Information on
Capital Adequacy
of Kredyt Bank S.A. Capital Group
as at 31.12.2012

Table of Contents

Introduction

This document is issued under the Information policy of Kredyt Bank S.A. *regarding detailed rules and techniques of capital adequacy disclosures* formulated based on Resolution no. 385/2008 of the Polish Financial Supervision Authority of 17th December 2008 as amended on *the rules and scope of disclosing by banks qualitative and quantitative information on their capital adequacy.*

The presented information relates to Kredyt Bank Capital Group as at 31.12.2012 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.

Below, there is a list of subsidiaries, which, as at 31.12.2012, were consolidated with the full method.

1. Kredyt Bank S.A. – parent company
2. Kredyt Lease S.A. – subsidiary
3. Kredyt Trade Sp. z o.o. w likwidacji (in liquidation) – subsidiary

Details regarding subsidiaries are presented in **Note 1** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Due to the merger of Kredyt Bank Group with BZ WBK Group as at 4 January 2013, the obligation to disclose capital adequcy information will be continued by the merged entity.

Risk management

The Bank's supervisory bodies, explicitly the Management Board and the Supervisory Board, played the most important role in the risk management process.

The Bank's Supervisory Board, through the Audit, Risk and Compliance Committees, was informed about the most vital decisions and gave opinions about the actions of the Management Board in this respect.

In 2012, the Risk and Capital Committee, headed by the member of the Bank's Management Board responsible for risk and capital management, directly managed, controlled and monitored risk.

All types of risk in the Bank were measured and monitored by the departments in the Risk and Capital Management Function, which was supervised by the Member of the Management Board accountable for the risk and capital management, i.e.:

- Financial Risks, Capital and Shared Functions Department;
- Corporate and SME Loans Risk Department;
- Retail Loans Risk Department;
- Operational Risk Department.

Additional information on the risk management in the Kredyt Bank Capital Group is presented in **Note 70** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Credit risk

Credit risk in Kredyt Bank S.A. was defined as the potential shortfall relative to the value expected for a financial instrument consequent on non-payment or non-performance by a borrower, guarantor or counter-guarantor, counterparty (in relation to treasury transactions) or an issuer (of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country.

The credit risk management process in the Bank entailed the following phases:

- risk identification;
- risk measurement (e.g. maximum approach, risk weighted assets, Exposure At Default – EAD, Expected Loss – EL, Unexpected Loss – UL);
- risk monitoring, particularly as regards the compliance of the risk profile with the determined risk appetite and established limits (e.g. exposures concentrations related to loans used to finance commercial properties, related to residential properties, industrial properties, professional properties and commercial properties);
- reporting;
- analyses and formulation of recommendations;
- a decision-making process.

The main participants in the credit risk management process, within the organization of the risk management system, were as follows:

- Supervisory Board;
- Audit, Risk and Compliance Committees;
- Bank's Management Board;
- Risk and Capital Committee;
- Retail Loans Risk Department;
- Corporate and SME Loans Risk Department;
- Business lines managers;
- Audit and Inspection Department.

Credit risk was managed taking into account the credit risk aspect corresponding to individual transactions and from the portfolio perspective.

The process of risk management for individual transactions entailed risk assessment for such a transaction and depending on its level, application of an appropriate decision-making process. The Corporate and SME Loans Risk Department and the Retail Loans Risk Department played the key role in the process of risk management for individual transactions.

The portfolio risk management was the main responsibility of the Corporate and SME Loans Risk Department, Retail Loans Risk Department, as well as of the Risk and Capital Committee. The main tasks of the Risk and Capital Committee were as follows:

- supporting the Management Board in the following areas:
  - developing and reviewing the risk and capital management system, including the structures, processes, empowerments and policies;
  - informing about the risk management system;
  - monitoring the implementation status of the risk management system;
  - establishing tolerance to risk – risk appetite;
  - establishing the structure of internal risk limits consistent with the risk appetite;
  - monitoring the implementation status of measures taken in response to observed risk;
- taking measures in response to observed risk, including cyclical reviews of the structure, processes, empowerments and policies in the area of risk and capital management, internal risk limits and corrective measures (e.g. changes in the risk parameters for the Bank's products) related to the risk and capital management below the materiality threshold;
- monitoring the risk and capital profile (including the use of limits, stress-testing, the use of the regulatory capital and of the economic capital) on the basis of the overall risk report;
- deciding on the issues of the rating and modeling system;
- reporting risk management issues to the Bank's Management Board; also informing the Bank's Management Board about decisions aimed at making the defined risk and yield ratios reach predetermined levels;
- taking decisions concerning credit risk related to the powers granted by the Management Board.

