The Report has been approved by the Bank Handlowy w Warszawie S.A. Supervisory Board's Resolution dated 26th May 2010.

Information on capital adequacy of Bank Handlowy w Warszawie SA Group as at 31 December 2009

INTRODUCTION

This document has been laid down to execute The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy[1], to meet the disclosure requirements of Resolution no. 385/2008 of the Polish Financial Supervision Authority (KNF)of 17 December 2008 *on detailed principles related to and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure*, 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 Handlowy w Warszawie S.A. Group (hereinafter referred to as: Group) and financial market participants, the Group's risk management strategy and processes, information on the capital structure, exposure to risk and capital adequacy, which enable thorough assessment of the Group's financial stability, in order to make economic decisions as well as keeping market discipline. This document complements information included in Annual Financial Statements of Bank Handlowy w Warszawie S.A. Group for the period ended 31 December 2009 and refers to it wherever it is relevant.

Pursuant to the Resolution no. 385/2008 of the Polish Financial Supervision Authority of 17 December 2008 *on detailed principles related to and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure*, Bank publishes disclosures on capital adequacy on the basis of consolidated data as of 31 December 2009.

When the disclosures required by the Resolution no. 385/2008 of the Polish Financial Supervision Authority are published in The Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2009, 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. 380/2008 of the Polish Financial Supervision Authority of December 17, 2008 *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,*

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

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,

Resolution on banks' own funds - Resolution No. 381/2008 of the Polish Financial Supervision Authority of December 17, 2008 *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

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

Strategies and processes of credit risk management (including the counterparty risk and concentration risk), liquidity risk, market risk, operational risk and revenue risk, as well as the structure and organization of units managing the appropriate risks and solutions used by the Group on measurement and reporting of those risks are presented in details in the note 47 „Risk management" to the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ended 31 December 2009.

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

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

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

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

Compliance is the Bank's unit, which supports the Bank's Management Board and business units, and monitors the Bank's subsidiaries, to ensure compliance of the Group's operation with laws, internal standards, 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 S.A. („Bank")

2) brief description of entities that are:

a) fully consolidated

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

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

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 entity is a wholly-owned subsidiary of the Bank and its 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 S.A. and similar holdings will be gradually sold or liquidated. As at 31 December 2009 Handlowy Investments S.A. had the portfolio composed of the following shares: Handlowy Investment II S.a.r.l. i Pol-Mot Holding S.A.

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

b)) proportionally consolidated

There are no proportionally consolidated entities.

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

c) 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. under liquidation.

Handlowy Inwestycje Sp. z o. o. seated in Warsaw and Handlowy Investments II S.a.r.l seated in Luxembourg are special purpose investment entities, through which the Bank conducts capital transactions. Handlowy-Inwestycje Sp. z o.o. has in its portfolio shares of Handlowy Leasing Sp. z o.o. Activities of the entities are financed by refundable capital contributions, 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. Currently Handlowy Investments II S.a.r.l. has in its portfolio shares of Handlowy Investments S.A. Due to intention to reduce the investment activities, Handlowy - Investments II S.a.r.l it is expected that it will be sold or liquidated in the near future.

Bank Rozwoju Cukrownictwa S.A. under liquidation. seated in Poznan („BRC") **-** a subsidiary of Bank Handlowy w Warszawie S.A. (100% share), does not run active operations. On March 2, 2009 Extraordinary General Meeting of Shareholders of BRC adopted a resolution regarding dissolution of the company and voluntary liquidation. The Bank's plan of voluntary liquidation was accepted on July 9, 2009 by the Polish Financial Supervision Authority.

d) neither consolidated nor deducted

There are no entities that are neither consolidated nor deducted.

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

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

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

In Bank Rozwoju Cukrownictwa under liquidation., subsidiary of Bank Handlowy w Warszawie S.A. not included in the consolidation, the actual funds are above the required minimum.

