

**Disclosure regarding
capital adequacy of
HSBC Bank Polska S.A.
as of 31 December 2014**

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1. Introduction

This document implements the Information Policy of HSBC Bank Polska S.A regarding disclosure of qualitative and quantitative information on capital adequacy subject to disclosure, in accordance with Regulation (EU) No 575/2013 of the European Parliament and Council of 26 June 2013 on prudential requirements for credit institutions and investments firms.

Unless otherwise stated, all the data presented in this document are as of 31 December 2014 and provided in PLN thousands, and pertain to stand-alone capital requirements.

The process of calculation of capital requirements as of 31 December 2014 included the data regarding the Bank only – due to the present capital structure it is not necessary to estimate capital requirements based on consolidated balance sheet.

2. Cele i strategię w zakresie zarządzania ryzykiem

To a varied degree, all activities of the Bank pertain to risk assessment, evaluation, acceptance and management. The risk management structure implemented at all levels of the organisation ensures a conservative profile of the Bank's risk aligned with the approved risk appetite and the Bank's strategy.

Based on its Risk Management Framework, the Bank operates a Risk Management System that is formalised, transparent and centralised.

The following chart presents the structure and organisation of the Bank's risk management



Supervisory Board of the Bank performs general control over the Bank's risk management and defines its credit activities policy.

The Bank's Management Board is responsible for the effectiveness of the Risk Management System, in particular by approving policies and procedures that regulate the management of all significant risk types as identified by the entities responsible for risk management. The Bank's Management Board divides the activities of the Bank thus ensuring independence of the function of measurement, monitoring and control of risk from the operational activity giving rise to that risk.

Members of the Bank's Management Board are directly responsible for the management of different types and areas of risk, according to the assigned responsibilities and take part in sessions of committees accountable for management of particular risk types.

Risk Management Committee and ALCO Committee bear executive accountability for on-going risk monitoring, evaluation and management, with particular attention paid to risk policy, risk appetite and reviews of significant concentration risks.

Top executive managers from particular business lines are responsible for day-to-day risk management activities.

The Risk Management Committee is accountable for:

- Setting directions and problem-solving as regards risk policy and risk management;
- Reviewing all significant risks that systematically impact the Bank's activities in order to ensure adequate controls that facilitate effective management of such risks and attainment of returns corresponding to such risks;
- Considering key risk exposures, both current and prospective, in light of the dynamically changing economic and political environment;
- Reviewing information that facilitates identification of specific institutional risks;
- Exercising control and monitoring the management of significant risks;
- Promoting an appropriate risk culture:
 - Demonstrating the ethical code and the values of HSBC Group;
 - Communicating the goals, objectives and responsibilities;
 - Sharing information and knowledge as well as
 - Promoting responsibility and professional competence.

The ALCO Committee is accountable for:

- Providing direction and ensuring tactical follow-through to create an evolving balance sheet structure to meet a site's performance objectives within prescribed risk parameters;
- Controlling of the balance sheet structure risks management processes;
- Internal Capital Adequacy Assessment Process;
- Coordinating liquidity and capital risk management process (including stress- testing);
- Reviewing overall sourcing and allocation of funding;
- Forward looking and determining the most likely banking environment for asset/liability forward planning and review contingency scenarios;
- Evaluating alternative rate, pricing and portfolio mix scenarios; reviewing asset/liability distributions and maturities;
- Ensuring that all regulatory requirements are respected.

Risk Management process and procedures

The Bank's risk management is implemented based on the policies and procedures for risk identification, measurement, monitoring and control developed in writing and approved by the Bank's Management Board. These procedures are subject to regular verification so as to align them with the Bank's changing risk profile and the changing economic environment in which the Bank operates.

Identification and measurement of risks resulting from the Bank's commercial activity match the profile, scale and complexity of the risks. The methods (models) applied for risk estimation, with their accompanying assumptions in particular, are subject to periodic internal reviews.

The principles of the Bank's risk management take into account the key risks such as: credit risk and counter-party risk, concentration risk, operational risk, business risk, liquidity risk, compliance risk or market risk such as interest rate or currency exchange risks.

Credit risk

Credit risk is uncertainty pertaining to a customer's failure to meet a contractual obligation to repay a loan i.e. capital and interest within a specified period of time.

The key objective of the Bank's credit policy is to implement a credit risk management framework that makes it possible to maximise the profitability of credit activities, to a degree that corresponds with the required risk level and the quality of the banking book.

Credit Risk Line manages all aspects of credit risk for corporate and retail banking as well as monitoring operational risk across all departments of the Bank.

