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 2013

The Report has been approved by the Bank Handlowy w Warszawie S.A. Supervisory Board's Resolution dated 20th May 2014.

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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 the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2013 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 2013.

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 for the financial year ended 31 December 2013, 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,*

[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.

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 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, as well as units not conducting current, statutory activity.

Strategies and processes of risk management, 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 53 „Risk management" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013. Below we present a brief description of significant risks in the Group:

Credit risk is the loss given default arising from a client event of default or insolvency taking into account risk mitigation techniques applied to a product or individual credit.

Counterparty Risk - the risk of potential losses arising from changes in market prices that occur when the client is unable to meet its contractual obligations. This risk is part of credit risk generated on a such activities as derivative transactions.

Market Risk - risk of potential losses arising from the sensitivity of the market value of a portfolio (of financial instruments) to changes in financial asset prices such as: interest rates, foreign exchange rates, equity prices, and commodity prices.

Interest rate risk in banking book – risk of potential negative impact of the changes in market risk factors on the Group's interest income.

Liquidity Risk - Risk of a Group inability to meet its obligations as a result of mismatches in cash flows (cash flow gap)

Operational Risk - risk of loss resulting from inadequate or failed internal processes, human factors, or technical systems, or from external events. It includes franchise risks associated with business practices or market conduct and reputation risk. It also includes the risk of failing to comply with applicable laws and internal regulations.

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 of the Bank and regulations issued by the relevant regulators.

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. („DMBH”),
- Handlowy Leasing Sp. z o.o.,
- Handlowy Investments S.A.,
- PPH Spomasz Sp. z o.o. under liquidation.

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

The Capital Group of Bank Handlowy w Warszawie S.A. provides leasing portfolio formed until April 30th, 2013 services through Handlowy Leasing Sp. z o.o.. After this date, Handlowy Leasing – due to reducing its activity solely to execution of lease agreements signed before April 30th, 2013 - did not sign new contracts, continuing existing contracts service providing maintaining the quality of services and cost-efficiency of its operations.
Leasing product remained in the Bank's offer and is offered in a form of so-called "open architecture", i.e. co-operation with the European Leasing Fund S.A. and CorpoFlota Sp. z o.o.
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 2013 Handlowy Investments S.A. had the portfolio composed of the following shares: 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

Handlowy Inwestycje Sp. z o.o. is the entity accounted for under the equity method decreasing the consolidated own funds.

Handlowy Inwestycje Sp. z o.o. seated in Warsaw is special purpose investment entity, 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 entity is financed by refundable capital contributions as well as retained earnings. Handlowy Inwestycje Sp. z o.o. belongs to the portfolio of strategic entities.

Sale of 100% of shares in Handlowy Investments II S.a.r.l seated in Luxembourg took place in 3Q 2013. Sale of the company took place in connection with continuing strategy of reducing activities through special purpose investment entities.

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

There are no such cases within the Group.

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	**4,855,542**
- base funds	5,861,431
share capital	522,638
supplementary capital	2,997,760
reserve capital together with retained earnings	2,341,033
- general risk fund	521,000
- deductions of core funds	(1,526,889)
intangible assets	(1,417,363)
unrealized loss on debt instruments classified as available for sale	(97,629)
retained loss, current period net loss	(7,990)
capital exposures in financial institutions	(3,907)
Supplementary funds	**53,165**
- other items	57,072
unrealized profits on equity instruments classified as available for sale	910
unrealized profits on debt instruments classified as available for sale	53,081
positive foreign exchange differences	3,081
- deductions of supplementary funds	(3,907)
capital exposures in financial institutions	(3,907)
Total core funds	**4,908,707**

Information about the components of equity are presented in details in supplementary note 39 „Capital and Reserves" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013.

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. Head of Risk Management Sector and Head of Finance Division provided recommendation on significant risks as a part of capital planning, considering among others, the management opinions, internal control system results and other management information. 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.

