



# Disclosures regarding capital adequacy of BRE Bank SA Group as at 31 December 2010

Warsaw, 30 March 2011

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## **1. Introduction**

Based on the Resolution No. 385/2008 of the Polish Financial Supervision Authority of 17 December 2008 on detailed principles and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy, the scope of information subject to disclosure (with further amendments) and in accordance with the Disclosure Policy of BRE Bank SA available on website [www.brebank.pl](http://www.brebank.pl), BRE Bank SA presents herein information based on the data for BRE Bank SA Group (hereinafter referred to as BRE Bank Group) according to the requirements of the above-mentioned Resolution.

If not stated specifically further in the report all the amounts are presented in PLN thousand.

The scope of consolidation defined for the purpose of BRE Bank Group IFRS Financial Statements was applied for calculating the consolidated capital charge as at 31 December 2010. The subordinated insurance companies: BRE Towarzystwo Ubezpieczeń i Reasekuracji SA and BRE Ubezpieczenia Sp. z o.o., were treated according to the recommendation of the National Bank of Poland presented in the letter no. NB-BPN-VII-076-144/07 dated May 24, 2007, which means that in the consolidation process the elements of assets and liabilities of these entities were not included and the value of capital exposures to these entities is deducted from the own funds of BRE Bank Group.

Detailed information on consolidated entities is presented in Explanatory Note 1 of BRE Bank Group IFRS Consolidated Financial Statements for 2010 (hereinafter referred to as the Consolidated Financial Statements for 2010).

## **2. Own funds**

### **2.1. Main information**

#### **Core capital**

##### Share capital

The share capital of BRE Bank Group consists of paid-up and registered capital of BRE Bank SA. Detailed information on registered share capital is presented in Explanatory Note 38 of the Consolidated Financial Statements for 2010.

The increase of share capital in Q3 2010 by PLN 49.485 thousand was the result of a public rights issue in Q2 2010.

##### Supplementary capital

The supplementary capital of BRE Bank Group represents the share premium obtained over the nominal value of the shares issued by the Bank less cost of the share issue. The supplementary capital is allocated to cover potential losses which can arise from underlying banking activities.

The increase of share premium in Q3 2010 by PLN 1.916.620 thousand was the result of the public rights issue in Q2 2010.

##### Reserve fund

The reserve fund is composed of other supplementary capital and other reserve capital presented in the Consolidated Financial Statements for 2010 in retained earnings.

Detailed rules applied to the allocation of retained earnings to other supplementary capital are described in Explanatory Note 40 of the Consolidated Financial Statements for 2010.

Other reserve capital represents allocated retained earnings of the entities within BRE Bank Group and capital resulting from the settlement of the share options scheme granted to key management personnel of BRE Bank SA.

### Minority interests

The amount of non-controlling interests represents minority shareholders' contribution to the equity of BRE Bank Group.

The minority interests as at 31 December 2010 represent the contribution of the following shareholders of BRE Bank Group entities.

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<b>Group entity</b>	<b>Minority shareholders' share in equity of BRE Bank Group (%)</b>
BRE Leasing Sp. z o.o	49,996
Intermarket Bank AG	43,76
Transfinance a.s.	21,88
Polfactor SA	21,88
Magyar Factor zRt.	21,88
BRE.locum SA	20,01
BRE Finance France SA	0,02

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### **Deductions from the core capital**

#### Intangible assets

Detailed information on intangible assets of BRE Bank Group is presented in Explanatory Note 25 of the Consolidated Financial Statements for 2010.

The goodwill on subordinated companies amounting to PLN 7.137 thousand is included in intangible assets reducing BRE Bank Group's own funds.

Until 1 January 2004 the goodwill was amortised over a 5-years-period. Since that day, in conformity with the binding regulations, the goodwill has been tested annually for impairment. In the calculation of own funds the goodwill is presented at net book value less any impairment losses.

Individual items of the goodwill reducing the core capital of BRE Bank Group as at 31 December 2010 are presented below.

