



2016

**CAPITAL ADEQUACY INFORMATION ON
BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP
AS OF 31 DECEMBER 2016**



BGŻ BNP PARIBAS

The bank for a changing world

Table of contents

| | | |
|----|---|----|
| 1. | Introduction..... | 3 |
| 2. | Information on Bank BGŽ BNP Paribas S.A. Capital Group..... | 3 |
| 3. | Own funds | 5 |
| 4. | Capital requirements | 9 |
| 5. | Capital buffers | 11 |
| 6. | Credit risk adjustments..... | 13 |
| 7. | Use of credit risk mitigation techniques | 16 |
| 8. | Leverage risk..... | 17 |
| 9. | Operational risk | 19 |

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 capital adequacy of the Bank BGZ BNP Paribas SA Capital Group as of 31 December 2016.

Pursuant to the obligation specified in article 13 of the Regulation (EU) No 575/2013, Bank publicly discloses as defined in art. 437, 438, 440, 442, 450, 451 and 453 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. Information on Bank BGŻ BNP Paribas S.A. Capital Group

The Bank BGŻ BNP Paribas S.A. Capital Group, hereinafter referred to as "Bank 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 31 December 2016

| Balance as at 31.12.2016 | 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.

As at 31 December 2016, the Bank Capital Group comprised Bank, as the parent, and its subsidiaries:

1. Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ("Actus"), with its registered office at ul. Kasprzaka 10/16 in Warsaw. The company is registered with the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000023062. The Bank holds 100% of the company's shares.
2. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI") with its registered office at ul. Bielańska 12 in Warsaw. The company is registered with the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000031121. The Bank holds 100% of the company's shares. .
3. BNP Paribas Leasing Services Sp. z o.o. Fortis Lease Polska Sp. z o.o. in liquidation ("FLP") with its registered office at ul. Suwak 3 in Warsaw. The company is registered with the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000225155. The Bank holds 100% of the company's shares.
4. BGŻ BNP Paribas Faktoring Sp. z o.o. ("Faktoring") with its registered office at ul. Suwak 3 in Warsaw. The Company is registered with the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000225155. The Bank holds 100% of the Company's shares.
5. BNP Paribas Group Service Center S.A. ("GSC", formerly: Laser Services Polska S.A.) with its registered office at ul. Suwak 3 in Warsaw. The company is registered with the District Court for the capital city of Warsaw, 13th Commercial Division of the National Court Register, under number KRS 0000022784. The Bank holds 100% of the company's shares.

According to the art. 436 of Regulation (EU) No 575/2013 Bank 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) BNP Paribas Group Service Center 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.

3. Own funds

Based on the art.437 of the Regulation (EU) No 575/2013 the Bank discloses own funds structure together with regulatory adjustments to Tier I and Tier II capital.

Table 2 The own funds structure with Regulatory adjustments as of 31 December 2016

| No.* | (A) AMOUNT AT DISCLOSURE DATE (mio.PLN) | (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.PLN) |
|--|--|---|---|
| Common Equity Tier I capital: instruments and reserves | | | |
| 1 | Capital instruments and the related share premium accounts | 3 356,74 | 26 (1), 27, 28, 29, EBA list 26 (3) |
| | Of which: common shares | 84,24 | EBA list 26 (3) |
| 2 | Retained earnings | 48,70 | 26 (1) (c) |
| | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 2 117,89 | 26 (1) |
| 3a | Funds for general banking risk | 577,77 | 26 (1) (f) |
| 6 | Common Equity Tier I (CET1) capital before regulatory adjustments | 6 101,10 | |
| Common Equity Tier I (CET1) capital: regulatory adjustments | | | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -246,37 | 36 (1) (b), 37, 472 (4) |
| 26a | Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 | -0,47 | |
| | Of which: ...filter for unrealised gains | -0,47 | 468 |
| | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | 0,00 | |
| 27 | | 0,00 | -98,55 |
| 28 | Total regulatory adjustments to Common Equity Tier I (CET1) | -246,84 | 0,00 |
| 29 | Common Equity Tier I (CET1) capital | 5 854,26 | |
| 44 | Additional Tier I (AT1) capital | 0,00 | |
| 45 | Tier I capital (T1 = CET1 + AT1) | 5 854,26 | |
| Tier II (T2) capital: instruments and provisions | | | |
| 46 | Capital instruments and the related share premium accounts | 1 765,44 | 62, 63 |
| 51 | Tier II (T2) capital before regulatory adjustments | 1 765,44 | |
| 58 | Tier II (T2) capital | 1 765,44 | |
| 59 | Total capital (TC = T1 + T2) | 7 619,69 | |
| 60 | Total risk weighted assets | 52 913,99 | |
| Capital ratios and buffers | | | |
| 61 | Common Equity Tier I (as a percentage of risk exposure amount) | 11,06% | 92 (2) (a), 465 |
| 62 | Tier I (as a percentage of risk exposure amount) | 11,06% | 92 (2) (b), 465 |
| 63 | Total capital (as a percentage of risk exposure amount) | 14,40% | 92 (2) (c) |
| Amounts below the threshold (before risk weighting) | | | |
| 75 | 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) | 53,74 | 36 (1) (c), 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 Tier I and Supplementary Tier II capital on a consolidated basis, shares in subsidiaries are switched off.

