



## Financial statements of Alior Bank Spółka Akcyjna

for the year ended 31 December 2017

*This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Selected financial data concerning the financial statements

PLN	01.01.2017 –	01.01.2016	%
	31.12.2017	- 31.12.2016	(A-B)/B
	A	B	C
Net interest income	2 832 992	1 941 874	45.9%
Net fee and commission income	436 871	334 357	30.7%
Trading and revaluation result	403 838	392 060	3.0%
Net impairment allowances and write-downs	-920 466	-794 733	15.8%
General administrative expenses	-1 788 003	-1 543 456	15.8%
Gross profit	764 715	664 214	15.1%
Net profit	538 895	589 024	-8.5%
Net cash flows	-95 439	-495 059	-80.7%
Loans and advances to customers	51 244 093	46 248 623	10.8%
Amounts due to customers	57 655 618	51 404 848	12.2%
Equity	6 805 243	6 179 812	10.1%
Total assets	69 382 178	61 162 795	13.4%
Selected ratios			
Profit per ordinary share (PLN)	4,17	5,76	-27.7%
Capital adequacy ratio	15.33%	13.67%	12.1%
Tier 1	12.22%	11.32%	8.0%

EUR	01.01.2017 –	01.01.2016 –	%
	31.12.2017	31.12.2016	(A-B)/B
	A	B	C
Net interest income	667 419	443 786	50.4%
Net fee and commission income	102 922	76 412	34.7%
Trading and revaluation result	95 139	89 599	6.2%
Net impairment allowances and write-downs	-216 851	-181 624	19.4%
General administrative expenses	-421 232	-352 734	19.4%
Gross profit	180 158	151 796	18.7%
Net profit	126 957	134 613	-5.7%
Net cash flows	-22 484	-113 138	-80.1%
Loans and advances to customers	12 286 100	10 454 029	17.5%
Amounts due to customers	13 823 304	11 619 541	19.0%
Equity	1 631 601	1 396 883	16.8%
Total assets	16 634 822	13 825 225	20.3%
Selected ratios			
Profit per ordinary share (EUR)	0.98	1.32	-25.4%
Capital adequacy ratio	15.33%	13.67%	12.1%
Tier 1	12.22%	11.32%	8.0%

Selected items of the financial statements were translated into EUR at the following exchange rates	31.12.2017	31.12.2016
NBP's average exchange rate as at 31 December of the year	4.1709	4.4240
NBP's average exchange rates as at the last day of each month	4.2447	4.3757



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## Income statement

	Note number	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016* Restated
Interest income		3 590 604	2 639 265
Interest expense		-757 612	-697 391
<b>Net interest income</b>	<b>6</b>	<b>2 832 992</b>	<b>1 941 874</b>
Dividend income		31	68
Fee and commission income		801 738	592 337
Fee and commission expense		-364 867	-257 980
<b>Net fee and commission income</b>	<b>7</b>	<b>436 871</b>	<b>334 357</b>
Trading and revaluation result	8	369 314	319 779
Net gain (realized) on other financial instruments	9	6 908	21 919
Other operating income		105 805	102 014
Other operating expenses		-78 220	-51 720
<b>Net other operating income and expenses</b>	<b>10</b>	<b>27 585</b>	<b>50 294</b>
Profit from acquisition of the demerged business of Bank BPH		0	465 005
General administrative expenses	11	-1 788 003	-1 543 456
Net impairment allowances and write-downs	12	-920 466	-794 733
Banking Tax	13	-200 517	-130 893
<b>Gross profit</b>		<b>764 715</b>	<b>664 214</b>
Income tax	14	-225 820	-75 190
<b>Net profit</b>		<b>538 895</b>	<b>589 024</b>
Weighted average number of ordinary shares		129 259 754	102 218 667
Net profit per share (PLN)	15	4,17	5,76
Diluted profit per ordinary share (PLN)	15	4,09	5,62

\*clarification in Note 4.2

## Statement of comprehensive income

	Note number	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016* Restated
<b>Net profit</b>		<b>538 895</b>	<b>589 024</b>
<b>Items that may be reclassified to the income statement after certain conditions are satisfied</b>		<b>86 175</b>	<b>-86 852</b>
Foreign currency translation differences		616	-22
<b>Results of the measurement of available-for-sale financial assets(net)</b>		<b>85 861</b>	<b>-56 068</b>
Profit/loss on fair valuation of available-for-sale financial assets	17	105 625	-69 220
Deferred tax	14	-19 764	13 152
<b>Results of the measurement of hedging instruments (net)</b>		<b>-302</b>	<b>-30 762</b>
Gains/losses on hedging instruments	19	-373	-37 978
Deferred tax	14	71	7 216
<b>Total net comprehensive income</b>		<b>625 070</b>	<b>502 172</b>

\*clarification in Note 4.2

## Statement of financial position

ASSETS	Note number	31.12.2017	31.12.2016 Restated
Cash and balances with Central Bank	16	965 391	1 082 991
Financial assets held for trading	18	452 551	419 551
Available-for-sale financial assets	17	12 072 324	9 374 646
Investment securities held to maturity	17	1 117 894	1 954
Derivative hedging instruments	19	87 785	71 684
Amounts due from banks	21	898 977	1 364 226
Loans and advances to customers	20	51 244 093	46 248 623
Assets pledged as collateral	31	408 911	366 984
Property, plant and equipment	22	466 958	483 520
Intangible assets	22	510 106	480 913
Investments in subsidiaries		102 025	72 359
Non-current asset held for sale		357	679
Income tax assets	14	530 759	532 570
Deferred		530 759	532 570
Other assets	23	524 047	662 095
<b>Total assets</b>		<b>69 382 178</b>	<b>61 162 795</b>
<b>LIABILITIES AND EQUITY</b>		<b>€ 31.12.2017</b>	<b>31.12.2016 Restated</b>
Financial liabilities held for trading	18	435 878	298 314
Amounts due to banks	25	743 911	381 235
Amounts due to customers	24	57 655 618	51 404 848
Derivative hedging instruments	19	5 419	6 119
Provisions	26	90 433	286 791
Other liabilities	27	1 628 318	1 427 757
Income tax liabilities		102 382	13 125
Current		102 382	13 125
Subordinated loans	28	1 914 976	1 164 794
<b>Total liabilities</b>		<b>62 576 935</b>	<b>54 982 983</b>
Share capital		1 292 636	1 292 578
Supplementary capital		4 817 331	4 184 953
Revaluation reserve		13 944	-71 615
Other reserves		184 894	184 894
Foreign currency translation differences		594	-22
Accumulated losses		-43 051	0
Profit for the year		538 895	589 024
<b>Equity</b>	29	<b>6 805 243</b>	<b>6 179 812</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>69 382 178</b>	<b>61 162 795</b>

\*clarification in Note 4.2

## Statement of changes in equity

01.01.2017- 31.12.2017	Share capital	Supplementary capital	Other reserves	Revaluation reserve	Exchange differences on revaluation of foreign units	Retained earnings	Total equity
01 January 2017	1 292 578	4 184 953	184 894	-71 615	-22	589 024	6 179 812
Transfer of last year's profit	0	632 075	0	0	0	-632 075	0
<b>Comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>85 559</b>	<b>616</b>	<b>538 895</b>	<b>625 070</b>
net profit	0	0	0	0	0	538 895	538 895
other comprehensive income – valuations	0	0	0	85 559	616	0	86 175
incl.available-for-sale financial assets	0	0	0	85 861	0	0	85 861
incl.hedging instruments	0	0	0	-302	0	0	-302
incl.currency translation differences	0	0	0	0	616	0	616
<b>Share issue</b>	<b>58</b>	<b>303</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>361</b>
31 December 2017	1 292 636	4 817 331	184 894	13 944	594	495 844	6 805 243

01.01.2016- 31.12.2016* Restated	Share capital	Supplementary capital	Other reserves	Revaluation reserve	Exchange differences on revaluation of foreign units	Retained earnings	Total equity
01 January 2016	727 075	2 280 668	184 894	15 215	0	311 415	3 519 267
Transfer of last year's profit	0	311 415	0	0	0	-311 415	0
<b>Comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-86 830</b>	<b>-22</b>	<b>589 024</b>	<b>502 172</b>
net profit	0	0	0	0	0	589 024	589 024
other comprehensive income – valuations	0	0	0	-86 830	-22	0	-86 852
incl.available-for-sale financial assets	0	0	0	-56 068	0	0	-56 068
incl.hedging instruments	0	0	0	-30 762	0	0	-30 762
incl.currency translation differences	0	0	0	0	-22	0	-22
<b>Share issue</b>	<b>565 503</b>	<b>1 592 870</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2 158 373</b>
31 December 2017	1 292 578	4 184 953	184 894	-71 615	-22	589 024	6 179 812

\*clarification in Note 4.2

## Cash flow statement

	Note number	01.01.2017 – 31.12.2017	01.01.2016 31.12.2016* restated
<b>Operating activities</b>			
<b>Profit before tax for the year</b>		<b>764 715</b>	<b>664 214</b>
<b>Adjustments:</b>		<b>198 695</b>	<b>397 899</b>
Unrealized foreign exchange gains/losses		798	-7 404
Dividends		31	68
Amortization/depreciation of tangible and intangible assets		172 145	101 832
Change in impairment loss of tangible fixed and intangible assets		25 721	26 413
<b>Gross profit after adjustments and before changing balances</b>		<b>963 410</b>	<b>1 062 113</b>
Change in loans and receivables	32	-4 508 060	-15 884 350
Change in financial assets available for sale		-2 697 678	-5 121 527
Change in investment securities held to maturity		-1 115 940	-1 954
Change in financial assets held for trading		-33 000	-28 982
Change in assets pledged as collateral		-41 927	261 348
Change in hedging asset derivatives		-16 101	67 894
Change in non-current assets held for sale		322	209
Change in other assets	32	138 048	-350 460
Change in deposits		6 160 522	16 890 060
Change in issued debt		489 914	509 442
Change in financial liabilities held for trading		137 564	-11 866
Change in hedging liabilities derivative		-700	6 119
Change in other liabilities and other comprehensive income	32	312 458	690 169
Change in provisions		-196 358	276 990
<b>Net cash flow from operating activities before income tax</b>		<b>-407 526</b>	<b>-1 911 785</b>
<b>Income tax paid</b>		<b>-153 931</b>	<b>-267 206</b>
<b>Net cash flow from operating activities</b>		<b>-561 457</b>	<b>-2 178 991</b>
<b>Investing activities</b>			
<b>Outflows:</b>		<b>-225 373</b>	<b>-697 182</b>
Purchase of property, plant and equipment	32	-100 448	-317 754
Purchase of intangible assets	32	-95 259	-154 349
Investments in subsidiaries		-29 666	-50 384
The acquisition of demerged BPH business, net of cash acquired		0	-174 695
<b>Inflows:</b>		<b>5 980</b>	<b>5 102</b>
Disposal of tangible fixed assets		5 980	5 102
<b>Net cash flow from investing activities</b>		<b>-219 393</b>	<b>-692 080</b>
<b>Financing activities</b>			
<b>Outflows:</b>		<b>-64 647</b>	<b>-59 189</b>
Interest expense – subordinated loan		-64 647	-59 189
<b>Inflows:</b>		<b>750 058</b>	<b>2 435 201</b>
Inflows from share issue		58	2 158 373
Inflows from the issuance of subordinated liabilities		750 000	276 828
<b>Net cash flow from financing activities</b>		<b>685 411</b>	<b>2 376 012</b>
<b>Total net cash flow</b>		<b>-95 439</b>	<b>-495 059</b>
<b>incl. exchange gains/(losses)</b>		<b>-72 877</b>	<b>22 147</b>
<b>Balance sheet change in cash and cash equivalents</b>		<b>-95 439</b>	<b>-495 059</b>
Cash and cash equivalents, opening balance		1 707 153	2 202 212
Cash and cash equivalents, closing balance	32	1 611 714	1 707 153
Additional disclosures on operating cash flows			
Interests received		2 485 268	2 844 313
Interests paid		-639 859	-984 454

\*clarification in Note 4.2



## Notes to the financial statements

### 1 Information about the Bank

#### 1.1 General information, duration, and the scope of business of Alior Bank SA

Alior Bank Spółka Akcyjna with its registered office in Warsaw, Poland, ul. Łopuszańska 38D, was entered to the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register under KRS number: 0000305178. Bank was assigned the 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 number: PLALIOR00045). On 18 April the Polish Financial Supervision Authority ("PFSA") issued its licence to establish the bank under the name of Alior Bank SA, and on 1 September 2008 it issued a licence to the Bank to commence operations. On 5 September 2008, PFSA granted a licence to the Bank to perform stock broking activities. The duration of business of the Bank is unrestricted.

On 4 November 2016, the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, entered in the register of entrepreneurs an increase of the share capital of Alior Bank from PLN 1 292 577 120.00 to PLN 1 292 577 630.00 by way of an issue of 51 ordinary series J bearer shares with a nominal value of PLN 10.00 in connection with the demerger of Bank BPH pursuant to Art. 529.1.4 of the Code of Commercial Companies. In compliance with Art. 530.2 of the Code of Commercial Companies, along with the registration of the capital increase, the District Court made an entry of the merger of Alior Bank SA with the demerged part of Bank BPH SA, covering all assets and liabilities specified in the Demerger Plan, constituting the core business of Bank BPH. Thus, the demerger has become effective and the Core Business of Bank BPH has formally become part of Alior Bank. The transaction is described in Note 44.

Alior Bank is a universal deposit and credit bank, providing services to natural and legal persons, and other entities that are domestic and foreign persons. The Bank's core business covers maintenance of bank accounts, granting loans, issue of bank securities, and purchase and sale of foreign currencies. The Bank is also involved in stock broking activity, financial advisory, and intermediation services, and provides other financial services. In accordance with the provisions of its Articles of Association, Alior Bank has been operating in the territory of the Republic of Poland and the European Economic Area. The Bank provides its services primarily to customers from Poland. The number of customers in the overall number of the Bank's customers is negligible. As part of its retail banking, in 2016 a foreign branch of Alior Bank was opened in Romania.

#### 1.2 Information on the composition of the Bank's Management Board and the Bank's Supervisory Board

In comparison to the previous reporting period ended on 31 December 2016, the composition of the Bank's Management Board changed. Pursuant to the resolutions approved by 9 June, 14 June, and 6 July 2017, the Bank's Supervisory Board entrusted the following persons with the functions of Vice Presidents of the Management Board of Alior Bank SA.

Additionally, the Supervisory Board entrusted to Mr Michał Jan Chyczewski management of the work of the Management Board until approval of his appointment from the Polish Financial Supervision Authority to the position of the President of the Bank's Management Board.

### Composition of the Bank's Management Board as at 31 December 2017

First and last name	Function	Date when the position was assumed
Michał Jan Chyczewski,	acting President of the Management Board	29 June 2017
Filip Gorczyca	Vice President of the Management Board	29 June 2017
Sylwester Grzebinoga	Vice President of the Management Board	01 August 2017
Urszula Krzyżanowska-Piękoś	Vice President of the Management Board	29 June 2017
Katarzyna Sułkowska	Vice President of the Management Board	29 June 2017
Celina Waleśkiewicz	Vice President of the Management Board	29 June 2017

### Composition of the Bank's Management Board as at 31 December 2016

First and last name	Function
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

The composition of the Bank's Supervisory Board as at 31 December 2017 was as follows:

First and last name	Function
Tomasz Kulik	Chairman of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	Deputy Chairperson of the Supervisory Board
Dariusz Gątarek	Member of the Supervisory Board
Mikołaj Handsche	Member of the Supervisory Board
Artur Kucharski	Member of the Supervisory Board
Sławomir Niemierka	Member of the Supervisory Board
Maciej Rapkiewicz	Member of the Supervisory Board

On 21 April 2017, the Bank's Extraordinary Meeting approved resolutions on modifications to the composition of the Supervisory Board – a resolution dismissing Mr Stanisław Ryszard Kaczoruk from the Supervisory Board and a resolution appointing Mr Roman Pałac to the Supervisory Board.

On 14 June 2017, Mr Michał Krupiński, Chairman of the Bank's Supervisory Board, filed his resignation from the Supervisory Board, including his function as the Chairman of the Supervisory Board, effective on 14 June 2017.

On 29 June 2017, Mr Roman Pałac, Member of the Supervisory Board, filed his resignation from the Bank's Supervisory Board, effective on 29 June 2017.

On 29 June 2017, the Bank's General Meeting appointed Mr Tomasz Kulik to the Supervisory Board and appointed Mr Eligiusz Krześniak to the Supervisory Board, effective on 30 June 2017.

On 5 July 2017, the Supervisory Board elected Mr Eligiusz Krześniak as Chairman of the Supervisory Board of Alior Bank.

On 18 July 2017, Mr Marek Michalski, Member of the Supervisory Board, filed his resignation from the Bank's Supervisory Board, effective on 18 July 2017.

On 29 September 2017 Mr Eligiusz Krześniak, Chairman of the Supervisory Board notified of his resignation from the function of Chairman of the Supervisory Board of Alior Bank SA. Mr Eligiusz Krześniak remained a Member of the Supervisory Board of Alior Bank SA until 31 October 2017, when he filed his resignation from being a Member of the Supervisory Board, effective on that day.

On 29 September 2017, Mr Tomasz Kulik was elected the new Chairman of the Supervisory Board of Alior Bank SA.

On 31 October 2017, the Bank's Extraordinary General Meeting appointed Mr Artur Kucharski and Mr Mikołaj Handschke to the composition of the Bank's Supervisory Board.

The composition of the Bank's Supervisory Board as at 31 December 2016 was as follows:

First and last name	Function
Michał Krupiński	- Chairman of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	- Deputy Chairperson of the Supervisory Board
Dariusz Gątarek	- Member of the Supervisory Board
Stanisław Ryszard Kaczoruk	- Member of the Supervisory Board
Marek Michalski	- Member of the Supervisory Board
Sławomir Niemierka	- Member of the Supervisory Board
Maciej Rapkiewicz	- Member of the Supervisory Board
Paweł Szymański	- Member of the Supervisory Board

## 2 Basis of preparation of the financial statements

### 2.1 Coverage and comparable data

These financial statements cover the year ended on 31 December 2017 and contain comparable data for the year ended on 31 December 2016. The financial statements were made in PLN and all the numbers presented herein are in PLN thousand, unless specified otherwise.

### 2.2 Compliance statement

These financial statements of Alior Bank Spółka Akcyjna were made in line with the International Financial Reporting Standards (IFRS) applied on a continuous basis, as approved by the European Union on 31 December 2017.

### 2.3 Going concern

These financial statements of Alior Bank were made under a going concern assumption of the Bank for minimum 12 months after the balance sheet date, i.e. after 31 December 2017.

As of the approval date hereof, the Bank's Management Board did not find any facts or circumstances that would indicate to a threat to the continued activity of the Bank over 12 months of the publication hereof as a result of an intended or enforced discontinuation of material reduction of the existing activity by the Bank.

In 2017 and 2016 the Bank had no discontinued operations.

### 2.4 Presentation of the financial statements

In its statement of financial position, the Bank discloses assets and liabilities according to the liquidity criterion. The principles of netting off of financial assets and liabilities are described in Note 36.1. The Bank does not set off income and expenses, unless so required by law or permitted by standards or interpretation.

### 2.5 Approval of the financial statements

These financial statements of Alior Bank Spółka Akcyjna were approved for publication by the Bank's Management Board on 6 March 2018.

### 3 Description of the material accounting principles

The most important accounting principles, as well as estimates and assumptions applied in the preparation of these financial statements are presented in the Notes and below. The principles were applied on a continuous basis in all presented years. Below there is a specification of accounting principles and major estimates and assumptions for the specific items of the income statement and the statement of financial position.

Income statement	Note number	Accounting policies*
Interest income and expense	6	Y
Fee and commission income and expense	7	Y
Trading and revaluation result	8	Y
Net gain (realized) on other financial instruments	9	Y
Other operating income and expenses	10	Y
Profit from acquisition of the demerged business of Bank BPH	44	Y
General administrative expenses	11	Y
Net impairment allowances and write-downs	12	Y
Income tax	14	Y

Statement of financial position	Note number	Accounting policies*	Major estimates and assessments*
Cash and balances with the Central Bank	16	Y	
Financial assets held for trading	18	Y	Y
Available-for-sale financial assets	17	Y	Y
Investment securities held to maturity	17	Y	
Derivative hedging instruments	19	Y	Y
Amounts due from banks	21	Y	
Loans and advances to customers	20	Y	Y
Assets hedging liabilities	31	Y	
Property, plant & equipment	22	Y	
Intangible assets	22	Y	Y
Income tax assets	14	Y	
Other assets	23	Y	
Financial liabilities held for trading	18	Y	Y
Amounts due to banks	25	Y	
Amounts due to customers	24	Y	
Derivative hedging instruments	19	Y	
Provisions	26	Y	
Other liabilities	27	Y	
Subordinated liabilities	28	Y	
The Bank's equity and shareholding structure	29	Y	

\* Letter Y means that the financial statements contain important information about the selected accounting policy and significant estimates

#### 3.1 Transactions in foreign currencies

##### Functional currency and reporting currency

The financial statements were made in PLN which is the functional currency of the Bank. The amounts in these financial statements are presented in PLN thousand, unless specified otherwise.

### Foreign currency denominated transactions and balances

Foreign currency denominated transactions are initially recognised in the functional currency at the exchange rate of the National Bank of Poland prevailing on the transactional date. On the last day of each reporting period, the Bank translates:

- foreign currency denominated monetary assets and liabilities at NBP's mid exchange rate prevailing on the day;
- non-monetary items measured according to historic cost in foreign currencies at the exchange rates effective as at the date the transaction was initially recognised.
- non-monetary items valued according to the fair value in foreign currency at the exchange rate effective as on the date of fair value determination.

Foreign exchange gains and losses resulting from the settlement of transactions and from the year-end translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange gains and losses on items such as equity instruments classified as available for sale are included in the revaluation reserve of available-for-sale financial assets.

The results and balances of foreign operations (including branches) that have a functional currency other than PLN, and are measured to PLN as follows:

- assets and liabilities as at the balance sheet date are measured at NBP's average exchange rate prevailing on that day,
- income and expenses are measured at the arithmetic average exchange rates published by NBP, prevailing as at the end of each day
- FX gains/losses on measurement of foreign operations are recognised as a separate equity item. This is incorporated in the financial result when such foreign operation is disposed of.

RON	2017	2016
FX rate prevailing on the last day of period	0.8953	0.9749
FX rate being an arithmetic average FX rates prevailing on the last day of each period	0.9282	0.9739

### 3.2 Combination of business entities

Acquisitions of subsidiaries by the Bank are recognised with the acquisition method in compliance with IFRS 3. In accordance with the accounting policies approved by the Bank, with reference to IAS 8 item 10, when accounting for a combination under common control, the accounting principle applied is the predecessor accounting method i.e. recognition of the acquired entity at the carrying value of the assets and liabilities disclosed in the consolidated financial statements of a higher level entity, including goodwill that is generated as a result of such acquisition.

### 3.3 Recognition of financial assets and liabilities in books

The Bank recognises financial assets or liabilities in its statement of financial position, when it becomes a party to a contract covering such instrument. Standard purchase and sale transactions of financial assets (securities) are recognised as at the settlement date.

At the initial recognition, all financial instruments are measured at fair value.

The Bank classifies financial assets and liabilities at the initial recognition, subject to the purpose, characteristics, and intention vis-a-vis the acquired financial instrument.

Financial assets are classified by the Bank to the following categories: financial assets measured at fair value through profit and loss account; financial assets available for sale; loans and receivables and financial assets kept until maturity; financial liabilities to the following categories: financial liabilities measured at fair value through profit and loss account and other financial liabilities.

### 3.4 Derecognition of financial assets and liabilities from the statement of financial position

#### Financial assets

The Bank derecognises financial assets from the balance sheet when:

- contractual rights expire to cash flows from such financial assets;
- such financial assets are transferred to another entity.

When transferring financial assets, the Bank assesses to what extent it retains the risks and benefits related to holding such financial assets. In such case:

- if it transfers basically all risks and all benefits related to holding such financial assets, the Bank derecognises such financial assets from its statement of financial position;
- if it retains basically all risks and benefits related to holding such financial assets, the Bank continues to recognise such financial assets in its statement of financial position;
- if it neither transfers nor retains basically all risks and benefits related to holding such financial assets, the Bank determines if it continues to control such financial assets; when control is retained, such financial assets continue to be recognised in the balance sheet, and when there is no control, such financial assets are derecognised from the balance sheet in the amount resulting from the retained exposure.

If financial assets are proven to be uncollectible, the Bank writes-down the receivables against the impairment allowance. The amounts of such written-off receivables that may be recovered in the future reduce the value of the impairment allowances in the income statement.

#### Financial liabilities

The Bank derecognises financial liabilities (in whole or in part) from the balance sheet if a contractual duty has been discharged or redeemed or has expired.

## 4 Changes in accounting principles

### 4.1 Changes in accounting standards

#### Modifications to the existing accounting standards and interpretations that became effective on 1 January 2017

- **Amendments to IAS 7 Statement of Cash Flows – initiative concerning disclosures**

They were published by the International Accounting Standards Board on 29 January 2016 and apply to annual periods beginning on or after 1 January 2017. The amendments to IAS 7 introduce the requirement to disclose changes to liabilities resulting from financing activities in the cash flow statement, including changes that are actual cash flows and non-cash changes. In order to comply with the requirement, the standard requires reconciliation of opening balances and closing balances of the liabilities disclosed in the statement of financial position that are classified as financing activity in the cash flow statement.

- **Amendments to IAS 12 Recognition of deferred tax assets from unrealized losses**

They were published by the International Accounting Standards Board on 19 January 2016 and apply to annual periods beginning on or after 1 January 2017. The amendments to IAS 12 provide details of the requirements to disclose deferred income tax asset on unrealised losses on debt instruments measured at fair value. The amendments provide guidelines as to identification of temporary negative differences. In particular, the standard confirms that a drop of the carrying value of fixed rate debt instruments measured at fair value, below the cost, where the tax base remains at the cost level, results in temporary negative differences, irrespective of the fact if the holder of the instrument intends to hold or sell it.

#### **New standards and interpretations that have been published and approved by EU, but are not yet effective**

- **IFRS 9 Financial Instruments**

On 24 July 2014, the International Accounting Standards Board (IASB) published a new International Financial Reporting Standard – IFRS 9, Financial Instruments, applying for annual periods starting on or after 1 January 2018, which will replace the existing International Accounting Standard 39, Financial Instruments: Recognition and Measurement. By Regulation no. 2016/2067 of 22 November 2016, the European Commission adopted the International Financial Reporting Standard 9, Financial Instruments (IFRS 9) in the version published by IASB on 24 July 2014.

IFRS 9 introduces new accounting principles regarding financial instruments in the following areas:

- classification and valuation,
- impairment (expected credit losses),
- hedge accounting.

#### **Implementation status**

Alior Bank completed implementation related to the opening balance as of 1 January 2018.

The disclosed effect of the application of IFRS 9 as of 1 January 2018 may change, in particular due to:

- are expected from the PFSA recommendations regarding the interpretation of the classification and measurement of financial instruments and impairment, in particular in relation to the expected amendment to Recommendation R of the Polish Financial Supervision Authority,
- there are discussions in the banking sector in Poland in connection with the letter from the PFSA's Chairman dated on 12 of December 2017 regarding the classification of consumer credit products with an interest formula based on a multiplier of more than 1 and the Bank is in the process of determining the type, the scope and timing of actions to change the contractual provisions in question in order to meet the contractual cash flow test requirements enabling the classification of these loans to the category of financial assets measured at amortized cost.

#### **Classification and measurement of financial instruments**

##### **Financial assets**

According to IFRS 9, upon initial recognition, financial assets are classified to the following measurement categories:

- financial assets measured at amortized cost;
- financial assets measured at fair value through other comprehensive income;
- financial assets measured at fair value through profit or loss.

Financial assets are classified to one of the above measurement categories based on: the Bank's business model for financial asset management and contractual cash flows.

### *Business model*

The business model is a method for financial assets management. Its assessment depends on the intentions as to how the cash flows arising from these financial assets will be realized, i.e. whether they will be realized by obtaining cash flows in accordance with contractual terms, whether through the sale of these assets or from both sources.

For the assessment of the business model is significant why decision was made about realising the cash flows as a result of sales. There is distinction between the sale of financial assets with a deteriorated credit quality due to credit risk management, the sale of assets for the purposes of managing financial liquidity risk and financial risk, and sales undertaken to generate financial profits. Other factors are also important in identifying the business model, in particular the criteria for assessing the financial results of given assets portfolio, eg interest margin, changes in fair value, realized sales results.

### *Contractual cash flows*

The purpose of the contractual cash flow characteristics assessment of a financial asset is whether the terms of the contract realise cash flows according to schedule, which are only repayment of the principal and interest on the principal amount still to be repaid (the so-called SPPI criterion - solely payments of principal and interest).

As the main amount for the purposes of the SPPI test is the fair value of the financial asset at the moment of initial recognition.

As interest on the principal is the payment for the value of money in time, remuneration for credit risk and other risks, administrative costs and profit margin.

### *Classification principle*

Financial assets whose cash flows only have the characteristics of repayment of the principal and interest on the principal are classified in the category of measurement:

- according to amortized cost, if they are maintained in a business model whose purpose is to realize cash flows in accordance with contractual terms,
- at fair value through other comprehensive income if they are maintained in a business model whose purpose is to realize cash flows in accordance with contractual terms or through sale.

Financial assets whose cash flows are modified in such a way that they have features other than just repayment of the principal and interest on the principal are classified to the category of measurement at fair value through the financial result regardless of the business model. This category also classifies financial assets managed in accordance with the business model, which involves the sale of assets to generate financial profits, assessment of results based on changes in fair value and sales results.

This category also always includes derivative instruments that are not hedging instruments.

As at 1 January 2018, i.e. the date of the first application of IFRS 9, Alior Bank maintains a portfolio of financial assets resulting from credit cards and used overdraft facilities whose interest rate is based on the formula of a specific multiplier of the NBP reference rate. For the purpose of preparing the opening balance as at 1 January 2018, these financial assets were classified to the category of measurement at amortized cost due to ongoing discussions in the banking sector in Poland in connection with the letter from the Chairman of the Polish Financial Supervision Authority dated on 12 December 2017 regarding the classification of consumer credit products with an interest rate formula based on a multiplication factor of more than 1 and the expectations of the Polish Financial Supervision Authority in the scope of amending the contractual provisions that result in failure to test the contractual cash flows. Taking above into account Alior Bank is in the process of determining the type, scope and timing of actions in the field of, changes of doubts from the point of view of the classification according to IFRS 9 of contractual provisions in order to meet the requirements of the contractual cash flow test enabling the



classification of these loans to the category of financial assets measured at amortized cost. This portfolio amounted to about PLN 800 M equal 1.54% of total receivables from customers.

#### *Classification*

As at 1 January 2018, Alior Bank reviewed the portfolio of financial assets of the IFRS 9 classification principles. The review included:

- identification of business models used by the Bank based on the method of reporting and assessment of financial results, the method of remuneration of the management staff,
- assigning individual portfolios of financial assets to relevant business models,
- assessment of contractual cash flow characteristics for particular financial assets.
- analysis of sales of financial assets along with the business case for sales and its frequency
- analysis of contractual clauses used by Bank that may affect cash flows.

In addition, the Bank identified purchased financial assets with impairment due to credit risk. These types of financial assets have been recognized in connection with acquisition demerged business of Bank BPH in 2016 and Meritum Bank in 2015.

As a result, loans and advances to customers and debt securities (investment bonds) were included in the category of measurement at amortized cost. In accordance with the principles of IAS 39 applied until 31 December 2017, those items were classified in the categories of loans and receivables and financial assets available for sale and held to maturity.

Debt securities, which until 31 December 2017 are classified as available-for-sale financial assets, were included into the category of fair value measurement for other comprehensive income. These items mainly include a portfolio of securities that secures financial liquidity (mainly government bonds, corporate bonds shares that do not meet the definition of a capital instrument).

The category of measurement at fair value through the financial result includes derivative instruments that are not hedging instruments in accordance with hedge accounting principles and commercial securities portfolio (Treasury bonds and corporate bonds). Until 31 December 2017, in line with IAS 39, these items were classified as financial assets held for trading.

#### **Financial liabilities**

The application of IFRS 9 does not have a material impact on changing the classification of financial liabilities to the category of financial liabilities. Derivatives and financial liabilities due to short sales are valued as at 1 January 2018 at fair value through profit or loss. Other items of financial liabilities are measured at amortized cost.

In addition, financial guarantees are valued at the higher of the impairment loss for expected credit losses and the amount initially recognized less the accumulated amount of income.

#### **Impairment**

In accordance with IFRS 9, the Bank estimates impairment losses for expected credit losses. for all financial assets at amortized cost or at fair value through other comprehensive income.

IFRS 9 replaces the impairment model introduced by the provisions of IAS 39 which is based on the "incurred loss" concept, and introduces a new model based on the expected credit loss (ECL) concept.

#### *Loss Identification Period*

Expected losses are estimated at a 12-month or in a life-time, according to the following rule:

- Bucket 1 - assets for which there was no significant increase of credit risk from the initial recognition => 12 months

- Bucket 2 - assets for which there was a significant increase of credit risk, however, there are no indications of impairment => life-time
- Bucket 3 - assets for which there are premises for impairment => life-time.

#### *Identification of the credit risk deterioration*

The principles of recognizing impairment triggers remain unchanged versus the principles applied in IAS 39. The Bank applies the full cross-default principle, ie the identification of the premise on any customer involvement results in the classification of the portfolio with indications of impairment of all its exposures. The rules for identifying a significant increase of credit risk from the initial recognition are based on a combination of:

- qualitative criterias,
- quantitative criterias.

The Bank includes for qualitative criteria:

- occurrence of overdue exceeding 30 days,
- classification of the client on the list of higher risk ("watch list"),
- forbearance (ie customer staying in the post-restructuring period probabation).

The Bank includes for quantitative criteria:

- increase above defined thresholds, of the cumulative probability of default in the period to maturity determined between the date of the engagement and the date of the valuation.
- materiality thresholds are defined at the level of homogeneous segments, taking into account the credit quality of individual populations.

Identification of criterias of significant credit risk deterioration is performed at the single exposure level.

#### *Estimation of expected losses*

The estimated losses expected for exposures designated for Bucket 1 or Bucket 2 are based on:

- estimated exposure value at the time of default (EAD model)
- estimated distribution of risk of default within the lifetime of the exposure (life-time PD model)
- estimated level of loss in case of default of the client (LGD model).

The estimate horizon covers the period of the next 12 months (or the maturity if shorter) for Bucket 1 and the estimated horizon covers the period up to the expected maturity for Bucket 2.

The EAD model shows the expected distribution of exposure of a given credit exposure in the period to maturity. The model for products with repayment schedules is based on contract flows modified by the effect of prepayment / underpayment. The model for products without repayment schedules is based on the average expected use of the credit limit granted.

The life-time PD model used to estimate credit losses is the same as the model used to assess the occurrence of a significant deterioration in credit quality.

The LGD model illustrates the expected level of loss from the exposure where the customer defaults. It includes all possible recovery paths / scenarios, including the pricing of individual collateral for each transaction.

The expected losses in the life-time horizon are estimated taking into account future macroeconomic conditions in the multi-scenario option.

The estimation of expected credit losses for exposures designated in Bucket 3 remains unchanged against the principles of IAS 39.

#### *The process of estimating expected losses*

Estimation of expected credit losses, including the transfer of exposures between buckets, is made in a fully automated, dedicated system which on a daily basis, illustrates the status and valuation for each of the exposures. The process of accounting enteres of valuation results has been fully automated.

### Validation

All models used in the estimation of impairment according to IFRS 9 have been subjected to the process of independent internal validation, which ended with a positive result.

### Exposures acquired in impairment (POCI)

The Bank estimates the expected credit losses over the life-time horizon for exposures purchased or originated credit impaired financial assets, irrespective of current credit quality. The valuation of these exposures is carried out using standardized models, including credit risk adjusted effective interest rates (so-called CEIR). The CEIR rate is the rate used to measure to the fair value of the exposure at the acquisition date.

For POCI exposures, a write-off is a cumulative change in expected credit losses between their current estimate and the level set at the date of acquisition of the exposure. In the case of a drop in the estimated credit losses, the write-down takes the form of a correction increasing the gross value of the exposure (the so-called over-write).

### Hedge accounting

Pursuant to the provision of IFRS 9 7.2.21, Alior Bank has decided to continue to apply the hedge accounting principles under IAS 39. Therefore, in the area of hedge accounting, the accounting policies have not been changed.

### Comparative data

In accordance with IFRS 9, Alior Bank decided to use the exemption of the obligation to restate comparative data for previous periods presented in financial statements for periods beginning on 1 January 2018 or later due to the first application of IFRS 9. Changes in the carrying amount of assets and financial liabilities resulting from the application of IFRS 9 are recognized in equity as at 1 January 2018 as a result of previous years.

