Translation of document originally issued in Polish

# Information on capital adequacy of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2011

The Report has been approved by the Bank Handlowy w Warszawie S.A. Supervisory Board's Resolution dated 21st May 2012.

# INTRODUCTION

This document has been laid down to execute The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy[1], to meet the disclosure requirements of Resolution no. 385/2008 of the Polish Financial Supervision Authority ("PFSA","KNF") of 17 December 2008 *on detailed principles related to and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure (KNF Official Journal from 2008, No. 8, item 39 with amendments)*, as well as of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 *relating to the taking up and pursuit of the business of credit institutions.*

The objective of the document is presenting to the third parties, especially customers of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter referred to as: Group) and financial market participants, the Group's risk management strategy and processes, information on the capital structure, exposure to risk and capital adequacy, which enable thorough assessment of the Group's financial stability, in order to make economic decisions as well as keeping market discipline. This document complements information included in Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A as at 31 December 2011 and refers to it wherever it is relevant.

Pursuant to the Resolution no. 385/2008 of the Polish Financial Supervision Authority of 17 December 2008 *on detailed principles related to and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure*, Bank publishes disclosures on capital adequacy on the basis of consolidated data as of 31 December 2011.

When the disclosures required by the Resolution no. 385/2008 of the Polish Financial Supervision Authority are published in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A as at 31 December 2011, this document refers to the number of explanatory note, which discloses required information.

The terms used in the document shall mean the following:
**Resolution on capital adequacy** - Resolution No. 76/2010 of the Polish Financial Supervision Authority of March 10 2010 on the scope and detailed procedures for determining capital requirements for specific types of risk *(KNF Official Journal from 2010, No. 2, item 11 with amendments),*

**Resolution on banks' own funds** - Resolution No. 325/2011 of the Polish Financial Supervision Authority of December 20, 2011 *on other deductions from a bank's core capital, amount thereof, scope and conditions of such deductions from the core capital of a bank, other balance sheet items included in the supplementary capital, the amount and scope thereof, and the conditions of including them in a bank's supplementary capital, deductions*

[1] The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy laid down by the Management Board and approved by the Supervisory Board are available at the Bank's website www.citihandlowy.pl in the "Investor Relations" section.

*from a bank's supplementary capital, the amount and scope thereof and conditions of performing such deductions from the banks' supplementary capital, the scope and manner of taking account of the business of banks conducting their activities in groups in calculating their own funds (KNF Official Journal from 2011, No. 13, item 49),*

**Resolution on the external credit rating - Resolution** No. 387/2008 of the Polish Financial Supervision Authority of December 17 2008 *on determining the credit worthiness ratings assigned by external credit assessment institutions, which can be used by a bank in order to determine capital requirements and scope of the use of these ratings, as well as links between ratings and credit quality steps (KNF Official Journal from 2008, No. 8, item 41).*

**Resolution on the risk management - Resolution** No. 258/2011 of the Polish Financial Supervision Authority of October 4 2011 *on risk management and internal control policy and determining the rules of internal capital estimation, supervision of the internal capital calculation and maintenance process and determining variable remuneration policy of the Bank's management staff (KNF Official Journal from 2011, No. 11, item 42).*

## RISK MANAGEMENT OBJECTIVES AND POLICIES

The risk management process is consistent within the Group, including Bank Handlowy in Warsaw S.A. and its Subsidiaries (Dom Maklerski Banku Handlowego S.A., Handlowy Leasing S.A.), and exclude special purpose vehicles (i.e. investment vehicles), companies in the process of liquidation or bankruptcy, as well as units not conducting current, statutory activity.

Strategies and processes of credit risk management (including the counterparty risk and concentration risk), liquidity risk, market risk, operational risk and financial result risk, as well as the structure and organization of units managing the appropriate risks and solutions used by the Group on measurement and reporting of those risks are presented in details in the note 48 „Risk management" to the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended 31 December 2011.

Group oversees and manages the risk of non compliance, which is defined as any effects of non-compliance with laws, including international regulations or laws of another jurisdiction which are relevant to the Group's operation, internal regulations and the Group's conduct standards.

The Bank's compliance and compliance risk monitoring policy is set out in the *Compliance and Compliance Risk Management Policy of Bank Handlowy w Warszawie S.A.* as approved by the Bank's Management and Supervisory Boards.

Compliance with laws, internal regulations, corporate regulations, ethical standards and good practice standards is an integral element of professional duties of each employee of the Group.

It is the responsibility of the Bank's Management Board to effectively manage compliance risk, develop a compliance policy and ensure that it is followed, and take corrective or disciplinary action in the event of any irregularities in applying the Bank's compliance policy.

Compliance is the Bank's unit, which supports the Bank's Management Board and business units, and monitors the Bank's subsidiaries, to ensure compliance of the Group's operation with laws, internal standards, regulations and Citigroup policies.

The compliance function which is performed by Compliance is an independent function comprising compliance risk identification, assessment, monitoring, testing, reporting and consulting, and ensuring compliance with laws, internal regulations of the Bank, and its conduct and good practice standards.

Compliance, as the compliance process coordination and monitoring unit, reviews and assesses the compliance risk management process on an annual basis as part of the Annual Compliance Plan, and submits relevant information to the Bank's Management and Supervisory Boards.

# DETAILED INFORMATION ON CAPITAL ADEQUACY

## 1. Information related to the use of prudential norms

### 1) name of the bank

BANK HANDLOWY W WARSZAWIE S.A. („Bank”)

### 2) brief description of entities that are:

#### *a) fully consolidated*

The following entities are fully consolidated:
- Dom Maklerski Banku Handlowego S.A.,
- Handlowy Leasing Sp. z o.o.,
- Handlowy Investments S.A.,
- PPH Spomasz Sp. z o.o. under liquidation.

The Capital Group of Bank Handlowy w Warszawie S.A. provides leasing services through Handlowy Leasing Sp. z o.o., the Bank’s wholly-owned subsidiary. The subsidiary was formed through merger of Handlowy Leasing S.A. with Citileasing Sp. z o.o. in 2006.

The Group offers brokerage services on the capital market through Dom Maklerski Banku Handlowego S.A. (DMBH), a wholly-owned subsidiary of the Bank.

