INFORMATION ON CAPITAL ADEQUACY OF BANK ZACHODNI WBK GROUP

as at 31st December 2011

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 presented information relates to BZ WBK Group for year end 2011 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 Finanse & Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.
6. BZ WBK Faktor Sp. z o.o. – subsidiary of BZ WBK Finanse Sp. z o.o.
7. BZ WBK Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.
8. BZ WBK Nieruchomości S.A.
9. Dom Maklerski BZ WBK S.A.

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 2011 and **Note 24** to the Financial Statements of BZ WBK for 2011.

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. BZWBK 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 2011.

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"**. This risk management process is regulated by an policy approved by the Management Board. 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: Credit Policy Forum, Credit Risk Measurement Committee, Credit Committee and Provisions Committee. 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 Policy Forum** 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 **Credit Risk Measurement Committee** 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. 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 2 and 4** to the Consolidated Financial Statements of BZ WBK Group for 2011.

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 "The Credit Policy for Individual Counterparties". This policy is designed to maintain a high diversified of exposures to individual customers.

More details about concentration risk are presented in **Note 4** to the Consolidated Financial Statements of BZ WBK Group for 2011.

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 interest rate risk is the risk that changes in interest rates will have adverse impact on the earnings and value of BZWBK's assets and liabilities. The main source of interest rate risk are transactions entered into on the bank's corporate centres or branches and transactions entered into on the money market by the Global Banking and Markets 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 in the interbank market. However all positions which generate a repricing risk are transferred by way of a system of internal contracts to the Global Banking and Markets Division. The bank's dealers are responsible for entering into transactions in the wholesale markets and managing the overall interest rate risk profile in compliance with the adopted and allocated risk limits.

FX risk is the risk that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the Value at Risk based on the total open FX position of the bank. Value at Risk is determined by means of a statistical modelling process. Value at Risk is the potential loss on open FX positions at a 99% confidence level where open positions are maintained for 10 business days. Statistical parameters are set on the basis of a 3-year history of exchange rates. Stress tests are used to supplement the above measure by estimating possible losses that may occur under extreme market conditions.

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. Liquidity risk

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

ALCO has responsibility for the supervision of liquidity risk and advises the Management Board on appropriate strategies and policies for strategic liquidity management.

Day-to-day management of current (up to 7 days) and short-term liquidity (up to 30 days) is delegated to the Global Banking and Markets Division. The responsibility for mid- (above 1 month) and long-term (above 1 year) liquidity management rests jointly with the Head of Finance Division and the Head of Global Banking and Markets Division. The Finance Division is responsible for developing and maintaining appropriate strategies and also for liquidity risk measurement and reporting.

The Group has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors.

Liquidity is calculated by a modified liquidity gap, which is determined separately for PLN and FX positions. The realigned liquidity gap is used to determine liquidity ratios, i.e. the relationship between the projected consolidated outflows and projected inflows in a given period of time. The ratios are set for PLN and other currencies. The minimum ratios are defined by the **Liquidity Policy**. Liquidity is measured in accordance with the Resolution no. 386/2008 of KNF (the Polish Financial Supervision Authority) on liquidity standards for banks. In the event of PLN or foreign currency 'shortage,' the PLN/ foreign currency surplus can be converted to cover such foreign currency/ PLN shortage. However, the value of such conversion is limited on the basis of assessment of feasibility of conversion in the wholesale market.

Liquidity measurement is supplemented with liquidity stress tests, which are used to assess the exposure to liquidity risk and maximum funding requirement if the assumed scenarios materialise over a medium and longer term.

2.5. 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.

2.6. 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 **policy statement on compliance with legal and regulatory obligations** 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 Division** - relates to "conduct of business'" compliance obligations, including protection of the clients' rights, anti-money laundering, protection of sensitive information and personal data.
- **HR Management Division** - all issues regarding compliance with employment law
- **Financial Division** - all issues regarding compliance with taxation law and reporting requirements

For fulfilment prudential regulation responded Financial 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.

More details about legal and regulatory (compliance) risk are presented in **Note 4** to the Consolidated Financial Statements of BZ WBK Group for 2011.

