Financial statements of Alior Bank Spółka Akcyjna

as at and for the year ended 31 December 2015

Selected financial data relating to the financial statements

	In PLN '000		
	1.01.2015 - 31.12.2015	1.01.2014- 31.12.2014	% (A-B)/B
	A	B	C
Net interest income	1 496 696	1 214 452	23.2%
Net fee and commission income	331 629	348 014	-4.7%
Trading result & other	330 850	319 540	3.5%
Net impairment allowance and write-downs	-671 772	-546 590	22.9%
General administrative expenses	-1 098 821	-922 158	19.2%
Profit before tax	388 582	413 258	-6.0%
Net profit	311 415	337 030	-7.6%
Total net cash flow	745 939	204 600	264.6%
Loans and advances to customers	30 913 990	23 647 990	30.7%
Amounts due to customers	33 674 676	24 430 968	37.8%
Total equity	3 519 267	3 017 804	16.6%
Total assets	40 009 419	30 168 078	32.6%
Selected ratios			
Basic earnings per share (PLN)	4.32	4.82	-10.4%
Capital adequacy ratio	12.54%	12.86%	-2.5%
Tier 1	9.68%	11.28%	-14.2%

	In EUR '000		
	1.01.2015 - 31.12.2015	1.01.2014- 31.12.2014	% (A-B)/B
	A	B	C
Net interest income	357 651	289 894	23,4%
Net fee and commission income	79 246	83 072	-4,6%
Trading result & other	79 060	76 275	3,7%
Net impairment allowance and write-downs	-160 527	-130 473	23,0%
General administrative expenses	-262 574	-220 122	19,3%
Profit before tax	92 856	98 646	-5,9%
Net profit	74 416	80 450	-7,5%
Total net cash flow	178 250	48 839	265,0%
Loans and advances to customers	7 254 251	5 548 176	30,8%
Amounts due to customers	7 902 071	5 731 874	37,9%
Total equity	825 828	708 022	16,6%
Total assets	9 388 577	7 077 887	32,6%
Selected ratios			
Basic earnings per share (EUR)	1,03	1,15	-10,3%
Capital adequacy ratio	12,54%	12,86%	-2,5%
Tier 1	9,68%	11,28%	-14,2%

The following exchange rates were applied in order to translate the selected items of the consolidated financial statements into EUR:

a) as at 31.12.215

- balance sheet items - at the average EUR exchange rate expressed in PLN, announced by the NBP as at 31.12.2015 - 4.2615;
- income statement and 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 as at the end of each month - 4.1848;

b) 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 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 as at the end of each month - 4.1893;

Table of contents

(in PLN '000)

Income statement

	Note	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Interest income		2 395 168	2 048 441
Interest expenses		-898 472	-833 989
Net interest income	**4**	**1 496 696**	**1 214 452**
Dividend income		**74**	**25 554**
Fee and commission income		545 655	533 478
Fee and commission expenses		-214 026	-185 464
Net fee and commission income	**5**	**331 629**	**348 014**
Trading result	**6**	**268 576**	**254 906**
Net result on other financial instruments	**7**	**12 923**	**7 928**
Other operating income		79 492	51 077
Other operating expenses		-30 215	-19 925
Net other operating income	**8**	**49 277**	**31 152**
General administrative expenses	**9**	**-1 098 821**	**-922 158**
Net impairment allowance and write-downs	**10**	**-671 772**	**-546 590**
Profit before tax		**388 582**	**413 258**
Income tax expense	**11**	-77 167	-76 228
Net profit		**311 415**	**337 030**
Net profit		**311 415**	**337 030**
Weighted average number of ordinary shares		**72 088 316**	**69 928 230**
Basic earnings per share (in PLN)	**12**	**4.32**	**4.82**
Diluted earnings per share (in PLN)	**12**	**4.15**	**4.61**

Statement of comprehensive income

	Note	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Net profit		**311 415**	**337 030**
Taxable other comprehensive income to be credited to the net profit / (loss) after the required conditions have been satisfied		**-6 211**	**38 203**
Results of the measurement of financial assets available for sale	27.2	-626	7 559
Profit/ (loss) on valuation of financial assets available for sale		-773	9 332
Deferred tax	11	147	-1 773
Results of the measurement of hedging instruments (net)	25.7	-5 585	30 644
Loss / gain on valuation of hedging instruments		-6 895	37 832
Deferred tax	11	1 310	-7 188
Total net comprehensive income		**305 204**	**375 233**

(in PLN '000)

Statement of financial position

ASSETS	Note	As at 31.12.2015	As at 31.12.2014
Cash and balances with the central bank	13	1 750 135	1 158 440
Financial assets held for trading	24	390 569	476 821
Available-for-sale financial assets	14	4 253 119	2 652 125
Derivative hedging instruments	25	139 578	80 205
Amounts due from banks	16	642 540	446 993
Loans and advances to customers	15	30 913 990	23 647 990
Assets pledged as collateral	32	628 332	927 191
Property, plant and equipment	17	227 633	191 835
Intangible assets	18	379 820	214 589
Investments in subsidiaries		21 975	5 644
Assets held for sale		888	908
Deferred tax asset	11	274 015	146 939
Other assets	19	386 825	218 398
TOTAL ASSETS		**40 009 419**	**30 168 078**

LIABILITIES AND EQUITY	Note	As at 31.12.2015	As at 31.12.2014
Financial liabilities held for trading	24	310 180	349 033
Amounts due to banks	21	1 051 028	1 049 162
Amounts due to customers	20	33 674 676	24 430 968
Derivative hedging instruments	24	0	4 777
Provisions	22	9 801	8 311
Other liabilities	23	526 393	741 875
Current income tax liabilities		21 776	24 553
Subordinated liabilities	26	896 298	541 595
Total liabilities		**36 490 152**	**27 150 274**
Equity	27	**3 519 267**	**3 017 804**
Share capital		727 075	699 784
Supplementary capital		2 280 668	1 775 397
Revaluation reserve		15 215	21 426
Other reserves		184 894	184 167
Profit for the year		311 415	337 030
TOTAL LIABILITIES AND EQUITY		**40 009 419**	**30 168 078**

(in PLN '000)

Statement of changes in equity

1.01.2015 - 31.12.2015	Share capital	Supplementary capital	Other reserve - Share-based payments	Revaluation reserve	Retained earnings/ accumulated losses	Net profit	Total equity
As at 1 January 2015	**699 784**	**1 775 397**	**184 167**	**21 426**	**0**	**337 030**	**3 017 804**
Transfer of the previous year result		**337 030**				**-337 030**	**0**
Comprehensive income	**-**	**-**	**-**	**-6 211**	**-**	**311 415**	**305 204**
Net profit				-		311 415	311 415
Other comprehensive income				-6 211			-6 211
Share-based payments			**727**				**727**
Share issue	**27 291**	**168 241**					**195 532**
Distribution of prior year result							**0**
As at 31 December 2015	**727 075**	**2 280 668**	**184 894**	**15 215**	**0**	**311 415**	**3 519 267**

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**

(in PLN '000)

Cash flow statement

	Note	1.01.2015- 31.12.2015	1.01.2014- 31.12.2014
Operating activities			
Profit before tax for the year		**388 582**	**413 258**
Adjustments:		**518 361**	**-740 288**
Unrealized foreign exchange gains/losses		-597	1 394
Dividends		74	-25 554
Amortization/depreciation of intangible and tangible assets		85 223	75 456
Change in tangible and intangible assets impairment write-down		7 249	5 253
Gains/(losses) on investments		0	99
Change in provisions		731	3 412
Share-based payments		727	7 375
Change in loans and other receivables	31.2	-4 355 141	-4 079 527
Change in financial assets available for sale		-1 283 273	-180 760
Change in financial assets held for trading		86 252	-233 530
Change in assets pledged as collateral		298 859	-68 106
Change in hedging assets derivatives		-59 373	0
Change in non-current assets held for sale		20	37 427
Change in other assets	31.4	2 462	120 648
Change in deposits		5 667 299	3 040 367
Change in issued debt		617 274	519 010
Change in financial liabilities held for trading		-39 113	164 943
Change in hedging liabilities derivatives		-4 777	4 777
Change in other liabilities and other comprehensive income	31.3	-334 063	-33 246
Tax paid		-166 548	-99 726
Net cash flow from operating activities		**906 943**	-327 030
Investing activities			
Outflows:		**-531 930**	**-83 513**
Purchase of property, plant and equipment	31.5	-98 797	-22 864
Purchase of intangible assets	31.6	-72 281	-56 005
Purchase of shares in subsidiaries, net of cash acquired		-360 852	-4 644
Inflows:		**310**	**25 694**
Dividend received		0	25 554
Disposal of property, plant and equipment		310	49
Disposal of shares in subsidiaries		0	91
Net cash flow from investing activities		**-531 620**	**-57 819**
Financing activities			
Outflows:		**-201 216**	**-192 520**
Repayment of long-term liabilities		-167 029	-219 940
Interest expense – loan received		0	654
Interest expense – subordinated loan		-34 187	26 766
Inflows:		**571 832**	**781 969**
Share issue		195 532	460 269
Inflows from the issuance of subordinated liabilities		376 300	321 700
Net cash flow from financing activities		**370 616**	**589 449**
Total net cash flow		**745 939**	**204 600**
incl. exchange gains/(losses)		**10 859**	**16 713**
Balance sheet change in cash and cash equivalents		**745 939**	**204 600**
Cash and cash equivalents, opening balance		**1 456 273**	**1 251 673**
Cash and cash equivalents, closing balance	31.1	**2 202 212**	**1 456 273**
Additional disclosures on operating cash flows			
Interest income received		2 077 930	1 745 303
Interest expense paid		-549 248	-476 567

Additional information to the financial statements

1. Information about the Bank

1.1 General information

Alior Bank Spółka Akcyjna ("the Bank") is registered address in Poland, ul. Łopuszańska 38D street, 02-232 Warsaw. The Bank is registered of businesses maintained with the District Court for the Capital City of Warsaw, 13th Business Department of the National Court Register under the number KRS 0000305178. The Bank was assigned a tax identification number NIP: 107-001-07-31 and the statistical number REGON: 141387142.

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

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 licence 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.

On 30 June 2015, the District Court in Warsaw, the 13th Business Department of the National Court Register registered the merger of Alior Bank S.A. with Meritum Bank ICB S.A. The merger was conducted on the basis of Art. 492 § 1.1 of the Commercial Companies Code by transferring the total assets of Meritum - the acquired company, to the Bank - the acquiring company (business combination by acquisition). A description of the transaction is presented in Note 30.

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. In accordance with its Articles 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 Bank's share of foreign customers in the total number of the customers is immaterial.

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 2015:

- Alior Lux S.a r. l. & Co S.C.A.;
- Powszechny Zakład Ubezpieczeń S.A. together with PZU Życie S.A.;
- Genesis Asset Managers LLP;
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK.

(in PLN '000)

Shareholders holding more than 5% of the Bank's shares as at 31.12.2015 and 31.12.2014

Shareholder	Number of shares/votes	Nominal value of shares [PLN]	Interest in share capital	Share in total number of votes
31 December 2015				
PZU S.A. (together with PZU Życie S.A.)	14 517 147	145 171 470	19.97%	19.97%
Genesis Asset Managers LLP	5 093 922	50 939 220	7.00%	4.79%
Alior Lux S.a r.l. & Co. S.C.A.	3 828 673	38 286 730	5.27%	5.27%
Aviva OFE Aviva BZ WBK	3 806 451	38 064 510	5.23%	5.23%
Other shares	45 461 270	454 612 700	62.53%	64.74%
Total	**72 707 463**	**727 074 630**	**100%**	**100%**
31 December 2014				
Alior Lux S.a r.l. & Co. S.C.A. (together with 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%
Other shareholders	42 192 214	421 922 140	60.29%	60.29%
Total	**69 978 366**	**699 783 660**	**100%**	**100%**

On 30 May 2015, the Bank's Management Board was notified about concluding a preliminary agreement for the sale of 18,318,473 shares of the Bank representing 25.26% of the Bank's share capital, between Alior Lux S.a.r.l & Co. S.C.A. with its seat in Luxembourg ("Alior Lux") and Alior Polska Sp. z o.o. with its seat in Warsaw (Carlo Tassara S.p.A. Group entities) on the one hand, and Powszechny Zakład Ubezpieczeń SA with its seat in Warsaw ("PZU") on the other.

In accordance with the received notification, PZU will buy the Bank's shares in three tranches when the terms and conditions defined in the agreement are satisfied:

1. in the first tranche, PZU acquired 6,744,900 shares of the Bank held by Alior Lux and 500,000 shares held by Alior Polska Sp. z o.o.;
2. in the second tranche, PZU acquired 7,244,900 shares of the Bank held by Alior Lux;
3. in the third tranche, PZU will acquire 3,828,673 shares of the Bank held by Alior Lux.

Each tranche will be executed 70 days after the execution of the preceding tranche. The agreement was concluded on the condition that the required consents for the transaction will be obtained from the Polish Financial Supervision Authority (PFSA), the President of the Polish Office for Competition and Consumer Protection (UOKiK) and the Ukrainian Anti-Monopoly Committee. If the said consents are not obtained, the agreement will expire on 31 March 2016.

On 5 August 2015, the President of UOKiK granted consent to the concentration between PZU and the Bank.

On 2 September 2015, the Management Board of PZU learned that the Ukrainian Anti-Monopoly Committee granted consent for the purchase of the Bank's shares by PZU resulting in PZU holding more than 25% of the votes in the Bank's governing body.

On 6 October 2015, the Management Board of PZU learned that PFSA found no reason to object to the planned purchase of the Bank's shares by PZU resulting in PZU holding more than 20% of the votes at the Bank's General Shareholders' Meeting.

As a result of the said decisions, the conditions precedent for the agreement concluded on 30 May 2015 between PZU and the Bank's shareholders, i.e. the companies Alior Lux and Alior Polska Sp. z o.o., have been fulfilled. Under the agreement, when the conditions precedent have been satisfied, PZU will buy 18,318,473 of the Bank's shares representing approx. 25.26% of the Bank's share capital and the total number of votes at the General Shareholders' Meeting.

On 12 October 2015, the Bank's Management Board received a notification pursuant to Art. 69 of the Public Offering Act on the change in PZU's share in the total number of votes at the General Shareholders' Meeting. In accordance with the notification, as a result of the transaction of 9 October 2015 (settled on 12 October 2015), PZU and its subsidiary PZU Życie SA jointly held 7,272,247 of the Bank's shares representing 10.002% of the votes at the General Shareholders' Meeting.

On 18 and 21 December 2015, the Management Board received notifications pursuant to Art. 69 of the Public Offering Act on the change in the shares of PZU and Alior Lux in the total number of votes at the General Shareholders' Meeting. In accordance with the notifications, as a result of the transaction of 17 December 2015 (settled on 18 December 2015), PZU and its subsidiary PZU Życie SA jointly held 14,517,147 of the Bank's shares representing 19.97% of the votes at the General Shareholders' Meeting which, due to the fragmentation of other shareholders, provides the ability to exercise control over the Bank. After the said transaction, Alior Lux holds 3,828,673 of the Bank's shares representing 5.27% of the votes at the General Shareholders' Meeting.

On 2 December 2014, the General Shareholders' Meeting of the Bank passed a resolution on the conditional increase of the Bank's share capital by issuing H series ordinary bearer shares, at the same time depriving the current shareholders of the Bank of all pre-emptive rights, on the issue of D series subscription warrants, at the same time depriving the current shareholders of the Bank of all pre-emptive rights, and on changing the Bank's Articles of Association. The said resolution concerned a conditional increase in the Bank's share capital by issuing up to 2,355,498 H series ordinary bearer shares with a value not exceeding PLN 23,554,980. 2,355,498 shares were registered with the Central Securities Depository of Poland (KDPW) on 25 February 2015.

Moreover, the Bank's share capital was increased in the reporting period by issuing 373,599 D series ordinary bearer shares with a total nominal value of PLN 3,735,990. The issue was based on partial settlement of the Incentive Scheme. On 30 March 2015, 187,744 of the Bank's shares were registered with KDPW; on 22 June 2015, 159,588 of the Bank' shares were registered, and on 28 September 2015 26,267 shares were registered with KDPW. The above-mentioned capital increases were registered by the court.

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

As at 31 December 2015, the composition of the Bank's Management Board was as follows:

(in PLN '000)

Wojciech Sobieraj	President of the Management Board
Małgorzata Bartler	Vice-President of the Management Board
Krzysztof Czuba	Vice-President of the Management Board
Joanna Krzyżanowska	Vice-President of the Management Board
Witold Skrok	Vice-President of the Management Board
Barbara Smalska	Vice-President of the Management Board
Katarzyna Sułkowska	Vice-President of the Management Board

On 25 June 2015, the Bank's Supervisory Board passed resolution no. 46/2015 on appointing Ms. Joanna Krzyżanowska to the Management Board as Deputy CEO as of the date of registration of the Bank's business combination with Meritum Bank ICB S.A. in the National Court Register.

On 14 October 2015, Mr Michał Hucał resigned as a Management Board Member and Vice-President of the Bank responsible for the Development Department. Until 31 December 2015, Mr Michał Hucał performed the function of Advisor to the Bank's Management Bard.

At the same time, the Bank's Supervisory Board appointed Ms Małgorzata Bartler and Ms Barbara Smalska to the Bank's Management Board as Vice-Presidents of the Board. Ms Małgorzata Bartler will be responsible for development of the HR management strategy (she will supervise the HR Department). Ms Barbara Smalska will manage the Technology and Development Department.

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

As at 31 December 2015, the composition of the Bank's Supervisory Board was as follows:

Helene Zaleski	**- President of the Supervisory Board**
Przemysław Dąbrowski	- Vice-President of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	- Supervisory Board Member
Sławomir Dudzik	- Supervisory Board Member
Niels Lundorff	- Supervisory Board Member
Marek Michalski	- Supervisory Board Member
Sławomir Niemierka	- Supervisory Board Member
Krzysztof Obłój	- Supervisory Board Member

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
Sławomir Dudzik	- Supervisory Board Member
Niels Lundorff	- Supervisory Board Member
Marek Michalski	- Supervisory Board Member
Krzysztof Obłój	- Supervisory Board Member
Stanisław Popów	- Supervisory Board Member

On 22 December 2015, Mr Stanisław Popów resigned as a Supervisory Board Member. He handed in his resignation to the Extraordinary General Shareholders' Meeting, which on 22 December 2015 resumed its session, originally held on 30 November 2015 and then adjourned.
Moreover, the Extraordinary General Shareholders' Meeting convened for 30 November 2015 and resumed on 22 December 2015 appointed Mr Przemysław Dąbrowski and Mr Sławomir Niemierka to the Supervisory Board.

1.5 Approval of the annual financial statements

The separate financial statements of Alior Bank Spółka Akcyjna for the financial year ended 31 December 2014 were approved for publication by the Bank's Management Board on 26 February 2015.

These financial statements of Alior Bank Spółka Akcyjna were approved by the Bank's Management Board on 2 March 2016.

2. Accounting policies

2.1 Basis for preparation

Scope and comparatives
These financial statements cover the year ended 31 December 2015 and comprise the comparatives for the year ended 31 December 2014. 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 Alior Bank S.A. 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 the 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 initial recognition they are stated at historical cost less depreciation/amortization and impairment.

In 2015, the Bank decided to change the presentation of the net interest income/expenses on CIRS and IRS. Interest income and expenses related with these transactions are presented in net interest income/ (expenses), while in 2014 they were presented in the trading result. The purpose of this change was to ensure the consistency of the presented result with its economic substance.

Income statement item	Data for 2014 according to previous presentation	Change	Data for 2014 according to amended presentation
Interest income	1 698 198	350 243	2 048 441
Interest expense	-497 558	-336 431	-833 989
Net interest income	**1 200 640**	**13 812**	**1 214 452**
Trading result	**268 718**	**-13 812**	**254 906**

Statement of compliance
These financial statements of Alior Bank Spółka Akcyjna have been prepared in accordance with consistently applied the International Financial Reporting Standards (IFRS) as adopted by the European Union as at 31 December 2015, 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.

Going concern
The separate financial statements of 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 2015.

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

Presentation of financial statements
In the separate statement of financial position, the Bank presents assets and liabilities according to the liquidity criterion. The Bank does not offset income and expenses, unless this is required or has been permitted by standards or interpretations.

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 consolidated 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.

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.
For the purposes of disclosures under IFRS 7, the Bank estimates the value of changes in the valuation of derivatives with a linear risk profile assuming a parallel shift in yield curves. For this purpose, the Bank constructs yield curves based on market data. The Bank analyses the effect of a change in yield curves on the transaction valuation for the following scenarios:

For a portfolio of derivatives with a linear risk profile not covered by hedge accounting

Estimated valuation change [in PLN '000]	31.12.2015		31.12.2014	
	scenario +50bp	scenario -50bp	scenario +50bp	scenario -50bp
IRS	-5 888	5 888	-7 331	7 331
CIRS	-432	432	-451	451
other instruments	-1 260	1 260	-1 041	1 041
Total	-7 580	7 580	-8 823	8 823

Instruments covered by hedge accounting

Estimated valuation change [in PLN '000]	31.12.2015		31.12.2014	
	scenario +50bp	scenario -50bp	scenario +50bp	scenario -50bp
IRS	-44 255	44 255	-45 056	45 056
Total	-44 255	44 255	-45 056	45 056

Impairment of loans and advances to 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 may differ 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 maintaining 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 increases/decreases in cash flows (including cash flows from execution of hedges) on impairment of the portfolio of loans and advances measured individually by the Bank is presented in the following table (in millions PLN):

	31.12.2015		31.12.2014	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
The estimated change in impairment of loans and advances resulting from a change in the present value of estimated cash flows for loans and advances measured individually by the Bank	-40.24	102.43	-64.69	132.84

The effect of increases/decreases in cash flows (including cash flows from execution of collateral) on impairment of the portfolio of loans and advances measured individually by the Bank is presented in the following table (in millions PLN):

	31.12.2015		31.12.2014	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
The estimated change in impairment of loans and advances resulting from a change in the present value of estimated cash flows for loans and advances measured by the Bank using group method	-62.01	73.83	-23.08	23.69

The effect of increases/decreases in PD parameter on change of IBNR allowance for losses incurred but not reported of loans and advances is presented in the following table (in millions PLN):

	31.12.2015		31.12.2014	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
The estimated change in impairment allowances for losses incurred but not reported (IBNR) of loans and advances resulting from a change in the value of PD LIP	16.46	-16.47	9.62	-9.62

A detailed description of estimated impairment write-downs is presented in Note 47.

Impairment of assets available for sale

For the purposes of disclosures under IFRS 7, the Bank estimates the value of changes in the valuation of available-for-sale debt instruments, assuming a parallel movement of the yield curves of 50bp. For this purpose, the Bank constructs yield curves based on market data. The Bank analyses the effect of a change in yield curves on the transaction valuation for the following scenarios:

Estimated change in evaluation [in PLN '000]	31.12.2015		31.12.2014	
	scenario +50bp	scenario -50bp	scenario +50bp	scenario -50bp
Available-for-sale financial assets	-14 387	14 387	3 651	-3 651
Total	-14 387	14 387	3 651	-3 651

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 used in 2015 and 2014 was based on the "relative fair value" model that best reflects the economic nature of such transactions. Bancassurance is described in detail in the description of accounting policies in Note 2.3.19.

Estimated sensitivity analysis of change in the revenues recognized by the Bank in 2015 related to income from bancassurance is as follows:
- Scenario of a 5 p.p. increase in the provision for withdrawals: - PLN 20.48 million (a decrease in interest income/(expense));
- Scenario of a 5 p.p. decrease in the provision for withdrawals: + PLN 20.10 million (an increase in interest income/(expense));
- Scenario of a 1 p.p. increase in revenue recognized on a one-off basis: + PLN 2.64 million (an increase in net commission income/(expense));
- Scenario of a 1 p.p. decrease in revenue recognized on a one-off basis: - PLN 2.64 million (a decrease in net commission income/(expense)).

Estimated change in the revenues recognized by the bank in 2014:
- Scenario: 5 p.p. increase in the provision for withdrawals: - PLN 15.39 million (a decrease in interest income/(expense));
- Scenario: 5 p.p. decrease in the provision for withdrawals: + PLN 15.08 million (an increase in interest income/(expense));
- Scenario: 1 p.p. increase in revenue recognized on a one-off basis: + PLN 3.51 million (an increase in net commission income/(expense));
- Scenario: 1 p.p. decrease in revenue recognized on a one-off basis: - PLN 3.51 million (a decrease in net commission income/(expense)).

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 Bank operates (“the functional currency”). The separate financial statements have been prepared in Polish zloty, and the amounts are given in thousands, unless otherwise indicated.

