



# Financial statements of Alior Bank Spółka Akcyjna

for the financial year ended 31 December 2013

## Selected financial data in the financial statements

	PLN'000		
	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount	%/% (A-B)/B
	A	B	C
Net interest income	989 835	826 535	19.8%
Net fee and commission income	258 193	195 982	31.7%
Trading result & other	273 206	249 314	9.6%
Impairment losses	-404 921	-278 588	45.3%
General administrative expenses	-839 194	-905 032	-7.3%
Gross profit	277 119	88 211	214.2%
Net profit	219 752	59 460	269.6%
Total net cash flow	-47 762	526 005	-

Loans and advances to customers	19 657 900	14 299 582	37.5%
Customer deposits	20 871 012	17 472 195	19.5%
Total equity	2 174 927	1 969 313	10.4%
Total assets	25 544 780	21 184 666	20.6%

### Ratios

Earnings/losses per share (PLN)	3.46	1.16	197.3%
Capital adequacy ratio	12.05%	15.19%	-20.7%
Tier 1	10.29%	12.73%	-19.2%

	EUR'000		
	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount	%/% (A-B)/B
	A	B	C
Net interest income	235 059	198 039	18.7%
Net fee and commission income	61 314	46 958	30.6%
Trading result & other	64 879	59 736	8.6%
Impairment losses	-96 158	-66 750	44.1%
General administrative expenses	-199 286	-216 847	-8.1%
Gross profit	65 808	21 135	211.4%
Net profit	52 185	14 247	266.3%
Total net cash flow	-11 342	126 031	-

Loans and advances to customers	4 740 041	3 497 770	35.5%
Customer deposits	5 032 555	4 273 811	17.8%
Total equity	524 433	481 707	8.9%
Total assets	6 159 524	5 181 905	18.9%

### Ratios

Earnings/losses per share (EUR)	0.82	0.28	194.7%
Capital adequacy ratio	12.05%	15.19%	-20.7%
Tier 1	10.29%	12.73%	-19.2%

The selected items of the Financial Statements have been converted into EUR at the following rates:

- a) as at 31.12.2013 - balance sheet items – at the average EUR exchange rate expressed in PLN, announced by the NBP as at 31.12.2013 – 4.1472; - income statement and the cash flow statement items – at the average EUR exchange rate expressed in PLN, constituting the arithmetic mean of the average exchange rates announced by the NBP, valid at the end of each month – 4.2110.
- b) as at 31.12.2013 - balance sheet items – at the average EUR exchange rate expressed in PLN, announced by the NBP as at 31.12.2013 – 4.0882; - income statement and the cash flow statement items – at the average EUR exchange rate expressed in PLN, constituting the arithmetic mean of the average exchange rates announced by the NBP, valid at the end of each month – 4.1736.

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## Income statement

	Note	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
Interest income		1 509 713	1 399 634
Interest expense		-519 878	-573 099
<b>Net interest income</b>	<b>4</b>	<b>989 835</b>	<b>826 535</b>
<b>Dividend income</b>		<b>1 803</b>	<b>20</b>
Fee and commission income		458 945	366 152
Fee and commission expense		-200 752	-170 170
<b>Net fee and commission income</b>	<b>5</b>	<b>258 193</b>	<b>195 982</b>
<b>Trading result</b>	<b>6</b>	<b>226 853</b>	<b>182 826</b>
<b>Net gain (realized) on other financial instruments</b>	<b>7</b>	<b>11 812</b>	<b>22 839</b>
Other operating income		54 952	61 589
Other operating costs		-22 214	-17 960
<b>Net other operating income</b>	<b>8</b>	<b>32 738</b>	<b>43 629</b>
<b>General administrative expenses</b>	<b>9</b>	<b>-839 194</b>	<b>-905 032</b>
<b>Impairment losses</b>	<b>10</b>	<b>-404 921</b>	<b>-278 588</b>
<b>Gross profit</b>		<b>277 119</b>	<b>88 211</b>
Income tax	<b>11</b>	-57 367	-28 751
<b>Net profit</b>		<b>219 752</b>	<b>59 460</b>
<b>Net profit</b>		<b>219 752</b>	<b>59 460</b>
<b>Weighted average number of ordinary shares</b>		<b>63 582 965</b>	<b>51 149 351</b>
<b>Net profit per share (in PLN)</b>		<b>3.46</b>	<b>1.16</b>
<b>Diluted earnings per share (in PLN)</b>		<b>3.28</b>	<b>1.09</b>

## Statement of comprehensive income

	Note	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
<b>Net profit</b>		<b>219 752</b>	<b>59 460</b>
<b>Other taxable comprehensive income</b>		<b>-27 553</b>	<b>23 795</b>
Net gains/losses on financial assets available for sale		-24 533	23 795
Profit/loss on valuation of financial assets available for sale	14	-30 288	29 376
Deferred tax	11	5 755	-5 581
Net gain on hedging derivatives		-3 020	0
Net gain on valuation of hedging derivatives	25	-3 728	0
Deferred tax	11	708	0
<b>Total comprehensive income, net</b>		<b>192 199</b>	<b>83 255</b>

## Statement of financial position

<b>ASSETS</b>	<b>Note</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012 Adjusted amount</b>	<b>As at 1.01.2012 Adjusted amount</b>
Cash and balances with the Central Bank	13	1 067 227	1 029 968	447 083
Financial assets held for trading	24	243 291	173 706	236 594
Financial assets available for sale	14	3 388 525	4 320 747	2 906 975
Hedging derivatives financial instruments	25	12 099	0	0
Amounts due from banks	16	254 199	371 275	1 105 792
Loans and advances to customers	15	19 657 900	14 299 582	9 986 807
Property, plant and equipment	17	215 121	214 887	212 392
Intangible assets	18	188 048	157 938	122 854
Investments in subsidiaries		2 459	5 754	250
Non-current assets held for sale		38 335	62 298	0
Income tax asset	11	139 799	143 264	110 062
<i>Deferred</i>		139 799	143 264	110 062
Other assets	19	337 777	405 247	169 759
<b>TOTAL ASSETS</b>		<b>25 544 780</b>	<b>21 184 666</b>	<b>15 298 568</b>

  

<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012 Adjusted amount</b>	<b>As at 1.01.2012 Adjusted amount</b>
Financial liabilities held for trading	24	184 090	129 107	168 300
Financial liabilities measured at amortized cost	21	21 688 985	18 101 036	13 602 905
Provisions	22	10 574	12 549	32 651
Other liabilities	23	1 105 434	590 949	500 263
Income tax liabilities		31 949	31 134	0
<i>Current</i>		31 949	31 134	0
Subordinated loans	26	348 821	350 578	44 403
<b>Total liabilities</b>		<b>23 369 853</b>	<b>19 215 353</b>	<b>14 348 522</b>
<b>Equity</b>	27	<b>2 174 927</b>	<b>1 969 313</b>	<b>950 046</b>
Share capital		635 830	635 830	500 000
Supplementary capital		1 434 712	1 276 610	502 569
Revaluation reserve		-16 777	10 776	-13 019
Other capital		176 792	163 377	12 600
<i>Share-based payments – equity component</i>		176 792	163 377	12 600
Accumulated losses		-275 382	-176 740	-109 728
Current year profit/loss		219 752	59 460	57 624
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>25 544 780</b>	<b>21 184 666</b>	<b>15 298 568</b>



## Statement of changes in equity

1.01.2013 - 31.12.2013	Share capital	Supplementary capital	Other capital - Share-based payments	Revaluation reserve	Retained earnings/ accumulated losses	Net profit/loss for the year	Total equity
As at 1 January 2013 - validated data	635 830	1 276 610	163 377	10 776	158 102		2 244 695
As at 1 January 2013 - adjusted amount	635 830	1 276 610	163 377	10 776	-117 280	-	1 969 313
Comprehensive income	-	-	-	-27 553	-	219 752	192 199
Share-based payments	-	-	13 415	-	-	-	13 415
Distribution of prior year result	-	158 102	-	-	-158 102	-	-
As at 31 December 2013	635 830	1 434 712	176 792	-16 777	275 382	219 752	2 174 927

1.01.2012 - 31.12.2012	Share capital	Supplementary capital	Other capital - Share-based payments	Revaluation reserve	Retained earnings/ accumulated losses	Net profit/loss for the year	Total equity
As at 1 January 2012 - validated data	500 000	502 569	12 600	-13 019	110 345		1 112 495
As at 1 January 2012 - adjusted amount	500 000	502 569	12 600	-13 019	-52 104	-	950 046
Increase in equity	135 830	664 095	-	-	-	-	799 925
Comprehensive income	-	-	-	23 795	-	59 460	83 255
Share-based payments	-	-	150 777	-	-	-	150 777
IPO costs	-	-14 690	-	-	-	-	-14 690
Distribution of prior year result	-	124 636	-	-	-124 636	-	0
As at 31 December 2012	635 830	1 276 610	163 377	10 776	-176 740	59 460	1 969 313

## Cash flow statement

	Note	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
<b>Operating activities</b>			
<b>Net profit</b>		<b>219 752</b>	<b>59 460</b>
<b>Adjustments:</b>		<b>-132 006</b>	<b>-470 466</b>
Unrealized foreign exchange gains/losses		1 768	-8 894
Income tax presented in the income statement		57 367	28 751
Amortization/depreciation of tangible and intangible assets		75 156	72 555
Change in tangible and intangible assets impairment write-down		101	-1 066
Change in provisions		-1 975	-20 102
Interest (financial activity)	30.2	27 763	29 420
Share-based payments and IPO costs		13 415	162 709
Change in loans and receivables	30.3	-5 326 263	-3 635 138
Change in financial assets available for sale		932 222	-1 413 772
Change in financial assets held for trading		-69 585	62 888
Change in hedging derivatives - assets		-12 099	0
Change in non-current assets held for sale		23 963	-62 298
Change in other assets	30.5	67 470	-235 488
Change in deposits		2 877 508	3 820 601
Change in issued debt		489 567	104 506
Change in financial liabilities held for trading		54 983	-39 193
Change in other liabilities	30.4	703 258	697 696
Income tax paid		-46 625	-33 641
<b>Net cash flow from operating activities</b>		<b>87 746</b>	<b>-411 006</b>
<b>Investing activities</b>			
<b>Outflows:</b>		<b>-105 106</b>	<b>-114 387</b>
Purchase of property, plant and equipment	30.6	-50 179	-49 134
Purchase of intangible assets	30.7	-58 222	-59 749
Purchase of shares in subordinated companies		3 295	-5 504
<b>Inflows:</b>		<b>0</b>	<b>145</b>
Disposal of property, plant and equipment		0	145
<b>Net cash flow from investing activities</b>		<b>-105 106</b>	<b>-114 242</b>
<b>Financing activities</b>			
<b>Outflows:</b>		<b>-30 402</b>	<b>-18 313</b>
Repayment of long-term liabilities		-30 402	-18 313
<b>Inflows:</b>		<b>0</b>	<b>1 069 566</b>
Subordinated liabilities incurred		0	299 021
Inflows from share issue		0	770 545
<b>Net cash flow from financing activities</b>		<b>-30 402</b>	<b>1 051 253</b>
<b>Total net cash flow</b>		<b>-47 762</b>	<b>526 005</b>
<b>Balance sheet change in cash and cash equivalents</b>		<b>-47 762</b>	<b>526 005</b>
Cash and cash equivalents, opening balance		<b>1 310 432</b>	<b>784 427</b>
Cash and cash equivalents, closing balance	30.1	<b>1 262 670</b>	<b>1 310 432</b>
<b>Additional disclosures on operating cash flows</b>			
Interest income received		<b>1 440 429</b>	<b>1 375 712</b>
Interest expense paid		<b>-572 433</b>	<b>-479 548</b>
Dividend received		<b>1 800</b>	<b>20</b>

