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 2014

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 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as well as of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

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. 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 2014 and .

Pursuant to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, Bank publishes disclosures on capital adequacy on the basis of consolidated data as of 31 December 2014. the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2014.

When the disclosures required by the Regulation (EU) No 575/2013 of the European Parliament and of the Council 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 2014, this document refers to the number of explanatory note, which discloses required information.

The terms used in the document shall mean the following:

Regulation No. 575/2013 / CRR - Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 with amendments;

Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council;

[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.

Commission Delegated Regulation (EU) No. 183/2013 of 20 December 2013 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments;

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);

Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

I. 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, companies in the process of liquidation, as well as units not conducting current, statutory activity.

The aim of the risk management strategy of the Bank is to take a balanced risk with shared responsibility, without forsaking individual accountability. Taking a balanced risk means proper identification, measurement and risk aggregation, and the establishment of limits with full understanding of both the macroeconomic environment, the profile of the Group's activity, requirement to meet regulatory standards, strategic and business objectives within available resources, capital and liquidity, maximizing return on capital employed.

The concept of risk management, taking into account the shared responsibility, is based on model of three levels of risk reduction, i.e.:

- Business Units engaged in activities connected with risk taking;
- Risk Units that establish standards for the risk management, processes defining and methodological support, risk acceptance as well as valuation, mitigation, control, monitoring and reporting of risk;
- Internal Audit that provide an independent assessment of risk management processes and performance in the process control/control efficiency of these processes.

The Management Boards of the Group entities ensures that risk Group’s management structure reflects Risk Profile and the functions of risk valuation monitoring and control are separated from activity associated with risk-taking.

Risk management is implemented based on the strategies, policies and procedures relating to taking, monitoring and limiting the risk, standards for the identification, valuation, acceptance, control, monitoring and reporting of risk to which the Group is or may be exposed to.

Risk management strategies, policies and procedures are regularly reviewed to ensure compliance with applicable laws, regulations, supervisory institutions, business and market practices and the adequacy of the scale, nature and complexity of the Group's operations.

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 52 „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 2014.

Ensuring the adequacy of risk management arrangements of the Group and confirmation that the risk management systems used are appropriate from the institution profile and strategy point of view, takes place within the annual capital planning process.

As per the current „Policy and Procedure of internal capital estimation and maintenance in Bank Handlowy w Warszawie S.A.” Risk and Capital Management Committee performs not less frequently than once a year, within the process of internal capital assessment and maintenance, an adequacy assessment of the solutions to the actual size and complexity of the Group, including its profile and strategy. The conclusions of such review are submitted to the Management Board for approval.

The Management Board has confirmed that the process of internal capital assessment and maintenance and risk management systems in the Group are appropriate to the nature, scale and complexity of its activities.

As part of the annual capital planning process, the overall risk profile of the Bank is determined, which results mainly from the business model and assumptions to the business strategy. The Risk Profile is defined as the risk exposure assessment based on both inherent and residual level, including assumptions to the future.

The process of the Bank risk profile determination includes:

- identification of risks in the Group's operations, based on the experience, expertise, analysis of the macroeconomic environment, regulatory and competitive position of the Group, taking into account the profile and internal procedures;
- for identified risks: determination of the risk owner, processes and controls mitigating these risks and defining of quantitative measures for these types of risks for which it is possible;
- determination of significant risks for the year by the Board.

The Bank manages all types of risk that are identified in its activities, while some of them considering as significant.
For measurable risks considered as significant, the Group estimates and allocates capital. The Group may decide to create capital buffers for significant, difficult to measure risks.

Within the risk profile assessment in 2014 the following risks were identified as significant:

- Credit risk – risk of potential losses 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.

- Strategy / business Risk - the risk of potential losses caused by adverse or inadequate strategic decision-making, lack of a validated strategy, or its failure to implement or due to inadequate response to changes in the strategic environment.

The risks identified within the Group's profile as significant are the basis for the risk appetite setting for the Group and for the individual business lines. As a result, implementing a specific strategy within the Group's business model, decisions are considered not only for the market purposes, but also the return on capital employed. For that purpose the appropriate measures of overall risk level and sets of limits were introduced to ensure that the risk is within the tolerance level.

The Group manages inter alia the following risks:

- Model risk - risk of losses resulting from implementation of improperly defined or applied models, use of inadequate parameters, lack of model updates. When assessing the level of model risk, please consider data risk (invalid, unreliable or incomplete data used for models development), assumptions risk (results from simplifications of incorrect assumptions), methodology risk, model administration risk. Compliance risk - the risk of non-compliance with applicable laws and regulatory requirements and Group's internal regulations.
- Legal risk - risk of losses occurring due to instability of legal regulations, changes of law and regulations, improper structure of legal relationships, quality of legal documentation, unfavourable conclusions of courts or other bodies in disputed cases, conducted with other entities.
- Outsourcing risk - risk of negative impact of conducting some Group's business or operational activities through external parties on continuation, integrity and quality of entity's activity, its property or employees, information security, customer satisfaction etc. This risk may result from the third party's system disruptions, communication failures, financial viability or others.
- Money Laundering risk - risk of losses due to involvement in money laundering or terrorist financing activity conducted by customers, intermediaries or employees.
- Technological risk - risk of losses resulting from disruption of entity's activity due to technology infrastructure and telecommunications systems failure.
- Information Security risk - risk of losses resulting from disruption of entity's activity or financial losses due to insufficient security of its resources and information.

