



WBK

| **Bank Zachodni WBK**

**Information on capital adequacy
as at 31.12.2007 (Pillar III)**

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Introduction

This document is issued under the BZWBK 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.

As in 2007 the BZWBK Group adopted KNB Resolution no. 1/2007 par. 14.1 for calculation of capital requirement for credit risk, the disclosure for 2007 reflects the transitional period (as per Appendix 21 to KNB Resolution no. 1/2007).

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 Act, own funds consist of:

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

Primary funds include:

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

The bank's complementary funds include:

- 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.

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

| | |
|--|------------------|
| Own funds (PLN k) | 3 780 676 |
| Primary funds | 3 332 604 |
| Core funds | 2 261 371 |
| - Share capital | 729 603 |
| - Supplementary capital | 434 816 |
| - Reserve capital | 1 096 952 |
| Additional items | 1 408 125 |
| - General risk fund | 529 810 |
| - Retained earnings | 232 688 |
| - net profit in course of approval less expected dividends | 645 627 |
| Items decreasing the primary funds | -336 892 |
| - Intangible fixed assets | -115 280 |
| - Unrealised losses on debt instruments classified as available for sale | -103 516 |
| - Unrealised losses on equity instruments classified as available for sale | |
| - Equity interests in other financial institutions | -118 096 |
| Complementary funds | 212 898 |
| Other items | 330 994 |
| - Unrealised gains on debt instruments classified as available for sale | |
| - Unrealised gains on equity instruments classified as available for sale | 330 994 |
| Items decreasing the complementary funds | -118 096 |
| - Equity interests in other financial institutions | -118 096 |
| Additional items | 235 174 |
| Minority interests | 235 174 |
| 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 31.12.2007, the share capital was PLN 729,603 k. Details about the share capital are presented in Note 38 to the Consolidated Financial Statements for 2007.

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 31.12.2007, the supplementary capital was PLN 434,816 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 31.12.2007, the reserve capital was PLN 1,096,952 k. Details about the supplementary and reserve capital are presented in Note 39 to the Consolidated Financial Statements for 2007.

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 31.12.2007, the general risk fund earmarked for unidentified risks of the banking business was PLN 529,810 k.

As at 31.12.2007, the retained earnings were PLN 232,688 k.

In the calculation of own funds, **net profit less expected dividends** is used. As at 31.12.2007, the net profit less expected dividends was PLN 645,627 k.

| | PLN '000 |
|-----------------------------------|----------|
| Net profit for 2007 | 954 695 |
| Expected dividend | -309 068 |
| Net profit less expected dividend | 645 627 |

Items decreasing the primary funds

As at 31.12.2007, the intangible fixed assets amounted to PLN 115 280 k. The biggest portion of this figure is represented by the gross value of ICBS, the Bank's core banking system. ICBS was recorded in the books in December 2002. Details about the intangible fixed assets are presented in Note 29 to the Consolidated Financial Statements for 2007.

As per §2 of KNB Resolution 2/2007, other items decreasing the primary funds are unrealised losses on debt and equity instruments classified as available for sale. The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in Note 40 to the Consolidated Financial Statements for 2007.

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 31.12.2007, 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 | 13 379 |
| Fundusz Poręczeń Kredytowych POLFUND S.A. | 9 867 |
| NFI Magna Polonia S.A. | 3 512 |
| Shares in other entities | 222 813 |
| Krajowa Izba Rozliczeniowa S.A. | 625 |
| Commercial Union Powszechne Towarzystwo Emerytalne | 222 188 |
| Total equity interests in other financial institutions | 236 192 |

The subsidiaries and associates of Bank Zachodni WBK S.A. are presented in Note 5 to the Consolidated Financial Statements for 2007.

1b) Complementary funds

Other items

As per §3 of KNB Resolution 2/2007, other items of the complementary funds are **unrealised gains on debt and equity instruments classified as available for sale** in an amount equal to 60% of their pre-tax value. The change of valuation in the financial assets available for sale divided into debt and equity instruments is presented in Note 40 to the Consolidated Financial Statements for 2007.

Items decreasing the complementary funds

As required by § 4 of KNB Resolution, 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, 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 31.12.2007, minority interests amounted to PLN 235,174 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 capital requirements.