## Additional information to the financial statement

### 1. Information about the Bank

#### 1.1 General information

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

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

#### 1.2 Duration and scope of business activities

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

Alior Bank SA is a universal lending and deposit-taking bank which renders services to individuals, legal persons and other entities which are Polish and foreign persons. The Bank's core activities include maintaining bank accounts, granting loans and advances, issuing banking securities and purchasing and selling foreign currency. The Bank also conducts brokerage activities, consulting and financial agency services and renders other financial services. The information on companies belonging to the Bank is presented in point 1.4. of this Note. The Bank operates in the territory of the Republic of Poland and the European Economic Area.

#### 1.3 Shareholders of Alior Bank Spółka Akcyjna

The following shareholders of Alior Bank had more than a 5% interest in the share capital as at 31 December 2013:

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



**Shareholders holding more than 5% of the Bank's shares as at 31 December 2013 and 31 December 2012**

Shareholder	Number of shares/votes	Nominal value of shares (PLN)	% of share capital	% of votes in all votes
<b>31 December 2013</b>				
<b>Alior Lux S.a r.l. &amp; Co. S.C.A. (including Alior Polska sp. z o.o.)</b>	22 918 382	229 183 820	36.05%	36.05%
<b>European Bank for Reconstruction and Development</b>	5 614 035	56 140 350	8.83%	8.83%
<b>Genesis Asset Managers, LLP</b>	3 874 561	38 745 610	6.09%	6.09%
<b>Others</b>	31 175 987	311 759 870	49.03%	49.03%
<b>Total</b>	<b>63 582 965</b>	<b>635 829 650</b>	<b>100%</b>	<b>100%</b>
<b>31 December 2012</b>				
<b>Alior Lux S.a r.l. &amp; Co. S.C.A. (including Alior Polska sp. z o.o.)</b>	22 918 382	229 183 820	36.04%	36.04%
<b>European Bank for Reconstruction and Development</b>	5 614 035	56 140 350	8.83%	8.83%
<b>Genesis Asset Managers, LLP</b>	3 874 561	3 874 561	6.09%	6.09%
<b>Wellington Management Company, LLP</b>	3 186 065	31 860 650	5.01%	5.01%
<b>Others</b>	27 989 922	279 899 220	44.02%	44.02%
<b>Total</b>	<b>63 582 965</b>	<b>635 829 650</b>	<b>100%</b>	<b>100%</b>

On 6 February 2013, the Company's Management Board received a notification from Wellington Management Company LLP ("Wellington Management") on the sale of the Bank's 50,061 shares by Wellington Management on 4 February 2013, which resulted in a decrease below the 5% threshold in the total number of shares and votes at the Bank's General Meeting.

Before the transaction, Wellington Management held 3,186,065 shares of the Bank, representing 5.01% of the Bank's share capital and entitling it to 3,186,065 votes at the Bank's General Meeting, i.e. up to 5.01% of the total number of votes at the General Meeting.

As a result of the sale of shares Wellington Management now holds 3,143,220 of the Issuer's shares, which represents 4.94% of the Bank's share capital and entitles to 3,143,220 voting rights at the Bank's General Meeting, which represents 4.94% of the total number of votes at the General Meeting.

The Management Board of Alior Bank S.A. gave information about this event in current report no. 10/2013 of 6 February 2013.

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

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

- |                       |   |
|-----------------------|---|
| • Wojciech Sobieraj   | Chairman of the Management Board        |
| • Krzysztof Czuba     | Deputy Chairman of the Management Board |
| • Michał Hucal        | Deputy Chairman of the Management Board |
| • Niels Lundorff      | Deputy Chairman of the Management Board |
| • Artur Maliszewski   | Deputy Chairman of the Management Board |
| • Witold Skrok        | Deputy Chairman of the Management Board |
| • Katarzyna Sułkowska | Deputy Chairman of the Management Board |

As at 31 December 2012, the following people were on the Bank's Management Board:

- |                        |   |
|------------------------|---|
| • Wojciech Sobieraj    | Chairman of the Management Board        |
| • Krzysztof Czuba      | Deputy Chairman of the Management Board |
| • Niels Lundorff       | Deputy Chairman of the Management Board |
| • Artur Maliszewski    | Deputy Chairman of the Management Board |
| • Witold Skrok         | Deputy Chairman of the Management Board |
| • Cezary Smorszczewski | Deputy Chairman of the Management Board |
| • Katarzyna Sułkowska  | Deputy Chairman of the Management Board |

On 10 February 2013, Mr Cezary Smorszczewski resigned as Deputy Chairman and Member of the Bank's Management Board.

The Bank's Supervisory Board appointed Mr Michał Hucal as Deputy Chairman of the Bank's Management Board on 10 February 2013.

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

- |                                 |                                       |
|---------------------------------|---------------------------------------|
| • Helene Zaleski                | Chair of the Supervisory Board        |
| • Małgorzata Iwanicz-Drozdowska | Deputy Chair of the Supervisory Board |
| • Marek Michalski               | Member of the Supervisory Board       |
| • Krzysztof Obłój               | Member of the Supervisory Board       |
| • Lucyna Stańczak-Wuczyńska     | Member of the Supervisory Board       |

As at 31 December 2012, the composition of the Bank's Supervisory Board was as follows:

- |                                 |  |
|---------------------------------|--|
| • Helene Zaleski                | Chair of the Supervisory Board           |
| • Józef Wancer                  | Deputy Chairman of the Supervisory Board |
| • Małgorzata Iwanicz-Drozdowska | Member of the Supervisory Board          |
| • Marek Michalski               | Member of the Supervisory Board          |
| • Krzysztof Obłój               | Member of the Supervisory Board          |

By Resolution no. 23 of the Ordinary General Shareholders' Meeting of Alior Bank S.A. of 19 June 2013, Ms Lucyna Stańczak-Wuczyńska was appointed member of Alior Bank S.A.'s Supervisory Board.

On 5 September 2013, Mr Józef Wancer resigned as Member of the Bank's Supervisory Board as of 5 September 2013. On 23 October 2013, the Bank's Supervisory Board passed a resolution on electing the Deputy Chairman of the Supervisory Board and appointed Ms Małgorzata Iwanicz-Drozdowska to this position.

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

## 1.5 Approval of the financial statements

The financial statements of Alior Bank Spółka Akcyjna for the financial year ended 31 December 2012 were approved for publication by the Bank's Management Board on 6 March 2013.

On 19 June 2013, The Annual General Meeting of Alior Bank Spółka Akcyjna passed a resolution on appropriating the profit for 2012 in totalling PLN 172 393 165.49. The Annual General Meeting decided to earmark part of the Bank's net profit in of PLN 14 291 242.28 for offsetting prior year losses and earmark the remaining amount of PLN 158 101 923.21 for supplementary capital.

These financial statements of Alior Bank Spółka Akcyjna were approved for publication by the Bank's Management Board on 6 March 2014.

## 2. Accounting policies

### 2.1 Basis of preparation

#### Scope and comparatives

These financial statements cover the financial year ended 31 December 2013 and the comparatives for the financial year ended 31 December 2012. The financial statements have been prepared in Polish zloty (PLN) and all amounts contained therein have been presented in PLN thousand, unless otherwise stated.

In the financial statements of Alior Bank S.A. the fair value concept has been adopted for financial assets and liabilities designated at fair value through profit or loss, including derivatives and financial assets classified as available for sale, with the exception of those items whose fair value cannot be reliably estimated. The remaining financial assets (including loans and advances) are carried at amortized cost less impairment losses or at cost less impairment losses. Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell. Other assets and liabilities and non-current assets are shown using the model based on the cost of purchase or manufacture, i.e. after initial recognition, they are shown at historical cost less amortization/depreciation and impairment allowances.

Due to changes in the recognition method of bancassurance income (the details are provided in point 2.2 and 2.3 of the accounting policies), the comparatives in the annual financial statements of Alior Bank S.A. were restated accordingly.

Presented below is the effect of the changes resulting from bringing the data to comparability on the individual income statement and statement of financial position items.