As a part of the regular, quarterly information provided to the Risk and Capital Management Committee of the Bank's Management Board and to the Risk and Capital Committee of the Supervisory Board the Bank's risk profile is monitored, including quantitative indicators, current trends, and the utilization of capital limits. Four meetings were held in 2014 in order to analyze abovementioned factors.

The assessment process of the Group's risk profile is approved by the Management Board in the form of "Capital Group of Bank Handlowy w Warszawie S.A. Capital Management" document, and then submitted for the Supervisory Board approval by resolution.

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, the Bank's unit, which supports the Bank's Management Board and business units, is responsible for the 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 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.

Information on the recruitment policy for the selection of members of the managing body and the actual state of their knowledge, skills and expertise

With respect to the institution's policy and practices relating to the selection of members of the managing body and the actual state of their knowledge, skills and expertise, the Bank follows a specific procedure to select the members of managing bodies who offer adequate guarantees of performance (in a prudent and sustainable manner) and have the necessary competences (understood as education and experience) to administer the business of a supervised institution, resulting from:

1) knowledge (arising from their education, completed training, professional titles and otherwise acquired in the course of their career),
2) experience (acquired when performing certain functions or occupying certain positions),
3) the necessary skills to perform their assigned functions.

The managing body identifies and selects qualified and experienced candidates to corporate bodies. In the assessment of candidates, their experience is taken into account, considering:

(a) the character, magnitude and complexity of the Bank's operations, and
(b) the responsibilities relevant to the role

Candidates to the managing body should, in each case, have an impeccable reputation, their activities to date should be transparent and lawful, and their employment history and track record should be related with jobs in financial institutions.

The Bank's Management Board is composed of five to nine members, including: the President of the Management Board of the Bank, Vice Presidents of the Management Board of the Bank, with the proviso that at least half of the Members of the Management Board should be Polish citizens.
Members of the Management Board of the Bank are appointed by the Supervisory Board for a term of three years, upon a motion of the President of the Management Board.
The motion contains the following information:
- the business area within the responsibility of the prospective Member of the Management Board,
- professional experience with an overview of the career path to date as well as functions, responsibilities and achievements,
- education.

The Supervisory Board appoints a Member of the Management Board based on a recommendation from the Remuneration Committee of the Supervisory Board.

The Supervisory Board is composed of five to twelve members appointed by the General Meeting. Each Member of the Supervisory Board is appointed for a term of three years. At least half of the Members of the Supervisory Board, including its Chairperson, should be Polish citizens.
Members of the Supervisory Board of the Bank are selected from a list of candidates presented by shareholders represented in a General Meeting.

Number of directorships held by members of the management body understood as members of the Management Board: 7.

II. Information related to the use of prudential norms

Information related to the use of prudential norms concern Capital Group of Bank Handlowy w Warszawie S.A. ("Group").

Group is composed of Bank Handlowy w Warszawie S.A. ("Bank") as the parent company, as well as the following subsidiary companies: Dom Maklerski Banku Handlowego S.A., Handlowy Leasing Sp. z o.o., Handlowy Investments S.A., PPH Spomasz Sp. z o.o. w likwidacji, Handlowy-Inwestycje Sp. z o.o.

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 2014 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].

There are no proportionally consolidated entities.

Handlowy Inwestycje Sp. z o.o. is the entity accounted for under the equity. It 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.

There are no entities that are neither consolidated nor deducted.

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.

The Group does not have any subsidiaries not included in the consolidation, for which there is a shortage of capital.

There is no difference in consolidation for accounting purposes and prudential norms.

[2] According to information in point IV.1.6 of this chapter, equity investments of the Capital Group of Bank Handlowy w Warszawie S.A. are classified into strategic and divestments portfolios.

III. Information regarding own funds

Information about the components of equity are presented in details in supplementary note 38 „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 2014.

The Group's own funds and a reconciliation of the Group's own funds to the equity of the Group are presented in the below tables:

Table 1: The structure of the Group's own funds

ID	Item	Amount in PLN'000
1	**OWN FUNDS**	**4 944 496**
1.1	TIER 1 CAPITAL	4 944 496
1.1.1	COMMON EQUITY TIER 1 CAPITAL	4 944 496
1.1.1.1	Capital instruments eligible as CET1 Capital	3 008 172
1.1.1.1.1	Paid up capital instruments	522 638
1.1.1.1.3	Share premium	2 485 534
1.1.1.2	Retained earnings	-5 884
1.1.1.2.1	Previous years retained earnings	-5 884
1.1.1.2.2.1	Profit or loss attributable to owners of the parent	947 312
1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-947 312
1.1.1.3	Accumulated other comprehensive income	50 899
1.1.1.4	Other reserves	2 889 261
1.1.1.5	Funds for general banking risk	521 000
1.1.1.9	Adjustments to CET1 due to prudential filters	-47 041
1.1.1.9.5	(-) Value adjustments due to the requirements for prudent valuation	-47 041
1.1.1.10	(-) Goodwill	-1 245 976

