BRE HIPOTECZNY

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BRE Bank Hipoteczny S.A. Directors' Report for the first half of 2013

BRE HIPOTECZNY

Warsaw, August 2013

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1. OPERATIONS OF BRE BANK HIPOTECZNY IN THE 1ST HALF OF 2013

In the first half of 2013, BRE Bank Hipoteczny redefined its strategic objectives, vision, directions of further development, as well as its target place in the banking market. In the previous period, numerous actions and decisions were taken aimed at increasing the efficiency and dynamics of the Bank's development, by making the best use of its resources and market potential as well as defining its role and responsibilities in the BRE Bank Group, in which the Bank intends to strengthen its strategic position. The Bank's objective is secure growth through the specialization which, given the nature of the Bank and the narrow scope of its activity, is the source of its competitive advantage and high market position.

The adoption of new strategy entails the extension of the Bank's operations by lending activities in the retail area, as well as significant development of its role and importance as an issuer of covered bonds – both within the BRE Bank Group and in the domestic market of these securities. This will be associated with the creation of new business model, based on close cooperation with the parent universal bank, through the use of specialist expertise and market experience of the mortgage bank. Implementation of the strategic goals and the Bank's development within new areas requires numerous organizational changes, adaptation of the organizational structure and the level of employment to the current business needs and challenges, including the allocation of resources, adaptation of infrastructure, as well as appointing units dedicated to servicing the new business line. This is associated with an increased level of employment and establishment of an office in Łódź, where a significant operational part servicing the retail business will be located. Another matter of material importance is the growth of IT systems and infrastructure, necessary for the achievement of new business goals, which in many of its aspects requires increased coherence and compatibility with the BRE Bank systems in order to ensure optimum cooperation in the implementation of joint business ventures.

In the first half of 2013, the Bank carried out its tasks in the conditions of increased competition on the commercial real estate financing market, dominated by strong universal banks. Major trends in this market include:

- more strict criteria of project assessment and, as a consequence, a more selective choice of financed undertakings; similar approach of most banks to such key parameters of investment projects as borrower's share, extent of leased area, and pre-sale;
- limited exposure to single entities and projects and, as a consequence, greater tendency to share the risk by participating in bank consortia;
- the financing period shortened to 5-7 years with balloon payments applied.

As regards the financing of residential construction for commercial purposes,

- the withdrawal of several banks from this segment could be observed,
- more strict criteria for project selection;
- higher credit margins;
- greater credit risk.

Due to the planned beginning of lending activity in the retail area, works concerning the creation of mortgage loans for individuals were carried out, on the basis of the Bank's business objectives and the analysis of the market situation. The Bank intends to build its portfolio in this area on the basis of years of BRE Bank's market experience in this segment.

As the rate of economic growth in Poland is slowing down, one can observe the evidence of attenuation in the real estate market as well as growing geographic differentiation of that market. However, it is stable, which gives a good basis for further development of the Bank's lending activity.
Since 2010, when Poland started leaving the global economic crisis behind, the real estate market has been subject to systematic growth, expressed in a greater number of new projects, more new space available, and higher volume of transactions executed on this market. The residential real estate market is more predictable and more stable than at the time of 2006-2008 boom, and the existing surplus in apartment supply will define the situation on this market in the next few years.

1.1. THE MOST IMPORTANT TASKS IN THE FIRST HALF OF 2013

"COVERED BONDS" PROJECT

Priority project for 2013 is the remodelling of the BRE Bank Group's balance sheet on the basis of a long-term source of refinancing composed of covered bonds issued by BRE Bank Hipoteczny. Works regarding the project began in 2012, and their aim is to create a comprehensive model of cooperation between the mortgage bank and the universal bank in terms of sales, service and management of the portfolio of retail loans secured by mortgage, and subsequently the issuance of covered bonds on this basis. The division of tasks between BRE Bank and BRE Bank Hipoteczny, compliant with the competencies and specialization of the two banks, will help to effectively build and refinance the retail portfolio on the basis of shared credit policy and the operational synergy effect. In the course of the project implementation, the two banks will cooperate according to inter-bank outsourcing principles, based on the agency model which as of the second half of 2014 may be supplemented with a pooling model.