#### Income statement

1.01.2012 - 31.12.2012	Financial statement as at 31.12.2012	Amount of adjustments	Adjusted amount for 31.12.2012
Interest income	1 282 843	116 791	1 399 634
<b>Net interest income</b>	<b>709 744</b>	<b>116 791</b>	<b>826 535</b>
Fee and commission income	667 306	-301 154	366 152
Fee and commission expense	-197 937	27 767	-170 170
<b>Net fee and commission income</b>	<b>469 369</b>	<b>-273 387</b>	<b>195 982</b>
<b>General administrative expenses</b>	<b>-918 540</b>	<b>13 508</b>	<b>-905 032</b>
<b>Impairment losses</b>	<b>-282 252</b>	<b>3 664</b>	<b>-278 588</b>
<b>Gross profit</b>	<b>227 635</b>	<b>-139 424</b>	<b>88 211</b>
Income tax	-55 242	26 491	-28 751
<b>Net profit</b>	<b>172 393</b>	<b>-112 933</b>	<b>59 460</b>
<b>Total comprehensive income, net</b>	<b>196 188</b>	<b>-112 933</b>	<b>83 255</b>

## Cash flow statement

<b>1.01.2012 - 31.12.2012</b>	<b>Financial statement as at 31.12.2012</b>	<b>Amount of adjustments</b>	<b>Adjusted amount for 31.12.2012</b>
Income tax presented in the income statement	18 842	9 909	28 751
Share-based payments and IPO costs*	165 467	-2 758	162 709
Change in loans and receivables	-3 723 009	87 871	-3 635 138
Change in other liabilities	646 144	51 552	697 696
Income tax paid*	0	-33 641	-33 641
<b>Net cash flow from operating activities</b>	<b>-410 503</b>	<b>-503</b>	<b>-411 006</b>
<b>Total net cash flow</b>	<b>526 005</b>	<b>0</b>	<b>526 005</b>

\*reclassification not related to bancassurance adjustments



## Statement of financial position

Statement of financial position line item	Financial statement as at 31.12.2012	Amount of adjustments	Adjusted amount for 31.12.2012	Financial statement as at 1.01.2012	Amount of adjustments	Adjusted amount for 1.01.2012
Loans and advances to customers	14 535 432	-235 850	14 299 582	10 134 786	-147 979	9 986 807
Income tax asset	78 668	64 596	143 264	71 957	38 105	110 062
<i>Deferred</i>	<i>78 668</i>	<i>64 596</i>	<i>143 264</i>	<i>71 957</i>	<i>38 105</i>	<i>110 062</i>
<b>TOTAL ASSETS</b>	<b>21 355 920</b>	<b>-171 254</b>	<b>21 184 666</b>	<b>15 408 442</b>	<b>-109 874</b>	<b>15 298 568</b>
Other liabilities	486 821	104 128	590 949	447 688	52 575	500 263
<b>Total liabilities</b>	<b>19 111 225</b>	<b>104 128</b>	<b>19 215 353</b>	<b>14 295 947</b>	<b>52 575</b>	<b>14 348 522</b>
<b>Equity</b>	<b>2 244 695</b>	<b>-275 382</b>	<b>1 969 313</b>	<b>1 112 495</b>	<b>-162 449</b>	<b>950 046</b>
Undistributed result from previous years	-14 291	-162 449	-176 740	-41 850	-67 878	-109 728
Current year profit/loss	172 393	-112 933	59 460	152 195	-94 571	57 624
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>21 355 920</b>	<b>-171 254</b>	<b>21 184 666</b>	<b>15 408 442</b>	<b>-109 874</b>	<b>15 298 568</b>
<b>Tier 1</b>	<b>14.51%</b>	<b>-1,78 p.p.</b>	<b>12.73%</b>			
<b>Capital adequacy ratio</b>	<b>16.95%</b>	<b>-1,75 p.p.</b>	<b>15.19%</b>			

### **Statement of compliance**

These financial statements of Alior Bank Spółka Akcyjna have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union as of 31 December 2013, and in areas not regulated by the aforementioned standards – in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 30 January 2013, item 330, text with amendments) and secondary regulations published based on this Act, as well as the requirements binding for issuers of securities admitted to trading or applying for such admission on official stock-exchange listing markets. The Bank has used possibility of applying of IFRS 10, 11, 12 and changes in IAS 27 and IAS 28 from financial years starting 1 January 2014.

### **Presentation of financial statements**

In the statement of financial position, the Bank presents assets and liabilities in line with the liquidity criterion.

The Bank offsets and shows financial assets and liabilities on a net basis in the statement only if the Bank has a valid legal title to offset the amounts and intends to settle them in a net amount or realize a given asset and settle a liability at the same time. The Bank does not offset income and expenses, unless it is required or permitted by standards or interpretations.

## **2.2 Significant judgements in applying the accounting policies, estimates and assumptions**

The preparation of the Bank's financial statements requires that the Bank's Management Board make professional judgement and estimates and that they specify the assumptions which affect the presentation of the amounts of income, costs, assets and liabilities, and disclosures relating to contingent liabilities as at the reporting date. However, due to the uncertainty related to the professional judgement and estimates adopted, the final outcome of the transactions may result in changing the amounts of assets and liabilities in the future.

### **Estimates and assumptions**

Presented below are the areas where the estimates adopted as at the reporting date involve a risk of adjustments having to be made to the carrying amounts of assets and liabilities in the next financial year. The Bank based its assumptions and estimates on the data available as at the date of preparing the financial statements. However, the existing circumstances and assumptions concerning the future may change as a result of changes on the market or circumstances independent of the Bank. Such changes are reflected in the estimates at the moment they occur.

### **Going concern**

The financial statements of Alior Bank Spółka Akcyjna Group have been prepared on the assumption that the Bank will continue as a going concern for a period of at least 12 months after the balance sheet date, i.e. after 31 December 2013.

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

### **Fair value of financial instruments**

Where it is not possible to determine the fair value of financial assets and liabilities recognized in the financial statements based on active markets, it is determined using valuation techniques, which include: the use of recent market transactions, analysis of discounted cash flow, option valuation models and other valuation techniques commonly used by market participants. Where possible, the input is obtained from the observable markets, but if it is not possible, it is necessary to apply professional judgement in the scope related to liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is discussed in detail in Section 2.3.5.

### **Impairment of amounts due from customers**

The Bank assesses all loan exposures in the balance sheet (groups of loan exposures in the balance sheet) in order to identify objective indications of impairment, based on the most up-to-date information possessed by the Bank as at the revaluation date. When determining the amount of impairment loss, an assessment is made of the estimated amounts and dates of future cash flows. The estimates are based on assumptions about a number of factors, therefore the actual results may differ. Thus, in the future, the amount of the impairment loss may change.

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

In 2013, the Bank implemented a new model for estimating the LGD parameter. The new model is based on own credit recovery data and according to the PFSA expectations it includes current situation (Point In Time). The model is implemented for the purpose of calculating allowances for losses incurred but not reported (IBNR) and allowances estimated under a group method. Influence of the implemented model was presented in note 10.

A detailed discussion of the estimates of impairment losses is provided in Note 45.

### **Impairment of available-for-sale assets**

At the end of each reporting period the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets, including financial assets classified as available for sale, are impaired. If such indications are identified, the Bank estimates the recoverable amount using a method that is consistent with the individual assessment of amounts due from customers.

Moreover, the Bank recognizes impairment of a financial asset classified as available for sale when there has been a significant or prolonged decline in the fair value of an investment in an equity instrument. The terms "significant" or "prolonged" decline in

value require professional judgment. In making this judgement, the Bank—apart from a number of other factors—takes into account the historic changes in valuation and the period and range of the decline in value of an investment below its cost.

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

### **Impairment of non-current assets held for sale**

The Bank calculates any impairment loss based on the difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell. Any impairment loss that arises by using the measurement principles in IFRS 5 is recognised in profit or loss. The fair value of non-current asset held for sale was estimated by the Bank basing on the method of discounted cash flows.

### **Deferred tax asset**

Deferred tax assets are recognized in respect of all unused tax loss carryforwards in the amount of likely taxable income which will enable the utilization of such losses.

Applying professional judgement enabled the determination of the deferred tax assets which the Bank can recognize taking into account the anticipated date and amount of future profits and future tax strategies (Note 11).

### **Provisions for pension and retirement benefits**

The provision for pension and retirement bonuses, as part of the benefits arising from the regulations of the Labour Code, is calculated under the actuarial method by an independent actuary as the present value of the Bank's future long-term liabilities to its employees based on the number of employees and salary levels on the date of revaluation. Due to the long-term nature of the retirement and pension bonuses scheme, the assumptions adopted for calculating the provision carry a certain amount of uncertainty. A detailed description of the calculation of the provision for retirement and pension bonuses is provided in point 2.3.15.

### **Management option scheme**

Details of management option scheme were presented in note 34.

The options' fair value has been estimated based on the simulation model and input data, which comprise:

- the issue price and nominal value of the shares based on the issue terms for the shares covered by the options;
- share prices and indices published by the WSE;
- interest rates from quotations in the interbank market transactions;
- volatility and correlation parameters based on share prices and indices' values published by the WSE.

The expected volatility of the share value has been determined based on the volatility analysis for shares of comparable banks quoted on the primary WSE market.

### **Impairment of other non-current assets**

As at each balance sheet date the Bank identifies the indications of impairment of non-current assets. If they are identified, the Bank estimates the recoverable amount.

The estimation of the value in use of a non-current asset involves, among other things, making assumptions about the estimated amounts and dates of future cash flows which the Bank may obtain in connection with a given non-current asset, or other factors. Adopting different assumptions for valuation purposes might have an effect on the carrying amount of some non-current assets. The Bank makes an estimate of the fair value less costs to sell based on available market data or valuations prepared by independent experts, which in principle are also based on estimates.

### **Recognition of income from bancassurance**

In order to comply with the recommendations and guidance of the PFSA Office contained in a letter ref. DRB/DRB\_III/732/77/1/2013 dated 23 December 2013 concerning fair presentation of the financial position, including results as at 31 December 2013, in the financial statements, the Bank decided to change the recognition method of income from fees for the distribution of insurance products offered in connection with sales of loan products – by dividing it into a portion recognized on a one-off basis in the income statement and a deferred portion, in accordance with IAS/IFRS. As at 31 December 2013, a method was introduced whereby bancassurance (insurance offered in association with cash and mortgage loans) fees are partly deferred, based on the “relative fair value” model, which best reflects the economic substance of such transactions. Details of changes related to bancassurance were presented in description of accounting policy (points 2.2 and 2.3.19).

As a result of this decision of the Management Board, the Group’s equity as at 1 January 2013 was adjusted by PLN 275 million.

The adjustment was made based on estimates and it was an adjustment to interest income and deferred income.

## **2.3 Major accounting policies**

### **2.3.1 Transactions in foreign currencies**

#### **Functional and presentation currency**

Items included in the group entities’ separate financial statements are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements have been prepared in Polish zloty (PLN) and all amounts are presented in PLN thousand, unless otherwise stated. The Polish zloty is the functional and reporting currency of the Bank (the Polish zloty is also the functional currency of the Bank and other entities included in the financial statements).

#### **Transactions and balances in foreign currencies**

Foreign currency transactions are initially recorded using the exchange rate of the functional currency prevailing at the date of the transaction. At the end of each reporting period, the Bank translates:

- monetary assets and liabilities expressed in foreign currencies using the mid exchange rate set by the National Bank of Poland prevailing as at the end of the reporting period;

- foreign currency non-monetary items valued at historical cost using the exchange rate prevailing at the date of initially recording the transaction;
- foreign currency non-monetary items stated at fair value using the exchange rate prevailing at the date of determining the fair value.

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

<b>EUR</b>	<b>2013</b>	<b>2012</b>
Exchange rate in force as at the last day of the period	4.1472	4.0882
Exchange rate being the arithmetic mean of the rates valid on the last day of each month of a given period	4.2110	4.1736

### 2.3.2 Financial assets and liabilities – initial recognition and classification

The Bank records a financial asset or liability in the statement of financial position when it becomes a party to this instrument contract. Standardized purchase and sale transactions in respect of financial assets are recorded as at the settlement date. All financial instruments are initially stated at fair value plus transaction costs related to the purchase for all financial assets and liabilities not carried at fair value through profit or loss.

