

Risk Report of Bank BPH S.A. Capital Group

for the year
2010

CONTENTS:

Introduction 3

Glossary 4

1. Objectives and principles of risk management policy..... 6

2. Information on the used prudent norms.....20

3. Information on own funds.....21

4. Information on compliance with capital requirements that are mentioned in the article 128 of the Polish Banking Law act..... 23

5. Information on credit risk and dilution risk29

6. Information on counterparty credit risk35

7. Information on utilisation of standardised method for risk weighted assets calculation38

8. Information on calculation of risk weighted exposures using internal ratings method39

9. Information on using value at risk method in capital requirements calculation.....39

10. Information on operational risk.....39

11. Information on capital exposures not included in the trading book40

12. Information on exposure on interest rate risk of position qualified to the banking portfolio.....41

13. Information on capital requirements calculation for amounts of risk weighted securitisation exposures.....42

14. Information on risk weighted exposures according to internal ratings method43

15. Information on credit risk mitigation techniques43

16. Information on advanced method of operational risk measurement.....44

Introduction

The day of 31st December 2007 was the beginning of so called Pillar 3 of the New Capital Accord appliance. Pillar 3, that is "Market Discipline", obliges credit institutions to announce information about their risk profile, the way of risk management and the level of capital maintained to cover risks occurring in their activity. It aims at achieving transparency and market discipline as well as ensuring the state of fair competition among individual banks in the whole sector.

On 31st December 2009 the legal merger of Bank BPH S.A., the acquiring company, with GE Money Bank S.A., the acquired company took place. Since the day of the merger Bank BPH S.A. became the European Union parent entity according to Resolution no. 385/2008 of the Polish Financial Supervision Authority as of 17th December 2008 on specific rules and the means for banks' disclosures of qualitative and quantitative information regarding the capital adequacy and the scope of the information being disclosed with changes introduced by Resolution no. 368/2010 of the Polish Financial Supervision Authority as of 12th December 2010 changing the resolution on specific rules and the means for banks' disclosures of qualitative and quantitative information regarding the capital adequacy and the scope of the information being disclosed, therefore, the report is the consolidated report of Bank BPH S.A. Capital Group that embraces Bank BPH S.A. (the parent entity) and subsidiaries as follows:

- a) BPH PBK Zarządzanie Funduszami Sp. z o.o.;
- b) BPH Towarzystwo Funduszy Inwestycyjnych S.A.

This document constitutes fulfilment of §8 of the Information Policy of Bank BPH S.A. with regard to capital adequacy, introduced by Resolution of the Management Board as of 10th May 2011, approved by Resolution of the Supervisory Board as of 17th May 2011, concerning the scope of the qualitative and quantitative information presenting the Bank's approach to risk management, published by the Bank.

Glossary

Available capital - the regulatory own funds specified in Article 127 of the Banking Law as of 29th August 1997 with further changes.

Bank, BPH – Bank BPH S.A.

Capital adequacy ratio (solvency ratio) – a ratio, calculated as the relation of the regulatory own funds (according to Article 127 of the Banking Law) to minimum capital requirements (defined in executive regulations to Articles 127 and 128 of the Banking Law as of 29th August 1997 with further changes), multiplied by 12,5.

GEMB – GE Money Bank S.A.

Group –Bank BPH S.A. Capital Group.

IFRS – International Financial Reporting Standards.

Internal capital - the amount of capital required to support all identified, material risks present in the Bank's activity consistent with the Bank's risk appetite.

PFSA – the Polish Financial Supervision Authority.

Recommendation R – recommendation of the Commission for Banking Supervision (currently: the Polish Financial Supervision Authority) on rules for identification of impaired balance sheet credit exposures, determining of impairment charges of balance sheet credit exposures and provisions on off-balance sheet credit exposures.

Regulatory capital - the amount of capital equal to the minimum regulatory capital defined by executive resolutions to Articles 127 and 128 of the Banking Law as of 29th August 1997 with further changes.

Required capital - capital maintained in the Bank to cover risk – higher of two amounts: regulatory capital or internal capital.

Resolution no. 382/2008 of PFSA - Resolution no. 382/2008 of the Polish Financial Supervision Authority as of 17th December 2008 on detailed rules and conditions of taking into account exposures in setting of exposures concentration limit and large exposures limit, defining exposures towards which provisions regarding exposures concentration limits and large exposures limits are not used and conditions that have to be met, defining of exposures towards which approval of the Polish Financial Supervision Authority is needed not to use provisions regarding exposures concentration limits and large exposures limit and scope and way of including activity of banks in holdings, in calculation of exposures concentration limits.

Resolution no. 383/2008 of PFSA - Resolution no. 383/2008 of the Polish Financial Supervision Authority as of 17th December 2008 on detailed rules for functioning of risk management system and internal control system and detailed conditions of internal capital assessment by banks and conducting of reviews of the process of internal capital assessing and maintaining.

Resolution no. 387/2008 of PFSA - Resolution no. 387/2008 of the Polish Financial Supervision Authority as of 17th December 2008 on determining credit reliability grade granted by external credit assessment institutions that can be used by a bank in order to determine capital requirements and scope of usage of these grades and their connection with grades of credit quality.

Resolution no. 76/2010 of PFSA with further changes - Resolution no. 76/2010 of the Polish Financial Supervision Authority as of 10th March 2010 on the scope and the detailed principles of setting out the capital requirements with regard to individual kinds of risk with further changes introduced by the Resolution no. 369/2010 of the Polish Financial Supervision Authority as of 12th October 2010 changing the Resolution of Polish Financial Supervision Authority on the scope and the detailed principles of setting out the capital requirements with regard to individual kinds of risk.

Resolution no. 367/2010 of PFSA - Resolution no. 367/2010 of the Polish Financial Supervision Authority as of 12th October 2010 changing Resolution no. 381/2008 of the Polish Financial Supervision Authority as of 17th December 2008 on other reductions of primary capital, their amount, scope and the condition for their reduction, other positions of a bank's balance sheet included in supplementary capital, their amount, scope and the condition for their inclusion in supplementary capital, other reductions of supplementary capital, their amount, scope and the condition for their reduction; and the scope and manner of accounting for a bank's operation in a holding with regard to calculation of own funds.

Risk weight – ratio reflecting credit risk of an exposure used as a multiplier in risk weighted assets calculation.

Risk weighted assets – sum of assets and balance equivalents of off-balance sheet items multiplied by appropriate risk weights.

Value-at-Risk – maximum loss of value that will not be exceeded with a given, high probability and over a given time period.

1. Objectives and principles of risk management policy

1.1 Risk management structure

Understanding and transparency of the size of taken risks are key elements of the Group's business strategy, therefore risk management is one of the basic activities constituting the whole management processes conducted by the Management Board.

The key element in risk management process in the Group is risk management system, defined as a set of rules and mechanisms regulating decision-making and control processes concerning identification, measurement and monitoring of risk in the Group's activity. In compliance with the principles of corporate governance accepted by the Group, the Management Board is responsible for the establishment, functioning and development of the risk management system. In particular, the Management Board ensures cohesive and effective functioning of risk management system that bases on complete and transparent documentation, i.e. it to be function on the basis of written strategies, policies, procedures and instructions, compliant with the effective law and supervisory regulations and approved by suitable Group's authorities.

1.1.2 Fundamental rules

The risk management process is based on the following fundamental rules:

- a) responsibility – the management team and staff must identify and understand risks connected with exposures which they are responsible for, and assess their consequences and take adequate steps to mitigate these risks;
- b) the management team involvement - the Management Board and the Supervisory Board, acting directly or through their subordinate bodies, are actively involved in risk management by defining fundamental risk management policies and supervising portfolios defined as required by the Group's segmentation principles and significant individual exposures;
- c) prudence – in case full information is not available or the situation involved in taking a risk-related decision is unclear or there are doubts in the application of a methodology the prudential principle is obligatory;
- d) risk to return optimisation - the risk management process promotes taking rational business decisions based on a principle of balancing of risk and return;
- e) compliance with regulations - all of the Group's activities must be compliant with applicable legal regulations, supervisory requirements and internal regulations;
- f) launching of a new product or a business line - always preceded by an analysis and assessment of risks involved and of ways of mitigating these risks to a business-justified level that is acceptable by the Group.

The risk management process is regulated by written procedures which define organisation units and persons responsible for individual steps of this process and scope of their tasks and responsibilities.

1.1.3 Responsibility

The Management Board defines the policy with regard to risks involved in the Group's operations and adopts principles to control and manage these risks. The Management Board is also responsible for the policy of setting limits for various types of risks and for risk control procedures. In performing its responsibilities the Management Board is supported by committees and units established to control and manage risk.

In the Bank there are a number of permanent committees:

- a) Strategic Risk Committee - makes decisions or presents opinions regarding strategic aspects of risk management within the internal process of capital management (ICAAP) in the Group, exercises ongoing supervision over capital management process, herein over the process of aggregation of capital for covering identified risks. Within the scope of rating and scoring models the committee is also responsible for acceptance of models methodology;

- b) Operational Risk Committee - is a body that makes decisions and recommends activities connected with operational risk management. It was established in order to ensure existence of consistent and documented operational risk management system, regular monitoring of operational risk data – including material losses in business lines and support of independent control and audit systems within operational risk;
- c) Assets and Liabilities Management Committee (ALCO) - is responsible for development of market and liquidity risks management system. ALCO makes decisions and expresses opinions regarding in particular: exposure on given risk, debt issuance, range of operations on money and capital markets, acceptance of new products or modification of existing ones within the scope of market and liquidity risks management and also operational capital management according to competencies defined in the Capital Management Policy. The Committee is also responsible for pricing policy of the Bank. ALCO approves and recommends the Bank's financing plan;
- d) Credit Committee - makes credit decisions on the basis of credit applications regarding the bank's customers within competencies and limits specified in separate regulations. It also approves motions regarding special offers/ sales algorithms, points programmes and other motions borne by credit risk prepared by business units;
- e) Compliance Risk Committee leads a comprehensive supervision over the current functioning of the compliance risk management and reputation risk process by analysis, monitoring and giving the tasks in areas like: new and amended regulations and guidelines of the regulators, standards of the GE group, anti-money laundering, monitoring of compliance of the Bank's actions and operations with key law regulations (so called Regulatory Compliance), monitoring of the quality of sale process, customer service and complaints (direct or addressed through the regulators or other institutions that represent customers); acceptance of the results of self-assessment and plans for compliance risk management;
- f) Products and Software Development Committee is an opinion body that provides opinions regarding projects for implementation to the Bank's Management Board; and decisive body on: execution, suspension or completion of projects, prioritizing the portfolio of projects in the Bank, accepting the implementation of products regarding the technological and regulatory compliance, issuing certificates allowing software to use.

1.1.4 Main risk types

To identify and manage risks the Group defines various processes specifically for the following types of risk:

- a) market risk, including i.a.
 - currency risk,
 - interest rate risk,
 - share pricing risk,
- b) liquidity risk;
- c) credit risk;
- d) operational risk, including:
 - legal risk,
 - reputational risk,
- e) compliance risk.

1.2 Risk management process

1.2.1 Credit risk

1.2.1.1 Definition

Credit risk is the risk of suffering financial losses by the Bank as a result of client's insolvency caused by financial results that lower his creditworthiness or as a result of non-fulfilment of credit agreement by client.

Credit risk includes following main risks:

- a) counterparty risk – risk of losses occurring from the counterparty/ debtor failing to meet the liabilities towards the Bank and risk of economic value reduction of the credit exposure as a result of deterioration of a counterparty's ability to service the liability;

- b) concentration risk - risk of considerable concentration of credit losses related to occurrence of considerable exposures in the Bank (taking into account exposures resulting from the unfunded credit protection):
 - with regard to individual debtors/ a group of debtors,
 - with regard to one economic industry/ sector,
 - in an identical financial instrument,
 - secured with the same type of collateral,
- c) residual risk – risk of credit risk mitigation techniques used by the Bank being less efficient than assumed, as a result of the occurrence of other, secondary risks (operational risk, market risk, liquidity risk) related to the application of such techniques;
- d) country risk (transfer risk) – risk that the Bank suffers losses resulting from lack of possibility of a foreign business partner to meet its financial liabilities towards the Bank due to restrictive actions undertaken by the authorities of a particular country with regard to capital transfer abroad and foreign exchange;
- e) economic cycle risk - risk that the Bank suffers additional credit losses (not taken into account in residual risk) in the case of an economic slump;
- f) dilution risk – risk appearing when the Bank buys debts which the Bank's debtor possesses towards the third party (e.g. towards his contractor) or within the receivable collateral the Bank accepts debts which the Bank's debtor possesses towards the third party.

In credit risk management process the Bank also identifies other risks, in particular:

- a) rate risk – risk connected with the change of currency rate; unsecured rate risk that can result in real borrower's losses due to rate differences increases credit risk incurred by the Bank;
- b) environmental risk – risk of worsening the borrower's creditworthiness due to the fact that the economic activity the borrower takes affects the environment and is subject to regulation concerning environmental protection and way of using its sources; the risk can take place also with regard to established collateral – its value can decrease or it can be totally lost as a result of environmental risk materialization or the Bank would be obliged to incur additional expenses in case of acquiring such collateral.