The model is constructed to achieve the following goals:

- improved stability of the financing of banks within the BRE Group through the application of long-term and innovative solutions regarding the mortgage portfolio in the BRE Group, anticipating liquidity needs resulting from external (new regulations – Basel III) and internal factors (including changes in the financing of subsidiary banks in the Commerzbank group),
- diversification of the financing sources – increasing the independence from Commerzbank with regard to the financing of the existing portfolio of retail mortgage loans,
- improved long-term liquidity in the BRE Group – adaptation to the requirements of Basel III by increased long-term financing.

The project is a pioneering solution in the Polish banking sector, and its successful implementation will be the determinant of directions of the market's further development as well as searching for long-term sources of refinancing by banks.

IMPLEMENTATION OF THE IRB METHOD

The Bank is working on the implementation of internal ratings method (the IRB method), as a matter of high priority and long-term nature. As at 27.08.2012, seven internal models from the commercial area received conditional consents of the Polish Financial Supervision Authority (KNF). In April this year, the Bank submitted to the Polish Financial Supervision Authority a request for extension of its consent for application by BRE Bank Hipoteczny S.A. of statistical methods for calculation of credit risk capital requirement in accordance with the adopted plan of gradual implementation. The request currently undergoes the supervisory analysis.
The works are also aimed at covering the planned retail portfolio with this method, on the basis of adaptation of models used in BRE Bank.

OPTIMISATION OF SALES PROCESSES

The implementation of ambitious sales objectives entails optimisation of the lending process in order to increase its efficiency and, consequently, higher competitiveness of the Bank as a lender. To this end, steps have been taken to streamline the process by defining the system of decision-making competencies and clear division of responsibilities, adopting new standard of documentation, reducing time needed for credit decisions and project selection, as well as simplifying the internal procedures. These works will produce new lending process, characterized by shorter duration, increased flexibility, standardization of assessment, and the accuracy of selecting projects for financing.

1.2. FINANCIAL CREDIBILITY

In the first half of 2013, ratings made by Fitch Ratings Ltd. with regard to the Bank and the covered bonds were maintained, confirming high security level at the Bank.

Fitch ratings for the Bank are as follows:

'A/F1' level — international long-term and short-term rating

'1' level – support rating
'A' level – for public covered bonds
'A' level – for mortgage covered bonds.

Fitch Ratings Ltd. awards its ratings according to the following scale (on a decreasing basis):
- international long-term ratings: AAA, AA, A, BBB, BB, B, CCC, CC, C, RD, D
- international short-term ratings: F1, F2, F3, B, C, RD, D
- support ratings: 1, 2, 3, 4, 5

In addition, the Bank terminated its cooperation with Moody's Investors Service Ltd. rating agency upon a notification sent on 29 March 2013, and demanded the withdrawal of all ratings assigned to the Bank and its covered bonds. The decision to terminate the cooperation stemmed from the Management Board's refusal to accept the Joint-Default Analysis (JDA) assumptions used by the agency with regard to the Bank's financial strength based on the rating of major shareholders. The withdrawal of ratings for covered bonds took place on 21 May 2013, and the withdrawal of domestic and foreign currency ratings related to long- and short-term deposits and the Bank's financial strength occurred on 4 July 2013.

Besides the Bank's financial results, ratings given to the Bank are influenced by the assessment of BRE Bank and Commerzbank AG, including support from these institutions granted to BRE Bank Hipoteczny.

1.3. FINANCIAL RESULTS

The Bank's financial statements for the first half of 2013 are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. Data presented in the Management Board's report is presented according to the management approach and does not have to be consistent with data contained in the financial statements.

Table 1. Dynamics of selected elements of the statement of financial position

Key statement of financial position items	30.06.2013	31.12.2012	Dynamics
ASSETS	**4,761,523**	**4,809,712**	**-1.00%**
including:			
Loans and advances to customers*	4,081,616	4,108,155	-0.65%
EQUITY AND LIABILITIES	**4,761,523**	**4,809,712**	**-1.00%**
including:			
Liabilities in respect of debt securities	2,738,552	2,852,445	-3.99%
Amounts due to customers	205,092	179,033	14.56%
Share capital	275,000	275,000**	-

* The item "loans and advances to customers" includes other receivables from customers (instalment sales of assumed apartments) in the amount of PLN 312 thousand as at the end of 2012, PLN 52 thousand as at the end of June 2013.
* As at 31 December 2012, the share capital included the amount of PLN 100,000 thousand constituting an unregistered share capital.

