Consolidated Financial Statements
of the
Alior Bank Spółka Akcyjna Group
for the year ended 31 December 2018

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	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated	% (A-B)/B
	A	B	C
Net interest income	3 084 524	2 856 141	8.0%
Net fee and commission income	436 093	430 751	1.2%
Trading result & other	434 932	371 253	17.2%
Net expected credit losses.impairment allowances and write-downs	-1 054 069	-914 930	15.2%
General administrative expenses	-1 705 003	-1 853 577	-8.0%
Gross profit	988 291	689 121	43.4%
Net profit	713 373	471 570	51.3%
Net cash flow	464 272	-94 877	589.3%
Loans and advances to customers	54 245 924	51 266 640	5.8%
Amounts due to customers	62 435 585	57 657 019	8.3%
Equity	6 485 923	6 690 983	-3.1%
Total assets	73 419 887	69 515 982	5.6%
Selected ratios			
Profit per ordinary share (PLN)	5.49	3.65	50.4%
Capital adequacy ratio	15.85%	15.21%	4.2%
Tier 1	12.81%	12.10%	5.9%

EUR	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated	% (A-B)/B
	A	B	C
Net interest income	722 896	672 872	7.4%
Net fee and commission income	102 204	101 480	0.7%
Trading result & other	101 932	87 463	16.5%
Net expected credit losses.impairment allowances and write-downs	-247 034	-215 546	14.6%
General administrative expenses	-399 588	-436 680	-8.5%
Gross profit	231 618	162 349	42.7%
Net profit	167 188	111 096	50.5%
Net cash flow	108 808	-22 352	586.8%
Loans and advances to customers	12 615 331	12 291 505	2.6%
Amounts due to customers	14 519 903	13 823 640	5.0%
Equity	1 508 354	1 604 206	-6.0%
Total assets	17 074 392	16 666 902	2.4%
Selected ratios			
Profit per ordinary share (PLN)	1.29	0.86	50.0%
Capital adequacy ratio	15.85%	15.21%	4.2%
Tier 1	12.81%	12.10%	5.9%

Selected items of the financial statements were translated into EUR at the following exchange rates	31.12.2018	31.12.2017
NBP's avarage exchange rate as at 31 December of the year	4.3000	4.1709
NBP's avarage exchange rates as at the last day of each month	4.2669	4.2447

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(in PLN '000)

Consolidated income statement

	Note number	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017* Restated
Interest income		3 792 544	3 601 131
Income of a similar nature		163 828	n/a
Interest expense		-871 848	-744 990
Net interest income	6	3 084 524	2 856 141
Fee and commission income		825 562	805 603
Fee and commission expense		-389 469	-374 852
Net fee and commission income	7	436 093	430 751
Dividend income		275	31
The result on financial assets measured at fair value through profit or loss and trading result	8	371 590	337 833
Net gain (realized) on other financial instruments		n/a	6 908
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	9	77 829	n/a
measured at fair value through other comprehensive income		76 473	n/a
measured at amortized cost		1 356	n/a
Other operating income		127 045	112 396
Other operating expenses		-141 807	-85 915
Net other operating income and expenses	10	-14 762	26 481
General administrative expenses	11	-1 705 003	-1 853 577
Net expected credit losses, impairment allowances and write-downs	12	-1 054 069	-914 930
Banking tax	13	-208 186	-200 517
Gross profit		988 291	689 121
Income tax	14	-274 918	-217 551
Net profit		713 373	471 570
Net profit attributable to equity holders of the parent		713 373	471 194
Net profit attributable to non-controlling interests		0	376
Net profit		713 373	471 570
Weighted average number of ordinary shares		130 026 866	129 259 754
Net profit per share (PLN)	15	5.49	3.65
Diluted profit per ordinary share (PLN)	15	5.44	3.58

*clarification in Note 4.2

Consolidated statement of comprehensive income

	Note number	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017* Restated
Net profit		713 373	471 570
Items that may be reclassified to the income statement after certain conditions are satisfied		26 795	86 175
Foreign currency translation differences		-796	616
Results of the measurement of financial assets (net)		-6 658	85 861
Profit/loss on fair valuation of available for sale financial assets		n/a	105 625
Profit/loss on valuation of financial assets measured at fair value through other comprehensive income	18	-7 843	n/a
Deferred tax	14	1 185	-19 764
Results on the measurement of hedging instruments (net)		34 249	-302
Gains/losses on hedging instruments	19	42 283	-373
Deferred tax	14	-8 034	71
Total comprehensive income, net		740 168	557 745
- attributable to shareholders of the parent company		740 168	557 369
- attributable to non-controlling interests		0	376

*clarification in Note 4.2

(in PLN '000)

Consolidated statement of financial position

ASSETS	Note number	31.12.2018	31.12.2017 Restated*	01.01.2017 Restated*
Cash and balances with the Central Bank	16	1 639 033	965 391	1 082 991
Amounts due from banks	17	612 444	901 629	1 366 316
Financial assets:	18	13 727 570	13 642 769	9 796 151
measured at fair value through other comprehensive income		7 280 080	n/a	n/a
measured at fair value through profit or loss		515 138	n/a	n/a
measured at amortized cost		5 932 352	n/a	n/a
available-for-sale		n/a	12 072 324	9 374 646
held to maturity		n/a	1 117 894	1 954
held for trading		n/a	452 551	419 551
Derivative hedging instruments	19	112 400	87 785	71 684
Loans and advances to customers	20	54 245 924	51 266 640	46 247 188
Assets pledged as collateral	23	333 286	408 911	366 984
Property, plant and equipment	21	460 659	475 691	485 796
Intangible assets	21	572 320	548 587	516 444
Inwestments in associates		4 000	0	0
Non-current assets held for sale		146	357	679
Income tax asset	14	1 035 624	591 782	548 442
deferred		1 035 624	591 782	548 442
Other assets	22	676 481	626 440	685 996
TOTAL ASSETS		73 419 887	69 515 982	61 168 671

LIABILITIES AND EQUITY	Note number	31.12.2018	31.12.2017 Restated*	01.01.2017 Restated*
Amounts due to banks	24	593 327	891 645	428 640
Amounts due to customers	25	62 435 585	57 657 019	51 384 128
Financial liabilities	26	416 407	435 878	298 314
held for trading		n/a	435 878	298 314
measured at fair value through profit or loss		416 407	n/a	n/a
Derivative hedging instruments	19	9 381	5 419	6 119
Provisions	27	126 199	90 457	286 815
Other liabilities	28	1 167 111	1 693 915	1 433 301
Income tax liabilities		267 861	135 690	33 517
current		267 429	135 204	32 762
deferred		432	486	755
Subordinated liabilities	29	1 918 093	1 914 976	1 164 794
Total liabilities		66 933 964	62 824 999	55 035 628
Share capital		1 305 540	1 292 636	1 292 578
Supplementary capital		5 386 828	4 820 048	4 185 843
Revaluation reserve		52 164	13 944	-71 615
Other reserves		171 629	183 824	183 957
Foreign currency translation differences		-202	594	-22
Accumulated losses		-1 143 409	-92 579	-33 904
Profit for the period		713 373	471 194	575 227
Non-controlling interests		0	1 322	979
Equity	30	6 485 923	6 690 983	6 133 043
TOTAL LIABILITIES AND EQUITY		73 419 887	69 515 982	61 168 671

*clarification in Note 4.2

(in PLN '000)

Consolidated statement of changes in equity

01.01.2017- 31.12.2018	Share capital	Supplementary capital	Other reserves	Revaluation reserve	Exchange differences on revaluation of foreign units	Retained earnings	Non-controlling interests	Total equity
01 January 2018	1 292 636	4 820 048	183 824	13 944	594	378 615	1 322	6 690 983
IFRS 9 impact and other changes*	0	0	0	10 629	0	-1 029 837	0	-1 019 208
Transfer of last year's profit	0	497 136	0	0	0	-497 136	0	0
Comprehensive income	0	0	0	27 591	-796	713 373	0	740 168
net profit	0	0	0	0	0	713 373	0	713 373
other comprehensive income – valuations	0	0	0	27 591	-796	0	0	26 795
incl. financial assets measured at fair value through other comprehensive income	0	0	0	-6 658	0	0	0	-6 658
incl.hedging instruments	0	0	0	34 249	0	0	0	34 249
incl.currency translation differences	0	0	0	0	-796	0	0	-796
Share issue	12 904	69 644	0	0	0	0	0	82 548
Other changes in equity	0	0	-12 195	0	0	4 949	-1 322	-8 568
31 December 2018	1 305 540	5 386 828	171 629	52 164	-202	-430 036	0	6 485 923

01.01.2017- 31.12.2017 Restated**	Share capital	Supplementary capital	Other reserve - Share-based payments	Revaluation reserve	Exchange differences on revaluation of foreign units	Retained earnings	Non-controlling interests	Total equity
1 January 2017	1 292 578	4 185 843	183 957	-71 615	-22	568 142	979	6 159 862
Impact of correction of errors**	0	0	0	0	0	-26 819	0	-26 819
1 January 2017 after adjustments	1 292 578	4 185 843	183 957	-71 615	-22	541 323	979	6 133 043
Transfer of the previous year result	0	633 902	0	0	0	-633 902	0	0
Comprehensive income	0	0	0	85 559	616	471 194	376	557 745
net profit	0	0	0	0	0	471 194	376	471 570
other comprehensive income-valuation	0	0	0	85 559	616	0	0	86 175
incl. assets available to sale	0	0	0	85 861	0	0	0	85 861
incl.hedging instruments	0	0	0	-302	0	0	0	-302
incl.currency translation differences	0	0	0	0	616	0	0	616
Share issue	58	303	0	0	0	0	0	361
Other changes in equity	0	0	-133	0	0	0	-33	-166
31 December 2017	1 292 636	4 820 048	183 824	13 944	594	378 615	1 322	6 690 983

*clarification in Note 4.1
**clarification in Note 4.2

(in PLN '000)

Consolidated Statement of Cash Flow

	Note number	01.01.2018 – 31.12.2018	01.01.2017 – 30.12.2017 Restated*
Operating activities			
Profit before tax for the year		988 291	689 121
Adjustments:		170 679	203 457
Unrealized foreign exchange gains/losses		1 922	798
Dividend income		275	31
Amortization/depreciation of tangible and intangible assets		174 527	177 040
Change in impairment loss of tangible fixed and intangible assets		6 150	25 721
Share-based payments		-12 195	-133
Gross profit after adjustments and before changing balances		1 158 970	892 578
Change in loans and receivables	32.2	-2 899 469	-4 532 042
Change in financial assets measured at fair value through other comprehensive income		2 369 776	n/a
Change in financial assets measured at fair value through profit or loss		-24 018	n/a
Change in financial assets measured at amortized cost		-2 428 880	n/a
Change in financial assets available for sale		n/a	-2 697 678
Change in investment securities held to maturity		n/a	-1 115 940
Change in financial assets held for trading		n/a	-33 000
Change in assets pledged as collateral		75 625	-41 927
Change in hedging asset derivatives		-24 615	-16 101
Change in non-current assets held for sale		211	322
Change in other assets	32.4	-50 041	59 556
Change in deposits		4 693 361	6 145 514
Change in issued debt		-237 281	489 914
Change in financial liabilities measured at fair value through profit or loss		-19 471	137 564
Change in hedging liabilities derivative		3 962	-700
Change in other liabilities and other comprehensive income	32.3	-1 549 630	486 009
Change in provisions		35 742	-196 358
Net cash flow from operating activities before income tax		1 104 242	-422 289
Income tax paid		-346 703	-153 931
Net cash flow from operating activities		757 539	-576 220
Investing activities			
Outflows:		-211 089	-210 048
Purchase of property, plant and equipment	32.5	-94 336	-107 849
Purchase of intangible assets	32.6	-116 753	-102 199
Inflows:		7 616	5 980
Disposal of tangible fixed assets		7 616	5 980
Net cash flow from investing activities		-203 473	-204 068
Financing activities			
Outflows:		-102 698	-64 647
Interest expense – subordinated loan		-102 698	-64 647
Inflows:		12 904	750 058
Subordinated liabilities incurred		0	750 000
Inflows from share issue		12 904	58
Net cash flow from financing activities		-89 794	685 411
Total net cash flow		464 272	-94 877
incl. exchange gains/(losses)		26 005	-72 877
Balance sheet change in cash and cash equivalents		464 272	-94 877
Cash and cash equivalents, opening balance		1 614 366	1 709 243
Cash and cash equivalents, closing balance	32.1	2 078 638	1 614 366
Additional disclosures on operating cash flows			
Interests received		4 048 219	2 485 268
Interests paid		-792 603	-639 859

*clarification in Note 4.2

(in PLN '000)

Notes to the consolidated financial statements

1 Information about the Bank and the Group

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. Information on the companies in the Group is detailed in Note 1.2 of this chapter. 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 Composition of the Group and its scope of business

Starting from 18 December 2015, Powszechny Zakład Ubezpieczeń SA controlled by the State Treasury, has been the parent company of the Bank and the top parent entity of the Group. Details of the Bank's shareholding structure are described in Note 30.3
Composition of the Group of Alior Bank SA as at 31 December 2018 and 31 December 2017.

Company's name - subsidaries	31.12.2018	31.12.2017
Alior Services sp. z o.o.	100%	100%
Centrum Obrotu Wierzytelnościami sp. z o.o.(liquidated as at 31.12.2018)	-	100%
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%
Money Makers TFI SA	100%	60.16%
Absource sp. z o.o.	100%	100%
Company name - associate	**31.12.2018**	**31.12.2017**
GTR Finanse sp. z o.o.	20%	-

(in PLN '000)

1.2.1 Operations of the companies in the Group of Alior Bank SA

As at 31 December 2018, the Alior Bank SA Group comprised of: Alior Bank SA, as the parent entity, and the subsidiary companies in which the Bank holds majority interests. The bank also has shares in the associated company. In the reporting period, there was a change in the structure of the Alior Bank SA Group.

Subsidaries

On 19 March 2018 a conditional agreement for the sale of Money Makers TFI SA'shares ("Conditional Agreement") was signed based on witch (in the case of meeting the condition precedent, i.e. in the case Alior Bank acquired the Money Makers TFI' s shares representing at least 70% of its share capital) Alior Bank would acquire all shares from the Money Makers TFI 's shareholders who are also members of its Management Board held by them on the day of concluding the Conditional Agreement, which may result in Alior Bank exceeding 90% of the Money Makers TFI 's total number of shares. On 19 and 20 March Alior Bank sold and acquired Money Makers TFI SA's shares. These transactions were concluded as the first stage of the acquisition of shares in accordance with the conditions described above. On 22 March 2018, the Bank made another acquisition of Money Makers TFI SA's shares as part of block transactions concluded in the NewConnect alternative trading system. These transactions were concluded as the last stage of the acquisition of shares in accordance with the conditions described in the conditional share purchase agreement. On 7 May 2018, KDPW made settlement of share's purchase as part of squeeze out of minority shareholders of Money Makers TFI SA announced on 30 April 2018. Thus, Alior Bank holds 100% shares in MoneyMakers TFI SA as at date of publication of this report. The Management Board of the Warsaw Stock Exchange decided to suspend trading in the shares of MoneyMakers TFI SA - marked with the code - PLMNMRS00015 - from 3 April 2018.

On 14 June 2018 the Management Board of Money Makers TFI SA informed about registration in the National Court Register of amendments to the Company Statute made pursuant to the resolution of the Ordinary General Meeting of the Company of 25 April 2018. Changes included the Company's name from Money Makers Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna to Alior Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna.

On 22 December 2017 the Extraordinary General Meeting for Centrum Obrotu Wierzytelnościami sp. z o.o. adopted resolution to dissolve the company and open the liquidation procedure. On 4 January 2018 the announcement was published in Monitor Sadowy i Gospodarczy no. 3/2018 under item 403. On 31 August 2018 the Extraordinary General Meeting of Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation adopted resolutions approving the liquidation report and division of assets remaining after liquidation. As at 31 December 2018, the company was not delated from the National Court Register.

The consolidated financial statements include the financial statements of the Bank and the financial statements of the subsidiary companies listed below except Centrum Obrotu Wierzytelnościami sp. z o.o. liquidated.

The Bank reviewed its control in line with IFRS 10 and identified its status as the parent entity vis-a-vis the following entities. All subsidiary companies are fully consolidated.

Company name	Business description
Alior Services sp. z o.o.	- use of sales opportunities of non-financial products and services - expansion and adding to the attractiveness of the offer for *Private Banking* customers to reinforce competitive advantages - search for and attracting external partners to co-operate in the offering of non-banking services - supporting customers and external partners in establishing business contacts - debt collection

Company name	Business description
Centrum Obrotu Wierzytelnościami sp. z o.o. - liquidated	- trading in debts acquired from the Bank
Alior Leasing sp. z o.o.	- financing of fixed assets with operating, financial leases, and lease loans.
Meritum Services ICB SA	- services related to IT and computer technologies and other IT-related activities - activities of insurance agents and broker - activities related to risk assessment and estimates of loss suffered - other auxiliary activities to insurance and pension funds
NewCommerce Services sp. z o.o.	- the company has been involved in tasks related to MyWallet (in the Polish market an potentially in other markets of the Deutsche Telekom Group) and related to sales of non-banking services, in co-operation with business partners, a new generation purchase platform
Alior TFI SA	- asset management; - co-operation of the Bank with its subsidiary Alior TFI. covers three areas: asset management (management of portfolios of individual/private banking customers), insurance offers of investment funds and management of Alior SFIO sub-funds - establishment of investment funds or foreign funds and their management, including intermediary services in purchase and redemption of participation units, representing the funds in relations with third parties - and management of collective security portfolios and management of portfolios of financial instruments
Absource sp. z o.o.	- services related to IT and computer technologies - activity related to IT consulting - provision of access services to IT software

Associate

On 15 Novemer 2018 Bank acquired shares in the associate company GTR Finanse sp. o.o. This constitutes the first of the investments reflecting the announcements and implemented plans to establish an investment fund of Alior Bank to invest in young, innovative companies that could create a potential business case with the Bank.

Company name	Business description
GTR Finanse sp. z o.o	- the company deals with deferred payments for online purchases in the e-fashion segment, offering the customer the opportunity to postpone the payment for the goods for a specified period of time; the customer can either pay the price of the commodity without a commission or break down the amount for 4 installments bearing interest at an amount depending on the client's credit scoring

1.2.2 Key financial figures of the Group entities

Company name	Balance sheet total	Net profit
Alior Services sp. z o.o.	12 260	5 943
Alior Leasing sp. z o.o.*	4 281 954	-28 715
Meritum Services ICB SA	8 417	1 075
Alior TFI SA	5 387	-457
Absource sp. z o.o.	32 347	424

(in PLN '000)

Company name	Balance sheet total	Net profit
Alior Services sp. z o.o.	9 453	-6 480

*with Serwis Ubezpieczeniowy sp. z o.o.

1.3 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 2017, the composition of the Bank's Management Board changed.

On 12 March 2018, Mr. Michał Jan Chyczewski resigned from the position of the Vice-President of the Management Board and acting President of Alior Bank SA. At the same time, on 12 March 2018, the Supervisory Board entrusted Ms. Katarzyna Sułkowska with the acting role President of the Management Board. Also effective 13 March 2018, the Supervisory Board appointed Mr. Marcin Jaszczuk to the position of the Vice-President of the Management Board of Alior Bank SA.

On 13 April 2018, Ms. Urszula Krzyżanowska-Piękoś and Ms. Celina Waleśkiewicz submitted their resignations as members of the Management Board of Alior Bank SA. At the same time, on 13 April 2018 the Supervisory Board appointed Ms. Agata Strzelecka, Mr. Mateusz Poznański and Mr. Maciej Surdyk to the positions of Vice-Presidents of the Bank's Management Board.

On 27 April 2018, Mr. Sylwester Grzebinoga submitted his resignation as member of the Management Board of Alior Bank SA.

On 17 October 2018, Ms. Katarzyna Sułkowska resigned from the position of President of the Management Board of Alior Bank SA.

On 17 October 2018, the Supervisory Board appointed, as of 17 October 2018, Mr. Krzysztof Bachta to the Bank's Management Board, entrusting him with the position of Vice-President of the Bank's Management Board. The Supervisory Board entrusted the management duties to Mr. Krzysztof Bachta until the approval of the Polish Financial Supervision Authority to appoint him as the President of the Bank's Management Board.

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. Marek Szcześniak, Mr. Seweryn Kowalczyk, 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 26 February 2019, the Polish Financial Supervision Authority unanimously agreed to appoint Mr. Krzysztof Bachta as the President of the Management Board of Alior Bank SA. At the same time, the Polish Financial Supervision Authority also unanimously agreed to entrust Mr Marek Szcześniak with the function of a Member of the Management Board of Alior Bank SA supervising the management of significant risks in the Bank's operations.

