RESOLUTION NO. 258/2011
OF THE POLISH FINANCIAL SUPERVISION AUTHORITY

of 04 October 2011

on Detailed Principles of Functioning of the Risk Management System and Internal Control System and Detailed Conditions of Internal Capital Assessment by Banks and of Reviewing the Process of Internal Capital Assessment and Maintenance and the Principles of Determining the Policy on Variable Components of Remuneration of Persons Holding Managerial Positions at a Bank

Under Article 9f, Article 9g and Article 128 section 6 item 2 of the Act dated 29 August 1997 – Banking Law (Journal of Laws of 2002 No. 72, item 665, as amended[1)]) it is resolved as follows:

Chapter 1.

General Principles

§1. Risk management, internal control and internal capital assessment and review of the process of internal capital assessment and maintenance at a bank are executed under written strategies, plans, procedures and analyses.

§2. The risk management system and the internal control system at the bank refer to the activity conducted directly by the bank and take account of the bank's functioning in holdings, as set forth in Article 141f section 1 of the Act dated 29 August 1997 – Banking Law, hereinafter referred to as the "Banking Law Act".

§3. 1. The bank's supervisory board approves the bank's strategy of operation and the principles of sound and prudent bank management.

2. The supervisory board oversees compliance of the bank's policy as regards risk taking with the strategy and financial plan of the bank.

§4. The supervisory board of the bank should ensure that the selected management board members have proper qualifications to fulfil their functions. The supervisory board assesses

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[1)] Amendments to the consolidated text of the Act were promulgated in 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 item 1387 and No. 241, item 2074, of 2003 No. 50, item 424, No. 60, item 535, No. 65, item 594, No. 228, item 2260 and No. 229, item 2276, of 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 and No. 173, item 1808, of 2005 No. 83, item 719, No. 85, item 727, No. 167, item 1398 and 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 and No. 231, item 1546, of 2009 No. 18, item 97, No. 42, item 341, No. 65, item 545, No. 71, item 609, No. 127, item 1045, No. 131, item 1075, No. 144, item 1176, No. 165, item 1316, No. 166, item 1317, No. 168, item 1323 and No. 201, item 1540, of 2010 No. 40, item 226, No. 81, item 530. No. 126, item 853, No. 182, item 1228 and No. 257, item 1724 and of 2011 No. 72, item 388, No. 126, item 715, No. 131, item 763, No. 134, item 779 and 781, No. 165, item 984 and No. 199, item 1175.

whether the actions of the management board as regards the control over the bank's activity are effective and compliant with the policy of the supervisory board.

§5. The management board when taking decisions concerning bank management, takes account of the results of audits performed by an internal audit unit and chartered auditors.

§6. 1. The bank's management board is responsible for effectiveness of the risk management system, internal control system, the process of internal capital assessment and review, process of internal capital assessment and maintenance and for supervision over effectiveness of these processes, by introducing requisite amendments and improvements should the level of risk underlying the bank's activity or economic environment change or in case of irregularities in functioning of the systems and processes.

2. The organisational structure as well as the systems and processes, as referred to in section 1 should be adjusted to the size and level of complexity of the bank's activity.

3. At banks significant in terms of size, internal organisation as well as type, scope and complexity of the activity conducted, there is a remuneration committee whose members are appointed by the supervisory board or auditor's committee from among the supervisory board members. The remuneration committee provides advice on the policy on variable components remuneration, inclusive of the remuneration amount and components, having in mind sound and prudent management of risk, capital and liquidity and with special attention to long-term interests of the bank itself and its shareholders and investors.

4. For the bank to be considered significant in terms of size, internal organisation as well as type, scope and complexity of the activity conducted, it must meet at least one of the following conditions:

1) shares of such bank have been admitted to trading on the regulated market, as defined by Article 15 section 1 item 1 of the Act dated 29 July 2005 on Trading in Financial Instruments (Journal of Laws of 2010 No. 211, item 1384 and of 2011 No. 106, item 622 and No. 131, item 763);
2) share of this bank in the banking sector assets is at least 1%;
3) share of this bank in the banking sector deposits is at least 1%;
4) share of this bank in the own funds of the banking sector is at least 1%.

