Capital Adequacy Information on BNP Paribas Bank Polska SA capital group

(Pillar 3) as at 31 December 2014

BNP PARIBAS | Bank zmieniającego się świata

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1. Introduction

Under the Banking Law Act (Article 111a Section 1) and its implementing rules banks are required to publish, in a generally accessible manner, qualitative and quantitative information related to bank capital adequacy. Resolution No. 385/2008[1] of the Financial Supervision Authority dated 17 December 2008 specifies rules and methods of publication of qualitative and quantitative information on capital adequacy by banks and the scope of published information. In addition, the disclosure requirements adopted in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are respected.

"Principles regarding public disclosure of information on capital adequacy of BNP Paribas Bank Polska SA'" sets out the scope, frequency, deadline, form and place for disclosing capital adequacy information by BNP Paribas Bank Polska SA.

Pursuant to the obligation specified in Paragraph 2, section 1 of the Resolution No. 385/2008, BNP Paribas Bank Polska SA publicly discloses the information with accordance to the Enclosure 1 and 2 of the Resolution No. 385/2008 on the Group BNP Paribas consolidated data.

Pursuant to the obligation specified in Paragraph 3, section 4 of the Resolution No. 385/2008, and articles 442 and 453 of the Regulation (EU) No 575/2013, BNP Paribas Bank Polska SA publicly discloses the information based on data available at the highest, national level of consolidation.

BNP Paribas considers that its Group Pillar 3 communication fully satisfies disclosure requirements to the Markets. The Group consolidated level is the most accurate one to perform analysis and should prevail to any other sub-consolidated / individual basis.

For more information please refer to the BNP Paribas Group Pillar 3 information, which can be found under part 5 within the 2014 *Registration Document and Annual Financial Report*:

https://invest.bnpparibas.com/sites/default/files/documents/ddr_2014_gb.pdf

The obligations arising from art. 14 of Resolution No. 259/2011 on disclosing information concerning the policy governing variable components of remuneration paid to bank managers and art. 450 of the Regulation (EU) No 575/2013 are fulfilled through the publishing on the Bank's website of the Information on Variable Compensation Policy for Executives and Other Individuals Who Have a Significant Influence on the Risk Profile at BNP Paribas Bank Polska SA.

2. BNP Paribas Bank Polska SA

The Bank's shares have been listed on the primary market of the Warsaw Stock Exchange since November 7, 1994. Since the year 2004, the Bank's shares have been listed in the continuous trading system.

The BNP Paribas Bank Polska SA Group is a part of BNP Paribas S.A., an international financial institution based in Paris. The direct parent entity of BNP Paribas Bank Polska SA is BNP Paribas Fortis SA/NV (former Fortis Bank SA/NV) based in Brussels which holds 85.00% of the Bank's shares,. The remaining 15.00% of shares is held by minority shareholders.

[1] With further changes introduced by resolutions of the Financial Supervision 326/2011 dated on 20.12.2011 and 259/2011 dated on 4.10.2011.

Table 1 Shareholders' structure of BNP Paribas Bank Polska SA as at 31 December 2014

Balance as at 31.12.2014	Number of shares held	% of the share capital	Number of votes at the AGM*	% number of the total number of votes*
BNP Paribas Fortis SA/NV	28 661 545	85.00%	28 661 545	85.00%
Others	5 057 920	15.00%	5 057 920	15.00%
Total:	33 719 465	100.00%	33 719 465	100.00%

* BNP Paribas SA is the parent entity (99.93% shares) of BNP Paribas Fortis Bank SA/NV based in Brussels.

BNP Paribas Bank Polska SA is the parent entity for:

1. Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska SA, holding 100% of its shares.
2. Fortis Lease Polska Sp. z o.o., holding 100% of its shares
3. BNP Paribas Factor Sp. z o.o., holding 100% of its shares.

For the needs of this report, BNP Paribas Bank Polska SA Capital Group is defined as a group comprising four entities:
1. BNP Paribas Bank Polska SA
2. Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska SA
3. Fortis Lease Polska Sp. z o.o.
4. BNP Paribas Factor Sp. z o.o.

2.1. Risk-Weighted Exposure on credit risk (Pillar 1)

According to Annex No. 1 to the Resolution No. 385/2008, § 4, Section 2), the Bank is publishing amounts representing 8% of the risk-weighted exposure, separately for each exposure class:

Table 2 Capital requirements of BNP Paribas Bank Polska SA as at 31st December, 2014

	Exposure class	Total of capital requirement for following types of risk: credit, counterparty, dilution and late delivery of instruments for settlement [PLN]
Exposures calculated by standardised approach	Governments and central banks	36 793 478
	Regional government units and local authorities	362 659
	Administrative bodies and entities that run no business activities	143 008
	Multilateral development banks	0
	International organisations	0
	Banks – Institutions	37 896 382
	Enterprises	398 050 674
	Retail	205 269 133
	Secured on real estate	654 157 367
	Exposures in defaults	35 073 168
	Regulatory high risk categories	2 941
	Secured bonds	0
	Short-term exposures towards institutions and entrepreneurs	0
	Exposures on account of participation units in collective investment funds	0
	Equity exposures	0
	Other exposures	11 086 300
	Total	**1 378 835 111**

BNP Paribas and BNP Paribas Bank Polska consider the above risk weighted exposures breakdown by exposure class far too detailed, taken into account the size of BNP Paribas

Bank Polska SA. The only purpose of such a detailed breakdown is to comply with Annex No. 1 to the Resolution No. 385/2008, chap. 4, Section 2.

For the further information specified in the Annex No 1 to the Resolution No. 385/2008, please see the following sections of the *Annual Consolidated Financial Statements of BNP Paribas Bank Polska SA Group for 2014* at :

http://www.bnpparibas.pl/english/reports/files/2_BNPPL_Consolidated_AnnualReport_2014_ENG.pdf

- Capital components – Note 21.1,
- Short term capital amount and its main elements – Note 31.8,
- Total capital requirements and capital requirements for particular risks – Note 31.8,
- Capital requirements for operational risk – Note 31.8.

With reference to the art.437 of the Regulation (EU) No 575/2013 the Bank discloses own funds structure together with regulatory adjustments to Tier1 and Tier2 capital.