Handlowy Investments S.A. seated in Luxembourg, belongs to special purpose investment entities, through which the Bank and the Capital Group conduct capital transactions. The entity is a wholly-owned subsidiary of the Bank and its activities are financed with refundable additional capital contributions net profits earned. Due to intention to reduce the investment activities, Handlowy - Investments S.A. and similar holdings will be gradually sold or liquidated. As at 31 December 2011 Handlowy Investments S.A. had the portfolio composed of the following shares: Handlowy Investment II S.a.r.l. and Pol-Mot Holding S.A.

PPH Spomasz Sp. z o.o. under liquidation, seated in Warsaw, fully owned by the Bank is one of the holdings deemed for sale[2].

#### *b) ) proportionally consolidated*

There are no proportionally consolidated entities.

[2] According to information in point 10 of this chapter, equity investments of the Capital Group of Bank Handlowy w Warszawie S.A. are classified into strategic and divestments portfolios.

### *c) reported under the equity method and deducted from own funds*

The following entities accounted for under the equity method are deducted from consolidated own funds:

- Handlowy Inwestycje Sp. z o.o.
- Handlowy Investments II S.a.r.l
- Bank Rozwoju Cukrownictwa S.A. under liquidation.

Handlowy Inwestycje Sp. z o.o. seated in Warsaw and Handlowy Investments II S.a.r.l seated in Luxembourg are special purpose investment entities, through which the Bank conducts capital transactions. Handlowy-Inwestycje Sp. z o.o. has in its portfolio shares of Handlowy Leasing Sp. z o.o. Activities of the entities are financed by refundable capital contributions as well as retained earnings. Handlowy Inwestycje Sp. z o.o. belongs to the portfolio of strategic entities.

Handlowy Investments II S.a.r.l seated in Luxembourg is in the portfolio of companies earmarked for sale. Currently Handlowy Investments II S.a.r.l. has in its portfolio shares of Handlowy Investments S.A. Due to intention to reduce the investment activities, Handlowy - Investments II S.a.r.l it is expected that it will be sold or liquidated in the near future.

Bank Rozwoju Cukrownictwa S.A. under liquidation seated in Poznan („BRC”) **-** a subsidiary of Bank Handlowy w Warszawie S.A. (100% share), does not run active operations. On March 2, 2009 Extraordinary General Meeting of Shareholders of BRC adopted a resolution regarding dissolution of the company and voluntary liquidation. The Bank’s plan of voluntary liquidation was accepted on July 9, 2009 by the Polish Financial Supervision Authority. The liquidation process is highly advanced.

### *d) neither consolidated nor deducted*

There are no entities that are neither consolidated nor deducted.

## 3) information regarding any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries

All the transactions within Group, including repayments of intercompany liabilities and transfers of funds, are concluded according to law, including Code of Commercial Law and statutory stipulations. Within the Group, according to the best knowledge, there are no and it is expected that there will be no significant obstacles of legal or practical nature to fast fund transferring or repayment of liabilities between the parent and the subsidiaries.

## 4) any aggregate amount by which the actual own funds are less that the required minimum in all subsidiaries not included in the consolidation, and the names of such subsidiaries

In Bank Rozwoju Cukrownictwa S.A. under liquidation, subsidiary of Bank Handlowy w Warszawie S.A. not included in the consolidation, the actual funds are above the required minimum.

## 2. Information regarding own funds

### 1) summary information on the key terms and conditions of the features of all own funds items and components thereof

According to art. 127 of the Banking Act, the bank's own funds comprise:

- core funds,
- supplementary funds in the amount not surpassing core funds.

***Core funds*** comprise:
a) base funds, which in Bank Handlowy w Warszawie S.A. comprises paid in and registered share capital, supplementary capital and reserve capital,
b) additional items of core funds, composed of:
- general risk fund for identified risk of banking activity
- retained earnings and

c) items reducing core funds, which are:
- intangible assets measured at carrying amount,
- retained loss, current period net loss and
- other deductions of core funds determined by KNF

***Supplementary funds*** of the Bank comprise:
a) other items determined by KNF in order to secure banking activity and manage risk properly – unrealized profits on debt instruments classified as available for sale up to 80% of their value (before income tax), positive foreign exchange differences,

b) deductions of supplementary funds determined by KNF.

Deductions of core and supplementary funds, determined by KNF in the Resolution on banks' own funds:
- for core funds – unrealized loss on debt instruments classified as available for sale,
- for core and supplementary funds – capital exposure in financial institutions, lending institutions, domestic banks, foreign banks disclosed in the form of shares or other capital exposure in items classified as own funds or capital of those entities, including capital contributions in limited liability companies, in carrying amount (balance sheet amount), in case when such an exposure exceeds 10% of own funds of that entity.

### 2) the amount of own funds and the value of their individual components and deductions from core capital and supplementary capital set out in art. 127 of the Banking Act and the resolution on banks' own funds

| **Own funds** | **in PLN '000** |
|---|---:|
| Core funds | 4 354 854 |
| - base funds | 5 302 826 |
| share capital | 522 638 |
| supplementary capital | 3 009 397 |
| reserve capital together with retained earnings | 1 770 791 |
| - general risk fund | 497 500 |
| - deductions of core funds | (1 445 472) |
| intangible assets | (1 292 066) |
| unrealized loss on debt instruments classified as available for sale | (93 312) |
| retained loss, current period net loss | (18 085) |
| capital exposures in financial institutions | (42 009) |
| | |
| Supplementary funds | - |
| - other items | 15 936 |
| unrealized profits on equity instruments classified as available for sale | 770 |
| unrealized profits on debt instruments classified as available for sale | 10 113 |
| positive foreign exchange differences | 5 053 |
| - deductions of supplementary funds | (15 936) |
| capital exposures in financial institutions | (15 936) |
| **Total core funds** | **4 354 854** |

Information about the components of equity are presented in details in supplementary note 37 „Capital and Reserves" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2011.

### 3) the amount of short-term capital and components included in short-term capital in accordance with § 5 para 1 of the resolution on bank's capital adequacy

The Group does not use short-term capital.

### 4) items listed in § 2 art. 1 point 3 and 4 of the resolution on capital adequacy

The Group neither uses the internal ratings approach nor has any securitization exposures.

### 5) for banks referred to in § 5 para 4 of the resolution on banks' capital adequacy – the sum of own funds and short-term capital

The Group does not use short-term capital.

## 3. Information regarding the compliance with capital requirements referred to in Art. 128 of Banking Act

### 1) the description of the bank's approach to assessing the adequacy of its internal capital to support current and future activities

The Group identifies and manages different types of risks in its activity. Internal capital is the amount of capital estimated by the Group required to cover all identified material measurable types of risks, which affect the Group's business. As a part of capital planning CRO and CFO annually decide on the form, criteria, and the most appropriate forum for discussion on the identification of significant risks in the Bank. List of significant risks is subject to approval by the Bank's Management Board.