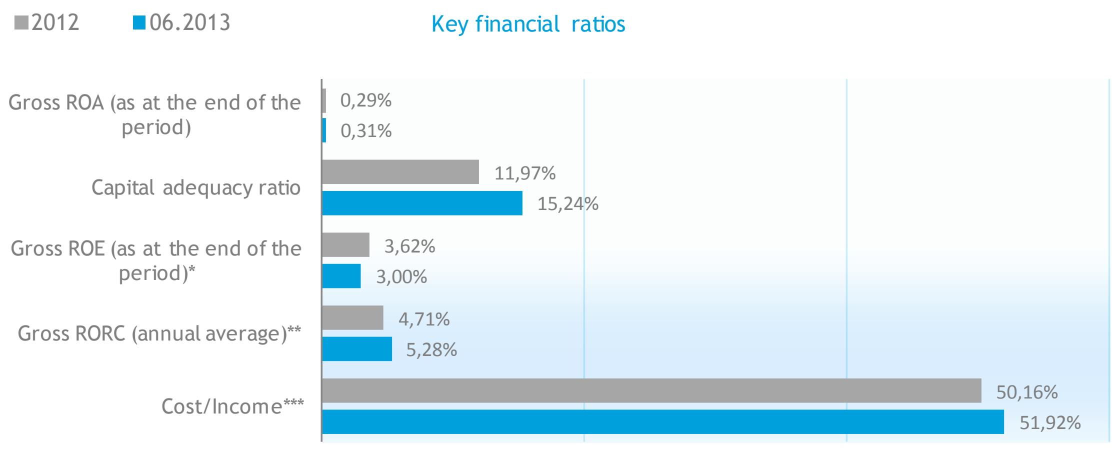
Table 2. Dynamics of selected elements of the income statement

Income statement	Period from 01.01.2013 to 30.06.2013	Period from 01.01.2012 to 30.06.2012	Dynamics
Net interest income	38,843	39,234	-1.00%
Net fee and commission income	-11	151	-107.28%
Net impairment losses on loans and advances	-12,696	-3,696	243.51%
Overhead costs	-19,824	-18,231	8.74%
Amortization and depreciation	-1,950	-1,906	2.31%
Profit before income tax	7,465	15,726	-52.53%
Net profit	4,634	12,738	-63.62%

Due to the Bank's specialist nature, its assets comprise mainly credits and loans secured with mortgages, and its liabilities comprise mainly liabilities in respect of covered bonds issuance which the Bank uses to refinance its lending activity.

As at the end of the first half of 2013, the Bank generated a positive gross financial result of PLN 7.5 million and the balance sheet total of PLN 4,761.5 million. Decreased gross result (by 52.5%) in comparison to the same period in 2012 was primarily due to write-downs on receivables increased by PLN 9 million. The result was also affected by higher operating costs related to reorganization of the Bank's operations, as well as interest income lower in comparison to the previous year, mainly due to the lower value of credit portfolio and lower interest rates.

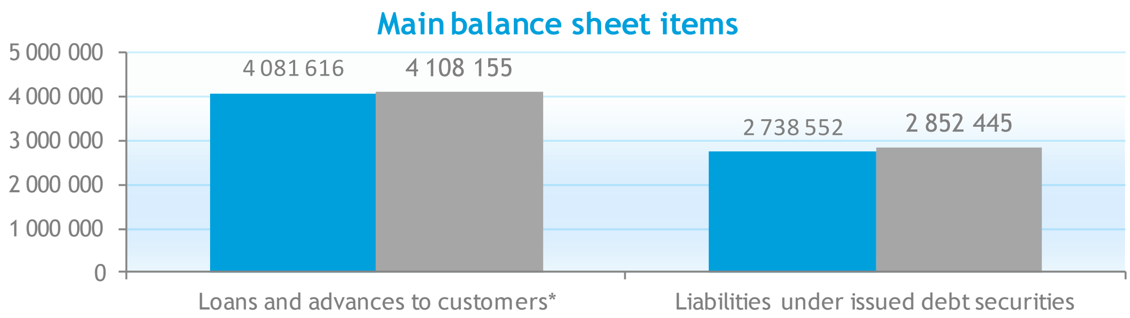
Chart 1. Key financial ratios



* gross result/(share capital + financial result from the previous years)
** gross result/average regulatory capital
*** (overhead costs + amortization and depreciation)/the result on banking operations (defined as the operating result less the overhead costs, amortization and depreciation, result on net impairment write-downs on loans and advances)

