

**INFORMATION ON
CAPITAL ADEQUACY
OF BANK ZACHODNI WBK GROUP
as at 31st December 2010**

2010



WBK

| 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 Dec. 2008 and Resolution no. 368 of 12th Oct. 2010 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 2010 and includes:

1. own funds;
2. value of Risk Weighted Assets and off-balance sheet liabilities;
3. information on capital adequacy;

The BZ WBK 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 BZ WBK 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.

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 of 12 October 2010.

In 2010, 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.

2. 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. 381 of the Polish Financial Supervision Authority of 17 December 2008 and Resolution no. 367 of 12th October 2010 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 31.12.2010 (PLN k)**

No.	OWN FUNDS	as at 31.12.2010
I	PRIMARY FUNDS	5 465 318
1.	Core funds	4 425 591
1.1.	share capital	730 760
1.2.	supplementary capital	478 916
1.3.	reserve capital	3 215 915
2.	Additional items	1 096 723
2.1.	general risk fund	649 810
2.2.	retained earnings	446 913
3.	Minority interests	150 519
4.	Items decreasing the primary funds	(207 515)
4.1.	intangible fixed assets	(172 561)
4.2.	unrealised losses on debt instruments classified as available for sale	-
4.3.	unrealised losses on equity instruments classified as available for sale	-
4.4.	equity interests in other financial institutions	(34 954)
II	COMPLEMENTARY FUNDS	782 768
1.	Subordinated Floating Rate Notes	392 070
2.	Other items	425 652
2.1.	unrealised losses on debt instruments classified as available for sale	19 594
2.2.	unrealised gains on debt instruments classified as available for sale	406 058
3.	Items decreasing the complementary funds	(34 954)
3.1.	equity interests in other financial institutions	(34 954)
III (I+ II)	TOTAL OWN FUNDS FOR CALCULATION OF THE SOLVENCY RATIO	6 248 086

In comparison to 31.12.2009 the own funds of BZ WBK Group increase by **PLN 845,902 k** i.e. 15,7%

2.1. 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 Dec. 2010, the share capital was **PLN 730,760 k**. Details about the share capital are presented in **Note 37** to the Consolidated Financial Statement for 2010.

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 Dec. 2010, the supplementary capital was **PLN 478,916 k.**, incl. share premium of **PLN 261,699 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 Dec. 2010, the reserve capital was **PLN 3,215,915 k**. Details about the supplementary and reserve capital are presented in **Note 38** to the Consolidated Financial Statements for 2010.

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 Dec. 2010, the general risk fund earmarked for unidentified risks of the banking business was **PLN 649,810 k**.

The BZ WBK Group net profit for the year end 2010 amounted to **PLN 1,040,569 k**, including profit of attributable to minority shareholders of PLN 66,346 k. The amount of **PLN 584,608 k** from Bank PAT has been allocated for dividend payment, what is PLN 8 per share.

Items decreasing the primary funds

As at 31 Dec. 2010, the **intangible fixed assets** amounted to **PLN 172,561 k**. Details about the intangible fixed assets are presented in **Note 27** to the Consolidated Financial Statements for 2010.

As per §2 of Resolution no. 381/2008 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 31.12.2010, BZ WBK Group did not report any unrealised losses on instruments available for sale. The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in **Note 39** to the Consolidated Financial Statements for 2010.

As per § 2 of the Resolution no. 381/2008 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. 2010, the primary funds has been reduced by **PLN 34,954 k**, i.e. 50% of capital holding in financial entities.

2.2. Complementary funds

Other items

As per §3 of the Resolution no. 381/2008 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 425,652 k**. The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in **Note 39** to the Consolidated Financial Statements for 2010.

In 2010, BZ WBK issued registered bonds in the amount EUR 100 m. On the basis of the Polish Financial Supervision Authority decision of 13 Oct.2010 this amount has been classified as complementary funds. An amount of PLN 392,070 k is presented in this respect in the statement of own funds of 31.12.2010.

Items decreasing the complementary funds

As required by § 4 of the Resolution no. 381/2008 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.

2.3. Additional items

As required by § 6 of the Resolution no. 381/2008 of the Polish Financial Supervision Authority, 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 31.12.2010, minority interests amounted to **PLN 150,519 k**.

