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 2015

INTRODUCTION

This document has been laid down to execute The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy[1], to meet the disclosure requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as well as of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

The objective of the document is presenting to the third parties, especially customers of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter referred to as: Group) and financial market participants, the Group's risk management strategy and processes, information on the capital structure, exposure to risk and capital adequacy, which enable thorough assessment of the Group's financial stability. This document complements information included in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2015 and .

Pursuant to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, Bank publishes disclosures on capital adequacy on the basis of consolidated data as of 31 December 2015. the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2015.

When the disclosures required by the Regulation (EU) No 575/2013 of the European Parliament and of the Council are published in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2015, this document refers to the number of explanatory note, which discloses required information.

The terms used in the document shall mean the following:

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

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

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

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

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

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

Commission Implementing Regulation (EU) No. 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

I. Risk management objectives and policies

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

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

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

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

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

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

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

Strategies and processes of risk management, as well as the structure and organization of units managing the appropriate risks and solutions used by the Group on measurement and reporting of those risks are presented in details in the note 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 2015.

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

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

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

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

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

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

Within the risk profile assessment in 2015 the following risks were identified as significant:
- Credit risk – risk of potential losses arising from a client event of default or insolvency taking into account risk mitigation techniques applied to a product or individual credit.
- Counterparty Risk - the risk of potential losses arising from changes in market prices that occur when the client is unable to meet its contractual obligations. This risk is part of credit risk generated on a such activities as derivative transactions.
- Market Risk - risk of loss resulting from potential fluctuations in the market value of the exposure as a result of the changes in underlying market risk factors. The key factors are: market prices like interest rates, FX rates, securities' prices, commodities' prices and their volatilities.
- Interest rate risk in banking book – risk of potential negative impact of the changes in market risk factors on the Bank's interest income.
- Liquidity Risk - risk of a Bank inability to meet its obligations in due time and without incurring financial losses, which occurs due to cashflow mismatches (cash flow gap), limited asset marketability or systematic market changes.

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

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

Additionally the Group manages inter alia the following risks:

- Models' risk – risk of implementation of improperly designed (defined) models, tariffs and parameters, improper models' application or lack of indispensable models' update. While assessing the models' risk the following elements are considered: quantitative data (risk of utilization for the models of incorrect, unreliable or incomplete data), prognosis (risk resulting from simplifications or incorrect assumptions applied while building the model or setting of parameters or tariffs), assessment (risk of utilization of inadequate techniques and methods, including statistical, while defining the model) and administering (risk of inadequate models' application and operating due to its inadequate monitoring, validation and update).
- Compliance risk – risk of legal or regulatory sanctions, financial losses or reputational damage (reliability for counterparties), which the Group may be exposed at due to obeying the law, regulatory recommendations, internal Group's regulations and conduct standards accepted by the Group. Compliance risk may lead to income deterioration or capital utilization due to potential risk of additional costs associated with applied penalties, suffered damage or cancelled contracts.
- Legal risk - risk of losses occurring due to instability of legal regulations, changes of law and regulations, improper structure of legal relationships, quality of legal documentation, unfavourable conclusions of courts or other bodies in disputed cases, conducted with other entities.
- Outsourcing risk - operational risk of negative impact of conducting some Group's business or operational activities through external parties on continuation, integrity and quality of entity's activity.
- Money Laundering risk - risk of losses due to involvement in money laundering conducted by customers, intermediaries or employees.
- Technological risk - risk of losses resulting from disruption of entity's activity due to technology infrastructure and telecommunications systems failure.
- Information Security risk - risk of losses resulting from disruption of entity's activity or financial losses due to insufficient security of its resources and information.

The Group's risk profile, including quantitative indicators, current trends, and the utilization of capital limits, is monitored as a part of the regular, quarterly information provided to the Risk and Capital Management Committee of the Bank's Management Board and to the Risk and

Capital Committee of the Supervisory Board.. Four meetings were held in 2015 in order to analyze abovementioned factors.

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

It is the responsibility of the Bank's Management Board to effectively manage compliance risk, develop a compliance policy, implementation and ensure that it is followed, and take corrective or disciplinary action in the event of any irregularities in applying the Bank's compliance policy.
Compliance, the Group's unit, which supports the Bank's Management Board, Supervisory Board and business units, is responsible for the identification, assessment, monitoring, testing, reporting and consulting, and ensuring compliance with laws, internal regulations of the Bank, and its conduct and good practice standards.

Compliance reviews and assesses the compliance risk management process on an annual basis as part of the Annual Compliance Plan, and submits relevant information to the Bank's Management and Supervisory Boards in the form of annual reports "Statement on the implementation of the functions of monitoring compliance and compliance risk management at Bank Handlowy w Warszawie S.A., taking into account the tasks to ensure the safety.

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

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

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

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

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

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

The Bank's Management Board is composed of five to nine members, including: the President of the Management Board of the Bank, Vice Presidents of the Management Board of the Bank,

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

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

Number of directorships held by members of the management body understood as members of the Management Board: 6.

II. Information related to the use of prudential norms

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

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

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

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

The Capital Group of Bank Handlowy w Warszawie S.A. provides leasing portfolio formed

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

Handlowy Investments S.A. seated in Luxembourg, belongs to special purpose investment entities, through which the Bank and the Capital Group conduct capital transactions. The entity is a wholly-owned subsidiary of the Bank and its activities are financed with refundable additional capital contributions net profits earned. Due to intention to reduce the investment activities, Handlowy - Investments S.A. and similar holdings will be gradually sold or liquidated. As at 31 December 2015 Handlowy Investments S.A. had the portfolio composed of the following shares: Pol-Mot Holding S.A.

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

There are no proportionally consolidated entities.

Handlowy Inwestycje Sp. z o.o. is the entity accounted for under the equity. It seated in Warsaw is special purpose investment entity, through which the Bank conducts capital transactions. Handlowy Inwestycje Sp. z o.o. has in its portfolio shares of Handlowy Leasing Sp. z o.o. Activities of the entity is financed by refundable capital contributions as well as retained earnings. Handlowy Inwestycje Sp. z o.o. belongs to the portfolio of strategic entities.