The result of the ICAAP is to determine the capital plan which is consistent with 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. 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 in the respect to set limits.
Overall acceptable risk level is defined primarily 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 business units and sub-limits on measurable risks treated as significant.

Below we present the specific, measurable risks identified as significant in the Group in 2013:

- 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 and staffing risk),
- market risk in the trading book,
- interest rate risk in the banking book,
- liquidity risk.

The Group assessed the internal capital covering all significant risks for a base case and a downside scenario, which is a basis for the analysis of stress tests. Scenarios are defined on the basis of the set of assumptions that is common to all risks analyzed. Additionally a one in ten year's scenario (1/10) formed the basis for additional risk / return measure within a set risk appetite.

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 standardised approach specified in the Resolution on capital adequacy. Capital requirement for operational risk has been calculated using standardised methodology approach specified in the Resolution on capital adequacy. Calculated capital requirement, according with the accepted methodology, is increased by add-on, if stress tests show necessity to increase internal capital for operational risk..
Internal capital covering risks: credit risk, counterparty credit risk, operational risk was estimated using standardised 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, 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.

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. Audit Department conducts independent review of the process of capital assessment and maintenance.

Risk and Capital Management Committee is responsible for ongoing 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.

Risk and Capital Committee of the 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	5,111
Regional governments and local authorities	3,707
Administrative bodies and non-commercial undertakings	3,421
Multilateral development banks	-
International organizations	-
Institutions- banks	135,447
Corporations	1,014,243
Retail	268,864
Secured on real estate property	70,781
Past due items	31,024
Items belonging to regulatory high-risk categories	997
Covered bonds	-
Short-term claims on banks and corporations	-
Collective investment undertakings	-
Securitization positions	-
Other	82,160
Total	**1,615,755**

*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
Market risk:	
currency risk	8,347
equity securities prices risk	470
debt instruments prices specific risk	15,276
general risk of interest rates	132,685

Capital requirement regarding	**Requirement value in PLN '000**
Other risks:	
credit risk	1,535,628
counterparty credit risk	80,127
settlement risk - delivery	15,400
operational risk	363,336
exceeding exposure concentration limit and large exposures limit	95,500
exceeding capital concentration level	-
other types of risks	-
Capital requirements - total	**2,246,769**

* In addition to the capital requirements for market risk, the other types of capital requirements are presented in the table/.

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 2013 the capital requirement regarding operational risk using the standardised approach amounts to 363,335thousand PLN.

4. Information regarding exposure to credit risk and dilution risk

1) the definitions of impaired exposures

The impairment occurs if there is an objective evidence of impairment as a result of the following defined loss events, i.e.:
- the delays in payment,
- significant financial difficulties of the client,
- breach of contract conditions,
- request of the Bank to initiate enforcement proceedings against the client,

and that loss event (or events) has an impact on the estimated future cash flows from the financial asset that can be reliably estimated. Expected losses resulted from future events are not recognized regardless of the probability of future events occurrence and expected losses resulted from events that occurred before the initial recognition of the exposure in the Bank books.

The exposures of clients that the objective evidence of impairment was identified are treated as impaired exposures.

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

Clients for which impairment criteria were fulfilled

Impairment losses / provisions are made depending on the approach to credit risk management:

- for individually significant receivables: based on the present value of projected cash (discounted using the appropriate effective interest rate) and recognized if the present value of cash flows is lower than the total gross exposure value,
- for individually insignificant receivables: based on the portfolio assessment estimated on the basis of historical losses experience incurred on assets with similar risk profiles.

Clients for which impairment criteria were not fulfilled
The IBNR provision is calculated based on loss norm that is a combination of probability of default and loss given default.
Exposures that are grouped to these parameters are homogeneous due to the risk assessment and characteristics.