In accordance with Art. 128, section 6, point 1) of *the Banking Law* and §10 of the Resolution no. 380 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 fundswhere 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 31.12.2010 contains no entries classified as short-term capital in accordance with Art. § 5.1 of KNF resolution no. 380/2008.

3. Capital requirements

The capital adequacy of the BZ WBK Group was evaluated in accordance with Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 Mar. 2010 as amended. 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 BZ WBK Group calculates capital requirements separately for the exposures classified into the banking and trading book.

3.1. Capital requirements for individual risk types

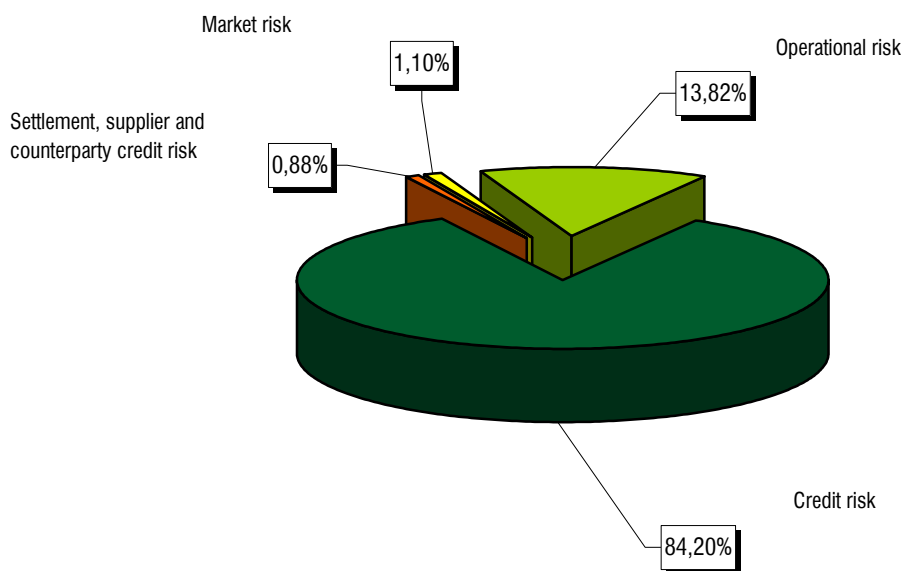
Total capital requirement of the BZ WBK Group as at 31 December 2010 was **PLN 3,169,381 k**, including:

- **PLN 2,668,664 k** for credit risk
- **PLN 34,779 k** for market risk
- **PLN 27,931 k** for counterparty risk
- **PLN 438,007 k** for operational risk

Capital requirements of BZ WBK Group as at 31.12.2010 (PLN k)

No.	CAPITAL REQUIREMENTS FOR INDIVIDUAL RISK TYPES	As at 31.12.2010
1.	Credit risk	2 668 664
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	-
3.	Market risk including:	34 779
3.1	Fx risk	-
3.2	commodity prices risk	-
3.3	equity securities prices risk including:	2 758
3.3.1	specific risk	1 810
3.3.2	general risk	119
3.3.3	particular approach for position risk in CIUs	829
3.4	specific debt instrument price risk	152
3.5	general interest rate risk	31 869
4.	Counterparty risk	27 931
5.	Capital concentration excess risk	-
6.	Operational Risk	438 007
	TOTAL CAPITAL REQUIREMENT (poz. 1 + 2 + 3 + 4 + 5 + 6)	3 169 381

Structure of capital requirement for different risk types as at 31.12.2010



The biggest item of the total capital requirement of the BZ WBK Group is the capital requirement for credit risk, which on 31.12.2010 accounted for **84.20%** 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. The credit risk management process has been described in Note 4 of BZ WBK Group consolidated financial statements.

The capital requirement for operational risk amounted to **PLN 438,007 k** including **66.46%** in respect of the capital requirement for the commercial banking and retail banking business line.

The capital requirement for market risk was **PLN 34,779 k**, including **92%** in respect of the capital requirement for the general interest rate risk.