2.7. 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 reputation risk is owned by **the Corporate Communication and Marketing Area**.

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;
2. collecting and analyzing information by the Press Office that affect the bank's;
3. responding to information that create a risk of worsening public perception of the bank's image
4. customer satisfaction survey;
5. verification of all publicity materials regarding the Bank's products or services by the Compliance Area in terms of legal and regulatory risks and regulatory guidelines;
6. 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.

Being a typical quality risk, the reputation risk is not and is not intended to be subject to quantitative measurement.

3. Own funds

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 of the bank, in an amount not higher than the bank's primary 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, 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 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

Own Funds of BZ WBK Group
as at 31.12.2011 (PLN k)

No.	OWN FUNDS	as at 31.12.2011
I	PRIMARY FUNDS	6 077 598
1.	Core funds	4 779 834
1.1.	share capital	730 760
1.2.	supplementary capital	489 569
1.3.	reserve capital	3 559 505
2.	Additional items	1 382 980
2.1.	general risk fund	649 810
2.2.	retained earnings	733 170
3.	Non-controlling interests in equity	127 385
4.	Items decreasing the primary funds	(212 601)
4.1.	intangible fixed assets	(151 166)
4.2.	unrealised losses on debt instruments classified as available for sale	-
4.3.	unrealised losses on equity instruments classified as available for sale	(20 476)
4.4.	equity interests in other financial institutions	(40 959)
II	COMPLEMENTARY FUNDS	899 956
1.	Subordinated Floating Rate Notes	437 263
2.	Other items	503 652
2.1.	unrealised gains on debt instruments classified as available for sale	88 275
2.2.	unrealised gains on equity instruments classified as available for sale	415 377
3.	Items decreasing the complementary funds	(40 959)
3.1.	equity interests in other financial institutions	(40 959)
III (I+ II)	TOTAL OWN FUNDS FOR CALCULATION OF THE SOLVENCY RATIO	6 977 554

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 31 December 2011, the share capital was **PLN 730,760k**. Details about the share capital are presented in **Note 35** to the Consolidated Financial Statements of BZ WBK Group for 2011.

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 2011, the supplementary capital was **PLN 489,569k**., incl. share premium of **PLN 261,699k.**

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 2011, the reserve capital was **PLN 3,559,505k**. Details about the supplementary and reserve capital are presented in **Note 36** to the Consolidated Financial Statements of BZ WBK Group for 2011.

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 2011, the general risk fund earmarked for unidentified risks of the banking business was **PLN 649,810k**.

In 2011, BZ WBK Group posted **PLN 1,226,867k** profit after tax, including profit attributable to non-controlling interest holders of **PLN 42,520k**. **PLN 584,608k**, i.e. PLN 8 per share, of the bank's after tax profits was earmarked for dividend payment.

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 31.12.2011, non-controlling interests in equity amounted to **PLN 127,385k**.

Items decreasing the primary funds

As at 31 Dec. 2011, the **intangible fixed assets** amounted to **PLN 151,166k**. Details about the intangible fixed assets are presented in **Note 26** to the Consolidated Financial Statements of BZ WBK Group for 2011.

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 31.12.2011, BZ WBK Group unrealised losses on equity instruments available for sale decreased the primary funds by **PLN 20,476k.** The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in **Note 37** to the Consolidated Financial Statements of BZ WBK Group for 2011.

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:

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

As at 31 Dec. 2011, the primary funds has been reduced by **PLN 40,959k**. i.e. 50% of capital holding in financial entities.

3.2. Complementary funds

Subordinated liabilities

Subordinated liabilities include the amount of issued subordinated debt securities with 10-year maturity term, floating interest rate, fully paid by European Bank of Reconstruction and Development on 5th August 2010.

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 99,000k have been included in the calculation of the Group's adequacy ratio.

An amount of **PLN 437,263k** is presented in this respect in the statement of own funds of 31.12.2011.

Detailed information on subordinated liabilities is presented in **Note 33** to the Consolidated Financial Statements of BZ WBK Group for 2011.