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	18,916,740	15,900,421
Regional governments and local authorities	672,643	659,976
Administrative bodies and non-commercial undertakings	94,987	80,658
Multilateral development banks	33	33
International organizations	-	-
Institutions- banks	6,764,532	5,845,171
Corporations	18,734,677	19,758,282
Retail	9,558,676	9,573,015
Secured on real estate property	1,412,846	1,314,544
Past due items	345,669	346,151
Items belonging to regulatory high-risk categories	14,118	14, 118
Covered bonds	-	-
Short-term claims on banks and corporations	-	-
Collective investment undertakings	-	-
Other***	6,517,033	7,174,668
Total	**63,031,960**	**60,667,037**

** Out of which PLN* 15,645,468 *due to off-balance sweet commitments.*
*** Arithmetical average calculated on quarterly balances in 2013.*
*** Including due to Assets arising from off-balance sheet transactions valuation, Intangible assets, Tangible fixed assets, Cash in hand, Income tax asset.

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, Wielkopolska, Lower-Silesian, and Malopolska Voivodeships. In case of retail exposures we observe the natural concentration of exposures in regions of highest population, i.e. in Masovian, Silesian, Lower-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	6,764,532
	Multilateral development banks	33
Retail clients	Retail	9,121,798
	Secured on real estate property	982,732
	Past due items	176,529
Other assets	Other	6,517,033
Corporations	Corporations	18,734,677
	Past due items	169,140
	Retail	436 878
	Items belonging to regulatory high-risk categories	14,118
	Secured on real estate property	430,114
Budget sector	Governments and central banks	18,916,746
	Regional governments and local authorities	672,643
	Administrative bodies and non-commercial undertakings	94,987
Total		**63,031,960**

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	1,844,585
	Institutions - banks	1,007,162
	Administrative bodies and non-commercial undertakings	60,403
	Corporations	4,108,293
	Past due items	584,906
	Governments and central banks	246,322
	Secured on real estate property	160,453
Total for up to 1 month		**8,012,124**
1-3 months	Retail	26,063
	Institutions - banks	185,799
	Corporations	877,867
	Past due items	14,015
	Regional governments and local authorities	167
Total for 1-3 months		**1,103, 911**
3-6 months	Retail	42,811
	Institutions - banks	152, 980
	Administrative bodies and non-commercial undertakings	4,195
	Corporations	279,091
	Past due items	22, 327
	Regional governments and local authorities	1,257
	Secured on real estate property	238
Total for 3-6 months		**502, 899**
6-12 months	Retail	94,823
	Administrative bodies and non-commercial undertakings	4, 448
	Corporations	67,839
	Past due items	62,985
	Regional governments and local authorities	10, 689
	Secured on real estate property	8,916
Total for 6-12 months		**249,7 00**

Maturity	Exposure class	Value of credit exposures in PLN '000
above 12 months	Retail	2,424,890
	Institutions - banks	348,160
	Administrative bodies and non-commercial undertakings	11,072
	Corporations	3,672,706
	Past due items	520,355
	Regional governments and local authorities	88,754
	Secured on real estate property	1,130,742
Total for above 12 months		**8,196,679**
Total		**18,065,311**

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 2013

Counterparty type	Gross value of exposures in PLN '000
Corporations	584,169
Retail clients	645,145
Total	**1,229,314**

Provisions as at 31 December 2013 and 31 December 2012

Counterparty type	Provisions in PLN '000	
	2013-12-31	2012-12-31
Corporations	448,048	470,063
Retail clients	535,808	660,794
Banks	1,173	126
Budget sector	177	70
Total	**985,206**	**1,131,053**

Detailed information regarding the gross value of impaired exposures and provisions are presented in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013, in explanatory notes no. 15 “Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted”.

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, Wielkopolska and Lower-Silesian Voivodeships. In case of retail exposures we observe the natural concentration of exposures in regions of highest population, i.e. in Silesian, Masovian, Lower-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 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. for the financial year ended 31 December 2013, in explanatory notes no. 20 “Amounts due from banks” & note no. 25 “Amounts due from customers”, in parts 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. The distribution of the market value (Mark-to-market) 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 standardised approach specified in the Resolution on capital adequacy. The Group estimates also the level of exposures resulting from counterparty risk in stress scenario.

