VII. RISK MANAGEMENT

VII.1. Risk management framework

The mission of risk management in the Bank Millennium Group is to ensure that all types of risks are managed, monitored and controlled as required for the risk profile (risk appetite), nature and scale of the Group's operations. Risk management takes into account the need to obtain the assumed profitability and to maintain proper risk-capital relationship, in the context of having proper level of capital to cover the risk.

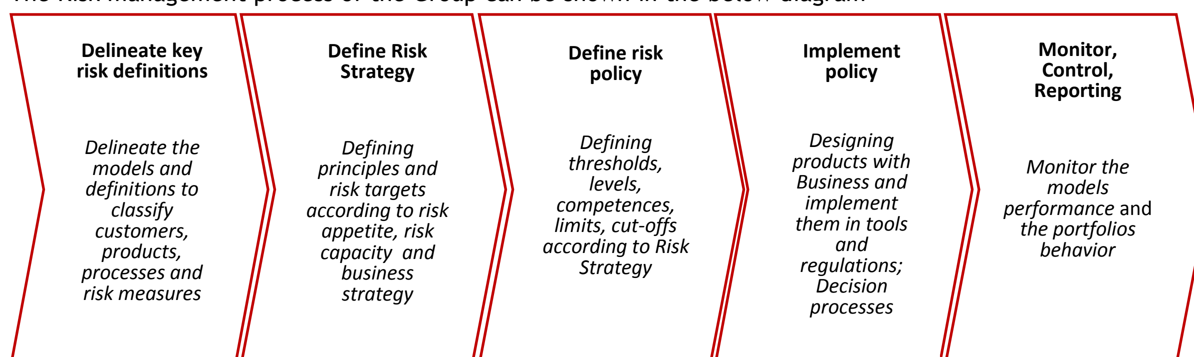
The goals of the risk management mission are achieved through implementation of the following actions:

- Development of risk management strategies, policy, processes and procedures defining the principles for acceptance of the allowable level of particular types of risk,
- Increasingly wider implementation of the IT tools for risks identification, control and measurement,
- Increasing awareness of employees as regards their responsibility for proper risk management at every level of the Group's organisational structure,

The risk management and control model at Group's level is based on the following main principles:

- ensuring the full-scope quantification and parameterization of various types of risks in the perspective of optimizing balance sheet and off-balance sheet items to the assumed level of profitability of business activity. The main areas of analysis encompass credit risk, market risk, liquidity risk and operational risk;
- all types of risks are monitored and controlled in reference to the profitability of operations and the level of capital necessary to ensure the safety of operations from the point of view of capital adequacy. The results of risk measuring are regularly reported as part of the management information system;
- the segregation of duties between risk origination, risk management and risk control.

The Risk management process of the Group can be shown in the below diagram



In terms of internal organization, the Supervisory Board and Management Board of Bank Millennium are responsible at a strategic level for defining general risk policy, including approving of the risk management strategy and policy, as well as guaranteeing the necessary resources for their implementation.

At operational level, due to the complexity and diversification of the operations of the Group, the risk management function is supported by specialized committees with their competences specified by the Bank's Management Board. This is reflected in the works of the Risk Committee and additionally five specialized risk committees, i.e.:

- Capital, Assets and Liabilities Committee (CALCO);
- Credit Committee;
- Validation Committee;
- Liabilities-at-Risk Committee;
- Processes and Operational Risk Committee.

Specialized Committees are chaired by Management Board members and incorporate responsibilities for the main areas related to origination, monitoring and management of the specific risks.

The Risk Committee has global responsibility for risk control at the Group. In order to assure such control the Risk Committee monitors the evolution of various types of risks in the Group's operations and decides on the

general risk policy accordingly to the goals defined on the Risk Strategy (approved by the Supervisory Board). All the Bank's Management Board members are members of the Risk Committee.

