Financial statements
of the
Alior Bank Spółka Akcyjna

as at and for the year ended 31 December 2014

Selected financial data relating to the consolidated financial statements

	in PLN'000		
	1.01.2014 - 31.12.2014	1.01.2013- 31.12.2013	%% (A-B)/B
	A	B	C
Net interest income	1 200 640	989 835	21,3%
Net fee and commission income	348 014	258 193	34,8%
Trading result & other	333 352	273 206	22,0%
Impairment losses	-546 590	-404 921	35,0%
General administrative expenses	-922 158	-839 194	9,9%
Gross profit	413 258	277 119	49,1%
Net profit	337 030	219 752	53,4%
Total net cash flow	204 600	-58 759	-
Loans and advances to customers	23 647 990	19 653 890	20,3%
Customer deposits	24 430 968	20 861 009	17,1%
Total equity	3 017 804	2 174 927	38,8%
Total assets	30 168 078	25 544 780	18,1%
Ratios			
Earnings/losses per share (PLN)	4,82	3,46	39,5%
Capital adequacy ratio	12,86%	12,05%	6,7%
Tier 1	11,28%	10,28%	9,8%

	in EUR'000		
	1.01.2014 - 31.12.2014	1.01.2013- 31.12.2013	%% (A-B)/B
	A	B	C
Net interest income	286 597	235 059	21,9%
Net fee and commission income	83 072	61 314	35,5%
Trading result & other	79 572	64 879	22,6%
Impairment losses	-130 473	-96 158	35,7%
General administrative expenses	-220 122	-199 286	10,5%
Gross profit	98 646	65 808	49,9%
Net profit	80 450	52 185	54,2%
Total net cash flow	48 839	-13 954	-
Loans and advances to customers	5 548 176	4 739 075	17,1%
Customer deposits	5 731 874	5 030 143	14,0%
Total equity	708 022	524 433	35,0%
Total assets	7 077 887	6 159 524	14,9%
Ratios			
Earnings/losses per share (EUR)	1,15	0,82	40,2%
Capital adequacy ratio	12,86%	12,05%	6,7%
Tier 1	11,28%	10,28%	9,8%

The selected items of the Financial Statements have been converted into EUR at the following rates:
a) as at 31.12.2014
- balance sheet items – at the average EUR exchange rate expressed in PLN, announced by the NBP as at 31.12.2014 – 4.2623;

- income statement and the cash flow statement items – at the average EUR exchange rate expressed in PLN, constituting the arithmetic mean of the average exchange rates announced by the NBP, valid at the end of each month – 4.2110.

b) as at 31.12.2013

- balance sheet items – at the average EUR exchange rate expressed in PLN, announced by the NBP as at 31.12.2013 – 4.1472; - income statement and the cash flow statement items – at the average EUR exchange rate expressed in PLN, constituting the arithmetic mean of the average exchange rates announced by the NBP, valid at the end of each month – 4.1893;

The contents

(in PLN '000)

Consolidated income statement

	Note	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Interest income		1 698 198	1 509 713
Interest expense		-497 558	-519 878
Net interest income	**4**	**1 200 640**	**989 835**
Dividend income		**25 554**	**1 803**
Fee and commission income		533 478	458 945
Fee and commission expense		-185 464	-200 752
Net fee and commission income	**5**	**348 014**	**258 193**
Trading result	**6**	**268 718**	**226 853**
Net gain (realized) on other financial instruments	**7**	**7 928**	**11 812**
Other operating income		51 077	54 952
Other operating costs		-19 925	-22 214
Net other operating income	**8**	**31 152**	**32 738**
General administrative expenses	**9**	**-922 158**	**-839 194**
Impairment losses & provisions	**10**	**-546 590**	**-404 921**
Gross profit		**413 258**	**277 119**
Income tax	**11**	-76 228	-57 367
Net profit		**337 030**	**219 752**

Net profit		**337 030**	**219 752**
Weighted average number of ordinary shares		**69 928 230**	**63 582 965**
Net profit per share (in PLN)	**12**	**4,82**	**3,46**
Diluted earnings per share (in PLN)	**12**	**4,61**	**3,28**

Consolidated statement of comprehensive income

	Note	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Net profit		**337 030**	**219 752**
Other taxable comprehensive income		**38 203**	**-27 553**
Net gains/losses on financial assets available for sale		7 559	-24 533
Profit/loss on valuation of financial assets available for sale	14	9 332	-30 288
Deferred tax	11	-1 773	5 755
Net gain on hedging derivatives		30 644	-3 020
Net gain on valuation of hedging derivatives	26	37 832	-3 728
Deferred tax	11	-7 188	708
Total comprehensive income, net		**375 233**	**192 199**

(in PLN '000)

Consolidated statement of financial position

ASSETS	Note	As at 31.12.2014	As at 31.12.2013	As at 01.01.2013
Cash and balances with the Central Bank	13	1 158 440	1 067 227	1 029 968
Financial assets held for trading	25	476 821	243 291	173 706
Financial assets available for sale	14	2 652 125	2 705 328	3 773 595
Hedging derivatives financial instruments	26	80 205	12 099	0
Amounts due from banks	16	446 993	253 670	369 945
Loans and advances to customers	15	23 647 990	19 653 890	14 298 107
Assets pledged as collateral	32	927 191	687 736	549 957
Property, plant and equipment	17	191 835	215 121	214 887
Intangible assets	18	214 589	188 048	157 938
Investments in subsidiaries		5 644	2 459	5 754
Non-current assets held for sale		908	38 335	62 298
Income tax asset	11	146 939	139 799	143 264
Deferred		*146 939*	*139 799*	*143 264*
Other assets	19	218 398	337 777	405 247
TOTAL ASSETS		**30 168 078**	**25 544 780**	**21 184 666**

LIABILITIES AND EQUITY	Note	As at 31.12.2014	As at 31.12.2013	As at 01.01.2013
Financial liabilities held for trading	25	349 033	184 090	129 107
Financial liabilities measured at amortized cost due to banks	22	1 049 162	827 976	628 841
Financial liabilities measured at amortized cost due to customers	21	24 430 968	20 861 009	17 472 195
Hedging derivatives financial instruments	26	4 777	0	0
Provisions	23	8 311	4 871	7 760
Other liabilities	24	741 875	1 111 137	595 738
Income tax liabilities		24 553	31 949	31 134
Current		24 553	31 949	31 134
Subordinated loans	27	541 595	348 821	350 578
Total liabilities		**27 150 274**	**23 369 853**	**19 215 353**
Equity	28	**3 017 804**	**2 174 927**	**1 969 313**
Share capital		699 784	635 830	635 830
Supplementary capital		1 775 397	1 434 712	1 276 610
Revaluation reserve		21 426	-16 777	10 776
Other reserves		184 167	176 792	163 377
Accumulated losses		0	-275 382	-176 740
Current year profit/loss		337 030	219 752	59 460
TOTAL LIABILITIES AND EQUITY		**30 168 078**	**25 544 780**	**21 184 666**

(in PLN'000)

Statement of changes in consolidated equity

1.01.2014 - 31.12.2014	Share capital	Supplementary capital	Other reserve - Share-based payments	Revaluation reserve	Retained earnings/ accumulated losses	Net profit	Total equity
As at 1 January 2014	**635 830**	**1 434 712**	**176 792**	**-16 777**	**-275 382**	**219 752**	**2 174 927**
Transfer of the previous year result	**-**	**-**	**-**	**-**	**219 752**	**-219 752**	**0**
Comprehensive income	**-**	**-**	**-**	**38 203**	**-**	**337 030**	**375 233**
Net profit	-	-	-	-	-	337 030	337 030
Other comprehensive income	-	-	-	38 203	-	-	38 203
Share-based payments	**-**	**-**	**7 375**	**-**	**-**	**-**	**7 375**
Share issue	**63 954**	**396 315**	**-**	**-**	**-**	**-**	**460 269**
Distribution of prior year result	**-**	**-55 630**	**-**	**-**	**55 630**	**-**	**0**
As at 31 December 2014	**699 784**	**1 775 397**	**184 167**	**21 426**	**0**	**337 030**	**3 017 804**

1.01.2013 - 31.12.2013	Share capital	Supplementary capital	Other reserve - Share-based payments	Revaluation reserve	Retained earnings/ accumulated losses	Net profit	Total equity
As at 1 January 2013	**635 830**	**1 276 610**	**163 377**	**10 776**	**-176 740**	**59 460**	**1 969 313**
Transfer of the previous year result	**-**	**-**	**-**	**-**	**59 460**	**-59 460**	**0**
Comprehensive income	**-**	**-**	**-**	**-27 553**	**-**	**219 752**	**192 199**
Net profit	-	-	-	-	-	219 752	219 752
Other comprehensive income	-	-	-	-27 553	-	-	-27 553
Share-based payments	**-**	**-**	**13 415**	**-**	**-**	**-**	**13 415**
Distribution of prior year result	**-**	**158 102**	**-**	**-**	**-158 102**	**-**	**0**
As at 31 December 2013	**635 830**	**1 434 712**	**176 792**	**-16 777**	**-275 382**	**219 752**	**2 174 927**

(in PLN 000)

Consolidated cash flow statement

	Note	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Operating activities			
Gross profit		**413 258**	**277 119**
Adjustments:		**-740 288**	**-229 933**
Unrealized foreign exchange gains/losses		1 394	1 786
Income from dividend		-25 554	-1 800
Amortization/depreciation of tangible and intangible assets		75 456	75 156
Change in tangible and intangible assets impairment write-down		5 253	101
Profit/loss on investment net sale		99	0
Change in provisions		3 412	-2 907
Share-based payments and IPO costs		7 375	13 415
Change in loans and receivables	31.2	-4 079 527	-5 337 260
Change in financial assets available for sale		-180 760	932 222
Change in financial assets held for trading		-233 530	-69 585
Change in hedging asset derivatives		-68 106	-12 099
Change in non-current assets held for sale		37 427	23 963
Change in other assets	31.4	120 648	67 470
Change in deposits		3 040 367	2 877 507
Change in issued debt		519 010	479 564
Change in financial liabilities held for trading		164 943	54 983
Change in hedging liabilities derivatives		4 777	0
Change in other liabilities	31.3	-33 246	714 176
Income tax paid		-99 726	-46 625
Net cash flow from operating activities		-327 030	47 186
Investing activities			
Outflows:		**-83 513**	**-105 106**
Purchase of property, plant and equipment	31.5	-22 864	-50 179
Purchase of intangible assets	31.6	-56 005	-58 222
Purchase of shares in subordinated companies		-4 644	3 295
Inflows:		**25 694**	**1 800**
Dividend received		25 554	1 800
Disposal of property, plant and equipment		49	
Disposal of shares in subordinated companies		91	0
Net cash flow from investing activities		**-57 819**	**-103 306**
Financing activities			
Outflows:		**-192 520**	**-2 639**
Repayment of long-term liabilities		-219 940	-30 402
Interest expense – loan received		654	1 412
Interest expense – subordinated loan		26 766	26 351
Inflows:		**781 969**	**0**
Inflows from share issue		460 269	0
Inflows from the issuance of subordinated liabilities		321 700	0
Net cash flow from financing activities		**589 449**	**-2 639**
Total net cash flow		**204 600**	**-58 759**
incl. exchange gains/(losses)		**16 713**	**-1 040**
Balance sheet change in cash and cash equivalents		**204 600**	**-58 759**

(in PLN'000)

Cash and cash equivalents, opening balance		**1 251 673**	**1 310 432**
Cash and cash equivalents, closing balance	31.1	**1 456 273**	**1 251 673**
Additional disclosures on operating cash flows			
Interest income received		1 745 303	1 440 429
Interest expense paid		-476 567	-572 433

Additional information to the consolidated financial statements

1. Information about the Bank and the Group

1.1 General information

Alior Bank Spółka Akcyjna ("the Bank", "the parent company") is the parent company of the Alior Bank Spółka Akcyjna Group ("the Group"). The Bank, with its seat in Warsaw, ul. Łopuszańska 38D, was entered in the register of businesses maintained by the District Court for the Capital City of Warsaw, 13th Business Department of the National Court Register under the number KRS 0000305178. The parent company was assigned a tax identification number NIP: 107-001-07-31 and the statistical number REGON: 141387142. The Bank changed its registered office in 2013 – the previous one was located in Warsaw, Aleje Jerozolimskie 94.

Since 14 December 2012, the Bank has been listed on the Warsaw Stock Exchange (ISIN: PLALIOR00045).

On 8 January 2015, the Polish Financial Supervision Authority officially recognized Carlo Tassara S.p.A. as the parent company of Alior Bank within the meaning of Art. 4. 1.8b) of the Banking Law.

1.2 Duration and scope of business activities

On 18 April 2008, the Polish Financial Supervision Authority (the "PFSA") granted permission for the incorporation of a bank under the name Alior Bank S.A. On 1 September 2008, the PFSA issued a license for the Bank to commence its business activities. On 5 September 2008, the PFSA granted the Bank permission to conduct brokerage activities. The duration of the Bank's operations is indefinite.

Alior Bank SA is a universal lending and deposit-taking bank which renders services to individuals, legal persons and other entities which are Polish and foreign persons. The Bank's core activities include maintaining bank accounts, granting loans and advances, issuing banking securities and the purchase and sale of foreign currency. The Bank also conducts brokerage activities and consulting. In accordance with its Memorandum of Association, Alior Bank operates in the territory of the Republic of Poland and the European Economic Area. The Bank provides services principally to all customers from Poland. The share of foreign customers in the total number of the Bank's customers is immaterial.

(in PLN '000)

1.3 Shareholders of Alior Bank Spółka Akcyjna

The following shareholders of Alior Bank had more than a 5% interest in the share capital as at 31 December 2014:

- Alior Lux S.a r. l. & Co S.C.A.;
- European Bank for Reconstruction and Development;
- Genesis AssetManagers, LLP.

Shareholders holding more than 5% of the Bank's shares as at 31.12.2014 and 31.12.2013

Shareholder	Number of shares/votes	Nominal value of shares (PLN)	% of share capital	% of votes in all votes
	31 December 2014			
Alior Lux S.a r.l. & Co. S.C.A. (including Alior Polska sp. z o.o.)	18 318 473	183 184 730	26,18%	26,18%
European Bank for Reconstruction and Development	5 614 035	56 140 350	8,02%	8,02%
Genesis Asset Managers, LLP	3 853 644	38 536 440	5,51%	5,51%
Others	42 192 214	421 922 140	60,29%	60,29%
Total	**69 978 366**	**699 783 660**	**100%**	**100%**
	31 December 2013			
Alior Lux S.a r.l. & Co. S.C.A. (including Alior Polska sp. z o.o.)	22 918 382	229 183 820	36,05%	36,05%
European Bank for Reconstruction and Development	5 614 035	56 140 350	8,83%	8,83%
Genesis Asset Managers, LLP	3 874 561	38 745 610	6,09%	6,09%
Others	31 175 987	311 759 870	49,03%	49,03%
Total	**63 582 965**	**635 829 650**	**100%**	**100%**

On 24 April 2014, the Bank's Management Board received notifications pursuant to Art. 69 of the Public Offering Act of 29 July 2005 of changes in the share in the total number of votes at the General Shareholders' Meeting of Alior Bank from the following shareholders:

- Alior Lux S a.r.l. & Co. S.C.A. notified about the disposal of 3,300,000 Alior Bank shares for PLN 79 per share on 23 April 2014.

- Wellington Management Company LLP notified about the purchase of 926,079 Alior Bank shares on 23 April 2014.

In accordance with a notification received on 15 May 2014, the customers of Genesis Asset Managers, LLP took up 534,266 shares.

On 3 July 2014, the Bank's Management Board was notified by Alior Lux S.a.r.l. & Co. S.C.A. about the transfer of 1,299,900 shares of the Bank to LuxCo 82 s.a.r.l., Luxembourg, in connection with the settlement of the incentive scheme for the management of Alior Bank.

On 22 September 2014, the Bank's Management Board received notifications pursuant to Art. 69 of the Public Offering Act of 29 July 2005 of changes in the share in the total number of votes at the General Shareholders' Meeting of Alior Bank from Wellington Management Company LLP. On 19 September 2014, that shareholder sold 119,843 shares of the Bank at the Warsaw Stock Exchange. After the said transaction, the shares held by Wellington Management (3,382,735 shares of the Bank) represent 4.84% of the Bank's share capital.

(in PLN '000)

Moreover, during the reporting period took place:

- the increase of the share capital through the issuance of G-series ordinary bearer shares with the total par value of PLN 63 582 960 (6 358 296 ordinary shares);
- the issuance of 37,105 D-series ordinary bearer shares with the total par value of PLN 371,050 for the purposes of partial settlement of the Incentive Scheme.

1.4 Information on the composition of the Bank's Management and Supervisory Boards

As at 31 December 2014, the composition of the Bank's Management Board was as follows:

Wojciech Sobieraj	President of the Management Board
Krzysztof Czuba	Vice-President of the Management Board
Michał Hucał	Vice-President of the Management Board
Witold Skrok	Vice-President of the Management Board
Katarzyna Sułkowska	Vice-President of the Management Board

In the period from 1 January to 31 December 2014, the composition of the Bank's Management Board changed. On 9 April 2014, Mr Niels Lundorff and Mr Artur Maliszewski resigned as candidates for the Bank's Management Board for their third term which commenced on 21 April 2014. At the same time, on 9 April 2014, the Bank's Supervisory Board passed a resolution on appointing the following persons to the Bank's Management Board for the next term:
Mr Wojciech Sobieraj as President of the Management Board;
Mr Krzysztof Czuba as Vice-President of the Management Board;
Mr Michał Hucał as Vice-President of the Management Board;
Mr Witold Skrok as Vice-President of the Management Board;
Ms. Katarzyna Sułkowska as Vice-President of the Management Board.

As at 31 December 2013, the composition of the Bank's Management Board was as follows:

Wojciech Sobieraj	President of the Management Board
Krzysztof Czuba	Vice-President of the Management Board
Michał Hucał	Vice-President of the Management Board
Niels Lundorff	Vice-President of the Management Board
Artur Maliszewski	Vice-President of the Management Board
Witold Skrok	Vice-President of the Management Board
Katarzyna Sułkowska	Vice-President of the Management Board

(in PLN '000)

As at 31 December 2014, the composition of the Bank's Supervisory Board was as follows:

Helene Zaleski	President of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	Vice-President of the Supervisory Board
Marek Michalski	Supervisory Board Member
Krzysztof Obłój	Supervisory Board Member
Sławomir Dudzik	Supervisory Board Member
Stanisław Popów	Supervisory Board Member
Niels Lundorff	Supervisory Board Member

By Resolution no. 4 of the Extraordinary General Shareholders' Meeting of the Bank of 23 January 2014, Mr Sławomir Dudzik was appointed Member of the Supervisory Board of Alior Bank S.A.

On 8 September 2014, Ms. Lucyna Stańczak-Wuczyńska resigned from the position of Member of the Supervisory Board of the Bank to assume new professional responsibility with the European Bank for Reconstruction and Development.

On 22 October 2014, the Extraordinary General Shareholders' Meeting of the Bank appointed Mr Stanisław Popów and Mr Niels Lundorff to the Management Board.

As at 31 December 2013, the composition of the Bank's Supervisory Board was as follows:

Helene Zaleski	President of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	Vice President of the Supervisory Board
Marek Michalski	Supervisory Board Member
Krzysztof Obłój	Supervisory Board Member
Lucyna Stańczak-Wuczyńska	Supervisory Board Member

1.5 Approval of the consolidated financial statements

On 15 May 2014, the Annual General Shareholders' Meeting of Alior Bank S.A. passed a resolution on the appropriation of profit for 2013 (in the total amount of PLN 219,751,608.89) for offsetting accumulated losses resulting from adjustments to the financial statements for previous years and the change in the accounting treatment of bancassurance revenues related to loan products.

These financial statements of Alior Bank SA were approved for publication by the Bank's Management Board on 26 February 2015.

2. Accounting policies

2.1 Basis for preparation

Scope and comparatives

These financial statements cover the year ended 31 December 2014 and comprise the comparatives for the year ended 31 December 2013. The financial statements have been prepared in Polish zloty (PLN) and all amounts are presented in PLN thousands, unless otherwise stated.

In the financial statements of the Alior Bank S.A. the financial assets and financial liabilities (including derivative instruments and financial assets classified as available for sale other than those whose fair value could not be reliably determined) were stated at fair value through profit or loss. Other financial assets (including loans and advances) were stated at amortized cost less impairment write-downs, or at the purchase price less impairment write-downs. Fixed assets held for trading were stated at the lower of the carrying value and the fair value less costs to sell. Other assets and liabilities are stated in accordance with a model based on the purchase price or cost of manufacture, i.e. after the initial recognition they are stated at historical cost less depreciation/amortization and impairment.

The table below presents the changes made for the purpose of greater clarity of data presentation. In the statement of financial position the following changes have been made:

- financial liabilities measured at amortized cost have been broken down into financial liabilities measured at amortized cost due to customers and financial liabilities measured at amortized cost due to banks;
- provisions for contingent liabilities have been transferred to provisions;
- provisions for employee benefits have been transferred from provisions to other liabilities

Items from the statement of financial position	Financial statement as at 31.12.2013	Amount of adjustments	Adjusted amount for 31.12.2013
Financial assets available for sale	3 388 525	683 197	2 705 328
Amounts due from banks	254 199	529	253 670
Loans and advances to customers	19 657 900	4 010	19 653 890
Assets pledged as collateral	0	-687 736	687 736
TOTAL ASSETS	**23 300 624**	**0**	**23 300 624**
Financial liabilities measured at amortized cost	21 688 985	-21 688 985	0
Financial liabilities measured at amortized cost due to banks	0	827 976	827 976
Financial liabilities measured at amortized cost due to customers	0	20 861 009	20 861 009
Provisions	10 574	-5 703	4 871
Other liabilities	1 105 434	5 703	1 111 137
TOTAL LIABILITIES AND EQUITY	**22 804 993**	**0**	**22 804 993**

Statement of compliance
These financial statements of the Alior Bank Spółka Akcyjna have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union as of 31 December 2014, and, with respect to aspects not regulated by these standards, in accordance with the Accounting Act of 29 September 1994 (consolidated text, Journal of Laws of 30 January 2013, item 330 as amended), as well as the secondary legislation based thereon and the requirements applicable to issuers of securities admitted to or seeking admission to trading on a stock exchange. The Bank used the option provided by the International Financial Reporting Standards as adopted by the UE and decided to apply IFRS 10, IFRS 11, IFRS 12, amended IAS 27 and IAS 28 from the annual periods commencing on 1 January 2014.

Going concern
The financial statements of the Alior Bank Spółka Akcyjna have been prepared on the assumption that the Bank will continue as a going concern for a period of at least 12 months after the balance sheet date, i.e. after 31 December 2014.

As of the date of approval of these financial statements, the Bank's Management Board is not aware of any circumstances which would have a negative effect on the Bank's operations for any reasons.

Presentation of financial statements
In the statement of financial position, the Bakn presents assets and liabilities according to the liquidity criterion.
The Bank offsets financial assets and financial liabilities and presents them in the net amount only if it has a valid legal title to perform such offset and intends to settle a given item in the net amount or realize the asset and settle the liability simultaneously. The Bank does not offset revenues and costs, unless it is required or allowed by standards or interpretation.

2.2 Material judgements in the application of accounting policies, estimates and assumptions

In order to prepare the financial statements of the Bank, the Bank's Management Board is required to apply professional judgement and use estimates and assumptions that affect the amounts of revenues, costs, assets and liabilities, as well as disclosures concerning contingent liabilities as at the reporting date. However, due to uncertainty associated with professional judgement and estimates, the amounts of assets and liabilities may change in the future in line with the ultimate effects of transactions.

Estimates and assumptions
The areas where estimates adopted as at the reporting date are exposed to the risk of adjustment to the carrying value of recognized assets and liabilities in the following financial year are presented below. The assumptions and estimates made by the Bank were based on data available as at the date of preparation of the financial statements. However, the current circumstances and the assumptions relating to the future may change due to changes on the market or circumstances that are beyond the Bank's control. Such changes are reflected in the estimates upon their occurrence.

(in PLN '000)

Fair value of financial instruments

If it is impossible to determine the fair value of financial assets or liabilities recognized in the financial statements on the basis of active markets, it is determined using other measurement techniques, which include: using recent market transactions, an analysis of discounted cash flows, option valuation models and other techniques which are commonly used by market participants. Wherever possible, input data is obtained from observable markets. If it is not possible, professional judgement must be used to assess liquidity risk, credit risk and volatility risk. Changes in the assumptions relating to such risks can affect the recognized fair value of financial instruments. The valuation of financial instruments is described in detail in section 2.3.5.

The application of IFRS 7 requires the Bank to estimate the change in the valuation of derivative financial instruments with linear risk profile assuming a parallel shift of the yield curve. For this purpose, the Bank constructs yield curves based on market data. The Bank analyses the impact of the changes in the yield curves on the transaction's valuation in accordance with assumed scenarios:

For the portfolio of derivative financial instruments with non-linear risk profile and not subject to hedge accounting

Estimated change in valuation	31.12.2014		31.12.2013	
	scenario +50b.p.	scenario -50b.p.	scenario +50b.p.	scenario -50b.p.
IRS	-7 331	7 331	-1 529	1 529
CIRS	-451	451	-350	350
Other instruments	-1 041	1 041	-44	44
Total	-8 823	8 823	-1 923	1 923

Derivative financial instruments subject to hedge accounting

Estimated change in valuation	31.12.2014		31.12.2013	
	scenario +50b.p.	scenario -50b.p.	scenario +50b.p.	scenario -50b.p.
IRS	-45 056	45 056	-9 501	9 501
Total	-45 056	45 056	-9 501	9 501

Impairment of amounts due from customers

The Bank assesses all loan exposures (groups of loan exposures) recognized in the balance sheet to identify any objective indications of impairment using the most recent data available as at the date of revaluation. When estimating an impairment loss, the Bank assesses the estimated amounts and due dates of future cash flows. Estimates are based on the assumptions concerning a number of factors, therefore, the actual results can be different from the estimates. As a result, the amount of impairment loss may change in the future.

The exposures in respect of which indications of impairment have been identified are divided into those that are measured individually and those that are measured in groups. The exposures in respect of which no indications of impairment have been identified are grouped in accordance with the principle of retaining a homogeneous risk profile and IBNR provisions are created for such groups of exposures. The amount of IBNR is determined based on PD, LGD and hedging parameters (taking into account the expected recovery rates).

The effect of increase/decrease of cash flows (including cash flows from the collateral) for impairment of loans and advances portfolio assessed on an individual basis is presented in the table below (in millions PLN):

	31.12.2014		31.12.2013	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
Estimated change in impairment of loans and advances as a result of changes in the present value of estimated cash flows for loans and advances assessed on an individual basis	-64.69	132.84	-43.37	80.55

A detailed description of impairment write-downs is presented in Note 48.

Impairment of assets available for sale

At the end of each reporting period the Bank verifies whether there are any objective indications of impairment of a financial asset or a group of financial assets, including debt instruments classified as financial assets available for sale. If any such indications are identified, the Bank estimates the recoverable amount using a method consistent with the individual assessment of amounts due from customers as described above.

Estimated change in valuation	31.12.2014		31.12.2013	
	scenario +50pb	scenario -50pb	scenario +50pb	scenario -50pb
Financial assets available for sale	3 651	-3 651	-454	454
Total	3 651	-3 651	-454	454

Impairment of assets available for sale is described in detail in section 2.3.7.

Recognition of income from bancassurance

The treatment of fees for insurance products offered together with cash and mortgage loans introduced as at 31.12.2013 was based on the "relative fair value" model that best reflects the economic nature of such transactions. The treatment of fees for insurance products offered together with cash and mortgage loans introduced in 2013, which was based on the "relative fair value" model, was continued in 2014. Bancassurance is described in detail in the description of accounting policies in Note 2.3.19.

The estimated change in the revenue recognized by the Bank in 2014:
- Scenario: 5 p.p. increase in the provision for the resignations: -15.39 million (a decrease in interest income)
- Scenario: 5 p.p decrease in the provision for the resignations: 15.08 million (an increase in interest income)
- Scenario: 1 p.p. increase in recognized upfront revenue: 3.51 million (an increase in fee income)
- Scenario: 1 p.p. decrease in recognized upfront: -3.51 million (a decrease in fee income)

2.3 Major accounting policies

2.3.1 Transactions in foreign currencies

Functional and presentation currency
Items included in the financial statements of the Bank are measured in the currency of the primary economic environment in which a given entity operates ("the functional currency"). The financial statements have been prepared in Polish zloty, and the amounts are given in thousands, unless otherwise indicated. The Polish zloty is the functional and presentation currency of the Bank (it is also the functional currency of the Bank and the other entities covered by these financial statements).

Transactions and balances in foreign currencies
Transactions expressed in foreign currencies are initially recognized at the exchange rate of the functional currency as at the transaction date. At the end of each reporting period the Bank measures:

- monetary assets and liabilities expressed in foreign currencies, using the average exchange rate of a given currency determined by the National Bank of Poland as at the end of the reporting period;
- non-cash items measured at historical cost expressed in a foreign currency - at the exchange rate as at the date of initial recognition of the transaction;
- non-cash items measured at fair value expressed in a foreign currency - at the exchange rate as at the date on which the fair value was determined.

Foreign exchange gains and losses arising from the settlement of such transactions and from the valuation of monetary assets and liabilities expressed in foreign currencies as at the balance sheet date are recognized in the income statement. Foreign exchange gains/loses on such items as equity instruments classified as available-for-sale financial assets, are recognized in revaluation reserve with respect to available-for-sale financial assets.

EUR	2014	2013
Exchange rate in force as at the last day of the period	4,2623	4,1472
Exchange rate being the arithmetic mean of the rates valid on the last day of each month of a given period	4,1893	4,2110

2.3.2 Financial assets and liabilities - initial recognition and classification

The Bank recognizes financial assets and liabilities in the statement of financial position when it becomes a party to the contract for such instrument. Standardized transactions for the purchase and sale of financial assets are recognized as at the settlement date.
Upon initial recognition all financial instruments are measured at the fair value.

The Bank classifies financial assets and liabilities upon their initial recognition, depending on the purpose, characteristics and intention associated with the purchased financial instrument.

The Bank classifies financial assets in the following categories: financial assets measured at the fair value through profit or loss; financial assets available for sale; loans and advances and financial assets held to maturity. Financial liabilities are classified in the following categories: financial liabilities measured at the fair value through profit or loss and other financial liabilities.

Financial assets and liabilities measured at fair value through profit or loss
Financial assets and liabilities measured at fair value through profit or loss comprise:

- financial instruments held for trading - financial assets and liabilities - are classified as held for trading if they have been purchased for the purchase of resale in the near future. This category comprises derivative financial instruments concluded by the Bank that have not been designated as effective hedging instruments under IAS 39;
- financial instruments classified upon initial recognition as financial assets valued at the fair value through profit or loss - financial assets and liabilities - can be classified in this category if and only if:
  - a designated financial asset or liability is a combined instrument containing one or more embedded derivatives that qualify for separate recognition, provided, however, that the embedded derivative does not change the cash flows resulting from the host contract significantly, otherwise the derivative cannot be separated;
  - such classification of an asset or liability eliminates or significantly reduces inconsistency with respect to measurement or recognition (known as accounting mismatch resulting from a different method of measurement of assets or liabilities or a different method of recognition of the related profits or losses);
  - a group of financial assets or liabilities or both these categories is managed and its results are evaluated based on the fair value, in accordance with the documented risk management principles or investment strategy of the Bank.

As at 31 December 2014 and 31 December 2013 the Bank had no financial assets classified in this category.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets designated as available for sale, or financial assets other than loans and receivables, investments held to maturity, financial assets measured at fair value through profit or loss.
On 31 December 2014 and 31 December 2013, the Bank designated to this category polish treasury bonds, corporate bonds and NBP bills.

Loans and receivables
This category comprises non-derivative financial assets with determined or determinable payments, not quoted on an active market, other than:

- financial assets that the Bank intends to sell immediately or within a short time and which are classified as held for trading, or financial assets that were designated upon initial recognition as measured at fair value through profit or loss;
- financial assets designated by the entity upon initial recognition as available for sale;

- financial assets whose holder is unable to recover the total amount of the initial investment for reasons other than deterioration in debt servicing, which are classified as available for sale.

As at 31 December 2014 and 31 December 2013, the Bank had amounts due from banks (interbank deposits, security deposits, cash on current accounts) and receivables in respect of loans and advances, purchased receivables or other amounts due from customers classified in this category.