The Bank's day-to-day risk management process includes the following:

- 1) Assessment of credit exposure against plans and parameters defined in "Risk Appetite" and its principles;
- 2) Building a high level of credit risk awareness among the Bank's employees and among the employees of the Bank's cooperating partners. This is effected through organisation of training courses and implementation of incentive-based remuneration systems oriented to maintain high-quality of credit applications and the generated credit portfolio;
- 3) development and updates of internal processes and procedures in order to meet the planned objectives pertaining to the quality of the credit portfolio;
- 4) monitoring of credit risk at the level of particular credit products offered by the Bank, sector concentration, concentration of large credit exposures and at the level of particular employees who are crucial to the credit process (sales staff and employees who make credit approval/refusal decisions);
- 5) quick response to threats that may lead to uncontrolled credit risk increase as well as on-going management of events that lead to commitment of a prohibited offence or to a suspicion of such an offence;
- 6) application of advanced statistical and expert methods in the credit risk assessment process;
- 7) assessment of credit risk based on the customer's rating and the type of product, its repayment period and information acquired from external sources such as the Loan Information Office (BIK) and investigative consultants;
- 8) periodic assessment of the quality and size of the Bank's credit portfolio, and introduction of possible changes to credit procedures and processes based on assessment results and changes taking place on the credit market,

- 9) periodic assessment of the effectiveness of verification activities performed prior to loan granting and the effectiveness of debt collection, as well as introduction of possible changes to credit procedures and processes based on assessment results and changes taking place on the credit market.

The Bank applied the standardised approach to credit risk assessment in compliance with the Basel II framework. Every credit application is evaluated individually based on the creditworthiness of the Debtor and the proposed transaction structure (including the recommended collateral) and other risks that accompany the transaction. The expert CRR rating is treated solely as a useful tool for cross-comparison of the prospective Debtor's financial condition.

Settlement risk

Settlement risk occurs when the Bank makes an irrevocable payment on behalf of the customer and the funds to cover the payment have not been credited to the customer's account or the funds on the customer's account may be transferred or paid out prior to debiting the customer's account with the payment amount. Settlement risk disappears when the transaction has been settled in full. If the customer does not settle the transaction, the settlement risk turns into credit risk. While settlement risk products are generally regarded as low risk products, they should be considered in the case of thorough and trustworthy customers.

Settlement risk may be:

1. Intra-day: it exists during one working day (including one-day overdrafts)
2. Short-term, for example risk associated with the traditional settlement cycle and currency exchange.

Market risk

Market risk is defined as potential changes to market risk factors including currency exchange rates, interest rates that lead to a decrease in the revenues of HSBC Bank Polska S.A or a decrease in the value of the Bank's portfolios.

The objective of market risk management is to manage market risk exposures and control them in order to optimise profits and, at the same time, maintain a market profile that is aligned with HSBC Group's status as one of the world's largest banking and finance organisations.

The Bank divides market risk into:

1. Foreign exchange risk
As the Bank is active on the foreign exchange market, it is exposed to partial loss of profit resulting from currency exchange rate fluctuations. In order to limit the negative impact of the fluctuations on foreign liabilities-to-receivables ratio and the Bank's earnings, the Bank adapts its activity in the field to the relevant external and internal safety and soundness norms.

The Bank's foreign exchange risk is managed by the Global Markets Line in compliance with the provisions of the banking law, within the defined limits and VaR.

2. Interest rate risk.
Interest rate risk results from maintenance of assets, liabilities and off-balance-sheet transactions with different repricing dates whose exposure is susceptible to interest rate fluctuations.

The Bank assesses interest rate risk in three ways:

- 1) Present Value of Basis Point (PVBP),
- 2) Value at Risk (VaR),
- 3) scenario simulations.

Interest rate risk at the operational level is managed by the Bank's Global Markets Line that also takes into account information from the Finance Line. ALCO Committee is accountable for an appropriate transfer of risk from the banking lines to the Global Markets Line. Moreover, ALCO Committee reviews the proximity to thresholds and analyses scenarios of interest result and the financial results received compared against the risk incurred. Verification of the thresholds takes place annually.

Concentration risk

Credit risk concentration occurs when a number of counterparties or engagements have comparable economic features or when such counterparties are engaged in similar types of activities or are active in the same geographical areas or industries. Consequently, any changes in economic, political environment and other factors influence these parties' combined contractual capacity in an identical way and risks associated with one counter party or a concentrated group of counter parties constitute a significant part of the portfolio.