The on-going risk management is centrally conducted by the Bank's dedicated unit – Risk Department and its subunits - specialized in particular types of risk or process stages. The goal of the Risk Department is proposing and implementing policy regarding the management of credit, market, liquidity and operational risks and monitoring the Group exposures to those risks, including for the purpose of calculation of capital requirements.

The Management Board of the Bank attaches particular attention to continuous improvement of the risk management process. One effect of this is the measurable success which the Bank and the Group reached in 2014 considering the results of AQR and the stress tests as well as the received authorization to the further use of the IRB approach in the process of calculating capital requirements.

Asset Quality Review (AQR) and Stress Tests

In 2014 European Central Bank covered the largest banks in the Euro zone with the Asset Quality Review (AQR) and the Stress Tests (coordinated by the European Banking Authority). The Polish Financial Supervision Authority (UKNF) decided to join these exercises and selected 15 Banks in Poland, representing 72% of the assets of the banking sector, including as well Bank Millennium SA.

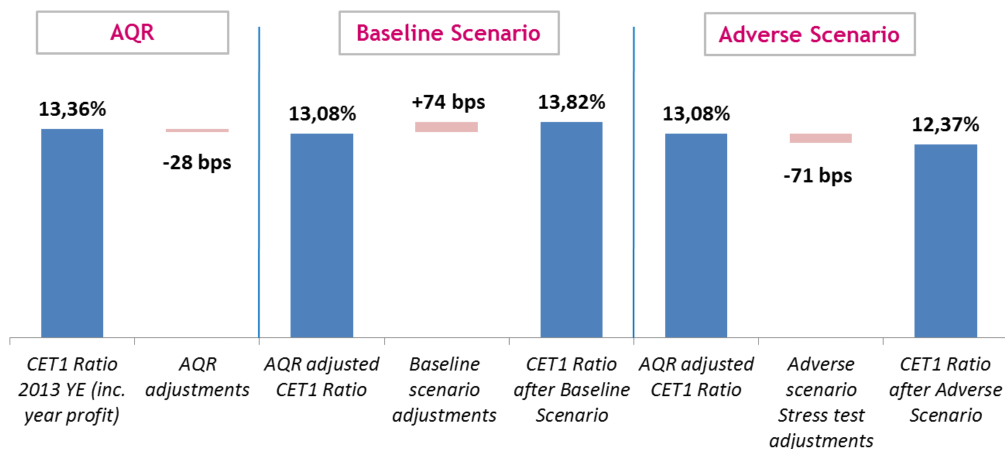
The specific objectives of the AQR were the assessment of adequacy of Bank's assets classification and level of provisioning for credit exposures and determination of the appropriate valuation of collateral for those exposures.

The AQR methodology incorporated credit asset valuation principles and assumptions more conservative than the currently applicable rules of IFRS, including a stricter definition of non-performing exposures. The methodology also required to have an external valuation for each type of collateral.

The Stress Tests aimed to investigate the stability of the banking sector and the behaviour of financial institutions in the event of a significant economic slowdown, financial turmoil and an increase in financing costs. Banks were theoretically tested for resilience to a baseline scenario and an adverse scenario (assuming unlikely hypothetical and very negative economic and financial events). The Group conducted Stress Tests on the basis of macroeconomic assumptions provided by the Supervisor and uniform for all banks, as well as on the basis of EBA methodology.

Bank Millennium has scored those two exercises at a very good level. Asset Quality Review results and Stress Tests were aggregated and resulted in minor adjustments to the consolidated capital adequacy ratio CET1:

- In the scope of Asset Quality Review (AQR), the level of adjustments of consolidated solvency ratio CET1 was minor and the outcome indicator decreased only by 28 b.p from 13,36% to 13,08%.
- In Stress Tests, in the baseline scenario – the adjusted CET1 ratio increased with 74 b.p reaching the level of 13,82%, In adverse scenario the adjusted CET1 ratio reached 12,37%, remaining more than twice the minimum threshold set at 5,5% and was only about 99 b.p lower than the CET1 ratio as of 31.12.2013 before the adjustments.