Financial assets held to maturity
They comprise non-derivative financial assets with determined or determinable payments, with determined maturity, which the Bank intends and is able to hold to maturity, other than those that meet the definition of loans and receivables. In the event of sale or reclassification before maturity of investments held to maturity with a more than insignificant value in relation to the total amount of investments held to maturity, the whole category of investments is reclassified to available-for-sale assets. In such cases, the Bank is not allowed to classify any financial assets as investments held to maturity over a period of two years.
As at 31 December 2014 and 31 December 2013, the Bank had no investments held to maturity.

Other financial liabilities
Other financial liabilities comprise financial liabilities other than measured at fair value through profit or loss, such as deposits, loans received or advances received.
As at 31 December 2014 and 31 December 2013, this category comprised amounts due to banks, including loans and advances received (including subordinated loans and advances) and amounts due to customers, including deposits, bank securities issued and transactions with a repurchase clause.

2.3.3 Financial assets and liabilities - subsequent measurement

Financial assets and liabilities measured at fair value through profit or loss
Financial assets and liabilities measured at fair value through profit or loss are measured at the fair value through profit or loss.

Available-for-sale financial assets
Instruments classified as available for sale are measured at the fair value through equity (other comprehensive income). Upon sale of the instrument, the accumulated profit/loss is recognized in the income statement. Interest accrued at the effective interest rate on assets available for sale is recognized in the income statement.
If there is objective evidence of impairment of debt financial assets available for sale, the accumulated impairment write-downs are eliminated from revaluation reserve and recognized in profit or loss.

Loans and receivables

Loans and receivables are measured at amortized cost using the effective interest rate, taking into account impairment.

Renegotiated contracts
The Bank treats renegotiations of contractual terms of loans and advances as an indication of impairment, unless such renegotiation did not result from the debtor's situation, but was performed under normal business circumstances. Subsequently, the Bank determines whether impairment of such loans and advances should be recognized on an individual or group basis.

Financial assets held to maturity

Financial assets held to maturity are measured at amortized cost using the effective interest rate method, taking into account impairment.

Other financial liabilities

Other financial liabilities, including liabilities in respect of bank securities issued, are measured at amortized cost using the effective interest rate method.

Financial guarantee contracts

Financial guarantee contracts are contracts that impose on the issuer an obligation to make certain payments to compensate the holder for a loss incurred due to a debtor's failure to make payment when due in accordance with the original or amended terms and conditions of the debt instrument. Upon initial recognition financial guarantee contracts are measured at the fair value. After initial recognition, the issuers of such contracts measure them at the higher of:

- the amount determined under IAS 37, Provisions, Contingent Liabilities and Contingent Assets, or
- the initial value less accumulated amortization (if applicable)

recognized in accordance with IAS 18, Revenue.

2.3.4 Elimination of financial assets and liabilities from the balance sheet

Financial assets
The Bank eliminates a financial asset from the balance sheet when:

- the contractual rights to cash flows from that financial asset have expired;
- the Bank has transferred the contractual rights to obtain cash flows from that financial asset to another entity.

Upon transfer of a financial asset, the Bank evaluates the extent to which it retains the risks and benefits associated with holding that financial asset. In such cases:

- if substantially all risks and benefits associated with holding a given financial asset are transferred, the financial asset is eliminated from the statement of financial position;

- if substantially all risks and benefits associated with holding a given financial asset are retained, the financial asset continues to be recognized in the statement of financial position;
- if substantially all risks and benefits associated with holding a given financial asset are neither transferred nor retained, the Bank determines whether it has maintained control of that financial asset. If control has been maintained, the financial asset continues to be recognized in the balance sheet, and if control has not been maintained - it is eliminated from the balance sheet up to the amount resulting from maintained exposure.

The Bank eliminates loans and receivables or parts thereof from the balance sheet, and if the rights associated with a loan agreement expire, it waives such rights or performs unconditional sale of the loan. If financial assets are determined to be irrecoverable, impairment write-downs are usually recognized. Receivables that were previously written off and subsequently recovered decrease the impairment write-downs in the income statement.

Financial liabilities
The Bank eliminates a financial liability (or a part thereof) from the balance sheet if the obligation specified in the contract has been satisfied or forgiven or expired.

2.3.5 Fair value measurement

Fair value of financial instruments
Individual financial assets/liabilities are classified to the following categories using the methods of fair value measurement applied by the Bank:

- level I - financial assets/liabilities measured directly based on prices quoted on the principal (or the most advantageous) market;
- level II - financial assets/liabilities measured using valuation techniques based on the assumptions developed with the use of information from the principal (or the most advantageous market);
- level III - financial assets/liabilities measured using valuation techniques commonly used by market participants, whose assumptions are not based on information from the principal (or the most advantageous) market.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on the principal (or the most advantageous) market as at the measurement date under the current market conditions (i.e. the exit price), irrespective of whether such price is directly observable or estimated with the use of another measurement technique.
The fair value of financial instruments is based on prices quoted on the principal (or the most advantageous) active market, without deducting the transaction costs. If the market price is unavailable, the fair value of an instrument is estimated using the measurement models or techniques for discounting future cash flows.

The measurement techniques are based on:

- recent market transactions concluded directly between informed interested parties, provided that such information is available;

- a reference to the present fair value of another instrument with almost identical characteristics;
- the discounted cash flow method.

If there is a technique that is commonly used by market participants to measure a financial instrument and its has been demonstrated to provide reliable estimates of prices paid in actual market transactions, the Bank uses such a method. The selected measurement techniques are primarily based on market data. They use Bank-specific data to a limited extent. The measurement technique comprises all factors that the market participants would take into account when determining the price and it is consistent with the accepted methods of measurement of financial instruments. The Bank verifies the correctness of measurement using the available prices paid for the same instrument in recent market transactions or other available market data.

Financial instrument	**Frequency**	**Recognition/presentation**
Available-for-sale financial assets	Daily	other comprehensive income
Fx forward, fx swap, fx options	Daily	income statement
CIRS, FRA, IRS	Daily	income statement
Other derivatives	Daily	income statement
Shares listed on the WSE	Daily	income statement

Since 2013, Alior Bank S.A. has adjusted the measurement of derivatives for counterparty credit risk. Consequently, the measurement of derivatives changes in the event of insolvency of either party to the transaction (Bilateral Credit Value Adjustment). The amount of such adjustment is calculated based on the estimates of the following parameters: PD (Probability of Default), LGD (Loss Given Default), Expected Exposure (EE) and Expected Negative Exposure (NEE).
The effect of such adjustment on the financial result is presented in Note 29.

PD and LGD are estimated by the Bank using internal models based on market quotations of credit risk. Counterparty exposures are calculated taking into account the current valuation and its projection calculated based on the expected changes in market conditions. Additionally, the estimations of credit risk adjustments take into account the mutual liabilities of the parties to the transaction resulting from hedging agreements.

Derivative instruments
The Bank uses the following financial derivatives to manage market risk: FX-Forward, FX-Swap, IRS, CIRS, FRA, security forwards and futures. The Bank initially (on the date of signing the contract) recognizes such transactions at fair value (without taking into account the transaction costs), and subsequently performs revaluations. Derivatives are recognized as financial assets if their fair value is positive, or as financial liabilities if it is negative.

Any gains or losses on changes in the fair value of derivatives are recognized directly in the income statement under the trading result, with the exception of the effective part of cash flow hedges, which is recognized in other comprehensive income.

The Bank has used cash flow hedge accounting since 2013. A detailed description of hedge accounting is presented in Note 26.

The Bank separates embedded derivatives from the host contract and recognizes them in the same manner as other derivatives, provided that:

- the business characteristics and risks associated with embedded derivatives are not closely related to the business characteristics and risks associated with the host contract;
- an independent instrument with the same contractual terms and conditions as the separated embedded derivative would meet the definition of a derivative;
- the host contract is not measured at fair value through profit or loss.

2.3.6 Repo and reverse repo transactions

In the statement of financial position, the Bank presents repo transactions on securities in accordance with the business purpose of such transactions.

The Bank verifies whether a purchase/sale of securities is associated with transferring the risks and benefits arising from such securities.

In the case of transactions concluded by the Bank to date, substantially all risks and benefits are retained by the seller of the securities, since the risk of changes in the net present value of an asset does not change significantly as a result of its transfer.

Therefore, both reverse repo (buy-sell-back) and repo (sell-buy-back) transactions on securities are presented in the Bank's balance sheet as deposits placed with the buyer of the securities or deposits received from the buyer of the securities, respectively.

Securities that are subject to repo transactions are not eliminated from the statement of financial position and are measured in accordance with the principles defined for the specific portfolio of securities. The difference between the sale price and the repurchase price is recognized as interest expenses or income, respectively.

2.3.7 Impairment of financial assets

At the end of each reporting period, the Bank verifies whether there is any objective evidence of impairment of a financial asset or a group of financial assets. The Bank determines that a financial asset or a group of financial assets has been impaired and recognizes an impairment loss if and only if there is objective evidence of impairment resulting from one or more events that occurred after the initial recognition of the asset (loss event), and the loss event (or events) affect the expected future cash flows from that financial asset or a group of financial assets that can be measured reliably.

Evidence of impairment includes:

- significant financial distress of an issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

- its becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a given financial asset caused by financial difficulties;
- Observable data indicating a measurable decrease in estimated future cash flows associated with a group of financial assets since their initial recognition, even though a decrease relating to a single component of the group of financial assets cannot be determined yet;
- information on significant adverse changes in the technological, market, economic, legal or other environment in which the issuer operates, indicating that the costs of investment in an equity instrument may not be recoverable.

A detailed description of impairment of financial assets is provided in Note 46.

Financial assets measured at amortized cost

In the case of financial assets measured at amortized cost, the Bank determines whether there is objective evidence of impairment of individual financial assets that are individually significant or, in the case of financial assets that individually are not significant, individually or collectively significant.

If the Bank determines that there is no objective evidence of impairment of a financial asset which is assessed on a case-by-case basis, irrespective of whether it is significant or not, the asset is included in a group of financial assets with similar credit risk characteristics which are collectively assessed for impairment. Assets assessed for impairment case-by-case for which the entity records impairment allowances or decides to continue to record the allowances are not recognized in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses, which have not been incurred), discounted at the initial effective interest rate of the financial instrument (i.e. the effective interest rate fixed on initial recognition). Interest income is accrued using the interest rate applied for discounting future cash flows for the purpose of estimating impairment loss. Exposures with identified indications of impairment are classified into those measured on a case-by-case and on a group (collective) basis.

The individual assessment applies to exposures carrying the risk of impairment (calculated at customer level) which exceed the established thresholds set depending on the customer segment. Individual assessment is also applied to exposures threatened with impairment in respect of which the Bank is unable to identify the groups of assets with similar credit risk characteristics or does not have a sufficient sample for estimating group parameters.

For the purpose of collective valuation, groups with similar credit risk characteristics are identified and assessed collectively for impairment. The group valuation is based on the time of a given exposure being impaired and takes into account the specific nature of a given group in terms of the expected recoveries.

Future cash flows in a group of financial assets for which impairment is assessed collectively are estimated on the basis of the history of losses for assets with similar credit risk characteristics. The adjustment of the historical data takes into account the current circumstances and disappearance of conditions which are currently absent. The estimates of changes in future cash flows reflect changes in the related available data in the individual periods (such as unemployment rate, real estate prices, prices of goods, status of payments and other factors which indicate losses incurred in the group and their extent), and in principle are consistent with them. The method and assumptions adopted for estimating future cash flows are regularly reviewed in order to minimize the discrepancy between the estimated and actual losses.

If in the subsequent period the amount of impairment loss is reduced as a result of an event which took place after the impairment, then the previously recorded impairment loss is reversed by adjusting the balance of impairment allowances. The amount of the reversal is recognized in the income statement.

Available-for-sale financial assets

At the end of each reporting period, the Bank assesses whether there is objective evidence of impairment for financial assets available for sale based on the same criteria as those adopted for financial assets measured at amortized cost. If such indications exist, the Bank establishes the amounts of impairment losses.

The amount of an impairment loss recorded is the amount of cumulative loss which is removed from equity and recorded in the income statement as a difference between the cost of purchase (less any repayment of principal and amortization) and the current fair value less any impairment losses related to a given asset previously recognized in the income statement.

Interest income for available-for-sale financial assets for which an impairment loss has been recorded is accrued on the reduced present value using the effective interest applied for discounting future cash flows for the purpose of estimating impairment loss.

If in a subsequent period the fair value of a debt instrument available for sale increases and the increase could be objectively linked to an event subsequent to the recognition of the loss in the income statement, the amount of the reversed impairment loss is recognized in the income statement.

Impairment losses in respect of investments in equity instruments classified as available for sale may not be reversed through the income statement.

2.3.8 Offsetting of financial instruments

The Bank offsets financial assets with financial liabilities by recording a net amount in the statement of financial position when and only when:

- there is a valid legal title to offset the recorded amounts;
  and
- the Bank intends to settle the assets and liabilities on a net basis or realize the asset at the same time as it is settling the liabilities.

2.3.9 Hedge accounting

Hedge accounting is applied in order to match in the income statement changes in fair value of hedging instruments which are offset against the hedged item.
The Bank designates hedging instruments for hedge accounting purposes, so that the change in their fair value or cash flows covers in full or in part the change in fair value or future cash flows of the hedged item.
The Bank applies hedge accounting if all of the following conditions specified in IAS 39 have been satisfied:

- at the moment of establishing the hedge, formal documentation of the hedging relationship has been prepared, which specifies the goal and strategy of the hedge, type and identification of both the hedged and the hedging instrument, type of risk being hedged and the method of assessing the hedge effectiveness;
- the effectiveness of the hedge is expected to be high, i.e. high effectiveness in offsetting fair value or cash flow changes, in line with the documented risk management strategy related to the specific hedging relationship;
- it is possible to reliably evaluate the hedge effectiveness, i.e. to reliably measure fair value or cash flows related to both the hedged and the hedging item;
- in the case of cash flows, it is highly probable that a hedged transaction may occur which is exposed to cash flow risk affecting the income statement;
- the hedge is regularly assessed and its high effectiveness is evaluated in all the reporting periods for which the hedge had been designated.

As part of hedge accounting, the Bank applies cash flow hedge accounting.

A cash flow hedge means a hedge against changes in future cash flows which can be attributed to a specific type of risk related to a recorded asset or liability, or a highly probable projected transaction, affecting the income statement.

A cash flow hedge is recorded as follows in the books of account:

a) the portion of gains or losses related to a hedging instrument constituting an effective hedge is recorded in other comprehensive income.

The effective portion of the hedge is recorded in the revaluation reserve at the lower of (in absolute amounts):

- gains or losses on the hedging instrument accumulated from the moment of establishing the hedge;
- a change in fair value (present value) of expected future cash flows arising from the hedged item, accumulated from the moment of establishing the hedge;

and
b) the ineffective portion of gains or losses related to a hedging instrument is recorded in the income statement.

The effective portion of the hedge is transferred to profit or loss in the same period or periods in which the planned hedged transaction affects the income statement.

The Bank ceases to apply hedge accounting when at least one of the following events occurs:

- the hedging instrument is sold, expires, is terminated or exercised;
- the hedge accounting conditions referred to above have not been satisfied;
- the Bank cancels the hedging relationship;
- future cash flows are no longer considered probable.

If any of the above events occurs, the result on a hedging instrument when the hedge was effective is still recorded in the revaluation reserve, until the projected transaction is concluded and recognized in the income statement.

2.3.10 Leases

The Bank decides whether an agreement is a lease agreement or an agreement containing a lease, based on significant agreements, and assesses whether fulfilling the agreement depends on using a specific asset or assets, and the agreement transfers the right to use the asset.

The Bank is only a party to such lease agreements on the basis of which it accepts third party fixed assets for use at a charge or for drawing benefits from them over a specified period whereby all risks and benefits from the leased assets remain with the lessor. The lease charges over the lease period are recorded as costs in the income statement using the straight-line method.

The Bank did not conclude any new lease agreements in 2014.

2.3.11 Cash and cash equivalents

For the purpose of the cash flow statement, the balance of cash and cash equivalents comprises cash (cash in hand and at central bank) and its equivalents (highly liquid short-term investments, easily exchangeable to specified amounts of cash and exposed to insignificant risk of value changes).

2.3.12 Property, plant and equipment

Recognition and measurement
Property, plant and equipment comprise assets with an estimated useful life of more than one year, which are complete and used for the purpose of rendering services. Property, plant and equipment are initially recognized at acquisition cost or cost of development. After initial recognition property, plant and equipment are measured at acquisition cost or cost of development less accumulated depreciation and impairment losses.

Depreciation and impairment
Depreciation charges on property, plant and equipment are calculated using the straight-line method, in accordance with specified depreciation rates over their estimated useful life. Depreciation charges are taken to the profit or loss. The amount subject to depreciation is the cost of purchase or development of a given asset, less any residual value of the asset. The economic useful life, depreciation rates, and residual value of depreciable fixed assets are reviewed each year. Depreciation charges are presented in operating expenses.

Estimated useful lives of property, plant and equipment

Specification	Useful life in years
Leasehold improvements (buildings and structures)	5–10
Plant and machinery	1–5
Fixtures and fittings	2–10
Vehicles	2.5–5

At each balance sheet date the Bank assesses the assets for indications of impairment. Where impairment indicators are identified, the Bank formally estimates the recoverable amount. Where the carrying amount of a given asset exceeds its recoverable amount, an impairment loss is recognized and the asset's carrying amount is written-down to its recoverable amount. The recognition or reversal of impairment losses are taken to profit or loss.

Subsequent expenditure

Expenditure incurred after initial recognition of a given item of property, plant and equipment is capitalized when it increases the future economic benefits from the asset. Otherwise, the expenditure is charged directly to the income statement when incurred.

2.3.13 Intangible assets

Recognition and measurement
Intangible assets are identifiable assets without physical substance. Intangible assets are initially recognized at acquisition cost or cost of development. The Bank capitalizes:

- expenses incurred in relation to the purchase of software licence and development of a licence or module to an acquired licence;
- the costs of development of an intangible asset, comprising all expenditure (including the costs of employee benefits) that can be directly attributed to the operations associated with development of the intangible asset and preparing it for its intended use.

The cost of an intangible asset purchased as part of a separate transaction covers:

- the purchase price, inclusive of import duties and non-refundable purchase taxes after deducting trade discounts and rebates;
- any directly attributable costs of preparing the asset for its intended use.

Goodwill comprises the excess of the cost of acquisition over the fair value of acquired assets, equity & liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity. After initial recognition, goodwill is recognized at the purchase price less any accumulated impairment losses.

Goodwill has been adjusted for the subsidy granted by the Bank Guarantee Fund for covering the difference between the value of acquired property rights and liabilities with respect to the funds guaranteed by the Fund, received by the Bank on the basis of Agreement no. 1/FK/D/2014 of 18.12.2014 in connection with the acquisition of SKOK im. św. Jana z Kęt (in line with the economic nature of the said subsidy).

Depreciation and impairment
After initial recognition intangible assets with a finite economic useful life, including those internally generated, are recognized at acquisition cost or cost of development less accumulated amortization and impairment losses. At each balance sheet date, the Bank evaluates its assets for indications of impairment. Where impairment indicators are identified, the Bank formally estimates the recoverable amount. Where the carrying amount of a given asset exceeds its recoverable amount, an impairment loss is recognized and the asset's carrying amount is written-down to its recoverable amount.

Goodwill impairment is determined by estimating the recoverable amount of the cash-generating unit concerned. If the recoverable amount of a cash-generating unit is lower than its carrying amount, an impairment loss is recognized. Impairment identified as a result of tests performed cannot be subsequently adjusted. Goodwill impairment is evaluated at each balance sheet date (December 31) or earlier – if there are any indications of assets impairment.

Amortization charges on intangible assets are calculated using the straight-line method, in accordance with specified amortization rates over their estimated useful life. The economic useful life, amortization rates, and residual value of amortized intangible assets are reviewed each year. Depreciation charges are presented in operating expenses.

Useful lives of intangible assets

Specification	Useful life in years
Licences	2–12.5
System software	2–10
Development costs	2–12.5
Copyrights and other intangible assets	2–10

Subsequent expenditure
Expenditure incurred after initial recognition of a given item of intangible assets is capitalized when it increases the future economic benefits from the asset. The cost of developing a licence or an additional module to an acquired licence by the entity internally includes all outlays which can be directly attributed to the tasks of creating, manufacturing and adapting an asset for use in the manner intended by management.

Otherwise, such expenditure is taken to the profit or loss.

2.3.14 Non-current assets held for sale

Non-current assets held for sale are assets the carrying amount of which is to be recovered by their resale rather than continued use. The Bank classifies as held for sale only those assets which are available for immediate sale at their present condition and whose sale is highly probable, i.e. a decision has been made to execute the sales plan of a given asset, and an active programme for finding a buyer and completing the sales plan has been initiated. Moreover, such asset is offered for sale at a price which is rational taking into account the asset's current fair value, and it is expected that the sale will be recorded as closed within one year from the date of classifying a given asset to this category. This category also includes non-current assets repossessed as repayment of debt, which the Bank does not intend to use for its own purposes.

Non-current assets held for sale are stated at the lower of: their carrying amount and fair value less costs to sell. Revaluation write-downs of non-current assets held for sale are recognized in the income statement for the period in which the write-downs were made. Depreciation is not charged on assets classified to this category.

Non-current assets which no longer meet the classification criteria for inclusion in non-current assets held for sale are reclassified to an appropriate category of assets. Non-current assets withdrawn from assets held for sale are measured at the lower of:

- the carrying amount from before the moment of its classification to non-current asset held for sale, less amortization/depreciation that would have been recorded had the asset (the disposal group) not been classified as held for sale;
- and the recoverable amount as of the date of making a decision not to sell.

2.3.15 Impairment of non-financial assets

As at the balance sheet date, the Bank's assets, with the exception of deferred tax assets, are reviewed for indicators of impairment. If such indicators are identified, the Bank estimates the recoverable amount of the asset.
Impairment occurs when the carrying amount of an asset exceeds its recoverable amount. The impairment loss thus identified is recognized in the income statement.
The recoverable amount corresponds to the higher of: fair value less costs to sell and value in use of an asset.
Value in use is established by discounting estimated future cash flows for a given asset, using the discount rate before taxation. For assets which do not generate independent cash flows, the Bank determines the recoverable amount on the level of a cash generating unit to which a given asset belongs.
An impairment loss may be reversed through profit or loss to the level at which the carrying amount of assets does not exceed the carrying amount of a given asset, assuming that no impairment loss had been recorded.

The recoverable amount corresponds to the higher of the asset's value in use and net realizable value at the moment of performing the review.
When determining the value in use, the estimated future cash flows are discounted to present value using the gross discount rate reflecting the current market expectations as to the time value of money and the risk typical to a given asset.

Impairment losses relating to goodwill are not reversed. With respect to other assets, the loss can be reversed provided that there has been a change in estimates based on which the recoverable amount is determined. An impairment loss can be reversed only to the level at which the carrying amount of the assets does not exceed the carrying amount which (less amortization/depreciation) would be established had no impairment loss been recorded.

2.3.16 Provisions for employee benefits

Calculation of the provisions is based on a number of assumptions relating to both macroeconomic conditions and the employee turnover ratio and risk of death and other. The basis for calculation of the said provisions is the estimated amount of pension or retirement benefits which the Bank will be required to pay out based on the Remuneration Regulations. The estimated amount of benefits is calculated as the product of the following:

- estimated amount of the base for the calculation of retirement or pension benefits, in accordance with the provisions of Remuneration Regulations;
- estimated increase in the base for benefits calculations until the employee reaches retirement age;
- percentage ratio depending on the employee's number of years in service (in accordance with the provisions of Remuneration Regulations).

The calculated amount is discounted at year-end based on actuarial calculations. The financial discounting rate to be used in the calculation of the present value of employee benefits payable has been established based on market rates of return on T-bonds, whose currency and maturity are the same as the currency and estimated realization date of employee benefits payable. The discounted amount is decreased by the amount of mid-year/annual valuation allowance recognized to increase employee-related provisions.

The actuarial discount is calculated as the product of financial discount and the probability of a given person reaching the retirement age as the Bank's employee. The amount of annual allowance and the probability are calculated based on models, which take into account the following three types of risk:

- possibility of an employee resigning from work;
- the risk of an employee's total incapacity to work;
- the risk of an employee's death.

The probability of an employee resigning from work is estimated using the probability distribution, whilst taking into account the Bank's statistical data. The probability of an employee resigning from work depends on his age and is constant during each year of service.
The risk of an employee's death was expressed in the form of the most recent statistical data from Polish Life Expectancy Tables for men and women, published by the Central Statistical Office, as at the date of valuation. The provision resulting from actuarial valuation is updated on a half-yearly basis.

The effect of changes in actuarial assumptions on valuation is presented in other comprehensive income.

2.3.17 Provisions

Provisions represent liabilities with an uncertain settlement date or amount. The Bank records provisions when an entity has a current (legal or constructive) obligation resulting from past events and it is probable that settling the obligation will result in the need for an outflow of resources embodying economic benefits and the amount of the obligation can be reliably estimated. A provision is not recorded when these conditions are not met.

2.3.18 Equity

Equity comprises share capital, supplementary capital, revaluation reserve, other capital (including share-based employee benefits reserve), net profit/loss for the year and retained earnings/accumulated losses.

Share capital
Share capital is shown at the nominal value in accordance with the Articles of Association and entry in the National Court Register.

Supplementary capital
Supplementary capital is created out of profit appropriations on the basis of resolutions of the General Meeting. Supplementary capital also includes share premium, less issue costs. Supplementary capital is earmarked for offsetting balance sheet losses that may arise in connection with the Bank's operations.

Revaluation reserve
A revaluation reserve is created on the valuation of:

- financial instruments classified as available for sale;
- the effective portion of cash flow hedges.

The revaluation reserve includes charges related to deferred tax on valuation of financial instruments classified as available for sale and valuation of the effective portion of cash flow hedges. The revaluation reserve is not subject to distribution.

Other capital
Other capital is created out of profit appropriations. It is earmarked for the purposes specified in the Bank's Articles of Association and in the provisions of the law.

Net profit/loss for the year and retained earnings/accumulated losses
The net profit/loss attributable to the parent company is the profit/loss before tax per the income statement for the year adjusted for income tax expense and profit/loss attributable to non-controlling interests.

Non-controlling interests
Non-controlling interests represent the portion of capital and reserves in a subsidiary which cannot be directly or indirectly attributed to the parent company.

Dividends
Dividend for a given financial year which had been approved by the General Shareholders' Meeting but not yet paid up to the balance sheet date is disclosed as Dividend payable in Other liabilities.

2.3.19 Result for the period

The Bank records all significant cost and income items on an accruals basis, in line with the principles of matching income and expenses, recognition and measurement of assets and liabilities and recording of impairment losses.

Net interest income

Interest income and expense comprise interest on financial instruments measured at amortized cost and instruments measured at fair value, including hedging derivatives, except for derivatives classified as held for trading. Included in net interest income are also fees and commission relating directly to the origination of financial instruments (both income, inclusive of insurance commission, and expense, including internal incremental costs) which are an integral part of the effective interest rate.
The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income and interest expense. The effective interest rate is the rate that discounts the estimated future cash flows to the net carrying amount of the component of asset or financial liability. For financial assets or a group of similar financial assets for which an impairment loss has been recorded, interest income is accrued on the present value of the amounts due (less impairment losses), using the current interest rate applied for discounting future cash flows for the purpose of estimating impairment loss.
Interest income/expense on derivatives classified as held for trading is presented in the "Trading result". Accrued interest receivable and payable is presented in the lines of the statement of financial position to which they relate.

Fee and commission income and expenses

Fee and commission income is generally recognized on an accruals basis when the service has been provided. It arises as a result of rendering financial services offered by the Bank. Fees and commission relating directly to the origination of financial assets or liabilities (both income and expense) which are not an integral part of the effective interest rate are taken to the income statement on a straight-line basis and presented as commission income or expense. Other fees and commission (which are not an integral part of the effective interest rate and which are not amortized on a straight-line basis), relating to financial services offered by the Bank, such as cash management, brokerage services, investment advisory services, financial planning, investment banking and asset management services, are recognized in the income statement at the time the given service has been rendered.

Bancassurance

Pursuant to the provisions of IAS/IFRS and the PFSA guidelines, the Bank allocates income obtained from distribution of insurance products offered together with loan products in accordance with the economic substance of the transaction as:

1. an integral part of the income from offered financial instruments;

2. a fee for agency services;
3. a fee for the provision of additional services performed in the course of an insurance contract (deferred by the Bank over the period in which the services are provided).

The economic substance of income determines the method of its recognition in the Bank's books of account.

The "relative fair value" model is used to determine the method of allocation of the income on insurance offered together with cash and mortgage loans.

The "relative fair value model" adopted by the Bank consists of estimating fair values of the individual components of the aggregate loan sale service, including insurance, in order to determine the proportion of both services' fair values and then allocating the fair value of fee income from the entire loan and insurance transaction to the individual components. Additionally, in order to determine the correct amount of income to be deferred into interest income, the model provides for recording and updating a provision for returns of insurance commission in the event of the Customer resigning from the insurance. The provision will be periodically verified for each of the loan product groups due to uncertainty related to the possibility of the Customer resigning from the insurance cover at any time during the contract. The Bank's insurance commission is reduced by the amount of uncertain income related to estimated returns due to a Customer's resignation from insurance.

The insurance commission in respect of insurance products offered to the Bank's Customers in association with loan products in accordance with the "relative fair value model" is recognized as at 31.12.2014 (following the deferral of the portion of the commission income for the covering costs of the anticipated Customers' withdrawals or resignations from insurance) accordingly for:

- Portion of the income is recognized on a one-off basis in the fee and commission income in the range from 13% (for cash loans) to 25% (for mortgage loans);
- Portion of the income is deferred on customers' accounts in the range from 58% (for cash loans) to 76% (for mortgage loans and Consumer Finance);

The remaining portion of the deferred income – as a provision for income reimbursement deferred and accounted up front – in the range from 4% (for mortgage loans) to 29% (for cash loans).

As at 31 December 2014, the provision related to anticipated Customers' withdrawals or resignations from insurance amounted to PLN 43,865 thousands. In 2013, the Bank used the same method of settlement.

The Bank also recognizes in the income statement income from sales of insurance distributed together with car loans and loans with legal cover insurance, which is deferred in the full amount under the EIR or straight-line basis.

Additionally, based on group insurance contracts, the Bank enables the Customers to avail themselves of insurance cover for products other than those related to sale of loan products, including accident, health and investment (insured equity funds) insurance. Income from the above is recognized as follows:

- insurance products based on monthly settlements both with the insurer and the Customers are recognized in the income statement on a monthly basis;

- from sale of insurance not related to the sale of banking products, including: Unit Linked and Insurance with Equity Fund are recognized on a one-off basis in the income statement at the moment of concluding the transaction.

Net result realized on other financial instruments
The realized result on other financial instruments includes gains and losses on disposal of financial instruments classified as available for sale, and gains and losses on the redemption of own issue.

Trading result
The trading result includes results on: foreign currency transactions, interest rate transactions, and other instruments. The result on foreign exchange transactions includes the results on: forex, swap (FX swap and CIRS with equity conversion), FX forward, currency options and revaluation of assets and liabilities expressed in foreign currencies. The result on interest rate transactions includes the results on: interest rate swaps, FRA, net interest income on CIRS transactions and result on interest rate options (cap/floor). The result on other financial instruments is the result on commodity derivatives (including forwards and futures), the result on options for exchange indices, index baskets and commodities and the result on trading in equity securities.

Other operating income and expenses
Other operating income and expenses are costs and income not directly related to the Bank's core activities. Other operating income comprises mainly income from third party asset management, compensation, penalties and fines received, fees from contracts with sundry business partners and reimbursement of the costs of making claims. Other operating expenses comprise mainly costs of operating risk, making claims, lump-sum reimbursement of costs incurred by the insurance company in connection with the Bank acting as the insurer and managing third party assets. Income received is recognized in the income statement on a one-off basis.

2.3.20 Taxation

Corporate income tax comprises current and deferred tax. Income tax is recognized in the income statement, apart from those situations when it is recorded in equity.

Current tax
Liabilities (receivables) in respect of current corporate income tax for the current and prior periods are measured at the amounts of the expected payment to the tax authorities (subject to reimbursement from the tax authorities) in accordance with the tax rates and tax regulations which were legally or actually binding as at the end of the reporting period.