1.2.1.2 Sources of credit risk

When granting credits, loans, guarantees or another form of financing, the Bank exposes itself to risk that a borrower will not repay the dues or that the repayment may be late. This risk occurs always, irrespective of type of financing. The main source of such risk is a possibility of a borrower's inability to service its debt as a result of a deterioration of its financial condition.

1.2.1.3 General rules for credit risk management

Building of flexible offer of lending products that meets the customers' needs and following a need for adequate credit risk controls, the Bank uses and evolves continuously management system of this risk. The main objective of credit risk management in the Bank is to ensure a good quality of credit portfolio and to mitigate the risk of losses, while at the same time ensuring an adequate profitability level of lending operations and cost-effective capital allocation. To deliver this objective, the Bank uses credit risk management methods at the level of both the portfolio and individual exposures, which are regularly verified and developed. The lending process organization structure and procedures and tools for the identification, measurement and controlling of credit risk are kept in line with requirements defined in supervisory resolutions and recommendations.

Within credit risk management process operational and strategic functions are separated.

Operational management of credit risk is focused on managing individual credit exposures to a customer/ a group of related customers and covers following functions executed by separated units:

- a) risk acceptance (risk assessment and making credit decisions);
- b) risk control and monitoring (organization of monitoring process, building and development of tools supporting monitoring process, monitoring of credit exposure towards commercial customers (SME and corporate customers);

- c) credit administration (preparation of credit and collateral agreements, opening credit accounts and booking operations on these accounts, storing original credit documentation for corporate customers);
- d) exposure at risk management (restructuring and collection).

Strategic credit risk management includes preparation and implementation of credit strategies, policies and procedures defining principles and processes of risk management, as well as building, development and implementation of tools for identification, measurement and control of risk at the individual or portfolio levels. These functions are executed by independent units that operate in the Risk Management Division.

1.2.1.4 Responsibility in credit risk management

The Bank's Management Board establishes the strategy and the rules of credit risk management in the Bank as well as policies and procedures crucial for managing the credit risk (the system of credit competencies, rating models, models and processes of credit exposure measurement). They are subject to approval of the Supervisory Board, which, i.a., is responsible for the supervision of the Bank's risk portfolio. Responsibility for the implementation and functioning of the complex credit risk management system is held by Vice-president of the Management Board who is responsible for risk management (CRO - Chief Risk Officer). CRO is also responsible for operational management of credit risk. Credit Committee and Strategic Risk Committee play an important role in credit risk management.

1.2.1.5 Credit risk assessment, rating/ scoring system

Credit risk assessment is supported by rating and scoring systems that are fed with customer data. The systems – their principles, models and IT platform are fully developed, validated and calibrated by specialized units of Risk Management Division. The rating scale, applied in the Bank to which scoring and rating models are calibrated basing on statistical analyses of default cases from the Bank's portfolio, enables comparing individual exposures and sub-portfolios with other exposures or with external sources (ratings).

In mortgage loans for natural persons the Bank applies a number of quantitative methods, apart from scoring assessment the Bank specifies the risk class of a customer and transaction classification using the GEMB's Risk Based Pricing methodology implemented in mid-2008. The methodology allows matching of the lending offer to the risk grade generated by a customer/ a transaction. Upon the merger, the methodology became applicable in the integrated Bank.

With regard to retail loans for natural persons scoring assessment is used to determine the customer's risk segment. The methodology allows matching the lending offer parameters to the risk generated by the customer. Upon the merger, the methodology became applicable in the Bank.

Before granting a loan to SME and corporate clients, the Bank assesses a customer's credit worthiness analyzing its financial data and qualitative data regarding its market position, organizational and ownership structure, characteristics of business sector it operates, etc. The Bank also analyses and assesses the very transaction risk by looking at the purpose and the business justification of the loan, as well as at other items influencing the risk level (legal, market aspects, etc.)

Rating/ scoring systems are widely used within the credit risk management process and constitute a vital part of the Bank's reporting system.

1.2.1.6 Credit decisions making

In the process of credit decision making in retail and mortgage portfolio the Bank implements and develops verification tools that enables comprehensive assessment of risk connected with a specific transaction. Combination and sequence of tools used in particular product portfolios described in "approval strategies" or instructions regarding rules of granting loans are the key part of credit risk management.

The Bank collects and processes information about a customer and his credit history obtained from internal and external sources, permitted by law in order to perform relevant risk analyses when making credit decisions.

The Bank uses advanced IT systems that enable to automate the verification process, its flexibility and control of the used tools and particular stages of the process. The quickness and efficiency of the Bank's operations in its contact with the customer is one of the elements of achieving competitive advantage.

In mortgage portfolio credit process takes place in the Risk Management Division and the Operations Divisions. Final decisions on granting credit basing on recommendations issued by particular process participants are made in the Risk Management Division on the basis of granted competence limits. Appropriate competence level is determined by the amount of total Bank's commitment on mortgage products towards a customer. Decision on commitments that exceed specified amount level are made by the Bank's Credit Committee.

In relation to loans for business and corporate clients decisions are made generally basing on "double checking" principle, which means that credit decision is made by at least two persons having individual approval limits, but decisive vote belongs to representatives of Risk Management Division.

The total Bank's exposure to the customer/ related group, the customer's risk profile and the financial transaction, as well as the level of the so-called unsecured exposure (not covered by tangible collateral value determined according to internal collateral measurement rules) serve as the criterion determining the authority level taking the credit decision.

Credit decisions related to significant exposures, long-term exposures, selected type of transactions or customer segments are made on the level of the Bank's Head Office.

1.2.1.7 Monitoring of credit risk

Credit risk in BPH is monitored, quantified and reported within a regular process, whose main element is constituted by effective classification system comprising adequate procedures and tools, i.e. rating system, early warning system (EWS), rules and process of intensive monitoring, default identification and flagging mechanism. Rating and scoring models are essential part of reporting system in the Bank.

Monitoring and reporting in respect to exposures of clients from segment of natural persons and business clients areas is conducted basing on Management information system that consists of wide range of embedded, standard detailed reports and analyses prepared on a monthly basis. Results of monitoring of particular portfolios and sub-portfolios are the basis for formulating effective methodology of retail client's credit risk assessment. They have also impact on constructing particular products and constitute also the key element of decision process.

Corporate and large SME customer portfolio is the subject to more individual approach, where within regular review financial data, qualitative data and warning signals with special consideration of customer overdue commitments issue are analysed. Simultaneously, customers that meet criteria of increased risk are automatically covered by the procedure of Intensive Monitoring. Employees of the Risk Management Division participate also in inspections to customers in order to better identification and monitoring of risk factors. The Bank uses modern workflow tools that ensure effective management of centralised monitoring process to monitor SME and corporate customers. Any exposure concentration, including exposure concentration limits that follow from the Banking Law and internal credit limit, is the subject of monitoring. The Bank's exposure to financing particular sectors, customer groups, types of transactions, currencies are also analysed and reported. Reports on portfolio concentration limits monitoring are performed at least quarterly and presented to the Bank's Management Board and Credit Committee.

Cyclical, standardised reporting system is supported by continuous process of ad hoc analysis in response to observed trends of portfolio development and analysis of impact of macro economic factors in banking sector on loans portfolios. Those analysis are used also to measure effectiveness of policies and credit processes implemented by the Bank.

Management information system consists also of monitoring of treasury transactions burdened with credit risk.

Reports that present particular portfolios, sub-portfolios and their characteristics are presented regularly to the Bank's Management Board and Supervisory Board, the management of Risk Management Division and concerned units.

1.2.1.8 Credit risk mitigation

A collateral is designed to reduce a potential loss of a borrower default resulting from its deteriorating financial condition and default occurrence. Collateral of the credit exposure should ensure protection that is adequate to the existing risk till the moment of its closing and it should comprise either amount of collateralised exposure and the value of collateral.

The required collaterals are defined in the lending standards for mass consumer finance product or specified individually for business/ corporate customers. In deciding on the collateral for a specific transaction the Bank takes into account the risk level and profile of the customer and risk connected with this transaction (the amount, tenor, structure and the history customer relationship) with the Bank. The accepted collateral must be adequate to the level of risk taken, whereas the Bank defines the minimum required level of tangible collateral for a credit exposure depending on the tenor and the customer rating.

When accepting collateral, the Bank determines the value that can be obtained when satisfying the Bank's claims from the collateral, accounting for the economic risk connected with the collateral, its effectiveness and enforceability (referred to as the tangible, economic value of the collateral or market value in case of residential real estate). Determination of the collateral value and its required proportion to the loan amount forms an element of the credit decision.

The Bank accepts different forms of collateral, including guarantees issued by the banks, financial institutions and other legal persons (firms, local governments units etc.). Credibility of granted parties is the condition to acceptance and material evaluation of guarantee. In the process of credibility assessment the Bank examines financial standing of a guarantor, value of the object of guarantee in comparison to its own funds, connections between a guarantor and an entity whose liability will be guaranteed. The Bank takes into consideration also additional limitations in granting guarantee that results from characteristics of an entity which grants guarantee (e.g. guarantee limits).

1.2.1.9 Concentration management

Regardless of credit exposures concentration limits resulting from the Banking Law, the Bank establishes internal credit limits in order to ensure credit portfolio diversification and mitigation of credit risk concentration. These limits relate to the Bank's credit exposure towards particular industry sectors and mortgage-secured credit exposures. In general, in the segment of corporate customers the Bank's credit exposures towards particular industry sector should not exceed 20% of the corporate loan portfolio. Limits on mortgage-secured credit exposures are established in relation to the Bank's own funds and the Bank's portfolio in case of mortgage loans for natural persons. Limits on retail credit exposure are established in relation to the Bank's credit portfolio. The limits are monitored regularly. The limit management system also includes procedures that define actions to be taken if certain thresholds are exceeded. The Bank monitors credit portfolio structure by the groups of customers, types of transactions, currencies and, in case of observed tendency to excessive concentration, decisions on introduction of proper limits in consideration of the exposure scale, the portfolio quality and other factors significant from given concentration perspective are made.

As a part of the guidelines, policies and other tools controlling the operational management of credit risk, which forms the basis for taking credit decisions, the Bank also imposes limits on exposure to individual entities or groups of related entities, adequately to the risk profile of the particular relationship, the acceptable level of a single transaction or concentration of the largest exposures in the portfolio.

1.2.1.10 Contingency plans

To prevent changes in the macroeconomic situation from unfavourably impacting the Bank's credit portfolio, BPH developed suitable procedures allowing to estimate the scale of changes impact and, if this is justified - to take specific steps. The Bank regularly conducts stress tests. Their results are used to review the credit risk management policy and if the likelihood of unfavourable, critical changes in the

macroeconomic environment becomes significant, test results are used to develop adequate contingency plans.

1.2.1.11 Rules for credit risk identification and measurement

BPH performs the assessment insolvency risk on the basis of a rating models (for corporate) and rating and application and behavioral scoring models for retail borrowers. Rating/ scoring assigned to a given borrower/ transaction allows defining probability of default within 1 year horizon. Models are calibrated to the rating scale in which probability of default is assigned to rating categories. Additionally, the Bank's rating scale consists of 3 categories differentiating borrowers in case of which the risk of default has materialized (i.e. default event has occurred, impairment trigger has been identified).

Detailed information on particular elements of credit portfolio are presented in the note 45.4 to the Annual Consolidated Financial Statements of Bank BPH S.A. Capital Group for the financial year ending on 31st December 2010.

1.2.1.12 Credit risk management in subsidiaries of Bank BPH S.A. Capital Group

Due to the character of the Group's subsidiaries activity, the Bank recognizes credit risk in these entities as immaterial.

1.2.2 Operational risk

1.2.2.1 Definition

Operational risk is understood as risk of a loss resulting from a mismatch or from process failure, procedures inadequacy, human actions, system activities or external events. Operational risk also covers legal risk and reputational risk as an effect of an operational event, but excludes strategic risk.

1.2.2.2 General rules of operational risk management

The Bank's policy is to minimise its operational risk exposure. This objective is delivered by counteracting operational losses and limiting their effects if the risk materialises. Objectives of operational risk management is part of a comprehensive operational risk management control system. There is an internal regulation adopted by the Management Board resolution covering rules and structures of operational risk management in the Bank.

In line with its regulations operational risk controlling and management structure covering all BPH organizational units/ cells was established. Operational risk structure consists of the Management Board members, Operational Risk Committee, the unit responsible for operational risk control (Market and Operational Risk Department), Operational Risk Coordinators at the Bank's individual divisions/ areas and Operational Risk Champions appointed by them. The Management Board is responsible for effectiveness of risk controlling and management process. Operational Risk Committee is a decision-making body, recommending actions regarding operational risk management.