The Asset Quality Review (AQR) result and the relatively small size of adjustments are a confirmation of the sound principles that the Bank has been applying in terms of recognition of impaired exposures, collateral valuation and level of provisions. Bank Millennium had the second lowest adjustment of AQR among Polish banks. On the other hand, the stress tests results confirm the resilience and high level of solvency of the Bank even under shock scenarios.

Further use of the IRB approach

On 19th of December 2014 the Bank received authorization by Banco de Portugal (BdP) and KNF to ease the previous imposed regulatory IRB floor from 80% to 70% and, the same time, it received further conditions to the portfolios under IRB and under rollout.

This decision improved the Group Capital Ratios by +141 bp on CET1 and by +148 bp on TCR as of 31.12.2014.

This recent authorization from regulators represents, therefore, in the Group's view, an external acknowledgement of the significant and continuous achievements by the Group on risk management.

In fact, since 2010 the Group has been deeply involved in the process of having the authorization for the use of the IRB methods. The Group considered this project as crucial for two main reasons: first, it ensures that the Group will permanently have the best standards on credit risk management; and second, it is an effective way to optimize the capital management.

Following the IRB approach in a natural way enforces the application of highest standards in credit risk management and this in turn materially affects quality of the credit process, thus the level of credit risk itself.

As to assess credit risk of customers and transactions in fully concise manner, IRB method requires utilization of rating systems. Group's rating systems (rating models) are matched to a portfolios/products risk characteristics and were tailored separately to private individuals (retail mortgage loans, cash loans, overdrafts), small business, SME and corporates.

Applied risk models enable proper and reliable risk measurement, by employing well developed statistically risk parameters, like:

- probability of default of a customer (PD),
- loss given default for a transaction (LGD) and
- exposure at default for a transactions (EaD)

In fact, for every customer applying for a loan, internal rating must be assigned (PD equivalent), what enforce automated assessment of customer default risk. Rating models are automated and fully supported by IT systems. Every risk model (including rating models) have to be regularly monitored and validated in terms of quality, what stems also from IRB rules.

Using uniformed risk parameters in the portfolio regular monitoring reinforces the credit risk management process and helps to take a more accurate decision regarding credit risk controls.

VII.2. Capital adequacy

Capital management

The Group set a capital management process that is completed based on principles defined by Management Board and Supervisory Board of Bank Millennium SA.

In capital adequacy area, the main goal of the Group is to observe the requirements defined in external regulations (ensuring regulatory capital adequacy).

Simultaneously, in the scope of the Group's capital management, were also defined measurable long-term targets, which are at the same time capital limits. They are: total capital ratio, common equity CET 1 capital ratio, economic capital buffer and appropriate ratios calculated in stressed conditions. The definition of the capital targets/limits take into consideration the recommendations of Polish Financial Supervisory Authority (PFSA) and Bank de Portugal (college of Supervisions).

Capital risk, expressed in the above ratios, is measured and monitored in a regular manner. As for all capital targets, it were determined some minimum ranges for those values. The Capital ratios in a given range causes a need to take appropriate management decisions or actions. Regular monitoring of capital risk relies on classification of capital ratios to the right ranges and then performing the evaluation of trends and drivers influencing the capital adequacy.

Parallel to capital adequacy management process, there is capital allocation process in place. It covers risk measurement (internal/economic capital), setting risk limits, calculation of risk-adjusted performance measures with consideration of cost of capital and capital reallocation.

In 2014, all capital targets were met with a significant surplus. It relates both to realised ratios, and the same ratios calculated with assumptions of stressed conditions. The Group's capital adequacy is assessed as satisfactory and assuring a smooth and steady development of banking activity.

