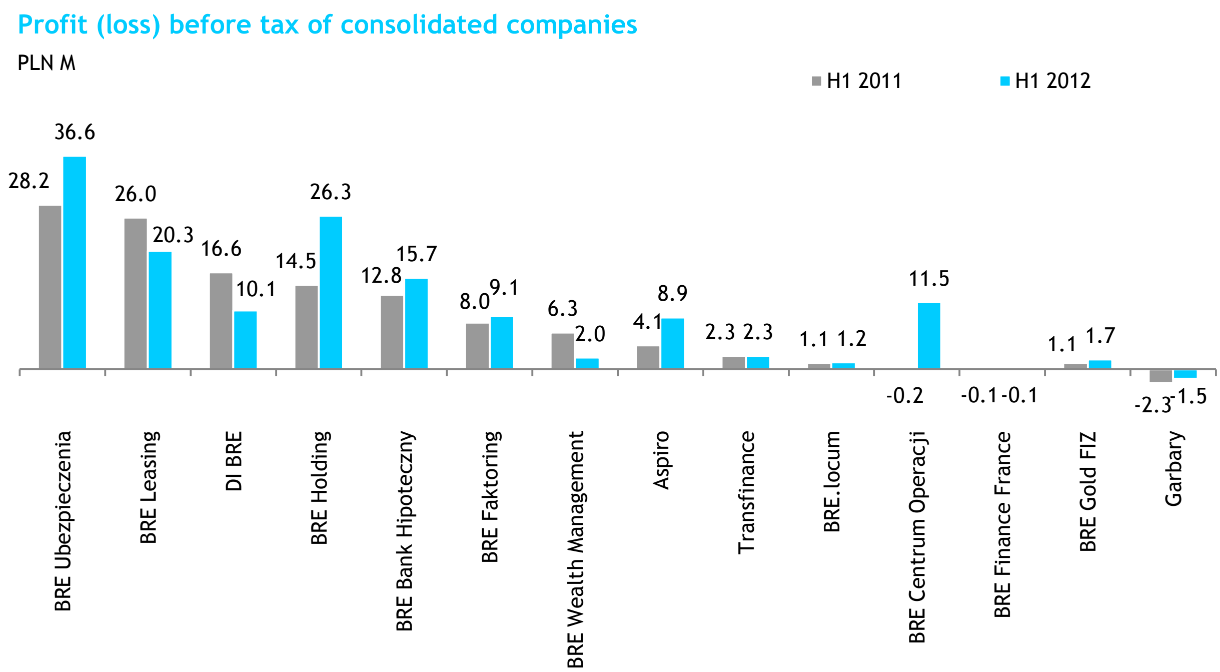
The decrease by PLN 13.8 million was mainly driven by lower net interest income (down by PLN 23.2 million) resulting from the implementation of a new fund transfer policy in 2012. Net fee and commission income was down by PLN 17.0 million compared to H1 2011.

Retail Banking

The segment generated a pre-tax profit of PLN 456.4 million in H1 2012 compared to PLN 503.3 million in H1 2011. The lower pre-tax profit was a result of the sale of a part of the non-performing loan portfolio completed in H1 2011 positively impacting provision charges at the amount of PLN 81.8 million. The Retail Banking segment reported a 7.6% YoY increase in revenues driven by higher net interest income (+PLN 31.4 million) as well as net fee and commission income (up by PLN 41.4 million).

X.5. Financial Results of BRE Bank Group Subsidiaries

The combined pre-tax profit of the Group subsidiaries reached PLN 144.1 million in H1 2012 compared to PLN 129.1 million in H1 2011. The results of BRE Ubezpieczenia, BRE Bank Hipoteczny and the factoring companies among others improved YoY. The figure below presents the profits of the subsidiaries in H1 2012 compared to H1 2011.



X.6. Financial Results of BRE Bank Group in Q2 2012

In Q2 2012, BRE Bank Group reported a pre-tax profit of PLN 405.4 million compared to PLN 412.3 million in Q1 2012.

