

Disclosures regarding  
capital adequacy  
of BRE Bank SA Group  
as at 31 December 2008

Warsaw 31 March 2009

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## **1. Introduction**

Based on the Resolution No. 6/2007 of the Commission for Banking Supervision of 13 March 2007 on detailed principles and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure and in accordance with Disclosure Policy of BRE Bank SA available on website [www.brebank.pl](http://www.brebank.pl), BRE Bank SA presents herein information for BRE Bank SA Group level according to the requirements of § 3 and § 4 Appendix no 1 to the above-mentioned Resolution.

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

The scope of consolidation defined for the purpose of BRE Bank SA Group IFRS Financial Statements was applied for calculating consolidated capital charge as at 31 December 2008. The subordinated insurance companies: BRE Towarzystwo Ubezpieczeń SA and BRE Ubezpieczenia Sp. z o.o., were treated according to the recommendation of National Bank of Poland presented in the letter no. NB-BPN-VII-076-144/07 dated on 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 SA Group. The detailed list of consolidated entities is presented in Explanatory Note 1 of BRE Bank SA Group IFRS Consolidated Financial Statement for 2008 (further called Consolidated Financial Statement for 2008).

## **2. Own funds**

### **2.1 Main information**

#### **Core capital**

##### **Share capital**

The share capital of BRE Bank SA Group consists of paid-up and registered capital of BRE Bank SA. Detailed information on registered share capital is presented in Explanatory Note 39 of Consolidated Financial Statement for 2008.

##### **Capital surplus fund**

The capital surplus fund of BRE Bank SA Group represents capital surplus obtained over nominal value of the shares issued by the Bank less cost of share issue. The fund is allocated to cover potential loss which arise from underlying banking activities.

##### **Reserve fund**

The reserve fund is composed of other supplementary capital and other reserve capital presented in Consolidated Financial Statement for 2008 in retained earnings.

The other supplementary capital consists of undistributable supplementary capital established as 8% of allocated retained earnings. Detailed rules applied to the allocation of retained earnings to supplementary capital are described in Explanatory Note 42 of Consolidated Financial Statement for 2008.

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

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Minority interest

The amount of minority interest represents minority shareholders' contribution to equity of BRE Bank SA Group.

The minority interest as at 31 December 2008 represents the contribution of the following shareholders of BRE Bank SA Group entities.

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<b>Group entity</b>	<b>Minority shareholders' share in equity of BRE Bank SA Group (%)</b>
BRE Leasing Sp. z o.o	49.996
Intermarket Bank AG	43.76
Transafinance a.s.	21.89
Polfactor SA	21.88
Magyar Factor zRt.	21.88
BRE.locum SA	20.01

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Net profit included in own funds

The net profit of BRE Bank SA Group for the 1st half of 2008 verified by the auditor is included in the BRE Bank SA Group own funds as at 31 December 2008.

The net profit of BRE Bank SA Group for the 1st half of 2008 amounted to PLN 640 325 thousand.

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

#### **Intangible assets**

Detailed information on intangible assets of BRE Bank SA Group is presented in Explanatory Note 25 of Consolidated Financial Statement for 2008.

The goodwill on subordinated companies amounting to PLN 7 137 thousand is included in intangible assets reducing BRE Bank Group SA own funds.

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

Individual items of the goodwill reducing the supplementary fund of BRE Bank SA Group as at 31 December 2008 are presented below.

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	<b>Carrying value</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. 2/2007 of the Commission for Banking Supervision of 13 March 2007, the core funds of BRE Bank SA 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 Consolidated Financial Statement for 2008.

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Changes in revaluation reserve are presented in explanatory Note 41 of Consolidated Financial Statement for 2008.

Total amount of unrealised losses on equity instruments classified as available-for-sale includes 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.

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

Capital exposure

According to § 2.1 point 1 the Resolution No. 2/2007 of the Commission for Banking Supervision of 13 March 2007 the core capital of BRE Bank SA 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 SA Group as at 31 December 2008 are presented below.

<b>Company</b>	<b>Carrying value</b>	<b>Share in the capital</b>
BRE Ubezpieczenia Towarzystwo Ubezpieczeń SA	26 353	100.00%
Compania de Factoring SA	15 483	28.12%
BRELINVEST Sp. z o.o. Fly 2 Sp. k.	3 629	99.84%
TRANSFACTOR SLOVAKIA a.s.	1 402	56.24%

## **Supplementary capital**

### **Subordinated liabilities**

According to the decision No. 92 of 21 March 2007 BRE Bank SA obtained a written consent of Commission for Banking Supervision to classify to supplementary funds the amount of CHF 400 000 thousand received as 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 Commission for Banking Supervision to classify a subordinated liability to supplementary funds in the amount of CHF 120 000 thousand received as subordinated loan with 10 years maturity based on the agreement signed at 12 December 2007 between BRE Bank SA and Commerzbank Aktiengesellschaft.

