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 2012

The Report has been approved by the Bank Handlowy w Warszawie S.A. Supervisory Board's Resolution dated 24th May 2013.

INTRODUCTION

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

The objective of the document is presenting to the third parties, especially customers of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter referred to as: Group) and financial market participants, the Group's risk management strategy and processes, information on the capital structure, exposure to risk and capital adequacy, which enable thorough assessment of the Group's financial stability, in order to make economic decisions as well as keeping market discipline. This document complements information included in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2012 and refers to it wherever it is relevant.

Pursuant to the Resolution no. 385/2008 of the Polish Financial Supervision Authority of 17 December 2008 *on detailed principles related to and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure*, Bank publishes disclosures on capital adequacy on the basis of consolidated data as of 31 December 2012.

When the disclosures required by the Resolution no. 385/2008 of the Polish Financial Supervision Authority are published in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2012, this document refers to the number of explanatory note, which discloses required information.

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

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

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

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

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

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

RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Strategies and processes of credit risk management (including the counterparty risk and concentration risk), liquidity risk, market risk, operational risk and financial result risk, as well as the structure and organization of units managing the appropriate risks and solutions used by the Group on measurement and reporting of those risks are presented in details in the note 48 „Risk management" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2012.

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

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

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

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

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

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

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

DETAILED INFORMATION ON CAPITAL ADEQUACY

1. Information related to the use of prudential norms

1) name of the bank

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

2) brief description of entities that are:

a) fully consolidated

The following entities are fully consolidated:

- Dom Maklerski Banku Handlowego S.A. („DMBH"),
- Handlowy Leasing Sp. z o.o.,
- Handlowy Investments S.A.,
- PPH Spomasz Sp. z o.o. under liquidation.

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

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

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 2012 Handlowy Investments S.A. had the portfolio composed of the following shares: Handlowy Investment II S.a.r.l. and Pol-Mot Holding S.A.

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

b) proportionally consolidated

There are no proportionally consolidated entities.

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

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

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

- Handlowy Inwestycje Sp. z o.o.
- Handlowy Investments II S.a.r.l.

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

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

Finalization of the Bank Rozwoju Cukrownictwa S.A. w likwidacji liquidation process took place in 3Q 2012. The Extraordinary General Meeting of Bank Rozwoju Cukrownictwa S.A. in liquidation adopted a resolution on approval of the financial statement (liquidation statement) and on the distribution of assets remaining after the satisfaction or securing the creditors on 14 June 2012.
Decision on the Company's removal from the register was issued on 23 August 2012.

d) neither consolidated nor deducted

There are no entities that are neither consolidated nor deducted.

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

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

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

There are no such cases within the Group.

2. Information regarding own funds

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

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

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

Core funds comprise:
a) base funds, which in Bank Handlowy w Warszawie S.A. comprises paid in and registered share capital, supplementary capital and reserve capital,
b) additional items of core funds, composed of:
    - general risk fund for identified risk of banking activity,
    - retained earnings and
c) items reducing core funds, which are:
    - intangible assets measured at carrying amount,
    - retained loss, current period net loss and
    - other deductions of core funds determined by KNF.

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

b) deductions of supplementary funds determined by KNF.

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

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

Own funds	**in PLN '000**
Core funds	**4 751 685**
- base funds	5 670 632
share capital	522 638
supplementary capital	3 011 381
reserve capital together with retained earnings	2 136 613
- general risk fund	507 500
- deductions of core funds	(1 426 447)
intangible assets	(1 379 931)
unrealized loss on debt instruments classified as available for sale	(9 199)
retained loss, current period net loss	(29 762)
capital exposures in financial institutions	(7 555)
Supplementary funds	**258 806**
- other items	266 361
unrealized profits on equity instruments classified as available for sale	851
unrealized profits on debt instruments classified as available for sale	262 843
positive foreign exchange differences	2 667
- deductions of supplementary funds	(7 555)
capital exposures in financial institutions	(7 555)
Total core funds	**5 010 491**

Information about the components of equity are presented in details in supplementary note 36 „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 2012.

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

The Group does not use short-term capital.

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

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

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

The Group does not use short-term capital.

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

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

The Group identifies and manages different types of risks in its activity. Internal capital is the amount of capital estimated by the Group required to cover all identified material measurable types of risks, which affect the Group's business. Head of Risk Management Sector and Head of Finance Division provided recommendation on significant risks as a part of capital planning, considering among others, the management opinions, internal control system results and other management information. List of significant risks is subject to approval by the Bank's Management Board.

