INFORMATION ON CAPITAL ADEQUACY OF BANK ZACHODNI WBK GROUP

as at 30th June 2013

2013

Bank Zachodni WBK S.A.

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1. Introduction

This document is issued under the BZ WBK Group Disclosure Policy formulated based on Resolution No. 385/2008 of the Polish Financial Supervision Authority of 17th December 2008 as amended accepted under KNF Resolutions No. 368/2010 of 12 October 2010, No. 259/2011 of 4 October 2011 and No. 326/2011 of 20 December 2011 on the rules and scope of disclosing by banks qualitative and quantitative information on their capital adequacy.

The purpose of the report is to present information about capital adequacy of BZ WBK Group after the legal merger and acquired the assets of Kredyt Bank Group, which took place on 4 January 2013 following the consent received from the Polish Financial Supervision Commission.

The presented information relates to BZ WBK Group for the 6-month period ended 30 June 2013 and includes:

1. risk management principles;
2. own funds;
3. value of Risk Weighted Assets and off-balance sheet liabilities;
4. information on capital adequacy;
5. policy of variable components of remuneration;

Bank Zachodni WBK forms a Group with nine subsidiaries which are fully consolidated in accordance with IAS 27 and associates and joint ventures which are accounted for using the equity method in accordance with IAS 28 and 31. These are:

Subsidiares:

1. BZ WBK Asset Management S.A.
2. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.
3. BZ WBK Inwestycje Sp. z o.o.
4. BZ WBK Finanse Sp. z o.o.
5. BZ WBK Faktor Sp. z o.o. – subsidiary of BZ WBK Finanse Sp. z o.o.
6. BZ WBK Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.
7. BZ WBK Nieruchomości S.A.
8. Dom Maklerski BZ WBK S.A.
9. Kredyt Lease S.A.
10. Lizar Sp. z o.o – subsidiary of Kredyt Lease S.A.
11. Kredyt Trade Sp. z o.o – in liquidation
12. BFI Serwis Sp. z o.o

On 4 January 2013, Subsidiaries Kredyt Lease S.A., Kredyt Trade Sp. z o.o. in liquidation, BFI Serwis Sp. z o.o. and Lizar Sp. z o.o. were acquired in a merger of BZ WBK and Kredyt Bank.

The subsidiaries are fully consolidated with BZWBK except for Lizar Sp. z o.o. which is excluded from consolidation due to the insignificant scale of the conducted operations.

On 29 March 2013, the BZ WBK leasing companies merged in accordance with Article 492 (1) (1) of the Code of Companies and Partnerships. The merger was effected by acquisition of BZ WBK Finanse & Leasing S.A. by BZ WBK Leasing S.A., being the acquiring entity, and by transfer of the whole of the assets of BZ WBK Finanse & Leasing S.A. to BZ WBK Leasing S.A. in exchange for shares to be issued by BZ WBK Leasing S.A. to the existing partner in BZ WBK Finanse & Leasing SA.

Associates:

1. Krynicki Recykling S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Metrohouse & Partnerzy S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
3. Holicon Group S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
4. POLFUND – Fundusz Poręczeń Kredytowych S.A.

Joint Ventures:

1. BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
2. BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A.

The entities connected with the bank are chiefly credit and financial institutions which conduct specialised activities in securities brokerage, leasing, asset/mutual funds, factoring and trading in equity securities.

Details about subsidiaries, associates and joint ventures are presented in **Note 1** to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2013 and **Note 22** to the Financial Statements of BZ WBK for the 6-month period ended 30 June 2013.

2. Risk Management

The BZ WBK Group monitors and manages a number of risks, including as the most crucial credit risk, market risk, operational risk and liquidity risk. The purpose of risk management is to ensure that BZ WBK Group takes risk in a conscious and controlled manner while increasing value for shareholders. In the process of strategic risk management the Bank creates policies that define the approach to the identification, measurement and management of different types of risks, and sets the risk appetite limits. BZ WBK Group regularly reviews and expands its risk management tools taking account of the macroeconomic changes in the banking sector and the prevailing regulations.

The Management Board and Supervisory Board set the business direction and actively support the risk management strategies. Supervisory Board exercises general supervision of the risk management system. Management Board is responsible for the effectiveness of the risk management system. It is executed by the approval of the key risk management policies, risk committee membership of the Management Board Members, review and acceptance of the risks and reports on the risk level.

Details about risk management, the corporate governance and the roles of selected units in relation to the risk management process are presented in **Note 4** to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2013.

2.1. Credit risk

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality.

Credit risk in BZ WBK Group arises mainly from **lending activities on the retail, corporate and interbank markets**. Risk management in Group is consistent with risk profile resulting from agreed general risk appetite approved by the Risk Management Committee and the Supervisory Board. In BZ WBK Group the level of acceptable risk has been defined in the form of quantitative limits constituting the **„Risk Appetite Statement"**. Credit risk is managed on the basis of the lending policies laid down by the Bank Management Board and the discretionary limits system. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses a variety of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The **credit risk management framework** consists of committees, which have been set up by the Bank Management Board. The committees are directly responsible for development of credit risk management methods, credit risk measurement and monitoring. These are:

- **The Credit Risk Panel** is responsible for supervision of credit risk management. The Panel drafts and approves lending policies and implements risk classification and measurement systems.
- **The Models and Methodology Panel** is responsible for supervision of credit risk models.
- **The Credit Committee** makes credit decisions in accordance with the existing discretionary credit limits.
- **The Provisions Committee** makes decisions about impairment losses on loans and approves the impairment methodology.
- **The Monitoring Committee** is responsible for continuous and effective monitoring of the business and corporate loan portfolio.

The committees are directly supervised by the Risk Management Committee.

The Group's credit risk management involves actions taken as a result of the on-going analysis of the macroeconomic environment and the internal review of the particular credit portfolios. The advanced credit risk measurement and assessment tools allow remedial actions to be taken in response to the early signs of changes in the credit portfolio quality or structure.

The Group's **lending policy** ensures a sustainable and safe growth of the credit portfolio, which has high quality, high profitability and positive customer assessment. The Group's lending policy is composed of a set of principles and guidelines, which constitute credit policies and procedures, and guidance communicated internally across the Group in response to changes in the business environment.

Internal **limits** are crucial components of the bank's lending policy. They facilitate monitoring of exposure concentration in individual sectors, geographical regions and foreign currencies. The bank's lending manuals set out credit delivery and collateral management processes in retail, SME, business and corporate banking areas. Each lending regulation is reviewed at least once a year in order to ensure it is up-to-date and complies with other internal procedures and laws. **The Credit Risk Panel** signs off amendments to the lending policies and recommends strategic directions of development of the credit portfolios.

The 'Bank Zachodni WBK **Lending Discretions**' guidelines are key regulations governing the credit decision making process. The guidelines define the bank's structure of discretionary limits, which are granted to individual organisational units and staff involved in the credit delivery process. Individual discretionary limits are adjusted to the employees' knowledge and experience and the areas of bank's credit operations (branch banking, business banking, corporate banking). Credit exposures in excess of PLN 25m are referred to the **Credit Committee** composed of senior management and top executives.

The bank continues to develop and streamline the **credit risk assessment tools** in response to changes in the market conditions, regulatory requirements and customers' needs. The Group uses credit risk assessment **models** for its key credit portfolios, including corporate customers, SMEs, home loans, income-producing real estate, cash loans, credit cards and retail overdrafts. Other models, e.g. fraud prevention models or recovery models, are also used within the risk management process. The **Models and Methodology Panel** is a committee established by the Management Board, which is responsible for development of the credit risk assessment methodology.

The Group carries out regular portfolio reviews to determine the actual quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. Reviews are carried out by specialised units, which are independent of the risk-taking units.

The lending policy includes the **collateral** perfection and management process, which falls within the area of responsibility of the Securities Centre and Credit Documentation. The role of the Securities Centre is to ensure that collateral is duly created and held effective in accordance with the lending policy for all business segments. The Securities Centre is also responsible for ensuring standardised internal procedures for perfecting and maintaining validity of collateral as well as ensuring that collateral perfection, monitoring and release processes are carried out in a proper and effective manner. In addition, the Securities Centre provides assistance in respect of collateral to credit units in credit decision making and development of credit policies, gathers data on collateral and ensures adequate management information.