Operational Risk Coordinators are responsible for an on-going operational risk management within managed areas basing on information provided by supervised organisational units/ cells, especially via their Operating Risk Champions. Operational Risk Champions are responsible for implementing the rules and the structure of operational risk management in their organisational units/ cells in accordance with guidelines developed by the Coordinator and for supporting the Operational Risk Coordinator in its duties, and in particular for reporting risks, events and key risk indicators.

Market and Operational Risk Department is responsible for operational risk controlling process, in particular for risk monitoring in the whole Bank, development and introduction of appropriate risk methods and instruments of operational risk control.

The main components of operational risk monitoring and management include the following operational risk measurement tools and methods:

- a) risk and control self assessment process;

- b) operational loss data register;
- c) operational risk monitoring with Key Risk Indicators.

1.2.2.3 Risk and control self assessment process

The Bank measures operational risk at the business process level. To perform this task a crossfunctional process is performed for operational risk and risk controls assessment.

1.2.2.4 Operational loss data register

The Bank runs a process where all data on operational events are recorded. The process systematically collects data on operational losses or incidents ended without a loss, but were assessed as important from the point of view of operational loss exposures. The data are kept in central registers.

1.2.2.5 Monitoring of operational risk on the basis of key risk indicators

The Bank has an early warning system against operational risk exposures based on key risk indicators (KRIs – Key Risk Indicators). KRIs are a set of business process parameters that reflect in advance the scale of risk exposure and changes to operational risk profile in a given process.

1.2.2.6 Continuity maintenance planning and emergency plans

BPH manages continuity in a comprehensive way by identification critical business processes, preparation, updating and testing business continuity plans (BCP) and strengthening awareness of business continuity among the Bank's employees. Business continuity management aims at improving the Bank's security and ensuring continuity of its operations in case of an emergency situation. The extensive system of business continuity plans that the Bank has, which constitute a set of cohesive and mutually interrelated procedures, determines the course of action in case of defined scenario of extraordinary events with regard to unavailability of people, locations, systems and external entities services.

1.2.2.7 Scope and type of operational risk reporting systems and measurement

Operational risk reporting system consists of quarterly reports prepared by Operational Risk Coordinators on risk in areas supervised by them.

Basing on information collected in incidents database, KRI indicators and quarterly reports prepared by the Operational Risk Coordinators, Market and Operational Risk Department prepares quarterly synthetic reports on level of operational risk in entire Bank. Reports are presented to Operational Risk Committee. They consist of:

- a) level/ profile of operational risk in given quarter in entire Bank – risk map;
- b) the most material events that impact the level of operational risk;
- c) incidents registered in database in given quarter, in particular taking into account major incidents;
- d) the most important activities in particular areas of the Bank connected with operational risk management;
- e) key risk indicators (KRI).

Apart from above mentioned, periodical reports are prepared for the Bank's Supervisory Board and for the Management Board, including annual report for the Management Board on managing and controlling of operational risk and on activity of Operational Risk Committee.

1.2.2.8 Rules of operational risk mitigation and processes of monitoring effectiveness of collaterals of operational risk mitigation methods

Implementation of the operational risk management process in Bank was not a substitution of existing regulations for reducing losses and costs and operational process enhancing, but was its supplement and at the same time the element that ensures holistic and integrated approach to mitigate operational risks.

In particular following solution are used in the Bank to mitigate operational risk:

- a) control instruments;
- b) physical collaterals;
- c) insurance;
- d) outsourcing;
- e) contingency and continuity plans;
- f) trainings.

In the Bank there are following policies and procedures that can have impact on operational risk mitigating. They define among others issues connected with :

- a) the Bank's security;
- b) information security;
- c) personal data security;
- d) IT systems security;
- e) business continuity management (BCM);
- f) anti-fraud in the Bank;
- g) anti money laundering and counteraction against terrorism financing.

1.2.2.9 Operational risk management in subsidiaries of Bank BPH S.A. Capital Group

Subsidiaries in the Group are obliged to organize and implement operational risk management and control structure. These entities prepare internal instructions and procedures that regulates this process.

Within the process of operational risk management and control, made by Bank BPH, subsidiaries:

- a) report events/ losses on operational risk;
- b) participate in the risk operational self assessment questionnaire, conducted by the Bank;
- c) report key risk indicators;
- d) deliver quarterly report on operational risk management in a subsidiary.

1.2.3 Compliance and reputational risk management

Compliance risk is defined as a risk of legal or regulatory sanctions, financial loss or reputation loss that may be incurred by the Bank as a result of its incompliance with legal provisions, supervisory regulations, the code of conduct and good practice and ethic standards in the business activity and the Bank's internal policies and procedures.

Reputational risk is defined as a risk that potential deterioration in the opinion on the sector in which the Bank runs its activity or an unfavourable opinion on the Bank's practices or its internal organization and control will lead to a decrease in the Bank's customer base, revenues or in the Bank's liquidity.

The Bank runs its operations in the compliance with law, internal regulations, recommendations, directives and other regulations issued by regulators, financial sector branch regulations, implemented corporate governance rules and firm rules of ethic behaviour.

In the Bank the Compliance Department is responsible for the monitoring of compliance risk and reputational risk. In separate areas of compliance risk management, regular reporting mechanisms function, and the results of periodic reports are the subject of presentations and analyses in the forum of respective Committees and the Management Board of the Bank. Main assumption of the communication strategy within the scope of compliance risk and reputational risk is to submit integrated information and indices concerning the entire field of legal, compliance risk and reputational risk to the Management Board of the Bank on a quarterly basis within the Management Board meetings dedicated to compliance risk management, i.e. Compliance Risk Committee (so called *Compliance Review Board*).

1.2.3.1 Compliance and reputational risk management in subsidiaries of Bank BPH S.A. Capital Group

The Group's subsidiaries are obliged to organise and implement compliance risk management and control structure. These entities prepare internal instructions and procedures that regulate this process. Within compliance and reputational risk management and control structure, conducted by Bank BPH, subsidiaries participate regularly in the Management Board meetings that constitute Compliance Committee (

Compliance Review Board), presenting reports on compliance and reputational risk management in these subsidiaries.

1.2.4 Legal risk management

Legal risk is understood as a threat resulting particular from changes, but also violation or non-obedience of provisions of resolutions, executory acts and agreements as well as regulatory provisions and accountancy standards.

Legal risk in the Bank is generated in particular by changes to the binding law. This is coupled with the risk of the Bank's non-compliance or incorrect application of the binding law, which may consequently lead to litigation. The monitoring and mitigation of the legal risk is entrusted to the Legal Department. Legal risk is minimized through the following actions:

- a) issuing opinions on the current acts of law;
- b) notifying the organizational units of the duties ensuing from the amendments to the binding law, particularly with respect to the banking business;
- c) issuing opinions on the current contracts signed with external entities.

With regard to legal risk, the Bank identifies the risk connected with outsourcing to the external entities and considers it one of the most vital exposures in the area of the operational risks. The causes lie primarily in the Bank's limited control over the service providers. The basic instrument of mitigating this type of risk consists of detailed policies and procedures which regulate the most important aspects of outsourcing.

1.2.5 Market risk

1.2.5.1 Definition

Market risk is the risk that the value of assets/ liabilities and off-balance sheet positions will impact the Bank's P&L/ own funds caused by the changes of the market factors (interest rates, currency rates, equities, commodity prices, volatilities, correlations etc).

1.2.5.2 General rules for market risk management

The key objective of the market risk policy operated by the Bank is to reduce the market risk exposure by monitoring and managing risk position on the basis of rules and procedures adopted by the Bank's Supervisory Board, ALCO Committee and the Bank's Management Board, taking into account compliance with the Polish supervisory requirements. Risk appetite was defined with a system of limits, threshold values and rules. The system of limits and threshold values takes into account all important factors involved in the market risk.

Management of all market risk types is centralized within special risk sections of the Treasury Area. Each of the Bank's units transfers its liquidity risk and market risk exposures into the Treasury Area via the system of transfer prices applicable for every single transaction in the Bank.

Market risk measurement and reporting are the task of the Market and Operational Risk Department in the Risk Management Division, a unit that is independent from units responsible for trading and banking transactions.

Market risk reports are made on a daily basis for operational purposes and periodically (monthly and quarterly) for management purposes. The main recipients of the periodic reports include the Supervisory Board, the Management Board and ALCO Committee.

Basic risk measures used by BPH to assess market risk exposure, are as follow:

- a) Value at Risk (VaR);
- b) Sensitivity measures (BpV, Greeks);
- c) Fluctuation of the net interest income.

VaR is determined based on historical market rates scenarios, assuming 99% confidence level and 1 day holding period. It is calculated separately for all market risk categories (interest rate, currency and equity risk) as well as for the whole market risk exposure.

To verify the assumptions to the model of value at risk calculation the Bank performs historic verification with actual and revaluation data.

The limitations of VaR measurements, including: prediction of future losses based on historical data, possibility of generating higher losses than predicted, static exposure over holding period – require that the Bank supplements its VaR methodology with additional risk measures:

- a) measuring sensitivity of the risk position on small changes in market rates (e.g. by one basis point) supports the process of market risk management split into time tenors and risk categories;
- b) stress test scenarios enable to predict potential loss in case of extreme market conditions.

In order to mitigate its market risk the Bank implemented a structure of limits.

The main limits are VaR limits for the VaR covering the main risk factors (i.e. interest rate risk, currency risk and the vega risk), BPV limits and the nominal currency position.

During the reporting period, there was no exceeding of limits defined by the Supervisory Board on market risk.

1.2.5.3 Currency risk

BPH is exposed to the risk of losing a portion of its profit by operating in the currency market due to foreign exchange rate fluctuations. This risk, understood as the likelihood of a loss, increases with:

- a) increased exchange rate volatility;
- b) increased mismatch in foreign currency assets and liabilities.

The Bank is running a system of limits to mitigate its currency risk. The maximum amount of open currency positions is capped by limits set on the overall open position and on individual currencies. The limits are intended to keep open currency positions at safe levels in certain areas (such as the bank portfolio, trading portfolio and currencies) and are subject to monitoring at the opening and at the closing of the business day.

Exposure to currency position is monitored with the Value at Risk methodology based on the historic simulation model. An important contribution to the value at risk method is regular analysis of emergency scenarios, performed under assumption of extreme changes in risk factors stemming from historical observations.

As at 31st December 2010, the VaR on currency risk for Bank BPH was 16 M PLN.

VaR statistics for the position of currency risk in Bank BPH for the period January – December 2010 (M PLN)

Maximum amount	Minimum amount	Average amount	31.12.2010	31.12.2009
319	5	53	16	23

1.2.5.4 Interest rate risk

The interest rate risk is defined as a sensitivity of the net interest income and of the economic value of the Bank BPH capital to interest rate fluctuation. The objective of the interest risk management is to identify the areas of interest risk and to manage, up to an interest rate risk level acceptable for the Supervisory Board and Management Board, the structure of the balance sheet and of the off-balance sheet obligations so as to optimise the financial performance and to ensure adequate liquidity level of the Bank.

There are four main types of risk that comprise the interest rate risk:

- a) the revaluation timing mismatch risk when assets, liabilities and off-balance sheet items revaluated within a certain period are mismatched;

- b) yield curve risk when the yield curve shape changes as a result of a changing relationship between interest rates applicable to different periods, but to the same index or the same market;
- c) base-point risk resulting from an imperfect correlation of interest rates on interest-rate income and cost generating instruments during identical periods of revaluation or payments, but linked to different reference rates;
- d) customer option risk involved in decisions available for customers in products and services offered by the Bank; in particular this is involved in early repayment of loans, early withdrawal of deposits, loan payment timing different from scheduled and where derivatives are built into products or services.

Interest rate risk is divided in terms of duration into a risk during an operating day and a risk at the end of an operating day. The interest rate risk during an operating day emerges as a result of a short opening of an interest rate position, which is then closed before the end of that day. The interest rate risk at the end of an operating day is a result of having positions, such as those involved in the Bank's liquidity risk management or from financial instruments offered to customers.

The Bank specifies risk measures for the entire portfolio, including banking and trading portfolios. In order to measure interest rate risk, the Bank assumed that earlier credit repayments would be replaced by newly granted credits. In order to manage exposure without specified maturity date, the Bank applies the model portfolio concept.

To measure the interest rate risk Bank BPH simulates the historic value at risk (VaR), basis point- value (BpV) and net interest income variability. The VaR methodology combined with the cash-flow timing mismatch, the variability and interdependence of interest rates observed on the market helps estimate, at an assumed probability level, a maximum potential loss that the Bank may incur from the interest rate risk.

As at 31st December 2010, the VaR for the interest rate risk position of BPH stood at 2 943 M PLN.

VaR statistics for the position of interest rate risk in Bank BPH for the period January – December 2010 (M PLN)

Maximum amount	Minimum amount	Average amount	31.12.2010	31.12.2009
14 191	2 943	7 164	2 943	4 200

The BpV methodology helps estimate the sensitivity of a position's valuation to interest rate fluctuations in individual time-ranges at a resolution of 1 base point (0.01%).

