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 2017

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 ("CRD").

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 2017
- the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2017 and refers to them wherever it is relevant.

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 2017. the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2017.

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 2017, this document refers to the number of explanatory note, which discloses required information.

The values presented in the disclosures are expressed in thousands of zlotys, except for situations in which a different unit of measurement was used, detailed in the data presented.

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;

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;

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[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.

Regulation on risk management and remuneration policy - Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks (D.U. 2017, item 637).

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.

Commission Implementing Regulation (EU) No. 2015/1555 of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440.

The law on macro-prudential oversight - The law of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial system (Official Journal from 2015, item 1513).

Commission Delegated Regulation (EU) 2017/2295 of 4 September 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets,

Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 of 04/08/2017.

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 is organized at three independent levels (three levels of risk reduction, interchangeably "three lines of defense"):

- Level 1 i.e.: Organizational units responsible for business activities resulting in risk taking and for risk management in the Bank's operational activity.as well as risk identification and reporting to second line of defense,
- Level 2 i.e.: risk management in organizational units, independently from the risk management by the first Level, and compliance; organizational unit or employees responsible for establishing standards for the risk management in the scope of risk identification, measurement or estimation, mitigation, control, monitoring and reporting and for overseeing the control mechanisms applied by other organizational units to mitigate the risk – organizational units in Risk Management Sector, Compliance Department, Financial Division Legal Division; Human Resources Division,
- Level 3 i.e.: Internal Audit that provide an independent assessment of risk management processes and internal control system.

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 and regulatory recommendations, 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 49„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 2017.

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, including the business model, the assumptions related to business strategy and current and expected (so-called forward looking) macroeconomic/business environment. The Risk Profile is defined as list of risk identified on the inherent basis which includes the description of mitigation mechanisms that allow the risk assessment on the residual level.

The process of the Group risk profile determination includes in particular:

- 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 Group 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 2017 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 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: 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 Group's interest income.
- Liquidity Risk - risk of a Group inability to meet its obligations in due time and without incurring financial losses, which occurs due to cash flow mismatches (cash flow gap), limited asset marketability or systematic market changes.
- Operational Risk - is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events.. It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk (defined below). Operational Risk does not cover strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.
- Compliance risk – a risk of negative effects of a failure to observe the law, supervisory regulations internal normative acts and market standards, notably:

  a) imposition of legal or regulatory sanctions, including the imposition of financial penalties by competent authorities and regulators or of recommendations requiring the Bank to comply with them, which in turn may involve financial outlays and resources dedicated to those actions;
  b) financial or reputational losses (loss of credibility in the eyes of trade partners) to which the Bank is exposed as a result of non-compliance with the laws, supervisory regulations, regulatory recommendations, the Bank's internal normative acts and market standards within the Bank's operations;
  c) potential risk of the Bank incurring additional costs arising, for instance, from imposed penalties, sustained losses and cancelled contracts.

- Information Security risk – risk of disruption of Bank's activity or financial losses due to insufficient security, privacy, integrity or availability of its data and information

- Outsourcing risk – risk of negative impact of external party on continuation, integrity and quality of entity's activity, its property or employees;
- Models risk – potential loss, which Bank may be exposed at, following decision based on data generated by models utilized by the Bank, as a result of errors in models' development, implementation or utilization.

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 business purposes, defined in Group's Strategy 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:

- Technological risk – risk of disruption of entity's activity or financial loss due to technical solutions' implementation, utilization or development;
- Misappropriation risk – risk connected with willful act to the detriment of entity by its employees or third parties;
- Money Laundering risk – risk of losses due to involvement in money laundering activity conducted by customers, intermediaries or employees;
- Information Security risk – risk of disruption of entity's activity or financial losses due to insufficient security of its resources and information;
- External Events risk (Continuity of Business) – risk of inability of activity continuation by an entity or risk of losses occurring due to extraordinary event, such as earthquake, fires, floods, terrorism, lack of access to the headquarters or media;
- Tax and Accounting risk – risk of negative economic effects due to improper accountancy records, reporting, mistaken calculation of tax obligations or their delayed payments;
- Product risk – risk connected with the sale of product (service), which doesn't meet customers' requirements and needs, is not compliant with the law and regulations, generates additional risks (for an entity and its customers), doesn't have adequate support of the employees and processes;
- 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.
- Staffing Risk -–risk connected with recruitment, availability and professional qualification of employees, their fluctuation, ability to adapt to changes in work environment, work culture, absenteeism, tiredness, overtime, lack of utilization of annual leave for a long time, inadequate or not adjusted to the scale and complexity organizational structures, connections of personnel whose responsibilities is crucial from the perspective of the risk occurring in the bank and similar factors, which may lead to operational losses connected with human factor, it also includes the specificity and diversity of conditions related to the management of human resources in different areas of activity.
- Concentration Risk - risk arising from excessive concentration from exposures to clients, groups of connected clients, customers operating in the same economic sector, geographic region, carrying out the same economic activity or trading with similar commodities, entities belonging to Bank capital's group (both cross-border and local), exposures denominated in the same currency or indexed to the same currency, used credit risk mitigation techniques as well as large indirect credit exposures such as a single issuer of the security, with the potential to generate losses large enough to imperil bank's financial condition or financial ability to maintain its core operations or lead to a significant change in the risk Group's profile;
- Conduct Risk – risk that the Group's employees or intermediaries with the help of which the Group sells financial products - intentionally or negligently - will harm the clients, the integrity of financial markets or the integrity of the Group.

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. 4 meetings were held in 2017 in order to analyze abovementioned factors.

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.

The Group's goal is to maintain current capital structure in order to address requirements of CRR/CRD on Common Equity Tier 1 regulatory capital. Group, as it is stated in the strategy, will continue to be adequately capitalized with diversified sources of income. Considering approved level of Overall Risk Appetite, the Group will maintain a target regulatory capital adequacy ratio (CAR) at the level of minimum 14,5%. In 2017 total TCR amounted to 17,9%.

The Bank's Management Board assures compliance of the Bank's activity with the laws and supervisory regulations, Bank's internal normative acts, as well as available market practices and standards, while taking into consideration the Bank's activity on the basis of the laws of another country and the Bank's ties with other entities that could impair effective management of the Bank. The Bank's Management Board – within the framework of assurance by the internal control system of compliance with laws, supervisory regulations, the Bank's internal normative acts and available market practices and standards – is responsible for:

- effective management of compliance risk at the Bank,
- developing the Compliance Policy, ensuring its observance and presenting the Audit Committee of the Supervisory Board with information on compliance, including reports on management of compliance risk,
- taking appropriate actions to eliminate irregularities, including corrective or disciplinary measures, in the case of identification of any irregularities in application of the Compliance Policy.

As part of assurance by the internal control system of compliance with the laws and supervisory regulations, Bank's internal normative acts, available market practices and ethical standards, the Supervisory Board:

- oversees discharge of the duties related to management of compliance risk by the Bank's Management Board;
- oversees the observance of the Bank's internal normative acts, including in the area of the internal control system;
- approves the Policy;
- approves the Rules and Regulations of Operation of the Compliance Unit;
- assesses, at least once a year, the degree of effectiveness of management of compliance risk by the Bank.

The organizational unit that supports the Bank's Management Board, the Supervisory Board and the Bank's organizational units is the Compliance Unit whose main objective is to ensure operations of Bank comply with the generally applicable laws and supervisory regulations applicable to the Bank's activity or to the financial services provided by the Bank, the Bank's internal normative acts and with market practices and standards as well as practices and standards developed within Citigroup.

The Compliance Unit shall implement the "Compliance Policy at Bank Handlowy w Warszawie S.A." (the "Compliance Policy"), containing the basic code of conduct for the Bank's employees and explaining key processes identifying compliance risk and enabling management of compliance risk at all levels of the Bank's organization. The Compliance Policy shall be subject to approval by the Bank's Management Board and Supervisory Board.
The Compliance Unit prepares the annual Bank Compliance Plan ("Plan") by the end of February of a given year. The Plan is the basis for ensuring compliance at the Bank and addresses the Bank's supervision over compliance functions performed in subsidiaries of the Bank. The Bank's Management Board shall express its opinion on and the Bank's Supervisory Board shall approve the Plan.
The Compliance Unit shall draft the "Report on implementation of compliance monitoring and compliance risk management functions at Bank Handlowy w Warszawie S.A." (the "Report") by the end of March for the preceding year. The Compliance Unit Head shall submit the Report to the Bank's Management Board and to the Audit Committee by the Bank's Supervisory Board for approval.

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, in the Bank operates the Policy for the assessment of Management Board Members and Key Function Holders at Bank Handlowy w Warszawie S.A and 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:

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

The Supervisory Board identifies and selects qualified and experienced candidates to the Management Board. In the assessment of candidates, their experience is taken into account, considering:

- the character, magnitude and complexity of the Bank's operations and
- 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 in particular 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,
- a preliminary assessment of the candidate together with a recommendation on appointment of the candidate.