Deferred tax
Deferred tax is calculated in accordance with the liabilities method based on the identification of timing differences between the tax and balance sheet values of assets and liabilities. The Bank records deferred tax provisions in respect of all taxable temporary differences, except for:

- situations in which a deferred tax provision arises as a result of initial recognition of goodwill or initial recognition of an asset or a liability in a transaction not being a

business combination, which at the moment of its conclusion does not affect either profit (loss) before tax or taxable income or tax loss;
- when the parent company, investor or partner in a joint venture are able to control the dates of reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recorded in respect of all deductible temporary differences in the amount to which it is probable that sufficient taxable income will be earned in the future to enable the realization of the deductible differences, except for:

- situations in which a deferred tax asset arises as a result of initial recognition of an asset or a liability in a transaction not being a business combination, which at the moment of its conclusion does not affect either profit (loss) before tax or taxable income or tax loss;
- when the deductible temporary differences arise from investments in subsidiaries, branches, associates and interests in joint ventures outside where it is improbable that they will reverse in the foreseeable future and taxable income will be generated against which the temporary differences can be deducted.

The carrying amount of the deferred tax asset is verified as at the end of each reporting period. The Bank reduces its carrying amount up to the amount to which it is probable that sufficient taxable income will be generated to enable its partial or complete realization. Previously not recorded deferred income tax assets are recognized only to the extent to which it is probable that the taxable income generated in the future would enable their realization.

Deferred tax assets and provisions are valued using the tax rates which are expected to be in force in the period in which the asset will crystallise or the provision will be released, using the tax rates (and tax regulations) legally or actually binding as at the end of the reporting period.

The current and deferred income tax is recorded directly in equity when it relates to items which were recorded in equity in the same or a different reporting period.

Deferred income tax assets and provisions are offset when and only when the Bank has a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxpayer and the same fiscal authority.

2.4 Changes in accounting policies

Changes in accounting standards

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2013, except for:

1) application of the following amendments to standards and new interpretations binding for annual periods starting on or after 1 January 2014:

- IFRS 10, *Consolidated Financial Statements*, applicable to annual periods starting on or after 1 January 2014;
- IFRS 11, *Joint Arrangements*, applicable to annual periods starting on or after 1 January 2014;
- IFRS 12, *Disclosure of Interests in Other Entities*, applicable to annual periods starting on or after 1 January 2014;
- IAS 27 (amended in 2011) *Separate Financial Statements*, applicable to annual periods starting on or after 1 January 2014;
- IAS 28 (amended in 2011) *Investments in Associates and Joint Ventures*, applicable to annual periods starting on or after 1 January 2014;
- Amendments to IFRS 10, 11 and 12 concerning transitional provisions applicable to annual periods starting on or after 1 January 2014;
- Amendments to IFRS 10, 12 and IAS 27 concerning consolidation of investment units applicable to annual periods starting on or after 1 January 2014;
- Amendments to IAS 32 *Financial Instruments: Presentation*, concerning offsetting financial assets and liabilities, applicable to annual periods starting on or after 1 January 2014;
- Amendment to IAS 36, *Impairment of Assets*, concerning recoverable amount disclosures, applicable to annual periods starting on or after 1 January 2014;
- Amendment to IAS 39 *Financial Instruments*: Recognition and Measurement, concerning novation of derivatives and hedge accounting, applicable to annual periods starting on or after 1 January 2014.

The Bank concluded that the above changes did not have a significant effect on its financial position or results of operations.

New standards and interpretations, which have been published but are not yet effective

The following standards and interpretations have been published by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, but are not yet effective:

- IFRIC 21, Levies, applicable to annual periods starting on or after 17 June 2014 - approved by the UE;
- The first phase of IFRS 9, *Financial Instruments*, applicable to annual periods starting on or after 1 January 2015 - not approved by the UE as at the date of approval of these financial statements;

- Amendments resulting from the 2010-2012 review of IFRS - some of these amendments are applicable to annual periods starting on or after 1 July 2014, and some are applicable prospectively to transactions concluded on or after 1 July 2014 - not approved by the UE as at the date of approval of these financial statements;

- Amendments resulting from the 2011-2013 review of IFRS - applicable to annual periods starting on or after 1 July 2014 - not approved by the UE as at the date of approval of these financial statements;

- Amendments to IAS 1 *Presentation of financial statements* – applicable to annual periods starting on or after 1 January 2016 - not approved by the UE as at the date of approval of these financial statements;

- IFRS 14, *Regulatory Deferral Accounts*, applicable to annual periods starting on or after 1 January 2016 - not approved by the UE as at the date of approval of these financial statements;

- IFRS 15, *Revenue from Contracts with Customers* - applicable to annual periods starting on or after 1 January 2017 - not approved by the UE as at the date of approval of these financial statements;

- Amendment to IFRS 11, *Joint Arrangements*, concerning purchase of interests in joint operations, applicable to annual periods starting on or after 1 January 2016 - not approved by the UE as at the date of approval of these financial statements;

- Amendment to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets* - concerning amortization and depreciation, applicable to annual periods starting on or after 1 January 2016 - not approved by the UE as at the date of approval of these financial statements;

- Amendment to IAS 19, *Employee Benefits*, concerning defined benefit plans, applicable to annual periods starting on or after 1 July 2014 - not approved by the UE as at the date of approval of these financial statements;

- Amendment to IFRS 9, *Financial Instruments*, concerning general hedge accounting, applicable to annual periods starting on or after 1 January 2018 - not approved by the UE as at the date of approval of these financial statements;

- Amendment to IAS 27, *Separate Financial Statements*, concerning the equity method, applicable to annual periods starting on or after 1 January 2016 - not approved by the UE as at the date of approval of these financial statements;

- Amendment to IFRS 10, *Consolidated Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*, concerning disposal or contribution of assets, applicable to annual periods starting on or after 1 January 2016 - not approved by the UE as at the date of approval of these financial statements.

The Bank is currently analysing the effect of these standards and interpretations on the Bank's accounting policies.

3. Operating segments

The Bank divides its operations into the following reporting segments for the purpose of management accounting:

- retail segment;
- business segment;
- treasury activity;
- other.

The Bank provides services to retail (individual) and business customers, by offering them with a full range of banking services.

The basic products for individual customers cover:

- loan products: cash loans, credit cards, overdraft facilities, housing loans;
- deposit products: term deposits, savings accounts;
- brokerage products and investment funds;
- personal accounts;
- transaction services: cash deposits and withdrawals, transfers;
- FX transactions.

Basic products for business customers include:

- loan products: overdraft facilities, working capital loans, investment loans, credit cards;
- deposit products: term deposits;
- current and auxiliary accounts;
- transaction services: cash deposits and withdrawals, transfers;
- treasury products: FX transactions (also at set date), derivatives.

The basic element of segment analysis is the profitability of the Retail Segment and Business Segment. The profitability includes:

- margin revenue decreased by financing costs (a rate at which a branch makes settlements with the Interbank Transactions Office);
- commission income;
- income from treasury transactions and FX exchange made by customers;
- other operating income and expenses.

Revenues of the retail segment also include revenues from the sale of brokerage products (such as revenues from maintaining brokerage accounts, agency services in trading in securities and revenue from distribution of units in investment funds).

Revenues of the business segment also include revenues from the car loans portfolio.

The *Treasury Activity* segment covers the results from managing the global position – the liquidity and currency positions – arising from the activities of the Bank.

The segment *Other* includes:

- internal net interest income calculated on net impairment losses;
- reconciliation of the presentation of incremental costs for management reporting purposes by deducting the amount relating to incremental costs from the commission income presented in business segments;

(in PLN '000)

- commission costs not allocated to business units (including cash management fees, ATM sharing commission, domestic and foreign transfers);
- other operating income and expenses not related directly to operating segments.

Results and volumes by segments for the financial year ended 31 December 2014

Segment report	Retail customers	Corporate customers	Treasury	Total corporate segment	Other	Total Bank
External interest income	**732 790**	**368 390**	**98 476**	**1 199 656**	**984**	**1 200 640**
external income	999 626	539 403	158 186	1 697 215	983	1 698 198
external expense	-266 836	-171 013	-59 710	-497 559	1	-497 558
Internal interest income	**52 590**	**-1 086**	**19 515**	**71 019**	**-71 019**	**0**
internal income	461 345	269 634	1 002 434	1 733 413	-64 721	1 668 692
internal expense	-408 755	-270 720	-982 919	-1 662 394	-6 298	-1 668 692
Net interest income	**785 380**	**367 304**	**117 991**	**1 270 675**	**-70 035**	**1 200 640**
Fee and commission income	225 602	190 557	1 504	417 663	115 815	533 478
Fee and commission expense	-66 360	-392	-395	-67 147	-118 317	-185 464
Net fee and commission income	**159 242**	**190 165**	**1 109**	**350 516**	**-2 502**	**348 014**
Dividend income	**16**	**0**	**0**	**16**	**25 538**	**25 554**
Trading result	**-199**	**30 835**	**238 121**	**268 757**	**-39**	**268 718**
Net gain (realized) on other financial instruments	**72 204**	**118 609**	**-183 433**	**7 380**	**548**	**7 928**
Other operating income	136 683	4 282	602	141 567	-90 490	51 077
Other operating expenses	-9 821	0	-492	-10 313	-9 612	-19 925
Net other operating income	**126 862**	**4 282**	**110**	**131 254**	**-100 102**	**31 152**
Total result before impairment losses	**1 143 505**	**711 195**	**173 898**	**2 028 598**	**-146 592**	**1 882 006**
Impairment losses	**-319 870**	**-226 047**	**0**	**-545 917**	**-673**	**-546 590**
Total result after impairment losses	**823 635**	**485 148**	**173 898**	**1 482 681**	**-147 265**	**1 335 416**
General administrative expenses	**-678 935**	**-240 834**	**-2 389**	**-922 158**	**0**	**-922 158**
Gross profit (loss)	**144 700**	**244 314**	**171 509**	**560 523**	**-147 265**	**413 258**
Income tax	0	0	0	0	-76 228	-76 228
Net profit (loss)	**144 700**	**244 314**	**171 509**	**560 523**	**-223 493**	**337 030**

Amortization/ depreciation						**-75 456**
Assets	13 300 919	10 347 071	6 520 088	30 168 078	0	**30 168 078**
Liabilities	14 849 410	9 581 558	2 719 306	27 150 274	0	**27 150 274**

Results and volumes by segments for the financial year ended 31 December 2013

Segment report	Retail customers	Corporate customers	Treasury	Total corporate segment	Other	Total Bank
External interest income	**506 708**	**359 767**	**123 360**	**989 835**	**0**	**989 835**
external income	848 413	500 971	160 329	1 509 713	0	1 509 713
external expense	-341 705	-141 204	-36 969	-519 878	0	-519 878
Internal interest income	**85 832**	**-62 876**	**-57 632**	**-34 676**	**34 676**	**0**
internal income	432 757	213 573	961 708	1 608 038	35 979	1 644 017
internal expense	-346 925	-276 449	-1 019 340	-1 642 714	-1 303	-1 644 017

(in PLN '000)

Net interest income	**592 540**	**296 891**	**65 728**	**955 159**	**34 676**	**989 835**
Fee and commission income	276 775	172 783	0	449 558	9 387	458 945
Fee and commission expense	-42 782	-1 696	-323	-44 801	-155 951	-200 752
Net fee and commission income	**233 993**	**171 087**	**-323**	**404 757**	**-146 564**	**258 193**
Dividend income	**0**	**0**	**0**	**0**	**1 803**	**1 803**
Trading result	**599**	**29 434**	**196 779**	**226 812**	**41**	**226 853**
Net gain (realized) on other financial instruments	**56 506**	**112 896**	**-157 642**	**11 760**	**52**	**11 812**
Other operating income	45 400	7 016	-433	51 983	2 969	54 952
Other operating expenses	-6 973	-218	-1 072	-8 263	-13 951	-22 214
Net other operating income	**38 427**	**6 798**	**-1 505**	**43 720**	**-10 982**	**32 738**
Total result before impairment losses	**922 065**	**617 106**	**103 037**	**1 642 208**	**-120 974**	**1 521 234**
Impairment losses	**-200 289**	**-201 570**	**0**	**-401 859**	**-3 062**	**-404 921**
Total result after impairment losses	**721 776**	**415 536**	**103 037**	**1 240 349**	**-124 036**	**1 116 313**
General administrative expenses	**-618 032**	**-218 989**	**-2 173**	**-839 194**	**0**	**-839 194**
Gross profit (loss)	**103 744**	**196 547**	**100 864**	**401 155**	**-124 036**	**277 119**
Income tax	0	0	0	0	-57 367	**-57 367**
Net profit (loss)	**103 744**	**196 547**	**100 864**	**401 155**	**-181 403**	**219 752**

Amortization/ depreciation						**-75 156**
Assets	10 581 350	9 072 540	5 895 981	25 549 871	**0**	**25 549 871**
Liabilities	14 223 512	6 608 947	2 532 680	23 365 139	0	**23 365 139**

Notes to the income statement

4. Net interest income

4.1. Net interest income by entity	**1.01.2014-31.12.2014**	**1.01.2013-31.12.2013**
Interest income	**1 698 198**	**1 509 713**
financial sector	95 031	91 922
non-financial sector	1 538 791	1 339 224
central and local government institutions	64 376	78 567
Interest expense	**-497 558**	**-519 878**
financial sector	-159 012	-114 310
non-financial sector	-335 814	-403 999
central and local government institutions	-2 732	-1 569
Net interest income	**1 200 640**	**989 835**

4.2. Net interest income by product	**1.01.2014-31.12.2014**	**1.01.2013-31.12.2013**
Interest income	**1 698 198**	**1 509 713**
Interest income from financial instruments measured at amortized cost including the effective interest rate method	1 644 611	1 472 660
term deposits	156	940

(in PLN '000)

loans	1 515 680	1 322 345
financial assets available for sale	95 610	112 193
receivables acquired	31 590	36 086
other	1 575	1 096
Other interest income	53 587	37 053
current accounts	17 725	18 099
overnight deposits	729	1 014
hedging derivatives	35 133	17 940
Interest expense	**-497 558**	**-519 878**
Interest expense from financial instruments measured at amortized cost including the effective interest rate method	-405 328	-445 943
term deposits	-297 036	-362 672
repo transactions in securities	-20 283	-15 021
cash deposits	-3 669	-4 263
own issue	-81 148	-60 570
other	-3 192	-3 417
Other interest expense	-92 230	-73 935
current deposits	-58 606	-56 434
hedging derivatives	-33 624	-17 501
Net interest income	**1 200 640**	**989 835**

Interest income comprises mainly interest on loans and interest and discount on bonds. Interest expense relates mainly to term deposit for retail banking customers.

In the years 2014 and 2013, interest income on loans with recognized impairment amounted to PLN 100,137 thousand and PLN 67,929 thousand, respectively.

5. Net fee and commission income

	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Fee and commission income	**533 478**	**458 945**
brokerage commissions	54 306	48 551
payment cards	105 629	105 838
revenue from bancassurance activity	157 563	129 873
loans and advances	59 203	43 186
accounts maintenance	51 367	36 813
transfers	32 099	28 086
remittances and withdrawals services	20 667	18 450
acquired receivables	11 721	10 355
guarantees, letters of credit, collections, promises	13 402	10 894
other commissions	27 521	26 899
Fee and commission expense	**-185 464**	**-200 752**
brokerage commissions	-5 386	-5 730
costs of card transactions and ATM , including costs of payment card issue	-56 210	-55 710
insurance of bank products	-16 298	-9 646
commissions for ATM sharing	-23 328	-21 276
fees paid under service agreements	-15 992	-27 199
compensation and awards to customers	-16 348	-24 778
commissions paid to agents	-13 744	-22 467

(in PLN '000)

assistance services	-6 814	-11 117
costs of customers acquisition	-5 338	-557
other commissions	-26 006	-22 272
Net fee and commission income	**348 014**	**258 193**

The Bank does not perform trust activities.

6. Trading result

	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Foreign exchange transactions result	194 969	156 090
Interest rate transactions result	71 529	67 300
Over hedge	194	-270
Other financial instruments result	2 026	3 733
Trading result	**268 718**	**226 853**

The result on foreign exchange transactions includes the results on: forex, swap (FX swap and CIRS with capital exchange), FX forward, currency options and revaluation of assets and liabilities expressed in foreign currencies.
The result on interest rate transactions includes the results on: interest rate swaps, FRA, net interest income on CIRS transactions and the result on interest rate options (cap/floor).
The result on other financial instruments is the result on trading in equity securities, the result on commodity derivatives (including forwards and futures), the result on options for exchange indices, index baskets and commodities.

7. Net result realized on other financial instruments

	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Financial assets available for sale	9 932	12 254
Own issue	-2 028	-298
- income from re-purchase	424	44
- losses on repurchase	-2 452	-342
Investment funds	24	0
Net gain realized on other financial instruments	**7 928**	**11 812**

8. Net other operating income

	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Other operating income from:	**51 077**	**54 952**
management of third party assets	13 875	9 980
received compensations, fines and penalties	211	680
fees paid by counterparts	4 706	5 568
acquisition of receivables	59	2 673

(in PLN '000)

reimbursement of litigation costs	17 001	11 481
accrued income from reimbursement of tax from the tax office	3 612	12 926
refunding costs of Banking Guarantee Fund	7 460	4 910
other	4 153	6 734
Other operating expenses due to:	**-19 925**	**-22 214**
management of third party assets	-2 672	-1 949
paid compensations, fines and penalties	-2 581	-548
awards given to customers	-682	-1 451
operating risk	-2 113	-3 232
litigation costs	-5 458	-5 925
lump sum reimbursement of costs incurred by the insurer in connection with the Bank exercising insurance actions	0	-1 949
acquisition of receivables	0	-3 724
other	-6 419	-3 436
Net other operating income and expense	**31 152**	**32 738**

9. General administrative expenses

	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Payroll costs	**-518 350**	**-455 210**
remuneration due to employment contracts	-427 773	-371 702
remuneration surcharges	-75 457	-64 607
share-based payments	-7 376	-13 414
other	-7 744	-5 487
General and administrative costs	**-323 637**	**-300 335**
IT costs	-33 546	-32 721
lease and building maintenance expenses	-142 113	-139 478
marketing costs	-38 260	-41 280
training costs	-12 269	-12 850
cost of advisory services	-18 094	-13 308
costs of Banking Guarantee Fund	-28 162	-14 281
lease of property, plant and equipment and intangible assets	-4 816	-7 244
costs of telecommunications services	-14 943	-14 094
external services	-16 288	-11 594
other	-15 146	-13 485
Amortization and depreciation	**-75 456**	**-75 156**
property, plant and equipment	-46 457	-48 630
intangible assets	-28 999	-26 526
Taxes and fees	**-4 715**	**-8 493**
Total general administrative expenses	**-922 158**	**-839 194**

The Bank leases passenger cars. Lease agreements concluded by the Bank are operating leases, as in 2011 a new car lease agreement was signed due to the expiry of the 3-year lease contracts. The new agreement is valid for 36 months.
As at 31 December 2014, the Bank's lease contracts were as follows:

- 346 36-month lease contracts – fixed instalments.

In addition, in 2014 the bank subleased 6 cars to employees and 21 cars to Polbita company.

(in PLN'000)

Operating lease of cars, by maturity dates	As at 31.12.2014	As at 31.12.2013
To 1 year	4 863	8 180
From 1 to 3 years	2 196	8 061
Total	**7 059**	**16 241**

The Bank is not the owner of any of the properties used. Therefore, the lease costs make up a large item of its general administrative expenses (in the periods analysed, they accounted for more than 40% of total general administrative expenses). In renting its premises, the Bank concludes contracts for a period of at least 5 years (approx. 70% of signed lease contracts are for a period of 5 years). Lease contracts provide for the possibility of a change in the lease instalments depending on the inflation fluctuations in a given lease year. All lease contracts are concluded on an arm's length basis. The largest number of premises is located in Warsaw and Kraków.

Future real estate lease liabilities, by maturity	As at 31.12.2014	As at 31.12.2013
To 1 year	92 762	79 803
From 1 to 5 years	230 593	225 264
More than 5 years	8 931	5 700
Total	**332 286**	**310 767**

10. Net impairment losses

	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Impairment losses on impaired loans and advances to customers	-468 699	-388 457
financial sector	-1 078	-1 064
non-financial sector	-467 621	-387 393
retail customers	-289 798	-201 602
business customers	-177 823	-185 791
Debt securities	-2 174	-181
IBNR for customers without impairment losses	-31 566	5 494
financial sector	165	804
non-financial sector	-31 731	4 690
retail customers	-29 291	-1 007
business customers	-2 440	5 697
Off-balance reserve	-957	2 324
Property, plant and equipment and intangible assets	-4 896	-101
Impairment losses on non-current asset held for sale*	-38 298	-24 000
Net impairment losses & provisions	**-546 590**	**-404 921**

*impairment loss relating to the shares in the company Polbita Sp. z o.o.

11. Corporate income tax

11.1 Presented in the income statement	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Current tax	92 465	47 439
current year	92 465	47 439
Prior year tax adjustment	-16 237	9 928
origination and reversal of temporary differences	-16 237	9 928
Accounting tax recognized in the income statement	**76 228**	**57 367**

(in PLN '000)

11.2 Effective tax rate calculation	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Profit before tax	**413 258**	**277 119**
Income tax at 19%	**78 519**	**52 653**
Non-tax deductible expenses	**8 214**	**8 046**
Representation costs	132	285
PFRON	1 098	878
Impairment losses on loans in the part not covered with deferred tax	4 469	3 075
Costs of provisions for management options	1 401	2 549
Donations	24	2
Other	1 090	1 257
Non-taxable revenues	**-6 995**	**-1 829**
Release of loan impairment allowances in the part not covered with the deferred tax	-11	-158
Dividends received	-4 852	-338
Other	-2 132	-1 333
Tax deductible expenses not being accounting expenses	**0**	**-497**
Amortization of goodwill for tax purposes	0	-497
Reimbursement of tax from the tax office	**0**	**517**
Recognition of assets related to contribution of receivables to Obrót Wierzytelnościami Alior Polska sp. z o.o. S.K.A	**-3 510**	**-1 465**
Relief for new technologies	**0**	**-61**
Other	**0**	**3**
Accounting tax recognized in the income statement	**76 228**	**57 367**
Effective tax rate	**18,45%**	**20,70%**

11.3 Deferred tax assets and provision

Changes in temporary differences during the year

Deferred tax assets	31.12.2013	Changes taken to the financial result	Changes taken to equity	Changes taken to goodwill (SKOK)	31.12.2014
Fees collected in advance	98 530	636	0	136	99 302
Interest accrued on deposits	13 864	3 326	0	104	17 294
Interest / discount accrued on securities	15 399	-1 108	0	0	14 291
Negative valuation of securities	8 911	-4 094	-1 929	0	2 888
Interest accrued on derivatives	21 754	-728	0	0	21 026
Negative valuation of derivatives	362 792	118 035	-5 729	0	475 098
Options premium	9 138	2 117	0	0	11 255
Accruals	2 735	4 615	0	40	7 390
Impairment allowances on loans	58 791	32 743	0	0	91 534
Other provisions	1 529	1 423	0	1	2 953
Recognition of asset related to contribution to joint-stock partnership	6 871	3 510	0	0	10 381
Deferred tax assets	**600 314**	**160 475**	**-7 658**	**281**	**753 412**

Deferred tax liability	31.12.2013	Changes taken to the financial result	Changes taken to equity	Changes taken to goodwill (SKOK)	31.12.2014
Interest accrued on interbank deposits	-3	79	0	-82	-6
Interest accrued on loans and advances	-32 212	-8 543	0	-198	-40 953

(in PLN '000)

Interest / discount accrued on securities	-6 367	912	0	0	-5 455
Positive valuation of securities	-282	131	155	-130	-126
Interest accrued on derivatives	-29 742	-1 987	0	1	-31 728
Positive valuation of derivatives	-367 902	-132 925	-1 459	0	-502 286
Difference between accounting and tax amortization/ depreciation	-15 546	-4 997	0	0	-20 543
Income accrued, to be collected	-8 461	3 092	0	-7	-5 376
Deferred tax liability	**-460 515**	**-144 238**	**-1 304**	**-416**	**-606 473**
Deferred tax - per the balance sheet	**139 799**	**16 237**	**-8 962**	**-135**	**146 939**

Deferred tax assets	31.12.2012	Changes taken to the financial result	Changes taken to equity	31.12.2013
Fees collected in advance	81 418	17 112	0	98 530
Interest accrued on deposits	23 344	-9 480	0	13 864
Interest / discount accrued on securities	7 629	7 770	0	15 399
Negative valuation of securities	876	4 596	3 439	8 911
Interest accrued on derivatives	6 492	15 262	0	21 754
Negative valuation of derivatives	296 050	55 591	11 151	362 792
Options premium	9 175	-37	0	9 138
Accruals	10 595	-7 860	0	2 735
Impairment allowances on loans	50 151	8 640	0	58 791
Other provisions	791	738	0	1 529
Recognition of asset related to contribution to joint-stock partnership	10 019	-3 148	0	6 871
Tax loss	8 387	-8 387	0	0
Deferred tax assets	**504 927**	**80 797**	**14 590**	**600 314**

Deferred tax liability	31.12.2012	Changes taken to the financial result	Changes taken to equity	31.12.2013
Interest accrued on interbank deposits	-9	6	0	-3
Interest accrued on loans and advances	-26 908	-5 304	0	-32 212
Interest / discount accrued on securities	-3 692	-2 675	0	-6 367
Positive valuation of securities	-2 597	-1	2 316	-282
Interest accrued on derivatives	-9 602	-20 140	0	-29 742
Positive valuation of derivatives	-301 881	-55 578	-10 443	-367 902
Difference between accounting and tax amortization/depreciation	-13 123	-2 423	0	-15 546
Income accrued, to be collected	-3 851	-4 610	0	-8 461
Deferred tax liability	**-361 663**	**-90 725**	**-8 127**	**-460 515**
Deferred tax - per the balance sheet	**143 264**	**-9 928**	**6 463**	**139 799**

11.4 Recognition of assets and provisions for a given reporting period

Deferred tax assets	31.12.2014	31.12.2013
Fees collected in advance	-636	-17 112
Interest accrued on deposits	-3 326	9 480
Interest / discount accrued on securities	1 108	-7 770
Negative valuation of securities	4 094	-4 596
Interest accrued on derivatives	728	-15 262

(in PLN '000)

Negative valuation of derivatives	-118 035	-55 591
Options premium	-2 117	37
Accruals	-4 615	7 860
Impairment allowances on loans	-32 743	-8 640
Other provisions	-1 423	-738
Recognition of asset related to contribution to joint-stock partnership	-3 510	3 148
Tax loss	0	8 387
Deferred tax assets	**-160 475**	**-80 797**

Deferred tax provision	31.12.2014	31.12.2013
Interest accrued on interbank deposits	-79	-6
Interest accrued on loans and advances	8 543	5 304
Interest / discount accrued on securities	-912	2 675
Positive valuation of securities	-131	1
Interest accrued on derivatives	1 987	20 140
Positive valuation of derivatives	132 925	55 578
Difference between accounting and tax amortization/ depreciation	4 997	2 423
Income accrued, to be collected	-3 092	4 610
Deferred tax provision	**144 238**	**90 725**

Deferred tax - per the balance sheet	**-16 237**	**9 928**

Deferred tax recognized directly in equity	31.12.2014	31.12.2013
Negative valuation of securities	1 929	-3 439
Negative valuation of derivatives	5 729	-11 151
Positive valuation of securities	-155	-2 316
Positive valuation of derivatives	1 459	10 443
Total	**8 962**	**-6 463**

12. Earnings per share

	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Net profit	337 030	219 752
Weighted average number of ordinary shares	69 928 230	63 582 965
Share options	3 196 587	3 331 250
Adjusted weighted average number of shares	73 124 817	66 914 215
Net earnings per ordinary share (PLN)	**4,82**	**3,46**

(in PLN '000)

Dilluted earnings per one share	**4,61**	**3,28**

Management option scheme will be continued in 2015.

Notes to the statement of financial position

13. Cash and balances with the Central Bank

	As at 31.12.2014	As at 31.12.2013
Current account with the Central Bank	932 357	870 579
Cash	226 083	196 648
Cash and balances with the central bank	**1 158 440**	**1 067 227**

As of 31.12.2008, the Group has maintained the mandatory reserve in a current account with the National Bank of Poland, in an amount compliant with the decisions of the Monetary Policy Board. As of 31 December 2010 the rate of the mandatory reserve is 3.5%.

14. Available-for-sale financial assets

14.1 By type	As at 31.12.2014	As at 31.12.2013
Debt instruments	**2 649 120**	**2 705 021**
issued by the State Treasury	2 062 300	1 758 478
T-bonds	2 062 300	1 758 478
issued by monetary institutions	149 967	539 075
bonds	0	139 270
money bills	149 967	399 805
issued by other financial institutions	125 725	64 627
bonds	104 633	43 743
Eurobonds	21 092	20 884
issued by companies	311 128	342 841
bonds	311 128	342 841
Equity instruments	**3 005**	**307**
Available-for-sale financial assets	**2 652 125**	**2 705 328**

14.2 By maturity	As at 31.12.2014	As at 31.12.2013
without set maturity date	3 005	307
≤ 1M	149 967	477 226
> 1M ≤ 3M	0	57 248
≤ 6M> 3M ≤ 6M	0	105 795
> 6M ≤ 1Y	775 059	103 604
> 1Y ≤ 2Y	303 091	497 354
> 2Y ≤ 5Y	1 141 518	904 090
> 5Y ≤ 10Y	279 485	559 704

(in PLN '000)

Available-for-sale financial assets	**2 652 125**	**2 705 328**

14.3 Impairment allowance on debt instruments	**As at 31.12.2014**		**As at 31.12.2013**	
	Gross amount	**Impairmant allowance**	**Gross amount**	**Impairmant allowance**
Bonds issued by companies	111 852	6 491	4 316	4 316

14.4 Change in the balance of debt instruments impairment allowances	**As at 31.12.2014**	**As at 31.12.2013**
Opening balance	4 316	4 135
Changes during the year:	2 175	181
Increases	2 175	181
Impairment allowances at the end of the period	**6 491**	**4 316**

The schedules below show the prioritization of the measurement methods of available-for-sale financial assets measured at fair value as at 31 December 2014 and comparative data as at 31 December 2013.

In accordance with IFRS 13, the Bank classified:

- to level 1 – all securities for which quotations are available from active financial markets;

This group includes mainly debt Treasury securities. The fair value is determined based on the purchase price from the quotations on the interbank market, brokers' quotations and BondSpot quotations.

- to level 2 – instruments for which prices are not directly observable, but the prices used for measurement are based on quotations from active transaction markets.

This group includes NBP bills and debt commercial securities. The fair value is determined based on the discounted cash flows method which assumes that the profitability curves will be based on quotations of profitability of securities on the interbank market.
Debt commercial securities are measured based on profitability curves adjusted by the credit spread, provided that such spread can be determined based on observable market quotations, e.g. quotations of credit swap transactions.
This level also includes debt commercial securities quoted on the stock markets and characterized by low trading volumes on the stock market.

- to level 3 – instruments for which at least one of the factors which impact its price is not observable on the market.

This group shows the Bank's position in debt commercial securities whose fair value is impacted not only by the parameters resulting from market quotations, but also by the credit spread amount, which is not observable. Spread is determined based on the primary market price or the price at the moment of concluding the transaction. It is subject to periodical revaluation in the periods when reliable market quotations occur or prices are obtained from transactions that are comparable in terms of volume. The amount of spread also changes on the basis of information about changes in the issuer's financial standing. As at the end of 2014, sensitivity of valuation of such assets to credit spread increases of 1 base point amounted to PLN 120 thousand.

(in PLN '000)

Transfers of instruments between valuation levels are performed as at the end of a reporting period. Such transfers are performed in the situations described in the International Financial Reporting Standards, in connection with such factors as e.g. availability of quotations of a given instrument on an active market, availability of quotations of valuation factors, or impact of not observable factors on the fair value.

In 2014, one issue of corporate bonds, for which there were no sufficiently liquid market quotations and credit spread was not observable, was transferred from level 2 to level 3. Transfers of instruments between valuation levels are performed as at the end of the reporting period. Such transfers are performed in the situations described in the International Financial Reporting Standards, in connection with such factors as e.g. availability of quotations of a given instrument on an active market, availability of quotations of valuation factors, or impact of not observable factors on the fair value.