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	<b>Carrying value (in PLN '000)</b>
BRE Wealth Management SA	3.532
Intermarket Bank AG	2.409
Transfinance a.s.	1.196
<b>Total</b>	<b>7.137</b>

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Unrealised losses on debt and equity instruments classified as available for sale

According to § 2.1 points 5 and 6 of the Resolution No. 367/2010 of the Polish Financial Supervision Authority of 12 October 2010, the core funds of BRE Bank Group are decreased by the amount of unrealised losses on debt and equity instruments classified as available for sale.

Detailed information on investment securities classified as available for sale is presented in Explanatory Note 23 of the Consolidated Financial Statements for 2010.

Total amount of unrealised losses on equity instruments classified as available for sale includes 100% of foreign exchange differences on revaluation of these instruments as well as differences resulting from the currency conversion of assets and liabilities of foreign branches and consolidated entities.

The debt instruments classified as available for sale, the valuation of which is included in the calculation of own funds of BRE Bank Group, represent government bonds, treasury bills, treasury bonds, bank and corporate bonds in the portfolio of BRE Bank SA.

#### Capital exposure

According to § 2.1 point 1 of the Resolution No. 367/2010 of the Polish Financial Supervision Authority of 12 October 2010 the core capital of BRE Bank Group is reduced by 50% of the value of capital exposure to financial institutions, credit institutions, domestic banks, foreign banks and insurance companies.

The most significant capital exposures decreasing the own funds of BRE Bank Group as at 31 December 2010 are presented below.

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<b>Company</b>	<b>Carrying value (in PLN '000)</b>	<b>Share in the capital</b>
BRE UBEZPIECZENIA TUIR SA	26.353	100,00%
BRE CORPORATE FINANCE SA	3.532	100,00%
BRELINVEST Sp. z o.o. Fly 2 Sp. k.	2.260	100,00%
TRANSFACTOR SLOVAKIA a.s.	1.331	56,24%

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## **Complementary funds**

### Subordinated liabilities

According to the decision No. 92 of 21 March 2007 BRE Bank SA obtained a written consent of the Commission for Banking Supervision to classify to complementary funds the amount of CHF 400 000 thousand received as a subordinated liability from the bonds issue of 8 March 2007 with 10 years maturity.

According to the decision No. 610 of 24 December 2007 BRE Bank SA obtained a written consent of the Commission for Banking Supervision to classify a subordinated liability to complementary funds in the amount of CHF 120 000 thousand received as a subordinated loan with 10 years maturity based on the agreement signed on 12 December 2007 between BRE Bank SA and Commerzbank Aktiengesellschaft (maturity date - 24 December 2017).

According to the decision of the Polish Financial Supervision Authority dated 12 August 2008 BRE Bank SA obtained a written consent to classify to complementary funds the amount of CHF 90 000 thousand based on the agreement of a subordinated loan signed on 11 June 2008 between BRE Bank SA and Commerzbank Aktiengesellschaft (maturity date – 12 August 2018).

### Debt securities in issue with undefined maturity date

According to the decision No. 657 of 21 December 2006 BRE Bank SA obtained a written consent of the Commission for Banking Supervision to classify to complementary funds the amount of CHF 80 000 thousand received from the bonds issue on 20 December 2006 with undefined maturity.

According to the decision No. 609 of 24 December 2007 BRE Bank SA obtained a written consent of the Commission for Banking Supervision to classify to complementary funds the liability in the amount of CHF 170 000 thousand received from the bonds issue on 12 December 2007 with undefined maturity. The issue of the bonds took place on 9 January 2008.

According to the decision of the Polish Financial Supervision Authority dated 1 July 2008 BRE Bank SA obtained a written consent to classify to complementary funds the liability in the amount of CHF 90 000 thousand received from the bonds issue with undefined

maturity based on the agreement signed on 11 June 2008 between BRE Bank SA and Commerzbank Aktiengesellschaft.

The conditions of the above liabilities are described in Explanatory Note 31 of the Consolidated Financial Statements for 2010.

Unrealised gains on debt and equity instruments classified as available for sale

According to § 3 of the Resolution No. 367/2010 of the Polish Financial Supervision Authority of 12 October 2010, 80% of the value of unrealised gains (before tax) on debt and equity instruments classified as available for sale is included in complementary funds.