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on BZ WBK Group's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

Impairment of credit receivables is reflected through impairment charges, which are made in accordance with IAS/ IFRS. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39). The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and exposures of incurred but not reported losses). Twice a year, the Group compares the assumptions and parameters used for loss calculations with the actual situation. The analysis takes into account changes of economic conditions, amendments to Group's credit policies and recovery process. The process provides assurance that impairments are recognized correctly. The responsibility for adequate level of charges rests with the Provisions Committee. More details about the impairment are presented in **Note 4** to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2013.

Bank Zachodni WBK Group operates on the leasing market through two leasing companies who specialise in funding two different asset categories. BZ WBK Finance & Leasing focuses on lease of machines and equipment as well as computers and office equipment for businesses, while BZ WBK Leasing specialises in financing vehicles for businesses and personal customers. Bank Zachodni WBK Group operates on the factor market through BZ WBK Factor. Factoring is a form of short-term commercial finance based on the selling of trade debts at a discount.

The parent of Bank Zachodni WBK Group control the credit claims provided by the subsidiaries. Loans and receivables also include finance lease receivables of Leasing Companies and factoring receivables of Faktor Companies.

2.2. Concentration risk

The concentration risk means the risk of failure to fulfil obligations by a single entity, by entities which are connected through capital or organisational ties and by groups of entities for which the likelihood of failure to fulfil obligations depends on common factors.

Bank Zachodni WBK Group adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. The policy pursued by the Group aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect, which are set out in **"The Risk Appetite Statement"**, **"The Large Exposures Policy"** and other internal regulations. This policy is designed to maintain a high diversified of exposures to individual customers.

As at 30 June 2013 pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 3,029,965.5 k (25% of Group's own funds).

The statutory exposure concentration limits were not exceeded as at 30 June 2013.

2.3. Market risk

Market risk is defined as an adverse impact of changes in interest rates, FX rates, share quotations, stock exchange indices on earnings. It arises in trading activity as well as in the ordinary course of transacting business (exchange rate products, interest rate products, equity linked trackers).

The activity and strategies on market risk management are supervised by Market Risk Committee except for structured risk positions managed by ALCO.

The key objective of **the market risk policy** pursued by the Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.

BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits and ratios, which are periodically reviewed to align them with the Group's strategy and the current market conditions. BZWBK Group uses several risk measures to assets market risk exposure : Value at Risk (VaR), sensitivity measures and stress testing.

Interest rate and FX risks incurred in other Divisions of the Bank are transferred to the Global Banking and Markets Division and managed centrally. Open positions exposed to interest rate risk and foreign exchange risk of BZ WBK Group subsidiaries are closed with the Bank, with the exception of the BZ WBK Brokerage House, which has been granted risk limits due to the scale and character of its activity. Additionally, in order to curtail losses on the trading portfolio, a stop-loss limit is in place, which allows trading positions to be closed in the event of losses exceeding the stated limit.

The Financial Risk Management Department within the Risk Management Division is responsible for ongoing measurement of the risk, implementation of risk control procedures, risk monitoring and reporting. The Department is also responsible for the market risk policy. Additionally, the Department puts forward measurement methodology proposals, validates the existing models and ensures consistency of the risk management process across the Group. The Department is located within the Risk Management Division, which allows for an independent risk assessment and monitoring.

Market risk generated by equity instruments in BZ WBK Brokerage House's portfolio (shares, stock exchange indices) (**Equity investment risk**) is managed by the BZ WBK Brokerage House. The entity responsible for equity price risk management is BZ WBK Brokerage House. The source of this risk are transactions conducted on the BZ WBK Brokerage House's own account via stock exchanges and MS CTO (shares, futures). The process of managing the market risk in BH is supervised by the BZ WBK Group Market Risk Committee. The Committee's responsibilities include allocation of the VaR limit to BH and approval of changes in the risk measurement methodology and in the risk management process.

2.4. Interest rate risk

The interest rate risk in the banking book is the risk of adverse impact of interest rate changes on the bank's income and the value of its assets and liabilities. The main source of interest rate risk are transactions entered in the bank's branches and in the business and corporate centres, as well as the transactions made in the money market by the Financial Management Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/commercial bonds, or the bank's borrowings from the interbank market. However, all positions that generate a repricing risk are transferred for management to the Financial Management Division, where the bank's dealers enter into transactions in the interbank markets so as to manage the overall interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The Bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the repriced assets and liabilities the companies enter into standard placements or derivative transactions with the Bank, which –from the transaction date – manages this risk under a global limit of BZ WBK Group

The interest rate risk in the banking book is managed based on the following limits:

- NII sensitivity limit (i.e. sensitivity of the net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (i.e. sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Banking and Markets Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss.

The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR in the bank is calculated for the open positions of the Global Banking and Markets by establishing the difference between the market valuation of the interest rate transactions based on the current yield curves, and the valuation based on the "worst case" yield curve, which is calculated based on the fluctuations in the interest rates.

The "stop-loss" mechanism is used for managing the risk of losses on the items covered by the rules of fair valuation through profit and loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

The total regulatory capital requirement for general interest rate risk is calculated for positions arising from transactions in the trading book, using the maturity method.

2.5. FX risk

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on results (and result in losses). This risk is managed by the VaR limit for the open currency positions in the Group's trading portfolio. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop loss mechanism is used for managing the risk of losses on the trading positions.

FX Balance Sheet

As a result of taking over assets and liabilities of KB Group, the mix of banking credit assets and liabilities has significantly changed as compared to 31 December 2012. As at 30 June 2013, the CHF amounts due from customers represented a significant item in the fx mix. The increase of fx subordinated liabilities up to PLN 1 433 158k arises from taking over the subordinated loans of KB Group.

The capital requirement for Foreign – Exchange risk is calculated according to the main method as:

- 8% of the overall foreign-exchange position – if the overall foreign-exchange position exceeds 2% of total own funds
- 0 – if the overall foreign-exchange position doesn't exceed 2% of total own funds.

As at 30 June 2013, the total foreign exchange position was not higher than 2% of the own funds of BZ WBK Group.

2.6. Liquidity risk

Liquidity risk is defined as a risk of failure to meet all conditional and unconditional obligations towards customers and partners.

Liquidity Risk Management

The BZ WBK Liquidity Management Policy is designed to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price;
- manage the maturity mismatch between assets and liabilities;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organization of the liquidity management process in BZ WBK;
- prepare the organization for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by the bank in its liquidity management process is that all expected outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or Qualified Liquid Assets (QLA) assuming normal or predictable conditions for the bank's operations. The QLA category includes: cash on hand, cash deposited with NBP (National Bank of Poland), securities which may be sold or pledged under repo transactions or NBP lombard loans.

In addition, the policy's aim is to ensure an adequate structure of funding the growing scale of the bank's business by maintaining liquidity ratios at pre-defined levels. The bank uses a number of other limits and observation ratios (including the loans to deposits ratio, the ratio of dependence on funding in the wholesale market, and the ratios required by Basel 3: LCR and NSFR). In terms of the long-term liquidity, in addition to the internal measures, the bank uses a limit corresponding to the regulatory limit, which requires that the equity and the stable sources of funding should fully cover the credit portfolio and nonliquid assets (e.g. fixed assets).

Management Process

The responsibility for supervision over the liquidity risk management process rests on the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management.

Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

The bank has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan also contains stress test with system and idiosyncratic scenarios.

Risk Measurement and Reporting

The responsibility for assessment and reporting of the liquidity risk rests on the Risk Management Division, specifically the Financial Risk Department.

2.7. Operational risk

BZ WBK Group adopted the definition of **operational risk** from the Basel Banking Supervision Committee which states that an operational risk is exposure to losses resulting from inadequate internal processes or systems, human errors or external factors.