There are no entities that are neither consolidated nor deducted.

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

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

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

III. Information regarding own funds

Information about the components of equity are presented in details in supplementary note 35 „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 2015.

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

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

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

ID	Item	Amount in PLN'000
1	**OWN FUNDS**	**4 781 008**
1.1	TIER 1 CAPITAL	4 781 008
1.1.1	COMMON EQUITY TIER 1 CAPITAL	4 781 008
1.1.1.1	Capital instruments eligible as CET1 Capital	3 008 172
1.1.1.1.1	Paid up capital instruments	522 638
1.1.1.1.3	Share premium	2 485 534
1.1.1.2	Retained earnings	-5 180
1.1.1.2.1	Previous years retained earnings	-5 180
1.1.1.2.2.1	Profit or loss attributable to owners of the parent	625 777
1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-625 777
1.1.1.3	Accumulated other comprehensive income	-164 707
1.1.1.4	Other reserves	2 865 595
1.1.1.5	Funds for general banking risk	521 000
1.1.1.9	Adjustments to CET1 due to prudential filters	-28 594
1.1.1.9.5	(-) Value adjustments due to the requirements for prudent valuation	-28 594
1.1.1.10	(-) Goodwill	-1 245 976
1.1.1.10.1	(-) Goodwill accounted for as intangible asset	-1 245 976
1.1.1.11	(-) Other intangible assets	-125 902
1.1.1.11.1	(-) Other intangible assets gross amount	-125 902
1.1.1.26	Other transitional adjustments to CET1 Capital	-43 400
1.1.2	ADDITIONAL TIER 1 CAPITAL	0
1.2	TIER 2 CAPITAL	0

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

Reconciliation of the Group's own funds for the Group's equity	Amount in PLN'000
Share capital	522 638
Supplementary capital	3 001 526
Revaluation reserve	-163 614
Other reserves	2 869 510
Retained earnings	620 597
Total Equity	**6 850 657**
Goodwill & other intangible assets	-1 371 878
Adjustments to Equity Tier I in respect of prudential filters - value adjustments in respect of the requirements for the prudence	-28 594
Other adjustments in transition Common Equity Tier I	-43 400
Net profit for the Bank’s shareholders	-625 777
Total Deductions	**-2 069 649**
Total Own funds	**4 781 008**

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

	Own Funds	(A) Amount at disclosure date	(C) Amounts subject to pre-Regulation(EU) No. 575/2013 treatment or prescribed residual amount of Regulation (EU) No. 575 / 201352 direct	(B) Regulation No. 575/2013 Article Reference
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES				
1	Capital instruments and the related share premium accounts	3 008 172	-	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Series A	*260 000*	-	EBA list 26 (3)
	of which: Series B	*112 000*	-	EBA list 26 (3)
	of which: Series C	*150 638*	-	EBA list 26 (3)
2	Retained earnings	-5 180	-	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	3 221 888	-	26 (1)
3a	Funds for general banking risk	521 000	-	26 (1) (f)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**6 224 880**	-	
7	Additional value adjustments (negative amount)	-28 594	-	36 (1) (b), 37, 472 (4)
8	Intangible assets (net of related tax liability) (negative amount)	-1 371 878	-	26 (1), 27, 28, 29, EBA list 26 (3)
26	Regulatory adjustments relating to Common equity Tier 1 capital in terms of the amounts recognized before the adoption of the CRR.	**-43 400**	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468	-43 400	-	
	of which: 60% filter for unrealised profits on available for sale debt securities	*-12 148*	-	468
	of which: 60% filter for unrealised profits on available for sale equity securities	*-31 252*	-	468
28	**Total regulatory adjustment to Common Equity Tier 1 (CET1)**	**-1 443 872**	-	
29	**Common Equity Tier 1 (CET1) capital**	**4 781 008**	-	
ADJUSTMENTS ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS				
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	-	
ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS				

43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-	
44	**Additional Tier 1 (AT1) capital**	-	-	
45	**Tier 1 capital (T1= CET1+AT1)**	**4 781 008**	-	
ADJUSTMENTSTIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS				
51	**Tier 2 (T2) capital before regulatory adjustments**	-	-	
TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS				
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-	
58	**Tier 2 (T2) capital**	-	-	
59	**Total capital (TC=T1+T2**	**4 781 008**	-	
60	**Total risk weighted assets**	**27 986 962**	-	
CAPITAL RATIOS AND BUFFERS				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	**17,1%**	-	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	**17,1%**	-	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	**17,1%**	-	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)	**64 642**	-	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**7 768**	-	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)	**161 586**	-	36 (1) (c), 38, 48, 470, 472 (5)

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

Table 4: The table below presents capital instruments main characteristics

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

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

IV. Capital Adequacy

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

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

Table 5: Regulatory capital requirement in relations to Own Funds

Capital Requirements	**Requirement value in PLN '000**
credit risk	1 685 320
counterparty credit risk	78 682
credit valuation adjustment risk	34 059
dilution risk	0
free deliveries	0
settlement / delivery risk in trading book	0
traded debt instruments risk:	0
debt instruments prices specific risk	3 609
general risk of interest rates	67 895
equity securities price risk	2 245
commodities risk	0
foreign-exchange risk	12 795
operational risk	337 933
large exposure in trading book risk	16 418
Total Capital Requirement	**2 238 956**
Own Funds / Tier I Capital / Common Equity Tier I	**4 781 008**
Common Equity Tier 1 capital ratio	**17,1%**
Tier 1 capital ratio	**17,1%**
Total capital ratio	**17,1%**

