

**Capital Adequacy Information on
BGZ BNP Paribas S.A. Capital
Group (Pillar 3) as of 31st
December 2015**



BGZ BNP PARIBAS



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1. Introduction

In accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012 (Acts. Office. EU. L No. 176, p. 1), hereinafter referred to as "**Regulation (EU) No 575/2013**", Bank BGZ BNP Paribas SA with its registered office in Warsaw, hereinafter referred to as "**Bank**", is obliged to publish in a publicly accessible manner information about the qualitative and quantitative adequacy of the capital excluding irrelevant information, proprietary or confidential. This document provides information on the adequacy of the BGZ BNP Paribas SA Capital Group as of 31 December 2015.

Pursuant to the obligation specified in article 13 of the Regulation (EU) No 575/2013, Bank BGŻ BNP Paribas S.A. publicly discloses the information based on data available at the highest, national level of consolidation for prudential purposes.

The obligations arising from art. 450 of the Regulation (EU) No 575/2013 are fulfilled through the publishing on the Bank's website of the "Information on Management Board Remuneration Policy and Remuneration Policy for all employees, which covers employees in managerial positions, having a significant impact on the risk profile of Bank BGŻ BNP Paribas S.A."

2. Bank BGŻ BNP Paribas S.A.

The Bank BGŻ BNP Paribas S.A. Capital Group is a part of BNP Paribas S.A., an international financial institution based in Paris. The direct parent entity of Bank BGŻ BNP Paribas S.A. is BNP Paribas S.A. which holds 88,33% of the Bank's shares, where 28,35% are held indirectly per BNP Paribas Fortis SA/NV (former Fortis Bank SA/NV) based in Brussels. Rabobank International Holding B.V. holds 6,66% shares. The remaining 5,01% of shares is held by minority shareholders.

Table 1 Shareholders' structure of Bank as of 31st December 2015

Balance as at 31.12.2015	Number of shares held	% of the share capital	Number of votes at the AGM*	% number of the total number of votes*
BNP Paribas	74 409 864	88,33%	74 409 864	88,33%
BNP Paribas SA	50 524 889	59,98%	50 524 889	59,98%
BNP Paribas Fortis SA/NV*	23 884 975	28,35%	23 884 975	28,35%
Rabobank International Holding B.V.	5 613 875	6,66%	5 613 875	6,66%
Others	4 214 579	5,01%	4 214 579	5,01%
Total:	84 238 318	100,00%	84 238 318	100,00%

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

Bank. is the parent entity for:

1. Bankowy Fundusz Nieruchomości Actus Sp. z o.o., holding 100% of its shares.
2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas SA, holding 100% of its shares.
3. Fortis Lease Polska Sp. z o.o. in liquidation, holding 100% of its shares



4. BNP Paribas Faktoring Sp. z o.o., holding 100% of its shares.
5. Sygma Banku Polska S.A., holding 100% of its shares.
6. Laser Services Polska S.A., holding 100% of its shares.

According to the art. 436 of Regulation (EU) No 575/2013 Bank BGŻ BNP Paribas S.A. informs about the differences in the scope of consolidation for accounting and prudential purposes. Among the companies for which the Bank is the parent company, for the purpose of prudential consolidation not included are:

1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o.,
2. Laser Services Polska S.A.

These entities are excluded from the scope of prudential consolidation, as they fulfill the requirements set out in paragraph 1 of Article. 19 of Regulation (EU) No 575/2013.