1.1.1.10.1	(-) Goodwill accounted for as intangible asset	-1 245 976
1.1.1.11	(-) Other intangible assets	-141 769
1.1.1.11.1	(-) Other intangible assets gross amount	-141 769
1.1.1.26	Other transitional adjustments to CET1 Capital	-81 724
1.1.1.28	CET1 capital elements or deductions - other	-2 442
1.1.2	ADDITIONAL TIER 1 CAPITAL	0
1.2	TIER 2 CAPITAL	0

Table 2: Reconciliation of the Group's own funds for the Group's equity

Reconciliation of the Group's own funds for the Group's equity	**Amount in PLN'000**
Share capital	522 638
Supplementary capital	3 000 298
Revaluation reserve	52 873
Other reserves	2 893 523
Retained earnings	941 428
Total Equity	**7 410 760**
Goodwill & other intangible assets	-1 387 745
Adjustments to Equity Tier I in respect of prudential filters - value adjustments in respect of the requirements for the prudence	-47 041
ther adjustments in transition Common Equity Tier I	-81 724
Core capital elements of Tier I or deducted from Tier I capital base - other	-2 442
Net profit for the Bank’s shareholders	-947 312
Total Deductions	**-2 466 264**
Total Own funds	**4 944 496**

Table 3: Own funds in the interim period (thousands zł)

	Own Funds	(A) Amount at disclosure date	(C) Amounts subject to pre-Regulation(EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575 / 201352 direct	(B) Regulation No. 575/2013 Article Reference
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES				
1	Capital instruments and the related share premium accounts	3 008 172	-	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Series A	*260 000*	-	EBA list 26 (3)
	of which: Series B	*112 000*	-	EBA list 26 (3)
	of which: Series C	*150 638*	-	EBA list 26 (3)
2	Retained earnings	-5 884	-	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	2 940 160	-	26 (1)
3a	Funds for general banking risk	521 000	-	26 (1) (f)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**6 463 449**	-	
COMMON EQUITY TIER 1 (CET1) CAPITAL: REGULATORY ADJUSTMENTS				
7	Additional value adjustments (negative amount)	-47 041	-	36 (1) (b), 37, 472 (4)
8	Intangible assets (net of related tax liability) (negative amount)	-1 387 745	-	26 (1), 27, 28, 29, EBA list 26 (3)
26	Regulatory adjustments relating to Common equity Tier 1 capital in terms of the amounts recognized before the adoption of the CRR.	-84 166	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468	-81 724	-	
	of which: 80% filter for unrealised losses on available for sale debt securities	7 213	-	467
	of which: 80% filter for unrealised losses on available for sale equity securities	-	-	467
	of which: 100% filter for unrealised profits on available for sale debt securities	-87 920	-	468
	of which: 100% filter for unrealised profits on available for sale equity securities	-1 017	-	468
26b	The amount to be deducted from or added to the amount of core tier I capital for additional (liters and deductions required before the adoption of the CRR	-2 442	-	481
28	**Total regulatory adjustment to Common Equity Tier 1 (CET1)**	**-1 518 952**	-	
29	**Common Equity Tier 1 (CET1) capital**	**4 944 496**	-	

ADJUSTMENTS ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS				
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	-	
ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS				
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-	
44	**Additional Tier 1 (AT1) capital**	-	-	
45	**Tier 1 capital (T1= CET1+AT1)**	**4 944 496**	-	
ADJUSTMENTSTIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS				
51	**Tier 2 (T2) capital before regulatory adjustments**	-	-	
TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS				
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-	
58	**Tier 2 (T2) capital**	-	-	
59	**Total capital (TC=T1+T2**	**4 944 496**	-	
60	**Total risk weighted assets**	**28 209 005**	-	
CAPITAL RATIOS AND BUFFERS				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	**17,5%**	-	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	**17,5%**	-	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	**17,5%**	-	92 (2) (c)
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**1 592**	-	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**7 764**	-	36 (1) (i), 45, 48, 470, 472 (11)
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	**157 319**	-	36 (1) (c), 38, 48, 470, 472 (5)

Group did not make deductions from own funds for significant investment in the financial sector entities and assets for deferred income tax.