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

Exposure classes	**Capital requirements in PLN ‘000**
exposures to central governments or central banks	17 568
exposures to regional governments or local authorities	3 096
exposures to public sector entities	2 177
exposures to multilateral development banks	0
exposures to international organisations	0
exposures to institutions	63 231
exposures to corporates	1 117 642
retail exposures	295 811
exposures secured by mortgages on immovable property	142 926
exposures in default	14 934
exposures associated with particularly high risk	249
exposures in the form of covered bonds	0
items representing securitisation positions	16 054
exposures to institutions and corporates with a short-term credit assessment	0
exposures in the form of units or shares in collective investment undertakings ('CIUs')	0
equity exposures	6 807
other items	83 507
Total	**1 764 002**

1. Capital requirements

1.1. Information regarding exposure to credit risk and dilution risk

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

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

Table 7: The total amount of exposures according to balance-sheet valuation (after accounting offsets) and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes

Exposure classes	Net exposures after adjustments and provisions* in PLN '000	Average exposure after adjustments and provisions** in PLN '000
exposures to central governments or central banks	18 536 064	15 889 401
exposures to regional governments or local authorities	639 370	670 675
exposures to public sector entities	101 168	94 856
exposures to multilateral development banks	0	24
exposures to international organisations	0	0
exposures to institutions	5 431 892	5 579 165
exposures to corporates	22 930 515	21 754 040
retail exposures	10 604 779	10 387 011
exposures secured by mortgages on immovable property	2 641 013	2 360 741
exposures in default	177 515	195 937
exposures associated with particularly high risk	2 076	3 835
exposures in the form of covered bonds	0	0
items representing securitisation positions	200 672	200 672
exposures to institutions and corporates with a short-term credit assessment	0	0
exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0
equity exposures	73 435	26 135
other items***	2 650 447	10 547 500
Total	**63 988 946**	**67 709 992**

* *Out of which PLN* 18.037.082 *due to contingent liabilities.*
** *Arithmetical average calculated on quarterly balances in 2015.*
*** *Including due to Assets arising from off-balance sheet transactions valuation, Intangible assets, Tangible fixed assets, Cash in hand, Income tax asset.*
The above table includes both exposures to credit risk and counterparty credit risk.

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

Country	Net exposures after adjustments and provisions* in PLN '000
Austria	13 465
Belgium	100 016
Bulgaria	1 025
Croatia	2 800
Czech Republic	25 524
Denmark	2 495
France	38 910
Netherlands	158 616
India	35 186
Irland	201 221
Canada	5 493
Germany	142 425
Norway	183 613
Poland	57 864 520
South Africa	2 888
Russia	3 716
Romania	32 098
USA	3 225 606
Switzerland	224 238
Sweden	85 341
Ukraine	42 633
Hungary	22 955
Great Britain	1 571 538
Italy	1 253
Other	1 371
Total	**63 988 946**

Table 9: The structure of balance sheet exposures and off balance sheet liabilities granted broken down by counterparty type and exposure class is presented below.

Counterparty type	Exposure class	Net value in PLN '000
Banks	exposure to institutions - banks	5 431 892
Budget sector	exposures to governments or central banks	18 536 064
	exposures to regional governments or local authorities	639 370
	exposures to public sector entities	101 168
Corporations	retail exposures	169 447
	of which: SME	169 447
	exposures to corporates	23 131 187
	of which: SME	2 257 020
	exposures secured on real estate property	1 396 296
	of which: SME	661 726
	exposures in default	57 527
	of which: SME	28 917
	items belonging to regulatory high-risk categories	2 076
Retail clients	exposure to retail	10 435 332
	exposure to secured on real estate property	1 244 718
	exposures in default	119 987
Other assets	equity exposures	73 435
	other items	2 650 447
Total		**63 988 946**

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

Exposure class	<= 1 month	> 1 month <= 3 months	> 3 months <= 6 months	> 6 months <= 1 year	> 1 year <= 2 years	> 2 years <= 5 year	> 5 year	Unknown maturity	Total in PLN '000
exposures to central governments or central banks	1 676 563	0	0	301	66 448	10 395 827	6 380 345	16 580	**18 536 064**
exposures to regional governments or local authorities	6	78	3 347	577 297	18 003	40 639	0	0	**639 370**
exposures to public sector entities	0	18 780	0	50 917	4 513	17 334	9 624	0	**101 168**
exposures to institutions	2 292 302	27 572	40 362	251 727	1 397 239	1 316 962	75 953	29 775	**5 431 892**
exposures to corporates	11 038 669	2 039 170	774 515	3 370 363	1 391 076	2 986 478	1 233 340	96 904	**22 930 515**
retail exposures	7 283 755	18 089	35 526	79 391	151 276	2 055 073	937 457	44 212	**10 604 779**
exposures secured by mortgages on immovable property	463 036	91 313	74 236	143 583	101 439	358 737	1 408 669	0	**2 641 013**
exposures in default	115 038	3 385	2 809	6 829	7 696	31 994	8 678	1 086	**177 515**
exposures associated with particularly high risk	0	0	0	0	0	0	0	2 076	**2 076**
items representing securitisation positions	0	0	0	0	0	0	200 672	0	**200 672**
equity exposures	0	0	0	0	0	0	0	73 435	**73 435**
other items	0	0	0	0	0	0	0	2 650 447	**2 650 447**
Total	**22 869 369**	**2 198 387**	**930 795**	**4 480 408**	**3 137 690**	**17 203 044**	**10 254 738**	**2 914 515**	**63 988 946**

The accounting definitions of past due and impaired exposures

The impairment occurs if there is an objective evidence of impairment as a result of the following defined loss events, i.e.:

- the delays in payment,
- significant financial difficulties of the client,
- breach of contract conditions,
- request of the Bank to initiate enforcement proceedings against the client,

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

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

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

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

Detailed information on the management of exposures of impaired are presented in the Annual Financial Statements of the Bank Handlowy w Warszawie SA for the year ended 31 December 2015 in explanatory note no. 48 "Risk Management" in the section "Credit risk”.