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

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

Liquidity risk management

Liquidity risk is the risk that the Group may be unable to meet on time its financial obligations towards a client, lender or an investor as a result of the mismatches in cash flows due to the balance and off-balance sheet positions that the Group has at a given date.

The liquidity risk management policy in the Group primarily aims to ensure and maintain the ability to meet both: current and future financial obligations (also in the event of extremely stressed conditions), while minimizing the cost of obtaining liquidity. This is possible due to the proper identification of the liquidity risk, its constant monitoring as well as the establishment of limits with full understanding of: the macroeconomic environment, the Group's business profile, regulatory requirements as well as, strategic and business objectives within available liquidity resources.

The liquidity risk strategy, including the acceptable risk level, assumed balance sheet structure and financing plan is approved by the Bank's Management Board and then accepted by the Bank's Supervisory Board. The management of the Group's balance sheet structure is managed by the Asset and Liability Management Committee (ALCO). The organization of the liquidity risk management process that exists in the Group, is aimed to ensure the separation of functions between entities that conduct transactions (affecting the liquidity risk), monitor and control the risk. The management of intraday, current and short-term liquidity is a task of the Financial Markets Sub-Sector, while the management of medium and long-term liquidity lies on ALCO responsibilities. Reporting functions are performed by the Management Information System Department, while the monitoring and control of the level of liquidity risk is performed by the Market Risk Department. Activities of companies from the Group of the Bank in the area of liquidity risk management are supervised by the Bank by way of delegating its employees to supervisory bodies (supervisory boards) of such affiliates. Supervision over liquidity of companies from the Group of the Bank is exercised by ALCO.

The source data and models used to generate liquidity reports come from independent management systems or other independent record systems. The reports and stress tests are generated on a daily bases by the Management Information System Department - a unit independent from the Financial Markets Sub-Sector – and sent to the Group's units responsible for the liquidity risk management and to the Market Risk Department, who is responsible for the substantive content of those reports, including recognition of all elements that affect the liquidity risk. On monthly bases, the Market Risk Department prepares the analysis of the Group's liquidity position and liquidity risk level for the Assets and Liabilities Management Committee and the Risk and Capital Management Committee. Daily reports are sent to those who are directly involved in the intraday, current and short-term liquidity management processes. Monthly and quarterly reports are prepared on the basis of daily data and are submitted to the members of the Bank's Committees that deal with medium- and long-term liquidity risk and structural liquidity risk (the Assets and Liabilities Management Committee and the Risk and Capital Management Committee). Such organization ensures:

- current and forward looking information,
- gives a picture of the liquidity risk for the total balance and off-balance sheet and for the relevant for the Bank currencies (PLN, USD, EUR),
- the diversity of prepared reports allows to assess the level of intraday, current and structural liquidity risk,
- obtaining stress test results with a sufficient frequency (daily for the S2 and monthly for the remaining ones),
- comprehensiveness of the approach in the preparation of the liquidity reports covering both balance and off-balance sheet items.

As a part of the liquidity risk management, the Group pursues the following goals:

- providing Group’s entities (at any time) with an access to the liquid funds in order to meet all their financial obligations in a timely manner, also in extreme but probable crisis situations;
- maintaining an adequate level of high-quality liquid assets in the event of a sudden deterioration of the Group's liquidity position;
- defining the scale of the liquidity risk undertaken by the Group by establishing, at an appropriate and safe level, internal measures and limits aimed at limiting excessive concentration in the scope of the adopted balance sheet structure or sources of financing;
- constant monitoring of the Group's liquidity situation with respect to the occurrence of an emergency situation in order to launch the Contingency Funding Plan;
- ensuring compliance of the processes operating at the Bank with the Polish and European regulatory requirements regarding liquidity risk management.

As part of liquidity risk management, the Group also applies a number of control mechanisms ensuring compliance with the liquidity risk management principles. They include in particular:

- separation of the function of measuring, monitoring and controlling risks from operating activities, including separation of functions in areas of potential conflicts of interest and areas of increased risk level;
- reviews of processes, performed by persons performing management functions or managerial functions or delegated by these persons;
- control activities integrated into the operations of the Bank's organizational units and adapted to the profile, scale and specificity of the operations of the Bank's organizational units;
- checking that the exposure limits are met and tracking cases when they are breached;

- monitoring the reports with excesses;
- monitoring of risk indicators;
- self-evaluation process;
- monitoring and testing of contingency funding plans and continuity of business plans.

The main source of funding the Group's activity, including liquid assets portfolio, is deposit base where at end of year 2017, deposits constituted 89% of total liabilities. The Group maintains buffer of unencumbered high quality assets at high level, investing in sovereign bonds and liquid bonds issued by highly rated corporations. Every year the Group performs analysis if held bond portfolio is possible to liquid at the market condition, in order to set amount of bonds possible to liquidate within timeframe compliant with local regulatory liquidity measure calculation as well as LCR calculation.

The Group constantly monitors funding concentration. To realize that target, the structure of funds is well diversified in each segment of deposits – retail, small enterprises, corporations and public finance sector. The concentration is monitored in break down for client categories and currencies and it is compared to an early warning triggers approved by ALCO. In addition to that there is an early warning trigger for net funding on wholesale market applied.

The Group is one of the biggest market participants on Polish derivative market, however net flows on that instruments in 30 days are irrelevant for LCR.
Simultaneously the Group's methodology of evaluating potential outflows of margin deposits from the Group to other entities or potential decrease of margin deposits kept by Bank's customers bases on maximal outflows within last 24 months and it secures Bank from underestimation of outflows within 30 days.

In accordance with the Regulation No. 575/2013 the Group monitors and maintains an adequate level of Liquidity Coverage Ratio (LCR). As of December 31, 2017 LCR was 145%. The Group recognizes that the depth of the FX swap market allows the assumption that the existing mismatch (the excess of FX liabilities over assets) can be easily eliminated by means of current FX swaps. Additionally, the Group does not identify other significant components of the net outflow coverage ratio than those included in the net coverage coverage disclosure formula.

Detailed data on the volume of regulatory measures for 2017, as well as the applied internal measures in the area of the liquidity risk management, are 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 2017 in explanatory note no. 49 "Risk Management" in the section "Liquidity risk".

As the result of the assessment of the level of liquidity risk and current and structural liquidity ratios (ILAAP), documented during the review of the Risk Management System (meeting of the Risk and Capital Management Committee on November 29, 2015) and the Assets and Liabilities Management Committee in the process of adopting the annual "Financing and Liquidity Plan" (plan for 2017 approved in January 2017), the Bank did not recommend any changes to the existing liquidity risk limits, considering that they are appropriate to the profile and scale of the Bank's operations.

Tabela 1. Calculation of the LCR indicator (in MM PLN)

		Total unweighted value				Total weighted value			
Quarter ending on		**2017-03-31**	**2017-06-30**	**2017-09-30**	**2017-12-31**	**2017-03-31**	**2017-06-30**	**2017-09-30**	**2017-12-31**
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					19 956	19 747	20 670	19 583
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	10 735	11 026	11 097	11 465	697	721	727	835
3	Stable deposits	7 529	7 634	7 647	7 208	376	382	382	360
4	Less stable deposits	3 206	3 392	3 450	4 257	321	339	345	475
5	Unsecured wholesale funding	23 392	22 859	24 606	22 860	11 039	11 141	12 707	11 161
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	10 108	9 732	10 293	10 752	2 527	2 433	2 573	2 688
7	Non-operational deposits (all counterparties)	13 284	13 127	14 313	12 108	8 512	8 708	10 134	8 473
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	31 569	32 137	31 427	29 482	20 304	21 151	20 345	18 568
11	Outflows related to derivative exposures and other collateral requirements	19 329	20 213	19 394	17 652	19 329	20 213	19 394	17 652
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	12 240	11 925	12 033	11 829	975	938	951	916
14	Other contractual funding obligations	571	1 390	925	1 308	257	1 163	768	1 222
15	Other contingent funding obligations	1 345	1 322	1 328	1 517	134	132	133	152
16	**TOTAL CASH OUTFLOWS**					32 431	34 307	34 681	31 938
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	18 141	18 975	18 355	16 635	18 141	18 975	18 355	16 635
19	Other cash inflows	315	227	157	86	0	0	0	0
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	**TOTAL CASH INFLOWS**	18 456	19 202	18 512	16 721	18 141	18 975	18 355	16 635
EU-20a	**Fully exempt inflows**	0	0	0	0	0	0	0	0
EU-20b	**Inflows Subject to 90% Cap**	0	0	0	0	0	0	0	0
EU-20c	**Inflows Subject to 75% Cap**	0	0	0	0	0	0	0	0
WARTOŚĆ SKORYGOWANAOGÓŁEM									
21	**LIQUIDITY BUFFER**					19 956	19 747	20 670	19 583
22	**TOTAL NET CASH OUTFLOWS**					13 265	14 599	15 830	14 305
23	**LIQUIDITY COVERAGE RATIO (%)**					150%	135%	131%	137%

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. w likwidacji.

