



INFORMATION ON CAPITAL ADEQUACY
OF THE CAPITAL GROUP OF
BANK HANDLOWY W WARSZAWIE S.A.
AS AT 30 JUNE 2019

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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 adequacy¹, 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 (“CRD”) and on the basis of other EU Commission regulations imposing regulatory and implementing technical standards in the area of information disclosure.

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 condensed interim consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A for the period of 6 months ended 30 June 2019
- and in the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for the first half of 2019.

The amounts are presented in PLN, rounded to the nearest thousand.

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.

I. Information regarding own funds

Information about the components of equity are presented in details in Table 1 below, the reconciliation of the Group's own funds to the equity of the Group is displayed in Table 2. Data are presented as of 30 June 2019 and 31 December 2018.

Table 1. Own funds in the interim period (thousands PLN)

| Own Funds | | 30.06.2019 | 31.12.2018 | 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 | 3 008 172 | 26 (1), 27, 28, 29, EBA list 26 (3) |
| | <i>of which: Series A</i> | 260 000 | 260 000 | EBA list 26 (3) |
| | <i>of which: Series B</i> | 112 000 | 112 000 | EBA list 26 (3) |
| | <i>of which: Series C</i> | 150 638 | 150 638 | EBA list 26 (3) |
| 2 | Retained earnings | 87 246 | -76 419 | 26 (1) (c) |
| 3 | Accumulated other comprehensive income (and other reserves) | 2 948 948 | 2 945 767 | 26 (1) |
| 3a | Funds for general banking risk | 540 200 | 540 200 | 26 (1) (f) |
| 6 | Common Equity Tier 1 (CET1) capital before regulatory adjustments | 6 584 566 | 6 417 720 | |
| 7 | Additional value adjustments (negative amount) | -168 049 | -28 824 | 36 (1) (b), 37, 472 (4) |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -1 411 430 | -1 418 793 | 26 (1), 27, 28, 29, EBA list 26 (3) |
| 28 | Total regulatory adjustment to Common Equity Tier 1 (CET1) | -1 579 479 | -1 447 617 | |
| 29 | Common Equity Tier 1 (CET1) capital | 5 005 087 | 4 970 103 | |
| 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) | 5 005 087 | 4 970 103 | |

| 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) | 5 005 087 | 4 970 103 | |
| 60 | Total risk weighted assets | 30 225 940 | 29 518 145 | |
| CAPITAL RATIOS AND BUFFERS | | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 16,6% | 16,8% | 92 (2) (a), 465 |
| 62 | Tier 1 (as a percentage of risk exposure amount) | 16,6% | 16,8% | 92 (2) (b), 465 |
| 63 | Total capital (as a percentage of risk exposure amount) | 16,6% | 16,8% | 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) | 46 090 | 36 534 | 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) | 0 | 10 399 | 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) | 249 266 | 204 206 | 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 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 | 30.06.2019 | 31.12.2018 |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------|
| Share capital | 522 638 | 522 638 |
| Supplementary capital | 3 003 290 | 3 003 291 |
| Revaluation reserve | 100 018 | 84 372 |
| Other reserves | 2 871 374 | 2 883 839 |
| Retained earnings | 278 978 | 562 612 |
| Total Equity | 6 776 298 | 7 056 752 |
| Goodwill & other intangible assets | -1 411 430 | - 1 418 794 |
| Adjustments to Equity Tier I in respect of prudential filters - value adjustments in respect of the requirements for the prudence | -28 496 | - 19 235 |
| Other adjustments in transition Common Equity Tier I | -139 553 | - 9 589 |
| Net profit for the Bank's shareholders | -191 732 | - 639 031 |
| Total Deductions | -1 771 211 | - 2 086 649 |
| Total Own funds | 5 005 087 | 4 970 103 |

II. Information regarding capital requirements

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

Below we present data concerning Capital Adequacy of the Group, amount of risk weighted assets and own funds' capital requirements by the respective risks and exposure amounts calculated in accordance with Standardised Method, broken by exposure classes and risk weights.