In January 2013, an additional share capital in the amount of PLN 100,000 thousand was registered and included in the Bank's own funds. Higher capital value is the main reason for the capital adequacy ratio increase in comparison to the previous year. Differences between other comparable ratios are mainly due to lower gross result of the Bank at the end of the first half of 2013.

Chart 2. Main financial items (in PLN thousand)



* the value of loans and advances to customers includes other receivables from customers (instalment sales of assumed apartments) in the amount of: PLN 312 thousand as at the end of 2012, PLN 52 thousand as at the end of June 2013.

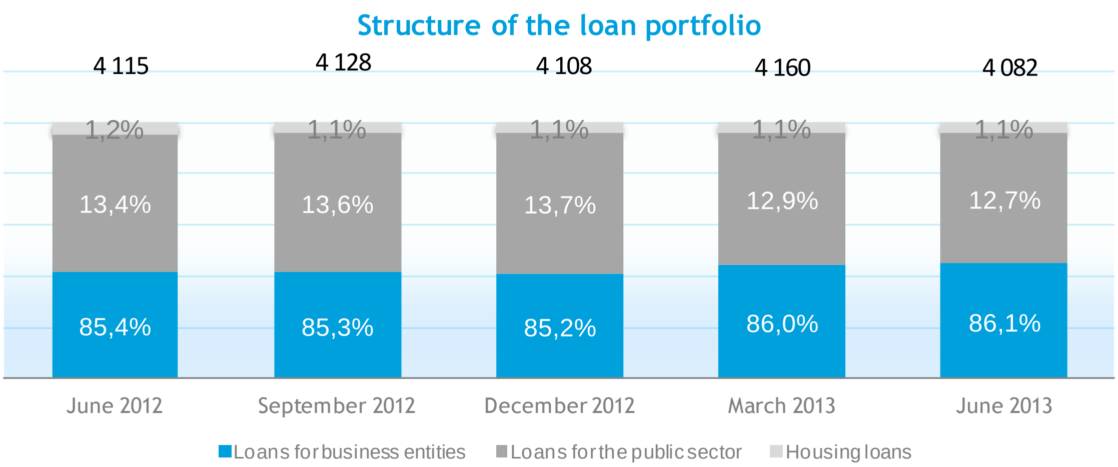
Value of the Bank's credit portfolio remained at the same level as at the end of 2012. Changes in the real estate financing market are reflected in lower sales activity of the Bank in comparison to the first half of the previous year. Value of the Bank's credit portfolio was also significantly affected by considerable early repayments.

1.4. LENDING ACTIVITY

In the first half of 2013, BRE Bank Hipoteczny continued its business activity in the field of commercial real estate and public sector financing in which it has been operating for 14 years. The Bank continuously developed its activities in this field with a view to significantly increase the volume of credit portfolio, on the basis of revised credit policy, optimised credit process and streamlined internal procedures, and taking into account the conditions and risks of the market environment.

In the first half of 2013, within the area of commercial real estate, the Bank particularly financed office buildings, shopping malls and utility premises. The Bank focused on the financing of purchases or refinancing of completed facilities with the relevant standard, as well as on the financing of construction process after which the construction loan is converted into long-term mortgage loan. In the field of loans for housing developers, the Bank's purpose was to finance medium size projects (up to 100 apartments) located in attractive areas. Alike last year, the Bank limited its sales activity in the financing of local government units.

Chart 3. The structure of credit portfolio in the period 30.06.2012 – 30.06.2013 (in PLN million) net value:



1.5. REFINANCING AND ISSUES OF COVERED BONDS

The Bank refinances its business activity by issuing covered bonds, and subsequently by credit lines and money market deposits received from the capital group, as well as by issuing coupon bonds with maturities from 9 months to 2 years. In the first half of 2013, BRE Bank Hipoteczny performed one issue of mortgage covered bonds with a value of PLN 80 million, and issued bonds with a total value of PLN 230 million.