### Summary of the impact of the implementation of IFRS 9 on the statement of financial position as at 1 January 2018 in comparison to the data in IAS 39 as at 31 December 2017

ASSETS	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount in accordance with IAS 39 as at 31.12.2017	Estimated impact of implementing IFRS 9 on 01.01.2018			New carrying amount in accordance with IFRS 9 as at 01.01.2018
				impact of changing classification and valuation (1)	impact of impairment (2)	Total impact (1)+(2)	
Cash and balances with the Central Bank	Loans and advances to customers	Financial assets measured at amortized cost	965 391	0	0	0	965 391
Financial assets held for trading	Financial assets measured at amortized cost	Financial assets measured at fair value through profit or loss	452 551	0	0	0	452 551
Available-for-sale financial assets	Available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income	9 649 751	105		105	9 649 856
		Financial assets measured at amortized cost	2 384 004	4 538	-1 946	2 592	2 386 596
Investment securities held to maturity	Financial assets held to maturity	Financial assets measured at fair value through profit or loss	38 569	0	0	0	38 569
		Financial assets measured at amortized cost	1 117 894	0	-1 018	-1 018	1 116 876
Derivative hedging instruments	Financial liabilities measured at fair value through other comprehensive income	Financial liabilities measured at fair value through other comprehensive income	87 785	0	0	0	87 785
Amounts due from banks	Loans and advances to customers	Financial assets measured at amortized cost	898 977	0	-4	-4	898 973

ASSETS	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount in accordance with IAS 39 as at 31.12.2017	Estimated impact of implementing IFRS 9 on 01.01.2018			New carrying amount in accordance with IFRS 9 as at 01.01.2018
				impact of changing classification and valuation (1)	impact of impairment (2)	Total impact (1)+(2)	
Loans and advances to customers	Loans and advances to customers	Financial assets measured at amortized cost	51 244 093	0	-905 284	-905 284	50 338 809
Assets pledged as collateral	Available-for-sale financial assets/ Financial assets held to maturity	Financial assets measured at amortized cost / Financial assets measured at fair value through other comprehensive income	408 911	0	0	0	408 911
Income tax asset			530 759			264 290	795 049
Other assets			524 047	0	564	564	524 611
<b>TOTAL ASSETS</b>			<b>68 302 732</b>	<b>4 643</b>	<b>-907 688</b>	<b>-638 755</b>	<b>67 663 977</b>

LIABILITIES	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount in accordance with IAS 39 as at 31.12.2017	Estimated impact of implementing IFRS 9 on 01.01.2018			New carrying amount in accordance with IFRS 9 as at 01.01.2018
				impact of changing classification and valuation (1)	impact of impairment (2)	Total impact (1)+(2)	
Financial liabilities held for trading	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at fair value through profit or loss	435 878	0	0	0	435 878
Amounts due to banks	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	743 911	0	0	0	743 911
Amounts due to customers	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	57 655 618	0	0	0	57 655 618
Derivative hedging instruments	Financial liabilities measured at fair value through other comprehensive income	Financial liabilities measured at fair value through other comprehensive income	5 419	0	0	0	5 419
Provisions			90 433	0	118 669	118 669	209 102
Income tax liabilities			102 382			68 576	170 958
<b>Total liabilities</b>			<b>59 033 641</b>	<b>0</b>	<b>118 669</b>	<b>187 245</b>	<b>59 220 886</b>
Share capital			1 292 636			0	1 292 636
Supplementary capital			4 817 331			0	4 817 331
Revaluation reserve			13 944			10 629	24 573
Other reserves			184 894			0	184 894
Foreign currency translation differences			594			0	594
Accumulated losses			495 844			-836 629	-340 785
<b>Totak equity</b>			<b>6 805 243</b>			<b>-826 000</b>	<b>5 979 243</b>
<b>TOTAL LIABILITIES AND EQUITY</b>			<b>65 838 884</b>	<b>0</b>	<b>118 669</b>	<b>-638 755</b>	<b>65 200 129</b>

In respect of loans and advances to customers also due to the implementation of IFRS 9 (without affecting the net value):

- implementation of changes in the definition of the gross carrying amount in range of the interest for impaired exposures, which as of 1 January 2018 symmetrically increase the gross exposures value and impairment allowance in the amount of PLN 193.8 M,
- transformation of purchased original credit impaired assets (POCI) in the balance sheet by adjusting the gross value and write-offs in the amount of PLN 629.8 M.

### Impact on capital requirements

On 12 December 2017, the European Parliament and the EU Council adopted Regulation No. 2017/2395 amending Regulation (EU) No 575/2013 regarding transitional arrangements to mitigate the impact of the introduction of IFRS 9 on own funds and on the treatment of large exposures to entities in the sector publicly denominated in the national currency of any Member State. This Regulation entered into force on the day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council (EU) have recognized that the application of IFRS 9 may lead to a sudden increase in write-downs for expected credit losses, and hence, the fall in Tier 1 capital.

The Regulation on the amortization of the impact of IFRS 9 on Tier I predicts primarily the possibility of applying appropriate multipliers in subsequent years of the transition period from 2018, which are respectively: 95%, 85%, 70%, 50%, 25%. when the opening balance as of the date of first application of IFRS 9 reflects a decrease in Tier 1 Common Equity as a result of increased provisions for expected credit losses, including a write-off for expected credit losses over the entire life of financial assets affected by credit risk impairment, compared to with closing balance.

Alior Bank SA, after analyzing the requirements of Regulation No. 2017/2395, decided to apply the transitional provisions provided for in this Regulation, which means that the full impact of implementing the IFRS will not be taken into account for the purpose of assessing the Bank's capital adequacy.

The Bank settles in addition deferred tax asset arising from the entry into force of IFRS 9 in calculation of capital adequacy. In connection with this settlement, a position deducted from Tier 1 capital arises in accordance with art. 36 par. 1 lit c of the CRR Regulation and negatively affects on effect of the implementation of IFRS 9.

The table below presents the impact of the application of IFRS 9 for the first time on capital adequacy including and without taking into account the transition period:

	Impact of IFRS 9 including the transition period	Impact of IFRS 9 without considering the transition period
Total capital (TIER 1, TIER 2)	7 661 523	6 608 156
The total capital requirement	4 033 552	3 952 180
Total capital ratio	15,20%	13,38%

- **IFRS 15 Revenue from contracts with customers**

Applies to annual periods beginning on or after 1 January 2018.

The amendments provided in IFRS 15 will apply to all contracts that generate income. The fundamental principle of the new standard is to recognise income at transfer of goods or services to customers, in the amount of the transactional price. All goods or services sold in packets that may be identified within the packet, are to be recognised separately; additionally, all discounts and rebates off the transactional price, as a rule, should be allocated to each element of the packet. When the income is variable, then in accordance with the new standard, the variable amounts are recognised as income as long as it is highly likely that the income will not be reversed as a result of revaluation. Additionally, in compliance with IFRS 15, any costs incurred to acquire and secure hedging of the contract with the customer shall be capitalised and recognised over time throughout the time the benefits from the contract are consumed. The Bank assessed all elements of the income recognition model in compliance with IFRS 15. As a result, the Bank did not identify material differences in income recognition between the requirements of IAS 18 and IFRS 15. Therefore, the implementation of IFRS 15 did not affect the Bank's equity.

- **IFRS 16 Leases**

Applies to annual periods beginning on 1 January 2019. The new standard sets the rules of recognition, presentation, and disclosures concerning leases. All lease transactions result in the lessee gaining the right to use the asset and a liability to make payments. Thus, IFRS 16 cancels lease classification into operational and financial lease in compliance with IAS 17 and introduces one model for accounting recognition of leases by the lessee. The lessees shall be obliged to recognise: (a) assets and liabilities for all lease transactions concluded for over 12 months, unless this is a low value asset; and (b) depreciation of leased asset separately from interest on the lease liability in the income statement.

The Bank is of the opinion that the application of the new standard will affect recognition, presentation, measurement, and disclosure of operational lease assets and the corresponding liabilities in the Bank's financial statements as a lessee.

#### Standards and interpretations that have not been approved by the European Union yet:

- **Other changes(a)**

Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets by investors to a joint venture or an affiliated entity. Amendments to IFRS 4, Insurance contracts with respect to the implementation of IFRS 9 and amendments to IFRS 2 Share-based Payments – the Bank is of the opinion that the application of the amended standards will have no material impact on the financial statements when initially applied.

Amendments to IAS 40 and amendments to IFRS 2014-2016 (IFRS 1, IAS 28) will have no impact on the financial statements of the Bank.

#### 4.2 Changes to presentation and clarification of differences versus the financial statements published earlier

##### Restatement of comparative data in connection with settlement of the acquisition of the demerged business of Bank BPH SA

Due to the completion of the process of final settlement of the acquisition of the demerged business of Bank BPH, mentioned in note 1.1, the data as of 31 December 2016 was retrospectively restated.

In the notes presented below, the data restated versus the published version is clearly marked as restated. Non-transformed data is not marked as above. Additional information related to the settlement is provided in Note 44.

ASSETS	31.12.2016 approved	adjustment	31.12.2016 restated
Cash and balances with the Central Bank	1 082 991	0	1 082 991
Financial assets held for trading	419 551	0	419 551
Available-for-sale financial assets	9 357 734	16 912	9 374 646
Investment securities held to maturity	1 954	0	1 954
Derivative hedging instruments	71 684	0	71 684
Amounts due from banks	1 364 226	0	1 364 226
Loans and advances to customers	46 279 849	-31 226	46 248 623
Assets pledged as collateral	366 984	0	366 984
Property, plant and equipment	483 520	0	483 520
Intangible assets	480 913	0	480 913
Investments in subsidiaries	72 359	0	72 359
Non-current assets held for sale	679	0	679
Income tax asset	523 371	9 199	532 570
<i>Deferred</i>	523 371	9 199	532 570
Other assets	706 034	-43 939	662 095
<b>TOTAL ASSETS</b>	<b>61 211 849</b>	<b>-49 054</b>	<b>61 162 795</b>

LIABILITIES AND EQUITY	31.12.2016 approved	adjustment	31.12.2016 restated
Financial liabilities held for trading	298 314	0	298 314
Amounts due to banks	381 235	0	381 235
Amounts due to customers	51 404 848	0	51 404 848
Derivative hedging instruments	6 119	0	6 119
Provisions	286 791	0	286 791
Other liabilities	1 433 760	-6 003	1 427 757
Income tax liabilities	13 125	0	13 125
<i>Current</i>	13 125	0	13 125
Subordinated loans	1 164 794	0	1 164 794
Share capital	1 292 578	0	1 292 578
Supplementary capital	4 184 953	0	4 184 953
Revaluation reserve	-71 615	0	-71 615
Other reserves	184 894	0	184 894
Foreign currency translation differences	-22	0	-22
Current year's profit/loss	632 075	-43 051	589 024
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>61 211 849</b>	<b>-49 054</b>	<b>61 162 795</b>

	01.01.2016 - 31.12.2016 approved	adjustment	01.01.2016 - 31.12.2016 restated
Interest income	2 639 265	0	2 639 265
Interest expense	-697 391	0	-697 391
<b>Net interest income</b>	<b>1 941 874</b>	<b>0</b>	<b>1 941 874</b>
Dividend income	68	0	68
Fee and commission income	592 337	0	592 337
Fee and commission expense	-257 980	0	-257 980
<b>Net fee and commission income</b>	<b>334 357</b>	<b>0</b>	<b>334 357</b>
Trading and revaluation result	319 779	0	319 779
Net gain (realized) on other financial instruments	21 919	0	21 919
Other operating income	102 014	0	102 014
Other operating costs	-51 720	0	-51 720
<b>Net other operating income</b>	<b>50 294</b>	<b>0</b>	<b>50 294</b>
Profit from acquisition of the demerged business of Bank BPH	508 056	-43 051	465 005
General administrative expenses	-1 543 456	0	-1 543 456
Net impairment allowances and write-downs	-794 733	0	-794 733
Banking tax	-130 893	0	-130 893
<b>Profit before tax</b>	<b>707 265</b>	<b>-43 051</b>	<b>664 214</b>
Income tax	-75 190	0	-75 190
<b>Net profit</b>	<b>632 075</b>	<b>-43 051</b>	<b>589 024</b>

### Changes to presentation

As compared to the financial statements made as at 31.12.2016, the presentation of interest income and expense concerning derivative instruments has been modified in order to reflect better the economic nature of such transactions.

Income statement's item	Data from the statements 01.01.2016- 31.12.2016	Modification 01.01.2016- 31.12.2016	Restated 01.01.2016- 30.09.2016
<b>Interest income</b>	<b>2 933 858</b>	<b>-294 593</b>	<b>2 639 265</b>
<b>Interest income from financial instruments measured at amortized cost including the effective interest rate method</b>	<b>2 482 318</b>	<b>0</b>	<b>2 482 318</b>
term deposits	1 494	0	1 494
loans	2 329 825	0	2 329 825
financial assets available for sale	128 274	0	128 274
receivables acquired	11 564	0	11 564
other	11 161	0	11 161
<b>Other interest income</b>	<b>451 540</b>	<b>-294 593</b>	<b>156 947</b>
current accounts	18 958	0	18 958
over night deposits	1 185	0	1 185
derivative hedging instruments	431 397	-294 593	136 804
<b>Interest expense</b>	<b>-991 984</b>	<b>294 593</b>	<b>-697 391</b>
<b>Interest expense from financial instruments measured at amortized cost including the effective interest rate method</b>	<b>-544 329</b>	<b>0</b>	<b>-544 329</b>
term deposits	-400 454	0	-400 454
repo transactions in securities	-13 837	0	-13 837
cash deposits	-3 446	0	-3 446
own issues	-124 139	0	-124 139
other	-2 453	0	-2 453
<b>Other interest expenses</b>	<b>-447 655</b>	<b>294 593</b>	<b>-153 062</b>
current deposits	-48 402	0	-48 402
derivative hedging instruments	-399 253	294 593	-104 660
<b>Net interest income</b>	<b>1 941 874</b>	<b>0</b>	<b>1 941 874</b>

## 5 Operating segments

### Segment description

Alior Bank SA pursues its business activity within segments offering specific products and services addressed to specified customer groups. The split of business segments provides for consistency with the sale management model and for providing customers with a comprehensive product offer, covering both traditional banking products and more complex investment products.

Banking operations cover three core business segments:

- retail segment;
- business segment;
- treasury activities;

The core products for natural persons are as follows:

- credit products: cash loans, credit cards, current account overdraft facilities, mortgage loans;
- deposit products: term deposits, savings deposits;
- brokerage products and investment funds;
- personal accounts;
- transactional services: cash deposits and withdrawals, transfers;
- currency exchange transactions.

The core products for business customers are as follows:

- credit products: overdraft limits in current accounts, working capital loans, investment loans, credit cards;



- deposit products: term deposits;
- current and subsidiary accounts;
- transactional services: cash deposits and withdrawals, transfers;
- treasury products: FX exchange transactions (also term FX transactions), derivative instruments;

The analysis covers the profitability of the retail and business segments. Profitability covers:

- margin income decreased by the funding costs (a rate at which the branch acquires funding from the Treasury Department);
- fee and commission income;
- income from treasury transactions and FX transactions by customers;
- other operating income and expenses.

Income of the retail segment cover also income from sales of brokerage products (e.g. income for the maintenance of brokerage accounts, brokerage services in securities trading and income from distribution of investment fund units).

The income from the business segment also covers income from a car loan portfolio.

The item Treasury activity covers management effects of the global position – liquidity and FX position, resulting from the activity of the Bank's units.

The profit and loss accounts presented below, split by segment, contain a reconciliation item. The items cover:

- internal interest result accruing on the balance on net impairment allowances;
- commission costs not allocated to any business units (e.g. cash handling costs, ATM use costs, costs of domestic and foreign transfers);
- other operational expenses and income, not related directly to the operation of business segments.

#### Results and volumes split by segment for the year ended on 31 December 2017

	Retail customers	Corporate customers	Treasury	Total business segments	Reconciliation items	Total Bank
<b>External interest income</b>	<b>1 830 336</b>	<b>1 011 814</b>	<b>-9 158</b>	<b>2 832 992</b>	<b>0</b>	<b>2 832 992</b>
external income	2 173 382	1 289 199	128 023	3 590 604	0	3 590 604
external expense	-343 046	-277 385	-137 181	-757 612	0	-757 612
<b>Internal interest income</b>	<b>-16 042</b>	<b>-263 953</b>	<b>279 995</b>	<b>0</b>	<b>0</b>	<b>0</b>
internal income	843 894	186 031	2 789 704	3 819 629	0	3 819 629
internal expense	-859 936	-449 984	-2 509 709	-3 819 629	0	-3 819 629
<b>Net interest income</b>	<b>1 814 294</b>	<b>747 861</b>	<b>270 837</b>	<b>2 832 992</b>	<b>0</b>	<b>2 832 992</b>
Fee and commission income	355 914	408 185	-969	763 130	38 608	801 738
Fee and commission expense	-213 862	-158 512	-12 179	-384 553	19 686	-364 867
<b>Net fee and commission income</b>	<b>142 051</b>	<b>249 674</b>	<b>-13 148</b>	<b>378 577</b>	<b>58 294</b>	<b>436 871</b>
Dividend income	0	0	0	0	31	31
Trading and revaluation result	4 181	49 819	315 314	369 314	0	369 314
Net gain (realized) on other financial instruments	117 006	174 518	-284 616	6 908	0	6 908
Other operating income	171 457	22 886	-60	194 284	-88 479	105 805
Other operating expenses	-53 612	-44 133	1 330	-96 416	18 196	-78 220
Net other operating income	<b>117 845</b>	<b>-21 247</b>	<b>1 270</b>	<b>97 868</b>	<b>-70 283</b>	<b>27 585</b>
<b>Total result before impairment losses</b>	<b>2 195 377</b>	<b>1 200 625</b>	<b>289 657</b>	<b>3 685 659</b>	<b>-11 958</b>	<b>3 673 701</b>
Net impairment allowances and write-downs	-485 800	-413 500	0	-899 300	-21 166	-920 466
Total result after impairment losses	<b>1 709 577</b>	<b>787 125</b>	<b>289 657</b>	<b>2 786 359</b>	<b>-33 124</b>	<b>2 753 235</b>
General administrative expenses	-1 464 041	-519 328	-5 151	-1 988 520	0	-1 988 520

	Retail customers	Corporate customers	Treasury	Total business segments	Reconciliation items	Total Bank
<b>Profit before tax</b>	245 536	267 797	284 506	797 839	-33 124	764 715
Tax income	0	0	0	0	-225 820	-225 820
<b>Income tax</b>	245 536	267 797	284 506	797 839	-258 944	538 895
Depreciation	0	0	0	0	0	-172 145
Assets	41 122 931	27 683 132	45 356	68 851 419	530 759	69 382 178
Liabilities	40 078 781	22 383 286	12 486	62 474 553	102 382	62 576 935

### Results and volumes split by segment for the year ended on 31 December 2016

Transformed data	Retail customers	Corporate customers	Treasury	Total business segments	Reconciliation items	Total Bank
<b>External interest income</b>	1 299 671	546 502	93 684	1 939 857	2 017	1 941 874
external income	1 640 530	895 476	101 242	2 637 248	2 017	2 639 265
external expense	-340 859	-348 974	-7 558	-697 391	0	-697 391
<b>Internal interest income</b>	-43 001	-12 581	61 793	6 211	-6 211	0
internal income	532 717	256 492	1 259 074	2 048 283	25	2 048 308
internal expense	-575 718	-269 073	-1 197 281	-2 042 072	-6 236	-2 048 308
<b>Net interest income</b>	1 256 670	533 921	155 477	1 946 068	-4 194	1 941 874
Fee and commission income	239 210	290 809	517	530 536	61 801	592 337
Fee and commission expense	-122 886	-56 587	-34 954	-214 427	-43 553	-257 980
<b>Net fee and commission income</b>	116 324	234 222	-34 437	316 109	18 248	334 357
Dividend income	0	0	0	0	68	68
Trading and revaluation result	3 885	53 031	262 863	319 779	0	319 779
Net gain (realized) on other financial instruments	105 447	133 596	-217 124	21 919	0	21 919
Other operating income	138 825	17 551	5 161	161 537	-59 523	102 014
Other operating expenses	-13 859	-64	-1 686	-15 609	-36 111	-51 720
Net other operating income	124 966	17 487	3 475	145 928	-95 634	50 294
<b>Total result before impairment losses</b>	1 607 292	972 257	170 254	2 749 803	-81 512	2 668 291
Net impairment allowances and write-downs	-479 566	-288 937	0	-768 503	-26 232	-794 733
<b>Total result after impairment losses</b>	1 127 727	683 322	170 253	1 981 302	-107 744	1 873 558
Profit from acquisition of the demerged business of Bank BPH	0	0	0	0	465 005	465 005
General administrative expenses	-1 240 676	-429 420	-4 254	-1 674 350	1	-1 674 349
<b>Gross profit/loss</b>	-112 949	253 902	165 999	306 952	357 262	664 214
Income tax	0	0	0	0	-75 190	-75 190
<b>Net profit/loss</b>	-112 949	253 902	165 999	306 952	282 072	589 024
Depreciation	0	0	0	0	0	-101 832
Assets	36 446 241	24 156 038	37 145	60 688 478	523 371	61 162 795
Liabilities	34 664 532	20 296 073	9 253	54 975 861	13 125	54 982 983

Income and expenses are generated primarily in Poland. Opened in 2017, the branch in Romania generated a gross loss amounted to PLN 30 219 thousand and amounted to PLN 6 166 thousand in 2016.

## Notes to income statement

### 6 Net interest income

#### 6.1 Accounting principles

Interest income and expenses cover interest on financial instruments measured at amortised cost and instruments measured at fair value with the exception of hedging derivative instruments classified as available for trading. Net interest also includes fees and commissions directly related to the origination of financial instruments (both income, including the portion of fees received from insurance companies for distribution of insurance, and costs, including external and internal incremental costs) constituting the integral part of the effective interest rate.

The effective interest rate method consists in accruing the amortised cost of financial assets or financial liabilities and allocation of interest income or expense. The effective interest rate is the rate to discount estimated future cash flows to the net carrying value of financial assets or liabilities. In case of financial assets or a group of similar financial assets for which an impairment allowance was recognised, interest income accrues on the current value of receivables (the value reduced by the impairment allowance), at the effective interest rate.

Interest income and expense on derivative instruments, classified as held for trading, is disclosed as interest income and expense along with the effective part of the cash flow hedges. Accrued interest receivable and payable is presented in the items of the statement of financial condition to which it refers.

#### 6.2 Financial data

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
<b>Interest income</b>	<b>3 590 604</b>	<b>2 639 265</b>
<b>Interest income from financial instruments measured at amortized cost including the effective interest rate method</b>	<b>3 417 540</b>	<b>2 482 318</b>
term deposits	1 045	1 494
loans	3 193 562	2 329 825
financial assets available for sale	165 562	128 274
receivables acquired	38 859	11 564
repo transactions in securities	7 823	4 554
investment securities held to maturity	9 281	768
other	1 408	5 839
<b>Other interest income</b>	<b>173 064</b>	<b>156 947</b>
current accounts	25 156	18 958
over night deposits	1 558	1 185
derivative hedging instruments	146 350	136 804
<b>Interest expense</b>	<b>-757 612</b>	<b>-697 391</b>
<b>Interest expense from financial instruments measured at amortized cost including the effective interest rate method</b>	<b>-508 435</b>	<b>-544 329</b>
term deposits	-345 977	-400 454
repo transactions in securities	-136 979	-124 139
cash deposits	-15 999	-13 837
own issues	-3 300	-3 446
other	-6 180	-2 453
<b>Other interest expenses</b>	<b>-249 177</b>	<b>-153 062</b>
current deposits	-121 372	-48 402
derivative hedging instruments	-127 805	-104 660
<b>Net interest income</b>	<b>2 832 992</b>	<b>1 941 874</b>

Interest income primarily covers interest on loans, derivative instruments and interest and discount on bonds. Interest expense primarily covers interest on term own issues.

In 2017 and 2016 the amount of interest income on loans with recognised impairment amounted to PLN 243 769 thousand and PLN 142 974 thousand.

### 6.3 Significant estimates and assumptions – recognition of bancassurance income

The Bank allocates the received remuneration for distribution of insurance products related to the sale of loans – in accordance with the economic content of the transaction – as remuneration constituting:

- an integral part of the remuneration received for the offered financial instruments;
- remuneration for agency services;
- remuneration for the provision of additional activities performed during the insurance contract (recognised by the Bank over a period when the services are provided).

The economic title of the received remuneration determines the way it is disclosed in the Bank's books.

The model of "relative fair value" is applied to determine the split of the remuneration related to insurance offered in connection with cash and mortgage loans and insurance sold without any relationship to financial instruments.

The "relative fair value" model approved by the Bank consists in estimating the fair value of each element of the overall service of loan sale with insurance in order to determine the proportion of fair value of both services. In accordance with such proportion of fair value, remuneration under the joint loan and insurance transaction is allocated to each component. Additionally, in order to determine the correct amount of income to be recognised over time as interest income, the model provides for the establishment and update of provisions for remuneration refund for insurance agency services when the customer resigns from insurance. The provision due to the uncertainty related to the customers' option to resign from the insurance cover at any time during the term of the contract is verified periodically by each credit product group. The Bank's remuneration for insurance distribution is reduced by uncertain income related to estimated refunds due to the customers' resignation from insurance.

The remuneration for sale of insurance products offered to the Bank's customers in combination with credit products in line with the periodically updated "loan relative fair value" model is recognised after deferral of a part of the remuneration to cover the anticipated refunds of remuneration due to the customers resigning or withdrawing from insurance contracts.

Additionally, in its profit and loss account, the recognises income on the sale of insurance distributed jointly with the offered car loans and loans with legal protection coverage that are fully accounted for over time at the effective interest rate.

Additionally, the Bank provides customers with the insurance cover under other insurance products than related to credit products, including accident insurance, motor, housing, travel insurance and investment products (insurance capital funds).

Income from the distribution of those products are recognised as follows:

- insurance products based on monthly settlements with insurance companies and customers are recognised in the profit and loss account on a monthly basis;
- on sale of insurance not related to sales of banking products, including: Unit Linked and Insurance with Capital Fund are recognised in full amounts in the profit and loss account when the operation is performed in the part related to the completed sale agency service, and in the part concerning remuneration for subsequent services is recognised over time with a straight-line method. Like in the case of loan-related

insurance products, the model for unrelated insurance also covers the establishment and updates of provision for insurance remuneration refunds should customers resign from insurance.

## 6.4 Sensitivity analysis of significant estimates and assumptions

In 2017 and 2016 the Bank recognised over time remuneration for insurance offered in connection with cash and mortgage loans based on the "relative fair value" model, reflecting the economic content of the transaction in the most appropriate way. Details in Note 6.3.

An estimated sensitivity analysis of changes of the income recognised by the Bank in 2017 with reference to bancassurance is as follows:

Type of scenario	2017	2016
increased provision for resignations by 5pp	PLN -9.86 M – reduced net interest	PLN -15.19 M – reduced net interest
decreased provision for resignations by 5pp	PLN +9.86 M – increased net interest	PLN +15.19 M – increased net interest
increased income recognised all at once by 1pp	PLN +1.27 M – increased net fees and commissions	PLN +661 thousand – increased net fees and commissions
decreased income recognised all at once by 1pp	PLN -1.27 M – decreased net fees and commissions	PLN -661 thousand – decreased net fees and commissions

## 7 Net fee and commission income

### 7.1 Accounting principles

Net fee and commission income is recognised basically on the accrual basis when the service is performed. The income is generated as a result of financial services offered by the Bank. Fees and commissions that do not constitute an integral part of the effective interest rate, including fees for handling bank accounts and credit cards, are accounted for with a straight-line method in the profit and loss account and presented as income or costs. The other fees and commissions related to financial services offered by the Bank, such as cash management, brokerage services, investment consulting, financial planning, investment banking services, and asset management services – if received periodically, are recognised in the profit and loss account when the service is performed.

### 7.2 Financial data

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
<b>Fee and commission income</b>	<b>801 738</b>	<b>592 337</b>
payment and credit cards service	212 606	114 232
maintaining bank accounts	133 827	110 958
brokerage commissions	124 272	77 782
loans and advances	88 927	63 727
transfers	63 418	41 609
revenue from bancassurance activity	62 238	74 079
cash operations	46 030	27 368
guarantees, letters of credit, collection, commitments	14 407	14 261
receivables acquired	13 847	8 970
for custody services	10 617	3 761
other commissions	31 549	55 590

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
<b>Fee and commission expenses</b>	<b>-364 867</b>	<b>-257 980</b>
costs of card and ATM transactions, including costs of cards issued	-154 842	-83 610
commissions paid to agents	-39 846	-35 011
commissions for access to ATMs	-28 316	-22 336
commissions paid under contracts for performing specific operations	-27 919	-12 112
insurance of bank products	-19 398	-25 956
costs of awards for customers	-19 388	-24 191
brokerage commissions	-5 038	-3 699
for custody services	-3 158	-847
other commissions	-66 962	-50 218
<b>Net fee and commission income</b>	<b>436 871</b>	<b>334 357</b>

As a result of the merger of Alior Bank SA with the demerged part of Bank BPH SA, the acquired assets included custody services which are continued.

The Bank provides the following custody services:

- safekeeping of customers' assets,
- transaction settlement and clearing,
- disbursement of benefits under securities.
- reporting of balances of holdings,
- acting as depository.

## 8 Trading and revaluation result

### 8.1 Accounting principles

The trading and revaluation result covers the results on: FX transactions, on interest rate transactions, hedge, and other instruments. The result on FX transactions covers the following: FX exchange, SWAP transactions (FX swap and CIRS with capital exchange); FX forward; FX options and on revaluation of FX denominated assets and liabilities. The result on interest rate transactions covers: interest rate swap contracts; FRA and interest rate options (CAP/FLOOR). The result does not cover interest income and expenses under IRS and CIRS transactions. The result on other financial instruments covers results on commodity derivative instruments (including forward, futures), options on stock indices, index baskets and commodities and results on trading in equity securities.

### 8.2 Financial data

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
FX transactions	9 283	274 109
Revaluation result	313 740	-42 265
Interest rate transactions	24 086	75 266
Ineffective portion of hedge accounting	871	-899
The result on other instruments includes the result on trading in debt securities classified as held for trading with interest	21 334	13 568
<b>Total</b>	<b>369 314</b>	<b>319 779</b>

## 9 Net result realized on other financial instruments

### 9.1 Accounting principles

The realised result on other financial instruments contains profit and loss on disposal of financial instruments classified as available for sale and profit and loss as a result of redemption of the Bank's issues.

### 9.2 Financial data

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Available-for-sale financial assets	5 750	20 970
<b>Own issue</b>	<b>1 403</b>	<b>971</b>
repurchase income	1 405	1 011
repurchase losses	-2	-40
Investment certificates	-245	-22
<b>Net gain realized on other financial instruments</b>	<b>6 908</b>	<b>21 919</b>

## 10 Result on other operating income and expenses

### 10.1 Accounting principles

The other operating income and expenses include income and expenses not related directly to core business activities. The other operating income covers primarily income from managing third party assets, damages received, penalties and fines, remuneration under contracts with various counterparties, refunded costs related to pursuance of claims. The other operating expenses include primarily costs of incidents related to the operational risk, pursuant of claims and third party asset management. Income is recognised in the profit and loss account in full amounts. In the case of income for third party asset management, monthly accounting periods are decisive for full recognition in the profit and loss account.

### 10.2 Financial data

	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
<b>Other operating income from:</b>	<b>105 805</b>	<b>102 014</b>
fees paid by counterparts	42 517	21 465
reimbursement of litigation costs	25 371	21 440
operating risk	6 734	2 032
management of third party assets	4 704	6 921
refunding costs of Banking Guarantee Fund	23	17 881
acquisition of receivables	0	9 119
other	26 456	23 156
<b>Other operating expenses due to:</b>	<b>-78 220</b>	<b>-51 720</b>
litigation costs	-28 393	-18 501
operating risk	-24 990	-7 344
paid compensations, fines and penalties	-10 829	-3 665
management of third party assets	-2 112	-1 417
awards given to customers	-1 776	-1 689
other	-10 120	-19 104
<b>Net other operating income and expense</b>	<b>27 585</b>	<b>50 294</b>

## 11 General administrative expenses

### 11.1 Accounting principles

Cost type	description
Employee benefits	Apart from salaries and social insurance (including premiums for retirement insurance as detailed in the note on "Provisions"), employee benefits cover the costs of variable components of remuneration for persons in managerial positions with a part being recognised as a payment liability in shares settled in cash in compliance with IFRS 2. Additionally, the Bank establishes a provision for future damages and severance pay due to employees whose employment contracts are terminated for reasons not attributable to employees, as well as periodic recognition of costs falling for the current period, including bonuses and unutilised annual leaves, including all outstanding holiday days.
General and administrative costs	This item covers the following: maintenance and rental costs of fixed assets, IT and telecommunications service costs, administrative expenses, promotion and advertising costs, security services and training costs. Lease fees are recognised with a straight-line method as costs in the profit and loss account.
Amortisation/depreciation	Depreciation/amortisation of fixed assets and intangible assets accrues with a straight-line method at the approved amortisation/depreciation rates over their anticipated economic life. Recognised in the profit and loss account. The amount subject to amortisation/depreciation shall be understood as the purchase price or manufacturing cost of the asset, net of its residual value. Every year the useful economic life is updated, depreciation rates and the residual value of depreciated fixed assets.
Taxes and charges	The following items are included: real estate tax, contributions made to the State Fund for the Rehabilitation of Disabled Persons, municipal and administrative fees, perpetual usufruct fees.

### 11.2 Financial data

	01.01.2016 – 31.12.2016	01.01.2015 – 31.12.2015*
<b>Payroll costs</b>	<b>-971 148</b>	<b>-877 750</b>
remuneration due to employment contracts	-789 985	-529 629
remuneration surcharges	-157 801	-92 781
retention programs	0	-56 378
revaluation of management option plan – part settled in cash	-13 230	-12 075
costs of bonus for senior executives settled in phantom shares	-2 579	-14 126
restructuring provision	0	-167 000
other	-7 553	-5 761
<b>General and administrative costs</b>	<b>-633 340</b>	<b>-556 882</b>
lease and building maintenance expenses	-157 701	-146 166
costs of Banking Guarantee Fund	-56 164	-86 564
IT costs	-162 028	-73 154
marketing costs	-67 197	-56 773
cost of advisory services	-45 039	-44 652
external services	-41 931	-40 981
provision for restructuring	0	-32 668
training costs	-26 438	-22 738
costs of telecommunications services	-25 742	-18 983
costs of lease of property, plant and equipment and intangible assets	-6 989	-4 287
other	-44 111	-29 916
<b>Amortization and depreciation</b>	<b>-172 145</b>	<b>-101 832</b>
property, plant and equipment	-105 073	-64 436
intangible assets	-67 072	-37 396
<b>Taxes and fees</b>	<b>-11 370</b>	<b>-6 992</b>
<b>Total general administrative expenses</b>	<b>-1 788 003</b>	<b>-1 543 456</b>



### 11.3 Operational leases – the Bank as a lessee

The Bank is a party solely to such lease contracts pursuant to which it accepts for use of third party fixed assets for a fee over an agreed period, when the entire risk and benefits from the leased assets remain with the lessor.

The Bank leases cars. All those contracts are operational lease contracts. As at 31 December 2017, the Bank had 784 lease contracts for cars.

Operational lease contracts for cars by payment dates	31.12.2017	31.12.2016
up to 1 year	9 981	11 191
1 to 3 years	5 783	13 557
Over 3 years	0	51
<b>Total</b>	<b>15 764</b>	<b>24 799</b>

The Bank is also a lessee of office space.

Rental costs constitute a material item of general overheads. When renting premises for its branches, the Bank signs contracts for minimum 5 years. The contracts contain clauses concerning changes to the rent amount subject to inflation in each year – the clause is available to the lessor.

Future lease liabilities by payment dates	31.12.2017	31.12.2016
up to 1 year	150 082	154 786
1 to 5 years	394 886	205 742
Above 5 years	5 067	34 790
<b>Total</b>	<b>550 035</b>	<b>395 318</b>

## 12 Net impairment allowances and write-downs

### 12.1 Accounting principles

The result from impairment allowance and write-downs consists of the creation and reversal of impairment losses on loans and advances to customers, debt securities, property, plant and equipment and intangible assets as well as the creation and reversal of off-balance provisions .

### 12.2 Financial data

	Note	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
<b>Impairment losses on impaired loans and advances to customers</b>	<b>20</b>	<b>-882 464</b>	<b>-730 640</b>
<i>retail customers</i>		-491 469	-474 733
<i>corporate customers</i>		-390 995	-255 907
<b>Debt securities – available-for-sale financial assets</b>	<b>17</b>	<b>16 921</b>	<b>-6 975</b>
<b>BNR for customers without impairment losses</b>		<b>-22 895</b>	<b>-32 021</b>
<i>retail customers</i>		-2 793	-10 417
<i>corporate customers</i>		-20 102	-21 604
<b>Off-balance provision</b>	<b>26</b>	<b>-6 307</b>	<b>-2 382</b>
<b>Property, plant and equipment and intangible assets</b>	<b>22</b>	<b>-25 721</b>	<b>-22 715</b>
<b>Net impairment allowance and write-downs</b>		<b>-920 466</b>	<b>-794 733</b>

In 2017 Bank sold loans for a total gross amount of PLN 673 289 thousand, the provision recorded for the loans portfolio amounted to PLN 504 964 thousand and the result on sales amounted to PLN 1 212 thousand. The impact of sales of receivables on costs of risk in 2017 amounted to PLN 74 715 thousand after adjusting the risk's parameters to the level of impairments to the risk profile of the part remaining in the Bank

In 2016 Bank sold loans for a total gross amount of PLN 506 468 thousand, the provision recorded for the loans portfolio amounted to PLN 401 196 thousand and the result on sales amounted to PLN 1 212 thousand. All the benefits and risks were transferred to the buyer.

### 13 Banking Tax

The Act on Tax from Certain Financial Institutions of 15 January 2016 became effective on 1 February 2016 – the Act applies to banks and insurance companies. The tax accrues on the surplus of assets in excess of PLN 4 billion as detailed in trial balances as at the end of each month. Banks are entitled to reduce the taxation base by their equity, as well as the amounts of Treasury securities and assets acquired from NBP, constituting collateral for the refinancing loan granted by NBP. The tax is payable monthly (the monthly rate is 0.0366%) by the 25th day of the month following the month to which it applies and is recognised in the profit and loss account in the period to which it applies.

### 14 Income tax

#### 14.1 Accounting principles

Income tax covers current tax and deferred tax. Income tax is recognised in the profit and loss account, unless the tax is related to:

- transactions recognised in other comprehensive income or directly in equity,
- combination of entities.