Table 3. EU OV1 – Overview of RWAs

| | | | RWAs | | Minimum capital requirements |
|--------------------------------------------------|-----------|------------------------------------------------------------------------------|-------------------|-------------------|------------------------------|
| | | | 30.06.2019 | 31.12.2018 | 30.06.2019 |
| | 1 | Credit risk (excluding CCR) | 23 536 033 | 22 766 188 | 1 882 883 |
| Article 438 (c) (d) | 2 | Of which the standardised approach | 23 536 033 | 22 766 188 | 1 882 883 |
| Article 438 (c) (d) | 3 | Of which the foundation IRB (FIRB) approach | - | - | - |
| Article 438 (c) (d) | 4 | Of which the advanced IRB (AIRB) approach | - | - | - |
| Article 438 (d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | - | - | - |
| Article 107 Article 438 (c) (d) | 6 | CCR | 1 156 130 | 991 888 | 92 490 |
| Article 438 (c) (d) | 7 | Of which mark to market | 821 196 | 634 313 | 65 696 |
| Article 438 (c) (d) | 8 | Of which original exposure | - | - | - |
| | 9 | Of which the standardised approach | - | - | - |
| | 10 | Of which internal model method (IMM) | - | - | - |
| Article 438 (c) (d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | 2 544 | 1 750 | 204 |
| Article 438 (c) (d) | 12 | Of which CVA | 332 391 | 355 825 | 26 591 |
| Article 438 (e) | 13 | Settlement risk | - | - | 0 |
| Article 449 (o) (i) | 14 | Securitisation exposures in the banking book (after the cap) | 575 878 | 905 475 | 46 070 |
| | 15 | Of which IRB approach | - | - | - |
| | 16 | Of which IRB supervisory formula approach (SFA) | - | - | - |
| | 17 | Of which internal assessment approach (IAA) | - | - | - |
| | 18 | Of which standardised approach | 575 878 | 905 475 | 46 070 |
| Article 438 (e) | 19 | Market risk | 1 390 515 | 1 192 387 | 111 241 |
| | 20 | Of which the standardised approach | 1 390 515 | 1 192 387 | 111 241 |
| | 21 | Of which IMA | - | - | - |
| Article 438 (e) | 22 | Large exposures | - | 155 742 | 0 |
| Article 438 (f) | 23 | Operational risk | 3 567 384 | 3 506 465 | 285 391 |
| | 24 | Of which basic indicator approach | - | - | - |
| | 25 | Of which standardised approach | 3 567 384 | 3 506 465 | 285 391 |
| | 26 | Of which advanced measurement approach | - | - | - |
| Article 437 (2), Article 48 and Article 60 | 27 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 620 821 | 536 513 | 49 666 |
| Article 500 | 28 | Floor adjustment | - | - | - |
| | 29 | Total | 30 225 940 | 29 518 145 | 2 418 075 |

Table 4. EU CR5 – Standardised approach – credit risk as of 30 June 2019

| Exposure classes | Risk weight | | | | | | | | | | Total | Of which unrated |
|---------------------------------------------------------------------------|-------------------|----------------|------------------|----------------|------------------|----------------|------------------|-------------------|----------------|----------------|-------------------|---------------------|
| | 0% | 2% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | | |
| Central governments or central banks | 16 772 936 | - | 2 044 613 | 370 421 | - | - | - | 0 | - | 249 266 | 19 437 237 | 260 438 |
| Regional governments or local authorities | - | - | - | 163 596 | - | - | - | - | - | - | 163 596 | 46 652 |
| Public sector entities | - | - | - | 3 | - | 14 025 | - | - | - | - | 14 028 | 14 028 |
| Multilateral development banks | 670 776 | - | - | - | - | - | - | - | - | - | 670 776 | - |
| International organisations | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | - | - | - | 412 989 | - | 101 136 | - | 2 652 | - | - | 516 777 | 139 493 |
| Corporates | 55 980 | 394 099 | - | 5 735 | - | 2 503 | - | 15 229 520 | - | - | 15 687 837 | 13 586 886 |
| Retail | - | - | - | - | - | - | 5 652 377 | - | - | - | 5 652 377 | 5 652 377 |
| Secured by mortgages on immovable property | - | - | - | - | 1 514 006 | - | - | 1 286 084 | 55 563 | - | 2 855 653 | 2 855 653 |
| Exposures in default | - | - | - | - | - | - | - | 239 054 | 119 998 | - | 359 052 | 359 052 |
| Items associated with particularly high risk | - | - | - | - | - | - | - | - | 59 459 | - | 59 459 | 22 423 |
| Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - |
| Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - |
| Collective investments undertakings | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity exposures | - | - | - | - | - | - | - | 1 203 | - | - | 1 203 | 1 203 |
| Other exposures | 1 776 395 | - | - | 7 647 | - | - | - | 687 441 | - | - | 2 471 483 | 2 471 483 |
| Total standardised approach | 19 276 087 | 394 099 | 2 044 613 | 960 391 | 1 514 006 | 117 663 | 5 652 377 | 17 445 954 | 235 020 | 249 266 | 47 889 477 | 25 409 688 |