On 27 February 2019, the Supervisory Board appointed Mr. Krzysztof Bachta to the position of the President of the Management Board of Alior Bank SA.

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

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

First and last name	Function
Michał Jan Chyczewski,	acting President of the Management Board
Filip Gorczyca	Vice President of the Management Board
Sylwester Grzebinoga	Vice President of the Management Board
Urszula Krzyżanowska-Piękoś	Vice President of the Management Board
Katarzyna Sułkowska	Vice President of the Management Board
Celina Waleśkiewicz	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 2017.
On 21 June 2018, Mr. Sławomir Niemierka and Mr. Paweł Szymański filed their resignations from their function as Members of the Bank's Supervisory Board effective on 21 June 2018.
On 22 June and on 25 June 2018, the Ordinary General Meeting of the Bank adopted resolutions regarding the appointment of Mr. Marcin Eckert and Mr. Wojciech Myślecki to the Supervisory Board of the Bank.
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
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 2017 was as follows:

First and last name	Function
Tomasz Kulik	Chairman of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	Deputy Chairperson of the Supervisory Board
Dariusz Gątarek	Member of the Supervisory Board
Mikołaj Handsche	Member of the Supervisory Board
Artur Kucharski	Member of the Supervisory Board
Sławomir Niemierka	Member of the Supervisory Board
Maciej Rapkiewicz	Member of the Supervisory Board
Paweł Szymański	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 2018 and contain comparable data for the year ended o 31 December 2017. The consolidated financial statements were prepared in PLN and all the numbers presented herein are in PLN thousand, unless specified otherwise.

(in PLN '000)

2.2 Compliance statement

These consolidated financial statements of the Group were prepared under a going concern assumption for at least 12 months after the balance sheet date, i.e. after 31 December 2018.

2.3 Going concern

These consolidated financial statements of the Group were prepared under a going concern assumption for at least 12 months after the balance sheet date, i.e. after 31 December 2018.
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 Group 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 Group.
In 2018 and 2017 the Group 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 36.1. The Bank does not set off income and expenses, unless so required by law or permitted by standards or interpretation.

2.5 Approval of the financial statements

These consolidated financial statements of the Group of Alior Bank SA were approved for publication by the Bank's Management Board on 27 February 2019.

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 standards: IFRS 9 and IFRS 15 that entered into force on 1 January 2018. 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 trading result	8	Y
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss/Net gain (realized) on other financial instruments (till 31.12.2018)	9	Y
Other operating income and expenses	10	Y
General administrative expenses	11	Y
Net expected credit losses, impairment allowances and write-downs	12	Y
Income tax	14	Y

Statement of financial position	Note number	Accounting policies*	Major estimates and assessments*
Cash and balances with the Central Bank	16	Y	
Amounts due from banks	17	Y	

Statement of financial position	Note number	Accounting policies*	Major estimates and assessments*
Financial assets	18	Y	Y
Derivative hedging instruments	19	Y	Y
Loans and advances to customers	20	Y	Y
Property, plant & equipment	21	Y	Y
Intangible assets	21	Y	Y
Other assets	22	Y	
Assets hedging liabilities	23	Y	
Income tax assets	14	Y	
Amounts due to banks	24	Y	
Amounts due to customers	25	Y	
Provisions	27	Y	Y
Other liabilities	28	Y	
Financial liabilities	26	Y	
Subordinated liabilities	29	Y	
The Bank's equity and shareholding structure	30	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.
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	2018	2017
FX rate prevailing on the last day of period	0.9229	0.8953
FX rate being an arithmetic avarage of FX rates prevailing on the last day of the month in each period	0.9165	0.9282

3.2 Business combination and consolidation rules

Subsidiary entities

Subsidiary companies are entities (including entities that are not commercial companies like civil partnerships or special purpose vehicles) controlled by the parent entity which means that the parent entity:

- has power over the entity,
- has exposure, or rights, to variable returns from its involvement with the entity; and
- has the ability to use its power over the entity to affect the amount of its returns .

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Subsidiaries are consolidated from w the date on which the Bank assumes control. Deconsolidation takes place when control no longer exists.

Consolidation

The consolidation process of the financial statements of subsidiaries with the full method consists in summing up individual items in the statement of financial position, the profit and loss account, and other comprehensive income of the parent entity and the subsidiaries in full amounts and making appropriate consolidation adjustments and exclusions. The exclusions apply to the carrying value of the interests held by the Bank in subsidiaries and equity of the entities at the acquisition date. Complete exclusions apply to:

- mutual receivables and payables and other similar settlements of the consolidated entities,
- income and expenses of economic operations between the consolidated entities,
- profit or loss resulting from economic operations between the consolidated entities, included in the value of assets of the consolidated entities, with the exception of losses that indicate impairment,
- dividend accrued or disbursed by subsidiaries to the parent entity and other consolidated entities,
- mutual cash flows in the statement of cash flows.

The financial statements of subsidiaries are prepared for the same reporting period as those of the parent entity. In order to eliminate any discrepancies in the accounting principles applied by the Bank and its subsidiary entities, consolidation adjustments are made. All entities of the of Alior Bank SA Group are consolidated with the full method. Non-controlling interests are disclosed separately in the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of financial position, respectively.

Acquisition method

Acquisitions of subsidiaries by the Group 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.

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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 at fair value through profit and loss.
Detailed for the classification and measurement rules of financial instruments are described in note 18.1.

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.

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.

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 about 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.

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 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

Modifications to the existing accounting standards and interpretations that became effective on 1 January 2018

- IFRS 9 Financial Instruments

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

(in PLN '000)

International Financial Reporting Standard 9, Financial Instruments (IFRS 9) in the version published by IASB on 24 July 2014.
IFRS 9 introduces a new impairment model based on the expected credit loss new accounting principles regarding to classification and valuation of financial instruments (especially financial assets) and the hedge accounting.

In accordance with IFRS 9, Alior Bank decided to use the exemption of the obligation to restate comparative data for previous periods presented in financial statements for periods beginning on 1 January 2018 or later due to the first application of IFRS 9. Changes in the carrying amount of assets and financial liabilities resulting from the application of IFRS 9 are recognized in equity as at 1 January 2018 as a result of previous years.
Pursuant to the provision of IFRS 9 7.2.21, Alior Bank has decided to continue to apply the hedge accounting principles under IAS 39. Therefore, in the area of hedge accounting, the accounting policies have not been changed.

Summary of the impact of the implementation of IFRS 9 on the statement of financial position as at 1 January 2018 in comparison to the data under IAS 39 as at 31 December 2017(including changes described in note 4.2)

ASSETS	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount in accordance with IAS 39 as at 31.12.2017	Impact of implementing IFRS 9 on 01.01.2018			New carrying amount in accordance with IFRS 9 as at 01.01.2018
				impact of changing classification and valuation (1)	impact of impairment (2)	Total impact (1)+(2)	
Cash and balances with the Central Bank	Loans and advances to customers	Financial assets measured at amortized cost	965 391	0	0	0	965 391
Financial assets held for trading	Financial assets held for trading	Financial assets measured at fair value through profit or loss	452 551	0	0	0	452 551
Available-for-sale financial assets	Available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income	9 649 751	105	0	105	9 649 856
		Financial assets measured at amortized cost	2 384 004	4 538	-1 946	2 592	2 386 596
		Financial assets measured at fair value through profit or loss	38 569	0	0	0	38 569
Investment securities held to maturity	Financial assets held to maturity	Financial assets measured at amortized cost	1 117 894	0	-1 018	-1 018	1 116 876
Derivative hedging instruments	Financial assets held for trading	Financial liabilities measured at fair value through profit or loss	87 785	0	0	0	87 785
Amounts due from banks	Loans and advances to customers	Financial assets measured at amortized cost	901 629	0	-3	-3	901 626
Loans and advances to customers	Loans and advances to customers	Financial assets measured at amortized cost	51 266 640	0	-1 137 394	-1 137 394	50 129 246
Assets pledged as collateral	Available-for-sale financial assets/ Financial assets held to maturity	Financial assets measured at amortized cost / Financial assets measured at fair value through other comprehensive income	408 911	0	0	0	408 911
Property, plant and equipment			475 691	0	0	0	475 691
Intangible assets			548 587	0	0	0	548 587
Non-current assets held for sale			357	0	0	0	357
Income tax asset			591 782	0	0	301 024	892 806
Other assets			626 440	0	566	566	627 006
TOTAL ASSETS			69 515 982	4 643	-1 139 795	-834 128	68 681 854

(in PLN '000)

lLIABILITIES	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount in accordance with IAS 39 as at 31.12.2017	Impact of implementing IFRS 9 on 01.01.2018			New carrying amount in accordance with IFRS 9 as at 01.01.2018
				impact of changing classification and valuation (1)	impact of impairment (2)	Total impact (1)+(2)	
Financial liabilities held for trading	Financial liabilities held for trading	Financial liabilities measured at fair value through profit or loss	435 878	0	0	0	435 878
Amounts due to banks	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	891 645	0	0	0	891 645
Amounts due to customers	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	57 657 019	0	0	0	57 657 019
Derivative hedging instruments	Financial liabilities held for trading	Financial liabilities measured at fair value through profit or loss	5 419	0	0	0	5 419
Provisions			90 457	0	121 628	121 628	212 085
Income tax liabilities			135 690	0	0	63 452	199 142
Other liabilities			1 693 915	0	0	0	1 693 915
Subordinated liabilities			1 914 976	0	0	0	1 914 976
Total liabilities			62 824 999	0	121 628	185 080	63 010 079
Share capital			1 292 636	0	0	0	1 292 636
Supplementary capital			4 820 048	0	0	0	4 820 048
Revaluation reserve			13 944	0	0	10 629	24 573
Other reserves			183 824	0	0	0	183 824
Foreign currency translation differences			594	0	0	0	594
Accumulated losses			378 615	0	0	-1 029 837	-651 222
Non-controlling interests			1 322	0	0	0	1 322
Totak equity			6 690 983	0	0	-1 019 208	5 671 775
TOTAL LIABILITIES AND EQUITY			69 515 982	0	121 628	-834 128	68 681 854

- IFRS 15 Revenue from contracts with customers

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

(in PLN '000)

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

- 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:

- The 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;
- The 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	306 394
- premises	261 677
- perpetual usufruct fees / annual fees	18 443
- parking	23 872
- facades	664
- transport means	1 738
Liabilities due to lease agreements	306 394

- 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

(in PLN '000)

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 Bank believes that the application of the amended standard will not have a significant impact on the financial statements during the period of its initial application.

- 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 Bank believes that the application of the interpretation will not have a significant impact on the financial statements during its initial application.
Standards and interpretations that have not been approved by the European Union yet:

- 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 Bank believes that the application of the amended standards will not have a significant impact on the financial statements in the period of their initial application.

4.2 Restatement of comparative data and explanation of differences in relation to previously published financial statements

- Correction of the error regarding Corporate Tax for years 2012-2017

In 2018, the Bank corrected its Corporate Income Tax returns for years 2012-2017 due to mistakenly excluding of the accrued not-received interest as of the day of writing-off from its tax reconciliation for these years, which resulted in the understatement of the tax base. Simultaneously, the part of interest on off-balance sheet receivables was incorrectly recognized as positive temporary difference and included in the deferred tax liability. In consequence, an adjustment to the Bank's financial statements was recognized as the difference to retained earnings as of 31 December 2017 and by restating the comparative data. The below table presents the breakdown of the correction impact together with penalty interest in the respective years:

Corrected period	Correction of income tax	Amount of interest on tax arrears
2012	2 190	0
2013	3 644	128
2014	1 270	350
2015	5 517	407
2016	60	758
2017	1 645	1 186
Total	14 326	2 829

The impact of the correction described above on the comparative data is:
Equity as at 31.12.2017 PLN -17 155 thousand

(in PLN '000)

Net profit for HY of 2017 PLN -2 831 thousand

- Change in accounting approach in relation to the valuation of options embedded in structured products

The Bank changed the method of fair value measurement of options embedded in the structured products issued by the bank (Bank Securities – BS). Previously, embedded options were measured based on parameters not derived from an active market. Currently, the Bank uses parameters from the interbank market, on which the bank concludes reverse transactions, securing options built into BS. The Bank also changed the method of recognizing costs and revenues related to the distribution of BS. Under the previous methodolody, the incremental costs were similar in amount to the distribution fee and therefore the costs and the fee were recognized at the time the transaction was concluded. The Bank reviewed the incremental costs, as a result of which their level was reduced, therefore the Bank is currently gecognising both revenues from the distribution fee and incremental costs over time up to the maturity date of the BS.
The impact of the correction described above on the comparative data is:
Equity as at 31.12.2017 PLN -34 446 thousand
Net profit for HY of 2017 PLN -21 951 thousand

- Correction of the recognition BFG's cost in the form of liability to pay as a blockage of securities in previous year

In connection with the amendment of the Bank Guarantee Fund Act from 2017 and the regulation of the Minister of Development and Finance of 10 March 2017 on the transfer in the form of liability to pay contributions to the Bank Guarantee Fund, Alior Bank using §4 of this Regulation, settles (30% of due fee) with BFG in the form of a liability to pay, as a blockage of securities.
After receiving, on 2 March 2017 and 20 April 2017, letters from the BFG specifying the amount of contributions to the Deposit Guarantee Fund and the Forced Restructuring Fund, the Bank used incorrectly accounted and therefore did not recognize it as a liability in the profit and loss statement. Pursuant to IAS 37 and IFRIC 21, the obligation to pay in the form of blocking securities, like the remaining part of the BFG contribution, should be recognized as a cost of the current period. Therefore, the Bank made a retrospective adjustment by recognizing the obligation to pay in the form of blocking securities for 2017 as the cost of 2017 and by redtating the comparative data.

	Total Contribution	Fee paid	Liability to pay
1Q 2017	41 500	28 805	12 345
2 Q 2017	11 373	7 961	3 412
3 Q 2017	11 218	11 218	0
4 Q 2017	11 691	8 184	3 508
Total	75 433	56 168	19 265

The impact of the correction described above on the comparative data is:
Equity as at 31.12.2017 PLN -19 265 thousand
Net profit for HY of 2017 PLN -19 265 thousand

(in PLN '000)

The impact of the above adjustments on the comparative data presented in these financial statements is presented in the tables below.

Statement of financial position	01.01.2017	Adjustmentss	01.01.2017 Restated
Income tax asset	540 262	8 180	548 442
Total assets	61 160 491	8 180	61 168 671
Amounts due to customers	51 368 701	15 427	51 384 128
Income tax liabilities	13 945	19 572	33 517
Total liabilities	55 000 629	34 999	55 035 628
Accumulated losses	-7 085	-26 819	-33 904
Total equity	6 159 862	-26 819	6 133 043

Statement of financial position	31.12.2017	Adjustmentss	31.12.2017 Restated
Income tax asset	569 580	22 202	591 782
Total assets	69 493 780	22 202	69 515 982
Amounts due to customers	57 614 493	42 526	57 657 019
Other liabilities	1 674 650	19 265	1 693 915
Income tax liabilities	104 413	31 277	135 690
Total liabilities	62 731 931	93 068	62 824 999
Accumulated losses	-65 760	-26 819	-92 579
Profit for the period	515 241	-44 047	471 194
Total equity	6 761 849	-70 866	6 690 983

Profit and loss	01.01.2017 - 31.12.2017	Korekty	01.01.2017 -31.12.2017 Restated
Net interest income	2 841 068	15 073	2 856 141
Net fee and commission income	453 024	-22 273	430 751
The result on financial assets measured at fair value through profit or loss and trading result	368 956	-31 123	337 833
General administrative expenses	-1 845 535	-8 042	-1 853 577
Net other operating income and expenses	42 354	-1 186	41 168
Gross profit	736 672	-47 551	689 121
Income tax	-221 055	3 504	-217 551
Net profit	515 617	-44 047	471 570

Statement of cash flows	01.01.2017 – 31.12.2017	Adjustmentss	01.01.2017 – 31.12.2017 Restated
Profit before tax	736 672	-47 551	689 121
Change in other liabilities and other comprehensive income	438 458	47 551	486 009

Statement of changes in equity	31.12.2017	Adjustmentss	31.12.2017 Restated
Equity at the beginning of the period	6 159 862	-26 819	6 133 043
Accumulated losses	-65 760	-26 819	-92 579
Profit for the period	515 241	-44 047	471 194
Equity at the end of the period	6 761 849	-70 866	6 690 983

(in PLN '000)

Earnings per share	31.12.2017	Adjustmentss	31.12.2017 Restated
Net profit	515 617	-44 047	471 570
Net profit per ordinary share	3.99	-0.34	3.65
Diluted profit per ordinary share	3.91	-0.33	3.58

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

As compared to the consolidated financial statements made as at 31.12.2017 the presentation of recoveries from loans and advances to customers transferred to off-balance sheet has been changed. The recoveries will be presented in line Net expected credit losses, impairment allowances and write-downs, due to the fact that the transfers to off-balance are made regularly and they are a part of the Bank's operation for the management of non-performing receivables.

Income statement	31.12.2017 Presented	31.12.2017 Restated according to Note 4.2	Change	31.12.2017 Restated
Net other operating income and expenses	42 354	41 168	-14 687	26 481
Net expected credit losses, impairment allowances and write-downs	-929 617	-929 617	14 687	-914 930

5 Operating segments

Segment description

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

Banking operations cover three core business segments:

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

The core products for natural persons are as follows:

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

The core products for business customers are as follows:

- credit products: overdraft limits in current accounts, working capital loans, investment loans, credit cards;
- deposit products: term deposits;
- current and subsidiary accounts;
- transactional services: cash deposits and withdrawals, transfers;

(in PLN '000)

- 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 2018

	Retail customers	Business customers	Treasury	Total operating segments	Unallocated items	Total Group
External interest income	1 862 266	1 218 857	3 401	3 084 524	0	3 084 524
external income	2 303 068	1 473 943	15 533	3 792 544	0	3 792 544
income of a similar nature	0	41 174	122 654	163 828	0	163 828
external expense	-440 802	-296 260	-134 786	-871 848	0	-871 848
Internal interest income	142 273	-347 919	205 646	0	0	0
internal income	1 085 801	166 700	2 207 836	3 460 337	0	3 460 337
internal expense	-943 528	-514 619	-2 002 190	-3 460 337	0	-3 460 337
Net interest income	2 004 539	870 938	209 047	3 084 524	0	3 084 524
Fee and commission income	328 239	495 854	1 469	825 562	0	825 562
Fee and commission expense	-174 023	-206 979	-8 467	-389 469	0	-389 469
Net fee and commission income	154 216	288 875	-6 998	436 093	0	436 093
Dividend income	0	0	275	275	0	275
The result on financial assets measured at fair value through profit or loss and trading result	131 276	218 285	22 029	371 590	0	371 590
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
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	98 380	28 665	0	127 045	0	127 045
Other operating expenses	-116 212	-25 595	0	-141 807	0	-141 807
Net other operating income	-17 832	3 070	0	-14 762	0	-14 762
Total result before expected credit losses	2 272 199	1 381 168	302 182	3 955 549	0	3 955 549
Net expected credit losses	-418 756	-629 164	0	-1 047 920	-6 149	-1 054 069
Total result after expected credit losses	1 853 443	752 004	302 182	2 907 629	-6 149	2 901 480
General administrative expenses	-1 408 577	-499 655	-4 957	-1 913 189	0	-1 913 189
Gross profit	444 866	252 349	297 225	994 440	-6 149	988 291
Income tax	0	0	0	0	-274 918	-274 918
Net profit	444 866	252 349	297 225	994 440	-281 067	713 373
Depreciation						-174 527
Assets	42 794 828	29 545 325	46 985	72 387 138	1 032 749	73 419 887
Liabilities	47 060 665	19 594 487	10 951	66 666 103	267 861	66 933 964

(in PLN '000)

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

Restated	Retail customers	Corporate customers	Treasury	Total business segments	Reconciliation items	Total Bank
External interest income	1 845 241	1 020 058	-9 158	2 856 141	0	2 856 141
external income	2 173 185	1 299 923	128 023	3 601 131	0	3 601 131
external expense	-327 944	-279 865	-137 181	-744 990	0	-744 990
Internal interest income	-16 042	-263 953	279 995	0	0	0
internal income	843 894	186 031	2 789 704	3 819 629	0	3 819 629
internal expense	-859 936	-449 984	-2 509 709	-3 819 629	0	-3 819 629
Net interest income	1 829 199	756 105	270 837	2 856 141	0	2 856 141
Fee and commission income	378 523	428 049	-969	805 603	0	805 603
Fee and commission expense	-208 991	-153 682	-12 179	-374 852	0	-374 852
Net fee and commission income	169 532	274 367	-13 148	430 751	0	430 751
Dividend income	0	0	31	31	0	31
Trading and revaluation result	4 172	49 470	284 191	337 833	0	337 833
Net gain (realized) on other financial instruments	117 006	174 518	-284 616	6 908	0	6 908
Other operating income	98 450	14 006	-60	112 396	0	112 396
Other operating expenses	-53 638	-33 607	1 330	-85 915	0	-85 915
Net other operating income	44 812	-19 601	1 270	26 481	0	26 481
Total result before impairment losses	2 164 721	1 234 859	258 565	3 658 145	0	3 658 145
Net impairment allowances and write-downs	-468 697	-420 524	12	-889 209	-25 721	-914 930
Total result after impairment losses	1 696 024	814 335	258 577	2 768 936	-25 721	2 743 215
General administrative expenses	-1 472 164	-576 729	-5 201	-2 054 094	0	-2 054 094
Profit before tav	223 860	237 606	253 376	714 842	-25 721	689 121
Tax income	0	0	0	0	-217 551	-217 551
Income tax	223 860	237 606	253 376	714 842	-243 272	471 570
Depreciation						-177 040
Assets	41 235 031	27 643 418	45 751	68 924 200	591 782	69 515 982
Liabilities	40 278 388	22 397 882	13 039	62 689 309	135 690	62 824 999

Income and expenses are generated primarily in Poland. The branch in Romania generated a gross loss amounting to PLN 27 020 thousand in 2018 and PLN 30 219 thousand in 2017, 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.