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 services until April 30th, 2013 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 2017 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 within the Group.

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. There are also no subsidiaries not included in the consolidation, for which there is a shortage of capital.

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.

[2] According to information in point V.1.7 of this chapter, equity investments of the Capital Group of Bank Handlowy w Warszawie S.A. are classified into strategic portfolio and portfolio deemed for sale.

The scope of Group's consolidation, defined in accordance with the prudential regulations (CRR) matches the scope of consolidation applied for financial reporting.

Table 2. EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS							
Cash and balances with the Central Bank	462 126	462 126	462 126				
Amounts due from banks	836 774	836 774	827 689	9 085			
Financial assets held-for-trading	2 179 925	2 179 925		1 018 132		2 179 925	
Hedging derivatives	0	0					
Debt securities available-for-sale	17 439 439	17 439 439	17 439 439				
Equity investments valued at equity method	10 664	10 664	10 664				
Equity investments available-for-sale	26 500	26 500	26 500				
Amounts due from customers	19 849 033	19 849 033	18 647 244		1 201 789		
Tangible fixed assets	376 775	376 775	376 775				
Intangible assets	1 352 413	1 352 413					1 352 413
Current income tax receivables	667	667	667				
Deferred income tax asset	175 904	175 904	175 904				
Other assets	325 448	325 448	325 448				
Non-current assets held-for-sale	1 928	1 928	1 928				
Total assets	**43 037 596**	**43 037 596**	**38 303 469**	**1 027 217**	**1 201 789**	**2 179 925**	**1 352 413**
LIABILITIES							
Amounts due to banks	1 568 376	1 568 376		9 085			1 559 291
Financial liabilities held-for-trading	1 353 215	1 353 215		1 351 031		1 353 215	
Hedging derivatives	50 191	50 191		50 191			
Amounts due to customers	32 136 698	32 136 698					32 136 698
Provisions	18 300	18 300					18 300
Current income tax liabilities	52 340	52 340					52 340
Other liabilities	919 593	919 593					919 593
Total liabilities	**36 098 713**	**36 098 713**	**0**	**1 410 307**	**0**	**1 353 215**	**34 686 222**
Total equity	**6 938 883**	**6 938 883**					
Total liabilities and equity	**43 037 596**	**43 037 596**					

Table 3. EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**43 037 596**	**38 303 469**	**1 027 217**	**1 201 789**	**2 179 925**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	36 098 713				
Total net amount under the regulatory scope of consolidation	43 037 596	38 303 469	1 027 217	1 201 789	2 179 925
Off-balance-sheet amounts	16 803 693	3 753 719			
Differences due to derivative financial instruments	2 225 831		970 152		
Differences due to different netting rules	237 546		237 546		
Other differences	9 273		9 273		
Exposure amounts considered for regulatory purposes	**62 313 938**	**42 057 188**	**2 244 188**	**1 201 789**	**2 179 925**

Information on the consolidation method used for each entity within the scope of accounting and regulatory consolidation ranges is presented in Report on Activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2017, in chapter III. " The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A ".

III. Information regarding own funds

Information about the components of equity are presented in details in supplementary note 36 „Capital and Reserves" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2017.

The structure of the Group's own funds (Table 4), reconciliation of the Group's own funds to the equity of the Group (Table 5), information on own funds in the interim period (Table 6) and detailed description of the capital instruments' main characteristics (Table 7) are presented in the below tables:

Table 4. The structure of the Group's own funds

ID	Item	Amount
1	**OWN FUNDS**	**4 981 895**
1.1	TIER 1 CAPITAL	**4 981 895**
1.1.1	COMMON EQUITY TIER 1 CAPITAL	**4 981 895**
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	-9 771
1.1.1.2.1	Previous years retained earnings	-9 771
1.1.1.2.2.1	Profit or loss attributable to owners of the parent	535 567
1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-535 567
1.1.1.3	Accumulated other comprehensive income	-9 828
1.1.1.4	Other reserves	2 874 545
1.1.1.5	Funds for general banking risk	540 200
1.1.1.9	Adjustments to CET1 due to prudential filters	**-21 465**
1.1.1.9.5	(-) Value adjustments due to the requirements for prudent valuation	-21 465
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	**-106 437**
1.1.1.11.1	(-) Other intangible assets gross amount	-106 437
1.1.1.26	Other transitional adjustments to CET1 Capital	-19 527
1.1.1.28	CET1 capital elements or deductions - other	-28 017
1.1.2	ADDITIONAL TIER 1 CAPITAL	0
1.2	TIER 2 CAPITAL	0

Table 5. 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
Share capital	522 638
Supplementary capital	3 003 969
Revaluation reserve	-9 118
Other reserves	2 895 599
Retained earnings	525 796
Total Equity	6 938 884
Goodwill & other intangible assets	-1 352 413
Adjustments to Equity Tier I in respect of prudential filters - value adjustments in respect of the requirements for the prudence	-21 465
Other adjustments in transition Common Equity Tier I	-47 544
Net profit for the Bank’s shareholders	-535 567
Total Deductions	**-1 956 990**
Total Own funds	**4 981 895**

Table 6. 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	-9 771	-	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	2 864 717	-	26 (1)
3a	Funds for general banking risk	540 200	-	26 (1) (f)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**6 403 317**	-	
7	Additional value adjustments (negative amount)	-21 465	-	36 (1) (b), 37, 472 (4)
8	Intangible assets (net of related tax liability) (negative amount)	-1 352 413	-	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.	-47 545	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468	-19 528	-	
	of which: 60% filter for unrealised profits on available for sale debt securities	*-18 394*	-	468
	of which: 60% filter for unrealised profits on available for sale equity securities	*-1 134*	-	468
26b	**The amount to be deducted from or added to the amount of core tier I capital for additional (liters and deductions required before the adoption of the CRR**	-28 017	-	480
28	**Total regulatory adjustment to Common Equity Tier 1 (CET1)**	**-1 421 423**	-	

29	**Common Equity Tier 1 (CET1) capital**	**4 981 895**	-	
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)	**4 981 895**	-	
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**	**4 981 895**	-	
60	**Total risk weighted assets**	**27 882 101**	-	
CAPITAL RATIOS AND BUFFERS				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	**17,9%**	-	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	**17,9%**	-	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	**17,9%**	-	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)	**24 690**	-	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)	**10 664**	-	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)	**175 903**	-	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 7. 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 8. Capital adequacy

Capital adequacy	31.12.2017
Common Equity Tier I	4 981 895
Tier I Capital	4 981 895
Own Funds	4 981 895
The total amount of risk exposure	27 882 101
Common Equity Tier 1 capital ratio	17,9%
Tier 1 capital ratio	17,9%
Total capital ratio	17,9%

Table 9. EU OV1 – Overview of RWAs

			RWAs		Minimum capital requirements
			31.12.2017	31.12.2016	31.12.2017
	1	**Credit risk (excluding CCR)**	**20 911 562**	**20 140 392**	**1 672 925**
Article 438 (c) (d)	2	Of which the standardised approach	20 911 562	20 140 392	1 672 925
Article 438 (c) (d)	3	Of which the foundation IRB (FIRB) approach			
Article 438 (c) (d)	4	Of which the advanced IRB (AIRB) approach			
Article 438 (d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
Article 107 Article 438 (c) (d)	**6**	**CCR**	**1 335 653**	**1 622 938**	**106 852**
Article 438 (c) (d)	7	Of which mark to market	722 737	823 850	57 819
Article 438 (c) (d)	8	Of which original exposure			
	9	Of which the standardised approach			
	10	Of which internal model method (IMM)			
Article 438 (c) (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
Article 438 (c) (d)	12	Of which CVA	612 916	799 088	49 033
Article 438 (e)	**13**	**Settlement risk**	**1**	**0**	**0**
Article 449 (o) (i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**951 516**	**949 821**	**76 121**
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)			
	18	Of which standardised approach	951 516	949 821	76 121
Article 438 (e)	**19**	**Market risk**	**1 030 143**	**929 475**	**82 411**
	20	Of which the standardised approach	1 030 143	929 475	82 411
	21	Of which IMA			
Article 438 (e)	**22**	**Large exposures**	**46 825**	**22 399**	**3 747**
Article 438 (f)	**23**	**Operational risk**	**3 606 401**	**3 834 013**	**288 512**
	24	Of which basic indicator approach			
	25	Of which standardised approach	3 606 401	3 834 013	288 512
	26	Of which advanced measurement approach			
Article 437 (2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	466 417	522 133	37 313
Article 500	28	Floor adjustment			
	29	**Total**	**27 882 101**	**27 499 038**	**2 230 568**

V. Information regarding capital requirements

1.1. Credit risk

The accounting definitions of past due and impaired exposures

The impairment (exposure value is higher than the projected cash flows) occurs if there is an objective evidence of impairment as a result of the following defined objective evidence of impairment, i.e.:

- significant financial difficulties of the client, which are described in detail in Credit Procedures,
- breach of contract conditions, e.g. delay in interest or principal payments,
- occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider,
- high probability of a client's insolvency or obtainment of information on the opening of insolvency proceedings,
- domestic or local economic conditions that may be related to the default of exposures,
- the delay in payment,
- significant deterioration in customer rating,
- request of the Bank to initiate enforcement proceedings against the client,
- reduction of the client credit rating by an accepted by the Bank External Credit,

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 exposures in default. All exposures assigned to the class of exposures in default 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 2017 in explanatory note no. 49 "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 flows (discounted using the appropriate effective interest rate) if it is lower than the total gross exposure value,
- for individually insignificant receivables: based on the portfolio assessment estimated on the basis of historical losses 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.