Consolidated income statement	Q2 2012 (PLN thou.)	Q1 2012 (PLN thou.)	Δ in PLN thou.	Δ in %
Interest income	1,093,414	1,079,228	14,186	1.3%
Interest expenses	-527,650	-539,924	12,274	-2.3%
Net interest income	**565,764**	**539,304**	**26,460**	**4.9%**
Fee & commission income	320,564	324,725	-4,161	-1.3%
Fee & commission expenses	-102,351	-102,457	106	-0.1%
Net fee & commission income	**218,213**	**222,268**	**-4,055**	**-1.8%**
Dividend income	2,642	20	2,622	13,110.0%
Net trading income, including	83,304	97,681	-14,377	-14.7%
Foreign exchange result	*73,822*	*78,880*	*-5,058*	*-6.4%*
Other trading income and hedge accounting result	*9,482*	*18,801*	*-9,319*	*-49.6%*
Gains less losses from investment securities	20,468	16,026	4,442	27.7%
Other operating income	56,479	75,776	-19,297	-25.5%
Net impairment losses on loans and advances	-108,967	-111,811	2,844	-2.5%
Overhead costs	-356,231	-343,766	-12,465	3.6%
Amortization and depreciation	-50,598	-48,341	-2,257	4.7%
Other operating expenses	-25,635	-34,816	9,181	-26.4%
Operating profit	405,439	412,341	-6,902	-1.7%
Profit before income tax	**405,439**	**412,341**	**-6,902**	**-1.7%**
Income tax expense	-85,846	-81,173	-4,673	5.8%
Net profit (loss)	**319 593**	**331 168**	**-11 575**	**-3.5%**
- attributable to BRE Bank SA	**319 517**	**331 072**	**-11 555**	**-3.5%**
- attributable to minority interest	76	96	-20	-20.8%

The financial results of BRE Bank Group in Q2 2012 were impacted by the following factors:

- Increase of net interest income by PLN 26.5 million mainly as a result of higher interest income on loans and advances (up by PLN 37.7 million) and lower interest expenses of client deposits (down by PLN 30.0 million);
- Decrease of net trading income, of which the foreign exchange result decreased by PLN 5.1 million and other trading income and hedge accounting results dropped by PLN 9.3 million;
- Higher operating costs (including amortisation and depreciation), up by PLN 14.7 million or 3.8% quarter on quarter, due to an increase of personnel costs and an increase of marketing and IT expenses. In addition, amortisation and depreciation increased by PLN 2.3 million in Q2 2012;
- Reduced loan loss provisions (down by PLN 2.8 million).

Total assets of BRE Bank Group stood at PLN 95,044.8 million as of June 30, 2012 compared to PLN 92,602.2 million as of March 31, 2012.

Loans and advances to customers increased by PLN 2,656.6 million in Q2 2012, mainly due to an increase of loans to retail customers, up by 3.3%, and loans to corporate customers, up by 6.0%. As a result, the share of net loans granted to customers in the total assets increased from 70.4% to 71.4% at the end of Q2 2012.

At the same time, deposits due to customers increased by PLN 2,485.0 million during the period, including a decrease of deposits due to retail customers by 3.6% and an increase of deposits due to corporate customers by 15.9%.

XI. Main Risks of BRE Bank Group's Business

BRE Bank monitors credit risk, operational risk, liquidity risk and market risk of the trading book and interest rate risk of the banking book in BRE Bank Group using risk measures applied by BRE Bank and taking into account the differences in the profile and scale of business of particular BRE Bank Group entities. In addition, within the ICAAP process, the Bank monitors other risks to which its business is exposed.

XI.1. Credit Risk

Credit risk is the most important risk to which BRE Bank Group is exposed, and consequently, credit risk management is a priority. Moreover, BRE Bank exercises control over the credit risk in the Group subsidiaries generating that 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 Credit Value at Risk, calculated on the basis of the extended CreditRisk+ model (ECVaR), which incorporates, among others, correlations between various sectors of the economy. The ongoing monitoring of credit risk involves the verification of internal ratings and events of default as defined under Basel II and the IFRS.