5. The Polish Financial Supervision Authority may consider the bank not meeting any of the conditions listed in section 4, as significant in terms of the size, internal organisation as well as type, scope and complexity of the activity conducted, when there are qualitative premises supporting it, including but not limited to the level of complexity of the bank's organisational structure, complexity of IT systems used or complexity of bank's operations.

§7. 1. The bank's management board is responsible for development, introduction and update of written policies, strategies and procedures as regards the risk management system, internal control system, internal capital assessment and reviewing the process of internal capital assessment and maintenance as well as policy on variable components of remuneration.

2. The internal bank procedures referred to in section 1, determine in particular:

1) segregation of duties corresponding to the bank's organisational structure;
2) principles of co-operation between bank organisational units and sections;
3) principles of selecting, rewarding and monitoring employees holding functions important for the bank and actions aimed at ensuring continuity of functions important for the bank.

§8. 1. The bank's management board implements the bank's organisational structure, as approved by the supervisory board, adjusted to the size and profile of the risk incurred.

2. The bank's management board introduces segregation of tasks performed at the bank to ensure independence of the function of measurement, monitoring and control of risk from the operational activity giving rise to the risk incurred by the bank.

§9. The bank's management board provides the bank's supervisory board with cyclical update presenting, in a reliable, transparent and synthetic manner, types and size of risks underlying the bank's activity.

§10. The bank's management board is responsible for transparency of the bank's actions, including but not limited to the information policy as regards the bank's activity facilitating assessment of effectiveness of operations of the supervisory board and management board of the bank with respect to bank management, monitoring safety of the bank's activity and for assessment of the bank's financial standing.

§11. 1. The bank's management board ensures compliance of the bank's activity with the effective provisions of law, taking into account the bank's operation under provisions of law of another country and bank's relations with other entities which could hinder effective bank management.

2. The management board ensures that the bank pursues the policy aimed at management of all material types of risk underlying the bank's activity and has relevant procedures in place.

Chapter 2.

Risk Management

§12. 1. Risk management at bank is performed under policies and procedures regarding identification, measurement, monitoring and control of risk, developed in writing and approved by the bank's management board or relevant committees established by the bank's management board.

2. Bank employees involved in the risk management process should know the relevant internal procedures. The procedures are reviewed on a regular basis so as to adapt them to changes in the bank's risk profile and in the economic environment where the bank operates.

§13. As part of the strategies pursued and risk management procedures applied, the bank introduces in particular:

1) as regards credit risk and counterparty risk:
   a) the criteria for assessment of credit capacity of the bank's clients making it possible to mitigate credit risk related to products and services offered by the bank,
   b) the system of assigning risk categories to credit exposures and provisioning for risk underlying bank's activity, in accordance with the Regulation of the Minister of Finance of 16 December 2008 on the Principles of Provisioning for Risk Underlying Bank's Activity (Journal of Laws No. 235, item 1589, as amended[2)]) or the identification system

[2)]Amendments to the Regulation were promulgated in Journal of Laws of 2009 No. 78, item 652 and No. 215, item 1668 and of 2010 No. 164, item 1111.

of impaired credit exposures, making impairment losses for impaired balance sheet credit exposures and provisioning for off-balance sheet credit exposures,

c) the principles of diversification of the credit exposures portfolio corresponding to the acceptable credit risk level as approved by the bank, taking account of the markets where the bank operates;

2) as regards residual risk – written principles and procedures for managing risk due to lower effectiveness of the credit risk mitigation techniques applied at the bank than the bank anticipated;

3) as regards concentration risk – written procedures of management of concentration risk, as defined in §1 item 1 of the Resolution No. 384/2008 of the Polish Financial Supervision Authority of 17 December 2008 on Requirements for Identification, Monitoring and Control of Exposure Concentrations, including Large Exposures (Official Journal of PFSA No. 8, item 38, of 2010 No. 2, item 11 and of 2011 No. 9, item 33);