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

The result of the ICAAP is to determine the capital plan which is consistent with approved by the Board and the Supervisory Board financial plan and appetite for risk. It specifies the Group's needs and capital goals. Internal Capital is estimated for significant. The Group allocates internal capital to business segments. Risk and Capital Management Committee is responsible for the annual capital and ongoing monitoring of capital usage in the respect to set limits.
Overall acceptable risk level is defined primarily by a target regulatory capital adequacy ratio. Risk appetite is approved each year in the form of resolution of the Bank's Supervisory Board on the recommendation of Management Board. Management Board on the basis of risk appetite decides on the level of aggregated limits on particular risks treated as significant.

Below we present the specific risks identified as significant in the Group in 2012:

- credit risk and
- counterparty credit risk (covers risk of default or delinquency),
- operational risk (covers technological and technical risk, outsourcing risk, misappropriation risk, money laundering risk, information security risk, external events risk (Continuity of Business), tax and accounting risk, product risk, compliance risk, legal risk, operational risk related to using of models and staffing risk),
- market risk in the trading book,

- interest rate risk in the banking book,
- financial result risk,
- liquidity risk.

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

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

The Group adopted proper methods for capital allocation to the business units.

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

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

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

Risk and Capital Committee of the Supervisory Board receives periodically information report on assessment and utilizations of internal and regulatory capital.

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

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

Exposure classes	Capital requirements in PLN '000
Governments and central banks	3 727
Regional governments and local authorities	1 662
Administrative bodies and non-commercial undertakings	1 730
Multilateral development banks	0
International organizations	0
Institutions- banks	138 615
Corporations	1 092 183
Retail	280 060
Secured on real estate property	58 647
Past due items	33 557
Items belonging to regulatory high-risk categories	1 186
Covered bonds	0
Short-term claims on banks and corporations	0
Collective investment undertakings	0
Other	96 338
Total	**1 707 705**

*regarding credit risk & counterparty credit risk

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

The Group does not use the internal ratings approach.

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

Capital requirement regarding	Requirement value in PLN '000
credit risk	1 612 058
counterparty credit risk	95 648
settlement risk - delivery	19 347
equity securities prices risk	0
debt instruments prices specific risk	3 094
currency risk	12 580
operational risk	366 893
general risk of interest rates	62 520
exceeding exposure concentration limit and large exposures limit	48 024
exceeding capital concentration level	0
other types of risks	0
Capital requirements - total	**2 220 164**

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

On 31st December 2012 the capital requirement regarding operational risk using the standardised approach amounts to 366.893.023 PLN.

4. Information regarding exposure to credit risk and dilution risk

1) the definitions of impaired exposures

The impairment occurs if there is an objective evidence of impairment as a result of the defined loss events and that loss event (or events) has an impact on the estimated future cash flows from the financial asset that can be reliably estimated. Expected losses resulted from future events are not recognized regardless of the probability of future events occurrence and expected losses resulted from events that occurred before the initial recognition of the exposure in the Bank books.

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

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

Clients for which impairment criteria were fulfilled

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

- for individually significant receivables: based on the present value of projected cash flows expected over the life of the product (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 parameters estimated on the basis of reliable, historical data including losses incurred on assets with similar risk profiles.

Clients for which impairment criteria were not fulfilled

The IBNR provision is calculated based on loss norm that is a combination of probability of default and loss given default.

Exposures that are grouped to these parameters are homogeneous due to the risk assessment and characteristics.

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

Exposure classes	Net exposures after adjustments and provisions* in PLN '000	Average exposure after adjustments and provisions ** in PLN '000
Governments and central banks	17 239 847	14 054 008
Regional governments and local authorities	138 461	284 509
Administrative bodies and non-commercial undertakings	72 870	37 592
Multilateral development banks	32	124
International organizations	0	0
Institutions- banks	5 772 619	5 770 473
Corporations	19 310 627	18 034 467
Retail	9 671 524	9 651 404
Secured on real estate property	1 115 074	1 041 802
Past due items	359 926	378 917
Items belonging to regulatory high-risk categories	18 833	22 791
Covered bonds	0	0
Short-term claims on banks and corporations	0	0
Collective investment undertakings	0	0
Other	7 380 554	6 699 759
Total	**61 080 367**	**55 975 846**