Operational risk is inherent in almost all the Group's **business activities**, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the Group is fully responsible for the identification and management of operational risks pertaining to its operations. The objective of **operational risk management** is to minimise the likelihood of unexpected adverse events.

In order to manage operational risk, Bank Zachodni WBK Group maintains an operational risk policy and an operational risk framework, both of which are subject to regular review. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) appointed by the Management Board set the strategic direction for operational risk activities, including in the area of BCM, information security and fraud prevention. ORMCo is a forum for official discussions on operational risk, determines and monitors operational risk management objectives and sets priorities with regard to high risks. The effects of this work are reported to the Risk Management Committee.

BZ WBK Information Security Management System has been certified by ISO 27001:2005.

To ensure adequate risk management and identification of the key threats, the following processes are employed:

- **Identification and estimation of operational risk**

In their self-assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks for their likelihood and consequences, and describe the existing controls. As part of the self-assessment review, potential threats to the bank's business are identified. The risks with high residual rating have adequate action plans developed on which progress is reviewed quarterly by ORMCo.

- **Reporting on operational incidents and lessons learned**

Each organizational unit is required to report operational incidents on a monthly basis. The data is used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive and corrective measures are actioned. The lessons learned process aims to reinforce and facilitate operational risk management; it ensures also that decisive steps are taken if operational incidents materialize.

- **Analysis of risk indicators**

Risk indicators are financial and operational indicators which depict the risk level present in Bank Zachodni WBK Group, and provide early warning of emerging threats and operational losses.

- **Business continuity management**

Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption because of unavailability of systems, locations and staff. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur.

- **Regular reporting to the Risk Management Committee and Supervisory Board**

Operational risk issues are reported to the Risk Management Committee and Supervisory Board, including: operational risk incidents and losses, risk indicators, operational risk self-assessment.

- **Insurance**

The bank’s insurance cover includes the following insurance lines: Bankers’ Bond, Computer Crime and Officers & Directors.

2.8. Legal & compliance risk

Legal and regulatory (compliance) risk is defined – in line with the Basel Committee recommendation and the definition adopted by the strategic shareholder – as risk of regulatory sanctions, material financial loss or loss to reputation that may be incurred by BZ WBK Group as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

The Bank Management Board adopted a **risk management and compliance policy** which was then approved by the Supervisory Board.

Within BZ WBK Group several bodies have been assigned to manage legal and regulatory (compliance) risk:

- **Compliance Area** - relates to "conduct of business'" compliance obligations, including protection of the clients' rights, anti-money laundering, protection of sensitive information including confidencial information and professional secrecyand personal data.
- **HR Management Division** - all issues regarding compliance with employment law.
- **Financial Accounting and Control Division** - all issues regarding compliance with taxation law and reporting requirements.

For fulfilment prudential regulation responded Financial Accounting and Control Division and Risk Management Division in respective aspects.

Legal and regulatory (compliance) risk management is coordinated by the Compliance Division reporting to the Management Board Member. The Area coordinates and supervises the process of compliance risk management with subsidiary compliance units pursuant to the applicable law. Key committee to oversee and monitor compliance risk that have been established by the Management Board is the **Compliance Committee** and **Committee for Counteracting Money Laundering and Terrorist Financing**.

More details about legal and regulatory (compliance) risk are presented in **Note 4** to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2013.

2.9. Reputation risk

Reputation risk is defined as the risk arising from a negative perception of the Bank and other Group companies by customers, counterparties, shareholders or investors.

The potential sources of risks are internal and external events, such as negative publication in media, dissemination of negative customer feedback, for example in the Internet, social networks and other media. The elements of reputation risk include customer complaints and claims related to the process of offering banking products especially investment products, including complaints about insufficient information about products and related risks, complexity of products, improper sales practices or loss of capital.

The reputation risk is owned by **the Corporate Communication and Marketing Area (CCMA)**and **Compliance Area (CA)** and the specialized committee involved into processes of managing reputation risk related to the offering of products and services to customers is **the Local Marketing and Product Monitoring Committee**.

The purpose of reputation risk management is to protect the image of the BZ WBK Group and minimize the adverse events affecting the image and financial results of BZ WBK.

The reputation risk is primarily mitigated by:

1. monitoring of local, national and international media(CCMA);
2. collecting and analyzing information by the Press Office that affect the bank's (CCMA);
3. responding to information that create a risk of worsening public perception of the bank's image (CCMA);
4. customer satisfaction survey (CCMA);
5. preparing and monitoring by the relevant units of the Bank of all important messages and reports to shareholders, the Polish Financial Supervision Authority, Warsaw Stock Exchange and their timely publication;
6. Giving opinion on new products, procedures, commercial materials, processes and other bank initiatives in respect of their compliance with the regulations and the regulators' guidelines (CA);
7. Coordinating by the Compliance Area of the product acceptance and monitoring process to ensure that:
   a) Products and services are sold by duly trained staff

   b) Customers are given the required and appropriate information
   c) Products are distributed in an appropriate market, taking into account the legal and tax environment and the local financial culture
   d) The policies, procedures and other in-house and external regulations are complied with;
8. Taking part in the complaint handling process, especially in respect of complaints submitted to the regulators (CA).

No quantitative risk measurement is carried out or planned for reputation risk as this risk is qualitative in its nature.

3. Own funds

Following the legal merger of Bank Zachodni WBK Group with Kredyt Bank Group that took place on 4 January 2013 and as a result of issuing the merger shares, the core capital increased by PLN 4 543 840k, where PLN 189 074k representing the nominal value of the newly issued shares increased Bank Zachodni WBK share capital up to PLN 935 451k. The remaining part, i.e. issue premium of PLN 4 354 766k increased the supplementary capital.

On 22 January 2013, the Management Board of the Warsaw Stock Exchange adopted Resolution no. 87/2013 admitting 18,907,458 of the bank's merger shares to the primary stock market effective from 25 January 2013.

The level of own funds of BZ WBK Group is adjusted to the Group's business. In accordance with Art. 127 of the Banking Law, and Resolution no. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 own funds comprise:

- Primary funds,
- Complementary funds.

The BZ WBK Group primary funds include:

1. Core funds, understood as paid-in and registered share capital, supplementary capital and reserve capital;
2. Additional items of the primary funds:
   a) general risk fund earmarked for unidentified risks of the banking business
   b) retained earnings
   c) net profit in course of approval and net profit of the current period;
3. Non-controlling interests in equity,
   calculated in line with the applicable accounting rules, decreased by any expected charges and dividends. The calculated values may not be higher than the audited net profit
4. Items decreasing the primary funds:
   a) intangible fixed assets measured at book value
   b) other primary funds deductions defined by the Financial Supervisory Authority

The BZ WBK Group complementary funds include:

1. other items defined by the Financial Supervision Authority as required for safe conduct of the banking business and proper risk management in the bank
2. complementary funds deductions defined by the Financial Supervision Authority

An additional item included during the financial year in the calculation of own funds is the short-term capital. The bank's balance sheet of 30 June 2013 does not contain any items which would be considered as short-term capital under § 5.1 of KNF Resolution no. 76/2010 of 10 March 2010, as amended.

As at 30 June 2013, the total own funds of BZ WBK Group amounted to PLN **12,119,862k**.

The mix of BZWBK Group's own funds as at 30 June 2013 with a break-down into core funds and supplementary funds are presented in the table below.

