The Report has been approved by the Bank Handlowy w Warszawie SA Supervisory Board's Resolution dated 20th May 2008.

Information on capital adequacy of Bank Handlowy w Warszawie SA

as at 31 December 2007

Introduction

This document has been laid down to execute The Disclosure Policy of Bank Handlowy w Warszawie SA on capital adequacy[1], to meet the disclosure requirements of Resolution no. 6/2007 of the Commission for Banking Supervision of 13 March 2007 *on detailed principles related to and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure*, as well as of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 *relating to the taking up and pursuit of the business of credit institutions.*

The objective of the document is presenting to the third parties, especially customers of the Bank and financial market participants, the Bank's risk management strategy and processes, information on the capital structure, exposure to risk and capital adequacy, which enable thorough assessment of the Bank's financial stability, in order to make economic decisions as well as keeping market discipline. This document complements information included in Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended 31 December 2007 and refers to it wherever this is relevant.

Pursuant to the Resolution no. 6/2007 of the Commission for Banking Supervision of 13 March 2007 *on detailed principles related to and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure*, Bank publishes disclosures on capital adequacy on the basis of consolidated data as of 31 December 2007. When the disclosures required by the Resolution no. 6/2007 of the Commission for Banking Supervision are published in The Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA as at 31 December 2007, this document refers to the number of explanatory note, which discloses required information.

The terms used in the document shall mean the following:
Resolution on capital adequacy - Resolution No. 1/2007 of the Commission for Banking Supervision of March 13, 2007 *on the scope of the capital requirements against particular risks and the detailed principles to be applied in determining those requirements, including but not limited to the scope and conditions of applying statistical methods and the scope of information attached to an application for authorization to apply them, principles and conditions of taking account of contracts on debt assignment, subparticipation, credit derivative and contracts other than those on debt assignment, subparticipation, in calculating the capital requirements, terms and conditions, scope and manner of making use of the ratings assigned by external credit assessment institutions and the export credit agencies, manner and specific principles of calculating the solvency ratio of a bank, the scope and manner of taking account of banks conducting their activities in groups in calculating their capital requirements as well as establishing additional items of bank balance sheets included in bank regulatory own funds in the capital adequacy account, the amount thereof and the conditions to be used in calculating them,*

[1] The Disclosure Policy of Bank Handlowy w Warszawie SA 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.

Resolution on banks' own funds - Resolution No. 2/2007 of the Commission for Banking Supervision of 13 March 2007 *on other deductions from a bank's core capital, amount thereof, scope and conditions of such deductions from the core capital of a bank, other balance sheet items included in the supplementary capital, the amount and scope thereof, and the conditions of including them in a bank's supplementary capital, deductions from a bank's supplementary capital, the amount and scope thereof and conditions of performing such deductions from the banks' supplementary capital, the scope and manner of taking account of the business of banks conducting their activities in groups in calculating their own funds.*

RISK MANAGEMENT OBJECTIVES AND POLICIES

1. THE STRUCTURE AND PROCESSES OF RISK MANAGEMENT

The risk management process[2] in the Capital Group of Bank Handlowy in Warsaw SA (hereinafter referred to as: Group) balances strong corporate oversight with well-defined independent risk management functions within each business. This process is consistent within the Group, including Bank Handlowy in Warsaw SA and its Subsidiaries (Dom Maklerski Banku Handlowego S.A., Handlowy Leasing S.A.), and exclude special purpose vehicles (i.e. investment vehicles), companies in the process of liquidation or bankruptcy, as well as units not conducting current, statutory activity. The implementation of below mentioned principles in the BHW Subsidiaries is the responsibility of their Management Boards.

In the risk management area the Supervisory Board of BHW is authorized to resolve upon:

- Approving a strategy of the Bank's activity and the rules of prudent and stable risk management of the bank
- Approving a general level of the Bank's risk
- Approving the fundamental organizational structure of the Bank, determined by the Bank's Management Board and harmonized with the size and the profile of incurred risk.

Management Board of the Bank in the risk management area shall by way of a resolution:

- Approve the organizational structure of the Bank, which reflects the size and the profile of the risks taken and defines the roles and responsibilities in the area of risk management, that ensures that the functions of this measurement, monitoring and controls are independent from risk taking activities,
- Determine the principles of prudent and stable Bank management;
- Set general risk levels accepted by the Bank's Supervisory Board

Processes of credit, market and operational risk management are implemented in BHW based upon written strategies and principles of identification, measurement; monitoring and risk control accepted by the Management Board or appropriately nominated Committees, including the Assets and Liabilities Management Committee (ALCO), and Business Risk, Control and Compliance Committees (BRCC). The appropriate policies, guidelines and controls are very necessary, but are no substitute for having an appropriate risk culture in BHW.

The risk management processes focus on identifying, discussing and approving risk in a holistic manner. Management Board of BHW has nominated an independent Chief Risk Officer (CRO) reporting directly to President of Management Board and responsible for the management and control of credit, market and operational risk, and especially for:

[2] This risk management system does not cover the risk of non compliance, which is separately described in the last chapter.

- Introducing in the Bank the principles of risk management organization, measurement methods as well as credit, market and operational risk control systems,
- Shaping the risk policy and developing systems for assessing and controlling credit risk, market risk and operational risk,
- Making credit decisions in compliance with the principles resulting from the credit procedure as well as documents determining the Bank's credit policy,
- Ensuring the proper security level of the credit portfolio,
- Managing the problem loans portfolio,
- Performing collections and debt restructurings,
- Introducing principles for Operational Risk management (identification, mitigation, self-assessment, monitoring, measurement, reporting)

The Chief Risk Officer presents organization structure of the Sector to the Management Board of which takes into account the credit, market and operational risk management in the respective customers segments:

- Managing credit risk of Corporate Bank,
- Managing credit risk of Consumer Bank,
- Managing impaired receivables,
- Managing market risk,
- Managing operational risk,
- Supporting risk management.

Heads of those units report directly to Chief Risk Officer.

As a financial institution, we are expected to take risks, this is what our shareholders, customers and markets expect and pay us to do. Risk Management is about understanding the broad set of risks associated with a business. The independent risk managers at the business level are responsible for establishing and implementing risk management policies and practices within their business, for overseeing the risk in their business, and for responding to the needs and issues of their business.

Further paragraphs of the chapter describe detailed organisational solutions and processes of managing specific risks, that is credit risk (separately in Corporate and Consumer Banking), including Group's policies in respect of collaterals and impaired exposures, market risk and operational risk. Non-compliance Risk Management has been described in the last subsection.

2. CREDIT RISK

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. Credit risk arises in many of the Bank's business activities, including:

- Credits and loans,
- FX sales and trading,
- Derivatives,
- Securities transactions,
- Settlements,
- Transaction in which the Bank acts as an intermediary on behalf of its clients or other third parties.

The main objective of the Bank's credit risk management is to provide a high quality of credit portfolio and security of credit activity by minimizing the risk of incurred losses. Credit risk is minimized through relevant binding Bank's regulations and controls.

2.1 CORPORATE BANKING

1) The processes and organization of credit risk management in Corporate Banking

Independent risk management is responsible for the establishing of the Corporate Bank and Commercial Bank Credit Policy, approving business specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of the credit portfolio and approving of new risk. The rules for approving risk are tailored to internal audit ratings, profitability and credit risk portfolio performance.

For corporate clients and investment banking activities across the organization, the credit process is grounded in a series of fundamental policies, including:

- Joint business and independent risk management responsibility for the quality of credit portfolio and process as well as for costs of credit;
- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- A minimum of two authorized credit approvers required on extensions of credit;
- Risk approval level dependent on risk assessment i.e. size and risk related to the exposure, higher risk exposures require approvals at higher decision levels;
- Risk rating standards, applicable to every obligor and facility; and consistent standards for credit origination documentation and remedial management;
- Risk ratings derived through using risk rating models and scorecards;

- Periodic monitoring of customers' results from their activities, and identification of such negative changes in their standing which require immediate remedial actions and communication to upper level management;
- Exceptions to policies are approved at higher levels within the organization to ensure control over risk policy implementation by Division and Sector Heads.

Credit risk exposure is monitored and managed at two levels – (a) customer or obligor level and (b) portfolio level.

Customer Level Monitoring

Tools employed to monitor the ongoing creditworthiness of a borrower include:

- Quarterly Financial Reviews of the obligor;
- Periodic inspections of credit exposures adversely classified or watchlisted;
- Periodic credit calls on customers;
- Ongoing contacts by business / relationship managers;
- Analysis and assessment of external information (rating reports, analyst reports, press, industry sources etc);
- Annual reviews of credit relationships.

Obligor probability of default is monitored by risk analysts and/or business managers aligned to the obligor.