Bank's own funds include:

- 1) Core capital,
- 2) Supplementary capital.

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 Core capital 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 the resolutions of the General Meeting.

The share capital of the Bank as at 31 December 2016 amounted to PLN 84 238 318.

Nominal value of each share is PLN 1.00, where:

- 74 409 864 is owned directly or indirectly 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 Bank Capital 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 Tier II, 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 1 765 435k.

Bank introduced deduction for core Tier I capital in accordance with art. 36 (1) point. b. of Regulation (EU) No 575/2013 for intangible assets in amount of PLN -246 373 k. For additional Tier I and supplementary Tier II 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 -467 k.

The Bank uses the transitional arrangements and include adjustments to the amounts of unrealized gains and losses related to assets or liabilities measured at fair value and recognized in the balance sheet, and that during transitional period are subject to the provisions of Article 467(1) and 468 (1) of Regulation (UE) No 575 / 2013.

In the Tier I, AT I and Tier II capital statement - adjustments which had not been provided in Regulation (EU) 575/2013 have not been applied.

With reference to the art.437 of the Regulation (EU) No 575/2013 the Bank discloses main features to Tier I capital.

Table 3 Tier I Capital instruments' main features

| | | |
|-----|--|--|
| 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 I |
| | | Partial issue reclassification to lower category of capital |
| 5 | Post-transitional Resolution (UE) nr 575/2013 rules | Common Equity Tier I |
| 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. |
| | | Classification - Common Equity Tier I instrument in accordance with Article 28 of Regulation (EU) No. 575/2013. |
| 8 | Amount recognised in regulatory capital (currency in million, as at the last reporting date) | <p>PLN 15,09 mln (series A)</p> <p>PLN 7,8 mln (series B)</p> <p>PLN 0,25 mln (series C)</p> <p>PLN 3,2 mln (series D)</p> <p>PLN 10,64 mln (series E)</p> <p>PLN 6,13 mln (series F)</p> <p>PLN 8 mln (series G)</p> <p>PLN 5 mln (series H)</p> <p>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 | Fully discretionary |
| 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 |

Bank recognizes subordinated liabilities in its Tier II capital. The full list of the liabilities as of 31 December 2016, is shown in the table below.

Subordinated loans are qualified as own funds on the basis of the decision of the Polish Financial Supervision Authority.