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 503,652k**. The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in **Note 37** to the Consolidated Financial Statements of BZ WBK Group for 2011.

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, 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 31.12.2011 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 and 324/2011 of 20 December 2011. In 2011, 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.

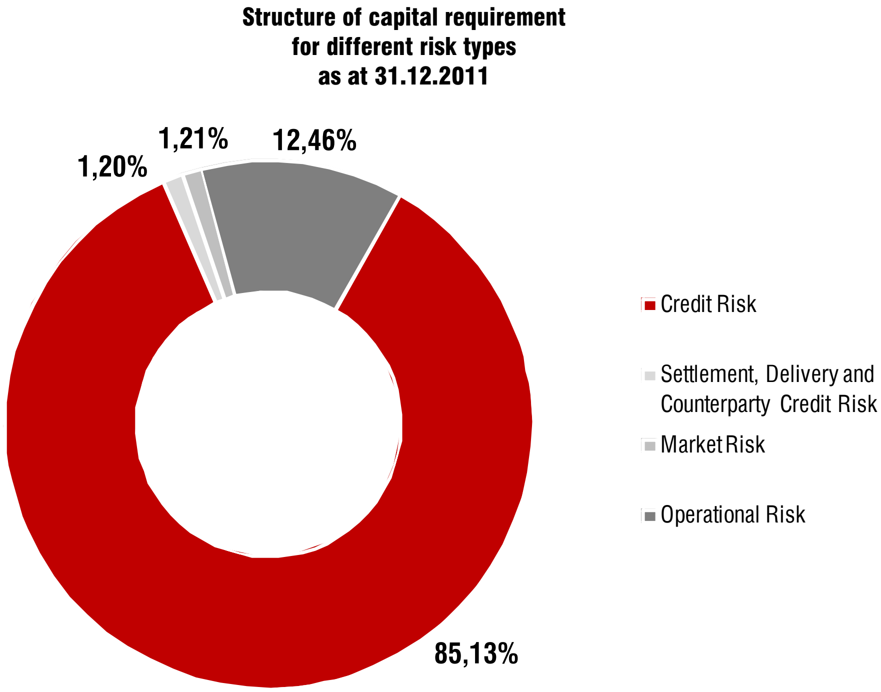
4.1. Capital requirements for individual risk types

Total capital requirement of the BZ WBK Group as at 31 December 2011 was **PLN 3,696,882k**, including:

- **PLN 3,147,356k** for credit risk
- **PLN 44,616k** for market risk
- **PLN 44,220k** for counterparty risk
- **PLN 460,690k** for operational risk

Capital requirements of BZ WBK Group as at 31.12.2011 (PLN k)

No.	CAPITAL REQUIREMENTS FOR INDIVIDUAL RISK TYPES	as at 31.12.2011
1.	Credit risk	3 147 356
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	-
3.	Market risk including:	44 616
3.1	FX risk	-
3.2	commodity prices risk	-
3.3	equity securities prices risk including:	5 029
3.3.1	specific risk	4 040
3.3.2	general risk	250
3.3.3	particular approach for position risk in CIUs	739
3.4	specific debt instrument price risk	316
3.5	general interest rate risk	39 271
4.	Counterparty risk	44 220
5.	Capital concentration excess risk	-
6.	Operational risk	460 690
	TOTAL CAPITAL REQUIREMENT (poz. 1+2+3+4+5+6)	**3 696 882**



The biggest item of the total capital requirement of the BZ WBK Group is the capital requirement for credit risk, which on 31.12.2011 accounted for **85.13%** 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). As of 31 December 2011, BZ WBK Group's permanent impairment losses for credit receivables amounted to **PLN 1,415,245k** and provisions for off-balance sheet liabilities came to a total of **PLN 21,224k.** More details about the impairment are presented in **Note 4** to the Consolidated Financial Statements of BZ WBK Group for 2011.

The capital requirement for operational risk amounted to **PLN 460,690k** including **71.39%** in respect of the capital requirement for the commercial banking and retail banking business line.