2. Information regarding own funds

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

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

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

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

Supplementary funds of the Bank comprise:
a) other items determined by KNF in order to secure banking activity and manage risk properly – unrealized profits on debt instruments classified as available for sale up to 60% of their value (before income tax),
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 in financial institutions, lending institutions, domestic banks, foreign banks disclosed in the form of shares or other capital exposure in items classified as own funds or capital of those entities, including capital contributions in limited liability companies, in carrying amount (balance sheet amount), in case when such an exposure exceeds 10% of own funds of that entity.

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

Own funds	in PLN '000
Core funds	4 329 257
- base funds	5 320 893
share capital	522 638
supplementary capital	3 030 546
reserve capital together with retained earnings	1 767 708
- general risk fund	465 000
- deductions of core funds	(1 456 636)
intangible assets	(1 282 574)
unrealized loss on debt instruments classified as available for sale	(107 881)
retained loss, current period net loss	(29 142)
capital exposures in financial institutions	(37 039)
Supplementary funds	-
- other items	19 856
unrealized profits on debt instruments classified as available for sale	19 856
unrealized profits on equity instruments classified as available for sale	-
- deductions of supplementary funds	(19 856)
capital exposures in financial institutions	(19 856)
Total core funds	**4 329 257**

Information about the components of equity are presented in details in supplementary note 36 „Capital and Reserves" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2009.

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

The Group does not use short-term capital.

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

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

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

The Group does not use short-term capital.

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

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

The Group identifies and manages different types of risks in its activity. Internal capital is the amount of capital estimated by the Group required to cover all identified material types of risks, which affect the Group's business.

The Bank adjusts the amount of capital to the risk level and the risk type, to which the Bank is exposed and to the characteristics, scale and complexity of the specific business. For this purpose the Bank implemented the internal capital adequacy assessment process (ICAAP). Under ICAAP the Bank estimates, allocates and maintains capital at the level corresponding to the risk profile and the accepted statement regarding the general risk level (risk appetite). The accepted risk appetite is designed to provide security for business activities and allow to achieve strategic goals related to capital profitability.

Overall acceptable risk level is defined by a target regulatory capital adequacy ratio. Risk appetite is approved each year in the form of resolution of the Bank's Supervisory Board on the recommendation of Management Board. Management Board on the basis of risk appetite decides on the level of aggregated limits on particular risks treated as significant.

Management decides on the classification of risks coming from the Bank's activity into significant and non-significant ones for the purpose of risk management and the process of assessing and maintaining of internal capital for the next year.

The following risks were identified as significant:

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

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

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

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

Supervisory Board receives periodically information report on assessment and utilizations of internal and regulatory capital.

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

Exposure classes	Capital requirements (in PLN '000)
Governments and central banks	4 686
Regional governments and local authorities	3 199
Administrative bodies and non-commercial undertakings	911
Multilateral development banks	0
International organizations	0
Institutions- banks	139 679
Corporations	754 686
Retail	471 391
Secured on real estate property	9 307
Past due items	54 059
Items belonging to regulatory high-risk categories	2 478
Covered bonds	0
Short-term claims on banks and corporations	0
Collective investment undertakings	0
Other	93 702
Total	**1 534 098**

*regarding credit risk & counterparty credit risk

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

The Group does not use the internal ratings approach.

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

Capital requirement regarding	Requirement value (in PLN '000)
credit risk	1 402 957
counterparty credit risk	131 141
settlement risk - delivery	31 208
equity securities prices risk	1 157
debt instruments prices specific risk	3 259
currency risk	-
operational risk	345 885
general risk of interest rates	102 356
exceeding exposure concentration limit and large exposures limit	54 386
exceeding capital concentration level	-
other types of risks	-
Capital requirements - total	**2 072 350**

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 2009 the capital requirement regarding operational risk using the standardised approach amounts to 345 884 603 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 2009, 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 2009, 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

Exposure classes	Net exposures after adjustments and provisions in PLN* ('000)	Average exposure after adjustments and provisions ** in PLN ('000)
Governments and central banks	13 921 443	14 310 141
Regional governments and local authorities	299 986	290 825
Administrative bodies and non-commercial undertakings	23 489	31 819
Multilateral development banks	38	38
International organizations	0	0
Institutions- banks	5 592 327	5 136 761
Corporations	16 079 413	18 135 012
Retail	10 405 942	10 222 211
Secured on real estate property	193 348	197 367
Past due items	586 722	496 404
Items belonging to regulatory high-risk categories	24 140	17 011
Covered bonds	0	0
Short-term claims on banks and corporations	0	0
Collective investment undertakings	0	0
Other	6 083 193	7 879 181
Total	**53 210 041**	**56 716 770**