#### **Current tax**

Liabilities (receivables) under current income tax for the current and prior periods are measured at the amount expected to be paid to tax authorities (or to refunded from tax authorities at the tax rates (and tax laws) enacted or substantively enacted at the end of the reporting period.

#### **Deferred income tax**

Deferred income tax is calculated as a balance sheet liability based on identification of time differences between the tax value and the carrying value of assets and liabilities. The Bank establishes a deferred income tax provision with reference to all positive temporary differences with the exception of the following:

- when the deferred income tax provision results from the initial recognition of goodwill or initial recognition of an asset or liability coming from a transaction which is not a combination of entities and when the transaction is executed, it does not affect the gross financial profit or taxable income (tax loss);
- the parent entity, investor, or partner in a joint venture are able to control reversal dates of temporary differences and it is likely that the temporary differences are not reversed in the foreseeable future.

With reference to all negative temporary differences, the deferred tax asset is recognised in the amount of probable taxable income which will allow for a set-off of negative temporary differences, with the exception of the following:

- when the deferred income tax results from the initial recognition of an asset or liability coming from a transaction which is not a combination of entities and when the transaction is executed, it does not affect the gross financial profit or taxable income (tax loss);
- when negative temporary differences result from investments in subsidiaries, branches, affiliated entities, and joint ventures outside the extent when it is probable that they will be reversed in the foreseeable future and taxable income will be generated from which such temporary differences can be deducted.

The carrying value of the deferred income tax asset is verified at the end of each reporting period. The Bank reduces its carrying value to the extent it is not probable to generate taxable income sufficient to have it realised in full or in part.

A deferred income tax asset and a deferred income tax provision are measured according to the tax rates which will be applicable when the asset is realised or provision reversed, assuming the tax rates (and tax laws) legally or actually effective as at the end of the reporting period.

Current and deferred income tax is recognised directly in other comprehensive income, if it applies to items that have been recognised in other comprehensive income in the same or another period.

A deferred income tax asset and a deferred income tax provision are offset, if a legally enforceable right exists to set off the current income tax receivables or payables and the deferred income tax relates to the same taxable entity and the same taxation authority.

## 14.2 Financial data

### 14.2.1 Tax charge disclosed in the profit and loss account

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
<b>Current tax</b>	<b>243 193</b>	<b>231 011</b>
current year	243 193	231 011
<b>Deferred income tax</b>	<b>-17 373</b>	<b>-155 821</b>
origination and reversal of temporary differences	-17 373	-155 821
<b>Accounting tax recognized in the income statement</b>	<b>225 820</b>	<b>75 190</b>

### 14.2.2 Effective tax rate calculation

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016 restated
<b>Gross profit</b>	<b>764 715</b>	<b>664 214</b>
Income tax at 19%	145 296	126 200
<b>Non-tax deductible expenses</b>	<b>72 195</b>	<b>61 633</b>
Entertainment costs	285	219
PFRON (State Fund for the Rehabilitation of Disabled People)	1 310	1 185
Impairment losses on loans in the part not covered with deferred tax	19 287	26 617
Prudency fee for BGF	10 672	4 977
Tax on Certain Financial Institutions	38 099	24 870
Donations	41	26
Other	2 501	3 739
<b>Non-taxable income</b>	<b>-8 617</b>	<b>-98 701</b>
Release of loan impairment allowances in the part not covered with the deferred tax	-6 830	-935
Profit from acquisition of the demerged business of Bank BPH	0	-88 351
Other	-1 787	-9 415
<b>Taxable costs that are not book costs</b>	<b>0</b>	<b>-6 540</b>
Costs related to expenses for capital increase	0	-6 540
<b>Recognition of tax loss</b>	<b>2 912</b>	<b>141</b>
Recognition of an asset as contribution of receivables to a collection company	0	643
Other	14 034	-8 186
<b>Accounting tax recognized in the income statement</b>	<b>225 820</b>	<b>75 190</b>
<b>Effective tax rate</b>	<b>29,53%</b>	<b>11,32%</b>

### 14.2.3 Deferred tax asset and liability

Deferred tax asset	31.12.2016 restated	Changes recognised in financial result	Changes recognised in equity	31.12.2017
Commissions collected in advance	293 824	-9 676	0	284 148
Interest accrued on deposits	23 581	7 824	0	31 405
Interest / discount accrued on securities	45 057	3 507	0	48 564
Negative valuation of securities	21 430	-3 541	-14 793	3 096
Interest accrued on derivative instruments	24 622	22 642	0	47 264
Negative valuation of derivative instruments	57 956	1 224	605	59 785
Premium received on options	16 636	8 731	0	25 367
Provision for deferred expenses	116 752	-52 445	0	64 307
Impairment allowances on credit receivables	286 321	35 355	0	321 676
Other provisions	-52 443	17 649	0	-34 794
Recognition of an asset as a contribution of receivables	6 339	-6 339	0	0
Tax loss	1 030	3 493	-84	4 439
<b>Deferred tax asset</b>	<b>841 105</b>	<b>28 424</b>	<b>-14 272</b>	<b>855 257</b>
Deferred tax liability	31.12.2016 restated	Changes recognised in financial result	Changes recognised in equity	31.12.2017
Interest accrued on interbank deposits	-406	406	0	0
Interest accrued on loans	-79 866	-49 239	0	-129 105
Interest / discount accrued on securities	-15 271	3 297	0	-11 974
Positive valuation of securities	-486	14	-4 256	-4 728
Interest accrued on derivative instruments	-30 455	-28 162	0	-58 617
Positive valuation of derivative instruments	-87 399	17 936	-656	-70 119
Difference between balance and tax depreciation	-33 514	-5 618	0	-39 132
Accrued not received income	-61 138	50 315	0	-10 823
<b>Deferred income tax provisions</b>	<b>-308 535</b>	<b>-11 051</b>	<b>-4 912</b>	<b>-324 498</b>
<b>Total effect of temporary differences</b>	<b>532 570</b>	<b>17 373</b>	<b>-19 184</b>	<b>530 759</b>

Deferred tax asset	31.12.2015	Changes recognised in financial result	Changes recognised in equity	Changes recognised to goodwill of BPH	31.12.2016 restated
Commissions collected in advance	144 815	51 391	0	97 618	293 824
Interest accrued on deposits	26 772	-5 334	0	2 143	23 581
Interest / discount accrued on securities	29 225	14 838	0	994	45 057
Negative valuation of securities	5 375	1 288	12 775	1 992	21 430
Interest accrued on derivative instruments	23 584	699	0	339	24 622
Negative valuation of derivative instruments	682 754	-614 835	-15 247	5 284	57 956
Premium received on options	12 760	2 986	0	890	16 636
Provision for deferred expenses	23 154	75 973	0	17 625	116 752
Impairment allowances on credit receivables	157 816	38 343	0	90 162	286 321
Other provisions	-423	6 970	0	-58 990	-52 443
Recognised asset as contribution to Obrót wierzycelnościami Alior Polska sp. z o.o. spółka komandytowo-akcyjna	12 297	-5 958	0	0	6 339
Tax loss	0	1 030	0	0	1 030
<b>Deferred income tax asset</b>	<b>1 118 129</b>	<b>-432 609</b>	<b>-2 472</b>	<b>158 057</b>	<b>841 105</b>

Deferred tax provisions	31.12.2015	Changes recognised in financial result	Changes recognised in equity	Changes recognised to goodwill of BPH	31.12.2016 restated
Interest accrued on interbank deposits	-9	-396	0	-1	-406
Interest accrued on loans	-53 419	-15 115	0	-11 332	-79 866
Interest / discount accrued on securities	-9 612	-4 739	0	-920	-15 271
Positive valuation of securities	-855	-8	377	0	-486
Interest accrued on derivative instruments	-38 177	8 850	0	-1 128	-30 455
Positive valuation of derivative instruments	-709 056	603 411	22 463	-4 217	-87 399
Difference between balance and tax depreciation	-28 107	427	0	-5 834	-33 514
Accrued income	-4 879	-4 000	0	-52 259	-61 138
<b>Deferred income tax provisions</b>	<b>-844 114</b>	<b>588 430</b>	<b>22 840</b>	<b>-75 691</b>	<b>-308 535</b>
<b>Total effect of temporary differences</b>	<b>274 015</b>	<b>155 821</b>	<b>20 368</b>	<b>82 366</b>	<b>532 570</b>

## 15 Profit per share

### 15.1 Accounting principles

In compliance with IAS 33, the Bank calculates diluted profit per share, including shares issued conditionally within incentive programmes described in Note 35. The calculations do not include those elements of incentive programmes that acted against dilution in the reporting periods and which, in the future, may potentially dilute profit per share.

Core profit per share is calculated as the quotient of profit attributable to the Bank's shareholders and the weighted average number of ordinary shares in the year.

Diluted profit per share is calculated as a ratio of profit attributable to the Bank's shareholders and the weighted average number of ordinary shares adjusted by potential ordinary convertible shares. The Bank has one category that may result in dilution of potential ordinary shares: share options.

### 15.2 Financial data

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016 restated
<b>Net profit</b>	<b>538 895</b>	<b>589 024</b>
Weighted average number of ordinary shares	129 259 754	102 218 667
Share options (number) - adjusting instrument	2 547 486	2 568 564
Adjusted weighted average number of shares	131 807 240	104 787 231
<b>Net profit per ordinary share (PLN)</b>	<b>4,17</b>	<b>5,76</b>
<b>Diluted profit per share (PLN)</b>	<b>4,09</b>	<b>5,62</b>

## Additional information to the statement of financial position

### 16 Cash and balances with the central bank

#### 16.1 Accounting principles

The item "Cash and balances with Central Bank" covers cash at nominal value and cash in the current account and deposits with the Central Bank measured at amounts payable inclusive of interest on the funds, if any.

## 16.2 Financial data

	31.12.2017	31.12.2016
Current account with the central bank	253 092	16 959
Term deposit with the central bank	255 010	344 009
Cash	457 289	722 023
<b>Cash and balances with central bank</b>	<b>965 391</b>	<b>1 082 991</b>

During the day the Bank may use funds in the mandatory reserve account for current cash settlements on the basis of instructions placed with the National Bank of Poland, however, the Bank has to maintain an average monthly balance in the account equivalent to the declared mandatory reserve.

The mandatory reserve is the PLN part of cash deposited in bank accounts and obtained from sales of securities with the exception of funds received from another domestic bank, credit union, Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa, and refundable funds received from BGF. The level of the mandatory reserve is determined by the Monetary Policy Council. Since 31 December 2010, the mandatory reserve rate has been at 3.5 percent for all kinds of deposits, with the exception of funds obtained under repo and sell-buy-back transactions where the mandatory reserve rate is 0 percent. The entities that calculate the mandatory reserve deduct the calculated amount by equivalent of EUR 500 000.

Funds in the mandatory reserve account earn interest at 0.9 of the reference rate. As at 31 December 2017 and 2016 the interest rate was 1.35%.

## 17 Available-for-sale financial assets and investment securities held to maturity

### 17.1 Accounting principles

Available for sale financial assets include financial assets that are not loans and receivables, investments held to maturity, financial assets measured at fair value through profit and loss.

Instruments classified as available for sale are measured at fair value with the measurement result recognised in equity (other comprehensive income). When such instrument is sold, the cumulated profit/loss is recognised in the profit and loss account. Interest accrued at the effective interest rate on assets available for sale is recognised in the profit and loss account.

In the case of objective evidence of impairment of debt assets available for sale, a cumulated impairment allowance is eliminated from the revaluation reserve and recognised in the profit and loss account.

At the end of each reporting period, the Bank assesses if there are objective impairment indications of available for sale financial assets, applying the same criteria as used for financial assets measured at amortised cost. If any are detected, the Bank determines the impairment allowances to be applied.

The amount of an impairment allowance is the cumulated loss that is derecognised from equity and recognised in the profit and loss account as a difference between the acquisition price (reduced by any principal repayments and amortisation) and the present fair value, reduced by all impairment losses of the asset previously recognised in profit and loss account.

Interest income on financial assets available for sale for which an impairment has been recognised (calculated on the reduced present value) is recognised at the effective interest rate.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase may be objectively related to an event occurring after the impairment allowance has been recognised in the profit and loss account, the impairment loss is reversed and recognised in the profit and loss account.

Impairment losses on investment in equity instruments classified as available for sale are not reversed through profit and loss.

## 17.2 Financial data

### Available for sale financial assets

Structure by type	31.12.2017	31.12.2016 restated
<b>Debt instruments</b>	<b>12 030 778</b>	<b>9 339 005</b>
<b>Issued by the State Treasury</b>	<b>9 651 360</b>	<b>6 197 981</b>
<i>Treasury bonds</i>	9 651 360	6 197 981
<b>Issued by monetary institutions</b>	<b>2 087 331</b>	<b>2 691 128</b>
<i>Eurobonds</i>	87 665	91 590
<i>Money bills</i>	1 999 666	2 599 538
<b>Issued by other financial institutions</b>	<b>91 387</b>	<b>156 746</b>
<i>Bonds</i>	0	59 880
<i>Eurobonds</i>	91 387	96 866
<b>Issued by enterprises</b>	<b>200 700</b>	<b>293 150</b>
<i>Bonds</i>	200 700	293 150
<b>Equity instruments</b>	<b>41 546</b>	<b>35 641</b>
<b>Financial assets available for sale</b>	<b>12 072 324</b>	<b>9 374 646</b>

By maturity	31.12.2017	31.12.2016 restated
no specified maturity	41 546	35 641
≤ 1M	2 002 613	3 031 043
> 1M ≤ 3M	0	16 922
> 3M	10 332	578 434
> 6M ≤ 1Y	11 195	196 645
> 1Y ≤ 2Y	1 030 595	1 331 405
> 2Y ≤ 5Y	4 642 927	3 496 332
> 5Y ≤ 10Y	2 728 707	688 224
> 10Y ≤ 20Y	1 604 409	0
<b>Financial assets available for sale</b>	<b>12 072 324</b>	<b>9 374 646</b>

### Investment securities held to maturity

	31.12.2017	31.12.2016
<b>Debt instruments</b>	<b>1 117 894</b>	<b>1 954</b>
issued by the State Treasury	1 117 894	1 954
Treasury bonds	1 117 894	1 954
<b>Investment securities kept until maturity</b>	<b>1 117 894</b>	<b>1 954</b>

By maturity	31.12.2017	31.12.2016
> 2Y ≤ 5Y	925 292	1 954
> 5Y ≤ 10Y	192 602	0
<b>Investment securities held to the maturity date</b>	<b>1 117 894</b>	<b>1 954</b>

### 17.3 Material estimates and assumptions – fair value, impairment allowances

Impairment allowance for financial assets available for sale	31.12.2017		31.12.2016	
	Gross value of receivables	Allowance amount	Gross value of receivables	Allowance amount
Bonds issued by enterprises	4 526	4 526	94 861	21 447

Change to impairment allowances	31.12.2017	31.12.2016
Opening balance	21 447	14 472
Change to allowances:	-16 921	6 975
Increases	209	6 975
Decreases	-17 130	0
<b>Impairment allowances at the end of period for financial assets available for sale</b>	<b>4 526</b>	<b>21 447</b>

### 17.4 Sensitivity analysis of material estimates and assumptions

For the purposes of disclosures in accordance with IFRS 7, the Bank estimates changes to measurements of debt instruments available for sale assuming a parallel shift of profitability curves by 50pb. To this end, the Bank constructs profitability curves on the basis of market data. The Bank analyses the impact on transaction measurement of changes to profitability curves in line with the assumed scenarios:

Estimated measurement change	31.12.2017		31.12.2016	
	scenario	scenario	scenario	scenario
	+50pb	-50pb	+50pb	-50pb
AFS	-56 640	56 640	-46 452	46 452

## 18 Financial assets and liabilities held for trading

### 18.1 Accounting principles

Financial assets measured at fair value through profit or loss cover:

- financial instruments held for trading – financial assets and liabilities – are classified as held for trading, if they have been acquired for the purpose of re-sale in the near term. The category contains derivative financial instruments to which the Bank is a party that as of the date when the hedging has been established have been designated as the effective hedging instruments in line with IAS 39 and securities;
- financial instruments classified initially as financial assets measured at fair value through profit and loss account – financial assets and liabilities – may be classified in the category only when:
  - the designated financial asset or liability is a joint instrument containing one or more embedded derivative instruments that can be recognised separately and such embedded derivative instrument may not materially affect cash flows resulting from the basic contract or such separation of the derivative instrument is prohibited;
  - such classification of assets or liabilities eliminates or materially reduces the inconsistency in measurement or recognition (accounting mismatch as a result of a different measurement of assets or liabilities or a different recognition of the related profit or loss);
  - a group of financial assets or liabilities or both categories are managed and the results are assessed on the basis of fair value in line with the documented risk management principles or the Bank's investment strategy.



As at 31 December 2017 and as at 31 December 2016 the Bank held no financial assets or liabilities classified initially as financial instruments as measured at fair value through profit and loss account.

## 18.2 Financial data

The Bank classified derivative instruments and securities (shares, bonds) as financial assets and liabilities held for trading as at 31 December 2017 and 31 December 2016. Derivative transactions are executed for trading purposes and to manage the market risk. The Bank enters into the following types of derivative transactions: FX-Forward, FX-Swap, IRS, CIRS, FRA, commodity Futures, commodity Forward, term transactions in securities. Every day the Bank measures derivative instruments applying the discounted cash flows model. The Bank also enters into option transactions that are measured with option measurement models.

Derivative instruments (nominal value)	31.12.2017	31.12.2016
<b>Interest rate transactions</b>	<b>55 125 803</b>	<b>21 843 663</b>
SWAP	52 202 357	20 209 412
Cap floor options	2 923 446	1 634 251
<b>FX transactions</b>	<b>8 873 916</b>	<b>9 808 111</b>
FX Swap	3 663 369	3 655 450
FX forward	1 963 710	2 630 344
CIRS	617 238	1 351 094
FX options	2 629 599	2 171 223
<b>Other options</b>	<b>6 824 348</b>	<b>5 857 380</b>
<b>Other instruments</b>	<b>585 182</b>	<b>725 823</b>
<b>Derivative instruments (nominal value)</b>	<b>71 409 249</b>	<b>38 234 977</b>

Financial assets held for trading	31.12.2017	31.12.2016
<b>Shares</b>	<b>294</b>	<b>6 312</b>
<b>Bonds</b>	<b>85 735</b>	<b>294</b>
<b>Certificates</b>	<b>89</b>	<b>557</b>
<b>Interest rate transactions</b>	<b>189 794</b>	<b>189 703</b>
SWAP	187 694	186 532
Cap floor options	2 100	3 171
<b>FX transactions</b>	<b>95 660</b>	<b>174 953</b>
FX Swap	18 059	32 156
FX forward	44 851	60 051
CIRS	15 984	60 669
FX options	16 766	22 077
<b>Other options</b>	<b>52 450</b>	<b>28 736</b>
<b>Other instruments</b>	<b>28 529</b>	<b>18 996</b>
<b>Financial assets held for trading</b>	<b>452 551</b>	<b>419 551</b>

By maturity	31.12.2017	31.12.2016
No specified maturity	22 921	7 163
≤ 1W	6 427	8 696
> 1W ≤ 1M	26 868	33 550
> 1M ≤ 3M	21 504	44 602
> 3M ≤ 6M	62 102	22 729
> 6M ≤ 1Y	29 946	67 523
> 1Y ≤ 2Y	94 831	52 458
> 2Y ≤ 5Y	73 287	134 378
> 5Y ≤ 10Y	114 665	48 452
<b>Financial assets held for trading</b>	<b>452 551</b>	<b>419 551</b>

Financial liabilities held for trading	31.12.2017	31.12.2016
<b>Bonds</b>	<b>58 333</b>	<b>0</b>
<b>Interest rate transactions</b>	<b>164 276</b>	<b>159 056</b>
SWAP	162 185	155 885
Cap floor options	2 091	3 171
<b>FX transactions</b>	<b>133 598</b>	<b>92 169</b>
FX Swap	63 816	22 999
FX forward	37 675	25 276
CIRS	16 601	20 948
FX options	15 506	22 946
<b>Other options</b>	<b>52 448</b>	<b>28 693</b>
<b>Other instruments</b>	<b>27 223</b>	<b>18 396</b>
<b>Financial liabilities held for trading</b>	<b>435 878</b>	<b>298 314</b>

By maturity	31.12.2017	31.12.2016
No specified maturity	18 730	0
≤ 1W	9 103	4 542
> 1W ≤ 1M	43 737	30 133
> 1M ≤ 3M	47 647	36 112
> 3M ≤ 6M	27 894	25 424
> 6M ≤ 1Y	29 779	34 911
> 1Y ≤ 2Y	118 914	54 208
> 2Y ≤ 5Y	110 142	79 381
> 5Y ≤ 10Y	29 932	33 603
<b>Financial liabilities held for trading</b>	<b>435 878</b>	<b>298 314</b>

### 18.3 Material estimates and assumptions – BCVA adjustments

In its measurement of derivative instruments, Alior Bank SA applies adjustments for the counterparty's credit risk. The amount of such adjustment is equivalent to a change to the measurement of derivative instruments in the case of default of both parties to the transaction (Bilateral Credit Value Adjustment).

The adjustment is calculated on the basis of estimates of the following parameters: bilateral likelihood of default, PD (Probability of Default), LGD (Loss Given Default), anticipated positive and negative exposure under transaction (EE and NEE). PD and LGD are estimated with external models applied by the Bank on the basis of market quotations of the credit risk. The counterparty's exposure is calculated at the present valuation and its projection calculated on the basis anticipated changes to market conditions. Additionally, credit risk adjustments provide for mutual obligations under hedging contracts regulating the relations of the parties.

The amount of BCVA adjustment to measurement as at 31 December 2017 amounted to PLN -7 895 thousand. The overall BCVA adjustment amount is composed of the CVA adjustment (reflecting solely the risk of the counterparty's default) amounted to PLN -8 428 thousand and the DVA adjustment amounted (reflecting the risk of the Bank's default) to PLN 533 thousand. The amount of BCVA adjustment as at 31 December 2016 amounted to PLN -12 558 thousand. The overall BCVA adjustment amount is composed of the CVA adjustment (reflecting solely the risk of the counterparty's default) amounted to PLN -13 001 thousand and the DVA adjustment amounted (reflecting the risk of the Bank's default) to PLN 413 thousand.

## 18.4 Sensitivity analysis of material estimates and assumptions

For the purposes of disclosures in accordance with IFRS 7, the Bank estimates changes to measurements of the derivative instruments with a linear risk profile assuming a parallel shift of profitability curves by 50pb. To this end, the Bank constructs profitability curves on the basis of market data. The Bank analyses the impact on transaction profitability of a change of profitability curves for the portfolio of derivative instruments with a linear risk profile, not covered with hedge accounting.

Estimated measurement change	31.12.2017		31.12.2016	
	scenario	scenario	scenario	scenario
	+50pb	-50pb	+50pb	-50pb
IRS	26 749	-26 749	41 063	-41 063
CIRS	-175	175	-511	511
other instruments	-134	134	-198	198
<b>Total</b>	<b>26 440</b>	<b>-26 440</b>	<b>40 354</b>	<b>-40 354</b>

## 19 Hedge accounting

### 19.1 Accounting principles

Hedge accounting is applied for symmetrical recognition in the profit and loss account of compensating changes to the fair value of the hedging instruments and the hedged item.

For the purposes of hedge accounting, the Bank designates hedging instruments so that changes to their fair value or cash flows covered in whole or in part the changes to the fair value or future cash flows of the hedged item.

The Bank applies hedge accounting if all the conditions specified in IAS 39 as listed below are satisfied:

- when the hedge is established, formal documentation is made of the hedging relationship specifying the hedging purpose and strategy, the type and identification of the hedged and hedging instrument, the nature of the hedged risk and the assessment method of hedging effectiveness;
- high hedging effectiveness is expected – high efficiency in compensating changes to the fair value or cash flows, in line with the documented risk management strategy concerning the specific hedging relationship;
- it is possible to reliably assess the hedging effectiveness – reliable measurement of the fair value or cash flows of both the hedged item and the hedging item;
- in the case cash flows, a high likelihood occurs that a hedged transaction occurs that is exposed to the risk of changing cash flows affecting the profit and loss account;
- the hedging is assessed on an ongoing basis and its high effectiveness is confirmed in all reporting periods for which the hedging has been established.

Within hedge accounting, the Bank applies cash flow hedge accounting.

Cash flow hedges are hedges securing future cash flows fluctuations which can be attributed to a particular kind of risk connected with a given item of assets or liabilities or with a highly probable contemplated transaction, affecting the profit and loss account.

Cash flow hedges are recognised in the books as follows:

a) a part of profit or loss related to the hedging instrument constituting effective hedge is recognised in other comprehensive income in the lower amount of the following (absolute values):

- cumulated until the profit or loss hedge is established on the hedging instrument;
- cumulated until the establishment of a hedge to fair value changes (present value) of the anticipated future cash flows, resulting from the hedger item;

b) an ineffective part of profit or loss related to the hedging instrument is recognised in the profit and loss account.

The effective part of the hedge is transferred to the profit and loss account in the period or in periods when the hedged contemplated transaction affects the profit and loss account.

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

- the hedging instrument is sold, expires, is terminated or exercised;
- the above requirements of hedge accounting have not been complied with;
- the Bank cancels the hedge relationship;
- future cash flows are no longer treated as probable.

In the case any of the above events occurs, the result on the hedging instrument when the hedge has been effective – continues to be recognised in the revaluation reserve until the contemplated transaction occurs and it is recognised in the profit and loss account.

## 19.2 Types of hedge strategies

The Bank applies cash flow hedge accounting. The hedging strategy is aimed at hedging the interest rate risk resulting from changing cash flows from assets with variable interest rates using PLN IRS transactions. In the established hedging relationships, the hedged items include cash flows from PLN loans with variable interest rates, while IRS transactions are the hedging transactions under which the Bank receives fixed interest based on fixed interest rates and pays interest based on variable interest rates. The hedged items are measured at the amortised cost, while the hedging items at fair value.

## 19.3 Financial data

Hedging instruments (nominal value)	31.12.2017	31.12.2016
Interest rate transactions	8 644 200	6 969 200
SWAP	8 644 200	6 969 200
<b>Hedging instruments (nominal value)</b>	<b>8 644 200</b>	<b>6 969 200</b>

Financial assets held for trading – hedging instruments	31.12.2017	31.12.2016
Level 2	87 785	71 684
Interest rate transactions	87 785	71 684
SWAP	87 785	71 684
<b>Financial assets held for trading – hedging instruments</b>	<b>87 785</b>	<b>71 684</b>

By maturity	31.12.2017	31.12.2016
> 1M ≤ 3M	39 186	13 866
> 3M ≤ 6M	8 279	21 139
> 6M ≤ 1Y	334	865
> 1Y ≤ 2Y	30 084	20 462
> 2Y ≤ 5Y	9 902	15 352
<b>Financial assets held for trading – hedging instruments</b>	<b>87 785</b>	<b>71 684</b>

Financial liabilities held for trading – hedging instruments	31.12.2017	31.12.2016
Level 2	5 419	6 119
Interest rate transactions	5 419	6 119
SWAP	5 419	6 119
<b>Financial liabilities held for trading – hedging instruments</b>	<b>5 419</b>	<b>6 119</b>

By maturity	31.12.2017	31.12.2016
> 6M ≤ 1Y	0	39
> 1Y ≤ 2Y	142	0
> 2Y ≤ 5Y	2 304	3 705
> 5Y ≤ 10Y	2 973	2 375
<b>Financial liabilities held for trading – hedging instruments</b>	<b>5 419</b>	<b>6 119</b>

Other comprehensive income as regards cash flow hedges	31.12.2017	31.12.2016
Other gross comprehensive income at the beginning of period	-10 769	27 209
Gains transferred to other comprehensive income in the period	-7 442	-52 950
<b>Amount transferred in the period from comprehensive income to profit and loss account, including:</b>	<b>7 069</b>	<b>-14 972</b>
- interest income	7 069	14 972
Accumulated other gross comprehensive income at the end of period	<b>-11 142</b>	-10 769
Tax effect	2 117	2 046
<b>Accumulated other net comprehensive income at the end of period</b>	<b>-9 025</b>	<b>-8 723</b>
Ineffective part of cash flow hedges recognised in the profit and loss account	-872	899
Impact of other gross comprehensive income in the period	<b>-373</b>	-37 978
Deferred tax under cash flow hedges	71	7 216
<b>Impact of other net comprehensive income in the period</b>	<b>-302</b>	<b>-30 762</b>

#### 19.4 Sensitivity analysis of material estimates and assumptions

For the purposes of disclosures in accordance with IFRS 7, the Bank estimates changes to measurements of the derivative instruments with a linear risk profile assuming a parallel shift of profitability curves by 50pb. To this end, the Bank constructs profitability curves on the basis of market data. The Bank analyses the impact on transaction profitability of a change of profitability curves for the portfolio of derivative instruments with a linear risk profile, covered with hedge accounting.

Estimated measurement change	31.12.2017		31.12.2016	
	scenario	scenario	scenario	scenario
	+50pb	-50pb	+50pb	-50pb
IRS	-43 415	43 415	-66 108	66 108

## 20 Loans and advances to customers

### 20.1 Accounting principles

In that category, the Bank includes financial assets that are not derivative instruments with determined or determinable payments, not listed in an active market, other than:

- financial assets that the Bank intends to sell immediately or in a short term and that are classified as held for trading or such that at the initial recognition were designated as measured at fair value through profit and loss account;
- financial assets designated by the entity at initial recognition as available for sale;
- financial assets where the holder may not recover the full initial investment amount for reasons other than impairment of loan servicing, that are classified as available for sale.

On 31 December 2017 and 31 December 2016 in that category the Bank held receivables from other banks (interbank deposits, security deposits and funds in current accounts) and receivables under loans, purchased receivables, and other receivables from customers.

Loans and receivables are measured by the Bank at amortised cost, with the effective interest rate method, reduced by impairment allowances.

The Bank treats re-negotiations of the contractual terms and conditions of loans as an impairment indication, unless such re-negotiation of the contractual terms and conditions has not been forced by the debtor's condition and has been carried out subject to normal business principles. Afterwards, the Bank assesses if such impairment to the loans should be recognised on an individual or group basis. In the case of re-negotiations not forced by the debtor's financial condition, if a change occurs to contractual cash flows, a new effective interest rate is calculated.

In this item, the Bank also discloses securities repurchase transactions following the economic content of the transaction. The assessment covers if the securities purchase/sale transaction is combined with transfer of risks and benefits under the security. In the transactions so far entered into by the Bank, basically all risks and benefits are retained by the seller of the securities since the risk of change of the present value of net assets is not materially changed as a result of such transfer. This means that both reverse repo and buy-sell-back transactions, as well as repo and sell-buy-back transactions are disclosed in the Bank's balance sheet as: securities placed with the securities buyer or deposits received from the securities buyer.

Securities covered with repo transactions are not excluded from the statement of financial position and are measured in accordance with the principles applicable to each securities portfolio. A difference between the sale price and the repurchase price is recognised as interest expense or income respectively.

## 20.2 Material estimates and assumptions – impairment allowances

As at the end of each reporting period, the Bank assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. The Bank accepts that a financial assets or a group of financial assets is impaired and such impairment loss is suffered only when there are objective indications resulting from one or more events that have occurred after the initial recognition of such asset (loss generating event) and the loss generating asset affects future anticipated cash flows from such financial asset or a group of financial assets that may not be reliably estimated.

Impairment indications are as follows:

- concerning the customer:

- a major delay in repayment/unauthorised debit – the premise applies to business customers and individual customers; it is recognised by the system when a delay in repayment or unauthorised debit exists for over 90 days, while the overdue amount meets the materiality criterion (PLN 500 and 1% of the overall exposure amount)) in all the customer's accounts jointly where the customer is the owner/co-owner, or borrower/co-borrower;
- proceedings subject to restructuring law – the premise applies to business customers;
- bankruptcy/liquidation – the premise applies to business customers and it is recognised on the basis of information in the system that the enterprise has filed for bankruptcy;
- (consumer bankruptcy – the premise applies to individual customers; it is recognised on the basis of information in the system that the debtor has filed for bankruptcy (consumer bankruptcy):
- undisclosed assets by the customer – the premise applies to business customers and individual customers; it is recognised on the basis of information in the system that the debtor has filed an untrue statement on their assets;

- a major deterioration of the internal score/rating – the premise applies to business customers; it is recognised by the system when the rating falls by minimum one class and at the same time below the level acceptable by the Bank;
  - it is a major deterioration of the customer's economic and financial condition – the premise applies to business customers; it is recognised in the system in case of deterioration of the customers' economic and financial condition (in compliance with RMF classification) by minimum one category to a level "sub-standard", "doubtful", or "loss";
  - death – the premise applies to individual customers; it is recognised on the basis of information in the system that the customer has died.
  - no information on the customer's whereabouts – the indicator applies to individual customers;
  - job loss – the premise applies to individual customers; it is recognised on the basis of information in the system that the customer is not able to repay their debt due to job loss;
  - customer's financial problems – the premise applies to individual customers; it is recognised on the basis of information in the system on the customer's financial problems (on the basis of BIK data).
- concerning the account:
- commencement of court proceedings – the premise is recognised on the basis of information in the system that court proceedings have been initiated;
  - commencement of enforced collection – the premise is recognised on the basis of information in the system that the Bank has initiated enforced collection proceedings;
  - effective contract termination – the premise is recognised on the basis of information in the system with the date of effective termination, while the materiality criterion of the debt amount is complied with (PLN 500);
  - restructuring – the premise is recognised on the basis of information in the system – input as a result of the customer's problems with timely debt repayment – on changes to the loan service rules in the form of an annex to the loan agreement or a settlement with the Bank;
  - Exposure questioned by the debtor in – the premise is recognised on the basis of information in the system that the customer questions the exposure by way of court litigation;
  - identified fraud – the indicator is recognised on the basis of information in the system about a fraud confirmed with a court judgement.
- concerning exposures to banks:
- delay in repayment over 30 days – the premise is recognised on the basis of information on delays in repayment in excess of 30 days;
  - material deterioration of the external rating of the counterparty bank – the premise is recognised on the basis of information in the system that the counterparty bank's rating has fallen from an investment to speculation grade;
  - material deterioration of the external rating of the country of the counterparty bank – the premise is recognised on the basis of information in the system that the country rating of the counterparty bank has fallen from an investment to speculation grade;
  - material deterioration of the bank's financial condition/bank's bankruptcy – the premise is recognised on the basis of information on the customer's risk assessed in the periodic monitoring of limits at an unacceptable level.
- concerning exposures under bonds:
- no payment under bonds – the premise is recognised on the basis of information on missing payments under bonds at the time specified in the bond issue terms and conditions;
  - failure by the issuer to comply with other conditions set forth in the bond issue terms and conditions opening an option to demand pre-mature bond redemption.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether material or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. The assets assessed individually for impairment when the entity recognises an impairment allowance or decides to continue to recognise such allowance – are not taken into account in the overall impairment assessment.

If objective evidence exists that an impairment loss has been suffered, the impairment allowance is a difference between the carrying value of the asset and the present value of the estimated future cash flows (with the exception of future credit losses not yet incurred), discounted at the original effective interest rate of the financial instrument (the effective interest rate determined at the initial recognition). Interest income is recognised with the application of an effective interest rate. Impaired exposures are split into those that are measured individually or in groups (collectively).

Individual measurement applies to exposures that may be impaired (calculated at the customer level) in excess of the materiality levels subject to the customer segment. Individual measurement is also applied to exposures that may be impaired with respect to which the Bank is not able to identify a group of assets with similar credit risk features or does not have an adequate sample to assess group parameters.

For the purposes of collective measurement, groups are identified with similar credit risk features that are assessed collectively for impairment. Group measurements are based on periods when the affected exposures remain at default; they provide for a specific nature of each group in terms of the anticipated recoveries.

Future cash flows in the group of financial assets for which impairment is measured collectively are estimated on the basis of loss history for assets with similar credit risk features. Adjustments to historic data take into account present conditions and non existence of certain factors, if they cease to exist. Estimated changes to future cash flows reflect changes to the related available data in each period (such as unemployment rate, commodity prices, payment status, and other factors that indicate the losses incurred in the group and volumes thereof) and are basically compliant therewith. The methodology and assumptions underlying estimates of future cash flows are regularly reviewed to minimise the discrepancies between the estimated and actual losses.

If in a subsequent period, the impairment loss is reduced as a result of an event that has occurred after the loss has been suffered, the previously recognised impairment allowance is reversed by an adjustment to the balance of impairment allowances. The amount of the reversal is recognised through profit and loss.

In case of any event that may constitute an impairment indicator, not covered with the above catalogue, a possibility exists for an individual change of the account status to default. It is so marked in the case of information on the occurrence of other material events, not covered with the above catalogue that may constitute an impairment indicator.

Impairment indicators of on-balance sheet loan exposures (groups of on-balance sheet loan exposures) are recorded in the system at the customer or account level. When an impairment indicator is recorded at the account level, all accounts of the customer are marked as impaired. When an impairment indicator is recorded at the customer level, the impairment propagates to all accounts in their portfolio. The propagation applies to all accounts where the customers is the owner/co-owner or borrower/co-borrower.