Further issue plans of the Bank in the second half of 2013 assume the introduction of covered bonds to the market, with the total value exceeding PLN 450 million. In addition, issues of covered bonds in EUR are possible, up to the amount of EUR 80 million. Within the framework of bridge financing, the Bank plans to issue coupon bonds with a total value of PLN 550 million.

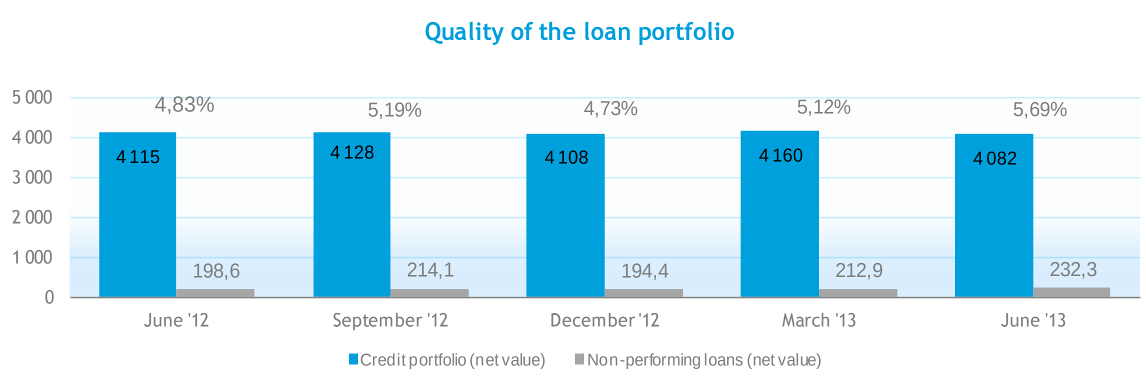
2. RISK MANAGEMENT

BRE Bank Hipoteczny applies internal processes of management and banking risk mitigation, including the establishment, maintenance and self-assessment of internal capital adequacy, adjusted to the Bank's risk profile. The Bank measures, monitors and manages all important risks arising from the implementation of its business strategy. Regulations and procedures related to the Bank's business activity are updated on an on-going basis in order to adapt the risk management process to new supervisory requirements and standards applied by the Capital Group to which the Bank belongs.
The Risk Management Department operates independently of the Sales Department, which ensures compliance with the binding safety standards of the Banking Law and the Act on covered bonds and mortgage banks.

2.1. CREDIT RISK

As a result of the continuing difficult market conditions, net value of non-performing loans, including impaired loans and non-impaired loans, increased by 23.4% in comparison to the end of 2012, accounting for, at the end of the first half of the year, 5.69% of the Bank's total credit portfolio. The majority of liabilities is repaid in a timely manner, but borrowers whose economic or financial position is, in the Bank's opinion, more exposed to the impact of unfavourable market conditions, have been covered with an intensified monitoring. Created revaluation write-downs in the amount of PLN 58.94 million (including: PLN 7.25 million – portfolio write-downs, PLN 51.69 million — individual write-downs), as well as loan collateral in the form of mortgages on real estate comprise the relevant collateral against potential losses resulting from credit risk.

Chart 4. The share of non-performing loans in the credit portfolio of the Bank (in PLN million)



The Bank has been observing a sustained increased level of credit risk for portfolios of loans granted to purchase land for housing developments and to finance developers' housing projects, in particular in tourist towns and cities.

In the first half of 2013, on the basis of the previous experience in the financing of residential projects, the Bank continued to finance projects in the field of housing development. In this area, the Bank focused on the selective financing of projects with the most favourable market parameters (the offer's adjustment to the market needs, positive history of the developer's activity, adequate level of own shares, as well as verified pre-sales).

Under the system of informing about capital groups, credit concentration limits and other risk limits, the Bank monitors standards resulting from the Act on covered bonds and mortgage banks, the Banking Law, credit policy, as well as market risk and liquidity limits.

The Bank continues works related to the implementation of tasks arising from the conditional consent to the use of internal ratings method, including works related to the gradual implementation schedule.