According to the decision of Commission for Banking Supervision dated on 12 August 2008 BRE Bank SA obtained a written consent to classify to supplementary funds the amount of CHF 90 000 thousand based on the agreement of subordinated loan signed at 11 June 2008 between BRE Bank SA and Commerzbank Aktiengesellschaft.

### **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 Commission for Banking Supervision to classify to supplementary funds the amount of CHF 80 000 thousand received from the bonds issue with undefined maturity.

According to the decision No. 609 of 24 December 2007 BRE Bank SA obtained a written consent of Commission for Banking Supervision to classify the liability to supplementary funds 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 Commission for Banking Supervision dated on 1 July 2008 BRE Bank SA obtained a written consent to classify liability to supplementary funds in the amount of CHF 90 000 thousand received from the bonds issue with undefined maturity based on the agreement signed at 11 June 2008 between BRE Bank SA and Commerzbank Aktiengesellschaft.

The terms of conditions of the above liabilities are described in Explanatory Note 32 of Consolidated Financial Statement for 2008.

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

According to § 3 of the Resolution No. 2/2007 of the Commission for Banking Supervision of 13 March 2007, 60% of the value of unrealised gains (before tax) on debt and equity instruments classified as available-for-sale is included in supplementary funds.

Detailed information on investment securities classified as available-for-sale is presented in Explanatory Note 23 of Consolidated Financial Statement for 2008. Changes in revaluation reserve are presented in Explanatory Note 41 of Consolidated Financial Statement for 2008.

Total amount of unrealised gains on equity instruments classified as available-for-sale includes 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 supplementary capital**

Capital exposures

According to § 4 of the Resolution No. 2/2007 of the Commission for Banking Supervision of 13 March 2007 the supplementary funds of BRE Bank SA 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 SA Group, is presented herein in the point concerning deductions from the core capital.

**Short-term capital**

According to Art. 128.6.1 of the Polish Banking Law and § 10 the Resolution No. 6/2007 of the Commission for Banking Supervision the short-term capital is included in the calculation of the own funds. Nevertheless, BRE Bank SA using a prudential approach assumes that the amount of short-term capital is zero.

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**2.2 Structure of own funds**

Own funds	in PLN '000
<b>Core capital</b>	<b>3 309 014</b>
Core capital	3 251 361
Share capital	118 764
Capital surplus fund	1 402 919
Reserve fund	1 729 678
Additional items of core capital	793 909
General risk fund for unidentified banking business risk	-
Retained earnings	-
Profit under approval by shareholders and net profit of the current year	640 325
Minority interest	153 584
Deductions from core capital	(736 256)
Own shares held by bank	-
Intangible assets	(438 130)
Losses from previous years	-
Loss under approval by shareholders	-
Net loss for the current year	-
Other deductions from core capital	(298 126)
50% of total capital exposures to financial institutions, credit institution, domestic banks, foreign banks and insurance companies	(24 662)
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	(244 597)
Unrealised losses on equity instruments classified as available-for-sale	(28 867)
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	-

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	in PLN `000
<b>Supplementary funds</b>	<b>2 602 746</b>
Revaluation reserve resulting from valuation of tangible fixed assets	-
Subordinated debts	1 654 507
Funds created from own and foreign resources	-
Debt securities in issue with undefined maturity and other instruments of similar nature	952 476
Other items of supplementary funds	20 425
60% of unrealised gains on debt instruments classified as available-for-sale	4 519
60% of unrealised gains on equity instruments classified as available-for-sale	15 906
60% of unrealised gains on valuation of real estate property kept for investment purposes	-
Deductions from supplementary capital defined by Commission for Banking Supervision	(24 662)
50% of total capital exposures to financial institutions, credit institution, domestic banks, foreign banks and insurance companies	(24 662)
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>5 911 760</b>
<b>Short term equity</b>	<b>-</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>5 911 760</b>

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

#### **3.1 Main information**

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

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

In 2008 BRE Bank SA, according to regulations in force, maintained consolidated and stand-alone own funds at a higher level than:

- 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 material risks identified in the BRE Bank SA Group 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.

The target value of the capital adequacy ratio accepted by the Management Board of the Bank is a significant factor determining the capital adequacy. BRE Bank SA Group strategic goals are aimed to maintain consolidated capital adequacy ratio at the level of approximately 10%.

To maintain capital adequacy ratio at that level the Bank monitors current level of capital adequacy ratio and prepares short- and middle-term projections of the capital basis and the capital requirements related to the business developments.

The process and the structure of risk management in BRE Banks SA Group are presented in Explanatory Note 3 of Consolidated Financial Statement for 2008.

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The capital adequacy ratio 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 1/2007 of the Commission for Banking Supervision of 13 March 2007.

The total capital requirement contains, while assuming possession of trade 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/ exceeding the concentration of exposure limit and the large exposure limit,
- 6/ exceeding qualified holdings.