Table 4: The table below presents capital instruments main characteristics

Series/emission	**A**	**B**	**B**	**B**	**B**	**B**	**C**
1 Issuer	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012
3 Governing law(s) of the instrument	Polish law	Polish law	Polish law	Polish law	Polish law	Polish law	Polish law
Regulatory treatment							
4 Transitional CRR rules	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital
5 Post-transitional CRR rules	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital
6 Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated
7 Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares
8 Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 260.000.000	PLN 4.480.000	PLN 6.230.000	PLN 8.960.000	PLN 70.594.000	PLN 21.736.000	PLN 150.638.000
9 Nominal amount of instrument	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4
9a Issue price							
9b Redemption price	-	-	-	-	-	-	-
10 Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity	Equity
11 Original date of issuance	27.03.97	27.10.98	25.06.99	16.11.99	24.05.02	16.06.03	28.02.01
12 Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13 Original maturity date	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity
14 Issuer call subject to prior supervisory approval	No	No	No	No	No	No	No
15 Optional call date, contingent call dates and redemption amount	-	-	-	-	-	-	-
16 Subsequent call dates, if applicable	-	-	-	-	-	-	-

Coupons / dividends							
17 Fixed or floating dividend/coupon	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate
18 Coupon rate and any related index	-	-	-	-	-	-	-
19 Existence of a dividend stopper	No	No	No	No	No	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
21 Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24 If convertible, conversion trigger(s)	-	-	-	-	-	-	-
25 If convertible, fully or partially	-	-	-	-	-	-	-
26 If convertible, conversion rate	-	-	-	-	-	-	-
27 If convertible, mandatory or optional conversion	-	-	-	-	-	-	-
28 If convertible, specify instrument type convertible into	-	-	-	-	-	-	-
29 If convertible, specify issuer of instrument it converts into	-	-	-	-	-	-	-
30 Write-down features	No	No	No	No	No	No	No
31 If write-down, write-down trigger(s)	-	-	-	-	-	-	-
32 If write-down, full or partial	-	-	-	-	-	-	-
33 If write-down, permanent or temporary	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
34 If temporary write-down, description of write-up mechanism	-	-	-	-	-	-	-
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	-	-	-	-	-	-
36 Non-compliant transitioned features	-	-	-	-	-	-	-
37 If yes, specify non-compliant features	-	-	-	-	-	-	-

IV. Capital Adequacy

Capital requirement in relation to Own Funds of Group is calculated according to the Regulation No. 575/2013

The table below presents capital requirements in relations to Own Fund:

Table 5: Regulatory capital requirement in relations to Own Funds

Capital Requirements	Requirement value in PLN '000
credit risk	1 581 701
counterparty credit risk	87 247
credit valuation adjustment risk	54 648
dilution risk	0
free deliveries	0
settlement / delivery risk in trading book	9 877
traded debt instruments risk:	
debt instruments prices specific risk	25 216
general risk of interest rates	73 787
equity securities price risk	38
commodities risk	0
foreign-exchange risk	9 174
operational risk	350 484
large exposure in trading book risk	64 549
Total Capital Requirement	**2 256 721**
Own Funds / Tier I Capital / Common Equity Tier I	**4 944 496**
Common Equity Tier 1 capital ratio	**17,5%**
Tier 1 capital ratio	**17,5%**
Total capital ratio	**17,5%**

Table 6: Capital requirement for credit and counterparty credit risk broken down by exposure classes

Exposure classes	**Capital requirements in PLN '000**
exposures to central governments or central banks	18 063
exposures to regional governments or local authorities	3 030
exposures to public sector entities	2 887
exposures to multilateral development banks	0
exposures to international organisations	0
exposures to institutions	141 382
exposures to corporates	997 588
retail exposures	286 386
exposures secured by mortgages on immovable property	106 598
exposures in default	17 169
exposures associated with particularly high risk	671
exposures in the form of covered bonds	0
items representing securitisation positions	0
exposures to institutions and corporates with a short-term credit assessment	0
exposures in the form of units or shares in collective investment undertakings ('CIUs')	0
equity exposures	1 762
other items	93 412
Total	**1 668 948**

1. Capital requirements

1.1. Information regarding exposure to credit risk and dilution risk

The following tables provide information regarding the Group's exposure broken down by exposure classes (Table 7), geographical distribution (Table 8), the counterparty type (Table 9) and broken down by residual maturity (Table 10).

These tables provide a breakdown of the total exposure to credit risk and counterparty credit risk. In terms of exposure to credit risk table presents information on all exposures of the Group, i.e. the individual assets of the Group. In terms of exposure to the counterparty credit risk exposures to counterparty risk are presented, according to the definition of Regulation No. 575/2013, as described in more detail in Chapter 1.2. Information regarding the credit risk of the counterparty.

Table 7: 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
exposures to central governments or central banks	14 312 761	15 882 422
exposures to regional governments or local authorities	622 838	658 157
exposures to public sector entities	95 688	95 708
exposures to multilateral development banks	32	26
exposures to international organisations	-	-
exposures to institutions	5 318 118	6 179 718
exposures to corporates	20 038 686	20 421 587
retail exposures	10 145 287	10 040 572
exposures secured by mortgages on immovable property	1 995 524	1 721 975
exposures in default	208 559	248 120
exposures associated with particularly high risk	5 593	9 567
exposures in the form of covered bonds	-	-
items representing securitisation positions	-	-
exposures to institutions and corporates with a short-term credit assessment	-	-

exposures in the form of units or shares in collective investment undertakings ('CIUs')	-	-
equity exposures	10 382	10 209
other items***	15 536 392	11 612 970
Total	**68 289 860**	**66 881 031**

** Out of which PLN* 16.433.682 *due to off-balance sheet commitments.*
*** Arithmetical average calculated on quarterly balances in 2014.*
**** Including due to Assets arising from off-balance sheet transactions valuation, Intangible assets, Tangible fixed assets, Cash in hand, Income tax asset.*
The above table includes both exposures to credit risk and counterparty credit risk.