Detailed information on investment securities classified as available for sale is presented in Explanatory Note 23 of the Consolidated Financial Statements for 2010.

The total amount of unrealised gains on equity instruments classified as available for sale includes 100% of foreign exchange differences on revaluation of these instruments, as well as resulting from the currency conversion of assets and liabilities of foreign branches and consolidated entities.

Information on instruments classified as available for sale, the valuation of which is included in own funds, is presented herein in the point concerning unrealised losses on debt and capital instruments classified as available for sale.

## **Deductions from complementary funds**

### Capital exposures

According to § 4 of the Resolution No. 367/2010 of the Polish Financial Supervision Authority of 12 October 2010 the complementary funds of BRE Bank Group are reduced by 50% of the value of capital exposure to financial institutions, credit institutions, domestic banks, foreign banks and insurance companies.

Information on capital exposures, which reduce own funds of BRE Bank Group, is presented herein in the point concerning deductions from the core capital.

## **Short-term capital**

According to § 128 clause 6 point 1 of the Polish Banking Law and § 10 of the Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 (with further amendments) the sum of own funds and short-term capital is included in the calculation of the capital adequacy ratio. However, BRE Bank Group applies a prudent approach and assumes that the amount of short-term capital is zero.

## 2.2. Structure of own funds

Own funds	in PLN '000
<b>Core capital</b>	<b>5 866 072</b>
Core capital	6 206 555
Share capital	168 347
Supplementary capital	3 323 465
Reserve fund	2 714 743
Additional items of core capital	167 982
General risk fund for unidentified banking business risk	-
Retained earnings	-
Profit under approval by shareholders and net profit of the current year	-
Non-controlling interests	167 982
Deductions from core capital	(508 465)
Own shares held by the bank	-
Intangible assets	(427 837)
Losses from previous years	-
Loss under approval by shareholders	-
Net loss for the current year	-
Other deductions from core capital	(80 628)
50% of total capital exposures to financial institutions, credit institutions, domestic banks, foreign banks and insurance companies	(17 403)
50% of the missing amount of provisions for the risk of the bank's activities	-
50% of the exposure amount of securitisation position with risk weight of 1250% assigned	-
Unrealised losses on debt instruments classified as available for sale	(44 012)
Unrealised losses on equity instruments classified as available for sale (including 100% of foreign exchange differences)	(19 213)
Unrealised losses on the valuation of real estate property kept for investment purposes	-
Net gains of the capitalisation of future assets' securitisation income supporting the credit quality of securitised position	-

**BRE Bank Group**  
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in PLN '000

<b>Complementary funds</b>	<b>3 104 858</b>
Revaluation reserve resulting from valuation of tangible fixed assets	-
Subordinated debts	1 929 979
Funds created from own and external resources	-
Debt securities in issue with undefined maturity and other instruments of similar nature	1 075 726
Other items of complementary funds	116 556
80% of unrealised gains on debt instruments classified as available for sale	2 426
80% of unrealised gains on equity instruments classified as available for sale (including 100% of foreign exchange differences)	114 130
80% of unrealised gains on valuation of real estate property kept for investment purposes	-
Deductions from complementary capital defined by the Polish Financial Supervision Authority	(17 403)
50% of total capital exposures to financial institutions, credit institutions, domestic banks, foreign banks and insurance companies	(17 403)
50% of the missing amount of provisions for the risk of the bank's activities	-
50% of the exposure amount of securitisation position with risk weight of 1250% assigned	-
<b>Total own funds</b>	<b>8 970 930</b>
<b>Short term equity</b>	-
Market gains	-
Loss on all operations classified to banking book	-
Liabilities due to subordinated loans (not included in own funds)	-
Equity of subsidiaries	-
<b>Total own funds and short term equity</b>	<b>8 970 930</b>

### **3. Capital requirements and capital adequacy ratio**

#### **3.1. Main information**

Within the framework of the capital management policy of BRE Bank Group, the Bank prepares the guidelines for the most efficient planning and use of its capital basis, which:

- 1/ are compliant with external and internal regulations in force,
- 2/ guarantee continuity of financial targets achievement, which render an appropriate rate of return for shareholders,
- 3/ ensure the maintenance of a strong capital basis being of fundamental support for business development.