Table 10. EU CRB-B – 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

	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	17 355 836	18 642 610
Regional governments or local authorities	35 416	551 305
Public sector entities	29 796	32 975
Multilateral development banks	99 285	24 822
International organisations	0	0
Institutions	1 431 197	1 384 236
Corporates	19 951 561	20 269 671
Of which: SMEs	2 101 877	2 183 377
Retail	11 985 577	11 734 155
Of which: SMEs	143 293	148 690
Secured by mortgages on immovable property	2 807 340	2 852 638
Of which: SMEs	763 646	771 793
Exposures in default	242 319	164 902
Items associated with particularly high risk	25 184	7 032
Covered bonds	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0
Collective investments undertakings	0	0
Equity exposures	11 979	28 616
Other exposures	2 475 001	2 454 361
Total standardised approach	**56 450 491**	**58 147 323**

* *Arithmetical average calculated on quarterly balances in 2017.*

Table 11. EU CRB-C – Geographical breakdown of exposures

	Net value												
	Poland	United Kingdom	United States	Luxembourg	Netherlands	Norway	Germany	Czech Republic	Romania	India	Italy	Other countries	Total
Central governments or central banks	17 355 475	0	0	0	0	1	0	0	0	0	0	360	**17 355 836**
Regional governments or local authorities	35 416	0	0	0	0	0	0	0	0	0	0	0	**35 416**
Public sector entities	29 796	0	0	0	0	0	0	0	0	0	0	0	**29 796**
Multilateral development banks	0	17 093	0	82 192	0	0	0	0	0	0	0	0	**99 285**
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Institutions	692 063	298 572	302 945	11	0	45	5 343	28 552	11	0	58 535	45 120	**1 431 197**
Corporates	18 722 848	226 456	18 467	200 064	239 883	117 918	101 675	41 478	66 258	65 921	74	150 519	**19 951 561**
Retail	11 985 577	0	0	0	0	0	0	0	0	0	0	0	**11 985 577**
Secured by mortgages on immovable property	2 807 340	0	0	0	0	0	0	0	0	0	0	0	**2 807 340**
Exposures in default	241 627	0	0	0	0	0	0	0	0	0	0	692	**242 319**
Items associated with particularly high risk	2 122	0	23 062	0	0	0	0	0	0	0	0	0	**25 184**
Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Collective investments undertakings	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Equity exposures	11 979	0	0	0	0	0	0	0	0	0	0	0	**11 979**
Other exposures	2 474 616	0	0	385	0	0	0	0	0	0	0	0	**2 475 001**
Total standardised approach	**54 358 859**	**542 121**	**344 474**	**282 652**	**239 883**	**117 964**	**107 018**	**70 030**	**66 269**	**65 921**	**58 609**	**196 691**	**56 450 491**

Table 12. EU CRB-D – Concentration of exposures by industry or counterparty types

	Public administration	Construction	Scientific and technical activities	Real estate activities	Financial and insurance activities	Mining and quarrying	Wholesale and retail trade	Information and communication	Natural persons	Manufacturing	Transport and storage	Electricity and gas supply	Other services	**Total**
Central governments or central banks	15 925 571	0	0	0	1 430 265	0	0	0	0	0	0	0	0	**17 355 836**
Regional governments or local authorities	35 416	0	0	0	0	0	0	0	0	0	0	0	0	**35 416**
Public sector entities	0	0	2 576	0	0	0	0	0	0	0	14 363	0	12 857	**29 796**
Multilateral development banks	0	0	0	0	99 285	0	0	0	0	0	0	0	0	**99 285**
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Institutions	0	0	0	0	1 375 636	0	0	55 561	0	0	0	0	0	**1 431 197**
Corporates	110	643 921	951 638	304 700	1 076 792	850 517	5 465 868	678 870	36 820	6 776 682	369 241	2 643 183	153 219	**19 951 561**
Retail	0	5 976	4 867	40	0	183	85 922	4 014	11 825 912	34 225	5 559	0	18 879	**11 985 577**
Secured by mortgages on immovable property	0	13 970	10 066	8 931	0	0	418 733	109 405	1 352 129	844 767	18 798	0	30 541	**2 807 340**
Exposures in default	0	6 841	218	0	0	0	28 316	71 420	85 071	49 530	275	0	648	**242 319**
Items associated with particularly high risk	0	0	0	0	23 374	0	0	1 026	0	784	0	0	0	**25 184**
Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Collective investments undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Equity exposures	0	0	0	0	11 979	0	0	0	0	0	0	0	0	**11 979**
Other exposures	0	0	0	0	0	0	0	0	0	0	0	0	2 475 001	**2 475 001**
Total standardised approach	**15 961 097**	**670 708**	**969 365**	**313 671**	**4 017 331**	**850 700**	**5 998 839**	**920 296**	**13 299 932**	**7 705 988**	**408 236**	**2 643 183**	**2 691 145**	**56 450 491**

Table 13. EU CRB-E – Maturity of exposures for balance sheet receivables

	Net exposure value					
	On demand	< 1 year	>= 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	0	1 399 713	11 504 834	4 450 676	0	17 355 223
Regional governments or local authorities	0	2 160	33 052	0	0	35 212
Public sector entities	0	5 635	13 820	271	0	19 726
Multilateral development banks	0	0	82 192	0	0	82 192
International organisations	0	0	0	0	0	0
Institutions	0	24 067	875 642	0	141 141	1 040 850
Corporates	43 387	3 812 477	5 716 846	879 767	2 138	10 454 615
Retail	1 033	1 882 866	2 440 750	1 134 631	0	5 459 280
Secured by mortgages on immovable property	1	343 316	483 394	1 648 244	0	2 474 955
Exposures in default	47 200	95 459	65 364	4 557	0	212 580
Items associated with particularly high risk	0	0	0	0	25 184	25 184
Covered bonds	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
Collective investments undertakings	0	0	0	0	0	0
Equity exposures	0	0	0	0	11 979	11 979
Other exposures	0	0	0	0	2 475 002	2 475 002
Total standardised approach	**91 621**	**7 565 693**	**21 215 894**	**8 118 146**	**2 655 444**	**39 646 798**

Table 14. EU CR1-A – Credit quality of exposures by exposure class and instrument

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks	0	17 355 836	0	-	0	0	17 355 836
Regional governments or local authorities	0	35 436	20	-	0	-27	35 416
Public sector entities	0	29 812	16	-	0	2	29 796
Multilateral development banks	0	99 285	0	-	0	0	99 285
International organisations	0	0	0	-	0	0	0
Institutions	0	1 432 500	1 303	-	0	2 169	1 431 197
Corporates	584 214	19 971 051	450 900	-	0	3 873	20 104 365
Of which: SMEs	90 480	2 107 222	43 737	-	0	2 824	2 153 965
Retail	324 189	12 047 965	297 063	-	125	2 518	12 075 091
Of which: SMEs	5 485	143 875	1 623	-	125	9	147 737
Secured by mortgages on immovable property	0	2 811 618	4 278	-	0	-1 152	2 807 340
Of which: SMEs	0	766 625	2 979	-	0	69	763 646
Exposures in default	908 403	0	666 084	-	39 559	95 413	242 319
Items associated with particularly high risk	0	29 435	4 250	-	0	0	25 185
Covered bonds	0	0	0	-	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	-	0	0	0
Collective investments undertakings	0	0	0	-	0	0	0
Equity exposures	0	11 979	0	-	0	394	11 979
Other exposures	0	2 475 001	0	-	0	0	2 475 001
Total standardised approach	**908 403**	**56 299 918**	**757 830**	-	**39 684**	**103 190**	**56 450 491**
Of which: Loans	870 715	20 158 615	738 617	-	35 312	96 069	20 290 713
Of which: Debt securities	0	17 439 439	0	-	0	0	17 439 439
Of which: Off-balance-sheet exposures	35 515	16 780 968	12 789	-	0	5 575	16 803 694

Table 15. EU CR1-B – Credit quality of exposures by industry or counterparty types