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 transactions and from 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/losses 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	2015	2014
Exchange rate as at the last day of the period	4.2615	4.2623
Arithmetic mean of the exchange rates as at the last day of each month in the period	4.1848	4.1893

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 (securities) 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 as at the date of establishment of the hedging relationship;
- 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 2015 and 31 December 2014, the Bank did not held financial assets classified in category of financial instruments classified upon initial recognition as valued at the fair value through profit or loss.

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.

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 may be 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 2015 and 31 December 2014, 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 and other loans and advances to customers classified in this category.

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 2015 and 31 December 2014, this category comprised amounts due to banks, 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 fair value through equity (other comprehensive income). Upon the 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 the 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.

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/ unused obligations to provide financing
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 and obligations of the Bank to provide financing unused by customers are measured at the fair value. After initial recognition, they are measured 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 Derecognition of financial assets and liabilities

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 have been 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 it 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. Which to a limited extent use data specific to the Bank. 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 listed on the Warsaw Stock Exchange	Daily	income statement

The Bank 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 28.

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 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 the 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 uses cash flow hedge accounting. A detailed description of hedge accounting is presented in Note 25.

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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- 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 yet be determined;
- 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 45.

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 consolidated 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;
- high effectiveness of the hedge is expected, 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 in the books of account in the following manner:

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 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.

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 the 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 general administrative 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 with the purchase of software licence and development of a licence or module for 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 the 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.

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 is analysed for impairment as at each balance sheet date (31 December) or earlier, if any indications of impairment have been identified.

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 general administrative 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 for 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, the employee turnover ratio and risk of death and other. The basis for the 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 the 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 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 the valuation of employee benefits 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 Shareholders' 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 the 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 reserves
Other reserves are created out of profit appropriations. They are 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 Financial result

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 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, including a part of insurance commission, and expenses, including external and internal incremental costs) which are an integral part of the effective interest rate.
The effective interest rate method is a method for calculating the amortized cost of a financial asset or a financial liability and allocating the interest income and interest expenses. 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 interest income and interest expense including the effective portion of cash flow hedges. 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 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 (provided that they are rendered regularly).

Bancassurance

The Bank allocates income obtained from the 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 mediation 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" (which is periodically updated) is recognized after deducting a part of the commission for covering expected returns of commission due to customer resignation or termination of insurance - as follows:

- a part of commission - from 9% (for loan products) to 25.5% (for mortgage products) - is credited to fee and commission income on a one-off basis

- a part of commission - from 45% (for loans) to 70.3% (for mortgage products and Consumer Finance loans) is deferred on customer accounts

The remaining part of deferred commission - as a provision for reimbursement of deferred commission recognized up front - between 4% (for mortgage products) and 45% (for loan products).
The provision related to anticipated Customers' withdrawals or resignations from insurance as at 31.12.2015 amounted to PLN 94 045 thousand. In 2014, the Bank used the same accounting policy.

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 at the effective interest rate.

Additionally, based on group insurance contracts, the Bank enables the Customers to avail themselves of insurance cover for products other than those related to the 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 with 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, is recognized on a one-off basis in the income statement at the moment of concluding the transaction in the part relating to the sale intermediation service provided, and deferred on the straight-line basis or recognized in the income statement on a one-off basis in the part relating to subsequent service, if the remuneration for such services is received regularly.

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, over hedge 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, result on interest rate options (cap/floor). The result does not include interest income and expense on IRS and CIRS transactions. 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 the events in the area of operating risk,

making claims, and managing third party assets. Income received is recognized in the income statement on a one-off basis. In the case of income from managing third party assets, one-off recognition in the income statement depends on the monthly settlement.

2.3.20 Taxation

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 income tax for the current and prior periods are measured at the amounts of the expected payment to the tax authorities (or 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 values and carrying amounts 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 unrecorded 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 crystallize or the provision will be reversed, 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.

2.3.21 Business Combinations under common control

In accordance with IFRS 3 Business Combinations, Implementation guidelines items B1-B4 business combination under common control is a combination of entities being under control of the same parent company, where such control is present both before and after the transaction and is not transitory.

Transactions under common control are excluded from IFRS 3. According to accounting policy adopted by the Bank with respect to IAS8 item 10, for settlement of the legal merger of the parent company with its subsidiary, the accounting principle is the use of so-called "predecessor value" method ("predecessor accounting"), which is the recognition of the acquired subsidiary at carrying amount of assets and liabilities recognized in the consolidated financial statements of the Alior Bank SA Group ("the Group") for such subsidiary, including the goodwill arising on acquisition of the subsidiary.

2.4 Changes in accounting policies

Changes in accounting standards
Accounting (policies) rules applied in preparing these financial statements are consistent with those applied in preparing the financial statements for the year ended 31 December 2014, with the exception of adopting the following amendments to standards and new interpretations, effective for financial statements prepared in accordance with the IFRS for annual periods starting on or after 1 January 2015:

- Annual improvements to IFRS 2011-2013
  The International Accounting Standards Board in December 2013 issued "Annual improvements to IFRS 2011-2013", concerning changes to 4 standards. The improvements include changes in presentation, recognition and measurement, as well as terminology and editorial changes.

  The above-mentioned improvements have a presentation and editorial character only – lack of material impact on the financial statements of the Bank.

- IFRIC 21 "Levies"

The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

In practice, for banks in Poland, IFRIC 21 applies to fees paid by banks to the Bank Guarantee Fund, that is, annual fee and prudential fee. The above-mentioned amendments have no impact on the annual financial statements of the Bank.

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:

- IFRS 9 "Financial Instruments" - applicable to annual periods starting on or after 1 January 2018 – by the date of approving these financial statements, not adopted by the EU;

  The main amendments introduced by the standard:

  • Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

  Classification for financial assets is driven by the entity's business model and the characteristics of the cash flows generated by these assets. If a financial asset is held to collect, it may be carried at amortised cost if the contractual cash flows represent solely payments of principal and interest (SPPI) requirement. Financial assets that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

  Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

  • Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  • IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or

lifetime ECL for held for trading financial assets). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL. The model includes operational simplifications for lease and trade receivables.
• Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The above-mentioned amendments will have a material impact on the process for recognition of impairment losses of receivables. The Bank is currently assessing the impact of the new standard on its financial statements.

- IFRS 15 "Revenue from Contracts with Customers" - applicable to annual periods starting on or after 1 January 2018 – by the date of approving these financial statements, not adopted by the EU;
  The principles set out in IFRS 15 will apply to all contracts resulting with revenues. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, according to the new standard variable amounts are included in the revenues, if they are not at significant risk of reversal due to revaluation. Moreover, according to IFRS 15, costs incurred to obtain and secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.
  The above-mentioned amendments may result in changes in the settlement of deferred revenue and will require additional disclosures in the financial statements.

- IFRS 16 "Leases" - applicable to annual periods starting on or after 1 January 2019 – by the date of approving these financial statements, not adopted by the EU;

  The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset and liability due to its payment obligation. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

  The above-mentioned amendments will have an impact on the financial statements of the Bank. The amendments will be applied after adoption of IFRS 16 by the EU.

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 and will not have a significant effect on the financial statements of the Bank:

- IFRS 14 "Regulatory Deferral Accounts" – applicable to annual periods starting on or after 1 January 2016 – by the date of approving these financial statements, not adopted by the EU;

- Amendments to IFRS 11 relating to the acquisition of an interest in a joint operation - applicable to annual periods starting on or after 1 January 2016 – by the date of approving these financial statements, not adopted by the EU;

- Amendments to IAS 16 and IAS 38 relating to amortization and depreciation - applicable to annual periods starting on or after 1 January 2016 – by the date of approving these financial statements, not adopted by the EU;

- Amendments to IAS 27 relating to equity method in separate financial statements - applicable to annual periods starting on or after 1 January 2016 – by the date of approving these financial statements, not adopted by the EU;

- Amendments to IFRS 10 and IAS 28 relating to sale or contribution of assets between an investor and its associates or joint ventures, applicable to annual periods starting on or after 1 January 2016 – by the date of approving these financial statements, not adopted by the EU;

- Annual improvements to IFRS 2012-2014, relate to 4 standards: IFRS 5, IFRS 7, IAS 19 and IAS 34 – applicable to annual periods starting on or after 1 January 2016 – by the date of approving these financial statements, not adopted by the EU;

- Amendments to IAS 1 - applicable to annual periods starting on or after 1 January 2016 – by the date of approving these financial statements, not adopted by the EU;

- Amendments to IFRS 10, IFRS 12 and IAS 28 relating to the exclusion from consolidation of investment entities - applicable to annual periods starting on or after 1 January 2016 – by the date of approving these financial statements not adopted by the EU;

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions - applicable to annual periods starting on or after 1 February 2015 – by the date of approving these financial statements, not adopted by the EU;

- Amendments to IAS 12 relating to the recognition of deferred income tax assets on unrealized losses - applicable to annual periods starting on or after 1 January 2017 – by the date of approving these financial statements, not adopted by the EU;

- Amendments to IAS 7: Disclosure Initiative - applicable to annual periods starting on or after 1 January 2017 – by the date of approving these financial statements, not adopted by the EU;

The Group does not expect the adoption of the above-mentioned standards and interpretations to have a significant influence on the accounting (policies) rules applied by the Group with the exception of amendments which will result from implementation of IFRS 9.

3. Operating segments

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

- retail segment;
- business segment;
- treasury activity;
- reconciling items.

The Bank provides services to retail (individual) and business customers, by offering them 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 less financing costs (a rate at which a branch makes settlements with the Treasury Department);
- commission income;
- income from treasury and foreign exchange transactions concluded by customers;
- other operating income and expenses.

(in PLN '000)

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 the distribution of investment fund units).

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

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

Reconciliation Items include:

- internal net interest income/(expenses) 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 commission income presented in business segments;
- 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 business segments.

Results and volumes by segments for the financial year ended 31 December 2015

Segment report	Retail customers	Corporate customers	Treasury	Total corporate segments	Reconciling items	Total Bank
External net interest income	**967 638**	**390 823**	**138 235**	**1 496 696**	**0**	**1 496 696**
external income	1 279 821	594 203	521 144	2 395 168	0	2 395 168
external expense	-312 183	-203 380	-382 909	-898 472	0	-898 472
Internal interest income	**51 319**	**10 779**	**-22 766**	**39 332**	**-39 332**	**0**
internal income	444 880	229 092	958 435	1 632 407	-18 748	1 613 659
internal expense	-393 561	-218 313	-981 201	-1 593 075	-20 584	-1 613 659
Net interest net income	**1 018 957**	**401 602**	**115 469**	**1 536 028**	**-39 332**	**1 496 696**
Fee and commission income	186 299	245 875	686	432 860	112 795	545 655
Fee and commission expense	-85 776	-1 101	-340	-87 217	-126 809	-214 026
Net fee and commission income	**100 523**	**244 774**	**346**	**345 643**	**-14 014**	**331 629**
Dividend income	**0**	**0**	**0**	**0**	**74**	**74**
Trading result	**-1 109**	**52 001**	**224 539**	**275 431**	**-6 855**	**268 576**
Net result on other financial instruments	**91 902**	**120 025**	**-199 434**	**12 493**	**430**	**12 923**
Other operating income	177 592	6 081	8	183 681	-104 189	79 492
Other operating expenses	-6 470	-215	-505	-7 190	-23 025	-30 215
Net other operating income	**171 122**	**5 866**	**-497**	**176 491**	**-127 214**	**49 277**
Total result before impairment allowance and write-downs	**1 381 395**	**824 268**	**140 423**	**2 346 086**	**-186 911**	**2 159 175**
Net impairment allowance and write-downs	**-478 134**	**-169 018**	**0**	**-647 152**	**-24 620**	**-671 772**
Total result after taking into account net impairment allowance and write-downs	**903 261**	**655 250**	**140 423**	**1 698 934**	**-211 531**	**1 487 403**
General administrative expenses	**-809 002**	**-286 972**	**-2 847**	**-1 098 821**	**0**	**-1 098 821**
Profit before tax	**94 259**	**368 278**	**137 576**	**600 113**	**-211 531**	**388 582**
Income tax	0	0	0	0	-77 167	-77 167
Net profit (loss)	**94 259**	**368 278**	**137 576**	**600 113**	**-288 698**	**311 415**
Amortization/ depreciation						**-85 223**
Assets	24 110 839	15 601 765	22 799	39 735 404	274 015	**40 009 419**
Liabilities	23 465 925	12 995 213	7 238	36 468 376	21 776	**36 490 152**

(in PLN '000)

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

Segment report	Retail customers	Business customers	Treasury operations	Total business segments	Reconciling items	Total Bank
External net interest income	**732 790**	**368 390**	**112 288**	**1 213 468**	**984**	**1 214 452**
external income	999 626	539 403	508 429	2 047 458	983	2 048 441
external expenses	-266 836	-171 013	-396 141	-833 990	1	-833 989
Internal net 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 expenses	-408 755	-270 720	-982 919	-1 662 394	-6 298	-1 668 692
Net interest income	**785 380**	**367 304**	**131 803**	**1 284 487**	**-70 035**	**1 214 452**
Fee and commission income	225 602	190 557	1 504	417 663	115 815	533 478
Fee and commission expenses	-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**	**224 309**	**254 945**	**-39**	**254 906**
Net result 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 allowance and write-downs	**1 143 505**	**711 195**	**173 898**	**2 028 598**	**-146 592**	**1 882 006**
Net impairment allowance and write-downs	**-319 870**	**-226 047**	**0**	**-545 917**	**-673**	**-546 590**
Total result after taking into account net impairment allowance and write-downs	**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**
Profit before tax	**144 700**	**244 314**	**171 509**	**560 523**	**-147 265**	**413 258**
Income tax	0	0	0	0	-76 228	-76 228
Net profit	**144 700**	**244 314**	**171 509**	**560 523**	**-223 493**	**337 030**
Depreciation and amortization						**-75 813**
Assets	17 994 612	12 010 029	16 498	30 021 139	146 939	**30 168 078**
Liabilities	16 833 411	10 285 328	6 982	27 125 721	24 553	**27 150 274**

In 2015 the Bank changed the presentation of assets and liabilities for each segment to reflect the structure presented to members of the management and supervisory bodies of the Bank. Data for 2014 have been brought to comparability.

Income and expense are realized mostly within Poland.

(in PLN '000)

Notes to the income statement

4. Net interest income

4.1. Net interest income by entity	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Interest income	**2 395 168**	**2 048 441**
financial sector	397 219	437 458
non-financial sector	1 930 660	1 546 607
central and local government institutions	67 289	64 376
Interest expense	**-898 472**	**-833 989**
financial sector	-478 404	-484 971
non-financial sector	-415 289	-346 286
central and local government institutions	-4 779	-2 732
Net interest income	**1 496 696**	**1 214 452**

4.2. Net interest income by product	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Interest income	**2 395 168**	**2 048 441**
Interest income on financial instruments by category at amortized cost taking into account the effective interest rate	1 969 346	1 644 611
term deposits	241	156
loans	1 847 472	1 515 680
financial assets available for sale	91 393	95 610
debt purchased	27 381	31 590
other	2 859	1 575
Other interest income	425 822	403 830
current accounts	15 197	17 725
overnight deposits	1 309	729
derivatives	409 316	385 376
Interest expense	**-898 472**	**-833 989**
Interest expenses on financial instruments by category at amortized cost taking into account the effective interest rate	-489 506	-405 328
term deposits	-368 574	-297 036
transactions on securities with repurchase clause	-14 088	-20 283
cash hedges	-2 187	-3 669
own issue	-102 005	-81 148
other	-2 652	-3 192
Other interest expense	-408 966	-428 661
current deposits	-37 891	-58 606
derivatives	-371 075	-370 055
Net interest income	**1 496 696**	**1 214 452**

Interest income comprises mainly interest on loans and interest and discount on bonds. Interest expenses relate mainly to term deposits for retail banking customers.

In the years 2015 and 2014, interest income on loans with recognized impairment amounted to PLN 105,969 thousand and PLN 100,137 thousand.

(in PLN '000)

5. Net fee and commission income

	1.01.2015- 31.12.2015	1.01.2014- 31.12.2014
Fee and commission income	**545 655**	**533 478**
brokerage commissions	73 746	54 306
payment and credit cards service	89 911	105 629
revenue from bancassurance activity	94 622	157 563
loans and advances	66 347	59 203
maintaining bank accounts	85 333	51 367
transfers	36 307	32 099
cash operations	21 404	20 667
debt purchased	11 890	11 721
guarantees, letters of credit, collection, commitments	14 980	13 402
other commissions	51 115	27 521
Fee and commission expense	**-214 026**	**-185 464**
brokerage commissions	-3 888	-5 386
costs of card and ATM transactions, including costs of cards issued	-61 190	-56 210
insurance of bank products	-21 693	-16 298
commissions for access to ATMs	-24 256	-23 328
commissions paid under contracts for performing specific operations	-9 510	-15 992
costs of compensation, awards for customers	-17 513	-16 348
commissions paid to agents	-24 308	-13 744
assistance services for customers	-4 189	-6 814
costs of attracting customers	-19 552	-5 338
other commissions	-27 927	-26 006
Net fee and commission income	**331 629**	**348 014**

The Bank does not generate fees on fiduciary activities.

6. Trading result

	1.01.2015- 31.12.2015	1.01.2014- 31.12.2014
FX transactions	217 286	194 969
Interest rate transactions	49 582	57 717
Ineffective part of hedge accounting	1 084	194
Other instruments	624	2 026
Trading result	**268 576**	**254 906**

The result on foreign exchange transactions includes the results on: forex, swap (FX swap and CIRS with capital exchange), FX forward, currency options and the revaluation of assets and liabilities expressed in foreign currencies.
The result on interest rate transactions includes the results on: interest rate swaps, FRA, 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.

(in PLN '000)

7. Net result realized on other financial instruments

	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Available-for-sale financial assets	12 931	9 932
Own issues	-14	-2 028
repurchase income	570	424
repurchase losses	-584	-2 452
Investment certificates	6	0
Participation units	0	24
Net result realized on other financial instruments	**12 923**	**7 928**

8. Net other operating income

	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Other operating income on:	**79 492**	**51 077**
management of third party assets	7 630	13 875
received compensations, fines and penalties	1 668	135
income from contracts with business partners	15 705	4 706
sale of debt	7 734	59
reimbursement of costs of claim enforcement	20 073	17 001
reimbursement of fees by customers	14 844	7 460
received compensations	3 316	782
other	8 522	7 059
Other operating expenses on:	**-30 215**	**-19 925**
management of third party assets	-1 322	-2 672
paid compensations, fines and penalties	-4 860	-2 581
awards given to customers	-413	-682
paid compensations, settlements, complaints	-8 368	-2 113
fees and costs of claim enforcement	-8 456	-5 458
other	-6 796	-6 419
Net other operating income	**49 277**	**31 152**

9. General administrative expenses

	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Employee expenses	**-549 621**	**-520 052**
wages and salaries	-460 548	-429 242
remuneration-related charges	-80 131	-75 652
share-based payments	-727	-7 376
other	-8 215	-7 782
General and administrative expenses	**-457 779**	**-324 927**
IT costs	-44 856	-33 669
costs of rental and maintenance of buildings	-140 390	-142 278
marketing costs	-52 510	-38 502
training costs	-13 880	-12 269
costs of advisory services	-20 191	-18 305
Bank Guarantee Fund costs	-117 120	-28 162
costs of lease of fixed assets and intangible assets	-3 493	-4 870
costs of telecommunication services	-15 941	-14 969
costs of external services	-25 748	-16 390
other	-23 650	-15 513
Depreciation and amortization	**-85 223**	**-75 456**
property, plant and equipment	-50 922	-46 457
intangible assets	-34 301	-28 999
Taxes and fees	**-6 198**	**-4 836**
Total general administrative expenses	**-1 098 821**	**-925 271**

(in PLN '000)

The Bank leases passenger cars. All lease agreements concluded by the Bank are operating leases.

As at 31 December 2015, the Bank has 345 car lease agreements (with a 3-year lease term and fixed instalments). Additionally, in 2015 the Bank sub-leased 3 cars to employees.

Future liabilities from operating lease of cars by date of payment	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Up to 1 year	3 797	4 863
From 1 to 3 years	2 420	2 196
Total	**6 217**	**7 059**

The Bank is also a lessee of rented office space. 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). The Bank leases its premises for periods 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.

Future commitments under lease contracts by date of payment	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Up to 1 year	75 017	92 762
From 1 to 5 years	145 937	230 593
More than 5 years	15 335	8 931
Total	**236 289**	**332 286**

10. Net impairment allowance and write-downs

	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Impairment allowance on loans and advances to customers	-649 137	-468 699
financial sector	-5 995	-1 078
non-financial sector	-643 142	-467 621
retail customers	-446 218	-289 798
business customers	-196 924	-177 823
Debt securities – available for sale financial assets	-7 981	-2 174
IBNR for loans and advances to customers without impairment allowances	-1 726	-31 566
financial sector	-842	165
non-financial sector	-884	-31 731
retail customers	-1 683	-29 291
business customers	799	-2 440
Provision for off-balance sheet liabilities	-560	-957
Property, plant and equipment and intangible assets	-12 368	-4 896
Loss on the valuation of assets held for sale	0	-38 298
Net impairment allowance and write-downs	**-671 772**	**-546 590**

(in PLN '000)

11. Income tax

11.1 Recognized in the income statement	**1.01.2015-31.12.2015**	**1.01.2014-31.12.2014**
Current tax	161 210	92 465
current year	161 210	92 465
Deferred tax	-84 043	-16 237
temporary differences - origination and reversal	-84 043	-16 237
Total tax for accounting purposes recognized in the income statement	**77 167**	**76 228**

11.2 Effective tax rate calculation	**1.01.2015-31.12.2015**	**1.01.2014-31.12.2014**
Profit before tax	**388 582**	**413 258**
Income tax (19%)	**73 831**	**78 519**
Non-deductible costs	**14 398**	**8 214**
Representation costs	152	132
PFRON	1 140	1 098
Impairment losses on loans in the part not covered with deferred tax	4 047	4 469
Costs of provisions for management options	138	1 401
Prudential charge to BGF	7	0
Donations	4 843	24
Other	-6356	1 090
Non-taxable revenues	**-6 356**	**-6 995**
Release of loan impairment allowances in the part not covered with the deferred tax	-73	-11
Dividends received	0	-4 852
Other	-6 283	-2 132
Recognition of assets related to contribution of receivables	**-3 038**	**-3 510**
Other	**-1 668**	**0**
Accounting tax recognized in the income statement	**77 167**	**76 228**
Effective tax rate	**19.86%**	**18.45%**

11.3 Deferred tax assets and liability

Changes in temporary differences during the year

Deferred tax assets	**31.12.2014**	**Changes recognized in profit or loss**	**Changes recognized in equity**	**Changes recognized in goodwill (Meritum)**	**31.12.2015**
Deferred revenue	-99 302	-24 383	0	-21 130	-144 815
Interest charged on deposits	-17 294	-4 655	0	-4 823	-26 772
Interest / discount accrued on securities	-14 291	-14 934	0	0	-29 225
Negative valuation of securities	-2 888	-1 599	-874	-14	-5 375
Interest accrued on derivatives	-21 026	-2 557	0	-1	-23 584
Negative valuation of derivatives	-475 098	-193 705	-13 951	0	-682 754
Premium receivable on options	-11 255	-1 505	0	0	-12 760
Difference between the accounting and tax amortization/depreciation	0	253	0	-253	0
Provisions for deferred costs	-7 390	-15 255	0	-509	-23 154
Write-downs of receivables in respect of loans	-91 534	-43 664	0	-22 618	-157 816
Other provisions	-2 953	2 430	0	946	423
Assets recognized on contribution in kind of receivables	-10 381	-1 916	0	0	-12 297
Deferred tax assets	**-753 412**	**-301 490**	**-14 825**	**-48 402**	**-1 118 129**

(in PLN '000)

Deferred tax liability	31.12.2014	Changes recognized in profit or loss	Changes recognized in equity	Changes recognized in goodwill (Meritum)	31.12.2015
Interest accrued on interbank deposits	6	3	0	0	9
Interest accrued on loans	40 953	9 699	0	2 767	53 419
Interest / discount accrued on securities	5 455	4 129	0	28	9 612
Positive valuation of securities	126	-242	727	244	855
Interest accrued on derivatives	31 728	6 438	0	11	38 177
Positive valuation of derivatives	502 286	194 129	12 641	0	709 056
Difference between tax and accounting amortization/depreciation	20 543	3 788	0	3 776	28 107
Income accrued not received	5 376	-497	0	0	4 879
Deferred tax liability	**606 473**	**217 447**	**13 368**	**6 826**	**844 114**
Deferred tax – as per the balance sheet	**-146 939**	**-84 043**	**-1 457**	**-41 576**	**-274 015**