* The table takes into account the values relating to derivatives classified into banking book with the offset value of exposure amounting to 11 459 tys. PLN.

Tabela 5. EU CR5 Metoda standardowa - Ryzyko kredytowe* as of 31 December 2018

| Exposure classes | Risk weight | | | | | | | | | | | Total | Of which unrated | |
|---------------------------------------------------------------------------|-------------------|----------------|------------------|----------------|------------------|----------------|------------------|-------------------|----------------|----------------|-----------------|----------|---------------------|-------------------|
| | 0% | 2% | 4% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Other issues | | | |
| Central governments or central banks | 18 754 724 | - | 2 131 453 | - | - | - | - | - | - | - | - | - | 20 886 177 | - |
| Regional governments or local authorities | - | - | - | 76 166 | - | - | - | - | - | - | - | - | 76 166 | 26 183 |
| Public sector entities | - | - | - | 3 | - | 16 051 | - | - | - | - | - | - | 16 054 | 16 054 |
| Multilateral development banks | 224 077 | - | - | - | - | - | - | - | - | - | - | - | 224 077 | - |
| International organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Institutions | - | - | - | 675 135 | - | 112 039 | - | 1 542 | - | - | - | - | 788 716 | 61 535 |
| Corporates | 40 331 | 105 721 | - | 5 905 | - | 2 501 | - | 15 057 998 | - | - | - | - | 15 212 455 | 13 033 913 |
| Retail | - | - | - | - | - | - | 5 669 510 | - | - | - | - | - | 5 669 510 | 5 669 510 |
| Secured by mortgages on immovable property | - | - | - | - | 1 409 537 | - | - | 1 306 749 | 58 550 | - | - | - | 2 774 836 | 2 774 836 |
| Exposures in default | - | - | - | - | - | - | - | 148 333 | 54 204 | - | - | - | 202 537 | 202 537 |
| Items associated with particularly high risk | - | - | - | - | - | - | - | - | 47 741 | - | - | - | 47 741 | 19 222 |
| Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Collective investments undertakings | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity exposures | - | - | - | - | - | - | - | 1 026 | - | 10 399 | - | - | 11 425 | 11 425 |
| Other exposures | 1 840 858 | - | - | 2 981 | - | - | - | 540 537 | - | 204 206 | - | - | 2 588 583 | 2 588 583 |
| Total standardised approach | 20 859 989 | 105 721 | 2 131 453 | 760 190 | 1 409 537 | 130 591 | 5 669 510 | 17 056 185 | 160 495 | 214 606 | - | - | 48 498 278 | 24 403 798 |

* The table takes into account the values relating to derivatives classified into banking book with the offset value of exposure amounting to PLN 14 193 thousand.