Table 4 Subordinated liabilities as of 31 December 2016

| Name of the creditor | Liability type | Currency | Original value of the liability | Value of the liability as at 31.12.2016 | Date of the loan | Maturity date | Date of recognition in Capital* | Interest rate |
|--|-------------------|----------|---------------------------------|---|------------------|---------------|---------------------------------|-----------------------|
| BNP PARIBAS S.A. Francja | subordinated loan | CHF | 60 000 000 | 247 038 000 | 2012-12-20 | 2022-12-20 | 2012-12-05 | LIBOR CHF 3M + margin |
| BNP PARIBAS S.A. Francja | subordinated loan | EUR | 60 000 000 | 265 440 000 | 2012-12-20 | 2022-12-20 | 2012-12-05 | EURIBOR 3M + margin |
| BNP PARIBAS S.A. Francja | subordinated loan | CHF | 90 000 000 | 370 557 000 | 2014-09-17 | 2024-09-17 | 2014-09-23 | LIBOR CHF 6M + margin |
| BNP PARIBAS S.A. Francja | subordinated loan | EUR | 40 000 000 | 176 960 000 | 2016-01-07 | 2026-01-07 | 2016-01-28 | EURIBOR 3M + margin |
| BNP PARIBAS S.A. Francja | subordinated loan | PLN | 440 000 000 | 440 000 000 | 2016-01-07 | 2026-01-07 | 2016-01-28 | WIBOR 3M + margin |
| Lion International Investments S.A. Luksemburg | subordinated loan | EUR | 60 000 000 | 265 440 000 | 2016-11-22 | 2026-11-23 | 2016-12-23 | EURIBOR 3M + marża |

*date of the decision of the Polish Financial Supervision Authority approving the qualification of funds from the subordinated loan as an instrument in Tier II.

4. Capital requirements

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 5 Capital requirements as of 31 December 2016

| Exposure class | Total of capital requirement for following types of risk: credit, counterparty, dilution and late delivery of instruments for settlement [PLN] |
|---|--|
| Central governments or central banks | 105 924 572 |
| Regional governments or local authorities | 3 126 479 |
| Public sector entities and non-business entities | 53 023 |
| Multilateral Development Banks | 0 |
| International Organisations | 0 |
| Banks - Institutions | 55 075 830 |
| Corporates | 1 497 169 302 |
| Retail | 1 653 924 945 |
| Secured by mortgages on immovable property | 237 122 696 |
| Exposures in default | 216 023 593 |
| 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 | 14 928 639 |
| Other items | 66 182 252 |
| Total | 3 849 531 329 |

Exposures calculated by standardised approach

Table 6 Capital adequacy as of 31 December 2016

| CAPITAL ADEQUACY | [k PLN] |
|---|-------------------|
| Total amount of exposure to risk | 52 913 988 |
| Capital requirements | |
| Credit risk | 48 119 142 |
| Market risk | 207 744 |
| Operational risk | 4 533 056 |
| CVA Risk | 54 045 |
| Own funds | 7 619 694 |
| Common Equity Tier I (CET1) | 5 854 259 |
| Additional Tier I capital | |
| Tier II capital | 1 765 435 |
| Total capital adequacy ratio | 14,40% |
| Tier I capital adequacy ratio | 11,06% |

According to Art. 438 of Regulation (EU) No 575/2013, the Bank publishes a brief description of the adequacy of its internal capital to support current and future operations. Internal capital estimation methods are 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.

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.

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, human and systems errors or due to external events, including legal risk. 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

Business risk is the risk of a negative operating result due to the inability to match costs to revenues. This may be due to changes in the business environment and to the inelastic cost structure that prevents them from being corrected.

5. Capital buffers

Based on Article 19(1) of the Act of 5 August 2015 on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System (Dz. U. of 2015. Pos. 1513 with later. D.), hereinafter referred to as the "**Macroprudential Law**" in connection with the wording of Article 84 of the Macroprudential Law, Bank in the period from 1 January 2016 until 31 December 2017, is obliged to retain the amount of core capital Tier I, ancillary to the core capital Tier I held for the purpose of meeting the requirement of own funds, referred to in Article 92(1) of the Regulation (EU) No 575/2013, amounting to 1.25% of the total risk exposure calculated in accordance with art. 92(3) of the Regulation on the principles of individual and consolidated basis (**conservation buffer**).

Pursuant to Article 21(1) of the Macroprudential Law the Bank shall maintain the Common Equity Tier I capital amount, referred to in Article 92(1) of Regulation (EU) No 575/2013, equal to the total risk exposure amount calculated in accordance with Article 92(3) of the Regulation, multiplied by the weighted average of countercyclical capital buffer rates calculated based on Macroprudential Law (**countercyclical buffer specific for the institution**). The applicable counter-cyclical buffer rate equals 0 as at 31 December 2016.