Deferred tax assets	31.12.2013	Changes recognized in profit or loss	Changes recognized in equity	Changes taken to goodwill (SKOK)	31.12.2014
Deferred revenue	98 530	636	0	136	99 302
Interest charged 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
Premium receivable on options	9 138	2 117	0	0	11 255
Provisions for deferred costs	2 735	4 615	0	40	7 390
Write-downs of receivables in respect of loans	58 791	32 743	0	0	91 534
Other provisions	1 529	1 423	0	1	2 953
Assets recognized on contribution in kind of receivables	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 recognized in profit or loss	Changes recognized in equity	Changes recognized in goodwill (SKOK)	31.12.2014
Interest accrued on interbank deposits	-3	79	0	-82	-6
Interest accrued on loans	-32 212	-8 543	0	-198	-40 953
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 tax and accounting amortization/depreciation	-15 546	-4 997	0	0	-20 543
Income accrued not received	-8 461	3 092	0	-7	-5 376
Deferred tax liability	**-460 515**	**-144 238**	**-1 304**	**-416**	**-606 473**
Deferred tax – as per the balance sheet	**139 799**	**16 237**	**-8 962**	**-135**	**146 939**

(in PLN '000)

Deferred tax recognized directly in equity	31.12.2015	31.12.2014
Negative valuation of securities	874	1 929
Negative valuation of derivatives	13 951	5 729
Positive valuation of securities	-727	-155
Positive valuation of derivatives	-12 641	1 459
Total	**1 457**	**8 962**

12. Earnings per share

	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Net profit	311 415	337 030
Weighted average number of ordinary shares	72 088 316	69 928 230
Share options	2 979 272	3 196 587
Adjusted weighted average number of ordinary shares used to calculate dilutive earnings per share	75 067 588	73 124 817
Net earnings per one ordinary share (PLN)	**4.32**	**4.82**
Diluted earnings per one ordinary share (PLN)	**4.15**	**4.61**

Notes to the statement of financial position

13. Cash and balances with the central bank

	As at 31.12.2015	As at 31.12.2014
Current account with the Central Bank	1 559 981	932 357
Cash	190 154	226 083
Cash and balances with the central bank	**1 750 135**	**1 158 440**

The Bank maintains 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 31.12.2015	As at 31.12.2014
Debt instruments	**4 239 445**	**2 649 120**
issued by the State Treasury	3 773 380	2 062 300
T-bonds	3 773 380	2 062 300
issued by monetary institutions	0	149 967
money bills	0	149 967
issued by other financial institutions	176 995	125 725
bonds	60 486	104 633
Eurobonds	116 509	21 092
issued by companies	289 070	311 128
bonds	289 070	311 128
Equity instruments	**13 674**	**3 005**
Available-for-sale financial assets	**4 253 119**	**2 652 125**

(in PLN '000)

14.2 By maturity	As at 31.12.2015	As at 31.12.2014
without specified maturity	13 675	3 005
≤ 1M	0	149 967
> 1M ≤ 3M	17 088	0
> 3M ≤ 6M	254 486	0
> 6M ≤ 1Y	366 016	775 059
> 1Y ≤ 2Y	1 134 855	303 091
> 2Y ≤ 5Y	1 940 564	1 141 518
> 5Y ≤ 10Y	526 435	279 485
Available-for-sale financial assets	**4 253 119**	**2 652 125**

14.3 Impairment allowance on debt instruments	As at 31.12.2015		As at 31.12.2014	
	Gross amount	Impairment allowance	Gross amount	Impairment allowance
Bonds issued by companies	101 122	14 472	111 852	6 491

14.4 Change in the balance of debt instruments impairment allowances	As at 31.12.2015	As at 31.12.2014
Opening balance	6 491	4 316
Changes in impairment allowance	7 981	2 175
Increases	7 981	2 175
Decreases	0	0
Impairment allowances at the end of the period	**14 472**	**6 491**

The schedules below show the prioritization of the measurement methods of available-for-sale financial assets measured at fair value as at 31 December 2015 and comparative data as at 31 December 2014.

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.

(in PLN '000)

• 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 2015, the sensitivity of valuation of such assets to credit spread increases by 1 base point amounted to PLN 85 thousand.

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 unobservable factors on the fair value.

In 2015, the Bank did not make any reclassification of financial instruments between levels. In 2014, one issue of corporate bonds, for which there were no sufficiently liquid market quotations and credit spread was unobservable, was transferred from level 2 to level 3.

14.5 Fair value	As at 31.12.2015	As at 31.12.2014
Level 1	**3 889 889**	**2 127 557**
T-bonds	3 773 380	2 062 300
Other bonds	116 509	65 257
Level 2	**0**	**149 967**
Money bills		149 967
Level 3	**363 230**	**374 601**
Equity instruments	13 674	3005
Other bonds	349 556	371 596
Valuation of available for sale financial assets by level	**4 253 119**	**2 652 125**

14.6 Movements on financial assets available for sale classified to level 3	As at 31.12.2015	As at 31.12.2014
Opening balance	**374 601**	**291 037**
Reclassification	0	151 275
Increases, including	**118 223**	**221 065**
Acquisition	117 161	221 058
Fair value adjustment	400	0
Foreign exchange differences	662	7
Decreases, including	**-129 594**	**-288 776**
Sale	-121 381	-280 518
Other changes recognized in income statement	-8 213	-4 634
Fair value adjustment	0	-3 624
Available for sale financial assets classified to level 3 at the end of the period	**363 230**	**374 601**

(in PLN '000)

The measurement of available-for-sale assets is presented in the revaluation reserve, interest and discount income is presented in interest income, and profit/(loss) from sales is presented in the result on other financial instruments.

15. Loans and advances to customers

15.1 By type	As at 31.12.2015	As at 31.12.2014
Retail segment	**17 595 314**	**13 300 919**
Working capital facility	167 635	142 530
Consumer loans	8 699 017	6 217 208
Consumer finance loans	748 948	704 834
Loans for purchase of securities	119 069	142 921
Credit card loans	225 629	204 619
Loans for residential real estate	6 717 911	4 991 141
Other mortgage loans	896 008	877 230
Other receivables	21 097	20 436
Corporate segment	**13 318 676**	**10 347 071**
Working capital facility	7 361 826	5 527 749
Car loans	70 394	141 299
Investment loans	5 487 618	4 134 162
Acquired receivables (factoring)	376 403	517 347
Other receivables	22 435	26 514
Loans and advances to customers	**30 913 990**	**23 647 990**

15.2 By gross amount and carrying amount	As at 31.12.2015	As at 31.12.2014
Retail segment	**17 595 314**	**13 300 919**
Loans for residential real estate	6 717 911	4 991 141
not impaired	6 593 746	4 908 611
impaired	189 075	112 240
IBNR	-4 811	-6 531
Impairment allowance	-60 099	-23 179
Consumer finance loans	748 947	704 834
not impaired	737 841	691 187
impaired	50 221	49 064
IBNR	-1 456	-2 392
Impairment allowance	-37 659	-33 025
Other retail loans	10 128 456	7 604 944
not impaired	9 732 180	7 274 942
impaired	1 378 919	1 034 794
IBNR	-120 367	-71 927
Impairment allowance	-862 276	-632 865
Corporate segment	**13 318 676**	**10 347 071**
not impaired	12 741 034	9 838 275
impaired	1 428 322	1 028 647
IBNR	-39 248	-18 130
Impairment allowance	-811 432	-501 721
Loans and advances to customers	**30 913 990**	**23 647 990**

The impairment allowance for losses incurred but not reported (IBNR) amounted to: PLN 165 883 thousand as at 31 December 2015 and PLN 98 980 thousand as at 31 December 2014.

(in PLN '000)

15.3 Receivables from customers impaired	As at 31.12.2015	As at 31.12.2014
Receivables from customers individually assessed	**546 026**	**801 399**
Retail segment	**9 512**	**309 349**
Amounts due from customers	87 157	595 598
Impairment allowance	-77 645	-286 249
Corporate segment	**536 514**	**492 050**
Amounts due from customers	1 095 419	908 514
Impairment allowance	-558 905	-416 464
Receivables from customers collectively assessed	**729 045**	**232 556**
Retail segment	**648 669**	**197 680**
Amounts due from customers	1 531 058	600 500
Impairment allowance	-882 389	-402 820
Corporate segment	**80 376**	**34 876**
Amounts due from customers	332 903	120 133
Impairment allowance	-252 527	-85 257
Receivables from customers impaired	**1 275 071**	**1 033 955**

In 2015, due to the change of model for assessing the impairment risk, the Bank reclassified mortgage loan portfolio in the amount of PLN 365 million and large-value cash loans in the amount of PLN 131 million as at 31 December 2015 from loans and advances to customers individually assessed group to loans and advances to customers collectively assessed group. The gross value of the portfolios for which the Bank in 2015 made the reclassification as at 31 December 2014 amounted to PLN 273 million and PLN 398 million respectively.

15.4 Change in the balance of impairment allowance on loans and advances to customers and IBNR provision	As at 31.12.2015	As at 31.12.2014
Opening balance	1 289 770	873 374
Changes due to the acquisition of a subsidiary	416 951	0
Changes during the year:	650 863	500 265
Increases	2 093 853	1 001 224
Retail segment	1 616 744	622 589
Corporate segment	477 109	378 635
Decreases	-1 442 990	-500 959
Retail segment	-1 168 843	-303 500
Corporate segment	-274 147	-197 459
Transfer to costs	-419 473	-105 583
Other changes	-763	21 714
Impairment allowance and IBNR provision at the end of the period	**1 937 348**	**1 289 770**

(in PLN '000)

15.5 By maturity (as at the balance sheet date)	As at 31.12.2015	As at 31.12.2014
Retail segment	**17 595 314**	**13 300 919**
≤ 1M	2 013 348	2 048 850
> 1M ≤ 3M	389 891	267 977
> 3M ≤ 6M	547 084	389 449
> 6M ≤ 1Y	1 007 076	741 573
>1Y ≤ 2Y	1 534 368	1 101 573
>2Y ≤ 5Y	3 473 595	2 474 771
>5Y ≤ 10Y	3 554 046	2 444 547
>10Y ≤ 20Y	2 819 119	2 076 617
>20Y	2 256 787	1 755 562
Corporate segment	**13 318 676**	**10 347 071**
≤ 1M	4 798 766	3 561 340
> 1M ≤ 3M	759 175	622 870
> 3M ≤ 6M	593 919	587 109
> 6M ≤ 1Y	1 141 133	870 559
>1Y ≤ 2Y	1 303 699	1 339 352
>2Y ≤ 5Y	2 286 486	1 766 626
>5Y ≤ 10Y	1 820 024	1 212 647
>10Y ≤ 20Y	615 474	386 568
Loand and advances to customers	**30 913 990**	**23 647 990**

15.6 By currency	As at 31.12.2015	As at 31.12.2014
Retail segment	**17 595 314**	**13 300 919**
PLN	16 343 892	12 277 759
EUR	933 316	836 381
GBP	124 376	30 769
USD	20 706	4 615
CHF	173 018	151 388
Other	6	7
Corporate segment	**13 318 676**	**10 347 071**
PLN	10 675 538	8 056 697
EUR	2 542 871	2 165 986
GBP	5 210	4 375
USD	61 924	86 068
CHF	33 133	33 839
Other	0	106
Total receivables	**30 913 990**	**23 647 990**

(in PLN '000)

Loans in CHF represented 0.7% of the total balance of loans in 2015 (2014: 0.8%).

15.7 Ten largest borrowers	Currency	As at 31.12.2015
Company 1	EUR	242 414
Company 2	EUR	234 544
Company 3	PLN	149 776
Company 4	EUR,GBP,PLN	144 458
Company 5	EUR	129 233
Company 6	PLN	123 952
Company 7	PLN	120 873
Company 8	EUR	113 248
Company 9	PLN	112 744
Company 10	PLN	97 351

15.8 Ten largest borrowers	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

The two tables above present the loan balance at its nominal value. The principles relating to concentration limits are described in Note 47.

In 2015, the Bank sold loans for the total gross amount of PLN 547 452 thousand, the provision recorded for the loans portfolio amounted to PLN 403 546 thousand, and the result on sales amounted to PLN 3 988 thousand. All benefits and risks were transferred to the buyer.

In 2014, the Bank sold loans for the total gross amount of PLN 81 310 thousand, the provision recorded for the loans portfolio amounted to PLN 68 565 thousand, and the result on sales amounted to PLN 7 645 thousand. All benefits and risks were transferred to the buyer.

16. Amounts due from banks

16.1 By type	As at 31.12.2015	As at 31.12.2014
Current accounts	339 131	291 440
Overnight Deposits (O/N)		6 394
Term deposits	113 062	0
Reverse Repo		0
Deposits as derivative transactions (ISDA) collateral	171 406	143 427
Other	18 941	5 732
Amounts due from banks	**642 540**	**446 993**

(in PLN '000)

16.2 By maturity (as at the balance sheet date)	As at 31.12.2015	As at 31.12.2014
≤ 1M	642 345	446 993
> 1M ≤ 3M	90	0
> 3M ≤ 6M	105	0
Amounts due from banks	**642 540**	**446 993**

16.3 By currency	As at 31.12.2015	As at 31.12.2014
PLN	25 810	16 393
EUR	126 831	188 227
GBP	86 572	27 844
USD	183 566	153 248
CHF	75 986	5 608
Other currencies	143 775	55 673
Amounts due from banks	**642 540**	**446 993**

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 31.12.2015	Fixed assets under construction	Plant and machinery (including IT equipment)	Leasehold improve-ments	Own buildings	Other	Total
Value at cost as at 01.01.2015	**7 094**	**196 229**	**155 293**	**0**	**72 450**	**431 066**
Change due to the acquisition of Meritum	0	11 969	3 151	0	9 999	25 119
Other changes in 2015 due to:	6 018	23 431	18 024	22 775	394	70 642
Purchases in 2015	8 729	20 175	27 570	22 775	1 376	80 625
Reclassifications in 2015	-2 557	1 545	601	0	410	-1
Sales in 2015	0	0		0	-310	-310
Other changes	-154	1 711	-10 147	0	-1 082	-9 672
Value at cost as at 31.12.2015	**13 112**	**231 629**	**176 468**	**22 775**	**82 843**	**526 827**
Accumulated depreciation as at 01.01.2015	**0**	**121 777**	**68 785**	**0**	**46 067**	**236 629**
Change due to the acquisition of Meritum	0	9 713	3 730		5 864	19 307
Depreciation for 2015	0	24 584	18 645	42	7 651	50 922
Other changes		-2 948	-4 900		-1 450	-9 298
Accumulated depreciation as at 31.12.2015	**0**	**153 126**	**86 260**	**42**	**58 132**	**297 560**
Impairment allowances as at 01.01.2015	**0**	**577**	**2 006**	**0**	**19**	**2 602**
Changes in impairment allowances in 2015	0	544	-1 512	0	0	-968
Impairment allowances as at 31.12.2015	**0**	**1 121**	**494**	**0**	**19**	**1 634**
Net value as at 01.01.2015	**7 094**	**73 875**	**84 502**	**0**	**26 364**	**191 835**
Net value as at 31.12.2015	**13 112**	**77 382**	**89 714**	**22 733**	**24 692**	**227 633**

(in PLN '000)

As at 31.12.2014	Fixed assets under construction	Plant and machinery (including IT equipment)	Leasehold improve-ments	Own buildings	Other	Total
Value at cost as at 01.01.2014	13 332	174 125	150 247	0	70 546	408 250
Changes due to:	-6 238	22 104	5 046	0	1 904	22 816
Purchases in 2014	3 653	18 477	3 507	0	895	26 532
Reclassifications in 2014	-9 891	3 578	1 539	0	4 774	0
Sales in 2014	0	49	0	0	0	49
Other changes	0	0	0	0	-3 765	-3 765
Value at cost as at 31.12.2014	7 094	196 229	155 293	0	72 450	431 066
Accumulated depreciation as at 01.01.2014	0	100 163	53 308	0	39 264	192 735
Depreciation for 2014	0	21 614	15 477	0	9 366	46 457
Other changes				0	-2 563	-2 563
Accumulated depreciation as at 31.12.2014	0	121 777	68 785	0	46 067	236 629
Impairment allowances as at 01.01.2014	0	182	193	0	19	394
Changes in impairment allowances in 2014	0	395	1 813	0	0	2 208
Impairment allowances as at 31.12.2014	0	577	2 006	0	19	2 602
Net value as at 01.01.2014	**13 332**	**73 780**	**96 746**	**0**	**31 263**	**215 121**
Net value as at 31.12.2014	**7 094**	**73 875**	**84 502**	**0**	**26 364**	**191 835**

18. Intangible assets

As at 31.12.2015	Goodwill	Capital expenditure	Computer software, licences and development costs	Trademark	Other	Total
Value at cost as at 01.01.2015	**2 321**	**35 704**	**306 765**	**300**	**809**	**345 899**
Change due to the acquisition of Meritum	104 368	1 843	56 178	3 367	4 704	170 460
Changes in intangible assets due to	-653	21 808	46 028	0	76	67 259
Purchases in 2015	0	22 016	15 463	0	76	37 555
Reclassifications in 2015	0	-11 459	11 459	0		0
Capitalized manufacturing costs	0	11 240	12 340	0	0	23 580
Other changes	-653	11	6 766			6 124
Value at cost as at 31.12.2015	**106 036**	**59 355**	**408 971**	**3 667**	**5 589**	**583 618**
Accumulated amortization as at 01.01.2015	**0**	**0**	**127 886**	**0**	**734**	**128 620**
Change due to the acquisition of Meritum	0	0	30 880	0	520	31 400
Amortization for 2015	0	0	32 510	**0**	1 791	34 301
Other changes	0	0	-1 429	0	0	-1 429
Accumulated amortization as at 31.12.2015	**0**	**0**	**189 846**	**0**	**3 045**	**192 891**
Impairment allowances as at 01.01.2015	**2 321**	**27**	**342**	**0**		**2 690**
changes in impairment allowances in 2015	-653	1 603	3 900	3 367	0	8 217
Impairment allowances as at 31.12.2015	**1 668**	**1 630**	**4 242**	**3 367**	**0**	**10 907**
Net value as at 01.01.2015	**0**	**35 677**	**178 537**	**300**	**75**	**214 589**
Net value as at 31.12.2015	**104 368**	**57 725**	**214 883**	**300**	**2 544**	**379 820**

*) *including customer relationships*

(in PLN '000)

As at 31.12.2014	Goodwill	Capital expenditure	Computer software, licences and development costs	Trademark	Other	Total
Value at cost as at 01.01.2014	0	53 760	233 514	300		287 574
Changes in intangible assets due to	2 321	-18 056	74 060	0		58 325
Purchases in 2014	0	28 005	9 777	0		37 782
Reclassifications in 2014	0	-54 164	54 164	0		0
Capitalized manufacturing costs	0	8 103	10 119	0		18 222
Other changes	2321	0	0	0		2 321
Value at cost as at 31.12.2014	2 321	35 704	307 574	300		345 899
Accumulated amortization as at 01.01.2014	0	0	99 524	0		99 524
Amortization for 2014	0	0	28 999	0		28 999
Other changes	0	0	97			97
Accumulated amortization as at 31.12.2014	0	0	128 620			128 620
Impairment allowances as at 01.01.2014	0	0	2	0		2
changes in impairment allowances in 2015	2 321	27	340	0		2 688
Impairment allowances as at 31.12.2014	2 321	27	342	0		2 690
Net value as at 01.01.2014	**0**	**53 760**	**133 988**	**300**		**188 048**
Net value as at 31.12.2014	**0**	**35 677**	**178 612**	**300**		**214 589**

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

19.1 Other assets	As at 31.12.2015	As at 31.12.2014
Sundry debtors	**363 771**	**180 563**
Other settlements	90 154	42 834
Receivables related to the sale of goods and services (including insurance)	113 114	10 448
Guarantee deposits	11 813	11 034
Settlements of payment cards	148 690	116 247
Deferred costs	**34 504**	**28 939**
Settlements of rental charges and utilities	1 484	379
Maintenance and support of systems, servicing of plant and equipment	4 330	6 692
Other deferred costs	28 690	21 868
Settlements of VAT	**17 239**	**16 100**
Other assets (gross)	**415 514**	**225 602**
Impairment allowances	-28 689	-7 204
Other assets (net)	**386 825**	**218 398**
including financial assets	363 771	180 563

(in PLN '000)

19.2 Change in the balance of impairment allowances on other assets	As at 31.12.2015	As at 31.12.2014
Opening balance	7 204	5 996
Changes during the year:	21 485	1 208
Increases	21 523	1 371
Decreases	-38	-163
Impairment allowances on other assets at the end of the period	**28 689**	**7 204**

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

20. Amounts due to customers

20.1 By type	As at 31.12.2015	As at 31.12.2014
Current deposits	12 481 435	9 863 710
Term deposits	18 541 682	12 623 311
Own issue of bank securities	2 259 230	1 641 956
Other liabilities	392 329	301 991
Total amounts due to customers	**33 674 676**	**24 430 968**

20.2 By customer type and segment	As at 31.12.2015	As at 31.12.2014
Retail segment	**21 409 075**	**14 849 410**
Current deposits	8 485 256	6 736 053
Term deposits	12 666 033	7 796 845
Banking securities issued	54 280	156 769
Other liabilities	203 506	159 743
Corporate segment	**12 265 601**	**9 581 558**
Current deposits	3 996 179	3 127 657
Term deposits	5 875 649	4 826 466
Banking securities issued	2 204 950	1 485 187
Other liabilities	188 823	142 248
Total amounts due to customers	**33 674 676**	**24 430 968**

20.3 By maturity (as at the balance sheet date)	As at 31.12.2015	As at 31.12.2014
Retail segment	**21 409 075**	**14 849 410**
≤ 1M	11 358 478	8 305 470
> 1M ≤ 3M	4 296 204	2 819 115
> 3M ≤ 1Y	5 122 282	2 974 459
> 1Y ≤ 5Y	622 687	742 513
>5Y	9 424	7 853
Corporate segment	**12 265 601**	**9 581 558**
≤ 1M	7 729 311	6 541 802
> 1M ≤ 3M	1 343 848	1 027 542
> 3M ≤ 1Y	1 326 868	962 364
> 1Y ≤ 5Y	1 858 131	1 042 498
>5Y	7 443	7 352
Total amounts due to customers	**33 674 676**	**24 430 968**

(in PLN '000)

21.4 By currency	As at 31.12.2015	As at 31.12.2014
Retail segment	**21 409 075**	**14 849 410**
PLN	18 622 111	12 810 749
EUR	1 356 917	1 027 128
GBP	236 508	162 155
USD	1 010 704	739 888
CHF	70 709	47 281
Other	112 126	62 209
Corporate segment	**12 265 601**	**9 581 558**
PLN	10 967 006	8 630 687
EUR	968 998	717 202
GBP	42 636	36 092
USD	255 253	178 083
CHF	8 159	3 689
Other	23 549	15 805
Total amounts due to customers	**33 674 676**	**24 430 968**

21.5.1 Ten largest depositors (without banks)	Currency	As at 31.12.2015
Company 1	PLN, EUR, USD	212 810
Company 2	PLN	203 355
Company 3	PLN, EUR, USD	175 389
Company 4	PLN	101 339
Company 5	PLN	94 042
Company 6	PLN, USD	92 645
Company 7	PLN	88 692
Company 8	PLN	72 845
Company 9	PLN, EUR, USD	72 606
Company 10	PLN	69 078

21.5.2 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
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

In 2015, the Bank issued bank securities worth PLN 1 485 767 thousand; securities purchased before maturity amounted to PLN 208 591 thousand. In 2014, the Bank issued bank securities worth PLN 890 433 thousand; securities purchased before maturity amounted to PLN 108 611 thousand.