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

The Group's policies for securing collateral vary according to the counterparty business segment. Most common form of collateral accepted to mitigate credit risk of counterparty, with whom the derivate transactions ("transactions") are entered, is financial securing in the form of transfer of the rights to cash or security deposit according to Art. 102 of Banking Act (cash deposit). The amount of security depends on the difference of the current Mark to Market value of a transaction and a limit agreed. In principle, margining in the form of cash due to its nature does not expose the Group to the risk of unfavourable changes in collateral value. Generally the transactions are provided under frame agreements, which in case of breach by counterparty allow for an early termination of transaction by the other party and settlement the positive and negative values of transactions covered by given frame agreement in one net amount. The exposure resulting from counterparty risk together with other exposures is included in the periodical credit analysis of a customer.

The Group applies credit value adjustment to the market value of a derivative contract to take into account the credit risk of the counterparty.
The Group differentiates the valuation of counterparty risk due to the availability of CDS quotations:

a) Credit Risk of Counterparties, for which there is active market of CDS. It is considered that CDS quotations reflect market valuation of credit risk.
b) Credit Risk of Counterparties, for which there isn't active market of CDS. Based on credit rating (external or internal, if external isn't available) and economic sector, in which client is operating, CDS index value, which reflects market valuation of risk, is attributed to the counterparty.

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	**3,531,126**
Netting benefits (change in value of balance sheet equivalent)	**5,106,646**
Net value of credit exposure (value of balance sheet equivalent)	**2,059,589**
Current credit exposure*	**6,151,467**

* 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

The Group measures exposures of derivative transactions using methods of market valuation in compliance with Annex no. 16 to the Resolution on capital adequacy. According to the method mentioned above, the balance sheet equivalent of off-balance sheet transactions is calculated as the sum of the replacement cost and potential future credit exposure. The cost of a replacement shall be the market value of the transaction - if it is positive, or zero - when the aforementioned market value is negative or equal to zero. Potential future credit exposure is calculated as the product of the nominal amount of off-balance sheet transactions (or its equivalent delta values for options) and product risk weight assigned to the transaction.

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

The 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

The 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 granted 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.

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.

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 standardised 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	12,875	12,875
2	23,812,274	20,121,736
3	3,956, 638	2,835,210
4	249,417	249,417
5	-	-
6	-	-
no rating	35,000,756	34,844,217
Total	**63,031,960**	**58,063,455**

Deductions from own funds (in PLN '000)

Deductions from core funds		
	- intangible assets measured at carrying amount	**1,417,363**
	including: including goodwill	1,245,976
Deductions from core and supplemental funds		
	- capital exposure in financial institutions including:	**7,814**
	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.	**6,664**
	Handlowy Inwestycje Sp. z o.o.	6,664
	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.	**1,150**
	Handlowy Inwestycje Sp. z o.o. - Contributions to subsidiaries	1,150
Total		**1,425,177**

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 standardised methodology for calculation of capital requirement for 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.

3) information regarding operational risk, as specified in the paragraph 17.3 of Recommendation M on the management of operational risk in banks

With regard to losses impacting financial results, for Retail Banking and Leasing all Events are reported and for the other areas of Group threshold of equivalent of USD 1 thousand is applied.

Total operational risk gross losses in Group (without recoveries and gains) recorded in the year 2013, split by operational risk event types and categories (in accordance with appendix 1 to Recommendation M) are presented in the below table. Table contains events impacting financial results, including boundary events.

