Capital Adequacy
of Bank Zachodni WBK Group
as at 31 December 2008

Bank Zachodni WBK S.A.

Introduction

This document is issued under the BZWBK Group Disclosure Policy formulated based on Resolution no. 6/2007 of the Banking Supervisory Commission of 13 March 2007 *on the rules and scope of disclosing by banks qualitative and quantitative information on their capital adequacy*.

The presented information relates to BZWBK Group and includes:

1. own funds
2. value of Risk Weighted Assets for on/off balance exposure(RWA)
3. information on capital adequacy

The BZWBK Group monitors and manages a number of risks, including credit risk, market risk, liquidity risk and operational risk. The purpose of risk management is to ensure that BZWBK takes risk in a conscious and controlled manner while increasing value for shareholders. Risk management policies are designed to identify and measure the risks taken and to regularly define the risk appetite limits. BZWBK regularly reviews and expands its risk management tools taking account of the macroeconomic changes in the banking sector and the prevailing regulations.

Until the end of 2007, the Group was temporarily permitted to use Basel I rules with regard to calculation of the risk-weighted assets and the solvency ratio. Effective from 1 January 2008, the Group has been subject to the requirements laid down in Capital Adequacy Resolution no. 1/2007 of the Banking Supervisory Commission. In 2008, BZWBK applies 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. 1/2007 of the Banking Supervisory Commission of 13 March 2007.

I. Own funds

The level of own funds of BZWBK Group is adjusted to the Group's business.

In accordance with Art. 127 of the Banking Law, own funds consist of:

- Primary funds
- Complementary funds of the bank, in an amount not higher than the bank's primary funds.

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, 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
3. items decreasing the primary funds:
   a) intangible fixed assets measured at book value
   b) other primary funds deductions defined by the Financial Supervision Authority

The bank's complementary funds include:

- other items defined by the Financial Supervision Authority as required for safe conduct of the banking business and proper risk management in the bank

- Complementary funds deductions defined by the Financial Supervision Authority

Own Funds of BZWBK Group
as at 31.12.2008 (PLN k)

Ref.	Own funds	As at 31.12.2008
I	**Primary funds**	**4 220 759**
1.	**Core funds**	**2 916 480**
1.1.	Share capital	729 603
1.2.	Supplementary capital	461 797
1.3.	Reserve capital	1 725 080
2.	**Additional items**	**1 551 994**
2.1.	General risk fund	529 810
2.2.	Retained earnings	315 077
2.3.	Net profit of current period	707 107
3.	**Items decreasing the primary funds**	**(247 715)**
3.1.	Intangible fixed assets	(173 934)
3.2.	Unrealised losses on debt instruments classified as available for sale	(51 929)
3.3.	Unrealised losses on equity instruments classified as available for sale	-
3.4.	Equity interests in other financial institutions	(21 852)
II.	**Complementary funds**	**282 938**
1.	**Other items**	**304 790**
1.1.	Unrealised gains on debt instruments classified as available for sale	**-**
1.2.	Unrealised gains on equity instruments classified as available for sale	304 790
2.	**Items decreasing the complementary funds**	**(21 852)**
2.1.	Equity interests in other financial institutions	(21 852)
III.	**Additional items**	**239 872**
1.	**Minority interests**	**239 872**
IV.	**Short-term capital**	**0**
V (I+II+III)	**Total own funds for calculation of the solvency ratio**	**4 743 569**

1.1. Primary funds

Core funds

Share capital 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 31 December 2008, the share capital was PLN 729,603 k. Details about the share capital are presented in Note 40 to the BZWBK Consolidated Financial Statements for 2008.

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 31 December 2008, the supplementary capital was PLN 461,797 k.

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 31 December 2008, the reserve capital was PLN 1,725,080 k. Details about the supplementary and reserve capital are presented in Note 41 to the BZWBK Consolidated Financial Statements for 2008.

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 31 December 2008, the general risk fund earmarked for unidentified risks of the banking business was PLN 529,810 k.

As at 31 December 2008 retained earnings amounted to PLN 315,077 k.

On 21st April 2009 the Annual General Meeting of BZ WBK Shareholders divided the net profit to the reserve capital and to the general risk fund, therefore Bank Zachodni WBK S.A. will not pay a dividend out of its income generated in 2008.

Items decreasing the primary funds

As at 31 December 2008, the **intangible fixed assets** amounted to PLN 173,934 k. Details about the intangible fixed assets are presented in Note 30 to the BZWBK Consolidated Financial Statements for 2008.

As per §2 of KNB Resolution 2/2007, other items decreasing the primary funds are **unrealised losses on debt and equity instruments classified as available for sale**. The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in Note 42 to the BZWBK Consolidated Financial Statements for 2008.