Portfolio Level Monitoring

Tools employed to monitor the portfolio include:

- Monitoring of the use of risk concentration limits in the credit portfolio;
- Regular, periodic inspections of the credit portfolio;
- "ad hoc" portfolio inspections called by sudden, negative external information, e.g. Stress Tests
- In addition to the various reporting processes provided above, regular portfolio round tables are conducted by the Division Head and respective portfolio manager with the business to review business pipelines and credit issues.

Ongoing training of risk and business managers is undertaken, especially when policy changes are implemented or new initiatives are undertaken.

2) Risk mitigation policies for Corporate Banking

Risk mitigation is an ongoing and key element of BHW risk management processes. It is achieved at several levels as described below:

Customer selection & credit approvals

- Target Market and Customer Selection Criteria are determined;
- Define the maximum credit exposure that BHW can take (Obligor Limits) Customer risk ratings and/or risk acceptance criteria;
- Specialist/Higher Approvals: consultation with industry experts and product specailists are mandatory for certain products and clients in specific industries;
- Robust credit due diligence standards (initial and annual reviews);
- Documentation standards. All credit / collateral agreements must incorporate minimum, pre-defined documentation standards. These are aimed at protecting BHW interests during legal enforceability of claims.

Credit Monitoring & Early warning

- Active portfolio management by the implementation of respective changes in the credit strategy based upon portfolio reviews or stress tests,
- Ongoing portfolio review ensures identification of adverse trends and concentrations, prompting suitable changes in credit strategy;
- Specific risk mitigation tools are considered, such as loan sell-down. We would also consider credit derivatives at a time when such markets develop in Poland or if adequate products are available on the international markets.
- Periodic Stress Tests on the portfolio enable us to identify portfolio vulnerability from specific external events.

Concentration of exposures

- Concentration risk management covers both obligor limits (individual and group level) as well as limitations of exposure concentration in individual industries.
- Details of this risk mitigation aspects are presented in explanatory note 44 „Risk Management" to the consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie SA for the period ending 31 December.

3) Credit risk measurement in Corporate Banking

The maintenance of accurate and consistent risk ratings across the corporate credit portfolio facilitates the comparison of credit exposure across all lines of business, geographic regions and products.

Risk Rating is the part of credit risk assessment associated with the granted credit Obligor Risk Rating reflects an estimated probability of default for an obligor, and is derived primarily through the use of statistical models (which are validated periodically), external rating agencies (under defined circumstances), or scoring methodologies. Internal obligor ratings equivalent to BBB- (according to S&P) and above are considered investment-grade. Ratings below the equivalent of BBB- are considered non-investment-grade. The Bank identifies eight main ratings for not impaired exposures. As part of the approval or subsequent renewal process, Independent Risk Management is responsible for assigning a risk rating to the obligor.

Each credit limit is assigned to a facility risk rating. Facility Risk Rating is assigned, using the obligor risk rating, and facility-level characteristics decreasing the losses in the situation of facility default (support or collateral). Then the facility risk rating refers to an expected probability of losses on the credit facility (the product of probability of default and loss given default).

In case of the amount of exposure measurements methods vary from the most simple, such as the value of the asset, to complex, such as estimating potential replacement cost on a derivative contract. The processes required for these measurements also vary considerably, from a simple feed of balances to a complex simulation engine.

Credit Risk is measured at a number of levels, including:

- At a facility level,
- At an obligor level,
- At a group level, considering the group structure of multiple obligors with common ownership and/or organization,
- At portfolio level.

2.2 CONSUMER BANKING

1) The processes and organization of credit risk management in Consumer Banking

Within Consumer Banking, independent credit risk management is responsible for establishing the Consumer Credit Policy, approving business specific policies and procedures, monitoring business risk management performance, providing ongoing assessment of portfolio credit risk, and approving new products and new risks. Approval policies for a product or business are tailored to internal audit ratings, profitability, and credit risk portfolio performance.

Risk management procedures for retail exposures are organized based on the products offered. The policies set the following key elements of risk management:

- Credit policies define customer minimum acceptance criteria (minimum net income, permitted income source, exposure etc), method of evaluation of creditworthiness (multipliers, debt burden, maximum exposure limits etc.), personnel authorized to make credit decisions and limits assigned to personnel, cutoff score used, application verification process, documents required and other criteria,

- The credit policy defines principles for single product unsecured exposure as well as aggregated maximum unsecured exposure by customer,

- Credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions. Credit competences are subject to periodic verification. Results of credit decisions taken by credit analysts are analyzed and relevant revisions of the limits assigned are executed,

- Effectiveness of scorecards used in risk assessment process is monitored on a regular basis by Score Unit with use of population stability reports, KS reports, and performance reports by scoreband (delinquencies and losses ratios). Each scorecard has an annual validation process,

- Bank maintains written procedures for each product covering all aspects related to product: legal documentation, pricing, terms and conditions, operational procedures (risk assessment, disbursal, maintenance), accounting, collection process, credit policy rules, identification of impaired exposures and methods for calculation of credit losses, etc.,

- Each portfolio has annual stress testing performed,

- The Bank prepares the forecasts of current receivables and at risk of impairment. The receivables forecast is followed by a forecast of credit losses and a forecast of expected level of provisions and overdue receivables for 30-89 days. Forecasts are prepared twice a year and presented to members of the Management Board. These forecasts constitute internal limits of risk taken by Consumer Banking Division. The Bank compares the actual results with forecasts on a quarterly basis – respective members of the Bank Management are notified of the results. It is permitted to exceed the forecasted balance of receivables by 25%.

For retail exposures (individuals as well as small and medium enterprises managed on a portfolio/delinquency basis) risk measurement is done by the statistical analysis of the behavior of the whole portfolio or selected group of customers (for instance divided by geographic location, revenues range, score range, job, etc.). Level of delinquency indicators, credit loss indicators, flows of receivables between delinquency buckets is monitored. Monitoring is conducted on a monthly basis.

2) Risk mitigation policies for Consumer Banking

Consumer Banking Division uses the following means to mitigate risk:

- Customers verification in Credit Bureau (BIK),
- Exposure limits on product and customer level,
- Assessment of a customer creditworthiness on a systematic basis with a scorecard,
- Verification of income and employment,
- Controls mitigating frauds,
- Monthly monitoring of the portfolio quality, Stress tests.

3) The scope and nature of credit risk reporting and measurement systems in Consumer Banking

Each portfolio has dedicated MIS used to track performance and identify trends in portfolio:

- Through The Door MIS - identifying all acquired accounts. Possible segmentation includes: demographic criteria (employment, age, education, marital status etc.), score value (score bands, risk segmentation to high, medium, low), product parameters (tenor, APR, limit etc), etc.,
- Coincident indicators - identifying delinquencies in accounts. Possible segmentation includes: demographic criteria (employment, age, education, martial status etc.), score value (score bands, risk segmentation to high, medium, low), product parameters (tenor, APR, limit etc), etc.,
- Lagging indicators - identifying losses. Possible segmentation includes: demographic criteria (employment, age, education, martial status etc.), score value (score bands, risk segmentation to high, medium, low), product parameters (tenor, APR, limit etc), etc.

MIS and Scoring Analysis Units are independent from business units and report to Consumer Banking Risk Division.

Quality controls in MIS and Score Analysis Units include:

- Reconciliation with general ledger,
- Repository of scripts used,

- Annual validation of models used for forecasting reserves according to IFRS reserves.

MIS package for each portfolio is prepared on a monthly basis and distributed to appropriate personnel.

2.3 THE POLICIES FOR COLLATERAL ACCEPTANCE AND OTHER RISK MITIGATION

Previous chapters presented descriptions for general rules of risk mitigation specifically for Corporate and Consumer Bank. This chapter describes policies, which are common for both areas, e.g. general policy of the Group in respect of collaterals application and monitoring and monitoring their effectiveness, as well as the stress tests for the Group.

Collateral management policy

Creditworthiness is a primary decision criteria based upon which the Bank issues credit to both individuals and companies alike.
To mitigate the risk associated with credit issuance, the Bank accepts various types and forms of collateral from its clients. For individual clients the most common type of collateral is residential real estate while for companies several types of collateral are common and accepted: residential and commercial real estate, equipment, machinery, and receivables.

The following types of collateral are accepted:

- Bank guarantees/personal guarantees/sponsoring letters,
- Cash,
- Treasury bonds, notes/NBP certificates,
- Securities,
- Shares in limited liability company,
- Receivables,
- Inventory,
- Real estate,
- Equipment and machines,
- Vehicles.

In case of credit default, collateral is liquidated and the funds are used to pay off any remaining portion of the outstanding credit.

In order to standardize and improve the process, an independent risk unit responsible for management and monitoring of collaterals was created. This process is set in the internal procedures. The Collateral Management Procedures address and describe the following areas:

- Collateral description,
- Collateral acceptance criteria,
- Collateral appraisal process,
- Required documentation,
- Standard collateral description,
- Collateral conditions to be met,
- Collateral validity period,
- Monitoring process (for real estate, machines, equipment, vehicles),
- Inspections requirements,
- Collateral insurance requirements,

- Loan agreement amendment requirements.

