



The implementation of System for Financial Operations Control in Kredyt Bank

Client's profile.

Kredyt Bank is a large quoted universal bank, holding a position among the first ten banks in Poland. It provides services for various groups of clients, in particular retail clients, private banking sector, and small- and medium-sized enterprises.

Kredyt Bank has a well-developed Treasury Department, which conducts activities for the Bank and for its clients. It is an active participant in the

money market (treasury bills and NBP /National Bank of Poland/ bills), bonds market (treasury and commercial bonds), currency market, and interbank market. It also conducts transactions with derivatives, i.e. forwards, FX swaps, IRS, CIRS, FRA, interest rate options, and currency options. Apart from trading activities conducted for itself, the bank secures open items of the banking book.

Client's requirements.

According to the best market practices, the welldeveloped Treasury Department brought about the formation of the Middle Office in Kredyt Bank in 2003. Its responsibility is financial operations control, including checking consistency of concluded transactions with market prices and verifying consistency of records in banking systems with transactions made in the market.

Kredyt Bank is an active participant in the interbank market. It also offers its clients a possibility of making derivative transactions. In the event of such advanced operations, the role of the Office for Financial Operations Control (Middle Office), which controls the process of making, evaluating, and settling transactions, is even more important. The System for Financial Operations Control implemented in our bank provides for the verification of transaction conditions, including the evaluation of transactions. This solution helps us considerably and facilitates our work, automating the evaluation process, which is particularly complex for options, including exotic options.

Bogusław Świerkocki

Director of the Office for Financial Operations Control in Kredyt Bank

Description of the solution.

SKOF [System for Financial Operations Control], implemented and used in production in Kredyt Bank, is a solution which provides for full automation and flexibility in preparing evaluation of transactions from bank portfolios with different sets of initial market data. It is a solution thematically consistent and includes a process of verifying evaluations of financial instruments in the bank's portfolios, from the moment of importing market data sets and the automatic start of processing until the moment of preparing tables with calculation results, which form a basis for generating reports.

Within the scope of risk management, the platform enables second party verification of transaction evaluation results obtained in other sources in order to monitor correctness of its own generated results. It also enables immediate identification of inconsistencies exceeding pre-defined thresholds, notifying relevant bank departments on detected irregularities. The system examines consistency of transactions with market data as at the moment of making a transaction, for transactions with quotations (e.g. BOND, EQUITY), where instrument quotations in the market are checked, as well as for transactions without quotations (non-standard FRA, SWAP), by calculating NPV (as at the moment of making a transaction, the value shall equal zero).

The system has an interface to the Reuters market data service and provides a possibility of entering other quotations, e.g. Bloomberg or the user's. By saving a history of market data changes, the system provides a possibility of using this data base to historical analyses and enables calculation of elements required for evaluation of various indices, such as volatility index.

Client's benefits.

Introduction of the system simplifies the process of financial operation control considerably, automating it and providing analytical data which enables verification. The data base of the system is a source for many analytical reports, which allows for a performance of standard responsibilities of the

Middle Office, such as verification of consistency of records in IT systems, analysis of suspect transactions, examination of the method and conditions of making financial transactions, and examination of reasons for introducing changes in transaction characteristics in the bank's IT systems.