The Financial Supervision Authority by the decision dated 4 October 2016, pursuant to Article 39(1), in conjunction with Article 38(1) and (2) of the Macroprudential Law identified the Bank as the other systematically important institution and imposed the other systematically important institution buffer on the Bank, equal to 0.25% of the total risk exposure amount calculated as at 31 December 2015, pursuant to Article 92(3) of Regulation (UE) No 575/2013 (**Other systematically important institution buffer**).

The Financial Supervision Authority by the decision dated 18 October 2016 recommended Bank the maintenance of the additional requirement of own funds than the value resulting from the requirements calculated in accordance with the detailed rules set out in Regulations (UE) No 575/2013 in order to hedge risk arising from foreign currency mortgage loans for households at 0.71 pp more than the value of the total capital ratio, as referred to in Article. 92(1)(c) of Regulation (UE) No 575/2013, which should consist of at least 75% of Tier I capital (which corresponds to a capital requirement at the level of 0.53 pp more than the value of Tier I capital ratio, as referred to in Article 92(1)(b) of Regulation (UE) No 575/2013) and at least 56% of the core capital Tier I (which corresponds to a

capital requirement at the level of 0.40 pp more than the value of core capital ratio Tier I, referred to in Article 92(1)(a) of the Regulation (UE) No 575/2013) ("**Individual capital add-on due to foreign currency mortgage loans**").

On 23 December 2016, the Financial Supervision Authority, informed with reference to the decision dated 18 October 2016 imposing on the Bank Individual capital add-on due to foreign currency mortgage loans that the additional capital requirement for the Group of Bank BGŻ BNP Paribas S.A. stood at 0.68 p.p. for the total capital ratio, 0.51 p.p. for Tier1 capital ratio and 0.38% for the common equity Tier1 capital ratio.

The value of foreign credit exposures for the Bank's Group did not exceed the threshold of 2% of total general credit exposures, trading book exposures and securitization exposures specified pursuant to Article 2(5)(b) of Commission Delegated Regulation (EU) No. 1152/2014 of 4 June 2014 supplementing Directive 2013/36/UE of the European Parliament and of the Council with regard to regulatory technical standards on the identification of the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates (Acts. office. EU. series L No. 309 p. 5). These exposures have been assigned to credit exposures in the territory of the Republic of Poland.

Pursuant to Article 83 and Article 96 of the Macroprudential Law, since 1 January 2016 the countercyclical buffer is 0% for credit exposures in the territory of the Republic of Poland.

As a consequence, the countercyclical buffer as of 31 December 2016 was 0 p.p.

Table 7 Institution-specific countercyclical capital buffer as of 31 December 2016

| [k.PLN] | as at 31.12.2016 |
|---|------------------|
| Total risk exposure amount | 52 913 988 |
| Institution specific countercyclical buffer rate | 0,00% |
| Institution specific countercyclical buffer requirement | 0 |

Table 8 The geographic distribution of the relevant credit exposures for the countercyclical buffer calculation as of 31 December 2016.