In a scope of capital management process, there is also a capital planning process. The goal of capital planning is to designate the own funds (capital base that is risk-taking capacity) and capital usage (regulatory capital requirements and economic capital) in a way to ensure that capital targets/limits shall be met, given forecasted business strategy and risk profile – in normal and stressed macroeconomic conditions.

Own funds requirements

In the area of regulatory capital adequacy, an event that required a considerable implementation effort was an alignment to the rules of Regulation of European Parliament and Council no 575/2013 on prudential requirements for credit institutions and investment firms (CRR). Nevertheless the impact of new rules on capital adequacy was not significant *(decrease of total capital ratio by 13 p.b. and common equity CET 1 capital ratio by 8 p.b.)*.

According to CRR, the Group is committed under this law to meet a minimum own funds requirements. At the same time, there are other regulations in force (including Banking Act) and therefore in the calculation of own funds requirements there are also specific solutions concerning CRR interpretations for Polish Banks, as pointed out by Polish Financial Supervisory Authority (PFSA).

The Group assumes to maintain the own funds requirements higher than the minimum set by law. Based on that assumption and guidelines and recommendations of Supervisory Authorities, the Group established its capital targets/limits, described in the above point.

The Group is realizing a project of a gradual implementation of internal-ratings based method of calculation of own funds requirements to credit risk (IRB) and obtaining a relevant decisions of Supervisory Authorities on that matter.

The Group received at the end of 2012 authorization from Supervisory Authorities for the use of the advanced IRB method regarding two loan portfolios: retail exposures to individual person secured by residential real estate collateral (RRE) and qualifying revolving retail exposures (QRRE). That decision regarding IRB contained a constraint (so-called Regulatory floor), whereby minimum own funds requirements for portfolios covered by the decision must be maintained at no less than 80% of the respective capital requirements calculated using the Standardized method. In the end of 2014, the Supervisory Authorities eased the constraint (Regulatory floor), what means that own funds requirements for portfolios covered by the IRB decision (RRE and QRRE) must be maintained at no less than 70% of the respective capital requirements calculated using the Standardized method.

In 2014 the Group has been continuing works on improving further already approved portfolios and on receiving the IRB approval for the remaining loan portfolios under roll-out plan: other retail exposures and exposures to corporates. That resulted in submitting by the Group IRB further applications to Supervisory Authorities during 2014. After completing a validation of information and data contained in the IRB applications, Supervisory Authorities presented a list of conditions that shall be met by the Group to receive an IRB approval for remaining portfolios and to reduce or abolish Regulatory floor.

Internal capital

According to the Banking Act, internal capital (aggregate measure of risk in activity) must be fully covered (secured) by financial resources provided by owners (own funds). That requirements was embedded in the Group capital targets – economic capital buffer and economic capital buffer in stressed conditions. These targets were established by the Group at a levels significant higher than the regulatory minimum.

The Group defined an internal (economic) capital estimation process, that is described as an estimated amount needed to cover all material risks identified in the Group activity and changes in economic environment, taking into account the anticipated level of risk in the future. Internal capital accounts for the effect of diversification / correlation between the types of risk, namely the assumption that the potential loss due to the risk incurred is less than the sum of estimated losses on various types of risk (losses materialisation of risks at the same time is imperfectly correlated).

From the technical standpoint, economic capital is an amount of capital, indispensable to cover all future unexpected economic losses, that might occur over a defined time in the future and estimated with the defined probability, without jeopardizing interest/safety of depositors /creditors of the Group. In estimation of internal/economic capital, stress tests results are also used.

The internal capital estimation process consists of the following phases:

a) risk identification and risk types materiality determination – within that phase, a classification and assessment of risk types is performed, including their materiality and consideration in internal capital estimation;
b) risk measurement – within that phase, a level of material risk types is expressed in terms of economic capital, including diversification/correlation effect between risk types;
c) economic capital aggregation - (loss distribution) and consideration of diversification between risk types;
d) stress tests for internal capital calculation purposes;
e) reporting.