4) as regards securitisation risk:

a) procedures of risk management that allow a bank to assess the risk related to the effected securitisation transactions, including reputation risk (in case of complex structures or products), in particular to fully reflect economic nature of the transaction – for the investing, sponsoring or initiating bank, referred to in Annex 18 to the Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the Scope and Detailed Principles of Determining Capital Requirements for Individual Types of Risk (Official Journal of PFSA No. 2, item 11, as amended[3)]), hereinafter referred to as “Resolution on Capital Adequacy”,

b) plans to maintain liquidity, designed to address the implications of scheduled and early repayment of amounts due – for the bank initiating the revolving securitization transactions with early repayment option, referred to in Annex 18 to the Resolution on Capital Adequacy;

5) as regards the risks arising from changes in macroeconomic conditions – principles of management and hedging against risk arising from changes in macroeconomic conditions and its impact on the level of minimum capital requirements in the future;

6) as regards market risk – procedures allowing for measurement and management of market risk elements which the bank considers material;

7) as regards interest rate risk in the banking portfolio – procedures of managing the risk arising from possible changes in interest rates, with respect to items included in the banking portfolio, including in particular the stress tests which measure the bank's response in terms of its economic value to a sudden and unexpected change in interest rates by 200 basis points;

8) as regards operational risk:

a) operational risk management procedures, including the rules for identifying, registering and monitoring the loss due to operational risk, and the definition of operational risk adopted by the bank for the purpose of applying these procedures, which includes the elements referred to in §1 of Annex 14 to the Resolution on Capital Adequacy and taking into account events of low incidence but high loss,

b) business continuity plans, which ensure continuous and uninterrupted operation of the bank and contingency plans, which enable the bank to carry out its current activity and

[3)] Amendments to the Resolution were promulgated in the Official Journal of PFSA of 2010 No. 8, item 38 and of 2011 No. 8, item 29 and No. 9, item 32.

limit losses in the event of unfavourable internal and external developments that can seriously disrupt that activity,
   c) principles of HR management, including recruitment and monitoring of staffing needs and manpower planning,
   d) principles on the management of risk related to outsourcing;
9) as regards liquidity risk:
   a) liquidity management procedures, taking into account the division of powers and responsibilities,
   b) methods of identifying, measuring and monitoring liquidity,
   c) contingency plans to ensure uninterrupted conduct of business, including the maintenance of liquidity in the event of emergencies.

§14. The bank introduces management procedures of risks other than those mentioned in §13, that were identified as important for the bank's business activity.

§15. 1. The bank applies the methods (models) of identification and measurement of risk underlying its activity tailored to the risk profile scope and complexity.

2. The frequency of risk measurement is adjusted to the size and nature of the different types of risk in the bank's activity.

3. Methods (models) of risk measurement used by the bank are applied to the current as well as planned bank's activity.

4. The applied methods (models) or systems of the risk measurement, in particular their assumptions, are subject to cyclical internal evaluation which includes testing and historical back-testing.

§16. 1. As part of its risk measurement, the bank performs stress tests.

2. Stress tests are performed at the bank based on assumptions that ensure accurate risk assessment.

§17. 1. The bank introduces internal limits that mitigate risk in various areas of the bank's activity, adequate to the scale and complexity of that activity.

2. The bank's management board or relevant committees appointed thereby approve the types of the adopted internal limits and their values.

3. In its internal procedures, the bank determines the rules for establishing and updating internal limits referred to in section 1 and the frequency of monitoring whether they are being observed, and of reporting the results of such monitoring.

4. The values of limits referred to in section 1 are adjusted to the bank's overall risk level approved by the supervisory board.

5. The analyses, based on which internal limits' values are determined, are made in writing.

§18. 1. The bank determines the situations in which the internal limits referred to in §17 section 1 may be overrun and the conditions whereunder such overrun is accepted.