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Public administration	0	15 961 117	20	-	0	-27	15 961 097
Construction	61 720	664 438	55 450	-	316	10 243	670 708
Scientific and technical activities	384	970 205	1 224	-	0	0	969 365
Real estate activities	10 376	313 886	10 591	-	0	0	313 671
Financial and insurance activities	47 120	4 019 141	48 930	-	0	375	4 017 331
Mining and quarrying	0	851 180	480	-	0	27	850 700
Wholesale and retail trade	92 846	5 978 679	72 686	-	1 886	23 172	5 998 839
Information and communication	99 833	850 313	29 851	-	1 096	23 913	920 295
Natural persons	318 704	13 276 767	295 539	-	13 470	51 082	13 299 932
Manufacturing	180 407	7 671 265	145 684	-	20 234	-7 703	7 705 988
Transport and storage	63 622	408 295	63 682	-	0	98	408 235
Electricity and gas supply	0	2 643 539	356	-	0	0	2 643 183
Other services	33 391	2 691 092	33 336	-	2 683	2 009	2 691 147
Total	**908 403**	**56 299 917**	**757 829**	-	**39 685**	**103 189**	**56 450 491**

Table 16. EU CR1-C – Credit quality of exposures by geography

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Poland	907 685	54 208 213	757 038	-	39 684	103 318	54 358 860
United Kingdom	0	542 320	199	-	0	-248	542 121
United States	0	344 539	65	-	0	56	344 474
Luxembourg	0	282 662	11	-	0	-11	282 651
Netherlands	0	239 968	85	-	0	-86	239 883
Norway	0	118 035	71	-	0	-3	117 964
Germany	0	107 056	38	-	0	2	107 018
Czech Republic	0	70 139	109	-	0	114	70 030
Romania	0	66 300	31	-	0	-5	66 269
India	0	65 955	35	-	0	16	65 920
Italy	0	58 644	35	-	0	35	58 609
Other countries	718	196 088	114	-	0	-1	196 692
Total	**908 403**	**56 299 919**	**757 831**	-	**39 684**	**103 187**	**56 450 491**

Table 17. CR1-D – Ageing of past-due exposures

	Gross carrying values					
	≤30 days	**>30 days, ≤60 days**	**>60 days, ≤90 days**	**>90 days, ≤180 days**	**>180 days, ≤1 year**	**>1 year**
Loans	332 830	37 631	35 529	55 169	76 784	600 960
Debt securities	-	-	-	-	-	-
Total exposures	332 830	37 631	35 529	55 169	76 784	600 960

Table 18. CR1-E – Non-performing and forborne exposures

	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
				Of which non-performing				On performing exposures		On non-performing exposures			
	Total	Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Total	Of which defaulted	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne	On non-performing exposures	Of which forborne exposures
Debt securities	19 136 201	-	-	-	-	-	-	112	-	-	-	-	-
Loans and advances	19 760 438	56 267	-	874 556	874 556	874 556	97 262	80 360	-	660 369	58 855	19 234	12 185
Off-balance-sheet exposures	16 816 482	-	-	35 515	35 515	-	95	7 013	-	5 776	44	1 001	-

Table 19. EU CR2-A – Changes in the stock of general and specific credit risk adjustments

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**563 421**	**-**
Increases due to amounts set aside for estimated loan losses during the period	211 432	-
Decreases due to amounts reversed for estimated loan losses during the period	- 99 810	-
Decreases due to amounts taken against accumulated credit risk adjustments	- 39 684	-
Transfers between credit risk adjustments	-	-
Impact of exchange rate differences	-	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments	- 47 576	-
Closing balance	**587 783**	**-**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	8 219	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

Table 20. EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

	Gross carrying value defaulted exposures
Opening balance	**798 758**
Loans and debt securities that have defaulted or impaired since the last reporting period	167 733
Returned to non-defaulted status	- 2 385
Amounts written off	- 39 559
Other changes	- 16 144
Closing balance	**908 403**

Table 21. EU CR3 – CRM techniques – Overview

	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	19 019 709	350 686	271 855	78 832	-
Total debt securities	19 136 088	32 576	-	32 576	-
Total exposures	38 155 798	383 262	271 855	111 407	-
Of which defaulted	212 580	5 714	200	5 514	-

Table 22. EU CR4 – Standardised approach – Credit risk exposure and CRM effects

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
Central governments or central banks	17 355 223	612	17 427 215	231	11 710	0,07%
Regional governments or local authorities	35 212	205	35 212	41	7 050	20,00%
Public sector entities	19 726	10 069	18 740	4 455	11 598	50,00%
Multilateral development banks	82 192	17 092	82 192	8 546	0	0,00%
International organisations	0	0	0	0	0	-
Institutions	1 040 850	390 347	741 604	132 454	291 802	33,38%
Corporates	10 454 617	9 496 948	10 432 364	3 386 387	13 436 166	97,23%
Retail	5 458 771	6 526 806	5 443 122	52 970	4 109 183	74,77%
Secured by mortgages on immovable property	2 475 463	331 876	2 475 463	140 134	1 778 127	67,98%
Exposures in default	212 580	29 738	206 867	14 405	248 103	112,13%
Items associated with particularly high risk	25 184	0	25 184	0	37 776	150,00%
Covered bonds	0	0	0	0	0	-
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	-
Collective investments undertakings	0	0	0	0	0	-
Equity exposures	11 979	0	11 979	0	27 975	233,53%
Other exposures	2 475 001	0	2 475 001	0	952 072	38,47%
Total standardised approach	**39 646 798**	**16 803 693**	**39 374 943**	**3 739 623**	**20 911 562**	**48,50%**

1.2. 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, „PSE"), 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. In case there is no sufficient data, to simulate the value of the transactions' portfolio more simplified method are used, same as for the purpose of capital requirement calculation.

Pre-settlement risk exposure is managed and reduced through the initial or variation margin deposits as well as conducting transactions using clearing houses.
Moreover, the exposure arising from pre-settlement risk is continuously monitored and is also limited at the aggregate level broken down by product group.

Settlement risk arises when the Group exchanges cash payments to counterparty on a value date and is unable to verify that payments 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 calculating regulatory capital requirement due to applying standard methodology. The Group does not estimate α ratio, because it does not determine specific correlation risk.

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

Table 23. EU CCR1 – Analysis of CCR exposure by approach

	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		492 864	1 732 967	0	0	2 062 531	722 737
Original exposure	-					-	-
Standardised approach		-			-	-	-
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						678	0
VaR for SFTs							
Total							**722 737**

Table 24. EU CCR2 – CVA capital charge

	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)		-
(ii) SVaR component (including the 3× multiplier)		-
All portfolios subject to the standardised method	2 178 168	711 501
Based on the original exposure method	-	-
Total subject to the CVA capital charge	2 178 168	711 501

Table 25. EU CCR8 – Exposures to CCPs

	EAD post CRM	RWAs
Exposures to QCCPs (total)		62 487
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	815 490	16 310
(i) OTC derivatives	815 490	16 310
(ii) Exchange-traded derivatives	-	
(iii) SFTs	-	
(iv) Netting sets where cross-product netting has been approved	-	
Segregated initial margin	-	
Non-segregated initial margin	99 106	3 812
Prefunded default fund contributions	52 556	0
Alternative calculation of own funds requirements for exposures		42 365
Exposures to non-QCCPs (total)		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	
(iii) SFTs	-	
(iv) Netting sets where cross-product netting has been approved	-	
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

Table 26. EU CCR5-A – Impact of netting and collateral held on exposure values

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	1 018 132	1 914 414	2 225 831	163 300	2 062 531
SFTs	18 357	-	18 357	17 679	678
Total	1 036 489	1 914 414	2 244 188	180 979	2 063 209

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.

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 fulfils 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.

1.3. Information regarding credit risk mitigation techniques

Information regarding the policies for collateral management and main types of accepted collateral are presented in supplementary note 49„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 2017.

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 funded credit protection the Group considers cash collateral and real estates in case of credit risk mitigation of retail exposures in accordance with the principles set in the Regulation No. 575/2013.
Currently only guarantees issued by the Treasury and BGK are recognized by the Group as unfunded credit risk mitigation techniques for capital adequacy calculation.

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 27. EU CCR5-B – Composition of collateral for exposures to credit risk and counterparty credit risk

Exposure type / Exposure class	Security collateral	Unfunded credit protection-guarantees	Cash collateral	Value of collateral received	Value of posted collateral
On-balance sheet exposures & financial and guarantees liabilities granted					
Retail exposures	0	12 774	4 782	17 556	0
Exposures to institutions	266 670	71 993	0	338 663	0
Public sector entities	0	0	1 065	1 065	0
Exposures to corporates	0	21 128	54 538	75 666	0
Exposures in default	0	5 514	895	6 409	0
Repo-style transactions* and derivatives					
Exposures to institutions	8 594	170 560	171 107	350 260	483 459
Exposures to corporates	0	0	1 278	1 278	45 239
Total	**275 264**	**281 969**	**233 665**	**790 898**	**528 698**

* 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
7) items representing securitisation positions.