** Out of which PLN* 14.242.483 *due to off-balance sweet commitments.*
*** Arithmetical average calculated on quarterly balances in 2012.*

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

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

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

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

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

Counterparty type	Exposure class	Net value in PLN '000
Banks	Institutions - banks	5 772 619
	Multilateral development banks	32
Retail clients	Retail	9 221 525
	Secured on real estate property	779 655
	Past due items	189 770
Other assets	Other	7 380 554
Corporations	Corporations	19 310 627
	Past due items	170 156
	Retail	449 999
	Items belonging to regulatory high-risk categories	18 833
	Secured on real estate property	335 419
Budget sector	Governments and central banks	17 239 847
	Regional governments and local authorities	138 461
	Administrative bodies and non-commercial undertakings	72 870
Total		**61 080 367**

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

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

Maturity	Exposure class	Value of credit exposures in PLN '000
up to 1 month	Retail	1 813 507
	Institutions - banks	228 097
	Administrative bodies and non-commercial undertakings	11 663
	Corporations	4 940 970
	Past due items	660 326
	Governments and central banks	883 007
	Secured on real estate property	169 918
Total for up to 1 month		**8 707 488**
1-3 months	Retail	36 692
	Institutions - banks	4 877
	Corporations	677 959
	Past due items	12 584
	Secured on real estate property	1 286
Total for 1-3 months		**733 398**
3-6 months	Retail	57 609
	Institutions - banks	2 092
	Administrative bodies and non-commercial undertakings	1 136
	Corporations	241 929
	Past due items	25 406
	Secured on real estate property	10 145
Total for 3-6 months		**338 317**
6-12 months	Retail	128 873
	Corporations	161 535
	Past due items	58 433
	Regional governments and local authorities	7 000
	Secured on real estate property	601
Total for 6-12 months		**356 442**

Maturity	Exposure class	Value of credit exposures in PLN '000
above 12 months	Retail	2 630 942
	Institutions - banks	338 680
	Corporations	4 033 976
	Past due items	604 442
	Regional governments and local authorities	81 966
	Secured on real estate property	885 578
Total for above 12 months		**8 575 584**
Total		**18 711 229**

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

Gross value of impaired exposures by counterparty type as at 31 December 2012

Counterparty type	Gross value of exposures* in PLN '000
Corporations	659 311
Retail clients	748 821
Total	**1 408 132**

**Balance sheet exposures with interest*

Provisions as at 31 December 2012 and 31 December 2011

Counterparty type	Provisions* in PLN '000	
	2012-12-31	2011-12-31
Corporations	470 825	484 677
Retail clients	660 031	750 990
Banks	126	63
Budget sector	70	122
Total	**1 131 052**	**1 235 852**

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

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

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

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

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

The reconciliation of adjustments and provisions regarding exposures impaired is provided in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2012, in explanatory notes no. 18 "Amounts due from banks" & note no. 23 "Amounts due from customers", in parts on impairment of loans and advances.

5. Information regarding exposure to counterparty credit risk

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

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

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

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

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

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

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

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

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.

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

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

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

	in PLN '000
Gross positive fair value	4 306 428
Netting benefits (change in value of balance sheet equivalent)	5 319 916
Net value of credit exposure (value of balance sheet equivalent)	2 213 384
Current credit exposure*	6 963 041

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

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

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

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

The Group does not use credit derivative hedges.

7) credit derivative transactions (notional), segregated between use for the bank's own credit portfolio, including unfunded credit protection, as well as in its intermediation

activities and speculative transactions, broken down further by protection bought and sold within each product group

The Group does not use credit derivative hedges.

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

The Group does not estimate α.

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

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

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

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

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

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

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

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

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

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

Credit quality step	Exposure values before credit risk mitigation in PLN '000	Exposure values after credit risk mitigation in PLN '000
1	5 833	5 833
2	16 224 709	14 799 443
3	1 711 798	1 711 382
4	518 725	518 725
5	11 525	11 525
6	0	0
no rating	42 607 778	37 889 753
Total	**61 080 367**	**54 936 660**

Deductions from own funds (in PLN '000)