2. The bank specifies the procedure to be followed if the limits referred to in §17 section 1 are overrun, including actions to be taken in order to explain the cause of the limits overrun, except for the exceeding overrun referred to in section 1. The bank also specifies how to reverse the overrun and the measures that should be taken to prevent such situations in the future.

§19. 1. Risk monitoring and reporting is part of an ongoing process of risk management at the bank.

2. The information included in internal reports supports decision-making as regards risk management at the bank and should be reliable, accurate, up-to-date and cover an appropriate range of areas.

3. The internal management reporting system in place at the bank provides information on the types and size of risk underlying the bank's activity for risk management purposes. The system helps to assess the results of risk management decisions at the bank and to monitor the compliance with internal limits referred to in §17 section 1.

4. The frequency of risk monitoring should make it possible to provide information about changes in the bank's risk profile.

§20. Prior to the introduction of a new product the bank carries out a preparatory process, including in particular:

1) analysis of product compliance with the bank's strategy;
2) identification of material types of risks related to the product;
3) taking account of the product in the risk identification and measurement methods applied;
4) establishing internal limits, accounting and reporting principles;
5) approval of the product introduction by the bank's management board or relevant committees established by the bank’s management board.

§21. 1. The bank monitors risks associated with the activity of its subsidiaries.

2. The principles of risk management in the bank's subsidiaries, including the methodology of risk identification, measurement and mitigation and the policy on variable components of remuneration should follow the strategy adopted by the bank and be consistent with the principles set out in §13 and Chapter 3, with due consideration of the type of activity conducted by these subsidiaries.

3. The bank performs the assessment of the size and profile of risk underlying the activity of its subsidiaries.

4. The scope and quality of management information used at the bank concerning the risk underlying the activity of its subsidiaries should enable reliable assessment of this risk.

§22. 1. The supervisory board of the bank monitors the management of the compliance risk, understood as consequences of non-compliance with provisions of law, internal regulations and standards of conduct adopted by the bank.

2. The supervisory board approves the bank's policy assumptions as regards the compliance risk.

3. The supervisory board evaluates the effectiveness of the bank's compliance risk management at least once a year.

§23. The bank’s management board is responsible for the effective compliance risk management at the bank.

§24. 1. The bank’s management board is responsible for developing a compliance policy, for ensuring its observance and for reporting to the supervisory board on the management of the compliance risk at the bank.

2. The compliance policy includes basic principles of conduct for the bank's employees

and explains the main processes identifying the compliance risk and enabling its management at all levels of bank's organisation.

§25. The bank’s management board is responsible for establishing a permanent and efficient compliance risk management unit at the bank.

§26. In case of identifying irregularities in the application of compliance policy, the bank's management board takes remedial or disciplinary measures

Chapter 3.

Policy on Variable Components of Remuneration of Persons Holding Managerial Positions at a Bank

§27. 1. The supervisory board of the bank approves the general principles of the policy on variable components of remuneration of persons holding managerial positions at a bank, as defined in §28 section 1, and performs periodical reviews of those principles.

2. The bank introduces the policy for variable components of remuneration of persons holding managerial positions at a bank, as approved by the supervisory board, which:

1) supports correct and effective risk management and does not encourage to take excessive risk exceeding the bank’s risk appetite approved by the supervisory board,
2) supports execution of strategy and limits the conflict of interests.

3. The policy on variable components of remuneration also covers non-predetermined retirement benefits that for the purpose of this Resolution shall be understood as retirement benefits awarded on a voluntary basis by the bank to an individual employee as part of the variable remuneration package. This policy does not cover the benefits awarded to an employee as part of the universally applicable retirement scheme at the bank.

§28. 1. For the purpose of this Resolution, the persons holding managerial positions at a bank shall be understood as:

1) management board members,
2) persons directly reporting to a management board member, regardless of their employment basis,
3) branches’ directors and their deputies,
4) chief accountant,
5) persons responsible for control functions at the bank (managers of: internal audit unit, organisational unit for compliance risk management at the bank and of organisational units responsible for risk management and HR),
6) each person whose actions have significant impact on the bank’s assets and liabilities and who has direct impact on conclusion of and amendments to the agreements concluded by the bank and the conditions thereof,
7) each person whose total remuneration is at the level similar to the remuneration of the persons listed in items1-6,

- with the proviso that the persons listed in items 2-7 are not considered to hold managerial positions at a bank if they don’t have significant impact on the bank’s risk profile.