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

According to art. 438 of the Regulation (EU) No 575/2013, the Bank is publishing amounts representing 8% of the risk-weighted exposure, separately for each exposure class:

Table 2 Capital requirements as of 31st December 2015

	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	Central governments or central banks	93 016 712
	Regional governments or local authorities	3 029 756
	Public sector entities	754 893
	Multilateral Development Banks	0
	International Organisations	0
	Institutions	43 581 584
	Corporates	1 351 556 548
	Retail	1 621 182 328
	Secured by mortgages on immovable property	231 213 604
	Exposures in default	184 493 058
	Items associated with particular high risk	0
	Covered bonds	0
	Claims on institutions and corporates with a short-term credit assessment	0
	Collective investments undertakings (CIU)	0
	Equity	11 406 084
	Other items	51 980 860
	Total	3 592 215 428

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 with Regulatory adjustments as of 31st December 2015

No.*	(A) AMOUNT AT DISCLOSURE DATE (mio.)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013 (mio)
Common Equity Tier 1 capital: instruments and reserves			
		26 (1), 27, 28, 29,	
1	Capital instruments and the related share premium accounts	3 356,74 EBA list 26 (3)	
	Of which: common shares	84,24 EBA list 26 (3)	
2	Retained earnings	93,07 26 (1) (c)	
	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		
3		2 300,26 26 (1)	
3a	Funds for general banking risk	498,40 26 (1) (f)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	6 248,47	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
		36 (1) (b), 37, 472	
8	Intangible assets (net of related tax liability) (negative amount)	-256,40 (4)	153,84
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-103,11	
	Of which: ...filter for unrealised gains	-103,11 468	
	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0,00	-153,84
27			
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-359,50	0,00
29	Common Equity Tier 1 (CET1) capital	5 888,96	
44	Additional Tier 1 (AT1) capital	0,00	
45	Tier 1 capital (T1 = CET1 + AT1)	5 888,96	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	846,60 62, 63	
51	Tier 2 (T2) capital before regulatory adjustments	846,60	
58	Tier 2 (T2) capital	846,60	
59	Total capital (TC = T1 + T2)	6 735,56	
60	Total risk weighted assets	50 095,75	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	11,76% 92 (2) (a), 465	
62	Tier 1 (as a percentage of risk exposure amount)	11,76% 92 (2) (b), 465	
63	Total capital (as a percentage of risk exposure amount)	13,45% 92 (2) (c)	
Amounts below the threshold (before risk weighting)			
	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	36 (1) (c), 112,04 38, 48, 470, 472 (5)	

* Numbering in accordance with Annex VI of the Implementing Regulation of the Commission (EU) No 1423/2013 as of 20th December 2013 establishing implementing technical standards in disclosure requirements on the institution's own funds in accordance with Regulation of the European Parliament and the Council (EU) No 575/2013 ((Acts. Office. EU. No. L 355, p. 60), hereinafter referred to as "Implementing Regulation (EU) No 1423/2013". Indicated in Annex VI of the Commission Implementing Regulation (EU) No 1423/2013 positions which are not included in the table above do not apply to the Bank.

For the purpose of preparing the statement of Core Tier1 and Supplementary Tier2 capital on a consolidated basis, shares in subsidiaries are switched off.

Bank's own funds include:

- 1) Core capital (Tier1),
- 2) Supplementary capital (Tier2),

Core capital of the Bank includes:

- 1) core funds which constitute:
 - a) share capital,
 - b) additional capital,
 - c) reserve capital,



- 2) additional items of core capital funds, which include:
 - a) general risk fund for unidentified risk related to banking operations,
 - b) retained earnings,
 - c) other items of the balance sheet specified by the Polish Financial Authority,
 - d) profit under approval and net profit of the current reporting period, computed pursuant to the binding accounting policies, net of any expected charges and dividends, in amounts not higher than amounts of profit verified by statutory auditors,
- 3) deductions from Tier I capital specified in the Banking Law Act which are
 - a) goodwill and other intangible assets,
 - b) prudential filters; the type of particular filters and deductions applied pursuant to Articles 467-470, 474, 476 and 479 of the Regulation (EU) No 575/2013

Supplementary capital is created under resolutions of the General Meeting. The provisions of the Banking Law Act govern whether the funds are included in the supplementary capital.

Supplementary capital of the Bank includes: paid-up equity instruments and subordinated loans

The share capital of the Bank as at 31 December 2015 amounted to PLN 84 238 318. Nominal value of each share is PLN 1.00, where:

- 74 409 864 is owned by BNP Paribas SA,
- 5 613 875 is owned by Rabobank International Holding B.V.,
- 4 214 579 is owned by the other shareholders.