Additional information on the credit risk in the Kredyt Bank Capital Group is presented in **Note 71** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Concentration risk

The concentration risk in Kredyt Bank S.A. meant 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.

Kredyt Bank Capital Group adhered 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.

As at 31.12.2012 the concentration limits regarding a customer/a group of related customers were not exceeded.

Market risk and ALM

Market risk was defined as a degree of the hazard to the Bank's financial standing resulting from adverse changes in market parameters (interest rates, exchange rates and prices of shares) and their market volatility.

The Bank did not trade on the stock market (investments in shares are long-term investments or strategic investments in subsidiaries). Also, the Bank did not trade on commodity markets. In the Bank, among all types of market risks, we dealt with interest rate risk, including basis risk, and currency risk.

The Bank's activity was divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk was monitored in each book separately.

Detailed information on the market risk and ALM in the Kredyt Bank Capital Group is presented in **Note 73** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Operational risk

The Group defined the operational risk as a possibility of an unexpected influence upon the financial result, as a consequence of maladjustment or unreliability of internal processes, people, technical systems as well as a consequence of external incidents.

To calculate the capital requirement for operational risk in pillar I, the Group applied the Standardized Approach.

As a result, the Bank, inter alia:

- had specified roles and responsibilities of employees within the operational risk management system;
- kept a record of operational events and losses resulting from the operational risk;
- had the operational risk management system which was regularly reviewed by independent auditors.

Pursuant to the requirements concerning the application of the Standardized Approach, the Bank strengthened the operational risk assessment system. Risk and control self-assessment (CRSA) was carried out systematically in particular business areas, action plans to reduce the risk were implemented and the level of risks was measured with the application of key risk indicators (KRI).

Once a year, for the purpose of operational risk, the Group identified key operational risks (Risk Scan).

Business units played a significant role in the implementation of operational risk management tools and techniques, as the direct responsibility for the operational risk management was on the managers of particular business lines.

The infrastructure of the management and methodology were coherent within the Bank and its subsidiaries. Operational risk identification and rating tools were identical. The whole process was supervised by the Risk and Capital Committee and the Bank's Management Board.

Information on the operational risk is also presented in **Note 72** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Own funds

The level of own funds of Kredyt Bank Capital Group was 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 comprised:

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

The primary funds included:

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/(loss) of the current period
3. Items decreasing the primary funds:
    a. intangible assets measured at book value
    b. other primary funds deductions defined by the Financial Supervisory Authority

The complementary funds included:

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

PLN k	**31.12.2012**
Own funds and short-term capital	**3 910 284**
Primary funds:	**2 742 764**
- share capital	1 358 294
- supplementary capital	1 130 174
- revaluation reserver included in basic equity	-1 399
- other reserves	481 151
- retained earnings (loss)	25 914
- net profit (loss) included in the calculation of capital adequacy ratio	- 156 453
- dividends predicted	0
- intangible assets	-94 816
- shares in financial entities (50%)	0
- other	-101
Complementary funds:	**1 167 520**
- revaluation reserve included in complementary funds	195 018
- subordinated liability included in own funds	972 502
- shares in financial entities (50%)	0
Short-term capital	**0**

Primary funds

Share capital was stated in the nominal amount as shown in the Statutes and in the entry to the Court Register. As at 31.12.2012, the parent company's share capital totaled PLN 1,358,294k and was divided into 271,658,880 shares of nominal value of PLN 5.00 each. Information regarding share capital is presented in **Note 48** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Supplementary capital was created from profit allocations and from share premium. By the Bank's Statutes, the supplementary capital was created from net profit allocations. Its purpose was to cover any balance sheet losses. The value of the allocations was determined by the General Meeting of Shareholders. As at 31 December 2012, the supplementary capital was PLN 1 130 174k.

