

RULES FOR DISCLOSING INFORMATION ON CAPITAL ADEQUACY BY BANK BGŻ

**WARSAWA
June 11th, 2010**

1 Dictionary

1.1. The terms used in this document mean:

- a. Bank BGŻ – Bank Gospodarki Żywnościowej S. A.,
- b. Information policy – rules regarding the disclosure of information on the capital adequacy of Bank BGŻ presented in this document.,
- c. Resolution – resolution of the Financial Supervisory Commission no. 385/2008 from 17th December 2008 on detailed regulations and means of disclosing quantitative and qualitative information on capital adequacy and the scope of information to be disclosed.
- d. Resolution on banks capital adequacy– resolution no 76/2010 from 10th of March 2010 of the Financial Supervisory Commission from 17th December 2008 on the scope and detailed regulations for establishing capital requirements for specific risk types, covering the scope and conditions of the applicability of statistical methods and the scope of information attached to notions requesting permission to use such methods, regulations and conditions of liability transfer agreements, sub-participation agreements, credit derivative instrument agreements, and agreements other than liability transfer agreements and sub-participation agreements, for the purpose of establishing capital requirements, conditions, scope and means of employing credit quality ratings issued by external credit assessment institutions and export credit agencies, means and detailed regulations for calculating bank solvency ratios, scope and means of including banks participation in holdings in calculating capital requirements and solvency ratios and describing additional balance-sheet positions of banks treated jointly with own funds in calculating capital adequacy and the scope, means and conditions for calculating them,
- e. Resolution on equity of banks – resolution no 381/2008 of the Financial Supervisory Commission form 17th December 2008 on other deductions of primary funds, their amounts, scope and conditions of reducing the banks basic fund, other balance-sheet positions treated as supplementary funds, deduction of supplementary funds, their amounts, scope and conditions of reducing the banks supplementary funds by them, and scope and means of including banks functioning in holdings in calculating banks own funds.

2 General agreements

2.2 The following information policy was developed in order to comply with the requirement formulated in the Resolution, based on the second pillar of the framework agreement of the Basel Committee on Banking Supervisions “International Convergence of Capital Measurements and Capital Standards: a Revised Framework” and Directive 2006/48/EC of the European Parliament and European Council from June 14th 2006 relating to the taking up and pursuit of the business of credit institutions.

- 2.3 The information policy describes the general rules and scope of the information pertaining capital adequacy and risk exposure disclosed by Bank BGŻ, the frequency of disclosure of such information, the form and place in which the disclosure takes place and rules pertaining verification and acceptance of disclosed information and the information policy.
- 2.4 The information policy, like the information published in accordance with it, is meant for market participants as well as other interested entities or persons interested in the scope of disclosed information.

3 Purpose of the disclosure of information

- 3.1 The basic goals for disclosing information related to capital adequacy by Bank BGŻ are
- a. Facilitating easier decision making for market participants,
 - b. Maintaining market discipline,
 - c. Further developing and maintaining the market position of Bank BGŻ,
 - d. Exercising care for the positive image of Bank BGŻ in accordance with the principles of transparency, honesty and commitment,
- 3.2 An additional reason for disclosing information is the possibility of obtaining permission of appropriate supervisory organs for using advanced risk measurement approach in case Bank BGŻ fulfills requirements regarding publication in accordance with the requirements.

4 Scope of the information disclosed

- 4.1 Regarding the goals and regulations for managing individual risk types Bank BGŻ discloses the following information
- a. The strategy and management process for individual risk types
 - b. The organizational structure of units managing given risk types;
 - c. The scope and type of systems used for reporting and measuring risk
 - d. Rules of the policy on securing and risk mitigation through strategies and processes for monitoring the effectiveness of securing and methods used to reduce risk.
- 4.2 On the application of precautionary norms Bank BGŻ discloses:
- a. A short description of the units that are fully consolidated, proportionally consolidated, consolidated by ownership, reduce own funds, are not consolidate and do not reduce own funds

- b. Information on significant existing or foreseen legal or practical obstacles, preventing speedy transfer of own fund or repaying liabilities between the parent entity and subsidiary entities
- c. Total capital deficit in all unconsolidated subsidiaries and list of names those subsidiaries, where capital deficit is understood as the difference between actual equity and minimal capital requirements