The Bank's exposure to interest rate risk presented as BpV sensitivity as at 31st December 2010 (in M PLN)

Currency	To 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 to 5 years	From 5 to 10 years	Above 10 years	Total
EUR	12	-6	1	50	-25	-29	-7	-4
PLN	46	-1	-50	-317	-140	-131	-20	-613
USD	5	0	7	-1	7	-5	-2	11
CHF	-11	-26	-2	-30	-8	-1	-2	-80

To complement the VaR method we perform periodic scenario analysis for crisis conditions. The interest rate risk the Bank applies the following crisis scenarios:

- a) a parallel shift of yield curves up or down by 200 basis points.;
- b) historic scenarios defined with historically recorded interest rate changes.

Results of the crisis scenario analysis with a parallel shift of yield curves by 200 basis points for the interest rate exposure of Bank BPH (M PLN)

Currency	To 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 to 5 years	From 5 to 10 years	Above 10 years	Total
EUR	2 367	-1 242	128	9 974	-4 951	-5 737	-1 305	-766
PLN	9 159	-152	-9 927	-63 459	-27 915	-26 304	-4 052	-122 650
USD	1 053	13	1 493	-211	1 325	-1 018	-372	2 283
CHF	-2 217	-5 227	-478	-5 925	-1 613	-168	-377	-16 005

The Bank has the system of limits and threshold value in order to mitigate interest rate risk.

The BpV limits and thresholds include position sensitivities to interest rate changes in time intervals, i.e. to 3 months, from 3 to 6 months, from 6 months to 1 year, from 1 year to 3 years, from 3 to 5 years, from 5 to 10 years and above 10 years and to a parallel shift of the yield curves in individual currencies and in groups of currencies. The BpV limits and thresholds are fixed for the combined exposure, for exposures in individual currencies, for the banking portfolio and the trading portfolio.

1.2.5.5 Market risk management in subsidiaries of Bank BPH S.A. Capital Group

Market risk management, including interest rate risk and currency risk, in the Group's subsidiaries bases on Business Instruction „Principles of market and operational risk management in subsidiaries of Bank BPH S.A. Group". Bank BPH, as the parent entity, supervises market risk in the Group's subsidiaries. The adopted methods of risk monitoring that base on models adopted in the Bank are adjusted to the size and scale of operations and materiality of market risk borne by a subsidiary. The level of borne risk is subject to annual assessment conducted by the Bank. On the basis of the assessment a subsidiary's reporting obligations on market risk are specified. Subsidiaries implement internal instructions and procedures on market risk management. This documentation is the executory procedure with regard to the Business Instruction and is subject to the Bank's opinion.

1.2.6 Liquidity risk

The liquidity risk strategy and its management were defined in the 'Policy of investment and asset and liabilities management at Bank BPH SA'. The Investment Policy is approved by the Supervisory Board following an approval by and recommendation of the Management Board and ALCO. The Policy defines major rules and strategic level liquidity risk management and outlines sources of refinancing. In the liquidity risk management the Bank follows a business instruction issued by the Management Board that regulates, among others, liquidity risk monitoring principles, reporting responsibilities, discretion levels and a system of liquidity risk limits in Bank BPH. The Bank monitors liquidity risk using the method of actualized liquidity gap split into maturities and currencies. The actualization is applied in order to estimate the real values and maturity/ due times on cash-flows from balance-sheet and off-balance sheet items.

Measurement and reporting of liquidity risk are performed by Market and Operational Risk Department in Risk Management Division which is independent from units that perform trading and banking transactions.

Liquidity risk reports are prepared on a daily basis for operational purposes and once a decade for long term liquidity management. Additionally, for the management purposes periodic (monthly, quarterly) reports are prepared. Recipients of periodic reports are above all ALCO, Bank's Management Board and Supervisory Board.

In order to maintain a safe liquidity position of the Bank, the following parameters were approved by a decision of the Supervisory Board described in the Investment Policy and a decision of the Management Board and the ALCO:

- a) liquidity limits;
- b) warning levels.

Limits and warning levels set up on short and long-term indicators and on the gap remained higher than assumed levels for the Bank during the whole 2010. Also, external indicators defined in the resolution of the PFSA were above the required levels in 2010.

Deposits, issued deposit certificates and multi-currency credit lines from entities connected with the majority shareholder were the main source of financing in 2010. The mentioned sources of financing are sufficient in relation to the scale of the conducted activity by the Bank.

In order to ensure secure level of liquidity, the Bank maintained appropriate resources of liquid assets and, additionally, through signed agreements it has access to revolving sources of financing in the form of credit lines. As at 31st December 2010 the value of unused lines amounted to 400 MM CHF, 400 MM EUR and 5,1 B PLN.

The actualised liquidity gap for BPH as at 31st December 2010 (MM PLN)

	a'vista	To 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	From 3 to 5 years	Above 5 years
Actualised gap	5 001	7 714	-152	21	460	232	777	-10 392
Cumulative gap	5 001	12 715	12 563	12 584	13 044	13 276	14 053	3 661

In addition, on a quarterly basis the Bank updates emergency liquidity maintenance plans which determine the funds that must be obtained depending on the value of assets and liabilities as well as the assumed level of fund outflow.

The table below presents the balance sheet structure of the Group with actual maturity profile as at 31 December 2010 (M PLN).

Liabilities of Bank BPH as at 31st December 2010 (M PLN)

Time buckets	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Above 5 years	Total
Liabilities to banks	483 790	500	0	1 003	0	485 293
Liabilities to clients and other institutions	10 074 801	1 459 717	3 887 140	14 370 312	172 961	29 964 931
Liabilities evidenced by certificates	3 070	145 253	174 553	185 124	0	508 000
Trading liabilities	103 576	23 472	42 545	211 983	20 178	401 754
Total	10 665 237	1 628 942	4 104 238	14 768 422	193 139	31 359 978

Off-balance sheet positions of Bank BPH as at 31st December 2010 (M PLN)

Time buckets	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Above 5 years	No specific deadline	Total
Off-balance financing liabilities granted	6 399 870	0	0	0	0	0	6 399 870
Off-balance guarantee liabilities granted	132 737	0	0	0	0	0	132 737
Off-balance conditional liabilities granted	6 532 607	0	0	0	0	0	6 532 607

1.2.6.1 Liquidity risk management in subsidiaries of Bank BPH S.A. Capital Group

Liquidity risk management in the Group's subsidiaries bases on Business Instruction „Principles of market and operational risk management in subsidiaries of Bank BPH S.A. Group”. Bank BPH, as the parent entity, supervises liquidity risk in the Group's subsidiaries. The adopted methods of risk monitoring that base on models adopted in the Bank are adjusted to the size and scale of operations and materiality of liquidity risk borne by a subsidiary. The level of borne risk is subject to annual assessment conducted by the Bank. On the basis of the assessment a subsidiary's reporting obligations on liquidity risk are specified. Subsidiaries implement internal instructions and procedures within this scope. This documentation is the executory procedure with regard to the Business Instruction and is subject to the Bank's opinion.

2. Information on the used prudent norms

2.1 The Bank's name

Bank BPH Spółka Akcyjna is registered in Poland, Al. Pokoju 1, 31-548 Kraków. Bank is recorded under number KRS0000010260 in the National Court Register conducted by District Court Kraków-Śródmieście Wydział XII Gospodarczy. Tax identification number (NIP) is: 675-000-03-84.

2.2 Short description of entities that:

a) are subject to full consolidation:

- BPH PBK Zarządzanie Funduszami Sp. z o.o.;
- BPH Towarzystwo Funduszy Inwestycyjnych S.A.

The investment fund company (BPH Towarzystwo Funduszy Inwestycyjnych S.A. - BPH TFI S.A.) – has been in operation since 1998. It has been a member of the Bank BPH Group since 2003, and in 2008 it joined the General Electric Company Group.

BPH TFI is an indirect subsidiary of Bank BPH (via BPH PBK Zarządzanie Funduszami, a company holding 50.14% of its equity and the same number of General Meeting votes). The remaining shares are held by the General Electric Capital Corporation, Stamford (USA).

As of 31 December 2010, the TFI Company managed 15 investment funds: 1 umbrella open-ended investment fund (BPH FIO Parasolowy with 13 distinguished sub-funds), 10 closed-end investment funds and one Specialized Open Investment Fund – Total Profit. BPH TFI offers a complete range of funds meeting the needs of both individual and institutional customers. Dedicated funds tailored to customers' needs are also created (3 funds at present). The company is also developing the service of managing portfolios on commission.

Subsidiaries are subject to full consolidation since the Group took over control on them. They are not subject to consolidation when the Group stops to control the unit.

b) are subject to proportional consolidation:

In the Bank BPH S.A. Capital Group there are no companies that are subject to proportional consolidation.

c) are showed by the method of ownership rights:

In the Group there are no companies showed by the method of ownership rights.

d) reduce own funds:

In the Group there are no companies reducing own funds.

e) are neither subject to consolidation, nor reduce own funds:

In the Group there are no units that are subject to consolidation and reduce own funds.

2.3 Information on material, existing or forecasted obstacles of legal or practical nature, in quick transferring own funds or paying liabilities between parent entity and its subsidiaries

Any transactions inside the Group, including paying mutual liabilities or transferring funds, are consistent with the effective law, including particularly Commercial Companies Code and resolutions of the Statute.

Currently, in the Group there are no material obstacles of law or practical nature in quick transferring own funds or paying liabilities between dominating entity and its subsidiaries and according to the best knowledge there will not be so.

2.4 Total amount of deficiencies of capital in all subsidiaries that are not subject to consolidation and name list of these entities, but deficiency of capital means difference between factual own funds and minimum capital requirement

There are no such entities in the Group.

3. Information on own funds

3.1 General information on main characteristics and conditions of all positions and components of own funds

According to article 127 of Polish Banking Law, own funds of Bank BPH include:

- a) the Bank's primary capital;
- b) the Bank's supplementary capital in the amount not exceeding the Bank's basic equity.

Primary capital includes:

- a) the Bank's basic equity that includes: share capital, supplementary capital, reserve capital
- b) additional positions of primary capital:
 - fund for the general risk;
 - net current loss;
 - minority interests;
- c) deductions of primary capital:
 - intangible assets;
 - non-distributed losses on debt and capital instruments;

The supplementary capital includes:

- a) non-distributed profits on debt and capital instrument classified as available to sale up to 80% of their amount;
- b) subordinated debt with the consent of the PFSa to be included in the supplementary capital;

Share capital is showed in nominal value, according to the Bank's statute and provisions in the National Court Register. On 31st December 2010 the Bank's share capital equalled 383 340 M PLN and consisted of 76 667 911 registered shares, each of nominal of 5 PLN.

Supplementary capital is created from annual deductions made from profit for the period with the aim to cover losses that may occur in the Bank's activity.

Reserve capital is created generally from annual deductions made from profit for the period adopted by General Meeting, profit from previous years and additional positions of primary capital and supplementary capital.

Minority interests contribute the capital of minority shareholders.

Fund for the general risk is created from profit and assigned for unidentified risks of the banking activity. The General Meeting decides about the utilisation of fund, with the reservation of legal regulation in force.

Intangible assets are possible to identify non-pecuniary elements of the Group's assets that do not have physical form and are possessed by the Group in order to use in production or supplying goods, or to offer

services, or to give to payable use to the third parties or with the aim of a unit's administrative activity. Intangible assets consist of: goodwill, a trademark, intangible assets created as a result of merger of business units, expenses connected with purchase of software (licence) and their development. Intangible assets evaluated according to the balance sheet value reduce the Group's primary capital.

Goodwill arose as a result of merger of business units, since payment made by the acquiring unit included expected future economic benefits which cannot be identified individually due to particular elements of the acquired unit. Goodwill arose from such factors as: employment of qualified employees, benefits from wide chain of the Bank's branches, expected synergy, profit increase and future market development.

Non-distributed profits/ losses on debt and capital instruments embrace result on debt and capital instruments available to sale that is registered in the Bank's capital, but:

- a) in case of loss primary capital is reduced by 100% of loss;
- b) in case of profits 80% of these profits are included in supplementary capital.

Subordinated debt is the Bank's liability resulting from accepting funds that simultaneously meets following conditions described in agreement :

- a) funds accepted for not less than 5 years (period of agreement);
- b) funds cannot be withdrawn from the Bank before the end of contractual period (unless the Bank fulfils capital requirements and the PFSA accepts withdrawal of those funds);
- c) in case of the Bank's bankruptcy or liquidation those funds are the subject to return as last in a sequence;
- d) return of the funds is not collateralised neither directly nor indirectly by the Bank.

As at 31st December 2010 primary capital was reduced by 2 340 M PLN due to non-distributed losses on debt and capital instruments classified as available to sale. The supplementary capital increased by 3 264 M PLN due to profit on these instruments.