Table 3 The own funds structure

	[PLN]
Capital instruments eligible as CET1 Capital	**1 718 450 170**
Paid up capital instruments	1 532 886 879
Share premium	185 563 291
Retained earnings	**46 121 572**
Accumulated other comprehensive income and Other reserves	**115 665 544**
Funds for general banking risk	**131 419 740**
COMMON EQUITY TIER 1 (CET 1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	**2 011 657 026**
Common Equity Tier 1 (CET 1): regulatory adjustments	**-76 117 274**
COMMON EQUITY TIER 1 (CET 1) CAPITAL	**1 935 539 752**
Additional Tier 1 (AT1) capital: instruments	0
Additional Tier 1 (AT1) capital: regulatory adjustments	0
ADDITIONAL TIER 1 (AT 1) CAPITAL	**0**
TIER 1 CAPITAL (T1 = CET1 + AT1)	**1 935 539 752**
Tier 2 (T2) Capital: instruments and provisions	468 420 000
Tier 2 (T2) Capital: regulatory adjustments	0
TIER 2 (T2) Capital	**468 420 000**
TOTAL CAPITAL (TC = T1 + T2)	**2 403 959 752**

Table 4 Regulatory adjustments to Tier1 and Tier2 capital

REGULATORY ADJUSTMENTS - COMMON EQUITY TIER 1 CAPITAL	**[PLN]**
Intangible assets	-72 688 716
Adjustments to CET1 due to prudential filters	6 001 664
Additional value adjustments	-9 430 222
REGULATORY ADJUSTMENTS - COMMON EQUITY TIER 1 CAPITAL	**-76 117 274**

TIER 2 (t2) CAPITAL - INSTRUMENTS AND PROVISIONS	**[PLN]**
Capital instruments and subordinated loans eligible as T2 Capital	468 420 000
TIER 2 (t2) CAPITAL - INSTRUMENTS AND PROVISIONS	**468 420 000**

2.2. Disclosure of the information regarding the institution's exposure to credit risk and dilution risk

BNP Paribas Bank Polska SA discloses information regarding the institution's exposure to credit risk and dilution risk in the Annual Consolidated Financial Statements of BNP Paribas Bank Polska SA Group for 2014 at :
http://www.bnpparibas.pl/english/reports/files/2_BNPPL_Consolidated_AnnualReport_2014_ENG.pdf
The following sections of the Consolidated Financial Statement should be reffered to for the credit risk and dilution risk disclosures resulting from the art.442 of the Regulation (EU) No 575/2013:.

- Definitions and recognition of Impairment, past due, and credit risk adjustments – Section 4.13, Note 31.1.9.
- Credit risk management approaches and methods – Section 31.
- Credit risk adjustments – CVA, Fair Value Adjustments Sections 32.5, 4.10.
- Maturity breakdown of the exposures – Note 31.2.
- Changes in the specific and general credit risk adjustments – Note 7.12.
- Changes to the impairment provisions accounted for categories of receivables– Section 10.

The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the broken down by different types of exposure classes are presented in the table below.

Table 5 The total amount of exposures after accounting offsets and credit risk mitigation techniques

				31 December 2014
				Risk mitigation
In PLN	Total exposure	Guarantees and credit derivatives	Collateral	Total guarantees and collaterals
Central governments or central banks	3 637 904 092	0	0	0
Regional governments or local authorities	22 666 180	0	0	0
Public sector entities	2 073 494	0	0	0
Institutions	1 809 378 843	297 973 183	1 000 082 192	1 298 055 375
Corporates	11 638 316 378	442 280 206	64 554 239	506 834 445
Retail	4 190 763 869	59 133 443	17 349 897	76 483 340
Secured by mortgages on immovable property	10 207 874 428	19 066 783	20 083 768	39 150 551
Exposures in default	433 887 760	2 824 273	715 655	3 539 928
Items associated with particular high risk	24 510	0	0	0
Other items	588 864 504	0	0	0
TOTAL	**32 531 754 058**	**821 277 888**	**1 102 785 751**	**1 924 063 639**

The geographic distribution of the exposures is presented in the table below.

Table 6 Geographic breakdown of credit risk by counterparty's country of residence at 31 December, 2014

Region	% of total exposure	Region	% of total exposure
France	0%	Other European countries	97%
Belgium	1%	North America	0%
Luxembourg	0%	Asia & Pacific	1%
Italy	0%	Rest of the World	0%

The exposures with the significant industry breakdown are presented in the table below.

Table 7 Breakdown of credit risk by Basel 3 asset class and by corporate industry at 31 December 2014

	Total exposure [PLN]	% of total exposure
Wholesale Trade	1 512 056 542	13,0%
Materials & Ores	1 429 260 589	12,3%
Retail Trade	1 253 954 832	10,8%
Building & Public Works	945 448 580	8,1%
Equipment excluding IT Electronic	913 581 970	7,8%
Utilities (Electricity, Gas, Water, etc)	886 360 854	7,6%
Real Estate	652 413 425	5,6%
Agriculture, Food, Tobacco	559 596 267	4,8%
Business Services	553 424 834	4,8%
Transportation & logistics	506 931 610	4,4%
Automotive	487 375 355	4,2%
Finance	408 676 073	3,5%
Energy Excluding Electricity	340 439 537	2,9%
Communication services	237 809 798	2,0%
Chemicals excluding Pharmaceuticals	189 111 725	1,6%
IT & electronics	185 494 109	1,6%
Other	576 380 279	5,0%

Details on the significant industries with the impaired and past due exposures, value adjustments and specific provisions are presented in the following tables.

Table 8 Impaired exposures by Basel 3 asset class and by corporate industry at 31 December 2014

Type of client/industry [PLN]	Original Exposure	Value adjustments and specific provisions
Individual client	**476 260 070**	**333 790 095**
Corporate:	**890 809 827**	**580 704 787**
Materials & Ores	131 793 543	86 354 732
Equipment excluding IT Electronic	127 486 119	92 320 167
Building & Public Works	127 195 008	93 384 010
Real Estate	120 806 730	62 347 168
Wholesale Trade	109 291 480	77 730 228
Retail Trade	51 191 413	30 609 946
Agriculture, Food, Tobacco	45 204 806	35 483 944
Business Services	36 144 006	6 536 062
Transport & Storage	28 140 634	25 342 724
IT & electronics	27 808 618	9 851 512
Automotive	9 538 710	5 447 471
Other	76 208 761	55 296 824

Table 9 Past due exposures by Basel 3 asset class and by corporate industry at 31 December 2014