Additional capital is established from net profit deductions in a fiscal year and a surplus obtained at issuing shares above their nominal value, remaining after covering the costs of issuance, from additional capital payments made by shareholders in exchange for assigning special rights to their existing shares without increasing the share capital. Additional capital may be earmarked for the coverage of balance sheet losses.

Reserve capital is established regardless of the additional capital from net profit deductions in a fiscal year, earmarked to cover the balance sheet loss.

The general risk fund for unidentified risk related to banking operations is established from net profit deductions in the amount resolved by the General Meeting. The general risk fund is earmarked for unidentified risk related to banking operations.

Retained earnings are profits generated by the Group in the previous period after deducting the dividends paid. Retained earnings include:

- remaining additional capital,
- reserve capital,
- general risk fund,
- retained earnings of the previous years,
- net financial result attributable to shareholders of the parent entity.

Unrealized gains and losses on available-for-sale debt and capital instruments are recognized in own funds, in line with the instructions included in the Regulation (EU) no. 575/2013 and the Banking Law Act.



Capital instruments and subordinated loans qualify as instruments under Tier2, provided that the conditions specified in Article 63 of the Regulation (EU) No 575/2013 are met. Capital Tier2 include subordinated loans received with a value of PLN 846 600k.

Bank introduced deduction for core Tier1 capital in accordance with art. 36 (1) point. b. of Regulation (EU) No 575/2013 for intangible assets in amount of PLN -256 396 k. For additional Tier1 and supplementary Tier2 capital deductions have not been applied.

The Bank has not adjusted capital pursuant to art. 47, 48, 56, 66 and 79 of Regulation (EU) No 575/2013.

The Bank applied prudential filters, referred in art. 32-35 Regulation (EU) No 575/2013 introducing a correction of unrealized gains in own funds in compliance with art. 468 Regulation (EU) No 575/2013 in amount of PLN -103 108 k.

The Bank uses the transitional arrangements and include adjustments arising from them in the calculation.

In the T1, AT1 and T2 capital statement - adjustments which had not been provided in Regulation (EU) 575/2013 have not been applied.

Table 4 Capital adequacy as of 31st December 2015

CAPITAL ADEQUACY	[k PLN]
Total amount of exposure to risk	50 095 750
Capital requirements	
Credit risk	44 902 693
Market risk	228 147
Operational risk	4 870 121
CVA Risk	94 789
Own funds	6 735 562
Common Equity Tier 1 (CET1)	5 888 962
Additional Tier 1 capital	0
Tier 2 capital	846 600
Total capital adequacy ratio	13,45%
Tier 1 capital adequacy ratio	11,76%

With reference to the art.437 of the Regulation (EU) No 575/2013 the Bank discloses to Tier1 capital.



Table 5 Capital instruments' main features as of 31st December 2015

1	Issuer	BGŻ BNP Paribas S.A.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN code: PLBGZ000010
3	Governing law(s) of the instrument	Polish
	Regulatory Treatment	Yes
4	Transitional Resolution (UE) nr 575/2013 rules	Common Equity Tier 1
		Partial issue reclassification to lower category of capital
5	Post-transitional Resolution (UE) nr 575/2013 rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub-)consolidated
7	Instrument type (types to be specified by each jurisdiction)	Instrument type: ordinary share.
8	Amount recognised in regulatory capital (currency in million, as at the last reporting date)	<p>Classification - Common Equity Tier 1 instrument in accordance with Article 28 of Regulation (EU) No. 575/2013.</p> <p>PLN 15,09 mln (series A) PLN 7,8 mln (series B) PLN 0,25 mln (series C) PLN 3,2 mln (series D) PLN 10,64 mln (series E) PLN 6,13 mln (series F) PLN 8 mln (series G) PLN 8 mln (series H) PLN 28,1 mln (series I)</p> <p>Registered shares of series B are preference shares. The privilege concerning the shares of series B, includes the right to receive payment of the full nominal amount per share in the event of liquidation of the Bank after satisfying creditors, first before payments attributable to ordinary shares, which are payments in face of execution of the privilege may not cover the nominal amount of those shares. The amount recognized in regulatory capital does not differ from the amount of the issued instrument.</p>
9	Nominal amount of instrument	PLN 84 238 318
9a	Issue price	PLN 1
9b	Redemption price	Not applicable
10	Accounting classification	Equity
11	Original issue date	09.09.1994.
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons/dividends	Dividends
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing) - in relation to the payment of the coupon/dividend	<p>Partially discretionary; causes:</p> <ul style="list-style-type: none"> - decisions of the Supervisory Board - results - administrative decisions
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount) - in relation to the payment of the coupon/dividend	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
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	No
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 transitional features	No
37	If yes, specify non-compliant features	Not applicable