The capital requirement for market risk was **PLN 44,616k**, including **88%** in respect of the capital requirement for the general interest rate risk.

The exposure concentration analysis, which was carried out as of 31 December 2011, 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 **44,220k** as of 31 December 2011. 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 31.12.2011 (PLN k)

No.	Exposure Class	Exposure Value	Risk-weighted Assets	Capital requirement for counterparty risk
1.	Claims or contingent claims on central governments or central banks	2 264	453	36
2.	Claims or contingent claims on institutions	661 781	205 530	16 443
3.	Claims or contingent claims on corporates	346 759	346 759	27 741
4.	Other exposure classes	4	3	-
	Total exposures covered by the standardised approach	**1 010 808**	**552 745**	**44 220**

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. 56% 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 31.12.2011 (PLN k)

No.	Product	Exposure Value	Risk-weighted Assets	Capital requirement for counterparty risk
1.	Forward Rate Agreement	9 500	2 884	231
2.	FX Spot, FX Swap, FX Forward	417 224	214 975	17 198
3.	FX Option	149 321	93 263	7 461
4.	Interest Rate Swap (IRS), Cross Currency Swap (XCCY)	423 275	232 299	18 584
5.	Other	11 488	9 324	746
	Total exposures covered by the standardised approach	**1 010 808**	**552 745**	**44 220**

Detailed information relating to valuation and the nominal values of derivatives is presented in **Note 20** to the Consolidated financial statement of BZ WBK Group for 2011.

4.2. Exposure structure

Equity exposure which is not included in the trading book and which is classified as available for sale, was **PLN 629,194k** as of 31 December 2011 (**PLN 19,475k** is attributable to equity exposures arising from securities listed on the stock exchange, whereas **PLN 609,719k** is attributable to unlisted exposures). The rules for measuring available for sale equity securities are presented in **Note 23** to the Consolidated financial statement of BZ WBK Group for 2011.

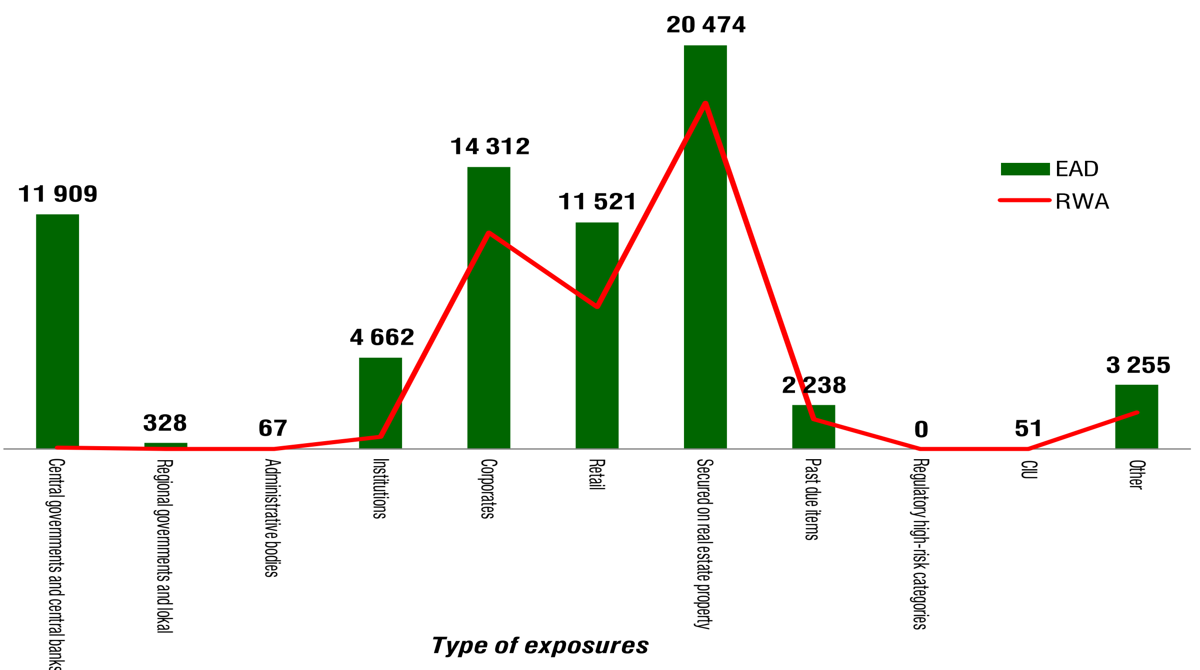
In the process of capital adequacy assessment, each type of exposure was allocated to the following classes (as required by § 20.1. of Appendix 4 of the Resolution no. 76/2010 of the Polish Financial Supervision Authority as amended):