** Out of which PLN 13 707 112 due to off-balance sweet commitments.*
*** Arithmetical average calculated on quarterly balances in 2009.*

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

The Group conducts its operations solely in the territory of Poland. Due to Bank's significant exposure in the Governments and central bank and in the Institutions – banks exposure classes and also due to the fact that many companies' headquarters are located in Warsaw we observe natural concentration of exposures in Masovian Voivodeship. In case of retail exposures we observe the natural concentration of exposures in regions of highest population, i.e. in Masovian Voivodeship and in Silesia Voivodeship.

Taking into account the above the geographic concentration risk is considered by the Bank as non significant and therefore it was decided not to present the geographic distribution of exposures.

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

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

Counterparty type	Exposure class	Net value in PLN ('000)
Banks	Institiutions-banks	5 592 327
	Multilateral development banks	38
Retail clients	Retail	10 200 850
	Secured on real estate property	193 348
	Past due items	180 526
Other assets	Other	6 083 193
Corporations	Corporations	16 079 413
	Past due items	406 196
	Retail	205 092
	Items belonging to regulatory high-risk categories	24 140
Budget sector	Governments and central banks	13 921 443
	Regional governments and local authorities	299 986
	Administrative bodies and non-commercial undertakings	23 489
Total		**53 210 041**

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

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

Maturity	Exposure class	Value of credit exposures in PLN ('000)
up to 1 month	Retail	1 858 317
	Institutions- banks	3 367 494
	Administrative bodies and non-commercial undertakings	3 515
	Corporations	3 317 158
	Past due items	698 409
	Governments and central banks	3 635 242
Total for up to 1 month		12 880 135

Maturity	Exposure class	Value of credit exposures in PLN ('000)
1-3 months	Retail	14 198
	Institutions- banks	38 418
	Administrative bodies and non-commercial undertakings	539
	Corporations	180 333
	Past due items	17 573
Total for 1-3 months		251 061
3-6 months	Retail	36 229
	Institutions- banks	22 080
	Administrative bodies and non-commercial undertakings	1 714
	Corporations	267 305
	Past due items	30 298
Total for 3-6 months		357 627
6-12 months	Retail	112 465
	Institutions- banks	533
	Corporations	222 173
	Past due items	115 494
	Governments and central banks	57
Total for 6-12 months		450 723
above 12 months	Retail	3 400 257
	Institutions- banks	33 325
	Administrative bodies and non-commercial undertakings	2 598
	Corporations	2 705 864
	Past due items	1 118 467
	Governments and central banks	11
	Regional governments and local authorities	80 812
	Secured on real estate property	193 329
Total for above 12 months		7 534 663
Total		21 474 209

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

Gross value of impaired exposures by counterparty type as at 31 December 2009

Counterparty type	Gross value of exposures in PLN ('000)
Corporations	1 622 048
Retail clients	635 665
Total	**2 257 713**

Balance sheet exposures with interest

Provisions as at 31 December 2009 and 31 December 2008

Counterparty type	Provisions in PLN ('000)	
	2009-12-31	**2008-12-31**
Corporations	895 781	1 148 334
Retail clients	565 131	314 934
Banks	766	1 469
Budget sector	77	55
Total	**1 461 755**	**1 464 792**

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

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

The Group conducts its operations solely in the territory of Poland. Due to Bank's significant exposure in the Governments and central bank and in the Institutions – banks exposure classes and also due to the fact that many companies' headquarters are located in Warsaw we observe natural concentration of exposures in Masovian Voivodeship. In case of retail exposures we observe the natural concentration of exposures in regions of highest population, i.e. in Masovian Voivodeship and in Silesia Voivodeship.

Taking into account the above the geographic concentration risk is considered by the Bank as non significant and therefore it was decided not to present the geographic distribution of exposures.

