Financial Statements

of the Alior Bank Spółka Akcyjna

for the year ended 31 December 2019

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.

(in PLN '000)

Selected financial data concerning the financial statements

PLN			
	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018	% (A-B)/B
	A	B	C
Net interest income	3 205 216	3 089 969	3.7%
Net fee and commission income*	579 822	667 900	-13.2%
Trading result & other*	-63 225	134 364	-147.1%
Net expected credit losses.impairment allowances and write-downs	-1 425 281	-1 040 290	37.0%
General administrative expenses	-1 529 387	-1 630 255	-6.2%
Gross profit	541 171	1 013 502	-46.6%
Net profit	288 607	731 074	-60.5%
Net cash flow	-725 026	465 916	-255.6%
Loans and advances to customers	55 580 512	54 239 260	2.5%
Amounts due to customers	65 012 760	62 427 865	4.1%
Equity	6 859 699	6 550 824	4.7%
Total assets	76 334 513	73 242 895	4.2%
Selected ratios			
Profit per ordinary share (PLN)	2.21	5.62	-60.7%
Capital adequacy ratio	16.67%	16.20%	2.9%
Tier 1	13.95%	13.17%	5.9%

EUR			
	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018	% (A-B)/B
	A	B	C
Net interest income	745 087	724 172	2.9%
Net fee and commission income*	134 786	156 531	-13.9%
Trading result & other*	-14 697	31 490	-146.7%
Net expected credit losses.impairment allowances and write-downs	-331 322	-243 805	35.9%
General administrative expenses	-355 523	-382 070	-6.9%
Gross profit	125 801	237 527	-47.0%
Net profit	67 090	171 336	-60.8%
Net cash flow	-168 540	109 193	-254.4%
Loans and advances to customers	13 051 664	12 613 781	3.5%
Amounts due to customers	15 266 587	14 518 108	5.2%
Equity	1 610 825	1 523 447	5.7%
Total assets	17 925 211	17 033 231	5.2%
Selected ratios			
Profit per ordinary share (PLN)	0.51	1.32	-61.4%
Capital adequacy ratio	16.67%	16.20%	2.9%
Tier 1	13.95%	13.17%	5.9%

**Restated – Note 4.2*

Selected items of the financial statements were translated into EUR at the following exchange rates	31.12.2019	31.12.2018
NBP's avarage exchange rate as at 31 December of the year	4.2585	4.3000
NBP's avarage exchange rates as at the last day of each month	4.3018	4.2669

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(in PLN '000)

Income statement

	Note number	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018*
Interest income calculated using the effective interest method		3 921 231	3 807 487
Income of a similar nature		153 525	150 915
Interest expense		-869 540	-868 433
Net interest income	**6**	**3 205 216**	**3 089 969**
Fee and commission income		1 066 391	1 043 793
Fee and commission expense		-486 569	-375 893
Net fee and commission income	**7**	**579 822**	**667 900**
Dividend income		7 362	7 597
The result on financial assets measured at fair value through profit or loss and FX result	8	102 759	96 974
The result on derecognition of financial instruments not measured at fair value through profit or loss		46 236	77 829
measured at fair value through other comprehensive income	9	38 807	76 473
measured at amortized cost		7 429	1 356
Other operating income		121 611	92 645
Other operating expenses		-341 193	-140 681
Net other operating income and expenses	**10**	**-219 582**	**-48 036**
General administrative expenses	11	-1 529 387	-1 630 255
Net expected credit losses	12	-1 419 335	-1 034 039
The result on impairment of non-financial assets	13	-5 946	-6 251
Banking tax	14	-225 974	-208 186
Gross profit		**541 171**	**1 013 502**
Income tax	15	-252 564	-282 428
Net profit		**288 607**	**731 074**
Weighted average number of ordinary shares		130 553 991	130 026 866
Net profit per share (PLN)	16	2.21	5.62
Diluted profit per ordinary share (PLN)	16	2.20	5.57

**Restated – Note 4.2*

Statement of comprehensive income

	Note number	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
Net profit		**288 607**	**731 074**
Items that may be reclassified to the income statement after certain conditions are satisfied		**25 047**	**26 795**
Foreign currency translation differences		**807**	**-796**
Results of the measurement of financial assets (net)		**8 888**	**-6 658**
Profit/loss on valuation of financial assets measured at fair value through other comprehensive income	19	10 973	-7 843
Deferred tax	15	-2 085	1 185
Results on the measurement of hedging instruments (net)		**15 352**	**34 249**
Gains/losses on hedging instruments	20	18 953	42 283
Deferred tax	15	-3 601	-8 034
Total comprehensive income, net		**313 654**	**757 869**

(in PLN '000)

Statement of financial position

ASSETS	Note number	31.12.2019	31.12.2018*
Cash and cash equivalents	17	1 352 604	2 077 630
Amounts due from banks	18	212 885	172 839
Investment financial assets:	19	15 798 474	13 727 570
measured at fair value through other comprehensive income		10 438 695	7 280 080
measured at fair value through profit or loss		543 725	515 138
measured at amortized cost		4 816 054	5 932 352
Derivative hedging instruments	20	134 832	112 400
Loans and advances to customers	21	55 580 512	54 239 260
Assets pledged as collateral	24	335 489	333 198
Property, plant and equipment	22	748 671	450 404
Intangible assets	22	531 796	528 501
Inwestments in associates		216 586	158 681
Non-current assets held for sale		103	146
Income tax asset	15	1 006 785	924 383
deferred income tax asset		1 006 785	924 383
Other assets	23	415 776	517 883
TOTAL ASSETS		**76 334 513**	**73 242 895**

LIABILITIES AND EQUITY	Note number	31.12.2019	31.12.2018*
Amounts due to banks	25	365 993	473 842
Amounts due to customers	26	65 012 760	62 427 865
Financial liabilities	27	436 856	416 407
Derivative hedging instruments	20	40 676	9 381
Provisions	28	358 900	126 172
Other liabilities	29	1 375 865	1 111 457
Income tax liabilities		89 779	208 854
current income tax liabilities		89 779	208 854
Subordinated liabilities	30	1 793 985	1 918 093
Total liabilities		**69 474 814**	**66 692 071**
Share capital		1 305 540	1 305 540
Supplementary capital		5 388 926	5 382 819
Revaluation reserve		76 404	52 164
Other reserves		179 505	184 284
Foreign currency translation differences		605	-202
Accumulated losses		-379 888	-1 104 855
Profit for the period		288 607	731 074
Equity	**31**	**6 859 699**	**6 550 824**
TOTAL LIABILITIES AND EQUITY		**76 334 513**	**73 242 895**

**Restated – Note 4.2*

(in PLN '000)

Statement of changes in equity

01.01.2019 - 31.12.2019	Share capital	Supplementary capital	Other reserves	Revaluation reserve	Exchange differences on revaluation of foreign units	Retained earnings	Total equity
01 January 2019	**1 305 540**	**5 382 819**	**184 284**	**52 164**	**-202**	**-373 781**	**6 550 824**
Transfer of last year's profit*	0	6 107	0	0	0	-6 107	0
Comprehensive income	**0**	**0**	**0**	**24 240**	**807**	**288 607**	**313 654**
net profit	0	0	0	0	0	288 607	288 607
other comprehensive income – valuations	0	0	0	24 240	807	0	25 047
incl. financial assets measured at fair value through other comprehensive income	0	0	0	8 888	0	0	8 888
incl.hedging instruments	0	0	0	15 352	0	0	15 352
incl.currency translation differences	0	0	0	0	807	0	807
Other changes in equity	**0**	**0**	**-4 779**	**0**	**0**	**0**	**-4 779**
31 December 2019	**1 305 540**	**5 388 926**	**179 505**	**76 404**	**605**	**-91 281**	**6 859 699**

01.01.2018 - 31.12.2018	Share capital	Supplementary capital	Other reserves	Revaluation reserve	Exchange differences on revaluation of foreign units	Retained earnings	Total equity
01 January 2018	**1 292 636**	**4 817 331**	**184 894**	**13 944**	**594**	**424 978**	**6 734 377**
IFRS 9 impact and other changes	0	0	0	10 629	0	-1 033 989	-1 023 360
Transfer of last year's profit	0	495 844	0	0	0	-495 844	0
Comprehensive income	**0**	**0**	**0**	**27 591**	**-796**	**731 074**	**757 869**
net profit	0	0	0	0	0	731 074	731 074
other comprehensive income – valuations	0	0	0	27 591	-796	0	26 795
incl. financial assets measured at fair value through other comprehensive income	0	0	0	-6 658	0	0	-6 658
incl.hedging instruments	0	0	0	34 249	0	0	34 249
incl.currency translation differences	0	0	0	0	-796	0	-796
Share issue*	**12 904**	**69 644**	**0**	**0**	**0**	**0**	**82 548**
Other changes in equity	**0**	**0**	**-610**	**0**	**0**	**0**	**-610**
31 December 2018	**1 305 540**	**5 382 819**	**184 284**	**52 164**	**-202**	**-373 781**	**6 550 824**

** details in note 31*

(in PLN '000)

Statement of Cash Flow

	Note number	01.01.2019 - 31.12.2019	01.01.2018 – 31.12.2018*
Operating activities			
Profit before tax for the year		**541 171**	**1 013 502**
Adjustments:		**243 542**	**184 476**
Unrealized foreign exchange gains/losses		386	1 922
Amortization/depreciation of property, plant and equipment and intangible assets		236 584	168 807
Change in property, plant and equipment and intangible assets impairment write-down		5 871	6 150
Dividends received		7 362	7 597
Short-term lease contracts		-6 661	n/a
The gross profit after adjustments but before increase/decrease in operating assets/liabilities		**784 713**	**1 197 978**
Change in loans and receivables	33.2	-1 381 298	-2 914 629
Change in financial assets measured at fair value through other comprehensive income		-3 158 615	2 369 776
Change in financial assets measured at fair value through profit or loss		-28 587	-24 018
Change in financial assets measured at amortised cost		1 116 298	-2 428 880
Change in assets pledged as collateral		-2 291	74 990
Change in derivative hedging assets		-22 432	-24 615
Change in non-current assets held for sale		43	211
Change in other assets	33.2	102 107	6 164
Change in deposits		3 104 091	4 695 230
Change in own issue		-488 846	-203 745
Change in financial liabilities		20 449	-19 471
Change in hedging liabilities derivative		31 295	3 962
Change in other liabilities and other comprehensive income	33.2	-165 474	-1 618 690
Change in provisions		232 728	35 739
Cash from operating activities before income tax		**144 181**	**1 150 002**
Income tax paid		**-437 501**	**-346 703**
Net cash flow from operating activities		**-293 320**	**803 299**
Investing activities			
Outflows:		**-191 163**	**-255 063**
Purchase of property, plant and equipment	33.2	-71 972	-91 092
Purchase of intangible assets	33.2	-61 286	-107 315
Investments in subsidiaries		-57 905	-56 656
Inflows:		**9 984**	**7 474**
Disposal of property, plant and equipment		9 984	7 474
Net cash flow from investing activities		**-181 179**	**-247 589**
Financing activities			
Outflows:		**-250 527**	**-102 698**
Prniciple payments - subordinated lliabilities		-123 097	0
Interest payments – subordinated lliabilities		-101 723	-102 698
Prniciple payments - lease liabilities		-21 582	n/a
Interest payments - lease liabilities		-4 125	n/a
Inflows:		**0**	**12 904**
Inflows from share issue		0	12 904
Net cash flow from financing activities		**-250 527**	**-89 794**
Total net cash flow		**-725 026**	**465 916**
incl. exchange gains/(losses)		**6 958**	**26 005**
Balance sheet change in cash and cash equivalents		**-725 026**	**465 916**
Cash and cash equivalents, opening balance		2 077 630	1 611 714
Cash and cash equivalents, closing balance	17	1 352 604	2 077 630
Additional disclosures on operating cash flows			
Interests received		4 409 107	3 255 149
Interests paid		-822 750	-700 169

**Restated – Note 4.2*

(in PLN '000)

Notes to the consolidated 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 of Warsaw, 13th Commercial Division of the National Court Register under KRS number: 0000305178. The 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.

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 foreign 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 2018, the composition of the Bank's Management Board changed.

On 26 November 2018, Mr. Filip Gorczyca submitted his resignation as member of the Management Board of Alior Bank SA effective on 31 Januaruy 2019. At the same time, on 26 November 2018 the Supervisory Board appointed Mr. Dariusz Szwed (effective on 1 Januaruy 2019) and Mr. Tomasz Biłous (effective on 1 February 2019) to the positions of Vice-Presidents of the Bank's Management Board.

On 1 July 2019, Mr Maciej Surdyk informed about his resignation from the position of the Member of the Bank's Management Board effective on the same day.

Composition of the Bank's Management Board as at 31 December 2019

First and last name	Function
Krzysztof Bachta	President of the Management Board
Tomasz Biłous	Vice President of the Management Board

First and last name	Function
Marcin Jaszczuk	Vice President of the Management Board
Seweryn Kowalczyk	Vice President of the Management Board
Mateusz Poznański	Vice President of the Management Board
Agata Strzelecka	Vice President of the Management Board
Marek Szcześniak	Vice President of the Management Board
Dariusz Szwed	Vice President of the Management Board

On 17 January 2020, Mr Mateusz Poznański informed about his resignation from the position of the Member of the Bank's Management Board effective on 29 February 2020.

Composition of the Bank's Management Board as at 31 December 2018

First and last name	Function
Krzysztof Bachta	acting President of the Management Board
Filip Gorczyca	Vice President of the Management Board
Marcin Jaszczuk	Vice President of the Management Board
Seweryn Kowalczyk	Vice President of the Management Board
Mateusz Poznański	Vice President of the Management Board
Agata Strzelecka	Vice President of the Management Board
Maciej Surdyk	Vice President of the Management Board
Marek Szcześniak	Vice President of the Management Board

There were changes in the composition of the Bank's Supervisory Board compared to the previous reporting period ended 31 December 2018.

On 31 January 2019 professor Małgorzata Iwanicz-Drozdowska informed about her resignation from the position of the Member of the Bank's Supervisory Board effective on the same day.

The composition of the Bank's Supervisory Board as at 31 December 2019 was as follows:

First and last name	Function
Tomasz Kulik	- Chairman of the Supervisory Board
Marcin Eckert	- 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
Wojciech Myślecki	- Member of the Supervisory Board
Maciej Rapkiewicz	- Member of the Supervisory Board

The composition of the Bank's Supervisory Board as at 31 December 2018 was as follows:

First and last name	Function
Tomasz Kulik	- Chairman of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	- Deputy Chairperson of the Supervisory Board
Marcin Eckert	- Member of the Supervisory Board

First and last name	Function
Dariusz Gątarek	- Member of the Supervisory Board
Mikołaj Handsche	- Member of the Supervisory Board
Artur Kucharski	- Member of the Supervisory Board
Wojciech Myślecki	- Member of the Supervisory Board
Maciej Rapkiewicz	- Member of the Supervisory Board

2 Basis of preparation of the financial statements

2.1 Coverage and comparable data

These consolidated financial statements cover the year ended 31 December 2019 and contain comparable data for the year ended o 31 December 2018. The consolidated financial statements were prepared 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 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted continuously by the European Union as at 31 December 2019.

This is the first set of the Bank's annual financial statements in which IFRS 16 Leases has been applied. The related changes to accounting policies are described in Note 4.

2.3 Going concern

These consolidated financial statements of the Bank were prepared under a going concern assumption for at least 12 months after the balance sheet date, i.e. after 31 December 2019.

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

In 2019 and 2018 the Bank had no discontinued operations.

2.4 Presentation of the financial statements

In its consolidated 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 37.1. The Bank does not set off income and expenses, unless so required by law or permitted by standards or interpretation.

(in PLN '000)

2.5 Approval of the financial statements

These financial statements of Alior Bank SA were approved for publication by the Bank's Management Board on 27 February 2020.

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 except for the changes in the standard IFRS 16 that entered into force on 1 January 2019. Below 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
The result on financial assets measured at fair value through profit or loss and FX result	8	Y
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	9	Y
Other operating income and expenses	10	Y
General administrative expenses	11	Y
Net expected credit losses,	12	Y
Income tax	15	Y

Statement of financial position	Note number	Accounting policies*	Major estimates and assessments*
Cash and cash equivalents	17	Y	
Amounts due from banks	18	Y	
Inwestment financial assets	19	Y	Y
Derivative hedging instruments	20	Y	Y
Loans and advances to customers	21	Y	Y
Property, plant & equipment	22	Y	Y
Intangible assets	22	Y	Y
Other assets	23	Y	
Assets hedging liabilities	24	Y	
Income tax assets	15	Y	
Amounts due to banks	25	Y	
Amounts due to customers	26	Y	
Financial liabilities	27	Y	
Provisions	28	Y	Y
Other liabilities	29	Y	
Subordinated liabilities	30	Y	
The Bank's equity and shareholding structure	31	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 consolidated financial statements were prepared in PLN which is the functional currency of the Bank and the subsidiaries. The amounts in these consolidated 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 that date;
- non-monetary items measured at historical cost in foreign currencies at the exchange rates effective as at the date the transaction was initially recognised;
- non-monetary items measured at fair value in foreign currency at the exchange rate effective as of 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 measured at fair value through other comprehensive income are recognized in the revaluation reserve relating to assets measured at fair value through other comprehensive income.

Transactions and balances of branch in Romania

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

- assets and liabilities as at the balance sheet date are measured at NBP's avarage exchange rate prevailing on that day,
- income and expenses are measured at the arithmetic avarage 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	2019	2018
FX rate prevailing on the last day of period	0.8901	0.9229
FX rate being an arithmetic avarage of FX rates prevailing on the last day of the month in each period	09053	0.9165

3.2 Business combination

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 or 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.

In the separate statement, the Bank presents subsidiaries at historical cost.

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, financial assets measured at fair value through comprehensive income, financial assets measured at amortised cost. Financial liabilities are measured measured at amortised cost and at fair value through profit and loss.

Detailed for the classification and measurement rules of financial instruments are described in note 19.1.

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;
- the financial asset is transfered to off-balance sheet records without resigning from future repayment.

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.

The decision to stop recognizing a financial asset and transfering the receivables to off-balance sheet records until their repayment, write-off due to irrecoverability, limitation or redemption may be taken, if:

- the claim is classified to the category lost for a period of at least one year,
- there are no indications of non-recoverability,
- The Bank does not identify sources of debt repayment that it could effectively meet.

The decision to write off a claim as irrecoverable may be made in a situation where the claim is fully due and its non-recoverability has been documented in accordance with the provisions of the Act on Corporate Income Tax (writing off with documentation of irrecoverability), i.e .:

- a decision on irrecoverability recognized by the Bank as being in line with the factual state issued by the competent enforcement authority,
- court decision to close bankruptcy proceedings involving the liquidation of assets,
- a court decision dismissing an application for declaration of bankruptcy or discontinuing bankruptcy proceedings, when the assets of an insolvent Debtor are insufficient to satisfy the costs of bankruptcy proceedings,
- a protocol prepared by DRIW, which shows that the expected legal and enforcement costs would be equal or higher than the amount of receivables obtained.

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.

Significant modification

The modification of a financial asset measured at amortized cost or at fair value through other comprehensive income and financial liabilities is a change in the contractual terms affecting the change in the amount and date of payment, and in the case of assets - also a change in the debtor. Change in cash flows without changing the contractual terms is not a modification (the change is made on the basis of the originally binding contract).

A significance assessment is carried out for each modification.

A modification deemed as sigificant results in the exclusion of a financial asset or financial liability from the statement of financial position and the recognition of a new financial asset with modified cash flows. For the new financial asset or financial liability a new effective interest rate should be set or effective interest rate adjusted for credit risk (CAEIR) if the new financial assets recognized as a result of a significant modification are impaired and include in the financial result not settled using the effective interest rate method, costs and revenues related to the original contractual terms.

The modification of a financial asset deemed not significant does not result in the exclusion from the statement of financial position and gains or losses from this modification are calculated. All costs incurred and fees adjust the carrying amount of the modified financial asset and are depreciated in the period remaining until the maturity date of the modified financial asset using the original interest rate.

(in PLN '000)

In order to judge the significance of the modifications, the Bank apllied quality criteria, such as change in the flow test result, change in funding currency, change in the debtor and quantitative interest thresholds, margin changes, increase in the funding amount and changes in the residual financing period expressed in days.

4 Changes in accounting principles

4.1 Changes in accounting standards

New standards and interpretations and modifications to the existing accounting standards and interpretations that became effective on 1 January 2019:

IRFS 16 Leases

It was published by the International Accounting Standards Board on 13 January 2016, approved by the European Union on 31 October 2017 and is effective for annual periods beginning on 1 January 2019 or later. The new standard establishes principles for the recognition, valuation, presentation and disclosures about leasing. All lease transactions result in the lessee obtaining the right to use the asset and liability for the obligation to pay. Thus, IFRS 16 abolishes the classification of operating leases and finance leases in accordance with IAS 17 and introduces one model for the accounting treatment of leasing by the lessee.

Alior Bank finalized works related to the opening balance as of 1 January 2019. The following assumptions have been adopted as at the date of the first application of IFRS 16, ie as at 1 January 2019:

- Alior Bank applied the simplified approach in accordance with par. C5 (b) IFRS 16, i.e. no comparative data transformation, no adjustment to the opening balance of retained earnings on the date of the first application (the balance of assets recognized in the balance sheet is equal to the liability item);
- in the case of leases previously classified as operating leases in accordance with IAS 17, assets and lease liabilities are measured at the current value of other lease payments discounted at the marginal borrower rate
- Alior Bank, in accordance with paragraph 5 of IFRS 16, used the exemption for short-term leases and for leases for which the underlying asset is of low value (value of the new asset regardless of the age of the leased asset);
- according to par. C10 (c) IFRS 16 for operating leases with a lease term expiring within 12 months from the first application of IFRS 16. The Bank applies rules for short-term leasing, the lease may be treated as short-term if it complies with the definition of short-term leasing under IFRS16;
- in accordance with par. 4 of IFRS 16, Alior Bank has decided not to apply IFRS16 for intangible assets.

The impact of applying the principles of IFRS 16 as at 1 January 2019 is presented in the table below:

	Impact of IFRS 16 as at 01.01.2019
Assets due to lease agreements	**378 076**

(in PLN '000)

	Impact of IFRS 16 as at 01.01.2019
- premises	330 274
- perpetual usufruct fees / annual fees	18 542
- parking	26 167
- facades	1 016
- transport means	2 077
Liabilities due to lease agreements	**378 076**

The table below contains an reconciliation of difference between operating lease commitments disclosed applying IAS 17 at the date 31 December 2018 and lease liabilities as at 1 January 2019 i.e. at the date of initial application of IFRS 16.

	31.12.2018	opening balance adjustments	01.01.2019
Future rental commitments under MSR 17	**441 847**		
opening balance adjustments in connection with the implementation of IFRS 16, including:		**-65 589**	
(-) discounting effect using leasee's incremental borrowing rate as at 1 Jan 2019		-18 697	
(-) recognition exemption for short-term leases		-11 357	
(-)non-lease components of a contract		-11 032	
(+)/(-)extension and termination options reasonably certain to be exercised		0	
(-) others		-24 502	
Lease liabilities under IFRS 16			**378 076**

Amendments to IFRS 9 Prepayment features with negative compensations

They were published by the International Accounting Standards Board on 12 October 2017, approved by the European Union on 22 March 2018 and are effective for annual periods beginning on 1 January 2019 or after that date.

Amendments to IFRS 9 introduce provisions with respect to contracts with a prepayment option, in which the lender may be forced to accept a prepayment amount, which is significantly lower than the unpaid amounts of capital and interest. Such amount of prepayment could be a payment to the borrower from the lender and not to the borrower's compensation to the lender. Such a financial asset will be eligible for measurement at amortized cost or at fair value through other comprehensive income (depending on the business model of the company), although negative compensation must constitute a justified compensation for early repayment of the contract.

The application of the amendment has no impact on the financial statements of the Bank.

IFRIC 23 Interpretation, Inclusion of uncertainty over tax treatments

It was published by the International Accounting Standards Board on 7 June 2017 and is effective for annual periods beginning on 1 January 2019 or after that date. IFRIC 23 clarifies in particular if there is uncertainty in recognizing income tax, if and when an entity should analyze uncertain tax positions separately, what are the entity's assumptions regarding the possibility of control by tax authorities, the manner in which the entity determines taxable income, tax loss, the basis tax, unused tax losses, tax rates, and how the entity recognizes changes in facts and circumstances.

The application of the amendment has no impact on the financial statements of the Bank.

Other changes

Amendments to IAS 28 concerning the valuation of long-term investments, the annual program of amendments 2015-2017 (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23) and amendments to IAS 19, Employee benefits. The application of the amended standards has no impact on the financial statements of the Bank.

Published standards and interpretations that which were not in force as at 31 December 2019 and were not previously applied by the Bank:

Amendments to IFRS 9, IAS 39 and IFRS 7 - reform of the IBOR

The introduced changes provide for temporary and narrow deviations from the hedge accounting requirements contained in IAS 39 and IFRS 9, thanks to which enterprises will be able to continue to meet the applicable requirements, assuming that the existing interest rate reference indicators do not change as a result of the reform of interbank deposit interest rates.
The Bank is currently assessing the impact of the changes on the financial statements.

IFRS 17 Insurance contracts

It replaces IFRS 4 "Insurance Agreements", which enabled the continuation of recognition of insurance contracts in accordance with the accounting principles in force in national standards, and as a result meant the use of many different solutions. IFRS 17 introduces a requirement for consistent recognition of all insurance contracts. Contractual obligations will be recognized in current values instead of historical cost. The new standard will apply to periods beginning on 1 January 2021 however, it will not apply to the Bank.

Changes in the reference to the Conceptual Framework in IFRS published in March 2018

They regulate the areas of recognizing and excluding assets and liabilities from the balance sheet, the basis for valuation, presentation and disclosure, as well as updating selected definitions they will apply for periods beginning on or after 1 January 2020.

Amendments to IFRS 3

Amendments narrow down and explain the definition of an enterprise. They also make it possible to carry out a simplified assessment of whether a set of assets and activities is an asset group and not an enterprise. Amendments will apply for periods beginning on or after 1 January 2020.

Amendments to IAS 1 and IAS 8

They harmonize and clarify the definition of the concept of "significant" and provide guidelines to increase consistency in the application of this concept in International Financial Reporting Standards. Amendments will apply for periods beginning on or after 1 January 2020.

(in PLN '000)

The Bank does not expect that the impact on the financial statements of amendments to IFRS 3, IAS 1, IAS 8 and Conceptual Framework will be significant.