3.2. Exposure structure

In the process of capital adequacy assessment, each type of exposure was allocated to the following classes (as required by § 20.1. 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 31.12.2010 (PLN k)**

Exposure Class	Exposure Value	Risk-weighted Assets	Capital requirement for credit risk, supply risk and counterparty risk
Claims or contingent claims on central governments or central banks	14 872 289	56 886	4 551
Claims or contingent claims on regional governments or local authorities	232 734	23 360	1 869
Claims or contingent claims on administrative bodies and non-commercial undertakings	20 078	7 005	560
Claims or contingent claims on institutions	3 071 286	382 096	30 566
Claims or contingent claims on corporates	7 825 802	5 942 127	475 370
Retail claims or contingent retail claims	9 662 540	6 014 307	481 145
Claims or contingent claims secured on real estate property	20 636 989	17 696 191	1 415 695
Past due items	2 355 001	1 642 841	131 427
Claims classified to the regulatory high-risk categories	-	-	-
Claims in the form of collective investment undertakings	56 625	56 625	4 530
Other claims	3 044 627	1 886 003	150 880
Total exposures covered by the standardised approach	61 777 971	33 707 443	2 696 595

The structure of the BZ WBK Group credit exposures mainly includes claims secured on real estate, and claims on governments and central banks.

The claims mentioned above accounted for 57% of total exposure .

3.3. 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%.

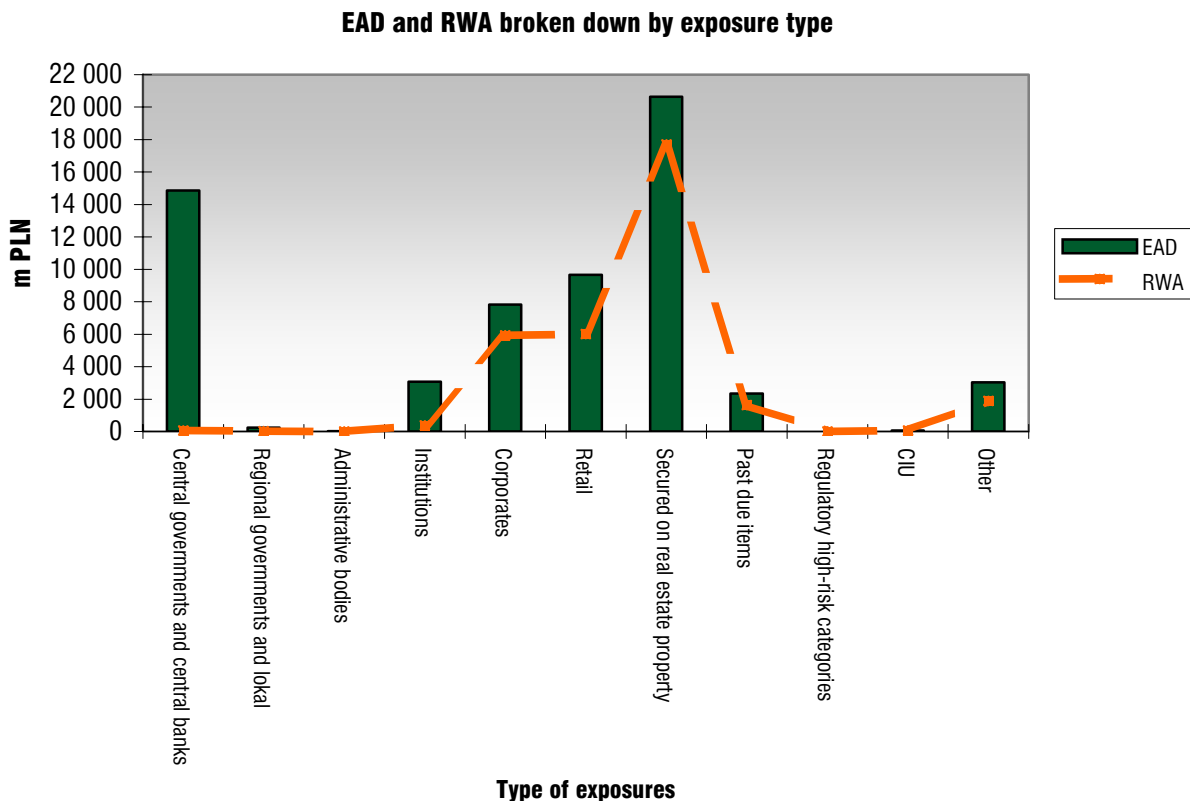
Preferential approach was used to the risk weights for the PLN claims on regional government, the city of Warsaw and their associated bodies. (in accordance with §31 of Appendix 4 to KNF Resolution no. 76/2010 as amended).