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

The reconciliation of adjustments and provisions regarding exposures impaired is provided in the Annual Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. as at 31 December 2009, in explanatory note no. 24 "Impairment of loans and advances".

5. Information regarding exposure to counterparty credit risk

Counterparty risk is incurred from derivative transactions and capital market transactions. It has been defined by the Group 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. If it's possible pre-settlement risk is estimated using potential exposure simulation model and in other cases it is determined using nominal transaction value, credit exposure factor and replacement cost. The second method is used for calculation of capital requirements.
Settlement risk arises when the Group exchanges securities or cash payments to a counterparty on a value date and is unable to verify that payment or securities have been received in exchange.

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

The pre-settlement & settlement risks are managed by setting pre-settlement limits and ares an integral part of credit approval process. Pre-settlement limits for counterparty specify, among others, tenors and product families and depend on the customer creditworthiness, his financial standing and customer needs.
The settlement risk is similarly managed 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

Group's policies for securing collateral varies according to the business segment which the counterparty is classified in. Most common form of collateral accepted to mitigate counterparty credit risk is cash deposit (margining). The amount of cash deposit depends on the difference of the current Mark to Market value of a transaction and a limit agreed. In this case the wrong-way risk is eliminated.
Adopting ISDA Master Agreements mitigates the risks further.

For a vast majority of transactions Group adopts ‘delivery versus payment’ (DVP) principle which mitigate settlement risk through not paying the counterparty until Group confirms receipt of the payment or delivery of an instrument by a client.

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

	in PLN (‘000)
Gross positive fair value	3 093 849
Netting benefits (change in value of balance sheet equivalent)	2 932 552
Net value of credit exposure (value of balance sheet equivalent)	2 828 351
Current credit exposure	5 088 370

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

Group measures exposures of derivative transactions using methods of market valuation in compliance with Annex no. 16 to the KNF Resolution no. 380/2008 on capital adequacy for banks.

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

Group 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

Group 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 Group does not estimate α.

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

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

The KNF Resolution no 380/2008 and Bank's Credit Policies describe in details which external ratings issued by which external agencies can be used in normal credit process in Group. Currently there are Moody's and Standard & Poors as well as Fitch. Ratings from this three mentioned agencies are used in calculation and reporting process of Capital Requirements for Credit Risk according to standardize method. Currently Group does not use ratings issued by Export Credit Agencies.

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

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

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

Group applies issuer and issue credit assessment according to rules set forth in KNF Resolution no 380/2008. Consequently for given exposure where a credit assessment exists for a specific issuing programme or facility to which the exposure belongs, this credit assessment is used to determine the risk weight, which is then assigned to that exposure. Otherwise, Group uses a credit assessment that exists for a specific issuing programme or facility to which the exposure does not belong or a general credit assessment that exists for this issuer, provided that it produces a higher risk weight than that which would be applied to exposures without a credit assessment or if it produces a lower risk weight and the exposure in question ranks pari passu or senior to the specific issuing programme or facility or to senior unsecured exposures of that issuer, as relevant.

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

The association of the external rating of each ECAI and ECA with the credit quality steps:

Rating type	Rating Agency	Rating	Credit quality step	Rating Agency	Rating	Credit quality step	Rating Agency	Rating	Credit quality step
Ratingi Długoterminowe	S&P(0002)	AAA	1	Fitch(0004)	AAA	1	Moody's(0001)	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			
Ratingi Krótkoterminowe	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

Credit quality step	Exposure values before credit risk mitigation in PLN ('000)	Exposure values after credit risk mitigation in PLN ('000)
1	104 113	104 113
2	9 119 070	7 157 795
3	1 270 857	1 270 439
4	306 050	306 050
5	93	93
6	857	857
no rating	42 409 001	42 294 703
Total	**53 210 041**	**51 134 050**

Deductions from own funds (in PLN '000)