The Group adjusts the amount of capital to the risk level and the risk type, to which the Bank is exposed and to the characteristics, scale and complexity of the specific business. For this purpose the Group implemented process of estimation and allocation of the internal capital covering significant risk in which assessment of capital adequacy is performed (process ICAAP). The Group annually sets the maximum acceptable level of risk (called risk appetite) approved by the Management Board and Supervisory Board. The accepted risk appetite is designed to provide security for business activities and allow achieving strategic goals related to capital profitability.

The result of the ICAAP is to determine the capital plan which is based on approved by the Board and the Supervisory Board financial plan and appetite for risk. It specifies the Group's needs and capital goals. Internal Capital is estimated for significant risks and regulatory capital is estimated for risk specified in the Resolution on Capital Adequacy. The Group allocates internal capital to business segments. Risk and Capital Management Committee is responsible for the annual capital and ongoing monitoring of capital usage.

Overall acceptable risk level is defined by a target regulatory capital adequacy ratio. Risk appetite is approved each year in the form of resolution of the Bank's Supervisory Board on the recommendation of Management Board. Management Board on the basis of risk appetite decides on the level of aggregated limits on particular risks treated as significant.

Below we present the specific risks identified as significant in the Group in 2011:

- credit risk and
- counterparty credit risk (covers risk of default or delinquency),
- operational risk (covers technological and technical risk, outsourcing risk, misappropriation risk, money laundering risk, information security risk, external events

risk (Continuity of Business), tax and accounting risk, product risk, compliance risk, legal risk model risk),
- market risk in the trading book,
- interest rate risk in the banking book,
- financial result risk,
- concentration risk,
- liquidity risk.

The Group assessed the internal capital covering all significant risks for a base case and a downside scenario, both defined with a common set of assumptions for all risks covered. As a result stress test analysis was performed for a downside scenario (DS.2) that is severe, but still plausible. Additionally a 1 in 10 year's downside scenario (1/10) formed the basis for additional risk / return analysis.

The internal capital requirements for credit and counterparty risk were estimated according to advanced approach based on internal ratings for the following exposure classes: exposures to institutions, corporates, regional governments and local authorities administrative bodies and non-commercial undertakings. For exposures different than mentioned above internal capital requirements were calculated according to standardized approach specified in the Resolution on capital adequacy. Capital requirement for operational risk has been calculated using standardized methodology, based on gross income for relevant 3 years. Capital requirement is increased by add-on, resulting from adding back revenue (corrections related to MTM into capital calculation model with 18% risk weight).
Internal capital covering risks: credit risk, counterparty credit risk, operational risk was estimated using standardized methods specified in the Resolution on capital adequacy, additionally operational risk capital was increased by add-on related to foreign currency options. Internal capital covering risks: market risk in the trading book, interest rate risk in the banking book, financial result risk, concentration risk, liquidity risk was estimated using internal methods. The Group does not use diversification effect while aggregating estimated internal capital for significant risks.

The Group adopted proper methods for capital allocation to the business units based on the product and business lines approach.

The organisational units engaged in the process of assessment of internal capital are required to ensure adequate level of internal control in the capital calculation process for significant risks. In the context of the process of review of internal capital assessment and maintenance, the Audit Department provides the function of independent review of the risk management system.

Risk and Capital Management Committee is responsible for capital adequacy assessment. The Committee supervises the compliance with general risk level established by the Supervisory Board and monitors forecasts in the scope of the capital adequacy.

Risk and Capital Management Committee performs, at least annually, the assessment of the adequacy of the solutions used for the process of assessing and maintaining the internal capital taking into account the current character, scale and complexity of Group's activity. Results from the assessment are submitted for acceptance to the Management Board.

Supervisory Board receives periodically information report on assessment and utilizations of internal and regulatory capital.

If capital adequacy ratio is at risk to fall below approved in risk appetite level and/or not enough capital will be available to cover internal capital allocation for significant risks, the contingency capital plan will be activated.

**2) for a bank applying the standardised approach to calculate risk-weighted exposures in accordance with annex 4 to the resolution on banks' capital adequacy - amounts representing 8% of the risk-weighted exposure amounts, separately for each exposure class specified in § 20 para 1 of annex 4 to the resolution on bank's capital adequacy**

| Exposure classes | Capital requirements in PLN '000 |
|---|---|
| Governments and central banks | 40 693 |
| Regional governments and local authorities | 3 107 |
| Administrative bodies and non-commercial undertakings | 999 |
| Multilateral development banks | 0 |
| International organizations | 0 |
| Institutions- banks | 160 172 |
| Corporations | 956 427 |
| Retail | 278 223 |
| Secured on real estate property | 29 830 |
| Past due items | 34 572 |
| Items belonging to regulatory high-risk categories | 2 183 |
| Covered bonds | 0 |
| Short-term claims on banks and corporations | 0 |
| Collective investment undertakings | 0 |
| Other | 70 334 |
| **Total** | **1 576 540** |

*regarding credit risk & counterparty credit risk

**3) for a bank applying internal ratings-based approach to calculate risk-weighted exposures in accordance with annex 5 to the resolution on bank's capital adequacy - 8% of the risk-weighted exposure, separately for each exposure class specified in § 6 para 1 of annex 5 to the resolution on bank's capital adequacy**

The Group does not use the internal ratings approach.

### 4) the amount of minimum capital requirements referred to in § 6 para 1 subpara 2 - 5 of the resolution on banks' capital adequacy, disclosed jointly or separately for each risk type

| Capital requirement regarding | Requirement value in PLN '000 |
|---|---:|
| credit risk | 1 443 393 |
| counterparty credit risk | 133 148 |
| settlement risk - delivery | 23 446 |
| equity securities prices risk | 350 |
| debt instruments prices specific risk | 20 412 |
| currency risk | 0 |
| operational risk | 360 531 |
| general risk of interest rates | 62 405 |
| exceeding exposure concentration limit and large exposures limit | 87 064 |
| exceeding capital concentration level | 0 |
| other types of risks | 0 |
| **Capital requirements - total** | **2 130 749** |

### 5) the amount of minimum capital requirements for operational risk set out in annex 14 to the resolution on bank's capital adequacy – disclosed separately for each of the applied approaches

On 31st December 2011 the capital requirement regarding operational risk using the standardised approach amounts to 360.530.727 PLN.