4.3 Regarding own funds Bank BGŻ discloses on the domestic level of consolidation the following information

- a. Basic information regarding principle properties and conditions related to all positions and components of own funds,
- b. Sum of own fund and values of individual components and deductions of basic and supplementary funds, as mentioned in the resolution on own fund of banks,
- c. Amount of short term capital and components included in short-term capital defined according to § 5 section 1 of the resolution on banks capital adequacy
- d. Amount of exposures due to securitization positions, which according to § 46-123 of appendix 18 to the resolution on banks capital adequacy are ascribed a risk weight equal 1250%, calculated as per the appendix
- e. Sum of own fund and short-term capital.

4.4 Regarding maintaining capital requirements Bank BGŻ discloses on the highest domestic level of consolidation the following information

- a. A description of the method used to measure internal capital adequacy, constituting support for present and future Bank activity;
- b. An amount constituting 8% of the risk weighted exposure, separately for each exposure class defined in § 20 section 1 appendix no 4 to resolution on capital adequacy of banks;
- c. Amount of minimal capital requirement, as mentioned in § 6 section 1 points 2-5 of the resolution on capital adequacy of banks, combined and separately for each risk type;
- d. Amount of minimal capital requirement for operational risk defined in accordance with appendix no. 14 to the resolution on capital adequacy of banks – separately for each of the used methods.

4.5 Regarding credit risk and dilution risk Bank BGŻ discloses the following information:

- a. Definition of an impaired exposure.
- b. Description of the approach applied to establish impairment provisions,
- c. Total amount of exposures by balance-sheet prices (after account provisions), without the effect of reducing credit risk, and average exposure after dividing into class.

- e. Geographic structure of exposures divided into regions relevant to significant exposure classes
Industrial branch structure of exposures divided into exposure classes
 - f. Maturity date structure of exposures divided into exposure classes
 - g. Amounts of impairment provisions in the given period divided into relevant industrial branches for exposures revealed to be impaired.
 - h. Geographic structure of revealed impaired exposures, along with the amounts of impairment provisions during the given period
 - i. Reconciliations related to changing the status of impairment provisions, covering: a description of provisions types, initial principal amount, write-offs, impairments and liquidations for estimated likely future losses for exposures during the given period, all other provisions, final principle amount, where provisions and recovered amounts counted directly to profits and losses should be disclosed separately;
 - j. Agreed upon changes to value of recognized impaired exposures, covering: a description of the type of correction, initial amount, amount written-off, amount of provisions for likely losses for exposures during a given period, all other corrections, end amount, where value corrections and recovered amounts should be published separately
- 4.6 Regarding counterparty credit risk, as mentioned in § 1 of appendix 16 to the resolution on banks capital adequacy Bank BGZ discloses the following information:
- a. A description of the methodology used to allocate internal capital and credit limits to counterparty credit exposures,
 - b. A description of the policy on securing credits and creating credit reserves
 - c. A description of the policy on exposure to risk of disadvantageous changes of collaterals value
 - d. Description of the influence of the collateral that would be required from the bank in case its creditworthiness rating were to be downgraded
 - e. Gross positive fair value of contracts, netting benefits, present credit exposure, held collateral, and net value of credit exposure to derivatives, where the net value of credit exposure to derivatives is the exposure to transactions in derivatives after taking into account the gains from legally binding netting agreements, and credit collateralization agreements.
 - f. Rules for establishing the value of exposures in accordance with the accepted method.
 - g. Notional value of securitizing derivative credit transactions and present credit exposure broken down by exposure type