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

Bank discloses information regarding the institution's exposure to credit risk in the Consolidated Financial Statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2015 hereinafter referred to as "**Consolidated Financial Statements**" at :

http://www.bgzbnpparibas.pl/files/english/investor-relations/PR_2015/SF_GK_BGZ_2015-ENG.pdf

The following sections of the Consolidated Financial Statements should be referred to for the credit risk disclosures resulting from the art.442 of the Regulation (EU) No 575/2013:

- 1) Definitions and recognition of impairment, past due, and credit risk adjustments – Note 2.16.
- 2) Credit risk management approaches and methods – Note 53.2.
- 3) Credit risk adjustments – Note 3, 24.
- 4) Maturity breakdown of the exposures – Note 53.2.
- 5) Changes in the specific and general credit risk adjustments – Note 24.
- 6) Changes to the impairment provisions accounted for categories of receivables – Note 24.

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 6 The total amount of exposures after accounting offsets and credit risk mitigation techniques as of 31st December 2015

In PLN	Total exposure	Guarantees and credit derivatives	Collateral	31 December 2015
				Risk mitigation
				Total guarantees and collaterals
Central governments or central banks	9 856 465 398	0	0	0
Regional governments or local authorities	251 214 237	0	0	0
Public sector entities	246 579 405	226 800	400 000	626 800
Institutions	1 444 582 210	218 741 185	0	218 741 185
Corporates	28 489 393 050	627 431 799	100 323 801	727 755 600
Retail	32 231 632 513	516 064 078	69 759 685	585 823 763
Secured by mortgages on immovable property	4 094 957 854	3 762 499	812 143	4 574 642
Exposures in default	1 828 186 794	22 150 903	1 997 361	24 148 264
Items associated with particular high risk	347 127 029	0	0	0
Other items	2 337 647 368	0	0	0
TOTAL	81 127 785 857	1 388 377 265	173 292 990	1 561 670 255



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

Table 7 Geographic breakdown of credit risk as of 31st December 2015

Country/Region	% of total exposure
Europe	
Poland	99,50%
France	0,05%
Belgium	0,00%
Luxembourg	0,00%
Italy	0,01%
Other European countries	0,43%
Rest of the World	0%

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

Table 8 Breakdown of credit risk by asset class and by corporate industry as of 31st December 2015

	Total exposure [PLN]	% of total exposure
Wholesale Trade	3 265 842 095	11,5%
Materials & Ores	2 376 093 675	8,3%
Retail Trade	2 335 618 197	8,2%
Building & Public Works	1 607 248 733	5,6%
Equipment excluding IT Electronic	1 662 018 470	5,8%
Utilities (Electricity, Gas, Water, etc)	1 105 317 034	3,9%
Real Estate	2 526 184 700	8,9%
Agriculture, Food, Tobacco	5 603 481 605	19,7%
Business Services	1 326 104 225	4,7%
Transportation & logistics	994 842 693	3,5%
Automotive	936 822 770	3,3%
Finance	581 397 404	2,0%
Energy Excluding Electricity	437 119 481	1,5%
Communication services	123 699 517	0,4%
Chemicals excluding Pharmaceuticals	340 056 160	1,2%
IT & electronics	225 277 276	0,8%
Other	3 042 269 015	10,7%

