Resolution No. 384/2008
of the Polish Financial Supervision Authority
of 17 December 2008

on requirements concerning identification, monitoring and control of concentration of exposures, including large exposures

Pursuant to Article 71 (8) of the Act of 29 August 1997 - The Banking Act (Journal of Laws of 2002, No. 72, item 665, as further amended[1]) it is resolved as follows:

§ 1. The terms used in this resolution shall have the following meaning:
1) concentration risk - is a risk of default by a single entity, entities related by capital or management, and by a group of entities in the case of which the probability of default is dependent on common factors, which may significantly affect the stability and security of the bank's activity.
2) exposure - the bank's receivables, off-balance sheet liabilities granted by the bank, equities or shares in another entity, owned directly or indirectly by the bank, additional payments made in a limited liability company, contributions or commendam sums (depending which is larger) in a limited partnership or limited joint-stock partnership;
3) large exposure - exposure as defined in Article 71 (2) of the act referred to in the introductory sentence;
4) internal capital- capital as defined in Article 128 (1) item 2b of the Banking Act;
5) resolution on capital adequacy - resolution No 380/2008 of the Polish Financial Supervision Authority of 17 December 2008 on the scope and detailed rules of determining capital requirements for certain types of credit risk including: the scope and conditions on applying statistical methods and the scope of information enclosed with the applications for approval to use them; rules and conditions for taking into account contracts on assignment of receivables, sub-participation conctracts, contracts on credit derivatives and contracts other than contracts on assignment of receivables and sub-participation contracts, in defining the capital requirements; the conditions, scope and method of using the ratings of external credit rating institutions and export credit agencies; methods and detailed rules of determining of the bank's solvency ratio; the scope and method of including banks' activities in holdings when calculating their capital requirements and solvency ratio; and specifying additional balance sheet items presented together with the bank's own funds on the capital adequacy account and the scope, method and conditions of their inclusion(Official Journal PSFA No. 8, item 34).

§ 2. The bank shall manage concentration risk on both the individual and consolidated basis, taking into account large exposures. The management of concentration risk shall apply in particular to:
1) risks from exposures incurred to individual entities or entities related by capital or management;
2) risks from exposures incurred to entities in the same industry, economic sector, carrying out the same business activity or trading in similar products;

[1] Amendments to the consolidated text of this Act l were published in the Journal of Laws of 2002, No. 126, item 1070, No. 141, item 1178, No. 144, item 1208, No. 153, item 1271, No. 169, item 1385, and 1387 and No. 241, item 2074, 2003, No 50, item 424, No. 60, item 535, No. 65, item 594, No. 228, item 2260, No. 229, item 2276, 2004, No. 64, item 594, No. 68, item 623, No. 91, item 870, No. 96, item 959, No. 121, item 1264, No. 146, item 1546, No. 173, item 1808, of 2005, No 83, item 719, No 85, item 727, No. 167, item 1398, No. 183, item 1538, of 2006, No. 104, item 708, No. 157, item 1119, No. 190, item 1401 and No 245, item 1775, of 2007 No. 42, item 272 and No. 112 item 769, of 2008 No. 171, item 1056, No. 192, item 1179, No. 209, item 1315.

3) risks from exposures to entities from the same geographical region, as well as from various countries;
4) risks from exposures secured by the same kind of collateral or secured by the same collateral provider;
5) risks from exposures in the same currency or indexed to the same currency;
6) risks arising from exposures to entities referred to in Article 79 (1) of the act referred to in the introductory sentence.

§ 3.1. The bank shall comply with minimum quality requirements, referred to in the Annex to the resolution, and concerning the identification, measurement, monitoring and possession of appropriate control mechanisms for the types of concentration risk referred to in § 2 of this resolution.
2. The bank should comply with the requirements referred to in § 3.1 and concerning credit policy, policy on capital investment and policy on off-balance sheet transactions.

§ 4. The Resolution enters into force on 1 January 2009.