## 4. Information regarding exposure to credit risk and dilution risk

### 1) the definitions of impaired exposures

Receivables impaired comprise exposures for which objective evidence of impairment was identified and for which present value of expected future cash flows is less than the receivable carrying value. Objective evidence of impairment is described in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2011, in explanatory note no. 2 "Significant accounting policies".

Allowances for impairment of receivables are made depending on the approach to credit risk management:

- for individually significant receivables - the amount of the difference is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows resulting from anticipated repayments by the debtor, collateral or sale of receivable. Future cash flows are discounted to present value at the asset's effective interest rate,

- for individually insignificant receivables – impairment allowance is calculated on the basis of portfolio assessment considering experience with historical losses incurred on assets with similar risk profiles.

For the accounting purposes the Group assumes that past due receivables comprise all the exposures for which there was a delay in principal or interest repayment compared to those agreed in the contract.

**2) a description of the approaches and methods adopted for determining value adjustments and provisions**

The description of the approach and methods used for calculation of adjustments and provisions is provided in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2011, in explanatory note no. 2 “Significant accounting policies”.

**3) the total amount of exposures according to balance-sheet valuation (after accounting offsets) and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes**

| Exposure classes | Net exposures after adjustments and provisions* in PLN '000 | Average exposure after adjustments and provisions ** in PLN '000 |
|---|---|---|
| Governments and central banks | 15 915 693 | 18 214 425 |
| Regional governments and local authorities | 315 385 | 308 850 |
| Administrative bodies and non-commercial undertakings | 532 855 | 163 183 |
| Multilateral development banks | 32 | 36 |
| International organizations | 0 | 0 |
| Institutions- banks | 5 730 041 | 9 995 445 |
| Corporations | 17 400 899 | 16 170 392 |
| Retail | 9 408 646 | 9 294 542 |
| Secured on real estate property | 582 112 | 379 141 |
| Past due items | 382 377 | 463 128 |
| Items belonging to regulatory high-risk categories | 24 172 | 24 237 |
| Covered bonds | 0 | 0 |
| Short-term claims on banks and corporations | 0 | 0 |
| Collective investment undertakings | 0 | 0 |
| Other | 6 590 887 | 6 170 426 |
| **Total** | **56 883 099** | **61 183 805** |

** Out of which PLN* 13.438.169 *due to off-balance sweet commitments.*
*** Arithmetical average calculated on quarterly balances in 2011.*

**4) the geographic distribution of the exposures, broken down into significant areas by material exposure classes, and further detailed if appropriate**

The Group conducts its operations solely in the territory of Poland. Due to the fact that many companies' headquarters are located in Warsaw we observe natural concentration of exposures in Masovian Voivodeship, as well as other significant industrial and business centers such as Silesian, Malopolska and Wielkopolska Voivodeships. In case of retail exposures we observe the natural concentration of exposures in regions of highest population, i.e. in Masovian, Silesian and Wielkopolska Voivodeships.

Taking into account the above the geographic concentration risk is considered by the Group as non significant. For that reason the Group does not identify the additional credit risk resulting from geographic diversification of its business activities in Poland and therefore it was decided not to present detailed geographic distribution of exposures.

### 5) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, and further detailed if appropriate

The structure of balance sheet exposures and off balance sheet liabilities granted broken down by counterparty type and exposure class is presented below.

| Counterparty type | Exposure class | Net value in PLN '000 |
|---|---|---|
| **Banks** | Institutions - banks | 5 730 041 |
| | Multilateral development banks | 32 |
| **Retail clients** | Retail | 9 160 781 |
| | Secured on real estate property | 428 080 |
| | Past due items | 216 352 |
| **Other assets** | Other | 6 590 887 |
| **Corporations** | Corporations | 17 400 899 |
| | Past due items | 166 025 |
| | Retail | 247 865 |
| | Items belonging to regulatory high-risk categories | 24 172 |
| | Secured on real estate property | 154 032 |
| **Budget sector** | Governments and central banks | 15 915 693 |
| | Regional governments and local authorities | 315 385 |
| | Administrative bodies and non-commercial undertakings | 532 855 |
| **Total** | | **56 883 099** |

### 6) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate

The table below presents balance sheet credit receivables gross without interest and fees.

| Maturity | Exposure class | Value of credit exposures in PLN '000 |
|---|---|---|
| up to 1 month | Retail | 1 820 203 |
| | Institutions - banks | 209 980 |
| | Administrative bodies and non-commercial undertakings | 503 751 |
| | Corporations | 4 252 335 |
| | Past due items | 634 468 |
| | Governments and central banks | 475 590 |
| | Regional governments and local authorities | 500 |
| | Secured on real estate property | 61 830 |
| **Total for up to 1 month** | | **7 958 657** |

| Maturity | Exposure class | Value of credit exposures in PLN '000 |
|---|---|---:|
| 1-3 months | Retail | 28 549 |
| | Institutions - banks | 8 347 |
| | Administrative bodies and non-commercial undertakings | 1 009 |
| | Corporations | 582 982 |
| | Past due items | 18 768 |
| | Regional governments and local authorities | 1 000 |
| | Secured on real estate property | 940 |
| **Total for 1-3 months** | | **641 595** |
| 3-6 months | Retail | 76 237 |
| | Institutions - banks | 11 420 |
| | Administrative bodies and non-commercial undertakings | 3 141 |
| | Corporations | 292 402 |
| | Past due items | 34 989 |
| | Regional governments and local authorities | 1 500 |
| | Secured on real estate property | 8 687 |
| **Total for 3-6 months** | | **428 376** |
| 6-12 months | Retail | 163 310 |
| | Corporations | 573 682 |
| | Past due items | 84 709 |
| | Regional governments and local authorities | 170 |
| | Secured on real estate property | 1 306 |
| **Total for 6-12 months** | | **823 177** |

| Maturity | Exposure class | Value of credit exposures in PLN '000 |
|---|---|---|
| above 12 months | Retail | 2 609 190 |
| | Corporations | 2 557 797 |
| | Past due items | 703 491 |
| | Regional governments and local authorities | 86 004 |
| | Secured on real estate property | 497 738 |
| **Total for above 12 months** | | **6 454 220** |
| **Total** | | **16 306 025** |

**7) by significant industry or counterparty type, the amount of:**
***a) impaired exposures,***
***b) balance of value adjustments and provisions at the beginning and at the end of the period.***