The ECVaR model 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 value generated by a given exposure is a reason for taking the decision at 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 value 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 transaction: volume, collateral and tenor. This way, the Bank does not undertake excessive risk when creating and developing the portfolio, i.e. it reduces (closing position)/mitigates credit risk through the credit risk diversification.

An additional tool for credit risk assessment are stress tests which supplement the risk measurement by ECVaR method. The analyses of stress impact on the economic capital for covering credit risk are carried out on a quarterly basis.

Stress tests of credit risk are two-dimensional, analysed separately and jointly:

- the analysis of sensitivity of ECVaR model indications to assumptions concerning credit exposures (e.g. correlation) – i.e. parametric tests,

- the analysis of extreme credit losses on the assumption of unfavourable macroeconomic situation – i.e. macroeconomic tests in which an econometrical model forecasts values of input parameters for the economic capital model (PD, LGD) based on the assumptions of the Chief Economist about macro parameters in the case of three economic variants: a mild recession, a severe crisis and a sudden economic slump.

The risk parameters developed according to the above scenarios form the basis for calculating economic capital both before and after the assumptions of parametric tests are taken into account.

XI.1.1. Quality of the Loan Portfolio

The share of default exposures in gross loans and advances to clients at the end of June 2012 was 4.9% compared to 4.7% at the end of 2011 and 5.0% after H1 2011.

Provisions for loans and advances decreased from PLN 2,388.3 million at the end of 2011 to PLN 2,546.5 million, including PLN 222.7 million of IBNI (Incurred But Not Identified) loss provision (PLN 212.4 million in 2011).

The ratio of provisions to default loans (coverage ratio) stood at 67.5% compared to 66.2% at the end of 2011 and 64.8% at the end of June 2011.

XI.2. Liquidity Risk

The purpose of liquidity risk management is to assure and maintain the capacity of the Bank to honour both its current and future liabilities, taking into account the costs of liquidity. BRE Bank monitors financial liquidity on a daily basis, using cash flow analysis methods. Liquidity risk measurement is based on an internal model developed on the basis of analysis of the Bank’s unique features, deposit base volatility, concentration of financing, and planned developments of particular portfolios. Daily monitoring covers the following items: the value of cash flow gaps in specific time intervals (mismatch), the values of supervisory liquidity measures, the level of liquidity reserves of the Bank, and the degree of utilisation of external supervisory limits and internal liquidity limits, which are determined by the Risk Committee of the Bank. The Bank assesses its liquidity position and the probability of its deterioration based on scenario methodologies on an ongoing basis. Stress test scenario results are regularly prepared and presented to respective Committees and to the Management Board.

The Bank also monitors regularly the concentration of financing, especially the deposit base, and the level of liquidity reserves. The Bank has liquidity contingency procedures in place.

In H1 2012, the Bank’s liquidity remained at a solid and safe level and the funding structure was adequate to the current and future needs.

XI.3. Market Risk

In its business, the Bank is exposed to market risk, i.e., the risk of unfavourable change in the present value of the Bank’s trading book and the banking book due to changes in market risk factors: interest rates, FX rates, prices of securities, and the volatility of implied options and credit spreads. The Bank quantifies the market risk related with trading book positions measured at market value (using the direct measurement method or the model measurement method), which may materialise 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. Market risk measures of the banking book interest positions are calculated with the use of net present value (NPV) models. Moreover, from the beginning of 2012, in the case of bank deposit products (included in the banking portfolio) without precisely specified maturity and/or interest indexed directly to interbank market rates, the Bank has been using the so-called replicating portfolios which model the interest rate risk of such products.

Market risk exposure is quantified by the measurement of Value at Risk (VaR) and by the use of stress tests and scenario analyses based on market performance during previous financial crises. Market risk, in particular interest rate risk of the banking book, is also quantified by the 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 and interest rate repricing gap limits of the banking book. All these limits are monitored and controlled on a daily basis.