Clients for which impairment criteria were fulfilled

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

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

Clients for which impairment criteria were not fulfilled

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

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

Detailed information regarding the gross value of impaired exposures and provisions are presented in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2015, in explanatory note no. 48 “Risk Management”, in the section “Credit risk”, in the table “Commitment due to customers in terms of credit risk”.

The reconciliation of adjustments and provisions regarding exposures impaired is provided in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2015, in explanatory notes no. 18 “Amounts due from banks” & note no. 24 “Amounts due from customers”, in parts on impairment of loans and advances.

1.2. Information regarding exposure to counterparty credit risk

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

A description of the methodology used to assign internal capital and credit limits for counterparty credit exposures

Internal capital related to counterparty risk related is calculated as 8% of the value of total risk weighted exposures in the trading portfolio, in which internal capital for the following exposure classes: institutions, corporates, regional governments and local authorities administrative bodies and non-commercial undertakings, was estimated according to advanced approach based on internal ratings. For exposures different than mentioned above internal capital requirements were estimated according to standardized approach specified in the Regulation No. 575/2013. The Group estimates also the level of exposures resulting from counterparty risk in stress scenario.

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

The level of settlement limit which may be approved is determined by the customer’s risk rating. For a vast majority of transactions the Group adopted ‘delivery versus payment’ (DVP)

principle which mitigate settlement risk through not paying the counterparty until Group confirms receipt of the payment or delivery of an instrument by a client.
The internal settlement limits are availed in specific and justified cases.

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

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

The Group applies credit value adjustment to the market value of a derivative contract to take into account the credit risk of the counterparty. All Commercial and Corporate Banking Subsector customers are taken into account for derivatives assessment correction calculation
The Group differentiates the valuation of counterparty risk due to the availability of CDS quotations:

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

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

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

Table 11: Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements

	in PLN '000
Gross positive fair value	2 268 927
Netting benefits (change in value of balance sheet equivalent)	3 340 630
Net value of credit exposure (value of balance sheet equivalent)	1 591 851
Current credit exposure*	4 808 541

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

The Group measures exposures of derivative transactions using methods of market valuation in compliance with the Regulation No. 575/2013. According to the method mentioned above, the balance sheet equivalent of off-balance sheet transactions is calculated as the sum of the replacement cost and potential future credit exposure. The cost of a replacement shall be the market value of the transaction - if it is positive, or zero - when the aforementioned market value is negative or equal to zero. Potential future credit exposure is calculated as the product of the nominal amount of off-balance sheet transactions (or its equivalent delta values for options) and product risk weight assigned to the transaction.

The Group does not use credit derivative hedges.

The Group does not estimate α.

1.3. Information regarding credit risk mitigation techniques

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

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

Information regarding the policies for collateral management and main types of accepted collateral are presented in supplementary note 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 2015.

The value of collateral is calculated on the basis of estimates provided by the property valuation experts, valuations provided by industry analysts, borrowers' accounting records, deposit certificates, information from external databases, etc. The Group defines and applies appropriate loan to value ratios for different collateral types in the process of estimating collateral amounts.

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

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

In order to diversify risk associated with collateral, the Group accepts various types and forms of collateral:
- In the Consumer the most common type of collateral is residential real estate,
- In the Corporate and Commercial Banking primarily the following types of collateral are accepted:
  - – guarantees and warranties,
  - – financial security,
  - – collateral.

Detailed procedures defining types of collateral acceptable by the Bank, rules on collateral establishment and value determination as well as creation of specialized independent risk unit responsible for collaterals evaluation allowed to develop adequate standards for this process, including e.g.
- Collateral acceptance and appraisal criteria,
- Standardized documentation,
- Rules of collateral monitoring process (including inspections).

Commercial Bank credit procedures describe ratio of the value of the loan to collateral value for each type of security.

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

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

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

In the field of the protection of the actual Group considers cash collateral in accordance with the principles set in the Regulation No. 575/2013. Currently only guarantees issued by the Treasury are recognized by the Group as unfunded credit risk mitigation techniques for capital adequacy calculation. According to the Regulation No. 575/2013 the Bank assigns 0% risk weight for the same currency. There are no credit derivatives in the Group's portfolio.

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

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

Exposure type / Exposure class	Security collateral	Unfunded credit protection-guarantees	Cash collateral	Total collateral amount
On-balance sheet exposures & financial and guarantees liabilities granted				
retail exposures	0	0	1 813	**1 813**
exposures to institutions	0	1 524 450	0	**1 524 450**
exposures to corporates	0	0	41 895	**41 895**
exposures in default	0	0	30	**30**
Repo-style transactions *				
exposures to institutions	181 386	0	1 619 001	**1 800 387**
exposures to corporates	1 312 425	0	188 505	**1 500 930**
Total	**1 493 811**	**1 524 450**	**1 851 243**	**4 869 505**

* repo and reverse-repo transactions

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

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

The Regulation No. 575/2013 on banks' capital adequacy and Bank's internal policies describe the use of the Group's external ratings and identify external credit assessment institutions whose ratings can be used for the application of the standard method. Currently there are Moody's and Standard & Poors as well as Fitch. Ratings from this three mentioned agencies are used in calculation and reporting process of Capital Requirements for Credit Risk and Counterparty Risk according to standardize method. Currently Group does not use ratings issued by Export Credit Agencies.

Exposure classes for which Bank uses external ratings granted by approved external agency:
1) exposures or contingent exposures to central governments and central banks;
2) exposures or contingent exposures to local governments and local authorities;
3) exposures or contingent exposures to public sector entities;
4) exposures or contingent exposures to multilateral development banks;
5) exposures or contingent exposures to institutions;
6) exposures or contingent exposures to corporates.

Group applies issuer and issue credit assessment according to rules set forth in The Regulation No. 575/2013 on banks' capital adequacy. Consequently for given exposure where a credit assessment exists for a specific issuing programme or facility to which the exposure belongs, this credit assessment is used to determine the risk weight, which is then assigned to that exposure. Otherwise, Group uses a credit assessment that exists for a specific issuing programme or facility to which the exposure does not belong or a general credit assessment that exists for this issuer, provided that it produces a higher risk weight than that which would be applied to exposures without a credit assessment.