2.2. MARKET RISK

The risk of incurring a loss due to unfavourable changes in the market parameters from the perspective of the ageing structure of the Bank's portfolio is maintained at the lowest possible level, owing to the nature of the Bank's operations and its efficient system of risk mitigation and management on the operating level.
In order to mitigate market risk, the Bank adjusts the currency structure and the structure of revaluation of its sources of financing to the structure of loan liabilities held, uses linear derivatives, and concludes spot or forward currency purchase/sale transactions and FX SWAP transactions. The amount of market risk to which the Bank is exposed daily, is determined using the Value at Risk (VaR) method at the 99% confidence level. As at the end of June 2013, VaR amounted to PLN 198.8 thousand. The currency risk amounted to PLN -4.3 thousand, and the interest rate risk amounted to PLN 203.1 thousand.

THE **INTEREST RATE RISK** is a risk arising from exposure of the financial result and capital of the Bank to the unfavourable effect of changes in the interest rates. The Bank manages the interest rate gap by matching the revaluation dates of assets and liabilities. Sensitivity of the Bank's portfolio to extreme interest rate fluctuations is determined on the basis of results of stress tests and scenario analyses. The interest rate risk is measured, among other things, by the Earnings at Risk (EaR) ratio, which at the end of June 2013 reached a safe level of 5.57%. The Bank's portfolio components which are exposed to interest rate risk are hedged with linear interest rate derivatives.

THE BANK'S **CURRENCY RISK** is mitigated by the ongoing closure of the foreign exchange position. The currency risk scale and structure are measured on the basis of the Bank's current foreign exchange position. The foreign exchange position which accounts for the expected repayments and disbursements of loans is also subject to the monitoring process. The currency risk is controlled using the foreign exchange position limits for each of the currencies together with the stop loss limit (limit of the acceptable maximum loss) for open intra-day positions as at the end of a given business day, separately for each currency.

2.3. LIQUIDITY RISK

Liquidity risk is managed at the level of current, short-term, medium-term and long-term liquidity, the absence of which indicates the Bank's inability to finance its assets and settle its liabilities in a timely manner as part of the Bank's ordinary business activities.
Due to the fact that the maturities of long-term securities and assets are not matched, the Bank secures its liquidity by maintaining contingency reserves of liquid assets.
As at the end of the first half of 2013, liquidity provisions constituted approx. 11.55% of the balance sheet total. The Bank is not exposed to the risk of short-term refinancing to maturity or to the risk of withdrawal of deposits by the largest deposit holders due to a small share of deposits from the non-financial sector in the balance sheet total (4.19%).
In the first half of 2013, the financing of the bank's lending activities was performed through obtaining short-term deposits in EUR and USD from the main shareholder, as well as issues of short- and medium-term unhedged bonds and covered bonds in PLN. The Bank's long-term liquidity is stable. Short-term deposits obtained from BRE Bank S.A. under the available Money Market credit line constitute a significant share in the financing of long-term credit receivables.

With the need to preserve liquidity ratios at the appropriate level, the need to offset the maladjustment of the structure of assets to liabilities financing them, and the need to increase the stability of financing sources, BRE Bank Hipoteczny will seek to replace short-term financing with financing in the form of new credit lines with maturities from 2 to 5 years, as well as to lengthen the maturities of covered bonds.
The share of stable sources of financing and liquidity reserves adequate to the scale of the Bank's operations enables the Bank to meet the M4 long-term liquidity standard set by the Polish Financial Supervision Authority. M4 ratio as at the end of the first half of 2013 amounted to 1,093. M1 and M2 liquidity standards were maintained at a safe level of PLN 605.6 thousand and 1,909 respectively, whereas M3 standard amounted to 5,357.
In the first half of 2013, the limit of liabilities arising from Article 15.2 of the "Act on covered bonds and mortgage banks" was utilised in 62.14% (on average). In the analysed period, this limit was not exceeded.
As at the end of 2013, the average maturity of covered bonds issued amounted to 2.80 years for mortgage covered bonds and to 2.13 years for public covered bonds, whereas the average maturity of long-term deposits in other banks amounted to 0.30 years.
Margin on mortgage covered bonds issued in the first half of 2013 amounted to 1.00% (it was reduced by as much as 0.70% in comparison to the previous issue of 6-year security in November 2012), and the bonds' maturity amounted to 7 years. In the first half of 2013, no public covered bonds were issued.