Value at Risk

In H1 2012, market risk of the Bank measured by Value at Risk (one-day horizon, confidence level 97.5%) remained moderate in relation to VaR limits. The average VaR of the Bank's total portfolio was approximately PLN 12.5 million and the maximum VaR was approximately PLN 14.9 million. The utilisation of VaR limits was at a safe level and on average amounted to 32% (PLN 1.9 million) for the portfolio of the Financial Markets Department (DFM), comprising mainly trading book positions, and at a relatively higher level (70%, PLN 11.2 million) for the portfolio of the Treasury Department (DS), comprising only banking book positions. VaR was mainly affected by portfolios of interest-rate-sensitive instruments, i.e. portfolios of debt securities which are mainly part of the banking book managed by the Treasury Department, and as regards the trading book managed by the Financial Markets Department, by positions resulting from IRS transactions, and to a lower degree by portfolios of FX-rate-sensitive instruments, such as FX options and FX transactions.

VaR at BRE Bank

PLN thousand	H1 2011				H1 2012			
	30.06.2011	avg	max	min	30.06.2012	avg	max	min
Interest rate risk	8,699	11,792	14,480	8,219	12,203	12,244	14,370	9,943
FX risk	135	311	719	51	247	460	1,551	70
Stock price risk	22	44	160	0	138	120	514	0
VaR total	8,748	11,619	14,238	8,118	12,205	12,466	14,885	9,059

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 Bank's portfolios that would materialise as a result of the risk factors moving to specific extreme values within a one-day horizon. The Bank applies two methods for carrying out stress tests: in one, the scenarios of changes in risk factors have been constructed on the basis of large changes in market parameters observed during past market crisis situations, and in the other, the scenarios are composed of large changes in risk factors - perfectly correlated and having the same magnitude in each risk factor group. The stress tests are conduced regularly on a daily basis.

The stress test values calculated under the second method are subject to a limit treated as the control number. In H1 2012, the average limit utilisation was 46% for the Treasury Department (DS) portfolio (PLN 57.6 million), and 23% for the Financial Markets Department (DFM) portfolio (PLN 17.1 million). Under these scenarios, the biggest potential loss was observed on volatility in interest rates (mainly Polish rates). If the scenario assuming a 15% increase in interest rates materialised in in H1 2012, the average loss on the Treasury Department portfolio would be PLN 56.9 million and PLN 3.7 million on the Financial Markets Department portfolio. If the scenario of an increase in interest rates materialised, it would in large part (corresponding to the Treasury Department portfolios of debt instruments available for sale) reduce the Bank's capital and have a lesser impact on the P&L.

The average value of the stress test in H1 2012, based on the crisis situations observed in the past, was PLN 21.0 million on the Financial Markets Department portfolio and PLN 53.4 million on the Treasury Department portfolio.

Interest Rate Risk of the Banking Book

In H1 2012, 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 - for each currency) was moderate for positions in PLN and CHF, and low for positions in CZK, USD and EUR due to the small interest rate position gap in these currencies. At the end of H1 2012, EaR (in PLN million) was 33 for PLN, 19 for CHF, 5 for CZK, 6 for EUR, and 2 for USD. In addition, the Bank monitors underlying risk, yield curve risk, and customer option risk of the banking book. The table below presents the potential decrease in net interest income over 12 months assuming an unfavourable 100 bps change of market interest rates.

Scenario analysis - unfavourable 100 bps change of market interest rates

in PLN million	H1 2011				H1 2012			
	30.06.2011	avg.	max	min	30.06.2012	avg.	max	min
PLN	52.8	51.0	74.0	23.9	32.6	14.6	45.5	0.1
USD	0.8	0.8	2.4	0.0	2.3	3.0	5.3	0.4
EUR	5.1	3.4	8.6	0.1	5.7	5.9	11.6	0.0
CHF	17.1	14.8	22.3	9.3	18.6	17.0	25.3	11.5
CZK	5.2	5.6	7.6	4.2	5.0	6.5	9.0	3.6

In 2012, the Bank refined the methodology of measuring the interest rate risk of the banking book. From the beginning of the year, new product groups have been covered by the replicating portfolio method, which is reflected in the risk measures. Since the modifications have been introduced gradually, the risk measures in individual periods may be incomparable.