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



Table 9 Impaired exposures by asset class and by corporate industry as of 31st December 2015

Type of client/industry	Original Exposure	Value adjustments and provisions
Individual client	1 169 311 427	706 508 838
Corporate:	2 830 803 286	1 759 702 838
Materials & Ores	296 191 590	206 726 545
Equipment excluding IT		
Electronic	117 182 385	70 113 697
Building & Public Works	301 248 570	217 894 310
Real Estate	219 300 490	106 646 693
Wholesale Trade	383 869 660	260 089 137
Retail Trade	194 905 424	123 458 307
Agriculture, Food, Tobacco	680 815 216	352 213 853
Business Services	175 655 635	127 573 995
Transport & Storage	69 978 787	55 118 589
IT & electronics	7 557 078	6 227 040
Automotive	12 522 916	6 523 957
Other	371 575 535	227 116 715

Table 10 Past due exposures by asset class and by corporate industry as of 31st December 2015

Type of client/industry	Passed due (all)		Passed due (more than 90 days)	
	Original Exposure	Value adjustments and provisions	Original Exposure	Value adjustments and provisions
Individual client	1 567 632 269	687 509 115	916 446 868	654 015 772
Corporate:	2 653 147 002	1 538 452 568	2 150 022 452	1 488 272 630
Materials & Ores	196 813 059	149 327 305	178 963 742	148 543 803
Equipment excluding IT				
Electronic	104 347 974	60 258 160	83 593 551	56 448 560
Building & Public Works	277 227 415	185 406 103	257 192 030	184 281 167
Real Estate	238 170 928	89 353 805	167 719 087	86 098 783
Wholesale Trade	389 069 877	251 923 850	335 316 197	243 554 619
Retail Trade	190 105 975	118 263 038	156 800 252	114 098 601
Agriculture, Food, Tobacco	593 501 857	307 964 165	464 541 842	295 629 175
Business Services	158 075 641	116 668 328	141 949 893	115 815 731
Transport & Storage	97 713 504	53 213 705	60 238 959	51 239 154
IT & electronics	11 163 892	5 943 586	6 156 841	5 909 711
Automotive	10 713 968	3 521 868	6 661 386	3 521 868
Other	386 242 911	196 608 655	290 888 672	183 131 459



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

Table 11 Geographic breakdown of Impaired exposures as of 31st December 2015

Country/Region	Original Exposure	Value adjustments and provisions
Europe	4 000 107 606	2 466 205 564
Poland	3 980 038 637	2 453 006 408
France	2 154 069	1 784 192
Belgium	15 378	12 313
Luxembourg		
Italy	593 248	592 711
Other European countries	17 306 275	10 809 940
Rest of the World	7 107	6 112

Table 12 Geographic breakdown of Past due exposures as of 31st December 2015

Country/Region [PLN]	Past due (all)		Past due (more than 90 days)	
	Original Exposure	Value adjustments and specific provisions	Original Exposure	Value adjustments and specific provisions
Europe	4 220 772 284	2 225 955 989	3 066 462 692	2 142 282 707
Poland	4 201 012 781	2 213 004 856	3 048 757 959	2 129 339 470
France	2 153 706	1 783 920	2 153 703	1 783 920
Belgium	15 379	12 313		
Luxembourg			15 379	12 313
Italy	592 819	592 390	592 819	592 390
Other European countries	16 997 599	10 562 510	14 942 832	10 554 614
Rest of the World	6 987	5 695	6 629	5 695

2.3. Use of credit risk mitigation techniques

In terms of art. 453 of the Regulation (EU) No 575/2013 Bank 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, SME and Micro clients segments. The off-balance netting also applies to derivative transactions concluded with selected credit institutions.

The Bank does not use credit derivatives as the credit risk mitigation technique.

The information about the credit risk concentrations is given in the note 53.2 of the the Consolidated Financial Statements.