## 20.3 Financial data (gross value, impairment allowances)

Loans granted to customers	31.12.2107			31.12.2016 restated		
	Gross value	Impairment allowance	Net value	Gross value	Impairment allowance	Net value
<b>Retail segment</b>	<b>30 146 687</b>	<b>-1 911 961</b>	<b>28 234 726</b>	<b>27 677 972</b>	<b>-1 792 775</b>	<b>25 885 197</b>
Consumer loans	18 337 260	-1 795 399	16 541 861	17 905 624	-1 681 060	16 224 564
Loans for residential properties	9 631 679	-83 893	9 547 786	8 485 561	-77 929	8 407 632
Consumer finance loans	2 177 748	-32 669	2 145 079	1 286 787	-33 786	1 253 001
<b>Corporate segment</b>	<b>24 492 381</b>	<b>-1 483 014</b>	<b>23 009 367</b>	<b>21 627 878</b>	<b>-1 264 452</b>	<b>20 363 426</b>
Working capital loans	13 747 636	-910 661	12 836 975	11 986 001	-871 824	11 114 177
Investment loans	8 996 753	-371 965	8 624 788	7 693 568	-201 674	7 491 894
Other business loans	1 747 992	-200 388	1 547 604	1 948 309	-190 954	1 757 355
<b>Total</b>	<b>54 639 068</b>	<b>-3 394 975</b>	<b>51 244 093</b>	<b>49 305 850</b>	<b>-3 057 227</b>	<b>46 248 623</b>

Loans granted to customers by method of allowance calculation	31.12.2107			31.12.2016 restated		
	Gross value	Impairment allowance	Net value	Gross value	Impairment allowance	Net value
<b>individualised method, including:</b>	<b>2 918 516</b>	<b>-773 004</b>	<b>2 145 512</b>	<b>2 345 491</b>	<b>-777 422</b>	<b>1 568 069</b>
with identified impairment	2 330 379	-773 004	1 557 375	1 829 164	-777 422	1 051 742
without identified impairment	588 137	0	588 137	516 327	0	516 327
<b>group method</b>	<b>3 694 718</b>	<b>-2 297 232</b>	<b>1 397 486</b>	<b>3 810 744</b>	<b>-1 976 676</b>	<b>1 834 068</b>
with identified impairment	3 566 585	-2 297 232	1 269 353	2 983 388	-1 976 676	1 006 712
without identified impairment	128 133	0	128 133	827 356	0	827 356
<b>portfolio method (IBNR)</b>	<b>48 025 834</b>	<b>-324 739</b>	<b>47 701 095</b>	<b>43 149 615</b>	<b>-303 129</b>	<b>42 846 486</b>
<b>Total</b>	<b>54 639 068</b>	<b>-3 394 975</b>	<b>51 244 093</b>	<b>49 305 850</b>	<b>-3 057 227</b>	<b>46 248 623</b>

Loans granted to customers – exposure of the Bank to the credit risk	31.12.2107			31.12.2016 restated		
	Gross value	Impairment allowance	Net value	Gross value	Impairment allowance	Net value
<b>with identified impairment, of which:</b>	<b>5 896 964</b>	<b>-3 070 236</b>	<b>2 826 728</b>	<b>4 812 552</b>	<b>-2 754 098</b>	<b>2 058 454</b>
assessed with individualised method	2 330 379	-773 004	1 557 375	1 829 164	-777 422	1 051 742
<b>without identified impairment, of which:</b>	<b>48 742 104</b>	<b>-324 739</b>	<b>48 417 365</b>	<b>44 493 298</b>	<b>-303 129</b>	<b>44 190 169</b>
with recognised individual indication	716 269	0	716 269	573 720	0	573 720
not overdue	308 668	0	308 668	278 712	0	278 712
overdue	407 601	0	407 601	295 008	0	295 008
without recognised individual indication/IBNR	48 025 835	-324 739	47 701 096	43 919 578	-303 129	43 616 449
not overdue	45 149 893	-167 619	44 982 274	41 113 142	-175 801	40 937 341
overdue	2 875 942	-157 120	2 718 822	2 806 436	-127 328	2 679 108
<b>Total</b>	<b>54 639 068</b>	<b>-3 394 975</b>	<b>51 244 093</b>	<b>49 305 850</b>	<b>-3 057 227</b>	<b>46 248 623</b>

Impairment allowances to loans granted to customers – reconciled transfers in 2017	Value at the beginning of period	Established in the period	Reversed in the period	Assets written-off	Other	Value at the end of period	Impact on the profit and loss account
Retail segment	1 792 775	1 760 648	-1 266 386	-409 611	34 535	1 911 961	494 262
Corporate segment	1 264 452	1 380 227	-969 130	-219 761	27 226	1 483 014	411 097
<b>Total</b>	<b>3 057 227</b>	<b>3 140 875</b>	<b>-2 235 516</b>	<b>-629 372</b>	<b>61 761</b>	<b>3 394 975</b>	<b>905 359</b>

Impairment allowances to loans granted to customers – reconciled transfers in 2016	Value at the beginning of period	Established in the period	Reversed in the period	Assets written-off	Other, of which due to purchase of the demerged part of BPH and SKOKs	Value at the end of period	Impact on the profit and loss account
Retail segment	1 086 668	1 290 652	-805 502	-328 775	549 732	1 792 775	485 150
Corporate segment	850 680	562 202	-284 691	-162 191	298 452	1 264 452	277 511
<b>Total</b>	<b>1 937 348</b>	<b>1 852 854</b>	<b>-1 090 193</b>	<b>-490 966</b>	<b>848 184</b>	<b>3 057 227</b>	<b>762 661</b>

By maturity (as at the balance sheet date)	31.12.2017	31.12.2016
<b>Retail segment</b>	<b>28 234 726</b>	<b>25 885 197</b>
≤ 1M	3 202 620	2 910 161
> 1M ≤ 3M	700 879	633 692
> 3M ≤ 6M	994 312	853 902
> 6M ≤ 1Y	1 829 288	1 616 066
> 1Y ≤ 2Y	2 827 282	2 617 666
> 2Y ≤ 5Y	5 928 016	5 712 326
> 5Y ≤ 10Y	5 768 341	5 418 912
> 10Y ≤ 20Y	4 134 633	3 497 105
> 20Y	2 849 355	2 625 367
<b>Corporate segment</b>	<b>23 009 367</b>	<b>20 363 426</b>
≤ 1M	5 806 193	5 537 840
> 1M ≤ 3M	1 089 246	1 141 897
> 3M ≤ 6M	1 129 151	1 193 177
> 6M ≤ 1Y	2 331 002	2 143 239
> 1Y ≤ 2Y	2 495 427	2 174 464
> 2Y ≤ 5Y	5 735 431	4 085 045
> 5Y ≤ 10Y	3 499 583	3 240 797
> 10Y ≤ 20Y	923 334	846 967
<b>Loans and advances to customers</b>	<b>51 244 093</b>	<b>46 248 623</b>

By currency	31.12.2017	31.12.2016
<b>Retail segment</b>	<b>28 234 726</b>	<b>25 885 197</b>
PLN	26 682 610	24 332 428
EUR	1 112 805	1 125 543
GBP	237 003	201 010
USD	44 068	41 047
CHF	158 214	184 298
Other	26	871
<b>Corporate segment</b>	<b>23 009 367</b>	<b>20 363 426</b>
PLN	18 732 017	16 343 057
EUR	4 022 226	3 756 078
GBP	71 002	3 778
USD	132 698	193 329
CHF	42 390	55 242
Other	9 034	11 942
<b>Loans and advances to customers</b>	<b>51 244 093</b>	<b>46 248 623</b>

## 20.4 Sensitivity analysis of material estimates and assumptions

The Bank reviews all on-balance sheet loan exposures (groups of on-balance sheet loan exposures) to identify objective impairment indications, relying on the most recent data when the items are revalued. When estimating the amount of an impairment loss, estimates of the amounts and realisation dates of future cash flows are made. The estimates rely on assumptions relating to multiple factors so the actual results may differ. As a result, future impairment allowances may be changed.

Impaired exposures are split into those that are measured individually or in groups. Exposures with no identified impairment indications are grouped in homogeneous groups in terms of the risk profile and a provision is recognised for such group of exposures to cover incurred, but not reported losses (IBNR). The IBNR value is determined on the basis of the PD, LGD parameters, and collateral (subject to the anticipated recovery rates).

Individual measurement applies to exposures that may be impaired (calculated at the customer level) in excess of the materiality levels subject to the customer segment (see the table).

Customer Segment	Threshold amount	
	2017	2016
Individual customers:	no threshold	no threshold
Corporate customers	1 000 000	500 000

Individual measurement is also applied to exposures that may be impaired with respect to which the Bank is not able to identify a group of assets with similar credit risk features or does not have an adequate sample to assess group parameters.

Individual assessments are based on an analysis of potential scenarios (business customers). Each scenarios and each tree branch are assigned the likelihood of occurrence and anticipated recoveries. The assumptions applied for individual measurements are described in detail by persons performing analyses. The value o recoveries anticipated within individual measurements are compared to the actual recoveries on a quarterly basis.

Group measurements are based on periods when the affected exposures remain at default; they provide for a specific nature of each group in terms of the anticipated recoveries. The existing collateral is taken into account at the exposure level.

Exposures with no identified impairment indications are grouped in homogeneous groups in terms of the risk profile and a provision is recognised for such group of exposures to cover incurred, but not reported losses (IBNR). IBNR is determined on the basis of the PD, LGD parameters and collateral (subject to the anticipated recovery rates).

The impact of increased/decreased cash flows (including flows from execution of collateral) on impairment of the loan portfolio measured by the Bank with the individual method is presented in the table below (PLN M):

	31.12.2017		31.12.2016	
	Scenario		Scenario	
	10%	-10%	10%	-10%
The estimated change to the impairment of loans as a result of a changed present value of the estimated cash flows under loans measured by the Bank with the individual method	-136.25	216.43	-78.52	141.38

The impact of increased/decreased cash flows (including flows from execution of collateral) on impairment of the loan portfolio measured by the Bank with the portfolio method is presented in the table below (PLN M):

	31.12.2017		31.12.2015	
	scenario		scenario	
	10%	-10%	10%	-10%
The estimated change to the impairment of loans as a result of a changed present value of the estimated cash flows under loans measured by the Bank with the group method	-125.10	144.82	-72.79	84.15

The impact of increased/decreased PD parameter on the IBNR provision is presented in the table below (PLN M):  
The detailed description of impairment allowances is provided in Note 38.

	31.12.2017		31.12.2016	
	scenario		scenario	
	10%	-10%	10%	-10%
The estimated change of allowances and provisions for incurred, but not reported losses (IBNR) of loans as a result of changes to PD LIP	29.90	-30.09	17.18	-17.19

## 21 Amounts due from banks

### 21.1 Accounting principles

Receivables from banks include financial assets measured at amortised cost with the effective interest rate reduced by potential impairment allowances with the exception of cash in transit that is measured at nominal value. If no time schedule of future cash flows may be determined for receivables and therefore, no effective interest rate can be identified, the receivables are measured at the amount payable.

Securities under buy-sell back transactions are recognised as receivables from banks, if a bank is the counterparty. Buy-sell back transactions are measured at amortised cost. A difference between the purchase and re-sale price is treated as interest income and accounted for over the term of the contract at the effective interest rate.

### 21.2 Financial data

Structure by type	31.12.2017	31.12.2016
Current accounts	627 261	386 766
Overnight deposits (O/N)	10 001	0
Term deposits	9 061	237 396
Reverse Repo	58 397	583 012
Deposits as derivative transactions (ISDA) collateral	163 770	145 141
Other	30 487	11 911
<b>Amounts due from banks</b>	<b>898 977</b>	<b>1 364 226</b>

By maturity (as at the balance sheet date)	31.12.2017	31.12.2016
≤ 1M	898 977	1 364 226
<b>Amounts due from banks</b>	<b>898 977</b>	<b>1 364 226</b>

By currency structure	31.12.2017	31.12.2016
PLN	70 860	600 224
EUR	355 942	286 143
GBP	37 193	29 238
USD	91 347	321 306
CHF	4 423	8 890
Other currencies	339 212	118 425
<b>Amounts due from banks</b>	<b>898 977</b>	<b>1 364 226</b>

The margin deposits refer to security provided to other banks under CSA agreement (Credit Support Annex).

## 22 Property, plant and equipment and intangible assets

### 22.1 Accounting principles

#### Property, plant and equipment and investment properties

Property, plant and equipment cover assets with the anticipated useful life of over one year, complete and use for service provision. They are initially measured according to their purchase price or construction cost. Following the initial recognition, property, plant and equipment are carried at the purchase cost or construction cost, less any accumulated depreciation and any cumulated impairment allowances.

Outlays incurred after the initial recognition of property, plant and equipment are recognised as assets only when they increase future economic benefits from the asset. Otherwise, the outlays are recognised in profit and loss as expenses when incurred.

Investment properties include those properties that the Bank treats as a source of economic benefits in terms of rental income or increased fair value (or both at the same time). Investment properties are initially measured at the purchase price or construction cost, including transactional costs. Following the initial recognition of investment properties, the Bank applies the measurement method at the purchase price or construction cost, less accumulated depreciation and impairment allowances.

#### Intangible assets

Intangible assets with a defined useful economic life, including those manufactured internally, following the initial recognition are disclosed at the purchase price or construction cost, less depreciation and impairment allowances. As at each balance sheet date, the Bank reviews assets for impairment indications. Should such indications exist, the Bank formally assesses the recoverable value. If the carrying value of an asset is higher than its recoverable value, an impairment is recognised and an impairment allowance is made to the recoverable value.

Goodwill is a surplus of the purchase cost over the fair value of the acquired identifiable assets, liabilities, and contingent liabilities in a business combination transaction. Following the initial recognition, the goodwill is recognised at the purchase cost, less all accumulated impairment allowances. In the case of sale of a subsidiary entity, the goodwill recognised at acquisition is included in the financial result settling the sale.

With reference to goodwill, impairment allowances are determined on the basis of an estimated value of each cash generating centre to which the goodwill has been allocated. When the recoverable value of a cash generating centre is lower than its carrying value, an impairment allowance is recognised. The impairment identified in tests is not reversed in subsequent periods. Goodwill is analysed for impairment as at each balance sheet date ending each financial year or more frequently – if impairment indications have been identified.

The other intangible assets are identifiable assets without tangible form. Initially, they are measured according to their purchase price or construction cost. The Bank capitalises:

- expenses incurred in for the purchase of licences for software and development of licences or modules for the acquired licence;
- internal manufacturing costs of assets covering all outlays, including costs of employee benefits that may directly attributed to the manufacturing and preparation of the asset for use in line with its intended use.

The cost of an intangible asset acquired under a separate transaction covers:

- purchase price, including import duties and non-deductible purchase taxes, reduced by commercial rebates and discounts;
- outlays directly related to the preparation of an asset for use in line with its intended use.

Outlays incurred after the initial recognition of intangible assets are recognised as assets only when they increase future economic benefits from an asset. Internal development costs of a licence or an additional module include all outlays which may be directly attributed to creation, production, and adaptation of an asset for the use intended by the management.

Otherwise, they are recognised through profit and loss.

### Depreciation

Depreciation accrues on all fixed assets with a determined useful life, with a straight-line method over the estimated useful life of the asset. The approved depreciation method and useful life are verified at least annually. Property, plant and equipment and intangible assets begin to be depreciated/amortised from the first day of the month following the month when such asset has been brought for use, and it ends not later than:

- 1) when the depreciation/amortisation charges equal the initial value of the asset, or
- 2) when the asset is to be liquidated, or
- 3) when it is sold, or
- 4) when it is found missing, or
- 5) when as a result of verification, it is found that a residual value of the asset is higher than its carrying value (net) subject to the residual value of the asset anticipated at liquidation – the net amount that the Bank expects to obtain at the end of use, net of the anticipated sales costs.

### Use of property, plant and equipment and intangible assets

Item	Use period in years
<b>Property, Plant &amp; Equipment</b>	
Improvements in third party buildings or structures	5-10
Plant and machinery	1-5
Equipment	2-10
Means of transport	2.5-5
<b>Intangible assets</b>	
Licenses	2-12.5
Software of IT systems	2-10
Development Costs	2-12.5
Copyright and other intangible assets	2-10

### Impairment allowances

Impairment occurs when the carrying value of an asset is higher than its realisable value. The resultant impairment allowance is recognised in profit and loss.

The realisable value is the higher of: fair value reduced by sales costs and the value in use of the asset.

The value in use is determined with a discount of the estimated future cash flows for the asset, at the discount rate before taxes. For assets that do not generate cash flows on their own, the Bank determines their realisable value at the level of the cash generating unit that owns a specific asset.

Impairment allowances may be reversed through profit and loss to the level at which the book value of the assets is not higher than the book value of the asset, assuming that no impairment allowance has been recognised.

Impairment allowances relating to goodwill may not be reversed. Otherwise, the allowance may be reversed as long as a change has occurred to the estimates used to determine the realisable value. Impairment allowances may be reversed only to the level at which the book value does not exceed the book value which – reduced by depreciation – would have been determined if no impairment allowance had been recognised.

The realisable value is the value in use or fair value reduced by sales costs – whichever is higher when the review is made.

In order to determine the value in use, the estimated future cash flows are discounted to the present value at the discount rate before taxes that reflects the current expectations on the market as to the value of money and the specific risk for such assets.

## 22.2 Financial data

### Property, Plant & Equipment

31.12.2017	Fixed assets under construction	Plant and machinery (including IT hardware)	Leasehold improvements	Owned buildings	Other	Total
Value at the purchase price as at 01.01.2017	23 075	373 984	202 203	144 498	97 066	840 826
<b>Change, due to:</b>	<b>19 112</b>	<b>46 424</b>	<b>11 466</b>	<b>15 634</b>	<b>16</b>	<b>92 652</b>
Purchases in 2017	50 818	26 319	18 652	1 800	2 859	100 448
Sale in 2017	-74	-2 469	0	0	-3 437	-5 980
Other changes	-31 632	22 574	-7 186	13 834	594	-1 816
<b>Value at the purchase price as at 31.12.2017</b>	<b>42 187</b>	<b>420 408</b>	<b>213 669</b>	<b>160 132</b>	<b>97 082</b>	<b>933 478</b>
<b>Cumulated depreciation as at 01.01.2017</b>	<b>0</b>	<b>184 227</b>	<b>106 370</b>	<b>1 626</b>	<b>63 503</b>	<b>355 726</b>
Depreciation for 2017	0	63 097	28 180	6 529	7 267	105 073
Other changes	0	-2 485	-4 808	0	-1 706	-8 999
<b>Cumulated depreciation as at 31.12.2017</b>	<b>0</b>	<b>244 839</b>	<b>129 742</b>	<b>8 155</b>	<b>69 064</b>	<b>451 800</b>
<b>Impairment allowance as at 01.01.2017</b>	<b>0</b>	<b>1 134</b>	<b>347</b>	<b>0</b>	<b>99</b>	<b>1 580</b>
Changes to allowances in 2017	4	2 957	8 964	0	2 526	14 451
Other changes	0	-1 028	-287	0	4	-1 311
<b>Impairment allowances as at 31.12.2017</b>	<b>4</b>	<b>3 063</b>	<b>9 024</b>	<b>0</b>	<b>2 629</b>	<b>14 720</b>
<b>Net value as at 01.01.2017</b>	<b>23 075</b>	<b>188 623</b>	<b>95 486</b>	<b>142 872</b>	<b>33 464</b>	<b>483 520</b>
<b>Net value as at 31.12.2017</b>	<b>42 183</b>	<b>172 506</b>	<b>74 903</b>	<b>151 977</b>	<b>25 389</b>	<b>466 958</b>

31.12.2016	Fixed assets under construction	Plant and machinery (including IT hardware)	Leasehold improvements	Owned buildings	Other	Total
Value at the purchase price as at 01.01.2016	13 112	231 629	176 468	22 775	82 843	526 827
<b>Change, due to:</b>	<b>9 963</b>	<b>142 355</b>	<b>25 735</b>	<b>121 723</b>	<b>14 223</b>	<b>313 999</b>
Purchases in 2016	13 009	22 020	11 014	588	1 326	47 957
Demerged business of BPH	3 379	101 457	17 731	112 541	12 409	247 517
IFRS 3 Fair value measurement	0	15 699	0	4 089	3 372	23 160

31.12.2016	Fixed assets under construction	Plant and machinery (including IT hardware)	Leasehold improvements	Owned buildings	Other	Total
Book transfers in 2016	-6 409	4 434	-2 977	763	1 476	-2 713
Sale in 2016	-16	-1 255	-33	-45	-4 360	-5 709
Other changes	0	0	0	3 787	0	3 787
<b>Value at the purchase price as at 31.12.2016</b>	<b>23 075</b>	<b>373 984</b>	<b>202 203</b>	<b>144 498</b>	<b>97 066</b>	<b>840 826</b>
<b>Cumulated depreciation as at 01.01.2016</b>	<b>0</b>	<b>153 126</b>	<b>86 260</b>	<b>42</b>	<b>58 132</b>	<b>297 560</b>
Depreciation for 2016	0	33 116	23 025	666	7 629	64 436
Other changes	0	-2 015	-2 915	918	-2 258	-6 270
<b>Cumulated depreciation as at 31.12.2016</b>	<b>0</b>	<b>184 227</b>	<b>106 370</b>	<b>1 626</b>	<b>63 503</b>	<b>355 726</b>
<b>Impairment allowances as at 01.01.2016</b>	<b>0</b>	<b>1 121</b>	<b>494</b>	<b>0</b>	<b>19</b>	<b>1 634</b>
Changes to allowances in 2016	0	188	2 030	0	168	2 386
Other changes	0	-175	-2 177	0	-88	-2 440
<b>Impairment allowances as at 31.12.2016</b>	<b>0</b>	<b>1 134</b>	<b>347</b>	<b>0</b>	<b>99</b>	<b>1 580</b>
<b>Net value as at 01.01.2016</b>	<b>13 112</b>	<b>77 382</b>	<b>89 714</b>	<b>22 733</b>	<b>24 692</b>	<b>227 633</b>
<b>Net value as at 31.12.2016</b>	<b>23 075</b>	<b>188 623</b>	<b>95 486</b>	<b>142 872</b>	<b>33 464</b>	<b>483 520</b>

## Intangible assets

31.12.2017	Goodwill	Capital expenditure	Software, licences, R&D works	Trademark	Other	Total
<b>Value at the purchase price as at 01.01.2017</b>	<b>116 288</b>	<b>108 498</b>	<b>435 634</b>	<b>3 667</b>	<b>47 650</b>	<b>711 737</b>
<b>Changes to intangible assets due to:</b>	<b>0</b>	<b>-25 095</b>	<b>124 700</b>	<b>0</b>	<b>234</b>	<b>99 839</b>
Purchases in 2017	0	55 082	13 936	0	54	69 072
Capitalised construction costs	0	11 204	14 983	0	0	26 187
Other changes	0	-91 381	95 781	0	180	4 580
<b>Value at the purchase price as at 31.12.2017</b>	<b>116 288</b>	<b>83 403</b>	<b>560 334</b>	<b>3 667</b>	<b>47 884</b>	<b>811 576</b>
<b>Cumulated depreciation as at 01.01.2017</b>	<b>0</b>	<b>0</b>	<b>196 653</b>	<b>0</b>	<b>6 798</b>	<b>203 451</b>
Depreciation for 2017	0	0	45 612	0	21 460	67 072
Other changes	0	0	-2 050	0	0	-2 050
<b>Cumulated depreciation as at 31.12.2017</b>	<b>0</b>	<b>0</b>	<b>240 215</b>	<b>0</b>	<b>28 258</b>	<b>268 473</b>
<b>Impairment allowance as at 01.01.2017</b>	<b>11 920</b>	<b>17</b>	<b>12 069</b>	<b>3 367</b>	<b>0</b>	<b>27 373</b>
Changes to allowances in 2017	0	11 269	1	0	0	11 270
Other changes	0	-3 058	-2 588	0	0	-5 646
<b>Impairment allowances as at 31.12.2017</b>	<b>11 920</b>	<b>8 228</b>	<b>9 482</b>	<b>3 367</b>	<b>0</b>	<b>32 997</b>
<b>Net value as at 01.01.2017</b>	<b>104 368</b>	<b>108 481</b>	<b>226 912</b>	<b>300</b>	<b>40 852</b>	<b>480 913</b>
<b>Net value as at 31.12.2017</b>	<b>104 368</b>	<b>75 175</b>	<b>310 637</b>	<b>300</b>	<b>19 626</b>	<b>510 106</b>



31.12.2016	Goodwill	Capital expenditure	Software, licences, R&D works	Trademark	Other	Total
<b>Value at the purchase price as at 01.01.2016</b>	<b>106 036</b>	<b>59 355</b>	<b>408 971</b>	<b>3 667</b>	<b>5 589</b>	<b>583 618</b>
<b>Changes to intangible assets due to:</b>	10 252	49 143	26 663	0	42 061	128 119
Purchases in 2016	0	48 991	15 758	0	110	64 859
Demerged business of BPH	0	51 554	93 385	0	0	144 939
IFRS 3 fair value measurement	0	-49 556	-47 969	0	42 100	-55 425
Book transfers in 2016	10 252	-29 887	11 374	0	-149	-8 410
Capitalised construction costs	0	28 190	4 395	0	0	32 585
Other changes	0	-149	-50 280	0	0	-50 429
<b>Value at the purchase price as at 31.12.2016</b>	<b>116 288</b>	<b>108 498</b>	<b>435 634</b>	<b>3 667</b>	<b>47 650</b>	<b>711 737</b>
<b>Cumulated depreciation as at 01.01.2016</b>	<b>0</b>	<b>0</b>	<b>189 846</b>	<b>0</b>	<b>3 045</b>	<b>192 891</b>
Depreciation for 2016	0	0	33 552	0	3 844	37 396
Other changes	0	0	-26 745	0	-91	-26 836
<b>Cumulated depreciation as at 31.12.2016</b>	<b>0</b>	<b>0</b>	<b>196 653</b>	<b>0</b>	<b>6 798</b>	<b>203 451</b>
<b>Impairment allowances as at 01.01.2016</b>	<b>1 668</b>	<b>1 630</b>	<b>4 242</b>	<b>3 367</b>	<b>0</b>	<b>10 907</b>
Changes to allowances in 2016	10 252	913	9 071	0	93	20 329
Other changes	0	-2 526	-1 244	0	-93	-3 863
<b>Impairment allowances as at 31.12.2016</b>	<b>11 920</b>	<b>17</b>	<b>12 069</b>	<b>3 367</b>	<b>0</b>	<b>27 373</b>
<b>Net value as at 01.01.2016</b>	<b>104 368</b>	<b>57 725</b>	<b>214 883</b>	<b>300</b>	<b>2 544</b>	<b>379 820</b>
<b>Net value as at 31.12.2016</b>	<b>104 368</b>	<b>108 481</b>	<b>226 912</b>	<b>300</b>	<b>40 852</b>	<b>480 913</b>

### 22.3 Material estimates and assumptions – impairment test for the balance of goodwill

#### Impairment test for the balance of goodwill generated at the acquisition of and merger with Meritum Bank SA

As at 31 December 2017, the Bank held mandatory impairment tests of goodwill generated from the acquisition of Meritum Bank Polska SA in line with the models developed in accordance with IAS 36.

Such impairment test is carried out by comparing the carrying value of cash generating units (“CGU”) with their realisable value.

Two CGUs were identified to which the goodwill generated as a result of the acquisition of Meritum Bank Polska SA – retail and corporate.

The realisable value is estimated on the basis of the value in use of CGU. The value in use is the present estimated value of future cash flows for 5 years net of residual value of CGU. The residual value of CGU has been calculated with the model of theoretical dividend (Gordon model) by extrapolating the projected cash flows beyond the projection period, at the growth rate of 3%. The projected cash flows are based on the assumptions incorporated in the financial plan for the Alior Bank for 2017 and the Bank’s strategy for subsequent years. The future cash flows have been discounted at the rate of 10.1%, including a risk-free rate and a risk premium.

The impairment test held as at 31 December 2017 showed a surplus of the realisable value over the carrying value of the CGUs and therefore, no impairment of CGUs was determined.

## 22.4 Sensitivity analysis of material estimates and assumptions

The impact of the length of the useful life for depreciated assets in the group of land and buildings, affecting changes of the profit, is presented in the table below:

Impact of changes to the length of useful life of assets for depreciation costs	31.12.2017		31.12.2016	
	scenario +5 years	scenario -5 years	scenario +5 years	scenario -5 years
Plant and machinery	-21 776	159 267	-33 838	90 795
Leasehold improve-ments	-13 555	60 300	-17 335	287 151
	<b>-35 331</b>	<b>219 567</b>	<b>-51 173</b>	<b>377 946</b>

Impact of changes in the growth rate and discount rate on the result of the goodwill impairment test resulting from the acquisition of Meritum Bank SA

	The base value of the indicator	Test's result of impairment if the indicator decreases by 20%	Test's result of impairment if the indicator increases by 20%
discount rate	10.30%	No impairment	No impairment
growth rate	3.00%	No impairment	No impairment

## 23 Other assets

### 23.1 Accounting principles

Financial assets in the item are measured at amount payable, covering also potential interest in those assets, inclusive of impairment allowances. Non-financial assets are measured in line with the measurement principles applicable to specific asset categories included in that item.

### 23.2 Financial data

	31.12.2017	31.12.2016 Restated
<b>Sundry debtors</b>	<b>560 836</b>	<b>646 399</b>
Other settlements	183 567	251 091
Receivables from the sale of receivables	63 165	0
Receivables related to sales of services (including insurance)	58 540	86 699
Guarantee deposits	18 748	12 254
Settlements of payment cards	142 468	202 007
Receivables due to settlement of acquisition of the demerged part of BPH	94 348	94 348
<b>Costs recognised over time</b>	<b>29 264</b>	<b>57 178</b>
Settlements of rental charges and utilities	1 317	1 797
Maintenance and support of systems, servicing of plant and equipment	14 100	14 207
Other deferred costs	13 847	41 174
<b>Other receivables</b>	<b>5 238</b>	<b>0</b>
<b>VAT settlements</b>	<b>2 244</b>	<b>20 362</b>
<b>Other assets (gross)</b>	<b>597 582</b>	<b>723 939</b>
Write-down	-73 535	-61 844
<b>Other assets (net)</b>	<b>524 047</b>	<b>662 095</b>
including financial assets (gross)	560 836	646 399

## 24 Amounts due to customers

### 24.1 Accounting principles

Amounts due to customers are measured at amortised cost at the effective interest rate. If no time schedule of future cash flows may be determined for financial liabilities and therefore, no effective interest rate can be identified, the liability is measured at the amount payable.

### 24.2 Financial data

Structure by type and customer segment	31.12.2017	31.12.2016
<b>Retail segment</b>	<b>36 530 860</b>	<b>32 035 389</b>
Current deposits	22 584 687	17 264 837
Term deposits	12 134 722	13 908 933
Own issue of banking securities	1 574 189	628 246
Own bond issues	81 500	0
Other liabilities	155 762	233 373
<b>Corporate segment</b>	<b>21 124 758</b>	<b>19 369 459</b>
Current deposits	9 547 369	8 529 185
Term deposits	9 743 794	8 416 601
Issue of the Bank's securities	1 454 213	1 910 380
Own bond issues	148 684	230 046
Other liabilities	230 698	283 247
<b>Total amounts due to customers</b>	<b>57 655 618</b>	<b>51 404 848</b>

By maturity (as at the balance sheet date)	31.12.2017	31.12.2016
<b>Retail segment</b>	<b>36 530 860</b>	<b>32 035 389</b>
≤ 1M	24 966 548	21 811 318
> 1M ≤ 3M	3 208 322	3 163 975
> 3M ≤ 1Y	6 697 726	5 878 511
> 1Y ≤ 5Y	1 651 700	1 017 041
>5Y	6 564	164 544
<b>Corporate segment</b>	<b>21 124 758</b>	<b>19 369 459</b>
≤ 1M	15 125 237	13 700 922
> 1M ≤ 3M	3 140 450	1 443 070
> 3M ≤ 1Y	2 051 232	2 188 383
> 1Y ≤ 5Y	759 661	2 013 363
>5Y	48 178	23 721
<b>Total amounts due to customers</b>	<b>57 655 618</b>	<b>51 404 848</b>

By currency structure	31.12.2017	31.12.2016
<b>Retail segment</b>	<b>36 530 860</b>	<b>32 035 389</b>
PLN	30 918 837	27 417 980
EUR	2 367 694	2 324 200
GBP	597 002	464 471
USD	2 219 330	1 592 740
CHF	180 154	104 991
Other	247 843	131 007
<b>Corporate segment</b>	<b>21 124 758</b>	<b>19 369 459</b>
PLN	17 600 725	16 352 164
EUR	2 557 958	2 009 282
GBP	74 320	82 434
USD	562 892	742 870
CHF	17 489	30 206
Other	311 374	152 503
<b>Total amounts due to customers</b>	<b>57 655 618</b>	<b>51 404 848</b>

In 2017 the Bank issued own securities amounted to PLN 2 035 195 thousand (BPW) and securities purchased before maturity amounted to PLN 112 682 thousand.

In 2016 the Bank issued own securities amounted to PLN 1 106 334 thousand (BPW) and securities purchased before maturity amounted to PLN 148 587 thousand.

## 25 Amounts due to banks

### 25.1 Accounting principles

The liabilities due to banks include financial liabilities measured at amortised cost with the effective interest rate. If no time schedule of future cash flows may be determined for financial liabilities and therefore, no effective interest rate can be identified, the liability is measured at the amount payable.

As at 31 December 2017 and 31 December 2016, the category covered liabilities due to banks, including the received subordinated loan and liabilities due to customers, including deposits and issued bank securities (BPW) and sell-buy back transactions.

### 25.2 Financial data

Structure by type	31.12.2017	31.12.2016
Current deposits	673	32 304
Over night deposits	1 949	856
Term deposits	300 044	0
Own bond issues	22 766	20 004
Received loan	120 194	133 549
Other liabilities	220 749	164 710
Repo	77 536	29 812
<b>Total amounts due to banks</b>	<b>743 911</b>	<b>381 235</b>

By maturity (as at the balance sheet date)	31.12.2017	31.12.2016
≤ 1M	300 907	227 682
> 1M ≤ 3M	300 044	0
> 1Y ≤ 5Y	22 766	20 004
>5Y	120 194	133 549
<b>Total amounts due to banks</b>	<b>743 911</b>	<b>381 235</b>

By currency structure	31.12.2017	31.12.2016
PLN	700 079	304 280
EUR	43 750	41 366
USD	65	35 540
GBP	0	49
Other	17	0
<b>Total liabilities to banks</b>	<b>743 911</b>	<b>381 235</b>

## 26 Provisions

### 26.1 Accounting principles

Provisions are liabilities with an uncertain payment date or an uncertain amount. The Bank establishes provisions when the entity is charged with a (legal or customary) obligation relating to past events, and when it is likely that satisfaction of such obligation shall result in a necessity of an outflow of funds containing economic benefits and the amount of such obligation may be reliably estimated. If the above conditions are not satisfied, no provision is established.

#### Provisions for retirement benefits

Provisions for retirement benefits are set up individually for each employee on the basis of actuarial valuation made by an independent actuarial company. The provision is determined on the basis of the anticipated amount of a retirement benefit that the Bank shall pay in line with the remuneration regulations.

In compliance with IAS 19, the discount rate to calculate the provisions has been set on the basis of market rates of return on Treasury bonds in the currency and with maturity are congruent with the currency and close to the disbursement of such retirement benefit.

#### Provisions for disputes

This is a provision for disputes with employees, counterparties, customers and external institutions (e.g. UOKiK), established when information is obtained from a competent person from the Legal Department or another person representing Bank before courts and other bodies, providing legal assistance, that the likelihood of losing the case is high. Details are specified in note 37.

Provisions for disputes are established in the amounts of the anticipated outflows of economic benefits.

#### Provisions for granted financial and guarantee obligations

Provisions for off-balance sheet loan exposures are set up in the amounts equivalent to the resultant anticipated loss of economic benefits (that can be estimated). When determining the provisions for off-balance sheet credit exposures:

- with respect to loan exposures that are individually material under unconditional liabilities meeting the requirements of an individual impairment or concerning debtors whose other exposures meet such premises,

and individually material exposures that do not meet the requirements of an individual impairment for which a provision made in line with portfolio parameters would not be justified – the individualised method is applied,

- With reference to other off-balance sheet loan exposures – the portfolio method (if such exposure meets the premises of an individual impairment), or a group method (if the exposure does not meet the impairment premises).

The provision is determined as a difference between the anticipated value of the on-balance sheet exposure that will result from the granted off-balance sheet exposure (from the date as at which the assessment is made to the occurrence date of an overdue debt which is treated as a premise of an individual impairment), and the present value of the anticipated future cash flows to be obtained from the on-balance sheet exposure generated from the granted liability.

When the provision is determined with the individualised method, the anticipated future cash flows are estimated for each loan exposure individually.

When the provision is determined with the portfolio method or group method, portfolio parameters are used based of statistical methods on the basis of historic observations of exposures with the same features.

### Restructuring provision

The restructuring provision is established for disbursement of statutory severance pay for termination of employment contracts as a result of group lay-offs and for so-called additional damages resulting from an agreement with the trade unions and a provision for restructuring costs of the branch network and abandonment of franchise outlets located too close (the provision covers the costs of damages and expenses related to abandoning of the branch and its restoration to the original condition). The restructuring programme was published and its implementation by the Bank commenced in December 2016.

## 26.2 Financial data

	Provisions for disputes	Provisions for retirement benefits	Provisions for off-balance sheet liabilities granted	Restructuring provision	Total provisions
<b>As at 01 January 2017</b>	<b>8 700</b>	<b>10 730</b>	<b>17 586</b>	<b>249 775</b>	<b>286 791</b>
Established provisions	8 254	10 453	41 130	0	59 837
Reversal of provisions	-636	-7 825	-34 823	-28 143	-71 427
Utilized provisions	-1 337	-44	0	-184 214	-185 595
Other changes	1 043	0	-216	0	827
<b>As at 31 December 2017</b>	<b>16 024</b>	<b>13 314</b>	<b>23 677</b>	<b>37 418</b>	<b>90 433</b>

	Provisions for disputes	Provisions for retirement benefits	Provisions for off-balance sheet liabilities granted	Restructuring provision	Total provisions
<b>As at 01 January 2016</b>	<b>3 219</b>	<b>1 070</b>	<b>5 512</b>	<b>0</b>	<b>9 801</b>
Change due to demerged part of BPH	4 439	23 594	9 642	54 714	92 389
Established provisions	1 321	2 273	18 630	199 668	221 892
Reversal of provisions	-360	-16 437	-16 233	-307	-33 337
Utilized provisions	-876	0	0	-4 300	-5 176
Other changes	957	230	35	0	1 222
<b>As at 31 December 2016</b>	<b>8 700</b>	<b>10 730</b>	<b>17 586</b>	<b>249 775</b>	<b>286 791</b>

Split of the restructuring provision as at 31.12.2017 is presented below :

	31.12.2016	utilisation	reversal	31.12.2017
Severance pay for employees	174 201	154 397	18 989	815
Reorganisation of the branch network	75 574	29 817	9 154	36 603
	<b>249 775</b>	<b>184 214</b>	<b>28 143</b>	<b>37 418</b>

### 26.3 Material estimates and assumptions – actuarial provision

Provisions for employee benefits are measured with actuarial techniques and assumptions. The calculation covers all retirement benefits potentially disburseable in the future. The provision has been established on the basis of a list of persons with all the required personal data, including seniority, age, and gender. The accrued provisions are equal to the discounted payments to be made in the future subject to staff rotation and apply to the period until the end of the reporting period.