For and on behalf of the Polish Financial Supervision Authority
Chairman of the Polish Financial Supervision Authority
Stanisław Kluza

Annex to Resolution No. 384/2008
of the Polish Financial Supervision Authority
of 17 December 2008

Minimum quality requirements concerning identification, measurement, monitoring and control mechanisms for concentration risk, including large exposures

§ 1. Concentration risk in a bank should be supervised by the bank's Management Board. The Management Board shall be responsible for organizing a concentration risk management process, including the allocation of responsibilities connected with the management of that risk and supervision of the effectiveness of the process.

§ 2.1. The bank should implement the concentration risk management process based on internal procedures, developed in writing and approved by the Management Board or appropriate committees appointed by the Board, and concerning identification, measurement, monitoring and control of concentration risk.
2. Concentration risk management procedures should be part of the procedures for credit risk management.
3. Bank employees involved in concentration risk management process should be familiar with the internal procedures.
4. The procedures should be regularly reviewed in order to adapt them to changes in the bank's risk profile. Changes in internal procedures require approval from the bank's Management Board or appropriate committees appointed by the Board.

§ 3.1. The bank should have methods of identifying and measuring concentration risk, adjusted to the profile, scale and complexity of risk associated with its activities.
2. As part of its risk measurement, the bank should run stress tests for concentration risk. The tests should include, inter alia, scenarios of significant deterioration of financial standing of the entities, the bank's exposure to whom gives rise to a concentration risk, as well as the enforceable value of collateral.
3. The bank shall demonstrate, at the request of the Polish Financial Supervision Authority, that the assumptions adopted in the stress tests run by the bank are adequate to the assessment of concentration risk.

§ 4.1. The bank should introduce an internal limit structure which reduces concentration risk and is adequate for the scale and compexity of the bank's activity.
2. In its internal procedures, the bank shall define rules for determining and updating limit values, as well as the frequency of monitoring their observance and reporting.
3. The bank's Management Board or appropriate committees appointed by the Board shall approve the types of the adopted limits as well as their values.
4. The bank should describe situations in which internal concentration limits may be exceeded, as well as the procedure and decision-making process to be adopted in such events.
5. The bank shall specify the procedure to be followed in cases of exceeding the limits other than those referred to in paragraph 4, including steps to be taken in order to explain the cause of exceeding the limits and to prevent such situations in the future.

§ 5. In order to determine the values of internal limits, the bank should:
1) use appropriate, reliable information on, inter alia, the financial standing of entities, industries, and economy sectors, information on the political and economic situation of various countries, and other information needed to assess the bank's concentration risk;

2) take into account economic and qualitative information concerning the management process in the entities to which the bank's exposure gives rise to a concentration risk;
3) take into account other types of risk associated with the identified exposures which cause a concentration risk (including interest rate, liquidity, operational, political risk), which could contribute to an increase in concentration risk.

§ 6. Analyses based on which limit values are determined, should be documented.

§ 7.1. The bank should manage concentration risk in a way that allows for an ongoing monitoring of risk levels, in order to comply with the established internal limits. Monitoring and reporting the concentration risk should be part of an ongoing risk management process.
2. The scope, reliability and timeliness of the information included in internal reports should be sufficient to ensure that management reporting is the basis for decision-making in the management of concentration risk.
3. Risk monitoring should be frequent enough to make it possible to provide information within the bank about changes in the bank's risk profile immediately.

§ 8.1. The bank should carry out periodic reviews of all the exposures giving rise to a concentration risk in order to assess the associated risks and be able to make the right decisions in its management of concentration risk.
2. Risk mitigation techniques, used by the bank, should also be reviewed with regard to concentration risk.

§ 9. Measures taken by the bank in order to reduce concentration risk after it has been found to be too high can include:
1) lowering the internal limits which reduce concentration risk;
2) operating in a way as to reduce the concentration risk in the bank;
3) transferring credit risk to another entity;
4) acceptance of collaterals;
5) allocating additional capital adequate to the risk incurred.

§ 10. During the assessment of its internal capital, the bank should take into account, with regard to concentration risk, the following issues:
1) the quality of risk concentration management;
2) the quality of internal control system;
3) the possibility of taking effective measures to reduce the level of concentration risk;
4) results of the concentration risk measurement, including the results of stress tests.

§ 11. All exposures giving rise to a concentration risk and their management should be inspected periodically by the internal audit unit. Large exposures and their management should be inspected at least once a year.