2.4. Methods of Capital Adequacy Assessment (Pillar 2)

Pillar 2 methodology is currently converging towards BNP Paribas Group framework embodying risk type definitions and policies. Risk definitions used by the Bank are being aligned with the definitions applied by the BNP Paribas Group. However, the risk definitions have been approved by the Supervisory Board of the Bank and they may differ to the latest ones at the BNPP Group level. This is a direct consequence of the legacy policies of the BNP Paribas Bank Polska S.A. and Bank BGŻ S.A. The Bank continues internal capital process being combination of the processes of two merged banks, but in the longer run it will be fully aligned with the BNPP Group's approach.

The core risk identified in the Bank are described in the following paragraphs.

Liquidity Risk

The risk for the Bank to be unable to fulfill its obligations at an acceptable cost in a given currency and location. The Bank recognises the material impact of liquidity risk on the Bank's activity. The management of liquidity risk is currently converging towards BNP Paribas Group framework and policies.

Credit risk

Credit risk is considered material by the Bank. It results from the volume and nature of the Bank's assets. Credit risk is the risk of incurring an economic loss on loans and receivables, existing or potential due to prior commitments, resulting from the credit quality migration of the Bank's debtors, which may eventually come to default.

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. When measured at portfolio level, credit risk takes into account correlations between the values of the loans and receivables making up the portfolio concerned.

Market risk (interest rate and currency risks) and Interest rate risk in the Banking Book

Market risk is defined as the risk of incurring an economic loss as a result of adverse changes in market parameters, those ones being directly tradable or not. The risk of incurring an economic loss as a result of mismatches in interest rates, maturities or nature between assets and liabilities. For banking activities, asset-liability management risk is measured in non-trading portfolios and primarily relates to the interest rate risk in the banking book. For insurance activities, it also includes the risk of changes in the value of securities and other assets, particularly real-estate, held by the general investment fund of the company.

Operational risk

Bank defines operational risk in compliance with the Regulation (EU) No 575/2013 as the risk of incurring an economic loss due to inadequate or failed internal processes, or due to external events, whether these events are deliberate, accidental or natural occurrences. The management of operational risk is underpinned by an analysis of the cause - event - effect chain.

The management of operational risk is currently converging towards BNP Paribas Group framework and policies.



Business, reputation, and strategic risks

The risk of damaging the trust of customers, counterparties, suppliers, employees, shareholders, regulators and any other stakeholders whose trust is an essential condition for the Bank to carry out its day-to-day operations.

2.5. Leverage risk

The Calculation of leverage ratio of the BGZ BNP Paribas S.A. Capital Group as of 31st December 2015 was made under the provisions of Commission Delegated Regulation (EU) 2015/62 as of 10 October 2014 amending Regulation (EU) No 575/2013 in respect of the leverage ratio (UE.L. 2016.39.5), hereinafter referred to as "**Delegated Regulation 2015/62**". According to the Delegated Regulation 2015/62 financial leverage ratio is expressed as a percentage of the value of the quotient of Tier1 capital and total exposure measure by the end of the reporting period, while total exposure measure is the sum of the exposure values determined under all of the assets and off-balance items not deducted when determining the capital measure Tier1 .

Table 13 Leverage Ratio

Reference date	31-12-2015
Entity name	Bank BGŻ BNP Paribas S.A.
Level of application	consolidated

Table 14 Summary reconciliation of accounting assets and leverage ratio exposures

	Applicable Amount
1 Total assets as per published financial statements	65 327 637
2 A adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3 (A adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4 Adjustments for derivative financial instruments	669 010
5 Adjustment for securities financing transactions (SFTs)	0
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	13 957 508
EU-6a (A adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b (A adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7 Other adjustments	27 059
8 Leverage ratio total exposure measure	79 981 214