The Bank initially classifies financial assets and liabilities depending on their purpose, characteristics and management's intentions as to a purchased financial instrument.

The Bank categorizes financial assets as follows: financial assets designated at fair value through profit or loss, available-for-sale financial assets, loans and receivables and held-to-maturity financial assets. Financial liabilities are classified to the following categories: financial liabilities designated at fair value through profit or loss and other financial liabilities.

#### **Financial assets and liabilities designated at fair value through profit or loss**

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

- financial instruments held for trading – financial assets and liabilities are classified as held for trading if they have been acquired for the purpose of selling them in the near future. This category contains derivative instruments concluded by the Bank, which were not designated as effective hedging instruments in accordance with IAS 39;
- financial instruments classified initially to financial assets designated at fair value through profit or loss – financial assets and liabilities can be classified in this category when:
  - a designated financial asset or liability is a combined instrument containing one or more embedded derivatives qualifying for separate recognition, while the embedded derivative cannot significantly change the cash flows arising from the host contract or separating the derivative is not allowed;
  - applying this qualification of an asset or liability eliminates or significantly reduces inconsistency in the scope of measurement or recognition (the so-called "accounting mismatch" resulting from a different method of measurement of assets or liabilities or a different recognition of the related profits and losses); or
  - a group of financial assets or liabilities, or both, is properly managed and its results are evaluated based on fair value, in line with the documented risk management principles or the Bank's investment strategy.

### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets which have been designated as available for sale, or other than loans and receivables, investments held to maturity, financial assets measured at fair value through profit or loss.

On 31 December 2013, and 2012, the Bank designated securities to this category.

### **Loans and receivables**

The Bank classifies in this category non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- financial assets which the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the company upon initial recognition designates as at fair value through profit or loss;
- financial assets that the entity upon initial recognition designated as available-for-sale;
- financial assets for which the holder may not recover all of its initial investments, other than because of credit deterioration, which are classified as available-for-sale.

On 31 December 2013 and 31 December 2012, the Bank held in this category amounts due from other banks (inter-bank deposits, guarantee deposits, security deposits and cash on a current account) and loans and advances, purchased receivables and other amounts due from customers.

### **Financial assets held to maturity**

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables. In the event of selling or reclassifying investments held to maturity – which have a value higher than insignificant compared with the aggregate amount of investments held to maturity – before the maturity date, the entire category of investments shall be reclassified to available-for-sale assets. In such situation, the Bank may not classify any financial assets to the category of investments held to maturity for a period of 2 years.

On 31 December 2013 and 31 December 2012, the Bank did not have any investments held to maturity.

### **Other financial liabilities**

Other financial liabilities are financial liabilities other than designated as at fair value through profit or loss that are deposits, loans or advances received in nature.

On 31 December 2013 and 31 December 2012, this category included amounts due to banks, including loans received (including a subordinated loan) and amounts due to customers, including amounts due in respect of deposits and issued bank securities and repo transactions.

## 2.3.3 Financial assets and liabilities – subsequent measurement

### **Financial assets and liabilities designated at fair value through profit or loss**

Financial assets and liabilities designated at fair value through profit or loss are measured at fair value with the measurement result taken to the income statement.

### **Available-for-sale financial assets**

Instruments classified as available for sale are measured to fair value with the measurement result taken to equity (other comprehensive income). On selling an instrument, the cumulative gain/loss is recognized in the income statement. Interest accrued using the effective interest rate on available-for-sale assets is recognized in the income statement.

In the event of objective evidence of impairment of debt financial assets available for sale, the cumulative revaluation write-down is eliminated from the revaluation reserve and recognized in the income statement.

### **Loans and receivables**

The Bank states loans and receivables at amortized cost using the effective interest rate method, taking account of impairment losses.

### **Renegotiated contracts**

Renegotiation of the contractual terms of borrowings constitutes an indication of impairment, unless the renegotiation was not forced by the debtor's situation but was carried out on normal business terms. Subsequently, the Group/the Bank assesses whether impairment of such borrowings should be recognized on a case-by-case or a group basis.

### **Restucturing agreements**

As part of the restructuring, the Bank takes actions to receive loan repayments by arranging new debt repayment terms with the Client. In justified cases, the Bank may decide to grant debt relief, in particular in the form of: a grace period in the repayment of the principal and/or interest, change in the amount of principal or interest instalments, extension of the loan period, forgiveness of part of the principal and/or interest, conversion of the total exposure or a part thereof to shares, or the conversion of revolving loans to instalment loans, consolidation of liabilities to the Bank, partial debt forgiveness. As a rule, the Bank also tries to establish additional security.

In both the retail and business segment, there are dedicated debt restructuring and collection units that are responsible for developing efficient restructuring strategies and their proper parameterization aimed at achieving the main objective, which is the maximum efficiency of a given restructuring process in relation to the Bank's financial result. Decisions concerning restructuring and its terms and conditions are made according to the same procedure as loan decisions by duly authorized decision makers.

In the case of exposures that do not qualify for restructuring or if restructuring processes have not resulted in an expected improvement in the client's position or repayment of the exposure, debt collection procedures are initiated.

In addition, regular updates are made for a collaterals value and the timeliness of filing credit documents, while the adequacy of receipts on accounts and proper utilization of limits are carefully verified.

## Financial assets held to maturity

The Bank states financial assets held to maturity at amortized cost using the effective interest rate method, taking account of impairment losses.

## Other financial liabilities

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

## Financial guarantee contracts

A financial guarantee contract is a contract obliging the issuer to make specific payments to compensate the holder for a loss incurred by him due to a debtor's failure to make payments as they become due, in accordance with the original or amended contractual terms of a debt instrument. On initial recognition, a financial guarantee contract is measured at fair value. After initial recognition, the issuer of such a contract measures it at the higher of:

- the amount determined in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets; and
- initial cost less, as appropriate, accumulated amortization

recognized in accordance with IAS 18, Revenue.

### 2.3.4 Derecognition of financial assets and liabilities from the balance sheet

#### Financial assets

The Bank derecognizes a financial asset when:

- contractual rights to the cash flows from the financial asset expire, or
- on transferring the contractual rights to cash flows from a financial asset to another entity.

On transferring a financial asset the Bank assesses to what extent it retains the risks and benefits of ownership of a financial asset. In such situation:

- if the Bank transfers substantially all risks and benefits of ownership of a financial asset, it derecognizes the financial asset from the statement of financial position;
- if the Bank retains substantially all risks and benefits of ownership of a financial asset, it continues to recognize the financial asset in the statement of financial position;
- if the Bank neither transfers nor retains substantially all risks and benefits of ownership of a financial asset, it determines whether it has retained control over this financial asset. If control has been retained, the financial asset continues to be recognized in the balance sheet, and if there is no control it is derecognized up to the amount arising from the continuing involvement.

The Bank derecognizes loans and receivables or their portion, and if the rights related to a loan agreement expire the Bank waives these rights or sells a loan. In the event of finding that financial assets are non-recoverable, the amounts due are most frequently written off against the impairment losses recorded. Amounts due written off but subsequently recovered reduce the amount of recorded impairment losses in the income statement.

### **Financial liabilities**

The Bank derecognizes a financial liability or its portion when the obligation specified in the contract has been fulfilled, forgiven or has expired.

## 2.3.5 Fair value measurement

### **Fair value of financial instruments**

The individual items of financial assets/liabilities are classified to the following categories using the adopted fair value measurement approaches:

- level 1 – financial assets/liabilities measured directly based on prices quoted on an active market;
- level 2 – financial assets/liabilities measured based on valuation techniques that are based on the assumptions using inputs from an active market or market observations;
- level 3 – financial assets/liabilities measured based on valuation techniques commonly used by market participants with the assumptions not being based on inputs from an active market.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments is based on prices quoted on an active market, and is not decreased by transaction costs. If the market price is not available, the fair value of an instrument is determined using valuation models or discounted cash flow techniques.

The following are used in valuation techniques:

- latest market transactions concluded directly between informed and interested parties, if such information is available;
- references to present fair value of another instrument with nearly identical characteristics;
- discounted cash flow method.

If there is a measurement technique universally used by market participants for measuring instruments and it was shown to deliver a reliable estimate of prices in actual market transactions, the Bank uses that method. Selected techniques use mainly market data; to a small degree they base on data specific for the Bank. The measurement technique covers all the factors which would be taken into consideration by market participants when determining the price, and complies with the economically accepted

methods of valuation of financial instruments. The Bank verifies the correctness of measurement using the prices used in available current market transactions for the same instrument or based on other available market data.

#### Balance-sheet items measured at fair value

Financial instrument	Frequency	Presentation
Available-for-sale financial assets	daily	Other comprehensive income
Fx forward, fx swap, fx options	daily	Income statement
CIRS, FRA, IRS	daily	Income statement
Other derivative instruments	daily	Income statement

From 2013 the Bank has applied counterparty credit risk adjustments in derivatives valuation by including BCVA adjustments in valuation. BCVA (Bilateral Credit Value Adjustments) adjustments take into account the possibility of both counterparties default. The amount of adjustment is estimated on the base of following parameters: Probability of Default (PD), Loss Given Default (LGD) parameter, expected positive and negative exposure of transaction (EE and NEE). Influence of the adjustment is presented in note 28.

PD and LGD parameters are estimated using internal model (including credit risk market quotations). Counterparty exposure is calculated using current valuation and its projection on the base expected market fluctuations. In addition bilateral obligations resulting from hedging contracts (regulating relationships of counterparties) are taken into account to estimation of credit risk adjustment.

#### Derivatives

The Bank uses the following derivatives to manage market risk: FX-Forward, FX-Swap, IRS, CIRS, FRA, forward transactions in securities. The Bank records them initially, on the date of concluding a contract, at fair value (not including transaction costs) and subsequently performs a remeasurement. Derivatives are disclosed as financial assets if their fair value is positive, or as financial liabilities if it is negative.

Any gains or losses on the fair value changes of derivatives are taken directly to the income statement in position trading result, except for the effective portion of cash flow hedges, which are recorded in other comprehensive income.

In the year 2012, the Bank did not apply hedge accounting. Starting from 2013, the Bank applies cash flow hedge accounting. A detailed description of the hedge accounting is included in note 25.

The Bank separates embedded derivatives from the host contract and records them as other derivatives when:

- the economic characteristics of the embedded derivatives and the related risk are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same contractual terms as the imbedded derivative would meet the definition of a derivative;
- the host contract is not measured at fair value through profit or loss.

### 2.3.6 Reverse repo and repo transactions

In the statement of financial position the Bank presents reverse repo (buy-sell-back) transactions as receivables arising from the sell-back clause.

