



56. LIQUIDITY RISK MANAGEMENT

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The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of statement of financial position, misfit of cash flows, not received payments from contractors, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure the necessary level of funds to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of statement of financial position and off-balance sheet liabilities.

The Group's policy concerning liquidity is based on keeping a portfolio of liquid securities and increasing stable sources of financing (stable deposit base, in particular). In liquidity risk management money market instruments, including NBP open market operations are also used.

56.1. Measurement of the liquidity risk



The Group makes use of the following liquidity risk measures:

- the contractual and adjusted liquidity gap in real terms,
- liquidity reserve,
- measure of stability of deposit and loan portfolios,
- stress-tests (liquidity stress-tests).

56.2. Forecasting and monitoring of liquidity risk



Liquidity gaps presented below include the sum of Bank's adjusted liquidity gap (adjusted in terms of the following: permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity) and contractual liquidity gap of the other Group entities.

	a*vista	0 - 1 month	1 - 3 month	3 - 6 month	6 - 12 month	12 - 24 month	24 - 60 month	over 60 months
31.12.2014								
The Group - adjusted gap in real terms	12,733,729	13,357,476	536,836	1,309,410	1,088,394	11,977,076	13,281,695	(54,284,616)
The Group - cumulative adjusted gap in real terms	12,733,729	26,091,205	26,628,041	27,937,451	29,025,845	41,002,921	54,284,616	-
31.12.2013								
The Group - adjusted gap in real terms	6,980,540	13,323,611	(10,261,085)	(843,470)	1,710,668	5,611,828	18,606,239	(35,128,331)
The Group - cumulative adjusted gap in real terms	6,980,540	20,304,151	10,043,066	9,199,596	10,910,264	16,522,092	35,128,331	-

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In all time horizons, the Group's cumulative adjusted liquidity gap in real terms, which has been determined as a sum of adjusted liquidity gap in real terms of the Bank and contractual liquidity gaps of the remaining Group entities, as at 31 December 2014 and as at 31 December 2013 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 31 December 2014 and as at 31 December 2013:

Name of sensitivity measure	31.12.2014	31.12.2013
Liquidity reserve up to 1 month* (in PLN million)	21,075	17,816

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

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As at 31 December 2014 the level of permanent balances on deposits constituted approx. 94.7% of all deposits in the Bank (excluding interbank market), which means a decrease by approx. 1.62 pp. as compared to the end of 2013.

The table below presents the structure of the Bank's sources of financing as at 31 December 2014 and as at 31 December 2013.

	31.12.2014	31.12.2013
Total deposits (excluding interbank market)	75.04%	79.56%
Interbank market deposits	0.20%	0.25%
Equity	10.57%	12.82%
Financing from the market	14.19%	7.37%
Total	100%	100%



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56.3. The contractual cash flows of the Group's liabilities excluding derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively, by maturity

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of statement of financial position and off-balance sheet liabilities, excluding derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2014 and as at 31 December 2013. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the Group has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Group is obliged to settle the liability shall be taken into account. In situations where the Group is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Group might be obligated to settle. In the case of liabilities where the instalment is not fixed, the terms binding as at the reporting date have been adopted.

Contractual cash flows of the Group's liabilities as at 31 December 2014 by maturity

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	4,427	-	-	-	-	4,427	4,427
Amounts due to banks	2,044,255	178,596	1,847,485	1,208,177	15,113,128	20,391,641	19,394,482
Amounts due to customers	109,773,316	12,560,306	35,033,627	16,953,648	2,099,152	176,420,049	174,386,766
Debt securities in issue	50,613	832,749	5,523,147	3,993,876	4,233,507	14,633,892	13,300,610
Subordinated liabilities	-	39,123	48,666	327,788	2,648,527	3,064,104	2,413,985
Other liabilities	2,228,619	86,910	475,902	98,546	64,626	2,954,603	2,954,603
Off-balance sheet financial liabilities - granted	23,514,918	968,602	4,820,338	3,946,353	5,129,776	38,379,987	-
Off-balance sheet guarantee liabilities - granted	225,396	1,336,294	2,557,886	9,124,116	2,074,309	15,318,001	-