Table 13: The exposure values before and after credit risk mitigation associated with each credit quality step as set for the standardised approach as well as items deducted from own funds

Credit quality step	Exposure values before credit risk mitigation in PLN '000	Exposure values after credit risk mitigation in PLN '000
1	3 220 035	3 220 035
2	18 300 343	18 300 343
3	5 116 524	3 316 137
4	459 230	459 230
5	-	-
6	-	-
no rating	36 892 814	35 348 148
Total	**63 988 946**	**60 643 893**

The Group complies with the standard way to assign credit ratings shown in the resolution on the rating takes into account the principles set out in The Regulation No. 575/2013.

1.5. Information on market risk

The amount of capital requirements by types of market risk:

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

is presented in p. IV of this report in table No 5.

The information regarding the exposure to interest rate risk on positions not included in the trading book 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 2015.

The interest rate risk is measured on a daily basis.

The Group does not use internal ratings-based approach.

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

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

Detailed information on how the Group's equity investment portfolio is broken down based on purchase reasons are described in chapter V point No 8 „Equity investments" of the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2015.
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 2015.

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 39 „Fair value information" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2015.

The value of equity exposures, broken down into listed equity exposures and portfolios of securities not admitted to trading in the regulated equity market is provided in explanatory note 22 „Equity investments valued at the equity method" and note 23 „Equity investments available for sale" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2015.

The value of liquidations of equity investments not included in Bank's trading portfolio is provided in explanatory note 22 "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 2015.

1.7. Information regarding operational risk

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

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

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

Group applies standardised methodology for calculation of capital requirement for operational risk, defined in Regulation No. 575/2013.

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

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

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

Total operational risk gross losses in Group (absolute value, including gains, excluding recoveries) recorded in the year 2015, split by operational risk event types and categories (in accordance with appendix 1 to Recommendation M) are presented in the table 14. Table contains events impacting financial results, including boundary events.

Table 14 Total operational risk gross losses by types of events

Types and categories of events	in PLN '000
Execution, Delivery & Process Management	**2 800**
Transaction Capture, Execution & Maintenance	2 467
Customer / Client Account Management	294
Monitoring and Reporting	22
Third Party Management - External/Internal	17
External Theft and Fraud	**2 672**
Credit Card Fraud	1 378
Debit/ATM Card Fraud	1 085
Virus, Malware and other Cyber Attacks	206
Theft of Cash, Assets and Property; Theft of Inventory and Other Assets	3
Clients, Products & Business Practices	**27**
Product Design	27
Internal Theft and Fraud	**21**
Account Takeover - Credit and Debit Cards	11
Sales Process Manipulation (Permanent Staff)	9
Theft of Cash, Property and Financial Instruments; Skimming	1
Systems & Technology	**6**
Other Systems & Technology	6
Total	**5 526**

Gross value of operational losses amounted to PLN 5,526 thousand. Relation of net losses to Group revenues amounts to 0,27%. The total amount of losses consists of over 420 registered events (including homogenous events not exceeding USD 10 thousand aggregated on a monthly basis). In terms of severity, Group reported 1 event in the bucket >USD 100M and <USD 1MM and 22 events in the bucket >USD 20M and <USD 100M. The remaining events didn't exceed USD 20M.

The significant events affecting the total amount of 2015 losses include:

- deficiencies in the process of fx rates maintenance, resulting in gross loss of PLN 1.675M – 30% of the total loss amount (category: Transaction Capture),
- credit and debit cards frauds (including skimming and internet frauds) – 45% of gross loss amount (PLN 2,464M).

Operational risk events exceeding set tolerance thresholds are analyzed by independent control units in view of root causes and corrective actions. Corrective actions are monitored by management to avoid repetitive losses. The Group undertakes series of actions aiming at operational risk mitigation. The following actions were undertaken in 2015: verification of adequacy of applied controls, enhancements to control processes in areas of identified weaknesses, enhancements of fraud detection systems, revision of limits mitigating risk exposure, strengthening of independent verifications, enhancements to maker/checker controls, automations, revision of vendor management principles and staff training. Members of the Management Board approval is required for all losses exceeding established threshold, in view of analyses of causes of the losses and adequacy of corrective actions. Set 2015 appetite thresholds were not exceeded.

The information regarding the operational risk is 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 2015.

2. Internal Capital Adequacy Assessment

The Group identifies and manages all types of risks in its activity while some of them considering as significant. For all measurable risks that are considered as significant in the Group’s activity, the Group estimates and allocates capital. For this purpose the Group implemented process of estimation and allocation of the internal capital covering significant risk in which assessment of capital adequacy is performed (process ICAAP). The Group annually sets Overall Risk Appetite approved by the Management Board and Supervisory Board. clearly and consistently communicate the types and levels of risk the Bank is willing to take, within the context of the Bank’s articulated business strategies.

The result of the ICAAP is to determine the capital plan which is consistent with approved by the Board and the Supervisory Board financial plan and appetite for risk. It specifies the Group's needs and capital goals. Internal Capital is estimated for significant types of risk. The Group allocates internal capital to the particular business units. Risk and Capital Management Committee is responsible for the annual capital and ongoing monitoring of capital usage in the respect to set limits.

Overall Risk Appetite is defined as the aggregated level of expected and unexpected losses, that Group is willing to assume to achieve its strategic objectives while maintaining target regulatory capital adequacy ratio Management Board on the basis of risk appetite decides on the level of aggregated limits on particular business units and sub-limits on measurable risks treated as significant.

Below we present the specific, measurable risks identified as significant in the Group in 2015:

- credit risk,
- counterparty credit risk,
- operational risk,
- market risk in the trading book,
- interest rate risk in the banking book,
- liquidity risk,

The Group assessed the internal capital covering all significant risks for a base case and a downside scenario, which is a basis for the analysis of stress tests.