14.5 Fair value	As at 31.12.2014	As at 31.12.2013
Level 1	**2 127 557**	**1 823 105**
T-bonds	2 062 300	1 758 478
Other bonds	65 257	64 627
Level 2	**149 967**	**591 186**
Money bills	149 967	399 805
Other bonds	0	191 381
Level 3	**374 601**	**291 037**
Equity instruments	3 005	307
Other bonds	371 596	290 730
Valuation of available for sale financial assets by level	**2 652 125**	**2 705 328**

14.6 Movements on financial assets available for sale classified as level 3	As at 31.12.2014	As at 31.12.2013
Opening balance	**291 037**	**243**
Reclassification	151 275	98 855
Increases, including	**221 065**	**240 745**
Acquisition	221 058	237 820
Revenue recognised in income statement	0	806
Movements on interest	0	**975**
Fair value adjustment	0	1 141
Foreign exchange differences	7	3
Decreases, including	**-288 776**	**-48 806**
Sale	-280 518	-48 806
Other changes recognised in income statement	-4 634	0
Fair value adjustment	-3 624	0
Financial assets available for sale classified as level 3 at the end of the period	**374 601**	**291 037**

(in PLN '000)

Valuation of available-for-sale financial assets is presented in the revaluation reserve, interest income and discount in interest income, and income from the sale in the net gain on other financial instruments.

15. Amounts due from customers

15.1 By type	As at 31.12.2014	As at 31.12.2013
Retail segment	**13 300 919**	**10 581 350**
Working capital facility	142 530	118 342
Consumer loans	6 217 208	5 240 515
Consumer finance loans	704 834	650 741
Loans for purchase of securities	142 921	160 678
Credit card borrowings loans	204 619	193 157
Loans for residential real estate	4 991 141	3 393 901
Other mortgage loans	877 230	797 964
Other receivables	20 436	26 052
Corporate segment	**10 347 071**	**9 072 540**
Working capital facility	5 527 749	4 854 894
Car loans	141 299	239 497
Investment loans	4 134 162	3 366 771
Acquired receivables (factoring)	517 347	561 826
Other receivables	26 514	49 552
Amounts due from customers	**23 647 990**	**19 653 890**

15.2 By gross amounts and carrying amounts	As at 31.12.2014	As at 31.12.2013
Retail segment	**13 300 919**	**10 581 350**
Loans for residential real estate	4 991 141	3 393 901
unimpaired	4 908 611	3 336 934
impaired	112 240	68 766
IBNR	-6 531	-2 380
Impairment allowance	-23 179	-9 419
Consumer finance loans	704 834	650 741
unimpaired	691 187	645 989
impaired	49 064	21 014
IBNR	-2 392	-2 793
Impairment allowance	-33 025	-13 469
Other retail loans	7 604 944	6 536 708
unimpaired	7 274 942	6 299 827
impaired	1 034 794	704 269
IBNR	-71 927	-45 921
Impairment allowance	-632 865	-421 467
Corporate segment	**10 347 071**	**9 072 540**
unimpaired	9 838 275	8 838 080
impaired	1 028 647	612 385
IBNR	-18 130	-15 789
Impairment allowance	-501 721	-362 136
Amounts due from customers	**23 647 990**	**19 653 890**

(in PLN '000)

The provision for losses incurred but not reported (IBNR) amounted to: PLN 98,980 thousand as at 31 December 2014 and PLN 66,883 thousand as at 31 December 2013.

15.3 Receivables from customers impaired	As at 31.12.2014	As at 31.12.2013
Receivables from customers individually assessed	**801 399**	**482 847**
Retail segment	**309 349**	**251 106**
Amounts due from customers	595 598	473 440
Impairment allowance	-286 249	-222 334
Corporate segment	**492 050**	**231 741**
Amounts due from customers	908 514	556 406
Impairment allowance	-416 464	-324 665
Receivables from customers collectively assessed	**232 556**	**117 096**
Retail segment	**197 680**	**98 588**
Amounts due from customers	600 500	320 609
Impairment allowance	-402 820	-222 021
Corporate segment	**34 876**	**18 508**
Amounts due from customers	120 133	55 979
Impairment allowance	-85 257	-37 471
Receivables from customers impaired	**1 033 955**	**599 943**

15.4 Change in the balance of receivables impairment allowances and IBNR	As at 31.12.2014	As at 31.12.2013
Opening balance	873 374	568 230
Changes during the year:	416 396	305 144
Increases	1 001 224	865 718
Retail segment	622 589	499 814
Corporate segment	378 635	365 904
Decreases	-500 959	-482 755
Retail segment	-303 500	-297 205
Corporate segment	-197 459	-185 550
Transfer to costs	-105 583	-53 906
Other changes	21 714	-23 913
Impairment allowances and IBNR at the end of the period	**1 289 770**	**873 374**

15.5 By maturity (as at the balance sheet date)	As at 31.12.2014	As at 31.12.2013
Retail segment	**13 300 919**	**10 581 350**
≤ 1M	2 048 850	1 511 909
> 1M ≤ 3M	267 977	520 859
> 3M ≤ 6M	389 449	300 675
> 6M ≤ 1Y	741 573	281 584
>1Y ≤ 2Y	1 101 573	891 093
>2Y ≤ 5Y	2 474 771	2 266 721
>5Y ≤ 10Y	2 444 547	2 044 339
>10Y ≤ 20Y	2 076 617	1 470 208
>20Y	1 755 562	1 293 962
Corporate segment	**10 347 071**	**9 072 540**
≤ 1M	3 561 340	3 600 406

(in PLN '000)

> 1M ≤ 3M	622 870	972 840
> 3M ≤ 6M	587 109	494 160
> 6M ≤ 1Y	870 559	373 558
>1Y ≤ 2Y	1 339 352	860 571
>2Y ≤ 5Y	1 766 626	1 635 095
>5Y ≤ 10Y	1 212 647	888 140
>10Y ≤ 20Y	386 568	247 770
Amounts due from customers	**23 647 990**	**19 653 890**

15.6 By currency	As at 31.12.2014	As at 31.12.2013
Retail segment	**13 300 919**	**10 581 350**
PLN	12 277 759	9 560 593
Other	1 023 160	1 020 757
Corporate segment	**10 347 071**	**9 072 540**
PLN	8 056 697	7 275 394
Other	2 290 374	1 797 146
Total receivables	**23 647 990**	**19 653 890**

In 2014 and 2013 CHF loans accounted for 0.8% and 1% of the total outstanding loans, respectively.

15.7 Ten largest credit exposures	Currency	As at 31.12.2014
Company 1	EUR	253 097
Company 2	EUR	240 205
Company 3	PLN	160 019
Company 4	EUR,GBP,PLN	148 310
Company 5	EUR	147 857
Company 6	PLN	145 020
Company 7	PLN	136 047
Company 8	EUR	117 356
Company 9	PLN	90 239
Company 10	PLN	86 332

15.8 Ten largest credit exposures	Currency	As at 31.12.2013
Company 1	PLN	395 506
Company 2	EUR,GBP,PLN	190 975
Company 3	PLN	164 467
Company 4	EUR	151 387
Company 5	PLN	148 853
Company 6	EUR	141 604
Company 7	PLN	140 864
Company 8	PLN	120 016
Company 9	EUR	118 000
Company 10	PLN	102 140

The two tables above present the loan balance at its nominal value. The principles relating to concentration limits are described in Note 48.

(in PLN '000)

In 2014, the Bank sold loans amounting to the total gross value of PLN 86,103 thousand, the buyer took over all the rights and benefits associated with the portfolio.

16. Amounts due from banks

16.1 By type	As at 31.12.2014	As at 31.12.2013
Current accounts	291 440	99 822
Overnight Deposits (O/N)	6 394	82 157
Term deposits	0	2 468
Deposits as derivative transactions (ISDA) collateral	143 427	57 280
Other	5 732	11 943
Amounts due from banks	**446 993**	**253 670**

16.2 By maturity (as at the balance sheet date)	As at 31.12.2014	As at 31.12.2013
≤ 1M	446 993	253 670
Amounts due from banks	**446 993**	**253 670**

16.3 By currency	As at 31.12.2014	As at 31.12.2013
PLN	16 393	7 323
EUR	188 227	94 043
GBP	27 844	30 779
USD	153 248	75 635
CHF	5 608	20 430
Other currencies	55 673	25 460
Amounts due from banks	**446 993**	**253 670**

Forward repo/reverse repo transactions are concluded by the Bank to optimize current liquidity management; therefore, they are classified exclusively to the banking portfolio. Occasional transactions appearing in the trading book result from risk-free arbitrage. Repo and reverse repo transactions are short-term and mature no later than within one month, they are concluded mainly in PLN, decidedly less frequently in EUR and USD. Net balances of repo and reverse repo transactions which mature within one month are included in the Bank's liquidity buffer (liquid assets). As at 31 December 2014, the Bank did not have any reverse repo transactions.

The security deposits granted relate to security transferred to other banks under the settlements related to CSA (Credit Support Annex).

17. Property, plant and equipment

As at 31.12.2014	Fixed assets under construction	Plant and machinery (including IT equipment)	Leasehold improve-ments	Other	Total
Value at cost at the beginning of the period	13 332	174 125	150 247	70 546	408 250

(in PLN '000)

Changes due to:	-6 238	22 104	5 046	1 904	22 816
Purchases in 2014	3 653	18 477	3 507	895	26 532
Reclassifications in 2014	-9 891	3 578	1 539	4 774	0
Sales in 2014	0	49	0	0	49
Other changes	0	0	0	-3 765	-3 765
Value at cost at the end of the period	7 094	196 229	155 293	72 450	431 066
Accumulated depreciation as at the beginning of the period	0	100 163	53 308	39 264	192 735
Depreciation for 2014	0	21 614	15 477	9 366	46 457
Other changes	0	0	0	-2 563	-2 563
Accumulated depreciation as at the end of the period	0	121 777	68 785	46 067	236 629
Impairment allowances as at the beginning of the period	0	182	193	19	394
Changes in impairment allowances in 2014	0	395	1 813	0	2 208
Impairment allowances as at the end of the period	0	577	2 006	19	2 602
Net value as at the beginning of the period	**13 332**	**73 780**	**96 746**	**31 263**	**215 121**
Net value as at the end of the period	**7 094**	**73 875**	**84 502**	**26 364**	**191 835**

As at 31.12.2013	Fixed assets under construction	Plant and machinery (including IT equipment)	Leasehold improve-ments	Other	Total
Value at cost at the beginning of the period	20 088	141 226	135 499	62 472	359 285
Changes due to:	-6 756	32 899	14 748	8 074	48 965
Purchases in 2013	0	26 393	14 860	9 515	50 768
Reclassifications in 2013	-6 756	6 756	0	0	0
Sales in 2013	0	0	0	-1	-1
Other changes	0	-249	-112	-1 440	-1 801
Value at cost at the end of the period	13 332	174 125	150 247	70 546	408 250
Accumulated depreciation as at the beginning of the period	0	73 353	38 902	31 850	144 105
Depreciation for 2013	0	26 810	14 406	7 414	48 630
Accumulated depreciation as at the end of the period	0	100 163	53 308	39 264	192 735
Impairment allowances as at the beginning of the period	0	99	161	33	293
Changes in impairment allowances in 2013	0	83	32	-14	101
Impairment allowances as at the end of the period	0	182	193	19	394
Net value as at the beginning of the period	**20 088**	**67 774**	**96 436**	**30 589**	**214 887**
Net value as at the end of the period	**13 332**	**73 780**	**96 746**	**31 263**	**215 121**

18. Intangible assets

As at 31.12.2014	Goodwill	Capital expenditure	Computer software and licences		Trademark	Total
		Acquired	Internally generated	Acquired		
Value at cost at the beginning of the period	0	53 760	216 564	16 950	300	287 574

(in PLN '000)

Changes in intangible assets	2 321	-18 056	74 048	12	0	58 325
Purchases in 2014	0	28 005	9 765	12	0	37 782
Reclassifications in 2014	0	-54 164	54 164	0	0	0
Capitalized costs of salaries	0	8 103	10 119	0	0	18 222
Other changes	2 321	0	0	0	0	2 321
Value at cost at the end of the period	2 321	35 704	290 612	16 962	300	345 899
Accumulated amortization as at the beginning of the period	0	0	90 498	9 026	0	99 524
Amortization for 2014	0	0	28 340	659	0	28 999
Other changes	0	0	97	0		97
Accumulated amortization as at the end of the period	0	0	118 935	9 685		128 620
Impairment allowances as at the beginning of the period	0	0	2	0	0	2
Changes in impairment allowances in 2014	2 321	27	340	0	0	2 688
Impairment allowances as at the end of the period	2 321	27	342	0	0	2 690
Net value as at the beginning of the period	**0**	**53 760**	**126 064**	**7 924**	**300**	**188 048**
Net value as at the end of the period	**0**	**35 677**	**171 335**	**7 277**	**300**	**214 589**

As at 31.12.2013	Goodwill	Capital expenditure	Computer software and licences		Trademark	Total
		Acquired	Internally generated	Acquired		
Value at cost at the beginning of the period	0	23 826	142 398	64 413	300	230 937
Changes in intangible assets	0	29 934	74 166	-47 463	0	56 637
Purchases in 2013	0	5 476	74 166	0	0	79 642
Capitalized costs of salaries	0	26 820	0	0	0	26 820
Other changes	0	-2 362	0	-47 463	0	-49 825
Value at cost at the end of the period	0	53 760	216 564	16 950	300	287 574
Accumulated amortization as at the beginning of the period	0	0	72 581	416	0	72 997
Amortization for 2013	0	0	17 917	8 610	0	26 527
Accumulated amortization as at the end of the period	0	0	90 498	9 026	0	99 524
Impairment allowances as at the beginning of the period	0	0	2	0	0	2
Impairment allowances as at the end of the period	0	0	2	0	0	2
Net value as at the beginning of the period	**0**	**23 826**	**69 815**	**63 997**	**300**	**157 938**
Net value as at the end of the period	**0**	**53 760**	**126 064**	**7 924**	**300**	**188 048**

Expenditure on intangible assets which are owned or co-owned by the Bank and are earmarked for holding and using for the Bank's purposes or for sale, are included in costs directly related to assembly in progress or commissioning for use of new or improved intangible assets. These, among others, comprise the costs of:

- purchase, in Poland or abroad, or creating proprietary intangible assets and their transport, assembly, correction and implementation tests;
- preparing the place to implement the intangible assets;
- design documentation.

19. Other assets

(in PLN '000)

19.1 Other assets	As at 31.12.2014	As at 31.12.2013
Sundry debtors	**180 563**	**307 649**
Other settlements	42 834	39 758
Receivables related to the sale of goods and services (including insurance)	10 448	169 338
Guarantee deposits	11 034	12 025
Settlements of payment cards	116 247	86 528
Deferred costs	**28 939**	**19 305**
Settlements of rental charges and utilities	379	832
Maintenance and support of systems, servicing of plant and equipment	6 692	5 236
Other deferred costs	21 868	13 237
Accrued income on PCC settlements with the Tax Office	**0**	**10 043**
Settlements of VAT	**16 100**	**6 776**
Other assets (brutto)	**225 602**	**343 773**
Impairment allowances	-7 204	-5 996
Other assets (netto)	**218 398**	**337 777**
including financial assets	180 563	307 649

19.2 Change in the balance of other assets impairment allowances	As at 31.12.2014	As at 31.12.2013
Opening balance	5 996	3 494
Changes during the year:	1 208	2 502
Increases	1 371	2 590
Decreases	-163	-88
Impairment allowances at the end of the period	**7 204**	**5 996**

The receivables related to the sale of goods and services cover mainly fees from insurance companies for servicing insurance.

20. Amounts due to the Central Bank

As at 31 December 2014 and 31 December 2013, the Bank did not have any amounts due to the Central Bank.

21. Financial liabilities measured at amortized cost due to customers

21.1 By type	As at 31.12.2014	As at 31.12.2013
Current deposits	9 863 710	8 166 025
Term deposits	12 623 311	11 253 619
Own issue of Banking Securities	1 641 956	1 135 619
Other liabilities	301 991	305 746

(in PLN '000)

Total amounts due to customers	**24 430 968**	**20 861 009**

21.2 By customer type and segment	As at 31.12.2014	As at 31.12.2013
Retail segment	**14 849 410**	**14 223 512**
Current deposits	6 736 053	5 864 001
Term deposits	7 796 845	8 134 966
Banking securities issued	156 769	96 814
Other liabilities	159 743	127 731
Corporate segment	**9 581 558**	**6 637 497**
Current deposits	3 127 657	2 302 024
Term deposits	4 826 466	3 118 653
Banking securities issued	1 485 187	1 038 805
Other liabilities	142 248	178 015
Total amounts due to customers	**24 430 968**	**20 861 009**

21.3 By maturity (as at the balance sheet date)	As at 31.12.2014	As at 31.12.2013
Retail segment	**14 849 410**	**14 223 512**
≤ 1M	8 305 470	7 529 896
> 1M ≤ 3M	2 819 115	2 672 427
> 3M ≤ 1Y	2 974 459	3 895 267
> 1Y ≤ 5Y	742 513	121 184
>5Y	7 853	4 738
Corporate segment	**9 581 558**	**6 637 497**
≤ 1M	6 541 802	4 721 607
> 1M ≤ 3M	1 027 542	464 113
> 3M ≤ 1Y	962 364	608 319
> 1Y ≤ 5Y	1 042 498	836 244
>5Y	7 352	7 214
Total amounts due to customers	**24 430 968**	**20 861 009**

21.4 By currency	As at 31.12.2014	As at 31.12.2013
Retail segment	**14 849 410**	**14 223 512**
PLN	12 810 749	12 328 403
Other	2 038 661	1 895 109
Corporate segment	**9 581 558**	**6 637 497**
PLN	8 630 687	5 532 504
Other	950 871	1 104 993
Total amounts due to customers	**24 430 968**	**20 861 009**

21.5.1 Ten largest depositors (without banks)	Currency	As at 31.12.2014
Company 1	PLN, EUR, USD	369 372
Company 2	PLN	230 036
Company 3	PLN	151 816
Company 4	PLN	99 421
Company 5	PLN	84 708

(in PLN '000)

Company 6	PLN	70 823
Company 7	PLN	67 488
Company 8	PLN, CHF, EUR, USD	66 583
Company 9	PLN, EUR	63 717
Company 10	PLN	61 824

21.5.2 Ten largest depositors (without banks)	Currency	As at 31.12.2013
Company 1	PLN	131 875
Company 2	PLN	129 096
Company 3	PLN	58 630
Natural person 1	EUR, PLN	55 336
Company 4	EUR, PLN	55 232
Company 5	PLN	50 955
Company 6	PLN	50 459
Company 7	EUR, PLN, USD	47 680
Company 8	EUR, PLN	39 745
Company 9	EUR, GBP, PLN	35 100

22. Financial liabilities measured at amortized cost due to banks

22.1 By type	As at 31.12.2014	As at 31.12.2013
Current deposits	11 015	11 023
Overnights	0	27 002
Banking securities issued	22 676	10 003
Credit received	0	62 228
Other liabilities	131 550	33 796
Repo	883 921	683 924
Total amounts due to banks	**1 049 162**	**827 976**

22.2 By maturity (as at the balance sheet date)	As at 31.12.2014	As at 31.12.2013
≤ 1M	1 026 486	755 746
> 1M ≤ 3M	0	0
> 3M ≤ 1Y	10 003	0
> 1Y ≤ 5Y	12 673	72 231
Total amounts due to banks	**1 049 162**	**827 976**

22.3 By currency	As at 31.12.2014	As at 31.12.2013
PLN	926 887	738 755
EUR	86 568	89 222
USD	35 707	0
Total amounts due to banks	**1 049 162**	**827 976**

23. Provisions

(in PLN '000)

	Provisions for disputed claims	Provisions for employee benefits	Off-balance reserve	Total provisions
As at 1 January 2014	258	623	3 990	4 871
Provisions recorded	2 595	199	7 835	10 629
Provisions released	-127	-58	-6 878	-7 063
Provisions utilized	-213	0	0	-213
Other changes	0	60	27	87
As at 31 December 2014	**2 513**	**824**	**4 974**	**8 311**

	Provisions for disputed claims	Provisions for employee benefits	Off-balance reserve	Total provisions
As at 1 January 2013	840	624	6 296	7 760
Provisions recorded	1 221	269	16 957	18 447
Provisions released	-818	-270	-19 281	-20 369
Provisions utilized	-985	0	0	-985
Other changes	0	0	18	18
As at 31 December 2013	**258**	**623**	**3 990**	**4 871**

The provision for old age and disability allowance is recognized for each employee based on an actuarial valuation prepared by an independent actuarial company. The basis for determining the value of the provision is the expected value of the old age or disability allowance which the Bank commits to paying based on the Remuneration Regulations.

In accordance with IAS 19, the financial discounting rate used to calculate provisions has been established based on market rates of return on T-bonds, whose currency and maturity are the same as those prevailing for the Bank's liabilities under employee benefits.

24. Other liabilities

	As at 31.12.2014	As at 31.12.2013
Interbank settlements	182 431	181 057
Taxation, customs duty, social and health insurance payables and other public settlements	21 918	20 573
Liabilities in respect of payment card settlements	3 890	5 310
Other settlements	33 359	160 780
including settlements with insurers	12 832	127 581
Settlements of banking certificates of deposits	121 904	0
Accruals	39 734	21 446
Income received in advance	269 248	134 208
Provision for bancassurance resignations	44 465	113 147
Provision for employee benefits	23 496	9 693
Other liabilities	1 430	767
Unregistered capital	0	464 156
Total other liabilities	**741 875**	**1 111 137**
including financial liabilities	219 680	347 147

(in PLN '000)

Settlements with insurers comprise insurance premiums relating to the cover granted by the Bank to its Customers under one of the group insurance contracts (concluded by the Bank with insurers and offered to its Customers).

There were no such liabilities in respect of which the Bank did not settle its payment liabilities following from the contracts concluded as at 31 December 2014 and 31 December 2013.

Capital notified for registration is presented in other liabilities in line with the records as at 31.12.2013 in the Bank's books of account on an escrow account.

25. Financial assets and financial liabilities held for trading

The Bank classified derivative instruments and securities (shares, bonds) to financial assets and financial liabilities held for trading as at 31 December 2014 and 31 December 2013. Derivative transactions are concluded for trading purposes and for the purpose of managing market risk. The Bank concludes the following types of derivative transactions: FX-Forward, FX-Swap, IRS, CIRS, FRA, Commodity Futures, Commodity Forwards and Forward security transactions. Derivative financial instruments are measured on a daily basis using the discounted cash flow method. The Bank also enters into option transactions. In accordance with the binding laws, in concluding option transactions, the Bank executes them in a manner ensuring the simultaneous (each time and immediate) conclusion of an opposite option transaction with the same transaction parameters (back to back).

25.1 Derivative financial instruments (nominal value)	**As at 31.12.2014**	**As at 31.12.2013**
Interest rate transactions	16 130 395	14 702 308
SWAP	12 336 676	13 534 516
FRA	400 000	0
Cap Floor Options	3 393 719	1 167 792
Foreign exchange transactions	6 169 370	4 966 064
FX swap	1 906 986	2 490 943
FX forward	2 169 979	966 688
CIRS	1 750 256	1 219 714
FX options	342 149	288 719
Other options	2 996 972	2 091 796
Other instruments	573 411	353 894
Derivative financial instruments (nominal value)	**25 870 148**	**22 114 062**

25.2 Financial assets held for trading	**As at 31.12.2014**	**As at 31.12.2013**
Shares	2 729	1 971
Bonds	946	418
Interest rate transactions	260 481	120 294
SWAP	246 522	116 229
FRA	1 790	0
Cap Floor Options	12 169	4 065
Foreign exchange transactions	110 794	57 842

(in PLN '000)

FX swap	14 133	13 121
FX forward	42 485	20 294
CIRS	51 641	23 883
FX options	2 535	544
Other options	81 198	46 618
Other instruments	20 673	16 148
Financial assets held for trading	**476 821**	**243 291**

25.3 By maturity	**As at 31.12.2014**	**As at 31.12.2013**
Without specified maturity date	2 730	1 971
≤ 1W	12 190	10 783
> 1W ≤ 1M	59 687	20 221
> 1M ≤ 3M	47 440	57 215
> 3M ≤ 6M	46 079	20 757
> 6M ≤ 1Y	44 121	28 281
> 1Y ≤ 2Y	67 607	43 088
> 2Y ≤ 5Y	173 918	46 895
> 5Y ≤ 10Y	23 049	14 080
Financial assets held for trading	**476 821**	**243 291**

25.4 Financial liabilities held for trading	**As at 31.12.2014**	**As at 31.12.2013**
Interest rate transactions	201 221	78 002
SWAP	189 017	73 937
Cap Floor Options	12 204	4 065
Foreign exchange transactions	45 414	49 499
FX swap	6 886	20 997
FX forward	8 410	8 137
CIRS	27 585	19 377
FX options	2 533	988
Other options	81 198	46 618
Other instruments	21 200	9 971
Financial liabilities held for trading	**349 033**	**184 090**

25.5 By maturity	**As at 31.12.2014**	**As at 31.12.2013**
≤ 1W	9 000	5 017
> 1W ≤ 1M	15 805	15 550
> 1M ≤ 3M	35 914	16 477
> 3M ≤ 6M	15 688	31 756
> 6M ≤ 1Y	30 949	10 739
> 1Y ≤ 2Y	70 095	45 855
> 2Y ≤ 5Y	154 772	53 900
> 5Y ≤ 10Y	16 810	4 796
Financial liabilities held for trading	**349 033**	**184 090**

The listing below shows the hierarchy of measurement methods of financial instruments held for trading measured to fair value as at 31 December 2014 and comparative data as at 31 December 2013.

(in PLN '000)

In accordance with IFRS 13, the Bank classified:

• to level 1 – all instruments for which price quotations on active financial markets are available;

• to level 2 – instruments for which prices are not directly observable, but the prices used for measurement are based on market quotations.

To instruments of this level the discounted cash flows method is used, on the assumption that profitability curves are based on interbank market quotations (including: deposit rates, rates from: FRA, OIS, IRS, basis swap, fx swap; forex transactions).

• to level 3 – instruments for which at least one factor affecting the price is not based on observable market data.

Instruments of this level include options embedded in deposit certificates issued by the Bank and options concluded on the interbank market to hedge embedded option positions. The fair value is determined on the basis of an internal model in consideration of both observable parameters (e.g. price of the base instrument, quotations from the secondary option market), and non-observable parameters (e.g. fluctuations, correlations between base instruments in options based on baskets of instruments). Model parameters are set on the basis of statistical analysis. As the market risk position in respect of the specified options is in exact opposition, changes in the adopted model assumptions have no impact on changes in the fair value of the Bank's position in respect of level 3 option transactions. Change in the valuation of an option on the financial assets side due to a 1% increase in the price of the base instrument will amount to PLN 4.4M and it will be offset exactly by the change in the valuation of the option on the financial liabilities side.

As at 31.12.2013, the Bank presented other options at the level 3 (financial assets of PLN 3,703 thousand and financial liabilities of PLN 42,915 thousand were transferred from level 2), which better reflects the nature of the valuation.

25.6 Valuation of financial assets	As at 31.12.2014	As at 31.12.2013
Level 1	**17 268**	**10 976**
Shares	2 729	1 971
Bonds	946	418
Other instruments	13 593	8 587
Level 2	**378 355**	**185 697**
SWAP	246 522	116 229
FRA	1 790	0
Cap Floor Options	12 169	4 065
FX swap	14 133	13 121
FX forward	42 485	20 294

(in PLN '000)

CIRS	51 641	23 883
FX options	2 535	544
Other instruments	7 080	7 561
Level 3	**81 198**	**46 618**
Other options	81 198	46 618
Total financial assets	**476 821**	**243 291**

25.7 Movements on financial assets classified as level 3	As at 31.12.2014	As at 31.12.2013
Opening balance	**46 618**	**26 669**
Increases, including	**91 893**	**65 792**
Derivatives revaluation of previous year	16 778	22 552
Derivatives transactions	36 845	24 567
Positive valuation of derivatives	38 270	18 673
Decreases, including	**-57 313**	**-45 843**
Derivatives revaluation of previous year	-18 673	-4 884
Settlement/redemption	-24 788	-24 181
Negative valuation of derivatives	-13 852	-16 778
Financial assets classified as level 3 at the end of the period	**81 198**	**46 618**

25.8 Valuation of financial liabilities	As at 31.12.2014	As at 31.12.2013
Level 1	**16 624**	**7 064**
Other instruments	16 624	7 064
Level 2	**251 211**	**130 408**
SWAP	189 017	73 937
Cap Floor Options	12 204	4 065
FX swap	6 886	20 997
FX forward	8 410	8 137
CIRS	27 585	19 377
FX options	2 533	988
Other instruments	4 576	2 907
Level 3	**81 198**	**46 618**
Other options	81 198	46 618
Total financial liabilities	**349 033**	**184 090**

25.9 Movements on financial liabilities classified as level 3	As at 31.12.2014	As at 31.12.2013
Opening balance	**46 618**	**26 669**
Increases, including	**91 888**	**65 792**
Derivatives revaluation of previous year	16 778	22 552
Derivatives transactions	36 845	24 567
Positive valuation of derivatives	38 265	18 673
Decreases, including	**-57 308**	**-45 843**
Derivatives revaluation of previous year	-18 673	-4 884
Settlement/redemption	-24 788	-24 181
Negative valuation of derivatives	-13 847	-16 778
Financial liabilities classified as level 3 at the end of the period	**81 198**	**46 618**

(in PLN '000)

The valuation and net gain on derivative financial instruments is presented in trading result.

26. Hedge accounting

The Bank uses cash flow hedge accounting. The hedging strategy is aimed at securing interest rate risk resulting from fluctuations in cash flows from assets with a variable interest rate, using PLN IRS transactions. In the hedge relationships set up hedged items constitute cash flows on the PLN loans and advances portfolio bearing a fluctuating interest rate, and hedging instruments are IRS transactions, where the Bank receives interest based on a fixed interest rate and pays interest based on a variable interest rate. Hedged items are measured at amortized cost, and hedging instruments at fair value.

26.1. Hedging instruments (nominal value)	As at 31.12.2014	As at 31.12.2013
Interest rate transactions	5 835 000	1 150 000
SWAP	5 835 000	1 150 000
Hedging instruments (nominal value)	**5 835 000**	**1 150 000**

26.2. Financial assets held for trading-hedging instruments	As at 31.12.2014	As at 31.12.2013
Level 2	80 205	12 099
Interest rate transactions	80 205	12 099
SWAP	80 205	12 099
Financial assets held for trading-hedging instruments	**80 205**	**12 099**

26.3. By maturity	As at 31.12.2014	As at 31.12.2013
> 3M ≤ 6M	8 896	1 868
> 6M ≤ 1Y	49	0
> 1Y ≤ 2Y	47 856	7 579
> 2Y ≤ 5Y	23 404	2 652
Financial assets held for trading-hedging instruments	**80 205**	**12 099**

26.4.Financial liabilities held for trading-hedging instruments	As at 31.12.2014	As at 31.12.2013
Level 2	4 777	0
Interest rate transactions	4 777	0
SWAP	4 777	0
Financial liabilities held for trading-hedging instruments	**4 777**	**0**

26.5. By maturity	As at 31.12.2014	As at 31.12.2013
> 6M ≤ 1Y	875	0
> 1Y ≤ 2Y	2 221	0
> 2Y ≤ 5Y	1 681	0
Financial liabilities held for trading-hedging instruments	**4 777**	**0**

(in PLN '000)

Other comprehensive income from cash flow hedge	As at 31.12.2014	As at 31.12.2013
Other comprehensive income at the begining of the period	- 3 020	-
Gains/losses recognized in other comprehensive income for the period	37 755	-3 998
The ineffective portion of cash flow hedge recognized in the income statement	76	270
Accumulated other comprehensive income at the end of the period, gross	34 811	- 3 728
Tax effect	- 7 188	708
Net value	**27 623**	**- 3 020**

27. Subordinated liabilities

On 15 November 2011, the Polish Financial Supervision Authority granted its permission to include the subordinated loan of EUR 10 million, concluded on 12 October 2011 by and between Alior Bank S.A. and Erste Group Bank AG in the supplementary funds of Alior Bank S.A. The borrowing agreement was concluded for a period of 8 years, and the interest rate is based on 3M EURIBOR. As at 31 December 2014 and 31 December 2013, the carrying amounts of the borrowing were PLN 42,828 thousand and PLN 41,657 thousand respectively.