Table 8 The geographic distribution of the exposures, broken down into significant areas by material exposure classes, and further detailed if appropriate

Country	Net exposures after adjustments and provisions* in PLN '000
Belgium	105 194
Bulgaria	7 998
Croatia	2 429
Czech Republic	15 466
France	37 292
Netherlands	188 746
Canada	5 344
Luxembourg	152 601
Germany	132 590
Norway	278 024
Poland	64 858 916
Russia	1 133
Romania	41 815
USA	161 705
Switzerland	107 177
Sweden	57 532
Ukraine	42 635
Hungary	11 512
Great Britain	2 077 086
Other	4 665
Total	**68 289 860**

Table 9: 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	exposure to institutions - banks	5 318 118
	exposure to multilateral development banks	32
Retail clients	exposure to retail	9 859 855
	exposure to secured on real estate property	1 145 343
	exposures in default	137 259
Other assets	equity exposures	10 382
	other items	15 536 392
Corporations	retail exposures	285 432
	of which: SME	274 309
	exposures to corporates	20 038 687
	of which: SME	2 394 522
	exposures secured on real estate property	850 180
	of which: SME	369 648
	exposures in default	71 300
	of which: SME	18 719
	items belonging to regulatory high-risk categories	5 593
Budget sector	exposures to public sector entities	95 688
	exposures to governments or central banks	14 312 761
	exposures to regional governments or local authorities	622 838
Total		**68 289 860**

Table 10: the residual maturity breakdown of all the exposures, broken down by exposure classes

Exposure class	<= 1 month	> 1 month <= 3 months	> 3 months <= 6 months	> 6 months <= 1 year	> 1 year <= 2 years	> 2 years <= 5 year	> 5 year	Unknown maturity	Total in PLN '000
exposures to central governments or central banks	7 252 465	0	252	19 328	0	4 732 121	2 306 185	2 409	**14 312 760**
exposures to regional governments or local authorities	5	300	2 261	507 855	43 254	69 163	0	0	**622 838**
exposures to public sector entities	4 097	4 890	10 213	5 485	50 026	20 977	0	0	**95 688**
exposures to multilateral development banks	0	0	32	0	0	0	0	0	**32**
exposures to institutions	1 603 324	136 793	392 327	99 267	326 452	2 681 261	38 369	40 325	**5 318 118**
exposures to corporates	9 175 712	2 392 877	899 859	2 494 989	1 758 303	2 340 057	712 580	264 310	**20 038 687**
retail exposures	7 067 219	33 443	51 350	94 618	159 895	1 698 367	1 029 202	11 193	**10 145 287**
exposures secured by mortgages on immovable property	275 929	40 531	31 387	79 078	60 081	237 939	1 270 578	0	**1 995 523**
exposures in default	141 514	3 071	5 602	11 998	14 525	22 707	6 608	2 534	**208 559**
exposures associated with particularly high risk	0	0	0	0	0	0	0	5 593	**5 593**
equity exposures	0	0	0	0	0	0	0	10 382	**10 382**
other items	161	17 730	365 220	556 244	1 696 581	2 915 336	1 545 604	8 439 517	**15 536 393**
Total	**25 520 426**	**2 629 635**	**1 758 503**	**3 868 862**	**4 109 117**	**14 717 928**	**6 909 126**	**8 776 263**	**68 289 860**

The accounting definitions of past due and 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.

For the purpose of determining regulatory capital for credit risk, impaired exposures are classified to the class of default exposures. All exposures assigned to the class of default exposures are impaired exposures.

A description of the approaches and methods adopted for determining value adjustments and provisions

Detailed information on the management of exposures of impaired are presented in the Annual Financial Statements of the Bank Handlowy w Warszawie SA for the year ended 31 December 2014 in explanatory note no. 52 "Risk Management" in the section "Credit risk.

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.

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 2014, in explanatory note no. 52 “Risk Management”, in the section “Credit risk”, in the table “Commitment due to customers in terms of credit risk”.

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 2014, in explanatory notes no. 20 “Amounts due from banks” & note no. 25 “Amounts due from customers”, in parts on impairment of loans and advances.

1.2. 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.

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 Regulation No. 575/2013. 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.

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. All Commercial and Corporate Banking Subsector customers are taken into account for derivatives assessment correction calculation
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.

The negative correlation risk is not taken into account while regulatory capital requirement calculation due to applying standard methodology.

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

Table 11: 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	**5 624 460**
Netting benefits (change in value of balance sheet equivalent)	**7 006 838**
Net value of credit exposure (value of balance sheet equivalent)	**2 000 383**
Current credit exposure*	**4 831 977**

* 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).