| [k.PLN] | | General credit exposures | | Trading book exposure | | Securitization exposure | | Own funds requirement | | | Own funds requirement weights | Countercyclical capital buffer rate. |
|---------|----------------|--------------------------|--------------------|--|---|-------------------------|------------------------|-----------------------------------|----------------------------------|----------------------------------|-------------------------------|--------------------------------------|
| LP | Country | Exposure value for SA | Exposure value IRB | Sum of long and short position of trading book | trading book exposure for internal models | Exposure value for SP | Exposure value for IRB | of which: General credit exposure | of which: Trading book exposures | of which securitisation exposure | | |
| 1 | Australia | | 421 | | | | | 29 | | | 29 | 0 |
| 2 | Austria | | 474 | | | | | 36 | | | 36 | 0,00097 |
| 3 | Belgium | | 1 546 | | | | | 110 | | | 110 | 0,00300 |
| 4 | Bulgaria | | 37 | | | | | 3 | | | 3 | 0,00008 |
| 5 | ChinY | | 399 | | | | | 32 | | | 32 | 0,00086 |
| 6 | Cyprus | | 57 | | | | | 2 | | | 2 | 0,00006 |
| 7 | Czech republic | | 28 | | | | | 2 | | | 2 | 0,00005 |
| 8 | Dominikana | | 51 | | | | | 4 | | | 4 | 0,00011 |
| 9 | Finland | | 40 | | | | | 2 | | | 2 | 0,00007 |
| 10 | France | | 7 180 | | | | | 581 | | | 581 | 0,01578 |
| 11 | Spain | | 2 206 | | | | | 168 | | | 168 | 0,00456 |
| 12 | Holand | | 16 600 | | | | | 1 308 | | | 1 308 | 0,03555 |
| 13 | Ireland | | 6 013 | | | | | 395 | | | 395 | 0,01073 |
| 14 | Island | | 303 | | | | | 18 | | | 18 | 0,00049 |
| 15 | Izrael | | 26 | | | | | 2 | | | 2 | 0,00004 |
| 16 | Cayman Islands | | 1 318 | | | | | 105 | | | 105 | 0,00287 |
| 17 | Lithuania | | 76 | | | | | 9 | | | 9 | 0,00025 |
| 18 | Latvia | | 91 | | | | | 11 | | | 11 | 0,00029 |
| 19 | Malta | | 29 | | | | | 2 | | | 2 | 0,00005 |
| 20 | Germany | | 110 323 | | | | | 8 788 | | | 8 788 | 0,23882 |
| 21 | Norwegia | | 958 | | | | | 75 | | | 75 | 0,00202 |
| 22 | Poland | | 58 254 214 | | 29 611 894 | | | 3 638 153 | 16 620 | | 3 654 890 | 99,31960 |
| 23 | Romania | | 19 | | | | | 2 | | | 2 | 0,00005 |
| 24 | Senegal | | 77 400 | | | | | 6 192 | | | 6 192 | 0,16828 |
| 25 | Slovaia | | 190 | | | | | 12 | | | 12 | 0,00032 |
| 26 | United States | | 15 763 | | | | | 1 258 | | | 1 258 | 0,03419 |
| 27 | Switzerland | | 3 548 | | | | | 258 | | | 258 | 0,00700 |
| 28 | Sweden | | 735 | | | | | 83 | | | 83 | 0,00225 |
| 29 | Ukraine | | 183 | | | | | 12 | | | 12 | 0,00031 |
| 30 | Hungary | | 153 | | | | | 12 | | | 12 | 0,00033 |
| 31 | Great Britain | | 70 462 | | | | | 5 460 | | | 5 460 | 0,14839 |
| 32 | Italy | | 2 508 | | | | | 181 | | | 181 | 0,00175 |
| 33 | Other | | 54 | | | | | 3 | | | 3 | 0,00009 |
| | Total | | 58 573 405 | | 29 611 894 | | | 3 663 308 | 16 620 | | 3 679 928 | 99,9999959 |

6. Credit risk adjustments

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 2016 hereinafter referred to as "**Consolidated Financial Statements**" at :

<https://www.bgzbnpparibas.pl/fileserver/item/1509244>

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 50.2.
- 3) Credit risk adjustments – Note 3, 22.
- 4) Maturity breakdown of the exposures – Note 50.2.
- 5) Changes in the specific and general credit risk adjustments – Note 22.
- 6) Changes to the impairment provisions accounted for categories of receivables – Note 22.