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Contractual cash flows of the Group's liabilities as at 31 December 2013 by maturity

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	4,065	-	-	-	-	4,065	4,065
Amounts due to banks	1,236,481	81,002	361,143	2,232,178	-	3,910,804	3,747,337
Amount due to customers	94,883,152	16,098,647	26,106,968	14,389,798	2,550,664	154,029,229	151,904,181
Debt securities in issue	-	140,689	1,063,632	6,786,712	3,810,765	11,801,798	10,546,446
Subordinated liabilities	-	34,688	35,292	348,471	2,013,270	2,431,721	1,620,857
Other liabilities	1,993,874	76,367	514,047	37,010	35,514	2,656,812	2,547,237
Off-balance sheet financial liabilities - granted	2,941,472	600,751	1,704,497	3,246,161	26,644,294	35,137,175	-
Off-balance sheet guarantee liabilities - granted	55,886	22,331	356,419	179,882	276,513	891,031	-



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56.4. The contractual cash flows related to derivative financial instruments as at 31 December 2014 and as at 31 December 2013 respectively, by maturity

Pochodne instrumenty finansowe rozliczane w kwotach netto

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Group on a net basis include:

- interest rate swaps (IRS),
- Forward Rate Agreements (FRA),
- Non Deliverable Forwards (NDF),
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2014 and as at 31 December 2013 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2014 and as at 31 December 2013. In case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2014 and as at 31 December 2013 respectively was adopted as the value of cash flows.

Moreover, in the table the cash flows from IRS transactions which constitute cash flow hedges in respect of loans with variable interest rates are shown separately.

31 December 2014	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	(4,881)	5,559	732,845	(2,446,745)	(547,072)	(2,260,294)
- derivative hedging instruments	-	-	-	-	-	-
- other derivative hedging instruments: options, FRA, NDF	(179,655)	(464,273)	(425,585)	(291,679)	-	(1,361,192)



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31 December 2013	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	90,370	(57,992)	111,747	111,310	(10,916)	244,519
- derivative hedging instruments	49,757	14,229	48,532	150,395	-	262,913
- other derivative hedging instruments: options, FRA, NDF	(41,165)	(8,319)	(48,048)	(41,165)	-	(138,697)



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Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Group on a gross basis include:

- foreign currency swaps,
- foreign currency forwards,
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2014 and as at 31 December 2013 respectively. The amounts denominated in foreign currencies have been translated using the average NBP rate as at 31 December 2014 and as at 31 December 2013. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

In the table below cash flows from CIRS transactions which constitute cash flow hedges in respect of mortgage loans denominated in CHF, deposits negotiated in PLN and liabilities with fixed interest rates in USD are shown separately.

31 December 2014	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(5,566,617)	(4,810,958)	(6,306,363)	(3,288,097)	(793,347)	(20,765,382)
- derivative hedging instruments	(350,815)	(274,035)	(3,427,633)	(1,260,840)	(777,279)	(6,090,602)
- inflows, of which:	5,811,258	1,627,944	7,801,094	7,415,672	2,796,292	25,452,260
- derivative hedging instruments	552,181	18,010	4,792,330	4,623,608	2,738,845	12,724,974



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31 December 2014	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments:						

- outflows, of which:	(1,849,706)	(450,043)	(1,495,046)	(3,028,734)	(1,071,151)	(7,894,680)
- derivative hedging instruments	(9,510)	(104,562)	(76,941)	(762,546)	(799,481)	(1,753,040)
- inflows, of which:	2,667,156	660,715	1,277,266	4,458,373	1,601,828	10,665,338
- derivative hedging instruments	16,525	376,723	249,269	2,611,406	1,320,615	4,574,538



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56.5. Current and non-current assets and liabilities