Types and Categories of events	in PLN '000
Clients, Products & Business Practices	**6,763**
Improper Business or Market Practices	3,884
Product defects	2,880
Internal frauds	**1,225**
Theft and fraud	1,225
External fraud	**5,744**
System security	1,919
Theft and fraud	3,825
Execution, Delivery & Process Management	**4,243**
Monitoring and reporting	10
Vendors & Suppliers	54
Transaction Capture, Execution & Maintenance	4,179
Business disruption and system failures	**22**
Systems	22
Employment Practices and Workplace Environment	**67**
Employee Relations	67
Total	**18,064**

Net value of operational losses amounted to PLN 16,001 thousand. Relation of net losses to revenues in Group amounts to 0.65%. The total amount losses consists of over 300 registered events (including homogenous events not exceeding USD 10 thousand aggregated on a monthly basis). Top six the most significant events represent 85% of the total amount of registered losses.

The significant events affecting the total amount of 2013 losses include settlement of disputes related to derivatives transactions (total PLN 5,855 thousand including reserves). The related events took place in previous years. Since then, Bank implemented numerous changes, aiming at mitigation of risk connected with derivative products. The changes mostly pertain to derivative documentation, banking procedures and client communication. Most of these changes were introduced in relation to the new regulatory and legal environment, in particular:

- new European directives (MIFID, EMIR)
- new recommendations issued by KNF (Recommendations A and I)

In 2013, the Bank also established two provisions (PLN 4,630 thousand) related to ongoing proceeding of Court of Competition and Consumer Protection (CCCP). Within the scope communicated to CCCP, Bank has introduced, or is in the process of introducing of appropriate changes to the relevant processes and documentation.

External frauds have been identified with regard to one of trade finance products. Reserve in amount of PLN 3,585 thousand was established to cover potential losses. In order to increase safety of trade finance products, Bank introduced additional control procedures, mitigating risk related to product offering and the risk of potential irregularities in terms of utilization of those products by customers.

In 2013 the Bank detected 2 internal fraud events, which caused total losses exceeding PLN 1,225 thousand. Bank undertaken appropriate security measures to prevent recurrence of similar events in the future, i.e. reviewing of fraud related processes and types of instructions, to identify weaknesses and gaps requiring improvement of operational and control processes. With regard to products connected with the frauds Bank introduced additional transactions' and balances' confirmations, additional communication regarding information security and improvements in segregation of duties and independent verification.

Operational risk events exceeding set tolerance thresholds are analyzed by independent control units in view of root causes and corrective actions. Corrective actions are monitored by management to avoid repetitive losses. The following actions were undertaken in 2013 to mitigate the operational risk: enhancements to control processes, elimination of procedural gaps, systems' enhancements, revision of documentation standards, staff training. Members of the Management Board approval is required for all losses exceeding established threshold, in view of analyses of causes of the losses and adequacy of corrective actions.

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 8 „Equity investments" of the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2013.

A description of accounting techniques applied as well as capital commitments valuation methodologies is in explanatory note 2 „Significant accounting policies" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013.

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 43 „Fair value information" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013.

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 23 „Equity investments valued at the equity method" and note 24 „Equity investments available for sale" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013.

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

The value of liquidations of equity investments not included in Bank's trading portfolio is provided in explanatory note 23 "Equity investments valued at equity method" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013.

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 53 "Risk Management" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013.

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 provided by Bank under relevant frame agreement, when fulfills all 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 got 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.

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 53 „Risk Management" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013.

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 appropriate loan to value ratios for different collateral types 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).

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 (in PLN '000).

Exposure type	Exposure class	Security collateral	Unfunded credit protection- guarantees	Cash collateral	Total collateral amount
On-balance sheet exposures & financial and guarantees liabilities granted	Retail	-	-	1,599	1,599
	Institutions- banks	-	895, 910	-	895, 910
	Administrative bodies and non-commercial undertakings	-	-	4117	4117
	Corporations	4,209		48,713	52,922
	Governments and central banks	-	-	422	422
Repo-style transactions*	Institutions- banks	1,780,301	-	-	1,780,301
	Corporations	97,479		-	97,479
	Governments and central banks	-	-	2,135,755	2,135,755
Total		**1,881,989**	**895,910**	**2,190,605**	**4,968,504**