Scenarios are defined on the basis of the set of assumptions that is common to all risks analyzed. In addition, the Group analyzes a one in ten year's scenario (1/10), which forms a basis for additional risk / return measure within a set risk appetite.
The internal capital requirements for credit and counterparty risk were estimated according to advanced approach based on internal ratings for the following exposure classes: exposures to institutions, corporates, regional governments and local authorities and public sector entities. For exposures different than mentioned above internal capital requirements were calculated according to standardized approach specified in the Regulation No. 575/2013. Capital requirement for operational risk has been calculated using standardized methodology approach specified in the Regulation No. 575/2013. Calculated capital requirement, according with the accepted methodology, is increased by add-on, if stress tests show necessity to increase internal capital for operational risk. Internal capital for market risk in trading book is based on an integrated measure, which takes into account both the value at risk (VaR), and the size of losses in stress scenarios, estimating unexpected loss on the trading portfolio with the probability of 99.9% in 1Y time horizon. In the case of banking book (accrual) portfolios quantification of internal capital, is based on a combination of potential maximum decrease in net interest income of the bank in the perspective of one year in conjunction with the maximum negative impact of changes in interest rates on the economic value of the bank's capital, determined in stress scenarios with the probability of 99.9% in 1Y time horizon. In the case of liquidity risk, the amount of internal capital allocation is based on current and projected elements of supervisory measures, taking into account the stress scenarios within the next 12 months. The Group does not use diversification effect while aggregating estimated internal capital for significant risks.

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

The organisational units engaged in the process of assessment of internal capital are required to ensure adequate level of internal control in the capital calculation process for significant risks. Audit Department conducts independent review of the process of capital assessment and maintenance.

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

Risk and Capital Management Committee is responsible for ongoing capital adequacy assessment. The Committee supervises the compliance with general risk level established by the Supervisory Board and monitors capital adequacy taking into account the quantitative ratios and the utilization levels of capital limits and the forecasts in the scope of the capital adequacy.

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

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

V. Information regarding the remuneration policy

Remuneration policy for the key Persons at Bank Handlowy w Warszawie S.A. ("Bank") and at Dom Maklerski Banku Handlowego S.A. ("DMBH") were adopted by the resolution of the Supervisory Board of the Bank dated 3 December 2015 and the resolution of DMBH Supervisory Board dated 28 December 2015 (hereinafter referred to as the Remuneration Policy). Remuneration Policy sets out the principles for remunerating of the Management Board Members and other persons holding key functions, including persons who have a material impact on the risk profile of the Bank and DMBH. The Policy implements requirements of the provisions of law, Rules of Corporate Governance for Supervised Institutions adopted by the Polish Financial Supervision Authority.

Principles for variable remuneration in the Bank and DMBH are described in details in the Variable remuneration components policy for persons holding managerial positions in Bank Handlowy w Warszawie S.A which was adopted by the Management Board and approved by the Supervisory Board on 26 September 2012 along with further modifications and the Variable remuneration components policy for persons holding managerial positions in DMBH" which was adopted by the Management Board and approved by Supervisory Board on 29 March 2012 along with further modifications (hereinafter referred to as "the Variable Remuneration Policy")

In the work on preparation and implementation of both polices mentioned above were involved:

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

Variable remuneration for Bank's Management Board Members is granted by the Supervisory Board and for other employees covered by the Variable remuneration components policy for persons holding managerial positions in Bank Handlowy w Warszawie S.A by the Management Board. It should be noted that Supervisory Board Remuneration Committee was established in the Bank. It provides recommendations and opinions on the levels and conditions of variable remuneration of employees covered by the Policy. Remuneration Committee gives opinions and monitors the variable remuneration of staff under the Variable Remuneration Policy connected with risk management, compliance and internal audit.

Additionally, each time, in case of the change of the Policy the Remuneration Committee gives its opinion on the changes, including the amounts and components of remuneration, taking into account a cautious and stable risk, capital and liquidity management, and paying special attention to long-term interests of the Bank, the interest of the Bank's shareholders and investors. In 2015 there were four meetings of the Remuneration Committee.

The Remuneration Committee is composed of:

1. Andrzej Olechowski – Chairman of the Committee
2. Zdenek Turek – Member of the Committee
3. Stanisław Sołtysiński - Member of the Committee

In DMBH decisions related to Management Board Members' remuneration and grant of variable remuneration are made by Supervisory Board and for other employees covered by the Variable remuneration components policy for persons holding managerial positions in Dom Maklerski Banku Handlowego S.A by the Management Board. Implementation of this policy is subject to at least annual review performed by the function responsible for internal control and risk management. Written report covering the assessment of implementation of Variable Remuneration Policy is presented to DMBH Supervisory Board.

Each time, in case of the change of the Policy DMBH Supervisory Board 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 DMBH, the interest of the Bank's shareholders and investors. In 2015 there were three meetings of the Supervisory Board related to the Policy.

In 2015 the Bank and DMBH analyzed the roles and the responsibilities of their employees in relation to the key manageable risks in the Bank and DMBH as well as quantitative and qualitative criteria described in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile and on this basis set the list of management staff, approved by the Supervisory Board of the Bank and DMBH, which has a material impact on the risk profile of the Bank or DMBH accordingly and therefore should be the subject to the provisions of the Policy. The list of the employees under the Policy includes:

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

The philosophy of awarding the persons under the Variable Remuneration Policy, adopted by the Group, implies the wage differentiation of particular employees based on the financial and non-financial criteria, such as attitude to take risk and assurance of compliance to reflect their current and future contribution and to supplement mechanisms of efficient risk control by limiting the motivation for taking unreasonable risk impacting the Group and its activities and by rewarding the proper balance between risk and rate of return. According to this philosophy, the payment of variable remuneration to staff under the Variable Remuneration Policy depends on both the short-term and long-term evaluation of the individual performance and the financial results of the Bank or DMBH or specific organizational unit, whereby the persons responsible for control functions are not assessed for the financial results. The assessment of the Bank's results or results of DMBH is based on the data from three financial years, which takes into account the business cycle of the Bank and risk of its economic activities. In case of staff employed less for than 3 years when evaluating the Bank's results and results of DMBH the data includes the span of time from the establishing working relationship. The variable remuneration for 2015, granted January 18, 2016, was divided into non-deferred and deferred portions. The deferred portion was divided into short-term part which vests after 6-month period and long-term one consisting of three tranches, paid in years 2017, 2018 and 2019. 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 2015 in the explanatory note 47 "Employee benefits".