2. The bank holds the list of managerial positions.

§29. Policy on variable components of remuneration of persons holding managerial positions at a bank takes into account the following principles:

1) in the case of result-driven remuneration, the basis for determining the total remuneration amount is the assessment of work results of a given person holding a managerial position at the bank and a given organisational unit as well as results of the domestic bank in the area wherefor the given person is responsible taking into account the entire domestic bank results; the financial and non-financial criteria are taken into consideration when assessing results of individual work;
2) results are assessed at least every three years, so that the actual amount of the result-driven remuneration takes into account the bank's economic cycle and risk related to economic activity conducted by the bank;
3) variable components of remuneration not being the subject hereof are of unique nature and are applied only when recruiting a new employee and are limited to the first year of employment;
4) total remuneration is divided into fixed and variable components; the fixed components account for such a big part of the total remuneration that enables following a flexible policy for the variable components of remuneration, inclusive of lowering or not granting at all the variable components of remuneration;
5) total variable remuneration granted to persons holding managerial positions at banks does not limit the bank's capacity to increase its capital base;
6) remuneration on account of termination of the agreement should reflect the workload, work output and quality within the last three years of holding a managerial position at the bank; principles concerning the said payments should be determined in such a way that they prevent a situation when poor results are remunerated, while taking into consideration the criteria as mentioned in item 1;
7) at least 50% of the variable remuneration constitutes an incentive to particular care about bank's long-term interest and consists of the following components:
    a) shares or corresponding ownership titles depending on bank's legal form, or related financial instruments or corresponding non-pecuniary instruments in the case of a bank whose shares are not admitted to public trading,
    b) instruments, recognized as bank's core funds, issued on the basis of the Resolution of the Polish Financial Supervision Authority under Article 127 section 5 item 2 letter a of the Banking Law Act, the value of which depends on the bank's creditworthiness,

    - however, an employee cannot dispose of the said instruments earlier than set out in the principles determined by the bank;
8) at least 40% of the variable remuneration is paid after the evaluation period wherefor such remuneration is due with the reservation that the payment is executed no earlier than within three to five years in equal annual instalments paid in arrears and depends on work results of the given person holding a managerial position at the bank within the evaluation period, as referred to in item 2 wherefor the remuneration is due and it takes into account the bank's risk; in the case of variable components of remuneration amounting to a significantly large sum, as determined in the policy on variable components of remuneration, no less than 60% of the variable remuneration is paid within such period. The length of the said period, no shorter than from three to five years, is determined in line with the economic cycle, the nature of activity, underlying risk and responsibilities of persons holding managerial positions. The payout of total variable remuneration of persons holding managerial positions

at the bank is lowered or withheld when a situation referred to in Article 142 section 1 of the Banking Law Act occurs;

9) variable remuneration, inclusive of part referred to in item 8 is granted or paid when it corresponds with entire domestic bank's financial standing and is justified in terms of domestic bank's results, work results of organisational unit in which a given person was employed as well as the work results of a given person;
10) policy on retirement benefits shall constitute an incentive to particular care about bank's long-term interest:
    a) non-predetermined retirement benefits of an employee holding a managerial position at a bank, who terminates the agreement with bank before reaching retirement age is paid in the form of instruments referred to in item 7; however, a bank retains the said instruments and pays the benefits after 5 years from the agreement termination date,
    b) non-predetermined retirement benefits of an employee holding a managerial position at a bank, who reaches retirement age is paid in the form of instruments referred to in item 7; however, an employee cannot dispose of the said instruments for 5 years from the agreement termination date;
11) persons holding managerial positions at a bank undertake not to use their own hedging strategies or insurance concerning remuneration and liabilities exclusive of compulsory insurance under special provisions, which would offset the measures taken with reference to the said persons as part of execution of the policy on variable components of remuneration;
12) variable remuneration should be settled and paid in a transparent way, ensuring effective execution of the policy on variable components of remuneration;
13) in the case of banks that use the exceptional public intervention, in particular under the Act dated 12 February 2009 on Support of the State Treasury to Financial Institutions (Journal of Laws No. 39, item 308, as amended[4)]) and the Act dated 12 February 2010 on Recapitalization of some Financial Institutions (Journal of Laws No. 40, item 226 and of 2011 No. 38, item 196):
    a) in case there is a risk that the solid capital base is not to be maintained and the bank does not withdraw from public support on time, the variable remuneration is strictly limited to the percentage share of net income,
    b) the bank adjusts the amount and components of remuneration in order to support adequate risk management and bank's results long-term increment, including the fact that it introduces limitations on remuneration of the bank's management board,
    c) the variable remuneration is paid to bank's management board only in justified cases.