Other reserves comprise the general banking risk reserve established pursuant to the Banking Law of 29.08.1997 (Journal of Laws of 2002, No. 72, item 665, as amended, 'Banking Law') from profit after tax and were designated for unidentified risks of the Bank's operations. Equity also comprises net profit/loss for the period and retained profit or loss from previous periods. In the case of subsidiaries, the Group's equity also comprises net profit/loss of such companies generated from the date of their acquisition by the parent company. Decision on the usage of other reserves was taken by the General Meeting of Shareholders.

As at 31 December 2011, the reserve capital was PLN 481 151k Information regarding other reserves is presented in Note 48 to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Additional items of the primary funds

Revaluation reserve allocated to the primary own funds amounted to PLN -1 399k as at 31 December 2012. Net loss included in the calculation of the Capital Adequacy Ratio amounted to PLN -156 453k.

Items decreasing the primary funds

As at 31.12.2012 **intangible assets** were PLN 94 816k. Information regarding intangible assets is presented in **Note 37** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Complementary funds

The revaluation reserve included in the complementary own funds as at 31.12.2012 amounted to PLN 195 018k.

The amount of **subordinated liabilities** to KBC Bank NV Dublin as at 31.12.2012 was PLN 972 502k. Detailed information on subordinated liabilities is presented in **Note 47** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Capital requirements

The capital adequacy of Kredyt Bank Capital Group was calculated 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. In 2012 Kredyt Bank applied the standardised approach to the calculation of capital requirement for credit and operational risk. Under this approach the total capital requirement for credit risk was calculated as a sum of risk-weighted assets multiplied by 8%. In the case of an asset, the value of the exposure was equal to its balance-sheet value and in the case of an off-balance sheet item, the value of the exposure was equal to its on-balance sheet equivalent. To calculate the value of risk-weighted exposures, risk weights were 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.

Capital requirements for individual risk types

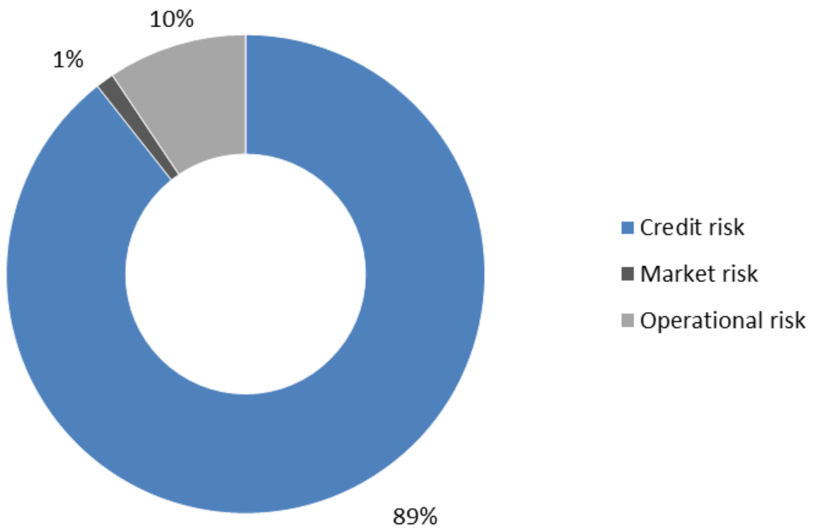
As at 31.12.2012 the total capial requirement of Kredyt Bank Capital Group was **PLN 2 471 906k**. including:

- **PLN 2 209 115k** for credit risk, including:
  - PLN 37 587k for counterparty credit risk
- **PLN 30 568k** for market risk, including:
  - PLN 20k for specific debt instrument price risk and
  - PLN 30 548k general interest rate risk,
- **PLN 232 223k** for operational risk.

Capital requirements of Kredyt Bank Capital Group
as at 31.12.2012

Capital requirements for individual risk types	PLN k
Credit risk	2 171 528
Risk of exceeding the exposure concentration limit	-
Market risk including:	30 568
FX risk	-
commodity prices risk	-
equity securities prices risk including:	-
specific risk	-
general risk	-
particular approach for position risk in CIUs	-
specific debt instruments price risk	20
general interest rate risk	30 548
Counterparty risk	37 587
Capital concentration excess risk	-
Operational risk	232 223
Total capital requirement	**2 471 906**

Structure of capital requirements for different risk types as at 31.12.2012



The biggest item of the total capital requirement of the Kredyt Bank Capital Group was the capital requirement for credit risk, which on 31.12.2012 accounted for 89% of the total capital requirement. Kredyt Bank Capital Group managed 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, Kredyt Bank Capital Group took into account impairment losses for credit receivables, which were recognised in accordance with the International Accounting Standards/ International Financial Reporting Standards (IAS/ IFRS). Detailed information regarding impairment for credit receivables is presented in **Note 32** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Capital requirement for operational risk amounted to **PLN 232 223k.**, accountig for 10% of the total capital requirement as at 31 December 2012.