Evaluation of risk types materiality and methodologies of internal capital estimation are regularly reviewed and updated.

In 2014 both economic capital buffers were met with a significant surplus. Economic capital adequacy – accounting for a coverage of internal capital by own funds – is assessed as satisfactorily fulfilled.

Internal capital is not used only as a measure for maintaining capital adequacy. As mentioned before, there is in the Group a process of capital allocation in place, based on internal capital. The latter enables a calculation of risk-adjusted performance measures, defining a risk limits, allocation and reallocation of internal capital to portfolios and business lines, and in future – usage of internal capital for another purposes as well.

Dividend policy

The Group's goal is to have a strong capital base, providing a solid support for business development, a buffer for a potential deterioration of macroeconomic situation, and amortisation of a potential adverse changes in regulatory environment. In the normal scenario and assuming no external shocks, the Group does not plan a further own funds increase by new issue of shares. Own funds will be increased due to internal generation of capital (retained earnings).

Thus, the Bank has approved a dividend policy of distributing between 35% to 50% of net profit what is also subject to regulatory recommendations. Up to the date of publications of financial statements, the Management Board of the Bank has not yet submitted its recommendation regarding 2014 net profit distribution.

Capital requirements and ratios of the Group and Bank Millennium as at 31st December, 2014 are presented in the below table:

Bank Millennium Group – capital adequacy	31.12.2014	31.12.2013
(PLN mn)	IRB with regulatory floor[1)]	IRB with regulatory floor[2)]
Risk-weighted assets (RWA) for Group	35 257,0	36 653,9
Risk-weighted assets (RWA) for Bank	34 634,5	35 603,6
Own funds requirements for Group	2 820,6	2 932,3
Own funds requirements for Bank	2 770,8	2 848,3
Own Funds for Group	5 368,9	5 327,8
Own Funds for Bank	4 988,4	4 848,3
Total Capital Ratio for Group (TCR)	15,2%	14,5%
Total Capital Ratio for Bank (TCR)	14,4%	13,6%
Common Equity Tier 1 Ratio for Group (CET1 ratio)[3)]	14,5%	13,4%
Common Equity Tier 1 Ratio for Bank (CET1 ratio)[3)]	13,7%	12,7%

1) Risk-weighted assets and own funds requirements are calculated with 70% „Regulatory floor" set in the II IRB decision
2) Risk-weighted assets and own funds requirements are calculated with 80% „Regulatory floor" set in the I IRB decision
3) Common Equity Tier 1 Capital ratio is equal to Tier 1 Capital ratio

VII.3. Credit risk

Credit risk means uncertainty about the Client's compliance with the financing agreements concluded with the Group i.e. repayment of the principal and interest in the specified time, which may cause a financial loss to the Group.

The credit policy pursued in the Group is based on a set of principles such as:

- centralization of the credit decision process;
- using specific scoring/rating models for each Client segment/type of products;
- using IT information (workflow) in order to support the credit process at all stages;
- high level of standardizing credit decisions;
- existence of specialized credit decisions departments for particular Client segments;
- regular credit portfolio monitoring, both at the level of each transaction in the case of major exposures, and at credit sub-portfolio level (by the Client segment, type of product, distribution channels, etc.);
- using the structure of limits and sub-limits for credit exposure in order to avoid credit concentration and promote the effects of credit portfolio diversification;
- separate unit responsible for granting rating to corporate Client, thus separating the credit capacity assessment and credit transaction granting from his creditworthiness assessment.

In the area of credit risk, the Group focused in 2014 year on adjustment of credit policy to changing economic conditions and improved the tools and credit risk management frameworks, in particular:

- updated the Risk Strategy, for the years 2015-2017;
- introduced a new finance-behavioural model to monitor Corporate Clients;
- updated sector risk classification and limits;
- optimised the methodology, tools, and processes of credit risk management for retail clients, including in the area of mortgage credit .