### 26.4 Sensitivity analysis of material estimates and assumptions

The Bank updated its estimates as at 31 December 2017 on the basis of calculations made by an independent external actuarial company. The accrued provisions are equal to the discounted payments to be made in the future subject to staff rotation and apply to the period until the end of the reporting period. The discount rate of 3.25% applied by the Bank is a major element affecting the amount of the provision. In 2016 the applied discount rate was 3.5%.

The impact of an increased/decreased discount rate and the fundamental actuarial assumptions by 1 pp on the increase/decrease of the retirement provision as at 31 December 2017 and as at 31 December 2016 is presented in the tables below

Estimated change of provision as at 31.12.2017	Financial discount rate		Planned growth of basis	
	Scenario +1pp	Scenario -1pp	Scenario +1pp	Scenario -1pp
Provisions for retirement benefits	14 283	12 097	12 033	14 477

Estimated change of provision as at 31.12.2016	Financial discount rate		Planned growth of basis	
	Scenario +1pp	Scenario -1pp	Scenario +1pp	Scenario -1pp
Provisions for retirement benefits	11 477	9 586	9 537	11 630

## 27 Other liabilities

### 27.1 Accounting principles

The liabilities in this item are measured in the amount payable covering potential interest on the liabilities, while provisions for future payments in a reliably estimated amount required to comply with the obligation as at the end of the reporting period. Non-financial liabilities are measured in line with the measurement principles applicable to specific liability categories included in that item.

## 27.2 Financial data

	31.12.2017	31.12.2016 restated
Interbank settlements	723 937	592 835
taxes, customs duties, social and health insurance and other public law liabilities	35 999	38 380
Settlements of payment cards	150 699	65 006
Other settlements, including	170 788	110 710
Settlements with insurers	16 668	22 755
Settlements of issues of bank certificates of deposits	91 048	112 858
Accrued expenses	144 098	150 405
Income received in advance	81 240	78 286
Provision for bancassurance resignations	38 679	71 175
Provision for bonuses	110 473	74 361
Provision for unutilised annual leaves	28 238	32 169
Provision for bonuse settled in phantom shares	16 885	14 126
Provision for retention programs	18 118	56 378
Revaluation of management option plan – part settled in cash	6 422	12 075
Other employee provisions	1 663	870
Other liabilities	10 031	18 123
<b>Other liabilities</b>	<b>1 628 318</b>	<b>1 427 757</b>
including financial liabilities	1 045 424	768 551

## 28 Subordinated liabilities

### 28.1 Accounting principles

On 23 August 2017, as requested by the Bank's Management Board, the Bank's Supervisory Board agreed to open the Second Public Programme of Bond Issue of Alior Bank SA "Second Public Issue Programme" and authorised the Management Board to contract financial liabilities by way of issue of unsecured ordinary subordinated bearer bonds by the Bank. Additionally, the Bank's Supervisory Board authorised the Management Board to determine the final terms and conditions of each bond series issue under the Second Public Issue Programme, to allot the bonds to investors and to take all other actions that may be required to achieve the objectives of the Second Public Issue Programme.

The Bank's Management Board submitted a motion to the Polish Financial Supervision Authority for approval of the prospectus. On 6 November 2017, the Polish Financial Supervision Authority approved Annex No. 2 to the Prospectus covering the intention of the Bank's Management Board concerning determination of the unit nominal value of subordinated bonds to be issued pursuant to the Prospectus. In accordance with the Annex, the Bank's Management Board will determine the conditions of each subordinated bond issue to be issued pursuant to the Prospectus so that the nominal unit value of such subordinated bonds is PLN 400 000.

In line with the proposal of the Bank's Management Board, the Bank's Supervisory Board also approved discontinuation of bond issues under the previous Public Programme of Subordinated Bond Issue of Alior Bank SA, approved by Resolution No. 407/2015 of the Bank's Management Board of 22 December 2015 and accepted by Resolution No. 83/2015 of the Bank's Supervisory Board of 28 December 2015, and the closure of the First Public Issue Programme.



## 28.2 Financial data

Subordinated liabilities are measured at amortised cost at the effective interest rate.

	Nominal value in the currency (PLN '000)	Currency	Term	Specific conditions	Status of liabilities	
					31.12.2017	31.12.2016
Liabilities classified as the Bank's own funds						
Subordinated loan	10 000	EUR	12.10.2011- 12.10.2019	The loan may be prepaid subject to a written notification 30 days before the planned repayment.	41 892	44 428
Series F bonds	321 700	PLN	26.09.2014- 26.09.2024		325 930	325 915
Series G bonds	192 950	PLN	31.03.2015- 31.03.2021		195 560	195 551
Series I bonds	150 000	PLN	06.12.2015- 06.12.2021		150 594	150 594
Series II bonds	33 350	PLN	06.12.2015- 06.12.2021		33 482	33 482
Series B bonds (Meritum Bank)	67 200	PLN	29.04.2013- 29.04.2021		67 796	67 706
Meritum Bank bonds – series C	80 000	PLN	21.10.2014- 21.10.2022		80 494	80 401
Series EUR001 bonds	10 000	EUR	04.02.2016- 04.02.2022		42 738	45 331
Series P1A bonds	150 000	PLN	27.04.2016- 16.05.2022		150 006	150 961
Series P1B bonds	70 000	PLN	29.04.2016- 16.05.2024		70 427	70 425
Series K bonds	400 000	PLN	20.10.2017- 20.10.2025		403 600	0
Series K1 bonds	200 000	PLN	20.10.2017- 20.10.2025		201 800	0
Series P2A bonds	150 000	PLN	14.12.2017- 29.12.2025		150 657	0
<b>Subordinated liabilities</b>					<b>1 914 976</b>	<b>1 164 794</b>

Both the subordinated bonds and the subordinated loan were – as approved by the Polish Financial Supervision Authority – classified as the Bank's supplementary capital.

## 29 Equity

### 29.1 Accounting principles

Equity is composed of the share capital, the supplementary capital, the revaluation reserves, other reserves (including the reserves for employee benefits payable with equity instruments) and profit for the current year and retained profit.

#### Share capital

The share capital is disclosed at its nominal value in line with the Articles of Association and the entry to the National Court Register.

#### Supplementary capital

The supplementary capital is established from profit allocations, pursuant to resolutions of the General Meeting. The supplementary capital also includes the share issue agio, net of the issue costs. The supplementary capital may be applied to cover balance sheet losses that may result from the Bank's operations.

#### Revaluation reserve

The revaluation reserve is established as a result of measurement of:

- financial instruments classified as available for sale,

- the effective part of hedge for cash flow hedge accounting programme,
- deferred income tax related to the above items.

The revaluation reserve is not subject to distribution.

### Other reserves

The other reserves are established from profit allocations. They may be used for the purposes specified in the Bank's Articles of Association or in applicable regulations.

### Current profit and retained profit

Net profit attributable to the parent entity is gross profit in the profit and loss account of the current year adjusted with income tax and the profit attributable to non-controlling holdings.

### Dividend

A dividend for the year, approved by the General Meeting, not disbursed until the balance sheet date, is disclosed as a dividend liability in other liabilities.

## 29.2 Financial data

Equity	31.12.2017	31.12.2016
Share capital	1 292 636	1 292 578
Supplementary capital	4 817 331	4 184 953
Other reserves	184 894	184 894
Retained profit	-43 051	0
Revaluation reserve	13 944	-71 615
Revaluation reserve from measurement financial assets available for sale	22 969	-62 892
Revaluation reserve from measurement of hedging instruments	-9 025	-8 723
Exchange rate differences on revaluation of foreign entities	594	-22
Current year profit	538 895	589 024
<b>Total equity</b>	<b>6 805 243</b>	<b>6 179 812</b>

Revaluation reserve	31.12.2017	31.12.2016
<b>Valuation of financial assets available for sale</b>	<b>22 969</b>	<b>-62 892</b>
Treasury bonds	27 803	-75 156
other debt instruments	-5 509	-2 489
equity instruments	5 686	0
deferred income tax	-5 011	14 753
<b>Valuation of hedging derivatives</b>	<b>-9 025</b>	<b>-8 723</b>
IRS	-11 142	-10 769
deferred income tax	2 117	2 046
<b>Revaluation reserve</b>	<b>13 944</b>	<b>-71 615</b>

### 29.3 Shareholders of Alior Bank Spółka Akcyjna

As at 31 December 2017 and 2016, the shareholders holding 5% or more of the overall number of votes at the General Meeting were as follows:

Shareholder	Number of shares	Nominal value of shares [PLN]	Percentage in the share capital <sup>4</sup>	Number of votes	Number of votes in the total number of votes
<b>31.12.2017</b>					
PZU	41 658 850	416 588 500	32.23%	41 658 850	32.23%
Aviva OFE Aviva BZ WBK	11 562 000	115 620 000	8.94%	11 562 000	8.94%
Nationale-Nederlanden PTE SA	6 600 000	66 000 000	5.11%	6 600 000	5.11%
Other shareholders	69 442 774	694 427 740	53.72%	69 442 774	53.72%
<b>Total</b>	<b>129 263 624</b>	<b>1 292 636 240</b>	<b>100.00%</b>	<b>129 263 624</b>	<b>100.00%</b>
<b>31.12.2016</b>					
PZU	37 773 265	377 732 650	29.22%	37 773 265	29.22%
Aviva OFE Aviva BZ WBK	9 262 138	92 621 380	7.17%	9 262 138	7.17%
Other shareholders	82 222 360	822 223 600	63.61%	82 222 360	63.61%
<b>Total</b>	<b>129 257 763</b>	<b>1 292 577 630</b>	<b>100.00%</b>	<b>129 257 763</b>	<b>100.00%</b>

### 29.4 Share capital structure

Series	Type of shares	Number of shares		Nominal value of shares	Series value at nominal prices (PLN)	
		31.12.2017	31.12.2016		31.12.2017	31.12.2016
Series A	Ordinary	50 000 000	50 000 000	10	500 000 000	500 000 000
Series B	Ordinary	1 250 000	1 250 000	10	12 500 000	12 500 000
Series C	Ordinary	12 332 965	12 332 965	10	123 329 650	123 329 650
Series D	Ordinary	413 480	410 704	10	4 134 800	4 107 040
Series E	Ordinary	2 785	0	10	27 850	0
Series F	Ordinary	300	0	10	3 000	0
Series G	Ordinary	6 358 296	6 358 296	10	63 582 960	63 582 960
Series H	Ordinary	2 355 498	2 355 498	10	23 554 980	23 554 980
Series I	Ordinary	56 550 249	56 550 249	10	565 502 490	565 502 490
Series J	Ordinary	51	51	10	510	510
<b>Total</b>		<b>129 263 624</b>	<b>129 257 763</b>		<b>1 292 636 240</b>	<b>1 292 577 630</b>

Within the Managerial Option Programme for 2013, 2014, and 2015, in 2017 the Bank commenced the procedure to increase the Bank's share capital by way of a conditional capital increase by issue of new series D, E, and F ordinary bearer shares with a total nominal value of PLN 58 610.00.

On 29 August 2017 KDPW registered the above ordinary bearer shares with the nominal value of PLN 10 each, marked with the code ISIN "ALIOR00045":

- 2 776 (two thousand seven hundred and seventy six) series D shares;
- 2 785 (two thousand seven hundred and eight five) series E shares;
- 300 (three hundred) series F shares.

On the same day, the shares were admitted to trading in an ordinary procedure on the main floor of the stock exchange. On 28 November 2017 the District Court entered the increase of the share capital by the above amount to the register of entrepreneurs.

Under the Programme referred to above, in December 2017 the Bank commenced another procedure of the Bank's share capital increase by issue of new series D and E ordinary bearer shares with a total nominal value of PLN 152 170 by way of a conditional capital increase of the Bank. On 22 December 2017 KDPW decided to accept the shares for deposit. On 15 January 2018 KDPW registered the above ordinary bearer shares with the nominal value of PLN 10 each, marked with the code ISIN "ALIOR00045":

- 10 905 (ten thousand nine hundred and five) series D shares;
- 4 312 (four thousand three hundred and twelve) series E shares.

Other additional information

30 Off-balance sheet items

### 30.1 Accounting principles

Within its operations, the Bank enters into transactions that at execution are not disclosed in the statement of financial position as assets or liabilities, but they generate contingent liabilities. In compliance with IAS 37, contingent liabilities are defined as follows:

- a potential obligation that arises as a result of past events the existence of which is confirmed only at occurrence or non-occurrence of uncertain future events that are not fully controlled by the Bank,
- an existing obligation which results from past events, but is not disclosed in the statement of financial position since it is not probable that there will be an outflow of cash or other assets may be issued to satisfy the obligation or the amount of such obligation may not be reliably estimated.

The guarantee values as specified in the table above reflect the maximum potential loss that would be disclosed on the balance sheet date if all customers defaulted.

### 30.2 Financial data

Off-balance contingent liabilities granted to customers	31.12.2017	31.12.2016
<b>Granted off-balance liabilities</b>	<b>12 746 826</b>	<b>14 614 625</b>
Concerning financing	11 329 663	13 054 317
<b>Guarantees</b>	<b>1 417 163</b>	<b>1 560 308</b>
Performance guarantees	277 904	457 515
Financial guarantees	1 139 259	1 102 793

By maturity – guarantees	31.12.2017	31.12.2016
≤ 1W	2 509	14 869
> 1W ≤ 1M	32 410	217 173
> 1M ≤ 3M	81 054	93 300
> 3M ≤ 6M	135 398	60 988
> 6M ≤ 1Y	305 783	233 649
> 1Y ≤ 2Y	143 214	365 396
> 2Y ≤ 5Y	261 531	182 922
> 5Y ≤ 10Y	441 259	360 120
> 10Y ≤ 20Y	14 005	31 891
<b>Off-balance sheet liabilities granted, guarantees</b>	<b>1 417 163</b>	<b>1 560 308</b>

By maturity – financial	31.12.2017	31.12.2016
≤ 1W	3 248 225	2 378 831
> 1W ≤ 1M	113 029	731 965
> 1M ≤ 3M	341 114	423 456
> 3M ≤ 6M	447 740	682 732
> 6M ≤ 1Y	1 173 020	2 143 218
> 1Y ≤ 2Y	2 093 611	1 948 494
> 2Y ≤ 5Y	2 094 891	2 735 338
> 5Y ≤ 10Y	1 297 487	1 232 111
> 10Y ≤ 20Y	319 545	534 040
> 20Y	201 001	244 132
<b>Off-balance sheet liabilities granted, concerning financing</b>	<b>11 329 663</b>	<b>13 054 317</b>

### 31 Assets pledged as collateral

	31.12.2017	31.12.2016
Treasury bonds blocked for REPO transactions	77 431	29 783
Registered pledge on Treasury bonds	0	118 048
Deposit as collateral of transactions performed in Alior Trader	723	1 252
Available-for-sale financial assets for sale securing a loan in the EIB	109 466	0
Financial assets held to maturity securing the loan from EIB	221 291	217 901
<b>Total</b>	<b>408 911</b>	<b>366 984</b>

Apart from assets that secure liabilities that are disclosed separately in the statement of financial position when the receiving party may sell or exchange the assets for other security, the Bank additionally held the following collateral for the liabilities that did not meet the criterion:

	31.12.2017	31.12.2016
Treasury bonds blocked with BGF	605 719	204 411
Deposits as derivative transactions (ISDA) collatera	163 770	145 128
<b>Total</b>	<b>769 489</b>	<b>349 539</b>

### 32 Additional information to the cash flow statement

#### 32.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash in the nostro account and the deposit with the National Bank of Poland, and receivables from banks in the current account and other funds maturing within 3 months from acquisition.

	31.12.2017	31.12.2016
Cash and balances with Central Bank	965 391	1 082 991
Current accounts with other banks	627 261	386 766
Term accounts with other banks	19 062	237 396
<b>Total</b>	<b>1 611 714</b>	<b>1 707 153</b>

## 32.2 Financial data

The Bank makes its statement of operating cash flows with an indirect method in which the net profit for the reporting period is adjusted by the effects of cashless transactions and accruals concerning future or past inflows or payments of cash funds concerning operating activities.

### Operating activity

Cash flows from the Bank's operating activities cover primarily lending, deposits, FX exchange transactions, and purchase and sale of securities.

#### Change of balances of loans and other receivables

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016 restated
Change of receivables from customers – balance sheet	-4 995 470	-15 334 633
Change of receivables from banks – balance sheet	465 249	-721 686
Carrying value change in cash – nostro accounts	240 495	47 635
Carrying value change in cash – deposits up to 3 months	-218 334	124 334
<b>Change of balances of loans and other receivables</b>	<b>-4 508 060</b>	<b>-15 884 350</b>

#### Change of other liabilities

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016 restated
Change of other liabilities – balance sheet	200 561	901 364
Change of the revaluation reserve – balance sheet	67 323	-66 462
Change of other liabilities – measured at amortised cost – balance sheet	-36 990	-339 123
Change of allowance for deferred income tax in the revaluation reserve	18 236	-20 368
Provision for acquisition costs of fixed assets	-8 494	-10 057
Provision for acquisition costs of intangible assets	-12 276	-8 167
Change of balance due to the purchase of the demerged business of BPH net of cash and cash equivalents	0	174 695
Other comprehensive income	84 098	58 287
<b>Change of other receivables</b>	<b>312 458</b>	<b>690 169</b>

#### Change in other assets

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016 restated
Change in other assets – balance sheet	138 048	-350 460
<b>Change in other assets</b>	<b>138 048</b>	<b>-350 460</b>

### Investing activities

The Bank's investing activities cover purchase and sale of fixed assets and intangible assets.

#### Purchase of property, plant and equipment

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Change – balance sheet	-100 448	-317 754
<b>Purchase of property, plant and equipment</b>	<b>-100 448</b>	<b>-317 754</b>

#### Purchase of Intangible assets

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Change – balance sheet	-95 259	-154 349
<b>Purchase of Intangible assets</b>	<b>-95 259</b>	<b>-154 349</b>

The acquisition of demerged business of Bank BPH, net cash acquired

	01.01.2016 – 31.12.2016
Price paid for shares in BPH	-1 464 933
Cash and funds with Central Bank	1 043 097
Current accounts with other banks	73 811
Term accounts with other banks	173 330
<b>Total</b>	<b>-174 695</b>

### Financial activity

The Bank includes proceeds and expenses related to the acquisition and repayment of own and external financing sources, including inflows and outflows that increase or decrease its equity (fund) as well as inflows from issuing long- and short-term debt financial instruments. .

	31.12.2016	Cash flows		Non-cash changes,		31.12.2017
		Inflows	Outflows	Accrued interests	Currency differences	
zobowiązania podporządkowane	1 164 794	750 000	-60 867	65 937	-4 889	1 914 976

## 33 Fair value hierarchy

### 33.1 Accounting principles and estimates and assumptions

The fair value is a price receivable in the sale of an asset or payable for transfer of a liability in an arm's length transaction in the principal (or most advantageous) market as at the measurement date subject to prevailing market conditions (exit price), irrespective of the fact if such price is directly observable or estimated with another measurement technique.

Depending on the classification category of financial assets and liabilities to a specific hierarchy level, various methods to measure fair value are applied.

#### Level 1: On the basis of prices quoted in the principal (or most advantageous) market

Financial assets and liabilities with fair value measured directly on the basis of quoted prices (not adjusted) from active markets for identical assets or liabilities. This category includes financial and equity instruments measured at fair value through profit and loss and those available for sale for which there is an active market and for which the fair value is determined on the basis of market value being the purchase price:

- debt Treasury securities valued at fixing on the Bondspot platform or Bloomberg information services and Reuters,
- debt and equity securities traded in a regulated market, including in the portfolio of the Brokerage House,
- derivative instruments that are traded in a regulated market

#### Level 2: On the basis of measurement techniques based on assumptions using information coming from the principal (or most advantageous) market;

Financial assets and liabilities whose fair value is measured with measurement models where all material input data is observable in the market directly (as prices) or indirectly (relying on prices). In that category the Bank classifies financial instruments for which no active market exists:

	Measurement method (techniques)	Material observable input data
DERIVATIVE FINANCIAL INSTRUMENTS – CIRS, IRS, FRA, FX, FORWARD, FX SWAP TRANSACTIONS	The model of discounted future cash flows based on profitability curves.	Profitability curves are built on the basis of market rates, market data of the money market, FRA, IRS, OIS basis swap transaction market. FX instruments are measured using NBP's fixing rates and market rates of swap points.
FX OPTIONS, INTEREST RATE OPTIONS	FX options and interest rate options are measured with the use of specific valuation models characteristic for a specific option.	For option instruments additionally market quotations are used for market variability quotations of currency pairs and interest rates.
NBP MONEY BILLS	Profitability curve method	Profitability curves are developed on the basis of money market data.
COMMODITY FORWARD/SWAP	Commodity instruments are measured on the basis of future cash flows calculated on the basis of profitability curves characteristic for specific commodities.	Profitability curves are built on the basis of quoted commodity futures contracts.

### Level 3: For which minimum one factor affecting the price is not observable in the market.

Financial assets and liabilities with the fair value measured with the measurement models where input data is not based on observable market data (non-observable input data).

Such instruments include options embedded in certificates of deposit issued by the Bank and options in the interbank market to hedge positions of the embedded options. The fair value is determined on the basis of market prices of those options or an internal model subject to both observable parameters (e.g. price of the base instrument, secondary quotations of options) and non-observable (e.g. variability, correlations between base instruments in options based on a basket). Model parameters are determined on the basis of a statistical analysis. At the end of 2017, a negative change in the measurement of option instruments as a result of changes to prices of base instruments by 1% was PLN 6 thousand .

The group also contains the Bank's position in commercial debt securities where apart from the parameters coming from market quotations are affected by non-observable volume of credit spread. The spread is based on the primary market price or at transaction execution. It is updated when reliable market quotations occur or when prices are obtained from transactions of comparable volume. The spread is also changed on the basis of information of a changed credit standing of the security issuer. As at the end of 2017, the sensitivity of changed measurement of those assets in the case of an increase of the credit spread by 1 basis point was PLN 57 thousand.

	Measurement method (techniques)	Material observable input data
CORPORATE BONDS	Profitability curve model and risk margin	Profitability curves are developed on the basis of bond market data.
EXOTIC OPTIONS	The prices of exotic options embedded in structured products are determined on the basis of market prices or measured with the internal model subject to both observable parameters (e.g. price of the base instrument, secondary quotations of options) and non-observable (e.g. variability, correlations between base instruments).	The prices of exotic options embedded in structured products are acquired from the market.
SHARES VISA INC C SERIES PRIVILEGED	The current market value of listed ordinary shares of Visa Inc. subject to the conversion ratio and discount, considering changing prices of the shares of Visa Inc.	Market value of the listed ordinary shares of Visa Inc.



Transfers of instruments between measurement levels as at the end of the reporting period. Transfers are made subject to conditions set forth in the international financial reporting standards, for instance quotation availability of instruments from an active market, availability of quotations of pricing factors, or impact of non-observable data on the fair value.

### 33.2 Financial data

Below there are carrying values of financial assets and liabilities split into measurement categories (levels).

Compared to the previous reporting period, there was no change to the classification and measurement principles of the hierarchy levels of the fair value.

31.12.2017	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares	294	0	0	294
Bonds	85 735	0	0	85 735
Certificates	89	0	0	89
SWAP	0	187 694	0	187 694
Cap floor options	0	2 100	0	2 100
FX Swap	0	18 059	0	18 059
FX forward	0	44 851	0	44 851
CIRS	0	15 984	0	15 984
FX options	0	16 766	0	16 766
Other options	0	730	51 720	52 450
Other instruments	9 874	18 655	0	28 529
<b>Financial assets held for trading</b>	<b>95 992</b>	<b>304 839</b>	<b>51 720</b>	<b>452 551</b>
Money bills	0	1 999 666	0	1 999 666
Equity instruments	0	0	41 546	41 546
Treasury bonds	9 651 360	0	0	9 651 360
Other bonds	179 051	0	200 701	379 752
<b>Financial assets available for sale</b>	<b>9 830 411</b>	<b>1 999 666</b>	<b>242 247</b>	<b>12 072 324</b>
Interest rate transactions – SWAP	0	87 785	0	87 785
<b>Derivative hedging instruments</b>	<b>0</b>	<b>87 785</b>	<b>0</b>	<b>87 785</b>

31.12.2016 restated	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Shares	6 312	0	0	6 312
Bonds	294	0	0	294
Certificates	557	0	0	557
SWAP	0	186 532	0	186 532
Cap floor options	0	3 171	0	3 171
FX Swap	0	32 156	0	32 156
FX forward	0	60 051	0	60 051
CIRS	0	60 669	0	60 669
FX options	0	21 129	948	22 077
Other options	0	0	28 736	28 736
Other instruments	7 462	11 534	0	18 996

31.12.2016 restated	Level 1	Level 2	Level 3	Total
<b>Financial assets held for trading</b>	<b>14 625</b>	<b>375 242</b>	<b>29 684</b>	<b>419 551</b>
Money bills	0	2 599 538	0	2 599 538
Equity instruments	431	0	35 210	35 641
Treasury bonds	6 197 981	0	0	6 197 981
Other bonds	188 456	0	353 030	541 486
<b>Financial assets available for sale</b>	<b>6 386 868</b>	<b>2 599 538</b>	<b>388 240</b>	<b>9 374 646</b>
Interest rate transactions – SWAP	0	71 684	0	71 684
<b>Derivative hedging instruments</b>	<b>0</b>	<b>71 684</b>	<b>0</b>	<b>71 684</b>

31.12.2017	Level 1	Level 2	Level 3	Total
<b>Financial liabilities</b>				
Bonds	58 333	0	0	58 333
SWAP	0	162 185	0	162 185
Cap floor options	0	2 091	0	2 091
FX Swap	0	63 816	0	63 816
FX forward	0	37 675	0	37 675
CIRS	0	16 601	0	16 601
FX options	0	15 506	0	15 506
Other options	0	729	51 719	52 448
Other instruments	20 671	6 552	0	27 223
<b>Financial liabilities held for trading</b>	<b>79 004</b>	<b>305 155</b>	<b>51 719</b>	<b>435 878</b>
Interest rate swaps (IRS)	0	5 419	0	5 419
<b>Derivative hedging instruments</b>	<b>0</b>	<b>5 419</b>	<b>0</b>	<b>5 419</b>

31.12.2016 restated	Level 1	Level 2	Level 3	Total
<b>Financial liabilities</b>				
SWAP	0	155 885	0	155 885
Cap floor options	0	3 171	0	3 171
FX Swap	0	22 999	0	22 999
FX forward	0	25 276	0	25 276
CIRS	0	20 948	0	20 948
FX options	0	21 848	1 098	22 946
Other options	0	0	28 693	28 693
Other instruments	12 289	6 107	0	18 396
<b>Financial liabilities held for trading</b>	<b>12 289</b>	<b>256 234</b>	<b>29 791</b>	<b>298 314</b>
Interest rate swaps (IRS)	0	6 119	0	6 119
<b>Derivative hedging instruments</b>	<b>0</b>	<b>6 119</b>	<b>0</b>	<b>6 119</b>

Reconciliation of changes at level 3 of fair value hierarchy

Movements on financial assets available for sale	31.12.2017	31.12.2016 restated
<b>Opening balance</b>	<b>388 240</b>	<b>363 230</b>
<b>Increases, including</b>	<b>25 047</b>	<b>59 121</b>
Purchases	6 336	42 029
Change due to acquisition of demerged business of BPH	0	16 912
Revenue recognised in income statement	216	170
Movements on accrued interest	16 921	0
Fair value adjustment	1 574	10
<b>Decreases, including</b>	<b>-171 040</b>	<b>-34 111</b>
Sale/redemption	-164 046	-20 888
Other changes recognised in income statement	-838	-7 252
Fair value adjustment	-6 156	-5 971
<b>Financial assets available for sale</b>	<b>242 247</b>	<b>388 240</b>

Movements of financial assets and liabilities held for trading	Assets		Liabilities	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
<b>Opening balance</b>	<b>29 684</b>	<b>34 555</b>	<b>25 492</b>	<b>34 555</b>
<b>Increases, including</b>	<b>42 835</b>	<b>20 342</b>	<b>43 148</b>	<b>16 160</b>
Valuation	19 365	6 190	19 659	6 336
Concluded transactions	23 470	14 152	23 489	9 824
<b>Decreases, of which:</b>	<b>-20 799</b>	<b>-25 213</b>	<b>-16 921</b>	<b>-25 223</b>
Valuation	-703	-5 377	-693	-5 370
Settlement/redemption	-20 096	-19 836	-16 228	-19 853
<b>Financial assets and liabilities held for trading</b>	<b>51 720</b>	<b>29 684</b>	<b>51 719</b>	<b>25 492</b>

In 2017 the Bank did not reclassify any financial instruments to level 3 of the fair value hierarchy.

Fair value measurement for disclosure purposes.

Below is presented the carrying value and fair value of assets and liabilities that are not disclosed in the statement of financial position at fair value.

31.12.2017	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Cash and balances with Central Bank	965 391	965 391	0	0	0
Amounts due from banks	898 977	0	898 977	0	0
Loans and advances to customers	51 244 093	0	0	50 226 239	50 226 239
<b>Retail segment</b>	<b>28 234 726</b>	<b>0</b>	<b>0</b>	<b>27 253 218</b>	<b>27 253 218</b>
Consumer loans	16 541 861	0	0	16 145 458	16 145 458
Loans for residential properties	9 547 786	0	0	8 942 186	8 942 186
Consumer finance loans	2 145 079	0	0	2 165 574	2 165 574
<b>Corporate segment</b>	<b>23 009 367</b>	<b>0</b>	<b>0</b>	<b>22 973 022</b>	<b>22 973 022</b>
Working capital loans	12 836 975	0	0	12 863 879	12 863 879
Investment loans	8 624 788	0	0	8 561 217	8 561 217
Other	1 547 604	0	0	1 547 926	1 547 926
<b>Assets pledged as collateral</b>	<b>408 911</b>	<b>408 911</b>	<b>0</b>	<b>0</b>	<b>408 911</b>
<b>Investment securities held to maturity</b>	<b>1 117 894</b>	<b>1 122 170</b>	<b>0</b>	<b>0</b>	<b>1 122 170</b>
<b>Other assets</b>	<b>560 836</b>	<b>0</b>	<b>0</b>	<b>560 836</b>	<b>560 836</b>

31.12.2017	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Liabilities</b>					
<b>Amounts due to banks</b>	<b>743 911</b>	<b>0</b>	<b>743 911</b>	<b>0</b>	<b>743 911</b>
Current deposits	673	0	673	0	673
Overnight deposits	1 949	0	1 949	0	1 949
Term deposits	300 044		300 044	0	300 044
Own bond issues	22 766	0	22 766	0	22 766
Received loan	120 194	0	120 194	0	120 194
Other liabilities	220 749	0	220 749	0	220 749
Repo	77 536	0	77 536	0	77 536
<b>Amounts due to customers</b>	<b>57 655 618</b>	<b>0</b>	<b>0</b>	<b>57 656 408</b>	<b>57 656 408</b>
Current deposits	32 132 056	0	0	32 132 056	32 132 056
Term deposits	21 878 516	0	0	21 878 516	21 878 516
Own Bank's securities issued	3 028 402	0	0	3 029 192	3 029 192
Own bond issues	230 184	0	0	230 184	230 184
Other liabilities	386 460	0	0	386 460	386 460
<b>Other liabilities</b>	<b>1 045 424</b>	<b>0</b>	<b>0</b>	<b>1 045 424</b>	<b>1 045 424</b>
<b>Subordinated liabilities</b>	<b>1 914 976</b>	<b>0</b>	<b>0</b>	<b>1 914 976</b>	<b>1 914 976</b>

31.12.2016 restated	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
<b>Cash and balances with Central Bank</b>	<b>1 082 991</b>	<b>1 082 991</b>	<b>0</b>	<b>0</b>	<b>1 082 991</b>
<b>Amounts due from banks</b>	<b>1 364 226</b>	<b>0</b>	<b>1 366 316</b>	<b>0</b>	<b>1 366 316</b>
<b>Loans and advances to customers</b>	<b>46 248 623</b>	<b>0</b>	<b>0</b>	<b>45 546 620</b>	<b>45 546 620</b>
<b>Retail segment</b>	<b>25 885 197</b>	<b>0</b>	<b>0</b>	<b>25 378 210</b>	<b>25 378 210</b>
Consumer loans	16 224 564	0	0	16 258 120	16 258 120
Loans for residential properties	8 407 632	0	0	7 874 080	7 874 080
Consumer finance loans	1 253 001	0	0	1 246 010	1 246 010
<b>Corporate segment</b>	<b>20 363 426</b>	<b>0</b>	<b>0</b>	<b>20 168 410</b>	<b>20 168 410</b>
Working capital loans	11 114 177	0	0	10 682 290	10 682 290
Investment loans	7 491 894	0	0	7 365 957	7 365 957
Other	1 757 355	0	0	2 120 163	2 120 163
<b>Assets pledged as collateral</b>	<b>366 984</b>	<b>366 984</b>	<b>0</b>	<b>0</b>	<b>366 984</b>
<b>Investment securities held to maturity</b>	<b>1 954</b>	<b>1 919</b>	<b>0</b>	<b>0</b>	<b>1 919</b>
<b>Other assets</b>	<b>646 399</b>	<b>0</b>	<b>0</b>	<b>646 399</b>	<b>646 399</b>
<b>Liabilities</b>					
<b>Amounts due to banks</b>	<b>381 235</b>	<b>0</b>	<b>428 640</b>	<b>0</b>	<b>428 640</b>
Current deposits	32 304	0	32 304	0	32 304
Overnight deposits	856	0	856	0	856
Own Bank's securities issued	20 004	0	20 004	0	20 004
Received loan	133 549	0	180 954	0	180 954
Other liabilities	164 710	0	164 710	0	164 710
Repo	29 812	0	29 812	0	29 812
<b>Amounts due to customers</b>	<b>51 404 848</b>	<b>0</b>	<b>0</b>	<b>51 363 662</b>	<b>51 363 662</b>
Current deposits	25 794 022	0	0	25 791 089	25 791 089
Term deposits	22 325 534	0	0	22 288 222	22 288 222
Own Bank's securities issued	2 538 626	0	0	2 763 633	2 763 633
Own bond issues	230 046	0	0	230 046	230 046
Other liabilities	516 620	0	0	520 718	520 718
<b>Other liabilities</b>	<b>768 551</b>	<b>0</b>	<b>0</b>	<b>768 551</b>	<b>768 551</b>
<b>Subordinated liabilities</b>	<b>1 164 794</b>	<b>0</b>	<b>0</b>	<b>1 164 794</b>	<b>1 164 794</b>

For many instruments, market values are not available, therefore the fair value is estimated with a number of measurement techniques. Measurement of the fair value of financial instruments has been made with a model based on estimates of the present value of future cash flows by discounting cash flows at appropriate discount rates.

All model calculations contain certain simplifications and are sensitive to the underlying assumptions. Below there is a summary of core methods and assumptions used to estimate the fair value of financial instruments that are not measured at fair value.

Receivables from customers:

In the method applied by the Bank to calculate the fair value of receivables from customers (without overdraft facilities), the Bank compares the margins generated on newly granted loans (in the month preceding the reporting date) with the margin on the total loan portfolio. If the margins on newly granted loans are higher than the margins on the portfolio, the loan fair value is lower than its carrying value.

Due from customers were fully classified to level 3 of the fair value hierarchy due to the application of a measurement model with material non-observable input data or current margins generated on newly granted loans.

Financial liabilities measured at amortised cost:

The Bank assumes that the fair value of customer and bank deposits and other financial liabilities maturing within 1 year is approximately equal to their carrying value. Deposits are accepted on a daily basis and thus their terms and conditions are similar to the prevailing market terms and conditions of identical transactions. The maturities of those items are short and therefore there is no major difference between the carrying value and fair value.

For disclosure purposes, the Bank determines the fair value of financial liabilities with residual maturities (or repricing of the variable rate) in excess of 1 year. That group of liabilities includes the Bank's own issues and subordinated loans. Determining the fair value of that group of liabilities, the Bank determines the present value on anticipated payments on the basis of present percentage curves and the original spread of the issue.

The Bank's own issues and subordinated loans have been fully classified as level 3 of fair value hierarchy due to the application of a measurement model with material non-observable input data, including the original spread of the issue above the market curve. With reference to issues and subordinated loans with residual maturities (or interest rate repricing) under 1 year, the carrying value adequately reflects the fair value of the instrument.

For other financial instruments, the Bank assumes that the carrying value is close to fair value. This applies to the following items: cash and operations with the Central Bank, assets available for sale, other financial assets, and other financial liabilities.

### 34 Transactions with related entities

The parent company of the Bank is Powszechny Zakład Ubezpieczeń S.A. (PZU S.A.) The related parties of the Group PZU SA and its related companies and entities related to members of the Management and Supervisory Board. The Bank is indirectly controlled by the Treasury.