As per § 2 of the KNB Resolution, other items decreasing own funds account for 50% of the **bank's equity interest** in credit institutions, domestic banks, foreign banks and insurance companies, expressed as:

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

As at 31 December 2008, the Bank decreased its primary funds by 50% of the value of its equity interests of PLN 21,852 k

1.2. Complementary funds

Other items

As per §3 of KNB Resolution no. 2/2007, other items of the complementary funds are **unrealised gains on debt and equity instruments classified as available for sale** in an amount equal to 60% of their pre-tax value. The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in Note 42 to the BZWBK Consolidated Financial Statements for 2008.

Items decreasing the complementary funds

As required by § 4 of KNB Resolution 2/2007, the Bank's complementary funds were decreased by 50% of the Bank's equity interests. Details are presented in the section on primary funds.

1.3. Additional items

As required by § 6 of KNB Resolution no. 2/2007, the Bank's consolidated own funds must reflect minority interests, if any. Pursuant to art. 3 of the Accounting Act minority interests are the part of the subsidiary's net assets that is owned by external shareholders. As at 31.12.2008, minority interests amounted to PLN 239,872 k.

In accordance with Art. 128, section 6, point 1) of the Banking Law and §10 of KNB Resolution no. 1, 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

II. Capital requirements

The capital adequacy of the BZWBK Group was evaluated in accordance with Resolution no. 1/2007 of the Banking Supervisory Commission of 13 March 2007. Capital requirement for credit risk was calculated using the standardised approach, i.e. in accordance with Appendix 4 of the Resolution.

The Bank calculates and monitors capital requirements for all the key risks, including those defined in §6.1 of the Resolution, 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;

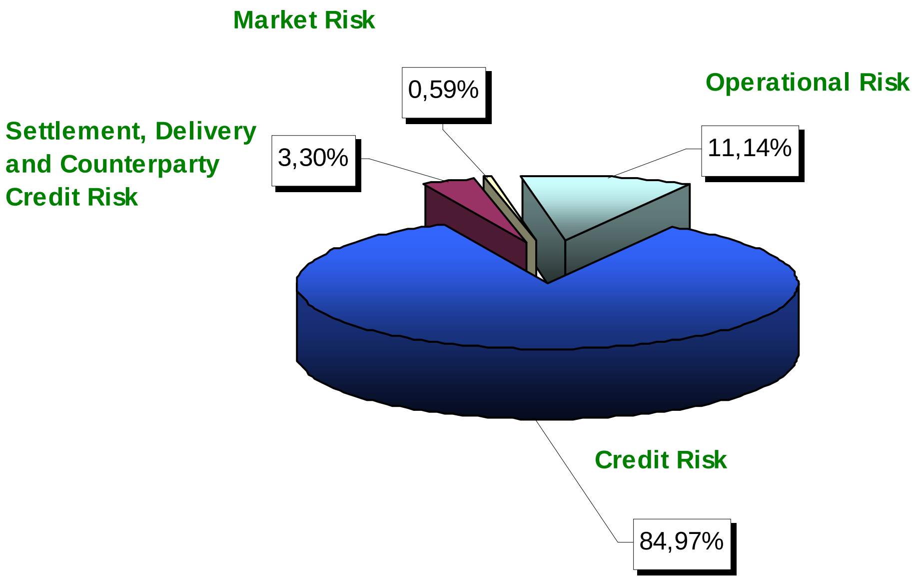
The Bank calculates capital requirements separately for the exposures classified into the banking and trading book.

2.1 Capital requirements for individual risk types

Total capital requirement of the BZWBK Group as at 31 December 2008 was PLN 3,532,896 k, including:

- PLN 3,001,689 k for credit risk;
- PLN 20,830 k for market risk;
- PLN 116,691 k for counterparty risk;
- PLN 393,686 k for operational risk

Structure of capital requirement for different risk types as at 31.12.2008



The biggest item is the total capital requirement of the BZWBK Group is the capital requirement for credit risk, which on 31.12.2008 accounted for 84.97% of the total capital requirement.

BZWBK 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.

The BZWBK Group has one of the lowest NPL ratios in the Polish banking sector: 2.9% at the end of 2008.

The capital requirements for market risk was PLN 20,830 k, including 98% in respect of the capital requirement for the general interest rate risk.

Capital requirements of BZWBK Group
as at 31.12.2008 (PLN k)

Ref.	Capital requirements for individual risk types	as at 31.12.2008
1.	**Credit risk**	**3 001 689**
2.	**Risk of exceeding the exposure concentration limit and the large exposure limit**	**0**
3.	**Market risk**	**20 830**
3.1	including: FX risk	0
3.2	commodity prices risk	0
3.3	equity securities prices risk, including:	250
3.3.1	specific risk	107
3.3.2	general risk	143
3.4	specific debt instrument price risk	2
3.5	general interest rate risk	20 578
4.	**Counterparty credit risk**	**116 691**
5.	**Capital concentration excess risk**	**0**
6.	**Operational Risk**	**393 686**
7.	Total capital requirement	**3 532 896**

2.2 Exposure structure.

In the process of capital adequacy assessment, each type of exposure was allocated to the following classes (as required by § 20.1., Appendix 4 of the KNB Resolution 1/2007)