Changes to presentation and explanation of differences in relation to previously published financial statements

As compared to the financial statements made as at 31.12.2018 the presentation regarding realized margin on foreign exchange transactions has been changed. In earlier periods was presented in the Result on instruments measured at fair value through profit and loss and trading result (now FX result) currently in the Net fee and commission income.

Income statement	31.12.2018 Presented	Change	31.12.2018 Restated
Fee and commission income	769 887	273 906	1 043 793
The result on financial assets measured at fair value through profit or loss and FX result	370 880	-273 906	96 974

In addition, the Bank changed the presentation in the balance sheet in accordance Assets pledged as colleteral - regarding the deposit at Alior Trader, with the table below:

	31.12.2018 Presented	Change	31.12.2018 Restated
Assets pledged as colleteral	333 286	-88	333 198
Loans and advances to customers	54 239 172	88	54 239 260

This change also caused a change in the statement of cash flow, below are restated data:

	31.12.2018 Presented	Change	31.12.2018 Restated
Change in assets pledged as collateral	75 625	-635	74 990
Change in loans and receivables	-2 915 264	635	-2 914 629

In addition, in accordance with IAS 1, the Bank presents cash and cash equivalents in this balance sheet, making an appropriate reclassification of assets meeting this definition in accordance with the table below:

	31.12.2018 Presented	Change	31.12.2018 Restated
Cash and balances with the Central Bank/ Cash and cash equivalents	1 639 033	438 597	2 077 630
Amounts due from banks	611 436	-438 597	172 839

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.

(in PLN '000)

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.

Results and volumes split by segment for the year ended on 31 December 2019

	Retail customers	Business customers	Treasury	Total operating segments	Unallocated items	Total
External interest income	**1 836 050**	**1 195 324**	**173 842**	**3 205 216**	**0**	**3 205 216**
external income	2 320 929	1 316 944	283 358	3 921 231	0	3 921 231
income of a similar nature	0	0	153 525	153 525	0	153 525
external expense	-484 879	-121 620	-263 041	-869 540	0	-869 540
Internal interest income	**142 553**	**-271 436**	**128 883**	**0**	**0**	**0**
internal income	1 065 874	375 540	1 570 296	3 011 710	0	3 011 710
internal expense	-923 321	-646 976	-1 441 413	-3 011 710	0	-3 011 710

(in PLN '000)

	Retail customers	Business customers	Treasury	Total operating segments	Unallocated items	Total
Net interest income	**1 978 603**	**923 888**	**302 725**	**3 205 216**	**0**	**3 205 216**
Fee and commission income	412 731	641 247	12 413	1 066 391	0	1 066 391
Fee and commission expense	-189 377	-290 007	-7 185	-486 569	0	-486 569
Net fee and commission income	**223 354**	**351 240**	**5 228**	**579 822**	**0**	**579 822**
Dividend income	**0**	**0**	**7 362**	**7 362**	**0**	**7 362**
The result on financial assets measured at fair value through profit or loss and FX result	**5 724**	**52 838**	**44 197**	**102 759**	**0**	**102 759**
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**0**	**0**	**46 236**	**46 236**	**0**	**46 236**
measured at fair value through other comprehensive income	0	0	38 807	38 807	0	38 807
measured at amortized cost	0	0	7 429	7 429	0	7 429
Other operating income	105 080	16 531	0	121 611	0	121 611
Other operating expenses	-299 730	-41 463	0	-341 193	0	-341 193
Net other operating income	**-194 650**	**-24 932**	**0**	**-219 582**	**0**	**-219 582**
Total result before expected credit losses	**2 013 031**	**1 303 034**	**405 748**	**3 721 813**	**0**	**3 721 813**
Net expected credit losses	-515 456	-903 879	0	-1 419 335	0	-1 419 335
The result on impairment of non-financial assets	0	0	0	0	-5 946	-5 946
Total result after expected credit losses and impairment	**1 497 575**	**399 155**	**405 748**	**2 302 478**	**-5 946**	**2 296 532**
General administrative expenses	-1 191 728	-563 633	0	-1 755 361	0	-1 755 361
Gross profit	**305 847**	**-164 478**	**405 748**	**547 117**	**-5 946**	**541 171**
Income tax	0	0	0	0	-252 564	-252 564
Net profit	**305 847**	**-164 478**	**405 748**	**547 117**	**-258 510**	**288 607**
Depreciation						-236 584
Assets	45 128 838	30 198 890	0	75 327 728	1 006 785	76 334 513
Liabilities	49 631 136	19 753 899	0	69 385 035	89 779	69 474 814

Results and volumes split by segment for the year ended on 31 December 2018

	Retail customers	Business customers	Treasury	Total operating segments	Unallocated items	Total
External interest income	**1 911 629**	**1 053 864**	**124 476**	**3 089 969**	**0**	**3 089 969**
external income	2 303 230	1 225 049	279 208	3 807 487	0	3 807 487
income of a similar nature	0	0	150 915	150 915	0	150 915
external expense	-391 601	-171 185	-305 647	-868 433	0	-868 433
Internal interest income	**10 820**	**-186 915**	**176 095**	**0**	**0**	**0**
internal income	881 571	383 850	1 441 515	2 706 936	0	2 706 936
internal expense	-870 751	-570 765	-1 265 420	-2 706 936	0	-2 706 936
Net interest income	**1 922 449**	**866 949**	**300 571**	**3 089 969**	**0**	**3 089 969**
Fee and commission income*	447 035	584 137	12 621	1 043 793	0	1 043 793
Fee and commission expense	-168 749	-198 677	-8 467	-375 893	0	-375 893
Net fee and commission income	**278 286**	**385 460**	**4 154**	**667 900**	**0**	**667 900**
Dividend income	**0**	**0**	**7 597**	**7 597**	**0**	**7 597**
The result on financial assets measured at fair value through profit or loss and FX result*	**4 770**	**82 037**	**10 167**	**96 974**	**0**	**96 974**
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**0**	**0**	**77 829**	**77 829**	**0**	**77 829**

(in PLN '000)

	Retail customers	Business customers	Treasury	Total operating segments	Unallocated items	Total
measured at fair value through other comprehensive income	0	0	76 473	76 473	0	76 473
measured at amortized cost	0	0	1 356	1 356	0	1 356
Other operating income	85 984	6 661	0	92 645	0	92 645
Other operating expenses	-116 086	-24 595	0	-140 681	0	-140 681
Net other operating income	**-30 102**	**-17 934**	**0**	**-48 036**	**0**	**-48 036**
Total result before expected credit losses	**2 175 403**	**1 316 512**	**400 318**	**3 892 233**	**0**	**3 892 233**
Net expected credit losses	-418 473	-615 566	0	-1 034 039	0	-1 034 039
The result on impairment of non-financial assets	0	0	0	0	-6 251	-6 251
Total result after expected credit losses and impairment	**1 756 930**	**700 946**	**400 318**	**2 858 194**	**-6 251**	**2 851 943**
General administrative expenses	-1 353 545	-480 133	-4 763	-1 838 441	0	-1 838 441
Gross profit	**403 385**	**220 813**	**395 555**	**1 019 753**	**-6 251**	**1 013 502**
Income tax	0	0	0	0	-282 428	-282 428
Net profit	**403 385**	**220 813**	**395 555**	**1 019 753**	**-288 679**	**731 074**
Depreciation						-168 807
Assets	42 637 508	29 637 448	46 431	72 321 387	921 508	73 242 895
Liabilities	46 931 700	19 541 020	10 497	66 483 217	208 854	66 692 071

**Restated – Note 4.2*

Income and expenses are generated primarily in Poland. The branch in Romania generated a net loss amounting to PLN 33 009 thousand in 2018 and PLN 27 020 thousand in 2018, respectively.

Notes to income statement

6 Net interest income

6.1 Accounting principles

Interest income and expenses include interest on financial instruments measured at amortized cost and instruments measured at fair value through other comprehensive income. 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.

Upon calculating the effective interest rate, the bank estimates the expected cash flows considering all contractual terms of a given financial instrument, without taking into account the expected credit losses. This calculation includes all commissions and fees paid or received between the parties, which are an integral part of the effective interest rate, as well as transaction costs and all other bonuses or discounts.

The Bank calculates interest income using the effective interest rate to the gross carrying amount of the financial asset, except for the financial assets which are affected by the impairment due to credit risk. When a financial asset or a group of similar financial assets is reclassified to stage 3, interest income is accrued on the net value of the financial asset and is shown at the effective interest rate at which future cash flows were discounted for the purposes of measuring impairment.

(in PLN '000)

Interest income and expenses of instruments measured at fair value through profit and loss are disclosed under revenues of a similar nature and interest costs.

6.2 Financial data

	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
Interest income calculated using the effective interest method	**3 921 231**	**3 807 487**
term deposits	765	645
loans	3 593 536	3 433 365
reimbursement of commissions and fees related to the loan prepayment*	-135 043	0
financial assets measured at amortized cost	119 184	102 039
financial assets measured at fair value through other comprehensive income	145 683	162 001
receivables acquired	176 899	90 052
repo transactions in securities	6 243	4 777
current accounts	11 496	10 718
overnight deposits	1 164	2 195
other	1 304	1 695
Income of a similar nature	**153 525**	**150 915**
derivatives instruments	153 525	150 915
Interest expense	**-869 540**	**-868 433**
Interest expense from financial instruments measured at amortized cost including the effective interest rate method	**-506 562**	**-531 366**
term deposits	-351 186	-365 689
own issue	-127 668	-139 685
repo transactions in securities	-12 869	-14 653
cash deposits	-2 222	-2 657
leasing	-4 125	n/a
other	-8 492	-8 682
Other interest expense	**-362 978**	**-337 067**
current deposits	-258 140	-214 785
derivatives	-104 838	-122 282
Net interest income	**3 205 216**	**3 089 969**

** The amount of 135 million consists of the amount of ongoing refunds in the amount of 85.3 million and a provision for the expected effect of future prepayments in the amount of 49.7 million. Details in note 28*

Interest income and income of similar nature include, above all, interest on loans, derivative instruments, interest and discount on bonds. Interest expenses refer mainly to term deposits and own issues.

In 2019 and 2018 the amount of interest income on loans with recognised impairment amounted to PLN 230 049 thousand and PLN 211 029 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, 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 is 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.

(in PLN '000)

Reimbursement of commissions and fees related to the loan prepayment - judgment of the Court of Justice of the European Union ("TSUE") of 11 September 2019

The estimated difference between interest income recognized up to the balance sheet date using the effective interest method, and income that should have been recognized taking into account the effect of possible future prepayments of consumer loans and the resulting returns based on a straight-line formula is part of significant estimates. Details in note 28.

6.4 Sensitivity analysis of significant estimates and assumptions

Bancassurance

In 2019 and 2018 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 2019 with reference to bancassurance is as follows:

Type of scenario	2019	2018
increased provision for resignations by 5pp	PLN -6.01 M – reduced net interest	PLN -7.23 M – reduced net interest
decreased provision for resignations by 5pp	PLN +6.01 M – increased net interest	PLN +7.23 M – increased net interest
increased income recognised all at once by 1pp	PLN +1.01 M – increased net fees and commissions	PLN +1.16 M – increased net fees and commissions
decreased income recognised all at once by 1pp	PLN -1.01 M – decreased net fees and commissions	PLN -1.16 M – 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. Fee and commission income also includes transaction margin on currency exchange transactions, i.e. margins on all currency purchase / sale transactions with immediate delivery, delivery on the spot currency date and delivery on the forward currency date.

(in PLN '000)

7.2 Financial data

	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018*
Fee and commission income	**1 066 391**	**1 043 793**
payment and credit cards service	319 670	254 438
transaction margin on currency exchange transactions	296 088	273 906
maintaining bank accounts	101 548	119 242
brokerage commissions	24 867	67 233
revenue from bancassurance activity	49 030	49 317
loans and advances	119 047	114 208
transfers	53 092	60 565
cash operations	38 665	41 972
guarantees, letters of credit, collection, commitments	13 514	15 860
receivables acquired	9 041	11 687
for custody services	8 751	12 805
repayment of seizure	6 324	5 679
other commissions	26 754	16 881
Fee and commission expenses	**-486 569**	**-375 893**
costs of card and ATM transactions, including costs of cards issued	-285 551	-190 452
commissions paid to agents	-61 593	-44 983
insurance of bank products	-14 153	-16 467
costs of awards for customers	-16 302	-15 681
commissions for access to ATMs	-23 652	-25 854
commissions paid under contracts for performing specific operations	-25 572	-28 997
brokerage commissions	-3 102	-3 702
for custody services	-2 235	-3 169
transfers and remittances	-18 167	-15 344
other commissions	-36 242	-31 244
Net fee and commission income	**579 822**	**667 900**

**Restated – Note 4.2*

01.01.2019 –31.12.2019	Retail customers	Business customers	Treasury	Total
Fee and commission income	**412 731**	**641 247**	**12 413**	**1 066 391**
payment and credit cards service	99 063	220 607	0	319 670
transaction margin on currency exchange transactions	143 351	144 033	8 704	296 088
maintaining bank accounts	45 908	55 640	0	101 548
brokerage commissions	24 867	0	0	24 867
revenue from bancassurance activity	49 030	0	0	49 030
loans and advances	14 673	104 374	0	119 047
Transfers	13 037	40 055	0	53 092

(in PLN '000)

01.01.2019 –31.12.2019	Retail customers	Business customers	Treasury	Total
cash operations	19 307	19 358	0	38 665
guarantees, letters of credit, collection, commitments	0	13 514	0	13 514
receivables acquired	2	9 039	0	9 041
custody services	0	8 751	0	8 751
repayment of seizure	0	6 324	0	6 324
other commissions	3 493	19 552	3 709	26 754

01.01.2018 –31.12.2018 *	Retail customers	Business customers	Treasury	Total
Fee and commission income	**447 035**	**584 137**	**12 621**	**1 043 793**
payment and credit cards service	101 875	152 563	0	254 438
transaction margin on currency exchange transactions	126 506	136 248	11 152	273 906
maintaining bank accounts	48 884	70 358	0	119 242
brokerage commissions	67 233	0	0	67 233
revenue from bancassurance activity	49 317	0	0	49 317
loans and advances	14 911	99 297	0	114 208
Transfers	14 393	46 172	0	60 565
cash operations	23 558	18 414	0	41 972
guarantees, letters of credit, collection, commitments	1	15 859	0	15 860
receivables acquired	0	11 687	0	11 687
custody services	0	12 805	0	12 805
repayment of seizure	0	5 679	0	5 679
other commissions	357	15 055	1 469	16 881

**Restated – Note 4.2*

As part of the custody services, the Bank performs, among others, the following activities:

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

8 The result on financial assets measured at fair value through profit or loss and FX result

8.1 Accounting principles

The result on financial assets measured at fair value through profit or loss and FX result includes gains and losses arising from the sale and changes in the fair value of assets and liabilities measured and designated for measurement at fair value through the profit and loss account upon initial recognition. This result also includes foreign exchange gains and losses, both realized and unrealized, resulting from the valuation of currency assets and liabilities and from the fair value measurement of currency derivatives.

(in PLN '000)

8.2 Financial data

	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018*
FX result and net income on currency derivatives, including :	**72 253**	**86 540**
fX result	-88 890	-215 753
currency derivatives	161 143	302 293
Interest rate transacions	**-5 212**	**3 149**
Ineffective part of hedge accounting	**1 068**	**-864**
The result on other instruments (includes the result on trading in debt securities classified as assets measured at fair value through profit and loss with interest	**34 650**	**8 149**
The result on financial assets measured at fair value through profit or loss and FX result	**102 759**	**96 974**

**Restated – Note 4.2*

9 The result on derecognition of financial instruments not measured at fair value through profit or loss

9.1 Accounting principles

The result on derecognition of financial instruments not measured at fair value through profit or loss includes gains and losses arising on the sale of debt securities valued at fair value through other comprehensive income, measured at amortized cost and gains and losses resulting from the repurchase of own issue of banking securities.

9.2 Financial data

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Financial assets measured at fair value through other comprehensive income	38 807	76 473
Financial assets measured at amortized cost	7 429	1 356
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	**46 236**	**77 829**

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.

(in PLN '000)

10.2 Financial data

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Other operating income from:	**121 611**	**92 645**
income from contracts with business partners	42 017	42 686
reimbursement of costs of claim enforcement	26 850	24 018
received compensations, recoveries, penalties and fines	12 568	7 499
management of third party assets	5 102	5 632
from license fees from Partners	4 791	4 700
bargain purchase in connection with the acquisition of SKOK	7 771	n/a
due to VAT settlement	6 129	3 718
other	16 383	4 392
Other operating expenses due to:	**-341 193**	**-140 681**
reimbursement of credit cost (TSUE provision)*	-243 099	n/a
fees and costs of claim enforcement	-67 191	-50 189
paid compensations, fines and penalties	-19 146	-69 159
management of third party assets	-2 035	-1 918
recognition of complaints	-3 004	-5 582
other	-6 718	-13 833
Net other operating income and expense	**-219 582**	**-48 036**

** description in note 28*

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, (from 2019 due to contracts that have not been classified in accordance with IFRS 16 as lease contracts), 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, assets due to lease agreements 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 (until 2019).

(in PLN '000)

11.2 Financial data

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Payroll costs	**-724 307***	**-848 476**
remuneration due to employment contracts	-612 672	-703 315
remuneration surcharges	-117 803	-132 266
revaluation of managment option plan – part settled in cash	888	521
costs of bonus for senior executives settled in phantom shares	14 542	211
other	-9 262	-13 627
General and administrative costs	**-548 904**	**-589 937**
lease and building maintenance expenses	-57 055	-135 859
costs of Banking Guarantee Fund	-156 589	-106 255
IT costs	-114 501	-103 334
marketing costs	-63 674	-71 204
cost of advisory services	-28 294	-27 293
external services	-28 331	-35 519
training costs	-16 160	-27 248
costs of telecommunications services	-28 164	-24 598
costs of lease of property, plant and equipment and intangible assets	-6 661	-7 650
other	-49 475	-50 977
Amortization and depreciation	**-236 584**	**-168 807**
property, plant and equipment	-86 496	-95 931
intangible assets	-61 665	-72 876
right to use the asset	-88 423	n/a
Taxes and fees	**-19 592**	**-23 035**
Total general administrative expenses	**-1 529 387**	**-1 630 255**

**The bank released in the 3rd and 4th quarter the part of the provision for variable remuneration, including variable remuneration for the management. The adjustment of PLN 81.6 million was recognized as a reduction in payroll costs..*

12 Net expected credit losses

12.1 Accounting principles

The result from net expected credit loss, consists of the establishment and reversal of the allowance for expected losses on loans and advances to customers, debt securities, as well as the establishment and reversal of provisions for off-balance sheet liabilities.

Accounting principles regarding the estimation for expected losses and impairment allowance and write-downs are described in note 20.1.

12.2 Financial data

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Expected credit losses Stage 3	**-1 492 449**	**-1 236 660**
retail customers	-601 949	-547 596
business customers	-890 500	-689 064
Investment securities	**2 947**	**2 820**

(in PLN '000)

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Expected credit losses Stage 1 and 2(ECL)	**58 950**	**120 444**
Stage 2	**43 802**	**54 581**
retail customers	70 744	83 507
business customers	-26 942	-28 926
Stage 1	**15 148**	**65 863**
retail customers	-2 852	28 943
business customers	18 000	36 920
POCI	**-56 382**	**-55 759**
Recoveries from off-balance sheet	**60 902**	**61 250**
Off-balance provisions	**6 697**	**73 866**
Net expected credit losses	**-1 419 335**	**-1 034 039**

13 The result on impairment of non-financial assets

	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
Property, plant and equipment and intangible assets	-5 871	-6 150
Non-current assets held for sale	-75	-101
Total	**-5 946**	**-6 251**

14 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.

15 Income tax

15.1 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.

(in PLN '000)

15.2 Financial data

15.2.1 Tax charge disclosed in the profit and loss account

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Current tax	**319 723**	**421 075**
current year	319 723	421 075
Deferred income tax	**-67 159**	**-138 647**
origination and reversal of temporary differences	-67 159	-138 647
Accounting tax recognized in the income statement	**252 564**	**282 428**

15.2.2 Effective tax rate calculation

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Gross profit	**541 171**	**1 013 502**
Income tax at 19%	102 822	192 565
Non-tax deductible expenses	**150 240**	**92 529**
Entertainment costs	176	227
Impairment losses on loans not deductible for tax purposes	69 617	19 289
Prudency fee for BGF	29 752	20 188
Tax on Certain Financial Institutions	42 935	39 555
Donations	63	21
Other	7 697	13 249
Non-taxable income	**-6 572**	**-4 775**
Release of loan impairment allowances in the part not covered with the deferred tax	-4	-12
Other	-6 568	-4 763
Recognition of tax loss	**1 313**	**1 251**
Relief for research and development	**0**	**-2 304**
Other	**4 761**	**3 162**
Accounting tax recognized in the income statement	**252 564**	**282 428**
Effective tax rate	**46,67%**	**27,87%**

15.2.3 Deferred tax asset and liability

Deferred tax asset	31.12.2018	Changes recognised in financial result	Changes recognised in equity	Changes due to the acquisition of SKOK Jaworzno	31.12.2019
Commissions collected in advance	305 195	1 021	0	5 043	311 259
Interest accrued on deposits	21 481	8 876	0	621	30 978
Interest / discount accrued on securities	60 741	-7 968	0	0	52 773
Negative valuation of securities	5 058	-1 628	914	0	4 344
Interest accrued on derivative instruments	72 488	-23 956	0	0	48 532
Negative valuation of derivative instruments	53 948	-17 564	670	0	37 054
Premium received on options	29 961	-6 140	0	0	23 821
Provision for deferred expenses	49 289	41 462	0	286	91 037
Impairment allowances on credit receivables	670 842	20 567	0	14 369	705 778

(in PLN '000)

Deferred tax asset	31.12.2018	Changes recognised in financial result	Changes recognised in equity	Changes due to the acquisition of SKOK Jaworzno	31.12.2019
Other provisions	-9 445	10 289	0	1 275	2 119
Tax loss	9 371	6 122	-333	0	15 160
Deferred tax asset	**1 268 929**	**31 081**	**1 251**	**21 594**	**1 322 855**
Deferred tax liability	**31.12.2018**	**Changes recognised in financial result**	**Changes recognised in equity**	**Changes due to the acquisition of SKOK Jaworzno**	**31.12.2019**
Interest accrued on loans	-100 268	-8 248	0	-649	-109 165
Interest / discount accrued on securities	-13 881	1 518	0	0	-12 363
Positive valuation of securities	-7 590	-5 040	-2 999	0	-15 629
Interest accrued on derivative instruments	-79 488	20 072	0	0	-59 416
Positive valuation of derivative instruments	-89 743	31 927	-4 271	0	-62 087
Difference between balance and tax depreciation	-43 135	-2 793	0	317	-45 611
Accrued not received income	-10 441	-1 358	0	0	-11 799
Deferred income tax provisions	**-344 546**	**36 078**	**-7 270**	**-332**	**-316 070**
Total effect of temporary differences	**924 383**	**67 159**	**-6 019**	**21 262**	**1 006 785**

Deferred tax asset	31.12.2017 Restated	Changes recognised in financial result	Changes recognised in equity	31.12.2018
Commissions collected in advance	284 148	21 055	-8	305 195
Interest accrued on deposits	31 405	-9 924	0	21 481
Interest / discount accrued on securities	56 644	4 097	0	60 741
Negative valuation of securities	3 096	-843	2 805	5 058
Interest accrued on derivative instruments	47 264	25 224	0	72 488
Negative valuation of derivative instruments	59 785	-4 141	-1 696	53 948
Premium received on options	25 367	4 594	0	29 961
Provision for deferred expenses	64 307	-15 018	0	49 289
Impairment allowances on credit receivables	321 676	111 342	237 824	670 842
Other provisions	-34 794	23 359	1 990	-9 445
Tax loss	4 439	4 794	138	9 371
Deferred tax asset	**863 337**	**164 539**	**241 053**	**1 268 929**
Deferred tax liability	**31.12.2017 Restated**	**Changes recognised in financial result**	**Changes recognised in equity**	**31.12.2018**
Interest accrued on loans	-114 983	14 715	0	-100 268
Interest / discount accrued on securities	-11 974	-1 907	0	-13 881
Positive valuation of securities	-4 728	-922	-1 940	-7 590
Interest accrued on derivative instruments	-58 617	-20 871	0	-79 488
Positive valuation of derivative instruments	-70 119	-13 286	-6 338	-89 743
Difference between balance and tax depreciation	-39 132	-4 003	0	-43 135
Accrued not received income	-10 823	382	0	-10 441
Deferred income tax provisions	**-310 376**	**-25 892**	**-8 278**	**-344 546**
Total effect of temporary differences	**552 961**	**138 647**	**232 775**	**924 383**

(in PLN '000)

16 Profit per share

16.1 Accounting principles

In compliance with IAS 33, the Bank calculates diluted profit per share, including shares issued conditionally within incentive programmes described in Note 36.

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. Under the Management Option Scheme during 2019, participants did not executed warrants. Series B warrants expired in 2019. In relation to series C warrants, on 4 November 2019, the Supervisory Board decided that part of them not to be realised.

The number of warrants as at 31 December 2019:

Series of warrants	The number of warrants as at 31.12. 2018	The number of warrants executed during 2019/ Non release	Warrants expired in 2019	The number of warrants as at 31.12. 2019 incl:	The number of warrants that can be realised	Number of deferred warrants
B	528 612	0	528 612	0	0	0
C	631 800	88 075	0	543 725	543 725	0
	1 160 412	**88 075**	**528 612**	**543 725**	**543 725**	**0**

16.2 Financial data

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Net profit	**288 607**	**731 074**
Weighted average number of ordinary shares	130 553 991	130 026 866
Share options (number) - adjusting instrument	543 725	1 160 412
Adjusted weighted average number of shares	131 097 716	131 187 278
Net profit per ordinary share (PLN)	**2.21**	**5.62**
Diluted profit per share (PLN)	**2.20**	**5.57**

Additional information to the statement of financial position

17 Cash and cash equivalents

17.1 Accounting principles

Cash and cash equivalents include cash and cash in the nostro accounts other funds maturing within 3 months from acquisition they are measured at amounts payable inclusive of interest on the funds, if any.

Detailed of principles accounting for financial assets are described in note 19.1.