Capital requirement for market risk amounted to **PLN 30 568k**, including 99,9% in respect of the capital requirement for the general interest rate risk.

The exposure concentration analysis, which was carried out as of 31 December 2012, showed that Kredyt Bank Capital Group's exposures did not exceed the limits defined in Appendix 12 to KNF Resolution no. 76/2010 of 10 March 2010, as amended

As at 31 December 2012, the capital requirement for counterparty credit risk was computed in accordance with KNF Resolution no. 76/2010 of 10 March 2010, as amended, and it was **PLN 37 587k** constituting 1,7% of the total capital requirement for credit risk. Kredyt Bank Capital Group calculated 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 was determined in accordance with the mark-to-market method, as described in §10 of Appendix 16 to KNF Resolution no. 76/2010, as amended.

Summary of capital requirement for counterparty credit risk by exposure class
as at 31.12.2012 r. (PLN k)

Exposure Class	Exposure Value	Risk-weighted Assets	Capital requirement for counterparty credit risk
Institutions - banks	1 138 611	427 659	34 213
Corporates	40 428	40 428	3 234
Other exposure classes	2 092	1 752	140
Total exposures under standardised approach	**1 181 131**	**469 839**	**37 587**

Summary of capital requirement for counterparty credit risk by product
as at 31.12.2012 r. (PLN k)

Product	Exposure Value	Risk-weighted Assests	Capital requirement for counterparty credit risk
Cap Floor Option	197	150	12
Forward Rate Agreement (FRA)	60 643	19 993	1 599
FX Forward, FX Spot, FX Swap	185 460	62 579	5 006
FX Option	13 804	10 282	823
Interest Rate Swap (IRS)	902 720	368 082	29 447
Currency Interest Rate Swap (CIRS)	16 733	7 386	591
Contracts concerning precious metals and commodities	1 574	1 367	109
Total exposures under standardised approach	**1 181 131**	**469 839**	**37 587**

Detailed information relating to valuation of derivatives is presented in **Note 29** to the Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012.