(in PLN '000)

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 points 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 interest rate at which future cash flows were discounted for the purposes of measuring impairment.

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

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Interest income	3 792 544	3 601 131
term deposits	654	1 064
loans	3 392 456	3 176 306
available for sale financial assets	n/a	165 562
financial assets measured at amortized cost	102 039	n/a
financial assets measured at fair value through other comprehensive income	162 001	n/a
receivables acquired	25 696	33 710
repo transactions in securities	4 777	7 823
financial assets held to maturity	n/a	9 281
leasing	103 212	32 913
other	1 709	1 408
Other interest ncome	n/a	173 064
current accounts	n/a	25 156
overnight deposits	n/a	1 558
derivatives instruments	n/a	146 350
Income of a similar nature*	163 828	n/a
current accounts	10 718	n/a
overnight deposits	2 195	n/a
derivatives instruments	150 915	n/a
Interest expense	-871 848	-744 990
Interest expense from financial instruments measured at amortized cost including the effective interest rate method	-534 781	-495 813
term deposits	-365 569	-345 903
own issue	-139 685	-121 906
repo transactions in securities	-14 653	-15 999
cash deposits	-2 657	-3 300
other	-12 217	-8 705
Other interest expense	-337 067	-249 177
current deposits	-214 785	-121 372
derivatives	-122 282	-127 805
Net interest income	3 084 524	2 856 141

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 2018 and 2017 the amount of interest income on loans with recognised impairment amounted to PLN 211 029 thousand and PLN 243 769 thousand.

6.3 Significant estimates and assumptions – recognition of bancassurance income

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

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

The economic title of the received remuneration determines the way it is disclosed in the Bank's books.
The model of "relative fair value" is applied to determine the split of the remuneration related to insurance offered in connection with cash and mortgage loans and insurance sold without any relationship to financial instruments.
The "relative fair value" model approved by the Bank consists in estimating the fair value of each element of the overall service of loan sale with insurance in order to determine the proportion of fair value of both services. In accordance with such proportion of fair value, remuneration under the joint loan and insurance transaction is allocated to each component. Additionally, in order to determine the correct amount of income to be recognised over time as interest income, the model provides for the establishment and update of provisions for remuneration refund for insurance agency services when the customer resigns from insurance. The provision due to the uncertainty related to the customers' option to resign from the insurance cover at any time during the term of the contract is verified periodically by each credit product group. The Bank's remuneration for insurance distribution is reduced by uncertain income related to estimated refunds due to the customers' resignation from insurance.
The remuneration for sale of insurance products offered to the Bank's customers in combination with credit products in line with the periodically updated "loan relative fair value" model is recognised after deferral of a part of the remuneration to cover the anticipated refunds of remuneration due to the customers resigning or withdrawing from insurance contracts.
Additionally, in its profit and loss account, the Bank recognises income on the sale of insurance distributed jointly with the offered car loans and loans with legal protection coverage that are fully accounted for over time at the effective interest rate.

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

6.4 Sensitivity analysis of significant estimates and assumptions

In 2018 and 2017 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 2018 with reference to bancassurance is as follows:

Type of scenario	2018	2017
increased provision for resignations by 5pp	PLN -7.23 M – reduced net interest	PLN -9.86 M – reduced net interest
decreased provision for resignations by 5pp	PLN +7.23 M – increased net interest	PLN +9.86 M – increased net interest
increased income recognised all at once by 1pp	PLN +1.16 M – increased net fees and commissions	PLN +1.27 M – increased net fees and commissions
decreased income recognised all at once by 1pp	PLN -1.16 M – decreased net fees and commissions	PLN -1.27 M – decreased net fees and commissions

7 Net fee and commission income

7.1 Accounting principles

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

7.2 Financial data

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Fee and commission income	825 562	805 603
payment and credit cards service	254 420	212 602
maintaining bank accounts	119 236	136 858
brokerage commissions	66 158	96 147
revenue from bancassurance activity	87 635	88 200
loans and advances	113 903	88 927
transfers	60 493	63 385
cash operations	41 966	46 030
guarantees, letters of credit, collection, commitments	14 522	13 468
receivables acquired	11 687	13 847
for custody services	12 805	10 617
repayment of seizure	5 679	4 618
other commissions	37 058	30 904
Fee and commission expenses	-389 469	-374 852
costs of card and ATM transactions, including costs of cards issued	-190 452	-154 842

(in PLN '000)

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
commissions paid to agents	-53 355	-39 846
insurance of bank products	-16 467	-19 398
costs of awards for customers	-15 681	-19 388
commissions for access to ATMs	-25 854	-28 316
commissions paid under contracts for performing specific operations	-28 997	-31 469
brokerage commissions	-3 702	-5 038
for custody services	-3 169	-3 158
transfers and remittances	-15 344	-18 189
other commissions	-36 448	-55 208
Net fee and commission income	436 093	430 751

01.01.2018 –31.12.2018	Retail customers	Business customers	Treasury	Total
Fee and commission income	328 240	495 853	1 469	825 562
payment and credit cards service	101 859	152 561	0	254 420
maintaining bank accounts	48 879	70 357	0	119 236
brokerage commissions	66 158	0	0	66 158
revenue from bancassurance activity	56 990	30 645	0	87 635
loans and advances	14 910	98 993	0	113 903
Transfers	14 389	46 104	0	60 493
cash operations	23 559	18 407	0	41 966
guarantees, letters of credit, collection, commitments	1	14 521	0	14 522
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	1 495	34 094	1 469	37 058

01.01.2017–31.12.2017 Restated	Retail customers	Business customers	Treasury	Total
Fee and commission income	378 523	428 049	-969	805 603
payment and credit cards service	95 619	116 983	0	212 602
maintaining bank accounts	49 942	86 916	0	136 858
brokerage commissions	96 147	0	0	96 147
revenue from bancassurance activity	71 468	16 732	0	88 200
loans and advances	14 487	74 440	0	88 927
Transfers	15 259	48 126	0	63 385
cash operations	20 702	25 328	0	46 030
guarantees, letters of credit, collection, commitments	0	13 468	0	13 468
receivables acquired	0	13 847	0	13 847
custody services	0	10 617	0	10 617
repayment of seizure	0	4 618	0	4 618
other commissions	14 899	16 974	-969	30 904

(in PLN '000)

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 trading result

8.1 Accounting principles

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

8.2 Financial data

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Foreign exchange transactions	576 909	9 283
Revaluation result	-215 753	313 382
Interest rate transacions	3 149	24 086
Ineffective part of hedge accounting	-864	871
The result on other instruments (includes the result on trading in debt securities classified as assets measured at fair value through profit and loss/held for trading with interest)	8 149	-9 789
The result on financial assets measured at fair value through profit or loss and trading result	371 590	337 833

9 The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss / Net result realized on other financial instruments (till 31.12.2017)

9.1 Accounting principles

The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss includes gains and losses arising on the disposal of financial instruments classified as financial assets measured at fair value through other comprehensive income and gains and losses arising from the repurchase of own issue.

The Bank settles the previously recognized financial asset and recalculates it according to the rules used at the time of initial recognition in the event of a significant modification of the terms of the contract during the funding period. If a significant modification event is identified, deferred income and expenses related to this asset are recognized in the income statement and the provisions are released.

(in PLN '000)

9.2 Financial data

	01.01.2018 – 31.12.2018
Financial assets measured at fair value through other comprehensive income	76 473
Financial assets measured at amortized cost	1 356
own issue	1 355
investment certificates	1
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	77 829

	01.01.2018 – 31.12.2018
Available-for-sale financial assets	5 750
Own issue	1 403
repurchase income	1 405
repurchase losses	-2
Investment certificates	-245
Net gain (realized) on other financial instruments	6 908

10 Result on other operating income and expenses

10.1 Accounting principles

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

10.2 Financial data

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Other operating income from:	127 045	112 396
income from contracts with business partners	50 307	42 271
reimbursement of costs of claim enforcement	24 018	25 371
received compensations	7 499	6 734
management of third party assets	18 060	23 507
reimbursement of fees by customers	0	23
acquisition of receivables	8 831	0
from license fees from Partners	4 700	4 977
from lease agreements	3 054	2 168
other	10 576	7 345
Other operating expenses due to:	-141 807	-85 915
fees and costs of claim enforcement	-50 189	-28 393
paid compensations. settlements. complaints	-61 324	-24 990
paid compensations. fines and penalties	-7 842	-12 015
management of third party assets	-2 005	-2 132

(in PLN '000)

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
awards given to customers	-2 865	-1 776
guarantee from BGK	-1 180	0
recognition of complaints without Bank's fault.	-5 582	-4 455
other	-10 820	-12 154
Net other operating income and expense	-14 762	26 481

11 General administrative expenses

11.1 Accounting principles

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

11.2 Financial data

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Payroll costs	-896 246	-1 003 893
remuneration due to employment contracts	-737 915	-809 282
remuneration surcharges	-137 997	-162 113
revaluation of managment option plan – part settled in cash	-325	-16 689
costs of bonus for senior executives settled in phantom shares	211	-2 759
other	-20 220	-13 050
General and administrative costs	-609 704	-661 117
lease and building maintenance expenses	-139 737	-160 447
costs of Banking Guarantee Fund	-106 255	-75 429
IT costs	-99 386	-156 767
marketing costs	-78 694	-70 359
cost of advisory services	-28 081	-46 226
external services	-39 794	-41 931
training costs	-27 435	-26 711
costs of telecommunications services	-25 106	-26 230
costs of lease of property, plant and equipment and intangible assets	-7 784	-7 100

(in PLN '000)

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
other	-57 432	-49 917
Amortization and depreciation	-174 527	-177 040
property, plant and equipment	-97 551	-106 016
intangible assets	-76 976	-71 024
Taxes and fees	-24 526	-11 527
Total general administrative expenses	-1 705 003	-1 853 577

11.3 Operational leases – the Bank as a lessee

The Bank is a party solely to such lease contracts pursuant to which it accepts for use of third party fixed assets for a fee over an agreed period, when the entire risk and benefits from the leased assets remain with the lessor.
The Bank leases cars. All those contracts are operational lease contracts. As at 31 December 2018, the Bank had 723 lease contracts for cars.

Operational lease contracts for cars by payment dates	31.12.2018	31.12.2017
up to 1 year	5 859	9 981
1 to 3 years	1 360	5 783
Total	7 219	15 764

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

Future lease liabilities by payment dates	31.12.2018	31.12.2017
up to 1 year	111 463	155 766
1 to 5 years	321 781	393 285
Above 5 years	13 675	6 141
Total	446 919	555 192

12 Net expected credit loss, impairment allowances and wrtite-downs

12.1 Accounting principles

The result from net expected credit loss, impairment allowance and write-downs consists of the establishment and reversal of the allowance for expected losses on loans and advances to customers, debt securities, property, plant and equipment and intangible assets 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.

(in PLN '000)

12.2 Financial data

	01.01.2018–30.09.2018	01.01.2017–30.09.2017
Stage 3/ Impaired loans	-1 250 091	-887 952
Impairment losses on impaired loans and advances to customers	-1 250 091	-887 952
retail customers	-547 596	-491 469
business customers	-702 495	-396 483
Debt securities – available-for-sale financial assets	n/a	16 921
Investment securities	2 820	n/a
IBNR for customers without impairment losses	n/a	-26 558
retail customers	n/a	-2 793
business customers	n/a	-23 765
Expected credit loss (ECL)	123 014	n/a
Stage 2	62 173	n/a
retail customers	83 507	n/a
business customers	-21 334	n/a
Stage 1	60 841	n/a
retail customers	28 702	n/a
business customers	32 139	n/a
POCI	-3 046	n/a
Recoveries from off-balance sheet	8 537	14 687
Off-balance provisions	70 948	-6 307
Property, plant and equipment and intangible assets	-6 150	-25 721
Non-current assets held for sale	-101	0
Net expected credit losses, impairment allowances and write-downs	-1 054 069	-914 930

13 Banking Tax

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

14 Income tax

14.1 Accounting principles

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

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

Current tax

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

Deferred income tax

(in PLN '000)

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

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

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

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

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

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

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

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

14.2 Financial data

14.2.1 Tax charge disclosed in the profit and loss account

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Current tax	486 986	280 345
current year	486 986	280 345
Deferred income tax	-212 068	-62 794
origination and reversal of temporary differences	-212 068	-62 794
Accounting tax recognized in the income statement	274 918	217 551

14.2.2 Effective tax rate calculation

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Gross profit	988 291	689 121
Income tax at 19%	187 775	130 933
Non-tax deductible expenses	93 012	78 408
Entertainment costs	231	570

(in PLN '000)

PFRON (State Fund for the Rehabilitation of Disabled People)	87	1 350
Impairment losses on loans in the part not covered with deferred tax	19 289	20 933
Prudency fee for BGF	20 188	14 332
Tax on Certain Financial Institutions	39 555	38 099
Donations	21	41
Other	13 641	3 083
Non-taxable income	-5 341	-8 656
Release of loan impairment allowances in the part not covered with the deferred tax	-12	-6 830
Other	-5 329	-1 826
Recognition of tax loss	1 439	2 904
Relief for research and development	-2 304	0
Other	337	13 962
Accounting tax recognized in the income statement	274 918	217 551
Effective tax rate	27,82%	31,57%

14.2.3 Deferred tax asset and liability

Deferred tax asset	31.12.2017 Restated	Changes recognised in financial result	Changes recognised in equity	31.12.2018
Commissions collected in advance	285 378	26 835	-8	312 205
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	5 026	0	30 393
Provision for deferred expenses	64 571	-14 695	0	49 876
Impairment allowances on credit receivables	321 676	111 342	237 824	670 842
Other provisions	2 628	89 400	960	92 988
Tax loss	5 285	6 158	220	11 663
Deferred tax asset	903 099	238 479	240 105	1 381 683
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	-70 166	-13 251	-6 337	-89 754
Difference between balance and tax depreciation	-40 246	-4 737	0	-44 983
Accrued not received income	-11 089	562	0	-10 527
Deferred income tax provisions	-311 803	-26 411	-8 277	-346 491
Total effect of temporary differences	591 296	212 068	231 828	1 035 192

Deferred tax asset	31.12.2016 Restated	Changes recognised in financial result	Changes recognised in equity	31.12.2017 Restated
Commissions collected in advance	293 825	-8 447	0	285 378
Interest accrued on deposits	23 581	7 824	0	31 405
Interest / discount accrued on securities	47 988	8 656	0	56 644
Negative valuation of securities	21 355	-3 466	-14 793	3 096

(in PLN '000)

Deferred tax asset	31.12.2016 Restated	Changes recognised in financial result	Changes recognised in equity	31.12.2017 Restated
Interest accrued on derivative instruments	24 622	22 642	0	47 264
Negative valuation of derivative instruments	56 621	2 559	605	59 785
Premium received on options	16 636	8 731	0	25 367
Provision for deferred expenses	116 662	-52 091	0	64 571
Impairment allowances on credit receivables	286 313	35 363	0	321 676
Other provisions	-51 186	53 814	0	2 628
Recognised asset as contribution to Obrót wierzytelnościami Alior Polska sp. z o.o. spółka komandytowo-akcyjna	6 339	-6 339	0	0
Tax loss	2 190	3 179	-84	5 285
Deferred income tax asset	844 946	72 425	-14 272	903 099
Deferred tax provisions	**31.12.2016 Restated**	**Changes recognised in financial result**	**Changes recognised in equity**	**31.12.2017 Restated**
Interest accrued on interbank deposits	-406	406	0	0
Interest accrued on loans	-74 618	-40 365	0	-114 983
Interest / discount accrued on securities	-15 271	3 297	0	-11 974
Positive valuation of securities	-487	15	-4 256	-4 728
Interest accrued on derivative instruments	-30 455	-28 162	0	-58 617
Positive valuation of derivative instruments	-87 400	17 890	-656	-70 166
Difference between balance and tax depreciation	-27 488	-12 758	0	-40 246
Accroued income	-60 379	50 046	-756	-11 089
Deferred income tax provisions	-296 504	-9 631	-5 668	-311 803
Total effect of temporary differences	548 442	62 794	-19 940	591 296

15 Profit per share

15.1 Accounting principles

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

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

Diluted profit per share is calculated as a ratio of profit attributable to the Bank's shareholders and the weighted average number of ordinary shares adjusted by potential ordinary convertible shares. The Bank has one category that may result in dilution of potential ordinary shares: share options. Under the Management Option Scheme during 2018:

- the participants of the program executed 1 275 150 warrants acquiring at the issue price, in accordance with the program assumptions 439 442 series D shares, 517 307 series E shares and 318 401 series F shares;

The number of warrants as at 31 December 2018:

Series of warrants	The number of warrants as at 31.12. 2017	The number of warrants executed during 2018	Warrants expired in 2018	The number of warrants as at 31.12. 2018 incl:	The number of warrants that can be realised	Number of deferred warrants to be issued in 2018-2019
A	551 366	439 442	111 924	0	0	0
B	1 045 919	517 307	0	528 612	520 263	8 349
C	950 201	318 401	0	631 800	490 956	140 844
	2 547 486	1 275 150	111 924	1 160 412	1 011 219	149 193

(in PLN '000)

15.2 Financial data

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Net profit	713 373	471 570
Weighted average number of ordinary shares	130 026 866	129 259 754
Share options (number) - adjusting instrument	1 160 412	2 547 486
Adjusted weighted average number of shares	131 187 278	131 807 240
Net profit per ordinary share (PLN)	5.49	3.65
Diluted profit per share (PLN)	5.44	3.58

Additional information to the statement of financial position

16 Cash and balances with the central bank

16.1 Accounting principles

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

Detailed of principles accounting for financial assets are described in note 18.1.
The table below presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9.

	Original classification under IAS 39	New classification under IFRS 9
Cash and balances with the central bank	Loans and receivables	Financial asset measured at amortised cost;

16.2 Financial data

	31.12.2018	31.12.2017
Current account with the central bank	706 079	253 092
Term deposit with the central bank	0	255 010
Cash	932 954	457 289
Cash and balances with central bank	1 639 033	965 391

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 2017 the interest rate on the mandatory reserve was 0.5% and at the end of 2017 it was 1.35%.

(in PLN '000)

17 Amounts due from banks

17.1 Accounting principles

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

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

Detailed of principles accounting for financial assets are described in note 18.1.

The table below presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9

	Original classification under IAS 39	New classification under IFRS 9
Amounts due from banks	Loans and receivables	Financial assets measured at amortized cost

17.2 Financial data

Structure by type	31.12.2018	31.12.2017
Current accounts	429 498	627 645
Overnight deposits (O/N)	60	10 268
Term deposits	10 047	11 062
Reverse Repo	0	58 397
Deposits as derivative transactions (ISDA) collateral	124 998	163 770
Other	47 841	30 487
Amounts due from banks	612 444	901 629

By maturity (as at the balance sheet date)	31.12.2018	31.12.2017
≤ 1M	612 144	901 128
> 1M ≤ 3M	300	501
Amounts due from banks	612 444	901 629

By currency structure	31.12.2018	31.12.2017
PLN	3 695	73 512
EUR	283 533	355 942
GBP	21 753	37 193
USD	208 683	91 347
CHF	4 111	4 423
Other currencies	90 669	339 212
Amounts due from banks	612 444	901 629

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

18 Financial assets

18.1 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.
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.