Within optimization of methodology of credit risk assessment for retail clients in 2014 Bank Millennium Group implemented new solutions regarding, among others, application scoring model for new-to-bank clients, the scope of application of external databases to assess creditworthiness, simplified credit decision-making paths, the rules for calculating credit limits for the client and rules of monitoring of credit transactions. Work performed were aimed at continuous improvement of credit offer of the Bank within risk appetite defined in Risk Strategy.

In the corporate segment, the Group focused on improving of the monitoring process, the development of used credit risk models as well as the expanding of the credit offer. The Group also has updated the sector policy and further developed IT tools supporting credit processes and management information system for the purpose of managing the loan portfolio. All the changes mentioned above should allow the Group to achieve the defined goals referring to the growth dynamics of corporate portfolio while maintaining the level of risk at an acceptable level as defined in the Risk Strategy.

Loan portfolio quality

The Group maintains a solid asset quality of the loan portfolio. The share of impaired loans in the consolidated portfolio dropped during the year from 4,4% to 4.2% and share of past-due more than 90 days loans is relatively stable at 2.9-3.0%. The improvement was registered in three portfolios: for non-mortgage retail loans the impaired loans ratio decreased to 10,81% (and past-due ratio to 8,74%), for leasing portfolio these ratios dropped to 6,65% with a slight increase share of past-due more than 90 to 2,0% and for loans to other corporates the impaired loans ratio dropped to 7,19% (past-due over 90 days ratio was dropped to 6.4%) as at the end of December 2014. The quality of mortgage portfolio remains good, with impaired loans ratio at 1.56% and past due over 90 days at 0.80%. Despite increase of the ratio of impaired loans in the mortgage portfolio at the end of 2014, compared with the banking system it remains low.

The coverage ratio, defined as the share of total provisions in total impaired loans, improved during 2014 year from 69% to 71% while coverage of loans past-due over 90 days remains at high 101% level.

The evolution of main indicators of the Group's loan portfolio quality:

Total portfolio quality indicators	31.12.2014	31.12.2013
Total impaired loans (PLN million)	1 923	1 903
Loans past-due over 90 days (PLN million)	1 343	1 237
Total impairment provisions (PLN million)	1 358	1 312
Impaired over total loans ratio (%)	4,2%	4.4%
Past-due over 90 days over total loans ratio (%)	3,0%	2.9%
Total impairment provisions/impaired loans (%)	71%	69%
Total impairment provisions/ Loans past-due over 90 days (%)	101%	106%

The evolution of the Group's loan portfolio quality by main products groups:

Portfolio quality by products:	Loans past-due > 90 days ratio		Impaired loans ratio	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Mortgage	0,81%	0.67%	1,56%	1.34%
Other retail*	8.74%	10.01%	10.81%	13.42%
Leasing	1.98%	1.95%	6,65%	7.21%
Other Corporates	6.39%	6.52%	7,19%	8.27%
Total loan portfolio	**2.95%**	**2.87%**	**4,23%**	**4.42%**

*incl. Microbusiness, annual turnover below PLN 5 million

Industry structure of the loan portfolio

Taking into consideration concentration risk within segments and sectors of activity, the Group's portfolio is well diversified. The main item are mortgage loans (60%) and cash loans (8%). The portfolio of loans to companies from sectors like industry and construction, transport and communication, retail and wholesale business, financial intermediation and public sector represents 30% of the total portfolio.