Balance and Off-Balance Sheet Exposures by Asset Classes as at 31.12.2011 (PLN k)

No.	Exposure 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	11 909 463	63 473	5 078
2.	Claims or contingent claims on regional governments or local authorities	328 034	32 649	2 612
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	67 170	20 665	1 653
4.	Claims or contingent claims on institutions	4 662 110	660 696	52 856
5.	Claims or contingent claims on corporates	14 312 310	10 980 914	878 473
6.	Retail claims or contingent retail claims	11 520 789	7 211 564	576 925
7.	Claims or contingent claims secured on real estate property	20 473 827	17 524 866	1 401 989
8.	Past due items	2 237 765	1 493 197	119 456
9.	Claims classified to the regulatory high-risk categories	-	-	-
10.	Claims in the form of collective investment undertakings	51 439	51 439	4 115
11.	Other claims	3 255 019	1 855 233	148 419
	Total exposures covered by the standardised approach	**68 817 926**	**39 894 696**	**3 191 576**
	of which: counterparty risk - trading portfolio	1 010 808	552 745	44 220

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 50,5% of total exposure.

EAD and RWA broken down by exposure type



List of exposures as of 31.12.2011 and average exposure amounts in 2011 (PLN k)

No.	Exposure Class	Exposure Value	Average value of the exposures in 2011 year
1.	Claims or contingent claims on central governments or central banks	11 907 199	13 569 374
2.	Claims or contingent claims on regional governments or local authorities	328 034	294 450
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	67 170	41 649
4.	Claims or contingent claims on institutions	4 000 329	7 144 512
5.	Claims or contingent claims on corporates	13 965 551	10 094 681
6.	Retail claims or contingent retail claims	11 520 785	10 529 548
7.	Claims or contingent claims secured on real estate property	20 473 827	20 630 490
8.	Past due items	2 237 765	2 399 479
9.	Claims classified to the regulatory high-risk categories	-	-
10.	Claims in the form of collective investment undertakings	51 439	53 486
11.	Other claims	3 255 019	3 194 765
	Total exposures covered by the standardised approach	**67 807 118**	**67 952 434**

In 2011, an 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 31 December 2011, 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 31.12.2011 (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	11 907 199	-	-	-	-	-	-	-	-	-	-	11 907 199
2.	Claims or contingent claims on regional governments or local authorities	328 034	-	-	-	-	-	-	-	-	-	-	328 034
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	67 170	-	-	-	-	-	-	-	-	-	-	67 170
4.	Claims or contingent claims on institutions	-	-	-	-	-	-	-	-	4 000 329	-	-	4 000 329
5.	Claims or contingent claims on corporates	-	-	952 406	3 382 260	3 162 053	2 256 076	88 631	178 019	977 401	1 448 390	1 520 315	13 965 551
6.	Retail claims or contingent retail claims	-	5 764 246	49 624	1 055 865	1 744 587	715 539	666 002	503 848	74 744	36 170	910 160	11 520 785
7.	Claims or contingent claims secured on real estate property	-	8 035 959	6 512 981	1 756 333	1 164 965	1 770 849	256 610	35 880	239 693	144 755	555 802	20 473 827
8.	Past due items	-	357 319	320 340	186 022	284 563	797 328	54 967	112 282	16 865	4 528	103 551	2 237 765
11.	Other exposure classes	-	-	-	-	-	-	-	-	-	-	3 306 458	3 306 458
	Total exposures covered by the standardised approach	**12 302 403**	**14 157 524**	**7 835 351**	**6 380 480**	**6 356 168**	**5 539 792**	**1 066 210**	**830 029**	**5 309 032**	**1 633 843**	**6 396 286**	**67 807 118**

The structure of balance sheet and off-balance sheet exposure of BZ WBK Group by maturity is presented below. Exposures with residual maturity of more than 1 year but no more than 5 years represent the bulk of the exposures.