In 2010 BRE Bank SA, pursuant to regulations in force, maintained consolidated and stand-alone own funds at a level not lower than the higher amount of the two following values:

- a. the total capital requirement for particular types of risk and capital requirements for exceeding limits and violating other rules defined by the law – the capital requirement resulting from Pillar I,
- b. the amount estimated by the Bank, necessary to cover all relevant types of risks identified in BRE Bank Group's activity and the changes of economic environment taking into account the forecasted level of risk (i.e. the amount of internal capital) – the capital requirement resulting from Pillar II.

Significant factors determining the capital adequacy are the target values of the capital adequacy ratio and Core Tier I capital ratio. Following the capital increase in 2010, BRE Bank Group's strategic goals are aimed at maintaining the consolidated capital adequacy ratio above 12%, Core Tier I capital ratio at the level of approximately 8-10% and own funds at the level of 125% of internal capital.

To maintain the capital adequacy ratio at that level the Bank monitored the current level of capital adequacy ratio and prepared short- and mid-term projections of the capital basis and of the capital requirements related to the business development.

The process and the structure of risk management in BRE Bank Group are presented in Explanatory Note 3 of the Consolidated Financial Statements for 2010.

The capital adequacy ratio of BRE Bank Group is calculated on the basis of total capital requirement, which is the sum of capital requirements for all types of risk as specified in the Resolution No 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 with further amendments.

The total capital requirement contains (while assuming the possession of a trading book) capital requirements for:

- 1/ credit risk,
- 2/ market risk, including the total requirement for foreign exchange risk, commodity price risk, equity price risk, specific risk of debt instruments prices, general interest rate risk,
- 3/ operational risk,
- 4/ settlement / delivery and counterparty credit risk,
- 5/ excess of the exposure concentration limit and the large exposure limit,
- 6/ excess of qualified holdings.

### 3.2. Structure of total capital requirement

Risk class	Capital charge
	in PLN '000
<b>Credit risk</b>	<b>4 063 810</b>
Claims on central governments or central banks	10 819
Claims on regional governments or local authorities	33 772
Claims on administrative bodies and non-commercial undertakings	9 630
Claims on multilateral development banks	-
Claims on international organisations	-
Claims on institutions	64 416
Claims on corporates	1 147 549
Retail claims	1 667 643
Claims secured by real estate property	847 005
Past due items	60 141
Items belonging to regulatory high-risk categories	957
Claims in the form of covered bonds	-
Short-term claims on institutions and corporates	-
Claims in the form of collective investment undertakings	50
Other items	221 828
<b>Market risk</b>	<b>31 827</b>
Foreign exchange risk	629
Commodity price risk	-
Equity price risk	284
Specific risk of debt instrument prices	10 081
General interest rate risk	20 833
<b>Settlement/delivery and counterparty credit risk</b>	<b>42 971</b>
<b>Excess of the exposure concentration limit and the large exposure limit</b>	-
<b>Excess of qualified holdings</b>	-
<b>Operational Risk</b>	<b>374 716</b>
<b>Total consolidated own funds and short term capital</b>	<b>8 970 930</b>
<b>Total capital charge</b>	<b>4 513 324</b>
<b>Capital adequacy ratio</b>	<b>15,90%</b>

## **4. Internal capital**

The internal capital is the amount of capital estimated by the Bank to cover all material risk identified in the BRE Bank Group's operations, ie. measurable risks for which capital is estimated at the assumed confidence level over a one-year time horizon and hard-to-quantify risks.

The internal capital is the sum total of the economic capital to cover permanently material measurable risks and the capital to cover material hard-to-quantify risks.

BRE Bank SA adjusts the stand-alone and the consolidated own funds to the level and the type of risk, the Bank is exposed to, and to the character, the scale and the complexity of its business operations. For that purpose, the Bank prepared and implemented the ICAAP process (Internal Capital Adequacy Assessment Process). The aim of this process is to keep the own funds at the level adequate to the risk profile and the risk level of the Group's activity to ensure the safety of BRE Bank Group's business.