Deductions from core funds		**1 282 574**
	- intangible assets measured at carrying amount	1 282 574
	including company value	1 245 976
Deductions from core and supplemental funds		**56 895**
	- capital exposure in financial institutions	**56 895**
	including:	
	Capital exposure of the Bank in financial institutions, lending institutions, domestic banks, foreign banks disclosed in the form of shares or other capital exposure, in case when such exposure exceeds 10% of own funds of that entity.	**52 992**
	Bank Rozwoju Cukrownictwa S.A.	40 738
	Handlowy Inwestycje Sp. z o.o.	5 119
	Handlowy Investments II S.a.r.l.	7 135
	Capital exposure of the Bank in financial institutions, lending institutions, domestic banks, foreign banks disclosed in the form of other capital exposure in items classified as own funds or capital of those entities, including capital contributions in limited liability companies, in carrying amount (balance sheet amount), in case when such an exposure does not exceed 10% of own funds of that entity.	3 903
	Handlowy Inwestycje Sp. z o.o. - Contributions to subsidiaries	3 903
Total		**1 339 469**

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

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

9. Information regarding operational risk

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

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

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

Group does not apply the advanced measurement approach.

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

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

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

Detailed information on how the Group's equity investment portfolio is broken down based on purchase reasons are described in chapter V point No 7 „Group's equity investments" of the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2009.

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 S.A. for the period ending 31 December 2009.

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

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 38 „Fair value information" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2009.

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

The value of equity exposures, broken down into listed equity exposures and portfolios of securities not admitted to trading in the regulated equity market is provided in explanatory note 21 „Equity investments valuated at the equity method" and note 22 „Other equity investments" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2009.

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 equity securities" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2009.

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

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

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

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

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

The information regarding the interest rate risk of the Bank's portfolio are disclosed in explanatory note 47 "Risk Management" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2009 .

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

There are no securitization exposures within the Group.

13. Information regarding credit risk mitigation techniques

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

For the purpose of calculating the balance sheet equivalent of derivative transactions within capital requirements calculation Group makes use of off-balance sheet netting of derivative transactions with Citibank N.A. (London Branch) within main product groups. Such transactions are covered by frame agreement ISDA Master Agreement between Bank Handlowy w Warszawie S.A. and Citibank N.A..
The basis for use of compensation was to fulfill the legal and formal terms referred to in par. 75 of Annex 16 to the KNF Resolution 380/2008 of 17 December 2008, which must be met in order to consider the contractual compensating as risk limiting.
Group has introduced process to monitor regulations in regards to compensation in order to ensure proper monitoring of changes in current regulations in regards to requirements set in the above mentioned annex.

2) the policies and processes for collateral valuation and management

Information regarding the policies and processes for collateral valuation and management are presented in details in supplementary note 47 „Risk Management" to the Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the period ending 31 December 2009.

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

The Group does not make use of guarantees as credit risk mitigation techniques for the purpose of capital adequacy assessment. Also there are no credit derivatives in Group's portfolio.

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

The Group does not make use of guarantees as credit risk mitigation techniques for the purpose of capital adequacy assessment. Also there are no credit derivatives in Group's portfolio.

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

Total exposure value covered by eligible financial collateral or other eligible collateral by exposure classes after the application of volatility adjustments.

Exposure type	Exposure class	Cash collateral in PLN ('000)	Security collateral in PLN ('000)	Total collateral amount in PLN ('000)
On-balance and off-balance sheet exposures	Governments and central banks	418	0	418
	Corporations	92 960	0	92 960
	Past due items	9 790	0	9 790
Repo-style transactions*	Governments and central banks	980 446	0	980 446
	Corporations	0	980 830	980 830
	Institutions - banks	0	11 548	11 548
Total		**1 083 614**	**992 378**	**2 075 992**

* in particular repo and reverse-repo transactions

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

The Group does not make use of guarantees as credit risk mitigation techniques for the purpose of capital adequacy assessment. Also there are no credit derivatives in Group's portfolio.

Signatures of all Management Board Members

Date	Name	Position / function	Signed on Polish original
18.05.2010	Sławomir S. Sikora	President of the Management Board	
18.05.2010	Michał H. Mrożek	Vice-President of the Management Board	
18.05.2010	Sonia Wędrychowicz-Horbatowska	Vice-President of the Management Board	
18.05.2010	Witold Zieliński	Vice-President of the Management Board	
18.05.2010	Iwona Dudzińska	Member of the Management Board	