The Bank applies a range of control mechanisms in order to limit excessive concentration of engagements in the Bank's portfolio in particular sectors, countries and customer groups. These mechanisms include portfolio thresholds, counterparty thresholds, approval and review controls as well as stress tests.

Concentration risk management is coordinated by the Risk Management Line. The Bank focuses on concentration risk generated mostly by large, individual credit engagements. The Bank calculates capital requirements resulting from concentration risk of large credit risk exposures and selected sectors of economy:

- The mechanism activating engagement in large entities is linked to overall credit facility and constitutes 10% of capital.
- Engagement in large sectors (defined as over 30% of the Corporate Banking Portfolio) pertains to selected sectors.

Liquidity and funding risk

Liquidity and funding risk is defined as:

- the threat of the bank losing its capacity to liquidate its assets in order to meet its liabilities;
- the threat of the bank losing its capacity to fund asset growth.

The Bank continues the policy of ensuring a strong and stable management of liquidity position of assets, liability and off-balance commitments in a manner that ensures balancing cashflows, taking into account diverse stress scenarios, in a manner that ensures repayment of potential debt at the moment of its due date.

Liquidity risk at the operational level is managed by the Bank's Global Markets Line; the Line also takes into account information from the Finance Line regarding the expected cashflows and proximity to the thresholds approved by the Bank's Management Board.

The process of liquidity risk management is supervised by the Assets & Liability Management Committee.

The Bank manages the risk by assessing a number of metrics and by setting appropriate internal and regulatory thresholds.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The main objective of operational risk management is limiting the currently incurred operational loss and protecting the Bank from future losses.

The Bank perceives the areas below as the key sources of operational risk:

- system failure – the Bank applies a significant number of systems to support its customer offer,
- human error / process error – historic operational risk events prove that some operational processes are still imperfect or fail due to human error,
- internal fraud – despite our expectation that internal fraud events (historically linked to retail activities) will decrease in quantity and volume, the Bank may still expect such risk events to materialise.
- outsourcing risks – the extent of outsourcing is assessed by the Bank as significant and, consequently, risk events are expected to materialise in this area.

The Bank monitors and controls operational risk profile for all areas of activity based on the results of risk assessment with Key Risk Indicators, Risk Assessment and Control, explanation of loss-generating incidents and root cause analysis of such incidents.

The Bank's operational risk is managed by the designated department – Operational Risk and Internal Control Department (ORIC) which is responsible for the end to end oversight and verification of the appropriateness of operational risk management within the Businesses/Functions, including key control monitoring activity. On a monthly basis ORIC also reports any operational risk and internal control weaknesses to RMC.

On periodical basis ORIC presents Supervisory Board with information on effectiveness of Operational Risk and Internal Control framework. On-going operational risk management is the accountability of the Bank's management at all organizational levels, with oversight executed by the relevant Business Risk Control Managers (BRCM).

Executive oversight of operational risk and internal control management is provided by the Risk Management Committee (RMC). The Committee formally holds a monthly meeting and, among other responsibilities, is accountable for promoting risk awareness and proactive management of operational risk by communicating the HSBC Group's operational risk and controls management framework, and overseeing translation into local policies and procedures.

After risk identification, the next step is assessment of its impact on the Bank. This takes into account two aspects of risk: absolute level of risk and risk exposure.

This methodology facilitates documentation of Key Risk profiles discussed during sessions of Risk Management Committee. Subsequently, Risk and Control Assessment is prepared in order to mitigate the identified risk.

Operational risk and loss-generating event registration and reporting are performed in a dedicated IT system. All losses are thoroughly explained so as to define their causes and prevent re-occurrence. Moreover, the Bank operates a counter-fraud system. The system centralises the prevention, detection and analysis tasks for the Information Security Management and Bank Fraud Risk Department. The assumption behind the system's operation is also that there will be close cooperation among the Bank's branches i.e. exchange of information that may become useful for elimination of events with fraud characteristics, as well as close cooperation with the local judicial authorities. Additionally, through the Department's activities the Bank implements its information security and business continuity risk policy and strategy. Both areas demand strict procedures and control tools, regular process reviews and awareness-building among the Bank's employees.

Business risk

Business risk is a potential adverse impact on profit and capital resulting from the Bank not meeting its strategic goals as specified in its annual operational plan (ROP), due to unexpected changes in the business and regulatory environments, exposure to economic cycles and technological change.

The Bank manages and limits this risk by planning its activity and performing stress tests in order to ensure that the Bank's business model and its planned activities are secured by appropriate resources (capital resources in particular) in the commercial, economic and risk environment. The aim of business risk management is to ensure that potential exposure of the Bank's business plans to risk is identified at an early stage so that proactive limiting action can be taken.