Type of client/industry [PLN]	Past due (all) Original Exposure	Past due (all) Value adjustments and specific provisions	Past due (more than 90 days) Original Exposure	Past due (more than 90 days) Value adjustments and specific provisions
Individual client	**669 817 810**	**328 428 234**	**439 438 763**	**317 611 072**
Corporate:	**936 097 181**	**481 710 631**	**643 683 792**	**470 046 422**
Materials & Ores	115 582 492	70 758 638	106 277 714	70 040 915
Equipment excluding IT Electronic	107 685 428	77 543 269	83 364 052	74 333 902
Building & Public Works	107 127 204	71 065 204	94 589 978	70 625 772
Real Estate	112 913 992	41 812 005	68 384 765	39 418 587
Wholesale Trade	151 799 955	69 076 905	95 654 620	68 484 188
Retail Trade	61 318 053	30 014 781	41 200 634	29 348 718
Agriculture, Food, Tobacco	60 442 889	34 661 211	43 799 143	34 623 249
Business Services	15 348 165	3 157 996	6 398 956	3 084 260
Transport & Storage	75 640 077	25 253 401	25 820 444	22 494 292
IT & electronics	3 842 960	1 828 092	1 913 688	1 809 872
Automotive	18 024 816	1 732 228	2 810 564	1 732 228
Other	106 371 150	54 806 901	73 469 234	54 050 439

The impaired and past due exposures with the breakdown by geographical areas are presented below.

Table 10 Geographic breakdown of Impaired exposures by counterparty's country of residence at 31 December, 2014

Country/Region [PLN]	Original Exposure	Value adjustments and specific provisions
Europe	**1 367 063 906**	**914 489 878**
Poland	1 350 813 707	902 832 831
France	1 274 951	1 248 657
Belgium	10 536	8 302
Luxembourg	0	0
Italy	588 694	313 954
Other European countries	14 376 018	10 086 134
Rest of the World	**5 991**	**5 004**

Table 11 Geographic breakdown of Past due exposures by counterparty's country of residence at 31 December, 2014

Country/Region [PLN]	Past due (all) Original Exposure	Past due (all) Value adjustments and specific provisions	Past due (more than 90 days) Original Exposure	Past due (more than 90 days) Value adjustments and specific provisions
Europe	**1 605 908 985**	**810 134 144**	**1 083 116 548**	**787 652 774**
Poland	1 588 476 872	798 565 589	1 066 866 085	776 084 219
France	1 274 983	1 248 461	1 274 983	1 248 461
Belgium	10 536	8 302	10 536	8 302
Luxembourg	0	0	0	0
Italy	588 694	313 954	588 694	313 954
Other European countries	15 557 900	9 997 838	14 376 249	9 997 838
Rest of the World	**6 007**	**4 721**	**6 007**	**4 721**

2.3. Use of credit risk mitigation techniques

In terms of art. 453 of the Regulation (EU) No 575/2013 BNP Paribas Bank Polska makes use of both on- and off-balance sheet netting. The first credit risk mitigation technique applies to the lines drawn and deposits placed with the BNP Paribas SA. The off-balance sheet netting is in use for derivative transactions which are concluded under master agreements signed with corporate and SME clients. The off-balance netting also applies to derivative transactions concluded with selected credit institutions.

The main types of collateral and the policies for collateral valuation and management – are described in the section 4 of the Consolidated Financial Statement.
The BNP Paribas Bank Polska does not use credit derivatives as the credit risk mitigation technique.
The information about the credit risk concentrations is given in the sections 31 of the the Consolidated Financial Statement.
The Bank does not apply credit risk mitigation techniques bearing substantial concentration of market risk.

2.4. Methods of Capital Adequacy Assessment (Pillar 2)

Internal capital methodology as presented hereunder is currently converging towards BNP Paribas Group framework embodying risk type definitions and policies. Nevertheless, for 2013 certain quantitative methods are developed mainly locally with assistance of BNP Paribas Group. Risk definitions used by the Bank are being aligned with the definitions applied by the BNP Paribas Group.

Liquidity Risk
The Bank recognises that despite the material impact of liquidity risk on the Bank's activity, in practice it is difficult to justify the liquidity risk mitigation by applying a capital buffer. Therefore, the Bank has not allocated any internal capital to liquidity risk.
The management of liquidity risk is currently converging towards BNP Paribas Group framework and policies.

Credit risk
For the needs of the internal capital assessment process, credit risk is measured by applying simplified IRB-Advanced approach. The Bank calculates unexpected losses using this methodology and taking into account the diversification between business lines.

Market risk (interest rate and currency risks) and Interest rate risk in the Banking Book
In the internal capital assessment process the following types of market risks are recognised: interest rate risk in the banking book, interest rate risk in the trading book and currency risk. The market risk is assessed using VaR.
The management of market risk is currently converging towards BNP Paribas Group framework and policies.

Operational risk
For the needs of calculating internal capital needed to cover expected or unexpected losses related to operational risk, the Bank applies a methodology based on the Basic Indicator Approach or BIA which is also applied to calculate Pillar 1 capital requirements.
Under the Bank's assumption, in order to allocate internal capital the indicator shall be computed in line with the approach specified in Resolution No. 324/2011 of the Financial Supervision Authority. In order to calculate an unexpected loss, the Bank shall multiply the capital requirement computed under BIA by the indicator established using an expert approach.
The management of operational risk is currently converging towards BNP Paribas Group framework and policies.

Business, reputation, and strategic risks

The Bank does not calculate internal capital for business, strategic risk, and reputation risk. The management of business, reputation, and strategic risks is currently converging towards BNP Paribas Group framework and policies

3. Information on BNP Paribas Group

BNP Paribas, Europe's leading provider of banking and financial services, has four domestic markets in retail banking in Europe, namely Belgium, France, Italy and Luxembourg.
It is present in 75 countries and has almost 188,000 employees, including over 147,000 in Europe.

BNP Paribas holds key positions in its three activities:Retail Banking, Investment Solutions, Corporate and Investment Banking (CIB).
BNP Paribas SA is the parent company of the BNP Paribas Group.

3.1. Consolidation rules of the BNP Paribas Group

3.1.1. The scope of consolidation

The consolidated financial statements of BNP Paribas include all entities that are controlled by the Group, jointly controlled, and under significant influence, with the exception of those entities whose consolidation is regarded as immaterial to the Group. The consolidation of an entity is regarded as immaterial if its contribution to the consolidated financial statements is below the following three thresholds: EUR 15 million of consolidated revenues, EUR 1 million of consolidated net income before tax, EUR 500 million of total consolidated assets. Companies that hold shares in consolidated companies are also consolidated.
Subsidiaries are consolidated from the date on which the Group obtains effective control. Entities under temporary control are included in the consolidated financial statements until the date of disposal.