3.2 Sum of own funds and value of particular elements and deductions of primary and supplementary capital specified in article 127 of Polish Banking Law and in Resolution no. 367/2010 of PFSA

Amount and structure of the Group's own funds as at 31st December 2010 (M PLN)

Position	Amount
	share capital
	383 340
	supplementary capital
	936 290
	capital of the minority
	113 113
	fund for the general risk
	308 338
Primary capital	other capitals
	2 725 462
	intangible assets
	-1 103 444
	non-distributed losses on debt and capital instruments classified as available to sale
	-2 340
	net current loss
	-135 209
	Total
	3 225 550
	subordinated debt
	674 211
Supplementary capital	non-distributed profits on debt and capital instrument classified as available to sale
	3 264
	Total
	677 475
Own funds (primary capital + supplementary capital)	3 903 025

3.3 Amount of short-term capital and components classified as belonging to short-term capital specified according to §5 clause 1 of Resolution no. 76/2010 of PFSA with further changes

The Group does not use short-term capital.

3.4 Positions listed in §2 clause 1 points 3 and 4 of Resolution no. 367/2010 of PFSA

The Group does not use the internal ratings-based method, it does not possess securitisation exposures.

3.5 For banks that are mentioned in §5 clause 4 of Resolution no. 76/2010 of PFSA with further changes – sum of own funds and short-term capital

The Group does not use short-term capital.

4. Information on compliance with capital requirements that are mentioned in the article 128 of the Polish Banking Law act

4.1 Description of the method used by the Bank to internal capital adequacy assessment that constitutes the support of current and future Bank's activity

4.1.1 Internal capital adequacy assessment process (ICAAP)

4.1.1.1 Main assumptions of ICAAP process

In accordance with Resolution no. 383/2008 of PFSA the Bank established ICAAP as a process for assessing the amount of capital required to support risks it bears, i.e. internal capital. The process also assures that the higher of internal capital and regulatory capital is fully covered by available capital at all times. The ICAAP is closely linked to the Bank's strategic business objectives, risk appetite and risk profile as well as capital adequacy, providing a multidirectional mechanism of interaction between these building blocks.

The process comprises interdependent phases, arranged in an orderly fashion as stated below:

- a) identification of risk materiality – analysis of risks that are present in the Bank's operations and environment; it results in defining a set of material risks, which are further considered in the subsequent stages;
- b) risks quantification - measurement and assessment of particular risks and internal capital required to cover particular risks, using methodologies accepted by the Bank;
- c) risk aggregation – consolidation of the assessed internal capital, resulting in the total risk position (level of internal capital) of the Bank;
- d) ex-ante control, monitoring and reporting of capital (including ex-post control) - it covers available capital allocation to particular risks, business segments and surplus of capital, which together with targets and capital structure is a subject to permanent control, monitoring and reporting.

Parallel and in the close connection to the aforementioned phases capital planning and management subprocess is conducted, which – constituting an integral part of the ICAAP – ensures that a sufficient available capital is maintained and allocated to cover identified risk position, both presently and in the future. The subprocess closely interacts and partly coincides with the ICAAP phases presented above.

The ICAAP is also taken into account in the processes of material risks management, belonging to Bank's day-to-day activity.

ICAAP is covered by the Bank's internal control system, assuring its compliance with internal and external regulations as well as ongoing improvement and adequacy to the Bank's activity profile. It comprises – among other components – a periodical review of the process conducted by units involved in it as well as a regular audit of the review and of the process itself, performed by the Internal Audit Department.

4.1.1.2 Risk identification and measurement

Identification of current and future material risks comprises defining of all risks which Bank BPH is exposed to and their assessment within the scope of their materiality. Risk is material if it may impact profits or available capital of the Bank significantly. The Bank maintains capital for material risks unless other methods for mitigation of risk realisation effects are applied. Material risks are managed by the Bank.

Bank BPH defines two risk categories:

- a) risks permanently material;
- b) risks assessed periodically with respect to their materiality.

Risks permanently material are always considered as material. All other risks are assessed periodically with respect to their materiality by the Bank.

Below risks are acknowledged as permanently material in Bank BPH:

- a) credit risk;
- b) operational risk;
- c) market risk;
- d) business risk;
- e) liquidity risk.

Among risks assessed for materiality periodically there are, i.e.:

- a) reputational risk;
- b) compliance risk;
- c) model risk;
- d) securitisation risk;
- e) some subcategories of permanently material risks.

With regard to identification and measurement of the risks as part of the process of estimating the internal capital, the Bank assumes a comprehensive approach based on two parallel processes that supplement each other:

- a) bottom up – realised by so called “big workshops” of risk materiality assessment organized once a year with the participation of representatives of dedicated organizational units responsible for assessment and monitoring of level of particular risk;
- b) top down – involving a comprehensive assessment of the risks performed by the Bank’s top management during specially organized session at least once a year. During the session threats and potentially adverse situation, which can cause losses for the Bank or can lead to non realising of the Bank’s strategic targets, are identified.

As a result of those both processes list of material risks on which Bank will be exposed to in the nearest 12 months is determined.

Due to the merger Bank BPH defined special risk category – so called integration risk, on which the Bank decided to allocate additional internal capital since 31st December 2009.

4.1.1.3 Risk quantification

In the risks quantification phase the amount of capital necessary to cover each material risk (internal capital) is assessed. Internal capital is not assessed for risks which can not be limited by maintaining capital (for example liquidity risk) and for risks for which there are no acknowledged quantification methods.

Risk quantification is an integral part of the process of particular risks management. Assessing of internal capital is actively used while monitoring and reporting of risk and its management.

Internal capital for particular permanently material risks is quantified with the use of following models:

- a) for credit risk: CR+ (main model), IRB-AA, MDA, STA, CCR (supplementary models);
- b) for operational risk: regulatory standardized method;
- c) for market risk: value-at-Risk;
- d) for business risk: internal model;

- e) in case of liquidity risk the Bank protects itself by managing and limiting it and by holding liquid assets. The risk is however considered permanently material as it is one of the oldest and most widespread risks in banking activity.

For risks that are not considered permanently material Value-at-Risk - like models are also the preferred ones. With regard to risks for which the Bank does not use Value-at-Risk models, scenario analyses or other quantitative methods can be used for internal capital assessment.

For risks that do not subject themselves to any quantitative analysis, the Bank's Management Board is responsible for decision on applied method or qualitative approach (i.e. no capital quantification for a particular risk). Apart from internal capital for particular material risk, a capital buffer for immaterial risks – which could turn out material – is also assessed. That capital buffer ensures that the Bank does not underestimate its internal capital and is recognised as related to the risk materiality threshold.

4.1.1.4 Risk aggregation

In risk aggregation phase total risk position in BPH (level of internal capital) is determined. Aggregation is performed with the use of correlation matrix, basing on amounts of internal capital calculated separately for each category of material risks (to which quantitative approach is applied). Moreover, this amount is additionally increased by amount of buffer – capital maintained for immaterial risks.

Acknowledgement of real correlation between aggregated risks in the Bank is expressed by so called diversification effect (difference between sum of all risks and total amount calculated with the use of correlation matrix).

4.1.1.5 Ex-ante control, monitoring and reporting of capital

Internal capital assessed for particular risks and for the entire Bank is a subject to permanent monitoring in comparison with available capital and allocated capital, capital structure and capital targets as well as other control values. Results of monitoring are reported to the management bodies of the Bank, i.e. the Supervisory Board, the Management Board, ALCO and Strategic Risk Committee.

4.1.1.6 Stress testing

As an integral part of managing material risks, the Bank performs stress testing. Stress testing is performed to test Bank's vulnerability to unfavourable changes in macroeconomic environment by analysis of impact of those changes on financial and capital plans. Testing is performed also to test Bank's vulnerability to factors not taken into account in internal capital quantification. Stress tests results are the base for developing management actions in case of realising of assumed scenarios.

4.1.1.7 ICAAP with regard to subsidiaries

ICAAP process comprises not only risks that are typical for Bank BPH, but also risks incurred by its subsidiaries. Identification of material risks in subsidiaries is conducted individually by those units, separately from risk assessment conducted by the Bank, using the same approach as in the Bank. The Supervisory Board of a subsidiary and the Bank's Management Board approve list of material risks identified in subsidiaries.

Identification of material risks is conducted only by those units that are fully consolidated by the Bank for reporting purposes, according to proper law provisions and accounting regulations. Immaterial subsidiaries can be omitted.

In subsidiaries internal capital is assessed for risks recognised as material. For risks treated as material also on the Bank's level capital is assessed on consolidated basis, after eliminating of internal transactions. In other cases amount of capital is assessed on the level of a subsidiary (also after eliminating of internal transactions).

Necessary condition for internal capital assessment on the consolidated level is technical possibility to conduct such assessment (for example availability of proper data) and lack of barriers for cash flow between a subsidiary and the Bank (in case of using models that reflect diversification of risks).

Scope of methods for internal capital assessment on subsidiary level comprises models of value/ earnings at risk, regulation methods and comparative analysis. In case of lack of reliable internal quantification models usage of regulation methods is preferred (if available).

Aggregation of subsidiaries' risks that are quantified on a subsidiary level is conducted according to the same rules as in the Bank. Risk of subsidiaries that are quantified on the Bank's level are included in internal capital for particular risks and as such do not require separate aggregation.

4.1.2 Capital Management

4.1.2.1 General assumptions of capital management

The objective of Bank BPH is to actively ensure a sustainable long-term growth of the value to shareholders and to maintain capital at a level that will allow the Bank to act in a both conservative and effective way. This objective is pursued by maintaining an adequate capital base taking into account the Bank's risk profile, prudential regulations and capital management based on risk within business targets.

Main source of capital for the Bank is current surplus of capital (capital available above defined risk appetite). Second main source of capital is non-distributed result from the previous years. If capital surplus and non-distributed profit from the previous years are insufficient, The Bank will consider issuing of subordinated debt and/ or new shares.

The Bank defines its capital objectives, which provide a stable capital basis and help achieving capital strategy objective (in compliance with its general principles). Defining of capital objectives has fundamental importance for capital management and constitutes a fundamental reference in the context of capital planning, allocation and contingency capital plans (CCP). While defining the capital objectives BPH takes into account its strategic plans and expected business development. Capital objectives have a similar horizon as a business strategy and are approved by the Management Board. Capital objectives concentrate on minimum capital requirements, on capital adequacy ratio and also on internal capital required to cover all material types of risk.

4.1.2.2 Capital planning

Capital planning concentrates on assessment of the current and forecasted Bank's capital requirement (both regulatory and internal), and on comparing them with current and forecasted available capital. Assessment of forecasted available capital is conducted basing on its current level, budget assumptions (planned profits, dividends etc.), planned activities as regards capital management (issuing of new shares, subordinated debt etc.) and provisions of Capital Management Policy.

Forecasted capital requirements are compared with forecasted available capital and results are confronted with capital objectives, preferred capital structure and factors that triggers launching of CCP.

4.1.2.3 Capital Contingency Plan

Analysis are conducted to assess if sufficient capital is available for forecasted level of risk, if objectives within the scope of capital level and its structure were fulfilled, if factors that trigger CCP occurred. Proposed corrective actions within CCP are a subject to ALCO approval.

In case of non fulfilment of capital objectives remedy actions are proposed or ad hoc action plans are prepared which are a subject to ALCO approval. Corrective actions should be considered in following sequence:

- a) strengthening of control over allocation and utilisation of capital;
- b) use of alternative source of capital (lowering of dividends, issuing of subordinated debt, issuing of new shares etc.)
- c) release of available capital by securitisation;

- d) limitation of business activity (by rising of internal transfer process (FTP – *Funds Transfer Pricing*) for credit products etc.)

Limitation of business activity requires approval of the Management Board and is possible only when other actions prove to be insufficient or unenforceable. While undertaking of defined corrective action, ALCO takes into account both cost and time required for its realisation.

ALCO's decisions regarding corrective actions are a subject to additional approval of the Management Board and/ or the Supervisory Board if it is requested by the Bank's internal regulations. The Management Board is informed by ALCO about launching CCP and chosen corrective actions.

4.2 In case of bank that uses standardized method to calculate amounts of risk weighted assets according to attachment no. 4 to Resolution no. 76/2010 of PFSA with further changes amounts that constitutes 8% of risk weighted exposure separately for each of exposure class specified in §20 clause 1 of attachment no. 4 to Resolution no. 76/2010 of PFSA with further changes

According to Resolution no. 76/2010 of PFSA with further changes capital requirement on credit risk constitutes 8% of the Group's risk weighted assets. Below chart presents the structure of capital requirements calculated by standardized approach in division into exposure class as at 31st December 2010.