Business risk is primarily managed by business lines Directors. The Bank's Board is accountable for oversight of the process. ALCO is also responsible for risk monitoring to the extent in which the risk negatively impacts the assets/liabilities structure.

Compliance risk

Compliance risk is defined as potential negative consequences of lack of compliance of the Bank's activity with the binding legal regulations, internal regulations and the approved code of conduct. The Bank manages compliance risk through a clear structure of its organisational processes, specified and defined in separate internal regulations. The impact of negative compliance risk events is covered by Tier 2 capital cushion.

3. Information concerning own funds

The Bank's own funds are composed of the following elements:

1. Common Equity Tier 1 including capital instruments and share premium, retained earnings, accumulated other income, other supplementary capital, general banking risk funds;
2. Additional Tier 1 capital including equity instruments as specified in Art. 52 of Regulation 575/2013 and the associated share premium;
3. Tier 2 capital including equity instruments and subordinated debt.

All listed capitals are subject to adjustments due to deductions and applicable prudential supervision filters.

As of 31 December 2014 the Bank's own funds consist of Common Equity Tier 1 capital only.

Detailed information on the particular elements of the Bank's own funds as of 31 December 2014 are presented in the table below (in accordance with Regulation No 1423/2013, Appendix 6).

Common Equity Tier 1 capital: instruments and reserves		Amount at disclosure date, in PLN'k
1	Capital instruments and the related share premium accounts	444 297
2	Retained earnings	0
3	Accumulated other comprehensive income	4 730
4	Funds for general banking risk	0
5	Common Equity Tier 1 capital before regulatory adjustments	449 027
Common Equity Tier 1 capital: regulatory adjustments		
1	Intangible assets	-4 100
2	Regulatory adjustments relating to unrealised gains and losses pursuant to Article 467 and 468	-4 914
2a	of which: filter for unrealised loss	-4 960
2b	of which: filter for unrealised gain	46
3	Total regulatory adjustments to Common equity Tier 1	-9 014
4	Common Equity Tier 1 capital	440 014
Additional Tier 1 capital: instruments		0
Additional Tier 1 capital before regulatory adjustments		0
Tier 2 capital: instruments and provisions		
1	Total regulatory adjustments to Tier 2 capital	0
2	Tier 2 capital	0
3	Total capital	440 014
4	Total risk weighted assets	2 846 053

Capital ratios and buffers		
1	Common Equity Tier 1 (as a percentage of risk exposure amount)	15,78
2	Tier 1 (as a percentage of risk exposure amount)	15,46
3	Total capital (as a percentage of risk exposure amount)	15,46
4	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1)(a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer, expressed as a percentage of risk exposure amount)	0
4a	of which: capital conservation buffer requirement	0
4b	of which: countercyclical buffer requirement	0
4c	of which: systemic risk buffer requirement	0
4d	of which: Global Systemically Important Institution or Other Systemically Important Institution buffer	0

Capital instruments and related share premium

Capital instruments and related share premium include paid up capital instruments, share premium and other supplementary capital as of 31 December 2014.

Capital instruments and the related share premium accounts	PLN'k
Paid up capital instruments	393 207,00
Share premium	19 149,00
Other supplementary capital	31 940,00
Total	444 297,00

HSBC Bank Polska S.A.'s equity instruments are formed by the Bank's share capital amounting to PLN 393,207 million.

As of 31 December 2014, the shareholder of 100% of shares is HSBC Bank Plc.

The key features of the capital instruments are presented in the table below.

Capital instruments main features template		
1	Issuer	HSBC Bank Polska SA
2	Unique identifier	Not applicable
3	Governing law of the instrument	Polish
	<i>Regulatory treatment</i>	-
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo& (sub-)consolidated	Eligible at solo
7	Instrument type	share (series A-I, L-Z), Art. 28 CRR preference share with priority on voting rights (series J i K), Art. 28 CRR
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	series A 50 000,00 series B 600 000,00 series C 380 000,00 series D 25 000,00 series E 7 945 000,00 series F 6 000 000,00 series G 4 000 000,00 series H 5 000 000,00 series I 6 100 000,00 series J 6 300 000,00 series K 10 000 000,00 series L 12 000 000,00 series M 10 000 000,00 series N 15 000 000,00 series O 30 000 000,00 series P 14 000 000,00 series R 10 807 000,00 series T 110 000 000,00 series U 25 000 000,00 series W 100 000 000,00 series Z 20 000 000,00
9	Nominal amount of instrument	1,00 PLN
9a	Issue price	Depending on the series
9b	Redemption price	Not applicable
10	Accounting classification	Equity