2.4. OPERATIONAL RISK

The process of operational risk mitigation within BRE Bank Hipoteczny is realized through the application of controls, risk transfers, contingency plans, business continuity plans and outsourcing.
Operational risk measurement is performed by using both the qualitative and quantitative methods, which complement each other in assessing the risk profile of the Bank. The risk is monitored through the implemented mechanisms and internal control procedures, based on the Key Risk Indicators (KRIs) and the statistics of operating loss events.

At present, the Bank's exposure to operational risk is low due to:
- operational risk management system implemented in the Bank,
- small team and flat organisational structure,
- small scale and complexity of the activities, resulting from the specific nature of mortgage banks,
- an integrated IT system in operation since the commencement of the Bank's activity,
- highly qualified staff,
- effective system of internal control.

2.5. RISK OF INVESTING IN COVERED BONDS

In the first half of 2013, risk profile of investments in covered bonds issued by BRE Bank Hipoteczny did not change. These securities constitute financial instruments of low investment risk, resulting from the required multi-level collateralization of their issue and trading by the issuer in accordance with the Act on covered bonds and mortgage banks. The fact that for many years the Bank has followed a conservative policy of real estate valuation on which the bonds are secured also contributes to high security of this investment. Besides ensuring that the Bank meets a number of statutory requirements, taking into account the security of investments in covered bonds under the conditions of slower economic growth. The minimum level of excess security with regard to mortgage covered bonds amounts to 10%, and to 6% with regard to public covered bonds.
The increased attractiveness of investments in such securities is also attributed to the fact that covered bonds issued by mortgage banks may constitute collateral for lombard credits and repo transactions realized with other banks.

3. DEVELOPMENT DIRECTIONS AND KEY ELEMENTS OF THE BANK'S STRATEGY

In June of this year, the Management Board of the Bank adopted a strategy for the period 2014-2017, setting new directions of activity and development of the Bank, and strengthening, on their basis, its market position in the challenging competitive environment. It formulates 3 major strategic objectives of the Bank:

- increase of the balance sheet total through dynamic growth of credit assets based on the planned increase of the crediting action in the commercial area and the creation of a new retail mortgage loan portfolio,
- implementation of the strategic project, involving the development of a model of cooperation with the parent universal bank in the area of establishing and refinancing the retail mortgage loan portfolio through the issuance of covered bonds. This solution assumes the provision by the Bank of services related to the bond issuer's function within the BRE Bank Group,
- creation of a competence centre for the BRE Bank Group – a specialized unit within BRE Bank Hipoteczny dedicated to handling all the processes of valuation and monitoring of investments in real estate, financed by the BRE Bank Group entities.

In the 3rd quarter of this year, the Bank intends to implement a strategic project based on the model of cooperation with BRE Bank in the area of establishing and refinancing the retail mortgage loan portfolio through the issuance of covered bonds. Works related to the new project began in August 2012 and include comprehensive development, from scratch, of new business model based on business and operating cooperation between the mortgage bank and the universal bank.

The project will be implemented in 2 stages:

- stage 1 — launch of lending activity in the retail area, based on operating cooperation and sales structures of BRE Bank as well as consistent credit policy. The retail mortgage loan portfolio of BRE Bank Hipoteczny will be established solely on the basis on loans that meet the criteria of entry in the register of covered bonds and may form the basis for their issue.
- Stage 2 – issuance of covered bonds on the basis of the retail mortgage loan portfolio.

Moreover, the assumptions of the Bank's strategy include:

- significant increase in the commercial credit portfolio subject to new credit policy, consistent credit risk management policy, and optimised credit process, taking into account the market conditions,
- changes in the structure of refinancing through a significant increase in the share of covered bonds as a long-term secured debt,
- maintaining the credit risk at a possibly safe level, through diversification of the portfolio in terms of exposure and regionalisation. Risk management policy assumes increasing the share of smaller credit amounts in the Bank's commercial credit portfolio,
- significant development of the issuance activity and establishment of a new model of selling covered bonds, based on patterns functioning in developed European markets. This initiative is aimed at increasing the number of new institutional customers and acquiring new segments of the market.

Main sales objective of the Bank will be the refinancing or crediting of the purchase of ready-made, commercialized facilities, particularly office buildings, retail space and warehouse space. The Bank intends to be an active creditor operating in the segment of prestigious medium-scale commercial projects financed with loans of up to EUR 25 million.
The purpose of the Bank is to maintain the leading position on the market of mortgage banking for business entities and strengthening the role of the leader in the area of covered bonds, by increasing the scale of their issues.