Table 15 Leverage ratio common disclosure

CRR leverage ratio exposures	
On-balance sheet exposures (excluding derivatives and SFTs)	
1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	65 611 093
2 (Asset amounts deducted in determining Tier 1 capital)	-256 396
3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	65 354 697
Derivative exposures	
4 Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	316 652
5 Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	352 357
EU-5a Exposure determined under Original Exposure Method	0
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8 (Exempted CCP leg of client-cleared trade exposures)	0
9 Adjusted effective notional amount of written credit derivatives	0
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11 Total derivatives exposures (sum of lines 4 to 10)	669 009
SFT exposures	
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14 Counterparty credit risk exposure for SFT assets	0
EU-14a Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15 Agent transaction exposures	0
EU-15a (Exempted CCP leg of client-cleared SFT exposure)	0
16 Total securities financing transaction exposures (sum of lines 12 to 15a)	0
Other off-balance sheet exposures	
17 Off-balance sheet exposures at gross notional amount	17 005 953
18 (Adjustments for conversion to credit equivalent amounts)	-3 048 445
19 Other off-balance sheet exposures (sum of lines 17 and 18)	13 957 508
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19a (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure	
20 Tier 1 capital	5 888 962
21 Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	79 981 214
Leverage ratio	
22 Leverage ratio	7,36
Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23 Choice on transitional arrangements for the definition of the capital measure	transitional
EU-24 Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0



Table 16 Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures
EU-1 Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	65 354 697
EU-2 Trading book exposures	0
EU-3 Banking book exposures, of which:	65 354 697
EU-4 Covered bonds	0
EU-5 Exposures treated as sovereigns	9 936 229
EU-6 Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	199 036
EU-7 Institutions	648 112
EU-8 Secured by mortgages of immovable properties	5 292 688
EU-9 Retail exposures	28 536 303
EU-10 Corporate	16 640 290
EU-11 Exposures in default	1 838 220
EU-12 Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2 263 819

Table 17 Description of the processes used to manage the risk of excessive leverage and Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers

1 Description of the processes used to manage the risk of excessive leverage	The leverage risk is defined by the Bank in the Bank’s Risk Strategy and Internal Capital Adequacy Assessment Process Methodology while reporting is described in Instructions for the preparation of the COREP report and Leverage Ratio in BGZ Bank BNP Paribas SA.
2 Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	The Calculation of leverage ratio of the BGZ BNP Paribas S.A. Capital Group as of 31st December 2015 was made under the provisions of Commission Delegated Regulation (EU) 2015/62 as of 10 October 2014 amending Regulation (EU) No 575/2013 in respect of the leverage ratio. According to the Regulation 2015/62 financial leverage ratio is expressed as a percentage of the value of the quotient of Tier1 capital and total exposure measure by the end of the reporting period, while total exposure measure is the sum of the exposure values determined under all of the assets and off-balance items not deducted when determining the capital measure Tier1. The biggest impact on the leverage ratio in 2015 had the legal merger of BNP Paribas Bank Poland S.A. and Bank BGZ S.A. In 2016, the Bank expects that the significant impact on the value of the leverage will have the legal merger with Sygma Bank S.A.

2.6. Operational risk

Strategies and processes in operational risk management

The Bank manages the operational risk based on the approved strategy and policy.

Operational risk is defined by the Bank as the possibility to incur losses or an unjustified cost resulting from inadequate or failed internal processes, people and systems or from external events. Legal risk is included into the operational risk, whereas strategic risk is excluded.

The objective of the operational risk management is to ensure the top quality standards of services rendered by the Bank, to ensure their security and compliance with the binding regulations and the best standards and lowering the losses and costs caused by the



operational risk at the same time. Organizational culture in operational risk management plays an important role for the Bank. Key element is employees' awareness about the risk and their share in the responsibility for its reduction. Operational risk is commonly present in the banking activity, what means that each of the employees and each of the organizational units are responsible for operational risk identification within their scope of responsibilities and taking actions aimed at risk reduction.

Operational risk management system is integrated. It means that all actions and functions concerning operational risk management are combined in one, consistent, transparent, complete and efficient system. In order to avoid a potential conflict of interests and in order to ensure objectivity, operational risk assessment function in the Bank is separated from the function responsible for making business decisions. Operational risk control function is autonomous and placed in Risk Area.