11	Original maturity date	series A 16.03.1990 series B 31.05.1991 series C 31.05.1991 series D 20.02.1992 series E 14.01.1994 series F 06.10.1997 series G 30.12.1997 series H 22.07.1998 series I 22.07.1998 series J 11.05.1999 series K 28.12.1999 series L 27.10.2000 series M 11.01.2001 series N 25.09.2001 series O 23.01.2003 series P 18.02.2004 series R 29.10.2004 series T 16.05.2006 series U 10.07.2009 series W 23.06.2010 series Z 31.05.2012
12	Perpetual or dated	Not applicable
13	Original date of issuance	Not applicable
14	Issuer call subject to prior supervisory approval	Not applicable
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	<i>Coupon/ dividends</i>	Not applicable
17	Fixed or floating dividend/coupon	Not applicable
18	Coupon rate and any related index	Not applicable
19	Existence of dividend stopper	Not applicable
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Not applicable
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Not applicable
21	Existence of step up or other incentive to redeem	Not applicable
22	Noncumulative or cumulative	Not applicable
23	Convertible or non-convertible	Not applicable

24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	Not applicable
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	Not applicable
37	If yes, specify non-compliant features	Not applicable

Share premium

Share premium is the excess amount over the par value remaining after issue costs are covered minus the loss amount covered from the Bank's reserve fund; share premium is used to cover possible operational losses.

Other supplementary capital

Other supplementary capital is created from retained earnings, based on the principles set out in the Articles of Association.

Accumulated other comprehensive income

Accumulated other comprehensive income presents unrealised gain and loss on debt and equity instruments classified as available for sale i.e. government bonds and money bills held in the Bank's portfolio.

The table below presents the structure of accumulated other income as of 31 December 2014.

Unrealised gains and losses	PLN'k
Unrealised gain	4 960
Unrealised loss	-230
Total	4 730

ADJUSTMENTS

Intangible assets

Pursuant to Art. 37 of CRR Regulation, intangible fixed assets are reducing Tier 1 capital amount. As of 31 December 2014, the amount of intangible fixed assets was PLN 4,100 thousand.

Regulatory adjustments of unrealised gain and loss

Unrealised gain and loss on debt and equity instruments available for sale are presented in own funds in accordance with the guidelines set out in Regulation (EU) No 575/2013 of the European Parliament and Council of 26 June 2013 and the guidelines from the Polish Financial Supervision Authority i.e.:

- 100% of unrealised gains is removed from own funds,
- 20% of unrealised loss is removed from own funds.

Adjustments amounted to PLN 4,914 thousand.

The Bank follows a prudential approach and assumes that the short-term capital is zero.

4. Information regarding compliance with capital requirements

Internal capital is the amount of the capital estimated by the Bank as necessary to cover all the identified significant risks arising from the banking activity.

The Bank adjusts the size of the stand-alone and consolidated own funds to the level and the type of the risk to which it is exposed, and the nature, scale and complexity of its operations. To this end, the Bank has developed and implemented the Internal Capital Adequacy Assessment Process (ICAAP) which serves to maintain own funds at the level appropriate to the profile and risk level of Bank operations.

Due to the fact that the effect of risk diversification was not taken into account in 2014, the Bank's internal capital was estimated at the level higher than the sum of capital requirements for different types of risks included in Pillar I. Additional values of the internal capital are estimated for:

- interest rate risk in the banking book

- risk of large exposures and selected sectors of the economy
- other significant risks

In total, as of the end of 2014, the value of the internal capital amounted to PLN 241 785 thousand.

The Bank calculates total risk exposure resulting from the following categories of risk:

1. credit risk– the standard method;
2. operational risk – standardised method;
3. market risk;
 - a. general interest rate risk – calculated with the use of the maturity ladder approach;
 - b. foreign exchange risk – the basic approach;
4. large exposures over the threshold for large exposures;
5. CVA (Credit Valuation Adjustment) – the standard approach
6. settlement risk, delivery risk and late delivery risk – calculated with the use of the market valuation approach.