(in PLN '000)

17.2 Financial data

	31.12.2019	31.12.2018*
Current account with the central bank	553 598	706 079
Cash	444 371	932 954
Current accounts in other banks	297 611	428 851
Term deposits in other banks	57 024	9 746
Cash and balances with central bank	**1 352 604**	**2 077 630**

**Restated – note 4.2*

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. The mandatory reserve rate has been at:

- 3.5 percent for deposits in PLN and foreign currencies and for funds from issuing securities,
- 0 percent for funds from repo and sell-buy-back transactions acquired for at least 2 years.

The entities that calculate the mandatory reserve deduct the calculated amount by equivalent of EUR 500 000.

As at 31 December 2019 and at the end of 2018 the interest rate on the mandatory reserve was 0.5%.

18 Amounts due from banks

18.1 Accounting principles

Receivables from banks are measured at amortised cost with the effective interest rate reduced by expected credit losses 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.

Detailed of principles accounting for financial assets are described in note 19.1.

18.2 Financial data

Structure by type	31.12.2019	31.12.2018*
Reverse Repo	15 959	0
Deposits as derivative transactions (ISDA) collateral	135 157	124 998
Other	61 769	47 841
Amounts due from banks	**212 885**	**172 839**

(in PLN '000)

By maturity (as at the balance sheet date)	31.12.2019	31.12.2018*
≤ 1M	212 885	172 839
Amounts due from banks	**212 885**	**172 839**

By currency structure	31.12.2019	31.12.2018*
PLN	17 550	2 633
EUR	152 563	120 559
USD	42 127	49 309
Other currencies	645	338
Amounts due from banks	**212 885**	**172 839**

**Restated – note 4.2*

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

19 Investment financial assets

19.1 Accounting principles

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.

The classification of debt financial assets depends on the business model under which the financial instrument is managed and on the characteristics of contractual cash flows.

Financial capital assets, except to investments in subsidiaries, are measured at fair value through profit or loss, unless the Bank, at the date of first recognition, decides to value other comprehensive income.

The business model is a method for financial assets management. Its assessment depends on intentions as to how the cash flows arising from these assets will be realized, i.e. whether they will be realized by (i) obtaining cash flows in accordance with contractual terms, or through (ii) obtaining cash flows under contractual terms and selling those assets, or (iii) in a different way.

The categorization of the business model is based on the analysis of many factors, including the criterion of assessing the portfolio management results (eg interest rate, fair value) and the frequency and materiality of the sale of assets from the portfolio.

For the assessment of the business model, it is significant a why decision about realising the cash flows as a result of sales was made. 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.

(in PLN '000)

Sale of impaired quality assets does not exclude classification to the cash flow model in accordance with contractual terms. The intention of the sale for liquidity reasons will be assessed differently depending on whether the given portfolio is to serve the purpose of maintaining daytime liquidity (the model of flow and sales or only sales) or maintaining liquidity under stress conditions (the flow model is not excluded).

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).

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

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

Financial assets whose cash flows have the characteristics of solely the repayment of the principal and interest on the principal are classified to the following categories 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 solely repayment of the principal and interest on the principal are classified to the category of measurement at fair value through profit or loss 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.

19.2 Financial data

	31.12.2019	31.12.2018
Financial assets	**15 798 474**	**13 727 570**
measured at fair value through other comprehensive income	10 438 695	7 280 080
measured at fair value through profit or loss	543 725	515 138
measured at amortized cost	4 816 054	5 932 352

19.2.1 Financial assets by type

measured at fair value through other comprehensive income	31.12.2019	31.12.2018
Debt instruments	**10 387 477**	**7 257 145**
issued by the State Treasury	**8 548 971**	**7 109 317**
T-bonds	8 548 971	7 109 317
issued by monetary institutions	**1 769 963**	**74 304**
Eurobonds	20 182	74 304
Money bills	1 749 781	0

(in PLN '000)

measured at fair value through other comprehensive income	31.12.2019	31.12.2018
issued by companies	**68 543**	**73 524**
Bonds	68 543	73 524
Equity instruments	**51 218**	**22 935**
Total	**10 438 695**	**7 280 080**

measured at fair value through profit or loss	31.12.2019	31.12.2018
Debt instruments	**111 786**	**21 814**
issued by the State Treasury	**94 074**	**5 254**
T-bonds	94 074	5 254
issued by companies	**17 712**	**16 560**
Bonds	17 712	16 560
Equity instruments	**58 602**	**27 060**
Derivative financial instruments	**373 337**	**466 264**
Interest rate transactions	**213 601**	**286 917**
SWAP	213 550	286 014
Cap Floor Options	51	903
Foreign exchange transactions	**84 460**	**108 205**
FX Swap	33 281	40 353
FX forward	16 522	32 310
CIRS	13 244	11 723
FX options	21 413	23 819
Other options	**68 289**	**36 028**
Other instruments	**6 987**	**35 114**
Total	**543 725**	**515 138**

measured at amortized cost	31.12.2019	31.12.2018
Debt instruments	**4 816 054**	**5 932 352**
issued by the State Treasury	**4 816 009**	**5 932 352**
T-bonds	4 816 009	5 932 352
issued by other financial companies	**45**	**0**
Bonds	45	0
Total	**4 816 054**	**5 932 352**

19.2.2 Financial assets by maturity

measured at fair value through other comprehensive income	31.12.2019	31.12.2018
no specified maturity	51 218	22 935
≤ 1M	1 749 781	0
> 6M ≤ 1Y	0	44 193
>1Y ≤ 2Y	163 817	471 205
>2Y ≤ 5Y	3 582 683	2 087 901
>5Y ≤ 10Y	4 891 196	4 653 846
Total	**10 438 695**	**7 280 080**

(in PLN '000)

measured at fair value through profit or loss	31.12.2019	31.12.2018
no specified maturity	58 602	27 060
≤ 1M	117 007	58 593
> 1M ≤ 3M	20 357	44 637
> 3M ≤ 6M	48 114	48 979
> 6M ≤ 1Y	30 409	58 736
>1Y ≤ 2Y	122 501	145 057
>2Y ≤ 5Y	84 648	91 746
>5Y ≤ 10Y	62 087	40 330
Total	**543 725**	**515 138**

measured at amortized cost	31.12.2019	31.12.2018
> 3M ≤ 6M	415 910	198 802
> 6M ≤ 1Y	299 247	686 483
>1Y ≤ 2Y	2 041 406	721 769
>2Y ≤ 5Y	1 447 259	2 654 543
>5Y ≤ 10Y	612 232	1 670 755
Total	**4 816 054**	**5 932 352**

19.2.3 Derivative instruments (nominal value)

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)	31.12.2019	31.12.2018
Interest rate transactions	**29 908 118**	**64 251 954**
SWAP	28 049 289	61 326 293
Cap floor options	1 858 829	2 925 661
FX transactions	**12 823 604**	**12 266 206**
FX Swap	4 692 887	5 217 411
FX forward	1 579 351	2 024 654
CIRS	1 114 733	715 148
FX options	5 436 633	4 308 993
Other options	**5 042 855**	**6 077 100**
Other instruments	**223 948**	**1 431 724**
Derivative instruments (nominal value)	**47 998 525**	**84 026 984**

(in PLN '000)

19.3 Material estimates and assumptions

Fair value, impairment allowances

Expected credit losses for financial assets - debt instruments	31.12.2019		31.12.2018	
	Gross value of receivables	Allowance amount	Gross value of receivables	Allowance amount
measured at fair value through other comprehensive income	10 387 477	7 234*	7 257 145	8 879*
measured at amortized cost	4 819 307	3 253	5 936 911	4 559

A write-down of debt securities measured at fair value through other comprehensiwve income is included in the "Revaluation reserve" item and does not reduce the carrying amount.

measured at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Gross carrying amount as at 01.01.2019	**5 936 799**	**0**	**80**	**32**	**5 936 911**
New / purchased / granted financial assets	58 913	0	-	13	58 926
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-1 176 527	0	-3	0	-1 176 530
Financial assets written down	0	0	0	0	0
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Gross carrying amount as at 31.12.2019	**4 819 185**	**0**	**77**	**45**	**4 819 307**
Expected credit losses					
Expected credit losses as at 01.01.2019	**4 479**	**0**	**80**	**0**	**4 559**
New / purchased / granted financial assets	39	0	0	0	39
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-1 342	0	-3	0	-1 345
Financial assets written down	0	0	0	0	0
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Expected credit lossesas at 31.12.2019	**3 176**	**0**	**77**	**0**	**3 253**
Net carrying amount as at 31.12.2019	**4 816 009**	**0**	**0**	**45**	**4 816 054**

measured at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Gross carrying amount as at 01.01.2018	**3 506 437**	**0**	**575**	**0**	**3 507 012**
New / purchased / granted financial assets	2 895 027	0	0	32	2 895 059
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-464 665	0	-495	0	-465 160
Financial assets written down	0	0	0	0	0
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0

(in PLN '000)

measured at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31.12.2018	**5 936 799**	**0**	**80**	**32**	**5 936 911**
Expected credit losses					**0**
Expected credit losses as at 01.01.2018	**2 964**	**0**	**575**	**0**	**3 539**
New / purchased / granted financial assets	1 839	0	0	0	1 839
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-324	0	-495	0	-819
Financial assets written down	0	0	0	0	0
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Expected credit lossesas at 31.12.2018	**4 479**	**0**	**80**	**0**	**4 559**
Net carrying amount as at 31.12.2018	**5 932 320**	**0**	**0**	**32**	**5 932 352**

measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Gross carrying amount as at 01.01.2019	**7 213 276**	**0**	**0**	**66 804**	**7 280 080**
New / purchased / granted financial assets	56 320 218	0	0	0	56 320 218
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-53 163 342	0	0	1 739	-53 161 603
Financial assets written down	0	0	0	0	0
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Gross carrying amount as at 31.12.2019	**10 370 152**	**0**	**0**	**68 543**	**10 438 695**
Expected credit losses					
Expected credit losses as at 01.01.2019	**5 506**	**0**	**0**	**3 373**	**8 879**
New / purchased / granted financial assets	5 394	0	0	0	5 394
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-5 235	0	0	-1 804	-7 039
Financial assets written down	0	0	0	0	0
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Expected credit lossesas at 31.12.2019	**5 665**	**0**	**0**	**1 569**	**7 234***
Net carrying amount as at 31.12.2019	**10 364 487**	**0**	**0**	**66 974**	**10 431 461**

**A write-down of debt securities measured at fair value through other comprehensiwve income is included in the "Revaluation reserve" item and does not reduce the carrying amount*

measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Gross carrying amount as at 01.01.2018	**9 581 514**	**0**	**0**	**68 342**	**9 649 856**
New / purchased / granted financial assets	52 226 344	0	0	0	52 226 344
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-54 594 582	0	0	-1 538	-54 596 120

(in PLN '000)

measured at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets written down	0	0	0	0	0
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Gross carrying amount as at 31.12.2018	**7 213 276**	**0**	**0**	**66 804**	**7 280 080**
Expected credit losses					
Expected credit losses as at 01.01.2018	**7 198**	**0**	**0**	**5 989**	**13 187**
New / purchased / granted financial assets	4 105	0	0	0	4 105
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-5 797	0	0	-2 616	-8 413
Financial assets written down	0	0	0	0	0
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Expected credit lossesas at 31.12.2018	**5 506**	**0**	**0**	**3 373**	**8 879***
Net carrying amount as at 31.12.2018	**7 207 770**	**0**	**0**	**63 431**	**7 271 201**

**A write-down of debt securities measured at fair value through other comprehensiwve income is included in the "Revaluation reserve" item and does not reduce the carrying amount*

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 2019 amounted to PLN -8 016 thousand. The overall BCVA adjustment amount is composed of the CVA adjustment (reflecting solely the risk of the counterparty's default) amounted to PLN -8 144 thousand and the DVA adjustment amounted (reflecting the risk of the Bank's default) to PLN 117 thousand. The amount of BCVA adjustment as at 31 December 2018 amounted to PLN -9 318 thousand. The overall BCVA adjustment amount is composed of the CVA adjustment (reflecting solely the risk of the counterparty's default) amounted to PLN -9 802 thousand and the DVA adjustment amounted (reflecting the risk of the Bank's default) to PLN 484 thousand.

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 debt instruments measured at fair value through other comprehensive income and derivative instruments with a linear risk profile not covered with hedge accounting 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 with the assumed scenarios:

(in PLN '000)

Estimated measurement change	31.12.2019		31.12.2018	
	scenario +50pb	scenario -50pb	scenario +50pb	scenario -50pb
IRS	7 372	-7 372	22 666	-22 666
CIRS	2 014	-2 014	-352	352
Other instruments	1 130	-1 130	-209	209
Total derivative instruments	**10 516**	**-10 516**	**22 106**	**-22 106**
Debt instruments	**-26 085**	**26 085**	**-21 540**	**21 540**

20 Hedge accounting

20.1 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.

According to IFRS 9 7.2.21, the Bank decided to continue to apply the principles of hedge accounting in accordance with IAS 39. In accordance with IAS 39. 88, hedge accounting may be applied if all the following conditions are met:

- 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.

20.2 Types of hedge strategies

20.2.1 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.

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 through other comprehensive income, and as interest accrues to the hedged item, the relevant part of the valuation is transferred from other comprehensive income to the income statement.

In established hedging relationships, hedged items also include cash flows from floating-rate bonds issued by the bank, and hedging items from IRS transactions under which the Bank receives interest based on a variable rate and pays interest based on a fixed rate.

Bank, by establishing hedging links, identifies groups of loans or credits or bonds with the same parameters as hedging transactions, i.e. currency, maturity date, reference index for interest payments and the date of its revaluation. As part of the preliminary assessment of hedge effectiveness through qualitative assessment, the Bank expects a high adjustment of the changes in the valuation of expected interest flows of the secured layer of loans, credits or bonds and the corresponding IRS hedging leg leg due to matching the key parameters of these transactions. The Bank expects a small ineffectiveness of collateral, which may result from the mismatch of the frequency of interest payments from the hedged loan portfolio or bonds and the IRS hedging transaction. In addition, the poor ineffectiveness of held hedging relationships may be affected by unmatched re-measurement dates of the reference portfolios of the hedged portfolio and part of the IRS transaction variable.

The Bank analyzes the effectiveness of held collateral on a monthly basis on the basis of the accumulated change in the present value of expected interest payments from the secured loan portfolio and interest payments on hedging transactions, using to measure effectiveness the concept of hypothetical derivative.

20.2.2 Fair Value hedge accounting

The Bank hedges the risk of changes in the fair value of purchased debt securities with a fixed interest rate measured at fair value through other comprehensive income due to changes in the interest rate swap curve. As part of the above strategy, the Bank creates hedging relationships in which the hedged instrument are fixed coupon debt securities denominated in a given currency, and the hedging instrument is interest rate swaps (IRS) in the same currency. The Bank hedges the risk arising from changes in the interest rate swap curve (risk of volatility in market swap interest rates), excluding other effects that affect the change in valuation (including asset swap spread). The effectiveness of hedging relationships is tested on a monthly basis as part of prospective and retrospective tests. Testy efektywności bazują na wycenie transakcji zabezpieczającej pomniejszonej o wartość narosłych odsetek w danym okresie odsetkowym.

The Bank expects that the hedging relationship will be highly effective if all of the following criteria are met:

- based on a comparison of the basic parameters of the hedged and hedging transactions, it can be expected that the effectiveness of the hedge will be high;
- the ratio of the change in fair value of the hedged item and the hedging instrument is in the range <80%, 125%> or the share of the ineffectiveness amount in the nominal value of the hedging transaction is in the range <-1%, 1%>;
- in each reporting period, the simulation of the hedge effectiveness ratio in the assumed scenarios of market interest rate evolution ranges from <80%, 125%>.

The Bank identifies potential sources of inefficiency:

- impact of the counterparty credit risk and own credit risk on the fair value of the hedging transaction - minimized by requiring the counterparty to pay a margin and by clearing derivative transactions involving central clearing houses (CCPs);
- different maturities of the hedging transaction and the debt security;
- differences in the dates of revaluation and payment of interest coupons of the IRS hedging transaction and the debt security.

Fair value hedge is recognized in the books by presenting changes in the fair value of both the hedging transaction and the hedged item in the profit and loss account in line ineffective part of hedge accounting.

(in PLN '000)

20.3 Financial data

	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedging instruments	134 818	40 676	112 400	9 381
Instruments hedging the fair value of securities	14	0	0	0
Total hedge instruments	**134 832**	**40 676**	**112 400**	**9 381**

The table below presents fair values and nominal values of hedging instruments and hedged instruments in cash flow hedge accounting.

	Interest rate	
	CFH Loans / Bonds	
	31.12.2019	31.12.2018
Hedging instruments		
Nominal value	9 948 785	7 994 200
Carrying amount - assets	134 818	112 400
Carrying amount - liabilities	40 676	9 381
The line in the balance sheet in which the hedging instrument was presented	Derivative hedge instruments	Derivative hedge instruments
Changes in the fair value of the hedging instrument being the basis for determining the amount of hedge ineffectiveness	61 463	48 071
Gains or losses arising from the hedging of a net position, recognized in a separate line of other comprehensive income	39 870	56 948
Amount transferred in the period from comprehensive income to profit and loss account	-20 917	-14 665
Defered tax	-3 601	-8 034
The amount of hedge ineffectiveness recognized in the profit and loss statement	1 076	-864
The profit and loss account line in which the amount of hedge ineffectiveness, as described above, was recognized	The result on financial assets measured at fair value through profit or loss and FX result	The result on financial assets measured at fair value through profit or loss and FX result
Hedged items		
The amount of change in the fair value of a hypothetical derivative representing the hedged item, which change is the basis for estimating the ineffectiveness of the hedge in a given period	-56 574	-46 020
The balance of CFH capital positions for relations for which hedge accounting will be continued after the end of a given reporting period	15 352	34 249

Hedging instruments (nominal value)	31.12.2019	31.12.2018
Interest rate transactions - SWAP	9 948 785	7 994 200
Hedging instruments (nominal value)	**9 948 785**	**7 994 200**

(in PLN '000)

Financial assets– hedging instruments	31.12.2019	31.12.2018
Level 2		
Interest rate transactions - SWAP	134 818	112 400
Total	**134 818**	**112 400**

By maturity	31.12.2019	31.12.2018
> 1M ≤ 3M	1 504	23 863
> 3M ≤ 6M	1 709	2 738
> 6M ≤ 1Y	14 292	867
> 1Y ≤ 2Y	41 214	22 451
> 2Y ≤ 5Y	76 099	62 481
Total	**134 818**	**112 400**

Financial liabilities – hedging instruments	31.12.2019	31.12.2018
Level 2		
Interest rate transactions - SWAP	40 676	9 381
Total	**40 676**	**9 381**

By maturity	31.12.2019	31.12.2018
> 2Y ≤ 5Y	33 229	83
> 5Y ≤ 10Y	7 447	9 298
Total	**40 676**	**9 381**

Other comprehensive income as regards cash flow hedges	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Other gross comprehensive income at the beginning of period	31 141	-11 142
Gains transferred to other comprehensive income in the period	39 870	56 948
Amount transferred in the period from comprehensive income to profit and loss account, including:	**-20 917**	**-14 665**
- net interest income	20 917	14 665
Accumulated other gross comprehensive income at the end of period	**50 094**	**31 141**
Tax effect	-9 518	-5 917
Accumulated other net comprehensive income at the end of period	**40 576**	**25 224**
Ineffective part of cash flow hedges recognised in the profit and loss account in position the result on financial assets measured at fair value through profit or loss and trading result	-1 076	864
Impact of other gross comprehensive income in the period	**18 953**	**42 283**
Deferred tax under cash flow hedges	-3 601	-8 034
Impact of other net comprehensive income in the period	**15 352**	**34 249**

The table below presents fair values and nominal values of hedging instruments and hedged instruments in fair value hedge accounting.

(in PLN '000)

	FVH IRS BONDS - hedging securities valued at fair value through other comprehensive income	
	31.12.2019	31.12.2018
Hedging instruments		
Nominal value	12 776	0
Carrying amount - assets	14	0
The line in the balance sheet in which the hedging instrument was presented	Derivative hedge instruments	
The amount of change in the fair value of the hedging instrument used as the basis for estimating the ineffectiveness of the hedge in a given period	17	0
The amount of hedge ineffectiveness recognized in the profit and loss account	-8	0
The profit and loss account line in which the amount of hedge ineffectiveness, as described above, was recognized		
Hedged items		
Carrying amount - assets	13 731	0
Cumulative amount of the adjustment to the fair value of the hedged item included in the carrying amount of the hedged item recognized in the balance sheet - assets	0	0
The line in the balance sheet in which the hedged item is presented	Investment financial assets measured at fair value through other comprehensive income	
Change in the value of the hedged item used as the basis for estimating the ineffectiveness of the hedge in a given period	-25	0
Accumulated amount of the hedged item's fair value adjustment remaining in the balance sheet for those hedged items for which the balance sheet item adjustment has ceased to be adjusted to the fair value of the hedged item's value taken as the basis for estimating the hedge's ineffectiveness in a given period	0	0

Hedging instruments (nominal value)	31.12.2019	31.12.2018
Interest rate transactions - SWAP	12 776	0
Hedging instruments (nominal value)	**12 776**	**0**

Financial assets– hedging instruments	31.12.2019	31.12.2018
Level 2		
Interest rate transactions - SWAP	14	0
Total	**14**	**0**

By maturity	31.12.2019	31.12.2018
> 5Y	14	0
Total	**14**	**0**

20.4 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.

(in PLN '000)

Estimated measurement change	31.12.2019		31.12.2018	
	scenario	scenario	scenario	scenario
	+50pb	-50pb	+50pb	-50pb
IRS	-74 246	74 246	-55 533	55 533

21 Loans and advances to customers

21.1 Accounting principles

On 31 December 2019 and 31 December 2018 in that category the Bank held receivables under loans, purchased receivables and other receivables from customers. Moreover in this item, the Bank also discloses securities repurchase transactions following the economic substance 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.

Loans and advances to customers are measured at amortized cost because they are maintained in a business model whose purpose is to realize cash flows in accordance with contractual terms and contractual cash flows include only repayment of the principal and interest.

Detailed of accounting principles regarding the classification of financial assets are described in note 19.1.

According to the amortized cost the Bank estimates impairment allowance and expected credit losses.

The evaluation methods include the division the loans and advances to customers into three categories (stages) of quality which influences method and horizon of estimating write-downs:

- Stage 1, receivables without indications of impairment and without a significant increase of credit risk from the initial recognition,
- Stage 2, receivables without indications of impairment but with a significant increase of credit risk from the initial recognition,
- Stage 3, receivables with indications of impairment.

Expected credit losses of receivables classified into Stage 1 are estimated at a 12-month horizon. Losses of receivables classified into Stage 2 and Stage 3 are estimated at the life-time horizon (lifetime estimated horizon of expectancy life of receivables).

The Bank estimates the credit losses over the life-time horizon for purchased or originated credit impaired (POCI) financial assets, irrespective of current credit quality on evaluation date.

Moreover the Bank distinguishes a low credit risk group, which are excluded from the assessment of significant credit risk deterioration and are subject to valuation in the horizon of 12 months (or maturity, if shorter). The Bank qualifies for this group:

- State Treasury exposures (Ministry of Finance, National Bank of Poland, etc.),
- current / term settlements to entities from the banking sector, bearing in mind the very low risk profile of entities with whom the Bank concludes transactions as well as a very short horizon of transactions (O / N nature or multi-term term deposits).

The write-downs are the difference between the gross exposure value and expected recoveries after taking into account the status / probability of default in the given horizon. For POCI exposures, a write-downs is a positive or negative difference between their cumulative current estimation of expected credit losses and the cumulative level set at the acquisition/creation date of the exposure.

If financial assets are proven to be uncollectible, the Bank writes-down the receivables or parts thereof 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. Detailed are described in note 3.4.

21.2 Principles of credit quality (stages)

The Bank assesses the credit quality of receivables and classifies them into the appropriate risk categories (stages) at each balance sheet date.

Stage 3, receivables with triggers of impairment

The Bank defines the impairment triggers based on supervisory regulations and guidelines, taking into account its own experience related to credit risk management. 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.

Impairment triggers are as follows:

- a significant delay in payment, understood as a delay in repayment exists for over 90 days, while the overdue amount meets the materiality criterion of the payable amount (PLN 500 and 1% in relation to the total amount of exposure) in all the customer's accounts jointly where the customer is the owner/co-owner, or borrower/co-borrower;
- a major deterioration of the customer's economic and financial condition of business customers that can affect that client's is not able to realise contractual terms regarding the liabilities towards the Bank;
- restructuring, input as a result of the significant 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;
- business application for restructuring, bankruptcy and liquidation proceedings;
- effective termination of the contract;
- individual consumer bankruptcy;

- a significant deterioration of the internal score/rating of business customers, the rating falls below the level acceptable by the Bank;
- death of an individual customer (taking into account the impact on debt service threat in the case of obligations of many debtors);
- lack of information about the place of residence of an individual customer;
- loss of individual clients' work (recognized on the basis of an assessment of the customer's inability to pay the debt due to job loss);
- initiation of court or enforcement proceedings;
- exposure challenged by the debtor through court proceedings;
- frauds.

The above mentioned list of indicators is an open set.

In the case of an event that could be a sign for impairment, not covered by the above mentioned the catalog assesses its significance for the risk of the client defaulting on the basis of the original contractual terms and, if it is reasonable should determing the impairment's indicators.

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.

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.

Stage 2, without triggers of impairment, with a significant deterioration from the initial recognition

As at each balance date, Bank assesses whether the credit risk related to a given financial instrument has significantly increased since the day of its initial recognition. In order to make such an assessment, the Bank compares the estimated life-time default risk for a given financial instrument determined as at the reporting date with the risk of default of that financial instrument in the same period as of the initial recognition date, taking into account rational and documentable information that is available without excessive costs or efforts and which indicates a significant increase in credit risk from the initial recognition.

The rules for identifying a significant increase in credit risk from the initial recognition are based on:

- qualitative criterias and
- quantitative criterias.

The Bank includes as qualitative criteria:

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

The Bank includes as quantitative criteria:

- increase above defined materiality thresholds, cumulative probability of default in the maturity period set as at the valuation date in relation to the determination for the corresponding period made on the date of engagement, where in the estimates the Bank uses life-time PD models
- materiality thresholds are defined at the level of homogeneous segments, taking into account the credit quality of individual populations and assessing future macroeconomic factors.

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

Stage 1, without indications of impairment, without significant deterioration from the initial recognition

Credit exposures of customers for which impairment triggers are not identified and for which the Bank has not identified a significant credit quality deterioration from the initial recognition are classified in Stage 1.