* 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

Till 2011 Remuneration Policy in the Group of Bank Handlowy w Warszawie S.A. included all its employees regardless of their impact on the Group's risk profile. The awarding of variable compensation was based on the short-term assessment of the execution of individual quantitative or qualitative goals. In most cases, variable compensation was paid on an ongoing basis. The only deferrals applied to annual bonuses of particularly large amounts, in case of which a deferred portion was allocated over several years in the form of Citigroup shares, and the right to receive that part of the bonus did not depend on long-term results of the Bank, but only on the continuity of the employment in the Bank. In 2011 the Group started work on the solution supporting sound and effective risk management in order to discourage excessive risk taking, as well as support business strategy and reduce conflicts of interest by making the variable compensation components of persons having material impact on the risk profile of the Group dependent on its long-term financial results.
These actions, continued in 2012, were compatible with Resolution on the risk management adopted by the Polish Financial Supervision Authority and with 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. Their final effects are "The variable remuneration components policy for persons holding managerial positions in Bank Handlowy w Warszawie S.A." and "The variable remuneration components policy for persons holding managerial positions in DMBH (hereinafter referred to as "the Policy") adopted respectively September 26-th, 2012 and March 29-th, 2012 along with further modifications.

In the work on its preparation and implementation were involved:

- the members of the Remuneration Committee,
- the Bank's Management Board,
- the head of the Legal Department,
- the head of the Human Relations Department,
- the manager of the Compensation & Benefits Department,
- and, as an external consultant, the law firm "Clifford Chance Janicka, Krużewski, Namiotkiewicz i wspólnicy spółka komandytowa".

According to the Policy the Remuneration Committee gives an opinion and monitors the variable remuneration of staff under the Policy ("Authorized Persons"), connected with risk management and compliance. Additionally, every year the Remuneration Committee approves the amounts and the conditions of awarding the variable remuneration of Authorized Persons before they are approved, respectively, by the Supervisory Board or the Management Board. Additionally, each time, in case of the change of the Policy the Remuneration Committee gives its opinion on the changes, including the amounts and components of remuneration, taking into account a cautious and stable risk, capital and liquidity management, and paying special attention to long-term interests of the Bank, the interest of the Bank's shareholders and investors. In 2013 there were 5 meetings of the Remuneration Committee.

The Remuneration Committee is composed of:

1. Andrzej Olechowski – Chairman of the Committee
2. Adnam Omar Ahmed – Vice-Chairman of the Committee
3. Shirish Apte – Member of the Committee
4. Stanisław Sołtysiński - Member of the Committee

Bank analyzed the roles and the responsibilities of its employees in relation to the key manageable risks in the Bank and on this basis set the list of management staff, approved by the Supervisory Board, which has a material impact on the risk profile of the Bank and therefore should be the subject to the provisions of the Policy. The list of the employees under the Policy includes:

- President, Vice-Presidents and the Member of the Management Board of the Bank and DMBH,
- the members of the Risk and Capital Management Committee,
- the members of the Asset-Liability Committee,
- the heads of business lines,
- management staff responsible for control functions in the Bank, i.d. the head of internal audit, the head of compliance division and the heads of risk management, human resources and legal departments,
- other supervisors, whose actions significantly impact assets and liabilities of the Group and which directly influence entering into or changing the contracts and their conditions by the Group.