In the following tables show the type and value of transactions with affiliates and subsidiaries.

Bank's subsidiaries are:

Company's name	31.12.2017	31.12.2016
Alior Services sp. z o.o.	100%	100%
Centrum Obrotu Wierzytelnościami sp. z o.o.	100%	100%
Alior Leasing sp. z o.o.	100%	100%
- <i>Serwis Ubezpieczeniowy sp. z o.o.</i>	100%	0%
Meritum Services ICB SA	100%	100%

Company's name	31.12.2017	31.12.2016
NewCommerce Services sp. z o.o.	100%	100%
Money Makers TFI SA	60,16%	58,84%
Absource sp. z o.o.	100%	100%

There was a change in the Bank's statement of financial position in line Investments in subsidiaries amounted to PLN 26 666 thousand during 2017. This change results from the equity increase in subsidiaries:

- Alior Leasing sp. O.o.- the amount of PLN 25,000 thousand,
- NewCommerce Services sp. O.o. - the amount of PLN 4,500 thousand,
- Money Makers TFI SA- the amount of PLN 166 thousand.

Subsidiaries	31.12.2017	31.12.2016
<b>Assets</b>		
Loans and advances to customers	1 025 491	370 250
Other assets	4 540	4 760
<b>Total assets</b>	<b>1 030 031</b>	<b>375 010</b>
<b>Liabilities</b>		
Amounts due to customers	55 778	40 267
Provisions	212	125
Other liabilities	2 426	854
<b>Total liabilities</b>	<b>58 416</b>	<b>41 246</b>

Parent company	31.12.2017	31.12.2016
<b>Liabilities</b>		
Amounts due to customers	76	24
Provisions	6	4
<b>Total liabilities</b>	<b>82</b>	<b>28</b>

Subsidiaries of the parent company	31.12.2017	31.12.2016
<b>Assets</b>		
Financial assets held for trading	1 382	0
Available-for-sale financial assets	80 274	84 961
Derivative hedging instruments	483	0
Amounts due from banks	247	0
Loans and advances to customers	44	41
Other assets	38	0
<b>Total assets</b>	<b>82 468</b>	<b>85 002</b>
<b>Liabilities and equity</b>		
Financial liabilities held for trading	458	0
Amounts due to customers	183 763	128 703
Provisions	4	3
Other liabilities	41	0
Revaluation reserve	1 306	0
<b>Total liabilities and equity</b>	<b>185 572</b>	<b>128 706</b>

Subsidiaries	31.12.2017	31.12.2016
<b>Off-balance sheet liabilities granted to customers</b>	<b>248 789</b>	<b>130 972</b>
Relating to financing	75 801	75 230
Guarantees	172 988	55 742

Parent company	31.12.2017	31.12.2016
<b>Off-balance liabilities granted to customers</b>	<b>15 000</b>	<b>15 000</b>
Guarantees	15 000	15 000

Subsidiary of the parent entity	31.12.2017	31.12.2016
<b>Off-balance liabilities granted to customers</b>	<b>10 000</b>	<b>9 900</b>
Guarantees	10 000	9 900

Joint control by persons related to the Group	31.12.2017	31.12.2016
<b>Assets</b>		
Loans and advances to customers	7	0
<b>Total assets</b>	<b>7</b>	<b>0</b>
<b>Liabilities</b>		
Amounts due to customers	24 386	56 176
<b>Total liabilities</b>	<b>24 386</b>	<b>56 176</b>

Joint control by persons related to the Group	31.12.2017	31.12.2016
<b>Off-balance liabilities granted to customers</b>	<b>0</b>	<b>20</b>
Relating to financing	0	20

Subsidiaries	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Interest income	22 425	5 443
Interest expense	-75	-65
Fee and commission income	7 636	3 710
Fee and commission expense	-250	0
Other operating income	369	407
Other operating costs	-1	0
General administrative expenses	-5 677	-3 041
Net impairment charges and write-downs	-795	0
<b>Total</b>	<b>23 632</b>	<b>6 454</b>

Parent company	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Interest income	-8	0
Fee and commission income	4	2
General administrative expenses	0	-3
<b>Total</b>	<b>-4</b>	<b>-1</b>

Subsidiaries of the parent company	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Interest income	1 747	0
Interest expense	-4 792	-2 686
Fee and commission income	12 241	30
Fee and commission expense	-7	0
Trading result	115	0
General administrative expenses	0	-1
<b>Total</b>	<b>9 304</b>	<b>-2 657</b>

Joint control by persons related to the Bank	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Interest expense	-623	-1 425
Fee and commission income	15	10
<b>Total</b>	<b>-608</b>	<b>-1 415</b>

### Nature of transactions with related entities

All transactions with related entities are performed in line with relevant regulations concerning banking products and at market rates.

Interest rates on loans granted to related entities ranged from 10% to 14%, while interest rates on deposits ranged from 0 % to 3.70%.

### Transactions with the State Treasury and related entities

The Polish Financial Supervision Authority in its communication of 6 December 2016, item 5 univocally accepted Poland's State Treasury as the parent entity vis-a-vis Alior Bank SA within the meaning of Art. 4.1.8.b and Art. 4.1.14 of the Banking Act, stating that it was able to exert material impact on Alior Bank SA via Powszechny Zakład Ubezpieczeń SA.

Below there are material transactions with the State Treasury and its related entities with the exception of IAS 24.25.

State Treasury and related entities	31.12.2017	31.12.2016
<b>Assets</b>		
Financial assets held for trading	85 459	0
Available-for-sale financial assets	10 022 542	6 586 920
Investment securities held to maturity	1 339 186	219 855
Amounts due from banks	293	1 605
Loans and advances to customers	33 241	47 203
<b>Total assets</b>	<b>11 480 721</b>	<b>6 855 583</b>
<b>Liabilities</b>		
Financial liabilities held for trading	58 333	0
Amounts due to banks	339 798	0
Amounts due to customers	1 248 970	478 789
<b>Total liabilities</b>	<b>1 647 101</b>	<b>478 789</b>

State Treasury and related entities	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Interest income	151 142	110 958
Interest expense	-18 101	-5 884
The costs of paid tax	-443 710	-366 306
<b>Total</b>	<b>-310 669</b>	<b>-261 232</b>



All transactions with the State Treasury and its related entities were concluded at arm's length.

## 35 Benefits for the for senior executives

### 35.1 Accounting principles

Short-term employee benefits are those that are accounted for within 12 months of the end of the annual reporting period in which the employees have performed work. Apart from a base salary, short-term employee benefits include a non-deferred part of the variable component of cash remuneration and a deferred part of the cashed variable remuneration granted in phantom shares.

Long-term employee benefits include cashed phantom shares granted in previous periods and the value of issued tranches of deferred subscription warrants in previous periods.

#### **Principles applicable to the variable components of remuneration of persons in managerial positions at the Bank**

The Bank has a Remuneration Policy covering all employees. The Remuneration Policy of Alior Bank SA was approved by Resolution of the Supervisory Board No. 72/2017. With respect to people in managerial positions who affect the risk profile, the Policy has been determined on the basis of the following regulations:

- Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (Text with EEA relevance);
- Regulation of the Minister of Development and Finance of 06 March 2017 on the risk management and internal control system, the remuneration policy, and a detailed manner of internal capital estimation at banks.

Each person classified as a Material Risk Taker on the basis of material impact of such person on the Bank's risk profile within the meaning of the Delegated Regulation.

The remuneration of Material Risk Takers is composed of fixed remuneration and variable remuneration. The Bank does not grant unidentified retirement benefits to persons in managerial positions. Material Risk Takers agree not to use an individual hedging strategies or insurance concerning the remuneration and responsibility in order to undermine the effects of risk in the remuneration system applicable to them.

Except the Persons in Control Functions, the total amount of variable remuneration is based on the assessment of performance of the Material Risk Takers and the organisational unit, as well as the Bank's performance in the area for which such person is responsible, subject to the performance of the entire Bank.

Minimum 50% of the variable remuneration granted to the Material Risk Taker is to serve as an incentive for special care for the Bank's long-term interests and is therefore composed of financial instruments related to the Bank's shares. The remaining part of the variable remuneration is disbursed in cash as cash variable remuneration. Minimum 40% of the variable remuneration of the Material Risk Takers for each Assessment Period – and if the variable remuneration of such persons for the relevant Assessment Period is exceptionally high – minimum 60% of the variable remuneration is deferred.

## 35.2 Financial data

All transactions with supervising and managing persons are performed in line with the relevant regulations concerning banking products and at market rates.

	Supervising, managing persons	Supervisory Board	Bank's Management Board
<b>Assets</b>			
Loans and advances to customers	299	0	299
<b>Total assets</b>	<b>299</b>	<b>0</b>	<b>299</b>
<b>Liabilities</b>			
Amounts due to customers	7 089	560	6 529
<b>Total liabilities</b>	<b>7 089</b>	<b>560</b>	<b>6 529</b>

	Supervising, managing persons	Supervisory Board	Bank's Management Board
<b>Off-balance liabilities granted to customers</b>	<b>10</b>	<b>0</b>	<b>10</b>
concerning financing	10	0	10

Information on the total remuneration paid or due to the members of the Supervisory Board and Management Board	01.01.2017-31.12.2017	01.01.2016-31.12.2016
<b>Management Board</b>		
short-term employee benefits	23 535	13 879
long-term benefits	7 238	6 701
<b>Management Board, total</b>	<b>30 773</b>	<b>20 580</b>
<b>Supervisory Board</b>		
short-term employee benefits	1 024	1 025
<b>Supervisory Board, total</b>	<b>1 024</b>	<b>1 025</b>

Post-employment benefits	2017
Members of the Management Board who stopped performing their functions in 2016 and earlier	2 166
<b>Termination benefits</b>	
Members of the Management Board who stopped performing their functions in 2017 and earlier	5 747

Number of shares held by the members of the Management Board	31.12.2017	31.12.2016
Katarzyna Sułkowska	28 612	28 612
<b>Total</b>	<b>28 612</b>	<b>28 612</b>

With reference to the Management Board, costs of remuneration also includes the cost of cash installments paid in this period of variable remuneration and tranches in phantom shares issued and paid in 2017.

With the Management Board members of the 4th term of office (appointed in June and August 2017) contracts of employment were concluded for an indefinite period of time providing for the following:

- The contracts may be terminated by either Party subject to a 3-9-month notice, effective at the end of a calendar month.

- If the Bank terminates a contract of employment before the end of the term of office, some Members of the Management Board are entitled to compensation in the amount not less than 6 times and not more than 12 times the monthly gross basic remuneration.
- The contracts contain non-competitive clauses, under which the Members of the Management Board, upon termination of their employment relationship with the Bank, must not engage in any competitive activity for 12 months following termination of their agreements. As a result, the Members of the Management Board are entitled to remuneration totalling an equivalent to their gross remuneration for 12 months.

The Extraordinary General Meeting of 5 December 2017 approved a resolution regulating the principles of remuneration of members of the Management Board of Alior Bank. At its meeting of 14 December 2017, the Supervisory Board approved new principles of remuneration of the Management Board based on managerial contracts, relating to the Act of 9 June 2016 on the remuneration of persons managing certain companies and individual contracts for individual Members of the Management Board:

- Management Board Member's contract for the time of performing functions;
- Termination period:
  - 1 month in case of performing Management Board Member function for less than 12 months effective at the end of calendar month;
  - 3 months in case of performing Management Board Member function for at least 12 months.
- Severance pay in the amount of three times monthly salary in case of contract termination by both sides or termination by the Company in all cases except for negligence to perform basic Management Board duties in case of performing Management Board Member function for at least 12 months.
- Non-compete clause based on which Management Board Member is obliged (assuming he performed the function for at least 3 months) not to perform any activities deemed competitive with reference to the Company for the period of 6 months since the date of contract termination. As a consequence Management Board Members are entitled to severance in the amount of six months salary.

### 35.3 Management option scheme

Pursuant to Resolution No. 28/2012 of the Extraordinary General Meeting of Shareholders of Alior Bank SA dated 19 October 2012 regarding the conditional increase of the Bank's share capital and issuance of subscription warrants and incentive scheme regulations adopted by the resolution of Alior Bank SA Supervisory Board of 27 March 2013, incentive program for 2013-15. The plan included members of the Management Board and a group of Bank's managers who were not members of the Management Board

The assumptions of Management Option Scheme 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 would 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 Alior Bank in a period of five years starting from the first anniversary of the first quotation of the Shares on the WSE;
- up to 1 110 416 B-series subscription warrants which will entitle their holders to take up 1 110 416 E-series shares of Alior Bank over a period of 5 years starting from the day of the second anniversary of the first quotation of the Shares on the WSE;
- up to 1 110 417 C-series subscription warrants which will entitle their holders to take up 1 110 417 F-series shares of Alior Bank over a period of 5 years starting from the day of the third anniversary of the first quotation of the Shares on the WSE.

Details concerning the warrants finally awarded to the Management Board Members are presented in the table below:

Name	Number of A-series warrants allocated	Number of B-series warrants allocated	Number of C-series warrants allocated
Sobieraj Wojciech	222 086	222 086	222 086
Bartler Małgorzata	0	27 656	13 784
Czuba Krzysztof	88 833	88 833	88 833
Krzyżanowska Joanna	0	0	30 440
Skrok Witold	71 066	88 833	88 833
Smalska Barbara	0	0	30 440
Sułkowska Katarzyna	88 833	88 833	88 833
Urszula Krzyżanowska - Piękoś	9 445	18 443	36 000
Celina Waleśkiewicz	18 321	33 312	20 000
<b>Total</b>	<b>498 584</b>	<b>567 996</b>	<b>619 249</b>

In connection with the rights issue, on 27 July 2016 the Supervisory Board passed a technical adjustment to the Management Option Scheme aimed at ensuring the economic neutrality of the scheme for the eligible persons. The adjustment involves calculating the decrease in the notional value of the Management Option Scheme and issuing an appropriate number of phantom shares with parameters similar to warrants to the eligible persons. The correction of the program is settled in cash.

	Number of subscription warrants	The average share price for the completed subscription warrants	Number of phantom shares	The average share price for the completed phantom shares
<b>At the beginning of the period (01.01.2017)</b>	<b>2 568 564</b>	-	<b>1 389 832</b>	-
Granted during the period	0	-	0	-
Forfeited during the period	0	-	0	-
Completed during the period	21 078	62,85	1 146 879	52,43
<b>At end of period (31.12.2017)</b>	<b>2 547 486</b>	-	<b>242 953</b>	-
Possible to be performed at the end of the period 31.12.2017)	2 084 913	-	0	-

	Subscription warrants	Phantom shares
The average fair value of the instruments at the end of the period (PLN)	18,40	26,37
The exercise price of the instrument (for instruments outstanding at the end of the period) (PLN)	64,57	53,19
The average maturity date of the instrument occurring at the end of the period	10.02.2020	14.06.2020

The fair value of phantom shares (as part of the SOP program) was determined based on the Black-Scholes option valuation model. It was assumed that stock prices change in time in accordance with the Brown's geometric traffic process, assuming long-term volatility of Bank's share prices and the risk-free rate. Volatility estimates were made based on historical data. The model includes the right to execute phantom shares assigned to series A, B and C warrants for a period of 5 years from 1, 2 and 3 years from the original issue date, respectively. Deferred tranches are issued in accordance with the Remuneration Policy after confirming that there were no events causing their reduction or suspension.

### 35.4 Bonus system for senior executives

The Management Board is covered by the Bonus Scheme from 2016. The objective of the Scheme is to create additional incentive stimuli for its participants to effectively perform the duties entrusted to them, in particular, managing the Bank and making efforts aimed at the continued stable development of the Bank and its capital group, while maintaining appropriate and effective risk management at the Bank, stability of the Bank's management personnel and realization of long-term interests of the shareholders by bringing about a stable growth of the stock exchange valuation of the Bank's shares, while maintaining an increase in the net assets of the Bank and its companies.

In connection with the changes in the legal and organizational structure of the Bank consisting of an acquisition of the demerged business of Bank BPH Spółka Akcyjna with its registered office in Gdańsk comprising the core business of Bank BPH excluding operations related to mortgage loans pursuant to art. 529 § 1.4 of the Commercial Companies Code on terms specified in the Share Purchase Agreement, the Supervisory Board agreed on 29 June 2016 on the principles for the transaction bonus for the Bank's Management Board Members in order to specially motivate the Bank's Board Members to actively cooperate in the process of preparing and conducting the Transaction, to ensure the timely execution of the Transaction in line with the strategic objectives. The bonus can be granted and paid once the conditions related to the execution of the Transaction and the Operational Merger between the banks have been fulfilled. The Bonus was paid out in accordance with the provisions of the Variable Salary Component Policy.

The other members of senior executives, with particular emphasis on those having an Impact on the Risk Profile, are covered by an annual bonus. With the exception of persons exercising control functions, the basis for determining the total amount of variable remuneration is the assessment of the results of the person having an impact on the risk profile and organizational unit and the results of the bank in the area of responsibility of that person, taking into account the results of the entire Bank.

Pursuant to the Policy of variable remuneration components binding at the time of granting remuneration, the variables of the Management Board and other Persons having an Impact on the Risk Profile were granted in financial instruments in the form of phantom shares.

The settlement of the phantom shares shall be in cash.

	Number of phantom shares	The average share price for the completed phantom shares
At the beginning of the period (01.01.2017)	23 446	-
Granted during the period	325 128	-
Forfeited during the period	-	-
Realized during the period	152 189	0,01
At the end of the period (31.12.2017)	196 385	-
Exercisable at end of period (31.12.2017)	0	-
		<b>Phantom shares</b>
The average fair value of the instrument at the end of the period (PLN)		75,52
The exercise price of the instrument (for instruments outstanding at the end of the period) (PLN)		0,01
The average maturity date of the instrument occurring at the end of the period		2020-06-14

The fair value of phantom shares is equal to the average current share price.

Deferred tranches are paid in accordance with the Remuneration Policy after confirming that there were no events causing their reduction or suspension.

### 35.5 Share subscription program as part of the management option scheme at Alior Leasing sp. o.o.

In March 2017, by the decision of the Management Board of Alior Bank SA, the Supervisory Board and the Management Board of Alior Leasing Sp. o.o. was launched in the company Alior Leasing sp.o.o. management option scheme.

The aim of the program is to ensure the implementation of financial plans for 2017-21 by maintaining and motivating the Company's management. Program participants include selected managers and members of the Management Board of Alior Leasing sp z o.o.

The program is based on share option subscription agreements signed between the Participant, the Company and the Bank as well as share option-purchase agreements between the Participant and the Bank. The program assumes the transformation of the company into a joint-stock company. The issue of shares under the contracts would take place in the event of budget implementation and fulfillment of the conditions set out in the agreements in 2022-25.

Then, as a result of the purchase and sale's option of shares the Bank would repurchase shares at the price resulting from the valuation of the company according to a given methodology.

2017	Number of options	The average share price for the options performed
At the beginning of the period (01.01.2017)	0	-
Granted during the period	2 799 033	-
Forfeited during the period	-	-
Realized during the period	0	n/d
At the end of the period (31.12.2017)	2 799 033	-
Exercisable at end of period (31.12.2017)	0	-

The settlement of purchase / sale options of shares shall be in cash.

	options
The average fair value of the instrument at the end of the period* (PLN)	12,0b
The exercise price of the instrument (for instruments outstanding at the end of the period) (PLN)	1
The average maturity date of the instrument occurring at the end of the period	2023-09-09

\*calculated as the value of program divided by the number of options at the end of the period

The amount of the plan value was determined based on the fair value model. The fair value of share options has been determined based on the Black - Scholes option valuation model. It was assumed that the price of shares changes in time in accordance with the Brown's geometric movement process, assuming long-term volatility of the Alior Leasing share price and the risk-free rate. The volatility estimates were made on the basis of historical data on the prices of reference shares of listed leasing companies.

The condition for the implementation of the option is to realize net profit of the company in the years 2017-2021 budgeted and specific retention conditions.

## 36 Offsetting of financial assets and liabilities

### 36.1 Accounting principles

The Bank offsets financial assets and liabilities and discloses them in the statement of financial position in net value if it is possible to enforce the right to set off the disclosed amounts and an intention to settle them in net amounts or the asset and liability may be realised at the same time.

The Bank enters into offset agreements – ISDA agreements (International Swaps and Derivatives Association Master Agreements) and GMRA agreements (Global Master Repurchase Agreement) that provide for: set-off of financial assets and liabilities (close out netting) in the case of a default by any party to the agreement. The agreements are of special importance to mitigating the risk related to derivative instruments since they provide for netting of both payable (mitigation of settlement risk) and not yet payable liabilities of the parties (mitigation of pre-settlement risk). However, those agreements do not meet the requirements specified in IAS 32 concerning recognition of the set-off effects in the statement of financial condition since the set-off is subject to the occurrence of a specific event in the future (events of default).

The exposures under derivative instruments are additionally secured with deposits placed by the counterparties under CSA (Credit Support Annex).

### 36.2 Financial data

31.12.2017	Total financial assets	Derivative instruments	Repo transactions
Assets			
Gross value of recognised financial assets	617 767	540 336	77 431
Gross value of financial liabilities subject to netting	0	0	0
Net value of financial assets disclosed in the statement of financial position	617 767	540 336	77 431
Value of financial instruments that are not subject to netting in the financial statements	-531 766	-454 230	-77 536
Received cash margin deposit	-179 283	-179 283	0
Amount of financial liabilities that do not satisfy the netting requirements in the financial statements (under signed ISDA agreements)	-352 483	-274 947	-77 536
Net value of financial assets	86 001	86 106	-105

31.12.2017	Total financial liabilities	Derivative instruments	Repo transactions
Liabilities			
Gross value of financial liabilities	518 833	441 297	77 536
Gross value of financial assets subject to netting	0	0	0
Net value of financial liabilities disclosed in the statement of financial position	518 833	441 297	77 536
Value of financial instruments that are not subject to netting in the financial statements	-516 253	-438 717	-77 536
Received cash margin deposit	-163 770	-163 770	0
Amount of financial liabilities that do not satisfy the netting requirements in the financial statements (under signed ISDA agreements)	-352 483	-274 947	-77 536
Net value of financial liabilities	2 580	2 580	0

Reconciliation of offsetting and conditionally offsetting items to the statement of financial position

31.12.2017	net carrying amount	item from the financial statements	Carrying amount of items from the financial statements	Carrying amount of items not disclosed in the offsetting note
<b>Financial assets</b>				
Derivatives	87 785	Derivative hedging instruments	87 785	0
Derivatives	452 551	Financial assets held for trading	452 551	0
Repo transactions	77 431	Assets pledged as collateral	408 911	331 480
Cash collateral received	163 770	Amounts due from banks	898 977	735 207
<b>Financial liabilities</b>				
Derivatives	5 419	Derivative hedging instruments	5 419	0
Derivatives	435 878	Financial liabilities held for trading	435 878	0
Cash collateral received	179 283	Amounts due to banks	743 911	564 628

31.12.2016	Total financial assets	Derivative instruments	Repo transactions
Assets			
<b>Gross value of recognised financial assets</b>	<b>521 018</b>	<b>491 235</b>	<b>29 783</b>
Gross value of financial liabilities subject to netting	0	0	0
<b>Net value of financial assets disclosed in the statement of financial position</b>	<b>521 018</b>	<b>491 235</b>	<b>29 783</b>
<b>Value of financial instruments that are not subject to netting in the financial statements</b>	<b>-407 378</b>	<b>-377 566</b>	<b>-29 812</b>
Received cash margin deposit	-164 332	-164 332	0
Amount of financial liabilities that do not satisfy the netting requirements in the financial statements (under signed ISDA agreements)	-243 046	-213 234	-29 812
<b>Net value of financial assets</b>	<b>113 640</b>	<b>113 669</b>	<b>-29</b>

31.12.2016	Total financial liabilities	Derivative instruments	Repo transactions
Liabilities			
<b>Gross value of financial liabilities</b>	<b>334 245</b>	<b>304 433</b>	<b>29 812</b>
Gross value of financial assets subject to netting	0	0	0
<b>Net value of financial liabilities disclosed in the statement of financial position</b>	<b>334 245</b>	<b>304 433</b>	<b>29 812</b>
<b>Value of financial instruments that are not subject to netting in the financial statements</b>	<b>-388 187</b>	<b>-358 375</b>	<b>-29 812</b>
Received cash margin deposit	-145 141	-145 141	0
Amount of financial liabilities that do not satisfy the netting requirements in the financial statements (under signed ISDA agreements)	-243 046	-213 234	-29 812
<b>Net value of financial liabilities</b>	<b>-53 942</b>	<b>-53 942</b>	<b>0</b>



## Reconciliation of offsetting and conditionally offsetting items to the statement of financial position

31.12.2016	net carrying amount	item from the financial statements	Carrying amount of items from the financial statements	Carrying amount of items not disclosed in the offsetting note
<b>Financial assets</b>				
Derivatives	71 684	Derivative hedging instruments	71 684	0
Derivatives	419 551	Financial assets held for trading	419 551	0
Repo transactions	29 783	Assets pledged as collateral	366 984	337 201
Cash collateral received	145 141	Amounts due from banks	1 364 226	1 219 085
<b>Financial liabilities</b>				
Derivatives	6 119	Derivative hedging instruments	6 119	0
Derivatives	298 314	Financial liabilities held for trading	298 314	0
Cash collateral received	164 332	Amounts due to banks	381 235	216 903

## 37 Legal claims

The value of proceedings concerning the Bank's liabilities or receivables pending in the 2017 did not exceed 10% of the Bank's equity. According to the Bank, none of the single proceedings pending in 2017 before a court, arbitration authority, or public administration authority, and all proceedings jointly do not pose any threat to the financial liquidity of the Bank.

In cases where the Bank was sued the value of the claims as at 31.12.2017 amounted to PLN 220 598 thousand and PLN 167 567 thousand as at 31.12.2016. The amount of provisions for disputed cases was PLN 16 024 thousand as at the end of 2017 and PLN 8 700 thousand as at the end of 2016.

In previous years, the Bank offered as an intermediary investment certificates for Fundusz Inwestycje Rolne FIZAN, Lasy Polskie FIZAN, Vivante FIZAN and Inwestycje Selektywny FIZAN. According to the media information, there is a probability of class action lawsuit by certain clients who have purchased the previously mentioned certificates via the Bank. In the Bank's opinion, at the date of the financial statements, the risk a negative outcome for the Bank and thus significant losses on this account is lower than average at this stage, therefore, as at December 31, 2017, the Bank did not create a provision with respect to the above risk. At the same time, a reliable estimate of the amount of a possible loss in case of negative outcome is not possible to be reliably estimated at this stage.

Explanatory notes concerning risk

### Objectives and principles of risk management

Risk management is one of the major processes in Alior Bank SA. Risk management is to ensure profitability of business operations, while assuring control of the risk level and its maintenance within the accepted risk appetite and limit system in the changing macroeconomic and legal environment. The supreme objective of the risk management policy is to ensure early detection and adequate management of all kinds of risk inherent to the pursued activity. The Bank has identified the following risk types subject to management that are inherent in its business:

Risk type	Note number
credit risk	38
Market risk in the trading book, including: interest rate risk in the trading book and the FX risk	39.40
liquidity risk	41
operational risk	42

The objectives of risk management, by applying efforts to maintain risk levels within the approved risk appetite, are as follows:

- protection of the shareholders' equity,
- protection of customers' deposits,
- support to the Bank in pursuing effective activities.

Risk is managed within the risk management policies and covers risk identification, measurement, monitoring, and reporting. The above also applies to control of Treasury operations by determining and verifying the principles of executing, organising, and measuring such transactions.

Within each function, there is a clear segregation of duties and responsibilities and the rules set forth in internal regulations. The key role is played by the Financial Risk Department which independently drafts periodic reports using the models and risk measures approved by the Bank, and delivers them to the appropriate units.

The risk management process is supervised by the Bank's Supervisory Board which is kept informed on the risk profile in the Bank and on major activities taken with respect to risk management. The Bank's Supervisory Board is supported by the following committees: the Remuneration Committee of the Supervisory Board, the Risk Committee of the Supervisory Board, and the Audit Committee of the Supervisory Board. Information on the nature and level of risk is provided to the Supervisory Board by the Management Board with the exception of the results of internal control of the market risk management system which are provided by the Director of the Internal Audit Department.

With respect to risk management, the Management Board of Alior Bank SA is responsible for strategic risk management, including supervising and monitoring the tasks taken by the Bank with respect to risk management. It takes major decisions that affect the Bank's risk profile and approves internal regulations of the Bank concerning risk management. In risk management, the Management Board is supported by the following internal committees:

- Credit Risk Committee (ICAAP)
- Asset and Liability Committee (ALCO)
- Bank's Credit Committee (KKB)
- Operational Risk Committee (KRO)

ALCO performs daily control over management of the market risk, including the liquidity risk. It takes all related decisions, unless previously restricted to the sole competences of the Management Board or the Supervisory Board.

The duties of ALCO include, among others:

- ongoing control over management of the market risk related to the trading book and the banking book, including decisions in risk management for both books;
- approval of the Bank's operational limits in money and capital markets;
- ongoing control over liquidity management at the Bank, related to the trading book and the banking book;
- recommending actions related to acquiring funding sources for the Bank and supervising the progress of the funding plan;
- decisions of model portfolio management.

At the Bank, exposure to the risk is formally mitigated with a system of limits, periodically updated by resolutions of the Supervisory Board or ALCO, covering all risk metrics with the levels thereof monitored and reported by the Bank's organisational units independent of business. There are three types of limits at the Bank that differ in terms of coverage and functioning: core limits (approved by the Supervisory Board), supplementary limits, additional limits. Risk management is focused on potential changes to the economic result; with the Bank's quality requirements related to the risk management process (internal control system, new product launch, analysis of

the legal risk, analysis of the operational risk), non-quantifiable risks are mitigated that are related to treasury operations.

The Bank estimates Value-at-Risk in relation to the market risk, using an analytical module of the treasury system. The Bank used the parametric VaR model in compliance with JP Morgan's methodology (RiskMetrics). The estimated 99% 1-day VaR may be re-scaled to other times by multiplying the variability by the root of the multiple of the 1-day period (e.g. 10-Day VaR is calculated by multiplying 1-day VaR by  $\sqrt{10}$ ).

The table below presents a 10-day VaR for the Bank split into the banking and trading book as at the end of 2017 and 2016.

VaR	31.12.2017	31.12.2016
Banking book	14 430	11 849
Trading book	928	1 909
<b>Total</b>	<b>14 985</b>	<b>12 314</b>

## 38 Credit Risk

### 38.1 Description of the risk

#### Definition of the credit risk

The credit risk is understood as a risk of loss due to the customer's default to the Bank or a risk of decreased economic value of the receivables of the Bank as a result of the customer's deteriorated potential to service its debt.

#### Objective of credit risk management

The objective credit risk management is to reduce losses in the loan portfolio and to minimise the risk of occurrence of impaired credit exposures, while maintaining the anticipated profitability level and value of loan portfolio.

Management of the credit risk and its maintenance at a safe level is of fundamental importance for a stable operation of the Bank and the Bank. The credit risk is controlled with the regulations in force at the Bank, in particular lending methodologies and risk measurement models, adjusted to the customer segments, product, and transaction types, establishing and monitoring of collateral for loans, as well as the processes of monitoring and collecting receivables. The Bank takes measures to fully centralise and optimise the processes within the systemic infrastructure, while relying on available external and internal information on customers.

The credit risk management system is comprehensive and integrated with the Bank's operational processes. The core stages of the credit risk management process include the following:

- identification;
- measurement;
- monitoring;
- reporting and control.

Such process supports effective supervision over the actual and potential risks and the effective application of risk management methods and instruments.

In its credit risk management system, the Bank identifies internal and external credit risk factors with management assigned to the relevant areas of the Bank:

- Customers – verification covers each single customer, groups of related customers, as well as identified homogeneous customer groups in terms of the quality of their portfolio;

- Products – covers all defined risk types that may be inherent in each product: single instances and entire loan portfolios;
- Collateral – verification covers proper approval of collateral; its value and duration; correct preparation of documentation establishing collateral and updates of its values. In order to mitigate the credit risk, amended regulations are effectively implemented concerning collateral to debt and updated standards are applied in the processes of collateral establishment;
- Process and regulations – verification covers the quality and effectiveness of the lending process, loan administration, monitoring, collecting and restructuring, as well as co-operation with external collecting entities and compliance with external regulations of banking regulations supporting the processes;
- Systems – monitoring covers systems supporting lending, monitoring, and collecting processes, and their effectiveness;
- Distribution channels – verification applies to the effectiveness and loss ratio of the distribution channels functioning in the Bank;
- Employees – verification applies to the use of individually assigned credit competences, potential irregularities are detected that may occur in the lending process;
- External conditions – monitoring covers in particular: the level of interest rates, FX rates, money supply, unemployment rate, changes in the labour market, economic conditions;
- Correctness of the credit risk management system – verification periodically checks if the assumptions made with respect to the Bank's credit risk management policy are correct.

#### Credit risk measurement and assessment

The level of the credit risk is limited in line with the restrictions set forth in external and internal regulations, rules set by the Bank, in particular concerning restrictions for credit exposures to one customer, a group of customers related by capital and organisation and economic sectors.

The Bank analyses the risk, both on an individual and portfolio basis, and it takes actions aimed at:

- minimising the level of the credit risk of a single loan with an assumed profitability level;
- reducing the overall credit risk resulting from holding a specific loan portfolio by the Bank.

In the mitigation process of the risk level of individual exposures, when approving a loan or another credit product the Bank:

- assesses the customer's creditworthiness and credit capacity, including for example a detailed analysis of the exposure repayment sources;
- assesses the approved collateral, including verification of its formal legal and economic condition, including for example LTV adequacy.

Additionally, in order to reinforce risk control of individual exposures, the Bank regularly monitors customers by taking appropriate actions to mitigate risk, if any increased risk factors are identified.

In order to mitigate the credit risk level of its portfolio, the Bank:

1. sets and controls concentration limits;
2. monitors early warning signals within the EWS system;
3. regularly monitors the loan portfolio, controlling all material parameters of the credit risk (e.g. PD, LTV, DTI, CoR, LGD, NPL, Coverage);
4. regularly carries out stress tests.

The Bank grants credit products in line with the lending methodologies appropriate for the customer segment and product type. The assessment of the customer's creditworthiness preceding credit decisions is performed with a system supporting the credit process, scoring or rating tools; external information (e.g. CBD DZ, CBD BR, BIK, BIG bases), and internal bases of the Bank. Credit products are granted in line with the Bank's operational

procedures, specifying the steps to take in the lending process, the responsible units of the Bank, and the tools applied.

Credit decisions are taken in line with the credit approval system prevailing at the Bank (authority levels are suited to the risk level related to each customer and transaction).

In order to regularly assess the assumed credit risk and to mitigate potential losses on the existing loan exposures, during the lending term the Bank monitors the customer's condition by identifying early warning signals and periodic individual reviews of loan exposures.

The Bank pursues a policy of dividing the functions related to customer acquisition and sale of credit products from the functions related to the assessment of the credit risk, approving credit decisions, or monitoring of credit exposures.

### Credit risk monitoring and reporting

Regular protection of the quality of the loan portfolio is ensured by:

- ongoing monitoring of timely debt servicing;
- periodic reviews, in particular of the customers' financial and economic condition and the value of the accepted collateral;

The monitoring of individual customers covers the following areas:

- the customer;
- the score assigned to the debtor;
- the agreement that generated the risk exposure;
- the approved collateral;
- the amounts of impairment allowances and provisions, if any.

Monitoring of business customers covers in particular:

- the customer and its related entities;
- the sector of its business;
- the score assigned to the debtor;
- verification, if the customer complies with the covenants of the loan agreement that has generated the loan exposure;
- the approved collateral (verification of the existence and value of the collateral);
- market conditions affecting the customer's creditworthiness;
- the amounts of impairment allowances and provisions, if any.

All credit exposures in the business customer segment are additionally subject to portfolio monitoring as follows:

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

All loan exposures of individual and business customers are subject to monitoring and ongoing classification to the appropriate process paths. In order to improve the monitoring and control of the operational risk, adequate solutions have been implemented in the Bank's credit systems. Systemic tools have been consolidated to ensure the effective use of the monitoring procedures, applicable to all accounts.

Monitoring of exposures classified as standard and increased risk is applied regularly – such exposures could intensify activities at pre-enforcement or collection proceedings. Accounts are subject to the assessment for a possibility to restructure the debt in order to mitigate the Bank's losses due to loan obligations not repaid on time.

The monitoring process ends with recommendations concerning the strategy of further co-operation with the customer.

Monthly and quarterly reports on the credit risk are prepared at Alior Bank. Credit risk reporting covers periodic information on exposures of the loan portfolio risk.

### Credit risk management tools

Credit scoring is a tool supporting credit decisions for individual customers and micro enterprises while credit rating is an instrument supporting credit decisions in the segment of SMEs and large enterprises.

The scoring and rating systems provide for:

- credit risk control with an assessment of the customers' creditworthiness;
- unification of the criteria underlying credit decisions ensuring impartiality and objectivity;
- shortened time of credit decisions and guarantee of more effective assessment of loan applications (increased productivity and reduced handling costs);
- simplification of the assessment of loan applications due to process automation;
- customer segmentation by risk;
- monitoring and projection of the loan portfolio quality;
- easier assessment of the credit policy and faster modifications to decision processes serving to assess loan applications of business and individual customers.

The Bank regularly monitors the correct functioning of the scoring and rating models. The objective of the review is to verify if the applied models appropriately differentiate risks and the estimated risk parameters appropriately reflect the relevant risk aspects. Additionally, functional controls are applied to verify the correct application of models in the credit process.

The scoring models applied now have been developed internally by the Bank. In order to reinforce the risk management process of the models applied in the Bank, there is a team acting as an independent validation unit.

The application of the scoring model results in:

- value of the decision-taking score of relevant customers/applications;
- scoring class with an assigned theoretical PD;
- scoring recommendation to the loan application in the form of: "Approval" or "Rejection".