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**3.2 Structure of total capital requirements**

Risk class	Capital charge
	in PLN '000
<b>Credit risk</b>	<b>4 176 602</b>
Claims on central governments or central banks	5 045
Claims on regional governments or local authorities	11 611
Claims on administrative bodies and non-commercial undertakings	5 991
Claims on multilateral development banks	-
Claims on international organisations	-
Claims on institutions	164 041
Claims on corporates	1 522 014
Retail claims	1 537 098
Claims secured by real estate property	690 045
Past due items	27 400
Items belonging to regulatory high-risk categories	10 909
Claims in the form of covered bonds	-
Short-term claims on institutions and corporates	-
Claims in the form of collective investment undertakings	58
Other items	202 390
<b>Market risk</b>	<b>89 255</b>
Foreign exchange risk	14 060
Commodity price risk	1
Equity price risk	571
Specific risk of debt instrument prices	35 555
General interest rate risk	39 068
<b>Settlement/delivery and counterpart credit risk</b>	<b>119 906</b>
<b>Exceeding the concentration of exposure limit and the large exposure limit</b>	<b>-</b>
<b>Exceeding qualified holdings</b>	<b>-</b>
<b>Operational Risk</b>	<b>326 462</b>
<b>Total consolidated own funds and short term capital</b>	<b>5 911 760</b>
<b>Total capital charge</b>	<b>4 712 225</b>
<b>Capital adequacy ratio</b>	<b>10.04%</b>

## **4. Internal capital**

The internal capital is an estimated capital level necessary to cover all identified relevant types of risk identified within the Group's activity, including permanent relevant risks and other relevant risks, which are difficult to measure.

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

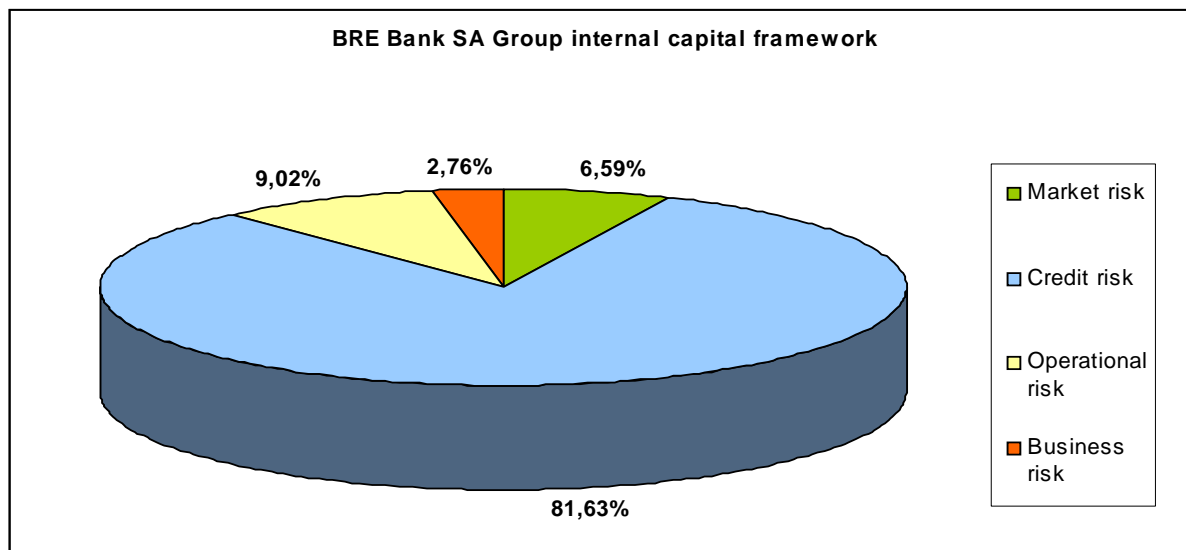
In 2008 the internal capital of BRE Bank SA Group was estimated at the lower level than the sum of capital requirements for particular types of risk taken into account in Pillar I.

The following risks are included in permanent relevant risks in BRE Bank SA Group activity:

- 1/ credit risk,
- 2/ market risk,
- 3/ operational risk,
- 4/ business risk.

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The permanent relevant risks are covered by the economic capital calculated at the 99.90% confidence level. The total economic capital calculated for the BRE Bank SA Group at the 31 December 2008 does not take into account the diversification effect.

The other relevant risks, identified in the BRE Bank SA Group, are covered by the capital for the coverage of risks, which are difficult to measure.

The process of internal risk assessment in BRE Bank SA 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 the BRE Bank SA 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 the BRE Bank SA Group companies,
- 5/ monitoring which contains permanent identification of the risks occurring in the business activity of the BRE Bank SA Group and analysis of the level of capital consumption within the risks expected to be significant.

The monitoring of the significance 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 significance of these risks is performed at least

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once a year in order to ensure the best adjustment of ICAAP process to the current market conditions and 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 the BRE Bank SA Group.

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