REGULATORY CAPITAL REQUIREMENTS STRUCTURE AS OF 31 DEC 2014

Regulatory capital requirements (%)	PLN'k
1. Credit risk and counterparty credit risk	198 528
2. Market risk	665
- position risk	665
- commodities risk	0
3. Foreign-exchange risk	0
4. Settlement risk	0
5. Operational risk	24931
6. Credit Valuation Adjustment risk	3560
Total capital requirements	227 684
Total capital	440 014
Total capital ratio	15,46

CAPITAL REQUIREMENT FOR CREDIT AND COUNTERPARTY RISK DIVIDED INTO EXPOSURE CLASSES AS OF 31 DEC 2014

Capital requirement for credit and counterparty risk	PLN'k
Exposure to central governments or central banks	1 031

Exposure to institutions	5495
Exposures to corporates	144 125
Exposures secured by mortgages on immovable property	44151
Exposure in default	1 396
Other items	29 130
TOTAL	198 528

Capital requirement for counterparty risk (presented in the total credit risk capital requirement) amounted to PLN 7,296 thousand as of 31 December 2014.

5. Exposure to credit risk

The Bank classifies receivables as doubtful and non-performing when it meets one of the two criteria:

- the debt repayment is late by more than 90 days,
- despite no delay in debt repayment or a delay of fewer than 90 days – analysis of the debtor indicates that the debt is unlikely to be paid in full amount; without execution of security.

The value of exposure in the tables below is to be understood as the value estimated in accordance with the guidelines set out in CRR Regulation for capital adequacy: balance sheet value (based on the Polish Accounting Standards) and the value of the balance sheet equivalent of contingent liabilities and off-balance transactions (estimated using the market valuation approach).

GEOGRAPHICAL STRUCTURE OF EXPOSURE BY COUNTRY AS OF 31 DEC 2014

Exposure by country	PLN'k
Poland	4 736 648
UK	233 062
Other countries	168 455
Total	5 138 165

TOTAL AND AVERAGE EXPOSURE AMOUNT FOR CREDIT AND COUNTERPARTY RISK BY EXPOSURE CATEGORIES

Counterparty type	Exposure classes	Exposure amount PLN'k	Average amount PLN'k
Central governments	Exposure to central	1 920 668	1 571 873

and central banks	governments or central banks		
Institutions	Exposure to institutions	313 416	249 573
Corporates	Exposures to corporates	2 277 819	2 086 020
	Exposures secured by mortgages on immovable property	551 833	554 463
	Exposure in default	26752	29 383
Retail	Exposures secured by mortgages on immovable property	18 547	19 443
	Exposure in default	0	211
Other	Other items	29 130	18 782
Total		5 138 165	4 529 748

*Average exposure amounts have been calculated as arithmetic mean of the value of exposure on the last day of each calendar quarter.

THE STRUCTURE OF EXPOSURES PER MATURITY, DIVIDED INTO CLASSES OF EXPOSURE

Exposure classes	Maturity (years)						
	< 1		1-5		> 5		Total
	PLN'k	%	PLN'k	%	PLN'k	%	PLN'k
Exposure to central governments or central banks	1 089 806	56,89	815 094	42,55	15 768	0,82	1 920 668
Exposure to institutions	5 909	1,89	307 507	98,11	0	0,00	313 416
Exposures to corporates	988 240	43,39	1 093 979	48,03	195 600	8,59	2 277 819
Exposures secured by mortgages on immovable property	166 014	29,11	383 009	67,15	21 357	3,74	570 380
Exposure in default	3 670	13,72	6 182	23,11	16 900	63,17	26 752
Other items	0	0,00	29 130	100,00	0	0,00	29 130

Total	2 253 639	43,90	2 634 901	51,33	249 625	4,86	5 138 165
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As of 31 December 2014 the Bank's exposure with recognised loss against Polish enterprises amounting to PLN 216,403 thousand.

The table below presents the details of the reserve activities.

Provisions, opening balance	85 927
Created	20 377
Release	-17 569
Other adjustments	-1 433
Provisions, closing balance	87 302

Information concerning credit risk mitigation techniques

According to approved policy, the Bank applies the simple method to reduce its credit risk by the way of replacing a counterparty risk weight with the weight of the risk of an instrument that fully or partially secures the credit exposure, according to appropriate regulations of Polish Financial Supervision Authority.

In the case of the simple method, banks' assets that are secured are assigned with a adequate risk weight for issuer/provider of security - funded and unfunded protection.

Under simple method partial collateralisation of credit exposure is acceptable, in that case the unsecured part of receivables shall be assigned with a risk weight adequate to the debtor. However no settlement term mismatching is allowed.

Funded credit risk protection exists when the Bank has right for liquidation transfer or take-over or holding the asset or cash kept as security for credit transaction.

Unfunded protection takes place when reduction of Bank's credit exposure is a result of the third party obligation to repay the outstanding amounts . Unfunded protection techniques include:

- guarantees and counter-guarantees
- credit derivatives
- other types of credit risk protection (including insurances). Mortgage is not accounted for credit risk mitigant in standardized method, as already that type of security is taken into account in separate segment of credit exposure (secured by mortgages).