In 2010, the internal capital of BRE Bank Group was lower than the sum of capital requirements for particular risks calculated under Pillar I.

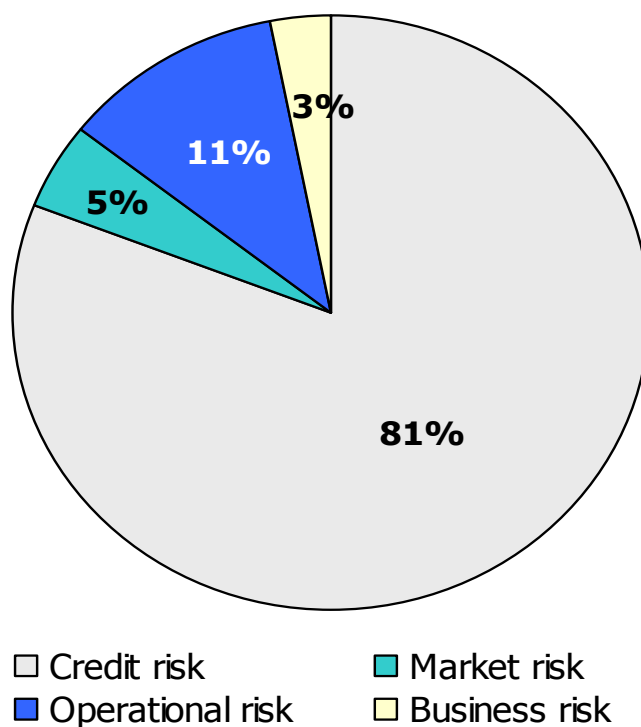
The following risks were included in permanently material risks in BRE Bank Group's activity as at 31 December 2010:

- 1/ credit risk,
- 2/ market risk,
- 3/ operational risk,
- 4/ business risk,
- 5/ liquidity risk
- 6/ capital risk.

The permanent material risks are covered by the economic capital calculated at the 99.90% confidence level, with yearly horizon of the observations.

Conservative assumptions related to the risk diversification in the total economic capital calculated for BRE Bank Group as at 31 December 2010 were adopted. Correlation matrix used to aggregate the components of economic capital takes the value of 1 for all fields.

### **BRE Group - structure of internal capital**



The liquidity risk and the capital risk are considered as permanently material by the Group due to their nature, but they are not elements of the economic capital.

The liquidity risk is mitigated by means of the business monitoring system, limits, portfolios securing current liquidity and a contingency plan in case of a temporary loss of liquidity.

The capital risk is managed in systematic manner by monitoring of the regulatory standards (monitoring of relationship of own funds to the regulatory and internal capital), development of internal regulations for managing capital including capital management strategy and contingency plans to improve the existing capital base.

The compliance risk was also recognized as relevant hardly measurable risk in BRE Bank Group's activity as at 31 December 2010. Its capital component is included in the economic capital for operational risk.

The process of internal capital adequacy assessment in BRE Bank Group is performed constantly and is based on the following tasks completed by the organisational units of the Bank:

- 1/ identification and description of the significant risks identified in the business of BRE Bank Group,
- 2/ calculation of the capital to cover each of the material risks,
- 3/ aggregation of the capital to cover risks,
- 4/ allocation of capital to business lines and BRE Bank Group companies,
- 5/ monitoring, which means permanent identification of the risks occurring in the business activity of BRE Bank Group and analysis of the level of capital to cover material risks.

The monitoring of the relevance of the risks identified in the Group's activity is performed continuously. The review of the process of the risks identification and the assessment of the relevance of these risks is performed at least once a year in order to ensure the best adjustment of the process of the internal capital adequacy assessment to the current market conditions and to the internal processes related to the risk management and capital planning.

The process of the internal capital adequacy assessment is accepted by the Supervisory Board of the Bank.

The whole process of the internal capital adequacy assessment is reviewed annually in order to provide complete capital adequacy of BRE Bank Group.

The Management Board of the Bank is responsible for the process of capital adequacy assessment of BRE Bank Group.