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 9 The total amount of exposures after accounting offsets and credit risk mitigation techniques as of 31 December 2016

| [PLN] | Total exposure | Guarantees and credit derivatives | Collateral | 31 December 2016 |
|--|-----------------------|-----------------------------------|--------------------|---|
| | | | | Risk mitigation Total guarantees and collaterals |
| Central governments or central banks | 13 313 048 318 | 0 | 0 | 0 |
| Regional governments or local authorities | 304 389 201 | 0 | 0 | 0 |
| Public sector entities | 1 413 300 | 0 | 0 | 0 |
| Banks - Institutions | 2 339 944 646 | 328 855 042 | 663 584 885 | 992 439 926 |
| Corporates | 32 533 780 512 | 422 740 183 | 73 354 019 | 496 094 202 |
| Retail | 34 317 475 467 | 398 751 851 | 52 719 907 | 451 471 758 |
| Secured by mortgages on immovable property | 5 531 161 019 | 2 714 265 | 1 052 311 | 3 766 575 |
| Exposures in default | 2 186 181 249 | 89 274 242 | 790 743 | 90 064 985 |
| Capital exposures | 191 118 387 | 0 | 0 | 0 |
| Other items | 2 491 591 871 | 0 | 0 | 0 |
| TOTAL | 93 210 103 970 | 1 242 335 583 | 791 501 863 | 2 033 837 447 |

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

Table 10 Geographic breakdown of credit risk as of 31 December 2016

| Country/Region | % of total exposure |
|--------------------------|---------------------|
| Europe | |
| Poland | 99,68% |
| Switzerland | 0,11% |
| Ireland | 0,04% |
| France | 0,02% |
| Sweden | 0,01% |
| Other European countries | 0,02% |
| Rest of the World | 0,10% |

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

Table 11 Breakdown of credit risk by asset class and by corporate industry as of 31 December 2016

| | Total exposure [PLN] | % of total exposure |
|--|-------------------------|------------------------|
| Agriculture, Food, Tobacco | 6 172 740 458 | 18,9% |
| Wholesale Trade | 3 943 480 108 | 12,1% |
| Materials & Ores | 3 099 554 946 | 9,5% |
| Real Estate | 2 714 480 995 | 8,3% |
| Retail Trade | 2 494 548 825 | 7,6% |
| Business Services | 2 047 891 544 | 6,3% |
| Equipment excluding IT Electronic | 1 915 008 601 | 5,9% |
| Building & Public Works | 1 643 090 978 | 5,0% |
| Transportation & logistics | 1 246 569 055 | 3,8% |
| Automotive | 1 014 764 121 | 3,1% |
| Utilities (Electricity, Gas, Water, etc) | 996 012 921 | 3,1% |
| Finance & Insurance | 675 475 094 | 2,1% |
| Energy Excluding Electricity | 609 565 816 | 1,9% |
| Chemicals excluding Pharmaceuticals | 492 090 049 | 1,5% |
| Healthcare & Pharmaceuticals | 468 938 319 | 1,4% |
| IT & electronics | 251 951 641 | 0,8% |
| Communication services | 196 540 697 | 0,6% |
| Other | 2 629 833 998 | 8,1% |

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

Table 12 Impaired exposures by asset class and by corporate industry as of 31 December 2016

| Type of client/industry [PLN] | Original Exposure | Value adjustments and provisions |
|--|----------------------|--|
| Individual client | 1 513 016 088 | 994 845 145 |
| Corporate: | 3 006 738 973 | 1 708 362 747 |
| Agriculture, Food, Tobacco | 759 187 595 | 400 187 241 |
| Wholesale Trade | 408 244 174 | 264 803 874 |
| Building & Public Works | 319 564 220 | 228 875 628 |
| Energy Excluding Electricity | 306 056 093 | 57 571 078 |
| Materials & Ores | 262 046 694 | 180 178 497 |
| Equipment excluding IT Electronic | 176 762 507 | 94 093 089 |
| Retail Trade | 156 219 448 | 105 044 150 |
| Real Estate | 142 590 252 | 79 951 283 |
| Transportation & logistics | 84 496 568 | 65 615 282 |
| Business Services | 83 734 033 | 62 684 427 |
| Utilities (Electricity, Gas, Water, etc) | 17 651 755 | 6 337 639 |
| Other | 290 185 634 | 163 020 558 |