Exposure structure

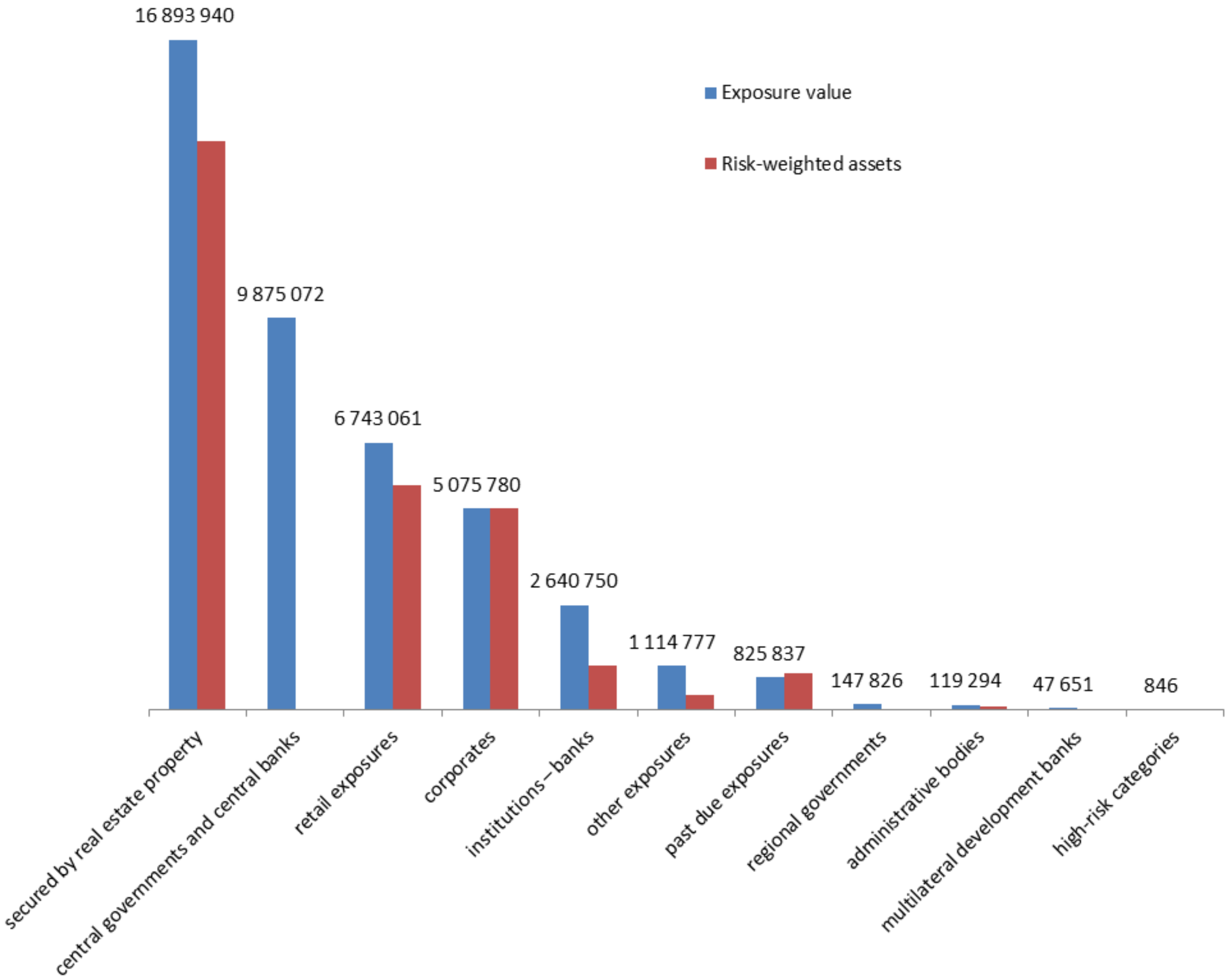
In the process of capital adequacy assessment, each type of exposure was allocated to the following classes (as required by § 20.1. of Appendix 4 of the Resolution no. 76/2010 of the Polish Financial Supervision Authority as amended):

Credit risk capital requirement (including counterparty credit risk) by exposure class
as at 31.12.2012

PLN k	Exposure Value	Risk-weighted Assets	Capital requirement for credit risk
Total:	**43 484 834**	**27 613 935**	**2 209 115**
- central governments and central banks	9 875 072	0	0
- regional governments and local authorities	147 826	29 565	2 365
- administrative bodies and non-commercial undertakings	119 294	97 860	7 829
- multilateral development banks	47 651	0	0
- international organizations	0	0	0
- institutions – banks	2 640 750	1 123 680	89 894
- corporates	5 075 780	5 075 780	406 062
- retail exposures	6 743 061	5 660 252	452 820
- exposures secured by real estate property	16 893 940	14 329 250	1 146 340
- past due exposures	825 837	934 944	74 796
- exposures belonging to regulatory high-risk categories	846	1 269	102
- covered bonds	0	0	0
- securitization positions	0	0	0
- exposures to banks and corporates with a short-term credit rating	0	0	0
- in collective investment undertakings	0	0	0
- other exposures	1 114 777	361 335	28 907

In the exposure structure of Kredyt Bank Capital Group the top share belonged to exposures secured by real estate accounting for 39% of the total exposure value.

Exposure value and risk-weighted assets by exposure class



Allocation of risk weights

The risk weights used in the calculation of capital requirement for credit risk in the standardised approach were based on the provision of Appendix 4 to KNF Resolution no. 76/2010 as amended. Risk weights were 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.

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

The Group had 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).

Retail exposures (not past due) in the standardised approach were assigned a 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).

The table below presents the exposure structure by risk weights as of 31 December 2012.