Own Funds of BZ WBK Group
as at 30 June 2013 (PLN k)

No.	OWN FUNDS	as at 30.06.2013
I	PRIMARY FUNDS	10 097 638
1.	Core funds	11 205 174
1.1.	share capital	935 451
1.2.	supplementary capital	5 290 162
1.3.	reserve capital	4 979 561
2.	Additional items	1 029 019
2.1.	general risk fund	649 810
2.2.	retained earnings	379 209
3.	Non-controlling interests in equity	67 458
4.	Items decreasing the primary funds	(2 204 013)
4.1.	intangible fixed assets	(342 941)
4.2.	unrealised losses on debt instruments classified as available for sale	-
4.3.	unrealised losses on equity instruments classified as available for sale	(123 517)
4.4.	equity interests in other financial institutions	(49 039)
4,5	goodwill	(1 688 516)
II	COMPLEMENTARY FUNDS	2 022 224
1.	Subordinated Floating Rate Notes	1 433 158
2.	Other items	638 105
2.1.	unrealised gains on debt instruments classified as available for sale	223 289
2.2.	unrealised gains on equity instruments classified as available for sale	414 816
3.	Items decreasing the complementary funds	(49 039)
3.1.	equity interests in other financial institutions	(49 039)
III (I+ II)	TOTAL OWN FUNDS FOR CALCULATION OF THE SOLVENCY RATIO	12 119 862

3.1. Primary funds

Core funds

Share capital is stated in the nominal amount as shown in the Statutes and in the entry to the Court Register. The nominal value of a share is PLN 10. All the issued shares are fully paid-up. As at 30 June 2013, the share capital was **PLN 935,451k**.

Supplementary capital is created from profit allocations and from share premium. By the Bank's Statutes, the supplementary capital is created from net profit allocations. Its purpose is to cover any balance sheet losses. The value of the allocations is determined by the General Meeting of Shareholders. As at 30 June 2013, the supplementary capital was **PLN 5,290,162k**., incl. share premium of **PLN 4,932,849k.**

Reserve capital is created from net profit allocations in an amount approved by the General Meeting of Shareholders. Reserve capital is used to cover balance sheet losses if they are greater than the supplementary capital. The decision to resort to the reserve capital is taken by the General Meeting of Shareholders. As at 30 June 2013, the reserve capital was **PLN 4,979,561k**.

Additional items of the primary funds

In accordance with the Banking Law, **the general risk fund for unidentified banking business risk** is created from net profit allocations in an amount approved by the General Meeting of Shareholders. The general risk fund is used to cover costs and losses connected with unidentified banking risks that were not separately provided for. As at 30 June 2013, the general risk fund earmarked for unidentified risks of the banking business was **PLN 649,810k**.

Net profit of Bank Zachodni WBK Group for H1 2013 totalled **PLN 807 642k**, including **PLN 14 539k** of profit attributable to shareholders who do not exercise control. As at H1-end 2013, the undistributed profit from the previous years and retained profits of Bank Zachodni WBK Group, less the planned pay-out of a dividend amounted to **PLN 379 209k** (in the capital adequacy account).

Non-controlling interests in equity

As required by § 6 of the Resolution no. 325/2011 of the Polish Financial Supervision Authority, the Bank's consolidated own funds must reflect non-controlling interests in equity, if any. Pursuant to art. 3 of *the Accounting Act* non-controlling interests in equity are the part of the subsidiary's net assets that is owned by external shareholders. As at 30 June 2013, non-controlling interests in equity amounted to **PLN 67,458k**.

Items decreasing the primary funds

As at 30 June 2013, the **intangible fixed assets** amounted to **PLN 342,941k**.

As at the merger date, the estimated **goodwill** of **PLN 1,688,516k** was applied in reduction of the primary funds of the merged bank. The goodwill arising on acquisition represents a control premium, and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues, achieved market share, combination of staff competencies and an increase in the effectiveness of processes, all of which is an excess over the fair value of the acquired assets.

As per § 3 of Resolution no. 325/2011 of the Polish Financial Supervision Authority, other items decreasing the primary funds are **unrealised losses on debt and equity instruments classified as available for sale.** As of 30 June 2013, BZ WBK Group unrealised losses on equity instruments available for sale decreased the primary funds by **PLN 123,517k.** The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in **Note 21** to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2013.

As per § 3 of the Resolution no. 325/2011 of the Polish Financial Supervision Authority, other items decreasing own funds account for 50% of the **capital investment** in financial institutions, credit institutions, domestic banks, foreign banks and insurance companies, expressed as:

a) the value of shareholdings;
b) the amounts classified as subordinated liabilities;
c) other equity exposures in the items of own funds of such entities, including contributions to limited liability companies (at book value).

As at 30 June 2013, the primary funds has been reduced by **PLN 49,039k**. i.e. 50% of capital holding in financial entities.

3.2. Complementary funds

Subordinated liabilities

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Group's supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99m have been included in the calculation of the Group's adequacy ratio.

The merger was also connected with an acquisition of subordinated obligations (three loans) towards KBC Bank NV, O/Dublin, which increased the own funds.

An amount of **PLN 1,433,158k** is presented in this respect in the statement of own funds of 30 June 2013.

Subordinated liabilities of BZ WBK Group as at 30 June 2013 (PLN k)

Entity	Nominal value [k]	Currency	Amount included in own funds [k]	Redemption date	Start date of amortization	Subordinated liabilities included in own funds [PLN m]
European Bank for Reconstruction and Development	100 000	EUR	99 000 EUR	05.08.2020	05.08.2015	428 591
KBC Bank NV O/Dublin	100 000	CHF	100 000 CHF	15.06.2018	15.06.2013	350 780
KBC Bank NV O/Dublin	165 000	CHF	165 000 CHF	28.06.2019	28.06.2014	578 787
KBC Bank NV O/Dublin	75 000	PLN	75 000 PLN	30.01.2019	30.01.2014	75 000
						1 433 158

Other items

As per § 4 of the Resolution no. 325/2011 of the Polish Financial Supervision Authority, other items of the complementary funds are **unrealised gains on debt and equity instruments classified as available for sale** in an amount equal to 80% of their pre-tax value. Unrealised gains on debt and equity instruments classified as available for sale included in capital adequacy calculation amounted to **PLN 638,105k**. The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in **Note 21** to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2013.

Items decreasing the complementary funds

As required by § 4 of the Resolution no. 325/2011 of the Polish Financial Supervision Authority, the Bank's complementary funds were decreased by 50% of the Bank's equity interests. Details are presented in the section on primary funds.

3.3. Additional items

In accordance with Art. 128, section 6, point 1) of *the Banking Law* and §10 of the Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010, in the calculation of own funds the short-term capital is used. Short-term capital is defined as:

1) sum of:
   a) market profit, calculated cumulatively until the reporting date, decreased by any known charges, including dividends to the extent the profit was not classified into own funds or otherwise distributed;
   b) losses (with a minus sign) on all transactions classified into the banking book, calculated cumulatively until the reporting date, excluding losses due to FX differences and commodity prices to the extent the losses were not classified into own funds or otherwise covered;
   c) obligations in respect of eligible subordinated debt;
   d) the equity of subsidiaries where the equity value is negative and does not reduce the bank's own funds

where the value is positive - in an amount not exceeding the total relevant capital requirements

2) Nil - if the above sum is not positive.

The BZ WBK balance sheet of 30 June 2013 contains no entries classified as short-term capital in accordance with Art. § 5.1 of KNF resolution no. 76/2010.

4. Capital requirements

Currently, the BZ WBK Group calculates capital adequacy in accordance with Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010, as amended, on the scope and detailed principles for setting capital requirements for different risks, adopted by KNF resolution no. 369/2010 of 12 October 2010, 153/2011 of 7 June 2011 and 324/2011 of 20 December 2011. In H/Y 2013, BZ WBK applied the standardised approach to the calculation of capital requirement for credit, market and operational risk. Under this approach the total capital requirement for credit risk is calculated as a sum of risk-weighted assets multiplied by 8%. In the case of an asset, the value of the exposure is equal to its balance-sheet value and in the case of an off-balance sheet item, the value of the exposure is equal to its on-balance sheet equivalent. To calculate the value of risk-weighted exposures, risk weights are assigned to all exposures in accordance with Appendix 4 to Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 as amended.

The Bank calculates and monitors capital requirements for all the key risks, including those defined in §6.1 of the Resolution no 76/2010 as amended, namely:

- capital requirement for credit risk
- capital requirement for market risk
- capital requirement for the settlement, supplier and counterparty risk;
- capital requirement in respect of the excess of the exposure concentration limit and the large exposures limit
- capital requirement for capital concentration limit excess
- capital requirement for operational risk

The BZ WBK Group calculates capital requirements separately for the exposures classified into the banking and trading book.