Securities sold with the buy-back clause (repo, sell-buy-back transactions) are presented as financial assets with a liability arising from the buy-back clause as a double entry. The precondition for applying this solution is that the Bank retains risks and benefits from the assets, in spite of their transfer.

Securities subject to repo transactions are not excluded from the statement of financial position and are measured in line with the principles specified for the individual security portfolios. The difference between the sales price and buy-back price is treated (accordingly) as interest expense/income.

### 2.3.7 Impairment of financial assets

At the end of each reporting period, the Bank assesses whether there is objective evidence of impairment for individual financial assets or groups of financial assets. The Bank decides that a financial asset or a group of financial assets are impaired and the impairment loss has been incurred if and only if there is objective evidence of impairment as a result of an event or events that occurred after the initial recognition of a given asset ("loss event") and if the loss event (or events) affects the future cash flows attributable to the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment includes:

- significant financial difficulties of an issuer or debtor;
- contract default, e.g. failure to pay or being overdue with the payment of interest or principal;
- granting a loan for economic or legal considerations arising from the borrower's financial difficulties, a convenience which would not otherwise be granted by the lender;
- high probability of bankruptcy or other financial reorganization of the borrower;
- disappearance of an active market for a given financial asset due to the borrower's financial difficulties;
- observing data indicating a measurable decline in estimated future cash flows related to a group of financial assets from the moment of their initial recognition, although a decline in an individual asset from the group of financial assets cannot yet be identified;
- information on significant adverse changes in the technological, market, economic, legal or other environment in which the issuer operates, indicating that the cost of investment in the equity instrument may not be recoverable.

Details of impairment of financial assets are presented in note 45.

### **Financial assets measured at amortized cost**

With reference to financial assets measured at amortized cost the Bank considers whether there is objective evidence of impairment of financial assets assessed case-by-case which are individually significant, as well as case-by-case or in aggregate in the case of financial assets which are not individually material.

If the Bank determines that for a given financial asset assessed case-by-case there is no objective evidence of impairment (regardless of whether the asset is material or not), the asset is included in the group of financial assets with similar credit risk profile, which is then collectively assessed for impairment. Assets assessed for impairment case-by-case for which the entity records impairment allowances or decides to continue to record the allowances are not recognized in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses, which have not been incurred), discounted at the initial effective interest rate of the financial instrument (i.e. the effective interest rate fixed on initial recognition). Interest income is accrued on the reduced present value of financial assets with impairment, using the effective interest applied for discounting future cash flows for the purpose of estimating impairment loss.

Exposures with identified indications of impairment are classified into those measured on a case-by-case and on a group (collective) basis.

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

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

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

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

### **Available-for-sale financial assets**

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

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

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

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

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

### **2.3.8 Offsetting of financial instruments**

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

and only when:

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

### **2.3.9 Hedge accounting**

Hedge accounting is applied in order to match in the income statement changes in fair value of hedging instruments which are offset against the hedged item.

The Bank designates hedging instruments for hedge accounting purposes, so that the change in their fair value or cash flows covers in full or in part the change in fair value or future cash flows of the hedged item.

The Bank applies hedge accounting if all of the following conditions specified in IAS 39 have been satisfied:

- at the moment of establishing the hedge, formal documentation of the hedging relationship has been prepared, which specifies the goal and strategy of the hedge, type and identification of both the hedged and the hedging instrument, type of risk being hedged and the method of assessing the hedge effectiveness;

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

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

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

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

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

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

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

and

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

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

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

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

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

### 2.3.10 Leases

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

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

In 2013 there were no new lease agreements.

### 2.3.11 Cash and cash equivalents

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

### 2.3.12 Property, plant and equipment

#### **Recognition and measurement**

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

#### **Depreciation and impairment**

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

#### **Estimated useful lives of property, plant and equipment**

<b>Description</b>	<b>Useful life in years</b>
Leasehold improvements (buildings and constructions)	5–10
Plant and machinery	1–5

Fixtures and fittings	2-10
Vehicles	2.5-5

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

### **Subsequent expenditure**

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

## 2.3.13 Intangible assets

### **Recognition and measurement**

Intangible assets are identifiable non-monetary assets without physical substance. They are initially measured at acquisition cost or cost of development. The Bank capitalizes:

- expenses incurred in relation with the purchase of software licence and development of a licence or module to an acquired licence;
- the cost of internally generated intangible assets including all expenditures (including employee benefits) which can be directly attribute to process of creation of intangible assets.

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

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

### **Amortization and impairment**

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

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

## Useful lives of intangible assets

Description	Useful life in years
Licences	2-10
IT software	2-10
Costs of development projects	2-5
Copyrights and other intangible assets	2-10

### Subsequent expenditure

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

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

### 2.3.14 Non-current assets held for sale

Non-current assets held for sale are assets the carrying amount of which is to be recovered by their resale rather than continued use. The Bank classifies as held for sale only those assets which are available for immediate sale at their present condition and whose sale is highly probable, i.e. a decision has been made to execute the sales plan of a given asset, and an active programme for finding a buyer and completing the sales plan has been initiated. Moreover, such asset is offered for sale at a price which is rational taking into account the asset's current fair value, and it is expected that the sale will be recorded as closed within one year from the date of classifying a given asset to this category.

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

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

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

### 2.3.15 Impairment of non-financial assets

As at the balance sheet date, the Bank's assets, with the exception of deferred tax assets, are reviewed for indicators of impairment. If such indicators are identified, the Bank estimates the recoverable amount of the asset.

Impairment occurs when the carrying amount of an asset exceeds its recoverable amount. The impairment loss thus identified is recognized in the income statement. The recoverable amount corresponds to the higher of: fair value less costs to sell and value in use of an asset.

Value in use is established by discounting estimated future cash flows for a given asset, using the discount rate before taxation. For assets which do not generate independent cash flows, the Bank determines the recoverable amount on the level of a cash generating unit to which a given asset belongs.

An impairment loss may be reversed through profit or loss to the level at which the carrying amount of assets does not exceed the carrying amount of a given asset, assuming that no impairment loss had been recorded.

The recoverable amount corresponds to the higher of the asset's value in use and net realizable value at the moment of performing the review.

When determining the value in use, the estimated future cash flows are discounted to present value using the gross discount rate reflecting the current market expectations as to the time value of money and the risk typical to a given asset.

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

### 2.3.16 Provisions for pension and retirement benefits

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

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

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

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

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

The probability of an employee resigning from work is estimated using the probability distribution, whilst taking into account the Bank's statistical data. The probability of an employee resigning from work depends on his age and is constant during each year of service.

The risk of an employee's death was expressed in the form of the most recent statistical data from Polish Life Expectancy Tables for men and women, published by the Central Statistical Office, as at the date of valuation. The provision resulting from actuarial valuation is updated on a half-yearly basis.

Updated IAS 19 introduced changes in presentation of employee benefits in own capitals of the Bank. According to the standard influence of actuarial assumptions changes on employee benefits measurements is presented in other comprehensive income. Introducing of the new standard has no significant influence on comparative amounts so the Bank has not adjusted any comparative amounts.

### 2.3.17 Provisions

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

### 2.3.18 Equity

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

#### **Share capital**

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

#### **Supplementary capital**

Supplementary capital is created out of profit appropriations on the basis of resolutions of the General Meeting. Supplementary capital also includes share premium, less issue costs. Supplementary capital is earmarked for offsetting balance sheet losses that may arise in connection with the Bank's operations. The Bank used supplementary capital to cover the entire loss incurred in the years 2008–2010.

### **Revaluation reserve**

A revaluation reserve is created on the valuation of:

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

The revaluation reserve includes charges related to deferred tax on valuation of financial instruments classified as available for sale. The revaluation reserve is not subject to distribution.

### **Other capital**

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

### **Net profit/loss for the year and retained earnings/accumulated losses**

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

### **Non-controlling interests**

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

### **Dividend**

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

## **2.3.19 Result for the period**

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

### **Net interest income**

Interest income and expense comprise interest, including premium and discount of financial instruments measured at amortized cost and instruments measured at fair value, except for derivatives classified as held for trading. Included in net interest income are also fees and commission relating directly to origination of financial instruments (both income, inclusive of insurance commission, and expense, including internal incremental costs) which are an integral part of the effective interest rate.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income and interest expense. The effective interest rate is the rate that discounts the estimated future cash flows to the net carrying amount of the component of asset or financial liability. For financial assets or a group of similar financial assets for which an impairment loss has been recorded, interest income is accrued on the present value of the amounts due (less

impairment losses), using the current interest rate applied for discounting future cash flows for the purpose of estimating impairment loss.

Interest income/expense on derivatives classified as held for trading is presented in the "Result on financial instruments carried at fair value" or "Foreign exchange result" (for CIRS).

Accrued interest receivable and payable is presented in the lines of the statement of financial position to which they relate.

### **Fee and commission income and expenses**

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

### **Bancassurance**

In the years 2008-2012, the Bank recorded fees for insurance distribution received from insurers in profit or loss. The insurance commission in respect of insurance products offered to the Bank's Customers in association with loan products was divided into the one-off part (recognition of income from the service rendered) and the amortized part (accounted for in loan valuation with the use of EIR) based on the proportion of the unit selling prices of these products. At the same time, the Bank recorded a provision for early termination of an insurance contract.

The insurance commission in respect of insurance products offered to the Bank's Customers in association with loan products was recognized accordingly for:

- cash loans – 12.5% as a portion which was deferred on the customers' accounts;
- mortgage loans – 3.3% as a portion which was deferred on the customers' accounts;
- car loans – 4.8% as a portion which was deferred on the customers' accounts;
- the remaining balance of the commission was recognized on a one-off basis in fee and commission income.

On 7 March 2013, the Polish Financial Supervision Authority sent a letter ref. DRB/DRB\_III/732/13/1/2013 to Bank Presidents concerning the accounting treatment of income from bancassurance. The letter of the PFSA indicates that institutions acting as insurers providing financial services are obliged to recognize income from fees for insurance services in accordance with the principle of matching income and expenses and to reflect the economic substance of these transactions.

Bearing in mind further recommendations of the PFSA Office and guidance of the PFSA Office provided in the letter ref. DRB/DRB\_III/732/77/1/2012 dated 23 December 2013 concerning fair presentation of the financial position, including results as at 31 December 2013, in the financial statements, the Bank decided to change the recognition method of income from fees for the distribution of insurance products offered in association with sales of loan products – by dividing it into a portion recognized on a one-off basis in the income statement and a deferred portion, in accordance with IAS/IFRS.