(in PLN '000)

21. Amounts due to banks

21.1 By type	As at 31.12.2015	As at 31.12.2014
Current deposits	11 012	11 015
Overnight deposits (O/N)	30 701	0
Term deposits	197 826	0
Own issue of bank securities	32 666	22 676
Credit received	0	0
Security deposits	203 262	131 550
Repo	575 561	883 921
Total amounts due to banks	**1 051 028**	**1 049 162**

21.2 By maturity (as at the balance sheet date)	As at 31.12.2015	As at 31.12.2014
≤ 1M	918 074	1 026 486
> 1M ≤ 3M	100 288	0
> 3M ≤ 1Y		10 003
> 1Y ≤ 5Y	32 666	12 673
>5Y		0
Total amounts due to banks	**1 051 028**	**1 049 162**

21.3 By currency	As at 31.12.2015	As at 31.12.2014
PLN	830 987	926 887
EUR	31 401	86 568
USD	178 225	35 707
GBP	10 415	0
Total amounts due to banks	**1 051 028**	**1 049 162**

22. Provisions

	Provisions for disputed claims	Provisions for retirement and pension benefits	Provisions for off-balance sheet liabilities	Total provisions
As at 1 January 2015	2 513	824	4 974	8 311
Changes due to the acquisition of a subsidiary	705	54		759
Provisions recorded	3 617	301	9 551	13 469
Provisions released	-105	-109	-8 992	-9 206
Provisions utilization	-3 399	0	0	-3 399
Other changes	-112	0	-21	-133
As at 31 December 2015	**3 219**	**1 070**	**5 512**	**9 801**

	Provisions for disputed claims	Provisions for retirement and pension benefits	Provisions for off-balance sheet liabilities	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 utilization	-213	0	0	-213
Other changes	0	60	27	87
As at 31 December 2014	**2 513**	**824**	**4 974**	**8 311**

(in PLN '000)

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.

23. Other liabilities

	As at 31.12.2015	As at 31.12.2014
Interbank settlements	183 574	182 431
Taxation, customs duty, social and health insurance payables and other public settlements	25 473	21 918
Liabilities in respect of payment card settlements	4 980	3 890
Other settlements	89 810	33 359
including settlements with insurers	66 941	12 832
Settlements of issue of bank certificates of deposits	680	121 904
Accruals	51 416	39 734
Deferred revenue	50 356	269 248
Provision for bancassurance resignations	94 045	44 465
Provision for bonuses and leaves	24 187	23 496
Other liabilities	1 872	1 430
Total other liabilities	**526 393**	**741 875**
including financial liabilities	278 364	219 680

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 resulting from the contracts concluded as at 31 December 2015 and 31 December 2014.

24. 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 2015 and 31 December 2014. 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).

(in PLN '000)

24.1 Derivative instruments (nominal value)	As at 31.12.2015	As at 31.12.2014
Interest rate transactions	20 013 372	16 130 395
SWAP	17 249 149	12 336 676
FRA	1 000 000	400 000
Cap Floor Options	1 764 223	3 393 719
Foreign exchange transactions	6 922 921	6 169 370
FX swap	1 535 293	1 906 986
FX forward	1 881 094	2 169 979
CIRS	2 639 757	1 750 256
FX options	866 777	342 149
Other options	4 312 272	2 996 972
Other instruments	618 590	573 411
Derivative instruments (nominal value)	**31 867 155**	**25 870 148**

24.2 Financial assets held for trading	As at 31.12.2015	As at 31.12.2014
Shares	1 335	2 729
Bonds	311	946
Certificates	1 610	0
Interest rate transactions	198 578	260 481
SWAP	193 522	246 522
FRA	0	1 790
Cap Floor Options	5 056	12 169
Foreign exchange transactions	132 012	110 794
FX swap	14 713	14 133
FX forward	49 768	42 485
CIRS	58 407	51 641
FX options	9 124	2 535
Other options	34 555	81 198
Other instruments	22 168	20 673
Financial assets held for trading	**390 569**	**476 821**

24.3 By maturity	As at 31.12.2015	As at 31.12.2014
Without specified maturity date	2 953	2 730
≤ 1W	4 266	12 190
> 1W ≤ 1M	35 643	59 687
> 1M ≤ 3M	24 146	47 440
> 3M ≤ 6M	38 524	46 079
> 6M ≤ 1Y	46 351	44 121
> 1Y ≤ 2Y	67 000	67 607
> 2Y ≤ 5Y	131 639	173 918
> 5Y ≤ 10Y	40 047	23 049
Financial assets held for trading	**390 569**	**476 821**

(in PLN '000)

24.4 Financial liabilities held for trading	As at 31.12.2015	As at 31.12.2014
Interest rate transactions	194 355	201 221
SWAP	188 999	189 017
FRA	289	0
Cap Floor Options	5 067	12 204
Foreign exchange transactions	61 849	45 414
FX swap	1 917	6 886
FX forward	7 747	8 410
CIRS	43 058	27 585
FX options	9 127	2 533
Other options	34 555	81 198
Other instruments	19 421	21 200
Financial liabilities held for trading	**310 180**	**349 033**

24.5 By maturity	As at 31.12.2015	As at 31.12.2014
≤ 1W	1 828	9 000
> 1W ≤ 1M	9 134	15 805
> 1M ≤ 3M	17 125	35 914
> 3M ≤ 6M	54 686	15 688
> 6M ≤ 1Y	31 535	30 949
> 1Y ≤ 2Y	47 421	70 095
> 2Y ≤ 5Y	120 159	154 772
> 5Y ≤ 10Y	28 292	16 810
Financial liabilities held for trading	**310 180**	**349 033**

The listing below shows the hierarchy of measurement methods of financial instruments held for trading measured to fair value as at 31 December 2015 and comparative data as at 31 December 2014.

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. A changes in the valuation of options on the financial assets side due to 1% increase in the price of the base instrument will amount to PLN 5.6 million and it will be offset precisely by the change in the valuation of the option on the financial liabilities side.

(in PLN '000)

In the period from 01 January 2015 to 31 December 2015, no financial instruments were transferred from one level in the hierarchy to another.

24.6 Valuation of financial assets	As at 31.12.2015	As at 31.12.2014
Level 1	**13 061**	**17 268**
Shares	1 335	2 729
Bonds	311	946
Certificates	1 610	
Other instruments	9 805	13 593
Level 2	**342 953**	**378 355**
SWAP	193 522	246 522
FRA	0	1 790
Cap Floor Options	5 056	12 169
FX swap	14 713	14 133
FX forward	49 768	42 485
CIRS	58 407	51 641
FX options	9 124	2 535
Other instruments	12 363	7 080
Level 3	**34 555**	**81 198**
Other options	34 555	81 198
Total financial assets	**390 569**	**476 821**

24.7 Movements on financial assets classified to level 3	As at 31.12.2015	As at 31.12.2014
Opening balance	**81 198**	**46 618**
Increases, including	**76 253**	**91 893**
Valuation	28 947	55 048
Derivatives transactions	47 306	36 845
Decreases, including	**-122 896**	**-57 313**
Valuation	-78 953	-32 525
Settlement/redemption	-43 943	-24 788
Financial assets classified to level 3 at the end of the period	**34 555**	**81 198**

24.8 Valuation of financial liabilities	As at 31.12.2015	As at 31.12.2014
Level 1	**15 716**	**16 624**
Other instruments	15 716	16 624
Level 2	**259 909**	**251 211**
SWAP	188 999	189 017
FRA	289	0
Cap Floor Options	5 067	12 204
FX swap	1 917	6 886
FX forward	7 747	8 410
CIRS	43 058	27 585
FX options	9 127	2 533

(in PLN '000)

Other instruments	3 705	4 576
Level 3	**34 555**	**81 198**
Other options	34 555	81 198
Total financial liabilities	**310 180**	**349 033**

24.9 Movements on financial liabilities classified to level 3	**As at 31.12.2015**	**As at 31.12.2014**
Opening balance	**81 198**	**46 618**
Increases, including	**76 248**	**91 888**
Valuation	28 942	55 043
Derivatives transactions	47 306	36 845
Decreases, including	**-122 891**	**-57 308**
Valuation	-78 948	-32 520
Settlement/redemption	-43 943	-24 788
Financial liabilities classified to level 3 at the end of the period	**34 555**	**81 198**

The valuation of derivatives and the result on derivative transactions are presented in the trading result.

25. 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.

25.1. Hedging instruments (nominal value)	**As at 31.12.2015**	**As at 31.12.2014**
Interest rate transactions - IRS	10 795 000	5 835 000
Hedging instruments (nominal value)	**10 795 000**	**5 835 000**

25.2. Financial assets held for trading-hedging instruments	**As at 31.12.2015**	**As at 31.12.2014**
Level 2		
Interest rate transactions - IRS	139 578	80 205
Financial assets held for trading-hedging instruments	**139 578**	**80 205**

25.3. By maturity	**As at 31.12.2015**	**As at 31.12.2014**
> 1M ≤ 3M	2 608	0
> 3M ≤ 6M	62 334	8 896
> 6M ≤ 1Y	3 262	49
> 1Y ≤ 2Y	47 062	47 856
> 2Y ≤ 5Y	24 312	23 404
Financial assets held for trading-hedging instruments	**139 578**	**80 205**

(in PLN '000)

Cash flows on hedged items - loans and advances portfolio will be realized during the period of 5 years.

25.4. Financial liabilities held for trading-hedging instruments	As at 31.12.2015	As at 31.12.2014
Level 2		
Interest rate transactions - IRS	0	4 777
Financial liabilities held for trading-hedging instruments	**0**	**4777**

25.5. By maturity	As at 31.12.2015	As at 31.12.2014
> 6M ≤ 1Y	0	875
> 1Y ≤ 2Y	0	2 221
> 2Y ≤ 5Y	0	1 681
Financial liabilities held for trading-hedging instruments	**0**	**4 777**

2 .6 Nominal value of hedging instruments by maturity

Instrument type	Nominal value as at 31 December 2015					
	within 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	more than 5 years	Total
IRS PLN FIXED - FLOAT	-	100 000	6 060 000	4 635 000	-	10 795 000

25.7 Other comprehensive income as regards cash flow hedges	31.12.2015	31.12.2014
Other comprehensive income at the beginning of the period, gross	**34 104**	**-3 728**
Gains transferred to other comprehensive income in the period	14 828	39 340
Amount transferred from other comprehensive income to the income statement in the period, of which:	-21 723	-1 508
- *interest income*	-21 723	-1 508
Accumulated other comprehensive income at the end of the period, gross	**27 209**	**34 104**
Tax effect	-5 170	-6 480
Accumulated other comprehensive income at the end of the period, net	**22 039**	**27 624**
Ineffective part of cash flow hedges recognized in the income statement	1 083	76
Effect on other comprehensive income in the period, gross	**-6 895**	**37 832**
Deferred tax on cash flow hedges	1 310	-7 188
Effect on other comprehensive income in the period, net	**-5 585**	**30 644**

26. Subordinated liabilities

On 15 November 2011, the Polish Financial Supervision Authority granted its permission to include a subordinated loan of EUR 10 million, received on 12 October 2011 by Alior Bank S.A. from Erste Group Bank AG, in Tier 2 capital of Alior Bank S.A. The loan agreement was concluded for a period of 8 years, and its interest rate is based on EURIBOR 3M. The loan may be repaid early with 30 days prior written notice. On 31 December 2015 and 31 December 2014, the carrying amount of the loan amounted to PLN 42,818 thousand and PLN 42,828 thousand, respectively.

(in PLN '000)

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 2015 and 31 December 2014 amounted to PLN 325,924 thousand and 326,445 thousand, respectively. On 28 October 2014, the Bank received the PFSA's consent to include the bonds in the Tier 2 capital calculation.

On 31 March 2015, the Bank issued G-series bonds with a total nominal value of PLN 192,950 thousand. The bonds were issued for a period of 6 years (redemption date: 31 March 2021), and 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 2015 was PLN 195,555 thousand.
On 4 December 2015 the Bank issued I- and I1–series bonds with a total nominal value of PLN 183,350 thousand. The bonds were issued for a period of 6 years (to be purchased on 6 December 2021) 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 2015 was PLN 184,074 thousand.

As a result of the business combination with Meritum Bank, the subordinated bonds portfolio contains bonds issued by Meritum Bank:
- bonds with a total nominal value of PLN 67,200 thousand issued on 29 April 2013 as part of the Meritum Bank Programme for Issue of Subordinated Bonds for a period of 8 years (to be purchased on 29 April 2021). The bonds bear interest based on Wibor 6M. On 28.06.2013, the PFSA granted its consent to including these bonds in the Bank's Tier 2 capital. The carrying amount of the bonds as at 31 December 2015 was PLN 67,616 thousand.
- bonds with a total nominal value of PLN 80,000 thousand issued on 21 October 2014 for a period of 8 years (to be purchased on 21 October 2022). The bonds 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 2015 was PLN 80,311 thousand.

	As at 31.12.2015	As at 31.12.2014
Liabilities included in own funds	**896 298**	**369 273**
Subordinated loan	42 818	42 828
F-series bonds	325 924	326 445
G-series bonds	195 555	0
I-series bonds	150 592	0
I1-series bonds	33 482	0
Meritum Bank bonds	147 927	0
Liabilities not included in equity	**0**	**172 322**
B-series bonds	0	19 687
C-series bonds	0	152 635
Subordinated liabilities	**896 298**	**541 595**

(in PLN '000)

27. Equity

27.1 Equity	As at 31.12.2015	As at 31.12.2014
Share capital	727 075	699 784
Supplementary capital	2 280 668	1 775 397
Other reserves	184 894	184 167
Retained earnings / (accumulated losses)	0	0
Revaluation reserve	15 215	21 426
On measurement of available for sale financial assets	-6 824	-6 198
On measurement of hedging derivatives	22 039	27 624
Profit/(loss) for the year	311 415	337 030
Total equity	**3 519 267**	**3 017 804**

27.2 Revaluation reserve	As at 31.12.2015	As at 31.12.2014
Valuation of available for sale financial assets	-6 824	-6 198
treasury bills		-25
treasury bonds	-8 102	-7 601
other debt instruments	-323	-26
deferred tax	1 601	1 454
Valuation of hedging derivatives	22 039	27 624
IRS	27 209	34 104
deferred tax	-5 170	-6 480
Revaluation reserve	**15 215**	**21 426**

27.3 Structure of the share capital of Alior Bank S.A. as at 31 December 2015 and 31 December 2014

Share capital as at 31 December 2015

Series	Type of shares	Number of shares	Nominal value of shares	Series amount by nominal value (in PLN)
Series A	ordinary	50 000 000	10	500 000 000
Series B	ordinary	1 250 000	10	12 500 000
Series C	ordinary	12 332 965	10	123 329 650
Series D	ordinary	410 704	10	4 107 040
Series G	ordinary	6 358 296	10	63 582 960
Series H	ordinary	2 355 498	10	23 554 980
Total		**72 707 463**		**727 074 630**

Share capital as at 31 December 2014

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

(in PLN '000)

The following events occurred in the reporting period:

- on 2 December 2014, the Extraordinary General Shareholders' Meeting of the Bank passed a resolution on the conditional increase of the Bank's share capital by issuing H series ordinary bearer shares, at the same time depriving the current shareholders of the Bank of all pre-emptive rights, on the issue of D series subscription warrants, at the same time depriving the current shareholders of the Bank of all pre-emptive rights, and on changing the Bank's Articles of Association. The said resolution concerned a conditional increase in the Bank's share capital by issuing up to 2,355,498 H series ordinary bearer shares with a value not exceeding PLN 23,554,980. 2,355,498 shares were registered with the Central Securities Depository of Poland (KDPW) on 25 February 2015.
- the Bank's share capital was increased by issuing 373,599 D series ordinary bearer shares with a total nominal value of PLN 3,735,990. The issue was based on partial settlement of the Incentive Scheme. On 30 March 2015, 187,744 shares of the Bank were registered with KDPW; on 22 June 2015, 159,588 shares of the Bank were registered, and on 28 September 2015 26,267 shares were registered with KDPW. The above-mentioned capital increases were registered by the court.

28. Fair value

The fair values of the Bank's financial instruments presented in the balance sheet at fair value as at 31 December 2015 and 31 December 2014 were equal to their carrying amounts.

The Bank adjusts 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 2015 amounted to PLN - 1,047 thousand. The total amount of the BCVA adjustment comprises the CVA adjustment (reflecting counterparty insolvency risk only) in the amount of PLN -1,366 thousand, and the DVA adjustment (reflecting the risk of the Bank's insolvency) in the amount of PLN -319 thousand.

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 31.12.2015		As at 31.12.2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with the central bank	level 1	1 750 135	1 750 135	1 158 440	1 158 440
Loans and advances to customers:	level 3	30 913 990	30 271 934	23 647 990	23 317 007
Retail segment (carrying amount)					
Loans for the purchase of securities		119 069	119 069	142 921	139 791
Consumer loans		8 699 017	8 538 699	6 217 208	6 132 524
Consumer finance loans		748 948	755 044	704 834	706 709
Working capital loans		167 635	167 635	142 530	142 530
Credit card loans		225 629	225 349	204 619	199 866

(in PLN '000)

Housing loans		6 717 911	6 317 227	4 991 141	4 846 854
Other mortgage loans		896 008	845 181	877 230	849 874
Other receivables		21 097	21 086	20 436	20 428
Corporate segment (carrying amount)					
Working capital loans		7 361 826	7 306 525	5 527 749	5 491 586
Car loans		70 394	70 390	141 299	141 288
Investment loans		5 487 618	5 506 929	4 134 162	4 102 105
Acquired receivables (factoring)		376 403	376 403	517 347	517 347
Other receivables		22 435	22 397	26 514	26 105
Amounts due from banks	level 3	642 540	642 540	446 993	446 993
Assets held for sale	level 3	888	888	908	908
Assets pledged as collateral	level 3	628 332	628 332	927 191	927 191
Other assets	level 3	386 825	386 825	218 398	218 398
Amounts due to banks and customers	level 3	34 725 704	34 702 649	25 480 130	25 495 661
Due to banks					
Current deposits		11 012	11 012	11 015	11 015
Overnights deposits (O/N)		30 701	30 701	0	0
Term deposits		197 826	197 826	0	0
Own issue of bank securities		32 666	33 008	22 676	23 036
Other liabilities		203 262	203 262	131 550	131 550
Repo		575 561	575 561	883 921	883 921
Due to customers					
Current deposits		12 481 435	12 481 435	9 863 710	9 863 710
Term deposits		18 541 682	18 541 682	12 623 311	12 623 311
Own issue of bank securities		2 259 230	2 268 499	1 641 956	1 657 127
Other liabilities		392 329	392 329	301 991	301 991
Subordinated liabilities	level 3	896 298	896 298	541 595	541 595
Other liabilities	level 3	526 393	526 393	741 875	741 875
Financial guarantees	level 3	1 060	1 060	2 245	2 245

Loans and advances to customers:

In the method for calculating the fair value of loans and advances to customers 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 on 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.
All loans and advances to customers customers were classified to level 3 in the fair value hierarchy due to the fact that the valuation model with material unobservable input data, i.e. current margins obtained on newly extended loans, was applied.

Financial liabilities measured at amortized cost:

The Bank assumed that the fair values of deposits of customers and other banks and other financial liabilities with maturities below 1 year approximate 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. Their time to maturity is short, therefore, there is no significant difference between their carrying amount and fair value.

(in PLN '000)

For the purposes of disclosure, the Bank determines the fair values of financial liabilities with residual maturities (or reassessment of variable rate) above 1 year. This group of liabilities 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 were all classified to level 3 in the fair value hierarchy due to the fact that the valuation model with material unobservable input data was applied, including the original issue spread over the market curve. With respect to issues and subordinated loans with residual maturities (or rate reassessment) below 1 year, the carrying amount appropriately reflected the fair value of the instrument.

For the remaining financial instruments, the Bank assumes that the fair value approximates the carrying amount. This applies to the following items: cash and balances with the Central Bank, assets held for sale, other financial assets and other financial liabilities.

Financial assets and liabilities measured based on unobservable input data

Measurement for the purposes of disclosures	**As at 31.12.2015**	**Measurement method (techniques)**	**Material unobservable input data**
Loans and advances to customers	30 271 934	comparative valuation	margins on newly extended loans
Financial liabilities measured at amortized cost	34 702 649	discounted cash flows	issue spread above market curve
Guarantees	1 060	cash flows	future flows taking into account the amount of security

Measurement for the purposes of disclosures	**As at 31.12.2014**	**Measurement method (techniques)**	**Material unobservable input data**
Loans and advances to customers	23 317 007	comparative valuation	margins on newly extended loans
Financial liabilities measured at amortized cost	25 495 661	discounted cash flows	issue spread above market curve
Guarantees	2 245	cash flows	future flows taking into account the amount of security

Financial assets and liabilities measured based on observable input data

	Measurement method (techniques)	**Material observable input data**
Derivative financial instruments - instruments held for trading	Instruments are measured using the discounted cash flow method, which is based on the assumption that profitability curves are based on interbank market quotations (including: deposit rates, rates from: FRA, OIS, IRS, fx swap points, fx basis swap points).	FX forward transactions: NBP fixing rates, profitability curves based on money market deposit rates and quotations of: FRA, OIS, IRS transactions; FX swap points CIRS transactions: NBP fixing rates, profitability curves based on money market deposit rates and quotations of: FRA, OIS, IRS transactions; FX basis swap points FX options: profitability curves, fx rate variability curves. OIS, IRS, FRA transactions: profitability curves based on money market deposit rates and quotations of: FRA, OIS, IRS, Cap/Floor options: profitability curves, interest rate variability curves. Commodity forward transactions: futures quotation curves
Derivative financial instruments - hedging instruments	Instruments are measured using the discounted cash flow method, which is based on the assumption that profitability curves are based on interbank market quotations (including: deposit rates, rates from FRA, OIS, IRS transactions).	IRS transactions: profitability curves based on money market deposit rates and quotations of: FRA, OIS, IRS transactions
NBP bills	Fair value is determined based on the	money market deposit rates

(in PLN '000)

discounted cash flow method
with the assumption of profitability curves

29. Off-balance sheet items

29.1 Off-balance sheet contingent liabilities granted to customers	As at 31.12.2015	As at 31.12.2014
Off-balance sheet liabilities granted	8 941 675	7 786 373
Relating to financing	7 371 753	6 246 398
Guarantees	1 569 922	1 539 975
Performance guarantees	389 028	416 402
Financial guarantees	1 180 894	1 123 573
Off-balance sheet liabilities granted	**8 941 675**	**7 786 373**

29.2 By maturity - guarantees	As at 31.12.2015	As at 31.12.2014
≤ 1W	3 161	760
> 1W ≤ 1M	12 805	57 610
> 1M ≤ 3M	246 545	90 459
> 3M ≤ 6M	162 675	141 211
> 6M ≤ 1Y	249 422	222 121
> 1Y ≤ 2Y	241 726	299 870
> 2Y ≤ 5Y	275 080	273 794
> 5Y ≤ 10Y	377 746	447 268
> 10Y ≤ 20Y	762	6 882
Off-balance sheet liabilities granted in respect of guarantees	**1 569 922**	**1 539 975**

29.3 By maturity - financial	As at 31.12.2015	As at 31.12.2014
≤ 1W	2 266 042	1 630 124
> 1W ≤ 1M	12 145	30 224
> 1M ≤ 3M	307 386	130 624
> 3M ≤ 6M	184 031	378 774
> 6M ≤ 1Y	524 558	635 478
> 1Y ≤ 2Y	1 090 516	806 323
> 2Y ≤ 5Y	1 963 511	1 441 428
> 5Y ≤ 10Y	419 842	310 966
> 10Y ≤ 20Y	410 826	330 023
> 20Y	192 896	552 434
Off-balance sheet liabilities granted in respect of financing	**7 371 753**	**6 246 398**

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.

30. Merger of Meritum Bank ICB S.A. with Alior Bank S.A.

30.1 Description of transactions

On 20 October 2014, Alior Bank S.A. concluded a preliminary agreement for sale of Meritum Bank ICB SA shares with Innova Financial Holding S.a.r.l., WCP Cooperatief U.A. and the European Bank for Reconstruction and Development. The preliminary agreement for the sale of Meritum Bank shares will be executed if certain conditions precedent are satisfied, which include obtaining the consents of the Office for Competition and Consumer Protection (UOKiK) and the Polish Financial Supervision Authority (PFSA).

The consent of UOKiK for concentration in the form of Alior Bank SA taking over control over Meritum Bank ICB SA was granted on 16 December 2014.

On 10 February 2015, the Polish Financial Supervision Authority decided that there were no grounds for objecting to the planned acquisition of the Meritum Bank ICB S.A. shares by the Bank in a number giving the Bank an interest of more than 50% of the share capital and total number of shares at the General Shareholders' Meeting of Meritum.

On 19 February 2015, Alior Bank signed the final agreement with Innova Financial Holdings S.à r.l, WCP Coöperatief U.A. and the European Bank for Reconstruction and Development concerning the acquisition of Meritum shares, on the basis of which Alior Bank SA acquired 12,382,746 Meritum shares of PLN 30 nominal value each, representing 97.9% of the share capital of Meritum and 95.0% of the total number of votes at the General Shareholders' Meeting of Meritum for a total price of PLN 352,541,731.72.

The purchase price was paid in total in cash and it did not contain any conditional elements.