The philosophy of awarding the persons under the Policy, adopted by the Group, implies the wage differentiation of particular employees based on the financial and non-financial criteria, such as attitude to take risk and assurance of compliance to reflect their current and future contribution and to supplement mechanisms of efficient risk control by limiting the motivation for taking unreasonable risk impacting the Group and its activities and by rewarding the proper balance between risk and rate of return. According to this philosophy, the payment of variable remuneration to staff under the Policy depends on both the short-term and long-term evaluation of the individual performance and the financial results of the Bank or DMBH or specific organizational unit, whereby the persons responsible for control functions are not assessed for the financial results. The assessment of the Bank's results or results of DMBH is based on the data from three financial years, which takes into account the business cycle of the Bank and risk of its economic activities. In case of staff employed less for than 3 years when evaluating the Bank's results and results of DMBH the data includes the span of time from the establishing working relationship. The variable remuneration for 2013, awarded January 20, 2014, was divided into undeferred and deferred portions. The deferred portion was divided into three tranches, paid in years 2015, 2016 and 2017. Information on adopted solutions was given in Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013 in the explanatory note 51 "Employee benefits".

The awarding of the right to the particular tranches requires to be approved each time by the Supervisory Board in relation to remuneration of the Management Board and the Management Board in the relation to remuneration of other employees.

The amount of deferral depends on the amount of the awarded variable remuneration and is as follows:

- less than PLN 100 thousand – no deferrals
- between PLN 100 thousand and equivalent EUR 500 thousand (in DMBH up to the equivalent of 1 million euro) – deferral for 3 years equal to 40% of the variable remuneration with 6 months retention time for each bonus tranche,
- more than equivalent EUR 500 thousand (in DMBH above the equivalent of 1 million euro) – deferral for 3 years equal to 60% of the variable remuneration with 6 months retention time for each bonus tranche.

The variable remuneration for adopted Policy's purposes is understood as – in case of the members of the Management Board – discretionary bonus granted by the individual decision of the Supervisory Board, and in case of other Authorized Persons – the annual bonus.

In accordance with the Resolution at least 50% of the variable remuneration should be awarded in the form of non-cash instruments whose value highly depends on the financial results of the Bank or DMBH accordingly. This condition is fulfilled by the phantom shares accepted by the Group, whose value will fluctuate depending on the market value of the Bank's shares. The remaining part of the variable remuneration is cash award, whereby the interests for the period from awarding to paying out the given part of remuneration will be accrued to the deferred bonus tranche.

Regardless of changes of the deferred variable remuneration's value associated with the fluctuation of the Bank's share price or accrued interest, the amount of paid deferred portion of bonus may be lowered or completely reduced if the Supervisory Board or accordingly the Management Board decides that:

- the Authorized Persons have received the variable remuneration based on significantly incorrect financial statements of the Bank or DMBH accordingly; or
- the Authorized Persons have been knowingly taking part in disseminating the significantly incorrect information on the financial statements of the Bank or DMBH accordingly; or
- the Authorized Persons have significantly violated any risk limits, established or corrected by the senior management staff or risk management staff; or
- the Authorized Persons have flagrantly breached their employee duties; or
- there has been a significant decrease of the financial performance of the Bank or DMBH accordingly or significant mistake in risk management.

The awarding of the right to each tranche of deferred bonus will depend on the Bank's results or DMBH results accordingly in the calendar year directly preceding the date of awarding of the right to given tranche ("Year Concerning the Results").

If the Bank or DMBH accordingly suffers a loss calculated as a loss before tax for the Year Concerning the Results, then the Long-term Bonus in the Phantom Shares, to which the right may be earned during the calendar year following the end of the Year Concerning the Results, will be reduced (but not below zero) by a percentage defined as (i) the absolute value of the loss before tax suffered by the Bank or DMBH accordingly in the given Year Concerning the Results, divided by (ii) the absolute value of the highest profit before tax made by the Bank or DMBH accordingly in the period covering three calendar years before the proper Year Concerning the Results, but excluding all the periods ending before January 1-st, 2012 ("Measurement Period"). Irrespective of the above, if the Bank or DMBH accordingly suffers any loss calculated as the loss before tax for the Year Concerning the Results, the minimum percentage reduction of 20% will be applied.