On 3 February 2012 the subscription period for C-series bonds issued by Alior Bank S.A. ended. The total nominal value of the bonds is PLN 280 million. The bonds were purchased by open pension funds (OFE), investment fund management companies (TFI) and insurance companies. The bonds were issued for a period of 8 years (the date of redemption is 14 February 2020), and they bear an interest rate based on WIBOR 6M. On 20 March 2012, the Bank obtained the consent of PFSA to include the bonds in its own supplementary funds.
In accordance with the current reports nos. 43/2014, 44/2014 and 53/2014, bonds with a total nominal value of PLN 130.7M were redeemed in September and October 2014. The carrying value of bonds as at 31.12.2014 was PLN 152,635 thousand and as at 31.12.2013 it was PLN 288,008 thousand. These bonds are not included in Tier 2 capital.

On 28 March 2012, PFSA gave its consent to include the subordinated bonds issued for a period of 8 years (to be redeemed on 31 January 2020), in the amount of EUR 4,500,000, bearing an interest rate of 6M LIBOR for 6-month EUR deposits, in the Bank's own supplementary funds. As of 31 January 2015, the Issuer shall be entitled to early redemption of Series B bonds, if the Polish Financial Supervision Authority approves. The carrying amount of the bonds as at 31 December 2014 was PLN 19,687 thousand and as at 31 December 2013: PLN 19,156 thousand. These bonds are not included in Tier 2 capital.

On 26 September 2014, the Bank issued F-series bonds with a total nominal value of PLN 321,700 thousand. The bonds were issued for a period of 10 years (redemption date: 26 September 2024), and they bear interest based on WIBOR 6M. In accordance with the CRR Regulation, the bonds satisfy the conditions for being included in Tier 2 capital. The carrying amount of the bonds as at 31 December 2014 was PLN 326,445 thousand. On 28 October 2014, the Bank received PFSA consent for including the bonds in Tier 2 capital calculation.

(in PLN '000)

In September 2014, the Bank learned about the possibility of a different interpretation of CRR regulations in respect of C-series bonds and about the fact that the above-mentioned subordinated liabilities could not be recognized in equity should this interpretation be adopted.

The Bank adopted the same approach with respect to B-series bonds, although they ceased to be recognized in equity upon the Bank's decision and their early redemption, i.e. as at the end of 2014.

	As at 31.12.2014	As at 31.12.2013
Liabilities recognized in equity	**369 273**	**348 821**
Subordinated loan	42 828	41 657
B-series bonds	0	19 156
C-series bonds	0	288 008
F-series bonds	326 445	0
Liabilities not recognized in equity	**172 322**	**0**
B-series bonds	19 687	0
C-series bonds	152 635	0
Subordinated liabilities	**541 595**	**348 821**

If the C and B-series bonds were not taken into account, the solvency ratio would amount to: Q1 2014 - 12.05% (published 13.5%), Q2 2014 - 12.51% (presented 13.11%), Q3 2014 - 13.67% (published 13.8%).

28. Equity

28.1 Equity	As at 31.12.2014	As at 31.12.2013
Share capital	699 784	635 830
Supplementary capital	1 775 397	1 434 712
Other capital	184 167	176 792
Share-based payments – equity component	184 167	176 792
Retained earnings / (accumulated losses)	0	-275 382
Revaluation reserve	21 426	-16 777
On measurement of available for sale assets	-6 198	-13 757
On measurement of hedging derivatives	27 624	-3 020
Profit/(loss) for the year	337 030	219 752
Total equity	**3 017 804**	**2 174 927**

28.2 Revaluation reserve	As at 31.12.2014	As at 31.12.2013
Valuation of financial assets available for sale	-6 198	-13 757
treasury bills	-25	0
treasury bonds	-7 601	-17 701
other bonds	-26	717
deferred tax	1 454	3 227
Valuation of hedging instruments	27 624	-3 020
IRS	34 104	-3 728
deferred tax	-6 480	708
Revaluation reserve	**21 426**	**-16 777**

(in PLN '000)

28.3 Structure of the share capital of Alior Bank S.A. as at 31 December 2014 and 31 December 2013

Series	Type of shares	Number of shares	Par value of shares	Series at par value (in PLN)
A-series	Ordinary	50 000 000	10	500 000 000
B-series	Ordinary	1 250 000	10	12 500 000
C-series	Ordinary	12 332 965	10	123 329 650
D-series	Ordinary	37 105	10	371 050
G-series	Ordinary	6 358 296	10	63 582 960
Total		**69 978 366**		**699 783 660**

During the reporting period took place:

- the increase of the share capital through the issuance of G-series ordinary bearer shares with the total par value of PLN 63,582,960 (6 358 296 ordinary shares);
- the issuance of 37,105 D-series ordinary bearer shares with the total par value of PLN 371,050 for the purposes of partial settlement of the Incentive Scheme.

29. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction on the principal (or the most advantageous) market as at the measurement date under the current market conditions (i.e. the exit price), irrespective of whether such price is directly observable or estimated with the use of another measurement technique.
The fair value of financial instruments is based on prices quoted on the principal (or the most advantageous) active market, without deducting the transaction costs. If the market price is unavailable, the fair value of an instrument is estimated using the measurement models or techniques for discounting future cash flows.

The measurement techniques are based on:

- recent market transactions concluded directly between informed interested parties, provided that such information is available;
- a reference to the present fair value of another instrument with almost identical characteristics;
- the discounted cash flow method.

If there is a technique that is commonly used by market participants to measure a financial instrument and it has been demonstrated to provide reliable estimates of prices paid in actual market transactions, the Bank uses such method. The selected measurement techniques are primarily based on market data. They use Bank-specific data to a very limited extent. The measurement technique comprises all factors that the market participants would take into account when determining the price and it is consistent with the accepted methods of measurement of financial instruments. The Bank verifies the correctness of measurement using the available prices paid for the same instrument in recent market transactions or other available market data.

Balance sheet items measured at the fair value

Financial instrument	Frequency	Recognition/presentation

Available-for-sale financial assets	Daily	other comprehensive income
Fx forward, fx swap, fx options	Daily	income statement
CIRS, FRA, IRS	Daily	income statement
Other derivatives	Daily	income statement
Shares	Daily	income statement

The fair values of the financial instruments presented in the balance sheet at fair value as at 31 December 2014 and 31 December 2013 were equal to their carrying amounts.

Since 2013, Alior Bank SA has adjusted the value of derivatives for counterparty credit risk. The amount of such adjustment is equal to the change in the valuation of derivatives resulting from the insolvency of each of the parties to the transaction (Bilateral Credit Value Adjustment). The BCVA adjustment as at 31 December 2014 amounted to PLN - 1,342,869. The total amount of BCVA adjustment comprises the CVA adjustment (reflecting counterparty insolvency risk only) in the amount of PLN - 1,402,696, and the DVA adjustment (reflecting the risk of the Bank's insolvency) in the amount of PLN +59,827. The amount of such adjustment is calculated based on the estimates of the following parameters: PD (Probability of Default), LGD (Loss Given Default), Expected Exposure (EE) and Expected Negative Exposure (NEE).

PD and LGD are estimated by the Bank using internal models based on market quotations of credit risk. Counterparty exposures are calculated taking into account the current valuation and its projection calculated based on the expected changes in market conditions. Additionally, the estimations of credit risk adjustments take into account the mutual liabilities of the parties to the transaction resulting from hedging agreements.

Fair value measurement for the purposes of disclosures

The carrying amounts and fair values of assets and liabilities which are not shown in the balance sheet at fair value are presented below.

Financial instrument	Fair value hierarchy level	As at 31.12.2014		As at 31.12.2013 Adjusted amount	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with the Central Bank	nd	1 158 440	1 158 440	1 067 227	1 067 227
Loans and advances to customers:	level 3	23 647 990	23 317 007	19 653 890	19 413 519
Retail segment (carrying amount)					

(in PLN '000)

Loans for purchase of securities		142 921	139 791	160 678	118 342
Consumer loans		6 217 208	6 132 524	5 240 515	5 146 247
Consumer finance loans		704 834	706 709	650 741	639 035
Working capital facility		142 530	142 530	118 342	155 918
Credit card borrowings loans		204 619	199 866	193 157	189 479
Loans for residential real estate		4 991 141	4 846 854	3 393 901	3 339 254
Other mortgage loans		877 230	849 874	797 964	783 052
Other receivables		20 436	20 428	26 052	30 062
Corporate segment (carrying amount)					
Working capital facility		5 527 749	5 491 586	4 854 894	4 818 023
Car loans		141 299	141 288	239 497	239 497
Investment loans		4 134 162	4 102 105	3 366 771	3 343 927
Acquired receivables (factoring)		517 347	517 347	561 826	561 826
Other receivables		26 514	26 105	49 552	48 857
Amounts due from banks	level 3	446 993	446 993	253 670	253 670
Non-current assets held for sale	level 3	908	908	38 335	38 335
Aktywa stanowiące zabezpieczenie zobowiązań	level 3	927 191	927 191	687 736	687 736
Other assets	level 3	218 398	218 398	337 777	337 777
Financial liabilities measured at amortized cost :	level 3	25 480 130	25 495 661	21 688 985	21 692 709
Due to banks					
Current deposits		11 015	11 015	11 023	11 023
Overnights		0	0	27 002	27 002
Credit received		0	0	62 228	62 228
Other liabilities		131 550	131 550	33 796	33 796
Repo		883 921	883 921	683 924	683 924
Due to customers					
Current deposits		9 863 710	9 863 710	8 166 025	8 166 025
Term deposits		12 623 311	12 623 311	11 253 619	11 253 619
Banking securities issued		1 641 956	1 657 487	1 135 619	1 139 343
Other liabilities		301 991	301 991	305 746	305 746
Subordinated liabilities	level 3	541 595	541 595	348 821	348 821
Management option plan	level 3	20 789	64 940	13 413	59 738
Other liabilities	level 3	741 875	741 875	1 111 137	1 111 137
Financial guarantees	level 3	1 123 573	2 245	1 111 314	1 370

Loans and advance to customers:

In the method for calculating the fair value of loans and advances customers (with the exception of overdraft facilities) the Bank compares the margins earned on newly extended loans (in the month preceding the reporting date) with the margins in the whole loan portfolio. If the margins on newly extended loans are higher than the margins on the current portfolio, the fair value of the loan is lower than its carrying amount.
Loans and advances to customers are entirely classified to the level 3 of fair value hierarchy due to the use of valuation model with unobservable input data, that is current margins earned on newly granted loans.

Financial liabilities measured at amortized cost:

(in PLN '000)

The Bank has assumed that the fair values of deposits of customers and other banks and other financial liabilities with maturities below 1 year are equal to their carrying amounts. Deposits are accepted daily as part of the Bank's ongoing operations; therefore, their terms are similar to the current market terms of identical transactions. The maturities of such items are short, so both values do not differ significantly.
For the purposes of disclosure, the Bank determines the fair values of financial liabilities with maturities above 1 year. This group includes own issues and subordinated loans. When determining the fair value of this group of liabilities, the Bank assesses the present value of expected payments based on the current percentage curves and the original issue spread. Own issues and subordinated loans are entirely classified to the level 3 of fair value hierarchy due to the use of valuation model with unobservable input data, including the original issue spread above the market curve. With respect to own issues and subordinated loans with maturities below 1 year the carrying amount equals to their fair value.

Management option plan:

The fair value of warrants on shares is determined based on a simulation model of stock prices and the value of WIG-Banki index. It is assumed that both the share prices and index prices change over time in accordance with Geometric Brownian Motion process, assuming: long-term volatility of the Bank's share prices, long-term volatility of the value of WIG-Banki index, the correlation between the share price and the value of the index during the simulation period, the dividend rate of the shares, and the risk-free rate. The estimates of volatility and correlation were based on historical data and comparable data (in the absence of historical data). The model takes into account the right to exercise the warrants of series A, B and C for a period of five years from 1,2 and 3 years from the date of issue, respectively. As at the reporting date the Bank performs valuation based on updated estimates of observable input data: the Bank's share prices, the value of the WIG-Banki index, and the level of interest rate, as well as unobservable input data: volatility of the Bank's share prices, value of WIG-Banki indexand correlation between the Bank's share prices and the value of WIG-Banki.

For the remaining financial instruments, the Bank adopts the fair value equal to their carrying amounts. It relates to the following items: cash and balances with the Central Bank, non-current assets held for sale, other financial assets and other financial liabilities.

Valuation for the purpose of disclosure	As at 31.12.2014	Valuation method	Significant unobservable input data
Loans and advance to customers	23 647 990	Comparative valuation	Margins on newly granted loans
Financial liabilities measured at amortized cost	25 477 152	Discounted cash flow	Issue spread over the market curve
Management option plan	20 789	Simulation model	Volatility of the Bank's share prices, Volatility of the value of WIG-Banki index, Correlation between the Bank's share prices and the value of WIG-Banki index

30. Off-balance-sheet items

(in PLN '000)

30.1 Off-balance sheet contingent liabilities granted to customers	As at 31.12.2014	As at 31.12.2013
Off-balance sheet liabilities granted	7 786 373	7 078 830
Relating to financing	6 246 398	5 735 711
Guarantees	1 539 975	1 343 119
Performance guarantees	416 402	231 805
Financial guarantees	1 123 573	1 111 314
Off-balance sheet liabilities granted	**7 786 373**	**7 078 830**

30.2 By maturity	As at 31.12.2014	As at 31.12.2013
≤ 1W	760	1 570
> 1W ≤ 1M	57 610	43 322
> 1M ≤ 3M	90 459	71 822
> 3M ≤ 6M	141 211	166 456
> 6M ≤ 1Y	222 121	231 507
> 1Y ≤ 2Y	299 870	162 171
> 2Y ≤ 5Y	273 794	299 313
> 5Y ≤ 10Y	447 268	362 684
> 10Y ≤ 20Y	6 882	4 274
Off-balance sheet liabilities granted in respect of guarantees	**1 539 975**	**1 343 119**

The Bank offers its individual customers renewable checking account overdraft limits, which are granted for an indefinite period; at the same time, close monitoring of cash inflows to the account is conducted.
Contingent liabilities in respect of credit cards are granted to individual customers for a period of three years.
The Bank grants contingent liabilities to business customers in respect of:
- current account limits for a period of 12 months;
- guarantees, for a maximum period of 6 years;
- credit cards for a period of up to 3 years;
- loans launched in tranches for a period of up to 2 years.

The guarantee amounts shown in the table above reflect the maximum possible loss which would be disclosed as at the reporting date had all customers defaulted.

31. Notes to the cash flow statement

In the cash flow statement, cash and cash equivalents cover balances maturing in a period shorter than 3 months.

The Bank's cash flows from operating activity cover mainly lending, deposit activities, foreign exchange and purchase and sale of securities.
The Bank's investing activity covers the purchase and sale of fixed assets and intangible assets.
The Bank's financing activities cover the loan taken.

(in PLN '000)

The Bank prepares its cash flow statement in respect of operating activities using the indirect method, whereby the net profit/loss for the reporting period is adjusted by the effect of non-cash transactions, prepayments, accruals and deferred income relating to past or future inflows or outflows of funds from operating activities.

31.1 Cash and cash equivalents	As at 31.12.2014	As at 31.12.2013
Cash and balances with the Central Bank	1 158 440	1 067 227
Current accounts with other banks	291 440	99 822
Term accounts with other banks	6 393	84 624
Total	**1 456 273**	**1 251 673**

* without interest

31.2 Operating activities – change in the balance of loans and other receivables	As at 31.12.2014	As at 31.12.2013
Change in receivables from customers – statement of financial position	-3 994 100	-5 355 783
Change in amounts due from banks – statement of financial position	-193 323	116 275
Change in cash and cash equivalents in the balance sheet – nostro accounts	191 618	16 961
Change in cash and cash equivalents in the balance sheet – deposits up to 3 months	-78 230	-112 979
Change in the balance of assets pledged as collateral	-5 492	-1 734
Change in the balance of loans and other receivables	**-4 079 527**	**-5 337 260**

31.3 Operating activities – change in the balance of other liabilities	As at 31.12.2014	As at 31.12.2013
Increase/(decrease) in other liabilities – statement of financial position	-369 262	515 399
Change in revaluation reserve – statement of financial position	38 203	-27 553
Change in the balance of other liabilities measured at amortized cost - statement of financial position	293 996	229 992
Change in the deferred income tax provision in the revaluation reserve	8 961	-6 462
Accrued expenses in respect of purchasing fixed assets	-2 627	1 214
Accrued expenses in respect of purchasing intangible assets	-2 517	1 586
Change in the balance of other liabilities	**-33 246**	**714 176**

31.4 Operating activities – change in the balance of other assets	As at 31.12.2014	As at 31.12.2013
Net increase/decrease in other assets – statement of financial position	119 379	67 470
Disposal of shares in companies	1 269	0
Change in the balance of other assets	**120 648**	**67 470**

31.5 Investing activities – purchase of property, plant and equipment	As at 31.12.2014	As at 31.12.2013
Change in balance – statement of financial position	-22 864	-50 179
Purchase of property, plant and equipment	**-22 864**	**-50 179**

31.6 Investing activities – purchase of intangible assets	As at 31.12.2014	As at 31.12.2013
Change in balance – statement of financial position	-56 005	-58 222
Purchase of intangible assets	**-56 005**	**-58 222**

(in PLN '000)

32. Assets pledged as collateral

Balance sheet value	As at 31.12.2014	As at 31.12.2013
Treasury bonds blocked with REPO transactions	882 088	683 197
Registered pledge on Treasury bonds	35 072	0
Deposit as collateral of transactions performed in Alior Trader	10 031	4 539
Total	**927 191**	**687 736**

In addition to the assets pledged as collateral which are separately presented in the statement of financial position in which the recipient has the right to sell or exchange for other security as collateral, the Bank had the following security commitments that do not meet this criterion:

	Stan 31.12.2014	Stan 31.12.2013
Treasury bonds blocked with BFG	122 032	97 724
Deposits as derivative transactions (ISDA) collateral	143 427	57 280
Total carrying amount	**265 459**	**155 4**

33. Related party transactions

The following tables present the type and the value of the related party transactions.
In 2014 and 2013 the Bank did not conclude any transactions with the parent company and its subsidiaries.

As at 31 December 2014 the Bank had the following subsidiaries:

- Alior Services Sp. z o.o. (formerly Alior Raty Sp. z o.o.) - a direct subsidiary (100% interest),
- Money Makers S.A. - a direct subsidiary (57.6% of the shares).

As at 31 December 2013 the Bank had the following subsidiaries:

- Alior Instytut Szkoleń Sp. z o.o. - a direct subsidiary (100% interest, the Company was established on 28 September 2011);
- Alior Raty Sp. z o.o. - a direct subsidiary (100% interest, the company was established on 3.02.2012; until 8.10.2012 it operated under the trade name Alior Sync Sp. z o.o.);
- Obrót Wierzytelnościami Alior Polska Sp. z o.o. spółka komandytowo-akcyjna - a subsidiary (100% interest, established on 25 May 2012);
- Centrum Obrotu Wierzytelnościami Sp. z o.o. S.K.A. (100% interest, established on 23 October 2013).

Subsidiaries	As at 31.12.2014	As at 31.12.2013
Assets		

Other assets	52	7
Total assets	**52**	**7**
Liabilities and equity		
Financial liabilities measured at amortized cost due to customers	2 980	28 553
Total liabilties and equity	**2 980**	**28 553**

Affiliates	As at 31.12.2014	As at 31.12.2013
Assets		
Loans and advances to customers	59 753	58 701
Non-current asset held for sale	0	38 335
Total assets	**59 753**	**97 036**
Liabilities and equity		
Financial liabilities measured at amortized cost due to customers	142 997	147 715
Provisions	9	29
Other liabilities	161	36
Total liabilties and equity	**143 167**	**147 780**

Affiliates	As at 31.12.2014	As at 31.12.2013
Off-balance sheet liabilities granted to customers	**31 999**	**20 070**
Relating to financing	22 763	10 394
Guarantees	9 236	9 676

Subsidiaries	As at 1.01.2014-31.12.2014	As at 1.01.2013-31.12.2013
Interest expense	-241	-274
Fee and commission income	6	54
Interest expense	-20	-1
Other operating income	531	5 658
Other operating income	-16	0
General administrative expenses	11	-119
Total	**271**	**5 318**

Affiliates	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Interest income	3 000	3 072
Interest expense	-2 710	-2 446
Fee and commission income	919	332
Trading result	0	26
Other operating income	150	75
General administrative expenses	-56 565	-65 012
Impairment losses*	-38 298	-21 422
Total	**-93 504**	**-85 375**

*impairment loss relating to the shares in the company Polbita Sp. z o.o.

Nature of related party transactions

All transactions with related entities are conducted in accordance with the regulations relating to banking products, on an arm's length basis.

(in PLN '000)

In the reporting period, agreements between the Bank and Alior Polska Sp. z o.o. relating to the sublease of office space were in force.

Ms. Helene Zaleski, Chair of Alior Bank S.A.'s Supervisory Board, also holds the position of President of the Management Board of Alior Polska Sp. z o.o.

34. Sale of receivables

In 2014, the Bank sold loans amounting to the total gross value of PLN 81,310 thousand. The impairment allowance and the result from the sale amounted to PLN 68,565 thousand and PLN 7,645 thousand, respectively. All the benefits and risks have been transferred to the buyer.

In 2013, the Bank sold loans amounting to the total gross value of PLN 77,918 thousand. The impairment allowance and the result from the sale amounted to PLN 52,561 thousand and PLN 1,422 thousand, respectively.

35. Offsetting financial assets and financial liabilities

The following table presents the offsetting of the financial assets and financial liabilities according to the principles described in note 2.3.8.

As at 31.12.2014	Gross value of financial instruments not subject to offsetting	Gross value of financial instruments subject to offsetting	Net amount reported in the statement of financial position	Cash collateral received	Amounts relating to recognized financial instruments that do not meet some or all of the netting criteria (ISDA agreements)	The amount of net exposure
	a)	**b)**	**c)=a)-b)**	**d)**	**e)**	**f)=c)+d)+e)**
Aktywa	**1 435 439**	**0**	**1 435 439**	**-131 550**	**-149 356**	**1 154 533**
Positive value of derivatives (inc. Hedging instruments)	553 351	0	553 351	-131 550	-149 356	272 445
Treasury bonds blocked with REPO transactions	882 088	0	882 088	0	0	882 088
Zobowiązania	**353 810**	**0**	**353 810**	**-143 427**	**-149 356**	**61 027**
Negative value of derivatives (inc. Hedging instruments)	353 810	0	353 810	-143 427	-149 356	61 027

(in PLN '000)

As at 31.12.2013	Gross value of financial instruments not subject to offsetting	Gross value of financial instruments subject to offsetting	Net amount reported in the statement of financial position	Cash collateral received	Amounts relating to recognized financial instruments that do not meet some or all of the netting criteria (ISDA agreements)	The amount of net exposure
	a)	b)	c)=a)-b)	d)	e)	f)=c)+d)+e)
Aktywa	**936 198**		**936 198**	**-33 796**	**-42 772**	**859 630**
Positive value of derivatives (inc. Hedging instruments)	253 001		253 001	-33 796	-42 772	176 433
Treasury bonds blocked with REPO transactions	683 197		683 197	0		683 197
Zobowiązania	**184 090**		**184 090**	**-57 280**	**-42 772**	**84 038**
Negative value of derivatives (inc. Hedging instruments)	184 090		184 090	-57 280	-42 772	84 038

36. Remuneration and shares held by members of the Bank's management and supervisory bodies

All transactions with members of the management and supervisory bodies and other employees are conducted in accordance with the regulations relating to banking products, on an arm's length basis.

36.1 Transactions with members of the management and supervisory bodies and other employees

As at 31.12.2014	Suprvisory and Board members	Supervisory Board	Management Borad
Assets			
Loans and advances to customers	7 306	38	7 268
Total assets	**7 306**	**38**	**7 268**
Liabilities and equity			
Financial liabilities measured at amortized cost due to customers	28 236	25 285	2 951
Provisions	2	1	1
Total liabilties and equity	**28 238**	**25 286**	**2 952**

As at 31.12.2014	Suprvisory and Board members	Supervisory Board	Management Borad
Off-balance sheet liabilities granted to customers	**1 635**	**1 042**	**593**
Relating to financing	1 635	1 042	593

As at 31.12.2013	Suprvisory and Board members	Supervisory Board	Management Borad
Assets			
Financial assets held for trading	3	3	0
Loans and advances to customers	6 116	0	6 116
Other assets	1	1	0

(in PLN '000)

Total assets	**6 120**	**4**	**6 116**

Liabilities and equity			
Financial liabilities measured at amortized cost due to customers	37 993	27 867	10 126
Provisions	3	1	2
Total liabilties and equity	**37 996**	**27 868**	**10 128**

As at 31.12.2013	Suprvisory and Board members	Supervisory Board	Management Borad
Off-balance sheet liabilities granted to customers	**1 729**	**40**	**1 689**
Relating to financing	1 729	40	1 689
Derivatives (nominal value)	**1 244**	**1 244**	**0**
Other options	1 244	1 244	0

36.2 Information on the total amount of remuneration paid or payable, broken down by Management and Supervisory Board members	1.01.2014-31.12.2014	1.01.2013-31.12.2013
Management Borad		
short-term employee benefits	7 669	14 289
long-term employee benefits	4 652	9 256
Total Management Borad	12 321	23 545
Supervisory Board		
short-term employee benefits	723	625
Total Supervisory Board	**723**	**625**

36.3 Number of shares held by the Supervisory Board	As at 31.12.2014	As at 31.12.2013
Helene Zaleski	210 774	186 159
Niels Lundorff	90 000	0
Małgorzata Iwanicz- Drozdowska	1 465	1 465
Total	**302 239**	**187 624**

36.4 Number of shares held by the Management Board	As at 31.12.2014	As at 31.12.2013
Wojciech Sobieraj	71 322	71 322
Krzysztof Czuba	168	168
Michał Hucał	70	70
Witold Skrok	168	168
Katarzyna Sułkowska	2 851	2 851
Total	**74 579**	**74 579**

37. Management option scheme

On 13 December 2012, on the basis of a power of attorney granted in the Resolution of the Supervisory Board of Alior Bank S.A. of 10 December 2012, preliminary allocation of A, B and C series Subscription Warrants was performed. The said Subscription Warrants entitle their holders to acquire the Bank's shares, in accordance with Resolution of the

(in PLN '000)

General Shareholders' Meeting of Alior Bank S.A. no. 28/2012 of 19 October 2012 on the conditional increase of the Bank's share capital and issue of subscription warrants. The Warrants were allocated as follows:

- Wojciech Sobieraj – 666 257 Warrants;
- Niels Lundorff – 366 437 warrantów;
- Krzysztof Czuba – 266 500 warrantów;
- Artur Maliszewski – 266 500 warrantów;
- Katarzyna Sułkowska – 266 500 warrantów;
- Witold Skrok – 266 500 warrantów.

Details relating to the warrants granted to the members of the Management Board are presented in the table below:

Name	Number of the A-series warrants*	Number of the deferred A-series warrants**	Number of the B-series and C-series warrants pre-allocated
Sobieraj Wojciech	177 669	44 417	444 172
Czuba Krzysztof	35 533	53 300	177 666
Hucał Michał	26 650	26 650	133 250
Lundorff Niels	122 146	-	244 292
Maliszewski Artur	17 767	35 533	-
Skrok Witold	35 533	35 533	177 666
Sułkowska Katarzyna	53 300	35 533	177 666
Total	468 598	230 967	1 354 712

**Granted warrants are allocated in 4 tranches according to "the Policy of variable renumeration components for employees holding managerial positions at Alior Bank S.A." The amount of installments is equal to 49.9%, 16.7%, 16.7%, 16.7%, respectively.*
***Granting deffered warrants depends on the achievement of certain targets by the eligible persons in 2014.*

The incentive scheme is also addressed to a group of key managers of the Bank who are not Management Board members.
The principles of execution of the incentive scheme are defined in the Incentive Scheme Rules and Regulations, which were adopted by resolution of the Supervisory Board of Alior Bank S.A.
Under the new incentive scheme it is anticipated that three tranches of subscription warrants (A, B and C) and the corresponding three tranches of new shares of the Bank (D, E and F) with a total nominal value of up to PLN 33,312,500 will be issued, including:

- up to 1,110,417 A-series subscription warrants, which shall entitle their holders to acquire up to 1,110,417 D-series shares of the Bank starting in the period of five years from the first anniversary of the first quotation of the Bank's shares on the WSE;
- up to 1,110,416 B-series subscription warrants, which shall entitle their holders to acquire up to 1,110,416 E-series shares of the Bank starting in the period of five years from the second anniversary of the first quotation of the Bank's shares on the WSE;
- up to 1,110,417 C-series subscription warrants, which shall entitle their holders to acquire up to 1,110,417 F-series shares of the Bank starting in the period of five

years from the third anniversary of the first quotation of the Bank's shares on the WSE.

The eligible persons will be able to take up subscription warrants on the condition that the change in the price of the Bank's shares at WSE in the reference period (calculated as the difference between the final price of the offered shares and the average closing price from 30 trading session days preceding the first (for A-series subscription warrants), second (for B-series subscription warrants) or third (for C-series subscription warrants) anniversary of the first quotation of the Bank's shares on WSE) exceeds the change in the WIG-Banki index in the same period (calculated as the difference between the WIG-Banki index as at the day of the first quotation of the Bank's shares at WSE and the average closing value of the WIG-Banki index from 30 trading session days preceding the day of the first, second or third anniversary of the first quotation of the Bank's shares at WSE (as appropriate)).
The issue price of the shares shall amount to the average price of the Bank's shares in the Public Offering calculated by dividing the net proceeds from the Public Offering by the total number of offered shares allocated in the Public Offering, increased by 10% (in the case of D-series Shares), 15% (in the case of E-series shares) or 17.5% (in the case of F-series shares).
The new management option scheme will be settled in the same way as the original incentive scheme (which is described below), i.e. it will affect the Bank's financial result as a component of employee costs and will be recognized, in the same amount, as an increase in equity under other capital - share-based payment - equity component. As at the date of its implementation, the scheme's value was PLN 24,692 thousand. In 2014, the cost of PLN 7,376 thousand was recognized.

The amount of the management option scheme has been determined based on the fair value model. The fair value of warrants on shares has been determined based on a simulation model of stock prices and the value of WIG-Banki index. It is assumed that both the share prices and index prices change over time in accordance with Geometric Brownian Motion process, assuming: long-term volatility of the Bank's share prices, long-term volatility of the value of WIG-Banki index, the correlation between the share price and the value of the index during the simulation period, the dividend rate of the shares, and the risk-free rate. The estimates of volatility and correlation were based on historical data and comparable data (in the absence of historical data). The model takes into account the right to exercise the warrants of series A, B and C for a period of five years from 1,2 and 3 years from the date of issue, respectively.

On 9 April 2014 and 16 December 2014, the Bank's Supervisory Board passed a resolution on approval of the final allocation of subscription warrants for the first assessment period under the Alior Bank S.A.'s Incentive Scheme. In accordance with the resolution, 713,140 A-series warrants were allocated, and the allocation of 262,614 warrants was postponed and the condition was introduced that eligible persons must achieve certain targets in the current year. In order not to change the valuation of the management option scheme, 134,663 A-series warrants have not been allocated.
According to the Policy of Variable Remuneration Components and with respect to persons holding managerial positions at the Bank – the offering and the issuance of Warrants shall be allocated in four tranches (the first tranche of the Subscription Warrants amounts to 49.95% and the other three tranches amount to 16.7% of the number of warrants granted for the period).

With respect to Eligible Persons the offering and issuance of the B-series and C-series Subscription Warrants will take place: immediately after 30 June 2016 or after the sale of the Bank's shares held by the Group Carlo Tassara S.p.A.- depending on which of the circumstances occur first.

As at the date of publication of this report, the Management Board of the Bank completed the procedure of increasing the Bank's share capital by issue of new D-series ordinary bearer shares with a total par value of PLN 371,050, representing 1.1% of all realizable rights under the Subscription Warrants allocated to the Scheme participants. The new issue covers 0.05% of all presently issued shares and is addressed to the Bank's managers who are not Management Board members. Statements on exercising the rights under the A-Series Subscription Warrants allocated by the Bank and taking up 37,105 (twenty thousand and one hundred) D-series ordinary bearer shares of PLN 10.00 (ten zlotys) par value each, with a total par value of PLN 371,050 (two hundred and one thousand zlotys), at the issue price of PLN 61.84 (sixty-one zlotys 84/100) per one D-Series Share were submitted on 29 August 2014 and 28 November 2014. On 15 October 2014 and 5 February 2015, the District Court in Warsaw, the 13th Business Department of the National Court Register, registered the share capital increase in the form of the issue of D-series ordinary shares and the change in the Bank's Articles of Association.