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.

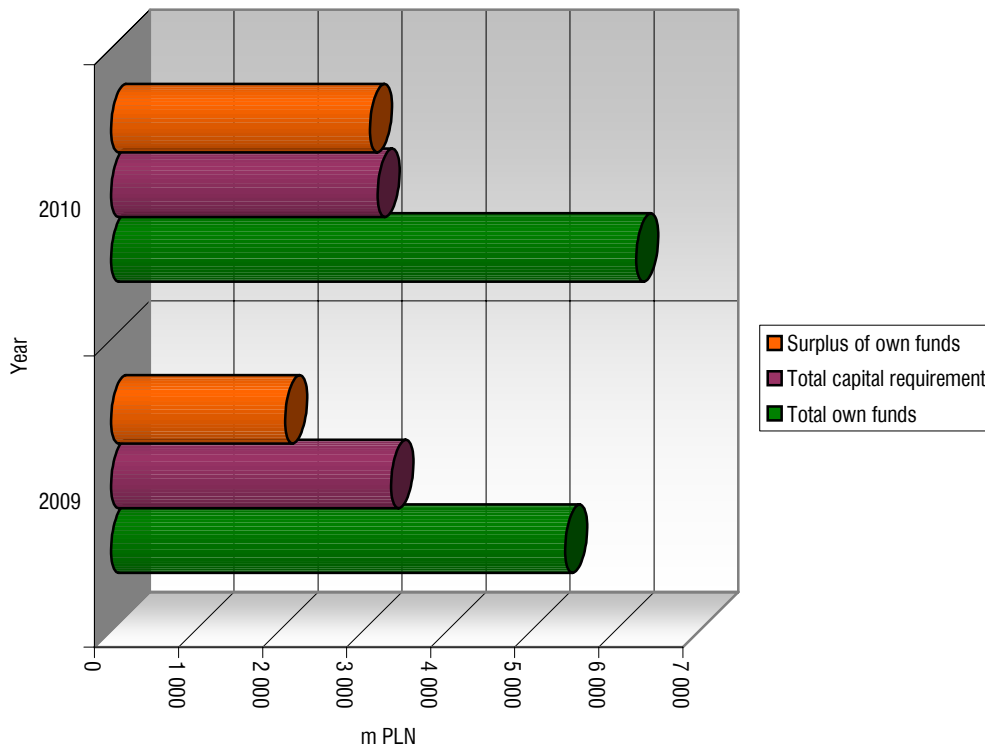
As per KNF Resolution no. 335/2009 of 10th Nov. 2009, in the BZ WBK Group capital adequacy report equal exposures on State Treasury were assigned zero risk weight.



4. Capital adequacy ratio

With the total capital requirement of **PLN 3,169,381 k** and own funds of **PLN 6,248,086 k** as at 31.12.2010, the capital adequacy ratio of the BZ WBK Group was **15.77%** and is **281 bps** higher y/y.

Total own funds and total capital requirement in 2009-2010



5. Internal capital adequacy

Internal capital is the volume of capital required to cover all identified material risks, as estimated by the Bank Zachodni WBK S.A. Group. This capital is required to protect the bank against severe unexpected losses that might put the solvency of the bank at risk.

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process the bank is required to estimate, allocate and maintain the required level of internal capital to ensure secure conduct of its banking business in accordance with Group risk profile and 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.

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 were identified at the end of 2010:

Pillar 1 risks:

- 1) Credit risk:
 - a) Credit risk for banking book exposures,
 - b) Credit risk for trading book exposures,
- 2) Operational risk,
- 3) Market risk (including FX risk, interest rate in the trading book risk, equities risk, debt securities risk, equity investment concentration risk, underwriting risk)

Pillar 2 risks:

- 1) Concentration risk,
- 2) Legal and regulatory risk,
- 3) Interest rate in the banking book risk,
- 4) Liquidity risk,
- 5) Reputation risk,
- 6) Business risk,
- 7) Model 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. The other Pillar 2 risks are evaluated and managed in a qualitative manner, through relevant processes for risk management, monitoring and mitigation.

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 supervised by the Supervisory Board