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

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

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

The variable remuneration for adopted Remuneration Policy's and Variable Remuneration 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.

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

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

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

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

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

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

- The amount of profit (or loss) before tax for each adequate Year Concerning the Results will be the total value of profit (loss) before income tax for the current operations of the Bank or DMBH accordingly. The results for the calendar year will be defined on a basis of the local IFRS statements, which will be covering the audited results for the first three quarters (in accordance with the report to WSE and adequate public authorities), and the last quarter of the year will consist of the actual results for the first two months of this quarter and the estimates for the last month. The estimates will be defined by the Financial Department of the Bank or DMBH accordingly and they will be final and binding regardless of the actual final results.

- If the absolute value of the loss before tax suffered by the Bank or DMBH accordingly for the Year Concerning the Results equals or exceeds the total value of the highest profit before tax in the Group's calendar year in the Measurement Period, then the Authorized Persons will not earn the rights to the given tranche.

Based on the above information and based on own judgment as well as after review by the Remuneration Committee when applicable, the Supervisory Board in relation to the members of the Management Board or the Management Board in relation to other Identified Staff takes final relevant decisions on the acquiring of right to a given tranche of Deferred Variable Remuneration.

Table 15: Annual Award for 2015 for employees covered by the Policy in 2015 [1]

(in PLN '000)

				Cash Award for 2015			Phantom shares of Bank Handlowy w Warszawie S.A.			
				Non deferred cash	Deferred cash award		Short term phantom shares award		Long-term phantom shares award	
Category/Sector	Number of Employees[2]	Total fixed remunaration in 2015[3]	Total variable remunaration[4]	Paid[5]	Paid	Accrued, unvested	Paid	Accrued, unvested	Paid	Accrued, unvested
Management Board	6	7 388	14 286	2 078	1 293	3 409	2 320	2 555	1 180	1 450
Consumer Bank Segment	6	4 511	1 665	429	0	220	235	429	0	351
Corporate Bank Segment	62	27 674	18 781	4 116	2 809	3 322	2 833	2 442	2 644	614
Total Bank	**74**	**39 573**	**34 732**	**6 623**	**4 102**	**6 951**	**5 388**	**5 426**	**3 824**	**2 415**
Brokerage house	8	2 954	889	377	148	83	258	-22	136	-91
Total Grupa	**82**	**42 527**	**35 621**	**7 000**	**4 250**	**7 034**	**5 646**	**5 404**	**3 960**	**2 324**

[1] within the Group, in the Bank and in the Brokerage house there are separate Policies
[2] including employees covered by the Policy in 2015, during the whole 2015 there were 91 employees covered by the Policy in the Bank and 8 employees in Brokerage house
[3] base salary
[4] in addition in 2015 the Bank and Brokerage house paid out Deferred cash award with interest and Long-term phantom shares award with dividends to the employees who were not covered by the Policy in 2015. The full cost of the payouts of Deferred cash awards and Long-term phantom awards in 2015 is included in Financial Report.
[5] paid in 2016

The table above does not include the wages and benefits other than the fixed remuneration which were not under the Policy of the variable remuneration components of management staff.

Information related to payments in 2015 associated with hiring of employees covered by the Policy.

- No. of employees: 1 employee,
- Payment amount: PLN 401,08 thousand.

Information related to 2015 severance payments for employees covered by the Policy.

- No. of employees: 2 employees,
- Payment amount: PLN 198,18 thousand.

Number of individuals being remunerated in 2015 at least EUR 1 million: 2 persons in the following bands:

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

Within the scope under the Policy of the variable remuneration of management staff, in the column “Non - deferred cash” of the table above there is presented the non - deferred part, paid out in 2015. The remaining, deferred part – consisting of deferred cash award and bonus in the form of the Bank’s Phantom Shares – will be paid in three tranches in years 2017-2019 and is given in the values of the cost of 2015 in accordance with the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2015.

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

VI. Unencumbered assets

Assets are encumbered, when they are pledged or used as collateral or as enhancement of transaction's credit quality and their transferability is restricted. As at 31 December 2015 the Group had encumbered assets due to securities sold under agreements to repurchase, negative valuation of derivative transactions and securities and received credit collateral.

Table 16: Encumbered & unencumbered assets are presented in table below:

	Carrying amount of encumbered assets in PLN '000	Carrying amount of non-encumbered assets in PLN '000
Loans on demand	0	1 824 430
Equity instruments	0	95 336
Debt securities	1 920 731	22 426 946
including: issued by central government and regional governments	1 920 731	19 201 161
including: issued by financial insitutions	0	2 150 051
including: issued by non-financial corporations	0	1 075 734
Loans and fees other than loans on demand	474 253	17 824 470
including: mortgage loans	0	1 983 915
Other assets	0	4 940 625
Assets of reporting institution	**2 394 984**	**47 111 807**

VII. Leverage ratio

Information on the leverage ratio at 31 December 2015: 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 17: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts in 000'PLN
1	Total assets as per published financial statements	49 506 791
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	-677 086
5	Adjustments for securities financing transactions "SFTs"	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	12 955 884
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	-1 253 952
8	**Total leverage ratio exposure**	**60 531 638**