3.1.2. Consolidation methods

Controlled enterprises are fully consolidated. The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
For entities governed by voting rights, the Group generally controls the entity if it directly or indirectly holds the majority of voting rights and if there are no other agreements altering the power of these voting rights.
For structured entities defined as entities that are not governed by voting rights, such as when those voting rights relate to administrative tasks only, whereas the relevant activities are directed by means of contractual arrangements, the analysis of control shall consider the purpose and design of the entity, the risks to which the entity is designed to be exposed and to what extent the Group absorbs the related variability. The assessment of control shall consider all facts and circumstances able to determine the Group's practical ability to make decisions that could significantly affect its returns, even if such decisions are contingent on uncertain future events or circumstances.
Enterprises over which the Group exercises significant influence (associates) are accounted for by the equity method. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise without exercising control.
Changes in the net assets of associates are recognised on the assets side of the balance sheet under "Investments in equity-method entities" and in the relevant component of shareholders' equity. Goodwill on associates is also included under "Investments in equity-method entities".
Minority interests are presented separately in the consolidated profit and loss account and balance sheet within consolidated equity.
As regards fully consolidated funds, units held by third-party investors are recognised as debts at fair value through profit or loss, inasmuch as they are redeemable at market value at the subscriber's initiative.

3.1.3. Prudential scope

In accordance with French banking regulation (CRBF Regulation 2000-03 of 6 September 2000), BNP Paribas Group has defined a prudential scope to monitor capital adequacy ratios calculated on consolidated data.
The prudential scope is generally the same as the scope of consolidation, with the exceptions regarding insurance companies, asset disposals and risk transfers (securitisation vehicles that are excluded from the prudential scope).
The full list of consolidated entities is included in annual statement of BNP Paribas Group in Note 8.k.

3.2. Risk management

Risk management is key in the business of banking. At BNP Paribas, operating methods and procedures throughout the organisation are geared towards effectively addressing this matter. The entire process is supervised by the BNP Paribas Group Risk Management Department (GRM), which is responsible for measuring and controlling risks at BNP Paribas Group level. GRM is independent from the core businesses, business lines and territories and reports directly to BNP Paribas Group Executive Management. The BNP Paribas Group Compliance (GC) function monitors the operational risk under the authority of GRM, which is responsible for all the risk management procedures, and the reputation risk as part of its permanent control responsibilities.
Front-line responsibility for managing risks lies with the divisions and business lines that propose the underlying transactions. GRM continuously performs a second-line control over the Group's credit, market, liquidity and insurance risks. As part of this role, it must ascertain the soundness and sustainability of the business plans and their overall alignment with the risk profile target set by Executive Management. The risk categories reported by BNP Paribas evolve in line with methodological developments and regulatory requirements.
The following risk categories are managed by BNP Paribas: credit risk and counterparty credit risk, market risk, operational risk, compliance and reputation risk, banking book interest rate risk, liquidity risk, strategic and business risk, and concentration risk.
Reputation risk is the risk of damaging the trust placed in a corporation by its customers, counterparties, suppliers, employees, shareholders, supervisors and any other stakeholder whose trust is an essential condition for the corporation to carry out its day-to-day operations. Reputation risk is primarily contingent on all the other risks borne by the Bank.

Strategic and business risks

Strategic risk is the risk that the Bank's share price may fall because of its strategic decisions. Business risk is the risk of incurring an operating loss due to a change in the economic environment leading to a decline in revenue coupled with
insuffi cient cost-elasticity.

Credit risk

Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The probability of default and the expected recovery on the loan or receivable in the event of default are key components of the credit quality assessment.

Counterparty credit risk

Counterparty credit risk is the credit risk embedded in payment or transactions between counterparties. Those transactions include bilateral contracts such as over-the-counter derivatives contracts (OTC) which potentially expose the Bank to the risk of counterparty default. The amount of this risk may vary over time in line with changing market parameters which then impacts the replacement value of the relevant transactions or portfolio.
Market risk is the risk of incurring a loss of value due to adverse trends in market prices or parameters, whether directly observable or not.
Observable market parameters include, but are not limited to, exchange rates, interest rates, prices of securities and commodities, prices of derivatives, prices of other goods, and other parameters that can be directly inferred from them, such as interest rates, credit

spreads, volatilities and implied correlations or other similar parameters. Non-observable factors are those based on working assumptions such as parameters contained in models or based on statistical or economic analyses, non-ascertainable in the market information.
Liquidity is an important component of market risk. In times of limited or no liquidity, instruments or goods may not be tradable or may not be tradable at their estimated value.
Operational risk is the risk of incurring a loss due to inadequate or failed internal processes, or due to external events, whether deliberate, accidental or natural occurrences. Management of operational risk is based on an analysis of the "cause – event – effect" chain.
Operational risk encompasses human resources risks, legal risks, tax risks, information system risks, misprocessing risks, risks related to published financial information and the financial implications resulting from compliance and reputation risks.

Compliance and reputation risk

Compliance risk as defined in French regulations as the risk of legal, administrative or disciplinary sanctions, of significant financial loss or reputational damage that a bank may suffer as a result of failure to comply with national or European laws and regulations, codes of conduct and standards of good practice applicable to banking and financial activities, or instructions given by an executive body, particularly in application of guidelines issued by a supervisory body
By definition, this risk is a sub-category of operational risk.
Reputation risk is primarily contingent on all the other risks borne by the Bank.
Banking book interest rate risk is the risk of incurring a loss as a result of mismatches in interest rates, maturities or nature between assets and liabilities. For banking activities, asset-liability management risk arises in non-trading portfolios and primarily relates to global interest rate risk.
Liquidity risk In accordance with regulations, the liquidity risk is defi ned as the risk that a b ank will be unable to honour its commitments or unwind or settle a position due to the situation on the market or idiosyncratic factors, within a given time frame and at a reasonable cost.
Concentration risk and its corollary, diversification effects, are embedded within each risk, especially for credit, market and operational risks using the correlation parameters taken into account by the corresponding risk models.
It is assessed at consolidated BNP Paribas Group level and at financial conglomerate level.

3.3. Credit and Counterparty Risk

The Group's gross exposure to credit risk stands at EUR 1,298 billion at 31 December 2014, compared with EUR 1,169 billion at 31 December 2013. This portfolio, which is analysed below in terms of its diversification, comprises all exposures to credit risk, excluding other non credit-obligation assets.
The table below shows also exposure to counterparty risk (measured as exposure at the time of default) by Basel asset class on derivatives contracts and securities lending/borrowing transactions, after the impact of any netting agreements.