For real estates, machinery and vehicles, the collateral value is based on external appraisal provided by a validated and qualified external professional appraiser with whom the Bank has an agreement for appraisal services.
The Group requires additional collateral from the customer when the liquidity declines or worsens (according to the Group) or when the collateral value declines.

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

Within the control process the collateral assumptions approved in the procedures are checked. Periodically Bank monitors if the assumed structure of the collateral portfolio and exposures is compliant with the actual structure.

Portfolio stress tests

Portfolio stress tests are conducted at two levels:

- Annual Scenario Tests: the entire BHW business, corporate and consumer, is stressed for 2 downside economic & political scenarios. This exercise requires preparation of a country scenario plan that establishes key risk triggers and key action plans to be undertaken in an adverse event. The test results are reviewed by BHW Senior Management, including some of the Management Board members.

- Ad-hoc stress tests: Specific stress tests are carried out upon identification of an external trend (economic or political) that may adversely impact the quality of the credit portfolio. These tests are aimed at isolating specific clients / segments that are vulnerable to the stress factor, quantifying impact of a ‘worst case’ scenario in terms of risk rating downgrades, adverse classifications, reserves, portfolio loss norms, portfolio risk rating etc. Frequency of these tests is different for the different business portfolios.

2.4 MANAGING IMPAIRED EXPOSURES

There are two specialized units for handling impaired accounts in the Group. The Restructuring Bureau deals with those loans, which are not impaired yet, but there is a distinct possibility that the bank will sustain some loss if the defined deficiencies are not corrected. The Collection Bureau manages the vindication of impaired loans.

The Group used two separate approaches for impaired loans. There is portfolio of loans managed on a basis of classification (individually assessed) and portfolio managed on a basis of days past due of a loan. The selection depends on the amount of aggregated exposure towards the customer.

For individually assessed accounts, managed on a basis of classification, loans are treated as impaired when there is factual confirmation that an impairment loss has been made. The criteria used by BHW to determine that there is, in a specific case, such evidence include, among others:

- Known solvency difficulties experienced by the borrower,
- Overdue contractual payments,
- Violation of loan covenants,
- The probability that the borrower will enter bankruptcy proceedings.

For delinquency-assessed accounts, loans are considered impaired as soon as specified benchmark of days past due is met.

BHW makes allowance for impaired loans promptly and on a consistent basis. Risk Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a review of the loan portfolio.

Classifiably managed accounts

These are determined by evaluating the exposure to loss, case by case, on all individually significant accounts. In determining allowances on classifiably managed accounts, the following factors are considered:

- Aggregated exposure to the customer,
- The viability of the customer's business model and the capacity to successfully work out their financial difficulties,
- Generating sufficient cash flow to service debt obligations,
- The amount and timing of expected payments,
- The realisable value of security and probability of successful repossession considering all legal risks,
- The expected payments available on bankruptcy or liquidation,
- The possible assumption of any expenses concerned in recovering outstanding amounts,
- When suitable, the market price of the debt.

BHW policy requires the level of impairment allowances on classifiably managed facilities that are above materiality thresholds to be reviewed at least quarterly. The review normally includes collateral held and an assessment of actual and anticipated payments.

Delinquency managed accounts

For loans that are not considered individually significant impairment is calculated on a collective basis. A formulaic approach is used which allocates progressively higher percentage loss rates the longer a customer's loan is overdue.

3. MARKET RISK

1) The processes and organization of market risk management

Market risk management encompasses two principal risk areas: liquidity risk and price risk.
Liquidity risk is defined as the risk that the bank may not be able to meet its financial commitments to customers or counterparties when due.
Price risk is the risk of negative impact on the bank's earnings or value of the capital resulting from the changes in market interest rates, foreign exchange rates, and equity prices as well all volatilities of these rates and prices.

Price risk
The objective of price risk management is to ensure that the extent of price risk accepted within the scope of Group corresponds to the level acceptable to shareholders and banking supervision authorities, as well as to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Bank.

Market risk management processes performed in the Group are based on:
- Requirements of Polish regulatory institutions and especially resolutions of the Commission for Banking Supervision,
- Rules of prudent and stable management of the Capital Group of Bank Handlowy in Warsaw SA., as well general risk levels approved by Supervisory Board of the Bank

with the consideration of the best practices used in Citigroup and introduced by BHW.

The ultimate responsibility for ensuring that the Bank operates under approved market risk exposure limits lies within Management Board of the Bank and management boards of the subsidiaries from the Bank Group. Ongoing Market Risk management is performed by:

- Member of the Management Board of the Bank - Head of the Risk Management Sector
- Assets and Liabilities Management Committee (ALCO).
- Head of the Market Risk Department (MRD Director)
- Heads of risk taking business units.
- Market risk delegates of the Group entities.

In the case of the subsidiaries from the Group, the market risk management processes are regulated by policies established by the management boards of these companies. While establishing these policies, the MRD Head has to be asked for opinion.

In all cases, the business heads are ultimately responsible for the market risks they take and for remaining within their defined limits.

It is the Bank's objective to concentrate market risk management for the Group in specialized business units, which are best equipped to perform its risk management functions, i.e.:

- Accrual interest rate risk - in the Treasury Division.
- Foreign exchange, interest rate risk of trading portfolios and debt market risk – in the Treasury Division.
- Equity market risk and derivatives for equity prices and equity indexes - in Dom Maklerski Banku Handlowego S.A. (Brokerage).

It is a joint responsibility of the heads of risk taking business units and the MRD Head to ensure that appropriate risk measurement methods and systems are applied and that all material market risk factors are reflected in risks calculation.

Liquidity risk

BHW liquidity management objective is to ensure that the bank and its subsidiaries have adequate access to liquidity to meet all obligations as and when due, including under extreme but plausible conditions. BHW is integrated into the overall Citi liquidity and funding process and liquidity-monitoring framework. The bank adheres to the regulation requirements of banking supervision in Poland; especially Resolution No 9/2007 of the Bank Supervision Commission dated March, 13, 2007 on the determination of liquidity norms obliging for the Bank with the consideration of liquidity policy principles of Citi.

Liquidity risk management in BHW includes liquidity short-term, middle-term and long-term planning, short-term and long-term liquidity supervisory measurement reporting, Market Access Reporting (MAR), and the monitoring of the risk limits and triggers utilization as well performing stress tests.

Liquidity is monitored and managed within a robust framework that includes review by ALCO, Bank's Handlowy Supervisory Board and Treasury Division of the Bank.

This is the responsibility of the Head of Treasury to remain within the regulatory limits established by Financial Supervisory Authority and internal liquidity risk limits as well take care about the ongoing liquidity management.

2) The scope and nature of market risk reporting and measurement systems

Price risk

The price risk management applies to all portfolios, generating income prone to the negative impact of the market factors, in those interest rates, exchange rates, commodity prices and the parameters of their volatilities. Two types of portfolios have been defined for the purpose of the price risk management, i.e. the trading and the banking (accrual) portfolios.

The trading portfolios include transactions with financial instruments (namely the balance sheet and off-balance sheet instruments), expected to generate income owing to the change in market parameters over a short time period. The trading portfolios include balance sheet items, in that debt securities provided for trading, i.e. acquired to be further traded and meeting the preset liquidity criteria. The trading portfolios further include all derivative instruments positions, broken down into the portfolios acquired purely for trading and the transactions executed in order to provide the economic hedge of the bank's accrual portfolio positions. The trading portfolios are evaluated directly at market prices or using the market pricing-based valuation models. The Bank's Treasury Unit does operations with the trading portfolios.

The banking portfolios include all other balance sheet and off-balance sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize profit over the entire, contracted transaction period. The Bank's Treasury Unit takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the Bank and the leasing company. The mechanism of transfer of the interest rate risk positions is based on the funds transfer pricing system.

Risk management methods and limits of accrual portfolios

The following risk measures apply to accrual portfolios:

- Interest Rate Gap Analysis
- Value-at-Close / Total Return
- Interest Rate Exposure (IRE)
- Stress Testing.

Interest Rate Gap Analysis utilizes the maturity or re-pricing schedules of balance sheet items and hedge accounted derivatives or derivatives applied as economic hedges to determine the differences between maturing and re-pricing items within given tenor buckets.

The general rule is that transactions are classified to particular re-pricing bands for items from banking portfolios taking into account contractual or assumed dates of changes of interest rates applicable to such transactions. It is assumed that:

- Fixed rate transactions (such as time deposits, interbank deposits, portfolio of AFS securities, loans granted, both repaid in full on their maturity dates and repaid in installments) are classified to relevant re-pricing bands according to their maturity dates.

- Variable-rate transactions, updated in regular fixed periods (mainly with interest rates based on reference rates, e.g. 1M WIBOR), are classified to relevant re-pricing bands according to the date of the next interest rate update.