Amount and structure of capital requirement for credit risk and counterparty risk of the Group as at 31st December 2010 (M PLN)

Exposure class	Amount
Governments and central banks	0
Local government units and local authorities	109
Governmental authorities and entities that not conduct economic activity	962
Banks of multilateral development	0
International organizations	0
Institutions – banks	42 341
Companies	172 019
Retail	615 919
Collateralised on real estates	1 053 978
Overdue	56 555
Exposures that adhere to regulatory high risk categories	2
Secured bonds	0
Short-term exposures towards banks and companies	0
By virtue of investing in collective investment institutions	2 815
Other	84 251
Total	2 028 951

4.3 In case of Bank that uses internal ratings-based method to calculate risk weighted assets according to attachment no. 5 to Resolution no. 76/2010 of PFSA with further changes - amounts that constitutes 8% of risk weighted exposure separately for each of exposure class specified in §6 clause 1 of attachment no. 5 to Resolution no. 76/2010 of PFSA with further changes

The Group does not use internal ratings-based method

4.4 Amount of minimum capital requirements that are specified in w §6 clause 1 points 2 – 5 of Resolution no. 76/2010 of PFSA with further changes, totally and separately for a particular type of risk

Minimum capital requirements of the Group divided into risks as at 31st December 2010 (M PLN)

Capital requirement on:	Amount
credit risk	2 015 005
counterparty credit risk	13 946
operational risk	301 421
currency risk	0
commodities risk	0
general risk of interest rate	35 160
specific risk for debt securities	9
equity position risk	0
concentration and large exposures limit excess	0
capital concentration excess	0
settlement and delivery risk	0
Total	2 365 541

The minimum capital requirements determine the regulatory level of own funds maintained by the Group in order to cover any unexpected losses due to the operational activity. The Group's capital adequacy is measured by the capital adequacy ratio, the value of which must not be lower than the regulatory minimum of 8%.

According to Pillar 1 of the New Capital Accord and the provisions of resolutions no. 76/2010 of PFSA with further changes, 382/2008 of PFSA, 387/2008 of PFSA, the calculation of total capital requirements reflects the Group's activity profile and refers to the current structure of its assets and off-balance exposures. This has implication on both the scope of risks within the calculation and the occurrence of specific exposure classes.

Due to the fact, that Bank BPH S.A. is a parent entity in Bank BPH S.A Capital Group, it is obliged to prepare consolidated reports, the calculation of minimum capital requirements is performed both in individual and consolidated terms.

In the process of minimum capital requirements calculation the Group is obliged to maintain requirement for:

- a) credit risk;
- b) operational risk;
- c) currency risk;
- d) commodities risk;
- e) general risk of interest rate;
- f) specific risk for debt securities;
- g) equity position risk;
- h) concentration and large exposures limit excess;
- i) capital concentration excess;
- j) settlement and delivery risk and counterparty credit risk.

4.5 The amount of minimum capital requirement for operational risk specified in the attachment no. 14 to Resolution no. 76/2010 of PFSA with further changes - separately for each of the used method

Capital requirement for operational risk is calculated by means of the standardized method described in the attachment no. 14 to Resolution no. 76/2010 of PFSA with further changes. The Group calculates the capital requirement by dividing its income into business lines. The capital requirement for operational risk is equal

to the average of the product of each business lines' incomes and equivalent risk factors over the last three years. On 31st December 2010, the requirement calculated with standardized method amounted to: 301 421 M PLN.

5. Information on credit risk and dilution risk

5.1 Definition of impaired receivables

Assets measured at amortised cost

For the accounting purpose the Group assumes that overdue financial assets are the exposures that have default in paying capital or interests in relation to contractual date specified in the agreement.

At each balance sheet date, the Group assesses if there are any impairment triggers of a component of financial assets or a group of financial assets.

A component of financial assets or a group of financial assets are impaired and the loss on financial assets impairment has been incurred only if there is objective reason of such impairment stemming from one or more events after the initial recognition of the component the asset. The event (or the events) causing the impairment has (have) impact on the future cash flow from a component of the assets or a group of assets, which can be reliably estimated.

Since impairment may be caused by the combined effect of a number of events, identification of the single impairment trigger may not be possible. Thus, identification of impairment triggers is performed by the Group on the basis of objective quantitative and qualitative criteria, taking into consideration the assessment of a client's financial condition and the quality of the cooperation with the Group. Impairment identification bases on the assessment of risk that a borrower would not meet the obligations towards the Group and the catalogue of objective impairment triggers in the Group is compatible with the catalogue of impairment triggers defined in IFRS 39 "Financial instruments – recognition and measurement", Recommendation R and requirements of the New Capital Accord and cover, for example:

- a) occurrence of material overdue for at least 90 days amount on any material account of the borrower (irrespective of the borrowers segment);
- b) significant deterioration of financial/ economic standing of the borrower or other factors that may jeopardize repayment of the receivable;
- c) restructuring through granting to a borrower a concession, for economic or legal reasons relating to the borrower's financial difficulty, that the Bank would not otherwise consider;
- d) fraud detection or detection of an attempt to contract a loan under false pretences;
- e) issuance of banking enforcement title;
- f) the expiry of loan contract termination period.

Credit exposures restructuring

If the credit standing of a borrower deteriorates, detected by the early warning system and other monitoring activities/ intensive monitoring, the Group takes a series of restructuring (rescheduling) steps to minimise its losses and reduce risks on a timely basis. The restructuring process normally consists of renegotiating the terms of the credit agreement, including:

- a) extending the repayment period;
- b) reducing the interest rate;
- c) writing-off a part of the financial liabilities of the borrower;
- d) a combination of the above.

Restructuring decisions are treated as credit decisions, including identification of impairment triggers, and are taken by the appropriate authority level, in particular within the specialised restructuring and collection area of the Group.

5.2 Description of the used approach and methods accepted to correct value and provisions

On each balance sheet date, the Group assesses whether there is sufficient reason to impair the value of a given financial asset or group of assets. This assessment includes both reported and incurred but not reported losses (IBNR). To identify reasons for IBNR the Bank's Group uses statistical measurement methods taking into account assumptions about the Loss Identification Period.

For all exposures where losses are assumed, the Group measures the loss on the basis of future expected returns. The expected returns for significant exposures are estimated on an individual basis, while expectations for collective exposures are performed with statistical methods based on historical observations adjusted for factors, for which it is assumed are representative of the future state.

The principles of measurement, including estimates and the authority to take decisions, are regulated in detail within the Group.

Measurement methods and assumptions are subject to a regular validation process. All observations of validation processes are immediately reflected in the measurement principles/process.

Assets measured at amortised cost

If objective evidence for impairment exists, then the loss is assessed whereby the amount is equal to the difference between the balance-sheet value of the exposure and the current value of estimated future cash flows. The balance-sheet value of a credit exposure is reduced through a charge. The loss is shown in the income statement.

Should the loss (impairment) of value be reduced during the subsequent period and the impairment be objectively linked to an event after the recognition of the impairment then the previously recognised impairment of that asset is reversed by adjusting the provisioning account. The amount of the reversed impairment is recorded in the income statement.

The impairment recorded by the Group consists of charges on a case-by-case assessment of individual assets and of charges calculated after a risk assessment of homogenous exposure groups.

For the purpose of defining future cash flows financial assets with identified evidence of impairment are broken down into individually significant and individually insignificant assets. The breakdown is made on the combined borrower exposure with the Group setting breakdown thresholds separately for individuals and business customers.

Identification of future cash-flows for individually significant assets is based on expert estimates of expected borrower payments, receipts from collateral, debt sale and any other cash-flows the expectations of which can be reliably documented. Such estimates take into account the borrower's financial condition and the expected future cash-flows thus reflecting the Group's strategy vis-a-vis the borrower based, among other things, on the relationship with this borrower or similar risk-profile borrowers, as well as on historic data from similar cases.

The future cash-flows for individually insignificant assets are identified by portfolio (collective) analysis and are based on historic experience on losses from assets with a similar risk profile. For the purpose of the collective impairment assessment financial assets with similar credit risk characteristics identifying the borrower's repayment capability are grouped together. Historic data on losses is adjusted using any current data available (to reflect the impact of current circumstances, which had no influence during the period assessed), but also by eliminating factors influencing the historic data, but not the current situation.

Future cash-flows identified for individually significant and individually insignificant assets are discounted using the original effective interest rate. The discount interest rate applied to estimate the value impairment of a variable-interest instrument, such as an advance, a loan or a financial instrument kept until maturity, is current effective interest rate, as determined under a particular contract.

In portfolios where no impairments are found the Group will make a provision for losses incurred, but not identified (IBNR). The IBNR charge reflects the loan loss amount incurred as a result of impairment events,

which the Bank has not identified at the balance-sheet date and determined using historic losses on assets with risk features similar to those assets subject to the IBNR calculation. The IBNR charge is calculated with statistical models of asset groups combined in portfolios, developed using historic data, featuring similar credit risks. The IBNR calculation takes into account the loan-loss disclosure period concept. The Group does not include any estimate of losses expected to occur as a result of future events regardless of their likelihood.

Financial assets available for sale

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment on that financial asset previously recognised in profit or loss.

Impairment losses from investments in equity instruments available-for-sale are not subject to reversal through profit or loss.

If during a subsequent period, the fair value of a debt instrument available-for-sale increases and the increase can be objectively related to an event that occurred after the recognition of an impairment in the profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Financial assets valued at cost

If there is objective proof of an impairment in the value of an unquoted equity instrument which is not carried at fair value, because its fair value cannot be reliably measured or in the value of a linked derivative which is to be settled by a delivery of such unquoted equity instrument then the amount of an impairment loss is defined as the difference between the carrying amount of the asset and the current value of the estimated future cash-flows discounted with the use of the current market rate of return applicable for similar financial assets. Impairment losses established in this way are not subject to reversal.

Fair value of financial instruments

The fair value of financial instruments not traded on active markets is determined using valuation models. Non-option type derivatives and debt-securities not traded on active markets are valued using a model of discounted cash-flows. Option valuation models are used for option-type derivatives. Active market data are used in the models wherever possible. Where no data from active markets are available for model inputs the Bank uses estimated parameters and values instead. The main estimated parameters used to measure financial instruments result from the assessment of the counterparty credit risk.

Valuation of outstanding derivatives with regard to counterparty credit risk is done using the same approach as for valuation the Group's credit portfolio. The adjustment of the fair value to counterparty credit risk was estimated on an individual basis in the case of customers whose individual analysis pointed to a raised counterparty credit risk, and using a portfolio approach for transactions with counterparties whose individual credit standing assessment brought to light no premises of raised risk.

In the case of transactions assessed on an individual basis, the adjustment was estimated using discounted future cash flows under a multi-scenario approach.

A concept of losses incurred but not reported is used in the portfolio valuation when estimating an adjustment to the fair value in respect of the credit risk of the counterparty.

Debt securities not traded on an active market are valued by discounting cash flows with the market curve adjusted for a credit spread specific for that instrument. The credit spread is estimated based on prices recorded in the primary market with adjustment implied by periodical assessment of credit quality of the issuer.

Off-balance liabilities

Provisions for the impairment of off-balance sheet liabilities is calculated on the basis of a set limit and of a recoverable amount of liabilities, defined as the current amount of estimated future cash flows discounted for the effective interest rate. Cash flows of off-balance sheet liabilities are calculated on the basis of a set limit at a date equivalent to the maturity of this liability and depending on the probability of cash outflow.

5.3 Total amount of exposure according to balance sheet evaluation (after accounting correction), without including results of credit risk mitigation and average amount of exposure in the particular moment of time divided into classes

Total exposure of the Group's banking and trading book according to balance sheet evaluation and average quarterly value of exposure (M PLN)**

Exposure class	31.12.2010*	Average in the period**
Governments and central banks	4 641 702	4 381 342
Local government units and local authorities	6 839	7 358
Governmental authorities and entities that not conduct economic activity	17 462	18 841
Banks of multilateral development	0	0
International organizations	0	0
Institutions – banks	2 093 136	2 115 324
Companies	3 379 148	3 498 274
Retail	12 665 029	14 089 131
Collateralised on real estates	17 609 719	17 428 058
Overdue	702 295	694 887
Exposures that adhere to regulatory high risk categories	17	17
Secured bonds	0	0
Securitisation positions	0	0
Short-term exposures towards banks and companies	0	0
By virtue of investing in collective investment institutions	23 460	23 836
Other	1 660 290	1 163 755
Total	42 799 097	43 420 823

* Including off balance sheet exposure - 6 493 419 M PLN

** Average quarterly value of exposure starting from January 2010

5.4 Geographical structure of exposure divided into areas important according to significant exposure class together with additional information if it is significant

The Group's activity is run only in Poland. Therefore, it was decided not to present geographical structure of exposures.