Balance and Off-Balance Sheet Exposures by Asset Classes as at 31.12.2008 (PLN k)

Ref.	Asset Class	Exposure Value	Risk-weighted Assets	Capital requirement for credit risk, supply risk and counterparty risk
1.	Claims or contingent claims on central governments or central banks	16 079 972	0	0
2.	Claims or contingent claims on regional governments or local authorities	231 334	27 067	2 165
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	11 801	4 730	378
4.	Claims or contingent claims on institutions	4 408 522	858 773	68 702
5.	Claims or contingent claims on corporates	29 151 031	24 664 155	1 973 132
6.	Retail claims or contingent retail claims	10 733 070	6 800 174	544 014
7.	Claims or contingent claims secured on real estate property	5 818 482	4 307 320	344 586
8.	Past due items	1 019 775	607 420	48 594
9.	Claims not classified to the regulatory high-risk categories	93 594	139 551	11 164
10.	Claims in the form of collective investment undertakings	49 272	49 272	3 942
11.	Other claims	3 280 983	1 521 290	121 703
	Total exposures covered by the standardised approach	**70 877 836**	**38 979 752**	**3 118 380**

The structure of the BZWBK Group credit exposures mainly includes the claims on corporates, governments and central banks as well as retail claims (79% of total claims).

2.3 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 KNB Resolution no. 1/2007. Risk weights are allocated in line with the asset class and the credit quality of the claim/entity as defined in §24-100 of Appendix 4 to KNB Resolution no. 1/2007.

For past-due exposures, the risk-weight is set by the rules specified in §70 of Appendix 4 to KNB Resolution no. 1/2007. 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 the 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 KNB Resolution no. 1/2007).

The Group has a separate class of retail exposures secured on real estate, applying a preferential risk weight of 35% to it (residential real estate - §65 of Appendix 4 to KNB Resolution 1/2007) and the exposures effectively secured on real estate, where the value of the principal or interest instalment is subject to fluctuations in the currency rates other than the currency in which the obligor earns his income. Such exposures have a risk weight of 75% (§62 of Appendix 4 to KNB Resolution 1/2007). Bank Zachodni WBK S.A. does not have a separate asset class secured on commercial real estate (§66 of Appendix 4 to KNB Resolution no. 1/2007).

Retail exposures (not past due) in the standardised approach are assigned a risk weight of 75%.

Preferential approach was used to the risk weighs for the PLN claims on regional government, the city of Warsaw and their associated bodies (in accordance with §31 of Appendix 4 to KNB Resolution no. 1/2007).

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.

2.4 Capital adequacy ratio

With the total capital requirement of PLN 3,532,896 k and own funds of PLN 4,743,569 k as at 31.12.2008, the capital adequacy ratio of the BZWBK Group was 10.74%

III. Adequacy of internal capital

Internal capital is the volume of capital required to cover all identified material risks, as estimated by the Bank Zachodni WBK S.A. Group.

The most important obligation arising from Pillar 2 of the New Capital Accord is to assess the adequacy of internal capital (ICAAP). The Group estimates, allocates and maintains proper volume of equity to secure its operations, considering the risk profile resulting from the Group's risk appetite declaration.

The major objective of the ICAAP process is to match the risk profile, risk management and risk mitigation method with the available capital.

To this effect, the Group has implemented a risk assessment process which covers:

1. Material Risk Assessment
2. Estimation of the internal capital to cover risks
3. Aggregation of capital to cover risks
4. Stress Tests
5. Monitoring of the equity level against the estimated internal capital

The evaluation of internal capital adequacy is an integral part of the management process in the BZ WBK Group. The following material risks have been identified:

Risks under Pillar 1:

- credit risk:
  - credit risk for exposures in the banking book
  - credit risk for exposures in the trading book
- market risk:
  - fX risk
  - interest rate risk on the trading book
  - risk of pricing of securities
  - debt securities risk
  - risk of exceeding the capital concentration threshold
  - risk of underwriting securities issues
- operational risk

Risks under Pillar 2:

- concentration risk
- legal & Regulatory Risk
- model risk:
  - for the credit risk
  - for the interest rate
- reputational risk
- IT systems risk
- business Risk
- interest risk in the banking book
- liquidity risk

Internal capital for Pillar 1 risks is measured with models for calculation of regulatory capital requirements. Pillar 2 risks are evaluated and managed in a qualitative manner, through relevant processes for risk management, monitoring and mitigation. Quantitative methods for risk measurement are applied where possible and practicable. However, internal capital for Pillar 2 risks is measured on the basis of expert judgement (simplified method).

Principles of capital adequacy evaluation for the BZ WBK Group are verified each year by the ALCO Committee / ICAAP Forum.

All processes for internal capital management, estimation and maintenance as well as evaluation of internal capital adequacy in different economic conditions (incl. analysis of stress test results and their impact on internal capital and capital adequacy) are handled by the Management Board of the Bank.

Processes concerning the estimation of internal capital are managed by the Supervisory Board.