



55. CURRENCY RISK MANAGEMENT

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Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

The objective of currency risk management is to mitigate the risk of incurring losses arising from exchange rate fluctuations to an acceptable level by appropriate shaping the structure of statement of financial position and off-balance sheet positions.

55.1. Measurement of the currency risk

The Bank measures currency risk using the Value at Risk (VaR) model and stress-tests.

The Value at Risk (VaR) is defined as a potential loss arising from currency position and foreign exchange rate volatility under the assumed confidence level and taking into account the correlation between the risk factors.

Stress-tests and crash-tests are used to estimate potential losses arising from currency position under extraordinary market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

- 1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 20 percent and 50 percent),
- 2) historical scenarios – based on the behaviour of foreign exchange rates observed in the past.

55.2. Forecasting and monitoring of currency risk

VaR of the Bank and stress-testing of the Group's exposure to currency risk are stated cumulatively for all currencies in the table below:

Name of sensitivity measure	31.12.2014	31.12.2013
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	6,230	2,443
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)**	28,609	21,428

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 3 663 thousand as at 31 December 2014 and approx. PLN 906 thousand as at 31 December 2013.

** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.



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The Group's currency positions are presented in the table below:

Currency position	31.12.2014	31.12.2013
EUR	(216,994)	13,010
USD	(113,960)	79,507
CHF	(36,566)	6,526
GBP	5,009	3,673
Other (Global Net)	214,752	6,020



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The volume of currency positions is a key factor determining the level of currency risk on which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31 December 2014 amounted to ca. 0.03%).

55.3. Currency structure



The tables below present currency exposure by the specific types of assets, liabilities and off-balance sheet liabilities:

	Currency translated into PLN - 31.12.2014				
	PLN	EUR	CHF	Other	Total
Cash and balances with the central bank	10,724,759	492,047	70,260	451,305	11,738,371
Amounts due from banks	294,737	1,255,349	62,229	874,482	2,486,797
Loans and advances to customers	140,063,419	13,660,027	30,954,027	2,842,388	187,519,861
Securities	38,635,005	933,402	-	721,119	40,289,526
Non-current assets	11,712,203	-	-	-	11,712,203
Other assets and derivatives	7,727,158	397,235	64,329	551,218	8,739,940
Total assets (gross)	209,157,281	16,738,060	31,150,845	5,440,512	262,486,698
Depreciation/amortisation/impairment	(12,228,945)	(223,357)	(836,056)	(497,751)	(13,786,109)
Total assets (net)	196,928,336	16,514,703	30,314,789	4,942,761	248,700,589
Amounts due to the central bank	4,427	-	-	-	4,427
Amounts due to banks	2,241,032	2,774,653	14,348,416	30,381	19,394,482
Amounts due to customers	158,613,283	8,318,970	2,258,841	5,195,672	174,386,766
Liabilities due to insurance operations	2,675,833	3,785	-	104	2,679,722
Debt securities in issue	1,268,242	5,818,661	2,671,536	3,542,171	13,300,610
Subordinated liabilities	1,619,833	-	794,152	-	2,413,985
Provisions	308,453	9,371	818	5,196	323,838
Other liabilities and derivatives and deferred income tax liability	7,404,604	486,278	532,569	157,757	8,581,208
Equity	27,615,551	-	-	-	27,615,551
Total liabilities and equity	201,751,258	17,411,718	20,606,332	8,931,281	248,700,589
Off-balance sheet liabilities granted	44,498,418	4,434,096	119,891	3,820,227	52,872,632



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	Currency translated into PLN - 31.12.2013				
	PLN	EUR	CHF	Other	Total
Cash and balances with the central bank	6,359,564	581,510	39,657	265,389	7,246,120
Amounts due from banks	805,314	574,672	13,862	528,176	1,922,024
Loans and advances to customers	125,394,275	8,444,323	19,931,944	2,503,500	156,274,042
Securities	29,365,544	145,846	-	317,785	29,829,175
Non-current assets	9,973,096	-	-	-	9,973,096
Other assets and derivatives	5,333,488	255,297	27,576	482,956	6,099,317
Total assets (gross)	177,231,281	10,001,648	20,013,039	4,097,806	211,343,774
Depreciation/amortisation/impairment	(10,570,899)	(173,928)	(614,275)	(753,562)	(12,112,664)
Total assets (net)	166,660,382	9,827,720	19,398,764	3,344,244	199,231,110
Amounts due to the central bank	4,065	-	-	-	4,065
Amounts due to banks	1,256,472	811,344	1,389,847	289,674	3,747,337
Amounts due to customers	139,590,140	6,495,989	1,430,741	4,387,311	151,904,181
Debt securities in issue	1,422,185	3,538,895	2,545,438	3,039,928	10,546,446
Subordinated liabilities	1,620,857	-	-	-	1,620,857
Provisions	306,107	9,107	467	5,189	320,870
Other liabilities and derivatives and deferred income tax liability	5,558,145	259,237	1,471	114,176	5,933,029
Equity	25,154,325	-	-	-	25,154,325
Total liabilities and equity	174,912,296	11,114,572	5,367,964	7,836,278	199,231,110
Off-balance sheet liabilities granted	39,453,333	3,101,545	88,784	1,954,118	44,597,780



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55.4. Reporting of the currency risk



The Bank prepares daily, weekly, monthly, and quarterly reports addressing currency risk. The quarterly reports are also applicable to the Group. Reports gather the information on currency risk exposure and updates on available limits regarding the risk.

55.5. Management decisions concerning currency risk



Main tools used in currency risk management in the Group include:

- procedures for currency risk management,
- limits and thresholds for currency risk,
- defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

The Group has set limits and threshold values for currency risk for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities, which are characterised by high level of currency risk measure outcomes. The regulations are defined after consultation with the Bank and take into account recommendations issued by the Bank to the entities.