Table 12 Counterparty risk exposures with the Basel 3 asset class breakdown

In millions of euros	31 December 2014		
	Exposure at default to counterparty risk		
	IRBA	Standardised Approach	Total
Central governments and central banks	24 711	24	24 735
Corporates	57 811	1 056	58 867
Institutions	34 197	634	34 831
Retail	1	5	6
TOTAL EXPOSURE	**116 720**	**1 719**	**118 439**

3.3.1. Credit risk

The Bank's lending activities are governed by the Global Credit Policy approved by the Risk Committee, chaired by the Chief Executive Officer.
The policy is underpinned by core principles related to compliance with the Group's ethical standards, clear definition of responsibilities, the existence and implementation of procedures and thorough analysis of risks. It is rolled down in the form of specific policies tailored to each type of business or counterparty.

3.3.1.1. Credit risk diversification

Industry diversification

The breakdown of exposure by business sector is monitored carefully and regularly. It is supported by a forward-looking analysis for dynamic management of the Bank's exposure.

Table 13 Breakdown of credit risk by Basel 3 asset class and by corporate industry at 31 December 2014

Asset class	% of total exposure	Asset class	% of total exposure	Asset class	% of total exposure	Asset class	% of total exposure
Wholesale & trading	9%	Energy Excluding Electricity	6%	Other	10%	Utilities (electricity, gas, water, etc.)	6%
Metal & mining	5%	Retailers	5%	Healthcare & Pharmaceuticals	2%	Finance	6%
IT & electronics	3%	Construction	6%	B to B services	8%	Insurance	2%
Real estate	9%	Chemicals excluding Pharmaceuticals	2%	Communication services	3%		
Equipment excluding IT Electronic	6%	Agriculture, Food, Tobacco	6%	Transportation & logistics	6%		

Geographic diversification

Country risk is the sum of all exposures to obligors in the country concerned. It is not the same as sovereign risk, which is the sum of all exposures to the central government and its various branches. Country risk reflects the Bank's exposure to a given economic and political environment, which are taken into consideration when assessing counterparty quality.
The geographic breakdown below is based on the country where the counterparty conducts its principal business activities, without taking into account the location of its head office.

Table 14 Geographic breakdown of credit risk by counterparty's country of business at 31 December, 2014

Region	% of total exposure	Region	% of total exposure
France	25%	Other European countries	19%
Belgium	12%	North America	16%
Luxembourg	2%	Asia & Pacific	8%
Italy	11%	Rest of the World	7%

The geographic breakdown of the portfolios isbalanced . The Group's main focuses in 2014 were geopolitical risks in some countries and the economic performance of the emerging economies. As a result, such countries were more frequently reviewed in order to closely monitor the evolving political and economic situations and proactively manage the Group's exposure by anticipating the risk of deterioration.

3.3.1.2. Impairment and restructuring of financial assets

Impairment of loans and receivables and held-to-maturity financial assets, provisions for financing and guarantee commitments

An impairment loss is recognised against loans and held-to-maturity financial assets where (i) there is objective evidence of a decrease in value as a result of an event occurring after inception of the loan or acquisition of the asset; (ii) the event affects the amount or timing of future cash flows; and (iii) the consequences of the event can be reliably measured. Loans are initially assessed for evidence of impairment on an individual basis, and subsequently on a portfolio basis. Similar principles are applied to financing and guarantee commitments given by the Group, with the probability of drawdown taken into account in any assessment of financing commitments.

Changes in the amount of impairment losses recognised in profit and loss account under "Cost of risk". Any subsequent decrease in an impairment loss that can be related objectively to an event occurring after the impairment loss was recognised is credited to the profit and loss account, also under "Cost of risk". Once an asset has been impaired, the theoretical income earned on the carrying amount of the asset calculated at the original effective interest rate used to discount the estimated recoverable cash flows is recognised under "Interest income" in the profit and loss account.

Impairment losses on loans and receivables are usually recorded in a separate provision account which reduces the amount for which the loan or receivable was recorded in assets upon initial recognition. Provisions relating to off-balance sheet financial instruments, financing and guarantee commitments or disputes are recognised in liabilities. Impaired receivables are written off in whole or in part and the corresponding provision is reversed for the amount of the loss when all other means available to the Bank for recovering the receivables or guarantees have failed, or when all or part of the receivables have been waived.

Counterparties that are not individually impaired are risk-assessed on a portfolio basis with similar characteristics. This assessment draws upon an internal rating system based on historical data, adjusted as necessary to reflect circumstances prevailing at the balance sheet date.

Impairment of available-for-sale financial assets

Impairment of available-for-sale financial assets (which mainly comprise securities) is recognised on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since acquisition.

Impairment losses taken against variable-income securities are recognised as a component of Revenues on the line "Net gain/loss on available-for-sale financial assets", and may not be reversed through the profit and loss account until these securities are sold. Any subsequent decline in fair value constitutes an additional impairment loss, recognised in the profit and loss account.

Impairment losses taken against fixed-income securities are recognised under "Cost of risk", and may be reversed through the profit and loss account in the event of an increase in fair value that relates objectively to an event occurring after the last impairment was recognised.

3.3.1.3. Loans with past-due instalments, whether impaired or not, and related collateral or other guarantees

The following table presents, the carrying amounts of financial assets that are past due but not impaired and impaired assets and related collateral or other guarantees. The amounts shown are stated before any provision on a portfolio basis.

Table 15 Loans with past-due instalments, whether impaired or not, and related collateral or other security.

