Exposure to counterparty credit risk (CRR Article 439)

Counterparty credit risk means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

The exposure to counterparty credit risk pertains to exposures arising from derivatives, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions.

Within this catalog, at the end of 2014, the Group had derivatives and repurchase transactions, and regarding securities or commodities lending or borrowing transactions, long settlement transactions or margin lending transactions there were no transactions or their amounts were immaterial.

The Group presents its exposure to counterparty credit risk primarily under hedging derivatives and derivatives under contracts concluded with customers.

Article 439.ap

Internal capital

In respect to the approaches used to assign internal capital to counterparty credit risk exposures, a modified Credit Risk+[1] approach is used, taking into account counterparty risk parameters: PD, LGD & EAD.

Credit limits

Credit limits applicable to counterparty credit risk exposures are set within the exposure limits for banks and non-bank customers, which are parties to transactions.

For banks, exposure limits are set in accordance with the Instructions for setting and controlling exposure limits to foreign and Polish banks. With respect to foreign exchange transactions, currency swaps, currency options, deposit transactions, FRAs, interest rate swaps and principal-interest rate swaps ("currency and deposit transaction limit") - partial limits are set, which mark the Bank's maximum exposure to outstanding currency purchase/sale transactions (spot and forward), active (outstanding) term deposits in a foreign or Polish bank (without due interest) and other outstanding transactions mentioned above. Irrespective of the partial limits, settlement limits have been set, which are linked to the concentration of the counterparty's obligations towards the Bank for the settlement date agreed on when they were concluded ("value date").

The Group also concludes derivatives contracts upon orders from its customers. With respect to treasury transaction limits (including derivatives) concluded with non-bank customers, granting such limits to a customer is a pre-requisite[2] for the Bank to perform a derivative transaction for the customer. The Bank requires a customer applying for a treasury limit to have credit capacity for its current exposure and additionally for the amount equal to a specific portion of the requested treasury limit, to have a risk rating and natural exposure, that is cash flows under sales and purchases in a convertible currency other than PLN.

Article 439.b

Collateral

As part of the policies for securing collateral, Credit Support Annexes to ISDA agreements (CSAs) are broadly used.

The Bank concludes derivative transactions with other players on the inter-bank market, with which it has signed ISDA agreements (International Swaps and Derivatives Agreements). According to the current market practices, CSAs are signed along with ISDA agreements to regulate the matters related to the collateralization of exposures under concluded derivative transactions. CSAs are bilateral agreements and establish mutual rights for a party whose valuation of derivatives is negative on a given day to request a security deposit.

The position under concluded derivative transactions with customers other than banks is immediately referred for management by inter-bank market dealers and is hedged by an inter-bank market transaction.

The rules for establishing credit reserves for credit risk are presented in the section entitled "Financial risk management - Credit risk" of the Yearly Financial Report.

Article 439.c

The Group does not identify its wrong-way risk exposures as material.

Article 439.d

The impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating

The Bank is a party to a loan agreement with the European Investment Bank („Finance Contract"). The loan amount is EUR 100 million.

At the end of 2014, the loan is secured by State Treasury bonds WZ0117 with a nominal value of PLN 609 million.

According to the provisions of the Finance Contract, in the event of a downgrade in the Bank's credit rating, it will be necessary to establish additional pledges in the form and amounts to the satisfaction of EIB.

Articles 439.e, 439.f, 439.g, 439.h, 439,i

Fair values of respective derivatives contracts, notional amounts of instruments by maturities and valuation of derivative instruments are presented in notes to the Yearly Financial Report (Note 16f).

Data on security margins and netting of receivables and liabilities under master agreements are presented in Additional Information to the Yearly Financial Report.

To determine the amount of its credit exposure under derivative instruments, the Group applies the Mark-to-market method laid down in Article 274 of C44.

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