§30. The bank's results adopted in order to determine variable components of remuneration take into account the bank's risk cost, capital cost and liquidity risk cost in a long-term perspective.

§31. Managers of an internal audit unit, a compliance risk management unit as well as organisational units responsible for risk management and HR are compensated, as regards variable remuneration, for achievement of goals that arise from the functions they hold, and their remuneration may not be dependent on economic results generated by the areas they are in charge of at the bank.

[4)] The amendments to the Act were promulgated in Journal of Laws of 2009, No. 157, item 1241, of 2010 No. 3, item 12 and of 2011, No. 38, item 196 and No. 186, item 1101.

§32. Variable remuneration of persons holding managerial positions at the bank related to risk management and compliance of bank's operations with provisions of law and internal regulations is being advised on and monitored by the remuneration committee or if such a committee has not been appointed, by the bank's supervisory board.

§33. Implementation of the policy on variable components of remuneration is subject to an audit executed by the internal audit unit, at least once a year. The audit report is presented to the supervisory board.

§34. 1. The bank provides data on the number of its employees, whose total remuneration in the previous year exceeds the equivalent of EUR 1,000,000, inclusive of the information on the position and value of remuneration main components, bonus awarded, long-term awards and retirement contribution withheld, to the Polish Financial Supervision Authority once a year by 31 January.

2. In order to compute the Euro equivalent of remuneration, referred to in section 1, which is paid in currency other than Euro, the average FX rate announced by the National Bank of Poland binding as at the date where the given amount is paid is applied.

Chapter 4.

Internal Control System

§35. The bank has an internal control system adjusted to its organisational structure, which covers the bank's all organisational units and its subsidiaries.

§36. 1. The bank has:

1) internal control procedures setting out principles of internal control, developed in writing and approved by the bank's management board and the supervisory board. The principles determine in particular tasks performed at various positions within the internal control system (internal regulations);
2) internal control mechanisms adjusted to the bank's specific character and including:
   a) rules, limits and procedures of controlling nature, which apply to the bank operations and function within the bank's operating system,
   b) actions designed to control the quality and accuracy of tasks performed at the bank by each employee and additionally by their direct superior.

2. Internal control procedures and mechanisms are audited and evaluated by means of the internal audit referred to in Article 9c section 2 item 3 of the Banking Law Act.

§37. Within its internal control system, the bank should identify the risk:

1) related to any operation, transaction, product and service;
2) resulting from the organisational structure and the structure of the holding referred to in Article 141f section 1 of the Banking Law Act, provided the bank operates as part of such a holding.

§38. The bank's management board takes actions to ensure continuous monitoring of the effectiveness of internal control mechanisms as well as identifies the areas of the bank's activity, operations, transactions and other activities which are meant to be continuously monitored.

§39. The duties of the bank's management board:
1) designation of persons responsible for carrying out verification of internal control mechanisms and procedures functioning at the bank at least once a year;
2) determination of the appropriate form of documenting conducted audits, evaluations of effectiveness of internal control mechanisms and conclusions arising from these audits;
3) determination of the mode of submitting the report within the bank, so as to take actions to eliminate deficiencies found in internal control mechanisms, and the way of rectifying these deficiencies.