In connection with signing the share purchase agreement for the shares of Meritum Bank, Alior signed with the Investors: Innova Financial Holdings S.à r.l and WCP Coöperatief U.A., agreements for taking up D-series subscription warrants of the Bank. In the said agreements, the Bank offered its D-Series Subscription Warrants to the Investors, and each of the Investors accepted the Bank's offer and took up the D-Series Subscription Warrants free of charge. D-Series Subscription Warrants of the Bank entitled their holders to acquire H-Series Shares issued as part of the conditional increase in the Bank's share capital approved by resolution of the Bank's Extraordinary General Shareholders' Meeting. As part of the execution of rights arising from the D-Series Subscription Warrants, on 19 February 2015 the Investors made statements on the acquisition of H-series ordinary bearer shares of the Bank and paid for the said shares in cash (the issue price for one H-series share paid up in this way was PLN 73.30) in the total amount of PLN 172,658,003.40.

Moreover, on 19 February 2015, the Bank announced its intention to combine the Bank with its subsidiary - Meritum. The business combination was conducted on 30 June 2015 on the basis of Art. 492 § 1.1 of the Commercial Companies Code by transferring the total assets of Meritum (the acquired company) to the Bank (the acquiring company) (business combination by acquisition). The business combination took place after obtaining the required consents and approvals, including the approval for the business combination issued by the PFSA, and after passing resolutions on the business combination by the General Shareholders' Meeting of the Bank and the General Shareholders' Meeting of Meritum, including in particular the resolutions granting consent to the business combination plan.

The process of compulsory acquisition of the remaining Meritum shares was completed in the 2nd quarter of 2015. As at 30 September 2015, the Bank held 100% of the Meritum Bank ICB S.A. shares. The fair value of the remaining shares was determined based on the purchase price.

On 30 June 2015, the District Court in Warsaw, the 13th Business Department of the National Court Register, registered the business combination of both banks.

The legal merger of the Bank with Meritum Bank was a business combination under common control as defined in IFRS 3 Business Combinations, Implementation guidelines items B1-B4. According to accounting policy adopted by the Bank, for settlement of the legal merger of the parent company with its subsidiary, the accounting principle is the use of so-called "predecessor value" method ("predecessor accounting"), which is the recognition of the acquired subsidiary at carrying amount of assets and liabilities recognized in the consolidated financial statements of the Alior Bank SA Group ("the Group") for such subsidiary, including the goodwill arising on acquisition of the subsidiary.

Therefore, the business combination of the Bank with Meritum Bank has been recognized in the Bank's books at the value that would have been recognized in relation to Meritum Bank on the merger date, i.e. 30 June 2015 in consolidated financial statements of the Group prepared in accordance with IFRS as adopted by the EU.

When preparing the financial statements containing the merger of Meritum Bank with the Bank as at 30 June 2015, the same general principles that have been applied in the preparation of the annual report of the Bank for the year ended 31 December 2015 were adopted.

Acquisition of Meritum Bank has been presented in the consolidated financial statements using IFRS 3.

The date of taking control over Meritum Bank SA was 19 February 2015 ("Acquisition date") and valuations to the fair value of identifiable assets and liabilities of Meritum Bank were made on this day, and goodwill was recognized as the excess of acquisition cost over the fair value of net assets acquired.

The legal merger has been presented in the financial statements of Alior Bank SA from the acquisition date. The financial result generated by Meritum Bank from 19 February 2015 until the date of legal merger has been added to the current financial result of Alior Bank SA.

(in PLN '000)

The total purchase price for all shares was paid in cash. The price did not contain any contingent elements.

The Bank purchased the Meritum Bank S.A. shares for the purpose of obtaining economic benefits in the form of extending the customer base and enhancing its competitive position.
As a result of the business combination with Meritum Bank, Alior Bank is going to achieve a number of synergies in the area of revenues, costs and the balance of provisions. The main cost synergies are expected in the area of business process optimization and cost savings. Savings will be achieved by eliminating duplicate functions at the Bank's head office and duplicate systems and licences that are currently used by Alior Bank and Meritum Bank, as well as by coordinating the marketing policies. The Bank also intends to optimize the sales structure.

30.2 Settlement of the acquisition

The transaction was settled using the acquisition method in accordance with IFRS 3, Business Combinations. The application of this method requires the recognition and measurement of identifiable acquired assets, acquired liabilities measured at fair value as at the acquisition date, and all non-controlling interests in the acquired entity, as well as recognition and measurement of goodwill or bargain purchase gain.

Identifiable acquired assets and liabilities as at acquired date are presented below:

ASSETS	Meritum	Fair value measurement adjustments and eliminations	Fair value of identifiable acquired assets
Cash and balances with the central bank	4	0	4
Available-for-sale financial assets	317721	0	317 721
Amounts due from banks	29497	0	29 497
Loans and advances to customers	2 919 044	33 014	2 952 058
Property, plant and equipment	6946	0	6 946
Intangible assets	35 070	100 664	135 734
Investments in subsidiaries	1 254	-1 254	0
Income tax assets	53 061	-5 986	47 075
Current	0	0	0
Deferred	53 061	-5 986	47 075
Other assets	165 965	-135 786	30 179
TOTAL ASSETS	**3 528 562**	**-9 348**	**3 519 214**

LIABILITIES	Meritum	Fair value measurement adjustments and eliminations	Fair value of identifiable acquired liabilities
Financial liabilities held for trading	260	0	260
Amounts due to banks	444 492	-444 492	0
Amounts due to customers	2 652 829	0	2 652 829
Provisions	759	0	759
Other liabilities	33 245	10	33 255
Income tax liabilities	1 816	0	1 816
Current	1 816	0	1 816
Subordinated liabilities	147 681	0	147 681
TOTAL LIABILITIES	**3 281 082**	**-444 482**	**2 836 600**

(in PLN '000)

30.3 Description of fair value measurement methods

30.3.1 Loans and advances to customers

The portfolio of loans and advances granted to customers, which was acquired as part of the acquisition of Meritum Bank ICB SA and measured at the fair value as at the acquisition date, is presented in the separate financial statements separately, i.e. divided into the gross value (which includes fair value adjustment) and write-downs, due to the fact that such presentation is more useful and reflects the practice applied by banks.

By type	Fair value of identifiable loans and advances to customers
Retail segment	**2 360 761**
Consumer loans	2 115 870
Credit card loans	39 902
Other receivables	204 989
Business segment	**1 020 520**
Working capital loans	1 004 830
Investment loans	14 597
Other receivables	1 093
Impairment allowances - total	**-429 223**
Loans and advances to customers	**2 952 058**

The fair value measurement of the loan portfolio was performed using the income-based method which involves discounting future cash flows. In order to estimate the fair value of the portfolio using this method, it is necessary to develop a valuation model based on discounted cash flows resulting from contracts signed, adjusted future expected costs of risk, additional income generated by the portfolio and the necessary costs of servicing such a portfolio.

One of the possible approaches to the development of the loan portfolio valuation model is cohort analysis - analysis of sub-portfolios of loan agreements separated based on their characteristics. Sub-portfolios may be separated e.g. on the basis of the period of granting financing (vintage) or type of product. Cohort analysis allows separate modelling of cash flows resulting from the individual sub-portfolios (cohorts) and their subsequent aggregation.

Key stages of the process of estimating the fair value of the loan portfolio by the discounted cash flows method:

- The first step is to divide the portfolio into individual sub-portfolios with similar risk profiles. Further analysis is performed for the individual portfolios determined at this stage. It is important to be able to distinguish homogeneous groups of agreements and segregate historical portfolios in a similar manner.
- The present value of a loan portfolio resulting from a given sub-portfolio is estimated on the basis of monthly cash flows resulting from principal instalments and interest payments.
- Contractual cash flows are subsequently adjusted for the prepayment rate based on historical prepayments made by customers in a given portfolio and sector knowledge in respect of prepayments in portfolios with similar characteristics.
- Interest margins for the individual sub-portfolios are determined based on WIBOR/EURIBOR/LIBOR base rates and contractual cash flows relating to interest.

Subsequently, such information is compared with forecast changes in base rates.

- Future interest-related cash flows are estimated based on adjusted contractual balances for subsequent periods, estimated interest margins and expected future interest rate levels.
- The cost of risk is estimated based on historical data for the portfolio or similar portfolios. The analysis of future risk-related loss (Expected Loss) is based on the expected level of risk parameters determined for the period from the date of commencement of the contract. The main risk parameters are DR (Default Rate), CR (Cure Rate) and LGD (Loss Given Default).
- The estimated cost of risk is used for discounting the expected future cash flows.
- The amount of cash flows resulting from the above-mentioned elements is additionally adjusted for the amount of other costs and income relating to the portfolio (e.g. fees and commissions and portfolio servicing costs).
- Subsequently, the sum of such cash flows is discounted using an appropriate discount rate. The discount rate reflects: the current and forecast level of risk-free rate, the cost of portfolio financing in a given currency, and the market cost of capital which is required in connection with maintaining the portfolio. These factors determine the expected market rate of return on investment in such a portfolio.
- The sum of discounted cash flows determines the fair value of the loan portfolio as at a specific date.

This method of fair value measurement reflects the specific features of the portfolio, potential future losses due to risk, and sensitivity to expected changes in market conditions.

30.3.2 Amounts due to customers

In order to estimate the fair value of the deposits portfolio, the portfolio was divided into:

- Current accounts
- Term deposits

Since current accounts are due at any time, it was assumed that their fair value is equal to the carrying amount.

The fair value of term deposits was estimated for two subgroups distinguished based on the type of customer:

- Retail deposits
- Corporate deposits

The next step was to prepare details of market interest rates on deposits. The analysis was based on data from three sources:

- Interest on deposits in comparable banks
- The NBP report (published on the official website nbp.gov.pl, for retail and corporate deposits in PLN and EUR)
- Market quotations of WIBOR, LIBOR (USD) and EURIBOR.

Since the financial terms and conditions relating to the acquired amounts due to customers were similar to the current market terms and conditions, no fair value adjustment was recognized for such items.

30.3.3 Intangible assets

Customer relations in the area of deposits
Core deposits analysis was used for the purposes of valuation of customer relations.

- Core deposits provide expected savings for the Bank due to the fact that the Bank's customers maintain their funds on current accounts bearing low interest rates for a significant amount of time instead of investing them in term deposits with higher interest rates. This allows the Bank to limit the financing obtained from the market and, effectively, to reduce interest expenses.
- Subsequently, spread between the interest on different current and term products was applied to core deposit balances for the individual periods from the valuation date to the assumed expiry of core deposits.
- The assumed savings calculated in this way were subsequently discounted at the discount rate representing the market cost of obtaining an equivalent deposits portfolio.
- As a result of the acquisition of Meritum Bank, customer relations were recognized as at 19 February 2015 in the amount of PLN 4,075 thousand. They are amortized over a period of 2 years. The carrying value of customer relations as at 31 December 2015 was PLN 2,377 thousand.

Computer systems
The computer systems in place at Meritum Bank may be divided into purchased from third parties and developed internally.
Systems developed internally

- The internally developed systems include: Feniks, IS, Gandalf and Data Warehouse.
- Estimating the fair value of these systems each time involves determining the level of operational utilization of their functions in the event of their migration to the computer system of a typical buyer on the market.
- The level of operational utilization of the systems' functions served as the basis for adjustment of their gross book value calculated as the total capitalized expenditure incurred on their development. The adjusted gross expenditure represented the fair value of the internally developed systems as at the valuation date.

Third party systems

- The other group of systems used by the Bank comprised systems purchased from third parties. In the case of the Def3000 system, the gross book value of the system was adjusted for the assumed wear and tear. Subsequently, the value was reduced by the assumed level or operational utilization of the system, in the same manner as in the case of internally developed systems. The adjusted gross expenditure represented the fair value of the internally developed systems as at the valuation date. In the case of the remaining third party systems it was assumed that their present book value adequately reflects their fair value.

Meritum Bank trademark

- The basic method for bank trademark valuation is the method based on exemption from hypothetical licence fees. In accordance with this method, the trademark's fair value is equal to the present value of income from hypothetical licence fees associated with such trademark. Income from licence fees represents savings resulting from having a trademark, such as the fees that the entity would have to pay for using the trademark had it not owned one. The approach to valuation comprised determining the correct amount of the licence fee and calculation of the value of exemption from such fee for the purposes of calculating discounted cash flows generated by the trademark.

(in PLN '000)

- The market licence fee rate is understood as the amount that the licensor and licensee are able to accept after negotiations for using the trademark. Setting a reasonable licence fee rate is the positive outcome of the negotiations between the parties during which each party acted in good faith and in its own best interest.

- The amounts of market licence fee rates vary and depend on a number of factors, such as the profitability of products sold under the trademark in question, or the situation on the market and in the sector in which the trademark is present. The rates also depend on whether the trademark is well protected and on its perceived attractiveness.

- Selection of an appropriate licence fee rate was based on an analysis of available information on similar trademarks and licence fee rates for using them. The selected rates are understood as the market levels of licence fees that a third party would be willing to pay for using the trademark.

- The trademark recognized as an intangible asset as at the date of acquisition of Meritum Bank was valued at PLN 3,367 thousand. Due to the fact that the Bank does not intend to use that trademark in its further activities, the asset was fully covered by impairment allowances.

30.3.4 Goodwill

The Bank finished the process of purchase price allocation due to acquisition of Meritum Bank. As compared to the provisional calculation of goodwill that was presented in interim condensed financial statements for 2015 the goodwill increased by PLN 2,496 thousand and amounted to PLN 104,368 thousand. The adjustment related to obtain new information in terms of fair value of assets acquired and liabilities assumed of Meritum Bank as at 18 February 2015.

Goodwill calculation	
+ Fair value of the payment made	360 102
- Fair value of the acquired entity’s net assets	255 734
Total goodwill	**104 368**

Total goodwill was allocated to the retail segment and it will not be subject to tax deduction.
Goodwill on acquisition comprised mainly the synergies expected in connection with the business combination. The planned business combination is aimed at ensuring further dynamic growth, increasing the market share and the scale of operations, which in consequence should allow the Bank to become one of the key players on the Polish bank market, optimize its revenue strategy, enhance its product offer and improve sales processes, including the supporting IT solutions, gain strength in the areas of innovation and technology and be present in all key distribution channels for strategic products.

(in PLN '000)

30.3.5 Other disclosures

In 2015 operational merger and migration of data from Meritum Bank IT systems to Alior Bank took place, hence, it is impracticable to distinguish and present the income statements of the acquired entities for the period from the acquisition date to 31 December 2015 in accordance with IFRS3 requirements.

Income statement of Alior Bank presented as if the acquisition date was the same as the beginning of the reporting period, i.e. 1 January 2015

The Bank	Period from 1.01.2015 to 31.12.2015
Interest income	2 181 404
Interest expenses	-639 771
Net interest income	**1 541 633**
Dividend income	**74**
Fee and commission income	547 667
Fee and commission expenses	-215 310
Net fee and commission income	**332 357**
Trading result	**262 790**
Net result on other financial instruments	**12 923**
Other operating income	88 439
Other operating expenses	-39 475
Net other operating income	**48 964**
General administrative expenses	**-1 114 263**
Net impairment allowance and write downs	**-697 191**
Profit before tax	**387 287**
Income tax	-76 916
Net profit	**310 371**

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 comprise the loan taken.
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 31.12.2015	As at 31.12.2014
Cash and balances with the Central Bank	1 750 135	1 158 440
Current accounts with other banks	339 131	291 440
Term accounts with other banks	112 946	6 393
Total	**2 202 212**	**1 456 273**

* without interest

(in PLN '000)

31.2 Operating activities – changes in the balance of loans and other receivables	As at 31.12.2015	As at 31.12.2014
Change in loans and advances to customers – statement of financial position	-4 313 942	-3 994 100
Change in amounts due from banks - statement of financial position	-195 443	-193 323
Change in cash and cash equivalents in the balance sheet – nostro accounts	47 691	191 618
Change in cash and cash equivalents in the balance sheet – deposits up to 3 months	106 553	-78 230
Change in the balance of assets pledged as collateral	0	-5 492
Change in the balance of loans and other receivables	**-4 355 141**	**-4 079 527**

31.3 Operating activities – changes in the balance of other liabilities	As at 31.12.2015	As at 31.12.2014
Increase/(decrease) in other liabilities – statement of financial position	-248 727	-369 262
Change in revaluation reserve – statement of financial position	-6 211	38 203
Change in the balance of other liabilities measured at amortized cost - statement of financial position	-136 320	293 996
Change in the deferred income tax provision in the revaluation reserve	-1 457	8 961
Accrued expenses in respect of purchasing fixed assets	19 681	-2 627
Accrued expenses in respect of purchasing intangible assets	267	-2 517
Other comprehensive income	38 705	
Change in the balance of other liabilities	**-334 063**	**-33 246**

31.4 Operating activities – changes in the balance of other assets	As at 31.12.2015	As at 31.12.2014
Net increase/decrease in other assets – statement of financial position	-16 378	119 379
Disposal of shares in companies	0	1 269
Change in the balance of other assets	**-16 378**	**120 648**

31.5 Investing activities – purchase of property, plant and equipment	As at 31.12.2015	As at 31.12.2014
Change in balance – statement of financial position	-98 797	-22 864
Purchase of property, plant and equipment	**-98 797**	**-22 864**

31.6 Investing activities – purchase of intangible assets	As at 31.12.2015	As at 31.12.2014
Change in balance – statement of financial position	-72 281	-56 005
Purchase of intangible assets	**-72 281**	**-56 005**

32. Assets pledged as collateral

Assets pledged as collateral	As at 31.12.2015	As at 31.12.2014
Treasury bonds blocked for REPO transactions	576 534	882 088
Registered pledge on Treasury bonds	37 060	35 072
Security deposit for Alior Trader transactions	14 738	10 031
Total carrying amount	**628 332**	**927 191**

In addition to assets pledged as collateral, which are presented in the statement of financial position separately and which the recipient may sell or exchange for another security, the Bank held the following other assets pledged as collateral which did not meet this criterion:

(in PLN '000)

	As at 31.12.2015	As at 31.12.2014
Treasury bonds blocked for the Bank Guarantee Fund	159 570	122 032
Security deposits for transactions on derivatives (ISDA)	171 406	143 427
Carrying amount	**330 976**	**265 459**

33. Transactions with related entities

Starting from 18 December 2015 the parent company of the Bank and the parent company at the highest level of the Group is Powszechny Zakład Ubezpieczeń SA, for which the controlling party is the State Treasury.

The following tables present the type and value of transactions with related entities and subsidiaries.

As at 31 December 2015 the Bank had the following subsidiaries:

- Alior Services Sp. z o.o. (formerly Alior Raty Sp. z o.o.) - a direct subsidiary (100% interest),
- Alior Leasing Sp. z o.o. – a direct subsidiary (100% interest),
- Meritum Services ICB SA - a direct subsidiary (100% interest),
- NewCommerce Sp. z o.o. - a direct subsidiary (100% interest),
- Centrum Obrotu Wierzytelnościami Sp. z o.o. - a direct subsidiary (98.04% of shares),
- Money Makers S.A. - a direct subsidiary (60.49% of shares).

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% shares).

The related parties of the Bank are PZU S.A., Alior Lux Sarl & Co S.C.A., their related parties, and entities related to members of the Management and Supervisory Board of the Bank.
The following tables present the type and value of transactions with related entities and subsidiaries.

Subsidiaries	As at 31.12.2015	As at 31.12.2014
Loans and advances to customers	59 263	0
Other assets	409	52
Total assets	**59 672**	**52**
Amounts due to customers	11 134	2 980
Total liabilties	**11 134**	**2 980**

The parent company and its subsidiaries	As at 31.12.2015	As at 31.12.2014
Assets		
Loans and advances to customers	41	0
Financial liabilities measured at amortized cost due to customers	7 809	0
Total liabilties	**7 869**	**0**

(in PLN '000)

As at 31 December 2015 the amount of liabilities due to customers was related to deposits placed with the Bank by the companies of the PZU Group. As at 31 December 2015 there were no off-balance sheet liabilities due to the parent company and its subsidiaries.

Related entities	As at 31.12.2015	As at 31.12.2014
Assets		
Loans and advances to customers	193	59 753
Total assets	**193**	**59 753**
Liabilities and equity		
Amounts due to customers	90 326	142 997
Other liabilities	60	161
Total liabilities and equity	**90 386**	**143 167**

As at 31 December 2015 the amount of liabilities due to customers was related to deposits placed with the Bank by Alior Polska sp. z o.o., Zygmunt Zaleski Stiching and Socamil SA.

Related entities	As at 31.12.2015	As at 31.12.2014
Off-balance sheet liabilities granted to customers	**9 191**	**31 999**
Relating to financing	7 507	22 763
Guarantees	1 684	9 236

As at 31 December 2015 and 31 December 2014 off-balance sheet guarantee liabilities concerning guarantees granted to Alior Polska Sp. o.o. Off-balance sheet liabilities in respect of financing related to credit lines granted to related party with one of the members of Supervisory Board and Polbita Sp. z o.o. as at 31 December 2014.

Subsidiaries	1.01.2015-31.12.2015	1.01.2014- 31.12.2014
Interest income	533	0
Interest expense	-232	-241
Fee and commission income	5	6
Fee and commission expense	0	-20
Other operating income	1 589	531
Other operating costs		-16
General administrative expenses	-3 011	11
Total	**-1 116**	**271**

Related entities	1.01.2015-31.12.2015	1.01.2014- 31.12.2014
Interest income	54	3 000
Interest expense	-1 272	-2 710
Fee and commission income	257	919
Other operating income	1 599	150
General administrative expenses	-41 282	-56 565
Impairment losses	0	-38 298
Total	**-40 644**	-93 504

Nature of transactions with related entities

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)

Interest rates on loans granted to related parties were within the range of 5% - 10%, while interest rates on deposits were within the range of 0.4% - 4.9%.

34. Sale of receivables

In 2015, the Bank sold loans for the total gross amount of PLN 547,452 thousand, the provision recorded for the loans portfolio amounted to PLN 403,546 thousand, and the result on sales amounted to PLN 3,988 thousand. All benefits and risks were transferred to the buyer.

In 2014, the Bank sold loans for the total gross amount of PLN 81,310 thousand, the provision recorded for the loans portfolio amounted to PLN 68,565 thousand, and the result on sales amounted to PLN 7,645 thousand. All benefits and risks were transferred to the buyer.

35. Offsetting of financial assets and liabilities

The following note presents assets and liabilities which comprise items subject to offsetting in accordance with the principles described in Note 2.3.8.

As at 31.12.2015	Gross book value of financial instruments which are not subject to offsetting	Gross book value of financial instruments which are subject to offsetting	Net values presented in the financial statements	Cash collateral received	Amounts relating to recognized financial instruments which do not meet some or all offsetting criteria (under ISDA agreements signed)	Net exposure
	a)	b)	c)=a)-b)	d)	e)	f)=c)+d)+e)
Assets	**1 106 681**	**0**	**1 106 681**	**-203 262**	**-747 049**	**156 370**
Positive amount of derivatives (including hedging instruments)	530 147	0	530 147	-203 262	-171 488	155 397
Treasury bonds blocked for REPO transactions	576 534	0	576 534	0	-575 561	973
Liabilities	**885 741**	**0**	**885 741**	**-171 406**	**-747 049**	**-32 714**
Negative amount of derivatives (including hedging instruments)	310 180	0	310 180	-171 406	-171 488	-32 714
Repo transactions	575 561	0	575 561	0	-575 561	0

(in PLN '000)

As at 31.12.2014	Gross book value of financial instruments which are not subject to offsetting	Gross book value of financial instruments which are subject to offsetting	Net values presented in the financial statements	Cash collateral received	Amounts relating to recognized financial instruments which do not meet some or all offsetting criteria (under ISDA agreements signed)	Net exposure
	a)	b)	c)=a)-b)	d)	e)	f)=c)+d)+e)
Assets	**1 435 439**	**0**	**1 435 439**	**-131 550**	**-1 031 444**	**272 445**
Positive amount of derivatives (including hedging instruments)	553 351	0	553 351	-131 550	-149 356	272 445
Treasury bonds blocked for REPO transactions	882 088	0	882 088	0	-882 088	0
Liabilities	**1 237 731**	**0**	**1 237 731**	**-143 427**	**-1 031 444**	**62 860**
Negative amount of derivatives (including hedging instruments)	353 810	0	353 810	-143 427	-149 356	61 027
Repo transactions	883 921	0	883 921	0	-882 088	1 833

36. Transactions, remuneration and shares held by members of the management and supervisory bodies

All transactions with members of the management and supervisory bodies are concluded in accordance with the rules and regulations relating to bank products, on an arm's length basis.