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 28. EU CR5 – Standardised approach – credit risk

Exposure classes	Risk weight									Total	Of which unrated
	0%	2%	20%	35%	50%	75%	100%	150%	250%		
Central governments or central banks	17 368 894	-	58 551	-	-	-	0	-	-	17 427 445	-
Regional governments or local authorities	-	-	35 252	-	-	-	-	-	-	35 252	35 233
Public sector entities	-	-	-	-	23 196	-	-	-	-	23 196	23 196
Multilateral development banks	90 738	-	-	-	-	-	-	-	-	90 738	-
International organisations	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	503 462	-	358 973	-	11 623	-	-	874 058	615 731
Corporates	52 556	184 841	66 942	-	11 938	-	13 502 473	-	-	13 818 750	11 652 234
Retail	-	-	-	-	-	5 496 092	-	-	-	5 496 092	5 496 092
Secured by mortgages on immovable property	-	-	-	1 286 245	-	-	1 265 391	63 962	-	2 615 597	2 615 597
Exposures in default	-	-	-	-	-	-	167 608	53 663	-	221 271	221 271
Items associated with particularly high risk	-	-	-	-	-	-	-	25 184	-	25 184	2 122
Covered bonds	-	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	1 316	-	10 664	11 979	11 979
Other exposures	1 783 988	-	3 495	-	-	-	511 616	-	175 903	2 475 001	2 475 001
Total standardised approach	**19 296 177**	**184 841**	**667 702**	**1 286 245**	**394 107**	**5 496 092**	**15 460 026**	**142 809**	**186 567**	**43 114 566**	**23 148 457**

Table 29. EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

Exposure classes	Risk weight							Total	Of which unrated
	0%	2%	20%	50%	75%	100%	150%		
Central governments or central banks	170 560	-	-	-	-	-	-	170 560	-
Regional governments or local authorities	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-
Institutions	-	-	23 349	638 713	-	1 745	-	663 807	45 356
Corporates	-	719 588	155 051	3 058	-	350 532	-	1 228 227	435 940
Retail	-	-	-	-	578	-	-	578	578
Exposures in default	-	-	-	-	-	-	37	37	37
Other exposures	-	-	-	-	-	-	-	-	-
Total standardised approach	**170 560**	**719 588**	**178 399**	**641 771**	**578**	**352 276**	**37**	**2 063 209**	**481 911**

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 regarding exposure to securitisation positions

Securitization activities are 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. Securitization is now a standard and widely used product in global markets. Its importance also increases on the Polish market. The Group intends to be an active participant in this market segment.

At the end of 2017 year the total item constituting securitization exposures amounted PLN 1,2 MM Securities purchased by the Group are not traded on the market. The Group intends to maintain investments until the maturity date. The Group classifies securitization's assets as loans and receivables in accordance with IAS 39 and value them at amortized cost. The expected maturity date of the securities is September 2026 and October 2028.

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, data related to the quality of previous securitization,

- Risk analysis of the exposure underlying the securitization position i.e. 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, events of default and default indicators, - Monitoring including, among others, verification of the quality of the exposures underlying the securitization position, timeliness of payments and service, compliance with the transactions conditions, the financial situation of the institutions participating in the transaction, etc. Existing Group's commitment in securitized assets is not exposed to market risk due to the accounting treatment applied.

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

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

Given the above risks, the Group's credit procedures ensure conducting quality monitoring of securitization portfolio on a quarterly basis.

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

Risk weighted exposure for securitization portfolio is determined in accordance with the Regulation No 575/2013.

The Group uses agencies' ratings 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 securitization positions to assign risk weight at least two credit ratings assigned by recognized external credit assessment institutions are required.

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 30. 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	1 201 789	76 121

1.6. Market risk

The amount of capital requirements for individual types of market risk are presented below for:

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

Table 31. EU MR1: Market risk under standardised approach

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	886 916	70 953
Equity risk (general and specific)	6 667	533
Foreign exchange risk	136 560	10 925
Commodity risk	0	0
Options		
Simplified approach	0	0
Delta-plus method	0	0
Scenario approach	0	0
Securitisation (specific risk)	0	0
Total	**1 030 143**	**82 411**

The information regarding the exposure to interest rate risk on positions not included in the trading book are disclosed in explanatory note 49"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 2017.

The interest rate risk is measured on a daily basis.

The Group does not use internal ratings-based approach.

1.7. 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 2017.
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 2017.

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 40 „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 2017.

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 2017.

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 2017.

1.8. Operational risk

Operational risk is understood as risk of loss resulting from inadequate or deficient internal processes, human factors, systems and technology or external events (including the following risk categories: technology and technical, outsourcing, fraud, money laundering, external events (continuity of business), tax and accounting risk, product risk, legal, model, human resources, concentration, conduct, reputational associated with business and market practices, as well as operational risks inherent in other risk categories (e.g. credit, counterparty, liquidity, compliance).

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 (STA) 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 2017, split by operational risk event types and categories (in accordance with appendix 1 to Recommendation M) are presented in the table 32. Table contains events impacting financial results, including boundary events.

Table 32. Total operational risk gross losses by types of events

Events' types and categories	Amount
Execution, Delivery & Process Management - Related Events	**8 930**
Transaction Capture, Execution & Maintenance	**8 894**
Monitoring and Reporting	**22**
Third Party Management - External/Internal	**15**
External Theft and Fraud	**3 850**
Credit Cards Fraud	2 031
Debit Card Fraud	1 255
Fraudulent Application - Non Card related	223
Other External Theft and Fraud	213
Electronic Banking and Internet Fraud; Distribution of Rogue Software	127
Electronic Banking and Internet Fraud; Identity Theft	1
Employment Practices and Workplace Environment - Related Events	**486**
Employee Relations	486
Clients, Products & Business Practices - Related Events	**100**
Suitability, Disclosure & Fiduciary	60
Product Design	29
Business Practices or Market Conduct	10
Internal Theft and Fraud	**95**
Theft of Cash, Property and Financial Instruments; Cash Larceny	50
Account Takeover - Credit and Debit Cards; Credit and Debit Cards Account Takeover	22
Other Internal Theft and Fraud	21
Misrepresentation of Performance; Incentive Abuse - Falsifying performance metrics to receive unearned financial incentives	2
Systems & Technology	**13**
Other Systems & Technology	13
Total	**13 474**

Gross value of operational losses accounted in the year 2017 (by booking date) amounted to PLN 13 474 thousand. 67,7% out of this amount (PLN 9 135M) was related to events, which occurred in prior years. Relation of gross losses to Group revenues amounts to 0,67%. The total amount of losses consists of almost 500 registered events (including homogenous events with financial effects not exceeding USD 10 thousand aggregated on a monthly basis). In terms of severity, in the year 2017 Group registered 3 events >USD 100M (1 ocurred in 2017 and the remaining in prior years) and 16 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 2017 losses include:

- PLN 5,3MM – event related to processing of securities' assignment,
- PLN 2,7MM – event related to remuneration components calculation,
- PLN 1,0MM – event related to product desiging and parametrization,
- PLN 3,3MM - cumulated amount of losses resulting from credit and debit cards frauds (including skimming and internet frauds). On ongoing basis Bank works on preventing measures enhancements in that area. At the same time Bank registered in 2017 recoveries in amount of PLN 2,5MM, what constitutes 75% of total gross loss amount.

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 2017: 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, 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. Risk appetite set for the year 2017 were not exceeded.

The information regarding the operational risk is disclosed in explanatory note 49 "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 2017.

VI. 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. Adopted Overall Risk Appetite 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 risk appetite. It specifies the Group's capital needs and 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 planning and ongoing monitoring of capital usage according to established 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 2017:

- credit risk,
- counterparty credit risk,
- operational risk,
- market risk in the trading book,
- interest rate risk in the banking book,
- liquidity risk,
- compliance risk,
- model risk,
- information security risk (including cyber risk).

The Group assesses the internal capital for a base case and a downside scenario, which is a basis for the stress tests' analysis.
Scenarios are defined on the basis of the set of assumptions 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.

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.

Risk and Capital Management Committee is responsible for ongoing capital adequacy assessment. The Committee supervises the compliance with Overall Risk Appetite established by the Supervisory Board and monitors capital adequacy taking into account the quantitative ratios and capital limits utilization.

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

If determined within the Overall Risk Appetite level of capital adequacy ratio falls below approved threshold or the Group does not have enough capital to cover internal capital allocation for significant risks, the contingency capital plan will be activated.

VII. Capital Buffers

The Group is obliged to maintain conservation capital buffer of 1,25 p.p. of total risk exposure amount in 2017.

On 4 October 2016, Polish Financial Supervision Authority identified the Group as Other Systemically Important Institution (O-SII) and imposed an additional capital buffer – O-SII capital buffer – of 0,25% of total risk exposure amount.