- Transactions with administered variable interest rate (for which rate change or re-pricing date change is determined exclusively by the bank), or with the undetermined maturity or interest rate update interval, are classified to relevant re-pricing bands on the basis of historical or expert-estimated movements of the timing and scope of change of the interest rate applicable to a given item in relation to a change of market interest rates (product spread-change-minimizing model). This group of transactions / on-balance sheet items includes, among other things, current accounts, credit cards, overdrafts. Additionally, for some group of products (e.g. personal installment loan) the early pre- terminations are taken into account when measuring and estimating the interest rate risk profile. It's based on the historical prepayment analyses provided by the businesses.

- Transactions immune to the interest rate changes (cash, fixed assets, equity, other assets and liabilities)

- Transactions that are concluded directly by Treasury for the purposes of interest rate risk and liquidity risk management processes (Treasury's own portfolio) are always classified to relevant revaluation bands on the basis of contractual dates.

Value-at-Close is the economic or 'fair' value of a position, analogous to the 'mark-to-market' on a trading portfolio. Total Return is the sum of change in Value-at-Close, Accrued Revenue and Gains/Losses on Asset Sales or Liability Cancellations.

Interest Rate Exposure is used to measure the potential impact of a determined parallel movement of interest rate curves on pre-tax interest income on the banking book, which may be received in a given time range. It is a forward-looking measure, analogous to Factor Sensitivity on the trading portfolios. And it is assumed that in standard conditions the movement of interest rates is identical for each currency and equals 100 basis points upward. IRE is measured for position in each currency separately in the time horizon of ten years; however for business as usual monitoring and limiting the accrual risk positions in principal the 1-year and 5-year IRE measures are applied.

The IRE measures are calculated for the Bank and separately for Treasury Division. The IRE measure for the Bank reflects the interest rate exposures taking into account the re-pricing tenors according to the contracts with customers (in line with principals of re-pricing gaps construction described above). The IRE measure for Treasury Division reflects the risk positions which are transferred by other business units to this Division though the transfer pricing mechanism as well its own risk positions of this Division.

Stress Testing measures the potential impact on accrual positions from severe changes in the level and/or shape of the interest rate curve.

The Bank carries out stress tests for four pre-determined scenarios of market factor movements. Such scenarios assume combinations of market factor movements, which are described as Large Moves and Stress Moves for both local and foreign factors. The assumed levels of the market factor movements need to be reviewed at least annually and adjusted as appropriate to changes in the market conditions in which the Bank runs its operations.

In addition to the stress test for the entire accrual portfolio bank performs as well stress tests for debt securities available for sale (AFS), aiming to assess the potential impact of the change in the value of these securities on the bank's capital.

The Interest Rate Gap Analysis, the Value-at-Close and the IRE calculations are performed daily. The stress test calculations should be performed on a monthly basis.

The IRE and AFS DV01 (*Dollar Value of 1 basis point)* limits are established for all currencies where exposure is material. The currencies with small exposures may be aggregated into a single portfolio.

The DV01, i.e. the dollar value of a basis point of the portfolio of securities available for sale supplements the IRE control measure applied to the interest rates risk on the Bank's books. This measure shows, how the value of the financial instruments portfolio will change (in this case the instruments will be the securities available for sale) with the change of the interest rate for the particular currency along the certain section of the interest rates curve. The IRE has shown the potential change of the interest rate margin in the future, so the consequence of changes of the interest rates for the Group's financial result will surface in the future periods, as happens with respect to the positions valuated using the amortized cost method. Yet the impact of the interest rates changes on the value of the portfolio of the securities available for sale shows immediately, however not in the financial result, but in the value of the Group's capital funds, since the unrealized result from the valuation of these securities revises their value.

The ALM Unit, within the Treasury Division, runs the operations relating to the securities available for sale within the Group. Three basic goals have been identified of the operations with the portfolio. These are:

- Management of the Group's liquidity;
- Hedging against the risk transferred to the Treasury Division from the other organizational units of the Bank or Bank Subsidiaries,
- Opening proprietary positions of the interest rates risk on the Bank's books by the Treasury Division.

In order to avoid the excessive fluctuations of the value of the Bank's own funds due to the revaluation of the assets available for sale, the Group has been setting the maximum DV01 position limits for these portfolios. Those limits cover as well positions in derivatives instruments (e.g. the interest rate swaps), executed in order to secure the fair value of the portfolio.

Usunięto: capital

Any excess of above mentioned risk measures should be reported to the higher level of management and requires establishment and execution of corrective action.

Systems applied for reporting and measurement of interest rate risk in banking portfolios

The application used for banking book interest rate risk reports production works on the basis of standardized set of transaction-level data sourced from banks books. This is a standard application used by Citigroup subsidiaries and branches. In addition to the reports produced by the application there is available information generated based on data from internal systems of Financial Division.

Trading Portfolios

The following risk measures apply to trading portfolios:

- Factor Sensitivities
- Value-at-Risk (VaR)
- Stress Testing.

Factor sensitivity is defined as a change in the value of a position in a given base instrument for a defined change in a market risk factor (e.g. 1 basis point change in interest rate change at a given point on the interest rate curve, 1% change in the spot FX rate or equity price).
In the case of interest rates the sensitivity measures is the DV01 which determines the potential change of the risk position for a given interest rate curve at a determined node on the curve (to which all the cash flows in a given period are come down) as a result of the change of a given market interest rate upward by 1 basis point. The total value of DV01 for a given currency is a difference between the valuation of all the instruments denominated in a given currency in the trading portfolio in accordance with the structure of the yield curves as of the valuation date and the valuation of such instruments on the basis of the same curves, but moved upward in parallel by 1 basis point. DV01 is calculated for each determined risk factor (nodal point of the curve) separately and, then, aggregated for a given currency.

In the case of an FX position, the factor sensitivity is equal to the FX position in a given currency.

In the case of equities position, the factor sensitivity is equal to the net position in a given instrument (equity, equity index, participation unit).
For the above measures the risk limits are established for particular currencies and organization units. In the case of the interest rate risk supplementary risk triggers are set for the risk positions in particular tenors of the yield curves. Limits are established for the end-of-day positions and are monitored on a daily basis.

An integrated price risk measure for trading portfolios which combine impacts of the individual risk factors and taking into account the correlation effects between the volatilities of particular factors, is Value-at_Risk (VaR). VaR is used to estimate the potential decline in the value of a position or a portfolio, under normal market conditions, within a defined confidence level, and over a specific time period. For the Bank's trading positions, VaR is calculated by applying a 99% confidence level and a one-day holding period.

BHW measures the VaR and monitors it as part of operational risk measurement. However it is not applied for the time being as a basis for regulatory capital risk measurement and reporting, which means that the Bank has not applied to the Commission of the Banking Supervision with the application to approve the value at risk model.

Both the DV01 measure and the Value at Risk for the trading portfolio alike are calculated net of the economic hedges of the portfolio of securities available for sale, i.e. net of the interest rate swap executed with a view to hedge the fair value of that portfolio. The exposures to the risk of such transactions are catered for in relevant measures and curbed by the accrual portfolio risk limits.

With daily frequency Bank performs stress tests which are estimations of the potential decline in the value of a position or a portfolio, under exceptional market conditions, i.e. exceptionally large market factor changes and unfavorable changes of its correlations.
Bank does stress tests for three basic scenarios:
- Standard based upon historical large but not extreme movements of risk factors
- Local financial crisis
- Global financial crisis.

The above listed tools of trading portfolios price risk controls and monitoring are supplemented with:
- Maximum Accumulated Monthly Loss Trigger (MAT)
- Aggregated contract triggers of the volumes of outstanding (not settled) derivatives and forward transactions.
- Maximum tenor triggers for the longest maturities of financial instruments
- In the case of debt securities and equities - concentration limits and triggers for securities classes, issuers and issues.

Systems applied for reporting and measurement of interest rate risk in banking portfolios

The main system applied for trading portfolios price risk measurement, reporting and monitoring is the internal common reporting data-base of Financial Division and Market Risk Department, which is sourced daily from the following systems:
- Kondor+ the Bank's main transactional front-office system as far as data regarding the interest rate sensitivities and foreign exchange positions are concerned; the data base is fed with the transactional-level data during the end-of-day process.
- The calculation and reporting system GMR (Citigroup systems) as far as VaR measures are concerned.

Trading equity risk

The Dom Maklerski Banku Handlowego S.A. (DM BH) is the Group's key member transacting the equity markets instruments. In order to run its core business, DMBH has been authorized to take up the price risk of the trading portfolio of shares, or share rights, traded, or likely to be traded on Warsaw Stock Exchange, or Centralna Tabela Ofert (Central Bids Table or CTO), WIG20 futures and the Index Participation Units, as well as shares on the international stock exchanges of the companies listed on the WSE. The price risk of DMBH's instruments portfolios is curbed by the volume limits applicable to specific types of financial instruments and triggers applicable to the volume of instruments introduced to the market by specific issuers. Moreover, management action triggers are used for DMBH, alerting on the potential loss for the stress scenarios and the cumulated realized loss on the trading portfolio.