§40. Based on conducted audits and evaluations of effectiveness of internal control mechanisms, the bank's management board and the supervisory board receive:
1) information on material deficiencies found in internal control mechanisms immediately after their disclosure, and information on the effects of measures taken to remove the stated deficiencies;
2) periodic information on all areas of internal control.

§41. 1. The bank's management board is responsible for organizing an internal audit unit.

2. The bank's management board conducts periodic evaluation of the effectiveness of the internal audit unit, using documents prepared by the internal audit unit manager, protocols drawn up by the banking supervision authority and internal auditors.

3. Activities carried out as part of internal audit to execute tasks defined in Article 9d section 2 of the Banking Law Act should:
1) apply to activity of the bank as a whole;
2) be carried out in accordance with the rules on conducting audits which specify an audit's objective, scope and detailed principles of operation as well as the organisational structure of the internal audit unit; they should be based on written methodology of conducting audits by the internal audit unit;
3) be carried out using appropriate, described audit methods for the selection of samples to be audited;
4) have the scope and frequency specified in audit plans and be adjusted to the identified areas of risk and its level of significance;
5) be properly documented;
6) include a verification of efficiency of implementing and executing the recommendations put forward as part of internal audit.

§42. The bank's management board takes action to ensure continuity and effectiveness of internal control, including proper co-operation of all bank's employees with the internal audit unit as well as provision of access to the necessary source documents including those containing confidential information to persons carrying out the audit.

§43. Persons performing audit at the bank should have qualifications, experience and skills as regards evaluation of risk underlying the bank operations.

§44. The bank has mechanisms in place to ensure independence of its internal audit unit, in particular by means of:

1) direct contact of the internal audit unit manager with the bank's management board and the supervisory board;
2) detailed mode of appointment and dismissal of the internal audit unit manager;
3) detailed mode of controlling the level of remuneration of the employees of the internal audit unit;
4) participation of the internal audit unit manager in the meetings of the management board and the supervisory board, if, among the matters on the agenda, there are issues relating directly to the tasks of the internal audit unit and to supervision of internal control;
5) participation, at least once a year, of the internal audit unit manager in the meeting of the supervisory board, during which the activities of the internal audit unit would be discussed;
6) protection of the internal audit unit employees against unjustified employment relationship termination.

§45. Based on internal control actions, the bank's management board and the supervisory board receive information on:

1) compliance with applicable laws and the bank's internal regulations;
2) functioning of the management information system at the bank;
3) effectiveness in disclosing – as a result of functional control – errors and irregularities and in taking effective remedial or corrective actions;
4) execution of the bank's objectives and policy defined and required by the management board;
5) completeness, accuracy and comprehensiveness of accounting procedures;
6) quality (accuracy and reliability) of the accounting, reporting and operational systems;
7) suitability, functionality and security of the IT system;
8) efficiency of using available resources, including bank's own funds and resources in all areas of the bank operations;
9) assessment of the bank's organisational structure, division of responsibilities and coordination of activities between various organisational units and positions, and of the system concerning the development and circulation of documents and information;
10) assessment of the functioning of internal systems with respect to improving efficiency of the bank's operation as a whole;
11) tasks outsourced by the bank.

§46. The president of the management board is obliged to make decisions on how to use audit results and how to report them to the audited unit, which in turn informs the internal audit unit of the time and results of remedial actions, taken as a result of the internal audit.

§47. The rules set out in §42 - §46 apply respectively to cooperative banks, where, under Article 10 of the Banking Law Act, internal control is carried out by the affiliating bank.

Chapter 5.

Assessment and Maintenance of the Internal Capital and Review of the Process

§48. The bank’s management board is responsible for the preparation and implementation of the following processes:
1) internal capital assessment;
2) capital management;
3) capital planning.

§49. The bank's internal procedures relating to the processes of internal capital assessment, capital management and capital planning are approved by the bank’s supervisory board.

§50. The internal capital assessment, capital management and capital planning processes are properly documented.