4.1. Capital requirements for individual risk types

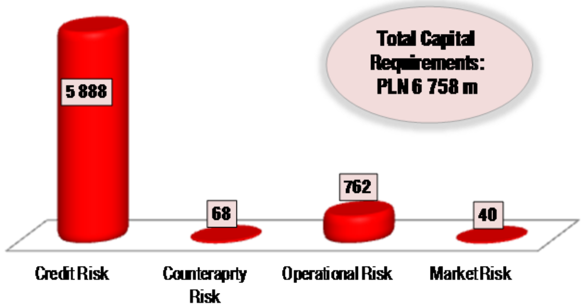
Total capital requirement of the BZ WBK Group as at 30 June 2013 was **PLN 6,758,472k**, including:

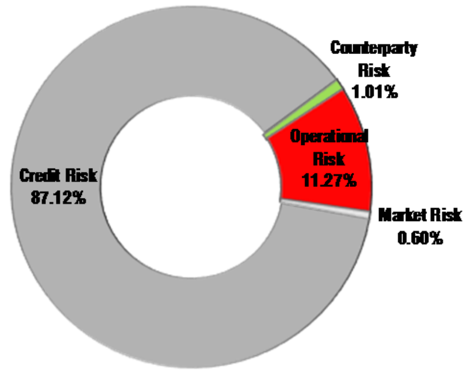
- **PLN 5,888,152k** for credit risk
- **PLN 40,403k** for market risk
- **PLN 68,276k** for counterparty risk
- **PLN 761,641k** for operational risk

Capital requirements of BZ WBK Group
as at 30 June 2013 (PLN k)

No.	CAPITAL REQUIREMENTS FOR INDIVIDUAL RISK TYPES	as at 30.06.2013
1.	Credit risk	5 888 152
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	-
3.	Market risk including:	40 403
3.1	FX risk	-
3.2	commodity prices risk	-
3.3	equity securities prices risk including:	1 589
3.3.1	specific risk	1 038
3.3.2	general risk	121
3.3.3	particular approach for position risk in CIUs	430
3.4	specific debt instrument price risk	265
3.5	general interest rate risk	38 549
4.	Counterparty risk	68 247
5.	Settlement risk	29
6.	Capital concentration excess risk	-
7.	Operational risk	761 641
	TOTAL CAPITAL REQUIREMENT (poz. 1+2+3+4+5+6)	**6 758 472**

Structure of capital requirement for different risk types





The biggest item of the total capital requirement of the BZ WBK Group is the capital requirement for credit risk, which on 30 June 2013 accounted for **87.12%** of the total capital requirement. BZ WBK Group manages credit risk on a priority basis, using its internal rating systems, credit concentration limits and sectoral exposure limits, seeking to maintain the possible highest quality of the credit portfolio.

When calculating capital requirement for credit risk, BZ WBK Group takes into account impairment losses for credit receivables, which are recognised in accordance with the International Accounting Standards/ International Financial Reporting Standards (IAS/ IFRS). The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and exposures of incurred but not reported losses). More details about the impairment are presented in **Notes 4, 11** and **20** to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2013.

As of 30 June 2013, BZ WBK Group's permanent impairment losses for credit receivables amounted to **PLN 3,548,084k.** More details about the movements on impairment losses on loans to customers are presented in **Note 20** to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2013. Provisions for off-balance sheet liabilities came to a total of **PLN 85,624k.**

The capital requirement for operational risk amounted to **PLN 761,641k** including **71.65%** in respect of the capital requirement for the commercial banking and retail banking business line.

The capital requirement for market risk was **PLN 40,403k**, including **95.41%** in respect of the capital requirement for the general interest rate risk.

The exposure concentration analysis, which was carried out as of 30 June 2013, showed that BZ WBK Group's exposures did not exceed the limits defined in Appendix 12 to KNF Resolution no. 76/2010 of 10 March 2010, as amended.

The capital requirement for counterparty credit risk was set in accordance with KNF Resolution no. 76/2010 of 10 March 2010, as amended, and it was PLN **68,247k** as of 30 June 2013. BZ WBK Group calculates the value of exposures and risk weighted exposure amounts for the purpose of counterparty credit risk estimates in accordance with the rules for determining such amounts for the purpose of calculation of capital requirement for credit risk under the standardised approach. Balance sheet equivalent of off-balance sheet transactions is determined in accordance with the mark-to-market method, as described in §10 of Appendix 16 to KNF Resolution no. 76/2010, as amended.

The capital requirement for counterparty credit risk is calculated on the basis of exposure arising from transactions in the trading book, determined on the basis of replacement cost and potential future value of credit exposure. According to Appendix 16 to KNF Resolution no. 76/2010, as amended, replacement cost depends on the market value of a given transaction, whereas potential future credit exposure is determined on the basis of the product of the nominal value and the weight of the product.

List of exposures for capital requirement for counterparty credit risk as at 30 June 2013 (PLN k)

No.	Exposure Class	Exposure Value	Risk-weighted Assets	Capital requirement for counterparty risk
1.	Claims or contingent claims on institutions	1 317 286	559 941	44 795
2.	Claims or contingent claims on corporates	285 771	285 772	22 862
3.	Other exposure classes	8 673	7 375	590
	Total exposures covered by the standardised approach	**1 611 730**	**853 088**	**68 247**

The requirement arising from exposure to businesses was the largest item of the capital requirement for counterparty credit risk in BZ WBK Group.

Foreign currency transactions account for ca. 23.3% of the value of exposures in the trading book, which is subject to calculation of capital requirement for counterparty credit risk.

List of exposures for capital requirement for counterparty credit risk by product as at 30 June 2013 (PLN k)

No.	Product	Exposure Value	Risk-weighted Assets	Capital requirement for counterparty risk
1.	Forward Rate Agreement	25 501	9 165	733
2.	FX Spot, FX Swap, FX Forward	357 104	198 146	15 852
3.	FX Option	18 370	11 045	883
4.	Interest Rate Swap (IRS), Cross Currency Swap (XCCY)	1 155 145	596 236	47 699
5.	Other	55 610	38 496	3 080
	Total exposures covered by the standardised approach	**1 611 730**	**853 088**	**68 247**

Detailed information relating to valuation and the nominal values of derivatives is presented in **Note 18** to the Consolidated financial statement of BZ WBK Group for the 6-month period ended 30 June 2013.

4.2. Exposure structure

Equity exposure which is not included in the trading book and which is classified as available for sale, was **PLN 650,550k** as of 30 June 2013 (**PLN 34,865k** is attributable to equity exposures arising from securities listed on the stock exchange, whereas **PLN 615,685k** is attributable to unlisted exposures). The equity securities listed on the stock exchange are either priced with reference to a quoted market price for that instrument. Unlisted equity investments classified as available-for-sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The movements on financial instruments representing equity rights are presented in **Note 21** to the Consolidated financial statement of BZ WBK Group for the 6-month period ended 30 June 2013.