5.5 Industrial structure of exposure or divided according to counterparty type, divided into exposure classes together with additional information, if it is significant

Structure of Group's exposures according to counterparty type divided into exposure classes as at 31st December 2010 (M PLN)

Counterparty type / Exposures	Governments and central banks	Governmental authorities and entities that not run economic activity	Institutions	Companies	Retail Clients	Local government units and local authorities	Other	Total
Governments and central banks	4 388 958	0	0	0	0	0	252 744	4 641 702
Local government units and local authorities	0	0	0	0	0	6 839	0	6 839
Governmental authorities and entities that not run economic activity	0	17 462	0	0	0	0	0	17 462
Banks of multilateral development	0	0	0	0	0	0	0	0
International organizations	0	0	0	0	0	0	0	0
Institutions - banks	0	0	1 510 401	0	0	0	582 735	2 093 136
Companies	0	0	0	3 201 050	153 810	0	24 288	3 379 148
Retail	0	0	0	262	12 656 340	0	8 427	12 665 029
Collateralised on real estates	0	0	0	1 564 296	16 045 423	0	0	17 609 719
Overdue	0	0	0	55 876	646 411	8	0	702 295
Exposures that adhere to regulatory high risk categories	0	0	0	0	0	0	17	17
Secured bonds	0	0	0	0	0	0	0	0
Securitisation positions	0	0	0	0	0	0	0	0
Short-term exposures towards banks and companies	0	0	0	0	0	0	0	0
By virtue of investing in collective investment institutions	0	0	23 460	0	0	0	0	23 460
Other	333 587	0	0	0	0	0	1 326 703	1 660 290
Total	4 722 545	17 462	1 533 861	4 821 484	29 501 984	6 847	2 194 914	42 799 097

5.6 Exposure structure according to maturity date divided into exposure class, together with additional information, if it is significant

Structure of the Group's exposures according to residual maturity period and divided into exposure classes as at 31st December 2010 (M PLN)

Maturity period/ Exposure	Governments and central banks	Local government units and local authorities	Governmental authorities and entities that not conduct economic activity	Institutions - banks	Companies	Retail	Collateralized on real estates	Overdue	Exposures that adhere to regulatory high risk categories	By virtue of investing in collective investment institutions	Other	Total
To 3 months	2 766 404	0	4 342	941 546	535 794	1 912 313	238 594	575 566	0	0	0	6 974 559
From 3 to 6 months	1 031	0	1 038	87 891	500 074	574 261	183 497	5 282	0	0	0	1 353 074
From 6 to 12 months	896 853	122	3 905	86 009	882 975	1 278 970	242 619	8 443	0	0	0	3 399 896
From 1 year to 3 years	439 573	428	517	61 344	624 111	3 652 165	304 995	19 058	0	0	0	5 102 191
From 3 to 5 years	0	0	638	122 279	296 911	1 301 369	250 088	12 253	0	0	0	1 983 538
From 5 to 10 years	175 734	6 289	3 567	129 924	217 012	1 702 606	1 197 372	14 407	0	0	0	3 446 911
Above 10 years	0	0	896	14 816	52 306	791 077	15 192 554	64 978	0	0	0	16 116 627
No period set	362 107	0	2 559	649 327	269 965	1 452 268	0	2 308	17	23 460	1 660 290	4 422 301
Total	4 641 702	6 839	17 462	2 093 136	3 379 148	12 665 029	17 609 719	702 295	17	23 460	1 660 290	42 799 097

5.7 Divided into significant industries or counterparty types amounts of

5.7.1 Impaired exposures

Gross amount of impaired exposures divided into counterparty types as at 31st December 2010 (M PLN)

Counterparty type	Gross amount of exposure
Retail clients	3 082 366
Companies	288 289
Others	824
Total	3 371 479

5.7.2 Balances of provisions according to the state at the end and beginning of a period

Balances of provisions as at 31st December 2010 and 31st December 2009 (M PLN)

	31.12.2010	31.12.2009
Balances of provisions	2 713 020	2 115 641

5.8 Amounts of overdue or impaired exposures – presented separately, divided into significant geographical area, embracing, if possible, amounts of provisions connected with every geographical area

The Group's activity is run only in Poland. Therefore, it was decided not to present the geographical structure of exposure.

5.9 Loan impairment provisions

Loan impairment provisions of the Group (M PLN)

	From banks	From clients	Total
Opening balance as at 01.01.2010	0	2 115 641	2 115 641
Changes in impairment charges	0	860 459	860 459
Receivables written off as impaired	0	-295 753	-295 753
Revaluation of currency loans	0	28 362	28 362
Other	0	4 311	4 311
State as at 31.12.2010	0	2 713 020	2 713 020

6. Information on counterparty credit risk

6.1 Description of the used methodology to assign internal capital and credit limits for exposure to counterparty risk

Internal capital is assessed for exposures from trading portfolio that are burden with counterparty credit risk basing on method described in attachment no. 11 of Resolution no. 76/2010 of PFSA with further changes. Internal capital calculation bases on algorithm and parameters values that are defined by the Regulator which implies that chosen approach within credit risk is analogical to approach for capital requirement calculation according to Pillar 1.

Counterparty risk is mitigated by the exposure limits toward counterparties on the interbanking market set separately for deposit and documented transactions as well as for derivatives for particular banks-counterparties, while pre-settlement and settlement risks burdened limits of particular types of transactions with different risk weights.

Methodologies for setting limits for particular counterparties divided into local banks, foreign banks and capital groups bases on:

- current external rating granted by the recognised international rating agency;
- assessment of the financial situation of a bank-counterparty (internal rating);
- qualitative assessment of a bank-counterparty in terms of ownership structure, market position;
- possibility of support from parent company and other criteria;
- type of documentation signed with particular counterparty (CSA or lack of it);
- amount of own funds of counterparty and the Bank.

Counterparty risk towards non-banking clients is mitigated by establishing pre-settlement limits and in particular cases – settlement one. As a rule transactions are concluded excluding settlement risk (so called Delivery vs. Payment). Setting limits is a subject to standard credit process and rules for monitoring credit exposures that are applied in the Bank, taking into account specific nature of derivative transactions.

Methodology for setting limits for non-banking counterparties bases on:

- a) analysis of economic-financial situation of a counterparty with particular consideration of financial force and ability to absorb potential negative valuation of open transactions;
- b) analysis of natural exposure on foreign currency or interest rate risks that should be the subject of collateral;
- c) flows from basis transactions that are the subject of collateral;
- d) using in documentation clauses (Netting, Early Termination, Acceleration, Break Clause) that enables the Bank to limit its pre-settlement risk in case of agreement breach;
- e) assessment of limits collaterals (for example: property security, initial or current deposit).

Moreover, utilisation of limits for banks and non-banking clients is a subject of daily monitoring concerning negative valuation, settlement and established current collaterals (if required).

6.2 Description of policy within the scope of credit collateral, creating of credit provisions and exposure on the risk of disadvantageous changes in collateral value

6.2.1 Rules concerning collateral

Bank BPH accepts as a collateral of its debt various components of assets both material (movable items, properties) and immaterial and applies all allowed legal forms of collaterals. The amount and form of accepted collateral by the Bank is adequate to individual feature of a transaction and risk level.

BPH puts special importance to legal certainty of collaterals – the collateral agreements are pursuant to templates applicable in the Bank. Agreements that differ from applicable standard have to be approved by the legal counsel.

Establishing value of collateral Bank applies the prudent valuation rule and takes into account factors such as: condition of the collateral subject, possibility of its selling, burden regarding collateral subject, legal risk, economic risk and other special risks connected with a particular type of collateral (for example: environmental risk), time and costs connected with potential pursuing of claims. Reliable analysis of these factors is a base for adequate assessment of value of collateral.

Assessment of collateral takes into account correlation between value of collateral and creditworthiness of a debtor. Level of correlation between value of assets used as a collateral and credit reliability of a debtor should not be excessive. Collaterals whose level of correlation is excessive are not a subject to material valuation.

Minimum requirements concerning collaterals are specified in credit standards (especially with regard to products for retail clients) or are specified individually (in case of financing entrepreneurs/ companies). When deciding on securing particular transaction the Bank takes into account the client's risk level, profile and risks connected with this transaction (amount, financing period, structure of a transaction and relation between clients and the Bank). The established collaterals must be adequate to the level of risk the Bank takes.

6.2.2 Principles of creating reserves

Assessment correction of derivatives fair value on counterparty risk is made on individual terms: in case of clients when individual analysis indicates higher counterparty credit risk and in portfolio terms: in relation to transactions with counterparties when individual assessment of credit standing does not show higher risk triggers.

In case of transactions assessed individually, correction is estimated using technique of discounted future cash flow in multi scenario approach considering repayment from every possible sources, including also collateral execution. In every case the estimation of cash flow is made on the basis of individual

assessment of a transaction, including significant internal and external factors. The process of establishing value of recovery should ensure that the collateral value is possible to recover at the amount and in time considered in the impairment calculation during potential enforcement proceedings or in another way, taking legal, economic and factual restrictions that can affect real possibility of the Bank's satisfaction from the subject of collateral.

In case of portfolio evaluation, in order to assess correction of evaluation of counterparty credit risk fair value, approach that bases on concept of losses incurred but not reported is used, according to point 5.2 of this report.

6.2.3 Description of the policy concerning exposure to risk of unfavourable change of collateral value

In order to identify negative changes early, the established collaterals are monitored – their value and legal state. The value of collaterals is registered in the Bank's operational systems and is verified and updated with the frequency depended on volatility value, characteristic for the specific collateral. Collaterals of which validity (e.g. insurance policy) or value (e.g. liabilities assignment, registered pledge/ repossession of stock) can often change, are monitored on a regular basis, in period adequate to the particular type of collateral, but at least quarterly.

The review comprises verification of legal and physical state of the collateral (if necessary), change of the collateral value in the period since last review, verification of correctness and completeness of documents connected with the collateral and correctness and validity of insurance documents (if applicable).

6.3 Positive gross fair value of contracts, benefits from balancing, current credit exposure, established collateral and net value of derivatives credit exposure, but the net value of derivatives credit exposure constitutes derivatives transactions exposure after including benefits from legally effective contacts from balancing and contracts concerning the credit collateral

State as at 31st December 2010 (M PLN)

Category	Amount
Positive gross evaluation	268 252
Benefits from balancing	230 068
Value of securing deposits	163 957
Net amount of credit exposure	264 811
Current credit exposure	264 811

The Bank uses a simplified method of recognising financial collaterals, thus, it is not possible to use financial collaterals for trading portfolio.

6.4 Measures of establishing exposures value according to the accepted method, depending on the made choice

The Bank's exposure on treasury transactions made with counterparties has two components: add on and transaction evaluation (MTM). Add on is a part of equivalent of credit risk connected with potential change of transaction value in a period (product of nominal value of transaction and risk weight). For the purpose of calculation of balance sheet equivalent of off-balance transactions the method of market value is used according to the attachment no. 16 to Resolution no. 76/2010 of PFSA with further changes.

6.5 The reference value of securing credit derivatives transactions and distribution of current credit exposure according to types

The Bank does not use securing derivatives transactions.

6.6 Credit derivatives transactions (reference) divided into transactions connected with credit portfolio, including unreal credit protection and transactions concluded on clients orders and speculative transactions with further division into securities purchased and sold within every group of products

The Bank does not use securing derivatives transactions.

6.7 Estimation of α indicator if the Bank obtained permission from regulator to estimate α indicator

The Bank does not use α indicator.

7. Information on utilisation of standardised method for risk weighted assets calculation

7.1 Names of external institutions of creditworthiness assessment and agencies of export credits, which rating are used by the Bank and reasons for potential changes in this scope

The Bank recognises following rating agencies as recognised creditworthiness assessment institutions: Standard & Poor's, Moody's and Fitch. Their ratings are transferred into particular exposures according to Resolution no. 76/2010 with further changes and Resolution no. 387/2008 of PFSA. Ratings are acquired by the Bank through Reuters platform and directly from these rating agencies, and then with the use of internal report systems they are transferred to corresponding exposures of the Bank

7.2 Class of exposures for which ratings of external institutions of creditworthiness assessment and agencies of export credits are used

The Bank uses external ratings for exposures towards governments and central banks and institutions.

7.3 Description of the process used for transferring assessment of issuer and issuance for non-trading portfolio positions

Transferring external rating for grades of credit quality that are described in attachment no. 4 to the Resolution no. 76/2010 of PFSA with further changes is performed according to the provisions of attachment no. 15 to this resolution and to the provisions of Resolution no. 387/2008 of PFSA:

- a) if a particular financial instrument, for which position that constitutes exposure is assigned, possesses own rating then this rating should be used for assigning this exposure to a particular credit quality class;
- b) when only one rating was assigned to a particular position, then this rating should be used for determining risk weight for this position;
- c) when two or more ratings were assigned to a particular position then two ratings that imply the lowest risk weights, while if those lowest risk weights differ (i.e. are included to differ credit quality class) the higher should be used;
- d) when there are no direct rating for a particular position it is possible to use rating for another financial instrument of this entity or general rating of this entity under following conditions:
 - the risk weight is higher than the one that could be assigned to exposure without rating; or
 - the risk weight is lower and given exposure possesses rank equal or higher than given issuance program, or financial instrument, or unsecured preference exposures of this entity.

7.4 Assignment of the ratings granted by external institutions of creditworthiness assessment and agencies of export credits for proper grades of creditworthiness described in attachment no. 4 to Resolution no. 76/2010 of PFSA with further changes, while there is no obligation of publishing this information when the Bank uses standardised system of ratings assignment which was indicated in attachment no. 4 to Resolution no. 76/2010 of PFSA with further changes and in the resolution of PFSA which was issued on the basis of article 128 clause 6 point 6 of the Polish Banking Law

The Bank uses standardised system of ratings assignment which is indicated in attachment no. 4 to Resolution no. 76/2010 of PFSA with further changes and Resolution no. 387/2008 of PFSA, issued on the basis of article 128 clause 6 point 6 of the Polish Banking Law.