The original incentive scheme

As a result of the settlement of the original incentive scheme (established based on the agreement of 25 August 2008), 105 Alior Bank managers, including Management Board members, received (indirectly, though LuxCo 82 s.a.r.l.) on 14 December 2012 2,414,118 Alior Bank shares. The remaining 1,299,909 of the Bank's shares resulting from settling the previous incentive plan were transferred by the Carlo Tassara Group to LuxCo 82 s.a.r.l. on 30 June 2014. LuxCo 82 S.a.r.l. is a company operating under the Luxembourg law, controlled by the management of Alior Bank and representing the interests of the participants of the incentive scheme. The whole inventive scheme executed by Luxco 82 comprised 3,714,027 shares of Alior Bank S.A.

Members of the Management Board of Alior Bank S.A. were bound by a contractual lock-up in respect of up to 30% of the incentive shares over a period of 9 months, and in respect of 70% of the incentive shares by contractual lock-up over a period of 24 months from 14 December 2012. Incentive shares vested in other scheme participants, who were not members of the Management Board, were subject to contractual lock-up, in respect of 30% of the incentive shares, until the end of January 2013, and to contractual lock-up over a period of 12 months from 14 December 2012 in respect of 70% of the incentive shares.

Due to the partial expiry of the lock-ups, on 14 May 2013 LuxCo 82 s.a.r.l. sold 405,683 shares of the Bank, on 1 October 2013 it sold another block of 678,856 of the Bank's shares, and on 31 March 2014 - 1,171,474 shares of the Bank.

As at 31 December 2014, LuxCo 82 s.a.r.l. held 1,458,012 shares representing 2.084% of the total number of votes at the General Shareholders' Meeting.

38. Disputed claims

In 2014, in respect of business customers, the Bank issued 816 executory titles of a total value of PLN 240,273 thousand.

(in PLN'000)

In cases relating to retail customers, in 2014 the Bank issued 20,401 executory titles for a total amount of PLN 404,081 thousand.
As at the end of December 2014, the total amount of claims resulting from court proceedings against the Bank (excluding collection proceedings) was PLN 33,692 thousand.
By decision of 30 December 2014, the President of the Consumer Competition Authority, put on Alior Bank S.A a fine in the amount of PLN 3,314 thousand in respect of practices infringing collective consumer interests.
The Bank appealed against the Decision, challenging it in its entirety and seeking its repeal in whole or changing by reducing the penalty. In the Bank's opinion, the appeal has a chance of success since the Bank has created provision for possible future fines in the amount equivalent to 50% of the amount of the imposed fine.

The value of proceedings relating to liabilities or receivables of the Alior Bank Group in progress in 2014 did not exceed 10% of Alior Bank's equity. In the Group's opinion, no single court, arbitration court or public administration body proceeding in progress in 2014, and none of the proceedings jointly, could threaten the Group's financial liquidity.

39. Notes relating to the Brokerage Office

In accordance with the Decree of the Minister of Finance dated 1 October 2010 on the detailed principles of reporting for banks, the notes below relate to the operations of the Brokerage Office of Alior Bank S.A.

Cash and cash equivalents	As at 31.12.2014	As at 31.12.2013
Cash and cash equivalents deposited in cash accounts with the brokerage office and paid in for purchasing securities in Initial Public Offerings or in public trading in the primary market	147 475	140 493
Total	**147 475**	**140 493**

Amounts due from banks conducting brokerage activities, brokerage houses and commodity brokerage houses	As at 31.12.2014	As at 31.12.2013
Receivables in respect of transactions concluded on the securities exchange:	176	819
WSE	176	819
Total	**176**	**819**

Amounts due from the National Deposit and securities exchange clearing houses	As at 31.12.2014	As at 31.12.2013
Amounts due from the settlement fund	18 879	24 663
Amounts due from the compensation fund	56	35
Total	**18 935**	**24 698**

Amounts due to the National Deposit and securities exchange clearing houses	As at 31.12.2014	As at 31.12.2013
Amounts due to the settlement fund	6	12
Total	**6**	**12**

Amounts due to banks conducting brokerage activities, brokerage houses and commodity brokerage houses	As at 31.12.2014	As at 31.12.2013
Liabilities in respect of transactions concluded on the securities exchange:	608	4 569

(in PLN '000)

WSE	608	4 569
Total	**608**	**4 569**

Customers' financial instruments recorded in securities accounts	As at 31.12.2014	As at 31.12.2013
Dematerialized financial instruments:	6 908 065	6 757 613
including those admitted to trading on the regulated market	5 493 790	5 685 514
Financial instruments other than dematerialized	11 295	35 659
Total	**6 919 360**	**6 793 272**

40. Significant events after the balance sheet date

On 8 January 2015, pursuant to the decision of the Polish Financial Supervision Authority, Carlo Tassara S.p.A. was considered to be the Parent Company of Alior Bank within the meaning of Art. 4 clause 1 item 8 letter a of the Banking Law.

On 9 January 2015, the European Bank for Reconstruction and Development reduced its capital exposure to the Bank. Pursuant to the EBRS communiqué, it is very pleased with Alior Bank's achievements over the past two years, especially in respect of its growth, innovation and strong position on the banking market. As a shareholder, EBRD is convinced that the Bank's prospects and possibilities will allow it to reinforce its profitability and market position. Despite reducing its shareholdings in the Bank, EBRD intends to continue supporting the Bank's strategy and its initiatives.

On 16 January 2015, the Management Board of Alior Bank S.A. received a notification from Genesis Asset Managers, LPP. Pursuant to the notification, on 9 January the customers of Genesis took up 100,000 of the Bank's shares, which constituted a 0.14% increase in the number of shares held, to 5,113,021 shares, which constitutes 7.30% of the Bank's share capital and entitles Genesis to 3,502,490 votes at the Bank's General Shareholders' Meeting, which represents 5.03% of the total number of votes.

On 16 January 2015, the Management Board of Alior Bank S.A. received a notification according to which the open pension fund Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK informed that as a result of the purchase transactions of shares in Alior Bank S.A. concluded on 9 January 2015 it increased its share in the total number of votes in the Company to over 5%.
After concluding and settling the transaction referred to above, as at 13 January 2015 Aviva OFE holds 3,806,451 of the Company's shares which constitute 5.44% of the share capital (issued shares) of Alior Bank S.A., which entitle to exercising 3,806,451 votes at the General Shareholders' Meeting, i.e. 5.44% of the total number of votes.

On 5 February 2015 the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register in Warsaw, registered the increase of the share capital by means of issuance of ordinary series D bearer shares and the amendment to the Bank's Statute.

On 10 February 2015 the Polish Financial Supervision Authority's made a decision that no obstacles had existed to object against the Bank acquiring shares of Meritum Bank ICB S.A. in a number resulting in exceeding a 50% share in its share capital and the total number of votes at the general meeting of Meritum. Moreover on 11 February 2015 the Polish Financial Supervision Authority granted permission for the amending of the Bank's Charter, made pursuant to Resolution No. 3/2014 on: a conditional increase in the Bank's share capital through the issue of series H ordinary bearer shares with the full exclusion of the pre-emptive right of current shareholders of the Bank and the amending of the Bank's Charter, adopted by the Extraordinary General Meeting of the Bank on 2 December 2014.

On 16 February 2015 the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register in Warsaw, Registered : (i) a conditional share capital increase of the Bank by no more than PLN 23.554.980, through the issuance of no more than 2,355,498 of series H ordinary bearer shares with a nominal value of PLN 10 each, with the total nominal value of PLN. Moreover on 16 February 2015 the Management of the National Depository for Securities resolved to register in the NDS up to 2,355,498 series H ordinary bearer shares in the Bank with the nominal value of PLN 10 each and to assign the code of "PLALIOR00045" thereto, on the condition that the company operating the regulated market decides to introduce those shares to trading on the same regulated market on which the Bank's other shares assigned with the code of "PLALIOR00045" are traded, no later than on the day of each registration of the Series H Shares in the NDS.

On 18 February 2015 the Management Board of the Bank informed that it will exercise the right for the early buyout of all remaining series C bonds, issued on 14 February 2012, marked ISIN code PLALIOR00011. Number of Bonds involved in the (early buyout) amounts to 148.400, its total nominal value amounts to 148.400.000. Date of the demand for early buyout and the date of the determination of right to benefits from Bonds has been determined to 25 February 2015, and date of the early buyout has been determined to 11 March 2015. Trading of series C bearer bonds was suspended starting from 20 February 2015.
On 25 February 2015 the Management Board of the Bank submitted request for an early buyout of series C bonds.

On 18 February 2015 Alior Bank executed with Innova Financial Holdings S.à r.l, WCP Coöperatief U.A. and European Bank for Reconstruction and Development the share sale agreement concerning the shares in Meritum pursuant to which Alior Bank purchased 12.382.746 shares in Meritum with total nominal value of PLN 30 each representing 97.9% of the share capital in Meritum and 95.0% of the total number of votes at the general meeting of Meritum,in exchange for an aggregate price of PLN 352,541,731.72
In connection with execution of the Meritum Bank Shares Sale Agreement Alior entered with Investors: Innova Financial Holdings S.à r.l and WCP Coöperatief U.A.
into agreements on the acquisition of series D subscription warrants of the Bank following which the Bank offered to Investors the Series D Subscription Warrants of the Bank, and each of the Investors accepted the Bank's offer and took up, free of charge, the Series D Subscription Warrants of the Bank. The Series D Subscription Warrants of the Bank entitle the holders to take up Series H Shares in the Bank issued under conditional share capital increase of the Bank, pursuant to Resolution No. 3/2014 of the Extraordinary General Meeting of the Bank of 2 December 2014. Exercising their rights arising from

the Series D Subscription Warrants of the Bank, on 19 February 2015 the Investors filed representations on the acquisition of the Bank's series H ordinary bearer shares and paid for Series H Shares in the Bank with a cash contribution (the issue price of one series H share paid for in this manner was PLN 73.30) in the aggregate amount of PLN 172,658,003.40.

Furthermore on 19 February 2015 the Bank informed on intention of merging with the Bank's subsidiary – Meritum, in which the Bank holds shares representing 97.9% of the Meritum share capital and 95.0% of the total number of votes at the MEritum General Meeting. The merger will take place pursuant to Article 492 § 1 Item 1 of the Commercial Companies Code through the transfer of all the assets of Meritum as the target company to the Bank as the surviving company (consolidation through acquisition). The completion of the merger will be contingent on: obtaining the consents and permits required by law and connected with the merger, including the permit of the Polish Financial Supervision Authority to the merger and the adoption of resolutions by the Bank's General Meeting and the Meritum General Meeting concerning the merger, and in particular resolutions voicing consent to the merger plan.

On 23 February 2015 the Management Board of the Warsaw Stock Exchange adopted resolution No. 181/2015, in which it stated that pursuant to § 19 sections 1 and 2 of the WSE Rules 2,355,498 series H ordinary bearer shares of the Bank, with a nominal value of PLN 10 each are admitted to trading on the main market of the WSE. In addition, pursuant to § 38 sections 1 and 3 of the WSE Rules, the Management Board of the WSE resolved to introduce as of 25 February 2015, under ordinary procedure, the Series H Shares to trading on the main market, on condition that on 25 February 2015 those shares are registered by the National Depository for Securities and assigned the code of "PLALIOR00045".

On 25 February 2015 the National Depository of Securities registered 2.355.498 series H ordinary bearer shares of the Bank, with a nominal value of PLN 10 each and assigned the ISIN code of "PLALIOR00045". At the same time the condition in the form of the registration with the NDS of the Series H Shares on 25 February 2015, was fulfilled. At the same time a share capital of the Bank has been increased to the amount of PLN 723 338 640.

41. Establishing the Bond Issue Scheme

On 18 March 2013 the Supervisory Board of Alior Bank S.A. gave its consent to the Management Board to establish the Issue Scheme of Alior Bank S.A. bonds denominated in PLN and to incur multiple financial liabilities by way of issuing unsecured bearer bonds under the Issue Scheme with the following key parameters:

- the amount of the Issue Scheme will not exceed: PLN 2,000,000,000 (two billion zloties);
- maximum maturities of debt securities issued under the Issue Scheme: 10 years;
- the debt securities issued under the Issue Scheme will not be secured;
- the bonds will be issued on the basis of Art. 9 (1) (public offering) or Art. 9 (2) (public offering) or Art. 9 (3) (private offering) of the Act on bonds;
- Pursuant to Art. 5a of the Act on bonds, the Bonds will not take the form of documents;

- the terms and conditions of issuance of each series of the Bonds may include provisions relating to introducing the Bonds to the CATALYST market run as an alternative trading system by Giełda Papierów Wartościowych S.A. or BondSpot S.A.

At the same time, the Supervisory Board of Alior Bank S.A. authorized the Management Board of Alior Bank S.A. to determine the detailed terms and conditions of issuance of the particular Bond series under the Issue Scheme, allotting the bonds to investors and taking all other necessary actions aimed at carrying out the Issue Scheme.
The Bank's Management Board does not intend to acquire funds for financing further organic development of the Bank from bonds issuance. To pursue the adopted strategy aimed at doubling the Bank's share in the market, the organic development of the Bank will be financed with customer deposits, and the bond issue scheme will constitute a reserve source of financing.

Under the Bond Issue Scheme:

- On 28 June 2013 Alior Bank S.A. issued 146,700 D-series unsecured, dematerialized coupon bearer bonds with a nominal value of PLN 1,000 (one thousand) each, in the total nominal amount of PLN 146,700,000;
- On 11 April 2014 Alior Bank S.A. issued 180,000 E-series unsecured, dematerialized coupon bearer bonds with a nominal value of PLN 1,000 (one thousand) each, in the total nominal amount of PLN 180,000,000;
- On 26 September 2014 Alior Bank S.A. issued 321,700 E-series subordinated, unsecured, dematerialized coupon bearer bonds with a nominal value of PLN 1,000 (one thousand) each, in the total nominal amount of PLN 321,700,000.

42. Plan to sell a significant portion of shares

The start-up meeting on the planned sale of the Bank's shares held by the Carlo Tassara Group was held in the second half of March 2013.
Carlo Tassara is endeavoring to sell the block of shares it holds to a regulated entity (a bank or insurance company) which meets the criteria specified in Art. 25h of the Banking Law. Carlo Tassara was informed by PFSA that PFSA will evaluate such a new investor, among other things, in terms of its financial standing and stability, as well as long-term credit rating, both of the investor and of its country of origin.

Ultimately, Carlo Tassara's exit from the investment in the Bank would take into consideration the timeframe necessary to find a new investor and gain its approval by PFSA. Carlo Tassara made every effort to sell the shares to an appropriate investor before the end of 2013.
On 15 September 2014, the Bank's Management Board was notified by Carlo Tassara S.p.A. that the Polish Financial Supervision Authority gave its consent to extending the deadline granted in the Bank's prospectus to the shareholder for disposal of the Bank's shares until 30 June 2016. During that period, the shareholding of Carlo Tassara in the Bank cannot be less than 25%.

43. Rating

As part of the preparations for the initial public offering, Alior Bank S.A. promised the Polish Financial Supervision Authority to take immediate action from the start of 2013 to obtain a rating awarded by a renowned international rating agency.
On 5 September 2013, Fitch Ratings Ltd. granted the BB rating with a stable perspective to Alior Bank S.A. The rating was maintained without change in accordance with the assessment from 19 May 2014.

The full rating granted to the Bank by Fitch is as follows:
1. Long-Term Foreign Currency IDR: BB stable perspective;
2. Short-Term Foreign Currency IDR: B;
3. National Long-Term Rating: BBB+(pol), stable perspective
4. National Short-Term Rating: F2(pol);
5. Viability Rating (VR): bb;
6. Support Rating: 5;
7. Support Rating Floor: 'No Floor'.

Definitions of the Fitch ratings are available on the Agency's website:
www.fitchratings.com, where ratings, criteria and methodologies are also published.

Explanatory notes on risk

Risk management is one of the key internal processes in Alior Bank S.A. The ultimate goal of the risk management policy is to ensure early recognition and appropriate management of all material risks in the Bank's operations. The Bank isolated the following types of risks resulting from the operations conducted:

- market risk, also covering the banking book interest risk, liquidity risk, foreign exchange risk, liquidity risk and commodity price risk;
- credit risk;
- operational risk.

44. Market risk

Market risk is defined as the likelihood of the Bank incurring potential losses in the event of unfavorable changes in market prices (share prices, currency exchange rates, profitability curves), market factors (volatility in financial instrument valuations, the correlation of price changes between particular instruments), and customer behaviour (early deposit withdrawals, early loan repayments).

The process of managing market and liquidity risks is based on achieving, inter alia, the following goals:

- significantly mitigating the volatility of results and changes in the economic value of the Bank's equity;
- developing a structure of assets and liabilities (banking book) which is optimal in terms of profitability and the potential impact on the economic value;

- providing customers with core treasury products in order to help them manage the risk underlying their operations (i.e. hedging);
- guaranteeing the solvency and full availability of liquid funds at any moment and even under the assumption of the occurrence of negative market scenarios;
- ensuring that the processes applied by the Bank comply with the regulatory requirements regarding market risk management and the level of equity required for that purpose.

The market and liquidity risk management process is carried out within the framework of the Bank's relevant risk management policies covering identification, measurement, monitoring and reporting of risks. It also pertains to control over treasury transactions by determining and verifying the principles on which they are concluded, organized and assessed.

There is a clear segregation of duties, competencies and responsibilities, and the principles are specified in internal regulations. The key role in this respect is played by the Financial Risk Department which prepares independent cyclic reports using the risk models and measures adopted by the Bank and submits them to appropriate units, including – periodically – to members of the Management Board, Supervisory Board and ALCO (Assets and Liabilities Committee). The duties of the Department include, among other things:

- defining market and liquidity risks management policies;
- analysing and reporting the Bank's risk profile;
- determining the amount of economic capital to cover the market and liquidity risks;
- recommending current activities related to managing the banking book risk;
- creating all regulations which define the process of concluding treasury transactions on the interbank market and with the Bank's customers, including developing model documentation;
- coordinating the process of introducing new Treasury products and assessing the related risk;
- supporting and servicing ALCO operations.

The Treasury Department is responsible for carrying out treasury transactions with the Bank's customers, and the Interbank Transaction Team is exclusively responsible for concluding transactions on the interbank market and to maintain open trading book positions, and conclude treasury transactions on the Bank's account. The transactions may be concluded to manage trading book risk positions within the limits set up, and pursuing the Bank's policy in respect of managing the banking book risk within the limits set up.
The Operations Department is responsible for the independence of ad hoc controls of internal treasury operations, including transaction settlements. The Operations Department operates as an entity fully independent of the Treasury Department. The leak-proof and accurate supervision conducted by the Operations Department is the basis for mitigating the operating risk of the Bank's treasury operations.

Supervision over the above-mentioned entities of the Bank was separated up to the level of Management Board Member which is an additional factor guaranteeing their independent operations. The full organizational structure and segregation of competencies have been defined in detail by the Bank's Management Board in the Head Office Organizational Regulations. The Management Board, the Supervisory Board and the ALCO take an active role in managing market risks.
The Assets and Liabilities Committee (ALCO) controls market risk, including liquidity risk, on a current basis. It takes all the respective decisions, unless these were previously qualified as being under the sole competence of the Management Board or the Supervisory Board.
ALCO's duties include, among other things:

- current control over market risk management, both related to the trading and the banking book, including issuing decisions relating to the risk management of both books;
- accepting the Bank's operational limits on the monetary and capital markets;
- current control over the Bank's liquidity management, both related to the trading and the banking book;
- commissioning actions to acquire sources of finance for the Bank's operations and supervising the financing plan;
- issuing decisions on managing the model portfolios.

The Bank's basic market and liquidity risks management strategy assumptions as stipulated for a given budget year take the form of an Asset and Liability Management Policy developed by the Financial Risk Department and submitted by the Management Board to the Supervisory Board for acceptance as part of acceptance of the annual budget. It remains binding until a consecutive update.
The Supervisory Board exercises supervision over risk management, including, but not limited to:

- annual determination of the Bank's strategy in respect of market risk management by accepting the Asset and Liability Management Policy;
- acceptance of the Bank's market risk management strategy, including the key risk limits;
- control over compliance of the Bank's policy in respect of risk acceptance with the Bank's strategy and financial plan through a regular review of the Bank's market risk profile based on the reports received;
- recommendation of actions aimed at changing the Bank's risk profile.

Information on the nature and level of risk is submitted to the Supervisory Board by the Management Board, with the exception of the results of internal control of the market risk management system which is submitted by the Director of the Internal Audit Department.

The Bank's Management Board is responsible, among other things, for:

- supervising the market and liquidity risk management process, monitoring and reporting risks;
- determining the appropriate organization and segregation of duties in the process of concluding treasury transactions;
- accepting policies and instructions regulating market and liquidity risk management within the Bank and efficient operation of the identifications systems;

(in PLN '000)

- setting detailed limits for mitigating the Bank's risk and ensuring appropriate mechanisms for their monitoring and notifying cases of exceeding limits.

The Bank's market and liquidity risk exposure is officially mitigated by a system of limits which are updated periodically, introduced by resolutions of the Supervisory Board or the Management Board; the limits cover all measures of market risk, their level is monitored and reported by the Bank's organizational entities independent of the given entity's business. There are three types of limits at the Bank which differ in terms of their role and the way they operate: basic limits, supplementary limits, and stress-test limits. Market risk management focuses on potential changes in the economic results; unquantifiable risks related to treasury operations are also mitigated through the quality requirements in force at the Bank, related to the risk management process (the internal control system, implementation of new products, analysis of legal risk, analysis of operating risk).

The Bank estimates, for the needs of the market risk, Value-at-risk using analytical module of the tax system. The Bank uses a parametric VaR model in accordance with the methodology of JP Morgan (RiskMetrics). The estimated 99% 1-day VaR can be scaled to other terms through the multiplication by the square root of multiples of 1 day (e.g. 10-day VaR is determined by multiplying 1-day VaR by √10).

The following table presents the Bank's VaR divided into banking book and trading book as at the end of 2014 and 2013.

VaR	**As at 31.12.2014**	**As at 31.12.2013**
Banking book	8 770	5 628
Trading book	1 518	1 092
Total	**9 351**	**5 368**

45. Foreign exchange risk

Foreign exchange risk is defined as the risk of potential loss caused by movements in foreign exchange rates. The Bank additionally identifies the impact of foreign exchange movements on the Bank's results in the long term, which could occur in the event of converting future foreign currency income and expenses at a potentially less favourable exchange rate. The risk related to future results may be managed under the model currency portfolio.
The basic purpose of foreign exchange risk management is to identify those areas of the Bank's operations which may be exposed to foreign exchange risk and thus, to undertake to mitigate the resulting potential losses to the maximum extent. The Bank's Management Board specifies the currency risk profile, which must be consistent with the applicable financial plan of the Bank.

Under the foreign exchange risk management process, the Bank is obliged to monitor and report the amounts of all its currency positions and VaR, assessed in accordance with the adopted model, within the set limits. The Bank closes each significant currency position with a counter position on the market, thus eliminating the related foreign exchange risk. Open currency positions are maintained within the limits set by the Supervisory Board. Additionally, the Bank conducts periodical analyses of potential scenarios which are aimed at providing information on the Bank's exposure to risk in the event of foreign exchange fluctuation shocks.

Apart from managing current foreign exchange risks, the Bank may also conduct hedging transactions in respect of future highly probable foreign exchange cash flows (e.g. cost of rent, net interest income denominated in foreign currencies). The purpose of such transactions is to limit the fluctuations of results in the current calendar year to a maximum of 60%.

To conclude, the key foreign exchange risk tools in the Alior Bank include:

- internal procedures for foreign exchange risk management;
- internal models and measurements of foreign exchange risk;
- foreign exchange risk limits and threshold values;
- limitations on foreign exchange trading transactions;
- stress tests.

The basic tool for the measurement of foreign exchange risk at the Bank is the „Value at Risk" model ("VaR Model"), which enables determining the possible amount of loss stemming from the then current foreign currency positions as a result of fluctuations in foreign exchange rates, measured using an assumed confidence level and time horizons (holding period). The Bank determines VaR using the variance-covariance method, using a confidence level of 99%. This amount is determined on a daily basis for particular areas responsible for accepting and managing risk, both on an individual and on an overall basis.

As at the end of December 2014, the maximum loss on the Bank's currency portfolio specified in accordance with the VaR Model with a 10-day holding period could amount to PLN 129,450.70, assuming a confidence level of 99%.

	As at 31.12.2014	**As at 31.12.2013**
Holding period [days]	10	10
VaR [zł]	**129 450,70**	**35 149,42**

VaR statistics on the currency portfolio assuming a 10-day holding period for 2014 and 2013 (in PLN'000).

VaR	**As at 31.12.2014**	**As at 31.12.2013**
Min	7,98	7,41
Average	57,75	71,34
Max	301,31	475,09

The Bank's currency position and the utilization of currency limits as at 31 December 2014

Utilization of the limit (in millions of currencies)		
Currencies	**Limit**	**Utilization**
PLN (gross)	16,0	5,3
PLN (net)	8,0	4,3
Group A		
EUR	1,2	0,9
USD	1,7	0,1
CHF	0,8	-0,1
GBP	0,8	0,1
Group B		
PLN (net)	2,3	0,1
AUD	0,4	0,0
CAD	0,4	0,0
CZK	2,3	-0,8
DKK	1,7	0,0
NOK	1,7	0,2
RUB	3,5	0,8
SEK	1,7	0,1
Others	1,7	0,1
Goods	1,7	0,0

The Bank's currency position and the utilization of currency limits as at 31 December 2013.

Utilization of the limit (in millions of currencies)		
Currencies	**Limit**	**Utilization**
PLN (gross)	14,0	2,2
PLN (net)	7,0	0,7
Group A		
EUR	1,0	0,3
USD	1,5	-0,1
CHF	0,7	0,0
GBP	0,7	0,0
Group B		
PLN (net)	2,0	0,0
AUD	0,3	0,0
CAD	0,3	0,0
CZK	2,0	-0,4
DKK	1,5	0,0
NOK	1,5	0,0
RUB	3,0	-0,1
SEK	1,5	0,1

Others	1,5	0,2
Goods	1,5	0,1

The assumption that the changes in risk factors in the VaR Model will have a normal distribution may in practice lead to underestimating the losses in extreme scenarios (the so-called "fat tail phenomenon"). Therefore, the Bank conducts stress tests.

The utilization of the stress-test limit for currency positions calculated as the maximum loss the Bank could incur in the event of the most unfavorable daily foreign exchange rate change of those which have been incurred within at least the last four years, totaled, as at 31 December 2014, PLN 191,628.38. Statistics of the stress-test of the currency position in 2014 (in PLN'000) were as follows.

Stress-test statistics of the currency position in 2014 (in PLN'000)

Minimum	Average	Maximum
5,42	89,08	433,05

Stress-test statistics of the currency position in 2013 (in PLN'000)

Minimum	Average	Maximum
2,38	42,28	167,40

46. Interest rate risk

Interest rate risk is defined as the risk of a negative impact of the changes in the levels of market interest rates on the current financial result or the net present value of the Bank's equity. As part of its policy of mitigating the trading book risk, the Bank pays particular attention to specific aspects of interest rate risk that are associated with the banking book, such as:

- repricing risk (i.e. the mismatch of the interest rate tenors of assets and liabilities);
- basis risk, which is defined as the extent to which non-parallel changes in different reference indices that have similar repricing dates can affect the Bank's income;
- modelling accounts with an unspecified maturity date or with an interest rate set by the Bank (e.g. for sight deposits);
- the impact of non-interest bearing items on the risk (e.g. capital, fixed assets).

One of methods of estimating the Bank's exposure to interest rate risk is the determination of BPV. BPV represents the estimated change in the value of a given transaction or position as a result of a one basis point change at a given point of the yield curve. BPV values are measured daily for all currencies and at each point of the curve. The BPV estimates as at the end of 2014 are presented in the table below (in PLN'000).

(in PLN '000)

Estimated BPV as at the end of 2014 and 2013

Currency Stan 31.12.2014	To 6 months	6 months- 1 year	1 year - 3 years	3 - 5 years	5 - 10 years	Total
PLN	-48,6	44,5	393,7	-202,0	-3,0	184,6
EUR	-17,5	-11,8	-12,8	11,6	0,1	-30,4
USD	9,9	6,9	2,0	0,0	0,0	18,7
CHF	0,2	-0,5	-1,3	0,0	0,0	-1,6
GBP	1,0	0,8	0,3	0,0	0,0	2,1
Others	-1,0	-2,0	-2,7	0,0	0,0	-5,7
Total	**-56,0**	**37,9**	**379,2**	**-190,4**	**-2,9**	**167,7**

Currency Stan 31.12.2013	To 6 months	6 months- 1 year	1 year - 3 years	3 - 5 years	5 - 10 years	Total
PLN	-26,4	-61,4	-74,2	-92,3	-3,5	-257,8
EUR	-6,4	-0,1	-17,4	-7,8	4	-27,7
USD	9	5,6	0,6	0	0	15,2
CHF	0,4	-0,8	-1,9	-0,7	0	-3
GBP	1,4	1,2	0,6	0	0	3,2
Inne	-1	-2,8	0	0	0	-3,8
Razem	**-23**	**-58,3**	**-92,3**	**-100,8**	**0,5**	**-273,9**

Bank BPV statistics in 2014

Book	Minimum	Average	Maximum
Banking book	-724,26	-283,63	-20,42
Trading book	-39,68	-11,50	14,76
ALCO	9,79	271,13	532,71
Total	**-463,00**	**-24,00**	**473,29**

Bank BPV statistics in 2013

Book	Minimum	Average	Maximum
Banking book	-278,84	-99,05	100,38
Trading book	-48,76	-8,04	22,44
Total	**-281,01**	**-107,09**	**116,74**

At the same time, in order to estimate the total level of the interest rate risk, the Bank applies a VaR Model as discussed above. The economic capital to cover the said type of risk measured in this manner as at the end of 2014 and 2013 is shown in the table below (99% VaR assuming a holding period of 10 days, in PLN'000).

VaR	**As at 31.12.2014**	**As at 31.12.2013**
Banking book	8 770	5 628
Trading book*	1 518	1 092
Total	**9 351**	**5 368**

* VaR in the trading book includes the VaR in respect of foreign exchange risk presented above.

Bank VaR statistics in 2014

Book	**Minimum**	**Average**	**Maximum**
Banking book	2 930	9 295	15 749
Trading book	711	1 730	2 913
Total	**3 326**	**9 658**	**16 658**

Bank VaR statistics in 2013

Book	**Minimalny**	**Średni**	**Maximum**
Banking book	3 090	7 343	12 149
Trading book	639	1 504	2 891
Total	**1 959**	**7 083**	**11 034**

For the purpose of managing interest rate risk, the Bank specifies trading operations which cover securities and derivative contracts concluded for trading purposes, and banking operations, which cover other securities, own issues, loans, deposits and derivative transactions used to hedge banking book risk. The Bank also performs analyses of possible scenarios which cover, among other things, the impact of specific changes in interest rates on the future interest results and the economic value of capital. As part of these scenarios the Bank implements internal limits, the utilization of which is measured daily. Utilization of the limit for changes in the economic value of capital assuming a parallel movement of the interest rate curves of +/- 200 b.p. and non-parallel movements in scenarios of +/- 100/400 b.p. (assuming 1M/10Y tenors, and between them, the shifted linear interpolation) as at the end of December 2014 (in PLN'000) is presented below.

Scenario (1M/10Y)	**Change in economic value of capital**
+400 / +100	-93 885
+100 / +400	-44 490
+200 / +200	-55 556

- 200 / - 200	53 122
- 100 / - 400	39 335
- 400 / - 100	57 620

The table below shows the statistics for 2014 of the index of change in net interest income for 100 b.p. increase/drop in interest rate scenarios in a 1-year time horizon (in PLN'000).