XI.4. Operational Risk

In H1 2012, operational risk was stable and below the level observed in H1 2011 both in respect of the operational events (losses) as well as results received from risk monitoring by means of other risk control tools (see below).

In order to control this risk BRE Bank collects the data about operational events and losses in the central data base, monitors parameters of business and operational processes using key risk factors, carries out self-assessment surveys on operational risk in the Bank's organisational units and the capital group subsidiaries, defines risk scenarios in order to identify and then reduce the risk of substantial operational losses. The same rules and standards of operational risk control implemented at BRE Bank apply to the entire Capital Group and its subsidiaries.

In 2012, BRE Bank continues the projects launched in 2011, aiming at further streamlining of operational risk control methods in order to guarantee a stable basis for the Bank's operation in the future, optimise the level of capital requirements and minimise the impact of operational events and losses on the Bank's operating costs.

XI.5. Capital Adequacy

The Management Board of the Bank ensures consistency of the capital and risk management process by the system of strategies, policies and procedures for the management of particular risk types which constitute the architecture of the ICAAP process. Furthermore, in line with the Capital Management

Policy applicable at the Bank, the Bank maintains the optimum level and structure of equity, guaranteeing maintenance of the capital adequacy ratio at the level higher than the statutory minimum, at the same time hedging against all relevant risks identified in the Bank's operations.

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

1. Maintaining an optimal level and structure of equity, with the use of available methods and means (retained net profit, subordinated loans, issuance of shares, etc.);

2. Effective use of the existing capital by applying the system of capital use measures resulting in the reduction of activity that is not bringing the expected return and development of products with lower capital absorption.

The capital adequacy ratio improvement throughout last year is presented below (data in PLN million):

Capital Adequacy	30.06 2011	31.12.2011	30.06.2012
Total own funds	9,734	9,877	11,058
Total risk weighted assets and off-balance sheet liabilities	54,876	60,232	67,412
Total capital charge	4,843	5,282	5,959
Capital adequacy ratio (%)	**16.08**	**14.96**	**14.84**

XI.5.1. The AIRB Project

Event after the Balance Sheet Date

On 4 July 2012, BRE Bank obtained the consent of KNF and BaFin to using the advanced internal ratings based approach (the A-IRB approach) for calculating the capital requirement for credit risk for the corporate portfolio and the retail portfolio of mortgage loans.

Regulatory capital ratios of the Group reported as June 30, 2012 are presented according to the Standardised Approach.

XII. Rating of BRE Bank and Group Subsidiaries

XII.1. Fitch Rating

BRE Bank's Rating

On June 13, 2012 Fitch Ratings affirmed all ratings of BRE Bank with a stable outlook for the Long-term Issuer Default Rating.

BRE Bank's rating is underpinned by potential support from Commerzbank, its strong capital position, stable and diversified deposit base, low exposure concentration and improved asset quality. However, according to Fitch, it also reflects potential risks coming from high exposure to foreign currency denominated mortgages, dependence on the parent for funding and expected diversification of the funding profile.

At the end of June 2012 Fitch ratings assigned to BRE Bank were as follows:

- Long-term Issuer Default Rating: 'A' with a stable outlook;
- Short-term Issuer Default Rating: 'F1';
- Viability Rating: 'bbb-';
- Support Rating: '1'.

Fitch Ratings has also assigned rating for the Euro Medium-Term Note Programme (EMTN): Long-term senior unsecured debt rating of 'A' and a Short-term senior unsecured debt rating of 'F1'.

Ratings of BRE Leasing and BRE Bank Hipoteczny

At the end of June 2012, **BRE Leasing** and **BRE Bank Hipoteczny** had the following ratings:

- Long-term Issuer Default Rating: 'A' with a stable outlook;
- Short-term Issuer Default Rating: 'F1';
- Support Rating: '1'.

The ratings were affirmed on June 13, 2012.