4. THE BANK'S AUTHORITIES

SHAREHOLDERS

Shareholding structure of BRE Bank Hipoteczny

Shareholder's name	Share	Share capital	Number of shares/votes at the General Shareholders' Meeting
BRE Holding Sp. z o.o.	75.71%	208.214.300	2.082.143
BRE Bank S.A.	24.29%	66.785.700	667.857
Total	**100%**	**275.000.000**	**2.750.000**

MANAGEMENT BOARD

In the first half of 2013, the composition of the Management Board changed. On the date of the General Meeting of Shareholders, i.e. on 29 April 2013, Sven Torsten-Kain's term of office as a member of the Management Board expired, as well as his cooperation with BRE Bank Hipoteczny.

For another term of office, the Supervisory Board appointed, with Resolution No. 12/2013 of 29 April 2013, the Management Board of BRE Bank Hipoteczny in the following composition:
Piotr Cyburt — President of the Management Board
Marcin Romanowski — Member of the Management Board
Marcin Wojtachnio — Member of the Management Board

SUPERVISORY BOARD

In the first half of 2013, the composition of the Supervisory Board changed. As at 30.06.2013, it comprised:
Cezary Kocik — Chairman
Hans-Dieter Kemler — Vice-Chairman
Joerg Hessenmueller — Member of the Supervisory Board
Maciej Bieńkowski — Member of the Supervisory Board
Michał Popiołek - Member of the Supervisory Board
Jolanta Daniewska — Member of the Supervisory Board
Łukasz Witkowski — Member of the Supervisory Board
Dariusz Solski — Member of the Supervisory Board

In accordance with the Memorandum of Association of BRE Bank Hipoteczny S.A., the General Shareholders' Meeting passes resolutions on the appointment and removal of Members of the Supervisory Board and the principles for remunerating them. Determining the terms of agreements and remuneration of Members of the Bank's Management Board lies within the competencies of the Supervisory Board. The Bank and its affiliates did not conclude any other transactions with Members of the Management Board and Supervisory Boards or their relatives.

In the past six months, the Bank did not enter into any agreements which could result in changes in proportions of shares held by the existing shareholders in the future. No material agreements were concluded between the Bank and the Central Bank and regulatory bodies.

5. INFORMATION OF APPOINTMENT OF THE AUDITOR

The Bank concluded an agreement on the review and audit of financial statements and statement packages with Ernst & Young Audit Sp. z o.o. – an entity authorised to audit financial statements.

The agreement was signed on 17.06.2013 and its scope includes, among others:

- review of the Condensed Financial Statements of the Company for the 6-month period ended 30 June 2013,
- review of the Company's Statement Packages for consolidation purposes regarding the BRE Bank S.A. Group and the Commerzbank AG Group for the 6-month period ended 30 June 2013.

Total remuneration of Ernst & Young Audit Sp. z o.o. for review of the Financial Statements and Statement Packages of the Company for the first half of 2013 amounts to PLN 98.4 thousand.

6. MANAGEMENT REPRESENTATIONS

CORRECTNESS AND FAIRNESS OF THE PRESENTED FINANCIAL STATEMENTS

The Management Board of BRE Bank Hipoteczny S.A. represents that according to its best knowledge:

- financial statements and comparable data have been drawn up in accordance with the applicable accounting principles and reflect truly, fairly and clearly the assets and the financial position of BRE Bank Hipoteczny as well as its financial results,
- the Management Board's report on operations in the first half of 2013 contains the true picture of the situation of BRE Bank Hipoteczny, including the description of basic risks and threats.

APPOINTMENT OF THE REGISTERED AUDIT COMPANY

The registered audit company auditing the annual financial statements of BRE Bank Hipoteczny was appointed in accordance with the legal regulations. This entity and the registered statutory auditors performing the audit met the requirements regarding the expressing of an unbiased and independent audit opinion, in accordance with the respective legal regulations in force in Poland.

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Piotr Cyburt — President of the Management Board

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Marcin Romanowski — Member of the Management Board

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Marcin Wojtachnio — Member of the Management Board