Liquidity risk

The reports of regulatory risk measures are produced by independent organizational units of Finance based on the data from bank's main booking system as far as balance sheet operations are concerned as well from the front-office Treasury system as far as forward and derivatives transactions are concerned.
The basic measure of liquidity risk are: short-term liquidity gap report showing the relation of liquid assets to unstable financing sources and reports of long-term liquidity supervisory measurement reports, i.e. coverage coefficient of non-liquid assets with own funds and coverage coefficient of non – liquid assets and assets with limited liquidity with own funds and third party stable funds.

KNB established a minimal limit of 1 for all coefficients. that on every business day liquid assets of the Bank shall exceed unstable financing sources, and own funds with stable third party funds shall exceed the level of non-liquid assets and assets of limited liquidity. Within calculation, the Bank shall prepare stability analysis of certain categories of liabilities, availability and trading level of markets to sell assets as well as prognosis of customers' assets increase on the regular base.

In addition, to limit the liquidity risk, BHW prepares the Market Access Report (MAR). The report shows gaps in the Bank's financial flows in individual time buckets and reflects potential exposure to the necessity of finding additional sources of financing on the monetary market. The MAR report comprises all the financial flows related to balance sheet transactions and off-balance sheet foreign exchange and forward transactions. The liquidity gap reports are to be prepared daily.

The gap limits established by the Bank's ALCO are binding for the following terms: O/N, 2-7 days, 8-15 days, 1 month, 2 months, 3 months, 6 months and 1 year. The liquidity gap above one year is not covered by limits but should be a subject to monitoring. In calculating the gap, statistical analysis has to be taken into account, especially in the area of the deposit base stability and the assumptions relating to the share of the individual product groups in the Bank's balance sheet structure. In the monthly cycle, stress tests are performed which take account of the potential threats resulting, for example, from a crisis in the banking system and related limitations to market liquidity. Additionally, in order to assess liquidity risk, the basic relationships in the Bank's balance sheet structure are monitored and analyzed.

The Bank's liquidity risk is measured by the assessment of the level of the modified gap in financial flows in respect of the potential sources of financing. Therefore, the gap level has to be compared with the possibility of obtaining additional funds from the wholesale market (other banks, investment funds, pension funds, insurance companies) and with the balance of liquid assets (mainly, liquid securities), which may be sold or pledged (as part of repo transactions or using Lombard facility from NBP) in the assumed time horizon.

Market triggers are internal or external market or economic factors that may imply a change to market liquidity or BHW access to the markets. Appropriate market triggers are established and monitored as part of the funding and liquidity plans. Market triggers are monitored by Market

Risk Department and Treasury and the Head of Risk Management Sector and are discussed at BHW's ALCO.

BHW performs liquidity stress tests. The stress scenarios include assumptions about significant changes in key funding parameters. The four stress scenarios are:

- Concentration event
- Long-term rating downgrade
- Short-term rating downgrade
- Financial crisis on the domestic market.

Stress testing of liquidity risk is performed on a monthly basis.

The results of stress tests are reviewed to ensure that BHW is self-funding, even under stress scenarios, and has sufficient liquidity. In addition a Contingency Funding Plan has to prepared and updated on a periodic basis. The plan includes detailed policies, procedures, roles and responsibilities in the case of actual liquidity stress situation including alternatives that can be used by the head of Treasury in a liquidity event.

4. OPERATIONAL RISK

1) The processes and organization of the operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes franchise risks associated with business practices or market conduct. It also includes the risk of failing to comply with applicable laws and internal regulations. Operational risk does not cover reputation risk, strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Operational Risk Framework covering BHW aims at:

- Providing a single coherent and effective approach to identification, control, assessment, monitoring, measurement and reporting of operational risks;
- Ensuring effective reduction of the operational risk-exposure, and as a consequence, reduction of operational risk events and their severability
- Ensuring the execution of requirements for operational risk, according to KNB resolutions,
- Ensuring compliance with regulations connected with operational risk management.

The Group's approach to operational risk is defined in the Operational Risk Policy, including Risk and Control Self-Assessment (RCSA) Process.

There are the following key elements in the operational risk management:

- risk identification,
- risk mitigation,
- Risk and Control Self Assessment (RCSA),
- monitoring,
- measurement,
- reporting covering areas of increased exposure to operational risk.

Risk and Control Self Assessment process has been implemented for ongoing identification, control, assessment, monitoring, measurement and reporting of quality of the control environment and potential threats. Data on operational risk events' effects (losses) has been regularly collected for several years. Centralization and automation introduced during recent years allowed the Bank to significantly reduce the number as well as amount of operational losses .

For a few years, the Group has managed the operating risk using a variety of tools and techniques including chiefly the self-assessment process, check lists, limits, contingency planning, insurance, and audits.

Roles and break-down of responsibilities at different levels of the Group's Senior Management for the operating risk have all been defined in the Policy. The most important include:

- Management Board is accountable for preparation and implementation of operational risk management strategy, including organization and insurance of proper operational risk management process in the entire organization. Where necessary the Management Board should introduce necessary amendments aiming at improvement of operational risk management process. Operational risk management principles and procedures should cover all Bank activities. Strategic decisions regarding bank policies, organization, assignment of roles and responsibilities, reorganizations of processes, automation and centralization are reserved for Management Board.
- Supervisory Board supervises and assesses adequacy and effectiveness of control over operational risk management.
- Each major business segment and subsidiaries must implement an operational risk process, consistent with the requirements of this Policy.
- Risk identification, RCSA and reporting processes in main aspects are prescribed and standard across Business Units. Risk mitigation, monitoring, and measurement processes are defined by each Business Unit and may differ from Business Unit to Business Unit.
- Issues, events, indicators pertaining to the operational risk are being regularly reported to the Business Risk, Control and Compliance Committees (in the Bank there are two separate Committees, one for Corporate Banking and one for Consumer Banking). All detected oversights, remedial actions, operational events and operating risk indicators are the subject of regular reports submitted with the relevant committees. At the same time, the operating risk management process quality (including the self-assessment process) in the respective organizational units of the Group entities are the subject of inspections and assessment carried out by the internal audit.

2) The scope and nature of operational risk reporting and measurement systems

Reporting of operational risk data should cover:

- Results of internal and external audits,
- RCSA results,
- Key Operational Risk and key risk indicators,
- Internal operational risk events,
- COB and Information Security – updates, issues,
- Data allowing monitoring of the Bank's operational risk profile.

Operational risk events data are collected through the system, allowing for registration of information required for analysis, management and regulatory reporting.
On the basis of regular monitoring, the Management Board assesses the general level of operational risk as average, typical for the scale of activity of the Bank.

3) Risk mitigation policies for operational risk

Control processes introduced in the Group mitigate causes, reduce the probability of an event occurring and minimize the severity of an effect. Examples of control mechanism might include segregation of duties (maker-checker) or employee personal trading policy pre-clearance requirements. Risk mitigation measures include as well risk transfer mechanisms (contract management, insurance).

The Group's Senior and Middle Management is responsible for implementation of additional control mechanisms if deemed required, especially in the context of compliance with Banking Law and regulations of Commission of Banking Supervision.

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Each Business Unit must evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite and determine the appropriate actions for their mitigation or transfer.

Additionally, there is periodic assessment of adequacy and effectiveness of controls which covers:
a) Test the adequacy and effectiveness of the Key Controls at a frequency commensurate with the underlying risk and frequency of the control,
b) Independent review by internal audit.
In case of identification of deficiency and the areas of uncontrolled risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies.

5. RISK OF NON COMPLIANCE

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

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

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

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

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

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

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

DETAILED INFORMATION ON CAPITAL ADEQUACY

1. Information related to the use of prudential norms

1) name of the bank

BANK HANDLOWY W WARSZAWIE SA

2) brief description of entities that are:

a) fully consolidated

The following entities are fully consolidated:

- Dom Maklerski Banku Handlowego SA,
- Handlowy Leasing Sp. z o.o.,
- Handlowy Investments SA,
- PPH Spomasz Sp. z o.o. w likwidacji.

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

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

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 entities activities are financed with refundable additional capital contributions, subordinated debt, loans and net profits earned. Due to intention to reduce the investment activities, Handlowy - Investments SA and similar holdings will be gradually sold at the time of the best market opportunity.
As at 31 December 2007 Handlowy Investments S.A. has the portfolio composed of the following shares: Handlowy Investment II S.a.r.l., Pol-Mot Holding S.A., NFI Magna Polonia S.A.

Spomasz Sp. z o.o. under liquidation, seated in Warsaw, fully owned by the Bank is one of the holdings deemed for sale[3]. Its liquidation is highly advanced and is to be completed in 4th quarter 2008.

b) proportionally consolidated

There are no proportionally consolidated entities.