(in PLN '000)

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

The table below presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9

	Original classification under IAS 39	New classification under IFRS 9
Financial assets	Financial assets held for trading	Financial assets measured at fair value through profit or loss
Financial assets	Available-for-sale financial assets	Financial assets measured at fair value through profit or loss
Financial assets	Available-for-sale financial assets	Financial assets measured at amortized cost
Financial assets	Available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income
Financial assets	Financial assets held to maturity	Financial assets measured at fair value through profit or loss

18.2 Financial data

	31.12.2018	31.12.2017
Financial assets	13 727 570	13 642 769
measured at fair value through other comprehensive income	7 280 080	n/a
measured at fair value through profit or loss	515 138	n/a
measured at amortized cost	5 932 352	n/a
available-for-sale	n/a	12 072 324
held to maturity	n/a	1 117 894
Held for trading	n/a	452 551

18.2.1 Financial assets by type

- IFRS 9

as at 31.12.2018	measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost
Investments securities	48 874	7 280 080	5 932 352
Debt instruments	21 814	7 257 145	5 932 352
issued by the State Treasury	5 254	7 109 317	5 932 352
T-bonds	5 254	7 109 317	5 932 352
issued by monetary institutions	0	74 304	0
Eurobonds	0	74 304	0
Money bills	0	0	0
issued by other financial institutions	0	0	0
Bonds	0	0	0
Eurobonds	0	0	0
issued by companies	16 560	73 524	0
Bonds	16 560	73 524	0
Equity instruments	27 060	22 935	0
Derivative financial instruments	466 264	0	0
Interest rate transactions	286 917	0	0

(in PLN '000)

as at 31.12.2018	measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost
SWAP	286 014	0	0
Cap Floor Options	903	0	0
Foreign exchange transactions	108 205	0	0
FX Swap	40 353	0	0
FX forward	32 310	0	0
CIRS	11 723	0	0
FX options	23 819	0	0
Other options	36 028	0	0
Other instruments	35 114	0	0
Total	515 138	7 280 080	5 932 352

- IAS 39

as at 31.12.2017	held for trading	available-for-sale	held to maturity
Investments securities	86 118	12 072 324	1 117 894
Debt instruments	85 735	12 030 778	1 117 894
issued by the State Treasury	85 459	9 651 360	1 117 894
T-bonds	85 459	9 651 360	1 117 894
issued by monetary institutions	0	2 087 331	0
Eurobonds	0	87 665	0
Money bills	0	1 999 666	0
issued by other financial institutions	122	91 387	0
Bonds	122	0	0
Eurobonds	0	91 387	0
issued by companies	154	200 700	0
Bonds	154	200 700	0
Equity instruments	383	41 546	0
Derivative financial instruments	366 433	0	0
Interest rate transactions	189 794	0	0
SWAP	187 694	0	0
Cap Floor Options	2 100	0	0
Foreign exchange transactions	95 660	0	0
FX Swap	18 059	0	0
FX forward	44 851	0	0
CIRS	15 984	0	0
FX options	16 766	0	0
Other options	52 450	0	0
Other instruments	28 529	0	0
Total	452 551	12 072 324	1 117 894

(in PLN '000)

18.2.2 Financial assets by maturity

- IFRS 9

31.12.2018	measured at fair value through other comprehensive income	measured at fair value through profit or loss	measured at amortized cost
no specified maturity	27 060	22 935	0
≤ 1M	58 593	0	0
> 1M ≤ 3M	44 637	0	0
> 3M ≤ 6M	48 979	0	198 802
> 6M ≤ 1Y	58 736	44 193	686 483
>1Y ≤ 2Y	145 057	471 205	721 769
>2Y ≤ 5Y	91 746	2 087 901	2 654 543
>5Y ≤ 10Y	40 330	4 653 846	1 670 755
Total	515 138	7 280 080	5 932 352

- IAS 39

31.12.2017	held for trading	available-for-sale	held to maturity
no specified maturity	22 921	41 546	0
≤ 1M	33 295	2 002 613	0
> 1M ≤ 3M	21 504	0	0
> 3M ≤ 6M	62 102	10 332	0
> 6M ≤ 1Y	29 946	11 195	0
>1Y ≤ 2Y	94 831	1 030 595	0
>2Y ≤ 5Y	73 287	4 642 927	925 292
>5Y ≤ 10Y	114 665	2 728 707	192 602
>10Y ≤ 20Y	0	1 604 409	0
Total	452 551	12 072 324	1 117 894

18.2.3 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)	31.12.2018	31.12.2017
Interest rate transactions	64 251 954	55 125 803
SWAP	61 326 293	52 202 357
Cap floor options	2 925 661	2 923 446
FX transactions	12 266 206	8 873 916
FX Swap	5 217 411	3 663 369
FX forward	2 024 654	1 963 710
CIRS	715 148	617 238
FX options	4 308 993	2 629 599
Other options	6 077 100	6 824 348
Other instruments	1 431 724	585 182
Derivative instruments (nominal value)	84 026 984	71 409 249

(in PLN '000)

18.3 Material estimates and assumptions

- fair value, impairment allowances

Impairment allowance for financial assets	31.12.2018		31.12.2017	
	Gross value of receivables	Allowance amount	Gross value of receivables	Allowance amount
measured at fair value through other comprehensive income	7 257 145	8 879*	4 526	4 526
measured at amortized cost	5 936 911	4 559	0	0

**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.*

Change in impairment allowances on debt instruments measured at fair value through other comprehensive income	31.12.2018	31.12.2017
Opening balance	4 526	21 447
Impact of IFRS 9	13 187	0
Change to allowances:	-4 331	-16 921
Increases	4 553	209
Decreases	-8 884	-17 130
Currency differences	23	0
The value of assets which maturied before 01.01.2018, which are not measured at fair value	-4 526	0
Impairment allowances at the end of period for financial assets	8 879	4 526

Change in impairment allowances on debt instruments measured at amortized cost	31.12.2018	31.12.2017
Opening balance	575	n/a
Impact of IFRS 9	2 964	n/a
Change to allowances:	1 511	n/a
Increases	1 884	n/a
Decreases	-373	n/a
debt instruments written off the balance sheet	-491	n/a
Impairment allowances at the end of period for financial assets	4 559	n/a

In connection with the implementation of IFRS 9, as at 1 January 2018, the Bank allocated a portion of financial assets classified in accordance with IAS 39 as available-for-sale, to the category of financial assets measured at amortized cost. The impact of IFRS 9 on the carrying value of these assets is described in note 4.1 Changes in accounting standards.
As at 31 December 2018, the fair value of these assets would amount to PLN 2 411 thousand.

- 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

(in PLN '000)

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

18.4 Sensitivity analysis of material estimates and assumptions

For the purposes of disclosures in accordance with IFRS 7, the Bank estimates changes to measurements of debt instruments measured at fair value through other comprehensive income (available for sale in 2017) 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:

Estimated measurement change	31.12.2018		31.12.2017	
	scenario +50pb	scenario -50pb	scenario +50pb	scenario -50pb
IRS	22 666	-22 666	26 749	-26 749
CIRS	-352	352	-175	175
other instruments	-209	209	-134	134
Total derivative instruments	22 106	-22 106	26 440	-26 440
Debt instruments	-21 540	21 540	-56 640	56 640

19 Hedge accounting

19.1 Accounting principles

Hedge accounting is applied for symmetrical recognition in the profit and loss account of compensating changes to the fair value of the hedging instruments and the hedged item.
For the purposes of hedge accounting, the Bank designates hedging instruments so that changes to their fair value or cash flows covered in whole or in part the changes to the fair value or future cash flows of the hedged item.
According to IFRS 9 7.2.21 Bank applies hedge accounting if all the conditions specified in IAS 39 as listed below are satisfied:

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

- the hedging is assessed on an ongoing basis and its high effectiveness is confirmed in all reporting periods for which the hedging has been established.

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

19.2 Types of hedge strategies

The Bank applies cash flow hedge accounting.

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

Cash flow hedges are recognised in the books as follows:

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

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

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

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

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

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

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

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.

Bank, by establishing hedging links, identifies groups of loans or credits 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 credit layer 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 and the IRS hedging transaction. In addition, the poor effectiveness 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.

(in PLN '000)

19.3 Financial data

Hedging instruments (nominal value)	31.12.2018	31.12.2017
Interest rate transactions	7 994 200	8 644 200
SWAP	7 994 200	8 644 200
Hedging instruments (nominal value)	7 994 200	8 644 200

Financial assets– hedging instruments	31.12.2018	31.12.2017
Level 2	112 400	87 785
Interest rate transactions	112 400	87 785
SWAP	112 400	87 785
Total	112 400	87 785

By maturity	31.12.2018	31.12.2017
> 1M ≤ 3M	23 863	39 186
> 3M ≤ 6M	2 738	8 279
> 6M ≤ 1Y	867	334
> 1Y ≤ 2Y	22 451	30 084
> 2Y ≤ 5Y	62 481	9 902
Total	112 400	87 785

Financial liabilities – hedging instruments	31.12.2018	31.12.2017
Level 2	9 381	5 419
Interest rate transactions	9 381	5 419
SWAP	9 381	5 419
Total	9 381	5 419

By maturity	31.12.2018	31.12.2017
> 1Y ≤ 2Y	0	142
> 2Y ≤ 5Y	83	2 304
> 5Y ≤ 10Y	9 298	2 973
Total	9 381	5 419

Other comprehensive income as regards cash flow hedges	31.12.2018	31.12.2017
Other gross comprehensive income at the beginning of period	-11 142	-10 769
Gains transferred to other comprehensive income in the period	27 618	-7 442
Amount transferred in the period from comprehensive income to profit and loss account, including:	14 665	7 069
- interest income	14 665	7 069
Accumulated other gross comprehensive income at the end of period	31 141	-11 142
Tax effect	-5 917	2 117
Accumulated other net comprehensive income at the end of period	25 224	-9 025
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	864	-872
Impact of other gross comprehensive income in the period	42 283	-373
Deferred tax under cash flow hedges	-8 034	71
Impact of other net comprehensive income in the period	34 249	-302

(in PLN '000)

19.4 Sensitivity analysis of material estimates and assumptions

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

Estimated measurement change	31.12.2018		31.12.2017	
	scenario +50pb	scenario -50pb	scenario +50pb	scenario -50pb
IRS	-55 533	55 533	-43 415	43 415

20 Loans and advances to customers

20.1 Accounting principles

On 31 December 2018 and 31 December 2017 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 18.1.

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),
  - exposures to entities from the business client sector whose rating achieves the equivalent of investment-grade ratings of external rating agencies.

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, write-downs are a cumulative change between their current estimation of expected credit losses and the level set at the acquisition date of the exposure.
The rules for estimating losses according to IFRS 9 constitute a significant change to IAS 39, where:

- write-downs were estimated for losses incurred but not expected,
- in the scope of receivables with no indications of impairment, the valuation rules did not force to isolate additional sub-portfolios implying a loss estimation horizon,
- for POCI exposures, there were no separate rules for recognizing write-downs.

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.

The table below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9

	Original classification under IAS 39	New classification under IFRS 9
Loans and advances to customers	Loans and receivables	Financial assets measured at amortized cost

20.2 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 principles of recognizing impairment triggers remain unchanged versus the principles applied in IAS 39.
The Bank applies the full cross-default principle, ie the identification of the premise on any customer involvement results in the classification of the portfolio with indications of impairment of all its exposures.
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 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, recognized on the date of effective notice, while meeting the criterion of materiality of the amount of debt (PLN 500);
- 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. The Bank defines impairment indications based on regulations and supervisory guidelines, including best market practices and own experience related to credit risk management. In case of an event that could be a sign of impairment, not listed the above is assessed for its significance of the risk that the client is not able to meet its obligations to the Bank based on 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 a combination of:

- qualitative criterias and
- quantitative criterias.

The Bank includes as qualitative criteria:

(in PLN '000)

- 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).

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.
- when determining materiality thresholds, the Bank takes into account the assessment of expected 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.

20.3 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.
IFRS 9 replaced the impairment model which was based on the "incurred loss" concept, and introduces a new model based on the expected credit loss (ECL) concept.
The impact of the new impairment model is presented below:

Loss allowance and write-downs at 31 December 2017 under IAS 39	3 403 675
Additional impairment recognised at 1 January 2018 on:	835 957
Impairment losses on impaired loans and advances to customers	1 120 777
Change in presentation in impairment's interest	193 757
Impact of the classification part of loans and advances to customers as POCI	-603 169
Debt securities – available-for-sale financial assets	1 946
Investment securities held to maturity	1 018
Off balance provision	121 628
Loss allowance at 1 January 2018 under IFRS 9	4 239 632
Incl impairment losses on impaired loans and advances to customers	4 115 040

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 model used to estimate credit losses is the same as the model used to assess the occurrence of a significant deterioration in credit quality. It includes the expected, in the life-time horizon, the distribution of the default probability of each exposure, which is basically dependent on the segment / product flu, the customer's individual credit quality and the exposure lifecycle phase.

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 reviewed 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 1 million. Individual measurement is also applied to exposures that may be impaired with respect to which the Bank is not able to identify a group of assets with similar credit risk features or does not have an adequate sample to assess group parameters.

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

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 (loss generating event) 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 2018 the Bank had collateral for loan expousures with impairment triggers amounting to:

- collective portfolio – PLN 482 M,
- individual portfolio – PLN 1 772 M.

In the case of 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.

(in PLN '000)

20.4 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 share 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 Stage 2),
- 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 and the healing scale.

The macroeconomic assumptions adopted in the FLI area coincide with the forecasts defined by the Bank in the scope of strategic business and financial plans. In cases when the analyzed horizon goes beyond the window of strategic plans, macro assumptions are defined expertly.

Due to the complexity and significance of FLI models, the Bank will carry out intensive development work in their scope, including supervisory requirements.

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

Loans granted to customers	31.12.2108			31.12.2017		
	Gross value	Expected credit losses	Net value	Gross value	Impairment allowance	Net value
Retail segment	32 048 060	-2 604 564	29 443 496	30 146 687	-1 911 961	28 234 726
Consumer loans	18 948 266	-2 419 791	16 528 475	18 337 260	-1 795 399	16 541 861
Loans for residential properties	10 490 966	-138 830	10 352 136	9 631 679	-83 893	9 547 786
Consumer finance loans	2 608 828	-45 943	2 562 885	2 177 748	-32 669	2 145 079
Corporate segment	26 869 349	-2 066 921	24 802 428	24 523 628	-1 491 714	23 031 914
Working capital loans	13 034 649	-1 421 812	11 612 837	12 812 843	-908 147	11 904 696
Investment loans	8 728 597	-418 269	8 310 328	8 992 528	-371 922	8 620 606
Other business loans	5 106 103	-226 840	4 879 263	2 718 257	-211 645	2 506 612
Total	58 917 409	-4 671 485	54 245 924	54 670 315	-3 403 675	51 266 640

(in PLN '000)

Loans and advances to customers by method of allowance calculation	31.12.2108			31.12.2017		
	Gross value	Expected credit losses	Net value	Gross value	Impairment allowance	Net value
Stage 3	6 919 170	-3 371 568	3 547 602	n/a	n/a	n/a
individualised method, including:	3 021 790	-930 486	2 091 304	3 033 329	-778 471	2 254 858
with identified impairment	2 419 201	-927 494	1 491 707	2 348 052	-778 471	1 569 581
without identified impairment	602 589	-2 992	599 597	685 277	0	685 277
group method	3 897 380	-2 441 082	1 456 298	3 694 718	-2 297 232	1 397 486
with identified impairment	3 828 021	-2 433 496	1 394 525	3 566 585	-2 297 232	1 269 353
without identified impairment	69 359	-7 586	61 773	128 133	0	128 133
portfolio method (IBNR)	n/a	n/a	n/a	47 942 268	-327 972	47 614 296
Stage 2	6 356 390	-771 136	5 585 254	n/a	n/a	n/a
Stage 1	45 243 037	-467 542	44 775 495	n/a	n/a	n/a
POCI	398 812	-61 239	337 573	n/a	n/a	n/a
Total	58 917 409	-4 671 485	54 245 924	54 670 315	-3 403 675	51 266 640

Loans and advances to customers – exposure of the Bank to the credit risk	31.12.2018			31.12.2017		
	Gross value	Expected credit losses	Net value	Gross value	Impairment allowance	Net value
Stage 3 (with identified impairment, of which):	6 247 222	-3 360 990	2 886 232	5 914 637	-3 075 703	2 838 934
assessed with individualised method	2 419 201	-927 494	1 491 707	2 348 052	-778 471	1 569 581
without identified impairment, of which:	52 271 375	-1 249 256	51 022 119	48 755 678	-327 972	48 427 706
Stage 3 (with recognised individual indication)	671 948	-10 578	661 370	1 664 804	-8 390	1 656 414
not overdue	136 184	-3 513	132 671	1 010 890	-4 283	1 006 607
overdue	535 764	-7 065	528 699	653 914	-4 107	649 807
Stage 1 and Stage 2 /IBNR	51 599 427	-1 238 678	50 360 749	47 090 874	-319 582	46 771 292
not overdue	46 670 992	-828 768	45 842 224	44 204 061	-162 462	44 041 599
overdue	4 928 435	-409 910	4 518 525	2 886 813	-157 120	2 729 693
POCI	398 812	-61 239	337 573	n/a	n/a	n/a
Total	58 917 409	-4 671 485	54 245 924	54 670 315	-3 403 675	51 266 640

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.

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

In 2018, the Bank wrote off financial assets amounting to PLN 504 842 thousand. The financial assets that were written off related to both the individual and business customers loan portfolio. The financial assets that are written off are still the subject to enforcement activity.

Expected credit losses – reconciled transfers in 2018	As at 01.01.2018	Impact on P&L	Established in the period	Reversed in the period	Non-recoverable receivables recovered from off-balance	Migrations beetwen stages	Assets written-off	Other	Value at the end of period
Stage 1	531 428	-60 841	767 774	-931 735	0	103 120	0	-3 045	467 542
Stage 2	830 959	-62 191	1 408 633	-1 204 062	-18	-266 744	-53	2 403	771 136
Stage 3	2 729 663	1 241 572	1 918 833	-832 366	-8 519	163 624	-807 371	199 185	3 371 568
POCI	22 990	3 046	181 094	-178 048	0	0	-12 116	47 319	61 239
Total	4 115 040	1 121 586	4 276 334	-3 146 211	-8 537	0	-819 540	245 862	4 671 485

(in PLN '000)

Impairment allowances -reconciled transfers in 2017	Value at the beginning of period	Impact on P&L	Established in the period	Reversed in the period	Non-recoverable receivables recovered from off-balance	Assets written-off	Other	Value at the end of period
Retail segment	1 792 905	480 521	1 760 648	-1 266 386	-13 741	-409 611	34 405	1 911 961
Corporate segment	1 268 988	419 302	1 392 487	-972 239	-946	-219 761	22 239	1 491 714
Total	3 061 893	899 823	3 153 135	-2 238 625	-14 687	-629 372	56 644	3 403 675

By maturity (as at the balance sheet date)	31.12.2018	31.12.2017
Retail segment	29 443 496	28 234 726
≤ 1M	2 615 286	3 202 620
> 1M ≤ 3M	765 826	700 879
> 3M ≤ 6M	1 096 397	994 312
> 6M ≤ 1Y	1 976 997	1 829 288
>1Y ≤ 2Y	2 951 156	2 827 282
>2Y ≤ 5Y	6 293 279	5 928 016
>5Y ≤ 10Y	6 260 175	5 768 341
>10Y ≤ 20Y	4 573 367	4 134 633
>20Y	2 911 013	2 849 355
Corporate segment	24 802 428	23 031 914
≤ 1M	6 820 337	5 751 955
> 1M ≤ 3M	1 383 577	1 123 031
> 3M ≤ 6M	1 074 700	1 170 079
> 6M ≤ 1Y	2 526 627	2 404 304
>1Y ≤ 2Y	3 041 125	2 644 424
>2Y ≤ 5Y	6 041 201	5 484 598
>5Y ≤ 10Y	3 112 795	3 530 189
>10Y ≤ 20Y	802 066	923 334
Loans and advances to customers	54 245 924	51 266 640

By currency	31.12.2018	31.12.2017
Retail segment	29 443 496	28 234 726
PLN	27 747 110	26 682 610
EUR	1 208 410	1 112 805
GBP	274 302	237 003
USD	47 717	44 068
CHF	159 681	158 214
Other	6 276	26
Cprporate segment	24 802 428	23 031 914
PLN	20 142 971	18 790 286
EUR	4 527 998	3 986 504
GBP	182	71 002
USD	99 255	132 698
CHF	32 022	42 390
Other	0	9 034
Loans and advances to customers	54 245 924	51 266 640

20.6 Financial lease – the Group as lessor

In the case of financial lease contracts, the Group as the lessor recognises receivables in amounts equal to the present value of contractual lease payments, determined at the beginning of the lease contract. The receivables are disclosed as "Loans granted to customers". Financial lease payments are split into interest income and a reduction of receivables so that a fixed interest rate is achieved in the outstanding receivables.