Change in net interest income (in PLN'000)		
Scenario	**+100 bp**	**-100 bp**
Minimum	-65 054	-72 752
Average	-9 011	-55 915
Maximum	25 389	-18 624

47. Liquidity risk

The Bank defines liquidity risk as the risk of the potential inability to fulfill its obligations, on conditions favorable for the Bank and at an acceptable cost, from all of the balance sheet and off-balance sheet positions of the Bank. Therefore, the Bank's liquidity risk management policy consists of maintaining its own liquidity in such way that it is possible, at any time, to discharge all payment obligations with cash in hand, through the expected contractual inflows from transactions with specified maturity dates or by selling transferable assets and at the same time minimizing liquidity costs.

Specifically, as part of its management of liquidity risk, the Bank pursues the following goals:

- ensuring, at all times, that there is a capacity for the timely settlement of all obligations;
- maintaining basic liquidity provisions, in case the liquidity situation suddenly deteriorates;
- determining the scale of liquidity risk accepted by the group, by setting internal liquidity limits;
- minimizing the risk of exceeding the defined liquidity limits;
- monitoring theBank's liquidity to maintain liquidity and be able to activate a relevant emergency plan when necessary;
- ensuring that the processes applied at the Bank comply with the regulatory requirements regarding liquidity risk management.

The goals set out above are pursued independently by appropriate organizational units, the competencies and responsibilities of which are clearly defined in the internal regulations. The Bank applies the following measures in the process of liquidity management:

- develops liquidity procedures and policies, including the financing plan for consecutive years of the Bank's operations;
- manages the Bank's emergency plans with regard to liquidity;
- monitors liquidity limits;

(in PLN '000)

- conducts periodical analyses of the categories and factors which impact the current and future liquidity levels (in the form of reports).

Among liquidity management measurements, the Bank takes into account the following ratios and related limits for the following types of liquidity:

- financial liquidity – the ability to finance assets and discharge liabilities on a timely basis in the course of the Bank's everyday activities or in other conditions which may be anticipated, without the need to incur losses. In its liquidity management activities, the Bank specifically focuses on a vista and current (up to 7 days) liquidity analysis;
- short-term liquidity defined as the ability to discharge all monetary liabilities which mature within 30 consecutive days;
- medium-term liquidity understood as the ability to meet all liabilities which mature within 6 months;
- long-term liquidity – monitoring the ability to meet all monetary liabilities which mature in a period longer than 12 months.

As part of its management of liquidity risk, the Bank also carries out analyses of the maturity profile in the longer term, which to a large extent depends on the assumptions adopted in respect of the development of future cash flows related to asset and liability items. These assumptions specifically take into account:

- stability of liabilities without specified maturities (e.g. current accounts, deposits withdrawals and renewals, level of their concentration);
- option to shorten maturities of specific asset items (such as mortgage loans with an early repayment option);
- option to sell assets (liquid portfolio) and are accepted at the level of the ALCO or the Bank's Management Board.

The maturity analysis of realigned assets and liabilities as at the end of 2014 is presented in the table below (amounts in PLNM):

2014-12-31	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
ASSETS	**383**	**3 230**	**1 230**	**1 583**	**2 295**	**3 021**	**4 985**	**13 441**	**30 168**
Cash and Nostro accounts	15	63	54	51	71	92	162	949	1 457
Amounts due from banks	0	6	0	0	0	142	0	0	149
Loans and advances to customers	212	344	1 019	1 532	2 180	2 766	4 600	11 005	23 658
Securities	156	2 816	156	0	44	21	224	152	3 569
Other assets	0	0	0	0	0	0	0	1 335	1 335
LIABILITIES AND EQUITY	**- 188**	**-2 126**	**-1 281**	**-1 384**	**-2 088**	**-2 658**	**-3 530**	**-16 914**	**-30 168**
Liabilities from banks	- 11	- 884	0	0	0	- 131	- 43	0	-1 069
Liabilities from customers	- 177	-1 239	-1 256	-1 196	-1 601	-2 031	-3 013	-12 275	-22 789
Own issues	0	- 3	- 25	- 188	- 487	- 495	- 474	- 492	-2 163
Other liabilities	0	0	0	0	0	0	0	-4 146	-4 146
Balance-sheet gap	**195**	**1 104**	**- 51**	**200**	**208**	**363**	**1 455**	**-3 473**	**0**
Accumulated balance-sheet gap	**195**	**1 299**	**1 247**	**1 447**	**1 654**	**2 017**	**3 473**	**0**	
Derivative instruments - inflows	0	2 559	1 335	280	442	1 287	263	3	6 169
Derivative instruments - outflows	0	-2 509	-1 325	- 278	- 436	-1 306	- 258	- 2	-6 115
Derivative instruments – net	**0**	**50**	**10**	**3**	**6**	**- 19**	**4**	**0**	**54**
Guarantee and financial lines	0	- 779	- 779	0	389	1 168	0	0	0
Off-balance sheet gap	**0**	**- 729**	**- 769**	**3**	**395**	**1 149**	**4**	**0**	**54**

(in PLN '000)

Total gap	**195**	**375**	**- 820**	**202**	**603**	**1 512**	**1 460**	**-3 473**	**54**
Total accumulated gap	**195**	**570**	**- 250**	**- 48**	**555**	**2 067**	**3 527**	**54**	

The amounts presented in the table above only account for the flow of capital. Interest, adjustments, allowances are shown under "Other assets" and "Other liabilities".

The maturity analysis of realigned assets and liabilities as at the end of 2013 is presented in the table below (amounts in PLNM):

2013-12-31	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
ASSETS	**377**	**3 057**	**1 567**	**1 564**	**2 237**	**2 191**	**4 483**	**10 069**	**25 545**
Cash and Nostro accounts	14	60	51	48	65	84	145	712	1 179
Amounts due from banks	0	85	0	0	0	57	0	0	142
Loans and advances to customers	223	389	1 319	1 504	2 074	2 007	4 157	8 667	20 340
Securities	140	2 523	197	12	98	43	181	150	3 344
Other assets	0	0	0	0	0	0	0	540	540
LIABILITIES AND EQUITY	**-167**	**-1 639**	**-1 092**	**-1 250**	**-1 739**	**-2 593**	**-2 873**	**-14 192**	**-25 545**
Liabilities from banks	-11	-711	0	0	0	-34	-104	0	-860
Liabilities from customers	-156	-924	-1 022	-1 133	-1 501	-1 871	-2 740	-10 705	-20 052
Own issues	0	-4	-70	-117	-238	-688	-29	-299	-1 445
Other liabilities	0	0	0	0	0	0	0	-3 188	-3 188
Balance-sheet gap	**210**	**1 418**	**475**	**314**	**498**	**-402**	**1 610**	**-4 123**	**0**
Accumulated balance-sheet gap	**210**	**1 628**	**2 103**	**2 417**	**2 915**	**2 513**	**4 123**	**0**	
Derivative instruments - inflows	0	2 282	1 124	412	622	156	486	3	5 085
Derivative instruments - outflows	0	-2 281	-1 122	-421	-613	-158	-487	-3	-5 085
Derivative instruments – net	0	1	2	-9	9	-2	-1	0	0
Guarantee and financial lines	0	-708	-708	0	354	1 062	0	0	0
Off-balance sheet gap	**0**	**-707**	**-706**	**-9**	**363**	**1 060**	**-1**	**0**	**0**
Total gap	**210**	**711**	**-231**	**305**	**861**	**658**	**1 609**	**-4 123**	**0**
Total accumulated gap	**210**	**921**	**690**	**995**	**1 856**	**2 514**	**4 123**	**0**	

The amounts presented in the table above only account for the flow of capital. Interest, adjustments, allowances are shown under "Other assets" and "Other liabilities".

The maturity analysis of assets and liabilities at contractual maturities as at the end of 2014 is presented in the table below (amounts in PLNM):

2014-12-31	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
ASSETS	**6 146**	**442**	**688**	**863**	**2 171**	**3 325**	**6 055**	**10 477**	**30 168**
Cash and Nostro accounts	1 457	0	0	0	0	0	0	0	1 457
Amounts due from banks	0	6	0	0	0	142	0	0	149
Loans and advances to customers	4 690	284	688	761	1 350	2 757	4 586	8 543	23 658
Securities	0	152	0	103	821	426	1 470	598	3 569
Other assets	0	0	0	0	0	0	0	1 335	1 335
LIABILITIES AND EQUITY	**-11 223**	**-4 549**	**-3 817**	**-2 628**	**-1 338**	**-1 399**	**- 562**	**-4 652**	**-30 168**
Liabilities from banks	- 11	- 884	0	0	0	- 131	- 43	0	-1 069
Liabilities from customers	-11 212	-3 662	-3 792	-2 440	- 852	- 773	- 46	- 14	-22 789
Own issues	0	- 3	- 25	- 188	- 487	- 495	- 474	- 492	-2 163
Other liabilities	0	0	0	0	0	0	0	-4 146	-4 146
Balance-sheet gap	**-5 076**	**-4 106**	**-3 129**	**-1 764**	**833**	**1 926**	**5 493**	**5 824**	**0**
Accumulated balance-sheet gap	**-5 076**	**-9 183**	**-12 312**	**-14 076**	**-13 243**	**-11 317**	**-5 824**	**0**	

(in PLN '000)

Derivative instruments - inflows	0	2 559	1 335	280	442	1 287	263	3	6 169
Derivative instruments - outflows	0	-2 509	-1 325	- 278	- 436	-1 306	- 258	- 2	-6 115
Derivative instruments – net	**0**	**50**	**10**	**3**	**6**	**- 19**	**4**	**0**	**54**
Guarantee and financial lines	7 356	4	28	51	227	111	0	10	7 786
Off-balance sheet gap	**7 356**	**54**	**38**	**53**	**234**	**92**	**4**	**10**	**7 840**
Total gap	**2 280**	**-4 052**	**-3 091**	**-1 711**	**1 066**	**2 018**	**5 497**	**5 834**	**7 840**
Total accumulated gap	**2 280**	**-1 772**	**-4 864**	**-6 575**	**-5 508**	**-3 491**	**2 007**	**7 840**	

The amounts presented in the table above only account for the flow of capital. Interest, adjustments, allowances are shown under "Other assets" and "Other liabilities".

The maturity analysis of assets and liabilities at contractual maturities as at the end of 2013 is presented in the table below (amounts in PLNM):

2013-12-31	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
ASSETS	**5 658**	**836**	**908**	**880**	**1 266**	**2 616**	**5 478**	**7 902**	**25 545**
Cash and Nostro accounts	1 179	0	0	0	0	0	0	0	1 179
Amounts due from banks	0	85	0	0	0	57	0	0	142
Loans and advances to customers	4 480	276	851	688	1 158	1 950	4 161	6 775	20 339
Securities	0	475	57	192	108	609	1 317	588	3 346
Other assets	0	0	0	0	0	0	0	540	540
LIABILITIES AND EQUITY	**-9 740**	**-3 366**	**-3 168**	**-3 684**	**- 980**	**- 906**	**- 202**	**-3 498**	**-25 544**
Liabilities from banks	- 11	- 711	0	0	0	- 34	- 104	0	- 860
Liabilities from customers	-9 729	-2 651	-3 098	-3 567	- 742	- 184	- 70	- 12	-20 053
Own issues	0	- 4	- 70	- 117	- 238	- 688	- 29	- 299	-1 444
Other liabilities	0	0	0	0	0	0	0	-3 188	-3 188
Balance-sheet gap	**-4 082**	**-2 529**	**-2 259**	**-2 804**	**286**	**1 710**	**5 276**	**4 404**	**1**
Accumulated balance-sheet gap	**-4 082**	**-6 611**	**-8 871**	**-11 675**	**-11 389**	**-9 679**	**-4 403**	**1**	
Derivative instruments - inflows	0	2 282	1 124	412	622	156	486	3	5 085
Derivative instruments - outflows	0	-2 281	-1 122	- 421	- 613	- 158	- 487	- 3	-5 085
Derivative instruments – net	0	1	2	- 8	9	- 1	- 2	0	0
Guarantee and financial lines	6 682	2	16	48	229	100	2	0	7 079
Off-balance sheet gap	**6 682**	**3**	**18**	**39**	**238**	**99**	**0**	**0**	**7 079**
Total gap	**2 600**	**-2 527**	**-2 241**	**-2 765**	**524**	**1 808**	**5 276**	**4 404**	**7 080**
Total accumulated gap	**2 600**	**73**	**-2 168**	**-4 933**	**-4 408**	**-2 600**	**2 676**	**7 080**	

The amounts presented in the table above only account for the flow of capital. Interest, adjustments, allowances are shown under "Other assets" and "Other liabilities".

To identify the realigned liquidity gap, the Bank uses model weights of the core deposits/loan repayments, determined based on the implemented statistical model and historical observations of balances of particular products.

The Bank maintains the liquidity buffer at a high level, investing in debt securities issued by the government and by the highest ranking corporations, which are highly liquid, within the predefined financial limit plan. This level is controlled by the ratio of liquid assets to the deposit base which as at 31 December 2014 exceeded 11%.

(in PLN '000)

Additionally, the Bank conducts liquidity stress-tests and prepares a plan for acquiring funds in emergency situations, specifies and verifies its liquid asset sale policies, taking into consideration the costs of maintaining liquidity.
In accordance with Resolution No. 386/2008 of the Polish Financial Supervision Authority dated 17 December 2008, the Bank specifies:

- the short-term liquidity gap (i.e. the minimum surplus of current liquidity) defined as the difference between the total of the base and supplementary liquidity reserve as at the reporting date, and the value of unstable external funds. As at 31 December 2014, the surplus amounted to PLN 1,310 million;
- the ratio of coverage of non-liquid assets with own funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk to non-liquid assets;
- the ratio of coverage of non-liquid assets and assets with limited liquidity with own funds and stable external funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk, and stable external funds to the total of non-liquid assets and assets with limited liquidity;
- the short-term liquidity ratio defined as the ratio of the total of the base and supplementary liquidity reserve as at the reporting date to the value of unstable external funds.

These ratios as at 31 December 2014 amounted to: 5.99; 1.11; 1.54.

Additionally, in accordance with the requirements of the said Resolution, the Bank performs an in-depth analysis of financial stability and source of funding structure, including the level of core deposits and concentration for term and current deposits. Additionally, the Bank monitors the volatility of balance-sheet and off-balance sheet items, and specifically the value of forecast outflows in respect of the guarantees granted to customers.

On a monthly basis, the Bank also analyses the concentration of the deposit base aimed at indicating the potential risk of excessive dependency on those sources of funding which are insufficiently diversified. To assess the level of concentration, the Bank sets a HCI (High Concentration Indicator) calculated as the ratio of funds accumulated by the largest depositaries to the value of the deposit base. As at 31 December 2014, HCI amounted to 3.97%, which indicates a low level of concentration. The HCI statistics for 2014 are shown in the table below.

High Concentration Indicator (HCI) in 2014

Minimum	Average	Maximum
2,76%	3,85%	4,84%

To limit concentration risk, the Bank diversifies the structure of the deposit base into retail, business, financial customers, central and local government institutions, monitoring and reporting the share of each of the groups in the entire deposit base on a monthly basis.

In 2014 the Bank's liquidity remained at a safe level. Liquidity was strictly monitored and maintained at an adequate level by adapting the deposit base and initiating additional sources of finance depending on the developments in the lending activity and other liquidity needs.

48. Credit risk

Credit risk management and maintenance of that risk at a safe level is of fundamental importance for the stability of the Bank's activities. Credit risk is controlled by applying the Bank's regulations, especially a lending methodology appropriate to individual customer segments, product and transaction types, or the principles of setting and monitoring loan security measures, and debt collection processes. The Bankis taking steps to fully centralize and automate these processes as part of the existing system infrastructure while simultaneously using available external and internal information about the customers.

Credit risk is mitigated within the scope of limitations imposed by external regulations and by internal policies determined by the Bank, in particular, those relating to credit exposure to one customer, group of entities related by capital or type of internal organization, or to industry sectors.

Credit risk management is based on the credit risk management system integrated with the Bank's operating processes. The components of credit risk management are, in particular:

1. identification;
2. measurement;
3. monitoring;
4. reporting and controlling.

The process thus identified enables proactive supervision over current and potential risks and effective use of risk management methods and instruments.

The credit risk management system identified internal and external factors indicative of credit risk occurrence. Such factors may be found in certain areas of the Bank's business, namely:

1. Customers – examination of individual customers and groups of customers, verification of homogenous customer groups for quality of the constructed loan portfolio;
2. Products – the area covers all the risks potentially related to a specific product (on a one-off basis or for the entire loan portfolio);
3. Collaterals - verified in this area of business is the correctness of collateral acceptance, collateral value and timeliness, and the correctness of the preparation of documentation related to the collateral, as well as any subsequent update of collateral value. Significant to the mitigation of credit risk is an examination of the efficiency of implementing the amended regulations on legal collateralization of loans and the application of binding procedures in this area;
4. Processes and regulations – verification of quality and efficiency of the crediting process, loan administration, monitoring, debt collection and restructuring

processes, and cooperation with external debt recovery agencies, as well as verification of the compliance of the Bank's regulations underlying the said processes with the applicable laws;

5. Systems – in particular, verification of credit-support systems and systems supporting debt monitoring and collection, as well as the efficiency of the use of those systems;
6. Distribution channels – verification of the effectiveness (and harmfulness) of the Bank's distribution channels;
7. Employees – examination of proper use of credit competencies granted to employees individually, detection of possible irregularities in the lending process;
8. External conditions – examination of the following external factors, specifically: interest rates level; foreign exchange rates; cash supply volume; unemployment rate; changes on the labour market; economic climate;
9. Credit risk management effectiveness – periodic verification of the effectiveness of the system assumptions concerning the Bank's credit risk management policies.

The Bank analyzes risk both individually and on a portfolio basis, and undertakes actions which lead to:

- minimizing the credit risk in respect of individual loans at a stipulated rate of return;
- reducing the overall credit risk resulting from the Bank's defined credit portfolio.

To minimize the risk of a single exposure the Bank each time when granting the exposure:

1. assesses creditability and creditworthiness taking into consideration, among other things, a detailed analysis of the source of repayment of the exposure;
2. assesses collaterals, including the verification of their formal, legal and economic aspects, also taking into consideration their LTV adequacy.

Additionally, to strengthen risk controls over individual exposures, the Bank regularly monitors customers, taking actions aimed at minimizing risk if increased risk factors are discovered.

In respect of minimizing credit risk resulting from holding specific portfolios, the Bank:

1. defines and controls concentration limits;
2. monitors early warning signals from the EWS system;
3. regularly monitors the loan portfolio, controlling all credit risk parameters (such as PD, LTV, CR);
4. regularly performs stress tests.

Risk assessment in the lending process

The Bank's commitments are based on crediting methodologies developed for particular customer segments and product types. The assessment of customer credit capacity, preceding the Bank's commitment, is carried out by means of the following tool which support lending: scoring and rating tools, external information (e.g. CBD DZ, CBD BR, BIK, BIG databases), and the Bank's internal databases. Commitments are granted

pursuant to the Bank's lending processes determining the appropriate steps to be followed in the process, responsible Bank units and tools to be utilized.
Lending decisions are taken in accordance with the decision making process in force at the Bank (levels of competence adapted to the customer- and transaction-related risk level).
In order to regularly assess the credit risk taken and minimize potential losses on credit exposures, the Bank monitors the customer's position throughout the lending period by identifying early warning signals and periodic, individual reviews of credit exposures.
The monitoring process ends with issuing recommendations relating to the strategy of further cooperation with the Customer.

Segregation of competencies

The Bank pursues the segregation of competencies policy related to acquiring the Customer and selling credit products from the function of credit risk assessment, taking lending decisions and monitoring credit exposures.

Risk concentration management

With a view to protecting the Bank's stability and safety, and ensuring the appropriate quality of its assets, their diversification and profitability, and maintaining an appropriate capital level, the Bank regularly verifies risk concentration in various areas of activity. Excessive concentration of any individual item accompanied by credit or liquidity risks is considered to have an adverse impact on the Bank's security.
Risk concentration management in the area of lending activities relates to:

1. the risk arising from the exposure of the Bank to individual entities or a group of entities related by capital or internal organization;
2. the risk arising from the exposure to entities operating in the same industry sector, running the same business or trading in similar goods;
3. the risk arising from exposure towards entities from the same province, individual countries or groups thereof;
4. the risk of exposure secured with the same type of collateral or secured by the same collateral provider (including the risk of the Bank establishing collateral on securities with similar characteristics);
5. risk arising from exposures in the same currency;
6. risk arising from exposures with the same type of interest rate (fixed or variable), and interest rate index;
7. the risk arising from exposures towards the entities referred to in art. 71 of the Banking Law;
8. the risk arising from product specification;
9. customer segment risk;
10. distribution channel risk;
11. the risk of special offers and promotions;
12. internal concentration risk.

Being aware of the threats resulting from the Bank's exposure concentrations makes it possible to manage assets and liabilities effectively and create a safe loan portfolio structure. To prevent the unfavourable outcome of excessive concentration, the Bank reduces the risk of concentration using various limits and concentration norms as provided in external regulations or internal concentration standards.

(in PLN '000)

The Bank has:
1. principles for identifying loan concentration risk areas;
2. the process of defining and updating limits;
3. limit management processes, specifying procedures to be applied in the event of exceeding acceptable limits;
4. risk concentration monitoring process (including reporting);
5. control measures applicable in the risk concentration management process.

Sector concentration - balance sheet and off-balance sheet exposure

Section (as per PKD 2007)	Section header	31.12.2014	31.12.2013
Sekcja A	Agriculture, forestry, hunting and fishery	137 188	154 408
Section B	Mining	184 837	197 232
Section C	Industrial processing	3 887 769	4 070 304
Section D	Production and delivery of electric energy, natural gas, steam, hot water, and air for air-conditioning units	698 380	341 682
Section E	Water supply; management of waste and re-cultivation activities	96 786	39 372
Section F	Construction	3 686 764	3 373 111
Section G	Wholesale and retail trade, automobile repairs (incl. motorcycles)	3 304 608	3 065 647
Section H	Transportation and warehouse management	453 381	498 549
Section I	Hotel, restaurant and catering services	847 141	242 324
Section J	Information and communication	987 707	1 168 062
Section K	Finance and insurance	934 750	1 000 968
Section L	Real estate market administration	2 934 892	2 331 248
Section M	Professional, scientific and technical activities	720 798	538 854
Section N	Administrative and support services	462 719	549 659
Section O	Public administration and national defence, obligatory social insurance	0	50
Section P	Education	106 717	53 719
Section Q	Healthcare and social support	194 709	117 534
Section R	Culture, leisure and entertainment	30 102	22 826
Section S	Other services	42 422	45 621
Section T	Households employing workers, households producing goods and providing services for their own needs	0	0
Section U	Extraterritorial organizations and teams	0	0

The above exposures contain:
- the principal amount (balance-sheet and off-balance sheet exposure without interest and fees, and without impairment allowances), reduced by the cash deposits received;

(in PLN '000)

- unauthorized negative balances on current accounts;
- sureties granted by entities of a given section to entities from other sections;
- treasury limits reduced by received cash deposits, taking into account debt securities in the Bank's books, whose issuer is an entity from the given section.

Largest concentration by country as at the end of 2014:

Country	31.12.2014
Poland	33 104 113
Great Britain	190 513
Cyprus	140 012
Luxembourg	60 798
Spain	28 138
Suisse	19 628
Germany	14 789
Ireland	11 539
Tanzania	4 004
Norway	3 791

Largest concentration by country as at the end of 2013:

Country	31.12.2013
Poland	28 077 105
Great Britain	165 441
Cyprus	144 035
Spain	30 880
Suisse	22 624
Germany	16 323
Ireland	9 007
Norway	2 436
Denmark	1 995

The above exposures contain:

- the principal amount (balance-sheet and off-balance sheet exposure without interest and fees, and without impairment allowances), reduced by the cash deposits received;
- unauthorized negative balances on current accounts;
- sureties granted by entities of a given country to entities from other countries;
- treasury limits reduced by received cash deposits, taking into account debt securities in the Bank's books, whose issuer is an entity from the given country.

In the process of establishing and updating concentration limits, the Bank considers the following:

1. appropriate, reliable economic and market information on all committed concentration areas, in particular macroeconomic and industry ratios, data on economic trends, projected interest rates, FX rates, political risk analyses, ratings of government and financial institutions;

2. appropriate, reliable information on the economic standing of entities, industries, economic sectors; general economic data including information pertaining to the economic and political situation of the countries, as well as other information required to assess risk concentration at the Bank;
3. economic and qualitative information on the management process in entities with the Bank's exposure that causes concentration risk;
4. interest rate, liquidity, operating or political risk related to the exposure identified which may increase the concentration risk.

Impairment allowances and provisions

The Bank assesses all balance sheet credit exposures (balance sheet groups of credit exposures) in terms of objective premises for impairment, in accordance with the data current as at the revaluation date. The Bank assesses off-balance sheet exposures in terms of the need to set up a provision.
Loan impairment is identified automatically in the Bank's central system, based on system information (repayment default) or data input by system users.

Indicators of impairment

1. Indicators of customer-related impairment:

- significant repayment default/unauthorized overdraft - this evidence relates to business customers and retail customers alike and is recognized by the system if the customer is in default or has an unauthorized overdraft for more than 90 days, with a total amount of default for all customer accounts for which he is owner/ co-owner or borrower/co-borrower of at least PLN 500;
- corporate recovery proceedings – this impairment indicator relates to business customers and is recognized on the basis of flagging a note in the system or the entrepreneur filing an application with the court for the commencement of corporate recovery proceedings;
- bankruptcy/liquidation – this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system on filing a petition in bankruptcy;
- consumer bankruptcy – this impairment indicator concerns individual customers and is recognized on the basis of flagging a note in the system about a consumer filing a petition in bankruptcy (so-called consumer bankruptcy);
- undisclosed customer assets – this impairment indicator concerns business customers and retail customers alike and is recognized on the basis of flagging a note in the system about a customer submitting a false statement on property;
- significant deterioration in the internal scoring/rating assessment – this impairment indicator concerns business customers and retail customers alike and is recognized by the system when the assessment of customer borrowing drops by at least one class (compared to the original assessment) and at the same time is below the acceptable Bank level; significant deterioration in the external rating assessment - this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system about reducing the external rating of the customer from the investment to speculative class;
- significant deterioration in the economic and financial condition - this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system about a deterioration in the assessment of a customer's economic

or financial condition (in line with the Resolution of Ministry of Finance classification) by at least one category to the level of "below standard", "doubtful", or "lost";
- customer demise – this impairment indicator refers to retail customers and is recognized upon flagging a note in the system about a customer's demise;
- no information on a customer's whereabouts – this impairment indicator refers to retail customers and is recognized by flagging a note in the system about the proven lack of the possibility to determine a customer's registered address;
- job loss – this impairment indicator concerns retail customers and is recognized on the basis of flagging a note in the system about a customer's lack of ability to repay a borrowing following the loss of a job;
- financial difficulties of a customer - this impairment indicator concerns individual customers and is recognized on the basis of flagging a note in the system about the financial problems of a customer (in accordance with data from BIK – Credit Information Bureau).

2. Indicators of account-related impairment:
- Issuance of Bank enforcement title – this impairment indicator is recognized in the system based on input data on the issuance of a Bank Enforcement Title;
- Commencement of enforcement proceedings – this impairment indicator is recognized in the system based on input data on the Bank commencing internal enforcement proceedings;
- Effective Loan Agreement termination – this impairment indicator is recognized in the system based on input data on the effective date of termination of a loan agreement where the amount in default is at least PLN 500;
- Restructuring – this impairment indicator is recognized in the system based on input data on customer problems with timely debt repayment, changes in credit servicing principles made in the form of an annex to the loan agreement or signing an appropriate arrangement with the Bank;
- Debt submitted by Borrower to court – this impairment indicator is recognized in the system based on the input data on a customer submitting his debt to court;
- Identified fraud – this impairment indicator is recognized in the system based on the input data on identified fraud on the basis of a court sentence.

3. Indicators of impairment relating to exposures towards banks:
- Repayment default of more than 30 days – this impairment indicator is recognized based on repayment default of more than 30 days;
- Significant deterioration in the external rating by the contractor bank - this impairment indicator is recognized based on information about a deterioration in the external rating from the investment to speculative class;
- Significant deterioration in the external rating of the contractor bank's country of registration - this impairment indicator is recognized based on information about a deterioration in the external rating of the country of the contractor bank from investment to speculative class;
- Significant deterioration in the financial standing of the bank / insolvency of the bank - this impairment indicator is recognized based on information about customer risk assessed as unacceptable in the process of the periodical monitoring of limits.

4. Indicators of bond-related impairment:

(in PLN '000)

- Lack of underlying bonds payments – this impairment indicator is recognized based on information about the lack of underlying bonds' payment at the dates set forth in the terms and conditions of the Bonds' issuance;
- Issuer's failure to fulfil other conditions set forth in the terms and conditions for the Bonds' issuance which enable the Bank to call for immediate payment.

Each account has the option of manually setting the default. The default status is used where other important factors, not covered by the above listings, are identified that may constitute an indicator of impairment loss.

Premises for impairment of the carrying value of a credit exposure (balance sheet groups of credit exposures) are recorded in the system at the customer and account level. Recorded premises for impairment at the level of a given account result in flagging all the accounts of the given customer as impaired. Similarly, in the event of recording premises for impairment at customer level, the impairment is propagated to all the customer's accounts in the portfolio. The propagation each time relates to all the accounts in respect of which the customer is owner/co-owner or borrower/co-borrower. For balance sheet credit exposures that have become impaired, the Bank records an impairment charge in order to decrease their book value down to the present value of the expected future cash flows.

Exposures for which impairment factors have been identified are divided into individually assessed and collectively assessed. Individual assessment is applied in the case of exposures incurring the risk of impairment (at customer level), exceeding the thresholds levels set depending on the customer segments (see table below).

in PLN

Client segment	**Limit level**	
	2014	**2013**
Individual client	100 000	100 000
Business client	500 000	200 000

Exposures incurring the risk of impairment, for which the Bank is unable to identify groups of assets with similar credit risk characteristics or for which the Bank does not have a sufficient sample to estimate group parameters are also individually assessed.

Individual assessment is based on an analysis of potential scenarios (business customers) or a tree of possible events (retail customers). Each scenario and tree branch are attributed the probability of finalization and the expected recoveries. Standard event trees were developed for retail customers which represent different debt collection strategies. The assumptions adopted for individual valuations are described in detail by the analysts. Recovery amounts expected under individual valuations are compared to the actual recoveries in quarterly cycles.

Group valuation is based on the time in default of a given exposure and accounts for the specific nature of the given group in terms of the expected recoveries. Collateral is taken into consideration at exposure level.

Exposures in respect of which no premises for impairment have been identified are grouped into homogenous groups in terms of the risk profile, and a provision is set up for the group exposure used to cover the losses incurred but not reported (IBNR). IBNR is calculated on the basis of PD and LGD parameters, and collateral (taking into consideration the expected recovery rates).

PD parameters are determined on the basis of the migration matrix and the LIP levels applied. The period of historical data which is the basis for assessing PD was selected so as to achieve two goals: maximize the predictiveness of parameters and for stability of estimation. For this purpose, for most portfolios the Bank uses a 12-month observation period for migration between the delay and default baskets to determine PD. Portfolios of medium and large companies, for which the Bank uses a 24-month period due to a lower number of defaults, are an exception to this rule. The PD parameter is differentiated depending on particular delay portfolios and baskets. PD for particular delay baskets is divided into LIP periods in accordance with the table below:

Basket\Portfolio	Accounts/LOR IC	Mortgage loans IC	Credit cards IC	Advances IC	Others IC	MICRO BC	Others BC
B0	4	6	5	5	5	5	4
B1	4	3	4	3	4	4	3
B2	3	2	2	2	3	2	2
B3	2	1	1	1	1	1	1

The LIP periods were determined based on the quantitative analysis accounting for the event which was the primary cause of default.

Collateral

The Bank's collaterals are established in a manner appropriate to the credit risk incurred by the Bank and flexible with regard to customer capacity. Establishing collaterals does not release the Bank from the obligation to regularly examine a customer creditworthiness.

Loan collaterals are established to ensure that the Bank will have all issued loans and borrowings repaid together with any interest due and payable and the underlying costs in the event that the borrower is unable to repay its debt on a set date and the restructuring has not brought about the expected results.

In particular, the Bank accepts the following legal collaterals:

1. Guarantees, counter guarantees, and sureties;
2. Blockades of funds;
3. Registered pledges;
4. Transfer;
5. Assignment of claims;
6. Loan insurance;
7. Bills of exchange;
8. Mortgages;
9. Powers of Attorney to bank accounts;
10. Cash deposits as a particular form of collateral.