Deductions from core funds		1 379 931
	- intangible assets measured at carrying amount	**1 379 931**
	including goodwill	**1 245 976**
Deductions from core and supplemental funds		15 110
	- capital exposure in financial institutions	**15 110**
	including:	
	Capital exposure of the Bank in financial institutions, lending institutions, domestic banks, foreign banks disclosed in the form of shares or other capital exposure, in case when such exposure exceeds 10% of own funds of that entity.	**13 522**
	Handlowy Inwestycje Sp. z o.o.	6 574
	Handlowy Investments II S.a.r.l.	6 948
	Capital exposure of the Bank in financial institutions, lending institutions, domestic banks, foreign banks disclosed in the form of other capital exposure in items classified as own funds or capital of those entities, including capital contributions in limited liability companies, in carrying amount (balance sheet amount), in case when such an exposure does not exceed 10% of own funds of that entity.	**1 588**
	Handlowy Inwestycje Sp. z o.o. - Contributions to subsidiaries	1 588
Total		**1 395 041**

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

The Group does not use internal ratings-based approach.

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

The amount of capital requirements by types of market risk:

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

is presented in p. 3.4 of this report.

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

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

9. Information regarding operational risk

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

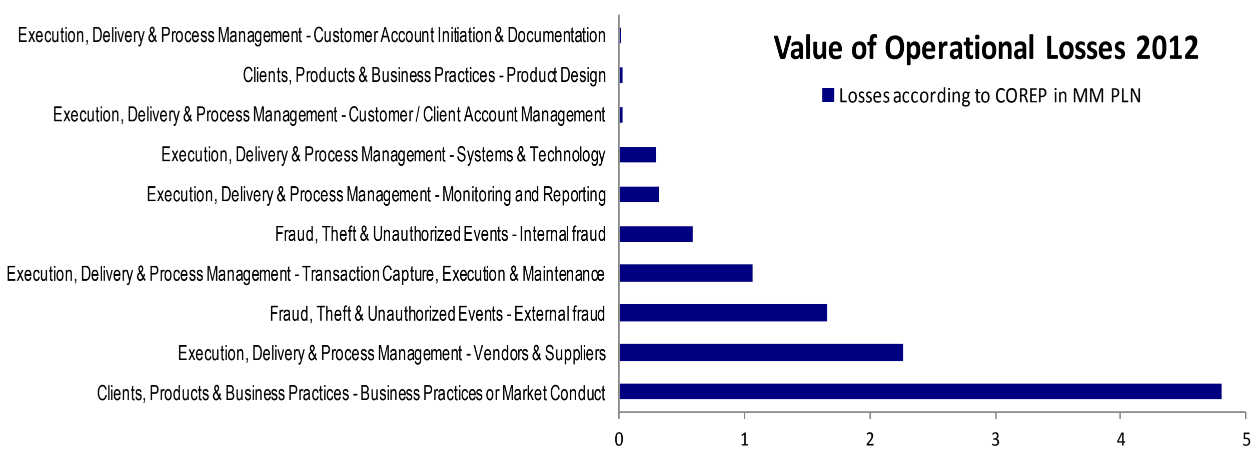
Group uses the standardised approach to calculate the capital requirement for the coverage of operational risk.

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

Group does not apply the advanced measurement approach.

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

Total operational risk losses recorded in the year 2012, in accordance with the COREP reporting methodology, split by operational risk event categories are presented on the following graph.



There were no important operational risk events that occurred in 2012. The total amount of losses is impacted by events, which occurred in the past years. Operational risk events exceeding set tolerance thresholds are analyzed in view of root causes and corrective actions. Corrective actions are monitored by management to avoid repetitive losses. The following actions were undertaken in 2012 to mitigate the operational risk: enhancements to control processes, elimination of procedural gaps, systems' enhancements, revision of documentation standards, staff training. Members of the Management Board approval is required for all losses exceeding equivalent of $10M.

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

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

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

Detailed information on how the Group's equity investment portfolio is broken down based on purchase reasons are described in chapter V point No 9 „Equity investments" of the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2012.

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 2012.

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

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 38 „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 2012.

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

The value of equity exposures, broken down into listed equity exposures and portfolios of securities not admitted to trading in the regulated equity market is provided in explanatory note 21 „Equity investments valued at the equity method" and note 22 „Other equity investments" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2012.

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

The value of liquidations of equity investments not included in Bank's trading portfolio is provided in explanatory note 21 "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 2012.

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

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

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

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

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

The information regarding the interest rate risk of the Bank's portfolio are disclosed in explanatory note 48 "Risk Management" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2012.

The interest rate risk is measured on a daily basis.

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

There are no securitization exposures within the Group.