In the case of operational leases, the initial costs incurred at negotiation of operational lease contracts are added to the carrying value of the leased asset and recognised throughout the lease contract on the same basis as rental income. Conditional lease fees are recognised as income in the period they are due and payable. Lease payments due under contracts that do not meet the requirements of financial lease contracts (operational lease contracts) are recognised as income in the profit and loss account throughout the lease term.

The Group performs leasing operations via its Group company – Alior Leasing sp. z o.o. The company's scope of activity is described in Note 1.2.

The amount of gross lease investments and minimum lease payments due on financial lease contracts as at 31 December 2018 was as follows:

The amount of net lease investments and minimum lease fees receivable	Net lease investment	Present value of minimum lease fees :	Unrealised income
Gross lease receivables:			
up to 1 year	843 105	993 275	150 170
1 to 5 years	2 246 947	2 448 982	202 035
above 5 years	84 937	89 422	4 485
Total gross	3 174 989	3 531 679	356 690
Impairment allowances	35 044	0	0
Net total	3 139 945	3 531 679	356 690

The amount of gross lease investments and minimum lease payments due on financial lease contracts as at 31 December 2017 was as follows:

The amount of net lease investments and minimum lease fees receivable	Net lease investment	Present value of minimum lease fees :	Unrealised income
Gross lease receivables:			
up to 1 year	205 854	265 625	59 772
1 to 5 years	524 226	611 552	87 326
above 5 years	15 643	17 538	1 895
Total gross	745 723	894 715	148 993
Impairment allowances	8 922	0	0
Net total	736 801	894 715	148 993

20.7 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):

	31.12.2018 Scenario --/+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	-/+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):

	31.12.2018 Scenario -/+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	-/+151

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

	31.12.2018 Scenario -/+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	-/+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

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

	31.12.2018 Scenario PKB diff -/+ 2 pp
Estimated change in the impairment allowances of loans and advances as a result of the change in the share of Basket 2 in the variable macro phases	-/+100

21 Property, plant and equipment and intangible assets

21.1 Accounting principles

Property, plant and equipment and investment properties

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

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

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

Intangible assets

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

Goodwill is a surplus of the purchase cost over the fair value of the acquired 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.

(in PLN '000)

Use of property, plant and equipment and intangible assets

Item	Use period in years
Property, Plant & Equipment	
Improvements in third party buildings or structures	5-10
Plant and machinery	1-5
Equipment	2-10
Means of transport	2.5-5
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.

21.2 Financial data

Property, Plant & Equipment

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	423 661	213 716	160 132	103 994	943 690
Change, due to:	-18 036	66 580	30 680	4 395	2 753	86 372
Purchases in 2018	11 637	43 618	30 327	3 288	5 522	94 392
Sale in 2018	0	-2 479	0	0	-5 137	-7 616
Other changes	-29 673	25 441	353	1 107	2 368	-404
Value at the purchase price as at 31.12.2018	24 151	490 241	244 396	164 527	106 747	1 030 062
Cumulated depreciation as at 01.01.2018	0	245 608	129 744	8 155	69 771	453 278
Depreciation for 2018	0	61 935	23 806	5 186	6 622	97 549
Other changes	0	-3	0	0	-37	-40
Cumulated depreciation as at 31.12.2018	0	307 540	153 550	13 341	76 356	550 787
Impairment allowance as at 01.01.2018	4	3 063	9 025	0	2 629	14 721
Changes to allowances in 2018	0	637	2 419	0	781	3 837
Impairment allowances as at 31.12.2018	4	3 700	11 444	0	3 410	18 558
Net value as at 01.01.2018	42 183	174 990	74 947	151 977	31 594	475 691
Net value as at 31.12.2018	24 147	179 001	79 402	151 186	26 981	460 717

(in PLN '000)

31.12.2017	Fixed assets under construction	Plant and machinery (including IT hardware)	Leasehold improvements	Owned buildings	Other	Total
Value at the purchase price as at 01.01.2017	23 075	376 162	202 203	144 498	97 699	843 637
Change, due to:	19 112	47 499	11 513	15 634	6 295	100 053
Purchases in 2017	50 818	27 394	18 699	1 800	9 138	107 849
Sale in 2017	-74	-2 469	0	0	-3 437	-5 980
Other changes	-31 632	22 574	-7 186	13 834	594	-1 816
Value at the purchase price as at 31.12.2017	42 187	423 661	213 716	160 132	103 994	943 690
Cumulated depreciation as at 01.01.2017	0	184 505	106 370	1 626	63 760	356 261
Depreciation for 2017	0	63 589	28 181	6 529	7 717	106 016
Other changes	0	-2 485	-4 807	0	-1 706	-8 998
Cumulated depreciation as at 31.12.2017	0	245 608	129 744	8 155	69 771	453 278
Impairment allowance as at 01.01.2017	0	1 134	348	0	99	1 581
Changes to allowances in 2017	4	2 957	8 964	0	2 526	14 451
Other changes	0	-1 028	-287	0	4	-1 311
Impairment allowances as at 31.12.2017	4	3 063	9 025	0	2 629	14 721
Net value as at 01.01.2017	23 075	190 523	95 485	142 872	33 840	485 796
Net value as at 31.12.2017	42 183	174 990	74 947	151 977	31 594	475 691

Intangible assets

31.12.2018	Goodwill	Capital expenditure	Software, licences, R&D works	Trademark	Other	Total
Value at the purchase price as at 01.01.2018	117 264	90 454	598 692	3 667	50 167	860 244
Changes to intangible assets due to:	0	31 974	69 660	0	298	101 932
Purchases in 2018	0	49 014	22 189	0	265	71 468
Reclassifications in 2018	0	-6 855	6 855	0	0	0
Capitalised construction costs	0	22 207	21 988	0	0	44 195
Other changes	0	-32 392	18 628	0	33	-13 731
Value at the purchase price as at 31.12.2018	117 264	122 428	668 352	3 667	50 465	962 176
Cumulated depreciation as at 01.01.2018	0	0	248 119	0	30 541	278 660
Depreciation for 2018	0	0	57 565	0	19 411	76 976
Cumulated depreciation as at 31.12.2018	0	0	305 684	0	49 952	355 636
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	105 344	82 226	341 091	300	19 626	548 587
Net value as at 31.12.2018	105 344	112 469	352 604	300	513	571 230

31.12.2017	Goodwill	Capital expenditure	Software, licences, R&D works	Trademark	Other	Total
Value at the purchase price as at 01.01.2017	117 262	110 256	472 384	3 667	47 650	751 219
Changes to intangible assets due to:	2	-19 802	126 308	0	2 517	109 025
Purchases in 2017	2	61 283	14 673	0	54	76 012
Book transfer in 2017	0	0	31 150	0	0	31 150
Capitalised construction costs	0	11 204	14 983	0	0	26 187

(in PLN '000)

31.12.2017	Goodwill	Capital expenditure	Software, licences, R&D works	Trademark	Other	Total
Other changes	0	-92 289	96 652	0	2 463	6 826
Value at the purchase price as at 31.12.2017	117 264	90 454	598 692	3 667	50 167	860 244
Cumulated depreciation as at 01.01.2017	0	0	200 604	0	6 798	207 402
Depreciation for 2017	0	0	49 564	0	21 460	71 024
Other changes	0	0	-2 049	0	2 283	234
Cumulated depreciation as at 31.12.2017	0	0	248 119	0	30 541	278 660
Impairment allowance as at 01.01.2017	11 920	17	12 069	3 367	0	27 373
Changes to allowances in 2017	0	11 269	1	0	0	11 270
Other changes	0	-3 058	-2 588	0	0	-5 646
Impairment allowances as at 31.12.2017	11 920	8 228	9 482	3 367	0	32 997
Net value as at 01.01.2017	105 342	110 239	259 711	300	40 852	516 444
Net value as at 31.12.2017	105 344	82 226	341 091	300	19 626	548 587

21.3 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 2017, the Bank held mandatory impairment tests of goodwill generated from the acquisition of Meritum Bank Polska SA in line with the models developed in accordance with IAS 36.

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

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

The realisable value is estimated on the basis of the value in use of CGU. The value in use is the present estimated value of future cash flows for 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 2017 and the Bank's strategy for subsequent years. 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 2017 showed a surplus of the realisable value over the carrying value of the CGUs and therefore, no impairment of CGUs was determined.

21.4 Sensitivity analysis of material estimates and assumptions

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

Impact of changes to the length of useful life of assets for depreciation costs	31.12.2018		31.12.2017	
	scenario +5 years	scenario -5 years	scenario +5 years	scenario -5 years
Plant and machinery	-33 748	289 883	-21 776	159 267
Leasehold improve-ments	-15 898	73 181	-13 555	60 300
	-49 646	363 064	-35 331	219 567

(in PLN '000)

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	9.30%	No impairment	No impairment
growth rate	3.60%	No impairment	No impairment

22 Other assets

22.1 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.

22.2 Financial data

	31.12.2018	31.12.2017
Sundry debtors	566 357	588 506
Other settlements	331 127	205 999
Receivables from the sale of receivables	0	64 979
Receivables related to sales of services (including insurance)	36 905	61 784
Guarantee deposits	16 962	18 928
Settlments of payment cards	181 363	142 468
Receivables due to settlement of acquisition of the demerged part of BPH	0	94 348
Costs recognised over time	34 517	31 218
Settlements of rental charges and utilities	617	1 338
Maintenance and support of systems, servicing of plant and equipment	18 167	14 105
Other deferred costs	15 733	15 775
Other receivables	57	5 238
VAT settlements	145 385	75 013
Other assets (gross)	746 316	699 975
Write-down	-69 835	-73 535
Other assets (net)	676 481	626 440
including financial assets (gross)	566 357	588 506

23 Assets pledged as colleteral

23.1 Accounting principles - IFRS 9 impact

The table below presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9

	Original classification under IAS 39	New classification under IFRS 9
Assets pledged as collateral	Available-for-sale financial assets / Financial assets held to maturity	Financial assets measured at amortized cost/ Financial assets measured at fair value through other comprehensive income

(in PLN '000)

23.2 Financial data

	31.12.2018	31.12.2017
Treasury bonds blocked for REPO transactions	0	77 431
Deposit as collateral of transactions performed in Alior Trader	88	723
Available-for-sale financial assets for sale securing a loan in the EIB	n/a	109 466
Financial assets measured at amortised cost/ held to maturity securing a loan in the EIB	333 198	221 291
Total	333 286	408 911

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

	31.12.2018	31.12.2017
Treasury bonds blocked with BGF	351 896	605 719
Deposits as derivative transactions (ISDA) collatera	124 998	163 770
Total	476 894	769 489

24 Amounts due to banks

24.1 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 2018 and 31 December 2017, the category covered liabilities due to deposits and issued securities as well as repo transactions.

24.2 Financial data

Structure by type	31.12.2018	31.12.2017
Current deposits	4 991	673
Over night deposits	0	1 949
Term deposits	2 770	300 044
Own bond issues	22 761	22 766
Received loan	230 830	266 817
Other liabilities	331 975	221 860
Repo	0	77 536
Total amounts due to banks	593 327	891 645

By maturity (as at the balance sheet date)	31.12.2018	31.12.2017
≤ 1M	346 921	300 931
> 1M ≤ 3M	6 717	301 999
> 3M ≤ 1Y	19 800	20 849

(in PLN '000)

By maturity (as at the balance sheet date)	31.12.2018	31.12.2017
> 1Y ≤ 5Y	113 051	137 682
>5Y	106 838	130 184
Total amounts due to banks	593 327	891 645

By currency structure	31.12.2018	31.12.2017
PLN	521 526	845 992
EUR	66 247	45 571
USD	1	65
GBP	2 782	0
Other	2 771	17
Total liabilities to banks	593 327	891 645

25 Amounts due to customers

25.1 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 2018 and 31 December 2017, this category included liabilities due to deposits and issued bank securities (BPW) and bonds.

25.2 Financial data

Structure by type and customer segment	31.12.2018	31.12.2017 Restated
Retail segment	43 944 874	36 572 276
Current deposits	28 546 686	22 584 687
Term deposits	12 777 384	12 134 722
Own issue of banking securities	2 380 331	1 615 605
Own bond issues	81 484	81 500
Other liabilities	158 989	155 762
Corporate segment	18 490 711	21 084 743
Current deposits	10 130 389	9 495 558
Term deposits	7 489 126	9 740 352
Issue of the Bank's securities	429 148	1 455 323
Own bond issues	163 883	148 684
Other liabilities	278 165	244 826
Total amounts due to customers	62 435 585	57 657 019

By maturity (as at the balance sheet date)	31.12.2018	31.12.2017 Restated
Retail segment	43 944 874	36 572 276
≤ 1M	31 096 078	24 966 548
> 1M ≤ 3M	3 968 381	3 208 322

(in PLN '000)

By maturity (as at the balance sheet date)	31.12.2018	31.12.2017 Restated
> 3M ≤ 1Y	5 639 417	6 697 726
> 1Y ≤ 5Y	3 238 068	1 693 116
>5Y	2 930	6 564
Corporate segment	18 490 711	21 084 743
≤ 1M	14 555 460	15 087 554
> 1M ≤ 3M	2 203 800	3 137 008
> 3M ≤ 1Y	1 231 319	2 051 232
> 1Y ≤ 5Y	456 186	760 770
>5Y	43 946	48 179
Total amounts due to customers	62 435 585	57 657 019

By currency structure	31.12.2018	31.12.2017 Restated
Retail segment	43 944 874	36 572 276
PLN	37 804 559	30 960 237
EUR	2 580 436	2 367 710
GBP	580 994	597 002
USD	2 540 593	2 219 330
CHF	151 577	180 154
Other	286 715	247 843
Corporate segment	18 490 711	21 084 743
PLN	15 482 932	17 560 440
EUR	1 909 173	2 558 228
GBP	85 084	74 320
USD	881 229	562 892
CHF	81 626	17 489
Other	50 667	311 374
Total amounts due to customers	62 435 585	57 657 019

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

26 Financial liabilities

26.1 Accounting principles IFRS 9

The application of IFRS 9 did not have a material impact on the scope of instruments recognized as financial liabilities held for trading. 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 table below presents the original measurement categories under IAS 39 and the new measurement categories under IFRS 9

(in PLN '000)

	Original classification under IAS 39	New classification under IFRS 9
Financial liabilities	Financial liabilities held for trading	Financial liabilities measured at fair value through profit or loss

The Bank classified derivative instruments and securities (bonds) as financial liabilities as at 31 December 2018 and 31 December 2017 (held for trading). 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.

26.2 Financial data

	31.12.2018	31.12.2017
Bonds	0	58 333
Interest rate transactions	290 875	164 276
SWAP	289 975	162 185
Cap Floor Options	900	2 091
Foreign exchange transactions	55 226	133 598
FX Swap	12 170	63 816
FX forward	13 117	37 675
CIRS	5 586	16 601
FX options	24 353	15 506
Other options	36 028	52 448
Other instruments	34 278	27 223
Total measured at fair value through profit or loss/ held for trading	416 407	435 878

By maturity	31.12.2018	31.12.2017
no specified maturity	0	18 730
≤ 1W	2 196	9 103
> 1W ≤ 1M	49 495	43 737
> 1M ≤ 3M	26 668	47 647
> 3M ≤ 6M	47 403	27 894
> 6M ≤ 1Y	74 129	29 779
> 1Y ≤ 2Y	116 795	118 914
> 2Y ≤ 5Y	72 815	110 142
> 5Y ≤ 10Y	26 906	29 932
Total	416 407	435 878

27 Provisions

27.1 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.

(in PLN '000)

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 37.

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.

27.2 Financial data

	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	13 338	23 677	37 418	90 457
Impact of MSSF 9	0	0	121 628	0	121 628
Established provisions	35 484	7 207	237 131	0	279 822
Reversal of provisions	-7 750	-12 892	-308 079	-6 800	-335 521
Utilized provisions	-8 698	-427	0	-21 090	-30 215
Other changes	4	16	8	0	28
As at 31 December 2018	35 064	7 242	74 365	9 528	126 199

	Provisions for disputes	Provisions for retirement benefits	Provisions for off-balance sheet liabilities granted	Restructuring provision	Total provisions
As at 01 January 2017	8 700	10 754	17 586	249 775	286 815
Established provisions	8 254	10 453	41 130	0	59 837
Reversal of provisions	-636	-7 825	-34 823	-28 143	-71 427
Utilized provisions	-1 337	-44	0	-184 214	-185 595
Other changes	1 043	0	-216	0	827
As at 31 December 2017	16 024	13 338	23 677	37 418	90 457

(in PLN '000)

Split of the restructuring provision as at 31.12.2018 is presented below :

	31.12.2016	utilisation	reversal	31.12.2018
Severance pay for employees	815	-815	0	0
Reorganisation of the branch network	36 603	-20 275	-6 800	9 528
	37 418	-21 090	-6 800	9 528

27.3 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.

27.4 Sensitivity analysis of material estimates and assumptions

The Bank updated its estimates as at 31 December 2018 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 2.80% applied by the Bank is a major element affecting the amount of the provision. In 2017 the applied discount rate was 3.25%.
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 2018 and as at 31 December 2017 is presented in the tables below.

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

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

28 Other liabilities

28.1 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.

(in PLN '000)

28.2 Financial data

	31.12.2018	31.12.2017 Restated
Interbank settlements	354 356	723 937
Taxes, customs duty, social and health insurance payables and other public settlements	39 057	36 705
Settlements of payment cards	117 620	150 699
Other settlements, including	123 600	190 799
Settlements with insurers	20 118	16 668
Settlements of issues of bank certificates of deposits	42 902	91 048
Accrued expenses	166 377	146 188
Income received in advance	70 509	79 704
Provision for bancassurance resignations	28 300	38 679
Provision for bonuses	102 469	110 523
Provision for unutilised annual leaves	24 298	29 375
Provision for bonuse settled in phantom shares	15 355	16 885
Provision for retention programs	6 326	18 118
Revaluation of managment option plan – part settled in cash	5 373	9 881
Other employee provisions	2 893	1 663
Other liabilities	67 676	49 711
Other liabilities	1 167 111	1 693 915
including financial liabilities	595 576	1 065 435

29 Subordinated liabilities

29.1 Description of the instrument

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

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

29.2 Financial data

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

	Nominal value in the currency (PLN '000)	Currency	Term	Specific conditions	Status of liabilities 31.12.2018	31.12.2017
Liabilities classified as the Bank's own funds						
Subordinated loan	10 000	EUR	12.10.2011-12.10.2019	The loan may be prepaid subject to a written notification 30 days before the planned repayment.	43 189	41 892
Series F bonds	321 700	PLN	26.09.2014-26.09.2024		325 914	325 930
Series G bonds	192 950	PLN	31.03.2015-31.03.2021		195 551	195 560
Series I bonds	150 000	PLN	04.12.2015-06.12.2021		150 591	150 594
Series I1 bonds	33 350	PLN	04.12.2015-06.12.2021		33 482	33 482
Series B bonds (Meritum Bank)	67 200	PLN	29.04.2013-29.04.2021		67 885	67 796
Meritum Bank bonds – series C	80 000	PLN	21.10.2014-21.10.2022		80 582	80 494
Series EUR001 bonds	10 000	EUR	04.02.2016-04.02.2022		44 060	42 738
Series P1A bonds	150 000	PLN	14.04.2016-16.05.2022		150 957	150 006
Series P1B bonds	70 000	PLN	21.04.2016-16.05.2024		70 424	70 427
Series K bonds	400 000	PLN	20.10.2017-20.10.2025		403 600	403 600
Series K1 bonds	200 000	PLN	20.10.2017-20.10.2025		201 800	201 800
Series P2A bonds	150 000	PLN	27.11.2017-29.12.2025		150 058	150 657
Subordinated liabilities					1 918 093	1 914 976

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

30 Equity

30.1 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:

(in PLN '000)

- 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.

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.