In millions of euros	Total	Up to 90 days	Between 90 days and 180 days	Between 180 days and 1 year	More than 1 year	Impaired assets and commitments covered by provisions	Collateral received in respect of unimpaired past-due loans	Collateral received in respect of impaired Total assets
	Maturities of unimpaired past-due loans						31 December 2014	
Available-for-sale financial assets (excl. variable-income securities)	-	-	-	-	-	116	-	-
Loans and receivables due from credit institutions	140	140	-	-	-	209	90	109
Loans and receivables due from customers	12 252	11 643	326	66	217	20 134	6 048	13 190
Held-to-maturity financial assets	-	-	-	-	-	-	-	-
Past-due assets, net of individual impairment provisions	**12 392**	**11 783**	**326**	**66**	**217**	**20 459**	**6 138**	**13 299**
Financing commitments given						429		321
Guarantee commitments given						796		-
Off-balance sheet nonperforming commitments, net of provisions						**1 225**	**-**	**321**
TOTAL	**12 392**	**11 783**	**326**	**66**	**217**	**21 684**	**6 138**	**13 620**

3.3.1.4. Internal rating system

The internal rating system developed by the Group covers the entire Bank.
There are twelve counterparty ratings. Ten cover performing clients with credit assessments ranging from "excellent" to "very concerning", and two relate to clients classified as in default, as per the definition by the banking supervisor.
For Corporate counterparties, the rating parameters and Global Recovery Rates applicable to each exposure are reviewed at least once a year as part of the loan approval process or annual credit review, drawing on the combined expertise of business line staff and, as a second pair of eyes, the GRM representatives. The Group has developed an indicative equivalence between the Bank's internal ratings and the long-term issuer ratings assigned by the major rating agencies. The Bank has a much broader clientele than just those counterparties rated by an external agency. An indicative equivalence is not relevant in Retail Banking. It is used when the internal ratings are assigned or reviewed in order to identify any differences between the Bank's assessment of a borrower's probability of default and that of one or more of the rating agencies. However, the internal ratings do not aim to reproduce or even approximate the external ratings. There are significant variances in both directions within the portfolio.

Loss Given Default is determined either using statistical models for books with the highest degree of granularity or using expert judgment based on comparative values, in line with a process similar to the one used to determine the counterparty rating for corporate books[2].
Loss Given Default is defined as the loss that the Bank would suffer in the event of the counterparty's default in times of economic downturn, as required by regulations.
For benchmarking work on non retail exposures, internal ratings are compared with the external ratings of several agencies based on the mapping between internal and external rating scales. Around 10% of the Group's corporate clients have an external rating and the benchmarking studies reveal a conservative approach to internal ratings.

3.3.1.5. Corporate portfolio by class and internal rating

The following table provides the breakdown by internal rating of the corporate loans and commitments (asset classes: central governments and central banks, institutions and corporates) for all the BNP Paribas Group's business lines measured using the Internal Ratings Based Approach.
This exposure represented EUR 730 billion of the gross credit risk at 31 December 2014, including EUR 712 billion of performing loans and EUR 18 billion of non-performing loans, compared with EUR 645 billion at 31 December 2013, including EUR 626 billion of performing loans and EUR 19 billion of non-performing loans.

[2] *Within the Group, the Corporate book includes institutions, corporates, specialised financing and sovereign states*

As far as retail portfolio is concerned, the exposure of performing loans represented EUR 196 billion of the gross credit risk at 31 December 2014, up EUR 9 billion, compared with EUR 187 billion at 31 December 2013.

Table 16 The internal rating and asset classes breakdown of corporate loans and commitments and retail exposures for business lines using the advanced IRBA method.

In millions of euros	Asset class	Internal rating 1	2	3	4	5	6	7	8	9	10	11	12	Total
Corporate portfolio	Central governments and central banks	157 458	51 673	4 610	2 467	3 275	67	1 083	483	387	102	75	0	**221 680**
	Institutions	4 608	43 240	6 126	5 257	7 018	2 250	1 331	642	85	199	279	254	**71 289**
	Corporates	13 425	57 861	55 551	72 508	71 989	74 039	48 677	15 178	5 436	4 658	11 331	6 063	**436 716**
Retail portfolio	Mortgages		28 547	14 559	23 705	20 856	13 160	6 533	3 242	1 632	1 390	1 168	730	**115 522**
	Revolving exposures	48	1 748	970	3 967	3 922	4 252	1 502	2 454	1 976	842	1 088	511	**23 280**
	Other exposures	25	5 803	4 683	9 091	10 053	12 863	8 614	4 373	2 182	2 561	2 474	2 064	**64 786**

3.3.1.6. Standardised approach

For exposures in the standardised approach, BNP Paribas uses the external ratings assigned by Standard & Poor's, Moody's and Fitch Ratings. These ratings are mapped into equivalent credit quality levels as required by the regulation framework in accordance with the instructions issued by the supervisor. When there is no directly applicable external rating, the issuer's senior unsecured rating may, if available, be obtained from external databases and used for risk-weighting purposes in some cases.

The following table gives the breakdown by counterparty credit rating of the loans and commitments for all Group business lines using the standardised approach. This exposure represented EUR 365 billion of the gross credit risk at 31 December 2014, compared with EUR 329 billion at 31 December 2013.

Table 17 Credit rating breakdown of the loans and commitments for the business lines using standardised approach.

Gross exposure in millions of euros	External rating: AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ to D	No external rating	Total
Central governments and central banks	18 597	1 986	5 559	122	417	189	1 623	**28 493**
Institutions	9 560	1130	7 548	774	117	33	1 350	**20 512**
Corporates	367	1 675	2110	700	369	13	126 556	**131 790**
Retail							184 334	**184 334**
Total								**365 129**

3.3.2. Counterparty risk

Counterparty credit risk is the credit risk embedded in payment or transactions between counterparties. Those transactions include bilateral contracts such as over-the-counter derivatives contracts (OTC) which potentially expose the Bank to the risk of counterparty default. The amount of this risk may vary over time in line with changing market parameters which then impacts the replacement value of the relevant transactions or portfolio.

Counterparty risk lies in the event that a counterparty defaults on its obligations to pay the Bank the full present value of a transaction or a portfolio for which the Bank is a net receiver. Counterparty credit risk is also linked to the replacement cost of a derivative or portfolio in the event of counterparty default. Hence, it can be seen as a market risk in case of default or a contingent risk. Counterparty risk arises both from both bilateral activities of

BNP Paribas with clients and clearing activities through a clearing houses or an external clearer.
Netting is used by the Bank to mitigate counterparty credit risk associated with derivatives trading. The main instance where netting occurs is in case of trades termination: if the counterparty defaults, all the trades are terminated at their current market value, and all the positive and negative market values are summed to obtain a single amount (net) to be paid to or received from the counterparty. The balance ("close-out-netting") may be collateralised with cash, securities or deposits. The Bank also applies settlement netting in order to mitigate counterparty risk in case of currency settlements. This corresponds to the netting of all payments and receipts between the Bank and one counterparty in the same currency to be settled in the same day. The netting results in a single amount (for each currency) to be paid either by the Bank or by the counterparty.

Measurement of exposure.