Obtaining income from distribution of insurance products offered in association with sales of loan products, in accordance with the economic substance of the transaction, is:

1. an integral part of the income from offered financial instruments;
2. a fee for agency services;
3. a fee for the provision of additional services performed in the course of an insurance contract (deferred by the Bank over the period in which the services are provided).

As at 31 December 2013, a method was introduced whereby bancassurance (insurance offered in association with cash and mortgage loans) fees are partly deferred, based on the "relative fair value" model.

Accounting policy of the Bank relating to bancassurance is based on IAS 18 (including Appendix 1) requirements, taking into account economic character of the transactions.

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

The change of approach to bancassurance was introduced retrospectively so comparative amounts were adjusted and presented in point 2.1.

The insurance commission in respect of insurance products offered to the Bank's Customers in association with loan products in accordance with the "relative fair value model" is recognized accordingly for:

- cash loans – 87 % as a portion which was deferred on the customers' accounts;
- mortgage loans – 80 % as a portion which was deferred on the customers' accounts;
- the remaining portion of the income is recorded on a one-off basis in fee and commission income.

At the same time, the Bank estimated the provision related to anticipated Customers' withdrawals or resignations from insurance in the amount of PLN 113 M PLN.

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

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

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

### **Net gain realized on other financial instruments**

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

### **Trading result**

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

### **Other operating income and expenses**

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

## **2.3.20 Taxation**

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

### **Current tax**

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

### **Deferred tax**

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

- situations in which a deferred tax provision arises as a result of initial recognition of goodwill or initial recognition of an asset or a liability in a transaction not being a business combination, which at the moment of its conclusion does not affect either profit (loss) before tax or taxable income or tax loss;
- when the parent company, investor or partner in a joint venture are able to control the dates of reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Deferred income tax assets and provisions are measured using the tax rates, which according to expectations will be applicable in the year in which the asset is realized or the provision released, determined on the basis of tax rates (and tax provisions) legally or factually binding as at the end of the reporting period.

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

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

## 2.4 Changes in accounting policies

### Changes in accounting standards

The accounting policies adopted in the preparation of the financial statements are consistent with those adopted in the preparation of the financial statements for the financial year ended 31 December 2012, except for:

- 1) a change in the principles for recognition of bancassurance income – details of the change are presented in point 2.2 and 2.3;
- 2) application of the following amendments to standards and new interpretations binding for annual periods starting on or after 1 January 2013:
  - Amendments to IAS 19 “Employee Benefits” - applicable to annual periods starting on or after 1 January 2013;
  - Amendments to IAS 1 “Presentation of Financial Statements”: *Presentation of other comprehensive income items* – applicable to annual periods starting on or after 1 July 2012;
  - Amendments to IAS 12 “Income Taxes” – Deferred tax: *Recovery of Underlying Assets* – applicable to annual periods starting on or after 1 January 2013;
  - IFRS 13 “Fair Value Measurement” – applicable to annual periods starting on or after 1 January 2013;
  - Amendments to IFRS 7 “Financial Instruments: Disclosures”: *Offsetting of Financial Assets and Financial Liabilities* – applicable to annual periods starting on or after 1 January 2013.

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

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

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

- Phase 1 of IFRS 9, Financial Instruments – applicable to annual periods starting on or after 1 January 2015, by the date of approving these financial statements, not endorsed by the EU;

- IFRS 10 "Financial Statements" – applicable to annual periods starting on or after 1 January 2013 – in the EU applicable at the latest to annual periods starting on or after 1 January 2014 – the Bank plans to apply it from 1 January 2014;
- IFRS 11 "Joint Arrangements" – applicable to annual periods starting on or after 1 January 2013 – in the EU applicable at the latest to annual periods starting on or after 1 January 2014 – the Bank plans to apply it from 1 January 2014;
- IFRS 12 "Disclosure of Interests in Other Entities" – applicable to annual periods starting on or after 1 January 2013 – in the EU applicable at the latest to annual periods starting on or after 1 January 2014 – the Bank plans to apply it from 1 January 2014;
- Amendments to IFRS 10, IFRS 11 and IFRS 12, *Transitional provisions* – applicable to annual periods starting on or after 1 January 2013 – in the EU applicable at the latest to annual periods starting on or after 1 January 2014 – The Bank plans to apply them from 1 January 2014;
- IAS 27 "Separate Financial Statements" – applicable to annual periods starting on or after 1 January 2013 – in the EU applicable at the latest to annual periods starting on or after 1 January 2014 – the Bank plans to apply it from 1 January 2014;
- IAS 28 "Investments in Associates and Joint Ventures" – applicable to annual periods starting on or after 1 January 2013 – in the EU applicable at the latest to annual periods starting on or after 1 January 2014 – the Bank plans to apply it from 1 January 2014;
- Amendments to IFRS 32 "Financial Instruments: Presentation": *Offsetting of Financial Assets and Financial Liabilities* – applicable to annual periods starting on or after 1 January 2014;
- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment Entities* (published in October 2012) – applicable to annual periods starting on 1 January 2014 – by the date of these financial statements not yet endorsed by the EU;
- IFRIC 21 "Levies" – applicable to annual periods starting on or after 1 January 2014 – The Bank plans to apply it from 1 January 2014;
- Amendments to IAS 36, *Recoverable Amount Disclosures for Non-Financial Assets* (published on 29 May 2013) – applicable to annual periods starting on or after 1 January 2014– the Bank plans to apply it from 1 January 2014;
- Amendments to IAS 39, *Novation of Derivatives and Continuation of Hedge Accounting* (published on 27 June 2013) – applicable to annual periods starting on or after 1 January 2014 – the Bank plans to apply them from 1 January 2014;
- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions (issued on 21 November 2013)* – effective for financial years beginning on or after 1 July 2014 – not yet endorsed by EU till the date of approval of these financial statements,
- *Annual Improvements to IFRSs 2010-2012* – some amendments effective for financial years beginning on or after 1 July 2014 and some effective prospectively for transactions occurring on or after 1 July 2014 – not yet endorsed by EU till the date of approval of these financial statements,
- *Annual Improvements to IFRSs 2011-2013* – effective for financial years beginning on or after 1 July 2014 – not yet endorsed by EU till the date of approval of these financial statements,

- IFRS 14 *Regulatory Deferral Accounts* – effective for financial years beginning on or after 1 January 2016 – not yet endorsed by EU till the date of approval of these financial statements.

The Bank does not expect that implementing those standards and interpretations should have a significant effect on the accounting policies adopted by the Bank, except for the amendments which would result from implementing IFRS 9.

The Bank believes that application of IFRIC 21 will not have an effect on the aggregate level of recognized costs of levies in a financial year but may have an effect on the level of such costs recognized in the individual quarters of a financial year.

### 3. Operating segments

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

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

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

The basic products for individual customers cover:

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

Basic products for business customers include:

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

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

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

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

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

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

The segment Other includes:

- internal net interest income calculated on net impairment losses;
- reconciliation of the presentation of incremental costs for management reporting purposes by deducting the amount relating to incremental costs from the commission income presented in business segments;
- commission costs not allocated to business units (including cash management fees, ATM sharing commission, domestic and foreign transfers);
- other operating income and expenses not related directly to operating segments.

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

### 1.01.2013-31.12.2013

Segment report	Retail customers	Corporate customers	Treasury	Other	Total Bank
<b>External interest income</b>	<b>506 708</b>	<b>359 767</b>	<b>123 360</b>	<b>0</b>	<b>989 835</b>
external income	848 413	500 971	160 329	0	1 509 713
external expense	-341 705	-141 204	-36 969	0	-519 878
<b>Internal interest income</b>	<b>85 832</b>	<b>-62 876</b>	<b>-57 632</b>	<b>34 676</b>	<b>0</b>
internal income	432 757	213 573	961 708	35 979	1 644 017
internal expense	-346 925	-276 449	-1 019 340	-1 303	-1 644 017
<b>Net interest income</b>	<b>592 540</b>	<b>296 891</b>	<b>65 728</b>	<b>34 676</b>	<b>989 835</b>
Fee and commission income	276 775	172 783	0	9 387	458 945
Fee and commission expense	-42 782	-1 696	-323	-155 951	-200 752
<b>Net fee and commission income</b>	<b>233 993</b>	<b>171 087</b>	<b>-323</b>	<b>-146 564</b>	<b>258 193</b>
<b>Dividend income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1 803</b>	<b>1 803</b>
<b>Trading result</b>	<b>599</b>	<b>29 434</b>	<b>196 779</b>	<b>41</b>	<b>226 853</b>
<b>Net gain (realized) on other financial instruments</b>	<b>56 506</b>	<b>112 896</b>	<b>-157 642</b>	<b>52</b>	<b>11 812</b>
Other operating income	45 400	7 016	-433	2 969	54 952
Other operating expenses	-6 973	-218	-1 072	-13 951	-22 214
<b>Net other operating income</b>	<b>38 427</b>	<b>6 798</b>	<b>-1 505</b>	<b>-10 982</b>	<b>32 738</b>
<b>Total result before impairment losses</b>	<b>922 065</b>	<b>617 106</b>	<b>103 037</b>	<b>-120 974</b>	<b>1 521 234</b>
<b>Impairment losses</b>	<b>-200 289</b>	<b>-201 570</b>	<b>0</b>	<b>-3 062</b>	<b>-404 921</b>
<b>Total result after impairment losses</b>	<b>721 776</b>	<b>415 536</b>	<b>103 037</b>	<b>-124 036</b>	<b>1 116 313</b>
<b>General administrative expenses</b>	<b>-618 032</b>	<b>-218 989</b>	<b>-2 173</b>	<b>0</b>	<b>-839 194</b>
<b>Gross profit (loss)</b>	<b>103 744</b>	<b>196 547</b>	<b>100 864</b>	<b>-124 036</b>	<b>277 119</b>
Income tax	0	0	0	-57 367	-57 367
<b>Net profit (loss)</b>	<b>103 744</b>	<b>196 547</b>	<b>100 864</b>	<b>-181 403</b>	<b>219 752</b>

Investment expenditure (asset purchase costs)	50 788	<b>50 788</b>
Amortization/ depreciation	-75 156	<b>-75 156</b>



Assets	10 585 360	9 072 540	5 886 880	0	<b>25 544 780</b>
Liabilities and equity	14 223 512	6 647 500	4 673 768	0	<b>25 544 780</b>

Product	Retail segment	Corporate segment
Term deposits and current accounts	196 929	134 733
Loan products	598 850	332 763
Brokerage products, investment funds, structured products	88 779	0
Treasury products	53 898	142 122
Other	-16 391	7 488
<b>Total</b>	<b>922 065</b>	<b>617 106</b>

