

**Capital Adequacy
update as of 30 June 2008 (Pillar III)**

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Introduction

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

The presented information relates to BZWBK Group and includes:

- 1 The level of own funds;
- 2 Compliance with the capital requirements.

Until the end of 2007, the Group was temporarily permitted to use Basel I rules with regard to calculation of the risk-weighted assets and the solvency ratio. Effective from 1 January 2008, the Group has been subject to the requirements laid down in Capital Adequacy Resolution no. 1/2007 of the Banking Supervisory Commission. In 2008, BZWBK applies the standardised approach to credit, market and operational risk. Under this approach the total capital requirement for credit risk is calculated as a sum of risk-weighted assets multiplied by 8%. In the case of an asset, the value of the exposure is equal to its balance-sheet value and in the case of an off-balance sheet item, the value of the exposure is equal to its on-balance sheet equivalent. To calculate the value of risk-weighted exposures, risk weights are assigned to all exposures in accordance with Appendix 4 to Resolution no. 1/2007 of the Banking Supervisory Commission of 13 March 2007.

1 Own funds

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

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

- Primary funds
- Complementary funds, in an amount not higher than the primary funds.

Primary funds include:

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

The 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;
- 2) Complementary funds deductions defined by the Financial Supervision Authority.

The values of the individual items of own funds are presented in the table below:

Own funds (PLN k)	4 152 598
Primary funds	3 750 351
Core funds	2 920 887
- Share capital	729 603
- Supplementary capital	461 797
- Reserve capital	1 729 487
Additional items	1 283 850
- General risk fund	529 810
- Retained earnings	315 077
- Net profit in course of approval less expected dividends	438 963
Items decreasing the primary funds	-454 386
- Intangible fixed assets	-126 524
- Unrealised losses on debt instruments classified as available for sale	-194 779
- Unrealised losses on equity instruments classified as available for sale	-
- Equity interests in other financial institutions	-133 083
Complementary funds	198 953
Other items	332 036
- Unrealised gains on debt instruments classified as available for sale	-
- Unrealised gains on debt instruments classified as available for sale	332 036
Items decreasing the complementary funds	-133 083
- Equity interests in other financial institutions	-133 083
Additional items	203 294
Minority interests	203 294
Short-term capital	0

1a) Primary funds

Core funds

Share capital in the nominal amount as shown in the Statutes and in the entry to the Court Register. The nominal value of a share is PLN 10. All the issued shares are fully paid-up. As at 30 June 2008, the share capital was PLN 729,603 k

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. This capital is not distributable. Its purpose is to cover any balance sheet losses. The yearly allocations to the supplementary capital must equal at least 8% of the net profit and continue to be made until the supplementary capital reaches the value of at least a third of the Bank's share capital. The value of the allocations is determined by the General Meeting of Shareholders. As at 30 June 2008, the supplementary capital was PLN 461,797 k.

Reserve capital is created from net profit allocations in an amount approved by the General Meeting of Shareholders. Reserve capital is used to cover balance sheet losses if they are greater than the supplementary capital. The decision to resort to the reserve capital is taken by the General Meeting of Shareholders. As at 30 June 2008, the reserve capital was PLN 1,729,487 k.

Additional items of the primary funds

In accordance with the Banking Law, **the general risk fund for unidentified banking business risk** is created from net profit allocations in an amount approved by the General Meeting of Shareholders. The general risk fund is used to cover costs and losses connected with unidentified banking risks that were not separately provided for. As at 30 June 2008, the general risk fund earmarked for unidentified risks of the banking business was PLN 529 810 k.

As at 30 June 2008 retained earnings amounted to PLN 315,077 k.

According to the article 127 point 2, subpoint 2c) of the Banking Act, net profit for the period calculated in line with accounting standards and decreased by all forecasted dividends and other burdens, in the amount not higher than profit verified by auditors, can be included in the calculation of own funds. As at 30 June 2008 net profit decreased by expected dividend amounts to 438 963 k PLN. Amount of expected dividend relates to the half-year period.

Items decreasing the primary funds

As at 30 June 2008, **the intangible fixed assets** amounted to PLN 126,524 k.

As per §2 of KNB Resolution 2/2007, other items decreasing the primary funds are **unrealised losses on debt and equity instruments classified as available for sale**.

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

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

As at 30 June 2008, the Bank decreased its primary funds by 50% of the value of its equity interests in:

Entity	Book Value (PLN '000)
Associated companies accounted for using the equity method:	43 353
Fundusz Poręczeń Kredytowych POLFUND S.A.	10 281
BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A.	14 799
BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A.	18 273
Shares in other entities:	222 813
Krajowa Izba Rozliczeniowa S.A.	625
Commercial Union Powszechnie Towarzystwo Emerytalne	222 188
Total equity interests in other financial institutions	266 166

1b) Complementary funds

Other items

As per §3 of KNB Resolution no. 2/2007, other items of the complementary funds are **unrealised gains on debt and equity instruments classified as available for sale** in an amount equal to 60% of their pre-tax value.