The Group measures exposures of derivative transactions using methods of market valuation in compliance with the Regulation No. 575/2013. 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.

The Group does not use credit derivative hedges.

The Group does not estimate α.

1.3. Information regarding credit risk mitigation techniques

For the purpose of calculating the balance sheet equivalent of derivative transactions within capital requirements calculation the Group recognizes contractual compensation ("close-out netting") with respect to off-balance sheet derivative transactions provided by the Bank under relevant frame agreement, when fulfills all legal and formal terms as per the Regulation No. 575/2013, which must be met in order to consider the contractual compensation as risk mitigant.

In particular the Group has a process to monitor regulations in terms of compensation in order to ensure proper monitoring of changes in current regulations in regards to requirements set in the above mentioned resolution.

Information regarding the policies for collateral management and main types of accepted collateral are presented in supplementary note 52 „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 2014.

The value of collateral is 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 taken 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).

In order to diversify risk associated with collateral, the Group accepts various types and forms of collateral:

- In the Consumer the most common type of collateral is residential real estate,
- In the Corporate and Commercial Banking primarily the following types of collateral are accepted:
  - guarantees and warranties,
  - financial security,
  - collateral.

Detailed procedures defining types of collateral acceptable by the Bank, rules on collateral establishment and value determination as well as creation of specialized independent risk unit responsible for collaterals evaluation allowed to develop adequate standards for this process, including e.g.

- Collateral acceptance and appraisal criteria,
- Standardized documentation,
- Rules of collateral monitoring process (including inspections).

In addition the Commercial Bank credit procedures describe such parameters as.:

- Collateral requirements for different types of exposure/s,
- Credit/Collateral relation for different types of collateral,
- Collateral structure as it relates to the credit portfolio.

The Group periodically monitors if the actual structure of the collateral portfolio in Commercial Bank is compliant with the structure assumed and if the collateral amount is sufficient.

In Corporate Bank expected Loan-to-Value relations are determined each time in credit decision. These relations are also monitored on the on-going basis.

For Retail Banking Sector the basic collateral for mortgage loans is mortgage on Real Estate. Due to time gap between loans disbursement and setting legally effective mortgage the bridge collateral is used.
The valuation of collateral is performed each time based on real estate appraisal requested by the Group. Collateral appraisals are verified by an independent valuation team in accordance

with the valuation guidelines of real estate being collateral for real estate loans for retail customers in Retail Banking Sector. The quality of the appraisal team's work is monitored.

In the field of the protection of the actual Group considers cash collateral in accordance with the principles set in the Regulation No. 575/2013. 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 Regulation No. 575/2013 the Bank assigns 0% risk weight for the same currency. There are no credit derivatives in the Group's portfolio.

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.

Table 12: Total exposure value covered by eligible financial collateral or other eligible collateral by exposure classes after the application of volatility adjustments (in PLN '000).

(w tys. zł)

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 exposures	0	0	367	367
exposures to institutions	0	266 542	164 668	431 210
exposures to corporates	0	0	42 361	42 361
exposures in default	0	0	10	10
Repo-style transactions *				
exposures to institutions	485 876	0	0	485 876
exposures to corporates	570 272	0	0	570 272
exposures to central governments or central banks	0	0	1 722 420	1 722 420
Total	**1 056 148**	**266 542**	**1 929 826**	**3 252 516**

* repo and reverse-repo transactions

The total value of exposures secured by the guarantee is presented in Section 13.5 in column: Unfunded credit protection - guarantees.

1.4. Information regarding application of standardised approach to calculate risk-weighted exposure amounts

The Regulation No. 575/2013 on banks' capital adequacy and Bank's internal policies describe the use of the Group's external ratings and identify external credit assessment institutions whose ratings can be used for the application of the standard method. 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.

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 public sector entities;
4) exposures or contingent exposures to multilateral development banks;
5) exposures or contingent exposures to institutions;
6) exposures or contingent exposures to corporates.

Group applies issuer and issue credit assessment according to rules set forth in The Regulation No. 575/2013 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.

Table 13: 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	6 561	6 561
2	24 487 026	16 931 557
3	3 204 655	2 537 644
4	1 203 431	196 749
5	0	0
6	-	-
no rating	39 388 187	38 654 536
Total	**68 289 860**	**58 207 010**

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 The Regulation No. 575/2013.

1.5. Information on market risk

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. IV of this report in table No 5.

The information regarding the interest rate risk of the Bank's portfolio are disclosed in explanatory note 52 "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 2014.

The interest rate risk is measured on a daily basis.

The Group does not use internal ratings-based approach.

1.6. Information regarding the exposures in equities not included in the trading book

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 2014.
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 2014.

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 42 „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 2014..

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 2014.

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 2014.

1.7. Information regarding operational risk

Operational risk is the risk of loss resulting from inadequate or unreliable internal processes, people, technical systems, or from external events (including technological and technical risk, outsourcing risk, fraud risk, money laundering risk, information safety risk, external events risk (business continuity), tax and accounting risk, product risk, compliance risk, legal risk, model risk and human resources risk).

Operational risk includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal and compliance risks.