Operational risk management process included the following stages:

- a. risk identification,
- b. defining risk causes (sources),
- c. assessment of the risk amount and setting its acceptable level,
- d. analysis of possible solutions to reduce the identified risk (risk countermeasures),
- e. taking a decision to reduce risk,
- f. taking necessary actions,
- g. control and assessment of applied risk reduction tools (feedback).

Organization of the operational risk management process

Operational risk management is carried out in an integrated form, within the dedicated operational risk management structure, that is separated both in organizational and functional form. It includes:

- a. Internal Control Coordination Committee – responsible for supervision, coordination of the processes and allocation of tasks and resources within the operational risk management system,
- b. dedicated unit in the Head Office of the Bank i.e. Operational Risk Department – responsible for development, coordination and control of the basic operational risk management processes, as well as development and implementation of tools, procedures and operational risk management rules,
- c. function of operational risk coordinators in organisational units – responsible for coordination and clarification of all questions related to operational risk management in organisational units.

Operational risk management is closely connected to the management of other kinds of risk due to the fact that a substantial part of the operational risk losses occur between operational risk and credit risk or operational risk and financial risk, as well as other banking risks.

Actions directly aimed at operational risk mitigation are taken by units responsible for individual areas exposed to operational risk (first line of responsibility).

Scope and types of risk reporting and measuring systems

One of the operational risk management stages is taking actions aimed at risk reduction. Those actions mean preventing the threat or reducing the consequences of the event as



well as carrying out system actions aimed at elimination of causes of the events. Systems actions are e.g. eliminating the gaps in internal regulations and procedures, preparing new or changing the existing tools, introducing changes to work organization, improving control mechanisms and introducing changes to IT systems. Before taking such actions, their costs are analysed as well as potential losses that can be borne without implementing the suggested solution.

For the operational risk monitoring and assessment the Bank applies among others: self-assessment method, Key Risk Indicators (KRI) as well as the data about identified operational risk events and threats, incl. operational risk losses – using the internal and external data. The Bank decides on its risk tolerance (operational risk appetite) and takes appropriate actions when the accepted risk level is exceeded.

The Bank’s Management is regularly informed about the level of operational risk as well as about actions taken due to identified operational risk events and threats.

The Bank applies insurance cover within the framework of risk transfer.

The gross losses resulting from the operational risk events reported in 2015 have been presented in the table below by event types and categories. The amount of gross loss means a sum of losses resulting from the operational risk incidents registered in the Bank’s internal database, both realized and not realized (in the Bank’s opinion possible to be realized) without taking into account reductions resulting from amounts recovered from the insurance. Data includes the operational risk losses connected to the credit risk and financial risk.

Table 18 Gross losses resulting from operational risk events reported in 2015 (in k. PLN)

	[k. PLN]
Internal frauds	497
Theft and internal fraud	497
External frauds	18 520
Theft and external fraud	13 628
Systems security	4 892
Employment practices and workplace safety	592
Employee relations	592
Clients, products and business practices	811
Suitability, disclosure & fiduciary	741
Improper business or market practices	68
Product defects	1
Bank advisory activity deficiency	1
Damages to physical assets	344
Disasters and other events	344
Business disruption and system failures	552
Systems	552
Execution, Delivery and Process Management	10 074
Transaction capture, execution & maintenance	8 628
Customer intake and documentation	1 357
Customer account management	71
Trade counterparties	12
Monitoring and reporting	6
Total	31 390



In order to mitigate risk the Bank strengthens processes and mechanisms aimed at limiting level of risk. This includes amongst others prevention of frauds to the Bank's detriment (especially in the loan area where the largest operational risk losses were reported) and control of correctness of execution of processes in which the irregularities are identified (especially by developing IT system functionalities). Moreover, the Bank regularly verifies and assesses the internal control environment as well as determines actions improving the control mechanisms efficiency.