Balance and Off-Balance Sheet Exposures by Asset Classes according residual maturity as at 31.12.2011 (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	24,36%	50,03%	25,61%	11 907 199
2.	Claims or contingent claims on regional governments or local authorities	43,31%	37,19%	19,50%	328 034
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	6,16%	17,30%	76,55%	67 170
4.	Claims or contingent claims on institutions	87,97%	7,85%	4,17%	4 000 329
5.	Claims or contingent claims on corporates	22,74%	63,27%	13,99%	13 965 551
6.	Retail claims or contingent retail claims	30,38%	56,58%	13,04%	11 520 785
7.	Claims or contingent claims secured on real estate property	14,79%	29,33%	55,88%	20 473 827
8.	Past due items	80,61%	13,66%	5,72%	2 237 765
9.	Other exposure classes	-	-	-	3 306 458
	Total exposures covered by the standardised approach	**28,02%**	**43,52%**	**28,46%**	**67 807 118**

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.

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.

Retail exposures (not past due) in the standardised approach are 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 2011.

Balance and Off-Balance Sheet Exposures by Asset Classes according to risk weight as at 31.12.2011 (PLN k)

No.	Exposure Class	Risk Weightings 0%	20%	35%	50%	75%	100%	150%	Total
1.	Claims or contingent claims on central governments or central banks	11 592 097	315 102	-	-	-	-	-	11 907 199
2.	Claims or contingent claims on regional governments or local authorities	-	327 123	-	911	-	-	-	328 034
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	-	-	-	66 715	-	455	-	67 170
4.	Claims or contingent claims on institutions	-	3 653 603	-	321 170	-	25 556	-	4 000 329
5.	Claims or contingent claims on corporates	-	-	-	7 801	-	13 957 750	-	13 965 551
6.	Retail claims or contingent retail claims	-	-	-	-	11 520 785	-	-	11 520 785
7.	Claims or contingent claims secured on real estate property	-	-	981 001	-	7 767 437	11 725 389	-	20 473 827
8.	Past due items	-	-	-	-	-	1 548 026	689 739	2 237 765
9.	Claims classified to the regulatory high-risk categories	-	-	-	-	-	-	-	-
10.	Claims in the form of collective investment undertakings	-	-	-	-	-	51 439	-	51 439
11.	Other claims	1 324 570	85 414	-	-	-	1 845 035	-	3 255 019
	Total exposures covered by the standardised approach	**12 916 667**	**4 381 242**	**981 001**	**396 597**	**19 288 222**	**29 153 650**	**689 739**	**67 807 118**

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 3 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 31.12.2011 (PLN k)