21.3 Material estimates and assumptions – expected credit losses and impairment allowances

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

Principles of estimating write-downs for exposures without triggers of impairment (Stage 1 and Stage 2)

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 expected losses (ECL).

The estimated losses expected for exposures designated for Stage 1 or Stage 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 Stage 1 and the estimated horizon covers the period up to the expected maturity for Stage 2.

The EAD model shows the expected distribution of exposure of a given financial assets in the period to maturity. The model for products with repayment schedules is based on contractual cash flows adjusted for the effects 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 illustrates the expected, in the life-time horizon, default probability distribution of each exposure, which essentially depends on the segment / product group, the customer's individual credit quality and the life cycle phase of the exposure. It is used to estimate credit losses, to assess the occurrence of a significant deterioration in credit quality.

(in PLN '000)

The LGD model illustrates the expected level of loss from the exposure where the customer defaults. It takes into account all possible recovery paths / scenarios and the valuation of individual hedges of each transaction.

The estimation of particular parameters is made at the same level of homogeneous groups of exposures indicating common features in the described range.

Principles of estimating impairment allowance for exposures with identified impairment triggers (Stage 3).

Impaired exposures are split into those that are measured individually or in groups (collectively).

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 and takes into account the specificity nature of each group in terms of expected recoveries and the individual value of collateral for each exposure.

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. The methodology and assumptions underlying estimates of future cash flows are regularly analyzed to minimise the discrepancies between the estimated and actual losses.

Individual measurement applies to exposures of business customers threatened with impairment exceeding the threshold of a total commitment of PLN 3 million. Individual measurement is also allowed 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 scenarios. Each scenarios and each tree branch are assigned the likelihood of occurrence and anticipated recoveries reflecting restructuring and debt recovery strategies conducted towards the client. The value o recoveries anticipated within individual measurements are compared to the actual recoveries on a quarterly basis.

The Bank accepts that a financial asset or a group of financial assets are impaired and such impairment loss is incurred only when there are objective indications resulting from one or more events that have occurred after the initial recognition of such asset and the event (or events) causing trigger has a negative impact on the expected future cash flows of a given exposure, leading to the recognition of a loss.

As at 31 December 2019 and as at 31 December 2018 the Bank for loans exposures with impairment triggers had the recoverable value of collateral amounted to (in mPLN):

Portfolio	31.12.2019	31.12.2018
collective	778.2	482
individual	1 900.20	1 772

Exposures covered by an individual or group method of estimation for which the Bank does not identify a individual loss, they are grouped into homogeneous populations for which the Bank sets a minimum level of loss (the so-called LGD floor).

Changes in the estimation of recoveries affecting the level of losses are made by reversing the level of revaluation write-offs / provisions and are reflected in the profit and loss account.

21.4 Future macroeconomic factors in the assessment of credit quality and impairment allowances estimation

In accordance with IFRS 9, the assessment of significant credit quality deterioration and the estimation of write-offs, apart from reflecting the current quality of the loan portfolio, should take into account the expected macro-economic factors (FLI, forward-looking-information) that will occur in the future.

Due to the relatively short history of the Bank and the experience of functioning in the period of favourable economic conditions, the Bank has some limitations in the determination of complex correlations between the macroeconomic environment and the behavior of loan portfolios for all aspects affecting the level of expected losses. An additional burden to account for external factors is the limitation on shaping reliable, long-term macroeconomic scenarios.

Despite the restrictions, the Bank ensures that future macroeconomic factors are included in all significant components of the estimated credit losses. For this purpose, the Bank uses its own historical data, market observations, including observations for mature European markets and expert judgments. In all justified aspects, the Bank applies a scenario assessment.

The key aspects of estimating expected credit losses taking into account the impact of future macroeconomic factors at the Bank include:

- defining a significant deterioration of credit risk affecting the participation of Stage 2, where the Bank makes its scale dependent on macroeconomic forecasts by introducing a stabilizing and countercyclical mechanism (i.e., in a boom period, the Bank maintains a relatively high level of the Stage 2 which stabilizes the effects of recession or crisis economic),
- defining the probability of default (in the life-time dimension) affecting both the assessment of credit quality deterioration and the estimated level of losses,
- inclusion in the parameter of the estimated loss (LGD), in the long-term horizon characteristic of full recoverability cycles, scenarios of negative impact on the value of collateral (both in terms of market value and efficiency of debt collection processes) and the healing scale.

The macroeconomic assumptions adopted in the field of FLI are consistent with the forecasts defined by the Bank in terms of strategic business and financial plans. The process of defining macroeconomic forecasts is carried out by a specialized unit, i.e. the Bank's Economic Analysis Office in cooperation with the Bank's strategic investor. In cases where the analyzed horizon goes beyond the strategic plans window, macro assumptions are expertly defined on the basis of available external forecasts and estimates.

Scenarios of macroeconomic indicator forecasts are built on the basis of extreme forecasts published by the contributors on the Bloomberg website: the median deviations of the lowest and highest forecast value from the average indicator value for each quarter determined on the basis of forecasts available on the website are determined. The final values of the series of extreme forecasts used for the purposes of ECL estimation are the values deviated from the base forecast published by the Bank's Economic Analysis Office by the previously determined median deviation.

As at 31 December 31 2019, the Bank used extreme scenarios with the probability of:

- 5% for default phenomena

(in PLN '000)

- 10% for real estate price / recoverability

where the difference results from the horizons of the analyzed occurrence.

In the process of building FLI models and applications of future macroeconomic events, the Bank currently uses the following indicators: GDP, WIBOR, exchange rates of major currencies, unemployment rate, CPI.

21.5 Financial data (gross value, expected credit losses/ impairment allowances)

Data as at 31.12.2018 are restated in accordance with Note 4.2

Loans granted to customers	31.12.2019			31.12.2018		
	Gross value	Expected credit losses	Net value	Gross value	Expected credit losses	Net value
Retail segment	**34 519 004**	**-2 649 663**	**31 869 341**	**32 048 060**	**-2 604 564**	**29 443 496**
Consumer loans	20 296 824	-2 477 209	17 819 615	18 948 266	-2 419 791	16 528 475
Loans for residential properties	11 402 108	-130 782	11 271 326	10 490 966	-138 830	10 352 136
Consumer finance loans	2 820 072	-41 672	2 778 400	2 608 828	-45 943	2 562 885
Corporate segment	**26 478 815**	**-2 767 644**	**23 711 171**	**26 848 867**	**-2 053 103**	**24 795 764**
Working capital loans	14 204 756	-1 865 330	12 339 426	14 539 239	-1 426 679	13 112 560
Investment loans	7 641 382	-449 072	7 192 310	8 731 827	-418 291	8 313 536
Other business loans	4 632 677	-453 242	4 179 435	3 577 801	-208 133	3 369 668
Total	**60 997 819**	**-5 417 307**	**55 580 512**	**58 896 927**	**-4 657 667**	**54 239 260**

Loans granted to customers	30.09.2019			31.12.2018		
	Gross value	Expected credit losses	Net value	Gross value	Expected credit losses	Net value
Retail segment	**34 519 004**	**-2 649 663**	**31 869 341**	**32 048 060**	**-2 604 564**	**29 443 496**
Stage 1	29 084 087	-305 168	28 778 919	26 277 481	-288 859	25 988 622
Stage 2	2 576 933	-468 820	2 108 113	2 944 648	-539 526	2 405 122
Stage 3	2 742 152	-1 816 378	925 774	2 687 348	-1 739 333	948 015
POCI	115 832	-59 297	56 535	138 583	-36 846	101 737
Corporate segment	**26 478 815**	**-2 767 644**	**23 711 171**	**26 848 867**	**-2 053 103**	**24 795 764**
Stage 1	17 225 447	-169 604	17 055 843	19 063 481	-183 452	18 880 029
Stage 2	3 350 881	-259 506	3 091 375	3 375 925	-232 691	3 143 234
Stage 3	5 682 900	-2 307 213	3 375 687	4 149 232	-1 612 567	2 536 665
POCI	219 587	-31 321	188 266	260 229	-24 393	235 836
Total	**60 997 819**	**-5 417 307**	**55 580 512**	**58 896 927**	**-4 657 667**	**54 239 260**

Loans and advances to customers by method of allowance calculation	31.12.2109			31.12.2018		
	Gross value	Expected credit losses	Net value	Gross value	Expected credit losses	Net value
Stage 3	**8 425 052**	**-4 123 591**	**4 301 461**	**6 836 580**	**-3 351 900**	**3 484 680**
individualised method, including:	**3 594 887**	**-1 241 827**	**2 353 060**	**3 025 282**	**-931 978**	**2 093 304**
with identified impairment	2 951 945	-1 234 316	1 717 629	2 425 615	-928 978	1 496 637
without identified impairment	642 942	-7 511	635 431	599 667	-3 000	596 667
group method	**4 830 165**	**-2 881 764**	**1 948 401**	**3 811 298**	**-2 419 922**	**1 391 376**
with identified impairment	4 724 480	-2 874 121	1 850 359	3 766 488	-2 412 345	1 354 143
without identified impairment	105 685	-7 643	98 042	44 810	-7 577	37 233
Stage 2	**5 927 814**	**-728 326**	**5 199 488**	**6 320 573**	**-772 217**	**5 548 356**

(in PLN '000)

Loans and advances to customers by method of allowance calculation	31.12.2109			31.12.2018		
	Gross value	Expected credit losses	Net value	Gross value	Expected credit losses	Net value
Stage 1	**46 309 534**	**-474 772**	**45 834 762**	**45 340 962**	**-472 311**	**44 868 651**
POCI	**335 419**	**-90 618**	**244 801**	**398 812**	**-61 239**	**337 573**
Total	**60 997 819**	**-5 417 307**	**55 580 512**	**58 896 927**	**-4 657 667**	**54 239 260**

Loans and advances to customers – exposure of the Bank to the credit risk	31.12.2109			31.12.2018		
	Gross value	Expected credit losses	Net value	Gross value	Expected credit losses	Net value
Stage 3 (with identified impairment, of which):	**7 676 425**	**-4 108 437**	**3 567 988**	**6 192 103**	**-3 341 323**	**2 850 780**
assessed with individualised method	2 951 945	-1 234 316	1 717 629	2 425 615	-928 978	1 496 637
without identified impairment, of which:	**52 985 975**	**-1 218 252**	**51 767 723**	**52 306 012**	**-1 255 105**	**51 050 907**
Stage 3 (with recognised individual indication)	**748 627**	**-15 154**	**733 473**	**644 477**	**-10 577**	**633 900**
not overdue	342 403	-2 524	339 879	126 675	-3 521	123 154
overdue	406 224	-12 630	393 594	517 802	-7 056	510 746
Stage 1 and Stage 2	**52 237 348**	**-1 203 098**	**51 034 250**	**51 661 535**	**-1 244 528**	**50 417 007**
not overdue	48 865 183	-803 144	48 062 039	47 376 504	-842 308	46 534 196
Overdue	3 372 165	-399 954	2 972 211	4 285 031	-402 220	3 882 811
POCI	**335 419**	**-90 618**	**244 801**	**398 812**	**-61 239**	**337 573**
Total	**60 997 819**	**-5 417 307**	**55 580 512**	**58 896 927**	**-4 657 667**	**54 239 260**

In 2019 the Bank sold loans with a total gross value amounting to PLN 757 692 thousand, while the impairment allowance recorded for this portfolio amounted to PLN 593 284 thousand. The impact of debt sales on the cost of risk in 2019 amounted to PLN 31 433 thousand (gain).

In 2018 the Bank sold loans with a total gross value amounting to PLN 448 279 thousand, while the impairment allowance recorded for this portfolio amounted to PLN 353 047 thousand. The impact of debt sales on the cost of risk in 2018 amounted to PLN 33 367 thousand (gain).

In 2019 and 2018 the Bank wrote off the financial assets amounted to PLN 454 080 thousand and PLN 504 842 thousand. The financial assets that are written off concerned both the loan portfolio of individual and business customers. The financial assets that are written off are still the subject enforcement activity.

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Gross carrying amount as at 01.01.2019	**45 340 874**	**6 320 573**	**6 836 580**	**398 812**	**58 896 839**
New / purchased / granted financial assets	16 692 235	0	0	0	16 692 235
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-11 662 144	-1 647 262	-764 405	-63 364	-14 137 175
Financial assets written down	0	-49 573	-404 478	-29	-454 080
Transfer to Stage 1	1 435 227	-1 403 166	-32 061	0	0
Transfer to Stage 2	-3 604 830	3 792 130	-187 300	0	0
Transfer to Stage 3	-1 891 827	-1 084 888	2 976 715	0	0
Gross carrying amount as at 31.12.2019	**46 309 534**	**5 927 814**	**8 425 052**	**335 419**	**60 997 819**

(in PLN '000)

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses					
Expected credit losses as at 01.01.2019	**472 311**	**772 217**	**3 351 900**	**61 239**	**4 657 667**
New / purchased / granted financial assets	674 556	0	0	0	674 556
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-806 265	103 731	1 212 290	29 408	539 164
Financial assets written down	0	-49 573	-404 478	-29	-454 080
Transfer to Stage 1	231 720	-216 313	-15 407	0	0
Transfer to Stage 2	-93 999	148 348	-54 349	0	0
Transfer to Stage 3	-3 551	-30 084	33 635	0	0
Expected credit lossesas at 31.12.2019	**474 772**	**728 326**	**4 123 591**	**90 618**	**5 417 307**
Net carrying amount as at 31.12.2019	**45 834 762**	**5 199 488**	**4 301 461**	**244 801**	**55 580 512**

Loans and advances to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Gross carrying amount as at 01.01.2018	41 463 192	6 451 057	5 818 396	480 394	54 213 039
New / purchased / granted financial assets	16 832 872	0	0	0	16 832 872
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-9 474 011	-1 334 902	-754 673	-80 556	-11 644 142
Financial assets written down	0	-49	-503 767	-1 026	-504 842
Transfer to Stage 1	1 504 160	-1 450 145	-54 015	0	0
Transfer to Stage 2	-3 594 435	3 864 723	-270 288	0	0
Transfer to Stage 3	-1 390 817	-1 210 111	2 600 928	0	0
Gross carrying amount as at 31.12.2018	**45 340 962**	**6 320 573**	**6 836 580**	**398 812**	**58 896 927**
Expected credit losses					
Expected credit losses as at 01.01.2018	**540 317**	**825 445**	**2 723 356**	**22 990**	**4 112 108**
New / purchased / granted financial assets	348 969	200 233	228 910	60	778 172
Changes in the level of credit risk, derecognition (other than write-offs): repayments, changes in the valuation, sale or expiry of an instrument	-517 674	7 960	742 728	39 215	272 229
Financial assets written down	0	-49	-503 767	-1 026	-504 842
Transfer to Stage 1	207 953	-185 161	-22 792	0	0
Transfer to Stage 2	-64 863	109 652	-44 789	0	0
Transfer to Stage 3	-42 391	-185 863	228 254	0	0
Expected credit losses as at 31.12.2018	**472 311**	**772 217**	**3 351 900**	**61 239**	**4 657 667**
Net carrying amount as at 31.12.2018	**44 868 651**	**5 548 356**	**3 484 680**	**337 573**	**54 239 260**

By maturity (as at the balance sheet date)	31.12.2019	31.12.2018
Retail segment	**31 869 341**	**29 443 496**
≤ 1M	2 454 599	2 615 286
> 1M ≤ 3M	871 908	765 826
> 3M ≤ 6M	1 230 628	1 096 397
> 6M ≤ 1Y	2 132 847	1 976 997

(in PLN '000)

By maturity (as at the balance sheet date)	31.12.2019	31.12.2018
>1Y ≤ 2Y	3 326 034	2 951 156
>2Y ≤ 5Y	6 966 756	6 293 279
>5Y ≤ 10Y	6 882 294	6 260 175
>10Y ≤ 20Y	5 004 152	4 573 367
>20Y	3 000 123	2 911 013
Corporate segment	**23 711 171**	**24 795 764**
≤ 1M	6 093 700	6 777 660
> 1M ≤ 3M	1 058 390	1 280 072
> 3M ≤ 6M	1 283 920	1 063 873
> 6M ≤ 1Y	2 061 660	2 529 249
>1Y ≤ 2Y	3 598 838	3 020 801
>2Y ≤ 5Y	6 036 015	6 235 452
>5Y ≤ 10Y	3 107 714	3 086 591
>10Y ≤ 20Y	470 484	802 066
>20Y	450	0
Loans and advances to customers	**55 580 512**	**54 239 260**

By currency	31.12.2019	31.12.2018
Retail segment	**31 869 341**	**29 443 496**
PLN	29 647 506	27 747 110
EUR	1 492 078	1 208 410
GBP	353 956	274 302
USD	59 448	47 717
CHF	144 527	159 681
Other	171 826	6 276
Cprporate segment	**23 711 171**	**24 795 764**
PLN	19 805 110	20 150 418
EUR	3 833 801	4 513 887
GBP	1 959	182
USD	45 221	99 255
CHF	25 080	32 022
Loans and advances to customers	**55 580 512**	**54 239 260**

21.6 Sensitivity analysis of material estimates and assumptions

Impairment allowances under IFRS 9 due to the life-time horizon and using of scenarios, are generally characterized by significant sensitivity.

The tables below indicates the main areas of sensitivity with their impact on the level of write-offs.

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):

	31.12.2019	31.12.2018
	Scenario	Scenario
	-/+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	+232/-170	+/-222

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):

	31.12.2019	31.12.2018
	Scenario	Scenario
	-/+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	+179/-159	+/-151

The impact of increased/decreased PD parameter on the ECL in particular stage is presented in the table below (PLN M):

	31.12.2019	31.12.2018
	Scenario	Scenario
	-/+10%	-/+10%
Estimated change in the impairment allowance of loans and advances due to a change in the probability of default by +/- 10% or LGD by +/- 10% - Stage 1	+/-41	+/-50
Estimated change in the impairment allowance of loans and advances due to a change in the probability of default by +/- 10% or LGD by +/- 10% - Stage 2	+/-68	+/-68

The impact of the change in PKB on the share in Stage 2 is presented in the table below (PLN M):

	31.12.2019	31.12.2018
Estimated change in the impairment allowances of loans and advances as a result of the change in the share of Basket 2 in the taken extreme variable macro phases	+24/-81	+/-100

Defining a significant deterioration in credit risk affecting Stage 2's share is one of the key aspects of estimating expected losses taking into account the impact of future macroeconomic factors. The Bank makes its scale dependent on macroeconomic forecasts by introducing a stabilizing and countercyclical mechanism. This mechanism sets the horizon of the transfer-logic window (affecting the determination of the severity of the deterioration) in the range of 24-60 months. Historically, these horizons have been observed for a change in GDP from 100.4 to 103.1 (period of 24 months) and a decrease from 105.2 to 101.5 (period of 60 months).

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.

The Bank also includes property, plant and equipment in relation to which it holds the right to use, in accordance with IFRS 16. A detailed description in note 4.1.

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 net assets 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
Property, Plant & Equipment	
Premises	5-40
Parking, fasadas	1-10
Perpetual usufruct fees	5-71
Improvements in third party buildings or structures	5-10
Plant and machinery	1-5
Equipment	2-10
Means of transport	2.5-5

(in PLN '000)

Item	Use period in years
Intangible assets	
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.

22.2 Financial data

Property, Plant & Equipment

31.12.2019	Fixed assets under construction	Plant and machinery (including IT hardware)	Leasehold improvements	Owned buildings	Other	Total
Value at the purchase price as at 01.01.2019	**24 145**	**486 060**	**244 348**	**164 527**	**97 612**	**1 016 692**
Gross value of assets due to the right of use at the moment of IFRS 16's application	**0**	**0**	**0**	**0**	**378 076**	**378 076**
Acquisition of SKOK Jaworzno	**130**	**493**	**0**	**7 585**	**36**	**8 244**
Change, due to:	**23 719**	**20 150**	**14 111**	**-5 050**	**37 352**	**90 282**
Purchases in 2019	32 572	17 741	11 216	0	1 465	62 994
Sale in 2019	0	-9 809	-1	0	-174	-9 984
Reclassifications in 2019	-1 929	2 402	-47	52	99	577
Other changes	-6 924	9 816	2 943	-5 102	35 962	36 695
Value at the purchase price as at 31.12.2019	**47 994**	**506 703**	**258 459**	**167 062**	**513 076**	**1 493 294**
Cumulated depreciation as at 01.01.2019	**0**	**306 144**	**153 543**	**13 341**	**74 703**	**547 731**
Depreciation for 2019	0	57 079	19 090	5 321	93 429	174 919
Other changes	0	0	0	0	0	0

(in PLN '000)

Cumulated depreciation as at 31.12.2019	**0**	**363 223**	**172 633**	**18 662**	**168 132**	**722 650**
Impairment allowance as at 01.01.2019	**4**	**3 700**	**11 443**	**0**	**3 410**	**18 557**
Changes to allowances in 2019	0	2 318	746	0	352	3 416
Other changes	0	0	0	0	0	0
Impairment allowances as at 31.12.2019	**4**	**6 018**	**12 189**	**0**	**3 762**	**21 973**
Net value as at 01.01.2019	**24 141**	**176 216**	**79 362**	**151 186**	**19 499**	**450 404**
Net value as at 31.12.2019	**47 990**	**137 462**	**73 637**	**148 400**	**341 182**	**748 671**

31.12.2018	Fixed assets under construction	Plant and machinery (including IT hardware)	Leasehold improvements	Owned buildings	Other	Total
Value at the purchase price as at 01.01.2018	**42 187**	**420 408**	**213 669**	**160 132**	**97 082**	**933 478**
Change, due to:	**-18 042**	**65 652**	**30 679**	**4 395**	**530**	**83 214**
Purchases in 2018	11 631	42 687	30 326	3 288	3 160	91 092
Sale in 2018	0	-2 476	0	0	-4 998	-7 474
Other changes	-29 673	25 441	353	1 107	2 368	-404
Value at the purchase price as at 31.12.2018	**24 145**	**486 060**	**244 348**	**164 527**	**97 612**	**1 016 692**
Cumulated depreciation as at 01.01.2018	**0**	**244 839**	**129 742**	**8 155**	**69 064**	**451 800**
Depreciation for 2018	0	61 305	23 801	5 186	5 639	95 931
Cumulated depreciation as at 31.12.2018	**0**	**306 144**	**153 543**	**13 341**	**74 703**	**547 731**
Impairment allowance as at 01.01.2018	**4**	**3 063**	**9 024**	**0**	**2 629**	**14 720**
Changes to allowances in 2018	0	637	2 419	0	781	3 837
Impairment allowances as at 31.12.2018	**4**	**3 700**	**11 443**	**0**	**3 410**	**18 557**
Net value as at 01.01.2018	**42 183**	**172 506**	**74 903**	**151 977**	**25 389**	**466 958**
Net value as at 31.12.2018	**24 141**	**176 216**	**79 362**	**151 186**	**19 499**	**450 404**

The Bank as a lessee

Right to use	premises	perpetual usufruct fees / annual fees	parking	facades	transport means	total
Value at the purchase price as at 01.01.2019	**330 274**	**18 542**	**26 167**	**1 016**	**2 077**	**378 076**
Change, due to:	**38 698**	**309**	**-11 366**	**174**	**486**	**28 301**
Increase*	60 682	2 580	2 096	235	486	**66 079**
Decrease*	-21 984	-2 271	-13 462	-61	0	-37 778
Value at the purchase price as at 31.12.2019	**368 972**	**18 851**	**14 801**	**1 190**	**2 563**	**406 377**
Depreciation for 2019	81 966	931	4 074	233	1 219	88 423
Cumulated depreciation as at 31.12.2019	**81 966**	**931**	**4 074**	**233**	**1 219**	**88 423**
Changes to allowances in 2019	43	0	0	0	0	43
Impairment allowances as at 31.12.2019	**43**	**0**	**0**	**0**	**0**	**43**
Net value as at 31.12.2019	**286 963**	**17 920**	**10 727**	**957**	**1 344**	**317 911**

** The "increase" item includes new contracts and modifications. The item "decrease" includes modifications, write-offs.*

The balance of liabilities due to lease agreements and the maturity analysis are disclosed in note 29.2 "Other liabilities - financial data".

(in PLN '000)

Interest costs of liabilities due to leasing agreements are disclosed in note 6.2 "Net interest income - financial data".

Costs related to short-term leasing contracts and contracts with low value objects are recognized as general administrative expenses in the profit and loss account. In 2019, the Bank incurred costs of PLN 6 661 thousand for short-term contracts and for low-value contracts.

The Bank did not identify variable leasing payments that would not be part of the measurement of lease liabilities.

Information on cash flows related to lease contracts is explicitly included in the cash flow statement.

Information on the first application of IFRS 16, including the adopted simplifications, is presented in note 4.1.