Exposure value by exposure class and risk weight
as at 31.12.2012

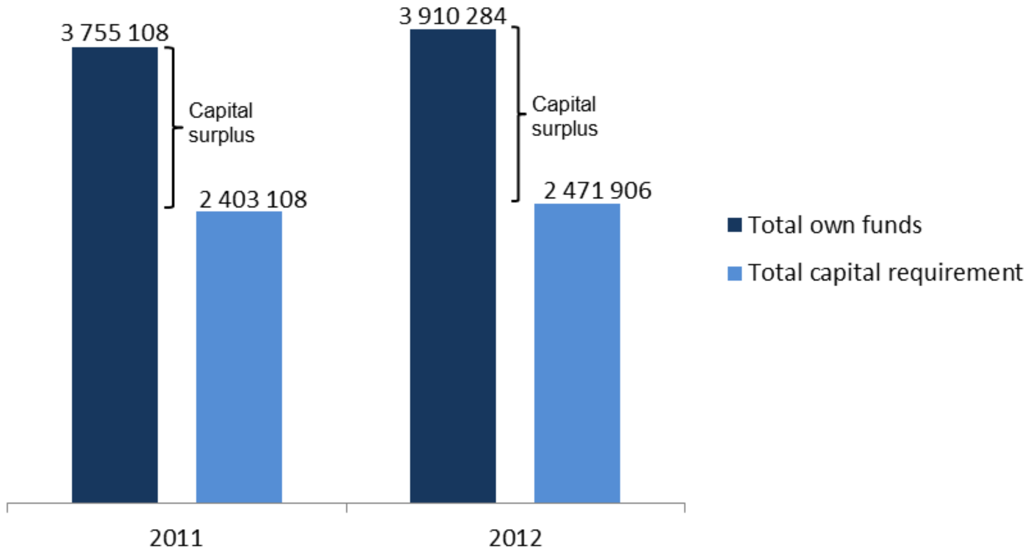
PLN k	RISK WEIGHTS							
	0%	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
Total:	**10 639 798**	**912 405**	**3 036 503**	**1 948 656**	**6 695 824**	**20 009 979**	**241 669**	**43 484 834**
- central governments and central banks	9 875 072	-	-	-	-	-	-	**9 875 072**
- regional governments and local authorities	-	147 826	-	-	-	-	-	**147 826**
- administrative bodies and non-commercialundertakings	-	-	-	42 870	-	76 424	-	**119 294**
- multilateral development banks	47 651	-	-	-	-	-	-	**47 651**
- international organizations	-	-	-	-	-	-	-	**-**
- institutions – banks	-	719 121	-	1 883 547	-	38 082	-	**2 640 750**
- corporates	-	-	-	-	-	5 075 780	-	**5 075 780**
- retail exposures	-	-	-	-	4 331 232	2 411 829	-	**6 743 061**
- exposures secured by real estate property	-	-	3 036 503	22 239	2 319 375	11 515 823	-	**16 893 940**
- past due exposures	-	-	-	-	45 217	539 797	240 823	**825 837**
- exposures belonging to regulatory high-risk categories	-	-	-	-	-	-	846	**846**
- covered bonds	-	-	-	-	-	-	-	**-**
- securitization positions	-	-	-	-	-	-	-	**-**
- exposures to banks and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**
- in collective investment undertakings	-	-	-	-	-	-	-	**-**
- other exposures	717 075	45 458	-	-	-	352 244	-	**1 114 777**

Capital adequacy ratio

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

As at 31.12.2012 with the total capital requirement of **PLN 2 471 906k** and own funds of **PLN 3 910 284k** the capital adequacy ratio of Kredyt Bank Capital Group was **12,66%**.

Total own funds and total capital requirement in 2011 - 2012



Internal capital adequacy

The main objective of capital management in the Bank was to optimize it and, at the same time, to meet external capital requirements. To achieve this goal, in 2008, the Bank implemented ICAAP (Internal Capital Adequacy Assessment Process).The basic element of the ICAAP was Capital Policy which described the principles according to which capital was managed in Kredyt Bank Capital Group and general information about the process of the capital adequacy assessment of the Group.

Management Board was responsible for the preparation and implementation of the internal capital assessment, capital management and capital planning processes. Internal regulation of these processes were approved by the Supervisory Board.

Risk Appetite Statement for 2012, that was approved by the Supervisory Board, defined minimum values for capital adequacy ratios on Kredyt Bank Capital Group level, which was 12% for the capital adequacy ratio and 9% for the Tier 1 ratio.

The Group defined internal capital as a capital required to cover all material risks. In 2012, the Group estimated internal capital by applying the model of KBC Group, which for each material risk uses an adequate assessment and measurement method.