30.2 Financial data

Equity	31.12.2018	31.12.2017 Restated
Equity attributable to equity holders of the parent	6 485 923	6 689 661
Share capital	1 305 540	1 292 636
Supplementary capital	5 386 828	4 820 048
Other reserves	171 629	183 824
Retained profit	-1 143 409	-92 579
Revaluation reserve	52 164	13 944
available- for- sale financial assets	n/a	22 969
financial assets measured at fair value through other comprehensive income	26 940	0
from measurement of hedging instruments	25 224	-9 025
Exchange rate differences on revaluation of foreign entities	-202	594
Current year profit	713 373	471 194
Non-controlling interests	0	1 322
Total equity	6 485 923	6 690 983

Revaluation reserve	31.12.2018	31.12.2017
Valuation of available-for-salefinancial assets	n/a	22 969
treasury bonds	n/a	27 803
other debt instruments	n/a	-5 509
equity instruments	n/a	5 686
deferred income tax	n/a	-5 011
Valuation of financial assets measured at fair value through other comprehensive income	26 940	n/a
treasury bonds	31 624	n/a
other debt instruments	1 446	n/a
equity instruments	189	n/a
deferred income tax	-6 319	n/a

(in PLN '000)

Revaluation reserve	31.12.2018	31.12.2017
Valuation of hedging derivatives	25 224	-9 025
IRS	31 141	-11 142
deferred income tax	-5 917	2 117
Revaluation reserve	52 164	13 944

30.3 Shareholders of Alior Bank Spółka Akcyjna

As at 31 December 2018 and 2017, 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
31.12.2018					
PZU	41 658 850	416 588 500	31.91%	41 658 850	31.91%
Aviva OFE Aviva BZ WBK	9 467 000	94 670 000	7.25%	9 467 000	7.25%
Nationale-Nederlanden PTE SA	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%
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%
31.12.2017					
PZU	41 658 850	416 588 500	32.23%	41 658 850	32.23%
Aviva OFE Aviva BZ WBK	11 562 000	115 620 000	8.94%	11 562 000	8.94%
Nationale-Nederlanden PTE SA	6 600 000	66 000 000	5.11%	6 600 000	5.11%
Other shareholders	69 442 774	694 427 740	53.72%	69 442 774	53.72%
Total	129 263 624	1 292 636 240	100.00%	129 263 624	100.00%

30.4 Share capital structure

Series	Type of shares	Number of shares	Number of shares	Nominal value of shares	Series value at nominal prices (PLN)	
		31.12.2018	31.12.2017		31.12.2018	31.12.2017
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	413 480	10	8 638 270	4 134 800
Series E	Ordinary	524 404	2 785	10	5 244 040	27 850
Series F	Ordinary	318 701	300	10	3 187 010	3 000
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	129 263 624		1 305 539 910	1 292 636 240

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

On 29 March 2018, the following ordinary bearer shares of the Bank, with a nominal value of PLN 10 (ten zlotys) each and assigned ISIN code "PLNALIOR00045", were registered with the National Depository of Securities (Krajowy Depozyt Papierów Wartościowych SA) :

- 347 296 (three houndred forty seven thousand two hundred ninety six) series D shares;
- 514 178 (five houndred fourteen thousand one hundred seventy eight) series E shares;
- 318 401 (three houndred eighteen thousand four houndred one) series F shares.

On the same day, these shares were introduced by way of an ordinary procedure to trading on the main market.
On 25 May 2018, the District Court for the Capital City of Warsaw, 13th Business Departmen of the National Court Register in Warsaw, registered the increase in the share capital by issuing ordinary shares D, E and F and amending the Bank's Articles of Association.
On 1 June 2018, as part of the implementation of the same program, the Bank began the process of increasing the share capital of the Bank trough conditional share capital increase by issuing new ordinary bearer shares of D series amounting to PLN 600 000 which are 2% of all possible exercisable rights granted to the participants of the Subscription Warrants (nominal value of the program is PLN 29 792 660.00). The new issue is addressed to managers and will be equal to 0.05% of currently issued shares.
On 28 June 2018, the following ordinary bearer shares of the Bank, with a nominal value of PLN 10 each and assigned ISIN code "PLNALIOR00045", were registered with the National Depository of Securities (Krajowy Depozyt Papierów Wartościowych SA :

- 60 000 (sixty thousand) series D shares;

On the same day, these shares were introduced by way of an ordinary procedure to trading on the main market.
On 24 August 2018, the District Court for the Capital City of Warsaw, 13th Business Departmen of the National Court Register in Warsaw, registered the increase in the share capital by issuing ordinary shares D and amending the Bank's Articles of Association.
On 3 September 2018, as part of the implementation of the same program, the Bank began the process of increasing the share capital of the Bank trough conditional share capital increase by issuing new ordinary bearer shares of D and E series amounting to PLN 352 750 which are 1.2% of all possible exercisable rights granted to the participants of the Subscription Warrants (nominal value of the program is PLN 29 792 660.00). The new issue is addressed to managers and will be equal to 0.03% of currently issued shares.
On 27 September 2018, the following ordinary bearer shares of the Bank, with a nominal value of PLN 10 each and assigned ISIN code "PLNALIOR00045", were registered with the National Depository of Securities (Krajowy Depozyt Papierów Wartościowych SA):

- 32 146 (thirty two thousand one hundred forty six) series D shares;
- 3 129 (three thousand one hundred twenty nine) series E shares.

On the same day, these shares were introduced by way of an ordinary procedure to trading on the main market.
On 26 November 2018, the District Court for the Capital City of Warsaw, 13th Business Departmen of the National Court Register in Warsaw, registered the increase in the share capital by issuing ordinary shares D and E and amending the Bank's Articles of Association.
Moreover on 29 March 2018, the District Court for the Capital City of Warsaw, 13th Business Departmen of the National Court Register in Warsaw, registered the increase in the share capital by issuing ordinary shares D (10 905) and E(4 312) issued in December 2017.

(in PLN '000)

Other additional information

31 Off-balance sheet items

31.1 Accounting principles

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

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

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

31.2 Financial data

Off-balance contingent liabilities granted to customers	31.12.2018	31.12.2017
Granted off-balance liabilities	10 902 052	12 498 037
Concerning financing	9 996 156	11 253 862
Guarantees	905 896	1 244 175
Performance guarantees	215 724	277 904
Financial guarantees	690 172	966 271

By maturity – guarantees	31.12.2018	31.12.2017
≤ 1W	3 739	2 509
> 1W ≤ 1M	41 872	32 410
> 1M ≤ 3M	87 232	81 054
> 3M ≤ 6M	91 220	135 398
> 6M ≤ 1Y	89 439	305 783
> 1Y ≤ 2Y	177 330	143 214
> 2Y ≤ 5Y	252 266	261 531
> 5Y ≤ 10Y	156 653	268 271
> 10Y ≤ 20Y	6 145	14 005
Off-balance sheet liabilities granted, guarantees	905 896	1 244 175

By maturity – financial	31.12.2018	31.12.2017
≤ 1W	3 502 861	3 194 287
> 1W ≤ 1M	30 134	113 029
> 1M ≤ 3M	150 796	341 114
> 3M ≤ 6M	195 163	447 740
> 6M ≤ 1Y	1 366 269	1 173 020
> 1Y ≤ 2Y	1 802 029	2 093 611
> 2Y ≤ 5Y	1 757 212	2 073 028
> 5Y ≤ 10Y	819 124	1 297 487
> 10Y ≤ 20Y	179 348	319 545
> 20Y	193 220	201 001
Off-balance sheet liabilities granted, concerning financing	9 996 156	11 253 862

(in PLN '000)

32 Additional information to the cash flow statement

32.1 Cash and cash equivalents

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

	31.12.2018	31.12.2017
Cash and balances with Central Bank	1 639 033	965 391
Current accounts with other banks	429 498	627 645
Term accounts with other banks	10 107	21 330
Total	2 078 638	1 614 366

32.2 Financial data

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

Operating activity

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

Change of balances of loans and other receivables

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017
Change of receivables from customers – balance sheet	-2 154 452	-5 019 452
Change of receivables from banks – balance sheet	289 185	464 687
Impact of MSSF 9	-824 832	0
Carrying value change in cash – nostro accounts	-198 147	240 311
Carrying value change in cash – deposits up to 3 months	-11 223	-217 588
Change of balances of loans and other receivables	-2 899 469	-4 532 042

Change of other liabilities

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017 Restated
Change of other liabilities – balance sheet	-526 804	241 349
Change of the revaluation reserve – balance sheet	18 527	65 866
Change of other liabilities – measured at amortised cost – balance sheet	33 158	73 369
Change of allowance for deferred income tax in the revaluation reserve	19 693	19 693
Provision for acquisition costs of fixed assets	364	-8 493
Provision for acquisition costs of intangible assets	13 731	-12 238
Other comprehensive income	-1 108 299	106 463
Change of other receivables	-1 549 630	486 009

(in PLN '000)

Change in other assets

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017
Change in other assets – balance sheet	-50 041	59 556
Change in other assets	-50 041	59 556

Investing activities

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

Purchase of property, plant and equipment

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017
Change – balance sheet	-94 336	-107 849
Purchase of property, plant and equipment	-94 336	-107 849

Purchase of Intangible assets

	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017
Change – balance sheet	-116 753	-102 199
Purchase of Intangible assets	-116 753	-102 199

Financial activity

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

	31.12.2017	Cash flows		Non-cash changes,		31.12.2018
		Inflows	Outflows	Accrued interests	Currency differences	
Subordinated liabilities	1 914 976	0	-95 531	96 005	2 643	1 918 093

33 Fair value hierarchy

33.1 Accounting principles and estimates and assumptions

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

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

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

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

- debt Treasury securities valued at fixing on the Bondspot platform or Bloomberg information services and Reuters,

- debt and equity securities traded in a regulated market, including in the portfolio of the Brokerage House,
- derivative instruments that are traded in a regulated market

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

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

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

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

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

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

(in PLN '000)

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

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

33.2 Financial data

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

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

31.12.2018	Level 1	Level 2	Level 3	Total
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 derivatives	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
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

(in PLN '000)

Issuer	Classification according to IFRS 9	Hierarchy level	Fair value on 31.12.2018
PSP Sp.z o.o.	FVOCI	III	21 797
SWIFT	FVOCI	III	1 120
Other shares in cooperatives	FVOCI	III	18
Total			22 935

Taking the possibility allowed by IFRS 9, 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.

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

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)

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

Reconciliation of changes at level 3 of fair value hierarchry

	Assets		Liabilities	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Opening balance	293 967	401 012	51 719	25 492
Increases, of which:	29 357	67 882	14 238	43 148
Valuation recognised in other comprehensive income	15 633	6 336	0	0
Valuation recognised in income statement	3 405	19 581	3 784	19 659
Interest recognised in income statement	0	16 921	0	0
Purchases	10 319	25 044	10 454	23 489
Decreases, of which:	-147 648	-191 839	-29 929	-16 921
Valuation recognised in other comprehensive income	-1 641	-6 156	0	0
Valuation recognised in income statement	-15 327	-1 541	-13 136	-693
Interest recognised in income statement	-117	0	0	0
Sale/redemption	-130 563	-184 142	-16 793	-16 228
Total	175 676	277 055	36 028	51 719

At the end of 2018, 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 14.7 million and for debt instruments measured at fair value through profit and loss account approx. amounted to PLN 2.6 million.
In 2018 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.

31.12.2018	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and balance with Central Bank	1 639 033	1 639 033	0	0	1 639 033
Amount due from banks	612 444	0	612 444	0	612 444
Loans and advances to customers	54 245 924	0	0	53 664 355	53 664 355
Retail segment	29 443 496	0	0	28 967 838	28 967 838

(in PLN '000)

		Level 1	Level 2	Level 3	Total
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	24 802 428	0	0	24 696 517	24 696 517
Working capital facility	11 612 837	0	0	11 634 279	11 634 279
Investment loans	8 310 328	0	0	8 182 976	8 182 976
Other	4 879 263	0	0	4 879 262	4 879 262
Asstes pledged as collateral	333 286	336 665	0	0	336 665
Investment securities measured at amortized cost	5 932 352	5 994 085	0	0	5 994 085
Other assets	566 357	0	0	566 357	566 357
Liabilities					
Amounts due to banks	593 327	0	593 327	0	593 327
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	230 830	0	230 830	0	230 830
Other liabilities	331 975	0	331 975	0	331 975
Amounts due to customers	62 435 585	0	0	62 476 305	62 476 305
Current deposits	38 677 075	0	0	38 677 075	38 677 075
Term deposits	20 266 510	0	0	20 266 510	20 266 510
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	437 154	0	0	437 154	437 154
Other liabilities	595 576	0	0	595 576	595 576
Subordinated liabilities	1 918 093	0	0	1 918 093	1 918 093

31.12.2017 Restated	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and balance with Central Bank	965 391	965 391	0	0	965 391
Amount due from banks	901 629	0	901 629	0	901 629
Loans and advances to customers	51 266 640	0	0	50 226 263	50 226 263
Retail segment	28 234 726	0	0	27 253 218	27 253 218
Consumer loans	16 541 861	0	0	16 145 458	16 145 458
Loans for residential real estate	9 547 786	0	0	8 942 186	8 942 186
Consumer finance loans	2 145 079	0	0	2 165 574	2 165 574
Corporate segment	23 031 914	0	0	22 973 045	22 973 045
Working capital facility	11 904 696	0	0	12 862 858	12 862 858
Investment loans	8 620 606	0	0	8 561 212	8 561 212
Other	2 506 612	0	0	1 548 975	1 548 975
Asstes pledged as collateral	408 911	408 911	0	0	408 911
Investment securities held to maturity	1 117 894	1 122 170	0	0	1 122 170
Other assets	588 506	0	0	588 506	588 506
Liabilities					
Amounts due to banks	891 645	0	891 645	0	891 645
Current deposits	673	0	673	0	673
Overnights	1 949	0	1 949	0	1 949
Term deposits	300 044	0	300 044	0	300 044
Bonds issued	22 766	0	22 766	0	22 766
Credit received	266 817	0	266 817	0	266 817
Other liabilities	221 860	0	221 860	0	221 860
Repo	77 536	0	77 536	0	77 536

(in PLN '000)

		Level 1	Level 2	Level 3	Total
Amounts due to customers	57 657 019	0	0	57 657 809	57 657 809
Current deposits	32 080 245	0	0	32 080 245	32 080 245
Term deposits	21 875 074	0	0	21 875 074	21 875 074
Banking securities issued	3 070 928	0	0	3 071 718	3 071 718
Bonds issued	230 184	0	0	230 184	230 184
Other liabilities	400 588	0	0	400 588	400 588
Other liabilities	1 065 435	0	0	1 065 435	1 065 435
Subordinated liabilities	1 914 976	0	0	1 914 976	1 914 976

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.

34 Transactions with related entities

Powszechny Zakład Ubezpieczeń SA is the parent entity for the Bank. Related entities include: PZU SA and entities related to it and entities related to members of the Bank's Management Board and Supervisory Board. Via PZU, the Bank is indirectly controlled by the State Treasury.

(in PLN '000)

The tables below present the type and values of transactions with related entities. Transactions between the Bank and its subsidiaries that are its related parties have been eliminated as a result of consolidation and are not disclosed in this note.

Nature of transactions with related entities

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

Interest rates on deposit granted to related entities ranged from 0 % to 2.0%.

Parent company	31.12.2018	31.12.2017
Liabilities		
Amounts due to customers	78	76
Provisions	4	6
Total liabilities	82	82

Subsidiaries of the parent company	31.12.2018	31.12.2017
Financial assets	199 700	81 656
measured at amortized cost	149 289	n/a
measured at fair value through other comprehensive income	50 180	n/a
measured at fair value through profit or loss	231	n/a
held for trading	0	1 382
available-for-sale	0	80 274
Derivative hedging instruments	476	483
Amounts due from banks	224	247
Loans and advances to customers	0	44
Other assets	0	38
Total assets	200 400	82 468
Liabilities and equity		
Financial liabilities held for trading	178	458
measured at fair value through profit or loss	178	n/a
Derivative hedging instruments	205	0
Amounts due to customers	313 933	183 763
Provisions	5	4
Other liabilities	3 757	41
Revaluation reserve	-1 348	1 306
Total liabilities and equity	316 730	185 572

Parent company	31.12.2018	31.12.2017
Off-balance liabilities granted to customers	116	15 000
Guarantees	116	15 000

Subsidiary of the parent entity	31.12.2018	31.12.2017
Off-balance liabilities granted to customers	0	10 000
Guarantees	0	10 000

(in PLN '000)

Joint control by persons related to the Group	31.12.2018	31.12.2017
Assets		
Loans and advances to customers	0	7
Total assets	0	7
Liabilities		
Amounts due to customers	31 277	24 386
Total liabilities	31 277	24 386

Parent company	01.01.2018- 31.12.2018	01.01.2017 - 31.12.2017
Interest expences	0	-8
Fee and commission income	14	4
Fee and commission expense	-169	0
Net other operating income and expenses	-1 180	0
General administrative expenses	-2	0
Total	-1 337	-4

Subsidiaries of the parent company	01.01.2018- 31.12.2018	01.01.2017 - 31.12.2017
Interest income	49	1 747
Interest expense	-7 466	-4 792
Fee and commission income	5 567	12 241
Fee and commission expense	-6	-7
Trading and revaluation result	-1 115	115
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	1 371	0
Total	-1 601	9 304

Joint control by persons related to the Bank	01.01.2018- 31.12.2018	01.01.2017 - 31.12.2017
Interest expense	-361	-623
Fee and commission income	1	15
Total	-360	-608

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	31.12.2018	31.12.2017
Financial assets	13 537 573	11 447 187
held for trading	n/a	85 459
available-for-sale	n/a	10 022 542
held to maturity	n/a	1 339 186
measured at fair value through other comprehensive income	7 250 424	n/a

(in PLN '000)

State Treasury and related entities	31.12.2018	31.12.2017
measured at fair value through profit or loss	21 631	n/a
measured at amortized cost	6 265 518	n/a
Amounts due from banks	628	293
Loans and advances to customers	23 416	33 241
Total assets	13 561 617	11 480 721
Financial Liabilities	0	58 333
held for trading	n/a	58 333
measured at fair value through profit or loss	0	n/a
Amounts due to banks	127 772	339 798
Amounts due to customers	934 724	1 248 970
Total liabilities	1 062 496	1 647 101

State Treasury and related entities	01.01.2018- 31.12.2018	01.01.2017 - 31.12.2017
Interest income	255 384	151 142
Interest expense	-35 343	-18 101
The costs of paid tax	-695 172	-470 344
Total	-475 131	-337 303

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

35 Benefits for the for senior executives

35.1 Accounting principles

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

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

Principles applicable to the remuneration of persons in managerial positions at the Bank

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

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

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

The remuneration of Material Risk Takers is composed of fixed remuneration and variable remuneration. The Bank does not grant unidentified retirement benefits to persons in managerial positions. Material Risk Takers agree not to use 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.

(in PLN '000)

Except for the Persons in Control Functions, the total amount of variable remuneration is based on the assessment of performance of the Material Risk Takers and the organisational unit, as well as the Bank's performance in the area for which such person is responsible, subject to the performance of the entire Bank.
Minimum 50% of the variable remuneration granted to the Material Risk Taker is to serve as an incentive for special care for the Bank's long-term interests and is therefore composed of financial instruments related to the Bank's shares. The remaining part of the variable remuneration is disbursed in cash as cash variable remuneration.
Minimum 40% of the variable remuneration of the Material Risk Takers for each Assessment Period – and if the variable remuneration of such persons for the relevant Assessment Period is exceptionally high – minimum 60% of the variable remuneration is deferred.

35.2 Financial data

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

	Supervising, managing persons	Supervisory Board	Bank's Management Board
Loans and advances to customers	40	0	40
Total assets	40	0	40
Amounts due to customers	2 543	38	2 505
Total liabilities	2 543	38	2 505

	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	01.01.2018-31.12.2018	01.01.2017-31.12.2017
Management Board		
short-term employee benefits	11 350	18 768
long-term benefits	2 840	10 494
post-employment benefits	9 290	-
termination benefits	8 733	5 716
Management Board, total	32 212	34 977
Supervisory Board		
short-term employee benefits	1 106	1 024
Supervisory Board, total	1 106	1 024

The amounts in the table above include paid remuneration due for a given period, as well as the costs of provisions established in a given period for future potential benefits.

Number of shares held by the members of the Management Board	31.12.2018	31.12.2017
Krzysztof Bachta	2 168	-
Filip Gorczyca	4 000	-
Katarzyna Sułkowska	-	28 612
Total	6 168	28 612

With reference to the Management Board, costs of remuneration also include the cost of cash installments paid in this period of variable remuneration and tranches in phantom shares issued and paid in 2018.
The Management Board members active as at 31.12.2018 had contracts of employment providing for the following:

- Management Board Member's contract for the time of performing functions;
- Termination period: 1 month in case of performing Management Board Member function for less than 12 months effective at the end of calendar month; 3 months in case of performing Management Board Member function for at least 12 months;
- Severance pay in the amount of three times monthly salary in case of contract termination by both sides or termination by the Company in all cases except for negligence to perform basic Management Board duties in case of performing Management Board Member function for at least 12 months;
- Non-compete clause based on which the 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 a period of 6 months since the date of contract termination. As a consequence Management Board Members are entitled to severance in the amount of six months salary.