36.1 Transactions with members of the management and supervisory bodies

As at 31.12.2015	Supervisory and Management Board members	Supervisory Board	Management Board
Assets			
Loans and advances to customers	13 230	5 688	7 542
Total	**13 230**	**5 688**	**7 542**
Liabilities			
Amounts due to customers	-36 517	-19 762	-16 755
Provisions	-2	-1	-1
Total	**-36 519**	**-19 763**	**-16 756**

As at 31.12.2015	Supervisory and Management Board members	Supervisory Board	Management Board
Off-balance sheet liabilities granted to customers	**1 539**	**944**	**595**
In respect of financing	1 539	944	595

(in PLN '000)

As at 31.12.2014	Supervisory and Management Board members	Supervisory Board	Management Board
Assets			
Loans and advances to customers	7 306	38	7 268
Total assets	**7 306**	**38**	**7 268**
Liabilities			
Amounts due to customers	28 236	25 285	2 951
Provisions	2	1	1
Total	**28 238**	**25 286**	**2 952**

As at 31.12.2014	Supervisory and Management Board members	Supervisory Board	Management Board
Off-balance sheet liabilities granted to customers	**1 635**	**1 042**	**593**
In respect of financing	1 635	1 042	593

36.2 Information on the total amount of remuneration paid or payable, broken down by Management and Supervisory Board members	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Management Board		
short-term employee benefits	8 306	7 669
long-term employee benefits	1 432	4 652
Total Management Board	**9 738**	**12 321**
Supervisory Board		
short-term employee benefits	863	723
Total Supervisory Board	**863**	**723**

36.3 Number of shares held by the Supervisory Board	As at 31.12.2015	As at 31.12.2014
Helene Zaleski	210 774	210 774
Niels Lundorff	80 021	90 000
Małgorzata Iwanicz- Drozdowska	1 465	1 465
Total	**292 260**	**302 239**

36.4 Number of shares held by the Management Board	As at 31.12.2015	As at 31.12.2014
Wojciech Sobieraj	435 296	71 322
Krzysztof Czuba	168	168
Michał Hucał	n/a	70
Witold Skrok	104 103	168
Katarzyna Sułkowska	47 612	2 851
Total	**587 179**	**74 579**

(in PLN '000)

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, the 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 General Shareholders' Meeting of Alior Bank S.A. no. 28/2012 of 19 October 2012 on the conditional increase in 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 warrants;
- Krzysztof Czuba - 266,500 warrants;
- Artur Maliszewski - 266,500 warrants;
- Katarzyna Sułkowska - 266,500 warrants;
- Witold Skrok - 266,500 warrants.

Details of the warrants allocated to the Management Board Members are presented in the following table:

Name	Number of A-series warrants allocated as at 31.12.2015	Number of B-series warrants allocated as at 31.12.2015	Number of C-series warrants originally allocated as at 31.12.2015
Sobieraj Wojciech	222 086	222 086	222 086
Bartler Małgorzata*		11 000	20 000
Czuba Krzysztof	88 833	88 833	88 833
Hucał Michał**	53 300	66 625	88 833
Skrok Witold	71 067	88 833	88 833
Sułkowska Katarzyna	88 830	88 833	88 833
total	**524 116**	**566 210**	**597 418**

*Warrants allocated for the period before taking up the position of Vice President
**Warrants allocated during a period of performing a function of Vice-President

The incentive scheme was also addressed to a group of key managers of Alior Bank who are not Management Board members.
The principles of execution of the incentive scheme were 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 series) and the corresponding three tranches of new shares of the Bank (D, E and F series) 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 within 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 within 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 within 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 the 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 the 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 the 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 the 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 management option scheme 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 2015, the costs amounted to PLN 3,377 thousand. The scheme's value was determined based on the fair value model. The fair value of warrants was determined based on a simulation model of share prices and WIG-Banki index values. It was assumed that both share prices and index values change in time in line with geometric Brownian motion. The following assumptions were adopted: long-term changeability of the prices of the Bank's shares, long-term changeability of the WIG-Banki index, correlation between the share prices and index value in the simulation period, dividend rate and risk-free rate. Changeability and correlation were estimated on the basis of historical data and comparative data (if historical data was unavailable). It was assumed that the A, B and C-series warrants may be executed within 5 years from the 1st, 2nd and 3rd year after the issue date, respectively.

On 9 April 2014 and on 16 December 2014 the Bank's Supervisory Board passed resolutions on approving the vesting of subscription warrants for the first period of assessment under the Alior Bank S.A. Incentive Scheme. Pursuant to the provisions of the resolution, 713,140 A series subscription warrants were allotted, and the vesting of 262,614 warrants was deferred and conditioned on the achievement of goals by the eligible persons in 2014.

On 30 April 2015, the Bank's Supervisory Board and Management Board passed resolutions on the allotment of 262,614 A-series and 1,003,050 B-series deferred warrants. 49,968 B-series warrants were deferred, and their allotment was conditioned upon the attainment of goals for 2015, as it was the case with A-series warrants.

In order not to change the scheme's valuation, 134,663 A-series warrants and 57,398 B-series warrants were not allocated.

With respect to persons holding managerial position at the Bank within the meaning of the Variable Compensation Components Policy, each block of Warrants is offered and issued in four tranches: the first tranche amounting to 49.9% of the number of warrants for the given assessment period, and the three subsequent ones amounting to 16.7% each, provided that the conditions of the Variable Compensation Components Policy of Alior Bank S.A. have been satisfied.

(in PLN '000)

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 five issues of new D-series ordinary bearer shares with a total nominal value of PLN 4,107,040, representing 12.32% of all realizable rights under the Subscription Warrants allocated to the Scheme participants. The new issues represent 0.56% of all outstanding shares. Statements on exercising the rights under the A-Series Subscription Warrants allocated by the Bank and taking up 410,704 D-series ordinary bearer shares of PLN 10.00 nominal value each, with a total nominal value of PLN 4,107,040, at the issue price of PLN 61.84 per one D-Series Share, were submitted on 29 August 2014, 28 November 2014, 27 February 2015, 29 May 2015, 24 and 28 August 2015. On 15 October 2014, 5 February 2015, 7 May 2015, 7 September 2015 and 2 November 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 amendment to the Bank's Articles of Association.

38. Legal claims

The value of proceedings relating to liabilities or receivables of the Bank in progress in 2015 did not exceed 10% of Alior Bank's equity. In the Bank's opinion, the Bank's financial liquidity is not at risk due to any single court, arbitration court or public administration body proceeding in progress in 2015, or all the proceedings jointly. The value of disputed claims amounted to PLN 40,844 thousand as at the end of 2015 and PLN 32,264 thousand as at the end of 2014. The value of provisions for disputed claims amounted to PLN 3,219 thousand as at the end of 2015 and PLN 2,513 thousand as at the end of 2014.

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 31.12.2015**	**As at 31.12.2014**
The customers' cash and cash equivalents deposited on cash accounts with the Brokerage Office and provided for purchase of securities as part of an IPO or on the primary market	175 515	147 475
Total	**175 515**	**147 475**

Customers' financial instruments recorded in securities accounts	**As at 31.12.2015**	**As at 31.12.2014**
Dematerialized financial instruments:	6 409 127	6 908 065
including those admitted to trading on the regulated market	4 424 912	5 493 790
Financial instruments other than dematerialized	10 708	11 295
Total	**6 419 835**	**6 919 360**

40. Significant events after the balance sheet date

On 26 January 2016 the PFSA decided Spółdzielcza Kasa Oszczędnościowa Kredytowa im. Stefana Kard. Wyszyńskiego in Września ("SKOK Wyszyńskiego") to be acquired by the Bank. Value of assets of acquired SKOK Wyszyńkiego is approximately 0.3% of Bank's assets value. The acquisition process will take place with the financial support of the BGF based on article 20g of Act on the Bank Guarantee Fund. On 27 January 2016 the Bank took over the management of SKOK Wyszyńskiego's assets and on 1 March 2016 the Bank acquired SKOK Wyszyńskiego.

On 4 February 2016 there was the issue of 10,000 subordinated bonds, unsecured, with non-document form, coupon bearer EUR001 with nominal value of EUR 1,000 each, with a total nominal value of EUR 10,000,000. The issue price of each bond is equal to its nominal value. The bond issue was carried out in accordance with art. 33 section 2 of the Act on bonds of 15 January 2015. Interest rate of bonds is set based on the amount of 6M LIBOR rate for 6-month deposits in Euro plus a fixed margin, and interest will be paid semi-annually. Bonds will be redeemed at their nominal value on 4 February 2022. Pursuant to art. 127 of the Banking Law Act of 29 August 1997, the Bank will apply to the Polish Financial Supervision Authority for permission to include bonds as instruments in Tier II, referred to in art. 63 Regulation of the CRR. Bonds records are conducted by the Bank in accordance with art. 8 of the Act on bonds of 15 January 2015. Records will be conducted by the Bank to the time of redemption or remit of all bonds. The Bonds will not be subject to application for admission and introduction to any organized market within the meaning of the Act on Trading in Financial Instruments of 29 July 2005. The value of incurred liabilities determined on the last day of the quarter preceding by no more than 4 months presentation of acquisition proposal, that is on 30 September 2015 is equal to PLN 33,833,924,000. The value of overdue liabilities determined on the last day of the quarter preceding by no more than 4 months presentation of acquisition proposal, that is on 30 September 2015 is equal to PLN 573,441.71. The projection of liabilities of the Issuer, until full redemption of the bonds are as follows: the sum of the Issuer's liabilities until maturity will not exceed PLN 54,716,000,000.

41. Establishment of the Bond Issue Scheme

Pursuant to the Act on Bonds of 15 January 2015, which entered into force on 1 July 2015 ("the Bonds Act"), on 10 August 2015 the Supervisory Board of Alior Bank S.A. granted its consent to the Management Board for establishing the Alior Bank S.A. PLN Bond Issue Scheme ("the Issue Scheme") and for incurring multiple financial liabilities in the form of issuing unsecured bearer bonds, including subordinated bonds, as part of the Issue Scheme ("Bonds") with the following key parameters:

- the total value of the Issue Scheme shall not exceed PLN 2,000,000,000 (two billion zlotys);
- the Bonds will be issued in series, in the period from the effective date of the resolution to 1 August 2020;
- the maximum maturity of the Bonds issued under the Issue Scheme is 10 years;
- the Bonds issued under the Issue Scheme will not be secured;

- the Bonds will be issued in accordance with Art. 33.1 or Art. 33.2 of the Bonds Act;
- the Bonds will not have the form of a document.

The terms and conditions of issuance of each series of the Bonds may include provisions relating to introducing the Bonds to trading on 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 for issuing the particular bond series under the Issue Scheme, allotting the bonds to investors and taking any other actions that are necessary to carry out the Issue Scheme. As at the date of this report, no issues have been executed as part of the above-mentioned scheme.
Due to the entry into force of the Bonds Act on 1 July 2015, the Bank's Management Board decided to discontinue the issue of bonds under the previous bond issue scheme approved by resolution of the Supervisory Board no. 28/2013 of 18 March 2013. The Bank announced the said bond issue scheme in the current report no. 16/2013 of 19 March 2013.

28 December 2015 the Bank's Supervisory Board gave its consent to the Management Board to open the Public Subordinated Bond Issuance Programme of Alior Bank S.A. and to authorized the Management Board to incur financial liabilities by way of issuing by the Bank in the series up to 800,000 unsecured, subordinated bearer bonds with the nominal value of PLN 1,000 each (under the Issue Scheme).

- The total nominal value of the bonds issued under the Issue Scheme will not exceed PLN 800,000,000.
- The bonds will be issued and offered in the series in the period not exceeding 12 months from the date of approval of basic prospectus, prepared in connection with the Issue Scheme, by the Polish Financial Supervision Authority.
- Maturity period of bonds issued under the Issue Scheme will be from 5 years to 10 years from the issue date of given bond series.
- Benefits arising from bonds will be monetary only.
- The bonds will be issued pursuant to Art. 33 (1) of Act on the Bonds.
- The bonds will have no document form and will be registered in the securities register maintained in accordance with the provisions of the Act on Trading pursuant to the agreement with the National Depository for Securities (the "NDS") or a company indicated in Art. 5 par. 10 of the Act on Trading, in case the NDS will transfer to it the duties of the scope of tasks referred to in Art. 48 par. 1 point 1 of the Act on Trading.
- The terms of issue of each series of the Bonds shall include the provisions on their classification as a component of the own funds in accordance with the provisions of Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment companies, amending Regulation (EU) No. 648/2012 (Official Journal of the European Union L 176 of 27.06.2013, p. 1).
- The Management Board will apply for admission and introducing the Bonds to trading on the regulated market operated by the Warsaw Stock Exchange in Warsaw (hereinafter: the "Stock Exchange") within the Catalyst system or introducing the Bonds to trading on the alternative trading system operated by the WSE or BondSpot within the Catalyst system.

At the same time, the Bank's Supervisory Board authorized the Management Board of the Bank to determine the final terms and conditions for issuing particular Bond series under the Issue Scheme, allotting the Bonds to investors and taking any other necessary actions aimed at carrying out the Issue Scheme.
The Bank's Management Board intends to apply to Polish Financial Supervision Authority for approval of the basic prospectus prepared in connection with public offerings and the application for admission and introduction of Bonds issued under the Issue Scheme to trading on the regulated market operated by the WSE under the Catalyst system.
Opening the Issue Scheme is giving the possibility of issuance of given bond series to provide the safe level of total capital ratio (TCR) in connection with the increase of minimum capital requirements for banks as from 1 January 2016, according to the letter of PFSA dated 22 October 2015. In accordance with the recommendation the banks will have to maintain the capital ratios at the level at least 13.25% for TCR and 10.25% for Tier 1, as from 1 January 2016.

42. Rating

On 5 September 2013, Fitch Ratings Ltd. granted the BB rating with a stable outlook to Alior Bank S.A. The rating was maintained without change in accordance with the assessment from 5 March 2015.

The full rating granted to the Bank by Fitch is as follows:
1. Long-Term Foreign Currency IDR: BB stable outlook.
2. Short-Term Foreign Currency IDR: B.
3. National Long-Term Rating: BBB+(pol), stable outlook
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 and risk of commodity prices;
- credit risk;
- operational risk.

43. Market risk

Market risk is defined as the likelihood of the Bank incurring potential losses in the event of unfavourable 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 within the individual functions, and the principles are specified in internal regulations. The key role in this respect is played by the Financial Risk Management Department (FRMD) 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. 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 for maintaining open trading book

risk positions, and concluding 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 within 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 financing 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 annually by the FRMD 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.

(in PLN '000)

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 identification systems;
- 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 whose 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 scope 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).

For market risk purposes, the Bank estimates Value-at-Risk using an analytic module of the treasury system. The Bank uses a parametric VaR model in accordance with JP Morgan methodology (RiskMetrics). The estimated 99% one-day VaR may be re-scaled to other periods by multiplying variability by a root of a multiple of the one-day period (e.g. 10-day VaR is determined by multiplying one-day VaR by $\sqrt{10}$).
The following table presents VaR (with a 10-day horizon) for the Bank (for the banking book and trading book separately) as at the end of 2015 and 2014.

VaR	**As at 31.12.2015**	**As at 31.12.2014**
Banking book	6 361	8 770
Trading book	2 464	1 518
Total	**7 492**	**9 351**

44. 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 its 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.

(in PLN '000)

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 foreign exchange 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. The Bank conducts periodical analyses of potential scenarios which are aimed at providing information on the Bank's exposure to foreign exchange risk in the event of foreign exchange fluctuation shocks.

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%.

The key foreign exchange risk management tools at 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 and 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 2015, the maximum loss on the Bank's currency portfolio (managed as part of the trading book) specified in accordance with the VaR Model with a 10-day holding period could amount to PLN 106,408.93, assuming a confidence level of 99%.

	As at 31.12.2015	As at 31.12.2014
Holding period [days]	10	10
VaR [PLN]	**106 408.93**	**129 450.70**

VaR statistics on the Bank's currency portfolio for 2015 and 2014

VaR	As at 31.12.2015	As at 31.12.2014
Min	18.81	7.98
Average	116.52	57.75
Max	1 277.16	301.31

The Bank's currency position and the utilization of currency limits as at 31 December 2015

Utilization of limits (in millions in the given currency)		
Currencies	**Limit**	**Utilization**
PLN (gross)	18.5	4.5
PLN (net)	9.5	3.2
Group A		
EUR	1.3	0.8
USD	2.0	0.0
CHF	0.9	0.0
GBP	0.9	0.0
Group B		
PLN (net)	2.6	-0.2
AUD	0.4	0.0
CAD	0.4	0.0
CZK	2.6	0.0
DKK	2.0	0.0
NOK	2.0	0.0
RUB	4.0	-2.0
SEK	2.0	0.0
Other	2.0	-0.1
Commodities	2.0	0.0

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

Utilization of limits (in millions in the given currency)		
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
Other	1.7	0.1
Commodities	1.7	0.0

The VaR model assumes that the distribution of changes in the values of risk factors is normal, which may in practice lead to underestimating the losses in extreme scenarios ("fat tails"). Therefore, the Bank performs 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 unfavourable daily foreign exchange rate change of those which occurred within at least the last four years, totalled PLN 135,952 as at 31 December 2015, and PLN 191,628.38 as at the end of 2014. Stress-test statistics of the currency position in 2015 and 2014 are presented below.

Stress-test statistics of the currency position in 2015 (in PLN '000):

Minimum	Average	Maximum
6.88	95.85	953.41

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

Minimum	Average	Maximum
5.42	89.08	433.05

45. Interest rate risk

Interest rate risk is defined as the risk of a negative impact of 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);

(in PLN '000)

- 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 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 31 December 2015 and 31 December 2014 are presented in the tables below:

BPV as at the end of 2015 by tenor

Currency	Up to 6 months	6 months - 1 year	1 year - 3 years	3 – 5 years	5 - 10 years	Total
PLN	-192.3	17.3	369.8	-140.0	30.3	85.2
EUR	-19.1	-16.2	-19.7	-13.8	-6.6	-75.4
USD	6.1	11.3	-6.2	-6.8	-0.4	4.0
CHF	0.4	-0.1	-1.4	0.0	0.0	-1.1
GBP	0.6	1.7	0.1	0.0	0.0	2.5
Other	-0.5	-1.6	0.0	0.0	0.0	-2.1
Total	**-204.8**	**12.5**	**342.6**	**-160.6**	**23.4**	**13.1**

BPV as at the end of 2014 by tenor

Currency	Up 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	18.8
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
Other	-1.0	-2.0	-2.7	0.0	0.0	-5.7
Total	**-56.0**	**37.9**	**379.2**	**-190.4**	**-2.9**	**167.8**

BPV statistics for January - December 2015

Book	Minimum	Average	Maximum
Banking book	-511.97	-213.39	1.60
Trading book	-35.65	-8.42	38.60
ALCO	-235.41	155.36	543.18
Total	**-378.96**	**-66.44**	**249.33**

BPV statistics for January - December 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**

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 2015 and 2014 is shown in the table below (99% VaR assuming a holding period of 10 days).

VaR	**As at 31.12.2015**	**As at 31.12.2014**
Banking book	6 361	8 770
Trading book*	2 464	1 518
Total	**7 492**	**9 351**

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

VaR statistics for January - December 2015

Book	**Minimum**	**Average**	**Maximum**
Banking book	2 389	7 960	13 498
Trading book	611	1 527	2 622
Total	3 347	8 533	14 973

VaR statistics for January - December 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**

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, borrowings, deposits, loans and derivative transactions used to hedge the 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 2015 (in PLN'000) is presented below.

Scenario (1M/10Y)	**Change in the economic value of capital**
+400 / +100	-170 383
+100 / +400	-75 552
+200 / +200	-99 421

- 200 / - 200	79 039
- 100 / - 400	65 379
- 400 / - 100	78 498

The table below presents the statistics of the ratio of changes in the net interest income for 2015, for the scenarios of interest rate increases/decreases of 100 base points in annual terms (in PLN '000).

Change in the net interest income (in PLN'000)		
Scenario	**+100 bp**	**-100 bp**
Minimum	-58 466	-96 873
Average	-34 814	-65 791
Maximum	-6 570	-40 003

46. Liquidity risk

The Bank defines liquidity risk as the risk of being unable to fulfil, on conditions favourable for the Bank and at an acceptable cost, its payment obligations resulting from all the Bank's balance sheet and off-balance sheet positions. Therefore, the Bank's liquidity risk management policy consists of maintaining its own liquidity in such a 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 capacity to settle all obligations on a timely basis;
- maintaining basic liquidity provisions, in case the liquidity position suddenly deteriorates;
- determining the scale of liquidity risk incurred by setting internal liquidity limits;
- minimizing the risk of exceeding the defined liquidity limits;
- monitoring liquidity, so that the Bank is able to maintain liquidity and activate a relevant emergency plan when necessary;
- ensuring that the processes applied by 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 emergency plans with regard to liquidity;
- monitors liquidity limits;
- conducts periodical analyses of the categories and factors which impact the current and future liquidity levels in the form of reports.

Among the liquidity management measurements, the Bank takes into account the following ratios and the 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 defined as 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 a 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, deposit withdrawals and renewals, level of their concentration);
- option to shorten maturities of specific assets (such as mortgage loans with an early repayment option);
- option to sell assets (liquid portfolio); and they 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 2015 is presented in the table below (amounts of discounted cash flow based on the expected dates of maturity in PLN million):

2015-12-31	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	**526**	**4 631**	**1 549**	**1 638**	**3 115**	**3 673**	**6 735**	**18 142**	**40 009**
Cash and Nostro accounts	20	85	74	70	96	126	223	1 396	2 089
Amounts due from banks		121				183			303
Loans and advances to customers	287	478	1 239	1 545	3 019	3 342	6 096	14 925	30 929
Securities	219	3 948	237	24		23	416		4 867
Other assets								1 821	1 821
LIABILITIES AND EQUITY	**- 208**	**-2 882**	**-1 404**	**-1 791**	**-2 130**	**-3 216**	**-4 858**	**-23 521**	**-40 009**
Amounts due to banks	- 11	- 804				- 203	- 43		-1 061
Amounts due to customers	- 197	-1 209	-1 398	-1 532	-1 941	-2 303	-3 681	-19 155	-31 415
Own issues			- 6	- 259	- 189	- 710	-1 135	- 847	-3 145
Equity								-3 519	-3 519
Other liabilities		- 868							- 868
Balance-sheet gap	**318**	**1 750**	**145**	**- 153**	**985**	**457**	**1 877**	**-5 379**	
Accumulated balance-sheet gap	**318**	**2 068**	**2 213**	**2 060**	**3 046**	**3 503**	**5 379**		
Derivative instruments - inflows		2 455	763	536	1 722	1 108	407	60	7 052
Derivative instruments -		-2 428	- 753	- 551	-1 721	-1 087	- 404	- 59	-7 002

outflows									
Derivative instruments - net		**27**	**10**	**- 15**	**2**	**22**	**3**	**1**	**50**
Guarantee and financial lines		- 478	- 350	- 343	- 485	184	552	920	
Off-balance sheet gap		**- 451**	**- 340**	**- 358**	**- 483**	**206**	**555**	**921**	**50**
Total gap	**318**	**1 299**	**- 195**	**- 511**	**502**	**663**	**2 432**	**-4 458**	**50**
Total accumulated gap	**318**	**1 617**	**1 422**	**911**	**1 413**	**2 076**	**4 508**	**50**	

The maturity analysis of realigned assets and liabilities as at the end of 2014 is presented in the table below (amounts of discounted cash flow based on the expected dates of maturity in PLN million):

2014-12-31	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	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		6				142			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		44	21	224	152	3 569
Other assets								1 335	1 335
Liabilities and equity	**- 188**	**-3 254**	**-1 281**	**-1 384**	**-2 088**	**-2 658**	**-3 530**	**-15 785**	**-30 168**
Amounts due to banks	- 11	- 884				- 131	- 43		-1 069
Amounts due to customers	- 177	-1 239	-1 256	-1 196	-1 601	-2 031	-3 013	-12 275	-22 789
Own issues		- 3	- 25	- 188	- 487	- 495	- 474	- 492	-2 163
Equity								-3 018	-3 018
Other liabilities		-1 129							-1 129
Balance-sheet gap	**195**	**- 25**	**- 51**	**200**	**208**	**363**	**1 455**	**-2 344**	
Accumulated balance-sheet gap	**195**	**170**	**119**	**318**	**526**	**889**	**2 344**		
Derivative instruments - inflows		2 559	1 335	280	442	1 287	263	3	6 169
Derivative instruments - outflows		-2 509	-1 325	- 278	- 436	-1 306	- 258	- 2	-6 115
Derivative instruments - net		**50**	**10**	**3**	**6**	**- 19**	**4**		**54**
Guarantee and financial lines		- 779	- 779		389	1 168			
Off-balance sheet gap		**- 729**	**- 769**	**3**	**395**	**1 149**	**4**		**54**
Total gap	**195**	**- 753**	**- 820**	**202**	**603**	**1 512**	**1 460**	**-2 344**	**54**
Total accumulated gap	**195**	**- 559**	**-1 379**	**-1 177**	**- 574**	**938**	**2 398**	**54**	