Information on the use of external creditworthiness rating

The Bank uses external ratings by Moody's, S&P and Fitch Group in order to assess creditworthiness in the case of the following exposure categories:

- governments and central banks,
- institutions,
- corporates,
- securitisation positions,
- short-term claims against institutions and entrepreneurs,
- regional governments and local authorities,
- multilateral development banks.

6. Information on counterparty credit risk

Counterparty's credit risk requirement is calculated with the use of the market valuation approach.

The Bank applies different counterparty risk collateral for the parties with whom the Banks enters into derivative transactions. The most frequently applied types of collateral are security deposits, blockades of settlement accounts or blockades of term deposits.

In case of thresholds on treasury transactions the Bank, as part of its credit decision, individually defines the amount of negative engagement acceptable for the customer (MtM) and the minimum transfer amount (MTA) based on the Bank's expertise, the customer's standing and the demand for FX risk hedging. Exceeding MtM / MTA thresholds in current valuations means it is necessary to implement a security deposit in the required amount.

As of end of 2014 the impact of collateral was immaterial from the perspective of the total capital requirement.

7. Information regarding operational risk

HSBC Bank Polska S.A. applies the standardised approach to the calculation of capital requirements related to operational risk.

When applying this approach the Bank divides its operations into following business lines:

- brokerage,
- commercial banking,
- retail banking,

Key assumptions:

1. The Bank calculates the capital requirement related to operational risk based on its annual result.
2. The Bank's assumption is that the level of capital requirement remains unchanged throughout the financial year unless there are corrections to the report in the period of time preceding final approval of financial statement.

Capital requirement for operational risk amounted to PLN 24,931 thousand as of 31 December 2014.

Complete information on the amount of gross losses resulting from operational risk in 2014 divided by event categories and types is presented below:

Event type category I	Event type category II	Gross losses (PLN'k)	Mitigating actions
Execution, delivery and process management	Losses from failed transaction processing or process management, from relations with trade counterparties or vendors	10	Improvement of internal processes and procedures including control scope development
External Frauds	Theft and Fraud	30	Revision and improvement of rules/parameters existing in cards fraud early warning system
Business disruptions and systems failures	Losses arising from disruption of business or system failures	0,05	System improvements implementation

8. Capital buffer

In 2014, the Bank was not obliged to calculate its countercyclical buffer.

9. Information regarding exposure to interest rate risk in the banking book

Interest rate risk in the banking book is defined as exposure of the products in the Bank's product portfolio to interest rate fluctuations.

Non-trading activities (banking book) include the positions arising from management of interest rates from future return on assets and the cost of their financing, due to changes in interest rates.

Interest rate risk in the banking book is measured

- a) Using Present Value of Basis Point (PVBP),
- b) Value at Risk (VaR),
- c) Analysis of contractual gaps
- d) Analysis of behavioural gaps
- e) Simulations of net interest income (NII) with a minimum of the following scenarios:
 - i. +/- 100 basis points one of changes
 - ii. +/-100 base points, gradual change
 - iii. +/- 200 base points one of changes
 - iv. Projected interest rate changes

10. Information regarding financial leverage

The table below presents the division of total exposure used to calculate the leverage ratio and its value as of 31 DEC 2014:

EXPOSURE	PLN'k
SFT exposure	0
Derivatives: Market value	63 316
Derivatives: Add-on Mark-to-Market Method	106 017
Off-balance sheet items subject to adjustment in respect of preferential treatment to the leverage ratio needs	183 633
Other off-balance sheet items	243 974
Other assets	4 223 571
Capital and regulatory adjustments	
Tier 1 capital	444 928
Regulatory adjustments	-4 914
Leverage Ratio	
Leverage ratio	9,14%
Leverage ratio calculated as the simple arithmetic mean of the monthly leverage ratio over a quarter	9,35%

In order to immunise the Bank against unexpected negative changes in the economy, the Bank defines its acceptable leverage ratio level, and its value is taken into account by the Bank's Assets & Liability Management Committee when analysing the structure and potential future demand for capital

Risk of excessive leverage

Risk of excessive leverage is defined as the risk resulting from Bank's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

Risk of excessive leverage is monitored by calculating and analysing leverage ratio measure. Excessive leverage risk is managed and controlled by the Risk Management Committee and ALCO Committee.