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

c) deducted from own funds

The following entities are deducted from consolidated own funds:

- Handlowy Inwestycje Sp. z o.o.
- Handlowy Investments II S.a.r.l
- Bank Rozwoju Cukrownictwa S.A.

Handlowy Inwestycje Sp. z o.o. and Handlowy Investments II S.a.r.l seated in Luxembourg are special purpose investment entities which manage the portfolio comprising shares in Lubelska Fabryka Maszyn Rolniczych S.A. and Handlowy-Leasing Sp. z o.o. Their activities are financed by refundable capital contributions, subordinate loans, loans as well as retained earnings. Handlowy Inwestycje Sp. z o.o. belongs to the portfolio of strategic entities. Handlowy Investments II S.a.r.l seated in Luxembourg is in the portfolio of companies earmarked for sale. Due to intention to reduce the investment activities, Handlowy - Investments II S.a.r.l it is expected that it will be sold or liquidated in the near future.

Bank Rozwoju Cukrownictwa S.A., a subsidiary of Bank Handlowy w Warszawie S.A. (100% share), has a banking license but does not run active operations. It is classified in the portfolio of companies held for sale. Bank Handlowy holds consultations and agreements with Banking Supervision (currently KNF) regarding preparation of acceptable potential way out of investment in Bank Rozwoju Cukrownictwa.

d) neither consolidated nor deducted

There are no entities that are neither consolidated nor deducted.

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

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

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

In Bank Rozwoju Cukrownictwa, subsidiary of Bank Handlowy w Warszawie SA not included in the consolidation, the actual funds are above the required minimum. Its capital adequacy ratio as at 31 December 2007 amounts to 89.36%.

2. Information regarding own funds

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

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

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

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

Supplementary funds of the Bank comprise:
a) other items determined by KNF in order to secure banking activity and manage risk properly – unrealized profits on debt instruments classified as available for sale,
b) deductions of supplementary funds determined by KNF

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

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

Own funds	in PLN '000
Core funds	3 489 031
- base funds	4 571 321
share capital	522 638
supplementary capital	3 028 810
reserve capital together with retained earnings	1 019 873
- general risk fund	390 000

- deductions of core funds	-1 526 410
intangible assets	-1 284 078
unrealized loss on debt instruments classified as available for sale	-188 212
capital exposures in financial institutions	-54 120
Supplementary funds	0
- other items	4 267
unrealized profits on debt instruments classified as available for sale	4 267
unrealized profits on equity instruments classified as available for sale	0
- deductions of supplementary funds	-4 267
capital exposures in financial institutions	-4 267

Information about the components of equity are presented in details in supplementary note 33 „Equity and Reserves" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA for the period ending 31 December 2007

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

The Group does not use short-term capital.

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

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

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

The Group does not use short-term capital.

3. Information regarding the compliance with capital requirements reffered to in art. 128 of Banking Act

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

Bank identifies and manages different types of risks in its activity. For purposes of internal capital adequacy assessment Bank identified the following significant risks:

- risk of default or delinquency (covers credit risk and counterparty credit risk),
- operational risk (covers legal risk, loss of reputation and system risk),
- market risk in the trading book,
- interest rate risk in the banking book.

Capital requirements covering those risks were estimated based on the financial plan, adopting conservative assumptions and considering stress tests.

Capital requirement regarding credit risk was assessed using the standardised approach. The total capital requirement regarding credit risk, in this method, is calculated as the total of risk weighted exposures multiplied by 8%. In case of assets, the value of exposure is equal to its carrying amount, and in case of off-balance sheet liabilities granted it is equal to its balance sheet equivalent. For the calculation of amounts of risk weighted exposures, the risk weights are attributed according to resolution No. 1/2007 of the Commission for Banking Supervision of March 13, 2007.

Capital requirement regarding counterparty credit risk is calculated as 8% of the total of risk weighted exposures, for the following operations included in the trading portfolio:

- over the market derivative transactions and credit derivatives,
- transactions with repurchase agreements and transactions involving securities or commodities lending or borrowing,
- transactions with an option of credit collateral increase based on securities and commodities,
- transactions with long settlement period.

Capital requirement regarding market risk was estimatedd based on maximum risk level calculated on the basis of VaR (Value at Risk), which is the main aggregated measure of risk of trading portfolios. VaR is a measure determining a potential decline in value (loss) of financial instruments portfolio within specified period at specified confidence (probability) level. Both these factors determine the scale of changes in market prices (or other market parameters) used to assess the change in the value of portfolio. For the calculation of VaR the Bank adopts 1 day long period of position holding and 99% confidence level. Because VaR calculated this way determines risk in normal operating conditions, in order to reflect risk in stress operating conditions it was transformed based on statistical assumptions. In case of internal capital the confidence level was increased to 99,97% and the position holding period was prolonged from 1 day to 1 year.

Capital requirement regarding operational risk was assessed according to the standardised approach based on average income attributed to Regulatory Business Lines.

Business line	Calculation factor
Investment banking	18%
Dealer activity	18%
Retail brokerage activity	12%
Commercial banking	15%
Retail banking	12%
Payments and settlements	18%
Intermediary services (agencies)	15%
Asset management	12%

Capital requirement for interest rate risk in the banking book was estimated based on the potential decline of the value of available for sale securities portfolio in stress conditions. For the purpose of calculation of the potential decline of the value of available for sale securities portfolio in stress conditions, the sensitivity indices DV01 of this portfolio are used and anticipated growth of interest rates by 200 base points for all currencies for which DV01 limits were set, that is PLN, USD and EUR.

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

Pursuant to §14.1 of the Resolution on capital adequacy, the Bank in calculation of total capital requirement for credit risk regarding the exposures not included in internal rating method can apply regulations provided in § 1-29 of annex 21 of the resolution.
The Group exercises those possibilities and uses so called "transitional period", based on regulations regarding calculation of capital requirement for credit risk, applied by the Bank as at 31 December 2007.

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

The Group does not use the internal ratings approach.

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

Capital requirement regarding	Requirement value (in PLN '000)
credit risk	1 395 589
counterparty credit risk	123 926
settlement risk - delivery	8 307
equity securities prices risk	681
debt instruments prices specific risk	16 603
currency risk	0
operational risk*	332 960
general risk of interest rates	236 247
exceeding exposure concentration limit and large exposures limit	356 051
exceeding capital concentration level	0
other types of risks	0
Capital requirements - total	**2 470 364**

** Pursuant to §14.1 of Resolution on capital adequacy, the Group fully eliminates the capital requirement for operational risk.*

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

On 31st December 2007 the capital requirement regarding operational risk using the standardised approach amounts to 332 960 424 PLN.

4. Information regarding exposure to credit risk and dilution risk

1) the definitions of 'past due' and 'impaired' - for accounting purposes

Receivables impaired comprise exposures for which objective evidence of impairment was identified and for which present value of expected future cash flows is less than the receivable carrying value. Objective evidence of impairment is described in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2007, in explanatory note no. 2 "Significant accounting policies".

Allowances for impairment of receivables are made depending on the approach to credit risk management:

- for individually significant receivables - the amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows resulting from anticipated repayments by the debtor, collateral or sale of receivable. Future cash flows are discounted to present value at the asset's effective interest rate,
- for individually insignificant receivables – impairment allowance is calculated on the basis of portfolio assessment considering experience with historical losses incurred on assets with similar risk profiles.

For the accounting purposes the Group assumes that past due receivables comprise all the exposures for which there was a delay in principal or interest repayment compared to those agreed in the contract.

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

The description of the approach and methods used for calculation of adjustments and provisions is provided in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2007, in explanatory note no. 2 "Significant accounting policies".

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

Pursuant to §14.1 of the Resolution on capital adequacy, the Bank in calculation of total capital requirement for credit risk regarding the exposures not included in internal rating method can apply regulations provided in § 1-29 of annex 21 of the resolution.
The Group exercises those possibilities and uses so called "transitional period", based on regulations regarding calculation of capital requirement for credit risk, applied by the Bank as at 31 December 2007, in view of that Bank does not disclose exposures by classes.

The total value of exposures in their carrying amount is provided in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2007, in explanatory note no. 44 "Risk management".

Exposure type	Net exposures after adjustments and provisions (in PLN '000)	Average exposure after adjustments and provisions (in PLN '000)
Balance sheet exposures	37 723 388	36 647 084
- including derivatives	6 546 755	6 104 978
Off-balance sheet exposures	13 179 272	12 592 496

** Arithmetical average calculated on quarterly balances in 2007.*

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

The Group conducts its operations solely in the territory of Poland and no significant differences in risk were identified as regards the geographical location of its outlets. Therefore exposures have not been presented by geographical area.

