

**RULES FOR DISCLOSING  
INFORMATION ON CAPITAL ADEQUACY BY  
BANK BGŻ**

**WARSAW  
APRIL 30<sup>th</sup>, 2014**

## 1. Dictionary

1.1. The terms used in this document mean:

- a. Bank BGŻ – Bank Gospodarki Żywnościowej S. A., Kasprzak St. 10/16, 01-211 Warsaw, registered in the National Court Registry of companies at the Regional Court for the Capitol City of Warsaw, the XII Department of Entrepreneurs of the National Court Registry, the registration number: KRS 0000011571, tax identification code (NIP): 526-10-08-546, the company capital: 51 136 764 and is fully paid.,
- 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 17<sup>th</sup> December 2008 with subsequent changes on detailed regulations and means of disclosing quantitative and qualitative information on capital adequacy and the scope of information to be disclosed,
- d. Recommendation M – Recommendation M on operational risk management in banks, by Financial Supervisory Commission (January 2013),
- e. Resolution on banks' capital adequacy – Resolution no 76/2010 from 10<sup>th</sup> of March 2010 of the Financial Supervisory Commission with subsequent changes on the scope and detailed regulations for establishing capital requirements for specific risk types,
- f. Resolution on equity of banks – Resolution no 325/2011 of the Financial Supervisory Commission from 20<sup>th</sup> December 2011 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,
- g. managing persons – persons pointed out in a Resolution of the Supervisory Board in line with the recommendations presented in the Resolution no 258/2011 of the Financial Supervisory Commission of 22 August 2011 on detailed principles of operation of the risk management system and the internal control system, and detailed conditions for estimation of internal capital by banks and for reviews of the internal capital retention and estimation process and the principles of determining the policy of variable components of the remunerations of persons in managerial positions at banks.

## 2. General agreements

- 2.1. 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 14<sup>th</sup> 2006 relating to the taking up and pursuit of the business of credit institutions, with subsequent amendments.
- 2.2. 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.
- 2.3. 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.
- 2.4. The Information Policy is accepted by the Supervisory Board, while the Management Board is responsible for 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 consolidated 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 classes of impaired and not impaired exposures,
- d. geographic structure of exposures divided into regions and classes of impaired and not impaired exposures, along with the amounts of impairment provisions,
- e. industrial branch structure of exposures divided into classes of impaired and not impaired exposures, along with the amounts of impairment provisions,
- f. maturity date structure of exposures divided into classes of impaired and not impaired exposures, along with the amounts of impairment provisions,
- g. 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.

4.6. Regarding counterparty credit risk, as mentioned in § 1 of appendix 16 to the Resolution on banks' capital adequacy Bank BGŻ discloses the following information:

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- 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,
  - h. derivative credit transactions with division into transactions made in relation to own credit portfolio (including transactions constituting a guarantee) and transactions made on behalf of clients and speculative transactions, with further division into bought and sold within each group of products.
- 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 BGZ 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 techniques 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:

- a. information on methods used to calculate capital,
- b. information on total operational risk gross losses in a given year divided into event classes, including at least event categories within event types (in line with appendix 1 of Recommendation M), and information on mitigation actions that were taken to avoid such losses in the future.

4.9. Regarding exposures outside the trading portfolio Bank BGŻ discloses the following information:

- a. breakdown 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 in 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 market risk Bank BGŻ discloses information on capital requirements for individual risk types, defined in § 6 section 1 point 2 of the Resolution on banks' capital adequacy, separately for each risk type for which Bank BGŻ calculates capital requirements. Apart from that Bank BGŻ

separately discloses capital requirements for the interest rate specific risk connected with securitized positions.

4.12. Regarding the calculation of capital requirements for risk-weighted securitized exposures in accordance with appendix no. 18 to the Resolution on banks' capital adequacy or calculation of capital requirements in line with § 13 of appendix 9 to the Resolution on banks' capital adequacy, in appropriate cases separately for the banking book and for the trading book, Bank BGZ discloses the following information:

- a. description of aims of the securitization;
- b. description of the Bank's role in the process of securitization;
- c. definition of the scope of the Bank's involvement in different roles of the securitization process;
- d. methods used for calculation of risk weighted assets for securitization activities, including separation of types of securitized exposures to which distinct methods apply;
- e. description of accounting rules used for securitization, including especially:
  - information whether transactions are treated as sales of receivables or a financing source,
  - accounting way of inclusion of sales profits,
  - valuation methods for securitized exposures, main assumptions, input parameters for valuation and changes in comparison to the previous period;
  - accounting way of inclusion of synthetic securitization if it is not covered by other accounting rules;
  - valuation methods of assets that are going to be securitized with indication whether they are booked in the banking book or trading book;
  - rules for including liabilities in the balance sheet in case the Bank could be obliged to provide financial support with regard to the securitized exposures.
- f. names of credit assessment institutions whose ratings are used for the purpose of the securitization, and kinds of exposures for which ratings are used;
- g. nature of other risk types, including liquidity risk connected with securitized assets;
- h. risk type with regard to subordination level of base securitized positions and with regard to assets constituting base assets for those securitized positions which are taken up and kept through resecuritization;