I. Leverage ratio

Information on the leverage ratio at 30 June 2019: summary reconciliation of accounting assets and leverage ratio exposures, the calculation of the leverage ratio and the split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) are presented in the following tables:

Table 6. Summary reconciliation of accounting assets and leverage ratio exposures

| | | 30.06.2019 | 31.12.2018 |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 1 | Total assets as per published financial statements | 51 477 163 | 49 304 713 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 | - |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation No. 575/2013 "CRR") | 0 | - |
| 4 | Adjustments for derivative financial instruments | 1 180 222 | 1 074 436 |
| 5 | Adjustments for securities financing transactions "SFTs" | 169 802 | 117 666 |
| 6 | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 4 550 187 | 4 279 009 |
| 6a | (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation No. 575/2013) | 0 | - |
| 6b | (Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation No. 575/2013) | 0 | - |
| 7 | Other adjustments | -28 496 | -19 235 |
| 8 | Total leverage ratio exposure | 57 348 878 | 54 756 590 |

Table 7. Leverage ratio common disclosure

| CRR leverage ratio exposures in 000'PLN | | 30.06.2019 | 31.12.2018 |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| On-balance sheet exposures (excluding derivatives and SFTs) | | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 49 542 615 | 47 500 009 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | -1 439 927 | -1 438 029 |
| 3 | Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) | 48 102 688 | 46 061 980 |
| Derivative exposures | | | |
| 4 | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 1 039 090 | 830 207 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 2 130 083 | 1 928 852 |
| 5a | Exposure determined under Original Exposure Method | 0 | - |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 | - |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | -221 029 | -177 735 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 | - |
| 9 | Adjusted effective Notional amount of written credit derivatives | 0 | - |
| 10 | (Adjusted effective Notional offsets and add-on deductions for written credit derivatives) | 0 | - |
| 11 | Total derivative exposures (sum of lines 4 to 10) | 2 948 143 | 2 581 324 |
| Securities financing transaction exposures | | | |
| 12 | Gross SFT assets (with No. recognition of netting), after adjusting for sales accounting transactions | 336 428 | 415 482 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - | - |
| 14 | Counterparty credit risk exposure for SFT assets | - | - |
| 14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation No. 575/2013 | - | - |
| 15 | Agent transaction exposures | - | - |
| 15a | (Exempted CCP leg of client-cleared SFT exposure) | - | - |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15a) | 336 428 | 415 482 |
| Other off-balance sheet exposures | | | |
| 17 | Off-balance sheet exposures at gross Notional amount | 17 659 923 | 16 770 845 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | -13 109 736 | -12 491 835 |
| 19 | Other off-balance sheet exposures (sum of lines 17 to 18) | 4 550 187 | 4 279 009 |

| Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet) | | | |
|------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| 19a | (Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation No. 575/2013 (on and off balance sheet)) | - | - |
| 19b | (Exposures exempted in accordance with Article 429 (14) of Regulation No. 575/2013 (on and off balance sheet)) | - | - |
| Capital and total exposures | | | |
| 20 | Tier 1 capital | 5 005 087 | 4 970 103 |
| 21 | Total leverage ratio exposures (sum of lines 3, 11, 16, 19, 19a and 19b) | 55 937 447 | 53 337 796 |
| Leverage ratio | | | |
| 22 | Leverage ratio | 8,9% | 9,3% |
| Choice on transitional arrangements and amount of derecognised fiduciary items | | | |
| 23 | Choice on transitional arrangements for the definition of the capital measure | | |
| 24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation No. 575/2013 | - | - |

Table 8. Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

| | CRR leverage ratio exposures in 000'PLN | 30.06.2019 | 31.12.2018 |
|----|--------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 49 542 615 | 47 500 009 |
| 2 | Trading book exposures | 4 230 027 | 954 399 |
| 3 | Banking book exposures, of which: | 45 312 589 | 46 545 610 |
| 4 | Covered bonds | 0 | - |
| 5 | Exposures treated as sovereigns | 19 437 003 | 20 885 941 |
| 6 | Exposures to regional governments, MDB, international organisations and PSE No.T treated as sovereigns | 714 660 | 261 923 |
| 7 | Institutions | 889 799 | 1 131 730 |
| 8 | Secured by mortgages of immovable properties | 2 758 237 | 2 665 615 |
| 9 | Retail exposures | 5 613 485 | 5 628 497 |
| 10 | Corporate | 12 287 439 | 11 979 743 |
| 11 | Exposures in default | 338 148 | 188 859 |
| 12 | Other exposures (e.g. equity, securitisations, and other Non-credit obligation assets) | 3 273 817 | 3 803 303 |