Public sector covered bonds and mortgage covered bonds issued in BRE Bank Hipoteczny are rated at 'A'.

XII.2. Moody's Investors Service Rating

BRE Bank's Rating

On January 19, 2012 Moody's downgraded the long-term deposit rating of BRE Bank from 'Baa1' to 'Baa2' following the downgrade of Commerzbank's stand-alone financial strength rating (BFSR) from 'C-' to 'D+'. Both BRE Bank's long-term rating 'Baa2' and short-term rating 'Prime-2' were placed on the review for possible downgrade. On June 6, 2012, long-term and short-term ratings of Commerzbank were downgraded by one notch - to 'A3' and 'Prime-2' respectively. Commerzbank's BFSR, which is taken into account in BRE Bank's long-term assessment, was confirmed at 'D+', but with a negative outlook. After conclusion of the review on Commerzbank, on June 11, 2012, Moody's confirmed BRE Bank's long-term rating at 'Baa2'. The rating carries a negative outlook.

The long-term deposit rating of BRE Bank incorporates a high expectation of parental support from Commerzbank and systemic support. The standalone bank financial strength rating is underpinned by the bank's strong franchise in the Polish market, funding structure that primarily consists of customer deposits and medium-term FX funding from the parent that offers satisfactory maturity mismatch profile for BRE Bank's mortgage portfolio, and profitability metrics which compare well with similarly rated peers. According to Moody's potential risks may stem from BRE Bank's large FX mortgage book as well as its Tier 1 ratio which is still lower than in the rated Polish peer group.

At the end of June 2012, BRE Bank had the following Moody's ratings:

- Long-term deposit rating: 'Baa2' with a negative outlook;
- Short –term rating: 'Prime-2';
- Bank Financial Strength Rating (BFSR): 'D' with a stable outlook.

A provisional rating of the backed senior unsecured notes which could be issued under the Euro Medium-Term Note Programme (EMTN): (P) 'Baa2' with a negative outlook.

Rating of BRE Bank Hipoteczny

On January 19, 2012, short- and long-term ratings of BRE Bank Hipoteczny were placed on the review for possible downgrade. On June 11, 2012 Moody's confirmed long-term deposit rating at 'Baa3' with a negative outlook and BFSR at 'E+' with a negative outlook.

Moody's also assigned the following ratings for covered bonds issued by BRE Bank Hipoteczny (ratings were confirmed on June 14, 2012):

- 'A3' - public sector covered bonds ;
- 'Baa2' - mortgage covered bonds.

XII.3. Standard & Poor's Rating

In addition to the rating assigned by the aforesaid two agencies, BRE Bank is rated by Standard & Poor's at 'BBBpi'. This rating is based on publicly available information.

XIII. BRE Bank's Authorities

Supervisory Board of BRE Bank SA

On February 13, 2012, BRE Bank was notified by Eric Strutz, member of the Supervisory Board, of his resignation from the membership in the Board, effective as of March 30, 2012. The 25th General Meeting appointed to the Supervisory Board Stephan Engels as of April 1, 2012. Since April 2012, Stephan Engels has been acting as a Management Board Member and Chief Financial Officer in Commerzbank AG.

At the end of June 2011 the composition of the Supervisory Board was as follows:

1. Maciej Leśny – Chairman of the Supervisory Board (independent)
2. Ulrich Sieber – Deputy Chairman of the Supervisory Board
3. Stephan Engels – Member of the Supervisory Board
4. Andre Carls – Member of the Supervisory Board
5. Thorsten Kanzler – Member of the Supervisory Board
6. Sascha Klaus – Member of the Supervisory Board
7. Teresa Mokrysz – Member of the Supervisory Board (independent)
8. Waldemar Stawski – Member of the Supervisory Board (independent)
9. Jan Szomburg – Member of the Supervisory Board
10. Marek Wierzbowski - Member of the Supervisory Board (independent).