## Results and volumes by segments for the financial year ended 31 December 2012 (adjusted amounts)

### 1.01.2012-31.12.2012

Segment report	Retail customers	Corporate customers	Treasury	Other	Total Bank
<b>External interest income</b>	<b>326 723</b>	<b>361 297</b>	<b>138 515</b>	<b>0</b>	<b>826 535</b>
external income	754 267	482 804	162 563	0	1 399 634
external expense	-427 544	-121 507	-24 048	0	-573 099
<b>Internal interest income</b>	<b>211 103</b>	<b>-112 077</b>	<b>-112 884</b>	<b>13 858</b>	<b>0</b>
internal income	517 411	227 305	1 059 272	14 483	1 818 471
internal expense	-306 308	-339 382	-1 172 156	-625	-1 818 471
<b>Net interest income</b>	<b>537 826</b>	<b>249 220</b>	<b>25 631</b>	<b>13 858</b>	<b>826 535</b>
Fee and commission income	183 234	158 075	0	24 843	366 152
Fee and commission expense	-37 754	-3 232	-324	-128 860	-170 170
<b>Net fee and commission income</b>	<b>145 480</b>	<b>154 843</b>	<b>-324</b>	<b>-104 017</b>	<b>195 982</b>
<b>Dividend income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>20</b>
<b>Trading result</b>	<b>29</b>	<b>30 740</b>	<b>154 591</b>	<b>-2 534</b>	<b>182 826</b>
<b>Net gain (realized) on other financial instruments</b>	<b>37 048</b>	<b>118 841</b>	<b>-132 903</b>	<b>-147</b>	<b>22 839</b>
Other operating income	40 904	757	11	19 917	61 589
Other operating expenses	-3 690	-387	-1	-13 882	-17 960
<b>Net other operating income</b>	<b>37 214</b>	<b>370</b>	<b>10</b>	<b>6 035</b>	<b>43 629</b>
<b>Total result before impairment losses</b>	<b>757 597</b>	<b>554 014</b>	<b>47 005</b>	<b>-86 785</b>	<b>1 271 831</b>
<b>Impairment losses</b>	<b>-149 713</b>	<b>-128 096</b>	<b>0</b>	<b>-779</b>	<b>-278 588</b>
<b>Total result after impairment losses</b>	<b>607 884</b>	<b>425 918</b>	<b>47 005</b>	<b>-87 564</b>	<b>993 243</b>
<b>General administrative expenses</b>	<b>-595 133</b>	<b>-308 610</b>	<b>-1 289</b>	<b>0</b>	<b>-905 032</b>
<b>Gross profit (loss)</b>	<b>12 751</b>	<b>117 308</b>	<b>45 716</b>	<b>-87 564</b>	<b>88 211</b>
Income tax				-28 751	-28 751
<b>Net profit (loss)</b>	<b>12 751</b>	<b>117 308</b>	<b>45 716</b>	<b>-116 315</b>	<b>59 460</b>
Investment expenditure (asset purchase costs)				48 989	48 989
Amortization/ depreciation				-72 555	-72 555
Assets	7 403 554	6 755 338	7 025 774	0	<b>21 184 666</b>
Liabilities and equity	12 649 730	4 822 465	3 712 471	0	<b>21 184 666</b>

Product	Retail segment	Corporate segment
Term deposits and current accounts	188 396	125 935
Loan products	458 857	247 527
Brokerage products, investment funds, structured products	61 470	238
Treasury products	37 207	150 302
Other	11 667	30 012
<b>Total</b>	<b>757 597</b>	<b>554 014</b>

## Notes to the income statement

### 4. Net interest income

<b>4.1. Net interest income by entity</b>	<b>1.01.2013- 31.12.2013</b>	<b>1.01.2012- 31.12.2012 Adjusted amount</b>
<b>Interest income</b>	<b>1 509 713</b>	<b>1 399 634</b>
financial sector	91 922	111 353
non-financial sector	1 339 224	1 214 862
central and local government institutions	78 567	73 419
<b>Interest expense</b>	<b>-519 878</b>	<b>-573 099</b>
financial sector	-114 310	-86 613
non-financial sector	-403 999	-485 083
central and local government institutions	-1 569	-1 403
<b>Net interest income</b>	<b>989 835</b>	<b>826 535</b>

<b>4.2. Net interest income by product</b>	<b>1.01.2013- 31.12.2013</b>	<b>1.01.2012- 31.12.2012 Adjusted amount</b>
<b>Interest income</b>	<b>1 509 713</b>	<b>1 399 634</b>
current accounts	18 099	20 912
overnight deposits	1 014	1 389
term deposits	940	7 280
loans	1 322 345	1 199 018
debt instruments	112 193	127 356
receivables acquired	36 086	37 709
hedging derivatives	17 940	0
other	1 096	5 970
<b>Interest expense</b>	<b>-519 878</b>	<b>-573 099</b>
current deposits	-56 434	-37 462
term deposits	-362 672	-449 886
repo transactions in securities	-15 021	-18 579
cash deposits	-4 263	-7 438
own issue	-60 570	-55 739
hedging derivatives	-17 501	0
other	-3 417	-3 995
<b>Net interest income</b>	<b>989 835</b>	<b>826 535</b>

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

In 2013 and 2012 interest income from impaired loans amounted to respectively 67 929 PLN thousand and 43 495 PLN thousand.

## 5. Net fee and commission income

	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
<b>Fee and commission income</b>	<b>458 945</b>	<b>366 152</b>
granted loans	41 386	16 497
revenue from bankassurance activity	129 873	110 856
settlements	83 201	70 353
guarantee liabilities	9 768	15 559
other banking activities	88 060	80 724
customer accounts maintenance	35 237	21 241
brokerage commissions	48 551	37 527
acquired receivables (factoring)	10 355	7 779
other commissions	12 514	5 616
<b>Fee and commission expense</b>	<b>-200 752</b>	<b>-170 170</b>
commissions paid to agents	-22 467	-22 903
custody services	-186	-113
settlements	-54 695	-41 378
compensation and awards to customers	-24 778	-18 277
payment card issue	-10 244	-10 928
costs of customers acquisition	-557	-1 109
commissions for ATM sharing	-21 276	-18 417
fees for reports (BIK, KRS, KR D)	-938	-1 568
assistance services	-11 117	-3 635
fees paid under service agreements	-27 199	-26 408
brokerage commissions	-5 730	-7 580
other commissions	-21 565	-17 854
<b>Net fee and commission income</b>	<b>258 193</b>	<b>195 982</b>

## 6. Trading result

	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012
Foreign exchange transactions result	156 090	134 190
Interest rate transactions result	67 030	46 926
Other financial instruments result	3 733	1 710
<b>Trading result</b>	<b>226 853</b>	<b>182 826</b>

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

The result on interest rate transactions includes the results on: interest rate swaps, FRA, net interest income on CIRS transactions and result on interest rate options (cap/floor).

The result on other financial instruments is the result on trading in equity securities, the result on commodity derivatives (including forwards and futures), the result on options for exchange indices, index baskets and commodities.

## 7. Net gain realized on other financial instruments

	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012
Financial assets available for sale	12 254	22 269
Own issue	-298	570
- income from re-purchase	44	625
- losses on repurchase	-342	-55
Investment certificates	-144	0
<b>Net gain realized on other financial instruments</b>	<b>11 812</b>	<b>22 839</b>

## 8. Net other operating income

	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
<b>Other operating income from:</b>	<b>54 952</b>	<b>61 589</b>
management of third party assets	9 980	11 459
received compensations, fines and penalties	680	176
fees paid by counterparts	5 568	6 335
acquisition of receivables	2 673	3 047
reimbursement of litigation costs	11 481	6 848
accrued income from reimbursement of tax from the tax office	12 926	29 297
income from sales of services	5 701	894
other	5 943	3 533
<b>Other operating expenses due to:</b>	<b>-22 214</b>	<b>-17 960</b>
management of third party assets	-1 949	-2 442
paid compensations, fines and penalties	-548	-24
awards given to customers	-1 451	-2 193
operating risk	-3 232	-2 381
litigation costs	-5 925	-3 003
lump sum reimbursement of costs incurred by the insurer in connection with the Bank exercising insurance actions	-1 949	-4 323
acquisition of receivables	-3 724	-4
share-based payments	0	-1 265
other	-3 436	-2 325
<b>Net other operating income and expense</b>	<b>32 738</b>	<b>43 629</b>

## 9. General administrative expenses

	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
<b>Payroll costs</b>	<b>-455 210</b>	<b>-519 028</b>
remuneration due to employment contracts	-371 702	-314 297
remuneration surcharges	-64 607	-50 673
share-based payments	-13 414	-149 229
other	-5 487	-4 829
<b>General and administrative costs</b>	<b>-300 335</b>	<b>-308 523</b>
IT costs	-32 721	-26 552
lease and building maintenance expenses	-139 478	-135 444
marketing costs	-41 280	-62 690
training costs	-12 850	-9 877
cost of advisory services	-13 308	-11 275
costs of Banking Guarantee Fund	-14 281	-9 708
lease of property, plant and equipment and intangible assets	-7 244	-8 018
costs of telecommunications services	-14 094	-13 487
external services	-11 594	-9 597
share-based payments	0	-283
IPO costs	0	-9 611
other	-13 485	-11 981
<b>Amortization and depreciation</b>	<b>-75 156</b>	<b>-72 555</b>
property, plant and equipment	-48 630	-47 417
intangible assets	-26 526	-25 138
<b>Taxes and fees</b>	<b>-8 493</b>	<b>-4 926</b>
<b>Total general administrative expenses</b>	<b>-839 194</b>	<b>-905 032</b>

The Bank leases passenger cars. Lease agreements concluded by the Bank are operating leases, as all the risks and rewards of ownership of the leased assets remain with the lessor. In 2011, a new car lease agreement was signed due to expiry of the 3-year lease contracts. The new agreement is valid for 36 months.

As at 31 December 2013, the Bank's lease contracts were as follows:

- 577 36-month lease contracts – fixed instalments.