- i. a description of procedures for monitoring changes in the area of credit risk and market risk connected with securitized exposures, including indication in which way behavior of base assets influences securitized exposures and a description of differences in relation to procedures for resecuritized exposures;
- j. a description of the Bank's policy in relation to hedging and guarantees used for mitigation of risk connected with securitized and resecuritized exposures which are kept by the Bank, including pointing out significant counterparties with division into distinct kind of risks taken;
- k. types of special purpose vehicles in the securitization process (issuers), mentioned in § 9 of appendix 18 to the Resolution on banks' capital adequacy, which are used by the Bank while acting as a sponsoring entity in case of securitization of exposures of third parties, including indication whether the Bank has an on-balance sheet or an off-balance sheet exposure related to issuers, and if it has – information on its form and size, and a list of entities which are managed by the Bank or to which it advises and which invest in securitized positions which were securitized by the Bank or in issuers which are sponsored by the Bank;
- l. explanation on significant changes in relation to the previous financial year in disclosed quantitative data pointed out in points m-p;
- m. separately for the trading book and the banking book, with division into exposure types:
  - total value of current exposures securitized by the Bank and included in the securitization scheme (with division into traditional and synthetic securitization) – a division by exposure types and securitization in which the Bank acts only as a sponsoring entity;
  - total value of receivables resulting from securitized exposures, separately for traditional and synthetic securitization and securitization in which the Bank acts only as a sponsoring entity;
  - total on-balance sheet value of securitized exposures which have been kept by the Bank or acquired, and off-balance sheet securitized exposures;
  - total value of assets that are going to be securitized;
  - in case of securitized instruments that are to be repurchased before maturity – total value of used exposures assigned to shares of initiating entity and investor, total capital requirements of the Bank resulting from shares of the initiating entity and total capital requirements of the Bank resulting from shares of the investor in used balances and unused credit lines;

- value of securitized exposures that diminish own funds or are weighted with risk equal to 1250%;
- description of securitization activity in the current period, including the value of securitized exposures and profits or losses from sales;
- n. separately for the trading book and the banking book:
  - total value of kept or acquired securitized positions and capital requirements connected with them, with division into securitized and resecuritized exposures, and with further division into significant number of risk weight intervals or capital requirements for each approach applied to capital requirements;
  - total value of kept or acquired resecuritized positions, with division into exposures before hedging or protection and after hedging or protection, and exposures to financial guarantors with division into categories of guarantor's creditworthiness or guarantor's names;
- o. in case of the banking book and exposures securitized by the Bank – a value of securitized assets with reduced quality and threatened and a value of losses incurred by the Bank in the current period; both values with division into exposure types.

4.13. Regarding the use of credit risk mitigation techniques 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.

4.14. Regarding the remuneration policy for managing persons Bank BGZ discloses the following information:

- a. information concerning the process of setting the policy of variable components of remuneration, including information on composition and scope of tasks of the remuneration committee, of an external consultant (if he advised the Bank while the policy was created), and of persons taking part in the decision process during preparing the policy (with description of their roles);
- b. most important information on the factors influencing remuneration level, and for the variable remuneration – criteria for performance measurement, for risk adjustment of performance measures, and rules of inclusion of long-term Bank's results adjusted with the cost of remuneration;
- c. information on criteria for performance measurement being a basis for variable remuneration components, including remuneration components in form of financial instruments;
- d. main parameters and rules for setting remuneration levels of managing persons, including the information on the way in which result dependent remuneration is connected with results;
- e. aggregated quantitative data on the remuneration levels, with division into business lines used in the bank management;
- f. aggregated quantitative data on remuneration of managing persons with division into: 1) positions defined in § 14 point 6a of the Appendix 1 to the Resolution, 2) other managing positions in the Bank, defined in § 14 point 6b of the Appendix 1 to the Resolution. The information covers data on:
  - remuneration level for a given year, with division into constant and variable remuneration and the number of persons remunerated with it;
  - value and forms of variable remuneration, with division into cash remuneration and remuneration in form of financial instruments;
  - value of remuneration with delayed payoff, with division into a value already awarded and not yet awarded;
  - value of remuneration with delayed payoff awarded in a given year, paid and decreased as a part of adjustments connected with results;

- value of payments connected with new employment and termination of employment in a given year, the number of persons receiving such payments and the highest value of such payment per single person.

## **5. Verification of the Information policy and information disclosed in line with it.**

- 5.1. Information disclosed, including its scope, for each fiscal year or in case of a greater frequency of disclosures – for each period covered by a publication, before being published are verified by the Internal Audit Department for compliance with the financial report and the risk profile of the bank.
- 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 information disclosure**

- 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.

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## **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.