2 Nil - if the above sum is not positive.

The Bank's uses a conservative approach and assumes that the short-term capital is nil.

2 Capital requirements

The Group's volume of trading is very big and the Group is obliged to calculate must capital requirements for different risks.

As at 31-12-2007 , the total capital requirement is PLN 2,278,681 k:

for the following risk types:

- credit risk: PLN 2,226,953 k (97.73 %)
- market risk: PLN 30,261 k (1.33 %)
- counterparty risk: PLN 21,467 k (0.94 %)

Table 1. Capital requirements as at 31.12.2007.

| | CAPITAL REQUIREMENTS - consolidated | 31.12.2007 |
|-------------|--|-------------------|
| I. | Total capital requirement | 2 278 681 |
| 1. | Credit risk | 2 226 953 |
| 2. | Risk of exceeding the exposure concentration limit and the large exposure limit | 0 |
| 3. | Market risk | 30 261 |
| 3.1 | including: FX risk | 0 |
| 3.1.1 | FX risk - long position | 30 606 |
| 3.1.2 | FX risk - short position | 34 740 |
| 3.2 | commodity prices risk | 0 |
| 3.3 | equity securities prices risk, including: | 5 985 |
| 3.3.1 | specific risk | 4 598 |
| 3.3.2 | general risk | 1 387 |
| 3.4 | specific debt instrument price risk | 2 |
| 3.5 | general interest rate risk | 24 274 |
| 4. | Counterparty risk | 21 467 |
| 5. | Capital concentration excess risk | 0 |
| 6. | Operational Risk | 340 876* |
| II. | Own funds and short-term capital | 3 780 676 |
| III. | Solvency Ratio % | 13,27 |

*) As in 2007 BZWBK Group adopted § 14.1 of KNB Resolution 1/2007, the Bank reduces its total capital requirement by the full value of the capital requirement for operational risk.

Table 2 : Asset structure by risk weights as at 31 December 2007

| | 31-12-2007 | | |
|---|-------------------|-------------------|-------------------|
| | Amount | Credit equivalent | RWA |
| ASSET STRUCTURE BY RISK WEIGHTS | 40 218 799 | 24 518 287 | 24 518 287 |
| Assets with risk weight of 0% | 12 863 513 | 0 | 0 |
| Assets with risk weight of 20% | 2 416 601 | 483 320 | 483 320 |
| Assets with risk weight of 50% | 1 807 436 | 903 718 | 903 718 |
| Assets with risk weight of 100% | 23 131 249 | 23 131 249 | 23 131 249 |
| Assets with risk weight of 1250% | - | - | - |
| OFF-BALANCE SHEET COMMITMENTS | 8 627 910 | 3 868 718 | 3 318 627 |
| - COUNTERPARTY RISK WITH RISK WEIGHT OF 0% | 63 913 | 58 092 | 0 |
| Product risk with risk weight of 0% | 2 910 | 0 | 0 |
| Product risk with risk weight of 20% | 0 | 0 | 0 |
| Product risk with risk weight of 50% | 5 512 | 2 601 | 0 |
| Product risk with risk weight of 100% | 0 | 0 | 0 |

| | | | |
|---|------------------|------------------|------------------|
| Product risk weights for derivative transactions | 55 491 | 55 491 | 0 |
| - COUNTERPARTY RISK WITH RISK WEIGHT OF 20% | 728 941 | 614 999 | 123 000 |
| Product risk with risk weight of 0% | 105 865 | 0 | 0 |
| Product risk with risk weight of 20% | 0 | 0 | 0 |
| Product risk with risk weight of 50% | 16 154 | 8 077 | 1 615 |
| Product risk with risk weight of 100% | 547 400 | 547 400 | 109 480 |
| Product risk weights for derivative transactions | 59 522 | 59 522 | 11 904 |
| - COUNTERPARTY RISK WITH RISK WEIGHT OF 100% | 7 835 056 | 3 195 627 | 3 195 627 |
| Product risk with risk weight of 0% | 1 528 498 | 0 | 0 |
| Product risk with risk weight of 20% | 0 | 0 | 0 |
| Product risk with risk weight of 50% | 6 221 862 | 3 110 931 | 3 110 931 |
| Product risk with risk weight of 100% | 84 696 | 84 696 | 84 696 |

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, legal and regulatory risk, reputation risk, model risk.