The potential future counterparty risk exposures are measured using a system based on internal models which can simulate thousands of potential market scenarios and perform the valuation of each counterparty trading portfolio at several points in the future.
The valuation of fi nancial OTC-trades carried out by BNP Paribas as part of its trading activities (mainly CIB) includes credit valuation adjustments (CVA). CVA is an adjustment of the trading portfolio valuation to take into account the counterparty credit risk. It is the fair value on any expected loss arising from counterparty exposure based on the potential positive value of the contract, the counterparty default probability and the estimated recovery rate.

Table 18 Exposures at default (EAD) by calculation approach.

In millions of euros	Internal model (EEPE)			NPV + Add-On			31 December 2014 TOTAL
	IRBA	Standardised	Sub-total	IRBA	Standardised	Sub-total	
Derivatives	88 364	1	88 365	124	1 718	1 842	**90 207**
Securities financing transactions and deferred settlement transactions	28 215	0	28 215	17	0	17	**28 232**
TOTAL	**116 579**	**1**	**116 580**	**141**	**1 718**	**1 859**	**118 439**

Monitoring and control of counterparty risk

Potential Future Exposures calculated by the internal model on a daily basis are compared with the limits assigned to each counterpart. In addition, this system can simulate ad hoc transactions and measure their impact on the counterparty portfolio. It is therefore an essential tool of the risk approval process.

3.3.3. Banking book securitisation

The BNP Paribas Group is involved in securitisation transactions as originator, sponsor and investor as defined by Basel 3.0.
The securitisation transactions described below are those that meet the defi nition set out in Regulation (EU) No. 575/2013..
Assets securitised as part of proprietary securitisation transactions that meet Basel eligibility criteria, particularly in terms of significant risk transfer, are excluded from the regulatory capital calculation. Only BNP Paribas' positions in the securitisation vehicle, and any commitment subsequently granted to the securitisation vehicle, are included in the capital requirement.
Proprietary securitisation exposures that do not meet the Basel eligibility criteria remain in the portfolio to which they were initially assigned. The capital requirement is calculated as if they had not been securitised and is included in the section on credit risk.
The BNP Paribas Group's activities in each of these roles are described below:

Table 19 Securitised exposures and securitisation positions (held or acquired) by role

In millions of euros	31 December 2014	
BNP Paribas role	Securitised exposures originated by BNP Paribas	Securitisation positions held or acquired (EAD)
Originator	1 591	1 541
Sponsor	1	11 411
Investor	0	9 820
TOTAL	**1 592**	**22 772**

Proceeds from the sale of securitisation positions are recognized in accordance with rules for the category of origin of positions sold. Therefore, for positions classified as loans and receivables and as available-for-sale assets, proceeds from asset sales are deducted from cost of risk in an amount equal to the net amount previously recognised. Any remaining amount is recognised as net gains on available-for-sale assets and other financial assets not stated at fair value. For positions classified at fair value through profit or loss, proceeds from asset sales are recognised as net gains on financial instruments measured at fair value through profit or loss.

Proprietary securitisation (originator under Basel 2.5)

As part of the day-to-day management of liquidity, the BNP Paribas Group can securitise loans granted to Retail Banking customers, as well as loans granted to corporate customers, in order to transform them into liquid assets.

Securitisation as sponsor on behalf of clients

CIB Fixed Income carries out securitisation programmes on behalf of its customers. Under these programmes, liquidity facilities and, where appropriate, guarantees are granted to special purpose entities. These entities over which the BNP Paribas Group does not exercise control are not consolidated.

Securitisation as investor

The BNP Paribas Group's securitisation business as an investor (within the meaning of the regulations) is mainly carried out by CIB, Investment Solutions and BancWest. It also includes positions held by BNP Paribas Fortis.

Table 20 Securitisation positions by the calculation approach

In millions of euros	31 December 2014	
Calculation approach	Securitisation positions held or acquired (EAD)	Risk-weighted assets
IRBA	21 801	13 430
Standarised	971	558
TOTAL	**22 772**	**13 988**

For rated securitisation positions, the BNP Paribas Group uses external ratings from the Standard & Poor's, Moody's, and Fitch rating agencies. These ratings are mapped to equivalent credit quality levels in accordance with the instructions of the French banking supervisor.

3.3.4. Credit risk mitigation techniques

Credit risk mitigants (CRM) are taken into account according to the regulation. In particular, their effect is assessed under conditions characteristic of an economic downturn.

For the scope under the IRB approach, guarantees and collaterals are taken into account, provided they are eligible, by decreasing the Loss Given Default (LGD) parameter that applies to the transactions of the banking book.

For the scope under the standardised approach, guarantees are taken into account, provided they are eligible, by applying the more favourable risk weight of the guarantor to a portion of the secured exposure adjusted for currency and maturity mismatches. Collateral is taken into account as a decrease in the exposure, after adjustment for any currency and maturity mismatches. Guarantors are subject to the same rigorous credit risk assessment process as primary obligors.

3.3.4.1. IRB approach – corporate portfolio

The following table gives for the Corporate portfolio the breakdown by Basel asset class of the risk mitigation resulting from collateral and guarantees relating to the portfolio of loans and credit commitments for all the Group's business lines.

Table 21 Corporate portfolio by breakdown by Basel asset class of the risk mitigation technique for business lines using advanced IRB approach

				31 December 2014
				Risk mitigation
In millions of euros	Total exposure	Guarantees and credit derivatives	Collateral	Total guarantees and collaterals
Central governments and central banks	221 680	5 290	29	5 319
Corporates	436 716	64 563	54 604	119 167
Institutions	71 289	2 977	726	3 703
TOTAL	**729 685**	**72 830**	**55 359**	**128 189**

3.3.4.2. Standardised approach – corporate portfolio

The following table gives for the Corporate portfolio the breakdown by Basel asset class of the risk mitigation resulting from collateral and guarantees relating to the portfolio of loans and credit commitments for all the Group's business lines using the standardised approach.

Table 22 Corporate portfolio by breakdown by Basel asset class of the risk mitigation technique for business lines using standardised approach.

				31 December 2014
				Risk mitigation
In millions of euros	Total exposure	Guarantees and credit derivatives	Collateral	Total guarantees and collaterals
Central governments and central banks	28 493	0	0	0
Corporates	131 790	264	8 808	9 072
Institutions	20 512	0	54	54
TOTAL	**180 795**	**264**	**8 862**	**9 126**

3.4. Market risk

Market risk arises mainly from trading activities carried out by the Fixed Income and Global Equity & Commodity Derivatives teams within Corporate and Investment Banking and encompasses different risk factors related to different risk factors, i.e. interest rate risk, foreign exchange risk, equity risk, commodities risk, credit spread risk and volatility and correlation risks.