**Gross value of impaired exposures by counterparty type as at 31 December 2011**

| Counterparty type | Gross value of exposures* in PLN '000 |
|---|---|
| **Corporations** | 744 209 |
| **Retail clients** | 844 690 |
| **Total** | **1 588 899** |

**Balance sheet exposures with interest*

**Provisions as at 31 December 2011 and 31 December 2010**

| Counterparty type | Provisions* in PLN '000 | |
|---|---|---|
| | 2011-12-31 | 2010-12-31 |
| Corporations | 484 677 | 560 192 |
| Retail clients | 750 990 | 798 673 |
| Banks | 63 | 493 |
| Budget sector | 122 | 56 |
| **Total** | **1 235 852** | **1 359 414** |

**The above table presents provisions for balance sheet receivables, without interest.*

### 8) the amount of the impaired exposures, broken down by significant geographic areas including, if practical, the amounts of value adjustments and provisions related to each geographic area

The Group conducts its operations solely in the territory of Poland. Due to the fact that many companies' headquarters are located in Warsaw we observe natural concentration of exposures in Masovian Voivodeship, as well as other significant industrial and business centers such as Silesian and Kujawy-Pomeranian Voivodeships. In case of retail exposures we observe the natural concentration of exposures in regions of highest population, i.e. in Silesian, Masovian and Wielkopolska Voivodeships.

Taking into account the above the geographic concentration risk is considered by the Group as non significant. For that reason the Group does not identify the additional credit risk resulting from geographic diversification of its business activities in Poland and therefore it was decided not to present detailed geographic distribution of the amount of the impaired exposures.

### 9) the reconciliation of changes in the value adjustments and provisions for impaired exposures

The reconciliation of adjustments and provisions regarding exposures impaired is provided in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2011, in explanatory note no. 19 “Amounts due from banks” & note no. 24 “Amounts due from customers”, in part on impairment of loans and advances.

## 5. Information regarding exposure to counterparty credit risk

Counterparty risk is incurred from derivative transactions and capital market transactions. For purposes of risk management the Group defines it as pre-settlement risk and settlement risk.
**Pre-settlement** exposure is defined by PSE measure (Pre-Settlement Exposure), reflecting future potential exposure of the counterparty. PSE reflects maximum expected exposure of the counterparty during the life of the transaction (or transaction portfolio) at the specified confidence level. Mark-to-market distribution and PSE amount are dependent on market factors determining the values for particular transaction in the customer portfolio. If feasible pre-settlement risk is estimated using potential exposure simulation model and in other cases it is determined using nominal transaction value, credit exposure factor and replacement cost. The second method is used for calculation of capital requirements.
**Settlement risk** arises when the Group exchanges securities or cash payments to a counterparty on a value date and is unable to verify that payment or securities have been received in exchange. The exposure in this case equals the nominal transaction value.

**1) a description of the methodology used to assign internal capital and credit limits for counterparty credit exposures**

Internal capital related to counterparty risk related is calculated as 8% of the value of total risk weighted exposures in the trading portfolio, in which internal capital for the following exposure classes: institutions, corporates, regional governments and local authorities administrative bodies and non-commercial undertakings, was estimated according to advanced approach based on internal ratings. For exposures different than mentioned above internal capital requirements were estimated according to standardized approach specified in the Resolution on capital adequacy. The Group estimates also the level of exposures resulting from counterparty risk in stress conditions.

Furthermore pre-settlement & settlement risks are managed by the Group by setting appropriate limits (pre-settlement and settlement) as an integral part of credit approval process. Pre-settlement limits for counterparty specify, among others, tenors and product families and depend on the customer creditworthiness, his financial standing as well as on the level of customer’s knowledge and experience in derivative transactions, forecasted currency position/ other position which requires hedging and related product needs and on the level of derivative transactions already concluded with other banks.

The level of settlement limit which may be approved is determined by the customer’s risk rating. For a vast majority of transactions the Group adopted ‘delivery versus payment’ (DVP) principle which mitigate settlement risk through not paying the counterparty until Group confirms receipt of the payment or delivery of an instrument by a client.
The internal settlement limits are availed in specific and justified cases.

**2) a description of policies for securing collateral and establishing credit reserves as well as a description of policies with respect to specific wrong-way risk exposures**

Group’s policies for securing collateral vary according to the counterparty business segment. Most common form of collateral accepted to mitigate counterparty credit risk is cash deposit (margining). The amount of cash deposit depends on the difference of the current Mark to Market value of a transaction and a limit agreed. In this case the wrong- way risk is significantly reduced. Adopting ISDA Master Agreements mitigates the risks further. The exposure resulting from counterparty risk is included in the periodical analysis of a customer together with other exposures.

The Group applies credit value adjustment to the market value of a derivative contract to take into account the credit risk of the counterparty. For purposes of calculation of credit value adjustment all Corporate and Commercial Bank customers are included. For customers under restructuring process adjustment is applied individually for each transaction, while for other customers the amount of adjustment is to correspond with incurred but not reported losses at the particular time. For this reason, only the non-negative net Mark to Market value on a counterparty level is considered (without including potential future exposure). The calculation method is similar as the approach applied for IBNR reserves for credit exposures.

Due to its nature margining in the form of cash does not expose the Group to the risk of unfavourable changes in collateral value.

**3) an overview of an impact of an amount of required collateral, which should be provided by the Bank in case of lowering its credit ratings**

The Group does not enter into agreements, which would require providing additional collateral in case of lowering its credit ratings.

**4) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements**

| | in PLN '000 |
|---|---|
| Gross positive fair value | **3 856 406** |
| Netting benefits (change in value of balance sheet equivalent) | **4 049 881** |
| Net value of credit exposure (value of balance sheet equivalent) | **3 114 711** |
| Current credit exposure* | **3 825 377** |

* Current credit exposure calculated as the sum of credit equivalent of derivatives and the exposure value of repo and reverse repo transactions (before application of credit risk mitigation techniques).

**5) measures for exposure value under the adopted methods whichever method is applicable**

Group measures exposures of derivative transactions using methods of market valuation in compliance with Annex no. 16 to the KNF Resolution on capital adequacy for banks.

**6) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure**

Group does not use credit derivative hedges.

**7) credit derivative transactions (notional), segregated between use for the bank's own credit portfolio, including unfunded credit protection, as well as in its intermediation activities and speculative transactions, broken down further by protection bought and sold within each product group**

Group does not use credit derivative hedges.