As of 31 December 2017, the countercyclical capital buffer ratio of 0% has been applied to credit exposures in Poland according to the Article 83 of the Law. The ratio shall be effective until it is changed by way of an ordinance of the Finance Minister.

Pursuant to the PFSA's decision of 19 December 2017, another systemically important system buffer was maintained at 0.25% of the total risk exposure amount.

The Group calculates the institution-specific countercyclical capital buffer in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located.

Table 33. The amount of the institution-specific countercyclical capital buffer

	As of 31.12.2017
Total risk exposure amount (in PLN'000)	**27 882 101**
Institution-specific countercyclical capital buffer rate (%)	0,01006
Institution-specific countercyclical capital buffer requirement (in PLN'000)	2 805

Table 34. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (in PLN'000)

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
Country	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book exposure for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights (%)	Countercyclical capital buffer rate (%)
Poland	24 490 353	-	2 703	-	1 001 089	-	1 637 246	216	60 065	1 697 528	96,71126	0,000
United Kingdom	922 960	-	0	-	0	-	2 930	0	0	2 930	0,16690	0,000
Norway	93 549	-	0	-	0	-	7 484	0	0	7 484	0,42637	2,000
India	57 220	-	0	-	0	-	4 578	0	0	4 578	0,26080	-
Netherlands	47 977	-	0	-	0	-	3 838	0	0	3 838	0,21867	0,000
Hungary	47 247	-	0	-	0	-	3 780	0	0	3 780	0,21534	0,000
Romania	43 892	-	0	-	0	-	3 511	0	0	3 511	0,20005	0,000
Luxembourg	42 165	-	79	-	0	-	3 305	6	0	3 311	0,18865	0,000
United States	42 129	-	0	-	0	-	4 010	0	0	4 010	0,22844	0,000
Czech Republic	38 416	-	0	-	0	-	3 071	0	0	3 071	0,17495	0,500
Switzerland	28 770	-	0	-	0	-	2 302	0	0	2 302	0,13113	0,000
Germany	21 115	-	0	-	0	-	1 489	0	0	1 489	0,08484	0,000
Sweden	7 244	-	0	-	0	-	579	0	0	579	0,03301	2,000
France	3 704	-	0	-	0	-	296	0	0	296	0,01688	0,000
Bulgaria	3 515	-	0	-	0	-	281	0	0	281	0,01602	0,000
Belgium	2 000	-	0	-	0	-	160	0	0	160	0,00911	0,000
Austria	348	-	0	-	0	-	42	0	0	42	0,00238	0,000
Italy	74	-	0	-	0	-	6	0	0	6	0,00034	0,000
South Korea	31	-	0	-	0	-	1	0	0	1	0,00008	0,000
Ireland	7	-	0	-	200 700	-	1	0	16 056	16 057	0,91477	0,000
United Arab Emirates	2	-	0	-	0	-	0	0	0	0	0,00001	-
British Virgin Islands	1	-	0	-	0	-	0	0	0	0	0,00000	0,000
Total	**25 892 719**	**-**	**2 782**	**-**	**1 201 789**	**-**	**1 678 909**	**223**	**76 121**	**1 755 253**	**100**	

VIII. 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) – subsidiary of the Bank – 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. Both Policies were replaced respectively by "Remuneration policy for employees of Bank Handlowy w Warszawie S.A." (dated 22 December 2017) and "Remuneration policy for employees of Dom Maklerski Banku Handlowego S.A." (dated 3 January 2018), hereinafter referred to as the Remuneration Policy.

Newly adopted Remuneration Policy sets out the principles for remunerating all employees of Bank and DMBH, including in particular Key Persons, persons whose professional activities have a material impact on the risk profile of the Bank, employees involved in selling Bank's products and services and persons employed in control functions.

This Policy implements requirements of the provisions of law, Rules of Corporate Governance for Supervised Institutions adopted by the Polish Financial Supervision Authority and the Code of Best Practice for WSE Listed Companies 2016, recommendations of the Polish Financial Supervision Authority covering banking sector and takes into account Guidelines of the European Banking Authority on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, Guidelines of the European Banking Authority on remuneration policies and practices related to the sale and provision of retail banking products and services, Guidelines of European Securities and Markets Authority on remuneration policies and practices (MiFID).

Principles for remuneration of employees that have a material impact on the risk profile in the Bank and DMBH are described in details in the "Remuneration policy for persons whose professional activities have a material impact on the risk profile of Bank Handlowy w Warszawie S.A." which was adopted by the Management Board and approved by the Supervisory Board of Bank on 22 December 2017 and the "Remuneration policy for persons whose professional activities have a material impact on the risk profile of Dom Maklerski w Warszawie S.A." which was adopted by the Management Board and approved by the Supervisory Board on 3 January 2018 (hereinafter referred to as "Remuneration Policy for Identified Staff"), that have replaced "Variable remuneration components policy for managerial staff at Bank Handlowy w Warszawie S.A." binding from 26 September 2012 and "Variable remuneration components policy for managerial staff at Dom Maklerski Banku Handlowego S.A." binding from 3 March 2012.

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

- the members of the Bank's Nomination and 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 Resources 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 "Remuneration Policy for Identified Staff" by the Management Board. It should be noted that the Nomination and Remuneration Committee of the Supervisory Board was established in the Bank. It provides recommendations and opinions on the levels and conditions of variable remuneration of employees covered by the Remuneration Policy for Identified Staff and acknowledges information on the current List of employees whose professional activities have a material impact on the Bank's risk profile

Additionally, each time, in case of the change of the Remuneration Policy for Identified Staff , the Nomination and 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 2017 there were five meetings of the Nomination and Remuneration Committee.

As at December 31, 2017 the Nomination and Remuneration Committee was composed of:

1. Andrzej Olechowski – Chairman of the Committee
2. Jenny Grey – Vice Chairman of the Committee
3. Marc Luet – Member of the Committee
4. Stanisław Sołtysiński – Member of the Committee

In DMBH decisions related to Management Board Members' remuneration and grant of variable remuneration are made by the Supervisory Board and for other employees covered by the Remuneration Policy for Identified Staff 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 Remuneration Policy for Identified Staff is presented to DMBH Supervisory Board.

Each time, in case of the change of the Remuneration Policy for Identified Staff, 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 2017 there was one meeting of the Supervisory Board related to the remunerations of Identified Staff.

In 2017 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 employees, who have a material impact on the risk profile of the Bank or DMBH accordingly and therefore should be the subject to the provisions of the Remuneration Policy for Identified Staff. Once a year, by 31 December, the current List of Identified Staff is submitted for the information of the Management Board and the Supervisory Board. The list of the employees under the Remuneration Policy for Identified Staff includes:

- President, Vice-Presidents and the Members 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 Remuneration Policy for Identified Staff, 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 Remuneration Policy for Identified Staff 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 within business areas they control. 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 2017, granted January 15, 2018, was divided into non-deferred and deferred portions. The deferred portion was divided into short-term part which vests after 6 or 12 month period and long-term one consisting of three or five tranches, to be paid respectively in years 2019 – 2021or in years 2019 - 2023, subject to conditions provided for in the Remuneration Policy for Identified Staff. Information on adopted solutions binding in 2017 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 2017 in the explanatory note 49"Employee benefits".

Vesting of particular tranches requires to be approved each time by the Supervisory Board in relation to remuneration of the Management Board Members 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 over 3 or 5 years equal to 40% of the variable remuneration with 6 or 12 months retention period for each bonus tranche,
- above the equivalent EUR 500 thousand (in DMBH above the equivalent of 1 million euro) – deferral over 3 or 5 years equal to 60% of the variable remuneration with 6 or 12 months retention period for each bonus tranche.

The variable remuneration for adopted Remuneration Policy's and Remuneration Policy for Identified Staff'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 Identified Staff – 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, whose value in case of Bank Handlowy will fluctuate depending on the market value of the Bank's shares and in case of DMBH is linked to the value of the DMBH's shares which are calculated on basis of DMBH book value. The remaining part of the variable remuneration is a cash award, whereby the interests for the period from awarding to payment the given part of remuneration will be accrued to the given tranche of the deferred variable remuneration. After two years from granting the deferred cash award the accrued interest will be credited to the capital of unpaid tranches of this award and will be subject to interest until it becomes payable after the retention period. In DMBH, in compliance with the Regulation of the Minister of Economic Development and Finance of 25 April 2017 on the internal capital, the risk management system, a supervisory examination programme and supervisory review and assessment, as well as the remuneration policy in brokerage house, in case a share of variable remuneration in total remuneration is lower than 50%, only deferred cash variable remuneration is applied.

During the deferral period, employees who are rewarded in Bank's 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 Remuneration Policy for Identified Staff. Employees, who have variable remuneration deferred in DMBH phantom shares, are not entitled to dividend equivalent.