Table 13 Past due exposures by asset class and by corporate industry as of 31 December 2016

| Type of client/industry [PLN] | Passed due (all) | | Passed due (more than 90 days) | |
|-----------------------------------|----------------------|--|-----------------------------------|--|
| | Original Exposure | Value adjustments and provisions | Original Exposure | Value adjustments and provisions |
| Individual client | 2 074 961 472 | 967 726 278 | 1 241 480 933 | 923 683 270 |
| Corporate: | 2 951 132 403 | 1 473 970 456 | 2 038 964 732 | 1 322 436 718 |
| Agriculture, Food, Tobacco | 712 809 603 | 352 186 929 | 544 076 568 | 336 911 223 |
| Wholesale Trade | 431 352 311 | 256 258 283 | 370 952 352 | 255 105 179 |
| Building & Public Works | 311 990 407 | 212 905 044 | 220 399 196 | 146 785 258 |
| Materials & Ores | 282 687 550 | 136 318 428 | 162 548 751 | 127 081 523 |
| Equipment excluding IT Electronic | 181 788 358 | 85 787 964 | 106 534 890 | 57 351 373 |
| Real Estate | 178 593 529 | 66 250 078 | 108 883 113 | 65 066 409 |
| Retail Trade | 176 595 943 | 101 446 257 | 138 945 187 | 98 840 852 |
| Transportation & logistics | 123 860 936 | 44 309 158 | 53 082 977 | 42 645 117 |
| Business Services | 96 144 048 | 61 842 799 | 53 979 242 | 37 780 570 |
| Healthcare & Pharmaceuticals | 21 578 410 | 9 686 972 | 12 272 983 | 9 335 730 |
| IT & electronics | 19 277 038 | 6 660 756 | 14 089 296 | 6 616 178 |
| Other | 414 454 269 | 140 317 789 | 253 200 177 | 138 917 305 |

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

Table 14 Geographic breakdown of Impaired exposures as of 31 December 2016

| Country/Region [PLN] | Original Exposure | Value adjustments and provisions |
|--------------------------|----------------------|--|
| Europe | 4 515 311 454 | 2 700 317 875 |
| Poland | 4 505 382 901 | 2 693 036 411 |
| Switzerland | 5 137 633 | 4 137 144 |
| Ireland | 1 957 574 | 1 702 478 |
| France | 1 095 264 | 775 140 |
| Sweden | 639 630 | 6 910 |
| Other European countries | 1 098 451 | 659 791 |
| Rest of the World | 4 443 607 | 2 890 017 |

Table 15 Geographic breakdown of Past due exposures as of 31 December 2016

| 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 | 4 942 751 956 | 2 438 807 179 | 3 276 668 647 | 2 243 316 100 |
| Poland | 4 932 142 674 | 2 431 827 395 | 3 268 207 507 | 2 236 440 105 |
| Switzerland | 5 137 633 | 4 137 144 | 5 137 633 | 4 137 144 |
| Ireland | 2 063 528 | 1 702 386 | 1 831 388 | 1 701 125 |
| France | 1 094 110 | 774 049 | 777 521 | 677 909 |
| Sweden | 648 012 | 6 389 | 612 | 0 |
| Other European countries | 1 666 000 | 359 816 | 713 986 | 359 816 |
| Rest of the World | 83 341 919 | 2 889 555 | 3 777 018 | 2 803 888 |

7. 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 50.2 of the Consolidated Financial Statements.

8. Leverage risk

The Bank discloses information on its leverage ratio based on Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regards to disclosure of the leverage ratio of institutions according to art. 451 of the Regulation (EU) No 575/2013 (Acts. Office. EU. Series L No. 39, p. 5).

The Calculation of leverage ratio of the Bank Capital Group as of 31 December 2016 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 (Acts. Office. EU. Series L No. 309, p. 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 Tier I 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 Tier I .