§51. 1. The bank's management board is responsible for conducting regular reviews of the internal capital assessment process, so that it is adjusted to the nature, scale and complexity of the bank operations. The internal capital assessment process is reviewed and verified at least once a year.

2. Regardless of periodical reviews, the process of internal capital assessment is adjusted accordingly, in particular when there are new types of risks, significant changes to the strategy and action plans and the external environment in which the bank operates.

3. The process referred to in §48 item 1 and a review of this process are subject to independent evaluation carried out by the bank's internal audit unit.

§52. 1. The internal capital assessment process should be an integral part of the bank management process.

2. The capital management policy and capital plans should be covered by the bank’s management process.

3. The capital management policy pursued at the bank includes in particular the following elements:
1) long-term capital objectives of the bank;
2) preferred capital structure;
3) capital contingency plans;
4) delegating the management of capital;
5) basic components of the process of converting risk measures into capital requirements.

§53. The internal capital assessment process should take into account reliable results of risk assessment. The assessment of capital adequacy should take into account quantitative factors in particular results of capital assessment methods and qualitative ones particularly in the scope of input data and results of the models used.

§54. The bank’s management board is responsible for appropriate determination of the total required level of capital to cover all the relevant types of risk and its qualitative assessment.

§55. The internal capital assessment process carried out by the bank includes in particular:
1) written criteria for recognising particular risks as material;
2) written policy principles and procedures for the identification, measurement and reporting risk underlying the bank operations;
3) the process of capital allocation depending on the level of risk at the bank;

4) the process of determining capital objectives with regard to capital adequacy (target capital level);
5) internal control system in the area of assessing and maintaining internal capital.

Chapter 6.

Amending, Aligning and Final Provisions

§56. The following amendments are introduced to the Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the Scope and Detailed Procedures for Determining Capital Requirements for Particular Risks (Official Journal of the Polish Financial Supervision Authority No. 2, item 11 as amended[5)]):

1) in **§**8 section 5 item 1 letter c is worded as follows:

"c) the structure and assumptions of the internal measurement system, taking into account qualitative standards specified in §36-41 of Enclosure No. 14 herewith and qualitative standards specified in §42-60 of Enclosure No. 14 herewith, as well as standards pertaining to operational risk specified in Resolution No. /2011 of the Polish Financial Supervision Authority of 2011 on Detailed Principles of Functioning of the Risk Management System and Internal Control System and Detailed Conditions of Internal Capital Assessment by Banks and of Reviewing the Process of Internal Capital Assessment and Maintenance and the Principles of Determining the Policy on Variable Components of Remuneration of Persons Holding Managerial Positions at a Bank, conducive to effective and correct risk management (Official Journal of the Polish Financial Supervision Authority No. , item),";

2) §3 of Enclosure 14 is worded as follows:

"§3. A bank computing the capital requirement due to operational risk, regardless of the applied method, is obliged to apply rules of risk management pursuant to the Resolution mentioned in §8 section 5 item 1 letter c of the Resolution.".

§57. Provisions hereof regarding the policy on variable components of remuneration are applied by the bank in line with the bank's legal form whereunder the bank operates, its size of operations, risk underlying its operations, internal organisation as well as the nature, scope and complexity of conducted operations.

§58. Settling and paying the variable remuneration referred to in §29 item 8 covers components granted once the Resolution has become binding.

§59. The Resolution No. 383/2008 of the Polish Financial Supervision Authority of 17 December 2008 on Detailed Principles of Functioning of the Risk Management System and Internal Control System, and Specific Terms of Assessing Internal Capital, Reviewing Assessment Process and Maintaining Internal Capital by Banks (Official Journal of the Polish Financial Supervision Authority No. 8 item 37 and of 2010 No. 2, item 11) becomes invalid.

[5)] Amendments to the Resolution were promulgated in the Official Journal of PFSA of 2010 No. 8, item 38 and of 2011 No. 8, item 29 and No. 9, item 32.

§60. This Resolution is binding as of 31 December 2011.