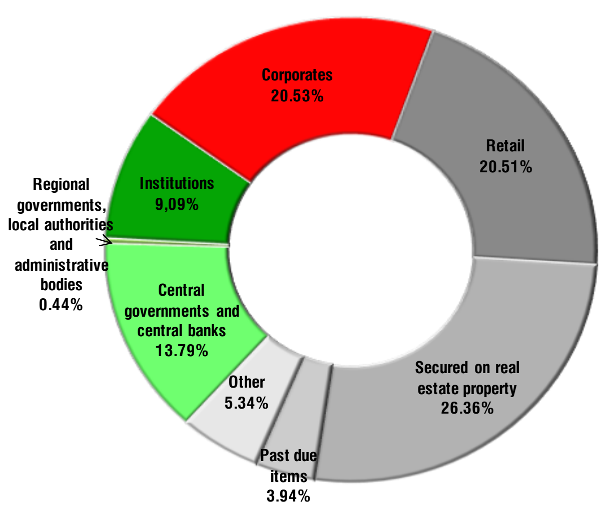
In the process of capital adequacy assessment, each type of exposure was allocated to the following classes (as required by § 20.1. of Appendix 4 of the Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 as amended):

Balance and Off-Balance Sheet Exposures by Asset Classes as at 30 June 2013 (PLN k)

No.	Exposure Class	Exposure Value	Risk-weighted Assets	Capital requirement for credit risk and counterparty risk
1.	Claims or contingent claims on central governments or central banks	17 748 753	241 209	19 297
2.	Claims or contingent claims on regional governments or local authorities	304 903	51 377	4 110
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	255 492	138 272	11 062
4.	Claims or contingent claims on multilateral development bank	13 352	-	-
5.	Claims or contingent claims on institutions	11 687 852	1 873 567	149 885
6.	Claims or contingent claims on corporates	26 429 436	19 358 418	1 548 673
7.	Retail claims or contingent retail claims	26 410 122	18 493 119	1 479 449
8.	Claims or contingent claims secured on real estate property	33 946 054	28 821 219	2 305 698
9.	Past due items	5 066 508	2 673 652	213 892
10.	Claims classified to the regulatory high-risk categories	50 806	76 056	6 084
11.	Claims in the form of collective investment undertakings	26 639	26 639	2 131
12.	Other claims	6 802 405	2 701 464	216 117
	Total exposures covered by the standardised approach	**128 742 322**	**74 454 992**	**5 956 399**
	of which: counterparty risk - trading portfolio	1 611 730	853 089	68 247

The structure of the BZ WBK Group credit exposures mainly includes claims secured on real estate, and claims on corporates. The claims mentioned above accounted for 46.9% of total exposure.

Percentage structure of exposure for different asset class



List of exposures as of 30 June 2013 and average exposure amounts (PLN k)

No.	Exposure Class	Exposure Value	Average value of the exposures
1.	Claims or contingent claims on central governments or central banks	17 748 753	21 860 124
2.	Claims or contingent claims on regional governments or local authorities	304 903	361 575
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	255 428	236 683
4.	Claims or contingent claims on multilateral development bank	13 352	34 211
5.	Claims or contingent claims on institutions	10 370 567	7 654 836
6.	Claims or contingent claims on corporates	26 143 663	25 526 336
7.	Retail claims or contingent retail claims	26 401 514	22 595 160
8.	Claims or contingent claims secured on real estate property	33 946 054	36 895 962
9.	Past due items	5 066 508	4 333 515
10.	Claims classified to the regulatory high-risk categories	50 806	12 991
11.	Claims in the form of collective investment undertakings	26 639	38 870
12.	Other claims	6 802 405	5 468 512
	Total exposures covered by the standardised approach	**127 130 592**	**125 018 786**

The average exposure value was determined on the basis of the last five reporting periods for BZ WBK Group.

Under the lending policy of BZ WBK Group, sectors, groups and entities that represent various industries are financed. The diversified credit portfolio allows BZ WBK Group to mitigate the risk associated with concentration in lending to a single industry. As of 30 June 2013, the highest concentration, excluding the public sector and the retail sector, was reported in the property sector.

Balance and Off-Balance Sheet Exposures by Asset Classes according sectors as at 30 June 2013 (PLN k)

		Industry Analysis											
No.	Exposure Class	Public Sector	Detail (including mortgages)	Property	Manuafacturing	Distribution	Construction	Agriculture	Transport	Financial	Energy	Other Secotrs	Total
1.	Claims or contingent claims on central governments or central banks	17 748 753	-	-	-	-	-	-	-	-	-	-	17 748 753
2.	Claims or contingent claims on regional governments or local authorities	304 903	-	-	-	-	-	-	-	-	-	-	304 903
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	255 428	-	-	-	-	-	-	-	-	-	-	255 428
4.	Claims or contingent claims on multilateral development bank	-	-	-	-	-	-	-	-	13 352	-	-	13 352
5.	Claims or contingent claims on institutions	-	-	-	-	-	-	-	-	10 370 567	-	-	10 370 567
6.	Claims or contingent claims on corporates	-	37 543	1 603 006	7 915 627	6 482 720	1 912 018	156 935	481 414	2 067 436	4 681 004	805 960	26 143 663
7.	Retail claims or contingent retail claims	-	18 409 231	55 942	1 487 226	2 449 033	793 502	888 102	874 231	114 368	155 129	1 174 750	26 401 514
8.	Claims or contingent claims secured on real estate property	-	18 173 229	7 133 960	3 516 694	2 874 389	326 453	410 246	278 677	148 922	421 590	661 894	33 946 054
9.	Past due items	-	953 704	1 345 977	626 269	524 579	389 838	56 918	111 052	173 554	513 720	370 897	5 066 508
10.	Other exposure classes	-	-	-	-	-	-	-	-	-	-	6 879 850	6 879 850
	Total exposures covered by the standardised approach	**18 309 084**	**37 573 707**	**10 138 885**	**13 545 816**	**12 330 721**	**3 421 811**	**1 512 201**	**1 745 374**	**12 888 199**	**5 771 443**	**9 893 351**	**127 130 592**

The structure of balance sheet and off-balance sheet exposure of BZ WBK Group by maturity is presented below. Exposures with residual maturity of 5 years represent the bulk of the exposures.

Balance and Off-Balance Sheet Exposures by Asset Classes according residual maturity as at 30 June 2013 (PLN k)

		Residual Term to Maturity				
No.	Exposure Class	<1 year	1-5 years	>5 years		Total
1.	Claims or contingent claims on central governments or central banks	29.56%	36.74%	33.71%	-	17 748 753
2.	Claims or contingent claims on regional governments or local authorities	8.23%	55.42%	36.35%	-	304 903
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	12.56%	57.59%	29.85%	-	255 428
4.	Claims or contingent claims on multilateral development bank	100.00%	0.00%	0,00%	-	13 352
5.	Claims or contingent claims on institutions	63.08%	16.82%	20.10%	-	10 370 567
6.	Claims or contingent claims on corporates	27.92%	51.21%	20.87%	-	26 143 663
7.	Retail claims or contingent retail claims	22.90%	39.49%	37.62%	-	26 401 514
8.	Claims or contingent claims secured on real estate property	11.10%	24.20%	64.70%	-	33 946 054
9.	Past due items	50.65%	45.31%	4.04%	-	5 066 508
10.	Claims classified to the regulatory high-risk categories	1.08%	98.92%	0,00%	-	50 806
11.	Other exposure classes	-	-	-	5.37%	6 829 044
	Total exposures covered by the standardised approach	**24.81%**	**33.79%**	**36.03%**	**5.37%**	**127 130 592**

4.3. Allocating risk weights to the credit portfolio

The risk weights used in the calculation of capital requirement for credit risk in the standardised approach are based on the provision of Appendix 4 to KNF Resolution no. 76/2010 as amended. Risk weights are allocated in line with the class of the exposure and the credit quality of the claim/entity as defined in §24-100 of Appendix 4 to KNF Resolution no. 76/2010 as amended.

The Group applies techniques of reducing the credit risk both with regard to tangible (real) and financial collaterals as per Appendix no. 17 to KNF Resolution no. 76/2010 as amended. In the case of financial collaterals, borrowers covered by the credit protection in the form of a guarantee are assigned a risk weight arising from the risk grade of the entity that grants the guarantee. The prevailing group of suppliers of financial collaterals is composed of banks including Bank Gospodarstwa Krajowego and the Ministry of Finance acting as a unit of the State Treasury.

For past-due exposures, the risk-weight is set by the rules specified in §70 of Appendix 4 to KNF Resolution no. 76/2010 as amended. An exposure is considered as past due if it is past due for more than 90 days and the past due amount is greater than PLN 500 in the case of retail exposures and greater than PLN 3000 in case of other exposure classes.

Exposures to the parent company, subsidiary or other entities controlled by the parent company have a preferential risk weight of 0% (§12 of Appendix 4 to KNF Resolution no. 76/2010 as amended).

The Group has a separate class of retail exposures secured on residential real estate, applying a preferential risk weight of 35% to it (as per §65 of Appendix 4 to KNF Resolution no. 76/2010 as amended). Bank Zachodni WBK S.A. does not have a separate class of exposures effectively secured on commercial real estate (§66 of Appendix 4 to KNF Resolution no. 76/2010 as amended) where preferential risk weight can be assigned.