35.3 Management option scheme

Pursuant to Resolution No. 28/2012 of the Extraordinary General Meeting of Shareholders of Alior Bank SA dated 19 October 2012 regarding the conditional increase of the Bank's share capital and issuance of subscription warrants and incentive scheme regulations adopted by the resolution of Alior Bank SA Supervisory Board of 27 March 2013, incentive program for 2013-15. The plan included members of the Management Board and a group of Bank's managers who were not members of the Management Board
The assumptions of Management Option Scheme anticipated that three tranches of subscription warrants (A, B and C-series) and the corresponding three tranches of new shares of the Bank (D, E and F-series) with a total nominal value of up to PLN 33 312 500 would be issued, including:
- up to 1 110 417 A-series subscription warrants, which shall entitle their holders to acquire up to 1 110 417 D-series shares of Alior Bank in a period of five years starting from the first anniversary of the first quotation of the Shares on the WSE;
- up to 1 110 416 B-series subscription warrants which will entitle their holders to take up 1 110 416 E-series shares of Alior Bank over a period of 5 years starting from the day of the second anniversary of the first quotation of the Shares on the WSE;
- up to 1 110 417 C-series subscription warrants which will entitle their holders to take up 1 110 417 F-series shares of Alior Bank over a period of 5 years starting from the day of the third anniversary of the first quotation of the Shares on the WSE.
On 15 December 2018, series A warrants expired.

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 (01.01.2018)	2 547 486	-	242 953	-
Granted 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
The average fair value of the instruments at the end of the period (PLN)	5.98	9.99
The exercise price of the instrument (for instruments outstanding at the end of the period) (PLN)	65.98	53.80
The average maturity date of the instrument occurring at the end of the period	23.11.2021	22.11.2021

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.

35.4 Bonus system for senior executives

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

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

Pursuant to the Policy of 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.

(in PLN '000)

The settlement of the phantom shares shall be in cash.

	Number of phantom shares	The average share price for the completed phantom shares
At the beginning of the perid (01.01.2018)	196 385	-
Granted during the period	71 617	-
Forfeited during the period	-	-
Realized during the period	110 704	0,01
At the end of the period (31.12.2018)	156 814	-
Exercisable at end of period (31.12.2018)	0	-

	Phantom shares
The average fair value of the instrument at the end of the period (PLN)	53.15
The exercise price of the instrument (for instruments outstanding at the end of the period) (PLN)	0.01
The average maturity date of the instrument occurring at the end of the period	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.

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

In March 2017, by the decision of the Management Board of Alior Bank SA, the Supervisory Board and the Management Board of Alior Leasing Sp. z o.o., a management option scheme was launched at Alior Leasing Sp. z o.o.
The aim of the program is to ensure the implementation of financial plans for 2017-21 by maintaining and motivating the Company's management.
The program is based on share option subscription agreements signed between the Participant, the Company and the Bank as well as share option-purchase agreements between the Participant and the Bank. The program assumes the transformation of the company into a joint-stock company. The issue of shares under the contracts would take place in the event of budget implementation and fulfillment of the conditions set out in the agreements in 2022-25.
Then, as a result of the purchase and sale's option of shares the Bank would repurchase shares at the price resulting from the valuation of the company according to a given methodology.

2017	Number of options	The average share price for the options performed
At the beginning of the perid (01.01.2018)	2 799 033	-
Granted during the period	0	-
Forfeited during the period	1 726 247	-
Realized during the period	0	n/a
At the end of the period (31.12.2017)	1 072 786	-
Exercisable at end of period (31.12.2017)	0	-

(in PLN '000)

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

	options
The average fair value of the instrument at the end of the period* (PLN)	12.36
The exercise price of the instrument (for instruments outstanding at the end of the period) (PLN)	1
The average maturity date of the instrument occurring at the end of the period	21.10.2022

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

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

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

36 Offsetting of financial assets and liabilities

36.1 Accounting principles

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

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

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

36.2 Financial data

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

(in PLN '000)

31.12.2016	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
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	333 286	333 286
Cash collateral received	132 595	Amounts due from banks	612 444	479 849
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	593 327	539 300

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

(in PLN '000)

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

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

31.12.2017	net carrying amount	item from the financial statements	Carrying amount of items from the financial statements	Carrying amount of items not disclosed in the offsetting note
Financial assets				
Derivatives	87 785	Derivative hedging instruments	87 785	0
Derivatives	452 551	Financial assets held for trading	452 551	0
Repo transactions	77 431	Assets pledged as collateral	408 911	331 480
Cash collateral received	163 770	Amounts due from banks	901 629	735 207
Financial liabilities				
Derivatives	5 419	Derivative hedging instruments	5 419	0
Derivatives	435 878	Financial liabilities held for trading	435 878	0
Cash collateral received	179 283	Amounts due to banks	891 645	330 823

37 Legal claims

In the Bank's opinion, no single court, arbitration court or public administration body proceedings in progress during the 2018,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 102 738 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;
- 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;
- 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. As at the date of financial statements, the court to which a class action was filed did not issue a decision on the admissibility of considering a class action. In addition, Alior Bank assumes that the risk of a disadvantageous settlement of the suit and a significant loss in this respect is estimated at a lower than medium level, thus as at 31 December 2018, 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.

In addition, on 14 September 2018, the Polish Financial Supervision Authority initiated administrative proceedings regarding the imposition of a financial penalty on the basis of art. 167 para. 2 point 1 in conjunction from art. 167 para. 1 point 1 of the Act on Trading in Financial Instruments in connection with irregularities. The proceeding is related to the inspection carried out by the Polish Financial Supervision Authority from November 2017 to May 2018, which concerned the correct operation of Alior Bank and the Brokerage Office in the scope of distribution of investment certificates of funds previously managed by Fincrea TFI SA, and currently Raiffeisen Bank International AG (Joint Stock Company) Branch in Poland. As at the date of the report, the Polish Financial Supervision Authority did not complete the proceedings regarding the imposition of a forfeit.

The value of disputed claims amounted to PLN 258 700 thousand as at the end of 2018 and PLN 220 598 thousand as at the end of 2017.

The value of provisions for disputed claims amounted to PLN 35 064 thousand as at the end of 2018 and PLN 16 024 thousand as at the end of 2017.

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	38
market risk in the trading book, including: interest rate risk in the trading book and the FX risk	39.40
liquidity risk	41
operational risk	42

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

ALCO performs daily control over management of the market risk, including the liquidity risk. It takes all related decisions, unless previously restricted to the sole competences of the Management Board or the Supervisory Board. The duties of ALCO include, among others:
- ongoing control over management of the market risk related to the trading book and the banking book, including decisions in risk management for both books;
- approval of the Bank's operational limits in money and capital markets;
- ongoing control over liquidity management at the Bank, related to the trading book and the banking book;
- recommending actions related to acquiring funding sources for the Bank and supervising the progress of the funding plan;
- decisions of model portfolio management.

(in PLN '000)

At the Bank, exposure to the risk is formally mitigated with a system of limits, periodically updated by resolutions of the Supervisory Board or ALCO, covering all risk metrics with the levels thereof monitored and reported by the Bank's organisational units independent of business. There are three types of limits at the Bank that differ in terms of coverage and functioning: core limits (approved by the Supervisory Board), supplementary limits, additional limits. Risk management is focused on potential changes to the economic result; with the Bank's quality requirements related to the risk management process (internal control system, new product launch, analysis of the legal risk, analysis of the operational risk), non-quantifiable risks are mitigated that are related to treasury operations. The Bank estimates Value-at-Risk in relation to the market risk, using an analytical module of the treasury system. The Bank used the parametric VaR model in compliance with JP Morgan's methodology (RiskMetrics). The estimated 99% 1-day VaR may be re-scaled to other times by multiplying the variability by the root of the multiple of the 1-day period (e.g. 10-Day VaR is calculated by multiplying 1-day VaR by √10).

The table below presents a 10-day VaR for the Bank split into the banking and trading book as at the end of 2018 and 2017.

VaR	31.12.2018	31.12.2017
Banking book	36 860	14 430
Trading book	3 422	928
Total	37 675	14 985

Market risk management in subsidiaries

In accordance with the provisions contained in the internal regulations regarding liquidity risk, Alior Leasing became an important company from the liquidity and market risk management's point of view of Alior Bank SA Group in 2017. It was resulted by the development of the company's activity which influenced into a significant increase in the balance sheet total. Both the liquidity risk and the market risk in the company are monitored, controlled and reported. Alior Leasing introduced internal liquidity and market risk management principles, including defining the appetite for the above-mentioned risk and prepare cyclical reports which agreed with the Bank. The liquidity risk as well as market risk reports prepared by Alior Leasing are particular form the starting point for making decisions in the scope of liquidity management of the Company and are used to consolidate liquidity risk at the Group level.

38 Credit Risk

38.1 Description of the risk

Definition of the credit risk

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

Objective of credit risk management

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

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

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

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

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

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

In particular, the Bank accepts the following collateral:

- guarantees, re-guarantees, and sureties;

(in PLN '000)

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

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

38.2 Financial data

Maximum credit risk exposure

Items in the statement of financial position	31.12.2018	31.12.2017 Restated
Current account at the central bank	706 079	253 092
Investment securities	13 727 570	12 483 329
measured at fair value through other comprehensive income	7 280 080	n/a
measured at fair value through profit or loss	515 138	n/a
measured at amortized cost	5 932 352	n/a
available-for-sale	n/a	12 030 778
held for trading	n/a	452 551
Derivative hedging instruments	112 400	87 785
Amounts due from banks	612 444	901 629
Loans and advances to customers	54 245 924	51 266 640
Retail segment	29 443 496	28 234 726
Consumer loans	16 528 475	16 541 861
Loans for residential real estate	10 352 136	9 547 786
Consumer finance loans	2 562 885	2 145 079
Corporate segment	24 802 428	23 031 914
Working capital facility	11 612 837	11 904 696
Investment loans	8 310 328	8 620 606
Other	4 879 263	2 506 612
Assets pledged as collateral	333 286	408 911
Other receivables	566 357	588 506
Total	70 304 060	65 989 892

Financial assets not overdue

Internal rating classes

The individual customer segment is covered by a consistent scoring system in which one common masterskal is used. Visible shifts of the distribution according to the probability of default as at 31.12.2018 in relation to 31.12.2017 result from the recalibration of monitoring models due to the improvement of the quality of the active loan portfolio.

(in PLN '000)

The rating system covers also the corporate segment, in which one common rating scale of the PD parameter consisting of 25 classes (Q01-Q25) has been introduced. Visible shifts of the distribution according to the probability of default on 31.12.2018 in relation to 31.12.2017 results from the systematically improving structure of new sales.

	31.12.2018	31.12.2017
Retail segment		
< 0.18%	4 374 795	2 428 007
0.18% - 0.28%	2 806 173	2 891 279
0.28% - 0.44%	2 753 314	2 761 293
0.44% - 0.85%	2 735 092	2 182 814
0.85% - 1.33%	2 896 555	2 558 541
1.33% - 2.06%	3 121 644	2 898 034
2.06% - 3.94%	4 580 940	5 255 601
3.94% - 9.10%	1 752 115	2 280 823
> 9.1%	1 113 627	1 581 786
No scoring	369 126	480 032
Total retail segment	26 503 381	25 318 211
Corporate segment		
< 0.28%	19 574	9 278
0.28% - 0.44%	91 987	101 150
0.44% - 0.85%	1 035 637	1 604 515
0.85% - 1.33%	1 495 400	1 034 480
1.33% - 2.06%	3 484 880	2 146 682
2.06% - 3.94%	5 729 136	5 234 318
3.94% - 9.1%	4 268 187	4 946 573
> 9.1%	2 717 345	2 539 609
No rating	629 368	2 113 389
Total corporate segment	19 471 514	19 729 994
Total not overdue receivables and without impairment	45 974 895	45 048 205
Not overdue receivables with impairment	856 486	987 893
Retail segment	49 717	68 199
Corporate segment	806 769	919 694
Total receivables from customers not overdue	46 831 381	46 036 098

	31.12.2018	31.12.2017
Financial assets measured at fair value through other comprehensive income/ available-for-sale		
issued by non-financial entities	73 524	115 194
issued by financial entities	0	91 387
Financial assets measured at fair value through other comprehensive income / available-for-sale not overdue and without impairment	73 524	206 581
Financial assets measured at fair value through other comprehensive income / available-for-sale not overdue and with impairment	74 304	85 506
Total financial assets measured at fair value through other comprehensive income / available-for-sale not overdue	147 828	292 087

The maximum risk exposure in the scope of derivative instruments is presented in Note 18.2.3.

(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	31.12.2018
Due from banks	0	204 840	235 346	3 166	873	0	168 219	612 444
Financial assets measured at fair value through other comprehensive income, of which:	0	0	7 206 524	0	0	0	32	7 206 556
Debt securities	0	0	7 183 589	0	0	0	32	7 183 621
issued by the Central Bank	0	0	0	0	0	0	0	0
issued by the State Treasury	0	0	7 109 285	0	0	0	0	7 109 285
issued by banks	0	0	74 304	0	0	0	0	74 304
issued by other financial entities	0	0	0	0	0	0	32	32
Equity instruments	0	0	22 935	0	0	0	0	22 935
issued by other financial entities	0	0	22 935	0	0	0	0	22 935
Financial assets measured at amortised cost	0	0	5 932 352	0	0	0	0	5 932 352
Assets hedging liabilities	0	0	333 198	0	0	0	88	333 286
Derivative instruments	0	20 274	273 402	16 146	0	0	17 070	326 892
Total	0	225 114	13 980 822	19 312	873	0	185 409	14 411 530

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

Overdue loans and advances to customers

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	4 010 152	464 294	376 874	185 191	10 713	5 047 224
Retail segment	1 479 895	251 035	172 254	4 247	809	1 908 240
Business segment	2 530 257	213 259	204 620	180 944	9 904	3 138 984
Impaired receivables	193 139	130 347	691 744	865 791	148 724	2 029 746
Retail segment	55 634	43 157	337 905	394 011	49 715	880 422
Business segment	137 505	87 191	353 840	471 781	99 009	1 149 324
Total receivables	4 203 291	594 641	1 068 618	1 050 982	159 437	7 076 970

(in PLN '000)

31.12.2017	up to 1 month	1 to 3 months,	3 months to 1 year	1 to 5 years	above 5 years	Total
Receivables, without impairment	2 290 111	749 443	123 031	201 112	15 804	3 379 501
Retail segment	1 487 219	472 567	8 479	15 142	1 408	1 984 815
Business segment	802 892	276 876	114 552	185 970	14 396	1 394 686
Impaired receivables	79 582	133 858	674 248	870 703	92 650	1 851 041
Retail segment	36 012	72 653	316 053	423 481	15 303	863 502
Business segment	43 570	61 205	358 195	447 222	77 347	987 539
Total receivables	2 369 693	883 301	797 279	1 071 815	108 454	5 230 542

Loans subject to forbearance

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

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

- extension of the lending period. Extended lending periods result in reduced monthly principal and interest instalments and it is possible up to 120 months (for unsecured products), irrespective of the original lending period. If within such restructuring, the lending period is extended once to the maximum period, the tool may not be used again in the future. When the lending period is extended, certain restrictions are taken into account as specified in the product features, e.g. the borrower's age.
- granting a grace period in repayment (of an instalment in full or in part). During the grace period in repayment of the principal and interest instalments, the borrower is not obliged to make any payments under the agreement. The loan repayment period may be extended by the term of a grace period (this is not identical to the extension of the lending period). A grace period of a full instalment may be applied by up to 3 months and a grace period of the principal part of instalment – up to 6 months. The maximum grace period may be 6 months within 2 consecutive years (24 months) of the date of the restructuring annex;
- consolidation of several obligations at 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.

(in PLN '000)

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

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

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

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 statute 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	31.12.2018	31.12.2017
Retail segment	355 720	139 173
without identified impairment	192 311	42 547
with identified impairment	222 516	203 210
IBNR	n/a	-229
impairment allowances	-59 107	-106 355
assessed individually	0	0
assessed as a portfolio	-59 107	-106 355
Corporate segment	719 310	484 955
without identified impairment	299 789	231 164
with identified impairment	677 526	442 811
IBNR	n/a	-203
impairment allowances	-258 006	-188 817
assessed individually	-211 392	-141 409
assessed as a portfolio	-46 613	-47 408
POCI	402	n/a
Total net receivables	1 075 432	624 128

Loans to customers subject to forbearance	31.12.2018	31.12.2017
with identified impairment	585 010	350 849
of which: collateral value	364 860	204 822
without identified impairment	490 020	273 279
of which: collateral value	267 169	206 068
not overdue	304 382	105 620
overdue	185 638	167 659
POCI	402	n/a
Total	1 075 432	624 128

(in PLN '000)

Loans granted to customers subject to forbearance by geographical region	31.12.2018	31.12.2017
dolnośląski	78 816	25 915
kujawsko-pomorski	29 590	36 477
lubelski	24 200	18 510
lubuski	40 752	52 510
łódzki	56 564	40 351
małopolski	132 654	112 763
mazowiecki	348 632	156 129
opolski	18 839	13 149
podkarpacki	11 943	10 734
podlaski	11 358	8 109
pomorski	57 168	30 521
śląski	80 858	43 813
świętokrzyski	8 269	5 028
warmińsko-mazurski	18 764	16 587
wielkopolski	72 337	48 167
zachodniopomorski	84 688	5 365
Total net receivables	1 075 432	624 128

Change of carrying value of loans to customers that are subject to forbearance	31.12.2018	31.12.2017
Net carrying value at the beginning of period	624 128	799 736
Impairment allowances	-21 508	86 559
Gross carrying value of loans and borrowings derecognised in the period	-249 648	-398 100
Gross carrying value of loans and borrowings newly recognised in the period	823 765	196 655
Other changes	-101 305	-60 722
Net carrying value at the end of period	1 075 432	624 128

In 2018 and 2017 the amount of interest income on loans subject to forbearance amounted to PLN 51 734 thousand and PLN 34 977 thousand, respectively.

Concentration

Ten largest borrowers	Currency	31.12.2018	Currency	31.12.2017
Company 1	PLN	332 890	PLN	240 000
Company 2	PLN	258 231	PLN	234 010
Company 3	PLN	240 741	PLN	229 973
Company 4	PLN	231 548	PLN	223 184
Company 5	EUR,PLN	212 366	EUR,PLN	216 398
Company 6	PLN	209 828	PLN	199 979
Company 7	PLN	204 275	PLN	145 032
Company 8	PLN	189 650	EUR	136 358
Company 9	EUR	175 120	EUR	132 064
Company 10	EUR,PLN,USD	166 011	EUR	124 686

(in PLN '000)

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

Section by PKD 2007	Section name	31.12.2018	31.12.2017
Section A	Agriculture, forestry, hunting, and fishery	743 886	589 819
Section B	Mining and quarrying	209 891	210 378
Section C	Manufacturing	5 431 519	6 020 738
Section D:	Electricity, gas, steam and air conditioning supply	1 386 808	1 583 724
Section E	Water supply, sewage and waste management, and remediation	152 326	150 679
Section F	Construction.	5 404 667	5 814 791
Section G	Wholesale and retail trade; repair of motor vehicles and motorcycles	6 492 806	6 162 531
Section H:	Transportation and storage	2 836 268	1 599 849
Section I	Accommodation and food service activities	1 810 151	1 800 926
Section J	Information and communication	1 082 867	1 251 099
Section K	Financial and insurance activities	3 085 360	3 178 458
Section L	Real estate activities	6 238 629	5 837 599
Section M	Professional, scientific and technical activities	1 264 748	1 058 691
Section N:	Administrative and support service activities	973 645	773 832
Section O:	Public administration and defence; compulsory social security	13 527	6 349
Section P:	Education	158 661	124 380
Section Q:	Human health and social work activities	715 066	649 964
Section R	Arts, entertainment, and recreation	742 465	516 044
Section S	Other service activities	207 408	155 190
Section U:	Activities of extraterritorial organisations and bodies	4	4
Total		38 950 702	37 485 045

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 2018, the amount of exposures falling within internal concentration limits amounted to PLN 73 674 260 thousand, of which PLN 38 950 702 thousand were exposures to business customers and PLN 34 723 558 thousand to individual customers.

As at the end of 2017, the amount of exposures falling within internal concentration limits amounted to PLN 68 270 945 thousand, of which PLN 37 485 045 thousand were exposures to business customers and PLN 30 785 900 thousand to individual customers.