11. Information regarding remuneration policy

The Bank defines the following positions as managerial positions as stipulated by Resolution No 258/2011 of the Polish Financial Supervision Authority of 4 October 2011:

- 1) Members of the Management Board
- 2) Managing Director of the Global Markets Line
- 3) Managing Director of the Commercial Banking Line
- 4) Managing Director of the Technology and Business Support Line
- 5) Chief Risk Officer
- 6) Managing Director of the Finance Line
- 7) Managing Director of Legal & Regulatory Line

Variable components of remuneration are defined and granted on a discretionary basis for Evaluation Periods and based on realisation of Sustainable Result Sheets pertaining to relevant periods of the year.

In the case of the job positions listed above, the decisions pertaining to the variable components of remuneration is at the discretion of the Bank's Supervisory Board, while in the case of the remaining managerial positions the decisions pertaining to the variable components of remuneration are at the discretion of the President of the Board or the Bank's CEO.

Variable remuneration for persons holding managerial positions is composed of:

1. cash benefit – constituting 50% of the value of the variable;
2. non-cash instrument – constituting 50% of the value of the variable.

The non-cash instrument is an instrument created for the purpose of the implementation of this Policy and shall correspond to the shares in such respect that its value shall change with the change of Indicators calculated for the subsequent financial years.

The non-cash instrument, after calculating its value based on variable Indicators, is paid out in monetary form.

The Bank has established the following metrics as indicators that determine the value of the Instrument:

- Profit Before Tax (PBT);
- Cost Income Ratio (C/I);
- Return on Risk-Weighted Assets (RORWA).

The indicators are valued based on audited financial statement for subsequent financial years.

After a given Evaluation Period the Bank defines the value of the Indicators as of the last day of the Evaluation Period.

Prior to payment of the value of the non-cash Instrument the Bank does the following:

- 1) establishes the value of Indicators as of the end of the trading year in question;

- 2) establishes the percentage of change for each Indicator;
- 3) calculates the arithmetic mean of the change (expressed in percentage) in the Indicators;
- 4) calculates the value of the non-cash instrument by adjusting its value by the calculated arithmetic mean of change in Indicators.

Apart from the qualitative criteria driving the value of non-cash instrument, Bank applies also qualitative criteria. In particular the grant of part of variable pay is conditional and subject to non-detection throughout the entire period of the following years in the post evaluation period of events happening during the evaluation period events:

- classified as High Risk in the Internal or Global Audit Reports or Compliance reports or ORIC reports relating to the supervised area;
- making of a decision that results in the imposition of administrative and legal sanctions on the Bank;
- making of a decision or taking up of activities that are a breach to the internal procedures of the Bank or having a negative impact on the Bank's risk profile or being recognised as unacceptable as per the Group Values & Behavior's standards.

In 2014 total sum of remuneration in the Bank were as below:

Remuneration costs in 2014	PLN'k
Global Markets Line	5 466,69
Commercial banking and Global Banking Line	19 988,00
Risk Line	3 691,14
Finance Line	1 523,72
Support (HTS) Line	6 835,56
Human Resources Line	962,05
Legal Line	827,05
Others	763,86
Management Board	5 599,19
HSBC Bank Polska SA	45 857,27

In 2014 the total amount of variable remuneration components for persons holding managerial positions as defined by Resolution No 258/2011 amounted to PLN 2,182 thousand. This includes

- a) awarded: 60% of the sum;
- b) awarded with deferred payment: 31% of the sum;
- c) still not awarded: 40% of the sum.

Aggregated quantitative information on remuneration of persons holding management positions is presented below:

I Management Board Members, direct reports to Management Board Members (regardless of the form of employment)

NO	The information scope	Amount	Commentary
1	Number of people	9	
2	Fixed remuneration - paid	7 918	Salaries, honorary, insurance
3	Variable pay in 2014 r. as regards to the Resolution 258/2011 KNF, granted in 2015	2 182	
4	Granted non-deferred part, where		
4.1	Cash benefit	1 091	
4.2	Non-cash instrument	1 091	
5	Accrued but not granted part (to be settled within 3 next years)		
5.1	Cash benefit	436	
5.2	Non-cash instrument	1 091	Amount for the period of 2016-19

II Other key persons

NO	The information scope	Amount	Commentary
1	Number of people	0	

12. Declaration of Management Board

The Management Board of HSBC Bank Polska SA declares that the arrangements described in the Disclosures are appropriate to the facts and the risk management systems are adequate with regard to the Bank's profile and strategy.

Michał Mrozek, President of the Management Board

John Rendall, Deputy President of the Management Board

Agata Mroczek, Member of the Management Board

Rafał Dziura, Member of the Management Board

Dariusz Kucharski, Member of the Management Board