- The amount of profit (or loss) before tax for each adequate Year Concerning the Results will be the total value of profit (loss) before income tax for the current operations of the Bank or DMBH accordingly. The results for the calendar year will be defined on a basis of the local IFRS statements, which will be covering the audited results for the first three quarters (in accordance with the report to WSE and adequate public authorities), and the last quarter of the year will consist of the actual results for the first two months of this quarter and the estimates for the last month. The estimates will be defined by the Financial Department of the Bank or DMBH accordingly and they will be final and binding regardless of the actual final results.
- If the absolute value of the loss before tax suffered by the Bank or DMBH accordingly for the Year Concerning the Results equals or exceeds the total value of the highest profit before tax in the Group's calendar year in the Measurement Period, then the Authorized Persons will not earn the rights to the given tranche.
  Based on the above information and based on own judgment as well as after review by the Remuneration Committee when applicable, the Supervisory Board in relation to the members of the Management Board or the Management Board in relation to other Identified Staff takes final relevant decisions on the acquiring of right to a given tranche of Deferred Variable Remuneration.

Annual award for 2013 employees covered by the variable remuneration components Policy for managerial staff at Bank Handlowy w Warszawie S.A.

(in PLN '000)

				Cash Award for 2013				Phantom shares of Bank Handlowy w Warszawie SA					
				No deffered cash	Deffered Cash			Short-term phantom shares award			Long-term phantom shares award		
Category/Sector	Number of employees	Total fixed renumeration	Total variable renumeration	Paid *	Paid	Vested	Unvested	Paid	Vested	Unvested	Paid	Vested	Unvested
Management Board **	7	8,246	25,064	2,797	-	-	7,786	3,326	-	2,745	-	-	8,409
Consumer Bank Segment	2	1,279	591	131	-	-	103	150	-	96	-	-	112
Corporate Bank Segment	18	13,194	21,312	3,103	-	-	5,420	4,106	-	2,738	-	-	5,945
Total Bank	**27**	**22,719**	**46,967**	**6,031**	-	-	**13,309**	**7,582**	-	**5,579**	-	-	**14,466**
Brokerage house	6	4,108	1,551	638	-	-	206	286	-	197	-	-	225
Total Group	**33**	**26,827**	**48,518**	**6,669**	-	-	**13,515**	**7,868**	-	**5,776**	-	-	**14,691**

The Policy of the variable remuneration components of management staff within the Group includes two subjects: the Bank and Brokerage house.
* paid in 2014.
** includes the members of the Management Board under, as at the end of 2013, the Policy of the variable remuneration components of management staff.

The table above does not include the wages and benefits other than the fixed remuneration which were not under the Policy of the variable remuneration components of management staff. Information related to payments in 2013 associated with hiring of employees covered by the Policy.

No. of employees: 1,
Payment amount: PLN 80 thousand.

Information related to 2013 severance payments for employees covered by the Policy.

No. of employees: 2
Total payment amount: PLN 116 thousand,
Highest payment for one employee: PLN 58 thousand .

Within the scope under the Policy of the variable remuneration of management staff, in the column "Undeferred cash bonus" of the table above there is presented the undeferred part, awarded January 20, 2014. The remaining, deferred part – consisting of cash bonus and bonus in the form of the Bank's Phantom Shares – will be paid in three tranches in years 2015-2017 and is given in the values of which cost 2013 in accordance with the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2013.

There were no reductions of wages – awarded within the Policy of the variable remuneration of management Staff – within the correction connected with the results.

Signatures of all Management Board Members

Date	Name	Position / function	
13.05.2014	Sławomir S. Sikora	President of the Management Board	Signed on Polish original
13.05.2014	Brendan Carney	Vice-President of the Management Board	Signed on Polish original
13.05.2014	Barbara Sobala	Vice-President of the Management Board	Signed on Polish original
13.05.2014	Maciej Kropidłowski	Vice-President of the Management Board	Signed on Polish original
13.05.2014	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	Signed on Polish original
13.05.2014	Iwona Dudzińska	Member of the Management Board	Signed on Polish original