Country	31.12.2018	31.12.2017
Poland	71 449 351	67 237 207
United Kingdom	289 493	220 924
Luxembourg	426 111	464 062
Cyprus	20 589	101 683
Sweden	781	85 564
Hungary	457	59 581
Switzerland	25 783	23 557

(in PLN '000)

Country	31.12.2018	31.12.2017
Germany	24 885	19 387
Ireland	25 877	20 242
The Netherlands	14 643	12 293
Other countries	1 396 290	26 445
TOTAL	73 674 260	68 270 945

39 Interest rate risk

39.1 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.

Monitoring and reporting of the interest rate risk

Regular reports are made at Alior Bank of the following:

- Interest rate risk measurement level,

(in PLN '000)

- 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).

39.2 Financial data

Sensitivity metrics

BPV estimates as at 31 December 2018 and 31 December 2017 are presented in the tables below:

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
Other	-0.4	0	0	0	0	-0.4
Total	-59.6	350.6	707	1 361.7	-109.3	2 250.6

BPV at the end of 2017 split into tenors:

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

BPV statistics

	01.01.2018-31.12.2018			01.01.2017-31.12.2017		
Book	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	-543	-105	298	-1 298.3	-575	138.8
Trading book	-70.2	-3.7	80	-75.6	5.9	70
ALCO	846.7	1 397.7	2 285	419.6	1440.6	2,225.1
Total	431.3	1 288.9	2 476.5	212	872	1 611

(in PLN '000)

VaR values in 2018 and 2017 are presented in the table below (99% VaR with a horizon of 10 days).

	01.01.2018-31.12.2018			01.01.2017-31.12.2017		
Book	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	7 597	21 691	39 735	6 346	18 123	31 068
Trading book	738	2 636	4 580	870	2 208	4 009
Total	8 085	22 961	40 362	6 046	19 398	32 043

Change to the economic value of capital

Use of the change of economic value of equity with a parallel shift of interest rate curves by +/- 200bps and non-parallel shifts with scenarios of +/- 100/400bps (in tenors 1M/10Y, between them – linear interpolation of the shift) as at the end of December 2018 and 2017 are presented below:

Scenario (1M/10Y)	Change to the economic value of equity 31.12.2018	Change to the economic value of equity 31.12.2017
+400 /+ 100	385 451	188 906
+100 /- 400	306 878	67 831
+200 /+ 200	281 218	102 857
-200 / – 200	-204 040	-84 863
- 100 / – 400	-204 476	-42 814
- 400 / – 100	-218 768	-94 591

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 2018 and as at the end of 2017 was presented after

	31.12.2018	31.12.2017
NII	5.98%	6.96%

Revaluation gap

The revaluation gap presents a difference between the present value of assets and liabilities exposed to the interest rate risk, subject to reevaluating within the time interval, and the items are recognised on the transaction date. The revaluation gap in PLN, EUR and USD as at the end of 2018 is presented below.

Revaluation gap in PLN

	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

	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

	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	

40 Foreign exchange risk (FX risk)

40.1 Description of the risk

Definition of the foreign exchange risk

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

The objective of foreign exchange risk management

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

Foreign exchange risk measurement and assessment

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

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

Foreign exchange risk monitoring and reporting

Alior Bank regularly monitors and reports:

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

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

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

The Bank may also execute transactions to hedge future FX cash flows with adequate realisation certainty (e.g. rental costs, FX currency denominated net interest income). The objective is to mitigate volatility of the results in the current financial year.

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)

40.2 Financial data

Sensitivity metrics

As at the end of December 2018, 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 153 954.14, with the assumed confidence level of 99%.

	31.12.2018	31.12.2017
Horizon [days]	10	10
VaR [PLN]	153 954.14	157 474.83

VaR statistics in the Bank's FX portfolio in 2018 and 2017

VaR	31.12.2018	31.12.2017
Minimum	50.92	29.26
Medium	540.58	309.69
Max	1 604.13	1 648.53

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

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

	31.12.2018	31.12.2017
FX rates + 20%	-4 203.45	29 930.08
FX rates -20%	10 716.18	15 521.79

Foreign exchange position

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

31.12.2018	Balance sheet item		Off -balance sheet item		Net position	
Fx position	Long	Short	Long	Short	Long	Short
EUR	6 737 637	-4 786 837	4 303 872	-6 231 419	23 253	0
USD	704 928	-3 463 976	3 816 409	-1 084 899	0	-27 538
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	8 224 842	-9 507 590	9 855 955	-8 574 363	27 548	-28 704

31.12.2017	Balance sheet item		Off -balance sheet item		Net position	
Fx position	Long	Short	Long	Short	Long	Short
EUR	4 370 783	-3 615 200	4 841 224	-5 578 618	18 189	0
USD	58 657	-2 500 921	3 453 122	-1 040 447	0	-29 589
CHF	224 426	-192 012	52 536	-85 856	0	-906
GBP	337 222	-628 890	382 798	-90 771	360	0
Other	301 809	-491 210	465 151	-286 307	0	-10 556
Total	5 292 898	-7 428 233	9 194 832	-7 082 000	18 548	-41 051

(in PLN '000)

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, the 10-day VaR for the Bank's FX position as at 31 December 2018 was about ca. 0.0023% and as at 31 December 2017 – 0.0023%, respectively.

Currency structure

	Currency in PLN – 31.12.2018			
Assets	PLN	EUR	USD	Other
Cash and balances with the Central Bank	833 698	327 063	309 200	169 072
Amounts due from banks	3 695	283 533	208 683	116 533
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	47 890 081	5 736 408	146 972	472 463
Assets pledged as collateral	333 286	0	0	0
Property, plant and equipment	457 462	0	0	3 197
Intangible assets	562 000	0	0	10 320
Investments in subsidiaries	4 000	0	0	0
Non-current assets held for sale	146	0	0	0
Income tax asset	1 026 255	0	0	9 369
deferred	1 026 255	0	0	9 369
Other assets	654 216	19 846	1 171	1 248
Total assets	65 195 045	6 737 637	704 928	782 277

LIABILITIES AND EQUITY	PLN	EUR	USD	Other
Amounts due to banks	521 526	66 247	1	5 553
Amounts due to customers	53 287 491	4 489 609	3 421 822	1 236 663
Financial liabilities	385 977	28 606	1 520	304
Derivative hedging instruments	9 381	0	0	0
Provisions	118 516	7 465	177	41
Other liabilities	1 007 237	105 056	40 602	14 216
Income tax liabilities	267 861	0	0	0
current	267 429	0	0	0
deferred	432	0	0	0
Subordinated liabilities	1 830 844	87 249	0	0
Total liabilities	57 428 833	4 784 232	3 464 122	1 256 777
Share capital	1 305 540	0	0	0
Supplementary capital	5 386 828	0	0	0
Revaluation reserve	49 705	2 605	-146	0
Other reserves	171 629	0	0	0
Exchange rate differences on revaluation of foreign entities	-202	0	0	0
Retained earnings / (accumulated losses)	-1 143 409	0	0	0

(in PLN '000)

LIABILITIES AND EQUITY	PLN	EUR	USD	Other
Current year's profit	713 373	0	0	0
Equity	6 483 464	2 605	-146	0
TOTAL LIABILITIES AND EQUITY	63 912 297	4 786 837	3 463 976	1 256 777

		Currency in PLN – 31.12.2017 Restated		
Assets	PLN	EUR	USD	Other
Cash and funds with Central Bank	661 251	139 371	83 488	81 281
Financial assets held for trading	405 808	43 457	3 157	129
Financial assets available for sale	11 756 707	279 607	36 010	0
Investment securities kept until maturity	1 117 894	0	0	0
Derivative hedging instruments	87 785	0	0	0
Due from banks	73 512	355 942	91 347	380 828
Loans and advances to customers	45 472 896	5 099 309	176 766	517 669
Assets hedging liabilities	408 911	0	0	0
Property, Plant & Equipment	473 758	0	0	1 933
Intangible assets	541 492	0	0	7 095
Assets held for sale	357	0	0	0
Income tax assets	587 343	0	0	4 439
deferred	587 343	0	0	4 439
Other assets	595 786	29 361	612	681
Total assets	62 183 500	5 947 047	391 380	994 055

LIABILITIES AND EQUITY	PLN	EUR	USD	Other
Financial liabilities held for trading	409 705	23 127	2 522	524
Due to banks	845 992	45 571	65	17
Due to customers	48 520 677	4 925 938	2 782 222	1 428 182
Derivative hedging instruments	5 419	0	0	0
Provisions	87 431	2 978	38	10
Other liabilities	1 492 928	137 816	49 102	14 069
Income tax liabilities	135 690	0	0	0
current	135 204	0	0	0
deferred	486	0	0	0
Subordinated liabilities	1 830 346	84 630	0	0
Total liabilities	53 328 188	5 220 060	2 833 949	1 442 802
Equity attributable to equity holders of the parent	6 680 279	10 421	-305	-734
Share capital	1 292 636	0	0	0
Supplementary capital	4 820 048	0	0	0
Revaluation reserve	5 156	10 421	-305	-1 328
Other reserves	183 824	0	0	0
Exchange rate differences on revaluation of foreign entities	0	0	0	594
Retained profit	-92 579	0	0	0
Current year's profit	471 194	0	0	0
Non-controling interest	1 322	0	0	0
Equity	6 681 601	10 421	-305	-734
TOTAL LIABILITIES AND EQUITY	60 009 789	5 230 481	2 833 644	1 442 068

41 Liquidity risk

41.1 Description of risk

Definition of liquidity risk

The liquidity risk means a risk of failure by the Bank to meet – subject to comfortable conditions and at adequate prices – its payment obligations resulting from the Bank's on- and off-balance sheet items.
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.
The objective 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 the liquidity adequacy assessment process (ILAAP) that purses the following objectives:

- 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.

Liquidity risk measurement and assessment

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

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

41.2 Financial data

Contractual flows

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

31.12.2018	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
ASSETS	2 395	946	2 701	3 330	7 024	10 019	21 829	42 445	90 689
Cash & Nostro	2 116	0	0	0	0	0	0	0	2 116
Amounts due from banks	0	10	0	0	0	125	0	0	135
Loans and advances to customers	0	41	2	272	919	1 467	5 594	6 603	14 898
Securities	279	895	2 699	3 058	6 105	8 427	16 235	32 791	70 489
Other assets	0	0	0	0	0	0	0	3 051	3 051
LIABILITIES AND EQUITY	-43 104	-4 747	-6 221	-3 583	-3 530	-3 046	-1 913	-8 006	-74 150
Amounts due to banks	-342	-7	-5	-10	-61	-40	-76	-109	-650
Amounts due to customers	-40 937	-4 631	-5 995	-3 189	-2 957	-1 536	-306	-54	-59 605
Own issues	0	-108	-221	-384	-512	-1 470	-1 531	-1 240	-5 466
Equity	0	0	0	0	0	0	0	-6 486	-6 486
Other liabilities	-1 825	-1	0	0	0	0	0	-117	-1 943
Balance sheet gap	-40 709	-3 801	-3 520	-253	3 494	6 973	19 916	34 439	16 539
Cumulated balance sheet gap	-40 709	-44 510	-48 030	-48 283	-44 789	-37 816	-17 900	16 539	
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	-10 902	0	0	0	0	0	0	0	-10 902
Off-balance sheet gap	-10 902	17	19	0	1	0	-10	0	-10 875
Total gap	-51 611	-3 784	-3 501	-253	3 495	6 973	19 906	34 439	5 664
Total cumulated gap	-51 611	-55 395	-58 896	-59 149	-55 654	-48 681	-28 775	5 664	

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

31.12.2017 Restated	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
ASSETS	6 589	3 561	2 251	2 842	5 595	8 980	22 353	33 330	85 501
Cash & Nostro	1 366	0	0	0	0	0	0	0	1 366
Amounts due from banks	0	332	0	0	0	164	0	0	496
Loans and advances to customers	0	2 045	1	59	208	1 289	6 480	4 898	14 980
Securities	5 223	1 184	2 250	2 783	5 387	7 527	15 873	27 227	67 454
Other assets	0	0	0	0	0	0	0	1 205	1 205
LIABILITIES AND EQUITY	-34 083	-8 250	-6 731	-5 140	-3 876	-1 789	-2 174	-8 192	-70 235
Amounts due to banks	-4	-136	-303	-9	-31	-268	-132	-66	-949
Amounts due to customers	-34 079	-5 594	-6 244	-4 760	-3 151	-303	-195	-65	-54 391
Own issues	0	-100	-184	-371	-694	-1 218	-1 847	-1 280	-5 694
Equity	0	0	0	0	0	0	0	-6 691	-6 691
Other liabilities	0	-2 420	0	0	0	0	0	-90	-2 510
Balance sheet gap	-27 494	-4 689	-4 480	-2 298	1 719	7 191	20 179	25 138	15 266
Cumulated balance sheet gap	-27 494	-32 183	-36 663	-38 961	-37 242	-30 051	-9 872	15 266	
Derivative instruments – inflows	0	5 029	1 593	1 600	701	364	307	43	9 637
Derivative instruments – outflows	0	-5 048	-1 618	-1 588	-707	-363	-324	-42	-9 690
Derivative instruments – net	0	-19	-25	12	-6	1	-17	1	-53
Guarantee and financing lines	-11 711	-8	-32	-108	-200	-113	-6	-321	-12 499
Off-balance sheet gap	-11 711	-27	-57	-96	-206	-112	-23	-320	-12 552
Total gap	-39 205	-4 716	-4 537	-2 394	1 513	7 079	20 156	24 818	2 714
Total cumulated gap	-39 205	-43 921	-48 458	-50 852	-49 339	-42 260	-22 104	2 714	

Regulatory liquidity measures and sensitivity measures

Regulatory liquidity measures	31.12.2018	31.12.2017
M3	4.54	5.09
M4	1.17	1.15
LCR	133%	124%
NSFR	129%	115%

Between 31 December 2017 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.

	31.12.2018	31.12.2017
Protection against loss of liquidity (PLN M)	13 739	13 128
Total net cash outflows (PLN M)	10 332	10 674
Surplus reserve against liquidity loss (PLN M)	3 407	2 454
LCR	133%	123%

(in PLN '000)

Deposit balance

As at 31 December 2018 the balance of deposits over a 30-day horizon amounted to ca. 95% 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 2018, WWK was at 1.17 % which shows no concentration. As at 31 December 2017, the ratio was at 2.18%.

WWK statistics for 2018 and 2017 are presented in the table below.

	Minimal	Medium	Maximum
31.12.2018	1.12%	2.03%	2.68%
31.12.2017	1.55%	2.19%	2.79%

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	31.12.2018	Currency	31.12.2017
Company 1	EUR, PLN, USD	473 824	EUR, PLN	333 684
Company 2	PLN	338 012	PLN	295 056
Company 3	EUR, PLN, USD	270 542	PLN	278 036
Company 4	PLN	200 192	PLN	266 347
Company 5	PLN	137 202	PLN	244 195
Company 6	PLN	122 058	EUR, PLN, USD	238 127
Company 7	CHF,EUR, PLN, USD	119 424	EUR, PLN, USD	177 883
Company 8	EUR, PLN, USD	110 170	PLN	171 190
Company 9	PLN	109 068	PLN, USD	144 364
Company 10	PLN	104 174	CZK, EUR, PLN	143 924

In 2018 the Bank's liquidity condition was at a safe level. The situation was closely monitored and maintained at an adequate level by adjusting the level of the deposit base and disbursing financing subject to growth of lending and other liquidity needs.

42 Operational Risk

42.1 Description of risk

Definition of the operational risk

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

The objectives of operational risk management

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

Board and Supervisory Board.

Operational risk measurement and assessment

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

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

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

Operational risk measurement and assessment include:

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

Monitoring and reporting of operational risk

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

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

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

In connection with the above, in accordance with the requirements of CRR Article 454, the Bank, seeking to limit the risk of materializing the effects of rare but potentially severe operational events, has bought a number of insurance policies. Mentioned policies concerned, among others property insurance, liability insurance, D&O insurance, third-party liability for agency services providers, public issue of securities, electronic equipment insurance - costs of data recovery, portable media, software, insurance against criminal offenses. 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.

43 Capital Management

Definition of the capital adequacy

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

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

Within its risk appetite, the Bank determines the anticipated coverage levels of 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.

(in PLN '000)

Capital adequacy metrics

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

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

In order to allocate the consolidated financial result to equity and to calculate the capital adequacy ratio, in 2017 prudential consolidation was applied – the consolidation covered Alior Bank S.A. and Alior Leasing sp. z o.o. In the opinion of the Bank's Management Board, the other subsidiary entities, not subject to prudential consolidation, are marginal for the Bank's core activity from the viewpoint of monitoring of credit institutions.

The prudentially consolidated profit and loss account – presented below – was prepared in compliance with the accounting principles applied by the Bank, with the exception of consolidating solely Alior Bank S.A. and Alior Leasing sp. z o.o., as stated above.

	01.01.2018 - 31.12.2018
Interest income	3 792 706
Income of a similar nature	163 828
Interest expense	-871 942
Net interest income	3 084 592
Fee and commission income	817 852
Fee and commission expense	-384 195
Net fee and commission income	433 657
Dividend income	7 597
The result on financial assets measured at fair value through profit or loss and trading result	371 601
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss including:	77 829
measured at fair value through other comprehensive income	76 473
measured at amortized cost	1 356
Other operating income	114 649
Other operating costs	-141 681
Net other operating income and expenses	-27 032
General administrative expenses	-1 690 954
Net expected credit losses	-1 053 828
Banking tax	-208 186
Gross profit	995 276
Income tax	-274 845
Net profit	720 431

(in PLN '000)

Equity for the purposes of the capital adequacy

	31.12.2018	31.12.2017
Total equity for the capital adequacy ratio	8 156 980	7 651 277
Tier I core capital (CET1)	6 594 281	6 088 277
Supplementary Tier II capital	1 562 699	1 563 000
Paid-up capital	1 305 187	1 292 636
Supplementary capital	5 380 995	4 817 483
Other reserves	184 284	184 894
Current year's reviewed by auditor	539 099	366 348
Accumulated losses	-1 151 445	-63 514
Revaluation reserve – unrealised losses	-5 937	-14 357
Intangible assets measured at carrying value	-539 273	-516 122
Revaluation reserve – unrealised profit	39 196	42 337
Subordinated liabilities	1 562 699	1 563 000
Additional value adjustments	842 174	-21 428
Capital requirements	4 117 481	4 024 070
Total capital requirements for the credit, counterparty risk, adjustment to credit measurement, dilution and deliver of instruments to be settled at a later date	3 662 124	3 535 517
Total capital requirements for prices of equity securities, prices of debt securities, prices of commodities and FX risk.	3 497	4 826
Capital requirement relating to the general interest rate risk	36 991	46 612
Total capital requirements for the operational risk	414 870	437 115
Tier 1 ratio	12.81%	12,10%
Total capital adequacy ratio	15.85%	15,21%

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

	Impact of IFRS 9 including the transition period	Impact of IFRS 9 without considering the transition period
Total capital (TIER 1, TIER 2)	8 156 980	6 846 579
The total capital requirement	4 117 481	4 034 871
Total capital ratio	15.85%	13.57%
Financial leverage ratio	8.58%	6.90%

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 2018.

(in PLN '000)

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 2018:

- 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

The allocation of internal capital to particular risk types in 2017 and 2018 is presented in the table below:

Internal capital	31.12.2018	31.12.2017
credit risk	66.30%	70.50%
credit risk – concentration to customers. a group of related clients as well as capital groups	10.70%	10.90%
credit risk – currency concentration	0.60%	0.70%
credit risk – sectoral concentration	2.40%	3.40%
operational	8.50%	8.30%
market	0.50%	0.10%
interest rate risk in the banking book	5.00%	2.10%
liquidity	3.00%	0.80%
model	0.70%	1.00%
reputational	2.30%	2.20%
business	0.00%	0.00%
Total	100.00%	100.00%

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 2018. the Bank fully complied with the CRR Regulation in the sphere of capital management. including the calculations of equity and capital requirements for each type of risks.

Other

44 Significant events after the end of the reporting period

The resignation of the Member of the Bank's Supervisory Board

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.

Extension of the authorization to use the AMA application by the Bank

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 acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Jaworzno

On 31 January 2019. the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) accepted the acquisition of Kasa Oszczędnościowo-Kredytowa Jaworzno (SKOK Jaworzno) by Alior Bank SA. Based on Article. 74c § 7 of the Credit Union Act. the Commission specified the following procedure and dates in process of SKOK Jaworzno acquisition:

- since 1 February 2019. Alior Bank will manage SKOK Jaworzno assets. until the date of acquisition the SKOK will carry on its operations,
- on 1 April 2019. the acquisition of SKOK Jaworzno will be accomplished by Alior Bank.