Intangible assets

31.12.2019	Goodwill	Capital expenditure	Software, licences, R&D works	Trademark	Other	Total
Value at the purchase price as at 01.01.2019	**116 288**	**115 310**	**621 713**	**3 667**	**48 182**	**905 160**
Changes to intangible assets due to:	**0**	**-16 401**	**83 403**	**0**	**413**	**67 415**
Purchases in 2019	0	19 487	17 642	0	212	37 341
Reclassifications in 2019	0	-64 268	63 556	0	0	-712
Capitalised construction costs	0	18 230	9 911	0	0	28 141
Other changes	0	10 150	-7 706	0	201	2 645
Value at the purchase price as at 31.12.2019	**116 288**	**98 909**	**705 116**	**3 667**	**48 595**	**972 575**
Cumulated depreciation as at 01.01.2019	**0**	**0**	**293 680**	**0**	**47 669**	**341 349**
Depreciation for 2019	0	0	61 507	0	158	61 665
Cumulated depreciation as at 31.12.2019	**0**	**0**	**355 187**	**0**	**47 827**	**403 014**
Impairment allowance as at 01.01.2019	**11 920**	**9 959**	**10 064**	**3 367**	**0**	**35 310**
Changes to allowances in 2019	0	1 652	803	0	0	2 455
Impairment allowances as at 31.12.2019	**11 920**	**11 611**	**10 867**	**3 367**	**0**	**37 765**
Net value as at 01.01.2019	**104 368**	**105 351**	**317 969**	**300**	**513**	**528 501**
Net value as at 31.12.2019	**104 368**	**87 298**	**339 062**	**300**	**768**	**531 796**

31.12.2018	Goodwill	Capital expenditure	Software, licences, R&D works	Trademark	Other	Total
Value at the purchase price as at 01.01.2018	**116 288**	**83 403**	**560 334**	**3 667**	**47 884**	**811 576**
Changes to intangible assets due to:	**0**	**31 907**	**61 379**	**0**	**298**	**93 584**
Purchases in 2018	0	40 864	21 991	0	265	63 120
Capitalised construction costs	0	22 207	21 988	0	0	44 195
Other changes	0	-31 164	17 400	0	33	-13 731
Value at the purchase price as at 31.12.2018	**116 288**	**115 310**	**621 713**	**3 667**	**48 182**	**905 160**
Cumulated depreciation as at 01.01.2018	**0**	**0**	**240 215**	**0**	**28 258**	**268 473**
Depreciation for 2018	0	0	53 465	0	19 411	72 876

(in PLN '000)

31.12.2018	Goodwill	Capital expenditure	Software, licences, R&D works	Trademark	Other	Total
Cumulated depreciation as at 31.12.2018	**0**	**0**	**293 680**	**0**	**47 669**	**341 349**
Impairment allowance as at 01.01.2018	**11 920**	**8 228**	**9 482**	**3 367**	**0**	**32 997**
Changes to allowances in 2018	0	1 731	582	0	0	2 313
Impairment allowances as at 31.12.2018	**11 920**	**9 959**	**10 064**	**3 367**	**0**	**35 310**
Net value as at 01.01.2018	**104 368**	**75 175**	**310 637**	**300**	**19 626**	**510 106**
Net value as at 31.12.2018	**104 368**	**105 351**	**317 969**	**300**	**513**	**528 501**

22.3 Material estimates and assumptions – impairment test for goodwill

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

As at 31 December 2019, 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.
The Bank performs an impairment test in relation to a set of assets - a portfolio of individual loans, which are defined as cash flow generating centers ("CGUs") by comparing their carrying amount with their recoverable amount.
The recoverable amount 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 3 years net o 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 3.6%. The projected cash flows are based on the assumptions incorporated in the financial plan for the Alior Bank for 2019 and the Bank's strategy for up to and including 2025. The future cash flows have been discounted at the rate of 9.3%, including a risk-free rate and a risk premium.
The impairment test held as at 31 December 2019 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 plant and machinery and leasehold improve-ments 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		31.12.2019		31.12.2018	
		scenario +5 years	scenario -5 years	scenario +5 years	scenario -5 years
Plant and machinery		-32 566	266 090	-33 748	289 883
Leasehold improve-ments		-14 780	49 478	-15 898	73 181
		-47 346	**315 568**	**-49 646**	**363 064**

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	9.70%	No impairment	No impairment
growth rate	3.30%	No impairment	No impairment

(in PLN '000)

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

	31.12.2019	31.12.2018
Sundry debtors	**450 043**	**550 532**
Other settlements	295 606	320 905
Receivables related to sales of services (including insurance)	19 941	31 482
Guarantee deposits	15 530	16 782
Settlements due to cash in ATMs	118 966	181 363
Costs recognised over time	**29 600**	**33 945**
Maintenance and support of systems, servicing of plant and equipment	15 704	18 166
Other deferred costs	13 896	15 779
VAT settlements	**4 549**	**3 032**
Other assets (gross)	**484 192**	**587 509**
Write-down	-68 416	-69 626
Other assets (net)	**415 776**	**517 883**
including financial assets (gross)	450 043	550 532

24 Assets pledged as colleteral

24.1 Accounting principles

Those assets that secure liabilities the Bank is disclosed separately in the statement of financial position when the receiving party may sell or exchange the assets for other security.

24.2 Financial data

	31.12.2019	31.12.2018*
Treasury bonds blocked for REPO transactions	499	0
Financial assets measured at amortised cost in the EIB	334 990	333 198
Total	**335 489**	**333 198**

**Restated – note 4.2*

Apart from assets that secure liabilities that are disclosed separately in the statement of financial position, the Bank additionally held the following collateral for the liabilities that did not meet the criterion of separate presentation in accordance with IFRS 9:

(in PLN '000)

	31.12.2019	31.12.2018
Treasury bonds blocked with BGF	386 927	351 896
Deposits as derivative transactions (ISDA) collatera	135 157	124 998
Deposit as collateral of transactions performed in Alior Trader	608	88
Total	**522 692**	**476 982**

25 Amounts due to banks

25.1 Accounting principles

The liabilities due to banks are 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 2019 and 31 December 2018, the category covered liabilities due to deposits and issued securities as well as repo transactions.

25.2 Financial data

Structure by type	31.12.2019	31.12.2018
Current deposits	4 333	4 991
Term deposits	0	2 770
Own bond issues	22 763	22 761
Received loan	67 980	106 838
Other liabilities	270 418	336 482
Repo	499	0
Total amounts due to banks	**365 993**	**473 842**

By maturity (as at the balance sheet date)	31.12.2019	31.12.2018
≤ 1M	275 249	344 243
> 1M ≤ 3M	22 763	0
> 1Y ≤ 5Y	0	22 761
>5Y	67 981	106 838
Total amounts due to banks	**365 993**	**473 842**

By currency structure	31.12.2019	31.12.2018
PLN	298 918	407 494
EUR	61 172	60 794
USD	1	1

(in PLN '000)

By currency structure	31.12.2019	31.12.2018
GBP	5 900	2 782
Other	2	2 771
Total liabilities to banks	**365 993**	**473 842**

26 Amounts due to customers

26.1 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.

As at 31 December 2019 and 31 December 2018, this category included liabilities due to deposits and issued bank securities (BPW) and bonds.

26.2 Financial data

Structure by type and customer segment	31.12.2019	31.12.2018
Retail segment	**46 603 066**	**43 944 874**
Current deposits	30 700 187	28 546 686
Term deposits	13 333 981	12 777 384
Own issue of banking securities	2 318 064	2 380 331
Own bond issues	81 492	81 484
Other liabilities	169 342	158 989
Corporate segment	**18 409 694**	**18 482 991**
Current deposits	11 187 509	10 157 636
Term deposits	6 886 549	7 519 001
Issue of the Bank's securities	17 773	429 148
Own bond issues	148 669	163 883
Other liabilities	169 194	213 323
Total amounts due to customers	**65 012 760**	**62 427 865**

By maturity (as at the balance sheet date)	31.12.2019	31.12.2018
Retail segment	**46 603 066**	**43 944 874**
≤ 1M	33 078 909	31 096 078
> 1M ≤ 3M	3 467 445	3 968 381
> 3M ≤ 1Y	8 056 671	5 639 417
> 1Y ≤ 5Y	1 959 242	3 238 068
>5Y	40 799	2 930
Corporate segment	**18 409 694**	**18 482 991**
≤ 1M	15 902 580	14 540 474

(in PLN '000)

By maturity (as at the balance sheet date)	31.12.2019	31.12.2018
> 1M ≤ 3M	1 180 570	2 205 326
> 3M ≤ 1Y	910 129	1 237 059
> 1Y ≤ 5Y	386 875	456 186
>5Y	29 540	43 946
Total amounts due to customers	**65 012 760**	**62 427 865**

By currency structure	31.12.2019	31.12.2018
Retail segment	**46 603 066**	**43 944 874**
PLN	40 339 456	37 804 559
EUR	2 788 317	2 580 436
GBP	511 138	580 994
USD	2 466 086	2 540 593
CHF	159 918	151 577
Other	338 151	286 715
Corporate segment	**18 409 694**	**18 482 991**
PLN	15 491 339	15 474 802
EUR	2 274 715	1 909 583
GBP	61 152	85 084
USD	451 640	881 229
CHF	67 535	81 626
Other	63 313	50 667
Total amounts due to customers	**65 012 760**	**62 427 865**

In 2019 the Bank issued own securities amounted to PLN 686 620 thousand (BPW) and and securities purchased before maturity amounted to PLN 158 417 thousand.

In 2018 the Bank issued own securities amounted to PLN 1 111 576 thousand (BPW) and securities purchased before maturity amounted to PLN 123 966 thousand.

27 Financial liabilities

27.1 Accounting principles

The category includes derivatives and financial liabilities due to short sales. Those instruments are measured at fair value through the profit and loss account.

The Bank classified derivative instruments and securities (bonds) as financial liabilities as at 31 December 2019 and 31 December 2018. 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.

(in PLN '000)

27.2 Financial data

	31.12.2019	31.12.2018
Short sale of T-bonds	**108 498**	**0**
Interest rate transactions	**191 989**	**290 875**
SWAP	191 939	289 975
Cap Floor Options	50	900
Foreign exchange transactions	**63 389**	**55 226**
FX Swap	24 297	12 170
FX forward	8 790	13 117
CIRS	10 289	5 586
FX options	20 013	24 353
Other options	**68 289**	**36 028**
Other instruments	**4 691**	**34 278**
Total measured at fair value through profit or loss/ held for trading	**436 856**	**416 407**

By maturity	31.12.2019	31.12.2018
≤ 1W	4 863	2 196
> 1W ≤ 1M	69 659	49 495
> 1M ≤ 3M	25 108	26 668
> 3M ≤ 6M	46 410	47 403
> 6M ≤ 1Y	29 940	74 129
> 1Y ≤ 2Y	73 268	116 795
> 2Y ≤ 5Y	53 486	72 815
> 5Y ≤ 10Y	134 122	26 906
Total	**436 856**	**416 407**

28 Provisions

28.1 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), which is created due to the high probability of losing the court case by the Bank.

Details are specified in note 38.

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

Provisions for granted financial and guarantee obligations

The provision for off-balance sheet credit exposures is established in accordance with IFRS 9. Detailed rules of risk assessment are described in note 20. Off-balance sheet provisions are created taking into account the EAD model, where the provision is valued based on the EAD surplus over balance sheet exposure. In the process of valuation of provisions, the Bank applies risk parameters and estimation principles identical with the valuation of receivables

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. Moreover in connection with the acquisition of SKOK Jaworzno, the Bank recognized additional provisions for severance pay for employees and the expected costs of restructuring branches of former SKOK.

Provision for reimbursement of commissions and fees related to the loan prepayment - judgment of the Court of Justice of the European Union ('TSUE') of 11 September 2019

On 11 September 2019, the Court of Justice of the European Union judgment in case C-383/18 (so-called Lexitor case) was published. In deciding the case, the TSUE ruled that Article 16 (1) 1 of Directive 2008/48 / EC of the European Parliament and of the Council of 23 April 2008 on consumer credit agreements and repealing Council Directive 87/102 / EEC should be interpreted as meaning that the consumer's right to reduce the total cost of credit in the event of an earlier loan repayment includes all costs that have been imposed on the consumer.

The Court has clearly determined that with a prepayment the consumer is entitled to a reduction of all costs included in the total cost of the loan. However, this judgment did not indicate how to calculate such a reduction in relation to one-off costs, such as commissions and preparation fees.

On the basis of the legal interpretations held, the Bank's Management Board decided to apply a linear formula for settling loan costs with borrowers, which proportionality refers to the period between the actual loan repayment date and the repayment date specified in the contract and requires an equal division of the one-off cost into individual payment dates. This position was presented by the President of UOKiK and the Financial Ombudsman

As a result of the analysis of the effects of the TSUE ruling, the Bank changed the approach regarding reimbursement of the part of the total cost of consumer loans, which concerns the period from the date of early repayment of the loan to its original maturity. Starting from the day of the TSUE's judgment, the Bank carries out returns on a regular basis, and their effect reduces the interest result.

(in PLN '000)

In addition, the Bank estimated the effects of legal risk resulting from prepayments of consumer loans made before the date of the TSUE judgment and in accordance with IAS 37, created a provision for this purpose in the amount of PLN 243 099 thousand, which charged other operating costs. The amount of the provision was estimated on the basis of complaints to the Bank regarding the reimbursement of credit costs, taking into account their number and rate of inflow starting from the day of the TSUE judgment, as well as the distribution of the reimbursement amount.

In addition, the Bank estimated the difference between interest income recognized up to the balance sheet date using the effective interest method, and income that should have been recognized taking into account the effect of possible future prepayments of consumer loans and the resulting returns based on a straight-line formula. As a result, the Bank reduced interest income by PLN 49 708 thousand.

28.2 Financial data

	Provisions for disputes	Provisions for retirement benefits	Provisions for off-balance sheet liabilities granted	Restructuring provision	Provision for reimbursement of credit costs (TSUE)	Total provisions
As at 01 January 2019	**35 064**	**7 188**	**74 392**	**9 528**	**0**	**126 172**
Change due to acquisition of SKOK Jaworzno	231	113	0	6 563	0	6 907
Established provisions	22 214	17 454	121 890	0	243 099	404 657
Reversal of provisions	-7 293	-14 775	-128 587	-1 186	0	-151 841
Utilized provisions	-2 983	-567	0	-10 459	-15 545	-29 554
Other changes	2 589	0	-30	0	0	2 559
As at 31 December 2019	**49 822**	**9 413**	**67 665**	**4 446**	**227 554**	**358 900**

	Provisions for disputes	Provisions for retirement benefits	Provisions for off-balance sheet liabilities granted	Restructuring provision	Total provisions
As at 01 January 2018	**16 024**	**13 314**	**145 603**	**37 418**	**212 359**
including impact of MSSF 9	*0*	*0*	*121 926*	*0*	*121 926*
Established provisions	35 484	7 188	243 103	0	285 775
Reversal of provisions	-7 750	-12 887	-316 969	-6 800	-344 406
Utilized provisions	-8 698	-427	0	-21 090	-30 215
Other changes	4	0	2 655	0	2 659
As at 31 December 2018	**35 064**	**7 188**	**74 392**	**9 528**	**126 172**

Split of the restructuring provision as at 31.12.2019 is presented below:

	31.12.2018	due to acquisition of SKOK Jaworzno	utilisation	reversal	31.12.2019
Severance pay for employees	0	5 377	-4 638	0	739
Reorganisation of the branch network	9 528	1 186	-7 007	0	3 707
	9 528	**6 563**	**-11 645**	**0**	**4 446**

(in PLN '000)

28.3 Material estimates and assumptions

Actuarial provision

Provisions for employee benefits are measured with actuarial techniques and assumptions. The calculation covers all retirement benefits potentially disbursable 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.

Provision for reimbursement of commissions and fees related to the loan prepayment - judgment of the Court of Justice of the European Union ('TSUE') of 11 September 2019

The estimation of this provision required the Bank to adopt a number of expert assumptions regarding the number of anticipated relations and the average amount of return, which are associated with significant uncertainty resulting, among others, from from the short observation period and the volatility of observed trends that is difficult to estimate. The amount of the provision will be updated in subsequent periods depending on the number of complaints and the amounts to be refunded.

28.4 Sensitivity analysis of material estimates and assumptions

Actuarial provision

The Bank updated its estimates as at 31 December 2019 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 2.0% applied by the Bank is a major element affecting the amount of the provision. In 2018 the applied discount rate was 2.80%.

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 2019 and as at 31 December 2018 is presented in the tables below.

Estimated change of provision as at 31.12.2019	Financial discount rate		Planned growth of basis	
	Scenario +1pp	Scenario -1pp	Scenario +1pp	Scenario -1pp
Provisions for retirement benefits	8 571	10 471	10 567	8 560

Estimated change of provision as at 31.12.2018	Financial discount rate		Planned growth of basis	
	Scenario +1pp	Scenario -1pp	Scenario +1pp	Scenario -1pp
Provisions for retirement benefits	6 560	7 919	8 010	6 538

Provision for reimbursement of commissions and fees related to the loan prepayment - judgment of the Court of Justice of the European Union ('TSUE') of 11 September 2019

Significant assumptions adopted by the Bank to estimate the provision for reimbursement of credit costs as at 31 December 2019 include:

- the level of complaint expected in the future;

(in PLN '000)

- average refund amount.

Impact on level of provision	+1 000	-1 000
Level of complaint	3.6 m	3.6 m

Impact on level of provision	+10%	-10%
Average refund amount	22.7 m	22.7 m

29 Other liabilities

29.1 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.

29.2 Financial data

	31.12.2019	31.12.2018
Interbank settlements	344 832	354 356
Taxes, customs duty, social and health insurance payables and other public settlements	38 283	38 441
Settlements of payment cards	46 565	117 620
Other settlements, including	140 767	124 214
settlements with insurers	12 446	*20 118*
Liability for reimbursement of credit costs*	94 871	n/a
Settlements of issues of bank certificates of deposits	19 256	42 902
Accrued expenses	216 370	164 247
Income received in advance	62 737	72 995
Provision for bancassurance resignations	24 168	28 300
Provision for bonuses**	31 607	102 469
Provision for unutilised annual leaves	17 958	23 237
Provision for bonuse settled in phantom shares	813	15 355
Provision for retention programs	1 448	6 326
Revaluation of managment option plan – part settled in cash	180	1 068
Other employee provisions	1 727	2 870
Liabilities due to lease agreements	327 639	n/a
Other liabilities	6 644	17 057
Other liabilities	**1 375 865**	**1 111 457**
including financial liabilities	627 035	596 190

**Details in note 28*
*** Details in note 11*

Maturity of liabilities due to lease agreements, undiscounted flows

31.12.2019	premises	perpetual usufruct fees / annual fees	parking	facades	transport means	Total
less than a year	89 181	409	7 534	365	1 137	98 626
from 1 to 2 years	77 094	409	6 559	309	202	84 573
from 2 to 3 years	68 491	409	5 666	225	15	74 806
from 3 to 4 years	45 129	409	4 329	139	0	50 006
from 4 to 5 years	15 954	392	1 974	49	0	18 369
Over 5 years	7 588	12 196	1 344	86	0	21 214
	303 437	**14 224**	**27 406**	**1 173**	**1 354**	**347 594**

30 Subordinated liabilities

30.1 Description of the instrument

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

30.2 Financial data

					Status of liabilities	
Liabilities classified as the Bank's own funds	Nominal value in the currency (PLN '000)	Currency	Term	Interest	31.12.2019	31.12.2018
Subordinated loan	10 000	EUR	12.10.2011-12.10.2019	EBOR3M+4,5	0	43 189
Series F bonds	321 700	PLN	26.09.2014-26.09.2024	WIBOR6M +3,14	325 914	325 914
Series G bonds	192 950	PLN	31.03.2015-31.03.2021	WIBOR6M +3,50	195 551	195 551
Series I bonds	150 000	PLN	04.12.2015-06.12.2021	WIBOR6M +3,35	150 591	150 591
Series II bonds	33 350	PLN	04.12.2015-06.12.2021	WIBOR6M +3,35	33 482	33 482
Series B bonds (Meritum Bank)	67 200	PLN	29.04.2013-29.04.2021	WIBOR6M +5,80	67 975	67 885
Meritum Bank bonds – series C	80 000	PLN	21.10.2014-21.10.2022	WIBOR6M+4,10	0	80 582
Series EUR001 bonds	10 000	EUR	04.02.2016-04.02.2022	LIBOR6M + 6,00	43 635	44 060
Series P1A bonds	150 000	PLN	27.04.2016-16.05.2022	WIBOR6M +3,25	150 955	150 957
Series P1B bonds	70 000	PLN	29.04.2016-16.05.2024	WIBOR6M +3,00	70 424	70 424
Series K bonds	400 000	PLN	20.10.2017-20.10.2025	WIBOR6M +2,70	403 600	403 600
Series K1 bonds	200 000	PLN	20.10.2017-20.10.2025	WIBOR6M +2,70	201 800	201 800
Series P2A bonds	150 000	PLN	14.12.2017-29.12.2025	WIBOR6M +2,70	150 058	150 058
Subordinated liabilities					**1 793 985**	**1 918 093**

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

The Management Board of Alior Bank SA on 4 October 2019, adopted a resolution on the early redemption of C series own bonds, on 21 October 2014, of C series own bonds, total nominal value of PLN 80 000 000 issued in 21 October 2014 by Meritum Bank ICB SA (currently Alior Bank SA), whose final maturity date is 21 October 2022. These bonds were redeemed.

31 Equity

31.1 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 measured at fair value through other comprehensive income,
- 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.

On 28 June 2019, the Annual General Shareholders' Meeting of Alior Bank Spółka Akcyjna passed a resolution on distribution of profit for 2018 in the total amount of PLN 731 073 627.45 in the following way:

- coverage of accumulated loss resulting from the implementation of IFRS 9 in the amount of PLN 724 967 282.80
- allocation to reserve capital of non-distributable profit on the activity of the Housing Fund of PLN 6 106 344.65 pursuant to Art. 5.4 of the Act of 26 October 1995, on certain forms of support to housing construction (as amended).

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.

(in PLN '000)

31.2 Financial data

Equity	31.12.2019	31.12.2018
Share capital	1 305 540	1 305 540
Supplementary capital	5 388 926	5 382 819
Other reserves	179 505	184 284
Retained profit	-379 888	-1 104 855
Revaluation reserve	76 404	52 164
financial assets measured at fair value through other comprehensive income	35 828	26 940
from measurement of hedging instruments	40 576	25 224
Exchange rate differences on revaluation of foreign entities	605	-202
Current year profit	288 607	731 074
Total equity	**6 859 699**	**6 550 824**

Revaluation reserve	31.12.2019	31.12.2018
Valuation of financial assets measured at fair value through other comprehensive income	**35 828**	**26 940**
Treasury bonds	13 394	31 624
Other debt instruments	2 358	1 446
Equity instruments	28 480	189
Deferred income tax	-8 404	-6 319
Valuation of hedging derivatives	**40 576**	**25 224**
IRS	50 094	31 141
deferred income tax	-9 518	-5 917
Revaluation reserve	**76 404**	**52 164**

31.3 Shareholders of Alior Bank Spółka Akcyjna

As at 31 December 2019 and 2018, 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[4]	Number of votes	Number of votes in the total number of votes
31.12.2019					
PZU Group	41 689 286	416 892 860	31.93%	41 689 286	31.93%
Aviva OFE Aviva Santander	9 467 000	94 670 000	7.25%	9 467 000	7.25%
Nationale-Nederlanden OFE	9 300 000	93 000 000	7.12%	9 300 000	7.12%
Other shareholders	70 097 705	700 977 050	53.70%	70 097 705	53.70%
Total	**130 553 991**	**1 305 539 910**	**100,00%**	**130 553 991**	**100.00%**
31.12.2018					
PZU Group	41 658 850	416 588 500	31.91%	41 658 850	31.91%
Aviva OFE Aviva Santander	9 467 000	94 670 000	7.25%	9 467 000	7.25%
Nationale-Nederlanden OFE	7 600 000	76 000 000	5.82%	7 600 000	5.82%
BlackRock, Inc.	7 392 649	73 926 490	5.66%	7 392 649	5.66%

(in PLN '000)

Shareholder	Number of shares	Nominal value of shares [PLN]	Percentage in the share capital[4]	Number of votes	Number of votes in the total number of votes
Other shareholders	64 435 492	644 354 920	49.36%	64 435 492	49.36%
Total	**130 553 991**	**1 305 539 910**	**100.00%**	**130 553 991**	**100.00%**

31.4 Share capital structure

Series	Type of shares	Number of shares	Number of shares	Nominal value of shares	Series value at nominal prices (PLN)	
		31.12.2019	31.12.2018		31.12.2019	31.12.2018
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	863 827	863 827	10	8 638 270	8 638 270
Series E	Ordinary	524 404	524 404	10	5 244 040	5 244 040
Series F	Ordinary	318 701	318 701	10	3 187 010	3 187 010
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
Total		**130 553 991**	**130 553 991**		**1 305 539 910**	**1 305 539 910**

Other additional information

32 Off-balance sheet items

32.1 Accounting principles

In this item, the Bank presents financing and guarantee commitments.

In the item of financial liabilities, the Bank has commitments to grant loans. These commitments include approved loans, credit card limits and overdraft limits.

Guarantees and letters of credit are presented as guarantee items that secure the Bank's customers' compliance with their obligations to third parties.

The Bank charges commissions for liabilities granted, which are accounted for in accordance with the characteristics of the instrument.

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.

32.2 Financial data

	31.12.2019	31.12.2018
Granted off-balance liabilities	**8 879 804**	**11 172 589**
Concerning financing	**7 917 402**	**10 088 350**

(in PLN '000)

	31.12.2019	31.12.2018
Guarantees	**962 402**	**1 084 239**
Performance guarantees	211 369	215 724
Financial guarantees	751 033	868 515

By maturity – guarantees	31.12.2019	31.12.2018
≤ 1W	1 574	3 739
> 1W ≤ 1M	41 634	41 872
> 1M ≤ 3M	63 363	87 232
> 3M ≤ 6M	77 999	91 220
> 6M ≤ 1Y	133 099	89 439
> 1Y ≤ 2Y	167 266	177 330
> 2Y ≤ 5Y	351 670	430 609
> 5Y ≤ 10Y	119 638	156 653
> 10Y ≤ 20Y	6 159	6 145
Off-balance sheet liabilities granted, guarantees	**962 402**	**1 084 239**

By maturity – financial	31.12.2019	31.12.2018
≤ 1W	3 204 239	3 593 426
> 1W ≤ 1M	68 257	30 134
> 1M ≤ 3M	173 029	150 796
> 3M ≤ 6M	187 854	195 163
> 6M ≤ 1Y	777 985	1 366 269
> 1Y ≤ 2Y	1 711 416	1 802 079
> 2Y ≤ 5Y	596 420	1 757 212
> 5Y ≤ 10Y	591 030	819 124
> 10Y ≤ 20Y	368 050	180 927
> 20Y	239 122	193 220
Off-balance sheet liabilities granted, concerning financing	**7 917 402**	**10 088 350**

33 Additional information to the cash flow statement

33.1 Accountig principles

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.

33.2 Financial data

Operating activity

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

(in PLN '000)

Change of balances of loans and other receivables

	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018*
Change of receivables from customers – balance sheet	-1 341 252	-2 169 612
Change of receivables from banks – balance sheet	-40 046	79 815
Impact of MSSF 9	0	-824 832
Change of balances of loans and other receivables	**-1 381 298**	**-2 914 629**

**Restated Note 4.2*

Change of other liabilities

	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
Change of other liabilities – balance sheet	264 408	-536 126
Change of the revaluation reserve – balance sheet	24 240	38 220
Change of other liabilities – measured at amortised cost – balance sheet	-138 199	10 693
Change of allowance for deferred income tax in the revaluation reserve	-36 538	404
Provision for acquisition costs of fixed assets	-6 129	13 731
Provision for acquisition costs of intangible assets	-378 076	n/a
Other comprehensive income	104 820	-1 145 612
Change of other receivables	**-165 474**	**-1 618 690**

Change in other assets

	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
Change in other assets – balance sheet	102 107	6 164
Change in other assets	**102 107**	**6 164**

Investing activities

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

Purchase of property, plant and equipment and intangible assets

	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
Purchase of property, plant and equipment	-71 972	-91 092
Purchase of intangible assets	-61 286	-107 315
Total	**-133 258**	**-198 407**

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. .