Collateralized assets are verified in the lending process in terms of legal possibilities to effectively secure the Bank's dues and their market value, and recoverable value in the potential enforcement process are also assessed.

Debt collaterals established by the Bank make it possible to:

- reduce impairment allowances and provisions according to IAS 39;
- use more favourable risk weights to calculate capital requirements pursuant to Resolution No. 76/2010 of the Polish Financial Supervision Authority.

In 2014 and 2013 the value of collateral taken into account in the determination of impairment losses on retail and corporate amounted to PLN 763,996 thousand and PLN 437,410 thousand, respectively.

Managing repossessed assets

In justified cases the Bank repossesses assets put up as collateral to satisfy matured dues. Such transactions are conducted on the basis of accepted plans for managing the repossessed asset.

In 2014, the Bank repossessed in debt collection and restructuring processes only chattels classified to the widely meant group of vehicles. Assets repossessed in this manner were earmarked exclusively for sale and were not used for internal purposes.

The assets referred to above are repossessed both by internal services and using specialist external cooperating agents accepted by the Bank. Each repossessed chattel is valued to determine the selling price and settle the repossession transaction with the collateralized loan by independent external experts operating under contracts concluded with the Bank.

In 2014, assets with a total value of PLN 7,683 thousand were repossessed and assets with a total value of PLN 6,207 thousand were sold. As at 31 December 2014, the value of chattels repossessed and not sold amounted to PLN 1,937 thousand.

Scoring/rating

Credit scoring is an instrument used to make individual loan decisions for individual customers and micro-companies, while credit rating is an instrument to support borrowing decisions in the segment of Small, Medium and Large Enterprises.

The scoring and rating models have been implemented to:

1. control credit risk by acquiring reliable forecasts of a customer's creditworthiness;
2. standardize lending criteria in an objective and unbiased manner;
3. shorten the periods of credit decision taking, and boost the effectiveness of a credit application assessment (increase work capacity and reduce service costs);
4. simplify the process of credit application assessment (automation);
5. implement customer classification in terms of the degree of risk related to them;
6. monitor and forecast the quality of the loan portfolio;
7. simplify the assessment of binding credit policies and speed up change implementation in the decision making processes designated to assess the credit risks of business and individual customers.

The way the scoring and rating models operate is regularly monitored by the Bank. The objective of models validation is to assess whether the given model applied properly differentiates risks, and whether the assessed risk parameters properly reflect the relevant risk aspects. In addition, functional controls verify whether credit process models have been applied in accordance with their designation.

(in PLN '000)

The scoring models currently used were built internally in the Bank. To reinforce the risk management models operating in the Bank a new team was appointed which plays the role of an independent validation unit. Additionally, the Bank Validation Committee for Scoring and Rating Models supervises periodic monitoring of all scoring and rating models, and also in order to issue recommendations and approve periodic monitoring results.

The scoring models enable obtaining:
1. A decisive score value for a given Customer/Application;
2. A scoring class with a theoretical PD value ascribed;
3. A scoring recommendation for credit application, in the form of: "Approval" or "Rejection".

The type of model used to assess individual customers depends on the type and nature of the credit product for which the customer has applied, the credit history and the history of cooperation with the Bank. The score achieved has an impact on the amount of standard costs of risk charged on the transaction.

Financial assets

Financial assets not overdue	Class risk	As at 31.12.2014	As at 31.12.2013
Amounts due from customers not overdue and not impaired			
Individuals			
Mortgage loan, Cash loan, Credit card, Overdraft			
(1– best class, 6 – worst class)	1	819 518	875 565
	2	761 449	871 413
	3	879 103	1 001 028
	4	955 457	1 002 355
	5	57 429	62 049
	6	7 286	7 826
Cash loan, Credit card, Overdraft - simplified processes			
(K1– best class, K10 – worst class)	K1	169 423	90 934
	K2	306 330	175 193
	K3	646 594	433 942
	K4	1 033 527	981 164
	K5	1 246 084	1 062 653
	K6	1 061 847	910 081
	K7	593 831	557 759
	K8	226 774	248 762
	K9	40 149	48 060
	K10	3 478	5 835
Mortgage loans			
(M1– best class,M10 – worst class)	M1	1 976	596
	M2	11 598	3 090
	M3	60 317	13 999
	M4	207 458	45 072

(in PLN '000)

	M5	500 688	103 971
	M6	673 173	142 642
	M7	518 024	116 154
	M8	349 274	78 897
	M9	137 179	42 917
	M10	22 445	8 036
Without scoring		375 506	289 463
Total Individuals		**11 665 917**	**9 179 456**
Corporates			
Long-term products, Car loans, Working capital loans (1– best class, 6 – worst class)			
	1	12 012	23 335
	2	23 101	47 611
	3	30 773	57 143
	4	11 566	23 197
	5	0	5
Models for microenterprise with simplified accounting (B1– best class, B9 – worst class)			
	B1	22872	16098
	B2	35 653	54 487
	B3	111 811	72 245
	B4	95 184	70 591
	B5	62 173	64 350
	B6	35 287	31 480
	B7	12 308	5 371
	B8	2 709	1 233
	B9	138	401
Models for business clients using trading book accounting, car dealers and real estate developers			
A– best class, J – worst class)	A	110 679	99 311
	B	483 400	593 041
	C	1 228 718	1 721 106
	D	2 713 790	1 746 319
	E	2 121 343	1 357 091
	F	777 506	916 186
	G	172 607	147 757
	H	386 161	187 498
	I	20 657	14 379
	J	1 574	999
Without rating		239 706	314 779
Total Corporates		**8 711 728**	**7 566 013**
Amounts due from customers not overdue and not impaired		**20 377 645**	**16 745 469**
Amounts due from customers not overdue and impaired		168 736	44 332
Individuals		14 189	12 877
Corporates		154 547	31 455
Total amounts due from customers not overdue		**20 546 381**	**16 789 801**
Available-for-sale financial assets			
issued by companies	Without scoring	205 767	342 841
issued by other financial institutions	Without scoring	3 005	307
Available-for-sale financial assets not overdue and not impaired		**208 772**	**343 148**

(in PLN '000)

Available-for-sale financial assets not overdue and impaired	Without scoring	105 361	0
Available-for-sale financial assets not overdue		**314 133**	**343 148**

Financial assets held for trading			
Derivative financial instruments			
A– best class, J – worst class)	A	1 249	1 226
	B	15 756	9 413
	C	22 957	14 629
	D	51 543	24 628
	E	41 688	10 226
	F	11 344	5 704
	G	1 940	2 727
	H	5 251	1 685
	I	1 808	587
	J	0	128
	Without scoring	26 236	18 569
Shares		2 729	1 971
Bonds		946	418
Total financial assets held for trading		**183 447**	**91 911**

Amounts due from customers overdue

As at 31.12.2014	to 1 month	From 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	from 5 years	Total
Amounts due from customers not impaired	**1 867 046**	**220 572**	**59 936**	**87 777**	**1 059**	**2 236 390**
Retail segment	903 384	181 870	14 828	26 862	1 029	1 127 973
Corporate segment	963 662	38 702	45 108	60 915	30	1 108 417
Amounts due from customers impaired	**57 608**	**37 749**	**300 437**	**467 330**	**2 095**	**865 219**
Retail segment	13 424	28 553	168 988	279 782	2 093	492 840
Corporate segment	44 184	9 196	131 449	187 548	2	372 379
Total amount due from customers	**1 924 654**	**258 321**	**360 373**	**555 107**	**3 154**	**3 101 609**

As at 31.12.2013	to 1 month	From 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	from 5 years	Total
Amounts due from customers not impaired	**1 890 821**	**220 489**	**97 811**	**99 355**	**2**	**2 308 478**
Retail segment	813 049	182 113	40 360	16 678	0	1 052 200
Corporate segment	1 077 772	38 376	57 451	82 677	2	1 256 278
Amounts due from customers impaired	**15 135**	**33 989**	**295 963**	**210 524**	**0**	**555 611**
Retail segment	9 021	24 471	174 501	128 824	0	336 817
Corporate segment	6 114	9 518	121 462	81 700	0	218 794
Total amount due from customers	**1 905 956**	**254 478**	**393 774**	**309 879**	**2**	**2 864 089**

External rating classes

The table below presents the structure of debt securities, amounts due from banks, assets pledged as collateral and derivative financial instruments broken down by external rating classes.

(in PLN '000)

Portfolio/Rating	AA- do AA+	A- do A+	BBB- do BBB+	BB- do BB+	Without rating	31.12.2014
Amounts due from banks	**126 239**	**308 257**	**71**	**0**	**12 426**	**446 993**
Available-for-sale debt instruments	**44 165**	**2 212 267**	**21 092**	**60 468**	**0**	**2 337 992**
including:						
issued by the Central Bank		149 967				149 967
issued by the State Treasury		2 062 300				2 062 300
issued by banks						0
issued by other financial institutions	44 165		21 092	60 468		125 725
Assets pledged as collateral		**927 191**				**927 191**
Derivative financial instruments	**52 867**	**302 092**	**12 829**		**5 792**	**373 580**
Total	**223 271**	**2 822 616**	**33 992**	**60 468**	**18 218**	**3 158 565**

Portfolio/Rating	AA- do AA+	A- do A+	BBB- do BBB+	B- do B+	Without rating	31.12.2013
Amounts due from banks	**41 749**	**185 021**	**1 568**	**0**	**25 332**	**253 670**
Available-for-sale debt instruments	**0**	**2 158 283**	**60 990**	**0**	**142 907**	**2 362 180**
including:						0
issued by the Central Bank		399 805				399 805
issued by the State Treasury		1 758 478				1 758 478
issued by banks			40 106		99 164	139 270
issued by other financial institutions			20 884		43 743	64 627
Assets pledged as collateral		**687 736**				**687 736**
Derivative financial instruments	**31 264**	**120 167**	**6 809**		**5 238**	**163 478**
Total	**73 013**	**3 151 207**	**69 367**	**0**	**173 477**	**3 467 064**

Monitoring credit risks related to retail and business customers

Continuous credit portfolio quality protection is ensured by:

- daily monitoring of timely loan repayments;
- periodic reviews – relating mainly to a customer's economic standing and the value of approved collaterals.

The monitoring of the individual customer segment includes the following areas:

- customers;
- credit products granted to debtors;
- agreements from which the credit exposure originated;
- collaterals approved;
- amount of impairment allowances.

Monitoring of the business customer segment includes the following areas:

- customers and related entities;
- business segment;

(in PLN'000)

- credit products granted to debtors;
- verification of the Customer's compliance with the provisions of the agreement which is the basis for the Customer's credit exposure;
- collaterals approved (verification of their setting up and value);
- market conditions with effect on a customer's credit capacity;
- amount of impairment allowances.

All credit exposures in the business customer segment are additionally covered by portfolio monitoring, i.e.:

- assessment on the basis of a dedicated behavioural assessment model; and
- an early warning flags identification process.

All credit exposures of retail and business customers are subject to monitoring and ongoing classification to appropriate process paths. To improve the monitoring process and controls of potential operating risks, adequate solutions in the Bank's credit system have been implemented. System tools have been consolidated to effectively conduct the monitoring procedures (soon to be applicable to all the accounts).

Commitments classified as standard and dangerous, which may intensify the activity during preenforcement and debt collection proceedings, are regularly monitored. Accounts are evaluated with regard to changing debts under the restructuring procedure in order to minimize the Bank's default losses.

The Bank's maximum exposure to credit risk

Items in the statement of financial position	As at 31.12.2014	As at 31.12.2013
Current account at the central bank	932 357	870 579
Financial assets held for trading	476 821	243 291
Shares	2 729	1 971
Bonds	946	418
Interest rate transactions	260 481	120 294
Foreign exchange transactions	110 794	57 842
Other options	81 198	46 618
Other instruments	20 673	16 148
Available-for-sale financial assets	2 652 125	2 705 328
Debt instruments	2 649 120	2 705 021
issued by the State Treasury	2 062 300	1 758 478
issued by monetary institutions	149 967	539 075
issued by other financial institutions	125 725	64 627
issued by companies	311 128	342 841
Equity instruments	3 005	307
Hedging derivatives financial instruments	80 205	12 099
Amounts due from banks	446 993	253 670
Loans and advances to customers	23 647 990	19 653 890
Retail segment	13 300 919	10 581 350
Working capital facility	142 530	118 342
Consumer loans	6 217 208	5 240 515
Consumer finance loans	704 834	650 741
Loans for purchase of securities	142 921	160 678

(in PLN '000)

Credit card borrowings loans	204 619	193 157
Loans for residential real estate	4 991 141	3 393 901
Other mortgage loans	877 230	797 964
Other receivables	20 436	26 052
Corporate segment	10 347 071	9 072 540
Working capital facility	5 527 749	4 854 894
Car loans	141 299	239 497
Investment loans	4 134 162	3 366 771
Acquired receivables (factoring)	517 347	561 826
Other receivables	26 514	49 552
Non-current assets held for sale	908	38 335
Assets pledged as collateral	927 191	687 736
Other financial assets	180 563	307 649
Total	**29 345 153**	**24 772 577**

Off-balance sheet items	As at 31.12.2014	As at 31.12.2013
Off-balance sheet liabilities granted	7 786 373	7 078 830
Relating to financing	6 246 398	5 735 711
Guarantees	1 539 975	1 343 119

In the Bank's opinion the carrying amount best reflects maximum risk exposure.

Applying forbearance practices

In the restructuring process of the Retail Customer the Bank uses the following tools:

- Extending the lending period. Extending the lending period leads to a reduction in monthly principal and interest instalments, and cannot exceed 120 months (for unsecured products), irrespective of the initial lending period. If under the restructuring process the lending period is extended on a one-off basis for the maximum period, the tool cannot be used again in the future. When the lending period is extended, restrictions following from the product statement, such as the age of the borrower, are taken into account.
- Granting a payment grace period (the whole or part of the instalment). In the grace period for the payment of capital and interest instalments the borrower is not obliged to make any payments in respect of the contract concluded. The loan repayment period may be extended by the number of months of the grace period granted (this is not identical to applying the tool which extends the lending period). Grace period for a full instalment is applied for up to 3 months, the grace period for the principal part of the instalment cannot exceed 6 months. The maximum total grace period may amount to 6 months during 2 consecutive years (24 months), as of the date of signing the restructuring annex;
- Consolidation of several liabilities to Alior Bank, including change in the LOR debit limit /unauthorized ROR debit/consumer loan, to an instalment loan. The effect of consolidation is the transformation of several dues resulting from different contracts into one due. The product initiated as a result of the consolidation is paid back in monthly instalments on the basis of a predefined time schedule. The parameters of the product initiated as a result of applying

the given tool have to be compliant with the Product Statement: cash loan/consolidation loan.

In particularly justified situations other tools may be used.
In the restructuring process of a Business Customer no restrictions were introduced relating to the forms of forbearance practices applied. Due to the specific nature of the customers, the most frequently used tools are:

- Arrangement through a change in the time schedule for matured exposures (after maturity or termination notice). It consists of transferring the debt from one or more exposures to a non-renewable account with potential options for the time schedule: settlement of the whole debt on an accrual basis, or settling part of the debt on an accrual basis, and part as a payment at the end of the period.
- An annex reducing the limit in respect of renewable loans. This consists of systematic reduction in the credit limit (most often on a monthly basis) by the amount specified in the annex.
- The annex changing the terms and conditions relating to the deadline for payment /amount of instalment or grace period for the principal /interest.

Monitoring of the risk relating to forbearance practices
Reporting the quality of restructured loan portfolio covers reporting at the level of particular overdue period brackets at which the restructuring decision was taken, and at the aggregate level. The base reporting period is a calendar month. In such breakdown the following subprocesses may be identified to which the presented amounts refer:

- The application process (number of applications, number of decisions issued, types of decisions);
- Quality of the loan portfolio (break-down into particular overdue levels, forms of restructuring, application of overrides);
- Measure of overdue period exceeding 90 days on restructured accounts in consecutive quarters, according to the balances as at the end of consecutive quarters after restructuring.

The results of the above monitoring of the restructured portfolio are shown in the monthly presentations for the Management Board.

The following risks relate to the application of forbearance tools by the Bank:

- Risk of lack/discontinuation of payments;
- Risk of loss of collateral (in particular chattels) or a significant reduction of its value.
- Risk of bankruptcy.

The Bank mitigates the above risks mainly through the Customer analysis, both in terms of financial possibilities and the history of cooperation with the Customer, information from site visits and other sources. Collateral may be used and exposure may thus be reduced before the forbearance tools are used. Using forbearance tools the Bank makes efforts to additionally insure the exposure to the largest possible extent (mortgage, warranties, pledges). Each Customer in respect of whom forbearance tools are used has an allocated care person from the

(in PLN '000)

Debt Collection Team who monitors the customer on an on-going basis in respect of delays, so as to react dynamically to any negative premises as they appear. Customers are obliged to cyclically update inventory balances in the event of pledges on inventories or to update their policies. In justified cases the Bank uses On-Site Collection – one of its functions is checking the collateral.

Assessment of impairment for exposures subject to forbearance practices
In respect of forbearance practices the Bank adopts more stringent criteria for impairment identification. Apart from the standard catalogue of premises additional criteria are used in respect of these exposures, defined as forbearance granted to a customer upon one of the following situations arising:

- A delay exceeding 30 days;
- Another premise of impairment;
- An analyst's assessment of the timeliness of servicing a debt being at risk (in respect of Retail Customers);
- Assessment of the economic and financial position as Substandard or worse (in respect of Business Customers).

For those exposures impairment is determined on the basis of individual scenario analysis based on historical behaviours of similar Customers and features specific for the given Customer. The Bank discounts the expected cash flows using the effective interest rate before applying the forbearance practices.
In 2014 the Bank implemented a mechanism for marking entry to the forbearance status and exiting it in accordance with the provisions of the "EBA FINAL draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013". The changes introduced had no impact on the manner of identifying impairment or the terms and conditions for reversing losses. Having identified premises for impairment subject to forbearance practices the Bank act according to the principle that three consecutive timely payments compliant with the new time schedule are the basis for determining the absence of impairment premises.

The Bank does not differentiate its approach to recognizing impairment depending on the type of facilitation granted to the customer. All types of facilitations are subject to additional more stringent criteria for identifying impairment.

Loans and advances to customers subject to forbearance practices	As at 31.12.2014	As at 31.12.2013
Retail segment	120 459	121 447
unimpaired	74 350	96 499
impaired	78 842	48 208
IBNR	-1 835	-1 137
impairment allowances	-30 898	-22 123
individually assessed	-21 430	-16 509
collectively assessed	-9 468	-5 614
Corporate segment	272 492	69 825
unimpaired	74 890	29 947
impaired	265 175	79 624
IBNR	-4	-5
impairment allowances	-67 569	-39 741

(in PLN '000)

individually assessed	-66 835	-39 644
collectively assessed	-734	-97
Total	**392 951**	**191 272**

Loans and advances to customers subject to forbearance practices	As at 31.12.2014	As at 31.12.2013
impaired	245 550	65 967
including the amount of collateral	183 145	28 664
unimpaired	147 401	125 304
including the amount of collateral	69 859	58 147
not overdue	67 281	37 791
overdue	80 120	87 513
Total	**392 951**	**191 272**

Loans and advances to customers subject to forbearance by region	As at 31.12.2014	As at 31.12.2013
dolnośląski	14 966	12 869
kujawsko-pomorski	20 303	11 787
lubelski	4 452	4 247
lubuski	19 053	1 676
łódzki	23 809	27 555
małopolski	177 938	17 115
mazowiecki	61 308	55 325
opolski	1 885	1 848
podkarpacki	1 727	1 884
podlaski	2 154	2 647
pomorski	14 778	19 665
śląski	24 222	12 887
świętokrzyski	773	1 156
warmińsko-mazurski	1 216	1 731
wielkopolski	18 375	13 723
zachodniopomorski	5 991	5 156
Total	**392 951**	**191 271**

Change in the carrying amount of loans and advances to customers subject to forbearance practices	As at 31.12.2014	As at 31.12.2013
net carrying amount at the begining of the period	191 271	133 276
impairment allowance	-36 603	-14 994
gross carrying amount of loans and advances excluded during the period	-28 240	-42 023
gross carrying amount of loans and advances included during the period	275 816	128 186
other changes	-9 293	-13 174
Net carrying amount at the end of the period	**392 951**	**191 271**

In 2014 and 2013 the interest income from loans subject to forbearance practices amounted to PLN 24,360 thousand and PLN 12,827 thousand, respectively.

49. Operational risk

The purpose of managing the Bank's operational risk is to minimize its operational risk exposure. In accordance with the definition of the Basel Committee for Banking Supervision operational risks refer to possible losses resulting from failure to deploy internal processes, staff, systems or to external threats.
The Bank has a formalized operational risk management system according to which it counteracts operational events and incidents and mitigates losses if the risk materializes.
The principles and structure of operational risk management in the Bank are based on the Banking Law, the provisions of resolutions and recommendations issued by the Polish Financial Supervision Authority and the Bank's Operational Risk Management Policy approved by the Management Board and the Supervisory Board.
In its Operational Risk Management Policy the Bank specified – among other things – the operational risk management strategy, including the Bank's risk appetite, the operational risk management system and the principles for operational risk management, which cover:

- identification;
- assessment and measurement;
- counteracting;
- controlling;
- monitoring; and
- reporting operational risk.

The Bank uses the standard method to calculate the capital requirement in respect of operational risk.

The following operate under the Bank's risk operational management system: the Supervisory Board, the Management Board and the Operational Risk Committee.
The Management Board, which participates in Alior Bank's risk operational management process, is responsible for the correct functioning of the operational risk management and control processes, and specifically supports the process:

- by accepting the Bank's policy in this respect;
- by determining competences and segregation of duties in the operational risk management process;
- by appointing and approving the composition of the Operational Risk Committee;
- by approving the level of internal operational risk limits;
- by conducting regular assessment of the operational risk management process and the level of use of internal operational risk limits;
- by creating and developing an organizational structure in the area of effective operational risk management.

The Supervisory Board supervises the adopted strategy with reference to operational risk, which, among other things:

- approves the Management Board's competencies necessary to manage operational risk;
- approves the Policy specifying the overall operational risk management strategies;
- approves and assesses the pursuit of strategies and – if necessary – orders that it be revised;
- periodically assesses the level of risk on the basis of information submitted by the Bank's Management Board and Operating Risk Committee;
- recommends actions to be taken to mitigate risk or change the operational risk profile of the Bank.

The Operational Risk Committee advises and supports the Management Board in effective risk management. The Operational Risk Committee monitors the level of exposure to operational risk on a current basis and assesses the current operational risk position at Bank level. It also participates in the operational risk management process, among other things, by:

- assessing the operational risk of the Bank's projects;
- approving or recommending changes in business continuity plans;
- determining the scope of self-assessment of operational risk by the Bank;
- approving assumptions for conducting stress tests in respect of operational risk and their results.

It also issues the necessary recommendations and decisions to counteract operational issues, and if such are identified, mitigates their effects.

The process of mitigating operational risk is one of the most important elements of operational risk management as the decisions regarding the mitigation of this risk have a direct impact on its profile. On the basis of the recommendations of the Operational Risk Committee regarding the Bank's operating areas especially exposed to operational threats, the Bank's Management Board takes decisions on the Bank's further actions aimed at mitigating or accepting the operational risk, or on discontinuing operations which are exposed to operational risk. The Management Board may decide to insure the identified operational risk.

The Operational Risk Team is responsible for on-going control and monitoring of operational risk. This entity is also responsible for:

- developing and implementing appropriate operational risk methodologies and controls;
- giving opinions on and consulting the assessment of operational risk of the Bank's projects, products and procedures (new and modified);
- monitoring the level of use of internal operational risk limits;
- accumulating high quality data on events and operational results;
- monitoring internal and external events;<
- monitoring the level of the Bank's risk using the tools used by the Bank, such as the level of key risk indices (KRI) and self-assessment;
- preparing cyclic reports relating to the operational risk level at the Bank.

The duty to monitor and mitigate operational risk in day-to-day activities relates to all employees and organizational entities of the Bank. The Bank's employees control the risk level on a current basis in respect of the processes they are responsible for, and actively minimize the risk exposure, taking action to avoid/limit operating losses. They are responsible for current registration of events and financial operational effects relating to their areas of operation, they define and report the Key Risk Indicator (KRI) levels and the level of tolerance for processes especially exposed to operational risk, they also participate in the self- assessment process commissioned by the Operational Risk Committee.

<u>Recording events/incidents and operating losses</u>

The Bank records the events, incidents and operating losses, which enables it to effectively analyse and monitor operational risks in accordance with the internal

instruction specifying the recording principles. The records are maintained using the OpRisk system which supports operational risk management and which enables registering, analyzing and monitoring data.
In 2014 a total of 2212 operational losses were recorded with a total value of PLN 4,626 thousand. Compared with 2013 the value of operational losses was reduced by PLN 256 thousand. In 2014 the value of recoveries / operating income on operational risk amounted to PLN 629 thousand.

50. Capital management

The purpose of managing capital by the Bank is to maintain an appropriate amount of own funds and Tier 1 capital to cover risk at the required level, in accordance with the assumed risk appetite, at each moment of operation.
According to its risk appetite the Bank determines the expected levels of coverage of potential unexpected losses due to particular types of risk specified in the Regulation of the European Parliament and Council (EU) No. 575/2013 dated 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR Regulation) and particular types of risk identified under the internal capital adequacy assessment process (ICAAP). Potential unexpected losses are determined using regulatory capital according to the methodology specified in the CRR Regulation and using internal capital determined using the methodology described below.

Capital management responsibility

The Bank's Supervisory Board, the Management Board, and the Risk Management Committee and ICAAP take an active role in capital management.

Competencies of the Supervisory Board

- approval of procedures related to the internal capital estimation, capital management and capital planning.

Competencies of the Management Board

- preparation and implementation of the internal capital estimation processes;
- preparation and implementation of capital management processes;
- preparation and implementation of capital planning processes;
- regular ICAAP reviews;
- analysis of ICAAP reports (monitoring of capital targets and risk profile);
- supervision over the ICAAP process.

Competencies of the Risk Management Committee and ICAAP:

- Supervising the ICAAP process in the Bank, including the process of risk review and assessing the internal capital to cover material risks;
- Monitoring capital goals, limits of capital allocation and limits for the solvency ratio and Tier 1 ratio;
- Giving opinions on ICAAP process reviews.

(in PLN '000)

Capital adequacy measures

The Bank's basic tools for capital management include:
1. The solvency ratio and Tier1 ratio;
2. Analysis of the regulatory capital requirement; and
3. Internal capital (ICAAP) and the ratio of covering internal capital with own funds.

50.1 Capital adequacy ratio

As at 31 December 2014, the capital adequacy ratio and Tier 1 ratio were calculated in accordance with the Regulation of the European Parliament and Council (EU) No. 575/2013 dated 26 June 2013 on prudential requirements for credit institutions and investment firms ("CRR Regulation"). Until the date of these financial statements part of the regulations relating to determining own funds and capital requirements (the so-called "national options") were not addressed or published by a Polish authority or public body authorized to supervise credit institutions and investment firms. A conservative approach was adopted to calculating the capital adequacy ratio in the non-regulated area; this related, among other things, to percentage amounts in the transition period and the risk weights in respect of foreign currency exposures secured with mortgages, for which this approach was indicated by the PFSA as potential "national options". it should be emphasized that if "national options" were determined and published, the Bank's capital adequacy as at 30 September 2014 could differ from that published in these financial statements.
As at 31 December 2013 own funds and capital requirements were calculated pursuant to Art. 128 of the Banking Law Act of 29 August 1997, as amended.

Calculation of funds and capital adequacy ratio	As at 31.12.2014	As at 31.12.2013
Total own funds for the capital adequacy ratio	**2 965 852**	**2 324 302**
Common equity Tier I capital	**2 603 420**	**1 982 991**
Tier II capital	**362 432**	**341 311**
Share paid	699 784	635 830
Supplementary capital components	1 775 397	1 434 712
Other capital	184 167	176 792
Current year's reviewed by auditor	169 589	219 752
Result from previous years reviewed by auditor	0	-275 382
Revaluation reserve – unrealized losses	-6 642	-18 455
Intangible assets at carrying amount	-214 589	-188 049
Revaluation reserve – unrealized gains	0	1 177
Subordinated liabilities	362 432	340 134
The Bank's capital exposure to financial institutions	0	-2 209
Additional valuation adjustments	-4 286	0
Capital requirements	**1 845 697**	**1 543 111**
Capital requirements for the following risks: credit, counterparty, credit valuation adjustment, dilution and delivery of instruments to be settled at a later date	1 659 221	1 398 651
Total capital requirements for the following risks: equity instrument price risk, debt instrument price risk, commodity prices and FX risk	1 657	2 431
Capital requirement for general interest rate risks	26 207	25 766
Capital requirements for operating risk	158 612	116 263
Tier 1	**11,28%**	**10,28%**
Capital adequacy ratio	**12,86%**	**12,05%**

(in PLN '000)

Balance sheet and off balance sheet exposures in credit risks, by classes

	31.12.2014		31.12.2013	
Exposure class in the standard method	**Exposure value**	**Risk weighted exposure value**	**Exposure value**	**Risk weighted exposure value**
Governments and central banks	4 208 722	374 800	4 118 192	15 485
Institutions	1 119 106	476 326	715 099	278 509
Enterprises	5 320 213	2 730 101	3 993 551	3 993 551
Retail	12 084 887	6 281 313	7 699 944	5 822 565
Secured on real estates	12 629 468	7 928 143	7 588 284	6 027 867
Other	3 607 913	2 851 236	1 939 875	1 345 146
Total	**38 970 309**	**20 641 919**	**26 054 945**	**17 483 123**

Primary balance sheet exposure value in credit risks, by exposure types

Exposure type	31.12.2014	31.12.2013
Cash in hand and equivalent items	226 085	196 648
Securities	3 568 566	3 388 279
Loans	25 423 755	20 930 349
Property, plant and equipment	191 835	215 121
Intangible assets	214 589	188 049
Other	842 056	623 946
Total	**30 466 886**	**25 542 392**

Pursuant to the Delegated Commission Regulation (EU) No 183/2014 dated to 20.12.2013 the exposure as at 31.12.2014 includes adjustments for general and specific credit risk included in Tier I.

50.2. Analysis of the regulatory capital requirement

In calculating its capital adequacy ratios, the Bank analyses the capital requirement regulatory level and the relation of its own funds against the internal capital. The analysis consists in comparing actual values to budget values and explaining the possible differences: whether they are caused by other than the planned scale of the Bank's activity (especially the loan portfolio size) or other than planned asset risk profile. During 2014, the Bank's equity exceeded the total capital requirement.

Accounting for risk in the assessment of the goals to be met by business units

The Bank's business model defines the goal to be met by particular business units as profitability with elements of risk assessment (expected losses) and costs of capital. Costs of capital are understood as the product of the Bank's assumed RoE and the amount of regulatory capital which arose as a result of the operations of the given unit.

50.3. Internal capital

Under the ICAAP process the Bank identifies and assesses the materiality of all types of risks to which it is exposed in connection with its operations.

Material types of risk as at 31 December 2014:

1. credit risk – insolvency;
2. credit risk – industry concentration;
3. credit risk – counterparty concentration;
4. credit risk – currency concentration;
5. operational risk;
6. liquidity risk;
7. interest rate risk in respect of the banking book;
8. market risk;
9. model risk;
10. reputation risk;
11. business risk.

The Bank assesses internal capital to offset particular risks identified as material using internal risk assessment models. Internal capital is estimated for:

- credit risk based on the CreditRisk+ methodology as 99.95 quantile of the distribution of losses on the credit portfolio;
- market risk and interest rate risk in the banking book based on VaR methodology;
- liquidity risk based on the liquidity gap model on the assumption of stress conditions;
- operational risk based on the model accounting for the rate of return on assets in the banking sector.

The total designated internal capital is secured by the value of available capital in consideration of appropriate safety buffers, in accordance with the assumed risk appetite.

50.4 CRD IV/CRR package

As at 31 December 12014 the Bank fully implemented the provisions of the CRR Regulation in respect of capital management, including own fund accounts and calculating capital requirements relating to particular risks.

Signatures of all Members of the Management Board

26.02.2015	Wojciech Sobieraj President	.... Signature
26.02.2015	Krzysztof Czuba Vice-President	.... Signature
26.02.2015	Michał Hucał Vice-President	.... Signature
26.02.2015	Witold Skrok Vice-President	.... Signature
26.02.2015	Katarzyna Sułkowska Vice-President	.... Signature