31 December 2014

	Short-term	Long-term	Impairment allowances	Total carrying amount
Cash and balances with the central bank	11,738,371	-	-	11,738,371
Amounts due from banks	2,280,467	206,330	(111)	2,486,686
Trading assets	1,924,426	-	-	1,924,426
Derivative financial instruments	1,139,752	4,355,070	-	5,494,822
Financial instruments designated upon initial recognition at fair value through profit and loss	13,540,447	2,182,701	-	15,723,148
Loans and advances to customers	40,440,580	147,079,281	(8,022,477)	179,497,384
Investment securities available for sale	2,124,032	20,284,562	(129,369)	22,279,225
Securities held to maturity	141,157	92,201	-	233,358
Inventories	267,047	-	(29,164)	237,883
Other assets	3,469,729	6,122,405	(506,848)	9,085,286
Total assets	77,066,008	180,322,550	(8,687,969)	248,700,589
Amounts due to the central bank	4,427	-	-	4,427
Amounts due to banks	4,831,387	14,563,095	-	19,394,482
Derivative financial instruments	1,307,642	4,237,499	-	5,545,141
Amounts due to customers	161,167,443	13,219,323	-	174,386,766
Liabilities due to insurance operations	175,936	2,503,786	-	2,679,722
Debt securities in issue	6,506,131	6,794,479	-	13,300,610
Subordinated liabilities	-	2,413,985	-	2,413,985
Other liabilities	3,162,267	197,638	-	3,359,905
Total liabilities	177,155,233	43,929,805	-	221,085,038
Equity	-	27,615,551	-	27,615,551
Total liabilities and equity	177,155,233	71,545,356	-	248,700,589



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31 December 2013

	Short-term	Long-term	Impairment allowances	Total carrying amount
Cash and balances with the central bank	7,246,120	-	-	7,246,120
Amounts due from banks	1,827,492	94,532	(28,583)	1,893,441
Trading assets	479,881	-	-	479,881
Derivative financial instruments	822,349	2,178,511	-	3,000,860
Financial instruments designated upon initial recognition at fair value through profit and loss	14,186,661	1,018,095	-	15,204,756
Loans and advances to customers	41,294,317	114,979,725	(6,650,780)	149,623,262
Investment securities available for sale	698,501	13,408,032	(33,455)	14,073,078
Securities held to maturity	18,314	19,691	-	38,005
Inventories	425,298	278,148	(53,805)	649,641
Other assets	2,199,584	5,628,201	(805,719)	7,022,066
Total assets	69,198,517	137,604,935	(7,572,342)	199,231,110
Amounts due to the central bank	4,065	-	-	4,065
Amounts due to banks	2,279,311	1,468,026	-	3,747,337
Derivative financial instruments	1,065,920	2,262,291	-	3,328,211
Amounts due to customers	135,360,982	16,543,199	-	151,904,181

Debt securities in issue	1,383,963	9,162,483	-	10,546,446
Subordinated liabilities	-	1,620,857	-	1,620,857
Other liabilities	2,749,043	176,645	-	2,925,688
Total liabilities	142,843,284	31,233,501	-	174,076,785
Equity	-	25,154,325	-	25,154,325
Total liabilities and equity	142,843,284	56,387,826	-	199,231,110



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56.6. Reporting of the liquidity risk



The Bank prepares daily, weekly, monthly, and quarterly reports addressing liquidity risk. The quarterly reports are also applicable to the Group. Reports present the information on liquidity risk exposure and usages of available limits regarding the risk.

56.7. Management decisions concerning liquidity risk



The main tools for liquidity risk management in the PKO Bank Polski SA Group are as follows:

- procedures for liquidity risk management, in particular emergency plans,
- limits and thresholds mitigating liquidity risk,
- deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- transactions ensuring long-term financing of Bank's lending activities.

To ensure an adequate liquidity level, the Bank and subsidiaries of the PKO Bank Polski SA Group have accepted limits and thresholds for liquidity risk. The limits and thresholds were set for current liquidity measures, medium and long-term liquidity measures.

Methods of liquidity risk management in subsidiaries of the Group are defined by internal regulations implemented by the Group entities which are characterised by high levels of liquidity risk measure outcomes.

These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank to the entities.