13. Information regarding credit risk mitigation techniques

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

For the purpose of calculating the balance sheet equivalent of derivative transactions within capital requirements calculation Group recognizes contractual compensation ("close-out netting") with respect to off-balance sheet derivative transactions provided by Bank under relevant frame agreement, when fulfills all legal and formal terms referred to in par. 75 of Annex 16 to the KNF Resolution on capital adequacy, which must be met in order to consider the contractual compensation as risk mitigant. Close-out netting is in use for a significant number of both financial and non-financial customers, whereas in 2011 it was recognized only in case of transactions with one customer (Citibank N.A. London Branch).

Group has introduced process to monitor regulations in regards to compensation in order to ensure proper monitoring of changes in current regulations in regards to requirements set in the above mentioned annex.

2) the policies and processes for collateral valuation and management

Information regarding the policies for collateral management and main types of accepted collateral are presented in supplementary note 48 „Risk Management" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2012.

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

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

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

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

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

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

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

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

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

Exposure type	Exposure class	Security collateral	Unfunded credit protection - guarantees	Cash collateral	Total collateral amount
On-balance and off-balance sheet exposures	Retail	0	0	329	329
	Institutions- banks	0	1 425 266	0	1 425 266
	Administrative bodies and non-commercial undertakings	0	0	60	60
	Corporations	4 209	0	30 396	34 605
	Governments and central banks	0	0	416	416
Repo-style transactions*	Institutions- banks	747 294	0	0	747 294
	Corporations	326 706	0	0	326 706
	Governments and central banks	0	0	3 609 032	3 609 032
Total		**1 078 209**	**1 425 266**	**3 640 232**	**6 143 707**

* repo and reverse-repo transactions

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

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

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

1) information concerning the process of designing variable remuneration policy, including, in case of bank mentioned in § 6 para. 4 or 5 of the abovementioned Resolution, information regarding the composition and mandate of a remuneration committee, the external consultant, whose services have been used for the determination of this policy (if applicable), and stakeholders involved in the decision-making process of determining this policy with the indication of their roles;

2) the most relevant information regarding design characteristics of the remuneration system, including compensations related to performance according to § 29 para. 1 of the abovementioned Resolution, criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;

3) information on the performance criteria on which the entitlement to components of remuneration, mentioned in § 29 para. 7 of the abovementioned Resolution, or variable components of remuneration is based;

4) the main parameters and rationale for the remuneration policy of the Bank's executives, including information on link between pay and performance in case of performance-based compensations;

5) aggregate quantitative information on remuneration broken down into business lines used for the Bank's management with additional information on members of the Bank's Management Board;

6) aggregate quantitative information on remuneration broken down into (with additional information on members of the Bank's Management Board):

a) members of the Bank's Management Board, direct subordinates of the members of the Bank's Management Board irrespective of basis of employment contract, branch managers and deputy managers and chief accountant,

b) other management staff, including information on:

*** the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;**

*** the amounts and forms of variable remuneration, split into cash and instruments mentioned in § 29 para. 7 of the abovementioned Resolution;**

*** the amounts of outstanding deferred remuneration, split into vested and unvested portions;**

* **the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments;**

* **new sign-on and severance payments made during the financial year, the number of beneficiaries of such payments and highest such award to a single person**.

The previous Remuneration Policy in the Group of Bank Handlowy w Warszawie S.A. included all its employees regardless of their impact on the Group's risk profile. The awarding of variable compensation was based on the short-term assessment of the execution of individual quantitative or qualitative goals. In most cases, variable compensation was paid on an ongoing basis. The only deferrals applied to annual bonuses of particularly large amounts, in case of which a deferred portion was allocated over several years in the form of Citigroup shares, and the right to receive that part of the bonus did not depend on long-term results of the Bank, but only on the continuity of the employment in the Bank. In 2011 the Group started work on the solution supporting sound and effective risk management in order to discourage excessive risk taking, as well as support business strategy and reduce conflicts of interest by making the variable compensation components of persons having material impact on the risk profile of the Group dependent on its long-term financial results.
These actions, continued in 2012, were compatible with Resolution on the risk management adopted by the Polish Financial Supervision Authority and with the Regulation of Ministry of Finance dated December 2-nd, 2011 on the rules of establishing by the brokerage houses the policy regarding variable remuneration components of management staff. Their final effects are "The variable remuneration components policy for persons holding managerial positions in Bank Handlowy w Warszawie S.A." and "The variable remuneration components policy for persons holding managerial positions in Dom Maklerski Banku Handlowego S.A." (hereinafter referred to as "the Policy") adopted respectively September 26-th, 2012 and March 29-th, 2012.