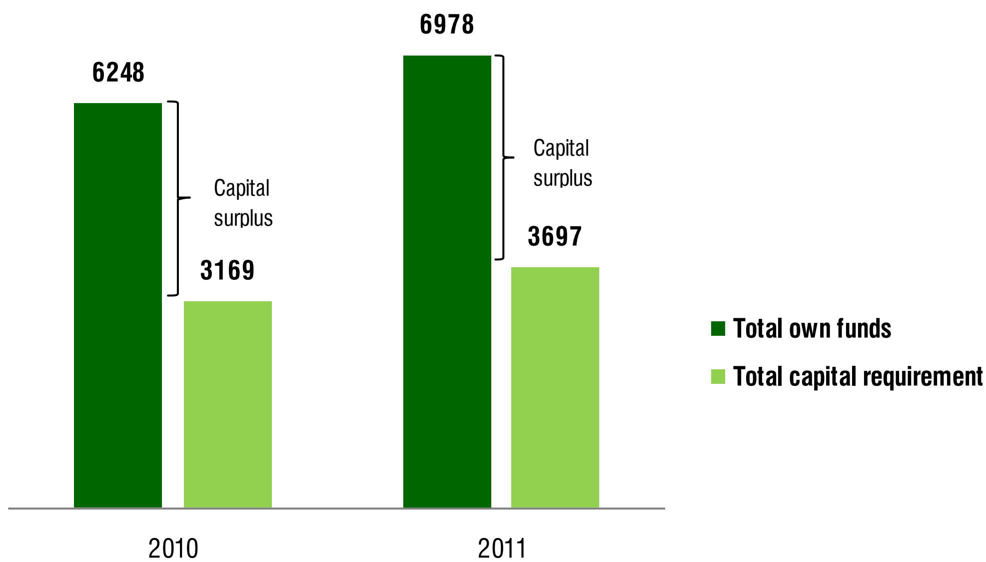
No.	Exposure Class	Credit quality step 1	2	3	4	5	6	Lack	Total
1.	Claims or contingent claims on central governments or central banks	179 385	11 727 814	-	-	-	-	-	11 907 199
2.	Claims or contingent claims on regional governments or local authorities	-	100 000	-	-	-	-	228 034	328 034
3.	Claims or contingent claims on administrative bodies and non-commercial undertakings	-	-	-	-	-	-	67 170	67 170
4.	Claims or contingent claims on institutions	404 905	2 655 785	432 578	103 555	-	-	403 506	4 000 329
5.	Claims or contingent claims on corporates	-	7 801	5 452	662 604	-	-	13 289 694	13 965 551
6.	Retail claims or contingent retail claims	-	-	-	-	-	-	11 520 785	11 520 785
7.	Claims or contingent claims secured on real estate property	-	-	19 177	-	-	-	20 454 650	20 473 827
8.	Past due items	-	-	-	-	-	-	2 237 765	2 237 765
9.	Claims classified to the regulatory high-risk categories	-	-	-	-	-	-	-	-
10.	Claims in the form of collective investment undertakings	-	-	-	-	-	-	51 439	51 439
11.	Other claims	-	-	-	-	-	-	3 255 019	3 255 019
	Total exposures covered by the standardised approach	**584 290**	**14 491 400**	**457 207**	**766 159**	**-**	**-**	**51 508 062**	**67 807 118**

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 3,696,882k and own funds of PLN 6,977,554k as at 31.12.2011, the capital adequacy ratio of the BZ WBK Group was 15.10%

Total own funds and total capital requirement in 2010-2011



6. Internal capital adequacy

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.

The Group's capital management policy envisages the target solvency ratio at 10% both for the Bank and the Group.

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 8% both for the Bank and the Group.

The Group defines **internal capital** as the capital required to safeguard the Group against the impact of major unexpected losses which may jeopardise the bank's solvency.

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process the Group is required to determine, allocate and maintain the required level of internal capital to ensure secure conduct of its banking business, taking into account the bank's risk profile set out in the Risk Appetite Statement.

The key objective of the ICAAP is to create a link between the risk profile, risk management, risk mitigation and internal capital level. The Group has an appropriate process in place to assess all the key elements of capital planning and management (including aggregation of capital for different risk types). The process ensures that the Group's capital will be sufficient to cover all the particular risks. The internal capital estimation process is adjusted to the type, scale and complexity of the group's business.

The approach applied in 2011 based on the regulatory capital for Pillar 1 risks and the estimated capital for all the other Pillar 2 risks that the Group is or may be exposed to. Quantitative risk measurement methods are applied where feasible and practicable. Other Pillar 2 risks are assessed and managed qualitatively, by way of adequate processes for risk management, tracking and mitigation. This is a very conservative approach as it assumes that there are no correlations between risks.

7. 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.

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

The objective of this 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 limit potential conflicts of interest.

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 Remuneration Committee.

Variable salary components are paid for specific periods of time, after the end of a given period and announcement of the bank's results.

If total annual variable remuneration components exceed the threshold defined by the Policy, a 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.