The maturity analysis of assets and liabilities as at the end of 2015 by contractual dates is presented in the table below (amounts of discounted cash flows in PLN million):

2015-12-31	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	**7 250**	**518**	**937**	**1 314**	**2 893**	**4 449**	**8 470**	**14 178**	**40 009**
Cash and Nostro accounts	2 089	0	0	0	0	0	0	0	2 089
Amounts due from banks	0	121	0	0	0	183	0	0	303
Loans and advances to	5 161	382	920	1 065	2 323	3 025	6 329	11 724	30 929

customers									
Securities	0	15	17	249	570	1 241	2 141	633	4 867
Other assets	0	0	0	0	0	0	0	1 821	1 821
LIABILITIES AND EQUITY	**-13 943**	**-6 772**	**-5 393**	**-4 883**	**-1 877**	**-1 534**	**-1 225**	**-4 383**	**-40 009**
Amounts due to banks	- 11	- 804	0	0	0	- 203	- 43	0	-1 061
Amounts due to customers	-13 932	-5 100	-5 387	-4 624	-1 688	- 621	- 47	- 17	-31 415
Own issues	0	0	- 6	- 259	- 189	- 710	-1 135	- 847	-3 145
Equity	0	0	0	0	0	0	0	-3 519	-3 519
Other liabilities	0	- 868	0	0	0	0	0	0	- 868
Balance-sheet gap	**-6 693**	**-6 255**	**-4 456**	**-3 568**	**1 017**	**2 914**	**7 246**	**9 795**	**0**
Accumulated balance-sheet gap	**-6 693**	**-12 948**	**-17 404**	**-20 972**	**-19 955**	**-17 041**	**-9 795**	**0**	
Derivative instruments - inflows	0	2 455	763	536	1 722	1 108	407	60	7 052
Derivative instruments - outflows	0	-2 428	- 753	- 551	-1 721	-1 087	- 404	- 59	-7 002
Derivative instruments - net	**0**	**27**	**10**	**- 15**	**2**	**22**	**3**	**1**	**50**
Guarantee and financial lines	8 639	3	9	37	134	98	2	20	8 942
Off-balance sheet gap	**8 639**	**30**	**19**	**22**	**136**	**120**	**5**	**21**	**8 991**
Total gap	**1 946**	**-6 225**	**-4 437**	**-3 547**	**1 153**	**3 034**	**7 251**	**9 817**	**8 991**
Total accumulated gap	**1 946**	**-4 280**	**-8 717**	**-12 263**	**-11 110**	**-8 076**	**- 825**	**8 991**	

The maturity analysis of assets and liabilities as at the end of 2014 by contractual dates is presented in the table below (amounts of discounted cash flows in PLN million):

2014-12-31	**1D**	**1M**	**3M**	**6M**	**1Y**	**2Y**	**5Y**	**5Y+**	**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**	**-5 677**	**-3 817**	**-2 628**	**-1 338**	**-1 399**	**- 562**	**-3 524**	**-30 168**
Amounts due to banks	- 11	- 884	0	0	0	- 131	- 43	0	-1 069
Amounts due to 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
Equity	0	0	0	0	0	0	0	-3 018	-3 018
Other liabilities	0	-1 129	0	0	0	0	0	0	-1 129
Balance-sheet gap	**-5 076**	**-5 235**	**-3 129**	**-1 764**	**833**	**1 926**	**5 493**	**6 953**	**0**
Accumulated balance-sheet gap	**-5 076**	**-10 311**	**-13 440**	**-15 204**	**-14 371**	**-12 446**	**-6 953**	**0**	
Derivative instruments - inflows	0	2 559	1 335	280	442	1 287	263	3	6 169
Derivative instruments -	0	-2 509	-1 325	- 278	- 436	-1 306	- 258	- 2	-6 115

(in PLN '000)

outflows									
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**	**-5 181**	**-3 091**	**-1 711**	**1 066**	**2 018**	**5 497**	**6 962**	**7 840**
Total accumulated gap	**2 280**	**-2 901**	**-5 992**	**-7 703**	**-6 637**	**-4 619**	**878**	**7 840**	

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%.
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 sum of the base and supplementary liquidity reserve as at the reporting date, and the value of unstable external funds. As at 31 December 2015, the surplus amounted to PLN 1,880 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 total of the base and supplementary liquidity reserve as at the reporting date divided by the value of unstable external funds.

The values of the above-mentioned ratios as at 31 December 2015 were as follows: 4.72; 1.11; 1.53. The values of the above-mentioned ratios as at 31 December 2014 were as follows: 5.99;1.11;1.54.

Moreover, in accordance with the requirements of the above-mentioned Resolution, the Bank performs an in-depth analysis of the stability and structure of the sources of financing, including the core deposits and concentration levels for term and current deposits. Additionally, the Bank monitors the changes in balance sheet and off-balance sheet items, in particular the amounts of projected outflows relating to guarantees granted to the customers.

(in PLN '000)

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 2015, HCI amounted to 2.22%, which indicates a lack of concentration. As at 31 December 2014 ratio was 3.97%.

The HCI statistics for 2015 are shown in the table below.

High Concentration Indicator (HCI) in 2015

Minimum	Average	Maximum
1.97%	3.02%	4.97%

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 2015 the Bank's liquidity remained at a safe level. The position was monitored and maintained at a level adequate to the Bank's needs by adjusting the deposit base and using additional sources of financing depending on the development of lending activity and other liquidity needs.

Contractual cash flows of the Bank's liabilities by maturity.

The following tables provide a summary on the maturity of contractual cash flows divided into categories of liabilities from the statement of financial position as at 31 December 2014 and 31 December 2015.
Amounts denominated in foreign currencies have been translated at the NBP average exchange rate of 31 December 2014 and 31 December 2015. In the presented amounts all interest payments were included (if any) beginning from the reporting date until the maturity date of the particular transaction.

Summary of maturity of contractual cash flows of the Bank's liabilities as at 31 December 2015.

31.12.2015	1M	3M	6M	1Y	2Y	5Y	5Y+	Contractual value	Carrying amount
Liabilities	**-20 884**	**-5 442**	**-4 979**	**-1 932**	**-1 399**	**-1 349**	**-1 011**	**-36 995**	**-36 490**
Amounts due to banks	-1 018	-1	-1	-1	-2	-46	-51	-1 120	-1 061
Amounts due to customers	-18 997	-5 429	-4 708	-1 725	-655	-51	-25	-31 590	-31 415
Own issue		-12	-271	-206	-742	-1 251	-935	-3 417	-3 145
Other liabilities	-868							-868	-868

(in PLN '000)

Summary of maturity of contractual cash flows of the Bank's liabilities as at 31 December 2014.

31.12.2014	1M	3M	6M	1Y	2Y	5Y	5Y+	Contractual value	Carrying amount
Liabilities	**-16 973**	**-3 881**	**-2 524**	**-1 518**	**-1 351**	**-647**	**-637**	**-27 532**	**-27 150**
Amounts due to banks	-1 027	-1	-1	-1	-2	-49	-53	-1 133	-1 069
Amounts due to customers	-14 815	-3 845	-2 485	-881	-832	-51	-21	-22 930	-22 789
Own issue	-3	-35	-39	-635	-517	-548	-563	-2 341	-2 163
Other liabilities	-1 129							-1 129	-1 129

47. Credit risk

Managing credit risk and maintaining it at a safe level is of fundamental importance for the stability of the Bank's operations. The regulations in force at the Bank, in particular the lending methodology and models for risk assessment adapted to the customer segment, type of product and transaction, principles for determining and monitoring legal collateral for loans and monitoring and debt collection procedures are aimed at controlling credit risk. The Bank focuses on full centralization and automation of processes within the systemic infrastructure, and simultaneous use of available internal and external customer information.

The level of credit risk is limited in accordance with the restrictions following from external regulations, and internal principles set by the Bank, in particular with reference to the limits of credit exposure to one customer, a group of entities related in terms of equity or personal relationships, and particular industries.

The credit risk management system is comprehensive and integrated with the Bank's operating procedures. The basic stages of credit risk management comprise:

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

A process thus identified enables the Bank to proactively supervise current and potential risks and effectively apply risk steering methods and instruments.

Internal and external credit risk factors were identified in the credit risk management system and attributed to respective areas of the Bank's operations:

1. Customer – each individual customer and groups of related customers are analyzed, homogenous groups of Customers are also verified in terms of the quality of portfolios set up;
2. Product – all types of risk are defined which may be related to the specific product: individual loans and whole portfolios;
3. Collateral – the following are verified: correctness of acceptance of collateral; its value and timeliness; accuracy of preparing the documentation for setting up the collateral and updating its value. To limit credit risk, the efficiency of implementing updated regulations for legally securing dues and applying current standards for securing the debts are monitored;

4. Process and regulations – the quality and effectiveness of the crediting process, administration of crediting, monitoring, debt collection and restructuring are verified as well as cooperation with external debt-collecting agencies, and compliance with internal banking regulations which steer the processes;
5. Systems – in particular, the systems supporting the lending, monitoring and debt collection processes are verified, as well as effectiveness of their application;
6. Distribution channels – effectiveness and loss ratio in respect of the distribution channels operating in the Bank are checked;
7. Employees – correctness of use of individually-allotted credit competences is investigated, potential irregularities which may have occurred during the lending process are detected;
8. External conditions – in particular, the following are investigated: the level of interest rates; currency exchange rates; supply of cash; unemployment rate, changes on the labour market; economic conditions;
9. Correctness of the credit risk management system – correctness of the adopted credit risk management policies is verified on a regular basis.

The Bank analyzes risk both on an individual and on a portfolio basis; this entails further action aimed at:
- minimizing the credit risk of individual loans at a predetermined rate of return;
- controlling the total credit risk resulting from the Bank's specific credit portfolio.

As part of the process of minimizing risk of individual exposures, each time when the Bank grants a loan or another credit product:
1. it assesses the creditworthiness and credit rating of the exposure, taking into consideration, among other things, a detailed analysis of the sources of repayment;
2. it assesses the collateral, including verifying their formal, legal and economic status, taking into consideration, among other things, LTV adequacy.

Additionally, as part of the procedure for strengthening risk control over individual exposures, the Bank regularly monitors customers, taking appropriate mitigating action in the event of identifying increased risk factors.

In respect of controlling the credit risk resulting from the Bank's specific credit portfolio, the Bank:
1. determines and controls concentration limits;
2. monitors early warning signals under the EWS system;
3. regularly monitors the credit portfolio, controlling all material credit risk parameters (such as PD, LTV, CR);
4. regularly performs stress tests.

Assessment of risk in the crediting system
The Bank sells credit products in accordance with the crediting methodologies appropriate for the customer segment and type of product. Assessment of a customer's creditworthiness which precedes the decision about granting a credit product is made using the following credit-process-supporting tools: scoring or rating; external information (such as CBD DZ, CBD BR, BIK, BIG databases) and the Bank's internal databases. Credit products are granted pursuant to the operational procedures in force at the Bank which indicate the appropriate actions to be taken in the crediting process, the responsible Bank units and the tools to be used.

Credit decisions are taken pursuant to the credit decision system in force at the Bank (competency levels adapted to particular customers' and transactions' risk levels).

In order to regularly assess the assumed credit risk and mitigate potential losses on credit exposures, the Bank monitors customer's position over the crediting period by identifying early warning signals and performing periodic individual credit exposure reviews.
The monitoring process ends with issuing a recommendation relating to the further Customer cooperation strategy.

Segregation duties
The Bank pursues a policy of separating the functions related to acquiring Customers and selling credit products from the functions related to risk assessment, taking credit decisions and monitoring credit exposure.

Concentration risk management
Out of concern for the stability and safety of the Bank and appropriate quality of its assets, their diversification, respective returns and appropriate equity levels, concentrations in various areas of the Bank's operations are assessed. The Bank considers excessive concentrations of items which are accompanied by credit risk or liquidity risk to be a phenomenon which will have a negative impact on the Bank's operational safety.

Management of concentration risk in the Bank's credit activities relates to risks which – among other things – result from:

1. exposures to individual entities or entities related in personal or organizational terms;
2. exposures to entities from the same industry, business sector, engaged in the same operations or selling similar goods;
3. exposures to entities from the same voivodeship and particular countries or groups of countries;
4. exposures secured with the same type of collateral or by the same collateral provider (including risk of the Bank's securing itself on securities with similar characteristics);
5. exposures in the same currency;
6. exposures of the same type of rate (fixed or variable) and the interest rate index;the product's datasheet;
7. exposures to entities referred to in Art. 71 of the Banking Law;
8. product metrics;
9. the Customer segment;
10. the distribution channels;
11. special offers and promotions;
12. internal concentration.

Knowledge of the scale of potential dangers related to concentration of the Bank's exposures enables proper asset and liability management, and first and foremost, the safe structuring of the credit portfolio. To prevent unfavourable events following from excessive concentration, the Bank limits concentration risk by setting limits and using concentration standards following from external regulations and those adopted internally.

(in PLN '000)

The Bank introduced:
1. principles for identifying credit concentration risk areas;
2. a process for determining and updating limits;
3. a process for managing limits including the manner of proceeding if the allowable limit is exceeded;
4. a process for monitoring concentration risk, including reporting;
5. controls of concentration risk management.

Industry concentration – balance sheet and off-balance sheet exposure

Section according to the Polish Classification of Businesses PKD 2007	Name of section	31.12.2015	31.12.2014
Section A	Agriculture, forestry, hunting and fishing	169 856	133 543
Section B	Mining and excavation	167 110	183 791
Section C	Industrial processing	4 275 844	3 806 966
Section D	Generation and supply of electrical energy, gas, steam and hot water, and air for air-conditioning	1 889 519	696 880
Section E	Supplying water; managing waste and sewage, and reclamation and rehabilitation activities	94 443	81 546
Section F	Construction	3 707 790	3 521 440
Section G	Wholesale and resale trading, repair of cars, including motorcycles	3 433 278	3 195 637
Section H	Transport and warehousing	485 617	420 095
Section I	Accommodation and catering activities	1 568 126	829 488
Section J	Information and communication	785 548	924 932
Section K	Financial and insurance activities	1 178 549	830 968
Section L	Activities related to servicing the real estate market	3 379 837	2 818 075
Section M	Professional, academic and technical activities	701 441	377 829
Section N	Administration and support activities	441 375	366 360
Section O	Public administration and defense; mandatory social insurance	2	-
Section P	Education	97 367	94 217
Section Q	Healthcare and social insurance	579 004	179 266
Section R	Activities related to culture, entertainment and recreation	107 681	28 714
Section S	Other service activities	67 723	38 400
Section T	Households which employ people, households which manufacture products and provide services internally	-	-
Section U	Ex-territorial organizations and teams	-	-

The above exposures include:
- the loan amount (balance sheet exposure and off-balance sheet exposure net of interest and fees, and in consideration of deductions) net of cash security deposits made;
- unauthorized overdraft in current accounts;
- treasury limits net of security deposits contributed, in consideration of debt securities in the Bank's books of account issued by an entity from the given section.

Country	31.12.2015
Poland	39 758 626
United Kingdom	236 556
Sweden	88 341
Cyprus	76 841

(in PLN '000)

Hungary	64 024
Luxembourg	60 787
Switzerland	24 612
Slovakia	21 494
Ireland	13 176
Germany	11 408

Country	31.12.2014
Poland	33 069 691
Cyprus	81 507
United Kingdom	80 599
Luxembourg	60 798
Switzerland	19 628
Ireland	9 008
Germany	6 781
Norway	3 548
Australia	2 230
Israel	1 571

The above exposures include:

- the loan amount (balance sheet exposure and off-balance sheet exposure net of interest and fees, and in consideration of deductions) net of cash security deposits made;
- unauthorized overdraft in current accounts;
- warranties granted by entities from a given country to entities from other countries;
- treasury limits net of security deposits contributed, in consideration of debt securities in the Bank's books of account issued by an entity from a given country.

In comparison with the year 2014, the exposures in respect of industry concentration and by country do not contain sureties granted by entities from a given country to entities from other countries. Data from 2014 have been restated in accordance with the methodology of 2015 in order to ensure the comparability.

In the process of determining and updating concentration limits the following are taken into account:

1. reliable economic and market information relating to each of the areas in which exposure concentration occurs, in particular, macroeconomic ratios, industry ratios, information on business trends, taking into account projections of interest rates, foreign exchange rates, political risk analyses, ratings of governments and financial institutions;
2. reliable information on business position of entities, industries, branches, business sectors, overall economic information, including on the economic and political position of countries, and other information necessary to assess the Bank's concentration risk;
3. business and qualitative information relating to the management process within entities to which the Bank is exposed, which leads to concentration risk;
4. interest rate risk, liquidity risk, operational risk and political risk related to the identified exposures, which may have an impact on an increase in concentration risk.

Impairment allowances and write-downs

The Bank assesses all balance sheet loan exposures (groups of loan exposures in the balance sheet) in order to identify objective indications of impairment, based on the most up-do-date information possessed by the Bank as at the revaluation date. The Bank assesses off-balance sheet exposures in terms of the need to set up provisions.

Impairment is identified automatically in the Bank's central system based on the information from the system (default) or data entered by the users.

Catalogues of objective evidence of impairment

Customer-related objective evidence of impairment:

- Significant delays in repayment/unauthorized overdraft – this indication relates to business and individual customers; it is recognizable by the system in the event of repayment delays or unauthorized overdraft over a period of more than 90 days, if simultaneously the materiality criteria in respect of the amount due (PLN 500) is met, jointly in all the accounts which the customer owns or of which he is the co-owner, and all the accounts where the customer is the borrower/co-borrower;
- Remedial proceedings – the indication relates to business customers; it is recognized on the basis of flagging of information on a business having filed notification of the commencement of remedial proceedings with the court in the system;
- Bankruptcy/liquidation – the indication relates to business customers; it is recognized on the basis of flagging information on filing a petition for bankruptcy in the system;
- Consumer bankruptcy – the indication relates to individual customers; it is recognized on the basis of flagging information on filing a petition for bankruptcy (consumer bankruptcy) by the borrower in the system;
- Undisclosed customer's assets – the indication relates to business and individual customers; it is recognized on the basis of flagging information on the customer providing untrue information on his assets in the system;
- Significant deterioration in the internal assessment of a scoring/rating – the indication relates to business customers; it is recognized by the system if the scoring/rating drops by at least one class (compared to that previously awarded), and at the same time is below the level accepted by the Bank;
- Significant deterioration in external rating – the indication relates to business customers and is recognized on the basis of flagging information on reducing the customer's external rating from investment to speculative grade in the system;
- Significant deterioration in the economic and financial position – the indication relates to business customers; it is recognized by the system if the assessment of the customer's economic and financial position (in accordance with the RMF classification) deteriorates by at least one category, to the level "substandard", "doubtful" or "loss";
- Demise – this indication relates to individual customers; it is recognized on the basis of flagging in the system, pursuant to confirmed information on a customer's death.
- Lack of information on the customer's place of residence – this indication relates to individual customers; it is recognized on the basis of flagging confirmed information on the absence of the residential address of the customer in the system;
- Loss of job – the indication relates to individual customers; it is recognized on the basis of flagging information on the inability to repay the debt by the customer as a result of the loss of job in the system;
- A customer's financial problems – the indication relates to individual customers; it is recognized on the basis of flagging information on the customer's financial problems (in accordance with BIK data) in the system.

Account-related objective evidence of impairment:

- Issuing a banking executory title – the indication is recognized on the basis of introducing information on a Banking Executory Title having been issued;
- Instigating enforcement proceedings – the indication is recognized on the basis of introducing information on instigating enforcement proceedings by the Bank in the system;
- Effective termination of an agreement – the indication is recognized on the basis of introducing information on effective termination to the system, while simultaneously meeting the criterion of materiality of the amount due (PLN 500);
- Restructuring – the indication is recognized on the basis of introducing information to the system on changes in repaying the loan by the customer as a result of his problems with timely repayment in the form of an annexe to the loan agreement or an arrangement with the Bank;
- The exposure is challenged by the borrower at court – the indication is recognized on the basis of information introduced to the system on the exposure position being challenged by the Customer taking court action;
- Identified fraud – the indication is recognized on the basis of information on confirmed fraud entered to the system on the basis of a court judgement.

Objective evidence of impairment relating to exposure to banks:

- Delay in repayment exceeding 30 days – the indication is recognized on the basis of information on repayment delays exceeding 30 days;
- Significant deterioration in external rating of the counterparty bank – the indication is recognized on the basis of information on lowering the external rating of the counterparty bank from investment to speculative class;
- Significant deterioration in external rating of the country of residence of the counterparty bank – the indication is recognized on the basis of information on lowering the external rating of the country of residence of the counterparty bank from investment to speculative class;
- Significant deterioration in the financial position of the bank/bankruptcy of the bank – the indication is recognized on the basis of information on the counterparty risk being unacceptable in the process of periodic monitoring of limits.

Objective evidence of impairment relating to exposure to bonds:

- Absence of payments in respect of bonds – the indication is recognized on the basis of information on the absence of payments in respect of bonds specified in the Bonds issue terms and conditions;
- The issuer violating other Bond issue terms and conditions, which allows requesting early payment of the Bonds.

If an event arises which may indicate impairment and which is not included in the above list, it is possible to change the account status to default manually. This is done when information is obtained on other material events arising which could indicate impairment.

Indications of impairment of balance sheet impairment of a loan exposure (groups of loan exposures in the balance sheet) are registered in the system on the Customer's level or on the account level. Recorded indications of 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 registering an indication of impairment at Customer level, impairment is propagated to all accounts in the Customer's portfolio. The propagation each time applies to all accounts in respect of which the Customer is the owner/co-owner or borrower/co-borrower. In respect of balance sheet loan exposures which became impaired, the Bank records impairment allowances in order to reduce their carrying amount to the present value of expected future cash flows.

(in PLN '000)

Exposures with identified indications of impairment are classified into those measured on a case-by-case (individual) and on a group basis. The individual assessment applies to exposures carrying the risk of impairment (calculated at customer level) which exceed the established thresholds depending on the customer segment (see table below).

in PLN

Customer Segment	**Threshold**	
	2015	**2014**
Individual customer: –loan –mortgage	no threshold	100,000
Individual customers	150,000	100,000
Business customers	500,000	500,000

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.

In 2015 the Bank implemented statistical model for group assessment of mortgage loans granted to individual customers. Implementation of the model was due to increased number of observations which enabled to reliably estimate the model parameters. The model reflects empirical data of the Bank about the realized recoveries and risk characteristics of the given portfolio. The change related to 1 238 exposures and resulted in impairment allowances increase in the amount of PLN 19.4 million.

In 2015 the Bank covered the whole portfolio of cash loans granted to individual customers with group analysis. Simultaneously, homogenous groups of cash loans were distinguished due to amount of the loan granted and the parameters were recalculated based on updated historical data. Ceasing of individual analysis for this portfolio was due process optimization need and increasing number of observations allowing to widen the model scope. The implemented change resulted in decrease of impairment allowances in the amount of PLN 4.4 million.

Individual assessment is based on an analysis of possible scenarios (business customers) or a probability tree (individual customers). Probabilities of realization and expected profits are attributed to each scenario and tree branch. For individual customers, standard event trees were developed which represent various debt collection procedures. The assumptions adopted for individual measurements are described in detail by the analysts. The amounts of recoveries expected under individual measurements are compared with the profits realized on a quarterly basis.

The group valuation is based on the period of a given exposure being in default and takes into account the specific nature of a given group in terms of the expected recoveries. Security is taken into account on the exposure level.

Exposures in respect of which no indications of impairment have been identified are grouped in keeping with the homogeneity principle in relation to the risk profile and an allowance is recorded against a group of exposures to cover losses incurred but not reported (IBNR). The IBNR amount is established based on PD and LGD parameters, and respective security (taking into account the expected recovery rates).

PD parameters are determined based on the migration matrix and the LIP (Loss Identification Period) levels adopted. The period of historical data which is the basis for assessing the PD parameter was selected so as to achieve two goals: maximize predictivity of the parameters and stability of assessments. Therefore, for most portfolios the Bank uses the 12-month period for observing the migrations between particular delay baskets and the default status to determine PD. Medium and large enterprise portfolios are an exception to this procedure because due to the smaller number of defaults the Bank uses a 24-month period. The PD parameter differs for particular portfolios and delay baskets. PD for particular overdue baskets is determined in LIP periods pursuant to the table below:

Basket/Portfolio	Accounts/LOR KI	Mortgage loans KI	Credit cards KI	Loans KI	Other KI	MICRO KB	Other KB
0 DPD	5	6	5	5	5	5	4
1-30 DPD	4	3	3	3	4	4	3
31-60 DPD	3	2	2	2	2	2	2
61-90 DPD	2	1	1	1	1	1	1

The LIP periods were determined on the basis of a quantitative analysis and account for the period from the initial reason for the loss of ability to service debt.