Table 18: Leverage ratio common disclosure

		CRR leverage ratio exposuress in 000'PLN
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	44 014 119
2	(Asset amounts deducted in determining Tier 1 capital)	-1 443 872
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**42 570 247**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	337 423
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1 254 428

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)	0
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)**	1 591 851
Securities financing transaction exposures		
12	Gross SFT assets (with No. recognition of netting), after adjusting for sales accounting transactions	3 413 656
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation No. 575/2013	0
15	Agent transaction exposures	0
15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**3 413 656**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross Notional amount	18 037 082
18	(Adjustments for conversion to credit equivalent amounts)	-5 081 198
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**12 955 884**
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))	0
19b	(Exposures exempted in accordance with Article 429 (14) of Regulation No. 575/2013 (on and off balance sheet))	0
Capital and total exposures		
20	**Tier 1 capital**	**4 781 008**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, 19a and 19b)**	**60 531 638**
Leverage ratio		
22	**Wskaźnik dźwigni**	**7,9%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
23	Choice on transitional arrangements for the definition of the capital measure	Transitional
24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation No. 575/2013	0

Table 19: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposuress in 000'PLN
1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	44 014 119
2	Trading book exposures	4 510 576
3	Banking book exposures, of which:	39 503 543
4	Covered bonds	0
5	Exposures treated as sovereigns	18 580 424
6	Exposures to regional governments, MDB, international organisations and PSE No.T treated as sovereigns	84 175
7	Institutions	524 089
8	Secured by mortgages of immovable properties	2 317 294
9	Retail exposures	4 932 277
10	Corporate	9 934 255
11	Exposures in default	176 807
12	Other exposures (eg equity, securitisations, and other No.n-credit obligation assets)	2 954 222

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

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

The level of leverage is monitored periodically. Information about the current size of the indicator is transmitted regularly, on a quarterly basis, to to the Risk and Capital Management Committee of the Bank’s Management Board and to the Risk and Capital Committee of the Supervisory Board.
The Group manages the risk of excessive leverage, among others, by establishing limits, their monitoring and the escalation process.

VIII. Information regarding exposure to securitisation positions

Securitisation activities is one of the areas of business, which recently gained in importance. Group decided to invest in securities based on economic calculation, measuring return on investment against the potential risks. Securitisation is now a standard and widely used product in global markets. Its importance also increases the Polish market. The Group intends to be an active participant in this market segment.

In 2015, the Group acted as investor and acquired the senior tranche in the amount of PLN 200MM. Securities purchased by the Group are not traded on the market. The Group intends to maintain investments until the maturity date. The expected maturity date of the securities is July 2020. The Group classifies assets securitization as loans and receivables in accordance with IAS 39 and measured at amortized cost.

The Group has no positions in the resecuritization.

The Group has procedures for defining the processes of approval and monitoring of securitization exposures, which include, in particular:- Analysis of the originator including the processes of credit and debt collection, qualitative and quantitative analysis, the condition of maintaining a material net economic interest, reputation, quality data of previous securitization,

- Risk analysis exhibition service underlying the securitization position in the quality, concentration, delays in repayment and the level of losses, the level of recovery rates
- The terms and structure of the transaction reducing identified risks and defining the division into tranches, level of support and security, payment streams, and cases of violations of trade indicators,
- Monitoring including, among others, verification of the quality exhibition service underlying the securitization position, timeliness of payments and service, compliance with the conditions transactions, the financial institutions participating in the transaction, etc.

Existing Group's commitment in securitized assets are not exposed to market risk due to the accounting treatment applied.

The Group does not use any additional security (other than arising from the structure of the transaction) and unfunded protection securitization positions.

The main risk of securitisation transactions is credit risk. Other important risks of the transaction are *inter alias* the risk of early repayment and partial prepayment risk (limited by discounting).

Given the above risks, the Group's credit procedures ensure conducting quarterly quality monitoring of securitisation portfolio.

For the assessment of the securitized portfolio, the Group applies internal rating methodology that is based largely on Fitch's methodology.

Risk weighted exposure amounts for securitisation portfolio are determined in accordance with the Regulation No 575/2013.

The Group uses credit assessments of rating agencies in a consistent and continuous way with respect to all exposures in order to determine the risk weights for exposures. For exposures that are securitisation positions to confer risk weights are at least required credit ratings assigned by recognized external credit assessment institutions.

Securitisation exposures are assigned with risk weights accordingly with below table:

Quality level	Risk weight
1	20%
2	50%
3	100%
4	350% (only for credit assessments other than short-term credit assessments)
All other credit quality steps without two ratings	1250%

If the Bank at any time knows the composition of unrated pool of securitized exposures, it is possible to apply the risk weight calculated in accordance with the following formula, i.e.

RW= average-weighted risk weight (calculated in accordance with the standardized method) x concentration factor

whereby:

- average-weighted risk weight is the risk weight that would be applied by the Group, if it had exposure to the securitized exposures,
- concentration factor = sum of the nominal amounts of all the tranches divided by the sum of the nominal amounts of the tranches junior to or *pari passu* with the tranche in which the position is held including that tranche itself.

Table 20: The total amount of exposure and capital requirement for securitization exposures held

Exposure class	The total amount of exposure in 000'PLN	Capital requirement in 000'PLN
Items representing securitisation positions	200 672	16 054

Signatures of Management Board Members

Date	Name	Position / function	
07.03.2016	Sławomir S. Sikora	President of the Management Board	Signed on Polish original
07.03.2016	Maciej Kropidłowski	Vice-President of the Management Board	Signed on Polish original
07.03.2016	David Mouiilé	Vice-President of the Management Board	Signed on Polish original
07.03.2016	Barbara Sobala	Vice-President of the Management Board	Signed on Polish original
07.03.2016	Witold Zieliński	Vice-President of the Management Board Chief Financial Officer	Signed on Polish original
07.03.2016	Katarzyna Majewska	Member of the Management Board	Signed on Polish original
07.03.2016	Czesław Piasek	Member of the Management Board	Signed on Polish original