Items decreasing the complementary funds

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

1c) Additional items

As required by § 4 of KNB Resolution no. 2/2007, the Bank's consolidated own funds must reflect minority interests, if any. Pursuant to art. 3 of the *Accounting Act* minority interests are the part of the subsidiary's net assets that is owned by external shareholders. As at 30 June 2008, minority interests amounted to PLN 203,294 k.

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

1 Sum of:

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

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

2 Nil - if the above sum is not positive.

As at 30 June 2008 short-term capital amounted to 0.

2 Capital requirements

The Group's volume of trading is significant and therefore the Group is obliged to calculate capital requirements for different risks.

2.1 Capital requirements for individual risk weights.

As at 30 June 2008, the total capital requirement was PLN 3,022,085 k, including:

- PLN 2,609,727 k for credit risk (86.36 %)
- PLN 16,276 k for market risk (0.54 %)
- PLN 55,206 k for counterparty risk (1.82 %)
- PLN 340,876 k for operational risk (11.28 %)

Table 1. Capital requirements as at 30 June 2008 (in PLN k)

	CAPITAL REQUIREMENTS – consolidated	30 June 2008
I.	Total capital requirement	3 022 085
1.	Credit risk	2 609 727
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	0
3.	Market risk	16 276
3.1	including: FX risk	0
3.1.1.	FX risk - long position	0
3.1.2	FX risk - short position	0
3.2	commodity prices risk	0
3.3	equity securities prices risk, including:	368
3.3.1	specific risk	203
3.3.2	general risk	165
3.4	specific debt instrument price risk	2
3.5	general interest rate risk	15 906
4.	Counterparty risk	55 206
5.	Capital concentration excess risk	0
6.	Operational Risk	340 876
II.	Own funds and short-term capital	4 152 598
III.	Solvency Ratio %	10,99

2.2 Exposure structure.

Table 2 : Asset structure by exposure classes as at 30 June 2008 (in PLN k)

Exposure Classes	Total Exposures	Risk Weight Assets	Regulatory Capital
Claims or contingent claims on central governments or central banks	11 404 125	1 276	102
Claims or contingent claims on regional governments or local authorities	129 692	27 040	2 163
Claims or contingent claims on administrative bodies and non-commercial undertakings	22 230	12 794	1 024
Claims or contingent claims on institutions	3 860 169	1 182 255	94 580
Claims or contingent claims on corporates	20 117 565	20 011 108	1 600 889
Retail claims or contingent retail claims	7 810 059	5 857 544	468 604
Claims or contingent claims secured on real estate property	4 480 964	4 361 763	348 941
Past due items	295 447	388 742	31 099
Claims in the form of collective investment undertakings	40 153	40 153	3 212
Other claims	3 148 554	1 428 991	114 319
Total exposures covered by the standardised approach	51 308 958	33 311 666	2 664 933

The classification of exposures into classes follows KNB Resolution no. 1/2007 of 13 March 2007 and is based on the existing rating models or the customer type.

2.3 Allocating risk weights to the credit portfolio

The risk weights used in the calculation of capital requirement for credit risk in the standardised approach are based on the provision of Appendix 4 to KNB Resolution no. 1/2007.

Under the standardised approach the BZWBK Group allocates risk weights to products and counterparties based on external rating in accordance with Resolution no. 1/2007 of the Banking Supervisory Commission of 13 March 2007.

For past-due exposures, the risk-weight is set by the rules specified in §70 of Appendix 4 to KNB Resolution no. 1/2007. An exposure is considered as past due if it is past due for more than 90 days and the past due amount is greater than PLN 500 in the case of retail exposures and greater than PLN 3000 in the case of other exposure classes.

The Group has a separate class of exposures secured on real estate, applying a preferential risk weight of 35% to it (§65 of Appendix 4 to KNB Resolution 1/2007) and 75% to the exposures effectively secured on real estate, where the value of the principal or interest instalment is subject to fluctuations in the currency rates other than the currency in which the obligor earns his income

(§62 of Appendix 4 to KNB Resolution 1/2007). Group does not have a separate class of exposures secured on commercial real estate (§66 of Appendix 4 to KNB Resolution no. 1/2007). Risk weights for the exposures not classified to the claims secured on real estate property depends on the asset class to which the exposure will be classified.

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 KNB Resolution no. 1/2007).

The Bank uses the ratings of the following agencies:

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

3 Internal capital adequacy

On 1 January 2008, Bank Zachodni WBK S.A. started the Internal Capital Adequacy Assessment Process. This process is used to estimate the Bank's internal capital based on the additive method. The key element in calculation of internal capital is the value of regulatory capital, i.e. the capital calculated as required by the Regulator, increased by the capital for other identified material risks estimated by experts. The risks used in the calculation include: concentration risk, interest rate risk on the banking book, liquidity risk, legal and regulatory risk, reputation risk, model risk.

Details of financial information are in the Interim Consolidated Financial Statements for the 6 months ended 30 June 2008 on www.bzwbk.pl.