Operational risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Group applies standardised methodology for calculation of capital requirement for operational risk.

The Group doesn't apply advanced methodologies for calculation of capital requirement for operational risk.

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 (absolute value, including gains, excluding recoveries) recorded in the year 2014, 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.

Table 14 Total operational risk gross losses by types of events

Types and categories of events	in PLN '000
Clients, Products & Business Practices	**45**
Advisory Activities	15
Product Design	30
External Theft and Fraud	**650**
Theft and Fraud	650
Oszustwa zewnętrzne	**2 590**
Theft and Fraud	2 590
Execution, Delivery & Process Management - Related Events	**625**
Monitoring and Reporting	22
Vendors & Suppliers	29
Transaction Capture, Execution & Maintenance	574
Systems & Technology	**51**
Systems	51
Employment Practices and Workplace Environment - Related Events	**0**
Employee Relations	0
Total	**3 961**

Gross value of operational losses amounted to PLN 3,987 thousand. Relation of net losses to revenues in Group amounts to 0,17%. The total amount losses consists of over 350 registered events (including homogenous events not exceeding USD 10 thousand aggregated on a monthly basis).

The significant events affecting the total amount of 2014 losses include:

- credit and debit cards frauds (including skimming and internet frauds) – 55% of total loss amount (PLN 2,200M),
- credit frauds – 23% of total loss amount (PLN 900M).

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 2014 to mitigate the operational risk: enhancements to control processes, revision of policies and procedures, enhancements of fraud detection systems, revision of limits mitigating risk exposure, strengthening of independent verifications, 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.

The information regarding the operational risk is disclosed in explanatory note 52 “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 2014.

2. Internal Capital Adequacy Assessment

The Group identifies and manages all types of risks in its activity while some of them considering as significant. For all measurable risks that are considered as significant in the Group’s activity, the Group estimates and allocates capital. 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 types of risk. The Group allocates internal capital to the particular business units. 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 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 2014:

- credit risk,
- counterparty credit risk,
- operational risk,
- market risk in the trading book,
- interest rate risk in the banking book,
- liquidity risk,
- strategic / business risk.

Except the strategic / business risk that is difficult to measure risk, other significant risks are measurable.

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. In addition, the Group analyzes a one in ten year’s scenario (1/10), which forms a 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 and public sector entities. For exposures different than mentioned above internal capital requirements were calculated according to standardized approach specified in the Regulation No. 575/2013. Capital requirement for operational risk has been calculated using standardized methodology approach specified in the Regulation No. 575/2013. 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 for market risk in trading book is based on an integrated measure, which takes into account both the value at risk (VaR), and the size of losses in stress scenarios, estimating unexpected loss on the trading portfolio with the probability of 99.9% in 1Y time horizon. In the case of banking book (accrual) portfolios quantification of internal capital, is based on a combination of potential maximum decrease in net interest income of the bank in the perspective of one year in conjunction with the maximum negative impact of changes in interest rates on the economic value of the bank's capital, determined in stress scenarios with the probability of 99.9% in 1Y time horizon. In the case of liquidity risk, the amount of internal capital allocation is based on current and projected elements of supervisory measures, taking into account the stress scenarios within the next 12 months. 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.

The Banks’s capital adequacy assessment process in the form of "Capital Group of Bank Handlowy w Warszawie S.A. Capital Management" document is approved by the Management Board, and then submitted for the Supervisory Board approval by resolution.

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 capital adequacy taking into account the quantitative ratios and the utilization levels of capital limits and the forecasts in the scope of the capital adequacy.

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.

V. Information regarding the remuneration policy

As required by the 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, “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”) were 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 2014 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

On 26 June 2014 Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile came into force.

Therefore in 2014 Bank analyzed the roles and the responsibilities of its employees in relation to the key manageable risks in the Bank as well as quantitative and qualitative criteria described in Commission Delegated Regulation 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. Bank was supported in this process by "Clifford Chance Janicka, Krużewski, Namiotkiewicz i wspólnicy spółka komandytowa". 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,
- other employees who met at least one criterion described in Commission Delegated Regulation.

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 2014, granted January 20, 2015, was divided into non-deferred and deferred portions. The deferred portion was divided into short-term part which vests after 6-month period and long-term one consisting of three tranches, paid in years 2016, 2017 and 2018. 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 2014 in the explanatory note 50 "Employee benefits".

Vesting of 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.

During the deferral period, employees who are rewarded in phantom shares are entitled to dividend equivalent payments in respect of any dividends that are declared and paid to ordinary holders of BHW stock, in accordance with the Policy.

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.