### 8) the estimate of α, if the bank has received the approval of the supervisory authorities to estimate α

The Group does not estimate α.

## 6. Information regarding application of standardised approach to calculate risk-weighted exposure amounts (for each of the exposure classes)

### 1) the names of External Credit Assessment Institutions (ECAIs) and Export Credit Agencies (ECAs) whose credit assessments are used by the bank and the reasons for any changes in this respect

The KNF Resolutions on banks' capital adequacy and Resolution on the external credit rating. and Bank's Credit Policies describe in details which external ratings issued by which external agencies can be used in normal credit process in Group. Currently there are Moody's and Standard & Poors as well as Fitch. Ratings from this three mentioned agencies are used in calculation and reporting process of Capital Requirements for Credit Risk and Counterparty Risk according to standardize method. Currently Group does not use ratings issued by Export Credit Agencies.

### 2) the exposure classes for which each ECAI or ECA is used

Exposure classes for which Bank uses external ratings issued by approved external agency:
1) exposures or contingent exposures to central governments and central banks;
2) exposures or contingent exposures to local governments and local authorities;
3) exposures or contingent exposures to administrative bodies and non-commercial undertakings;
4) exposures or contingent exposures to multilateral development banks;
5) exposures or contingent exposures to institutions;
6) exposures or contingent exposures to corporates;
7) exposures to institutions and corporates with short-term ratings;

### 3) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book

Group applies issuer and issue credit assessment according to rules set forth in KNF Resolution on banks' capital adequacy. Consequently for given exposure where a credit assessment exists for a specific issuing programme or facility to which the exposure belongs, this credit assessment is used to determine the risk weight, which is then assigned to that exposure. Otherwise, Group uses a credit assessment that exists for a specific issuing programme or facility to which the exposure does not belong or a general credit assessment that exists for this issuer, provided that it produces a higher risk weight than that which would be applied to exposures without a credit assessment or if it produces a lower risk weight and the exposure in question ranks pari passu or senior to the specific issuing programme or facility or to senior unsecured exposures of that issuer, as relevant.

**4) the association of the external rating of each ECAI and ECA with the credit quality steps prescribed in annex 4 to the resolution on banks' capital adequacy, taking into account that this information needs not be disclosed, if the bank complies with the standard association set out in annex 4 to the resolution on banks' capital adequacy and the resolution of the Commission for Banking Supervision issued pursuant to art. 128 para 6 subpara 6 of the Banking Act**

The Group complies with the standard way to assign credit ratings shown in the resolution on the rating takes into account the principles set out in Annex 15 to the resolution on capital adequacy.

**5) the exposure values before and after credit risk mitigation associated with each credit quality step as set for the standardized approach as well as items deducted from own funds**

| Credit quality step | Exposure values before credit risk mitigation in PLN '000 | Exposure values after credit risk mitigation in PLN '000 |
|---|---|---|
| 1 | 79 138 | 79 138 |
| 2 | 3 607 446 | 3 607 446 |
| 3 | 2 289 463 | 2 092 567 |
| 4 | 522 749 | 522 749 |
| 5 | 0 | 0 |
| 6 | 0 | 0 |
| no rating | 50 384 303 | 48 881 835 |
| **Total** | **56 883 099** | **55 183 735** |

**Deductions from own funds (in PLN '000)**

| | | |
|---|---|---|
| **Deductions from core funds** | | **1 292 066** |
| | - intangible assets measured at carrying amount | 1 292 066 |
| | including goodwill | 1 245 976 |
| **Deductions from core and supplemental funds** | | **57 945** |
| | - capital exposure in financial institutions | **57 945** |
| | including: | |
| | Capital exposure of the Bank in financial institutions, lending institutions, domestic banks, foreign banks disclosed in the form of shares or other capital exposure, in case when such exposure exceeds 10% of own funds of that entity. | **55 339** |
| | Bank Rozwoju Cukrownictwa S.A. | 42 172 |
| | Handlowy Inwestycje Sp. z o.o. | 6 152 |
| | Handlowy Investments II S.a.r.l. | 7 015 |
| | Capital exposure of the Bank in financial institutions, lending institutions, domestic banks, foreign banks disclosed in the form of other capital exposure in items classified as own funds or capital of those entities, including capital contributions in limited liability companies, in carrying amount (balance sheet amount), in case when such an exposure does not exceed 10% of own funds of that entity. | 2 606 |
| | Handlowy Inwestycje Sp. z o.o. - Contributions to subsidiaries | 2 606 |
| **Total** | | **1 350 011** |

## 7. Information regarding calculating the risk-weighted exposure amounts using internal ratings-based approach

The Group does not use internal ratings-based approach.

## 7a. Information on market risk regarding the amount of capital requirements for different types of risks, as defined in § 6 para 1 p. 2 of the Resolution on capital adequacy, separately for each type of risk for which the Bank calculates capital requirement.

The amount of capital requirements by types of market risk:

- fx risk
- general and specific equity risk
- specific risk for debt securities
- general interest rate risk

is presented in p. 3.4 of this report.

## 8. Information regarding application of value-at-risk approach to calculate the capital requirements

Group does not use value-at-risk approach to calculate the capital requirements.

## 9. Information regarding operational risk

### 1) the approaches to the calculation of capital requirement for operational risk

Group uses the standardised approach to calculate the capital requirement for the coverage of operational risk.

### 2) in the case of applying advanced measurement approach in accordance with § 34-67 of annex 14 to the resolution on bank's capital adequacy - a description of the methodology, including a discussion of relevant internal and external factors considered in the measurement approach. In the case of partial use, a discussion and scope of the different methodologies used

Group does not apply the advanced measurement approach.

## 10. Information regarding the exposures in equities not included in the trading book

### 1) the differentiation between exposures based on their objectives (capital gains relationship and strategic reasons), and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices

Bank's equity investments are broken down into strategic portfolio and divestment portfolio. Strategic portfolio includes entities in the financial sector that help in expansion of products offered by the Bank, increase prestige and reinforce Bank's position in the competing financial services Polish market. Strategic portfolio includes infrastructure providers conducting business for financial sector, which are not controlled by the Bank, but provide strategic value for the Bank due to conducted operations. Divestment portfolio contains entities directly and indirectly owned by the Bank that have no Bank's strategic commitment. Some companies held for sale are restructured commitments, which originate from debt-to-equity swap transactions.

Detailed information on how the Group's equity investment portfolio is broken down based on purchase reasons are described in chapter V point No 9 „Equity investments" of the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2011.