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

Pursuant to §14.1 of the Resolution on capital adequacy, the Bank in calculation of total capital requirement for credit risk regarding the exposures not included in internal rating method can apply regulations provided in § 1-29 of annex 21 of the resolution.
The Group exercises those possibilities and uses so called "transitional period", based on regulations regarding calculation of capital requirement for credit risk, applied by the Bank as at 31 December 2007, in view of that Bank does not disclose exposures by classes.

Net value of exposures* by industry as at 31 December 2007

Industries	Net value (PLN'000)
Financial intermediation	12 885 889,27
Private individuals	7 971 238,16

Public administration and national defense; social security and health insurance	6 080 467,07
Wholesale and retail trade	4 495 243,19
Production of chemicals	1 787 889,93
Production of food, beverages and tobacco goods	1 667 325,80
Provision of power, gas, steam and hot water	1 471 450,44
Transportation and supporting services	1 175 147,43
Production of machinery	1 007 669,00
Postal services and telecommunications	697 750,48
Production of mettalic goods, except for machines and equipment	620 804,45
Other services	573 645,46
Construction	464 447,72
Production of transportation equipment	444 799,06
Production of coke, oil rafinery and atomic fuel	436 670,55
Production of wood goods	307 928,40
IT	220 949,74
Production of radio, television and telecommunications equipment	201 708,88
Real estate maintenance	173 219,74
Production of paper goods, publishing	170 767,66
Hotels and restaurants	153 751,26
Other (unclassified)	121 119,82
Production of medical and optical equipment, as well as clocks	114 927,09
Hiring machinery and equipment without personell and hiring household equipment	113 892,11
Mining	112 955,79
Textile, clothing and leather industry	93 525,26
Organization and exterritorial groups	82 992,12
Science, education, culture	37 263,14
Health care and social security	30 064,08
Waste utilization	18 264,34
Agriculture, forestry, fishing	5 375,87
Activity of membership organization, not classified elsewhere	1 365,72
Piping away of waste, sewage, sanitary services and similar	906,43
Water consumption and distribution	323,70
Other assets	7 160 920,72
Total	**50 902 659,89**

** including placements and securities.*

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

Maturity periods	Credit exposure amount (in PLN '000)
up to 1 month	14 184 641
1-3 months	3 038 199
3-6 months	2 366 338

6-12 months	1 793 063
above 12 months	4 534 071
Total	25 916 312

Pursuant to §14.1 of the Resolution on capital adequacy, the Bank in calculation of total capital requirement for credit risk regarding the exposures not included in internal rating method can apply regulations provided in § 1-29 of annex 21 of the resolution.
The Group exercises those possibilities and uses so called "transitional period", based on regulations regarding calculation of capital requirement for credit risk, applied by the Bank as at 31 December 2007, in view of that Bank does not disclose exposures by classes.

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

Gross value of impaired exposures* as at 31 December 2007

Industries	**Gross value of impaired exposures (PLN'000)**
Wholesale and retail trade	391 831,47
Private individuals	284 207,85
Production of transportation equipment	156 191,09
Construction	129 273,12
Production of chemicals and goods out of non-metallic resources	127 958,12
Financial intermediation	85 162,45
Production of food and tobacco goods	82 668,74
Transportation and supporting services	86 248,46
Production of wooden goods	65 870,44
Production of machinery	78 605,35
Mining	20 949,54
Other (unclassified)	67 363,80
Production o mettalic goods, except for machinery	29 062,25
Textile, clothing and leather industry	25 666,83
Production of paper goods, publishing	18 283,94
Real estate maintenance	14 529,77
Hiring machinery and equipment without personnel and hiring household equipment	9 550,24
IT	9 175,57
Organization and exterritorial groups	6 376,34
Other services	8 029,99
Waste utilization	3 028,16
Science, education, culture	164,44
Production of radio, television and telecommunications equipment	723,19
Activity of membership organization, not classified elsewhere	617,31
Hotels and restaurants	0,00
Postal services and telecommunications	99,71
Total	**1 701 638,16**

**including off-balance sheet exposures.*

Gross value of past due exposures as at 31 December 2007

Industries	**Gross value of past due exposures (in PLN'000)**
Wholesale and retail trade	358 109,83
Private individuals	284 207,85
Production of transportation equipment	147 260,04
Construction	120 190,33
Production of chemicals and goods out of non-metallic resources	88 226,93
Financial intermediation	74 492,74
Transportation and supporting services	86 341,48
Production of food and tobacco goods	60 239,02
Production of wooden goods	58 149,12
Production of machinery	63 558,51
Other (unclassified)	48 527,77
Textile, clothing and leather industry	24 329,81
Mining	17 323,52
Production o mettalic goods, except for machinery	16 650,18
Real estate maintenance	15 951,76
Organization and exterritorial groups	9 703,27
IT	8 508,00
Other services	10 060,66
Hiring machinery and equipment without personnel and hiring household equipment	7 148,88
Production of paper goods, publishing	7 054,26
Waste utilization	3 624,80
Production of radio, television and telecommunications equipment	730,00
Science, education, culture	768,36
Activity of membership organization, not classified elsewhere	515,72
Hotels and restaurants	319,38
Health care and social security	129,49
Postal services and telecommunications	94,43
Production of medical and optical equipment, as well as clocks	65,00
Agriculture, forestry, fishing	12,05
Total	**1 512 293,19**

Provisions* as at 31 December 2007 and 31 December 2006

Industries	**Provisions (PLN'000)**	
	2007-12-31	**2006-12-31**
Wholesale and retail trade	326 600,59	367 189,35
Private individuals	273 051,46	212 881,57
Production of transportation equipment	146 310,58	150 912,13

Construction	112 229,40	130 049,28
Production of chemicals and goods out of non-metallic resources	81 982,91	88 062,07
Transportation and supproting services	76 644,05	66 613,46
Financial intermediation	74 786,23	92 545,89
Production of food and tobacco goods	72 912,29	66 533,47
Production of machinery	61 270,73	45 439,30
Production of wooden goods	54 318,11	74 951,84
Production o mettalic goods, except for machinery	22 530,83	21 907,71
Textile, clothing and leather industry	21 104,14	22 359,34
Production of paper goods, publishing	17 987,59	6 696,09
Mining	17 356,12	20 054,24
Real estates maintenance	14 909,49	11 555,06
IT	8 547,70	8 424,15
Other services	8 125,06	7 450,97
Organization and exterritorial groups	8 085,30	11 812,83
Hiring machinery and equipment without personnel and hiring household	7 272,66	9 955,80
Waste utilization	3 727,87	3 772,91
Production of radio, television and telecommunications equipment	828,62	882,64
Provision of power, gas, steam and hot water	650,13	924,28
Science, education, culture	555,94	439,60
Activity of membership organization, not classified elsewhere	444,18	3,76
Hotels and restaurants	243,36	757,34
Postal services and telecommunications	169,38	876,59
Production of medical and optical equipment, as well as clocks	140,02	518,84
Health care and social security	106,80	1,36
Production of coke, oil rafinery and atomic fuel	37,82	153,06
Public administration and national defense; social security and health insurance	26,17	34,06
Piping away of waste, sewage, sanitary services and similar	2,75	10,45
Agriculture, forestry, fishing	2,13	0,00
Water consumption and distribution	0,98	1,84
Other (unclassified)	42 876,86	236 619,88
Total	**1 455 838,26**	**1 660 391,17**

***with provisions for off-balance exposures.*

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

The Group conducts its operations solely in the territory of Poland and no significant differences in risk were identified as regards the geographical location of its outlets. Therefore results of the Group have not been presented by geographical area.

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

The reconciliation of adjustments and provisions regarding exposures impaired is provided in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2007, in explanatory note no. 23 "Impairment of loans and advances".

5. Information regarding exposure to counterparty credit risk

Counterparty risk is incurred from a wide range of trading and capital market transactions. It has been defined in the Bank as pre-settlement risk and settlement risk.

Pre-settlement exposure is an estimate of how much counterparty might owe in a trading transaction over a life of a transaction. Pre-settlement risk is determined using nominal transaction value, credit exposure factor and Market to Market.
Settlement risk arises when the Bank exchanges securities or cash payments to a counterparty on a value date and is unable to verify that payment or securities have been received in exchange.

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

The pre-settlement risk is managed by setting pre-settlement limits and is an integral part of credit approval process. Pre-settlement limits for counterparty specify, among others, tenors and product families (e.g. FX, forwards, options, interest rate derivatives) and depend on the customer creditworthiness, his financial standing and customer needs.
The settlement risk is managed in BHW by setting settlement limits and is an integral part of credit approval process.

Information regarding methodology used to attribute internal capital are covered in point 3 section 1 of this chapter, "the description of the bank's approach to assessing the adequacy of its internal capital to support current and future activities".

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

As a general rule the Bank does not require collateral in transactions involving pre-settlement risk. In some cases BHW mitigates the risk through margining arrangements requiring counterparties to post cash deposits. Adopting ISDA Master Agreements mitigates the risks further.
Further mitigation of settlement risk may be achieved through not paying the counterparty until BHW confirms receipt of the payment, i.e. DVP (delivery versus payment).

3) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the

credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements

At the end of 2007 Bank did not use netting benefits and did not use methods of credit risk reduction, which is why gross fair value of contracts equals their net value.
Derivatives exposure is presented in point 4, subpoint 3 above.

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

Bank measures exposures of derivative transactions using methods of market valuation in compliance with resolution on capital adequacy.

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

Bank does not use credit derivative hedges.

6) credit derivative transactions (notional), segregated between use for the bank's own credit portfolio, including unfunded credit protection, as well as in its intermediation activities and speculative transactions, broken down further by protection bought and sold within each product group

Bank does not use credit derivative hedges.

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

The Bank does not estimate α.

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

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

The Bank's Credit Policies describe in details which external ratings issued by which external agencies can be used in normal credit process in Bank. 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 according to standardize method. Currently Bank does not use ratings issued by Export Credit Agencies.

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

Exposure classes for which Bank uses external ratings issued by approved external agency:
1) exposures or contingent exposures to central governments and central banks;
2) exposures or contingent exposures to local governments and local authorities;
3) exposures or contingent exposures to multilateral development banks;
4) exposures or contingent exposures to institutions;
5) exposures or contingent exposures to corporates;
6) short-term exposures to institutions and corporates;
7) exposures in the form of collective investment undertakings.

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

The Bank applies issuer and issue credit assessment according to rules set forth in KNB Resolution no1/2007. 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, BHW uses a credit assessment that exists for a specific issuing programme or facility to which the exposure does not belong or a general credit assessment that exists for this issuer, provided that it produces a higher risk weight than that which would be applied to exposures without a credit assessment or if it produces a lower risk weight and the exposure in question ranks pari passu or senior to the specific issuing programme or facility or to senior unsecured exposures of that issuer, as relevant.

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

Rodzaj Ratingu	Rating_Source	Rating_Code	Assigned Quality	Rating_Source	Rating_Code	Assigned Quality	Rating_Source	Rating_Code	Assigned Quality
Longterm ratings	S&P(0002)	AAA	1	Fitch(0004)	AAA	1	Moody's(00	Aaa	1
	S&P	AA+	1	Fitch	AA+	1	Moody's	Aa1	1
	S&P	AA	1	Fitch	AA	1	Moody's	Aa2	1
	S&P	AA-	1	Fitch	AA-	1	Moody's	Aa3	1
	S&P	A+	2	Fitch	A+	2	Moody's	A1	2
	S&P	A	2	Fitch	A	2	Moody's	A2	2
	S&P	A-	2	Fitch	A-	2	Moody's	A3	2
	S&P	BBB+	3	Fitch	BBB+	3	Moody's	Baa1	3
	S&P	BBB	3	Fitch	BBB	3	Moody's	Baa2	3
	S&P	BBB-	3	Fitch	BBB-	3	Moody's	Baa3	3
	S&P	BB+	4	Fitch	BB+	4	Moody's	Ba1	4
	S&P	BB	4	Fitch	BB	4	Moody's	Ba2	4
	S&P	BB-	4	Fitch	BB-	4	Moody's	Ba3	4
	S&P	B+	5	Fitch	B+	5	Moody's	B1	5
	S&P	B	5	Fitch	B	5	Moody's	B2	5
	S&P	B-	5	Fitch	B-	5	Moody's	B3	5
	S&P	CCC+	6	Fitch	CCC+	6	Moody's	Caa1	6
	S&P	CCC	6	Fitch	CCC	6	Moody's	Caa2	6
	S&P	CCC-	6	Fitch	CCC-	6	Moody's	Caa3	6
	S&P	CC	6	Fitch	CC	6	Moody's	Ca	6
	S&P	C	6	Fitch	C	6	Moody's	C	6
	S&P	D	6	Fitch	D	6			
				Fitch	RD	6			
Shortterm ratings	S&P	A-1+	1	Fitch	F1+	1			
	S&P	A-1	1	Fitch	F1	1	Moody's	P-1	1
	S&P	A-2	2	Fitch	F2	2			
	S&P	A-3	3	Fitch	F3	3	Moody's	P-2	2
	S&P	B	4	Fitch	B	4	Moody's	P-3	3
	S&P	B-1	4	Fitch	C	4	Moody's	NP	4
	S&P	B-2	4	Fitch	D	4			
	S&P	B-3	4	Fitch	RD	4			
	S&P	C	4						
	S&P	D	4						

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

Pursuant to §14.1 of the Resolution on capital adequacy, the Bank in calculation of total capital requirement for credit risk regarding the exposures not included in internal rating method can apply regulations provided in § 1-29 of annex 21 of the resolution.
The Group exercises those possibilities and uses so called "transitional period", based on regulations regarding calculation of capital requirement for credit risk, applied by the Bank as at 31 December 2007.

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

The Group does not use internal ratings-based approach.

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

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

9. Information regarding operational risk

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

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

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

The Bank does not apply the advanced measurement approach.

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

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

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

Detailed information on how the Group’s equity investment portfolio is broken down based on purchase reasons are described in chapter „Bank’s equity investments” of the Report on Activities of the Capital Group of Bank Handlowy w Warszawie SA for 2007.

A description of accounting techniques applied as well as capital commitments valuation methodologies is in explanatory note 2 „Significant accounting policies" to the consolidated financial report of the Capital Group of Bank Handlowy w Warszawie SA for the period ending 31 December 2007.

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

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 35 „Fair value information" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA for the period ending 31 December 2007

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

The value of equity exposures, broken down into listed equity exposures and portfolios of securities not admitted to trading in the regulated equity market is provided in explanatory note 20 „Equity investments accounted for under the equity method" and note 21 „Other equity investments" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA for the period ending 31 December 2007.

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

The value of realized gains or losses from sales and liquidations of equity investments not included in Bank's trading portfolio is provided in explanatory note 9 "Net gain on investment (capital) securities" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA for the period ending 31 December 2007.

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

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

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

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

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

The information regarding the interest rate risk of the Bank's portfolio are disclosed in chapter „Risk Management Objectives and Policies", in paragraph 3 „Market Risk" as well as in explanatory note 44 "Risk Management" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie SA for the period ending 31 December 2007.

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

There are no securitization exposures within the Group.

13. Information regarding credit risk mitigation techniques

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

There is no on- and off-balance sheet netting within the Group.

2) the policies and processes for collateral valuation and management

The policy and procedures regarding collateral valuation and management are disclosed in chapter „Risk Management Objectives and Policies", in paragraph 2.3 „The Policies for Hedging and Mitigation Risk".

3) a description of the main types of collateral taken by the credit institution

The main types of repossessed credit collateral are described in chapter „Risk Management Objectives and Policies", in paragraph 2.3 „The Policies for Hedging and Mitigation Risk"

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

There are no credit derivatives in Group's portfolio.

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

Pursuant to §14.1 of the Resolution on capital adequacy, the Bank in calculation of total capital requirement for credit risk regarding the exposures not included in internal rating method can apply regulations provided in § 1-29 of annex 21 of the resolution.
The Group exercises those possibilities and uses so called "transitional period", based on regulations regarding calculation of capital requirement for credit risk, applied by the Bank as at 31 December 2007, according to the above, the Bank does not use credit limitation instruments in accordance with capital adequacy Resolution. The Group does not use such instruments in reference to calculation of capital requirement for market risk.

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

Pursuant to §14.1 of the Resolution on capital adequacy, the Bank in calculation of total capital requirement for credit risk regarding the exposures not included in internal rating method can apply regulations provided in § 1-29 of annex 21 of the resolution.
The Group exercises those possibilities and uses so called "transitional period", based on regulations regarding calculation of capital requirement for credit risk, applied by the Bank as at 31 December 2007, according to the above, the Bank does not present expositions by different types of exposure classes and does not use techniques of credit risk limitations.

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

Pursuant to §14.1 of the Resolution on capital adequacy, the Bank in calculation of total capital requirement for credit risk regarding the exposures not included in internal rating method can apply regulations provided in § 1-29 of annex 21 of the resolution.
The Group exercises those possibilities and uses so called "transitional period", based on regulations regarding calculation of capital requirement for credit risk, applied by the Bank as at 31 December 2007, according to the above, the Bank does not present expositions by different types of exposure classes and does not use techniques of credit risk limitations.

Signatures of all Management Board Members

13.05.2008	Sławomir Sikora	President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original
13.05.2008	Michał H. Mrożek	Vice-President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original
13.05.2008	Edward Wess	Vice-President of the Management Board	
……………………………	………………………………	…………………………….	……………………………………….
Date	Name	Position / function	Signed on Polish original
13.05.2008	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	
……………………………	………………………………	…………………………….	……………………………………….
Date	Name	Position / function	Signed on Polish original
13.05.2008	Witold Zieliński	Vice- President of the Management Board	
....	....	....	....
Date	Name	Position / function	Signed on Polish original