The market risk management system aims to track as well as control financial instrument valuation whilst ensuring that the control functions remain totally independent from the business lines.

Within GRM, Risk-Investment and Markets (Risk-IM) has the responsibility to define, monitor and analyse risk sensitivities and risk factors, and to measure and control Value at Risk (VaR), which is the global indicator of potential losses.

Risk-IM ensures that all business activity complies with the limits approved by the various committees and approves new activities and major transactions, reviews and approves position valuation models and conducts a monthly review of market parameters (MAP review) in association with the Valuation and Risk Control Department (V&RC).

In 2014, total average VaR for the BNP Paribas is EUR 32 million (with a minimum of EUR 23 million and a maximum of EUR 43 million), after taking into account the EUR -40 million netting effect between the different types of risks. These amounts break down as follows.

Table 23 VaR measure for market risk as of 2014.

In millions of euros	Year to 31 December 2014			**31 December 2014**
	Minimum	Average	Maximum	
Interest rate risk	50	70	99	56
Credit risk	37	52	65	49
Foreign exchange risk	19	45	83	44
Equity price risk	20	43	92	40
Commodity price risk	9	16	37	31
Netting effect	0	-126	0	-122
Total Value at Risk	**73**	**100**	**136**	**98**

Capital requirements for market risk by risk type and type of approach are presented in a table below.

Table 24 Capital requirements for market risk

In millions of euros		**31 December 2014**
Type of approach	Type of risk	
	VaR	417
	Stressed VaR	717
	IRC	258
	Correlation portfolio	75
Total Internal Model		**1 467**
Total Standardised approach		**107**
Trading Book Securitisation Positions		**54**
Total Value at Risk		**1 628**

3.4.1. Interest rate risk

Interest rate risk and foreign exchange risks related to the banking intermediation activities and investment is managed by ALM Treasury Department.
Banking book interest rate risk in each BNP Paribas entity is systematically transferred to ALM Treasury, through internal analytic contracts or lending/borrowing transactions. For the Group as a whole, ALM Treasury is responsible for managing the interest rate risk transferred in this way.
Interest rate positions in the banking book are measured in terms of interest rate gaps, that measure for each future period the potential rate characteristic mismatches between assets and liabilities. In the interest rate gaps, the optional effects, in particular linked to behavioural options, are embedded and translated into their delta equivalent. The maturity split is determined on the basis of the contractual terms of the transactions and historical observations of customer behaviour. For Retail Banking products, behavioural models are based on historical or forward data and econometric studies. The interest rate risk is also measured on a going-concern basis, incorporating dynamic changes in balance sheet items, through an indicator of earnings sensitivity to interest rate changes.
The sensitivity of revenues to a change in interest rates is one of the key indicators used by the Group in its analysis of overall interest-rate risk. The sensitivity of revenues is calculated across the entire banking book including the customer banking intermediation businesses, equity, and for all currencies to which the BNP Paribas Group is exposed. It relies on reasonable activity assumptions over the same horizon as the indicator.

The consolidated indicator is presented in the table below. Over this one-year horizon, the banking intermediation book's exposure to interest-rate risk is limited: an increase of 100 basis points in interest rates right across the yield curve would lead to a decrease of about 0.3% in the BNP Paribas Group's revenues, all currencies combined.

Table 25 Sensitivity of revenues to general interest-rate risk based on a 100 basis point increase in interest rates

In millions of euro	31 December 2014		
	Euros	Other currencies	Total
Sensitivity of 2014 revenues	49	-44	5

3.4.2. Equity exposures in banking book

The shares held by the BNP Paribas Group outside trading portfolios are securities conferring residual and subordinated rights on issuer's assets or income, or securities representing a similar economic nature.
They encompass:

- listed and unlisted shares, including shares in investment funds;
- embedded options of convertible bonds, redeemable or exchangeable for shares;
- equity options;
- super-subordinated securities;
- private funds commitments;
- equity holdings hedge;
- consolidated entities using the equity method.

Table 26 Equity risk exposures

In millions of euros	31 December 2014
Internal model method	
Listed equities	
Other equity exposures	
Private equity in diversified portfolios	
Simple risk weight method	**16 794**
Listed equities	3 859
Other equity exposures	10 549
Private equity in diversified portfolios	2386
Standardised approach	**6 212**
TOTAL	**23 006**

3.5. Operational, compliance and reputation risk

Operational and compliance risks come under specific regulatory framework:

- Regulation 575/2013 governing the method for calculating the amount of capital requirements to cover the operational risk;the de cree of 3 November 2014 which defines the roles and responsibilities within the Risk Management Function (covering all types of risks) and an internal control system which ensures the efficiency and quality of the Bank's internal operations, the reliability of internal and external information, the security of transactions, as well as compliance with applicable laws, regulations and internal policies. .

To meet this dual requirement of measuring and managing operational risk, BNP Paribas has developed a five-stage iterative risk management process based on the following items:

- identifying and assessing operational risks;
- formulating, implementing and monitoring the risk mitigation system, including procedures, checks and all organisational elements designed to help to control risk, such as segregation of tasks, management of access rights, etc.;
- producing risk measures and calculating the capital charge for operational risk;
- reporting and analysing oversight information relating to the operational permanent control process;
- managing the system through a governance framework that involves members of management, preparing and monitoring action plans.

This management of compliance and reputation risks is based on a system of permanent controls built on four components:

- general and specific procedures;
- coordination of action taken within the Group to guarantee the consistency and effectiveness of monitoring systems and tools;
- deployment of tools for detecting and preventing money laundering, terrorist financing and corruption, detecting market abuses, etc.;
- training, both at Group level and in the divisions and business lines.

Each legal entity of the prudential scope of the BNP Paribas Group has a calculation of its capital requirements. The amount of risk-weighted assets is calculated by multiplying the capital requirement by 12.5.
BNP Paribas uses a hybrid approach combining the Advanced Measurement Approach (AMA), standardised approach, and basic indicator approach.
For the Group the AMA methodology has been deployed in the most significant entities of each division or Retail Banking Operational entities. This includes most of Retail Banking in France and Italy, CIB, and Investment Solutions.
BNP Paribas Fortis and BGL BNP Paribas business lines, as well as a few other ex-Fortis subsidiaries, have also been using the Group's AMA model since 2012.