Collateral

Collateral is set up in an appropriate manner with reference to the credit risk incurred by the Bank and is flexible towards the customer's capabilities. Setting up the collateral does not exonerate the Bank from the duty to assess a customer's credit rating.

A loan has to be secured to ensure the Bank that the loan with the accrued interest and respective costs will be repaid if the borrower defaults on the dates determined in the loan agreement, and restructuring does not bring about the expected effects.

The Bank accepts, in particular, the following legal forms of collateral:

1. Guarantees, re-guarantees and warranties;
2. Account blocking;
3. Registered pledges;
4. Re-possession;
5. Assignment of debts;
6. Loan insurance;
7. Bills of exchange;
8. Mortgages;
9. Power of attorney to bank account;
10. Security deposits (as a special form of collateral).

Collateral is verified in the crediting process in terms of the legal ability to secure the Bank's interests, and its market value is assessed as well as the possibility of recovering it in the potential enforcement proceedings.

Debt collateral enables:

- reducing the amounts of impairment write-downs and allowances in accordance with IAS 39;
- applying more favourable risk weights for the purpose of calculating the capital requirement pursuant to Resolution No. 76/2010 of the Polish Financial Supervision Authority.

The value of collateral is taken into consideration when determining impairment write-downs of retail and business loans; in 2015 it amounted to PLN 994 million, and in 2014 to PLN 764 million. The value of collateral considered when IBNR allowances are calculated for loans that are not impaired in 2015 amounted to PLN 13,600 million and PLN 11,367 million in 2014. The impact of not considering the value of collateral for the level of impairment allowances would amount to, respectively, PLN 124 million in relation to impairment losses and PLN 97 million in relation to IBNR allowances as at 31 December 2015.

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 2015 Alior Bank SA only repossessed chattels classified to the widely meant group of vehicles in debt collection and restructuring processes. 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 to settle the repossession transaction with the collateralized loan by independent external experts operating under contracts concluded with the Bank.

In 2015, assets with a total value of PLN 4 737 thousand were repossessed and assets with a total value of PLN 4 323 thousand were sold. As at 31 December 2015, the value of chattels repossessed and not sold amounted to PLN 459 thousand.

Scoring/rating

Credit scoring is a tool which supports lending decisions in respect of individual Customers and micro-enterprises, and credit rating is an instrument supporting the decision-making process in the SME segment.

Implementation of the scoring and rating process enables:
1. Controlling credit risk thanks to obtaining customer creditability;
2. Standardizing the criteria for taking credit decisions in an unbiased and objective manner;

3. Shortening the period necessary to take credit decisions and guaranteeing higher effectiveness of credit application assessments (increasing efficiency of work and reducing processing costs);
4. Simplifying assessment of credit applications as result of automating the process;
5. Customer segmentation in terms of risk;
6. Monitoring and forecasting the quality of the credit portfolio;
7. Facilitating assessment of the credit policy to-date and faster introduction of changes to decision-making processes used to assess credit risk relating to business and individual customers.

The Bank regularly monitors the correctness of operation of the scoring and rating models. This is done to determine whether the models used correctly diversify risks, and risk parameter assessments correctly reflect appropriate risk aspects. Additionally, functional controls verify correctness of the application of the models in the crediting process.

Currently applied scoring models were developed internally by the Bank. To reinforce risk management of the models operating within the Bank a new team was appointed which performs the function of an independent validation unit. Additionally, a Scoring and Rating Model Validation Committee operates within the Bank which supervises periodic monitoring of all scoring and rating models, which includes giving recommendations and approving periodic monitoring results.

The results of applying the scoring model are as follows:
1. The value of the decision score of a given customer/application;
2. Scoring class with intrinsic PD;
3. Scoring recommendation to the credit application in the form of: "Approval" or "Rejection".

The type of model used to assess individual customers depends on the type and specific nature of the credit product which is being applied for, the credit history and history of cooperation with the Bank. The choice of the model for assessment of the Business Customers depends on the belonging of the customer to one of the segments due to income from sales. The score has an impact on the amount of the standard cost of risk accruing to a given transaction.

One common rating scale of PD parameter, consisting of 25 classes (Q01-Q25), was implemented in the Business Customers segment from 1.09.2015. It replaced existing scoring scale for Micro-enterprises which do not maintain full accounts (classes B1-B10) and five rating scales for entities which maintain books of account (classes A-J). In order to unify the results all scorings/ratings are presented according to the new scale in the segment of Business Customers.

(in PLN '000)

Financial assets not overdue	Risk class	As at 31.12.2015	As at 31.12.2014
Receivables not overdue and not impaired			
Retail segment			
Mortgage loans, cash loans, credit cards, current account overdraft			
(1 – best class, 6 – worst class)	1	700 449	819 518
	2	691 423	761 449
	3	808 399	879 103
	4	887 246	955 457
	5	51 867	57 429
	6	6 851	7 286
Loans, credit cards, current account overdraft – standard process			
(K1 - best class, K10 - worst class)	K1	341 778	169 423
	K2	426 684	306 330
	K3	795 538	646 594
	K4	1 084 859	1 033 527
	K5	1 227 531	1 246 084
	K6	1 034 654	1 061 847
	K7	561 920	593 831
	K8	201 861	226 774
	K9	40 719	40 149
	K10	3 809	3 478
Mortgage loans			
(M1– best class,M10 – worst class)	M1	2 818	1 976
	M2	21 767	11 598
	M3	103 571	60 317
	M4	381 809	207 458
	M5	935 591	500 688
	M6	1 254 284	673 173
	M7	940 449	518 024
	M8	613 014	349 274
	M9	233 637	137 179
	M10	54 473	22 445
Without scoring		2 151 619	375 506
Total retail segment		**15 558 620**	**11 665 917**
Business segment			
Non-current products, car loans, current account overdraft limits			
(1– best class, 6 – worst class)	1	7 785	12 012
	2	11 784	23 101
	3	16 478	30 773
	4	6 172	11 566
	5	0	0
Models for micro-enterprises which do not maintain full accounts and Models for entities which maintain books of account, car dealers and developers			
(Q01 – best class, Q25 – worst class)			
	Q01	21	0
	Q02	13 370	66 904

(in PLN '000)

	Q03	195 015	182 674
	Q04	190 236	353 879
	Q05	17 095	12 647
	Q06	1 074 832	374 379
	Q07	402 377	457 587
	Q08	161 978	0
	Q09	1 038 925	999 646
	Q10	262 246	35 653
	Q11	1 293 114	1 377 326
	Q12	709 894	808 544
	Q13	521 595	95 184
	Q14	992 276	1 033 665
	Q15	355 544	6 078
	Q16	694 126	1 115 603
	Q17	674 844	831 331
	Q18	288 928	35 287
	Q19	626 156	368 440
	Q20	163 146	37 927
	Q21	89 767	41 777
	Q22	51 762	40 456
	Q23	71 686	119 583
	Q24	2 108	0
	Q25	44 906	0
No rating		641 028	239 706
Total business customers		**10 619 194**	**8 711 728**
Receivables not overdue, not impaired		**26 177 814**	**20 377 645**
Receivables not overdue, impaired		152 849	168 736
Retail segment		37 337	14 189
Business segment		115 512	154 547
Total loans and advances to customers, not overdue		**26 330 663**	**20 546 381**
Available-for-sale financial assets:			
issued by non-financial institutions	No scoring	216 094	205 767
issued by other financial institutions	No scoring	0	3 005
Available-for-sale financial assets not overdue, not impaired		**216 094**	**208 772**
Available-for-sale financial assets not overdue, impaired	No scoring	86 650	105 361
Total available-for-sale financial assets not overdue		**302 744**	**314 133**
Financial assets held for trading			
Derivative instruments	Q01		
(Q01 – best class, Q25 – worst class)	Q02		289

(in PLN '000)

	Q03	7 622	2 271
	Q04	4 710	5 924
	Q05	1	135
	Q06	7 910	5 781
	Q07	5 721	3 269
	Q08	1 939	0
	Q09	17 424	14 142
	Q10	7 970	2 505
	Q11	16 638	9 468
	Q12	9 399	5 795
	Q13	8 111	1 381
	Q14	18 598	16 869
	Q15	5 334	0
	Q16	12 280	32 918
	Q17	10 970	21 629
	Q18	4 910	1 221
	Q19	6 148	6 125
	Q20	2 766	677
	Q21	1 741	710
	Q22	54	207
	Q23	4 962	3 884
	Q24		
	Q25	681	1 601
	No scoring	47 341	42 971
Shares		1 335	2 729
Bonds		311	946
Certificates		1 610	0
Total financial assets held for trading		**206 486**	**183 447**

Overdue loans and advances to customers

As at 31.12.2015	Up 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, not impaired	**2 807 250**	**412 737**	**137 026**	**100 720**	**3 372**	**3 461 105**
Retail segment	1 047 724	257 776	49 819	20 449	2 745	1 378 513
Business segment	1 759 526	154 961	87 207	80 271	627	2 082 592
Amounts due, impaired	**145 409**	**121 262**	**329 481**	**523 603**	**2 467**	**1 122 222**
Retail segment	55 540	76 767	204 451	282 620	1 466	620 844
Business segment	89 869	44 495	125 030	240 983	1 001	501 378
Total amount due	**2 952 659**	**533 999**	**466 507**	**624 323**	**5 839**	**4 583 327**

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, 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
Business segment	963 662	38 702	45 108	60 915	30	1 108 417
Amounts due, 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
Business segment	44 184	9 196	131 449	187 548	2	372 379
Total amount due	**1 924 654**	**258 321**	**360 373**	**555 107**	**3 154**	**3 101 609**

(in PLN '000)

External rating classes

The structure of debt securities and amounts due from banks, broken down by external rating classes, is presented below.
The Bank does not assess other trade receivables by rating classes.

Portfolio/Rating	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- t B+	without rating	31.12.2015
Amounts due from banks	**113 751**	**425 474**	**19 519**	**58 713**		**25 083**	**642 540**
Available-for-sale debt instruments	**0**	**3 853 838**	**11 440**	**24 611**	**60 486**	**0**	**3 950 375**
including:							
issued by the Central Bank		0					0
issued by the State Treasury		3 773 380					3 773 380
issued by banks							0
issued by other financial institutions	0	80 458	11 440	24 611	60 486		176 995
Assets pledged as collateral	**628 332**						**628 332**
Derivative financial instruments	**8 719**	**275 301**	**37 667**	**29**		**1 945**	**323 661**
Total	**750 802**	**4 554 613**	**68 626**	**83 353**	**60 486**	**27 028**	**5 544 908**

Portfolio/Rating	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- t B+	without rating	31.12.2014
Amounts due from banks	**126 239**	**308 257**	**71**	**0**	**0**	**12 426**	**446 993**
Available-for-sale debt instruments	**44 165**	**2 212 267**	**21 092**	**60 468**	**0**	**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**	**3 749 807**	**33 992**	**60 468**	**0**	**18 218**	**4 085 756**

Monitoring credit risk of individual and business customers

The following actions ensure constant protection of the quality of the credit portfolio:

- on-going monitoring of the timely servicing of loans;
- periodic reviews, in particular of the financial and economic position of the customers and the value of accepted collateral.

Monitoring individual customers may be divided into the following areas:

- customer;
- credit products granted to the debtor;
- agreements which were the source of the credit exposure;
- accepted collateral;

(in PLN '000)

- amounts of impairment losses and allowances.

Monitoring business customers relate mainly to:

- the customer and its related entities;
- the industry in which the customer operates;
- the credit products granted to the debtor;
- verification of the Customer meeting the contractual provisions included in the agreement which led to the credit exposure;
- collateral accepted (verification of establishment and value of collateral);
- market conditions which have an impact on the customer's creditworthiness;
- amounts of impairment losses and allowances.

All credit exposures in the business customer segment are additionally covered by portfolio monitoring, i.e.:
- assessment on the basis of a dedicated model of behaviour; and
- early warning signal identification process.
All credit exposures of individual and business customers are monitored and classified to appropriate process paths on an on-going basis. To improve monitoring and operational risk control adequate solutions were implemented in the Bank's credit systems. Systemic tools were consolidated to effectively perform monitoring procedures which cover all accounts.
Exposures classified as standard and irregular, which could lead to intensification of actions at the stage of pre-enforcement or debt collection procedures are regularly monitored. Accounts are assessed on terms of restructuring debt to minimize the Bank's losses on default exposures.
Bank's maximum exposure to credit risk

Items in the statement of financial position	As at 31.12.2015	As at 31.12.2014
Current account at the central bank	1 559 981	932 357
Financial assets held for trading	390 569	476 821
Shares	1 335	2 729
Bonds	311	946
Certificates	1 610	0
Interest rate transactions	198 578	260 481
Foreign exchange transactions	132 012	110 794
Other options	34 555	81 198
Other instruments	22 168	20 673
Available-for-sale financial assets	4 253 119	2 652 125
Debt instruments	4 239 445	2 649 120
issued by the State Treasury	3 773 380	2 062 300
issued by other governmental institutions	0	0
issued by monetary institutions	0	149 967
issued by other financial institutions	176 995	125 725

(in PLN '000)

issued by companies	289 070	311 128
Equity instruments	13 674	3 005
Hedging derivatives financial instruments	139 578	80 205
Amounts due from banks	642 540	446 993
Loans and advances to customers	30 913 990	23 647 990
Retail segment	17 595 314	13 300 919
Working capital facility	167 635	142 530
Consumer loans	8 699 017	6 217 208
Consumer finance loans	748 948	704 834
Loans for purchase of securities	119 069	142 921
Credit card loans	225 629	204 619
Loans for residential real estate	6 717 911	4 991 141
Other mortgage loans	896 008	877 230
Other receivables	21 097	20 436
Corporate segment	13 318 676	10 347 071
Working capital facility	7 361 826	5 527 749
Car loans	70 394	141 299
Investment loans	5 487 618	4 134 162
Acquired receivables (factoring)	376 403	517 347
Other receivables	22 435	26 514
Non-current assets held for sale	888	908
Assets pledged as collateral	628 332	927 191
Other financial assets	363 771	180 563
Total	**38 892 768**	**29 345 153**

Off-balance sheet items	**As at 31.12.2015**	**As at 31.12.2014**
Off-balance sheet liabilities granted	8 941 675	7 786 373
Relating to financing	7 371 753	6 246 398
Guarantees	1 569 922	1 539 975

In the Bank's opinion the carrying amounts best reflect maximum risk exposures.

Applying *forbearance* practices

In the restructuring process of a 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 to 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). The 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 possible time schedule options: 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 annexe reducing the limit in 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 annexe 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 a 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 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 an 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 introduced changes had no impact on the manner of identifying impairment or the terms and conditions for reversing losses. After identifying the objective evidence of impairment on exposure subject to Forbearance practices the Bank applies the principle that 3 next timely payments, complied with the new schedule, are the basis for considering the lack of evidence for impairment.

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.

(in PLN '000)

Loans and advances to customers subject to forbearance practices	As at 31.12.2015	As at 31.12.2014
Retail segment	100 422	120 459
not impaired	50 279	74 350
impaired	79 575	78 842
IBNR	-212	-1 835
impairment allowances	-29 220	-30 898
individually assessed	-16 672	-21 430
collectively assessed	-12 548	-9 468
Corporate segment	255 597	272 492
not impaired	131 887	74 890
impaired	230 518	265 175
IBNR	-26	-4
impairment allowances	-106 782	-67 569
individually assessed	-90 487	-66835
collectively assessed	-16 295	-734
Total	**356 019**	**392 951**

Loans and advances to customers subject to forbearance practices	As at 31.12.2015	As at 31.12.2014
impaired	174 091	245 550
including the amount of collateral	124 648	183 145
not impaired	181 928	147 401
including the amount of collateral	97 742	69 859
not overdue	85 305	67 281
overdue	96 623	80 120
Total	**356 019**	**392 951**

Loans and advances to customers subject to forbearance practices by region	As at 31.12.2015	As at 31.12.2014
dolnośląski	25 783	14 966
kujawsko-pomorski	19 444	20 303
lubelski	14 492	4 452
lubuski	13 802	19 053
łódzki	26 478	23 809
małopolski	72 535	177 938
mazowiecki	67 946	61 308
opolski	1 975	1 885
podkarpacki	2 452	1 727
podlaski	2 276	2 154

(in PLN '000)

pomorski	22 953	14 778
śląski	26 345	24 222
świętokrzyski	785	773
warmińsko-mazurski	13 693	1 216
wielkopolski	37 240	18 375
zachodniopomorski	7 820	5 991
Total	**356 019**	**392 951**

Change in the carrying amount of loans and advances to customers subject to forbearance practices	As at 31.12.2015	As at 31.12.2014
net carrying amount at the beginning of the period	392 951	191 271
impairment allowance	-37 535	-36 603
gross carrying amount of loans and advances excluded during the period	-206 515	-28 240
gross carrying amount of loans and advances included during the period	208 271	275 816
other changes	-1 153	-9 293
Net carrying amount at the end of the period	**356 019**	**392 951**

In the years 2015 and 2014 the amount of interest income on loans subject to forbearance amounted to PLN 20,307 thousand and PLN 24,360 thousand respectively.

48. Operational risk

The purpose of managing the Bank's operational risk is to minimize its operational risk exposure which indicates the possibility of loss resulting from non-compliance or the unreliability of internal processes, people, systems, or 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 at Alior 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, which covers:

- 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 the 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 and operational risk appetite;
- by conducting regular assessment of the operational risk management process and the level of use of internal operational risk limits and operational risk appetite;
- 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 operational risk management policies;
- approves and assesses the pursuit of operational risk management strategy 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. Based on 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 the discontinuation of operations which are exposed to operational risk. The Management Board may decide to insure the identified operational risk.

The Operational Risk Strategy Department 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 and operational risk appetite;
- 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 the employees and organizational entities of the Bank. The Bank's employees control the risk level on a current basis in respect of the processes for which they are responsible, 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.

Recording events/incidents and operating losses

The Bank records the events, incidents and operational effects, 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, analysing and monitoring data.

In 2015 gross operational losses amounted in total to PLN 13,026 thousand. Compared with 2014 the value of gross operational losses increased by PLN 8,400 thousand. In 2015 the value of recoveries/ operating income in respect of operational risk amounted to PLN 8,688 thousand, compared to PLN 629 thousand in 2014.

49. 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.

Under its risk appetite the Bank determines the expected levels of coverage – by own funds and Tier 1 capital – 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.

Responsibility for capital management

In the process of capital management the most important roles are played by the Supervisory Board, Management Board and Risk Management Committee and ICAAP.
Competencies of the Supervisory Board

- Approving the procedures for estimating internal capital, equity management and equity planning

Competencies of the Management Board

- Preparing and implementing internal capital estimation processes
- Preparing and implementing capital management processes
- Preparing and implementing equity planning processes
- Regular reviews of the ICAAP process
- Analysis of ICAAP reports (monitoring equity goals and risk profile)
- Supervision over the ICAAP process

Competencies of the Risk Management Committee and ICAAP:

- Supervision over the ICAAP process in the Bank, including reviewing risks and methods for estimating internal capital for material risks
- Monitoring equity goals, capital allocation limits and limits for the overall capital adequacy and Tier1 ratio
- Providing opinions on the ICAAP process

Capital adequacy measures

The following tools are basic for capital management at Alior Bank:

1. Overall capital adequacy and Tier1 ratio
2. Analysis of the regulatory capital requirement

Internal capital (ICAAP) and ratio of coverage of internal capital with own funds.

49.1 Capital adequacy ratio

As at 31 December 2015, 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 stressed that if "national options" were determined and published, the Bank's capital adequacy could differ from that published in these financial statements.

(in PLN '000)

Calculation of funds and capital adequacy ratio	As at 31.12.2015	As at 31.12.2014
Total own funds for the	**3 854 619**	**2 965 852**
Share capital Tier I (CET1)	**2 977 213**	**2 603 420**
Additional capital Tier II	**877 406**	**362 432**
Paid-up share capital	727 075	699 784
Supplementary capital	2 280 668	1 775 397
Other Capital	187 544	184 167
Profit verified by statutory auditor	178 463	169 589
Loss for the year	-12 901	-6 642
Intangible assets measured at carrying amount	-379 820	-214 589
Revaluation reserve - unrealized profits	1 790	0
Subordinated liabilities	877 406	362 432
The Bank's capital exposure to financial institutions	0	0
Additional valuation adjustments	-5 606	-4 286
Non-controlling interests	0	0
Capital requirements	**2 459 640**	**1 845 697**
Capital requirements for the following risks: credit, counterparty, credit valuation adjustment, dilution and delivery of instruments to be settled at a later date	2 216 262	1 659 221
Total capital requirements for the following risks: equity instrument price risk, debt instrument price risk, commodity prices and FX risk	2 520	1 657
Capital requirement for general interest rate risks	32 637	26 207
Capital requirements for operating risk	208 221	158 612
Tier 1	**9.68%**	**11.28%**
Capital adequacy ratio	**12.54%**	**12.86%**

Balance sheet and off-balance sheet exposures in credit risk by classes

	31.12.2015		31.12.2014	
Exposure class in the standard method	**Exposure value**	**Risk weighted exposure value**	**Exposure value**	**Risk weighted exposure value**
Governments and central banks	6 221 473	693 721	4 208 722	374 800
Institutions	1 349 818	563 649	1 119 106	476 326
Enterprises	7 636 196	4 894 565	5 320 213	2 730 101
Retail	16 209 459	8 736 945	12 084 887	6 281 313
Secured on real estates	14 569 557	9 415 917	12 629 468	7 928 143
Other	4 200 228	3 293 317	3 607 913	2 851 236
Total	**50 186 731**	**27 598 114**	**38 970 309**	**20 641 919**

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

Exposure type	31.12.2015	31.12.2014
Cash in hand and equivalent items	192 824	226 085
Securities	4 863 185	3 568 566
Loans	33 810 060	25 423 755
Property, plant and equipment	227 633	191 835
Intangible assets	379 820	214 589
Other	966 039	842 056
Total	**40 439 561**	**30 466 886**

According to the Delegated Commission Regulation (EU) No. 183/2014 of 20.12.2013 the exposure includes adjustments for general and specific credit risk included in the Tier 1 capital.

49.2. Analysis of the regulatory capital requirement

Under the capital adequacy ratio calculations the Bank analyzes the level of the regulatory capital requirement and the relation between own funds and internal capital. The analysis consists of comparing actual amounts with budgeted amounts and indicating the reasons for potential differences (other than the planned scale of operations of the Bank, in particular the size of the credit portfolio or other than the planned asset risk profile). The Bank's equity exceeded the total capital requirement throughout 2015.

Accounting for risk in assessing the goal set for business entities

The Bank's business model defines the goal set for particular business entities as profitability which accounts for risk components (anticipated) and costs of equity. Cost of equity is understood as the product of the anticipated RoE of the Bank and the amount of regulatory capital which arose as a result of a given entity's operations.

49.3. 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 risks as at 31 December 2015:

1. Credit risk – insolvency
2. Credit risk – industry concentration
3. Credit risk – Customer concentration
4. Credit risk – currency concentration
5. Operational risk
6. Liquidity risk
7. Interest rate risk in the Banking Book
8. Market risk
9. Model risk
10. Reputation risk
11. Business risk

The Bank allocates internal capital to particular risks identified as material for the Bank using internal risk assessment models. Internal capital is assessed in respect of:

- credit risk based on the CreditRisk+ method as a value of 99.95 of a quantile of the statistical loss distribution model in the credit portfolio;
- market risk and interest rate risk in the Banking Book based on the VaR methodology;
- liquidity risk based on the liquidity gap model on the assumption of stress conditions;
- operational risk and reputation risk based on the statistical frequency distribution and loss models.

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

49.4 CRD IV/CRR package

As at 31 December 2015, the Bank fully took into account the provisions of the CRR Regulation in respect of capital management, including own funds and calculating capital requirements in respect of particular risk types.

Signatures of all Management Board members

02.03.2015	Wojciech Sobieraj President of the Management Board	.... Signature
02.03.2015	Małgorzata Bartler Vice-President of the Management Board	.... Signature
02.03.2015	Krzysztof Czuba Vice-President of the Management Board	.... Signature
02.03.2015	Joanna Krzyżanowska Vice-President of the Management Board	.... Signature
02.03.2015	Witold Skrok Vice-President of the Management Board	.... Signature
02.03.2015	Barbara Smalska Vice-President of the Management Board	.... Signature
02.03.2015	Katarzyna Sułkowska Vice-President of the Management Board	.... Signature