- 4.7 Regarding the use of the standardized approach to calculate risk weighted assets in accordance with appendix 4 to the resolution on banks capital adequacy for each exposure class defined in w § 20 section. 1 therein
- a. Names of external credit assessment institutions and credit export agencies, whose ratings are used by Bank BGŻ and the reasons for possible changes in that area.
 - b. Classes of exposures for which creditworthiness rating assigned by each of the external credit assessment institutions and credit export agencies are used.
 - c. Description of the process used to transfer ratings of the issuer and issue to positions outside the trading portfolio
 - d. Value of exposures before and after applying credit risk mitigation technics for each level of creditworthiness established for the standard approach and position, which constitute deduction to own funds
- 4.8 Regarding operational risk Bank BGŻ discloses information on methods used to calculate capital
- 4.9 Regarding exposures outside the trading portfolio Bank BGŻ discloses the following information:
- a. Break down of exposures according to reason of purchase and description of accounting rules and methods of valuation, including basic assumptions and practices influencing valuation and description of all significant changes to those practices.
 - b. Balance value, fair value and for publicly traded securities comparison between market value and fair value
 - c. Type, characteristic and amount of exposures in equity securities divided into: publicly traded securities, properly diversified portfolios of securities unreliable to trade on a regulated equity securities market and other exposures
 - d. Realized profits and losses from sales and liquidations cumulated over the give time period
 - e. Total unrealized profits and losses, summed unrealized profits and losses from overestimations and other positions of similar character included in primary funds or supplementary funds
- 4.10 Regarding interest rate risk to positions qualified to the ranking portfolio Bank BGŻ discloses the following information:
- a. Characteristics of the interest rate risk, basic assumptions, including assumptions regarding future earlier repayments of credits and behavior of deposits with undetermined maturity and frequency of interest rate measurements.

- b. Change of financial results, discounted economic value or other measures used to evaluate the consequences of drastic falls or jumps of interest rate calculated in accordance with interest rate measurement methods used in Bank BGŻ,, divided into currencies.

4.11 Regarding the use of credit risk mitigation technics in accordance with appendix no. 17 to the resolution on banks capital adequacy Bank BGŻ discloses the following information:

- a. Policy and procedures regarding netting balance-sheet and off-balance exposures, along with an indication to what degree Bank BGŻ adheres to them
- b. Policy and procedures regarding valuation of credit collaterals and managing collaterals.
- c. Description of main credit collaterals accepted by Bank BGŻ
- d. Principle types of guarantors and counterparties of credit derivatives and their creditworthiness
- e. Information on concentration of market risk or credit risk within the scope of applied risk mitigation instruments
- f. Total value of exposures (after applying, where applicable, netting of balance-sheet and off-balance exposures) secured by recognized financial securities or other recognized securities, after taking into account corrections for volatility, broken up by exposure class
- g. Total value of exposures (after applying, where applicable, netting of balance-sheet and off-balance exposures) secured by guarantee or credit derivatives

5 Verification of the information policy and information disclosed in accordance with it.

- 5.1 Information disclosed for each fiscal year or in case of a greater frequency of disclosures – for each period covered by a publication, are verified by the Department of Internal Audit and Risk control for compliance with the financial report before being published.
- 5.2 Departments and other Bank Units supply information needed to execute the information policy are required to utilize internal control mechanisms in order to verify the correctness of information being supplied.
- 5.3 The information policy is subject to yearly verification to verify it is correct, up-to-date and in compliance with present law.

6 Frequency of disclosing information

- 6.1 Information is disclosed yearly according to the state on December 31st, no later than 30 days after being accepted by the organ responsible for accepting the annual financial report.
- 6.2 The frequency of disclosing partial or complete information may be increased if more frequent disclosure will aid market discipline. Assessment of the potential necessity to increase the frequency is carried out by the Board.
- 6.3 An increase of reporting frequency may be required by the specifics of the activity the Bank is engaged in, taking in to account such factors as the scale of operations, activity in other countries, other financial sectors, participation in international financial markets and payment and accounting systems.
- 6.4 During assessment of the reporting frequency special care is paid to information on the Banks own funds, capital adequacy, risk exposure and other elements subject to rapid change.

7 Forms and places of information disclosure.

- 7.1 The information and information policy are published on the web-site of Bank BGŻ and are publicly available to all market participants.
- 7.2 After information is disclosed for a new fiscal year information for the previous year remains available, information is available for a period of no more than three years, including the most recent report.
- 7.3 Information published based on regulations other the Resolution, not contained in financial reports of Bank BGŻ are published on the site of principal activity. Information regarding access to the information policy is also published at the site of principal activity.
- 7.4 The information is disclosed in Polish and English.