A description of accounting techniques applied as well as capital commitments valuation methodologies is in explanatory note 2 „Significant accounting policies" to the Consolidated

Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2011.

**2) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value**

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 39 „Fair value information" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2011.

**3) the types, nature and amounts of equity exposures, broken down into: listed equity exposures, sufficiently diversified portfolios of securities not admitted to trading in the regulated equity market, and other exposures**

The value of equity exposures, broken down into listed equity exposures and portfolios of securities not admitted to trading in the regulated equity market is provided in explanatory note 22 „Equity investments valuated at the equity method" and note 23 „Other equity investments" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2011.

**4) the cumulative realised gains or losses arising from sales and liquidations in the period**

The value of realized gains or losses from sales and liquidations of equity investments not included in Bank's trading portfolio is provided in explanatory note 9 "Net gain on investment equity securities" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2011.

**5) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the core or supplementary funds**

All items included in core and supplementary funds pursuant to article 127 of the Banking Act and the Resolution on Bank's own funds are provided in details in point 2 subpoint 2 of this report.

## 11. Information shall be disclosed by banks on their exposure to interest rate risk on positions included in the banking book

**1) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behavior of non-maturity deposits), and frequency of measurement of the interest rate risk**

### 2) the variation in earnings, discounted economic value or other relevant measure used for the assessment of upward and downward rate shocks according to the bank's method for measuring the interest rate risk, broken down by currency

The information regarding the interest rate risk of the Bank's portfolio are disclosed in explanatory note 48 "Risk Management" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2011.

The interest rate risk is measured on a daily basis.

## 12. Information regarding calculation of risk-weighted securitisation exposure amounts

There are no securitization exposures within the Group.

## 13. Information regarding credit risk mitigation techniques

### 1) the policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting

For the purpose of calculating the balance sheet equivalent of derivative transactions within capital requirements calculation Group recognizes contractual compensation ("close-out netting") with respect to off-balance sheet derivative transactions with Citibank N.A. (London Branch). Such transactions are covered by frame agreement ISDA Master Agreement between Bank Handlowy w Warszawie S.A. and Citibank N.A.
The basis for recognition of contractual compensation was to fulfill the legal and formal terms referred to in par. 75 of Annex 16 to the KNF Resolution on capital adequacy, which must be met in order to consider the contractual compensation as risk mitigant.
Group has introduced process to monitor regulations in regards to compensation in order to ensure proper monitoring of changes in current regulations in regards to requirements set in the above mentioned annex.
In 2011 the Group did not make use of netting with respect to other exposures.

### 2) the policies and processes for collateral valuation and management

Information regarding the policies for collateral management and main types of accepted collateral are presented in supplementary note 48 „Risk Management" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2011.

The amounts of collateral are calculated on the basis of estimates provided by the property valuation experts, valuations provided by industry analysts, borrowers' accounting records, deposit certificates, information from external databases, etc. The Group defines and applies adjustments in the process of estimating collateral amounts.

The Group reviews in detail the amount of received collateral at least annually and by the renewal or change in conditions of the transaction.

Additionally the Group monitors if there are shortages in received collateral. Monitoring is performed by the unit independent of sales units and its frequency depends on collateral type (monthly, quarterly or annually).

When conducted analyses demonstrate substantial deficiency in collateral value, the Bank initiates appropriate internal procedures.

**3) the main types of guarantor and credit derivative counterparty and their creditworthiness**

Currently only guarantees issued by the Treasury are recognized by the Group as unfunded credit risk mitigation techniques for capital adequacy calculation. According to the resolution on the capital adequacy the Bank assigns 0% risk weight for guarantees. There are no credit derivatives in the Group's portfolio.

**4) information about market or credit risk concentrations within the credit mitigation taken**

The Group enters into reverse repo transactions secured entirely by highly liquid debt securities (mainly issued by the Treasury). These transactions are characterized by low market risk level and therefore low market risk concentration due to short maturities.

**5) for banks calculating risk-weighted exposure amounts on the basis of the standardised approach in accordance with annex 4 to the resolution on bank's capital adequacy or the IRB approach in accordance with annex 5 to the resolution on bank's capital adequacy, but not providing own estimates of LGDs or conversion factors in respect of the exposure class - separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered - after the application of volatility adjustments - by eligible financial collateral, and other eligible collateral**

Total exposure value covered by eligible financial collateral or other eligible collateral by exposure classes after the application of volatility adjustments.

| Exposure type | Exposure class | Security collateral in PLN '000 | Unfunded credit protection - guarantees in PLN '000 | Total collateral amount in PLN '000 |
|---|---|---|---|---|
| On-balance and off-balance sheet exposures | Institutions & banks | 0 | 1 004 847 | 1 004 847 |
| Repo-style transactions* | Institutions & banks | 308 916 | 0 | 308 916 |
| | Corporations | 385 602 | 0 | 385 602 |
| **Total** | | **694 518** | **1 004 847** | **1 699 365** |

* repo and reverse-repo transactions

**6) for banks calculating risk-weighted exposure amounts on the basis of the standardised approach or IRB approach - separately for each exposure class - the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives; for the equity exposure class, this requirement applies to each of the approaches provided in § 45-59 of annex 5 to the resolution on bank's capital adequacy**

The total value of exposures secured by the guarantee is presented in Section 13.5 in column: Unfunded credit protection - guarantees. The Group does not possess credit derivatives in its portfolio.

## 14. Information regarding the policy of executives' variable remuneration components according to § 28 para. 1 of KNF Resolution No. 258/2011

Bank Handlowy w Warszawie S.A. and Dom Maklerski Banku Handlowego S.A. were covered by regulations regarding the implementation of the variable remuneration components.

In the resolution No. 258/2011 dated on October 4-th, 2011 *on risk management and internal control policy and determining the rules of internal capital estimation, supervision of the internal capital calculation and maintenance process and determining variable remuneration policy of the Bank's management staff (Resolution)* the Polish Financial Supervision Authority (KNF) imposed on banks obligation of introducing a policy on variable remuneration components for the management staff in the bank. Additionally in the Resolution No. 259/2011 dated on October 4-th, 2011 KNF imposed on banks additional disclosure obligations regarding this area.

On 15-th of December 2011 the Regulation of Ministry of Finance dated December 2-nd, 2011 on the rules of establishing by the brokerage houses the policy regarding variable remuneration components of management staff (Regulation) came into force. The Regulation applies to Dom Maklerski Banku Handlowego S.A. According to the Regulation the brokerage houses should have adapted their activities to the Regulation till 31 of March 2012.