The model type used to assess individual customers is subject to the type and nature of the requested credit product, the credit history, and the history of cooperation with the Bank. The model selected to assess business customers is subject to the customer being classified in a specific segment on the basis of their sales income. Scoring/rating results affect the standard risk costs charged on each transaction.

The knowledge of potential hazards related to exposure concentration at the Bank supports correct asset and liability management and development of a safe structure of the loan portfolio. In order to prevent adverse events resulting from excessive concentration, the Bank mitigates the concentration risk by setting limits and applying concentration standards resulting from external regulations and internal concentration standards.

The Bank has launched:

- identification rules of areas of the concentration risk related to lending activities;
- a process of limit setting and updating;
- a process of limit management with a mode of procedure, if any limit level is exceeded;
- a process to monitor the concentration risk, including reporting;
- control over the concentration risk management process.

In the process of setting and updating the concentration risk, the Bank takes into account:

- information on the credit risk level of the limited portfolio segments and their impact on compliance with the assumptions underlying the risk appetite with respect to the quality of the loan portfolio and the capital position of the Bank;
- sensitivity of the limited portfolio segments to changes in the macroeconomic environment, reviewed regularly in the stress tests held;

- reliable economic and market information concerning each concentration of exposures, in particular macroeconomic, sectoral ratios, information on economic trends, subject to projected interest rates, FX rates, analysis of political risk, sovereign and financial institutions ratings;
- reliable information on the economic condition of entities, industries, sectors, general economic information, including the economic and political situation of countries, as well as other information required to assess the concentration risk inherent in the Bank;
- interactions between various risk types – credit, market, liquidity, and operational risks.

#### Application of risk mitigation techniques – collateral

The Bank establishes collateral in a manner adequate to the credit risk to which the Bank is exposed and flexible vis-a-vis customers' potential. No collateral releases the Bank from its obligation to verify the customer's creditworthiness.

Loan collateral is to secure that the Bank will have the loan repaid along with interest and expenses due should the borrower fail to repay on the contractual dates and any restructuring activities fail to generate the anticipated effects.

In particular, the Bank accepts the following collateral:

- guarantees, re-guarantees, and sureties;
- blocked items;
- registered pledge;
- transfer of title;
- assignment of receivables;
- assignment of loan insurance;
- bill of exchange;
- mortgages;
- powers of attorney to the bank account;
- security deposits (as a specific form of collateral).

Collateral is verified in the credit process for its effectiveness to secure the Bank, its market value is measured as its realisable value in a potential enforcement process.

## 38.2 Financial data

### Maximum credit risk exposure

Items in the statement of financial position	31.12.2017	31.12.2016 restated
Current account with the central bank	253 092	16 959
<b>Financial assets held for trading</b>	<b>452 257</b>	<b>413 239</b>
Bonds	85 735	294
Certificates	89	557
Interest rate transactions	189 794	189 703
FX transactions	95 660	174 953
Other options	52 450	28 736
Other instruments	28 529	18 996
<b>Financial assets available for sale</b>	<b>12 030 778</b>	<b>9 339 005</b>
<b>Debt instruments</b>	<b>12 030 778</b>	<b>9 339 005</b>
issued by the State Treasury	9 651 360	6 197 981
issued by other state institutions	0	0
issued by monetary institutions	2 087 331	2 691 128

Items in the statement of financial position	31.12.2017	31.12.2016 restated
issued by other financial institutions	91 387	156 746
issued by enterprises	200 700	293 150
<b>Derivative hedging instruments</b>	<b>87 785</b>	<b>71 684</b>
<b>Amounts due from banks</b>	<b>898 977</b>	<b>1 364 226</b>
<b>Loans and advances to customers</b>	<b>51 244 093</b>	<b>46 248 623</b>
<b>Retail segment</b>	<b>28 234 726</b>	<b>25 885 197</b>
Consumer loans	16 541 861	16 224 564
Loans for residential properties	9 547 786	8 407 632
Consumer finance loans	2 145 079	1 253 001
<b>Corporate segment</b>	<b>23 009 367</b>	<b>20 363 426</b>
Working capital loans	12 836 975	11 114 177
Investment loans	8 624 788	7 491 894
Other	1 547 604	1 757 355
<b>Assets pledged as collateral</b>	<b>408 911</b>	<b>366 984</b>
<b>Other financial assets</b>	<b>560 697</b>	<b>646 399</b>
<b>Total</b>	<b>65 936 590</b>	<b>58 467 119</b>

Off-balance sheet items	31.12.2017	31.12.2016
<b>Granted off-balance liabilities</b>	<b>12 468 922</b>	<b>14 157 110</b>
Concerning financing	11 329 663	13 054 317
Financial guarantees	1 139 259	1 102 793

## Financial assets not overdue

### Internal rating classes

The rating system covers, among others, the business customer segment which contains one common rating scale of PD composed of 25 classes (Q01-Q25) that replaced the previous scoring scale for micro enterprises that do not have comprehensive accounting systems (classes B1-B10) and five rating scales for enterprises with full reporting systems (classes A-J).

In the individual customer segment, two scoring classes are used: (i) scale M1 – M10 for mortgage loans and (ii) scale K1 – K10 for loans other than mortgage loans.

	Risk class	31.12.2017	31.12.2016
<b>Overdue receivables and without impairment</b>			
<b>Retail segment</b>			
Mortgage loans, cash loans, credit cards, overdraft in ROR			
(1 – best class, 6 – worst class)			
	1	506 668	601 987
	2	527 016	603 978
	3	648 291	736 933
	4	734 377	828 111
	5	41 667	47 857
	6	3 458	6 424
Loans, credit cards, overdraft in ROR – standard process			
(K1 – best class, K10 – worst class)			
	K1	1 466 149	662 345
	K2	1 047 917	641 286
	K3	2 011 931	1 170 940
	K4	1 855 704	1 466 667



	Risk class	31.12.2017	31.12.2016
	K5	1 902 177	1 570 465
	K6	1 625 734	1 456 033
	K7	768 509	676 328
	K8	144 778	218 700
	K9	16 943	33 041
	K10	1 414	3 206
Mortgage loans (M1 – best class, M10 – worst class)	M1	3 970	3 586
	M2	29 638	28 188
	M3	155 952	138 149
	M4	591 155	510 387
	M5	1 530 739	1 287 607
	M6	2 106 103	1 720 101
	M7	1 665 908	1 323 442
	M8	1 097 608	865 187
	M9	443 864	346 980
	M10	98 662	81 616
	No scoring	4 291 879	1 936 711
<b>Total retail segment</b>		<b>25 318 211</b>	<b>18 966 255</b>
<b>Corporate segment</b>			
Expiring portfolio covered with obsolete models (1 – best class, 6 – worst class)	1	585	1 048
	2	1 416	7 029
	3	2 638	2 573
	4	903	3 474
	5	0	0
Models for micro enterprises with incomplete accounting systems and Models for entities using books of account, car dealers and developers (Q01 – best class, Q25 – worst class)	Q01	8 095	0
	Q02	22 334	896
	Q03	54 502	20 147
	Q04	112 595	104 890
	Q05	41 278	212 485
	Q06	1 447 330	402 232
	Q07	399 118	575 500
	Q08	616 210	1 058 323
	Q09	909 396	509 064
	Q10	1 234 773	497 794
	Q11	1 579 233	1 035 165
	Q12	1 655 822	1 706 950
	Q13	2 037 405	1 148 374
	Q14	2 289 747	1 955 724
	Q15	1 211 772	900 742
	Q16	1 380 704	990 141
	Q17	1 106 316	657 114
	Q18	814 952	517 857
	Q19	575 489	417 234

	Risk class	31.12.2017	31.12.2016
	Q20	436 462	248 403
	Q21	274 312	214 957
	Q22	215 459	252 574
	Q23	128 625	55 150
	Q24	118 513	85 344
	Q25	40 472	36 340
	No rating	1 256 275	1 108 199
<b>Total corporate customers</b>		<b>19 972 731</b>	<b>14 725 722</b>
<b>Overdue receivables and without impairment</b>		<b>45 290 942</b>	<b>33 691 977</b>
<b>Not overdue receivables with impairment</b>		<b>988 015</b>	<b>294 948</b>
Retail segment		68 199	59 976
Corporate segment		919 816	234 972
<b>Total receivables from customers not overdue</b>		<b>46 278 957</b>	<b>33 986 925</b>
Financial assets available for sale			
issued by non-financial entities		115 194	219 735
issued by other financial entities		91 387	96 868
<b>Financial assets available for sale, not overdue and without impairment</b>		<b>206 581</b>	<b>316 603</b>
Financial assets available for sale or not overdue with impairment		85 506	73 415
<b>Total financial assets available for sale, not overdue</b>		<b>292 087</b>	<b>390 018</b>
Financial assets held for trading			
Derivative instruments	Q01	15	0
(Q01 – best class, Q25 – worst class)	Q02	0	5 802
	Q03	6 504	29
	Q04	988	8 075
	Q05	480	1 400
	Q06	3 653	8 585
	Q07	714	4 107
	Q08	2 348	24 995
	Q09	9 743	11 283
	Q10	12 234	8 375
	Q11	14 226	13 611
	Q12	15 737	13 858
	Q13	18 223	9 510
	Q14	3 540	23 737
	Q15	8 051	8 860
	Q16	3 873	12 287
	Q17	13 245	8 605
	Q18	4 755	4 416
	Q19	4 433	4 655
	Q20	4 309	3 204
	Q21	6 038	4 320
	Q22	1 257	1 277
	Q23	2 283	516
	Q24	2 078	8 830
	Q25	300	309
	No scoring	5 618	15 451
Shares		294	6 312
Bonds		85 735	294
Certificates		89	557
<b>Total financial assets held for trading</b>		<b>230 763</b>	<b>213 260</b>

Due to a different rating model in the demerged part of Bank BPH acquired by Alior Bank SA, the data is disclosed separately.

	Risk group	average PD	31.12.2016
<b>Retail segment</b>			
	1-3	0.10%	4 648
	4 (4+, 4, 4-)	0.50%	145 292
	5 (5+, 5, 5-)	1.30%	736 766
	6 (6+, 6, 6-)	3.20%	2 497 289
	7 (7+, 7, 7-)	8.20%	501 771
	8 (8+, 8)	above 20%	149 013
	Impaired portfolio (8-, 9, 10)		4
	No rating		19 029
<b>Total retail segment</b>			<b>4 053 812</b>
<b>Corporate segment</b>			
	1-3	0.10%	184 068
	4 (4+, 4, 4-)	0.50%	903 654
	5 (5+, 5, 5-)	1.30%	1 349 918
	6 (6+, 6, 6-)	3.20%	695 052
	7 (7+, 7, 7-)	8.20%	159 273
	8 (8+, 8)	above 20%	18 556
	Impaired portfolio (8-, 9, 10)		96 116
	No rating		63 627
<b>Total corporate segment</b>			<b>3 470 264</b>
<b>Overdue receivables and without impairment</b>			<b>7 524 076</b>
<b>Not overdue receivables with impairment</b>			<b>200 186</b>
Retail segment			47 044
Corporate segment			153 142
<b>Total receivables from customers, not overdue</b>			<b>7 724 262</b>
<b>Financial assets held for trading</b>			
	1-3	0,1%	1 409
	4 (4+, 4, 4-)	0,5%	4 418
	5 (5+, 5, 5-)	1,3%	12 728
	6 (6+, 6, 6-)	3,2%	6 846
	7 (7+, 7, 7-)	8,2%	150
	8 (8+, 8)	above 20%	1 464
	No rating		88
<b>Total financial assets held for trading</b>			<b>27 103</b>

## External rating classes

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Without rating	31.12.2017
Due from banks	0	117 650	568 505	6 544	14 585	0	191 693	898 977
<b>Available for sale, of which:</b>	<b>0</b>	<b>0</b>	<b>11 946 993</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>91 387</b>	<b>12 038 380</b>
Debt securities	0	0	11 925 588	0	0	0	91 387	12 016 975
issued by the Central Bank	0	0	1 999 666	0	0	0	0	1 999 666
Issued by the State Treasury	0	0	9 838 257	0	0	0	0	9 838 257
issued by banks	0	0	87 665	0	0	0	0	87 665
Issued by other financial entities	0	0	0	0	0	0	91 387	91 387
Equity instruments		0	21 405	0	0	0	0	21 405
Issued by other financial entities	0	0	21 405	0	0	0	0	21 405
Investment securities kept until maturity	0	0	1 117 894	0	0	0	0	1 117 894
Assets hedging liabilities	0	0	408 188	0	0	0	723	408 911
Derivative instruments	0	25	202 732	9 019	0	0	10 012	221 788
<b>Total</b>	<b>0</b>	<b>117 675</b>	<b>14 244 312</b>	<b>15 563</b>	<b>14 585</b>	<b>0</b>	<b>293 815</b>	<b>14 685 950</b>

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Without rating	31.12.2016
Due from banks	0	88 791	1 124 622	84 655	3 394		64 854	1 366 316
<b>Available for sale, of which:</b>	<b>0</b>	<b>0</b>	<b>8 906 021</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>78 607</b>	<b>8 984 628</b>
Debt securities	0	0	8 889 109	0	0	0	59 880	8 922 933
issued by the Central Bank	0	0	2 599 538	0	0	0	0	2 599 538
issued by the State Treasury	0	0	6 197 981	0	0	0	0	6 197 981
issued by banks	0	0	91 590	0	0	0	0	91 590
issued by other financial entities	0	0	0	0	0	0	59 880	0
Equity instruments	0	0	16 912	0	0	0	0	16 912
issued by other financial entities	0	0	16 912	0	0	0		16 912
Investment securities kept until maturity	0	0	1 954	0	0	0	0	1 954
Assets hedging liabilities	0	0	365 732	0	0	0	1 252	366 984
Derivative instruments	0	33	143 001	15 288	0	0	20 866	179 188
<b>Total</b>	<b>0</b>	<b>88 824</b>	<b>10 541 330</b>	<b>99 943</b>	<b>3 394</b>	<b>0</b>	<b>165 579</b>	<b>10 899 070</b>

## Overdue loans and advances to customers

31.12.2017	up to 1 month	1 to 3 months,	3 months to 1 year	1 to 5 years	above 5 years	Total
<b>Receivables, without impairment</b>	<b>2 080 147</b>	<b>714 088</b>	<b>119 320</b>	<b>197 063</b>	<b>15 805</b>	<b>3 126 422</b>
Retail segment	1 487 219	472 567	8 479	15 142	1 408	1 984 814
Business segment	592 928	241 520	110 842	181 922	14 396	1 141 608
<b>Impaired receivables</b>	<b>79 040</b>	<b>132 754</b>	<b>668 644</b>	<b>865 626</b>	<b>92 650</b>	<b>1 838 713</b>
Retail segment	36 012	72 653	316 053	423 481	15 303	863 502
Business segment	43 028	60 100	352 591	442 145	77 347	975 211
<b>Total receivables</b>	<b>2 159 187</b>	<b>846 841</b>	<b>787 964</b>	<b>1 062 689</b>	<b>108 455</b>	<b>4 965 135</b>

31.12.2016	up to 1 month	1 to 3 months,	3 months to 1 year	1 to 5 years	above 5 years	Total
<b>Receivables, without impairment</b>	<b>2 184 687</b>	<b>536 693</b>	<b>119 183</b>	<b>130 302</b>	<b>3 250</b>	<b>2 974 116</b>
Retail segment	1 519 443	404 861	12 907	33 458	539	1 971 208
Business segment	665 244	131 832	106 276	96 844	2 711	1 002 908
<b>Impaired receivables</b>	<b>172 862</b>	<b>137 040</b>	<b>521 439</b>	<b>718 336</b>	<b>13 644</b>	<b>1 563 320</b>
Retail segment	51 155	81 415	289 363	360 680	4 289	786 902
Business segment	121 707	55 625	232 076	357 656	9 355	776 418
<b>Total receivables</b>	<b>2 357 548</b>	<b>673 733</b>	<b>640 623</b>	<b>848 637</b>	<b>16 894</b>	<b>4 537 436</b>

### Loans subject to forbearance

As forbearance the Bank treats actions aimed at modifying contractual terms and conditions as agreed with the debtor or issuer, due to their difficult financial condition (restructuring introducing easements that would not have been accepted otherwise). The objective of forbearance efforts is to restore the debtor's or issuer's potential to meet their obligations vis-a-vis the Bank and to maximise the effectiveness of irregular loan management – obtaining maximum recoveries, while minimising the related costs.

In the restructuring process of Individual Customers, the Bank applies the following tools:

- extension of the lending period. Extended lending periods result in reduced monthly principal and interest instalments and it is possible up to 120 months (for unsecured products), irrespective of the original lending period. If within such restructuring, the lending period is extended once to the maximum period, the tool may not be used again in the future. When the lending period is extended, certain restrictions are taken into account as specified in the product features, e.g. the borrower's age.
- granting a grace period in repayment (of an instalment in full or in part). During the grace period in repayment of the principal and interest instalments, the borrower is not obliged to make any payments under the agreement. The loan repayment period may be extended by the term of a grace period (this is not identical to the extension of the lending period). A grace period of a full instalment may be applied by up to 3 months and a grace period of the principal part of instalment – up to 6 months. The maximum grace period may be 6 months within 2 consecutive years (24 months) of the date of the restructuring annex;
- consolidation of several obligations at w Alior Bank, including modifications to limit in LOR accounts/unauthorised debit in ROR/KK, into an instalment loan. Such consolidation converts a number of obligations under various contracts into one obligation. The product resulting from consolidation is repaid in monthly instalments on the basis of an agreed repayment schedule. The parameters of the product activated as a result are compliant with the features of cash loans/consolidation loans.

In specific instances, other tools may be used.

In the restructuring process of business customers no restrictions have been made as to the applied *forbearance* practices. due to the specific nature of the customers, the most frequently applied tools include:

- agreement by modifying the repayment schedule of the overdue exposures (after the repayment date or termination). This consists in transfer of the debt from one or more exposures to a non-revolving account with potential repayment schedules: settling the entire debt over time or settling a part of the debt over time with the remaining part repayable at the end of period;
- an annex reducing the limit in revolving loans. This consists in a systematic reduction of the credit limit (most often on a monthly basis) by an amount specified in the annex;
- An annex modifying the repayment period/instalment amount or grace period for the principal/interest.

Reporting of the quality of the restructured loan portfolio covers reporting at the levels of individual overdue baskets when a restructuring decision has been taken, or at an aggregated level. Calendar months are the core reporting periods.

With respect to the exposures subject to *forbearance*, the bank applies stricter criteria to identify impairment indicators. Apart from a standard catalogue of the indicators, with respect to such exposures, additional criteria are applied, defined as the occurrence of one of the following situations at the time the forbearance decision is made:

- delay in excess of 30 days;
- other impairment indications;
- assessment by an analyst that hazards exist to timely repayment (in case of individual customers);
- assessment of the customer's economic and financial condition as sub-standard or worse (in case of business customers).

In 2014 the Bank implemented a mechanism of marking the entry and exist in the forbearance status, in compliance with "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 modifications did not affect the method to identify impairment and the conditions to reverse losses. Having identified impairment indicators to exposures subject to forbearance practices, the Bank applies the principle that 3 consecutive timely repayments in compliance with the new schedule are accepted as disappearance of impairment indicators.

The Bank does not differentiate its approach to identifying impairment on the type of forbearance granted to customers. All types of forbearance are subject to additional stricter criteria of impairment identification.

Loans to customers subject to forbearance	31.12.2017	31.12.2016
<b>Retail segment</b>	<b>139 173</b>	<b>183 788</b>
without identified impairment	42 547	66 287
with identified impairment	203 210	293 305
IBNR	-229	-655
impairment allowances	<b>-106 355</b>	-175 149
assessed individually	0	0
assessed as a portfolio	-106 355	-175 149
<b>Corporate segment</b>	<b>484 955</b>	<b>615 948</b>
without identified impairment	231 164	188 735
with identified impairment	442 811	635 651
IBNR	-203	-1 856
impairment allowances	<b>-188 817</b>	-206 582
assessed individually	-141 409	-156 462
assessed as a portfolio	-47 408	-50 120
<b>Total net receivables</b>	<b>624 128</b>	<b>799 736</b>

Loans to customers subject to forbearance	31.12.2017	31.12.2016
<b>with identified impairment</b>	<b>350 849</b>	<b>547 225</b>
<i>of which: collateral value</i>	204 822	339 707
<b>without identified impairment</b>	<b>273 279</b>	<b>252 511</b>
<i>of which: collateral value</i>	206 068	143 256
not overdue	105 620	109 180
overdue	167 659	143 331
<b>Total</b>	<b>624 128</b>	<b>799 736</b>

Loans granted to customers subject to forbearance by geographical region	31.12.2017	31.12.2016
dolnośląski	25 915	20 609
kujawsko-pomorski	36 477	16 068
lubelski	18 510	25 208
lubuski	52 510	24 605
łódzki	40 351	38 465
małopolski	112 763	135 912
mazowiecki	156 129	125 188
opolski	13 149	12 924
podkarpacki	10 734	14 014
podlaski	8 109	7 041
pomorski	30 521	272 732
śląski	43 813	45 803
świętokrzyski	5 028	3 836
warmińsko-mazurski	16 587	10 888
wielkopolski	48 167	39 828
zachodniopomorski	5 365	6 615
<b>Total net receivables</b>	<b>624 128</b>	<b>799 736</b>

Change of carrying value of loans to customers that are subject to forbearance	31.12.2017	31.12.2016
Net carrying value at the beginning of period	799 736	356 019
change due to acquisition of the demerged part of BPH	0	307 878
Impairment allowances	86 559	-34 609
Gross carrying value of loans and borrowings derecognised in the period	-398 100	-46 103
Gross carrying value of loans and borrowings newly recognised in the period	196 655	235 434
Other changes	-60 722	-18 883
<b>Net carrying value at the end of period</b>	<b>624 128</b>	<b>799 736</b>

In 2017 and 2016 the amount of interest income on loans were subject to forbearance amounted to PLN 34 977 thousand and PLN 30 114 thousand, respectively.

## Concentration

Ten largest borrowers	Currency	31.12.2017	Currency	31.12.2016
Company 1	EUR,PLN	932 642	EUR,PLN	365 461
Company 2	PLN	240 000	EUR,PLN	240 607
Company 3	PLN	234 010	EUR	145 992
Company 4	PLN	229 973	EUR	142 639
Company 5	PLN	223 184	PLN	124 800
Company 6	EUR,PLN	216 398	EUR	121 210
Company 7	PLN	199 979	PLN	115 853
Company 8	PLN	145 032	EUR	114 255
Company 9	EUR	136 358	PLN	106 047
Company 10	EUR	132 064	PLN	104 703

The table below presents the exposures to the business customers of Alior Bank split by sector.

Section by PKD 2007	Section name	31.12.2017	31.12.2016
Section A	Agriculture, forestry, hunting, and fishery	577 801	464 692
Section B	Mining and quarrying	208 747	224 400
Section C	Manufacturing	5 900 601	6 876 624
Section D:	Electricity, gas, steam and air conditioning supply	1 582 734	2 115 382
Section E	Water supply, sewage and waste management, and remediation	142 655	153 724
Section F	Construction.	5 738 267	5 223 464
Section G	Wholesale and retail trade; repair of motor vehicles and motorcycles	6 073 200	5 931 545
Section H:	Transportation and storage	1 392 438	946 704
Section I	Accommodation and food service activities	1 789 713	1 696 535
Section J	Information and communication	1 241 417	1 059 039
Section K	Financial and insurance activities	3 171 579	1 864 667
Section L	Real estate activities	5 831 925	4 730 084
Section M	Professional, scientific and technical activities	1 030 381	1 058 141
Section N:	Administrative and support service activities	744 037	615 039
Section O:	Public administration and defence; compulsory social security	6 297	1 753
Section P:	Education	121 337	120 375
Section Q:	Human health and social work activities	638 378	619 156
Section R	Arts, entertainment, and recreation	512 359	358 481
Section S	Other service activities	147 915	100 285
Section U:	Activities of extraterritorial organisations and bodies	4	3 349
<b>Total</b>		<b>36 851 785</b>	<b>34 163 439</b>

The above exposures to business customers include:

- loan amount (on- and off-balance sheet exposure, net of interest and charges and without any write-offs) reduced by provided security deposits;
- unauthorised current account overdraft;
- treasury limits are reduced by provided security deposits, including debt securities in the Bank's books issued by an entity in the relevant section.

As at the end of 2017, the amount of exposures falling within internal concentration limits was amounted to PLN 67 637 686 thousand, of which PLN 36 851 735 thousand were exposures to business customers and PLN 30 785 901 thousand to individual customers. As at the end of 2016, the amount of exposures falling within internal concentration limits was amounted to PLN 61 908 393 thousand, of which PLN 34 163 439 thousand were exposures to business customers and PLN 27 744 954 thousand to individual customers.

Country	31.12.2017	31.12.2016
Poland	66 603 948	60 987 815
United Kingdom	220 924	298 043
Luxembourg	464 062	228 971
Cyprus	101 683	118 813
Sweden	85 564	87 117
Hungary	59 581	78 068
Switzerland	23 557	27 013
Germany	19 387	19 948



Country	31.12.2017	31.12.2016
Ireland	20 242	18 806
The Netherlands	12 293	13 884
Other countries	26 445	29 915
<b>TOTAL</b>	<b>67 637 686</b>	<b>61 908 393</b>

## 39 Interest rate risk

### 39.1 Description of the risk

#### Definition of the interest rate risk

The interest rate risk is defined (including the interest rate risk in the banking book) as a risk of adverse impact of market interest rates on the current results or the net present value of the Bank's equity. Due to its policy to mitigate the risks in the trading book, the Bank attaches special importance to specific interest rate risk aspects related to the banking book, such as:

- mismatch risk of repricing periods;
- base risk, or the impact of non-parallel change of various reference indices with a similar repricing time on the Bank's results;
- risk of profitability curve;
- risk of customers' options.

Additionally, with respect to the interest rate risk, the Bank pays special attention to modelling accounts with unspecified maturities and interest rates set by the Bank (e.g. for current deposits), as well as the impact of non-interest items in the risk (e.g. equity, fixed assets).

#### Objective of interest rate risk management

The objective of interest rate risk management is to mitigate potential losses due to changes of market interest rates to the acceptable level with an appropriate structure of on- and off-balance sheet items.

In order to manage the interest rate risk, the Bank differentiates between trading activity covering securities and derivative instruments, concluded for commercial purposes, and banking activity covering other securities, own issues, loans, deposits, and derivative transactions uses to hedge the risk of the banking book risk.

#### Measurement and assessment of the interest rate risk

Interest rate of the banking portfolio is measured and assessed by limiting the volatility of net interest income (NII) and by limiting changes to the economic value of the Bank's equity (EVE). Apart from NII and EVE, in its interest rate measurements the Bank applies BPV and VaR and stress tests.

BPV identifies the estimated change to the measurement of a transaction/position as a result of a shift of the profitability curve at the relevant point by 1bp. The BPV value is measured on a daily basis at each point of the curve with reference to each currency.

VaR identifies the potential loss on the existing positions, related to changes of interest rates, while maintaining the assumed confidence level position maintenance period. In order to calculate VaR, the Bank applied a variance-covariance method with the confidence level of 99%. The value is determined daily for each area responsible for risk assumption and management, individually and jointly.

#### Monitoring and reporting of the interest rate risk

Regular reports are made at Alior Bank of the following:

- Interest rate risk measurement level,
- utilisation degree of the internal capital allocated to the interest rate risk,

- utilisation degree of internal limits and threshold values for the interest rate risk,
- results of stress tests.

Reports concerning the interest rate risk are made on a daily, weekly, monthly, and quarterly basis.

### Tools for interest rate risk management

The core of interest rate risk management tools at Alior Bank are as follows:

- internal procedures relating to interest rate risk management;
- interest rate risk metrics like NII, EVE, VaR, BPV;
- limits and threshold values for each interest rate risk metric;
- stress tests (including scenario analyses covering, among other, the impact of specified changes to interest rates on future net interest income and the economic value of equity).

## 39.2 Financial data

### Sensitivity metrics

BPV estimates as at 31 December 2017 and 31 December 2016 are presented in the tables below:

BPV at the end of 2017 split into tenors:

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5-10 years	Total
PLN	3.4	192.5	195.7	95.1	-90	396.7
EUR	-0.5	-8.1	61.3	90	-4.5	138.2
USD	1	8.1	-2.2	-0.2	-1	5.6
CHF	-1	0.1	-1	0	0	-1.8
GBP	-4	2	0	0	0	-2
Other	-1	2.1	-1	-0.2	0	-0.3
<b>Total</b>	<b>-1.8</b>	<b>196.7</b>	<b>253</b>	<b>184.7</b>	<b>-96</b>	<b>536.5</b>

BPV at the end of 2016 split into tenors:

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5-10 years	Total
PLN	-19	305.4	605	111.3	-434	568.9
EUR	-16	0.3	-29	-43.7	-35	-123.1
USD	13	11.1	-13	-0.2	-1	9.9
CHF	-1	-0.3	-2	-0.2	0	-2.7
GBP	0	2.5	0	0	0	2.8
Other	-2	-5	3	-0.1	0	-3.9
<b>Total</b>	<b>-25</b>	<b>314</b>	<b>565</b>	<b>67</b>	<b>-469</b>	<b>452</b>

### BPV statistics

Book	01.01.2017-31.12.2017			01.01.2016-31.12.2016		
	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	-1,298.3	-575	138.8	-2,459	-753.75	-375
Trading book	-75.6	5.9	70	-49	-11.39	33
ALCO	419.6	1440.6	2 225.1	499	969.52	1,814
<b>Total</b>	<b>212</b>	<b>872</b>	<b>1,611</b>	<b>-771</b>	<b>204</b>	<b>583</b>

VaR values in 2017 and 2016 are presented in the table below (99% VaR with a horizon of 10 days).

Book	01.01.2017-31.12.2017			01.01.2016-31.12.2016		
	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	6 346	18 123	31 068	3 493	10935	32 883
Trading book	870	2 208	4 009	588	1650	5 485
<b>Total</b>	<b>6 046</b>	<b>19 398</b>	<b>32 043</b>	<b>3 733</b>	<b>11 687</b>	<b>38 120</b>

### Change to the economic value of capital

Use of the change of economic value of equity with a parallel shift of interest rate curves by +/- 200bps and non-parallel shifts with scenarios of +/- 100/400bps (in tenors 1M/10Y, between them – linear interpolation of the shift) as at the end of December 2017 and 2016 are presented below:

Scenario (1M/10Y)	Change to the economic value of equity 31.12.2017	Change to the economic value of equity 31.12.2016
+400 /+ 100	188 906	233 976
+100 /- 400	67 831	30 853
+200 /+ 200	102 857	106 191
-200 /- 200	-84 863	-108 574
- 100 /- 400	-42 814	-44 898
- 400 /- 100	-94 591	-107 990

### Net interest volatility

Net interest volatility over 1-year horizon with a change of interest rates by 100bps (inactive scenario) as at the end of 2017 and as at the end of 2016 was presented after

	31.12.2017	31.12.2016
NII	6.96%	9.49%

### Revaluation gap

The revaluation gap presents a difference between the present value of assets and liabilities exposed to the interest rate risk, subject to reevaluating within the time interval, and the items are recognised on the transaction date.

The revaluation gap in PLN, EUR and USD as at the end of 2017 is presented below.

#### Revaluation gap in PLN

2017	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	38 164 862	-12 742 445	-12 304 074	1 030 872	-27 621 48	-3 889 341	-753 042	6 744 685
Cumulated gap	38 164 862	25 422 417	13 118 343	14 149 214	11 387 067	7 497 726	6 744 685	

#### Revaluation gap in USD

2017	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	-45 709	205 957	233 420	135 286	60 501	-16 291	-3 865	569 300
Cumulated gap	-45 709	160 248	393 668	528 955	589 456	573 165	569 300	

#### Revaluation gap in EUR

2017	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	839 042	-479 932	-519 347	50 862	33 404	-75 741	-16 156	-167 869
Cumulated gap	839 042	359 109	-160 237	-109 375	-75 972	-151 713	-167 869	

## 40 Foreign exchange risk (FX risk)

### 40.1 Description of the risk

#### **Definition of the foreign exchange risk**

The FX risk is defined as a risk of a loss resulting from changing FX rates. Additionally, the Bank identifies the impact of FX rates on its results over a long-time perspective as a result of conversion of future FX-denominated income and expenses at potentially disadvantageous FX rates. The risk related to future results may be managed within the FX model portfolio.

#### **The objective of foreign exchange risk management**

The core objective of FX risk management is to identify those areas of the Bank's business that may be exposed to the risk and to take measures to mitigate potential related losses as much as possible. The Bank's Management Board identifies the FX risk profile which must be compliant with the Bank's applicable financial plan.

#### **Foreign exchange risk measurement and assessment**

The FX risk is measured and assessed by limiting the FX positions opened by the Bank. In order to measure the FX risk, the Bank uses VaR and stress tests.

VaR identifies the potential loss on existing positions, related to changes of FX rates, while maintaining the assumed confidence level and the position maintenance period. In order to calculate VaR, the Bank applied a variance-covariance method with the confidence level of 99%. The value is determined daily for each area responsible for risk assumption and management, individually and jointly.

#### **Foreign exchange risk monitoring and reporting**

Alior Bank regularly monitors and reports:

- FX risk measure levels,
- utilisation degree of the internal limits and threshold values for the FX risk,
- results of stress tests.

Reports concerning the FX risk are made on a daily, weekly, monthly, and quarterly basis.

FX risk limits are set so that the risk remains at a restricted level.

The Bank may also execute transactions to hedge future FX cash flows with adequate realisation certainty (e.g. rental costs, FX currency denominated net interest income). The objective is to mitigate volatility of the results in the current financial year by no more than 60%.

#### **Foreign exchange risk management tools**

The core FX risk management tools at Alior Bank are as follows:

- internal procedures relating to FX risk management;
- internal FX risk models and metrics;
- limits and threshold values for the FX risk;
- limitations to allowable FX transactions;
- stress tests.

## 40.2 Financial data

### Sensitivity metrics

As at the end of December 2017, the maximum loss on the FX portfolio held by the Bank (managed within the trading book), determined on the basis of VaR over a time horizon of 10 days, could be amounted to PLN 157 474.83, with the assumed confidence level of 99%.

	31.12.2017	31.12.2016
Horizon [days]	10	10
VaR [PLN]	157 474.83	279 628.70

### VaR statistics in the Bank's FX portfolio in 2017 and 2016

VaR	31.12.2017	31.12.2016
Minimum	29.26	21.48
Medium	309.69	310.62
Max	1 648.53	4 748.08

An assumed normal distribution of the values of risk factors in the VaR model may in practice result in underestimation of losses in stress scenarios (the phenomenon of "the long tail"). As a result, the Bank performs stress tests.

In order to measure its exposure to the FX risk, the Bank carries out stress tests. Below are presented the results of stress tests of changes to FX rates versus PLN by +/- 20%.

	31.12.2017	31.12.2016
FX rates + 20%	29 930.08	-1 969.58
FX rates -20%	15 521.79	1 969.58

### Foreign exchange position

The amounts of FX positions in the Alior Bank are presented in the table below:

31.12.2017	Balance sheet item		Off -balance sheet item		Net position	
	Long	Short	Long	Short	Long	Short
EUR	4 147 141	-3 394 589	4 841 224	-5 578 618	15 158	
USD	58 657	-2 500 921	3 453 122	-1 040 447		-29 589
CHF	224 426	-192 012	52 536	-85 856		-906
GBP	337 222	-628 890	382 798	-90 771	360	
Other	301 809	-491 210	465 151	-286 307		-10 556
Total	5 069 255	-7 207 622	9 194 831	-7 081 999	15 518	-41 051

31.12.2016	Balance sheet item		Off -balance sheet item		Net position	
	Long	Short	Long	Short	Long	Short
EUR	6 401 193	-5 245 105	4 611 697	-5 763 740	4 045	0
USD	515 816	-2 195 077	2 935 074	-1 262 827	0	-7 014
CHF	267 170	-134 993	80 543	-212 648	72	
GBP	311 588	-577 859	372 433	-106 208	0	-46
Other	230 337	-354 362	382 330	-265 210	0	-6 905
Total	7 726 104	-8 507 396	8 382 077	-7 610 633	4 117	-13 965

The volume of FX positions (apart from FX rate volatility) is the core factor determining the FX risk level to which the Bank are exposed. All concluded FX transactions, both on- and off-balance sheet ones, affect the level of FX positions. The Bank's exposure to the FX risk is low (with reference to equity, the 10-day VaR for the Bank's FX position as at 31 December 2017 was about 0.0023% and as at 31 December 2016 – 0.0045%, respectively).