(in PLN '000)

	31.12.2018	Cash flows		Non-cash changes,		31.12.2019
		Inflows	Outflows	Accrued interests	Currency differences	
Subordinated liabilities	1 918 093	0	-225 944	100 903	-421	1 793 985

34 Fair value hierarchy

34.1 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 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.

	Measurement method (techniques)	Material observable input 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 the reporting period, the position in the above-mentioned instruments was closed on back-to-back basis, which means that the change in valuation of options embedded in structured instruments is offset by changes in the valuation of options concluded on the interbank market.

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 2018, the sensitivity of changed measurement of those assets in the case of an increase of the credit spread by 1 basis point was PLN 37 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.
Shares PSP sp. z o.o.	Fair value estimation is based on the current value of the company's forecast results	Risk free rate

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.

(in PLN '000)

34.2 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.

31.12.2019	Level 1	Level 2	Level 3	Total
Investment financial assets				
Measured at fair value through profit and loss	**97 715**	**301 634**	**144 376**	**543 725**
SWAP	0	213 550	0	213 550
Cap Floor Ooptions	0	51	0	51
FX Swap	0	33 281	0	33 281
FX forward	0	16 522	0	16 522
CIRS	0	13 244	0	13 244
FX options	0	21 413	0	21 413
Other options	0	0	68 289	68 289
Other instruments	3 414	3 573	0	6 987
Financial deriatives	**3 414**	**301 634**	**68 289**	**373 337**
Equity instruments	167	0	58 435	58 602
Treasury bonds	94 074	0	0	94 074
Other bonds	60	0	17 652	17 712
Investments securities	**94 301**	**0**	**76 087**	**170 388**
Measured at fair value through other comprehensive income	**8 569 153**	**1 749 781**	**119 761**	**10 438 695**
Money bills	0	1 749 781	0	1 749 781
Equity instruments	0	0	51 218	51 218
Treasury bonds	8 548 971	0	0	8 548 971
Other bonds	20 182	0	68 543	88 725
Derivative hedging instruments	**0**	**134 832**	**0**	**134 832**
Interest rate transactions – SWAP	0	134 832	0	134 832

31.12.2018	Level 1	Level 2	Level 3	Total
Investment financial assets				
Measured at fair value through profit and loss	**24 724**	**411 197**	**79 217**	**515 138**
SWAP	0	286 014	0	286 014
Cap Floor Ooptions	0	903	0	903
FX Swap	0	40 353	0	40 353
FX forward	0	32 310	0	32 310
CIRS	0	11 723	0	11 723
FX options	0	23 819	0	23 819
Other options	0	0	36 028	36 028
Other instruments	19 039	16 075	0	35 114
Financial deriatives	**19 039**	**411 197**	**36 028**	**466 264**
Equity instruments	248	0	26 812	27 060
Treasury bonds	5 254	0	0	5 254
Other bonds	183	0	16 377	16 560
Investments securities	**5 685**	**0**	**43 189**	**48 874**
Measured at fair value through other comprehensive income	**7 183 621**	**0**	**96 459**	**7 280 080**
Equity instruments	0	0	22 935	22 935
Treasury bonds	7 109 317	0	0	7 109 317

(in PLN '000)

31.12.2018	Level 1	Level 2	Level 3	Total
Other bonds	74 304	0	73 524	147 828
Derivative hedging instruments	**0**	**112 400**	**0**	**112 400**
Interest rate transactions – SWAP	0	112 400	0	112 400

Alior Bank made an irrevocable decision to designate investments from the portfolio of equity investments available for sale as being measured at fair value through other comprehensive income. Equity investments, in relation to which the Bank chose the option of fair value valuation by other comprehensive income, were acquired with the goal of long-term and strategic maintenance of their investment portfolio without intending to realize profit on sales in the short or medium time horizon.

Issuer	Hierarchy level	Fair value on 31.12.2018	Fair value on 31.12.2019
PSP Sp.z o.o.	III	21 797	50 089
SWIFT	III	1 120	1 109
Other shares in cooperatives	III	18	20
Total		**22 935**	**51 218**

31.12.2019	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities measured at fair value through profit or loss	**112 278**	**256 289**	**68 289**	**436 856**
Bonds	108 498	0	0	108 498
SWAP	0	191 939	0	191 939
Cap Floor Ooptions	0	50	0	50
FX Swap	0	24 297	0	24 297
FX forward	0	8 790	0	8 790
CIRS	0	10 289	0	10 289
FX options	0	20 013	0	20 013
Other options	0	0	68 289	68 289
Other instruments	3 780	911	0	4 691
Derivative hedging instruments	**0**	**40 676**	**0**	**40 676**
Interest rate swaps - IRS	0	40 676	0	40 676

31.12.2018	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities measured at fair value through profit or loss	**17 709**	**362 670**	**36 028**	**416 407**
SWAP	0	289 975	0	289 975
Cap Floor Ooptions	0	900	0	900
FX Swap	0	12 170	0	12 170
FX forward	0	13 117	0	13 117
CIRS	0	5 586	0	5 586
FX options	0	24 353	0	24 353
Other options	0	0	36 028	36 028
Other instruments	17 709	16 569	0	34 278
Derivative hedging instruments	**0**	**9 381**	**0**	**9 381**
Interest rate swaps - IRS	0	9 381	0	9 381

(in PLN '000)

Reconciliation of changes at level 3 of fair value hierarchry

	Assets		Liabilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Opening balance	**175 676**	**293 967**	**36 028**	**51 719**
Acquisitions	27 277	10 319	21 176	10 454
Net changes recognized in other comprehensive income	32 334	13 992	0	0
Net changes recognized in other comprehensive income	63 419	-12 039	36 053	-9 352
Currency differences	-556	0	0	0
Settlement / redemption	-34 013	-130 563	-24 968	-16 793
Total	**264 137**	**175 676**	**68 289**	**36 028**

At the end of 2019, the impact of the credit spread on the valuation of debt instruments measured at fair value through other comprehensive income (FVOCI) was approx. amounted to PLN 6.38 million and for debt instruments measured at fair value through profit and loss account approx. amounted to PLN 1.19 million.

In 2019 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.

31.12.2019	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and cash equivalents	**1 352 604**	**997 969**	**354 635**	**0**	**1 352 604**
Amount due from banks	**212 885**	**0**	**212 885**	**0**	**212 885**
Loans and advances to customers	**55 580 512**	**0**	**0**	**54 052 859**	**54 052 859**
Retail segment	**31 869 341**	**0**	**0**	**30 530 648**	**30 530 648**
Consumer loans	17 819 615	0	0	17 210 745	17 210 745
Loans for residential real estate	11 271 326	0	0	10 568 044	10 568 044
Consumer finance loans	2 778 400	0	0	2 751 859	2 751 859
Corporate segment	**23 711 171**	**0**	**0**	**23 522 211**	**23 522 211**
Working capital facility	12 339 426	0	0	12 302 418	12 302 418
Investment loans	7 192 310	0	0	7 040 385	7 040 385
Other	4 179 435	0	0	4 179 408	4 179 408
Asstes pledged as collateral	**335 489**	**338 980**	**0**	**0**	**338 980**
Investment securities measured at amortized cost	**4 816 054**	**4 863 579**	**0**	**0**	**4 863 579**
Other financial assets	**450 043**	**0**	**0**	**450 043**	**450 043**
Liabilities					
Amounts due to banks	**365 993**	**0**	**365 993**	**0**	**365 993**
Current deposits	4 333	0	4 333	0	4 333
Bonds issued	22 763	0	22 763	0	22 763
Credit received	67 980	0	67 980	0	67 980
Other liabilities	270 418	0	270 418	0	270 418
Repo	499	0	499	0	499
Amounts due to customers	**65 012 760**	**0**	**0**	**65 113 738**	**65 113 738**
Current deposits	41 887 696	0	0	41 887 696	41 887 696
Term deposits	20 220 530	0	0	20 220 530	20 220 530

(in PLN '000)

31.12.2019	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Banking securities issued	2 335 837	0	0	2 436 815	2 436 815
Bonds issued	230 161	0	0	230 161	230 161
Other liabilities	338 536	0	0	338 536	338 536
Other financial liabilities	**627 035**	**0**	**0**	**627 035**	**627 035**
Subordinated liabilities	**1 793 985**	**0**	**0**	**1 793 985**	**1 793 985**

31.12.2018*	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and cash equivalents	**2 077 630**	**1 639 033**	**438 597**	**0**	**2 077 630**
Amount due from banks	**172 839**	**0**	**172 839**	**0**	**172 839**
Loans and advances to customers	**54 239 260**	**0**	**0**	**53 657 228**	**53 657 228**
Retail segment	**29 443 496**	**0**	**0**	**28 967 837**	**28 967 837**
Consumer loans	16 528 475	0	0	16 696 138	16 696 138
Loans for residential real estate	10 352 136	0	0	9 705 977	9 705 977
Consumer finance loans	2 562 885	0	0	2 565 722	2 565 722
Corporate segment	**24 795 764**	**0**	**0**	**24 689 391**	**24 689 391**
Working capital facility	13 112 560	0	0	13 133 540	13 133 540
Investment loans	8 313 536	0	0	8 186 184	8 186 184
Other	3 369 668	0	0	3 369 667	3 369 667
Asstes pledged as collateral	**333 198**	**336 577**	**0**	**0**	**336 577**
Investment securities measured at amortized cost	**5 932 352**	**5 994 085**	**0**	**0**	**5 994 085**
Other financial assets	**550 532**	**0**	**0**	**550 532**	**550 532**
Liabilities					
Amounts due to banks	**473 842**	**0**	**473 842**	**0**	**473 842**
Current deposits	4 991	0	4 991	0	4 991
Term deposits	2 770	0	2 770	0	2 770
Bonds issued	22 761	0	22 761	0	22 761
Credit received	106 838	0	106 838	0	106 838
Other liabilities	336 482	0	336 482	0	336 482
Amounts due to customers	**62 427 865**	**0**	**0**	**62 468 585**	**62 468 585**
Current deposits	38 704 322	0	0	38 704 322	38 704 322
Term deposits	20 296 385	0	0	20 296 385	20 296 385
Banking securities issued	2 809 479	0	0	2 850 199	2 850 199
Bonds issued	245 367	0	0	245 367	245 367
Other liabilities	372 312	0	0	372 312	372 312
Other financial liabilities	**596 190**	**0**	**0**	**596 190**	**596 190**
Subordinated liabilities	**1 918 093**	**0**	**0**	**1 918 093**	**1 918 093**

**Restated – note 4.2*

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 fair value of the loan is lower than its carrying value.

Amounts 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.

35 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 and associate are:

Name of company – subsidiaries	31.12.2019	31.12.2018
Alior Services sp. z o.o.	100%	100%

(in PLN '000)

Name of company – subsidiaries	31.12.2019	31.12.2018
Alior Leasing sp. z o.o.	100%	100%
- Serwis Ubezpieczeniowy sp. z o.o.	*100%*	*100%*
Meritum Services ICB SA	100%	100%
NewCommerce Services sp. z o.o.	100%	100%
Alior TFI SA	100%	100%
Absource sp. z o.o.	100%	100%
Corsham sp. z o.o.*	100%	-
*- PayPo sp. z o.o.****	*20%*	-
RBL_VC sp. z o.o.**	100%	-

**On 4 February 2019, Alior Bank SA acquired 100 shares in Corsham sp. z o.o. with a nominal value of PLN 50 each, all consisting 100% of the share capital. The purchase price of the company was of PLN 11 696 30. On 28 March 2019, Corsham sp. z o.o. acquired shares in the company PayPo sp. o.o.*
***On 23 October 2019, Alior Bank SA acquired 100 shares of RBL_VC sp. z o.o. with a nominal value of PLN 50 each, with a total nominal value of PLN 5 000 and covered them with a cash contribution.*
****On 4 January 2019 year the Management Board of GTR Finance sp. z o.o. informed about registration in the National Court Register of amendments to the Company Statute made pursuant to the resolution of the Extraordinary General Meeting of the Shareholders of 7 November 2018. Changes included the Company's name from GRT Finance społka z ograniczoną odpowiedzialnością to PayPo spółka z ograniczoną odpowiedzialnością*

Name of company – associate	31.12.2019	31.12.2018
PayPo sp. z o.o./ GTR Finance sp. z o.o.	-	20%

There was a change in the Bank's statement of financial position in line Investments in subsidiaries and associate amounted to PLN 57 905 thousand during 2019. This change results:

	from the equity increase in subsidiaries	changes due to acquisition	changes due to disposal
Alior Leasing sp. z o.o.	20 000	-	-
NewCommerce Services sp. z o.o.	28 695	-	-
Alior TFI SA	3 000	-	-
Corsham sp. z o.o.	-	10 205	-
RBL_VC sp. z o.o.	-	5	-
PayPo sp. z o.o./ GTR Finance sp. z o.o	-	-	-4 000
	51 695	**10 210**	**-4 000**

Subsidiaries	31.12.2019	31.12.2018
Assets		
Loans and advances to customers	1 340 939	1 540 046
Other assets	643	1 484
Total assets	**1 341 582**	**1 541 530**
Liabilities		
Amounts due to customers	66 537	57 427
Provisions	116	27
Other liabilities	2 099	3 723
Total liabilties	**68 752**	**61 177**

(in PLN '000)

Parent company	31.12.2019	31.12.2018
Assets		
Other assets	3 052	2 936
Total assets	**3 052**	**2 936**
Liabilities		
Amounts due to customers	52	78
Provisions	79	4
Total liabilities	**131**	**82**

Subsidiaries of the parent company	31.12.2019	31.12.2018
Assets		
Investment financial assets	0	122
measured at fair value through profit or loss	0	122
Derivative hedging instruments	0	271
Amounts due from banks	469	224
Other assets	54	32
Total assets	**523**	**649**
Liabilities		
Financial liabilities	707	0
Amounts due to customers	360 136	313 930
Provisions	53	3
Other liabilities	22 403	10 481
Total liabilities	**383 299**	**324 414**

Subsidiaries	31.12.2019	31.12.2018
Off-balance liabilities granted to customers	**252 975**	**270 537**
Relating to financing	132 572	92 194
Guarantees	120 403	178 343

Parent company	31.12.2019	31.12.2018
Off-balance liabilities granted to customers	**0**	**116**
Guarantees	0	116

Subsidiary of the parent entity	31.12.2019	31.12.2018
Off-balance liabilities granted to customers	**0**	**0**
Guarantees	0	0

Joint control by persons related to the Bank	31.12.2019	31.12.2018
Assets		

Joint control by persons related to the Bank	31.12.2019	31.12.2018
Loans and advances to customers	3	0
Total assets	**3**	**0**
Liabilities		
Amounts due to customers	9 981	31 277
Total liabilities	**9 981**	**31 277**

Subsidiaries	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
Interest income	55 473	43 495
Interest expences	-266	-121
Fee and commission income	7 018	7 322
Fee and commission expense	3 832	3 550
Dividend income	-328	-295
Other operating income	1 819	544
Other operating expenses	-1	0
General administrative expenses	-6 647	-6 123
Net expected credit losses	1 713	12 089
Razem	**62 613**	**60 461**

Parent company	01.01.2019 - 31.12.2019	01.01.2018-31.12.2018
Interest income	0	2
Interest expences	-1	-1
Fee and commission income	10	14
Fee and commission expense	-1 654	-169
Net other operating income and expenses	-1 002	-1 180
General administrative expenses	-3 264	-2 301
Net expected credit losses	-75	1
Total	**-5 986**	**-3 634**

Subsidiaries of the parent company	01.01.2019 - 31.12.2019	01.01.2018-31.12.2018
Interest income	37 796	20 657
Interest expences	-9 609	-7 466
Fee and commission income	2 999	5 567
Fee and commission expense	-9	-6
The result on financial assets measured at fair value through profit or loss and FX result	-975	-1 115
Net other operating income and expenses	10	0
General administrative expenses	-2	0
Net expected credit losses	-50	10
Total	**30 160**	**17 647**

(in PLN '000)

Joint control by persons related to the Bank	01.01.2019 – 31.12.2019	01.01.2018 – 31.12.2018
Interest expense	-73	-361
Fee and commission income	13	1
Net expected credit losses	1	0
Total	**-59**	**-360**

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.

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	31.12.2019	31.12.2018
Investment financial assets	**13 900 920**	**13 537 573**
measured at fair value through other comprehensive income	8 638 195	7 250 424
measured at fair value through profit or loss	111 726	21 631
measured at amortized cost	5 150 999	6 265 518
Amounts due from banks	427	628
Loans and advances to customers	100 871	23 416
Total assets	**14 002 218**	**13 561 617**
Financial Liabilities	108 496	0
Amounts due to banks	89 220	127 772
Amounts due to customers	737 275	934 724
Total liabilities	**934 991**	**1 062 496**

State Treasury and related entities	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Interest income	257 453	255 384
Interest expense	-21 660	-35 343
The costs of paid tax	-545 697	-629 261
Total	**-309 904**	**-409 220**

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

36 Benefits for the for senior executives

36.1 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 remuneration of persons in managerial positions at the Bank

The Bank has a Remuneration Policy covering all employees. The Remuneration Policy is reviewed by the Nomination and Remuneration Committee and adopted by the Management Board and approved by the Supervisory Board. With respect to people in managerial positions who affect the risk profile, the Policy has been determined on the basis of the 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.

Persons who influence the Risk Profile (MRT) are members of the Management Board, managing directors and persons identified on the basis of criteria defined in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36 of the European Parliament and of the Council The EU with regard to regulatory technical standards in relation to qualitative and appropriate quantitative criteria for determining the categories of employees whose professional activities have a material impact on the institution's risk profile.

The main policy submissions in relation to the MRT:

- the remuneration is composed of fixed remuneration and variable remuneration;
- not grant MRT unidentified retirement benefits;
- MRT's commitment not to use 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 for persons in control functions, the total amount of variable remuneration is based on the assessment of performance of the MRT 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;
- maximum ratio of MRT variable remuneration to fixed remuneration: 100%;
- at least 50% of the MRT’s variable remuneration is an incentive to pay special attention to the Bank's long-term good and is therefore composed of financial instruments related to the Bank's shares; the remaining part of the variable remuneration paid in cash as cash variable remuneration;
- at least 40% of the variable MRT remuneration, and if the variable remuneration of the MRT amounts to a particularly high amount, at least 60% of the variable remuneration - is deferred remuneration;

(in PLN '000)

- variable remuneration of the Management Board is adapted to the provisions of the Act of 9 June 2016 about the principles of determining the remuneration of persons managing certain companies.

36.2 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
Loans and advances to customers	7	0	7
Total assets	**7**	**0**	**7**
Amounts due to customers	2 232	11	2 221
Total liabilities	**2 232**	**11**	**2 221**

	Supervising, managing persons	Supervisory Board	Bank's Management Board
Off-balance liabilities granted to customers	**33**	**0**	**33**
concerning financing	33	0	33

Remuneration of the Supervisory Board and Management Board in reporting period	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Management Board		
short-term employee benefits	7 063	11 350
long-term benefits	0	2 840
post-employment benefits	6 730	9 290
termination benefits	2 542	8 733
Management Board, total	**16 355**	**32 213**
Supervisory Board		
short-term employee benefits	920	1 106
Supervisory Board, total	**920**	**1 106**

The amounts in the table above include remuneration representing the cost of a given period (due or paid). In addition, in 2019, the Bank released provisions in the amount of 29.4 million created in previous years related to bonus programs.

Number of shares held by the members of the Management Board	31.12.2019	31.12.2018
Krzysztof Bachta	5 000	2 168
Filip Gorczyca	-	4 000
Total	**5 000**	**6 168**

Agreements of Members of the Management Board in accordance with the resolution of the Extraordinary General Meeting of the Bank of 5 December 2017 regarding the regulation of remuneration principles for members of the Management Board of Alior Bank and the principles adopted by the Supervisory Board:

- contracts for time of performing functions, relating to the Act of 9 June 2016 about the principles of determining the remuneration of persons managing certain companies,
- 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.
- severance pay in the amount of 3 times the fixed remuneration in the event of termination of the contract or termination of the contract by the Bank for all reasons other 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 fixeed salary.

36.3 Bonus system for senior executives

Since 2016, the Management Board has been covered by the bonus system for the Management Board. The purpose of the program 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. The Management Board's variable remuneration is granted and paid in accordance with the Remuneration Policy described above.

The other members of senior executives, with particular emphasis on those having an Impact on the Risk Profile (MRT), 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 MRT and organizational unit results as well as the Bank's results in the area of the person's responsibility, taking into account the results of the entire Bank. Pursuant to the Policy of remuneration 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 partly in financial instruments in the form of phantom shares.

The settlement of the phantom shares shall be in cash.

(in PLN '000)

	Number of phantom shares	The average share price for the completed phantom shares	Number of phantom shares	The average share price for the completed phantom shares
	01.01.2019-31.12.2019		01.01.2018-31.12.2018	
At the beginning of the perid	156 814	-	196 385	
Granted during the period	52 098	-	71 617	
Forfeited during the period	110 825	-	-	
Realized during the period	40 577	0.01	119 704	0.01
At the end of the period	57 510	-	156 814	-
Exercisable at end of period	0	-	0	-

	Phantom shares as at 31.12.2019	Phantom shares as at 31.12.2018
The average fair value of the instrument at the end of the period (PLN)	28.68	53.15
The exercise price of the instrument (for instruments outstanding at the end of the period) (PLN)	0.01	0.01
The average maturity date of the instrument occurring at the end of the period	25.11.2020	23.01.2020

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.

36.4 Management option scheme

The Management Option Scheme for 2013-15 including members of the Management Board and a group of Bank's managers who were not members of the Management Board was implemented on the basis of Resolution No. 28/2012 of the Extraordinary General Meeting of Alior Bank SA of 19 October 19 2012 regarding the conditional increase in the Bank's share capital and the issue of subscription warrants and regulations incentive program adopted by the resolution of the Supervisory Board of Alior Bank SA of 27 March 2013.

Program assumptions: issue of three tranches of subscription warrants (series A, B and C) and the corresponding three tranches of new Bank shares (series D, E and F) with a total nominal value not exceeding PLN 33 312 500. On 15 December 2018, Series A warrants, entitling their holders to subscribe for Series D shares, expired, and Series B warrants - expired in December 2019. In relation to series C warrants, on November 4, 2019, the Bank's Supervisory Board decided that they would not be partially issued.

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.

(in PLN '000)

	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
At the beginning of the period (01.01.2019)	**1 160 412**	**-**	**91 472**	**-**
Expired during the period	-	-	-	-
Forfeited during the period	616 687	-	62 764	-
Completed during the period	-	-	-	-
At end of period (31.12.2019)	**543 725**	**-**	**28 708**	**-**
Possible to be performed at the end of the period 31.12.2019)				

	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
At the beginning of the period (01.01.2018)	**2 547 486**	**-**	**242 953**	**-**
Expired during the period	-	-	-	-
Forfeited during the period	111 924	-	-	-
Completed during the period	1 275 150	64	151 481	53
At end of period (31.12.2018)	**1 160 412**	**-**	**91 472**	**-**
Possible to be performed at the end of the period 31.12.2018)	1 011 219	-	-	-

	Subscription warrants	Phantom shares	Subscription warrants	Phantom shares
	31.12.2019		31.12.2018	
The average fair value of the instruments at the end of the period (PLN)	0.03	0.14	5.98	9.99
The exercise price of the instrument (for instruments outstanding at the end of the period) (PLN)	66.06	53.87	65.98	53.80
The average maturity date of the instrument occurring at the end of the period	15.12.2020	15.12.2020	23.11.2021	23.11.2021

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.

(in PLN '000)

37 Offsetting of financial assets and liabilities

37.1 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 deposts placed by the counterparties under CSA (Credit Support Annex).