Those regulations show that the objective of the variable remuneration components policy should be to promote sound and effective risk management, not to encourage excessive risk taking and support business strategy and reduce conflicts of interest by making the variable compensation components of persons having a material impact on the risk profile of the bank dependent on its long-term financial results.

The current Remuneration Policy in the Group of Bank Handlowy w Warszawie S.A. includes all its employees regardless of their impact on the group's risk profile, and the payment of variable compensation depends primarily on the realization of individual quantitative or qualitative goals, superior's evaluation and is fully discretionary. In most cases, payment of variable compensation is made without any deferrals. The only deferrals apply to annual bonuses of particularly large amounts, in case of which a deferred portion is released over several years in the form of Citigroup shares and the entitlement to receive that part of the bonus does not depend on long-term results of the bank, and only on the continuity of work for the Bank by the employee.

When the Resolution No. 258/2011 came into force the Group in cooperation with the law firm Clifford Chance, Janicka, Krużewski, Namiotkiewicz i wspólnicy spółka komandytowa, took immediate actions to adapt to the internal rules and regulations to the Resolution and the Regulation.

On 29-th of March 2012 the Supervisory Board of Dom Maklerski Banku Handlowego S.A. based on a review of the functions and duties of employees in relation to the key manageable risks approved the "List of management staff in Dom Maklerski Banku Handlowego S.A." and then "The variable remuneration components policy for the management staff in Dom Maklerski Banku Handlowego S.A" confirming to employees covered by the list the relationship between the amounts of variable remuneration and results of brokerage house or individual performance in the case of employees who are performing control functions.

In the case of the Bank due to the need to change the Articles of Association, the full implementation of the provisions of Resolution No. 258/2011 will be possible after the next General Meeting of Shareholders of the Bank. In the resolution of 9 December 2011, followed by a recommendation of the Management Board, the Supervisory Board issued a positive opinion on amendments to the Articles of Association of the Bank, in order to adapt the wording of the Articles of Association to the provisions of the Resolution. The amendments to the Articles of Association are intended to authorise the Supervisory Board to approve the general principles of the variable remuneration components policy for management staff in the

Bank and to review these rules periodically, and to approve the variable remuneration components policy for management staff in the Bank.

On 13 December 2011, the Bank requested the Polish Financial Supervision Authority to accept amendments to the Articles of Association mentioned above regarding the new authorities for the Supervisory Board. Polish Financial Supervision Authority has granted its approval to amend the Articles of Association of the Bank.

Simultaneously on December 2011 the Supervisory Board adopted resolutions, which will take effect immediately after the above mentioned amendments to the Articles of Association come into force, whose object is to change the Regulations of the Supervisory Board and Regulations of the Remuneration Committee, to add the new powers for the Supervisory Board and the Remuneration Committee, pursuant to the Resolution. The Remuneration Committee of the Supervisory Board will receive the power to issue an opinion on the variable remuneration components policy, especially on the amounts and components of remuneration of management staff in the Bank, taking into account a cautious and stable risk management, capital and liquidity, and paying special attention to long-term interests of the Bank, the interest of shareholders, and investors of the Bank. The Remuneration Committee of the Supervisory Board will receive also, the power to evaluate and monitor the variable remuneration components of managers working for risk management and compliance.

Currently in the Bank there is the process of determining the managers subject to the requirements of Resolution. Underway there is also work on the draft of the variable remuneration components policy for management staff of the Bank. The Supervisory Board will approve the general principles of the variable remuneration components policy and the policy itself after the above mentioned amendments to the Articles of Association take effect which will happen after the relevant resolution is issued by the General Meeting of Shareholders of the Bank and following the entry of these amendments to the register of entrepreneurs. The Resolution of the Supervisory Board on the approval of the variable remuneration components policy, will be preceded by an opinion issued by the Remuneration Committee.

The Bank's goal is to prepare the corporate solutions, including the required variable remuneration components policy for management staff in accordance with the principles of the Resolution and taking into account existing guidelines of the Polish Financial Supervision Authority.

Currently the Remuneration Committee is composed of:

1. Stanisław Sołtysiński – Chairman of the Committee
2. Alberto J. Verme – Vice-Chairman of the Committee
3. Shirish Apte – Member of the Committee
4. Andrzej Olechowski – Member of the Committee

In addition the following people are involved in the advisory and decision-making process to prepare the policy principles:

- Management Board of the Bank
- Legal Department Head
- Human Relations Department Head
- Manager of the Compensation & Benefits Department

According to the section 7 of the circular letter sent on December 23-th, 2011 by Wojciech Kwaśniak the Vice-Chairman of the Polish Financial Supervision Authority to the presidents of the banks management boards "The provision of § 60 of Resolution No. 258/2011 stipulates that the Resolution is to take effect on 31 December 2011. This means that a bank shall comply with its requirements as of 31 December 2011. However taking into consideration the ban to apply law retrospectively, settlement and disbursement of the remuneration in compliance with the provisions of Resolution No. 258/2011 shall take place for the year 2012 and the subsequent years. Accordingly, the remuneration payable for the year 2011 and for the preceding years shall be disbursed according to the principles previously in force at a bank."

Therefore, the detailed information on remunerations, including the criteria for performance measurement and for correction of the results by risk, principles for taking into account the bank's long-term results corrected by the remuneration costs, the main parameters and rules for determining the remuneration of management staff in the bank including relationship between salary and performance, are still being developed, but in accordance with the Resolution 258/2011 of the Polish Financial Supervision Authority the Bank will be required to defer at least 40% of variable pay, for a period of not less than 3 years, where at least 50% of the variable remuneration will have to be granted in a form of shares or financial instruments relating to shares.

Signatures of all Management Board Members

| Date | Name | Position / function | |
|---|---|---|---|
| 24.04.2012 | Sławomir S. Sikora | President of the Management Board | Signed on Polish original |
| 24.04.2012 | Robert Daniel Massey JR | Vice-President of the Management Board | Signed on Polish original |
| 24.04.2012 | Misbah Ur-Rahman-Shah | Vice-President of the Management Board | Signed on Polish original |
| 24.04.2012 | Sonia Wędrychowicz-Horbatowska | Vice-President of the Management Board | Signed on Polish original |
| 24.04.2012 | Witold Zieliński | Vice-President of the Management Board | Signed on Polish original |
| 24.04.2012 | Iwona Dudzińska | Member of the Management Board | Signed on Polish original |