Sector name	2014 Balance Exposure (PLN million)	share (%)	2013 Balance Exposure (PLN million)	Share (%)
Credits for individual persons	**32 018.2**	**70.4%**	**31 093.2**	**72.2%**
Mortgage	27 138.4	59.7%	26 993.3	62.7%
Cash loan	3 741.4	8.2%	3 023.4	7.0%
Credit cards and other	1 138.4	2.5%	1 076.5	2.5%
Credit for companies*	**13 482.8**	**29.6%**	**11 984.8**	**27.8%**
Wholesale and retail trade; repair	3 448.2	7.6%	3 083.6	7.2%
Manufacturing	3 422.4	7.5%	2 781.6	6.5%
Construction	1 113.9	2.4%	1 391.8	3.2%
Transportation and storage	1 870.6	4.1%	1 478.9	3.4%
Public administration and defence	473.7	1.0%	420.4	1.0%
Information and communication	342.9	0.8%	304.8	0.7%
Other Services	450.2	1.0%	516.1	1.2%
Financial and insurance activities	164.2	0.4%	253.1	0.6%
Real estate activities	918.9	2.0%	674.4	1.6%
Professional, scientific and technical services	301.3	0.7%	283.9	0.7%
Mining and quarrying	313.0	0.7%	283.6	0.6%

Water supply, sewage and waste	114.8	0.3%	113.1	0.3%
Electricity, gas, water	161.3	0.3%	72.7	0.2%
Accommodation and food service activities	93.3	0.2%	96.0	0.2%
Education	63.0	0.1%	59.8	0.1%
Agriculture, forestry and fishing	90.6	0.2%	62.6	0.1%
human health and social work activities	126.8	0.3%	92.8	0.2%
Culture, recreation and entertainment	13.7	0.0%	15.6	0.0%
Total (gross)	**45 501.0**	**100.0%**	**43 078.0**	**100.0%**

*incl. Microbusiness, annual turnover below PLN 5 million

VII.4. Other risks

Market risk

Market risk encompasses current and prospective impact on earnings or capital, arising from changes in the value of the Group's portfolio due to adverse market movement. The framework of market risk management and its control are defined on a centralized basis with the use of the same concepts and metrics which are used in all the entities of the BCP Group.

The main measure used by the Group to evaluate market risks is the parametric VaR (Value at Risk) model – an expected loss that may arise on the portfolio over a specified period of time (holding period) with a required probability (confidence level) due to an adverse market movement. The market risk measurement is carried out daily, both on an individual basis for each of the areas responsible for risk taking and risk management, and also in consolidated terms considering the effect of the diversification that exists between the particular portfolios.

In parallel to VaR calculations, in order to estimate the potential economic loss resulting from the extreme changes in the market risk factors, a number of stress tests are conducted for the portfolios that are subject to high market risk. Additionally, in the process of interest rate risk management, the Group also uses interest income sensitivity measure and analyzes repricing gaps.

In situations as the one faced in October 2014 (cut by the Monetary Policy Council the reference rate by 50 bps and of lombard credit rate by 100 bps) the Bank is subject to asymmetrical impacts on its Net Interest Income. This is due to the Polish legal system and the fact that the interest rate of consumer loans and credit cards cannot exceed four times the Lombard interest rate of the National Bank of Poland. The impact on net interest income in face of decrease of the interest rate depends among other factors on the percentage of the loan portfolio that is affected by the new maximum rate.

VaR ratios reflect total exposure to market risk in the Group. In 2014, open positions included just interest-rate instruments and FX risk instruments. The total market risk exposure in the Group was relatively low during 2014 and was on average equal to PLN 29.1 million compared to the end-of-year internal limit of PLN 277.8 million.

All eventual excesses of market risk limits are reported, documented and ratified at the proper competence level. In 2014, the market risk exposure was kept within limits in place (no excesses were detected).

More on market Risk in terms of VaR and management of interest rate risk in Banking Book- see point 8 in Annual Financial Statements of the Capital Group of Bank Millennium for 12 month period ended 31 Dec. 2014.

Liquidity risk

Liquidity risk reflects the possibility of incurring significant losses as a result of deteriorated financing conditions (financing risk) and/or of the sale of assets for less than their market value (market liquidity risk) to meet the funding needs arising from the Group's obligations.

