



Disclosures regarding
capital adequacy of
HSBC Bank Polska S.A.
as of 31 December 2010

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1. Introduction

Pursuant to the Resolution No 385/2008 of the Polish Financial Supervision Authority of 17 December 2008 regarding detailed principles and method of publishing by banks qualitative and quantitative information regarding the capital adequacy and the scope of information subject to publication (pursuit to further changes), as well as in accordance with the Information Policy of HSBC Bank Poland SA (hereinafter referred to as the **Bank**) available at www.hsbc.pl, in this document the Bank presents the information based on stand-alone data whose scope is consistent with the provisions of paragraphs 3 and 4 of Appendix 1 to the abovementioned Resolution.

The presented values are expressed in PLN thousand except when a different unit of measurement has been applied, as shown in detail beside the data presented later in this document.

The process of capital requirements' calculation as of 31 December 2010 covered data concerning only the Bank — due to the current capital structure it is not necessary to assess capital requirements on the consolidated basis.

2. Own funds

2.1 Basic information

Tier 1 capital

Basic capital

Bank's share capital amounted at PLN 373,207 million is main contributors to Tier 1 capital. As of 31 December 2010, the shareholder of 100% of shares is HSBC Bank Plc.

Reserve capital

Reserve capital is equal to the reserve capital arising from the surplus achieved at the issuance of Bank's shares above the face value, less costs of the issuance. This capital is to be used for covering losses that may be incurred in connection with the Bank's operations.

Items deducted from Tier1 capital

Intangible assets

Pursuant to article 127 point 2.3.b of the Banking Law Act 27 August 1997 the book value of intangible fixed assets is deductible from Tier 1 capital

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

Pursuant to paragraph 2.1 clauses 5 of the Resolution No 367/2010 of the Polish Financial Supervision Authority of 12 October 2010, the Tier 1 capital must be deducted with unrealised losses on debt and equity instruments classified as available for sale.

Debt instruments classified as available for sale whose measurement is taken into account in the calculation of Bank's own funds, include government bonds, money bills and treasury bills held in the Bank's portfolio.

Current and prior period losses

At current stage Bank realizes losses, which pursuant to article 127 point 2.3 c-e of the Banking Law Act 27 August 1997 is deductible from Tier 1 capital

Supplementary capital

Subordinated liabilities

Pursuant to the decision of 26 March 2009, HSBC Bank Poland SA obtained an approval of the Polish Financial Supervision Authority to allocate to the supplementary capital acquired cash in the amount of PLN 40,000 thousand in respect of a subordinated liability arising from the agreement signed on 12 February 2009 on a 5-year subordinated loan. Assuming 20% depreciation of the subordinated debt as at the end of December 2010 Bank treats PLN 30 000 thousand as Tier 2 capital.

Pursuant to paragraph 3 of the Resolution No 367/2010 of the Polish Financial Supervision Authority of 12 October 2010, 80% of unrealised gains on debt instruments classified as available for sale are treated as Tier 2 capital.

Short-term capital

Bank follows a prudential approach to capital management and assumes that the short-term capital is zero.

2.2 Structure of own funds

Capital structure		479 126
<i>A</i>	<i>Tier 1 capital</i>	<i>446 719</i>
<i>B</i>	<i>Tier 2 capital</i>	<i>32 407</i>

3. Capital requirements and capital adequacy ratio

3.1 General information

As of the end of 2010, pursuant to applicable laws, the Bank maintained only solo own funds at the level that was no lower than the higher of the following values:

- a. total capital requirements for different types of risk and capital requirements for overruns of the limits and breaches of other standards specified in the Act — capital requirement resulting from the Pillar I,
- b. the amount estimated by the Bank, necessary to cover all identified, significant risks arising from the Bank's operations as well as changes in the economic environment, taking into account the estimated risk level (i.e. the amount of internal capital) — capital requirement resulting from the Pillar II.

An important factor determining the capital adequacy is the target level of the capital adequacy ratio adopted by the Bank's Management Board. Bank's strategic objectives were focused on maintaining the capital adequacy ratio not lower than 10%.

In order to maintain the capital adequacy ratio at this level, the Bank conducted ongoing monitoring and prepared short- and medium-term forecasts concerning both the development of the capital base as well as the business growth, and the resulting increase in capital requirements.

The Bank's capital adequacy ratio is calculated on the basis of the total capital requirement, corresponding to the sum of capital requirements for different types of risk, calculated in accordance with the Resolution No 369/2010 of the Polish Financial Supervision Authority of 12 October 2010.

The total capital requirement, assuming a significant scale of business operations, includes the following capital requirements:

1/ credit risk — calculated with the use of the standardised approach,

2/ market risk:

- covering the total requirement for foreign exchange risk — calculated with the use of the foundation approach,
- commodity risk — no exposure,
- equity securities price risk — no exposure,
- special risk of debt securities prices — calculated with the use of the foundation approach,
- general interest rate risk — calculated with the use of the maturity ladder approach,

3/ operational risk — calculated with the use of the standardised approach,

4/ settlement risk, delivery risk and counterparty risk — calculated with the use of the market valuation approach,

5/ overrun of the exposure concentration limit and the large exposure limit,

6/ overrun of the capital concentration threshold.

3.2 Structure of the total capital requirement

Underlying risk type	Capital charge
Credit Risk	107 783
Central governments or central banks	
Regional governments or local authorities	
Administrative bodies and non-commercial undertakings	
Multilateral development banks	
International organisations	
Institutions	7 388
Corporates	
Retail	
Secured on real estate property	
Past due items	2 008
Items belonging to regulatory high risk categories	
Short term claims on institutions and corporates	0
Collective investment undertakings	
Other items	4 552
Market Risk	421
Fx risk	
Commodities trading risk	
Equities trading risk	
Debt securities specific risk	
Interest rates general risk	421
Counterparty credit risk and settlement risk	4 414
Breach of single borrower limit and total limit of large exposures	0
Breach of large equity exposure limit	0
Operational risk	24 229
Total capital used for CAR	479 126
Total capital charge	136 847
Capital Adequacy Ratio (CAR)	28,0%

4. Internal capital

Internal capital is the amount of the capital estimated by the Bank that is necessary to cover all identified significant risks arising from the banking activity.

The Bank adjusts the size of the stand-alone and consolidated own funds to the level and the type of the risk to which it is exposed, and the nature, scale and complexity of its operations. To this end, the Bank has developed and implemented the Internal Capital Adequacy Assessment Process (ICAAP) which serves to maintain own funds at the level appropriate to the profile and risk level of Bank operations.

Due to the fact that the effect of risk diversification was not taken into account in 2010, the Bank's internal capital was estimated at the level that was higher than the sum of capital requirements for different types of risks included in Pillar I. Additional values of the internal capital (Pillar II) are estimated for:

- interest rate risk in the banking book,
- risk of large exposures and selected sectors of the economy,
- other significant risks.

In total, as of the end of 2010, the value of the internal capital amounted to PLN 147,832 thousand.