Table 15: Annual Award for 2014 for employees covered by the Policy in 2014 [1]

(in PLN '000)

				Cash Award for 2014			Phantom shares of Bank Handlowy w Warszawie S.A.			
				Non deferred cash	Deferred cash award		Short term phantom shares award		Long-term phantom shares award	
Category/Sector	**Number of Employees[2]**	**Total fixed remunaration in 2014**	**Total variable remunaration[3]**	**Paid[4]**	**Paid**	**Accrued, unvested**	**Paid**	**Accrued, unvested**	**Paid**	**Accrued, unvested**
Management Board	7	7 982	14 078	1 874	1 392	2 258	3 160	2 264	1 606	1 522
Consumer Bank Segment	6	2 440	243	243	0	0	0	0	0	0
Corporate Bank Segment	60	18 350	19 534	4 570	1 874	3 019	2 971	2 080	2 176	2 847
Total Bank	**73**	**28 772**	**33 855**	**6 687**	**3 266**	**5 277**	**6 131**	**4 344**	**3 782**	**4 369**
Brokerage house	7	2 705	2 222	423	50	335	457	573	58	326
Total Grupa	**80**	**31 477**	**36 077**	**7 110**	**3 316**	**5 612**	**6 588**	**4 917**	**3 840**	**4 695**

[1] within the Group, in the Bank and in the Brokerage house there are separate Policies
[2] including employees covered by the Policy in 2014, during the whole 2014 there were 79 employees covered by the Policy in the Bank and 8 employees in Brokerage house
[3] in addition in 2014 the Bank and Brokerage house paid out Deferred cash award with interest and Long-term phantom shares award with dividends to the employees who were not covered by the Policy in 2014. The full cost of the payouts of Deferred cash awards and Long-term phantom awards in 2014 is included in Financial Report.
[4] paid in 2015

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 2014 associated with hiring of employees covered by the Policy.

- No. of employees: 1 employee,
- Payment amount: PLN 200,92 thousand.

Information related to 2014 severance payments for employees covered by the Policy.

- There were no payments

Number of individuals being remunerated in 2014 at least EUR 1 million: 3 persons in the following bands:

- Pay band of EUR 1m – 1,5m: 1 person,
- Pay band of EUR 1,5m – 2m: 1 person,
- Pay band of EUR 2m – 2,5m: 1 person.

Within the scope under the Policy of the variable remuneration of management staff, in the column “Non - deferred cash” of the table above there is presented the non - deferred part, awarded January 20, 2015. The remaining, deferred part – consisting of deferred cash award and bonus in the form of the Bank’s Phantom Shares – will be paid in three tranches in years 2016-2018 and is given in the values of the cost of 2014 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 2014.

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

VI. Unencumbered assets

Assets are encumbered, when they are pledged or used as collateral or as enhancement of transaction's credit quality and their transferability is restricted. As at 31 December 2014 the Group had encumbered assets due to securities sold under agreements to repurchase, the Fund for the Protection of Guaranteed Sums – which is part of the Banking Guarantee Fund scheme, derivative transactions and received credit collateral.

Table 16: Encumbered assets are presented in table below:

	Carrying amount of encumbered assets in PLN '000	Carrying amount of non-encumbered assets in PLN '000
Loans on demand	0	4 943 284
Equity instruments	0	8 449
Debt securities	2 196 712	20 481 546
including: issued by central government and regional governments	2 196 712	13 500 904
including: issued by non-financial corporations	0	1 132 672
Loans and fees other than loans on demand	425 390	13 350 856
including: mortgage loans	0	1 914 398
Other assets	0	8 437 430
Assets of reporting institution	**2 622 102**	**47 221 565**

VII. Leverage ratio

Total exposure used in leverage ratio calculation and value of leverage ratio as at 31 December 2014 are presented in table below:

Table 17: Total exposure used in leverage ratio calculation and value of leverage ratio:

Exposure	**in PLN '000**
Exposure due to security financing transactions	3 009 040
Derivatives: market value	460 158
Derivatives: add-on mark-to-market method	1 540 225
Off-balance sheet items subject to preferential treatment for leverage ratio calculation	628 276
Other off-balance sheet items	10 982 780
Other assets	41 222 296
Capital	
Tier 1 capital	4 944 496
Regulatory adjustments – Tier 1 capital	-1 516 510
Leverage ratio	
Monthly leverage ratio for December 2014	8,8%
Leverage ratio calculated as a simple arithmetic average of monthly leverage ratios for the last quarter of 2014	9,1%
Reconciliation to consolidated report on the financial situation	
Total assets for leverage ratio calculation	44 691 494
Benefits from legally binding netting agreements	5 152 171
Total assets	49 843 665

The Group does not use exemptions specified in Articles 499. 2 and 3 of the CRR when calculating leverage ratio. Leverage ratio is calculated with regard to Tier 1 capital, as well as according to transitional definition of Tier 1 capital. The Group does not exempt amounts from total exposure on the basis of Article 429.11 of the CRR.

The major reason for fluctuations of leverage ratio were transactions of securities buy and sell.

Signatures of all Management Board Members

13.03.2015	Sławomir S. Sikora	President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original
13.03.2015	Brendan Carney	Vice-President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original
13.03.2015	Barbara Sobala	Vice-President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original
13.03.2015	Maciej Kropidłowski	Vice-President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original
13.03.2015	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	
....	....	....	....
Date	Name	Position / function	Signed on Polish original
13.03.2015	Iwona Dudzińska	Member of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original
13.03.2015	Czesław Piasek	Member of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original