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.

The Remuneration Committee is composed of:

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

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

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

The philosophy of awarding the persons under the Policy, adopted by the Group, implies the wage differentiation of particular employees based on the financial and non-financial criteria, such as attitude to take risk and assurance of compliance to reflect their current and future contribution and to supplement mechanisms of efficient risk control by limiting the motivation for taking unreasonable risk impacting the Bank 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 specific organizational unit, whereby the persons responsible for control functions are not assessed for the financial results. The assessment of the Bank's results 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 the data includes the span of time from the establishing working relationship. The variable remuneration for 2012, awarded January 21-st, 2013, was divided into undeferred and deferred portions. The deferred portion was divided into three tranches, paid in years 2014, 2015 and 2016. 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 2012 in the explanatory note 46 "Employee benefits".

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

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

- less than PLN 100 thousand – no deferrals
- between PLN 100 thousand and equivalent EUR 500 thousand – 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 – 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. This condition is fulfilled by the phantom shares accepted by the Group, whose value will fluctuate depending on the market value of the Bank's shares. The remaining part of the variable remuneration is cash award, whereby the interests for the period from awarding to paying out the given part of remuneration will be accrued to the deferred bonus tranche.

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

- the Authorized Persons have received the variable remuneration based on significantly incorrect financial statements of the Bank; or
- the Authorized Persons have been knowingly taking part in disseminating the significantly incorrect information on the financial statements of the Bank; 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 significant mistake in risk management.

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

If the Group 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 Group in the given Year Concerning the Results, divided by (ii) the absolute value of the highest profit before tax made by the Group 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 Group 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 Group. 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 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 Group 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.

Aggregate quantitative information on the wages of management staff under the Policy of the variable remuneration components for 2012 (PLN, '000)

<table>
<tr><th>Category</th><th>Segment</th><th>Number of employees</th><th>Fixed remuneration paid in 2012</th><th>Undeferred cash bonus**</th></tr>
<tr><td colspan="2">Management Board *</td><td>6</td><td>7 727</td><td>3 219</td></tr>
<tr><td rowspan="3">Other Authorized Persons</td><td>Consumer Bank Segment</td><td>2</td><td>991</td><td>150</td></tr>
<tr><td>Corporate Bank Segment</td><td>8</td><td>5 570</td><td>3 690</td></tr>
<tr><td>Management and Support Segment and Risk Management Segment</td><td>11</td><td>6 659</td><td>688</td></tr>
<tr><td colspan="2">Total Bank</td><td>27</td><td>20 947</td><td>7 747</td></tr>
<tr><td colspan="2">Total Group</td><td>32</td><td>23 870</td><td>8 058</td></tr>
</table>

The Policy of the variable remuneration components of management staff within the Group includes two subjects: the Bank and DMBH.
* includes the members of the Management Board under, as at the end of 2012, the Policy of the variable remuneration components of management staff,
** unpaid in 2012.

The table above does not include the wages and benefits paid in 2012 which were not under the Policy of the variable remuneration components of management staff and which were presented in the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2012.

Within the scope under the Policy of the variable remuneration of management staff, in the column "Undeferred cash bonus" of the table above there is presented the undeferred part, awarded January 21-st, 2013. The remaining, deferred part – consisting of cash bonus and bonus in the form of the Bank's Phantom Shares – will be paid in three tranches in years 2014-2016. The detailed numerical disclosure in this area is planned to be presented in the Report "Information on capital adequacy of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2013".

There were no reductions of wages – awarded within the Policy of the variable remuneration of management Staff – within the correction connected with the results. The wages awarded within this Policy did not include persons which had taken up and / or finished the employment.

Signatures of all Management Board Members

Date	Name	Position / function	
13.05.2013	Sławomir S. Sikora	President of the Management Board	Signed on Polish original
13.05.2013	Brendan Carney	Vice-President of the Management Board	Signed on Polish original
13.05.2013	Robert Daniel Massey JR	Vice-President of the Management Board	Signed on Polish original
13.05.2013	Misbah Ur-Rahman-Shah	Vice-President of the Management Board	Signed on Polish original
13.05.2013	Witold Zieliński	Vice-President of the Management Board	Signed on Polish original
13.05.2013	Iwona Dudzińska	Member of the Management Board	Signed on Polish original