The process of the Group's planning and budgeting covers the preparation of a Liquidity Plan in order to make sure that the growth of business will be supported by an appropriate liquidity financing structure and supervisory requirements in terms of quantitative liquidity measures will be met.

In 2014 , the Group's Loan-to-Deposit ratio was kept below 100% (as of end of December 2014 the ratio was equal to 92.0%). The liquidity surplus was still invested in the portfolio of liquid assets (Cash, balance with NBP, NBP Bills and Polish Government bonds).The share of polish government securities (including NBP Bills) in

total securities portfolio in Banking Book (qualified as assets available for sale) amounted to 99% at the end of December 2014 that is 15% of total assets.

	31.12.2014	31.12.2013
Loans/Deposits ratio (%) *	92,0%	91.5%
High liquid assets portfolio (PLN million) (**)	11 862	11 546

(*) including bonds for individual Clients and sell-buy-backs with Clients

(**) without Trading activity

At the end of 2014 total Clients' deposits of the Group reached the level of PLN 47.6 billion. The growth of the deposits were driven mostly by funds of individuals, of which the share in total Client's deposits grow to approx. 62.6% at the end of December 2014 from 58.3% at the end of December 2013. Consequently, the large, diversified and stable funding from retail, corporate and public sector Clients remains the main source of financing of the Group. The source of medium-term funding remains also medium-term loans, subordinated debt and own bonds issue.

During 2014 the Bank continued to explore the possibility of raising additional funding from bond issue in order to diversify the source of funding. At the end of 2014, the value of bonds placed in institutional investors increased to PLN 1 408 million from PLN 353 million at the end of 2013. The growth was connected with the issue of the 3-year floating rate bonds in the total amount of PLN 500 million at the end of March 2014. Another PLN 501 million of that portfolio increased due to 3-month term bonds, issued partially as a replacement of deposits from financial institutions and as rollover of 3-months bonds issued already in 2Q and 3Q 2014. The new issues had a positive impact on the Group's liquidity.

The Group manages its FX liquidity through the use of FX-denominated bilateral loans as well as subordinated debt, FX swaps and cross-currency interest rate swaps transactions. The swaps portfolio is diversified in term of counterparties and maturity dates. For the majority of counterparties the Group has signed a Credit Support Annex to the master agreements.

The estimation of the Group's liquidity risk is carried out both with the use of the ratios defined by the supervisory authorities and own indicators, for which exposure limits were also established. In 2014 both internal as well as supervisory liquidity measures were kept well above the minimum limits in place.

Additionally, the Group employs an internal structural liquidity analysis based on cumulative liquidity gaps calculated on an actuarial basis (i.e. assuming a certain probability of cash flow occurrence). In 2014 all the liquidity gaps were maintained at the levels significantly above the minimum limits, both for normal as well as stress scenarios.

Liquidity stress tests are performed at least quarterly, in order to understand the Group's liquidity-risk profile and to ensure that the group is in a position to fulfil its obligations in the event of a liquidity crisis and to update the Liquidity Contingency Plan and management decisions.

The Group has emergency procedures for situations of increased liquidity risk – the Liquidity Contingency Plan. The Liquidity Contingency Plan establishes the concepts, priorities, responsibilities and specific measures to be taken in the event of a liquidity crisis. The Liquidity Contingency Plan is revised at least twice a year and it is tested once a year in order to ensure that it is operationally robust.

Operational risk

Operational risk management is based on the processes structure implemented in the Group and overlapping the traditional organisational structure. Current management of the specific processes, including the management of the profile of process operational risk, is entrusted to Process Owners, who report to all other units participating in the risk management process and are supported by these units.

The Group has in its structure a special organizational unit to develop, implement and monitor the Group's policy for management of this risk in cooperation with other organisational units of the Group and in accordance with its internal regulations. The Fraud Risk Management Bureau is a centre of competence for the fraud prevention process.