Regardless of changes of the deferred variable remuneration's value associated with the fluctuation of the Bank's share price, changes of DMBH book value or accrued interest, the amount of paid deferred portion of bonus may be lowered or completely reduced by the decision of Supervisory Board or accordingly the Management Board in case of:

- standards concerning the guarantee of safe and prudent Bank management in BHW and the competencies and reputation standards in DMBH have not been met the which is verified by determination if:
- Identified Staff engaged in gross misconduct in connection with his/her employment duties, in particular participated in or was responsible for conduct which resulted in significant losses to the Bank or DMBH; or
- Identified Staff knowingly engaged in providing materially inaccurate information to the financial statements of the Bank or BDMH; or
- The Bank or DMBH suffers a material failure of risk management; or
- The Identified Staff materially violate any risk limits established or revised by senior management and/or risk management.

- In a situation set forth in Art. 142 sec. 1 of the Banking Law in case of Bank's employees and in situation set in w Art. 110zz sec. 1 of the Act on Trading in Financial Instruments dated 29 July 2005, or
- In case Identified Staff received the Variable Remuneration based on materially inaccurate financial statements, or
- In case the Bank or DMBH has suffered a material downturn in its financial performance; or
- In case of balance sheet loss, threat of insolvency of loss of liquidity by the Bank or DMBH.

The acquisition of the right to each tranche of deferred variable remuneration 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, 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 Nomination and 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 35. Remuneration of employees covered by the Variable Remuneration Policy in 2017[1]

				Cash Award			Phantom shares of Bank Handlowy w Warszawie S.A.			
				Non deferred cash award	Deferred cash award		Short-term phantom shares award		Long-term phantom shares award	
Category/Sector	Number of Employees[2]	Total fixed remuneration[3]	Total variable remuneration[4]	Paid[5]	Paid	Accrued, unvested	Paid	Accrued, unvested	Paid	Accrued, unvested
Management Board	7	9 303	15 410	2 457	1 988	2 207	2 433	2 804	1 603	1 917
Consumer Bank Segment	6	4 008	1 793	477	114	268	325	364	123	122
Corporate Bank Segment[6]	60	29 756	14 723	4 162	2 296	1 541	1 891	1 614	1 805	1 414
Total Bank	**73**	**43 067**	**31 927**	**7 096**	**4 399**	**4 016**	**4 649**	**4 782**	**3 531**	**3 453**
Brokerage house	7	2 830	695	323	238	18	60	(116)	182	(10)
Total Group	**80**	**45 897**	**32 622**	**7 418**	**4 637**	**4 034**	**4 709**	**4 666**	**3 713**	**3 443**

[1] Within the Group, there were separate Variable Remuneration Policies, in the Bank and in the Brokerage House replaced by Remuneration Policies of Identified Staff both in the Bank and DMBH. The above table presents remuneration under those Policies.

[2] Including employees covered by the Remuneration Policy for Identified Staff as of 31 December 2017, during whole 2017 there were 80 employees covered by the Variable Remuneration Policy replaced by Remuneration Policy for Identified Staff in the Bank and 8 employees in the Brokerage House.

[3] Represents fixed remuneration and covers gross amounts of base salary, benefits, insurance, payment in lieu of leave, benefits provided for in employment contracts of foreign employees.

[4] In addition in 2017 the Bank and the Brokerage House paid out deferred cash award with interest and long-term phantom shares award with dividends to the employees who were not covered in 2017 by the Variable Remuneration Policy Replaced by Remuneration Policy for Identified Staff. The full cost of the payouts of those awards in 2017 is included in financial statement.

[5] Paid out in 2018.

[6] Covers employees not being Members of the Management Board of the Bank and who are not employed in the Consumer Bank Segment.

The table above does not include the wages and benefits other than the fixed remuneration which were not under the Remuneration Policy for Identified Staff.

Information related to payments in 2017 associated with hiring of employees covered by the Remuneration Policy for Identified Staff.

- No. of employees: 0 employee,
- Payment amount: PLN 0 thousand.

Information related to 2017 severance payments for employees covered by the Remuneration Policy for Identified Staff.

- No. of employees: 1 employee,
- Payment amount: PLN 41 thousands,
- Highest such payment to a single person: PLN 41 thousands.

Number of individuals being remunerated in 2017 at least EUR 1 million:

- 1 person in the pay band of EUR 1,0m – 1,5m.

Within the scope of the Remuneration Policy for Identified Staff, in the column “Non - deferred cash award” of the table above there is presented the non - deferred part, paid out in 2018. The remaining, deferred part – consisting of deferred cash award and award in the form of the Bank’s phantom shares – will be paid tranches in years 2019-2023 and is given in the values of the cost of 2017 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 2017.

There were no reductions of remuneration awarded under the Policy within the correction connected with the results.

IX. Unencumbered assets

For the purposes of these disclosures 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 2017 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 36. Encumbered and unencumbered assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**1 052 527**		**43 287 390**	
030	Equity instruments			62 814	
040	Debt securities	397 668	397 668	20 624 891	20 624 891
050	of which: covered bonds	-	-	-	-
060	of which: asset-backed securities	-	-	-	-
070	of which: issued by general governments	397 668	397 668	18 291 349	18 291 349
080	of which: issued by financial corporations	-	-	1 315 713	1 315 713
090	of which: issued by non-financial corporations	-	-	567 288	567 288
120	Other assets	654 859	-	22 599 685	-
121	of which: Loans and advances	654 859	-	18 539 959	-

Table 37. Collateral received by the reporting institution

		Fair value of encumbered collateral received or own debt securities issued	Unencumbered
			Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**28 555**	**894 043**
140	Loans on demand	-	-
150	Equity instruments	-	-
160	Debt securities	28 555	330 511
170	of which: covered bonds	-	-
180	of which: asset-backed securities	-	-
190	of which: issued by general governments	28 555	330 511
200	of which: issued by financial corporations	-	-
210	of which: issued by non-financial corporations	-	-
220	Loans and advances other than loans on demand	-	229 751
230	Other collateral received		333 781
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	-	-
241	**Own covered bonds and asset-backed securities issued and not yet pledged**		
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	1 081 082	

Table 38. Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**751 003**	**877 252**
011	of which: derivatives	410 984	536 764
012	of which: repurchase agreements	275 183	247 097
013	of which: collateralised deposits other than repurchase agreements	64 836	93 391
014	**Other sources of encumbrance**	**104 863**	**203 830**
015	**TOTAL SOURCES OF ENCUMBRANCE**	**855 866**	**1 081 082**

X. Leverage ratio

Information on the leverage ratio at 31 December 2017: 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 39. Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts in 000'PLN
1	Total assets as per published financial statements	43 037 596
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation No. 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	1 207 699
5	Adjustments for securities financing transactions "SFTs"	9 272
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4 389 798
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	-40 992
8	**Total leverage ratio exposure**	**48 603 373**

Table 40. Leverage ratio common disclosure

		CRR leverage ratio exposures 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)	41 743 709
2	(Asset amounts deducted in determining Tier 1 capital)	-1 393 405
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	40 350 304
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	492 864
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	1 732 967
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)**	2 225 831
Securities financing transaction exposures		
12	Gross SFT assets (with No. recognition of netting), after adjusting for sales accounting transactions	285 028
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)**	285 028
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross Notional amount	16 803 693
18	(Adjustments for conversion to credit equivalent amounts)	-12 413 896
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	4 389 798

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**	4 981 895
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, 19a and 19b)**	47 250 960
Leverage ratio		
22	**Leverage ratio**	10,5%
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 41. Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures in 000'PLN
1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	42 010 380
2	Trading book exposures	1 161 793
3	Banking book exposures, of which:	40 848 587
4	Covered bonds	0
5	Exposures treated as sovereigns	17 427 215
6	Exposures to regional governments, MDB, international organisations and PSE No.T treated as sovereigns	137 130
7	Institutions	1 008 275
8	Secured by mortgages of immovable properties	2 475 463
9	Retail exposures	5 445 997
10	Corporate	10 433 486
11	Exposures in default	207 067
12	Other exposures (e.g. equity, securitisations, and other Non-credit obligation assets)	3 713 954

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 main factor impacting the leverage ratio was decrease in on-balance assets and increase in value of available for sale securities resulting in higher Tier 1 capital.

The level of leverage is monitored periodically. Information about the current ratio is regularly, on a quarterly basis, reported 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.

Signatures of Management Board Members

Date	Name	Position / function	
21.03.2018	Sławomir S. Sikora	President of the Management Board	Signed on Polish original
21.03.2018	Maciej Kropidłowski	Vice-President of the Management Board	Signed on Polish original
21.03.2018	David Mouiilé	Vice-President of the Management Board	Signed on Polish original
21.03.2018	Barbara Sobala	Vice-President of the Management Board	Signed on Polish original
21.03.2018	Katarzyna Majewska	Member of the Management Board	Signed on Polish original
21.03.2018	Czesław Piasek	Member of the Management Board	Signed on Polish original
21.03.2018	Natalia Bożek	Vice-President of the Management Board	Signed on Polish original