Table 16 Leverage Ratio

| | |
|----------------------|---------------------------|
| Reference date | 31-12-2016 |
| Entity name | Bank BGŻ BNP Paribas S.A. |
| Level of application | consolidated |

Table 17 Summary reconciliation of accounting assets and leverage ratio exposures

| | Applicable Amount in k.PLN |
|---|----------------------------|
| 1 Total assets as per published financial statements | 72 292 190 |
| 2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 |
| 3 (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 | 850 523 |
| 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) | 2 980 581 |
| EU-6a (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 (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 | 199 517 |
| 8 Leverage ratio total exposure measure | 76 322 811 |

Table 18 Leverage ratio common disclosure

| | CRR leverage ratio exposures in k.PLN |
|---|--|
| On-balance sheet exposures (excluding derivatives and SFTs) | |
| 1 On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 72 738 079 |
| 2 (Asset amounts deducted in determining Tier 1 capital) | -246 373 |
| 3 Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) | 72 491 706 |
| Derivative exposures | |
| 4 Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 356 403 |
| 5 Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 494 120 |
| 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) | 850 523 |
| 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 | 19 489 479 |
| 18 (Adjustments for conversion to credit equivalent amounts) | -16 508 898 |
| 19 Other off-balance sheet exposures (sum of lines 17 and 18) | 2 980 581 |
| 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 | 5 854 259 |
| 21 Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 76 322 811 |
| Leverage ratio | |
| 22 Leverage ratio | 7,67 |
| 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 19 Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

| | CRR leverage ratio exposures in k.PLN |
|--|--|
| EU-1 Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 72 491 706 |
| EU-2 Trading book exposures | 0 |
| EU-3 Banking book exposures, of which: | 72 491 706 |
| EU-4 Covered bonds | 0 |
| EU-5 Exposures treated as sovereigns | 13 313 035 |
| EU-6 Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns | 190 260 |
| EU-7 Institutions | 1 228 406 |
| EU-8 Secured by mortgages of immovable properties | 5 506 830 |
| EU-9 Retail exposures | 29 209 045 |
| EU-10 Corporate | 18 465 225 |
| EU-11 Exposures in default | 2 162 761 |
| EU-12 Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 2 416 144 |

Table 20 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 Bank BGŻ 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 risk of excessive leverage means the risk of an insufficient leverage ratio due to a decrease in the institution's own funds as a result of expected or incurred losses (decrease in numerator) or unexpected and unmanaged increase in total exposure (increase in denominator). The value of financial leverage depends directly on the economic size of the bank and its capital plan. The value of leverage is one of the basic indicators monitored on a regular basis. Thanks to this, the Bank has the necessary information to avoid breaking the safe level of the leverage. The biggest impact on the leverage ratio in 2016 had the legal merger with Sygma Bank S.A. and a change in off-balance sheet items are recognition, as reported in the COREP report. |

9. 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:

- 1) risk identification,
- 2) defining risk causes (sources),
- 3) assessment of the risk amount and setting its acceptable level,
- 4) analysis of possible solutions to reduce the identified risk (risk countermeasures),
- 5) taking a decision to reduce risk,
- 6) taking necessary actions,
- 7) 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:

- 1) Internal Control Coordination Committee – responsible for supervision, coordination of the processes and allocation of tasks and resources within the operational risk management system,
- 2) 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,
- 3) 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 2016 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 21 Gross losses resulting from operational risk events reported in 2016 (in k. PLN)

| | [k. PLN] |
|---|---------------|
| Internal frauds | 1 830 |
| Unauthorised activity | 290 |
| Theft and internal fraud | 1 540 |
| External frauds | 11 314 |
| Theft and external fraud | 11 263 |
| Systems security | 51 |
| Employment practices and workplace safety | 196 |
| Employee relations | 196 |
| Clients, products and business practices | 6 939 |
| Suitability, disclosure & fiduciary | 5 |
| Improper business or market practices | 6 892 |
| Product defects | 4 |
| Exposure & client classification | 31 |
| Bank advisory activity deficiency | 7 |
| Damages to physical assets | 322 |
| Disasters and other events | 322 |
| Business disruption and system failures | 952 |
| Systems | 952 |
| Execution, Delivery and Process Management | 8 411 |
| Transaction capture, execution & maintenance | 8 033 |
| Customer intake and documentation | 223 |
| Customer account management | 24 |
| Trade counterparties | 5 |
| Monitoring and reporting | 96 |
| Vendors & suppliers | 30 |
| Total | 29 964 |

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.