According to Resolution no. 153/2011 of 7 June 2011, retail exposures with respect to which the principal or interest instalment depends on exchange rate movements or on currencies other than the currency of the borrower's income are assigned a 100% risk weight. Other retail exposures which are not past-due and which are processed on the basis of the standardised approach qualify for the risk weight of 75%.

Preferential approach was used to the risk weights for the PLN claims on regional government, the city of Warsaw and their associated bodies. (in accordance with §31 of Appendix 4 to KNF Resolution no. 76/2010 as amended).

As at 30 June 2013, the Group's debt instruments portfolio comprised **PLN 2,448,418k**-worth of the bonds of Bank Gospodarstwa Krajowego, fully covered by the guarantee of the State Treasury. The bonds are assigned a preferential risk weight of 0%.

Balance and Off-Balance Sheet Exposures by Asset Classes according to risk weight as at 30 June 2013 (PLN k)

		Risk Weightings							
No.	Exposure Class	0%	20%	35%	50%	75%	100%	150%	Total
1.	Claims or contingent claims on central governments or central banks	16 542 707	1 206 046	-	-	-	-	-	17 748 753
2.	Claims or contingent claims on regional governments or local authorities	-	304 324	-	579	-	-	-	304 903
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	1 354	17 032	-	161 106	-	75 936	-	255 428
4.	Claims or contingent claims on multilateral development bank	13 352	-	-	-	-	-	-	13 352
5.	Claims or contingent claims on institutions	174	8 387 703	-	1 930 780	-	51 910	-	10 370 567
6.	Claims or contingent claims on corporates	80 837	199	-	321 444	-	25 741 183	-	26 143 663
7.	Retail claims or contingent retail claims	3 620	10	-	9 539	20 629 978	5 758 367	-	26 401 514
8.	Claims or contingent claims secured on real estate property	-	-	3 357 745	26 789	8 052 108	22 509 412	-	33 946 054
9.	Past due items	320	-	-	126 308	38 978	3 856 804	1 044 098	5 066 508
10.	Claims classified to the regulatory high-risk categories	-	-	-	-	-	-	50 806	50 806
11.	Claims in the form of collective investment undertakings	-	-	-	-	-	26 639	-	26 639
12.	Other claims	4 017 043	98 563	-	-	-	2 686 799	-	6 802 405
	Total exposures covered by the standardised approach	**20 659 407**	**10 013 877**	**3 357 745**	**2 576 545**	**28 721 064**	**60 707 050**	**1 094 904**	**127 130 592**

In each asset class, appropriate risk weight is allocated depending on the available credit rating of reliable external rating institutions or export credit agencies acceptable to the Bank. The Bank accepts ratings of the following agencies:

- Fitch Ratings
- Moody's Investors Service
- Standard and Poor's Ratings Services

If two credit ratings are available for an exposure and the ratings are linked to different risk weight of the particular exposure, the Bank uses the higher risk weight. If for an exposure three or more credit ratings are available, the Bank uses two ratings with the lowest risk weights and if the two are different, the higher risk weight is applied.

Balance and Off-Balance Sheet Exposures by Asset Classes according to credit quality step as at 30 June 2013 (PLN k)

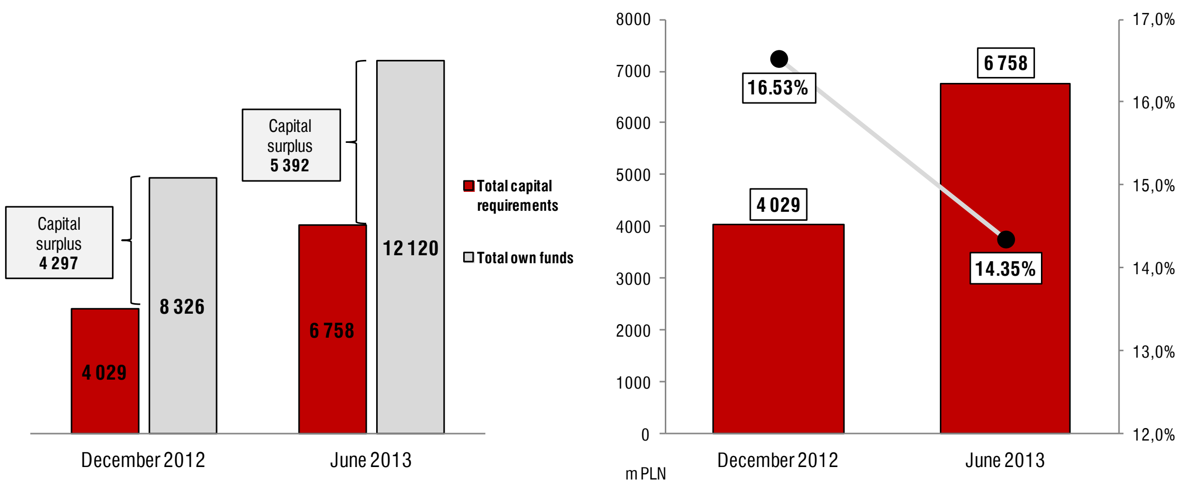
		Credit quality step							
No.	Exposure Class	1	2	3	4	5	6	Lack	Total
1.	Claims or contingent claims on central governments or central banks	3 487 657	14 225 851	-	-	-	-	35 245	17 748 753
2.	Claims or contingent claims on regional governments or local authorities	-	132 076	-	-	-	-	172 827	304 903
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	9	195 716	-	-	-	-	59 703	255 428
4.	Claims or contingent claims on multilateral development bank	13 352	-	-	-	-	-	-	13 352
5.	Claims or contingent claims on institutions	281 599	8 341 283	725 514	58 522	28 338	-	935 311	10 370 567
6.	Claims or contingent claims on corporates	199	13 452	2 524 442	751 169	-	-	22 854 401	26 143 663
7.	Retail claims or contingent retail claims	-	9 225	114	-	-	-	26 392 175	26 401 514
8.	Claims or contingent claims secured on real estate property	-	36 642	-	-	-	-	33 909 412	33 946 054
9.	Past due items	-	290	126 083	-	-	-	4 940 135	5 066 508
10.	Claims classified to the regulatory high-risk categories	-	-	-	-	50 256	-	550	50 806
11.	Claims in the form of collective investment undertakings	-	-	-	-	-	-	26 639	26 639
12.	Other claims	-	-	-	-	-	-	6 802 405	6 802 405
	Total exposures covered by the standardised approach	**3 782 816**	**22 954 535**	**3 376 153**	**809 691**	**78 594**	**-**	**96 128 803**	**127 130 592**

5. Capital adequacy ratio

According to § 10 of KNF Resolution no. 76/2010 of 10 March 2010, as amended, the capital adequacy ratio is calculated on the basis of own funds plus short-term capital multiplied by 12.5 total capital requirement.

With the total capital requirement of **PLN 6,758,472k** and own funds of **PLN 12,119,862k** as at 30 June 2013, the capital adequacy ratio of the BZ WBK Group was **14.35%**.

Capital Adequacy of BZ WBK Group as at 30 June 2013



6. Internal capital adequacy

Introduction

It is the policy of the Bank Zachodni WBK Group to maintain equity at a level appropriate to the size and type of its business and the risk it is exposed to, in compliance with the Polish Banking Law and regulations issued by the Polish Financial Supervision Authority (KNF) which transpose the New Capital Accord of the Basel Committee (Basel II) into Polish law.

Basel II defines the approach to measurement of the minimum regulatory capital requirement (Pillar 1) and introduced measurement of internal capital (Pillar 2) where in-house models are applied by banks in day-to-day risk management. Internal capital is more sensitive to risk and should be subject to prudent and detailed review to facilitate correct measurement. Calculation of internal capital is an integral part of the bank management.

In addition, the level of capital maintained by the Group is determined by ultimate external ratings and results of stress tests of individual material risks.

The Management Board is accountable for capital management, calculation and maintenance processes, including assessment of capital adequacy vis a vis different economic conditions and evaluations of stress tests results and their impact on internal capital and capital adequacy. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.