7.5 Value of the exposure before and after using credit risk mitigation techniques set for standardised method and positions that constitutes deductions of own funds

Value of exposure before and after using credit risk mitigation techniques as at 31st December 2010 (M PLN)

Credit quality grade	Value of exposure before using credit risk and counterparty credit risk mitigation techniques	Value of exposure after using credit risk mitigation techniques
No rating	40 144 834	40 144 834
1	878	878
2	2 105 895	2 105 895
3	339 582	339 582
4	207 908	207 908
Total	42 799 097	42 799 097

Value of positions that reduce own funds as at 31st December 2010 (M PLN)

Positions that reduce own funds	Amount
Intangible assets	1 103 444
Including: goodwill	915 609
Total	1 103 444

8. Information on calculation of risk weighted exposures using internal ratings method

The Group does not use internal ratings-based method to calculate risk weighted exposures.

9. Information on using value at risk method in capital requirements calculation

The Group does not use value at risk method in capital requirements calculation.

10. Information on operational risk

10.1 Methods used for capital requirements calculation for operational risk

Requirement for operational risk is calculated according to standardised method described in attachment no. 14 to Resolution no. 76/2010 of PFSA with further changes.

10.2 In case of using advanced measurement methods according to §34-67 of the attachment no. 14 to Resolution no. 76/2010 of PFSA with further changes – description of the methodology, together with proper internal and external factors that are take into account by the used method. In case of using method totally – description and range of the used methods

The Group does not use advanced measurement methods.

11. Information on capital exposures not included in the trading book

11.1 Division of exposures in regard of purpose of buying (capital profits, strategic reasons) and description of used accounting rules and methods of appraisal, including basic assumptions and practices that can influence evaluation and description of all material changes of those practices

Capital exposures not included in the trading book as at 31st December 2010 (M PLN)

Capital exposure type	Value in purchase prices	Balance sheet value
Total minority shares	133	133
Investment certificates designated as at fair value through profit or loss	20 000	23 460

Detailed information on accountancy rules and methods of appraisal of capital exposures not included in the trading portfolio are presented in the note "Significant principles of accountancy" to the Annual Consolidated Financial Statement of Bank BPH S.A. Capital Group for 2010.

11.2 Balance sheet value, fair value and for securities listed on stock exchange comparison of market price and fair value if those values differ significantly

Capital exposures listed on stock exchange not included in the trading book as at 31st December 2010 (M PLN)

Capital exposure type	Value in purchase prices	Balance sheet value	Market value
Investment certificates designated as at fair value through profit or loss	20 000	23 460	15 670

11.3 Types, character and values of exposures in capital securities divided into: securities listed on stock exchange, properly diversified portfolios of securities not listed on regulated capital securities market and other exposures

Exposures in capital securities divided into: stock exchange securities, properly diversified portfolios of securities not listed on regulated capital securities market and other exposures as at 31st December 2010 (M PLN)

Exposure type	Value in purchase prices	Balance sheet value
Securities listed on the stock exchange		
Investment certificates designated as at fair value through profit or loss	20 000	23 460
Properly diversified portfolios of securities not listed on the regulated capital securities market		
Other exposures		
Spółdzielnia Mieszkaniowa "Pomorska"	1,62	1,62
Nowosolska Spółdzielnia Mieszkaniowa w Nowej Soli	0,40	0,40
Konstancińska Spółdzielnia Mieszkaniowa "ELSAM" Konstancin-Jeziorna	0,20	0,20
Kołobrzaska Spółdzielnia Mieszkaniowa w Kołobrzegu	5,00	5,00

Spółdzielnia Budownictwa Mieszkaniowego "Ursynów" w Warszawie	1,00	1,00
Spółdzielnia Mieszkaniowo-Budowlana "Klub Dwustu" w Warszawie	4,00	4,00
Spółdzielnia Mieszkaniowa "WARSZEWO" w Szczecinie	4,56	4,56
Visa Europe Limited**	0,04	0,04
MasterCard Incorporated***	0	0
S.W.I.F.T. SCRL****	116,70	116,70
Total	20 133,52	23 593,52

*) 1 VISA Europe Ltd. Share due to membership of Bank BPH S.A. Infrastructure exposure.

**) 1 MasterCard Incorporated ordinary share of M category, nominal value 0,0001 USD (less than 1/100 PLN). Lack of capital expense of the Group because share was issued free of charge because of the Group membership in MasterCard. Infrastructure exposure.

***) Shares of S.W.I.F.T. SCRL results from membership of Bank BPH S.A. in the system SWIFT. Infrastructure exposure.

11.4 Realised profits or losses from sales or liquidation in consolidated terms in given period

In 2010 the Group did not liquidate shares. However, shares were sold. The amount of realised gains due to shares sale in cumulative terms amounted to 2036 M PLN in 2010.

11.5 Total amount of unrealised profits and losses, together with unrealised profits and losses from reclassification and other positions similar in character classified to own funds or supplementary funds

Positions included in the primary and supplementary capital according to article 127 of Polish Banking Law and Resolution no. 367/2010 of PFSA are presented together with description of own funds factors in detail.

12. Information on exposure on interest rate risk of position qualified to the banking portfolio

12.1 Character of interest rate risk, fundamental assumptions (including assumptions concerning future earlier credit repayment and behaviour deposits at not specified maturity date) and frequency of measurement of interest rate risk

Interest rate risk is defined as a sensitivity either of net interest income or economic value of the Bank capital¹ on changes of the level of interest rates.

Bank BPH identifies following sources of interest rate risk:

- re-pricing risk;
- yield curve risk;
- basis risk;
- optionality – connected with options granted to customers within products and services offered by the Bank; particularly it concerns loans prepayment, earlier deposit withdrawal and using other than included in the repayment schedule and resulting from occurrence of derivatives built in the offered services and products.

The Bank determines risk measures for the whole portfolio and separately for the banking portfolio. For interest rate risk in the banking book measurement purposes, the Bank assumed that earlier credit repayment would be substituted by newly granted credits. In order to manage exposures without specified maturity date the Bank uses concept of model portfolios.

¹ Revaluated balance value of capital represents the revaluated expected assets cash flow, reduced by revaluated expected liabilities cash flow, plus or minus revaluation of expected off-balance positions cash flow. Economic revaluation of a particular instrument represents the assessment of revaluation of expected net discounted cash flow of a particular instruments in order to include market interest rate.

In order to measure interest rate risk in the banking book the Bank uses methods analogical as for risk of entire Bank:

- a) method of historical simulation of value at risk (VaR);
- b) Basis-point-Value – „BpV”.

Exposure of BPH's banking book to the interest rate movements risk presented in the form of BpV sensitivity as at 31st December 2010 (M PLN)

Currency	To 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 to 5 years	From 5 to 10 years	Above 10 years	Total
EUR	17	-3	1	28	6	-34	-7	8
PLN	52	-9	-51	-315	-140	-126	-20	-609
USD	5	1	3	-3	2	-5	-1	2
CHF	-11	-26	-2	-29	-8	-1	-2	-79

In order to monitor exposure of the Bank's interest result to unfavourable change of interest rate, the Bank conducts scenario analysis that assumes movement of profitability curve by +/- 100 basis points. Simulation is conducted for the next 12 months.

Interest rate risk in the banking portfolio is transferred by means of the system of transfer funds rates and is centrally managed by specialized units in Treasury Area.

Measurement and reporting of interest rate risk in the banking book are made by the Market and Operational Risk Department in the Risk Management Division that is independent unit from the units that make trading and banking transactions.

Reports on interest rate risk in the banking book are made on a daily basis for the operational purposes and periodically (monthly, quarterly) for the management purposes. The Supervisory Board, the Management Board and ALCO are the recipients of the report.

12.2 Change of financial result, discounted economic value or other measurements used to assess the result of shock decrease or increase of interest rates calculated according to the method of interest rate risk measurement used by the Bank, divided into particular currency

To determine interest rate risk in the banking portfolio analysis of stress scenarios are prepared, that assume parallel shift of yield curves up and down buy by 200 basis points as well as shifts defined on historically observed changes.

Results of the crisis scenario analysis with a parallel shift of yield curves by 200 basis points for the interest rate exposure of BPH banking book as at 31st December 2010 (M PLN)

Currency	To 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 to 5 years	From 5 to 10 years	Above 10 years	Total
EUR	3 382	-620	284	5 561	1 158	-6 778	-1 305	1 682
PLN	10 365	-1 779	-10 190	-62 969	-27 997	-25 211	-4 052	-121 833
USD	1 059	178	597	-679	450	-1 002	-278	325
CHF	-2 168	-5 226	-470	-5 808	-1 613	-168	-377	-15 830

13. Information on capital requirements calculation for amounts of risk weighted securitisation exposures

The Bank does not possess securitisation exposures.

14. Information on risk weighted exposures according to internal ratings method

The Bank does not use internal ratings method.

15. Information on credit risk mitigation techniques

15.1 Policy and procedures concerning balancing of balance and off-balance exposures, together with the degree of using them

The Bank does not use balancing of balance sheet exposures. The Bank uses framework agreements of compensation of off-balance transactions for the need of calculation of balance equivalent that constitutes the basis for capital requirement calculation on counterparty credit risk. Compensation is the risk mitigation element. The Bank balances balance equivalent of derivatives basing on §78 of appendix 16 to the Resolution 76/2010 with further changes.

15.2 Policy and procedure concerning evaluation of credit collateral and management of collateral and main types of credit collateral

The Bank implemented and continues to develop a consistent collateral management system, comprising procedures of collateral constitution, standard templates of legal documentation, internal rules for collateral valuation, rules for collateral registration in the Bank's operating systems, as well as their value and lawful enforcement monitoring and criteria for considering of collateral when calculating the capital requirement for credit risk.

The Bank uses and accepts all permitted legal forms of collateral and varied assets. The catalogue of collateral accepted by the Bank includes:

- a) personal collateral, such as: credit insurance, guarantees, securities issued by entities with good economic and financial standing, bills of exchange, credit orders, letters of comfort, debt entering;
- b) material collateral:
 - financial collateral – established on cash or securities (bonds, treasury bills, commercial bills, participation certificates, investment certificates, deposit certificates, shares) in the form of bail, blocking bank account/ securities account, registered pledge/ pledge/ financial pledge, ownership transfer;
 - on real estate – mortgage;
 - on tangible assets – established in the form of registered pledge/ ownership transfer;
 - on receivables – established in the form of assignment of receivables.

In order to limit specific transaction risk or the risk resulted from changes in the borrower's standing, the Bank also includes a number of special clauses of a protective and/or financial nature in credit agreements in accordance with the official standard that is effective in the Bank prepared by the Legal Department and the Risk Management Division. They are verified and optimised regularly.

15.3 Main types of guarantors and counterparties of credit derivatives and their credibility

The Bank does not use risk mitigation techniques in a form of guarantee and credit derivatives.

15.4 Information on market and credit risk concentration within the used risk mitigation instruments

In order to mitigate risk, the Bank uses only security deposits that, due to their character, do not generate credit risk. The amount of exposure and collateral according to currency are presented in the point 15.5 of the report.

15.5 In case of Bank that calculates amounts of risk weighted exposures using standardised method according to the attachment no. 4 to Resolution no. 76/2010 of PFSA with further changes, or internal ratings method according to the attachment no. 5 to Resolution no. 76/2010 of PFSA with further changes, but not using own estimates of loss given default (LGD) and conversion coefficients to particular exposure classes – separately for each exposure class – total exposure value (after using, if suitable, balancing balance sheet and off balance exposures) secured by recognised financial collateral or other recognised collateral, after correction due to volatility

The amount of exposures secured by bail and the amount of collaterals in the form of bail as at 31st December 2010 (M PLN)

The amount of exposure secured by bail, including:	Gross amount of exposure	Exposure currency	The amount of collaterals in the form of bail	Collateral currency
Retail	1 153	PLN	1 134	PLN
	13	CHF	12	PLN
Institutions - banks	956	EUR	956	EUR
	1 807	PLN	1 807	EUR
	56 200	EUR	56 200	PLN
	2 288	PLN	2 288	PLN
Companies	1 206	CHF	1 205	CHF
	1 915	EUR	1 911	EUR
	2 195	PLN	2 194	EUR
	241	CHF	240	PLN
	1 598	EUR	1 596	PLN
	28 880	PLN	28 793	PLN
	290	USD	289	PLN
	102	PLN	98	USD
Governmental authorities and entities that not run economic activity	1 244	PLN	1 243	PLN
	100 087		99 965	

15.6 In case of Bank that calculates amount of risk weighted exposures using standardised method or IRB method – separately for each class exposure – total value of exposure (after balancing, if occurs – balance sheet and off balance sheet exposures) secured with the guarantee or credit derivatives; for capital exposures the requirement is used for each of methods specified in §45-59 of the attachment no. 5 to Resolution no. 76/2010 of PFSA with further changes

The Bank does not use credit risk mitigation techniques in a form of guarantee and credit derivatives.

16. Information on advanced method of operational risk measurement

The Bank does not use the advanced measurement method to calculate capital requirements on operational risk.