37.2 Financial data

31.12.2019	Total financial assets	Derivative instruments	Repo transactions
Assets			
Gross value of recognised financial assets	**683 644**	**508 169**	**175 475**
Gross value of financial liabilities subject to netting			
Net value of financial assets disclosed in the statement of financial position	**683 644**	**508 169**	**175 475**
Value of financial instruments that are not subject to netting in the financial statements	**-398 776**	**-398 776**	**0**
Received cash margin deposit	-139 473	-139 473	0
Amount of financial liabilities that do not satisfy the netting requirements in the financial statements (under signed ISDA agreements)	-259 303	-259 303	0
Net value of financial assets	**284 868**	**109 393**	**175 475**

31.12.2019	Total financial liabilities	Derivative instruments	Repo transactions
Liabilities			
Gross value of financial liabilities	**369 534**	**369 035**	**499**
Gross value of financial assets subject to netting			
Net value of financial liabilities disclosed in the statement of financial position	**369 534**	**369 035**	**499**
Value of financial instruments that are not subject to netting in the financial statements	**-273 877**	**-273 877**	**0**
Received cash margin deposit	-14 574	-14 574	0

(in PLN '000)

Amount of financial liabilities that do not satisfy the netting requirements in the financial statements (under signed ISDA agreements)	-259 303	-259 303	0
Net value of financial liabilities	**95 657**	**95 158**	**499**

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

31.12.2019	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
Financial assets				
Derivatives	134 832	Derivative hedging instruments	134 832	0
Derivatives	284 088	Financial assets measured at fair value through profit or loss	543 925	259 837
Repo transactions	175 475	Assets pledged as collateral	335 489	160 014
Cash collateral received	180 364	Amounts due from banks	212 885	32 521
Financial liabilities				
Derivatives	40 676	Derivative hedging instruments	40 676	0
Derivatives	246 411	Financial liabilities	436 856	190 445
Cash collateral received	44 714	Amounts due to banks	365 993	321 279

31.12.2018*	Total financial assets	Derivative instruments	Repo transactions
Assets			
Gross value of recognised financial assets	**610 283**	**578 664**	**31 619**
Gross value of financial liabilities subject to netting			
Net value of financial assets disclosed in the statement of financial position	**610 283**	**578 664**	**31 619**
Value of financial instruments that are not subject to netting in the financial statements	**-137 978**	**-137 978**	**0**
Received cash margin deposit	-93 421	-93 421	0
Amount of financial liabilities that do not satisfy the netting requirements in the financial statements (under signed ISDA agreements)	-44 557	-44 557	0
Net value of financial assets	**472 305**	**440 686**	**31 619**

31.12.2018	Total financial liabilities	Derivative instruments	Repo transactions
Liabilities			
Gross value of financial liabilities	**425 788**	**425 788**	**0**
Gross value of financial assets subject to netting			
Net value of financial liabilities disclosed in the statement of financial position	**425 788**	**425 788**	**0**
Value of financial instruments that are not subject to netting in the financial statements	**-54 412**	**-54 412**	**0**
Received cash margin deposit	-9 855	-9 855	0
Amount of financial liabilities that do not satisfy the netting requirements in the financial statements (under signed ISDA agreements)	-44 557	-44 557	0

(in PLN '000)

31.12.2018	Total financial liabilities	Derivative instruments	Repo transactions
Net value of financial liabilities	**371 376**	**371 376**	**0**

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

31.12.2018*	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
Financial assets				
Derivatives	112 400	Derivative hedging instruments	112 400	0
Derivatives	315 932	Financial assets measured at fair value through profit or loss	515 138	199 206
Repo transactions	0	Assets pledged as collateral	333 198	333 198
Cash collateral received	132 595	Amounts due from banks	172 839	40 244
Financial liabilities				
Derivatives	9 381	Derivative hedging instruments	9 381	0
Derivatives	347 135	Financial liabilities	416 407	69 272
Cash collateral received	54 027	Amounts due to banks	473 842	419 815

Restated-note 4.2

38 Legal claims

In the Bank's opinion, no single court, arbitration court or public administration body proceedings in progress during the 2019, and none of the proceedings jointly, could pose a threat to the Bank's financial liquidity. The proceedings which according to the opinion of the Management Board are significant are presented below:

- case claimed by a client - limited company for a payment of PLN 109 967 thousand in respect of compensation for damage incurred in connection with the conclusion and settlement of treasury transactions. The claim dated 27 April 2017 was brouhgt against Alior Bank SA and Bank BPH SA. In the Bank's opinion, the claim has no valid factual and legal basis and probability of an outflow of funds is negligible;
- case claimed by a client - limited company for a payment of PLN 17 843 thousand for clearing currency option contractsThe claim dated 10 February 2015 was brouhgt orginally against BPH SA. In the Bank's opinion, the claim has no valid factual and legal basis and probability of an outflow of funds is negligible. The claim was dismissed unlawfully in its entirety;
- case claimed by a client - a private individual - a representative of a group of 84 private individuals and corporate clients to determine the Bank's liability for damage. On 5 March 2018 class actions was filed against Alior Bank in determining the Bank's liability for damage caused by improper performance of information obligations by the Bank towards clients and improper performance of contracts for the provision of services for the receipt and transfer of purchase or sale orders investment's certificates of investment funds previously managed by Fincrea TFI SA, and currently Raiffeisen Bank International AG (Joint Stock Company) Branch in Poland. In the claiment's view Bank did not provide clients with information about the real risk of investing in investment products, thus exposing the clients to damage resulting from the impairment of investment certificates and the loss of guaranteed profits. In the Bank's opinion, a class action lawsuit has no valid factual or

legal basis and therefore should not be resolved in favor of customers. However, by a decision of 27 September 2019, to which a collective claim was lodged, the court decided to hear the case in collective proceedings. On 12 November 2019, the Bank lodged a complaint against the abovementioned decision. Alior Bank assumes that the probability of an outflow of funds under this lawsuit is estimated at less than 50%, thus as at 31 December 2019, the Bank did not create any provisions in respect of this claim. At the present stage, it is not possible to estimate the financial consequences for the Bank in the event of a different settlement by the court than assumed by the Bank.

Polish Financial Supervision Authority (PFSA) by decision of 6 August 6 2019 issued on the basis of art. 167 section 2 point 1 in connection with art. 167 section 1 point 1 of the Act on trading in financial instruments, imposed a fine on the Bank in the amount of PLN 10 000 000. The proceedings concerned the correct operation of Alior Bank and the Bank's Brokerage House in the scope of distribution of investment certificates of funds previously managed by Fincrea TFI S.A. and now Raiffeisen Bank International AG (Joint Stock Company) Branch in Poland. The bank requested the PFSA to reconsider the case. The Polish Financial Supervision Authority, after re-examining the case with a decision of 3 December 2019, upheld the original decision. On 3 January 2020, the Bank appealed against this decision to the Provincial Administrative Court in Warsaw.

The value of disputed claims amounted to PLN 332 526 thousand as at the end of 2019 and PLN 258 700 thousand as at the end of 2018.

The value of provisions for disputed claims amounted to PLN 49 822 thousand as at the end of 2019 and PLN 35 064 thousand as at the end of 2018.

Judgment of the Court of Justice of the European Union ('TSUE') of 3 October 2019

On 3 October 2019, the TSUE judgment in case C260/18 was published. This judgment contains answers (legal interpretations) to questions asked by a Polish court. These questions were formulated in connection with the analysis by the Polish court of a case brought by the client against Raiffeisen regarding its credit agreement indexed to CHF. In accordance with applicable rules, interpretative guidelines of the TSUE should be taken into account by national courts when deciding on cases. These interpretations, addressing important issues for the assessment of national courts, focus on issues related to the effects that may apply to contracts in the event that the court will recognize exsistance of abusive clauses in that contract. Alior Bank, after analyzing the theses contained in theTSUE's judgment and reviewing the portfolio of indexed loans, does not see a significant risk of its negative impact on the Bank's result.

Explanatory notes concerning risk

Objectives and principles of risk management

Risk management is one of the major processes in Alior Bank SA. Risk management supports Bank’s strategy and proper level of business profitability and safety of activities 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 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 management at Alior Bank is based in particular on the following principles:

- The Bank manages all types of risk identified as part of its operations,
- organizational structure and method of assigning functions to particular units of the Bank ensure precise division of duties and mitigate the risk of conflicts of interest,
- the risk management process and methods are adequate to the scale of the Bank's operations and adjusted to the materiality, scale and complexity of a given risk,
- the risk management process is regularly adjusted to new factors and sources of risk as well as the changing economic and regulatory environment,
- risk management methods are periodically verified and validated,
- risk management is integrated with planning and controlling processes,
- the level of risk is continually monitored and referred to the system of Bank's obligatory limits,
- and the Management Board and Supervisory Board of the Bank receive regular information on the level of risk profile and level.

The Bank conducts a periodical process of reviewing the risks identified as part of its operations and regularly evaluates the materiality of respective types of risk.

When determining the criteria for recognizing a given type of risk, the impact of a given type of risk on the Bank's activities is taken into account, and three types of risk types are distinguished:

- significant risks - subject to active management;
- potentially significant risks - for which significance monitoring is performed;
- other undefined or non-identifiable risks (irrelevant and unmonitored).

The bank presented details of managing selected risks in the following notes:

Risk type	Note number
credit risk	39
market risk including: interest rate risk and the FX risk	40,41
liquidity risk	42
operational risk	43

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 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

(in PLN '000)

Supervisory Board is supported by the Remuneration Committee of the Supervisory Board, the Risk Committee of the Supervisory Board, and the Audit Committee of the Supervisory Board.

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);
- Capital, Asset and Liability Committee (CALCO);
- Bank's Credit Committee (KKB);
- Operational Risk Committee (KRO).

CALCO 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 CALCO 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 CALCO, 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) with a 99% confidence level.

The table below presents a 10-day VaR for the Bank split into the banking and trading book as at the end of 2019 and 2018.

VaR	31.12.2019	31.12.2018
Banking book	36 480	36 860
Trading book	3 031	3 422
Total	**39 351**	**37 675**

39 Credit Risk

39.1 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.

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 a normal and impaired 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 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.

(in PLN '000)

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.

39.2 Financial data

Maximum credit risk exposure

Items in the statement of financial position	31.12.2019	31.12.2018*
Current account at the central bank	**553 598**	**706 079**
Investment securities	**15 798 474**	**13 727 570**
measured at fair value through other comprehensive income	10 438 695	7 280 080
measured at fair value through profit or loss	543 725	515 138
measured at amortized cost	4 816 054	5 932 352
Derivative hedging instruments	**134 832**	**112 400**
Amounts due from banks	**212 885**	**172 839**
Loans and advances to customers	**55 580 512**	**54 239 260**
Retail segment	**31 869 341**	**29 443 496**
Consumer loans	17 819 615	16 528 475
Loans for residential real estate	11 271 326	10 352 136
Consumer finance loans	2 778 400	2 562 885
Corporate segment	**23 711 171**	**24 795 764**
Working capital facility	12 339 426	13 112 560
Investment loans	7 192 310	8 313 536
Other	4 179 435	3 369 668
Assets pledged as collateral	**335 489**	**333 198**
Other receivables	**450 043**	**550 532**
Total	**73 065 833**	**69 841 878**

**Restated – note 4.2*

(in PLN '000)

Financial assets not overdue

Internal rating classes

The individual customer segment is covered by a coherent scoring system.

The business customer segment is covered by a consistent rating system.

Uniform rating scales have been introduced for both systems. The scale of PD models of retail segment clients consists of 20 classes. The scale of PD models of business segment clients consists of 25 classes.

Below is the distribution of past due assets by the above models on an aggregate PD scale.

	31.12.2019	31.12.2018
Retail segment		
< 0.18%	7 800 442	4 374 795
0.18% - 0.28%	2 463 147	2 806 173
0.28% - 0.44%	2 353 367	2 753 314
0.44% - 0.85%	2 827 112	2 735 092
0.85% - 1.33%	3 233 158	2 896 555
1.33% - 2.06%	3 329 117	3 121 644
2.06% - 3.94%	4 537 394	4 580 940
3.94% - 9.10%	1 445 802	1 752 115
> 9.1%	1 004 704	1 113 627
No scoring	172 723	369 126
Total retail segment	**29 166 966**	**26 503 381**
Corporate segment		
< 0.28%	967	728
0.28% - 0.44%	65 003	14 240
0.44% - 0.85%	554 105	246 600
0.85% - 1.33%	2 442 833	592 446
1.33% - 2.06%	1 989 770	3 127 364
2.06% - 3.94%	7 934 445	6 061 785
3.94% - 9.1%	3 650 819	5 655 953
> 9.1%	2 575 859	3 823 279
No rating	94 094	631 488
Total corporate segment	**19 307 895**	**20 153 882**
Total not overdue receivables and without impairment	**48 474 861**	**46 657 263**
Not overdue receivables with impairment	**1 369 380**	**858 092**
Retail segment	65 140	49 717
Corporate segment	1 304 240	808 375
Total receivables from customers not overdue	**49 844 241**	**47 515 355**

The maximum risk exposure in the scope of derivative instruments is presented in Note 19.2.3.

(in PLN '000)

External rating classes

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Without rating	31.12.2019
Due from banks	0	27 342	136 806	7 867	0	0	40 870	212 885
Financial assets measured at fair value through other comprehensive income, of which:	**0**	**0**	**10 370 132**	**0**	**0**	**0**	**68 563**	**10 438 695**
Debt securities	0	0	10 318 934	0	0	0	68 543	10 387 477
issued by the Central Bank	0	0	1 749 781	0	0	0	0	1 749 781
issued by the State Treasury	0	0	8 548 971	0	0	0	0	8 548 971
issued by other banks	0	0	20 182	0	0	0	0	20 182
issued by other financial entities	0	0	0	0	0	0	0	0
issued by non-financial entities	0	0	0	0	0	0	68 543	68 543
Equity instruments	0	0	51 198	0	0	0	20	51 218
issued by other financial entities	0	0	51 198	0	0	0	4	51 202
issued by non-financial entities	0	0	0	0	0	0	16	16
Financial assets measured at amortised cost	**0**	0	4 816 009	0	0	0	45	4 816 054
Assets hedging liabilities	**0**	0	335 489	0	0	0	0	335 489
Financial assets measured at fair value through profit and loss account, of which:	**0**	**0**	**94 074**	**0**	**0**	**0**	**76 314**	**170 388**
Debt securities	0	0	94 074	0	0	0	17 712	111 786
issued by the Central Bank	0	0	94 074	0	0	0	0	94 074
issued by non-financial entities	0	0	0	0	0	0	17 712	17 712
Equity instruments	0	0	0	0	0	0	58 602	58 602
Derivative instruments	**0**	9 232	383 301	26 009	0	0	89 627	508 169
Total	**0**	**36 574**	**16 135 811**	**33 876**	**0**	**0**	**275 419**	**16 481 680**

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Without rating	31.12.2018
Due from banks	0	23 234	111 563	2 511	0	0	35 531	172 839
Financial assets measured at fair value through other comprehensive income, of which:	**0**	**0**	**7 206 538**	**0**	**0**	**0**	**73 542**	**7 280 080**
Debt securities	0	0	7 183 621	0	0	0	73 524	**7 257 145**
issued by the Central Bank	0	0	0	0	0	0	0	0
issued by the State Treasury	0	0	7 109 317	0	0	0	0	7 109 317
issued by other banks	0	0	74 304	0	0	0	0	74 304
issued by other financial entities	0	0	0	0	0	0	0	0
issued by non-financial entities	0	0	0	0	0	0	73 524	73 524
Equity instruments	0	0	22 917	0	0	0	18	22 935
issued by other financial entities	0	0	22 917	0	0	0	2	22 919
issued by non-financial entities	0	0	0	0	0	0	16	16
Financial assets measured at amortised cost	0	0	5 932 352	0	0	0	0	5 932 352

(in PLN '000)

Portfolio/Rating	AAA	AA- to AA+	A- to A+	BBB- to BBB+	BB- to BB+	B- to B+	Without rating	31.12.2018
Assets hedging liabilities	0	0	333 198	0	0	0	0	333 198
Financial assets measured at fair value through profit and loss account, of which:	**0**	**0**	**5 254**	**0**	**0**	**0**	**43 620**	**48 874**
Debt securities	0	0	5 254	0	0	0	16 560	21 814
issued by the Central Bank	0	0	5 254	0	0	0	0	5 254
issued by non-financial entities	0	0	0	0	0	0	16 560	16 560
Equity instruments	0	0	0	0	0	0	27 060	27 060
Derivative instruments	**0**	**4 521**	**400 609**	**16 919**	**0**	**0**	**156 615**	**578 664**
Total	**0**	**27 755**	**13 989 514**	**19 430**	**0**	**0**	**309 308**	**14 346 007**

Overdue loans and advances to customers

31.12.2019	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	above 5 years	Total
Receivables, without impairment	**2 538 729**	**565 569**	**90 058**	**226 636**	**40 706**	**3 461 698**
Retail segment	1 361 299	400 944	5 347	22 641	2 004	1 792 235
Business segment	1 177 430	164 625	84 711	203 996	38 702	1 669 464
Impaired receivables	**274 595**	**191 776**	**760 243**	**906 373**	**141 586**	**2 274 573**
Retail segment	58 156	82 135	285 359	360 718	58 632	845 000
Business segment	216 439	109 641	474 883	545 655	82 955	1 429 573
Total receivables	**2 813 323**	**757 345**	**850 300**	**1 133 010**	**182 292**	**5 736 271**

31.12.2018	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	above 5 years	Total
Receivables, without impairment	**3 445 862**	**383 763**	**368 025**	**185 194**	**10 713**	**4 393 557**
Retail segment	1 479 895	251 035	172 254	4 247	809	1 908 240
Business segment	1 965 967	132 728	195 771	180 947	9 904	2 485 317
Impaired receivables	**191 515**	**123 638**	**663 789**	**865 019**	**148 724**	**1 992 686**
Retail segment	55 634	43 157	337 905	394 011	49 715	880 422
Business segment	135 881	80 482	325 885	471 009	99 009	1 112 264
Total receivables	**3 637 377**	**507 401**	**1 031 814**	**1 050 213**	**159 437**	**6 386 243**

Loans subject to forbearance

The Bank treats as forbearance, financing conditions agreed with the client forced by its difficult financial situation (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(which can be combined)::

(in PLN '000)

- extension of the lending period. Extended lending periods result in reduced monthly principal and interest instalments and it is possible up to 144 months as a standard (for unsecured products), irrespective of the original lending period. 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 6 months as a standard and a grace period of the principal part of instalment – up to 12 months as a standard.
- 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, an additional quantitative criterion is used for these exposures, i.e. a delay of more than 30 days.

Exposure classified as forbearance, against which the trigger of impairment has been identified (default) maintains such a premise for at least 12 months. After this period, the exposure may come out of the default status if there are no significant delays or any other indications of impairment. Such exposure remains in the forbearance status for 24 months yet. In this period, the identification of impairment triggers is carried out according to according to more strict criteria listed above.

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	31.12.2019	31.12.2018
Retail segment	**750 371**	**355 720**
without identified impairment	634 873	192 311

(in PLN '000)

Loans to customers subject to forbearance	31.12.2019	31.12.2018
with identified impairment	324 190	222 516
impairment allowances	**-208 692**	**-59 107**
assessed individually	0	0
assessed as a portfolio	-208 692	-59 107
Corporate segment	**950 948**	**719 310**
without identified impairment	381 165	299 789
with identified impairment	911 147	677 526
impairment allowances	**-341 364**	**-258 006**
assessed individually	-254 816	-211 392
assessed as a portfolio	-86 548	-46 613
POCI	**36 170**	**402**
Total net receivables	**1 737 489**	**1 075 432**

Loans to customers subject to forbearance	31.12.2019	31.12.2018
with identified impairment	**783 538**	**585 010**
of which: collateral value	507 608	364 860
without identified impairment	**917 781**	**490 020**
of which: collateral value	400 933	267 169
not overdue	685 619	304 382
overdue	232 162	185 638
POCI	**36 170**	**402**
Total	**1 737 489**	**1 075 432**

Loans granted to customers subject to forbearance by geographical region	31.12.2019	31.12.2018
dolnośląski	135 670	78 816
kujawsko-pomorski	58 282	29 590
lubelski	43 280	24 200
lubuski	55 004	40 752
łódzki	116 005	56 564
małopolski	152 329	132 654
mazowiecki	523 710	348 632
opolski	32 019	18 839
podkarpacki	24 484	11 943
podlaski	15 803	11 358
pomorski	92 103	57 168
śląski	148 701	80 858
świętokrzyski	15 848	8 269
warmińsko-mazurski	38 912	18 764
wielkopolski	183 450	72 337
zachodniopomorski	101 888	84 688
Total net receivables	**1 737 489**	**1 075 432**

(in PLN '000)

Change of carrying value of loans to customers that are subject to forbearance	31.12.2019	31.12.2018
Net carrying value at the beginning of period	1 075 432	624 128
Impairment allowances	-232 944	-21 508
Gross carrying value of loans and borrowings derecognised in the period	-147 991	-249 648
Gross carrying value of loans and borrowings newly recognised in the period	1 133 655	823 765
Other changes	-90 663	-101 305
Net carrying value at the end of period	**1 737 489**	**1 075 432**

In 2019 and 2018 the amount of interest income on loans were subject to forbearance amounted to PLN 113 924 thousand and PLN 51 734 thousand, respectively.

Concentration

Ten largest borrowers	Currency	31.12.2019	Currency	31.12.2018
Company 1	EUR,PLN	1 341 971	EUR,PLN	1 505 867
Company 2	PLN	308 762	PLN	332 890
Company 3	PLN	231 765	PLN	258 231
Company 4	PLN	203 704	PLN	240 741
Company 5	PLN	179 108	PLN	231 548
Company 6	EUR,PLN,USD	166 909	EUR,PLN	212 366
Company 7	PLN	162 745	PLN	209 828
Company 8	PLN	153 970	PLN	204 275
Company 9	PLN	142 457	PLN	189 650
Company 10	EUR,PLN	135 180	EUR	175 120

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

Section by PKD 2007	Section name	31.12.2019	31.12.2018
Section A	Agriculture, forestry, hunting, and fishery	631 052	688 584
Section B	Mining and quarrying	194 475	207 454
Section C	Manufacturing	4 932 450	5 277 228
Section D:	Electricity, gas, steam and air conditioning supply	1 159 557	1 386 121
Section E	Water supply, sewage and waste management, and remediation	155 247	141 960
Section F	Construction.	3 984 826	5 172 308
Section G	Wholesale and retail trade; repair of motor vehicles and motorcycles	6 496 330	6 241 749
Section H:	Transportation and storage	3 071 785	2 421 691
Section I	Accommodation and food service activities	1 698 343	1 790 921
Section J	Information and communication	1 115 965	1 058 685
Section K	Financial and insurance activities	2 897 955	3 059 703

(in PLN '000)

Section by PKD 2007	Section name	31.12.2019	31.12.2018
Section L	Real estate activities	5 253 504	6 221 402
Section M	Professional, scientific and technical activities	1 224 104	1 200 695
Section N:	Administrative and support service activities	887 491	899 530
Section O:	Public administration and defence; compulsory social security	6 056	13 445
Section P:	Education	137 469	146 726
Section Q:	Human health and social work activities	747 011	668 363
Section R	Arts, entertainment, and recreation	249 150	736 090
Section S	Other service activities	195 039	187 932
Section U:	Activities of extraterritorial organisations and bodies	32	4
Total		**35 037 842**	**37 520 591**

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 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 2019, the amount of exposures falling within internal concentration limits amounted to PLN 72 235 283 thousand, of which PLN 35 037 842 thousand were exposures to business customers and PLN 38 197 441 thousand to individual customers.

As at the end of 2018, the amount of exposures falling within internal concentration limits amounted to PLN 72 244 150 thousand, of which PLN 37 520 591 thousand were exposures to business customers and PLN 34 723 559 thousand to individual customers.

Country	31.12.2019	31.12.2018
Poland	69 627 477	70 003 479
United Kingdom	392 547	289 493
Luxembourg	474 033	426 111
Cyprus	11 378	20 589
Sweden	849	781
Hungary	56	457
Switzerland	24 008	25 783
Germany	236 017	24 885
Ireland	65 610	25 877
The Netherlands	39 634	14 643
Other countries	1 363 674	1 412 052
Total	**72 235 283**	**72 244 150**

40 Interest rate risk

40.1 Description of the risk

Definition of the interest rate risk

The interest rate risk (including the interest rate risk in the banking book) is defined as the 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.

(in PLN '000)

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, the economic value of equity, reverse tests and dynamic forecasts of sensitivity to changes in interest rates).

40.2 Financial data

Sensitivity metrics

Bank's BPV estimations as at 31 December 2019 and 31 December 2018 are presented in the tables below:

BPV at the end of 2019 split into tenors:

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5-10 years	Total
PLN	-452.0	294.6	886.3	516.2	36.9	1 281.8
EUR	-49.5	78.4	310.7	401.0	-1.6	739.1
USD	9.3	15.5	-7.5	-0.3	-1.5	15.4
CHF	-1.4	0.2	0.2	0.0	0.0	-1.1
GBP	-0.5	2.3	0.1	0.0	0.0	1.8
Other	-1.4	-1.3	12.7	10.7	0.0	20.7
Total	**-495.6**	**389.6**	**1 202.4**	**927.6**	**33.7**	**2 057.7**

BPV at the end of 2018 split into tenors:

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5-10 years	Total
PLN	-33.2	285.2	445	1 002.6	-121.7	1 557.9
EUR	-38.8	41.7	258.1	359.3	13.3	633.6
USD	16.3	21.8	4	-0.3	-1.6	40
CHF	-2.4	-0.3	0	0.2	0.7	-1.7
GBP	-1.2	2.2	0.1	0	0	1

(in PLN '000)

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5-10 years	Total
Other	-0.4	0	0	0	0	-0.4
Total	**-59.6**	**350.6**	**707**	**1 361.7**	**-109.3**	**2 250.6**

BPV statistics

	01.01.2019-31.12.2019			01.01.2018-31.12.2018		
Book	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	-429	29	334	-543	-105	298
Trading book	-88	9	84	-70.2	-3.7	80
CALCO	1 914	2 215	2 529	846.7	1 397.7	2 285
Total	**1 826**	**2 253**	**2 637**	**431.3**	**1 288.9**	**2 476.5**

Bank's VaR values in 2019 and 2018 are presented in the table below (99% VaR with a horizon of 10 days).

	01.01.2019-31.12.2019			01.01.2018-31.12.2018		
Book	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	29 624	40 670	61 551	7 597	21 691	39 735
Trading book	1 087	2 531	4 063	738	2 636	4 580
Total	**29 426**	**40 876**	**61 339**	**8 085**	**22 961**	**40 362**

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 with scenarios specified by the EBA for Alior Bank as at the end of December 2019 and 2018 are presented below:

Scenario	Change to the economic value of equity 31.12.2019	Change to the economic value of equity 31.12.2018
parallel shift of interest rate curves up (EBA)	116 929	200 988
parallel shift of interest rate curves down (EBA)	-156 732	-211 665
steepening the interest rate curve (EBA)	-49 049	8 074
flattening of the interest rate curve (EBA)	49 964	40 782
increase in short-term interest rates (EBA)	84 613	102 964
decrease in short-term interest rates (EBA)	-129 908	-149 483
parallel shift of the curves by 200 bp up	108 150	179 746
parallel shift of the curves by 200 bp down	-135 868	-209 435
most adverse scenario	-156 732	-211 665
most adverse scenario as %Tier 1	2.3%	3.2%

Net interest volatility

Net interest volatility over 1-year horizon with a change of interest rates by 100bps (negative scenario) as at the end of 2019 and as at the end of 2018 was presented after

(in PLN '000)

	31.12.2019	31.12.2018
NII	6.81%	5.98%

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 for Alior Bank as at the end of 2019 and 2018 is presented below.

Revaluation gap in PLN

2019	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	13 541 306	-458 471	6 504 223	-1 934 516	-852 082	-3 937 893	-6 714	12 855 853
Cumulated gap	13 541 306	13 082 836	19 587 058	17 652 542	16 800 460	12 862 567	12 855 853	

2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	1 854 930	12 208 612	4 109 608	-4 410 765	-1 812 471	-2 755 112	-1 048 521	8 146 281
Cumulated gap	1 854 930	14 063 543	18 173 151	13 762 385	11 949 914	9 194 802	8 146 281	

Revaluation gap in USD

2019	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	-524 668	267 668	-141 115	-77 249	-44 573	-53 140	516	-572 560
Cumulated gap	-524 668	-257 000	-398 115	-475 364	-519 937	-573 076	-572 560	

2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	- 559 903	186 237	- 208 214	- 149 556	- 97 201	- 68 548	- 14 602	- 911 788
Cumulated gap	- 559 903	- 373 666	- 581 880	- 731 436	- 828 638	- 897 186	- 911 788	

Revaluation gap in EUR

2019	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	381 397	326 486	62 121	-84 843	-154 385	-310 775	4 033	224 036
Cumulated gap	381 397	707 883	770 005	685 162	530 777	220 002	224 036	

2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	189 829	126 160	569 229	- 60 658	- 70 758	- 278 570	- 64 265	410 967
Cumulated gap	189 829	315 989	885 218	824 560	753 802	475 232	410 967	

41 Foreign exchange risk (FX risk)

41.1 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.

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.