The Management Board delegated on-going capital management to ALCO/ICAAP Forum. This body is responsible for tracking the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The ALCO/ICAAP Forum is the first body in the bank to define capital policy and rules for assessment of capital adequacy both for the bank and the Group. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank in accordance with the applicable law and the bank's Statutes.

Capital Policy

The Group's capital management policy envisages the minimum level of solvency ratio at 10% (calculated according to the Banking Law and KNF Resolutions) both for the Bank and the Group (watch limit has been set at 12%).

At the same time Tier 1 capital ratio (core equity capital to Risk Weighted Assets for credit, market and operational risk) should be maintained at a minimum level of 9% both for the Bank and the Group.

Internal Capital

The underlying aim of Pillar 2 of the New Capital Accord is to carry out assessment of the internal capital adequacy, both current and future (ICAAP), independent from the regulatory methods.

Under the ICAAP process, the Group estimates, allocates and maintains the required level of internal capital to ensure secure conduct of its banking business in accordance with the bank's risk appetite statement.

In 2012, BZ WBK Group finalised implementation of the new internal capital assessment methodology. The new internal capital assessment model based on the statistical loss estimation models for measurable risks, such as credit risk, operational risk and own assessment of capital requirements for other material risks not covered by the model, e.g. reputation risk, compliance risk or model risk.

The internal capital assessment process uses the Group's internal risk assessment models, including rating and scoring systems, and the risk parameters coming from these models, showing the likelihood of default by the customers of BZ WBK Group and suffering potential losses arising from the default.

Results of the ICAAP process are an element of assessment of the current and future capital requirements, and are the basis for assessment of risk appetite and the Group's strategy.

BZ WBK Group performs an internal assessment of capital requirements also in stressed conditions, taking into account different macroeconomic scenarios.

The internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the Group's business and to take account of any new risks and the management judgement.

The review and assessment is the responsibility of the Group's risk management committees, including: ALCO and the Models and Methodology Panel.

As of 1 January 2013, under ICAAP process, the monthly calculation of BZWBK Group's internal capital requirements is made taking into account all aspects of the merger dated 4 January.

Policy of variable components of remuneration

According to KNF Resolution no. 259/2011 of 4 October 2011, the bank has an obligation to publish information about its policy on variable components of remuneration paid to its officers.

BZ WBK Group has the **Policy of variable components of remuneration paid to selected officers of BZ WBK Group,** which has been accepted and signed off by the Bank Management Board and the Supervisory Board. The Policy is subject to reviews, which are carried out on an annual basis or more often in the case of significant organizational changes.

The list of officers includes, in particular, all Members of the Bank Management Board and the Members of the Management Boards of the subsidiaries for which the bank is the parent company.

The list of other officers is determined by a committee composed of: the Chairman of the Supervisory Board, the President of the Bank Management Board, the Management Board Member in charge of the HR Management Division, after considering recommendations given by individual Divisions and the subsidiaries for which the bank is the parent company.

As part of the risk governance framework within subsidiaries, the provisions of this Policy also apply to the subsidiaries for which the bank is the parent company.

The purpose of the Policy is to support correct and effective risk management by eliminating situations that lead to excessive risk taking which exceeds the bank's risk appetite, to support implementation of the strategy and to limit potential conflicts of interest.

Remuneration of officers covered by Policy on variable components of remuneration

Variable pay comprises remuneration paid to officers, other than: basic salary, benefits in kind and benefits that must be paid under the existing regulations.

Variable pay components are granted on the basis of evaluation of performance of individual officers and results posted within the area of responsibility of a given officer.

Officers receive variable remuneration in accordance with the provisions of the rules of dedicated incentive plans on the grounds of the function they perform. Variable components of compensation are monitored by the Supervisory Board's Nomination and Remuneration Committee.

The table below provides information on remuneration paid to people in management positions and officers covered by the Policy on variable components of remuneration, broken down into Management Board Members and other positions. The data pertain to:

- the amount of remuneration for a given financial year, broken down into fixed and variable components of salary and the number of people who are paid such salary,
- the amount and the form of variable pay, broken down into cash remuneration and remuneration in instruments,
- the amount of deferred compensation.

Bank Zachodni WBK does not adjust bonuses according to actual financial results posted in subsequent years. Therefore, the total amount of deferred bonus is paid over successive periods and treated as bonus paid.

Variable remuneration paid in the 6-month period ended 30 June 2013 to staff of Bank Zachodni WBK covered by Policy on variable components of remuneration (PLN k)

	The Management Board	Other posts
Base remuneration	**8 161**	**2 886**
Variable remuneration	**6 513**	**1 442**
Paid		
in cash (*)	4 429	1 010
in shares	-	-
Deffered	-	-
in cash (*)	2 084	432
in phantom shares (*)	20 101 shares	4 167 shares
in BZ WBK shares (**)	13 336 shares	3 156 shares
Entitled persons [1]	**10 persons**	**6 persons**

(*) Bonus for results achieved in 2012

(**) Compensation and bonuses for non competition clause paid to the board member as a result of termination of employment for 2013

(1) Information prepared according to current list of persons covered by 'Policy of variable components of remuneration paid to selected officers of BZ WBK Group'.

Variable salary components are paid to officers within specific time limits, after the end of a given period and announcement of the bank's results. Variable components of salary have the form of cash remuneration or share option.

If total annual variable remuneration components exceed the threshold defined in the Policy, the payment of a portion of such components is deferred for 3 years and is made in equal annual instalments in arrears, depending on performance of a given officer during the evaluated period of time.

Deferred compensation corresponds to not less than 40% of the total variable pay.

The payment of deferred compensation is conditional upon positive evaluation of performance of individual officers and results posted within the area of responsibility of a given officer. As for the Management Board Members in charge of the Risk Management, Legal and Compliance, and HR Management Divisions and the Head of the Internal Audit Area, the payment of deferred compensation is conditional upon positive evaluation of target achievement in respect of their functions.

Deferred compensation is paid on condition that none of the circumstances specified below occur:

- negative financial results posted by BZWBK Group;
- violation by an employee of law or in-house regulations, especially the regulations that impact on the risk profile
- significant adjustment in financial statements, except adjustments arising from amendments to the accounting standards;
- material change in the capital or the risk profile of BZWBK Group.

Quantitative data on remuneration by business lines as at 30 June 2013 (PLN k)

Business line	Base remuneration paid during 1.01.2013-30.06.2013 [k PLN]	Bonus for 2012			Deffered bonus for 2011 paid in 2013	Long-term intencive shame (number of granted share)
		Paid [k PLN]	Deffered			
			Paid in cash [k PLN]	Number of phantom share granted		
Business & Corporate Banking Division	790	294	196	1 890	96	1 625
Retail Banking Division	1 137	474	316	3 048	283	2 044
Global Banking & Markets Division	1 259	573	382	3 684	-	1 761
Other	7 861	2 433	1 622	15 646	1 286	11 071
	11 047	**3 773**	**2 516**	**24 268**	**1 664**	**16 501**

Share based incentive scheme

In 2011, as part of the 4th Incentive Plan, no more than 500 eligible staff, including staff not covered by the Policy on variable components of remuneration, were granted the share option.

Vesting condition will be considered from two perspectives, separately for every year of operation of the scheme and on a cumulative basis after 3 years.

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit before tax (PBT) growth. The range of the scale requires PBT growth between 8% and 15% in first year and between 15% and 22% in second and third year of duration of scheme.

Shares vested in any single year will be allocated to individual after maturity of the edition.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PBT compound annual growth rate in 3 years' time between 12.6% and 19.6%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility is based on an analysis of historical volatility based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

The movements of the incentive scheme

	6 months of 2013	12 months of 2012
	Number of share based payments	Number of share based payments
Outstanding at 1 January	315 917	317 971
Granted	-	4 523
Exercised	-	-
Forfeited	(1 244)	(6 577)
Expired	-	-
Outstanding at 31 December	314 673	315 917
Exercisable at 31 December	**-**	**-**