On July, 2012 Sascha Klaus resigned from his position as a Member of the Supervisory Board as of July 25. At the meeting on July 25, 2012, the Supervisory Board appointed Dirk Wilhelm Schuh until the end of the present term of the Supervisory Board, which expires on the day of the General Meeting in 2014. Dirk Wilhelm Schuh is employed in Commerzbank Group since 2008 and is responsible for credit risk and risk operations.

There are four committees in the Supervisory Board: the Executive Committee, the Risk Committee, the Audit Committee and the Remuneration Committee. The latter was established in H1 2012, following the respective amendments in the Buy-laws adopted on March 30, 2012 by the 25th General Meeting.

The composition of the Committees of the Supervisory Board as of June 30, 2012 was as follows:

Executive Committee	Risk Committee	Audit Committee	Remuneration Committee
Maciej Leśny	Sascha Klaus	Stephan Engels	Maciej Leśny
Andre Carls	Thorsten Kanzler	Andre Carls	Marek Wierzbowski
Jan Szomburg	Maciej Leśny	Maciej Leśny	Andre Carls
Ulrich Sieber	Waldemar Stawski	Teresa Mokrysz	Ulrich Sieber

Starting from July 26, 2012 the Risk Committee is headed by Dirk Wilhelm Schuh, who replaced Sascha Klausa.

Management Board of BRE Bank SA

The composition of the Management Board of BRE Bank changed in H1 2012.

Under the Resolution of March 30, 2012, with the effect from April 1, 2012, the Supervisory Board appointed Jarosław Mastalerz, the previous Head of Retail Banking, for the post of BRE Bank's Management Board Member responsible for Operations and Information Technology. He replaced Christian Rhino, who terminated his employment in BRE Bank in order to take new tasks in Commerzbank. At the same time Cezary Kocik was appointed for the post of BRE Bank's Management Board Member, Head of Retail Banking. Cezary Kocik has been employed in BRE Bank since 2004, recently as the Managing Director for retail banking sales and business processes.

On April 16, 2012, the Supervisory Board of BRE Bank appointed Jörg Hessenmüller to the Management Board and for the post of Chief Financial Officer. Jörg Hessenmüller replaced on the post Karin Katerbau. Karin Katerbau resigned from her function with the effect from April 15, 2012, as she became a Member of the Management Board of Oldenburgische Landesbank in Germany. Since 2009, Jörg Hessenmüller was employed as Managing Director in Commerzbank Group and worked as Head of Investment Banking Finance, Group Finance, responsible for controlling and management reporting.

The composition of the Management Board as of June 30, 2012 was as follows:

1. Cezary Stypułkowski - President of the Management Board, General Director of the Bank
2. Wiesław Thor - Deputy President of the Management Board, Chief Risk Officer
3. Przemysław Gdański - Member of the Management Board, Head of Corporate Banking
4. Jörg Hessenmüller – Member of the Management Board, Chief Financial Officer
5. Hans-Dieter Kemler - Member of the Management Board, Head of Investment Banking
6. Cezary Kocik - Member of the Management Board, Head of Retail Banking
7. Jarosław Mastalerz - Member of the Management Board, Head of Operations & Information Technology

The term of the Management Board expires on the day of the General Meeting in 2013.

XIV. 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 2012 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 2012 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 PricewaterhouseCoopers Sp. z o.o. (PwC), performing the review of the IFRS Condensed Consolidated Financial Statements for the first half of 2012 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

Data	First and last name	Position	Signature
02.08.2012	Cezary Stypułkowski	President of the Management Board, General Director of the Bank	
02.08.2012	Wiesław Thor	Deputy President of the Management Board, Chief Risk Officer	
02.08.2012	Przemysław Gdański	Member of the Management Board, Head of Corporate Banking	
02.08.2012	Jörg Hessenmüller	Member of the Management Board, Chief Financial Officer	
02.08.2012	Hans - Dieter Kemler	Member of the Management Board, Head of Investment Banking & Markets	
02.08.2012	Cezary Kocik	Member of the Management Board, Head of Retail Banking	
02.08.2012	Jarosław Mastalerz	Member of the Management Board, Head of Operations & Information Technology	