(in PLN '000)

41.2 Financial data

Sensitivity metrics

As at the end of December 2019, 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 436.04, with the assumed confidence level of 99%.

	31.12.2019	31.12.2018
Horizon [days]	10	10
VaR [PLN]	436.04	153.95

VaR statistics in the Bank's FX portfolio in 2019 and 2018

VaR	31.12.2019	31.12.2018
Minimum	24.88	50.92
Medium	227.75	540.58
Max	710.56	1 604.13

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 measuring the exposure of the Alior Bank to the risk of changes in foreign exchange rates, the Bank conducts stress tests. The results of stress tests of the Alior Bank examining the impact of changes to FX rates versus PLN by +/- 20% are presented below:

	31.12.2019	31.12.2018
FX rates + 20%	19 289.89	-1 318.28
FX rates -20%	-1 861.46	7 831.01

Foreign exchange position

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

31.12.2019	Balance sheet item		Off -balance sheet item		Net position	
Fx position	Long	Short	Long	Short	Long	Short
EUR	6 059 639	-5 399 165	4 011 582	-4 671 460	596	0
USD	480 290	-2 975 309	4 309 328	-1 849 622	0	-35 313
CHF	234 408	-229 585	89 433	-95 192	0	-936
GBP	453 329	-584 706	354 781	-217 102	6 302	0
Other	303 977	-414 431	498 766	-387 568	744	0
Total	7 531 643	-9 603 196	9 263 890	-7 220 944	7 642	-36 249

(in PLN '000)

31.12.2018	Balance sheet item		Off -balance sheet item		Net position	
Fx position	Long	Short	Long	Short	Long	Short
EUR	6 723 487	-4 782 194	4 303 872	-6 231 419	13 746	0
USD	704 922	-3 463 976	3 816 409	-1 084 899	0	-27 544
CHF	238 614	-235 133	93 115	-97 762	0	-1 166
GBP	398 418	-674 659	764 619	-485 946	2 432	0
Other	145 245	-346 985	877 940	-674 337	1 863	0
Total	8 210 686	-9 502 947	9 855 955	-8 574 363	18 041	-28 710

The volume of FX positions is the core factor (apart from FX rate volatility) determining the FX risk level to which the Bank is 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 of Alior Bank), the 10-day VaR for the currency portfolio of Bank as at 31 December 2019 was about ca. 0.0053% and as at 31 December 2018 – 0.0023%, respectively.

Currency structure of financial assets

	Currency in PLN – 31.12.2019			
Assets	PLN	EUR	USD	Other
Cash and cash equivalents	638 319	219 429	238 426	256 430
Amounts due from banks	17 550	152 563	42 127	645
Investment financial assets:	15 346 539	357 009	94 926	0
measured at fair value through other comprehensive income	10 074 912	322 698	41 085	0
measured at fair value through profit or loss	455 573	34 311	53 841	0
measured at amortized cost	4 816 054	0	0	0
Derivative hedging instruments	134 530	302	0	0
Loans and advances to customers	49 452 616	5 325 879	104 669	697 348
Assets pledged as collateral	335 489	0	0	0

	Currency in PLN – 31.12.2018*			
Assets	PLN	EUR	USD	Other
Cash and cash equivalents	833 752	490 037	468 574	285 267
Amounts due from banks	2 633	120 559	49 309	338
Investment financial assets:	13 317 806	370 787	38 902	75
measured at fair value through other comprehensive income	6 937 092	305 515	37 473	0
measured at fair value through profit or loss	448 362	65 272	1 429	75
measured at amortized cost	5 932 352	0	0	0
Derivative hedging instruments	112 400	0	0	0
Loans and advances to customers	47 897 528	5 722 297	146 972	472 463
Assets pledged as collateral	333 198	0	0	0

**Restated – note 4.2*

42 Liquidity risk

42.2 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.

As part of the liquidity risk, the financing risk is distinguished, which is the risk of losing the financing sources and the risk of the lack of the required renewed funding or access denial to new sources of financing.

Purpose of liquidity risk management

The purpose of liquidity risk management is to provide the necessary amount of financial resources necessary to meet current and future (also potential) liabilities, taking into account the specifics of the business and the needs that may arise as a result of changes in market or macroeconomic conditions.

Liquidity risk management

Thus, the policy of liquidity risk management at the Bank consists of 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.

The Bank implemented liquidity adequacy assessment process (ILAAP) which comprehensively presents key indicators and figures regarding the Bank's liquidity risk profile. This process accomplishes the following goals:

- ensuring its ability to pay all its obligations when they fall due;
- maintaining at an adequate level a liquidity buffer that means high quality liquid assets;
- determination of the scale of the Bank's exposure to liquidity risk by setting internal liquidity limits, a survival horizon in stress conditions
- minimising the risk of trespassing on the liquidity limits defined at the Bank;
- monitoring the Bank's liquidity condition regarding the occurrence of an emergency situation in order to launch the Liquidity Maintenance Plan and the Recovery Plan
- ensuring compliance of the processes functioning at the Bank with regulatory requirements concerning liquidity risk management.

As part of ILAAP Bank:

- identifies risks and significant risk factors;
- measures and reports liquidity risk;
- works with liquidity procedures and policies, including a financing plan for the subsequent years of the Bank's operations;
- manages Emergency Plans and a Liquidity Recovery Plan;

- maintains a liquidity buffer consisting of high quality liquid assets;
- develops a system of liquidity limits in line with the risk appetite, monitors liquidity limits and early warning indicators identifying negative trends that may have an impact on the increase of liquidity risk;
- periodically (in the form of reports) analyzes categories and factors affecting the current and future level of liquidity;
- conducts stress tests of liquidity risk, based on which, among others, it calculates the required liquidity buffer.

Individual elements of ILAAP are integrated with each other and constitute a coherent whole. Each identified type of liquidity risk is measured using a number of analyzes and defined indicators. Specific ratios are subject to a liquidity limit system, which limits the risk taken by the Bank and provides warning signals to identify a threat situation that could lead to emergency plans or recovery plans. When determining the level of limits and the required liquidity buffer, the results of stress tests are taken into account. The contingency and recovery plan tests are compared with the results of stress tests and are used to ensure that the Bank is able to maintain liquidity both in a normal and an extreme situation. Such relationships between the individual elements of ILAAP allow for effective management of liquidity risk, limiting it and ensuring access to sufficient sources of liquidity, even in an extreme situation.

Liquidity risk measurement and assessment

The measurement of liquidity risk at the Bank is performed taking into account all material items, both on-balance and off-balance sheet (including in particular derivatives). Among the applied liquidity management metrics, the Bank identifies indicators and related limits to the following liquidity types:

- intraday liquidity - the ability to perform all monetary obligations on the current day
- current 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 the next 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

Alior Bank regularly monitors and reports the level of liquidity risk measures and the degree of use of internal limits and threshold values. Liquidity risk reports are prepared on a daily, weekly, monthly, quarterly and annual basis. Their frequency and scope is regulated in the Bank's internal regulations.

Organization of the liquidity risk management process

Assets and liabilities at Bank are managed by the dedicated CALCO. 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.

41.1 Financial data

Contractual flows

Specification of maturity/payment dates of contractual flows of the Bank's assets and liabilities as at 31 December 2019 (PLN M):

31.12.2019	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
ASSETS	**1 657**	**3 240**	**2 445**	**4 226**	**6 224**	**11 763**	**22 517**	**42 500**	**94 572**
Cash & Nostro	1 357	0	0	0	0	0	0	0	1 357
Amounts due from banks	0	73	0	0	0	135	0	0	208
Loans and advances to customers	300	1 394	2 442	3 716	5 752	9 114	16 656	33 315	72 689
Securities	0	1 773	3	510	472	2 514	5 861	5 816	16 949
Other assets	0	0	0	0	0	0	0	3 369	3 369
LIABILITIES AND EQUITY	**-46 181**	**-5 051**	**-4 713**	**-3 899**	**-5 373**	**-2 606**	**-1 288**	**-7 807**	**-76 918**
Amounts due to banks	-275	-109	-2	-1	-2	-2	-3	-69	-463
Amounts due to customers	-44 160	-4 869	-4 556	-3 569	-4 011	-1 106	-342	-26	-62639
Own issues	0	-67	-126	-285	-1 272	-1 394	-826	-793	-4763
Equity	0	-6	-12	-18	-36	0	0	-6 788	-6860
Other liabilities	-1 746	0	-17	-26	-52	-104	-117	-131	-2193
Balance sheet gap	**-44 524**	**-1 811**	**-2 268**	**327**	**851**	**9 157**	**21 229**	**34 693**	**17 654**
Cumulated balance sheet gap	**-44 524**	**-46 335**	**-48 603**	**-48 276**	**-47 425**	**-38 268**	**-17 039**	**17 654**	
Derivative instruments – inflows	0	7 978	2 077	748	344	761	285	43	12 236
Derivative instruments – outflows	0	-7 956	-2 084	-744	-344	-774	-289	-42	-12 233
Derivative instruments – net	**0**	**22**	**-7**	**4**	**0**	**-13**	**-4**	**1**	**3**
Guarantee and financing lines	-8 880	0	0	0	0	0	0	0	-8 880
Off-balance sheet gap	-8 880	**22**	**-7**	**4**	**0**	**-13**	**-4**	**1**	-8 877
Total gap	**-53 404**	**-1 789**	**-2 275**	**331**	**851**	**9 144**	**21 225**	**34 694**	**8 777**
Total cumulated gap	**-53 404**	**-55 193**	**-57 468**	**-57 137**	**-56 286**	**-47 142**	**-25 917**	**8 777**	

Specification of maturity/payment dates of contractual flows of the Bank's assets and liabilities as at 31 December 2018 (PLN M):

31.12.2018*	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
ASSETS	**2 334**	**1 420**	**2 659**	**3 274**	**6 953**	**9 874**	**21 745**	**42 222**	**90 481**
Cash & Nostro	2 116	0	0	0	0	0	0	0	2 116

31.12.2018*	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
Amounts due from banks	0	10	0	0	0	125	0	0	135
Loans and advances to customers	218	1 369	2 657	3 002	6 034	8 282	16 151	32 717	70 430
Securities	0	41	2	272	919	1 467	5 594	6 603	14 898
Other assets	0	0	0	0	0	0	0	2 902	2 902
LIABILITIES AND EQUITY	**-43 065**	**-4 677**	**-6 217**	**-3 575**	**-3 514**	**-3 008**	**-1 841**	**-8 085**	**-73 982**
Amounts due to banks	-341	-3	-1	-2	-45	-2	-4	-109	-507
Amounts due to customers	-40 971	-4 566	-5 995	-3 189	-2 957	-1 536	-306	-54	-59 574
Own issues	0	-108	-221	-384	-512	-1 470	-1 531	-1 240	-5 466
Equity	0	0	0	0	0	0	0	-6 565	-6 565
Other liabilities	-1 753	0	0	0	0	0	0	-117	-1 870
Balance sheet gap	**-40 731**	**-3 257**	**-3 558**	**-301**	**3 439**	**6 866**	**19 904**	**34 137**	**16 499**
Cumulated balance sheet gap	**-40 731**	**-43 988**	**-47 546**	**-47 847**	**-44 408**	**-37 542**	**-17 638**	**16 499**	
Derivative instruments – inflows	0	6 884	2 394	327	832	485	351	43	11 316
Derivative instruments – outflows	0	-6 867	-2 375	-327	-831	-485	-361	-43	-11 289
Derivative instruments – net	**0**	**17**	**19**	**0**	**1**	**0**	**-10**	**0**	**27**
Guarantee and financing lines	-11 173	0	0	0	0	0	0	0	-11 173
Off-balance sheet gap	**-11 173**	**17**	**19**	**0**	**1**	**0**	**-10**	**0**	**-11 146**
Total gap	**-51 904**	**-3 240**	**-3 539**	**-301**	**3 440**	**6 866**	**19 894**	**34 137**	**5 353**
Total cumulated gap	**-51 904**	**-55 144**	**-58 683**	**-58 984**	**-55 544**	**-48 678**	**-28 784**	**5 353**	

**Restated - note 4.2*

Regulatory liquidity measures and sensitivity measures

Regulatory liquidity measures	31.12.2019	31.12.2018
M3	3.68	4.54
M4	1.18	1.17
LCR	146%	132%
NSFR	129%	129%

Between 31 December 2019 and 31 December 2018, the regulatory liquidity measures were above the regulatory limits.

The table below presents the components of the net outflow coverage ratio (LCR), i.e. the value of liquidity coverage and net cash outflow. In addition, the excess of liquidity protection was presented, understood as the surplus of liquidity coverage over the period of stress conditions lasting 30 days.

	31.12.2019	31.12.2018
Protection against loss of liquidity (PLN Mł)	15 482	13 739
Total net cash outflows (PLN M)	10 624	10 434
Surplus reserve against liquidity loss (PLN M)	**4 858**	**3 305**
LCR	**146%**	**132%**

(in PLN '000)

Deposit balance

As at 31 December 2019 the balance of deposits over a 30-day horizon was about 94.4% of the Bank's deposit base (apart from the interbank market) and 95.1% for the Bank's own issues.

As at 31 December 2018 the balance of deposits over a 30-day horizon was about 95.0% of the Bank's deposit base (apart from the interbank market) and 92.6% 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 2019, WWK was at 1% which shows no concentration. As at 31 December 2018, the ratio was at 1.17%.

WWK statistics for 2019 and 2018 are presented in the table below.

	Minimal	Medium	Maximum
31.12.2019	0.98%	1.21%	1.72%
31.12.2018	1.12%	2.03%	2.68%

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	31.12.2019	Currency	31.12.2018
Customer 1	EUR,PLN,USD	359 889	EUR, PLN, USD	473 824
Customer 2	PLN	306 347	PLN	338 012
Customer 3	EUR,PLN,USD	248 612	EUR, PLN, USD	270 542
Customer 4	PLN	210 102	PLN	200 192
Customer 5	PLN	200 560	PLN	137 202
Customer 6	PLN	130 914	PLN	122 058
Customer 7	EUR,PLN,USD	129 391	CHF,EUR, PLN, USD	119 424
Customer 8	CHF,CZK,EUR,PLN,USD	127 246	EUR, PLN, USD	110 170
Customer 9	EUR,PLN	120 088	PLN	109 068
Customer 10	CHF,EUR,PLN,USD	100 732	PLN	104 174

In 2019 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.

43 Operational Risk

43.1 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),
- purpose and limits,
- 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 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.

Monitoring and reporting of operational risk

The Operational Risk Management Departament 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 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 exposes 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.

On 14 February 2019 the Bank received clearance from the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) for the material extension and joint application of:

- AMA (Advanced Measurement Approach) – with respect to the activities of Alior Bank SA taking into account the historical effects of Bank BPH SA's operations in the scope of the acquired part (BPH Core) excluding the branch in Romania;
- standardized approach for the branch in Romania; for the purpose of calculating the requirements with respect to own funds from operational risk effective from 14 February 2019.

The decision of 14 February 2019 also included the consent for the Bank's own funds requirements using the AMA method at a level not lower than 60% (previously 80%) of the requirements calculated based on the standard method.

The value of gross operating losses that were recorded in 2019 for Alior Bank SA was within the adopted objective and the operational risk limit for the Bank

In connection with the application of the advanced operational risk measurement method (AMA), in accordance with the requirements of Article 454 of CRR, the Bank, seeking to limit the risk of materialization of the effects of rare but potentially severe operational events, purchased a number of insurance policies. Mentioned policies included insurance in the scope of: property (including electronic equipment), civil liability, fiscal liability and professional liability.

The terms of individual policies were adapted to the scale and scope of the risk incurred. Those policies are not used as a mechanism limiting the amount of own funds requirements for operational risk or as a mitigating factor for the amount of internal capital for operational risk.

44 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 a 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

(in PLN '000)

- internal capital (ICAAP) and a coverage ratio of the internal capital with own funds.

Capital adequacy ratio

As at 31 December 2018, 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

	31.12.2019	31.12.2018
Total equity for the capital adequacy ratio	**8 234 075**	**8 345 746**
Tier I core capital (CET1)	6 891 843	6 783 047
Paid-up capital	1 305 540	1 305 187
Supplementary capital	5 388 926	5 380 995
Other reserves	179 505	184 284
Current year's reviewed by auditor	178 418	553 530
Accumulated losses	-379 888	-1 104 855
Revaluation reserve – unrealised losses	-6 105	-5 937
Intangible assets measured at carrying value	-531 796	-528 501
Revaluation reserve – unrealised profit	42 538	39 196
Additional value adjustments - AVA	-11 832	-8 417
Other adjustments items (adjustments for IFRS 9, securitization, deferred tax assets)	726 537	967 565
Tier II capital	1 342 232	1 562 699
Subordinated liabilities	1 342 232	1 562 699
Capital requirements	**3 952 165**	**4 120 378**
Total capital requirements for the credit, counterparty risk, adjustment to credit measurement, dilution and deliver of instruments to be settled at a later date	3 624 225	3 666 879
Total capital requirements for prices of equity securities, prices of debt securities, prices of commodities and FX risk.	5 253	3 497
Capital requirement relating to the general interest rate risk	20 602	36 991
Total capital requirements for the operational risk	302 085	413 012
Tier 1 ratio	**13.95%**	**13.17%**
Total capital adequacy ratio	**16.67%**	**16.20%**

The Bank, decided to apply the transitional provisions provided in Regulation No. 2017/2395, which means that the full impact of implementing IFRS 9 will not be taken into account for the purpose of assessing the Bank's capital adequacy.

On 14 October 2019, Polish Financial Supervision Authority, as a result of the review of the adequacy of the buffer ratio of other systemically important institution, entirety repeals its decision of 31 July 2018, identifying the Bank as other systemically important institution and imposing on the Bank a buffer (on an individual and consolidated basis) of other systemically important institution in the amount equivalent to 0.25% of the total risk exposure amount, calculated in accordance with art. 92 (3) of the EU CRR Regulation (No. 575/2013).

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 of a comparison of actual values with the budgeted values and identification of reasons of potential differences (the scale of operations of the Bank different than planned, in particular the volume of the loan portfolio or an assets risk profile different than planned). The equity of the Bank exceeded the total capital requirement throughout 2019.

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 2019:

- 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 2019 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

45 Acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa

On 31 January 2019, the Polish Financial Supervision Authority (PFSA) made a decision concerning the acquisition of Spółdzielcza Kasa Oszczędnościowo - Kredytowa Jaworzno (SKOK Jaworzno) by Alior Bank SA. On 1 February 2019, the Management Board of Alior Bank SA. took over the management of SKOK Jaworzno's assets. As at 1 April 2019, Alior Bank SA acquired SKOK Jaworzno.

Pursuant to Art. 74c (4) of the Act on Credit Unions, the acquire assumes all the rights and obligations of the acquired union as of the acquisition date. Until the date of the acquisition by Alior Bank SA., SKOK Jaworzno conducted the full range of business activities and offered the full range of services to its members as previously. Alior Bank once again joined the recovery process of Cooperative Savings and Credit Union supported by the Financial Supervision Authority (KNF) and the Bank Guarantee Fund (BFG). The acquisition of SKOK Jaworzno by Alior Bank SA will guarantee the full safety of the funds accumulated by the acquired Spółdzielcza Kasa Oszczędnościowo - Kredytowa Jaworzno and provide SKOK Jaworzno members with access to a wider product offer by Alior Bank SA.

The acquisition was settled in accordance with IFRS 3 in the Bank's accounting books. The acquisition process was carried out with the assumption of the BGF support to the Bank based on art. 264 of the Bank Guarantee Fund Act and did not involve payment by the Bank. The BFG support will consist subsidiesing and providing guarantees to cover losses (relevant contracts are being finalized) resulting from the risk related to the acquired property rights of SKOK Jaworzno. The BFG subsidy will be granted to cover the difference between the value of acquired property rights and liabilities due to guaranteed deposits of SKOK depositors as established as at the acquisition date and as at 30 Septermber 2019 its value was estimated at PLN 110 M. The bank received a subsidy on 22 November 2019.

In accordance with IFRS 3, the Bank recognized in its books the fair values of acquired assets and liabilities.

1. Corrections of the loan portfolio

The total fair value of the loan portfolio of SKOK Jaworzno has been determined for loans without recognized impairment (working portfolio). For these loans, the calculation was based on contractual flows corrected for credit risk and prepayments. The fair value of the operating loan portfolio of the SKOK Jaworzno was determined using the discounted cash flow model using the observed market interest rates adjusted for the liquidity margin, the cost of capital broken down into homogeneous subportfels. In the case of non-performing loans portfolio, its fair value was assumed to be equal to the book value due to the expected insignificant recovery.

(in PLN '000)

2. Correction of the deposit portfolio

The Bank assumed that the fair value of client and bank deposits and other financial liabilities with maturity up to 1 year is approximately equal to their carrying amount. When determining the fair value of financial liabilities with residual maturity over 1 year, the Bank set the current value of expected payments based on the current percentage curves. This valuation did not differ from the carrying amount, due to the above, the Bank did not make an adjustment to fair value

In addition, the Bank recognized deferred tax assets in the amount of thousand PLN 19 706 in connection with the acquired assets and liabilities.

The initial fair value of acquired assets and liabilities at the acquisition date are presented below:

Assets	Fair value of acquired assets
Cash	21 040
Loans and advances to customers*	143 310
Receivables from Kasa Krajowa	40 283
Fixed assets	6 676
Other assets	22 256
Total assets	**233 565**

**Book value of loans and advances to customers amounted to thousand PLN 137 218 while the adjustment for fair value amounted to thousand PLN 6 254.*

Liabilities	Fair value of acquired liabilities
Liabilities due to customers guaranteed by BFG	319 796
Provision	13 190
Other liabilities	2 808
Total liabilities	**335 794**

Identifiable net assets	-102 229
Subsidy from BGF	110 000
Bargain purchase	**7 771**

Bank made the initial accounting for this business combination and calculated bargain purchase in connection with the acquisition of SKOK Jaworzno. This result was presented in other operating income.

46 Events significant to the business operations of the Bank

Synthetic securitisation transaction

On 7 December 2018, the Bank entered into an agreement to carry out synthetic securitisation of its business loan portfolio for PLN 1.5 billion with the European Investment Fund and the European Investment

Bank as a co-guarantor, as a result of the transaction, the Bank's potential in further financing of SMEs will be increased.

The transaction was split into three tranches: junior, mezzanine and senior, where the risk of the junior tranche remains with Alior Bank, while the risk of the mezzanine and senior tranches is transferred to EIF and EIB.

This is the first transaction of the type in Poland carried out in line with the European CRR Regulation (Capital Requirements Regulation).

On 7 June 2019, after completing additional covenants to the European Investment Bank, the Bank officially launched a securitization transaction. This transaction did not cause derecognition of financial assets in the Bank's books.

The value of the portfolio as at 31 December 2019 securitized is PLN 695 768 thousand.

Under the securitization agreement, the Bank has the right to top up the depreciated part of the portfolio (replenishment) within 3 years starting from 7 June 2019.

Signing of the agreement regarding the terms of transaction concerning RUCH SA in restructuring

On 11 April 2019 the agreement regarding the terms of transaction between the Alior Bank, Polski Koncern Naftowy Orlen SA and Powszechny Zakład Ubezpieczeń SA concerning RUCH SA in restructuring was signed.
Pursuant to the provisions of the agreement, the Bank intends (in a manner agreed between the Bank and PKN Orlen upon final validation of the arrangement under accelerated arrangement proceedings) to acquire 100% of shares in the share capital of the RUCH SA, and then sell the shares to PKN Orlen.
The Bank intends to acquire ownership of the Shares in a manner agreed between the Bank and PKN Orlen, while the takeover will take place The acquisition of the RUCH SA shares by PKN Orlen will take place after the conditions provided in the agreement have been met, i.e., among others:

1) final confirmation of execution of the arrangements under accelerated arrangement proceedings of the RUCH SA,
2) obtaining by the parties to the Agreement corporate approvals, and
3) issuing by the President of the Office of Competition and Consumer Protection or by the European Commission a consent for purchase of shares by PKN Orlen.

On 30 August 2019, Bank received information of approving by the Regional Court in Warsaw, Commercial Court, XXIII Commercial Division of Appeal, of partial agreements assuming redemption proposals as follows:

1. 85% of claims under accelerated arrangement proceedings of RUCH Spółka Akcyjna in restructuring ("the Company"), including publishers who are creditors of the Company, towards which the Company's debt was at least one million PLN as at the date of opening the proceedings ("PPU1") and

2. 50% of claims under accelerated arrangement proceedings of the Company, including publishers who are creditors of the Company, towards which the Company's debt was over one hundred thousand PLN as at the day of opening the proceedings ("PPU2").

Further negotiations are ongoing regarding the date of the transaction and its detailed terms. Management Board of the Bank maintains its opinion that the restructuring scenario is the most advantageous. And the above strategy was reflected in the creation of scenarios for the purposes of calculating the impairment loses of Ruch's receivables.

Opening of the Long-Term Bond Issue Program of Alior Bank SA

On 5 August 2019 the Supervisory Board of the Bank, in accordance with the motion of the Bank's Management Board, agreed to open the Long-Term Bond Issue Program of Alior Bank S.A. and authorized the Bank's Management Board to repeatedly incur financial liabilities under the Program by issuing unsecured bonds by the Bank. The total nominal value of the Program will not exceed PLN 5 000 000 000.

On 10 September 2019, by decision of the Bank's Management Board, as part of the Long-Term Bond Issue Program, a bond offering program was established for unsecured, unsubordinated or subordinated issues, bearer bonds up to PLN 1 500 000 000. The Offering Program will be covered by the base prospectus prepared by the Bank in accordance with Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 regarding the prospectus to be published in connection with the public offering of securities or their admission to trading on regulated market and repealing Directive 2003/71 / EC.

Ongoing work related to the preparation of the Prospectus.

Opening of the Second Issue Program of Bank Securities of Alior Bank SA

On 30 September 2019, Bank's Supervisory Board, in accordance with the request of the Bank's Management Board, agreed to the opening of the Second Issue Program of Bank Securities of Alior Bank SA and authorized the Management Board of the Bank to repeatedly incur financial liabilities under the Program through the issue of Bank Securities by the Bank with a nominal value of at least PLN 100 or the equivalent in other currencies. The total nominal value of the Program will not exceed PLN 5 000 000 000.

47 Significant events after the end of the reporting period

The Fitch Ratings Ltd agency maintained the long-term rating of the Bank in foreign currency at the level of 'BB'. At the same time, the Agency upgraded the Bank's short-term domestic rating from 'F2 (pol)' to 'F1 (pol)' due to the improvement in the assessment of the financing structure and the Bank's liquidity.