## Currency structure

Assets	Currency in PLN – 31.12.2017			
	PLN	EUR	USD	Other
Cash and funds with Central Bank	661 251	139 371	83 488	81 281
Financial assets held for trading	405 808	43 457	3 157	129
Financial assets available for sale	11 756 707	279 607	36 010	0
Investment securities kept until maturity	1 117 894	0	0	0
Derivative hedging instruments	87 785	0	0	0
Due from banks	70 860	355 942	91 347	380 828
Loans and advances to customers	45 414 627	5 135 031	176 766	517 669
Assets hedging liabilities	408 911	0	0	0
Property, Plant & Equipment	465 025	0	0	1 933
Intangible assets	503 011	0	0	7 095
Investments in subsidiaries	102 025	0	0	0
Assets held for sale	357	0	0	0
Income tax assets	526 320	0	0	4 439
Deferred	526 320	0	0	4 439
Other assets	496 774	25 980	612	681
<b>Total assets</b>	<b>62 017 355</b>	<b>5 979 388</b>	<b>391 380</b>	<b>994 055</b>

LIABILITIES AND EQUITY	PLN	EUR	USD	Other
Financial liabilities held for trading	409 705	23 127	2 522	524
Due to banks	700 079	43 750	65	17
Due to customers	48 519 562	4 925 652	2 782 222	1 428 182
Derivative hedging instruments	5 419	0	0	0
Provisions	87 407	2 978	38	10
Other liabilities	1 428 868	136 279	49 102	14 069
Income tax liabilities	102 382	0	0	0
Current	102 382	0	0	0
Subordinated liabilities	1 830 346	84 630	0	0
<b>Total liabilities</b>	<b>53 083 768</b>	<b>5 216 416</b>	<b>2 833 949</b>	<b>1 442 802</b>
Share capital	1 292 636	0	0	0
Supplementary capital	4 817 331	0	0	0
Revaluation reserve	5 156	10 421	-305	-1 328
Other reserves	184 894	0	0	0
Exchange rate differences on revaluation of foreign entities	0	0	0	594
Retained profit	-43 051	0	0	0
Current year's profit	538 895	0	0	0
<b>Equity</b>	<b>6 795 861</b>	<b>10 421</b>	<b>-305</b>	<b>-734</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>59 879 629</b>	<b>5 226 837</b>	<b>2 833 644</b>	<b>1 442 068</b>

Assets	Currency in PLN – 31.12.2016 restated			
	PLN	EUR	USD	Other
Cash and funds with Central Bank	666 223	200 624	120 644	95 500
Financial assets held for trading	335 560	80 739	1 974	1 278
Financial assets available for sale	9 038 388	291 005	45 253	0
Investment securities kept until maturity	1 954	0	0	0
Derivative hedging instruments	71 684	0	0	0
Due from banks	600 224	286 143	321 306	156 553
Loans and advances to customers	40 675 485	4 881 621	234 376	457 141
Assets hedging liabilities	366 984	0	0	0
Property, Plant & Equipment	482 533	987	0	0
Intangible assets	476 771	4 142	0	0
Investments in subsidiaries	72 359	0	0	0
Assets held for sale	679	0	0	0
Income tax assets	532 570	0	0	0
Deferred	532 570	0	0	0
Other assets	624 790	25 005	981	11 319
<b>Total assets</b>	<b>53 946 204</b>	<b>5 770 266</b>	<b>724 534</b>	<b>721 791</b>

LIABILITIES AND EQUITY	PLN	EUR	USD	Other
Financial liabilities held for trading	258 037	36 487	2 982	808
Due to banks	304 280	41 366	35 540	49
Due to customers	43 770 144	4 333 482	2 335 610	965 612
Derivative hedging instruments	6 119	0	0	0
Provisions	285 483	1 238	56	14
Other liabilities	1 272 054	107 711	29 399	18 593
Income tax liabilities	13 125	0	0	0
Current	13 125	0	0	0
Subordinated liabilities	1 075 034	89 760	0	0
<b>Total liabilities</b>	<b>46 984 276</b>	<b>4 610 044</b>	<b>2 403 587</b>	<b>985 076</b>
Share capital	1 292 578	0	0	0
Supplementary capital	4 184 953	0	0	0
Revaluation reserve	-69 557	2 489	-73	-4 474
Other reserves	184 894	0	0	0
Exchange rate differences on revaluation of foreign entities	0	0	0	-22
Current year's profit	589 024	0	0	0
<b>Equity</b>	<b>6 181 892</b>	<b>2 489</b>	<b>-73</b>	<b>-4 496</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>53 166 168</b>	<b>4 612 533</b>	<b>2 403 514</b>	<b>980 580</b>

## 41 Liquidity risk

### 41.1 Description of risk

#### Definition of liquidity risk

The liquidity risk means a risk of failure by the Bank to meet – subject to comfortable conditions and at adequate prices – its payment obligations resulting from the Bank's on- and off-balance sheet items.

#### Objective of liquidity risk management

Thus, the policy of liquidity risk management at the Bank consists in maintaining its own liquidity positions so that payment obligations can be met at any time with the available cash on hand, proceeds from transactions with specific maturities or with sales of marketable assets while minimising the costs of liquidity maintenance.

Within liquidity risk management, the Bank pursues the following objectives:

- ensuring its ability to pay all its obligations when they fall due;
- maintaining liquid assets at an adequate level – that is a buffer of unencumbered high quality liquid assets in the case of a sudden deterioration of the liquidity position;
- determination of the scale of the Bank's exposure to the liquidity risk by setting internal liquidity limits, a survival horizon in stress conditions
- and minimising the risk of trespassing on the liquidity limits defined at the Bank;
- monitoring the Bank's liquidity condition in order to maintain liquidity and activate contingency plans in case of emergencies;
- ensuring compliance of the processes functioning at the Bank with regulatory requirements concerning liquidity risk management.

#### Liquidity risk measurement and assessment

Among the applied liquidity management metrics, the Bank identifies indicators and related limits to the following liquidity types:

- payment liquidity – ability to fund assets and timely perform obligations during the Bank's normal business or in other foreseeable conditions, without suffering a loss; within payment liquidity management, the Bank focuses on analysing intraday and current liquidity (up to 7 days);
- short-term liquidity – ability to comply with all financial liabilities falling due within a period of the next 30 days;
- medium-term liquidity – ability to comply with all financial liabilities falling due within a period of 1 to 12 months;
- long-term liquidity – ability to comply with all financial liabilities falling due within a period of over 12 months.

#### Monitoring and reporting of the liquidity risk

Assets and liabilities at Bank are managed by the dedicated ALCO. A liquidity risk strategy, including the acceptable risk level, the assumed balance sheet structure and the funding plan, is approved by the Bank's Management Board and further validated by the Bank's Supervisory Board. Interbank treasury transactions are concluded by the Treasury Department, transactions are settled and booked in the Operations Division and the liquidity risk is monitored and measured in the Financial Risk Management Section. The competences related to liquidity risk management are segregated in a transparent manner up to the Management Board level which ensures complete independence of operation. In 2017, treasury operations and liquidity risk management were fully centralised at the level of Alior Bank SA.



## Liquidity risk management tools

Within the liquidity management process, the Bank applies the following tools:

- liquidity procedures and policies, including a funding plan for subsequent years of the Bank's operations;
- contingency liquidity plans;
- liquidity limits and early warning indicators identifying adverse trends that may result in an increased liquidity risk;
- periodic reports from analyses of categories and factors affecting the current and future liquidity level;
- stress tests for the liquidity risk,

## 41.2 Financial data

### Contractual flows

Specification of maturity/payment dates of contractual flows of the Bank's assets and liabilities as at 31 December 2017 (PLN M):

31.12.2017	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
<b>ASSETS</b>	<b>6 707</b>	<b>3 545</b>	<b>2 216</b>	<b>2 795</b>	<b>5 512</b>	<b>8 822</b>	<b>22 619</b>	<b>33 150</b>	<b>85 366</b>
Cash & Nostro	1 366	0	0	0	0	0	0	0	1 366
Amounts due from banks	0	332	0	0	0	164	0	0	496
Loans and advances to customers	0	2 045	1	59	208	1 289	6 480	4 898	14 980
Securities	5 341	1 168	2 215	2 736	5 304	7 369	16 139	27 154	67 426
Other assets	0	0	0	0	0	0	0	1 098	1 098
<b>LIABILITIES AND EQUITY</b>	<b>-34 113</b>	<b>-8 139</b>	<b>-6 728</b>	<b>-5 133</b>	<b>-3 861</b>	<b>-1 714</b>	<b>-2 087</b>	<b>-8 296</b>	<b>-70 071</b>
Amounts due to banks	-4	-136	-300	-2	-16	-238	-45	-56	-797
Amounts due to customers	-34 109	-5 580	-6 244	-4 760	-3 151	-258	-195	-65	-54 362
Own issues	0	-100	-184	-371	-694	-1 218	-1 847	-1 280	-5 694
Equity	0	0	0	0	0	0	0	-6 805	-6 805
Other liabilities	0	-2 323	0	0	0	0	0	-90	-2 413
<b>Balance sheet gap</b>	<b>-27 406</b>	<b>-4 594</b>	<b>-4 512</b>	<b>-2 338</b>	<b>1 651</b>	<b>7 108</b>	<b>20 532</b>	<b>24 854</b>	<b>15 295</b>
<b>Cumulated balance sheet gap</b>	<b>-27 406</b>	<b>-32 000</b>	<b>-36 512</b>	<b>-38 850</b>	<b>-37 199</b>	<b>-30 091</b>	<b>-9 559</b>	<b>15 295</b>	
Derivative instruments – inflows	0	5 029	1 594	1 600	701	364	307	43	9 638
Derivative instruments – outflows	0	-5 048	-1 618	-1 588	-707	-363	-324	-42	-9 690
<b>Derivative instruments – net</b>	<b>0</b>	<b>-19</b>	<b>-24</b>	<b>12</b>	<b>-6</b>	<b>1</b>	<b>-17</b>	<b>1</b>	<b>-52</b>
Guarantee and financing lines	-11 960	-8	-32	-108	-200	-113	-6	-321	-12 748
<b>Off-balance sheet gap</b>	<b>-11 960</b>	<b>-27</b>	<b>-56</b>	<b>-96</b>	<b>-206</b>	<b>-112</b>	<b>-23</b>	<b>-320</b>	<b>-12 800</b>
<b>Total gap</b>	<b>-39 366</b>	<b>-4 621</b>	<b>-4 568</b>	<b>-2 434</b>	<b>1 445</b>	<b>6 996</b>	<b>20 509</b>	<b>24 534</b>	<b>2 495</b>
<b>Total cumulated gap</b>	<b>-39 366</b>	<b>-43 987</b>	<b>-48 555</b>	<b>-50 989</b>	<b>-49 544</b>	<b>-42 548</b>	<b>-22 039</b>	<b>2 495</b>	

Specification of maturity/payment dates of contractual flows of the Bank's assets and liabilities as at 31 December 2016 (PLN M):

31.12.2016	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
<b>ASSETS</b>	<b>11 580</b>	<b>3 860</b>	<b>1 662</b>	<b>2 804</b>	<b>4 739</b>	<b>7 958</b>	<b>18 107</b>	<b>26 061</b>	<b>76 771</b>
Cash & Nostro	1 470	0	0	0	0	0	0	0	1 470
Amounts due from banks	1 501	0	0	0	145	0	0	0	1 646
Loans and advances to customers	8 609	805	1 643	2 154	4 186	6 376	14 378	22 404	60 555
Securities	0	3 055	19	650	408	1 582	3 729	901	10 344
Other assets	0	0	0	0	0	0	0	2 756	2 756

31.12.2016	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
<b>LIABILITIES AND EQUITY</b>	<b>-29 558</b>	<b>-7 401</b>	<b>-4 911</b>	<b>-4 179</b>	<b>-3 527</b>	<b>-3 353</b>	<b>-1 550</b>	<b>-7 014</b>	<b>-61 493</b>
Amounts due to banks	-63	0	-1	-2	-16	-182	-92	-71	-427
Amounts due to customers	-29 495	-5 287	-4 771	-4 026	-3 004	-1 870	-219	-43	-48 715
Own issues	0	-76	-139	-151	-507	-1 301	-1 239	-677	-4 090
Equity	0	0	0	0	0	0	0	-6 223	-6 223
Other liabilities	0	-2 038	0	0	0	0	0	0	-2 038
<b>Balance sheet gap</b>	<b>-17 978</b>	<b>-3 541</b>	<b>-3 249</b>	<b>-1 375</b>	<b>1 212</b>	<b>4 605</b>	<b>16 557</b>	<b>19 047</b>	<b>15 278</b>
<b>Cumulated balance sheet gap</b>	<b>-17 978</b>	<b>-21 519</b>	<b>-24 768</b>	<b>-26 143</b>	<b>-24 931</b>	<b>-20 326</b>	<b>-3 769</b>	<b>15 278</b>	<b>0</b>
Derivative instruments – inflows	0	5 473	1 894	671	1 215	740	423	63	10 479
Derivative instruments – outflows	0	-5 474	-1 875	-669	-1 181	-735	-411	-62	-10 407
<b>Derivative instruments – net</b>	<b>0</b>	<b>-1</b>	<b>19</b>	<b>2</b>	<b>34</b>	<b>5</b>	<b>12</b>	<b>1</b>	<b>72</b>
Guarantee and financing lines	13 873	7	12	19	119	107	13	8	14 157
<b>Off-balance sheet gap</b>	<b>13 873</b>	<b>5</b>	<b>31</b>	<b>20</b>	<b>153</b>	<b>113</b>	<b>25</b>	<b>9</b>	<b>14 229</b>
<b>Total gap</b>	<b>-4 104</b>	<b>-3 537</b>	<b>-3 217</b>	<b>-1 354</b>	<b>1 366</b>	<b>4 717</b>	<b>16 582</b>	<b>19 056</b>	<b>29 509</b>
<b>Total cumulated gap</b>	<b>-4 104</b>	<b>-7 638</b>	<b>-10 855</b>	<b>-12 209</b>	<b>-10 843</b>	<b>-6 126</b>	<b>10 455</b>	<b>29 509</b>	<b>0</b>

## Regulatory liquidity measures and sensitivity measures

Regulatory liquidity measures	31.12.2017	31.12.2016
M1	7 891( PLN M)	5 714(PLN M)
M2	2.30	1.95
M3	5.09	4.20
M4	1.15	1.14
LCR	123%	127%
NSFR	114%	97%

Between 31 December 2016 and 31 December 2017, the regulatory liquidity measures were above the regulatory limits.

Name of sensitivity measures	31.12.2017	31.12.2016
Surplus reserve against liquidity loss (PLN M)	2 454	2 328

The Bank holds a surplus reserve against a liquidity loss understood as a surplus potential to cover liquidity needs for a period stress conditions of 30 days.

### Deposit balance

As at 31 December 2017 the balance of deposits over a 30-day horizon was about 95% of the Bank's deposit base (apart from the interbank market) and 99.6% for the Bank's own issues.

### Concentration

On a monthly basis, the Bank analyses concentration of its deposit base in order to identify a potential risk of the Bank's excessive dependence on funding sources characterised with a low diversification level. In order to estimate the concentration level, the Bank identifies the WWK ratio (High Concentration Ratio), calculated as a ratio of the funds from the largest depositories to the overall deposit base. As at 31 December 2017, WWK was at 2.18% which shows no concentration. As at 31 December 2016, the ratio was at 1.70%.

WWK statistics for 2017 and 2016 are presented in the tables.

	Minimal	Medium	Maximum
31.12.2017	1.55%	2.19%	2.79%
31.12.2016	1.66%	2.07%	2.35%

In order to mitigate the concentration risk, the Bank diversifies the structure of its deposit base split by retail, business, financial customers, central government, and local government institutions, by monitoring and reporting the share of each group in the overall deposit base on a monthly basis.

	Currency	31.12.2017	Currency	31.12.2016
Company 1	EUR, PLN	333 684	EUR, PLN, USD	375 748
Company 2	PLN	295 056	EUR, PLN, USD	221 481
Company 3	PLN	278 036	PLN, USD	156 883
Company 4	PLN	266 347	PLN	100 056
Company 5	PLN	244 195	PLN	100 053
Company 6	EUR, PLN, USD	238 127	CZK, EUR, PLN	98 910
Company 7	EUR, PLN, USD	177 883	EUR, PLN, USD	93 721
Company 8	PLN	171 190	PLN	91 909
Company 9	PLN, USD	144 364	EUR, PLN	85 421
Company 10	CZK, EUR, PLN	143 924	PLN	79 992

In 2017 the Bank's liquidity condition was at a safe level. The situation was closely monitored and maintained at an adequate level by adjusting the level of the deposit base and disbursing financing subject to growth of lending and other liquidity needs.

## 42 Operational Risk

### 42.1 Description of risk

#### Definition of the operational risk

The operational risk is a risk of a potential loss occurrence due to inappropriateness or failure of internal processes, humans, and systems or external events. The operational risk covers the legal risk, but does not include the reputational risk and the business risk.

#### The objectives of operational risk management

The objective of operational risk management in the Bank is to maintain the operational risk at a safe and adequate level for the Bank's business, objectives, strategy and development, as well as acceptable by the Bank's Management Board and Supervisory Board.

#### Operational risk measurement and assessment

The Bank has a formalised operational risk management system within which it prevents the occurrence of operational events and incidents and mitigates losses should the risk materialise.

Operational risk management covers identification, measurement, and assessment of the operational risk, management activities and risk monitoring and control at all levels – organisational units responsible for operational risk management in their respective areas, operational risk Coordinators, Operational Risk Management Section, Operational Risk Committee to the Bank's Management Board and Supervisory Board.

Within its identification of operational risk, the Bank collects data on events and losses in the Bank and its subsidiaries. The operational risk is measured and assessed with quantitative metrics (including calculation of the internal capital for the operational risk with the AMA model) and qualitative metrics (e.g. self-assessment of the

operational risk). The AMA model relies on internal and external data on the operational risk, economic environment, and internal factors, as well as results of scenario analyses.

Operational risk measurement and assessment include:

- Key Risk Indicators (KRIs),
- calculation of equity requirement for the operational risk – the Bank applies the standard method; since 01.01.2018 the Bank has been calculating equity requirements for the operational risk in line with the advanced method (AMA) for the Bank, while excluding the acquired demerged part of Bank BPH and the Branch in Romania for which the standard method applies (TSA),
- internal capital for the operational risk is estimated with the AMA model,
- stress tests,
- scenario analyses,
- self-assessment of the operational risk,
- identification of limit utilisation for the operational risk,
- measurement of actual and potential losses related to identified operational events,
- calculation on internal capital for the Alior Bank.

### Monitoring and reporting of operational risk

The Operational Risk Management Section exercises daily control and monitoring of the operational risk at the Bank. The unit is, among others, responsible for:

- development and implementation of appropriate methodologies and instruments of operational risk control;
- monitoring of the internal capital requirement for the operational risk in compliance with the standard method (TSA) concerning the acquired demerged part of Bank BPH and the Branch in Romania and in compliance with the advanced method (AMA) for the Bank's remaining business;
- consulting of operational risk assessment in projects, products, and procedures (new and modified);
- monitoring of the utilisation level of internal limits and appetite for the operational risk and taking management actions related to the occurrence of an increased or high level of the operational risk;
- collection of high quality data on operational events and effects;
- monitoring of internal and external events;
- monitoring of the Bank's operational risk level with the use of the following tools: key risk indicators (KRIs), self-assessment, and stress tests;
- development of regular reports on the operational risk level at the Bank.

The duty to monitor and mitigate operational risk in daily work applies to all employees and organisational units of the Bank. On an ongoing basis, the Bank's employees control the level of the operational risk in their processes and actively mitigate the risk, taking actions to avoid/mitigate operational losses. They are responsible for ongoing registration of events and financial operational effects concerning their areas of operation, they define and report the values of Key Risk Indicators (KRIs) versus the tolerance level for processes exposed to the operational risk and they are involved in the self-assessment process.

### Operational risk management tools

Operational risk management at Alior Bank is supported with the IT system – OpRisk which, among others, registers operational events and losses and records the results of scenario analyses.

The Bank holds records of operational events and effects that supports effective analysis and monitoring of the operational risk. The operational risk and its changes are monitored with key risk indicators (KRIs) of which tolerance levels are identified.

Internal capital for the operational risk is measured with the AMA method. On the basis of the AMA method, Alior Bank has internally developed a statistical model used to estimate the operational risk level on the basis of the Loss Distribution Approach (LDA) method.

In June 2017, the Bank filed a request to PFSA for consent to apply the standard method (TSA) with reference to the demerged part of Bank BPH acquired in November 2016 and the Branch in Romania, and the advanced method (AMA) for the other part of the Bank's business in order to calculate the equity requirement for the operational risk.

In December 2017 the Bank received PFSA's consent to use the advanced method (AMA) and the standard method (TSA) to calculate equity requirements for the operational risk from 1 January 2018 with a duty to keep the requirement at a minimum level of 80% of the value calculated with the standard method.

## 43 Capital Management

### Definition of the capital adequacy

The capital adequacy is a process aimed at ensuring that the risk level that the Bank accept as a result of its growing business activity, may be covered with the existing equity considering the determined risk tolerance level and the time horizon. The capital adequacy management process covers in particular compliance with the existing regulations of the supervisory and control bodies, and the risk tolerance determined in the Bank and the capital planning process, including policies concerning sources of capital.

The objective of capital management in the Bank is to maintain appropriate levels of equity and Tier 1 capital at any time to cover the risks at appropriate levels, in line with the assumed risk appetite.

Within its risk appetite, the Bank determines the anticipated coverage levels of an potential unexpected loss for various risks, with equity and tier 1 capital, as specified in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR Regulation), as well as individual risk types identified within the internal capital adequacy assessment process (ICAAP). The potential unexpected loss is determined with the regulatory capital with the methodology specified in the CRR Regulation and with the internal capital determined with the methods specified below.

The process of capital management is supervised by the Bank's Supervisory Board, Management Board, Risk Committee of the Supervisory Board and the Risk Management and the ICAAP Committee.

### Capital adequacy metrics

The core tools used in the Bank for capital management are as follows:

- total capital ratio and Tier 1 capital ratio
- analysis of regulatory capital requirement
- internal capital (ICAAP) and a coverage ratio of the internal capital with equity.

### Capital adequacy ratio

As at 31 December 2017, the capital adequacy ratio and Tier 1 ratio were calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR Regulation) and other regulations implementing "national options", among other, the Banking Act of 29 August 1997 and the Regulation of the Minister of Development and Finance on higher weight risk for mortgage-backed exposures.

## Equity for the purposes of the capital adequacy

	31.12.2017	31.12.2016
<b>Total equity for the capital adequacy ratio</b>	<b>7 696 605</b>	<b>6 354 996</b>
Tier I core capital (CET1)	6 133 605	5 261 611
Supplementary Tier II capital	1 563 000	1 093 385
Paid-up capital	1 292 636	1 292 578
Supplementary capital	4 817 483	4 184 953
Other reserves	184 894	184 894
Current year's reviewed by auditor	385 197	168 419
Accumulated losses	-43 051	0
Revaluation reserve – unrealised losses	-14 357	-80 043
Intangible assets measured at carrying value	-510 106	-480 913
Revaluation reserve – unrealised profit	42 337	1 867
Subordinated liabilities	1 563 000	1 093 385
Additional value adjustments	-21 428	-10 144
<b>Capital requirements</b>	<b>4 015 093</b>	<b>3 717 843</b>
Total capital requirements for the credit, counterparty risk, adjustment to credit measurement, dilution and deliver of instruments to be settled at a later date	3 526 540	3 234 976
Total capital requirements for prices of equity securities, prices of debt securities, prices of commodities and FX risk.	4 826	2 687
Capital requirement relating to the general interest rate risk	46 612	65 760
Total capital requirements for the operational risk	437 115	414 420
<b>Tier 1 ratio</b>	<b>12.22%</b>	<b>11.32%</b>
<b>Total capital adequacy ratio</b>	<b>15.34%</b>	<b>13.67%</b>

In accordance with PFSA's recommendation for the sector for 2017 and 2016, the Bank has been maintaining capital adequacy ratios at minimum 10.25% TIER1 and total adequacy ratio minimum of 13.25% TCR.

### Analysis of regulatory capital requirement

In the calculation process of its capital adequacy ratio, the Bank analyses the level of regulatory capital requirement and the relation of equity to internal capital. The analysis consists in a comparison of actual values with the budgeted values and identification of reasons of potential differences (the scale of operations of the Bank other than planned, in particular the volume of the loan portfolio or an assets risk profile other than planned). The equity of the Bank exceeded the total capital requirement throughout 2017.

### Internal capital

Within the ICAAP process, the Bank identifies and assesses the materiality of all types of risk to which it is exposed in connection with its business.

Material risk types as at 31 December 2017:

- Credit risk – insolvency
- Credit risk – sectoral concentration
- Credit risk – concentration to customers
- Credit risk – currency concentration
- Operational Risk
- Liquidity risk
- Interest rate risk in the banking book
- Market risk

- Settlement/delivery risk with a deferred settlement date
- Model risk
- Reputational risk
- Business risk
- Capital risk
- Compliance risk

For each risk identified as material, the Bank allocates the internal capital with the use of the internal risk estimation models.

The internal capital is estimated:

- for the credit risk using the CreditRisk+ method on the basis of the value of the 99.95th quantile of loss distribution in the loan portfolio;
- on the basis of the VaR methodology in the banking book for the market risk and the interest rate risk ;
- on the basis of a liquidity gap model for the liquidity risk assuming a stress scenario;
- on the basis of the AMA model for the operational risk.

The designated total internal capital is secured with the value of the available capital subject to appropriate security buffers.

#### CRD IV/ CRR packet

As at 31 December 2017, the Bank fully complied with the CRR Regulation in the sphere of capital management, including the calculations of equity and capital requirements for each type of risks.

#### Other

#### 44 Acquisition of the demerged business of Bank BPH SA

On 31 March 2016, the Bank signed with the sellers of Bank BPH, namely GE Investments Poland sp. z o.o., DRB Holdings B.V. and Selective American Financial Enterprises, Inc. – a Share Sale and Demerger Agreement concerning executing the transaction (in aggregate “the Transaction”) comprising:

- acquisition of shares by the Bank from the Sellers of Bank BPH through an invitation to subscribe for the sale or conversion of shares in Bank BPH;
- the demerger of Bank BPH pursuant to art. 529 § 1.4 of the Commercial Companies Code carried out by transferring the Core Activities of Bank BPH to Alior Bank (demerger by spin-off) on terms discussed in the demerger plan ;
- issuing new shares of Alior Bank for the shareholders of Bank BPH indicated in the Demerger Plan (i.e. with the exception of Alior Bank, the Sellers of Bank BPH and their related entities).

The core business of Bank BPH will constitute a business unit comprising all the assets and liabilities of Bank BPH, with the exception of the Mortgage Operations of Bank BPH.

On 4 November 2016, Alior Bank SA acquired all the primary activities of Bank BPH. In the report dated 2 August 2016, the Bank informed that the price for acquiring the Core Business of Bank BPH was adjusted to PLN 1 159 645 000. The Adjusted Price has been determined in accordance with the Share Purchase and Demerger Agreement, based on the book value of tangible assets of the Core Business of Bank BPH as at 30 June 2016.

As part of the Invitation and Compulsory Redemption Bank paid the amount of 305 298 thousand PLN for minority shareholders. The acquisition of the core business of Bank BPH is in line with the development strategy of Alior Bank which envisages development based on organic growth and acquisitions, in association with achieving a high rate of return from capital.

The transaction was settled under the acquisition method in accordance with IFRS 3, Business Combinations, the application of which requires, among other things, the recognition and measurement of identifiable assets and liabilities acquired, which were measured at fair value as at the date of acquisition and all non-controlling interests in the acquiree, and recognition and measurement of goodwill or gain on bargain purchase.

A detailed description of those transactions is specified in Note 30 to the Financial Statements of Alior Bank SA as at 31 December 2016.

In Financial Statements dated on 31.12.2016 r. Bank made the initial accounting for this business combination in connection with the acquisition of a demerged part of Bank BPH SA and calculated bargain purchase amounted to PLN 508 056 thousand. In the valuation period, further adjustments were made to the fair value. Below are presented the mentioned adjustments and description of fair value measurement methods:

ASSETS	As at 4.11.2016	Measurement adjustments to fair value and exclusions	Adjustments identified in the valuation period	Identifiable acquired assets measured at fair value
Cash and balances with the Central Bank	1 043 097	0	0	1 043 097
Financial assets measured at fair value through profit or loss	3 691 205	0	0	3 691 205
Amounts due from banks	398 537	0	0	398 537
Loans and advances to customers	8 844 623	364 995	-31 226 <sup>1</sup>	9 178 392
including, loan impairments	-782 145	0	0	-782 145
Available-for-sale financial assets	301 110	0	16 912 <sup>2</sup>	318 022
Property, plant and equipment	247 517	23 160	0	270 677
Intangible assets	144 939	-55 425	0	89 514
Income tax assets	137 394	-63 218	9 199 <sup>3</sup>	83 375
Other assets	197 158	0	66 694	203 827
<b>Total assets</b>	<b>15 005 580</b>	<b>269 512</b>	<b>1 554</b>	<b>15 276 646</b>

LIABILITIES	As at 4.11.2016	Measurement adjustments to fair value and exclusions	Adjustments identified in the valuation period	Identifiable acquired liabilities measured at fair value
Amounts due to banks	369 631	0	0	369 631
Amounts due to customers	12 534 361	0	0	12 534 361
Debt securities issued	223 813	0	0	223 813
Provisions	101 326	0	0	101 326
Financial liabilities measured at fair value through profit and loss	38 249	0	0	38 249
Other liabilities	136 721	20 100	-6 003 <sup>5</sup>	150 818
<b>TOTAL LIABILITIES</b>	<b>13 404 101</b>	<b>20 100</b>	<b>-6 003</b>	<b>13 418 198</b>

1 The adjustment amount is due to the final determination of the fair value of the debt portfolio of Bank BPH.

2 The adjustment amount is due to the final determination of the fair value of shares in VISA.

3 The adjustment amount is due to the determination of a deferred income tax asset concerning the measurement of debt receivables and the recognised liability under disadvantageous rental contracts (generating charges).

4 The adjustment amount is due to the final determination of the fair value of the deferred VISA payment.

5 The adjustment amount is due to the final determination of the liability under disadvantageous rental contracts (generating charges).

	BPH	Changes to accounting principles	Measurement adjustments to fair value and exclusions	Adjustments identified in the valuation period	Identifiable net assets measured at fair value
Fair value of the net assets	1 601 479	-22 849	249 412	7 557	1 835 599



## Amounts due from customers

The fair value measurement of the loan portfolio was performed based on the following assumptions:

1. Fair value was calculated separately for the loan portfolio without indications of impairment (performing) and with indications of impairment (non-performing). This resulted from different characteristics of cash flows for the two portfolios. In the case of performing loans the calculation was based on contractual cash flows adjusted for credit risk and early repayments, where they were material. In the case of non-performing loans the calculation was based on expected recoveries.
2. For products without contractual maturity dates in the portfolio of performing loans (with the exception of credit cards of retail customers) it was adopted that fair value is equal to book value. This resulted from the assumption concerning possible immediate repayment of these liabilities. This applies to the following products: bank overdrafts, credit cards of commercial customers, renewable commercial loans and factoring.
3. Loans with a repayment schedule (and credit cards of retail customers) were measured using the discounted cash flows model.
  - a. Contractual cash flows adjusted for credit risk and early repayments were discounted. The discount rate comprised: the market rate, liquidity margin used in the system of transfer funds (STF), margin on cost of capital and margin on costs of servicing the loan portfolio.
  - b. The adjustment for credit risk consisted of multiplying the cash flows by the value  $(1 - PD * LGD)$ , where PD is the probability of the customer's default from the cash flow date and LGD is loss given default at the cash flow date.
  - c. Market interest rates were taken from the yield curve built based on the money market rates (for example, WIBOR for PLN) and FRA contracts for the short end of the curve and the IRS rate for the long end of the curve. A different yield curve was used for each currency (PLN, EUR, USD, CHF, GBP, SEK) that was appropriate to it.
  - d. The liquidity margin has been assigned according to the transfer price system currently binding in Alior Bank. The margin depends on the currency and the payment date of a given cash flow. The margin levels binding at Alior Bank are higher than those in former BPH and have been considered consistent with those commonly used on the market.
  - e. The cost of capital has been calculated using the CAPM model and amounted to 8.76%. The margin on the cost of capital at discount has been calculated by multiplying the cost of capital by the proportion of capital in total assets / total equity and liabilities of Core BPH (9.62%) and amounted to 0.8423%.
  - f. The margin on the cost of servicing the portfolio has been estimated by the business units. Its amount depends on the customer segment.
4. Commercial and retail loans have been modelled separately.

## Customer relationships in the area of deposits

Customer relationships in the area of deposits were analysed for two main products:

- current accounts;
- term deposits and savings accounts.

The valuation of customer relationships was performed on the basis of an analysis of core deposits.

Core deposits represent the hypothetical savings for the Bank arising from the fact that the Bank's customers maintain their cash on low-interest current accounts for a long time, instead of higher-interest term deposits. This enables the Bank to limit the higher-interest rate financing from the market and effectively reduce interest expense.

Fair value estimation of customer relationships based on core deposits is based on the assumption that their value is gradually reduced. Due to difficulties in assessing customer behaviour it was prudently adopted in the estimate that the pace of the core deposits withdrawal will be from 1 to 3 years.

As a result of acquiring the spun off business of Bank BPH, as at 4 November 2016 customer relationships were recognized in an amount of PLN 42.1 million. They are amortized over a period of 2 years. The carrying value of customer relations as at 31 December 2016 was PLN 40.3 million.

### **IT systems**

The IT systems of Bank BPH SA have been divided into four groups, depending on the value in use of those systems.

In the case of the purchased systems (external systems), the gross value was established as the sum of financial outlays incurred on their purchase. In the case of internally developed systems, their gross value constituted the sum of capitalized expenditure incurred on their manufacture. The above system values have been adjusted for the remaining horizon of their operational use, which has been specified as a percentage parameter of the length of the system's economic life cycle compared with the assumed period of operational use. The remaining horizon of the system's use has been established individually for each system and is a ratio of the expected period of the system's use from the measurement date to the system's age calculated from the implementation period until the measurement date.

In the case of systems in the course development, a similar model was adopted as for the purchased and internally developed systems.

Additionally, the fair value of systems in the course of development was adjusted for expenditure incurred on functionalities with respect to which development works have not been completed or which have not been tested and are not ready to be commissioned.

### **Property, plant and equipment**

The valuation of property (buildings) of the acquired company has been performed under the income method. This approach comprises determining the property's value on the assumption that the price that a buyer will pay for the property depends on the expected income that can be obtained from the property.

The valuation of land was carried out under the comparative approach using the comparison in pairs method or the average price adjustment method. Under the method of comparison in pairs, property subject to valuation, the characteristics of which are known, is compared to similar properties which were traded on the market and their transaction prices, transaction terms and prices of these properties are known.

### **Lease agreement**

IFRS 3 requires the recognition of the identifiable assets, liabilities and contingent liabilities that meet the recognition criteria at their fair values at the acquisition date. With regard to onerous contracts and other identifiable liabilities of the acquiree, the acquirer uses the present value of amounts due in order to meet its obligations, determined using appropriate current interest rates. For purposes of the above calculation, the following assumptions:

- rents defined in the agreements concluded by Bank BPH compared with market values, based also on the experience of their own at selected locations,
- in order to calculate the value of rents to the end of the contract for permanent contracts assumed duration of one year from the date of the legal merger or dates specified in the restructuring plan.

## The calculation of bargain purchase (negative goodwill)

The calculation of gain on bargain purchase including adjustments identified in the valuation period, as well as the final settlements with the Bank BPH Sellers is presented in the table below:

calculation of a bargain purchase	31.12.2016	adjustments in the valuation period	30.09.2017
the price paid to BPH shareholders of the GE Group	1 159 645	0	1 159 645
The price paid to other BPH shareholders	305 298	0	305 298
receivable from BPH due to adjustments of net assets to a level corresponding to the CET 1 ratio 13.25%	52 194	-31 470*	20 724
receivable from GE Group shareholders arising from the adjustment of the purchase price	92 762	-19 138	73 624
the fair value of the net assets of the acquiree	1 828 042	7 557	1 835 599
<b>Gain on a bargain purchase</b>	<b>508 056</b>	<b>-43 051</b>	<b>465 005</b>

\* this adjustment includes: VISA-20 508 and settlement -10 962

According to Demerger Plan and the terms of the agreement of 17 October 2016 concluded between Bank BPH and Alior Bank concerning the distribution and co-operation after the demerger (org. Demerger Implementation And Post Demerger Cooperation Agreement), the net assets resulting from the demerger of Bank BPH calculated on the basis of risk-weighted assets should provide a CET 1 level equal to 13.25%. According to the initial calculation made by AliorBank in the financial statements for 2016, the amount of mismatch to outstanding level of CET 1 is 52 194 thousand PLN.

The amount of 92 762 thousand PLN was calculated by Alior Bank based on Share Purchase Agreement according to algorithm used in the calculation of the initial purchase price (paid on August 24, 2016).

The Bank communicated in the annual report prepared as at 31 December 2016 that the final settlement of the purchase price will be subject to further reconciliations between Alior Bank and the Sellers of Bank BPH Core Business. It was agreed that the final settlement of the acquisition and some other claims (including the maintenance of the capital adequacy ratio of Bank BPH Core Business at 13.25%), costs and payments related to the Transaction will be closed in the total amount of PLN 94 300 thousand. In connection with the above, the purchase price and claim for maintaining the capital adequacy ratio of Bank BPH Core Business at 13.25% were adjusted as follows:

- adjustment due to establishing that VISA's shares and the right to deferred payment as a result of the Transaction are the property of Alior Bank in the amount of PLN 20 508 thousand.
- adjustment of a claim for maintaining the capital adequacy ratio of the Bank BPH Core Business at the level of 13.25% in the amount of PLN 10 962 thousand.
- adjustment of the purchase price in the amount of PLN 19 138 thousand.

On 9 January 2018, the Sellers paid the Bank PLN 94 300 thousand.

## 45 Significant events after the end of the reporting period

On 5 February 2018 Fitch Ratings Ltd agency maintained the rating attributed to Alior Bank at the BB level, changing the outlook from stable to positive. The change of the Bank's outlook was influenced, among others, by improved profitability ratios (in relation to the assumed risk) and a more mature and tested business model.

The full rating assigned by the Agency is as follows:

1. Long-term rating of the entity (Long-Term Foreign Currency IDR): BB perspective positive
2. Short-Term Foreign Currency IDR: B
3. Long-term national rating (National Long-Term Rating): BBB + (pol), perspective positive



4. Short-term national rating (National Short-Term Rating): F2 (pol)
5. Viability Rating (VR): bb
6. Support Rating: 5
7. Minimum support rating (Support Rating Floor): 'No Floor'

Definitions of Fitch ratings are available on the Agency's website at [www.fitchratings.com](http://www.fitchratings.com), where ratings, criteria and methodologies are also published.