Operating lease of cars, by maturity dates	As at 31.12.2013	As at 31.12.2012
To 1 year	8 180	984
From 1 to 3 years	8 061	7 036
Total	<b>16 241</b>	<b>8 020</b>

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

Future real estate lease liabilities, by maturity	As at 31.12.2013	As at 31.12.2012
To 1 year	79 803	106 786
From 1 to 5 years	225 264	250 657
More than 5 years	5 700	781
<b>Total</b>	<b>310 767</b>	<b>358 224</b>

## 10. Net impairment losses

	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
Impairment losses on impaired loans and advances to customers	-388 457	-254 446
financial sector	-1 064	-409
non-financial sector	-387 393	-254 037
retail customers	-201 602	-131 624
business customers	-185 791	-122 413
Debt securities	-181	-2 122
IBNR for customers without impairment losses	8 930	-21 723
financial sector	1 140	-1 565
non-financial sector	7 791	-20 158
retail customers	-966	-18 541
business customers	8 757	-1 617
Off-balance reserve	-1 112	-246
Property, plant and equipment and intangible assets	-101	-51
Impairment losses on non-current asset held for sale	-24 000	0
<b>Net impairment losses</b>	<b>-404 921</b>	<b>-278 588</b>

In 2013, the Bank implemented a new model for estimating the LGD parameter for the portfolio of cash loans. The new model is based on own credit recovery data and according to the PFSA expectations it includes current situation (Point In Time). The model is implemented for the purpose of calculating allowances for losses incurred but not reported (IBNR) and allowances estimated under a group method which caused allowances value to be reduced by 24.5 M PLN and 31.8 M PLN respectively.

At balance sheet date the Bank calculated impairment loss based on the difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell. At 31 December 2013 the Bank recognised impairment loss in the amount of 24 M PLN. The fair value of non-current asset held for sale was estimated by the Bank basing on the method of discounted cash flows.

## 11. Corporate income tax

11.1 Presented in the income statement	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
Current tax	47 439	64 775
current year	47 439	64 775
prior year tax adjustment	9 928	-36 024
Origination and reversal of temporary differences	9 928	-36 024
<b>Accounting tax recognized in the income statement</b>	<b>57 367</b>	<b>28 751</b>

11.2 Effective tax rate calculation	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
<b>Profit before tax</b>	<b>277 119</b>	<b>88 211</b>
<b>Income tax at 19%</b>	<b>52 653</b>	<b>16 760</b>
<b>Non-tax deductible expenses</b>	<b>8 046</b>	<b>30 903</b>
Representation costs	285	239
PFRON	878	655
Impairment losses on loans in the part not covered with deferred tax	3 075	416
Costs of provisions for management options	2 549	27 841
Donations	2	0
Other	1 257	1 752
<b>Non-taxable revenues</b>	<b>-1 829</b>	<b>-8 105</b>
Release of loan impairment allowances in the part not covered with the deferred tax	-158	-5 711
Dividends received	-338	0
Other	-1 333	-2 394
<b>Tax deductible expenses not being accounting expenses</b>	<b>-497</b>	<b>-1 194</b>
Amortization of goodwill for tax purposes	-497	-1 194
<b>Recognition of tax loss</b>	<b>0</b>	<b>1 899</b>
<b>Reimbursement of tax from the tax office</b>	<b>517</b>	<b>0</b>
<b>Recognition of assets related to contribution of receivables to Obrót Wierzytelnościami Alior Polska sp. z o.o. S.K.A</b>	<b>-1 465</b>	<b>-10 019</b>
<b>Relief for new technologies</b>	<b>-61</b>	<b>-1 484</b>
<b>Other</b>	<b>3</b>	<b>-9</b>
<b>Accounting tax recognized in the income statement</b>	<b>57 367</b>	<b>28 751</b>
<b>Effective tax rate</b>	<b>20.70%</b>	<b>32.59%</b>

### 11.3 Deferred tax asset and provision

Changes in temporary differences during the year

Deferred tax assets	31.12.2012 Adjusted amount	Changes taken to the financial result	Changes taken to equity	31.12.2013
Fees collected in advance	81 418	17 112	0	98 530
Interest accrued on deposits	23 344	-9 480	0	13 864
Interest / discount accrued on securities	7 629	7 770	0	15 399
Negative valuation of securities	876	4 596	3 439	8 911
Interest accrued on derivatives	6 492	15 262	0	21 754

Negative valuation of derivatives	296 050	55 591	11 151	362 792
Options premium	9 175	-37	0	9 138
Accruals	10 595	-7 860	0	2 735
Impairment allowances on loans	50 151	8 640	0	58 791
Other provisions	791	738	0	1 529
Recognition of asset related to contribution to SKA	10 019	-3 148	0	6 871
Tax loss	8 387	-8 387	0	0
<b>Deferred tax assets</b>	<b>504 927</b>	<b>80 797</b>	<b>14 590</b>	<b>600 314</b>

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

<b>Deferred tax - per the balance sheet</b>	<b>143 264</b>	<b>-9 928</b>	<b>6 463</b>	<b>139 799</b>
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Deferred tax assets	31.12.2011	Changes taken to the financial result	Changes taken to equity	31.12.2012 Adjusted amount
Fees collected in advance	61 406	20 012	0	81 418
Interest accrued on deposits	7 806	15 538	0	23 344
Interest / discount accrued on securities	2 677	4 952	0	7 629
Negative valuation of securities	3 479	426	-3 029	876
Interest accrued on derivatives	2 384	4 108	0	6 492
Negative valuation of derivatives	289 196	6 854	0	296 050
Options premium	7 843	1 332	0	9 175
Accruals	8 875	-1 039	2 759	10 595
Impairment allowances on loans	30 909	19 242	0	50 151
Other provisions	956	-165	0	791
Recognition of asset related to contribution to SKA	0	10 019	0	10 019
Tax loss	44 995	-36 608	0	8 387
<b>Deferred tax assets</b>	<b>460 526</b>	<b>44 671</b>	<b>-270</b>	<b>504 927</b>

Deferred tax liability	31.12.2011	Changes taken to the financial result	Changes taken to equity	31.12.2012 Adjusted amount
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Interest accrued on interbank deposits	-723	714	0	-9
Interest accrued on loans and advances	-21 815	-5 093	0	-26 908
Interest / discount accrued on securities	-4 831	1 139	0	-3 692
Positive valuation of securities	-48	3	-2 552	-2 597
Interest accrued on derivatives	-2 338	-7 264	0	-9 602
Positive valuation of derivatives	-303 263	1 382	0	-301 881
Difference between accounting and tax amortization/depreciation	-9 883	-3 240	0	-13 123
Income accrued, to be collected	-7 563	3 712	0	-3 851
<b>Deferred tax liability</b>	<b>-350 464</b>	<b>-8 647</b>	<b>-2 552</b>	<b>-361 663</b>
<b>Deferred tax - per the balance sheet</b>	<b>110 062</b>	<b>36 024</b>	<b>-2 822</b>	<b>143 264</b>

#### 11.4 Recognition of deferred tax assets and deferred tax liability

Deferred tax assets	31.12.2013	31.12.2012 Adjusted amount
Fees collected in advance	-17 112	-20 012
Interest accrued on deposits	9 480	-15 538
Interest / discount accrued on securities	-7 770	-4 952
Negative valuation of securities	-4 596	-426
Interest accrued on derivatives	-15 262	-4 108
Negative valuation of derivatives	-55 591	-6 854
Options premium	37	-1 332
Accruals	7 860	1 039
Impairment allowances on loans	-8 640	-19 242
Other provisions	-738	165
Recognition of asset related to contribution to SKA	3 148	-10 019
Tax loss	8 387	36 608
<b>Deferred tax assets</b>	<b>-80 797</b>	<b>-44 671</b>

Deferred tax provision	31.12.2013	31.12.2012 Adjusted amount
Interest accrued on interbank deposits	-6	-714
Interest accrued on loans and advances	5 304	5 093
Interest / discount accrued on securities	2 675	-1 139
Positive valuation of securities	1	-3
Interest accrued on derivatives	20 140	7 264
Positive valuation of derivatives	55 578	-1 382
Difference between accounting and tax amortization/ depreciation	2 423	3 240
Income accrued, to be collected	4 610	-3 712
<b>Deferred tax provision</b>	<b>90 725</b>	<b>8 647</b>

<b>Deferred tax - per the balance sheet</b>	<b>9 928</b>	<b>-36 024</b>
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Deferred tax recognized directly in equity	31.12.2013	31.12.2012
Accruals	0	-2 759

Negative valuation of securities	-3 439	3 029
Positive valuation of securities	-2 316	2 552
Negative valuation of derivatives	-11 151	0
Positive valuation of derivatives	10 443	0
<b>Total</b>	<b>-6 463</b>	<b>2 822</b>

## 12. Earnings per share

	1.01.2013- 31.12.2013	1.01.2012- 31.12.2012 Adjusted amount
Net profit	219 752	59 460
Weighted average number of ordinary shares	63 582 965	51 149 351
Share options	3 331 250	3 331 250
Adjusted weighted average number of shares	66 914 215	54 480 601
<b>Net earnings per ordinary share (PLN)</b>	<b>3.46</b>	<b>1.16</b>
<b>Dilluted earnings per one share</b>	<b>3.28</b>	<b>1.09</b>

## 13. Cash and balances with the Central Bank

	As at 31.12.2013	As at 31.12.2012
Current account with the Central Bank	870 579	877 582
Cash	196 648	152 386
<b>Cash and balances with the central bank</b>	<b>1 067 227</b>	<b>1 029 968</b>

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

## 14. Available-for-sale financial assets

<b>14.1 By type</b>	As at 31.12.2013	As at 31.12.2012
<b>Debt instruments</b>	<b>3 388 218</b>	<b>4 320 504</b>
issued by the State Treasury	2 441 675	2 592 591
T-bills	0	93 762
T-bonds	2 441 675	2 416 889
Eurobonds	0	81 940
issued by monetary institutions	539 075	1 584 555
bonds	139 270	185 256
deposit certificates	0	149 889
money bills	399 805	1 249 410
issued by other financial institutions	64 627	138 361
bonds	43 743	118 310
Eurobonds	20 884	20 051
issued by companies	342 841	4 997
bonds	342 841	4 997
<b>Equity instruments</b>	<b>307</b>	<b>243</b>
<b>Available-for-sale financial assets</b>	<b>3 388 525</b>	<b>4 320 747</b>

<b>14.2 By maturity</b>	As at 31.12.2013	As at 31.12.2012
without set maturity date	307	243
≤ 1M	477 226	1 374 227
> 1M ≤ 3M	57 248	248 467
≤ 6M > 3M ≤ 6M	199 230	180 744
> 6M ≤ 1Y	109 031	62 664
> 1Y ≤ 2Y	616 796	580 925
> 2Y ≤ 5Y	1 334 376	774 674
> 5Y ≤ 10Y	594 311	1 098 803
<b>Available-for-sale financial assets</b>	<b>3 388 525</b>	<b>4 320 747</b>

<b>14.3 Impairment allowance on debt instruments</b>	As at 31.12.2013	As at 31.12.2012
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Debt instruments	4 316	4 135
issued by companies	4 316	4 135
Bonds	4 316	4 135

The schedules below show the prioritization of the measurement methods of available-for-sale financial assets measured at fair value as at 31 December 2013 and comparative data as at 31 December 2012.

In accordance with IFRS 7, the Bank classified:

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

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

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

This group includes NBP bills and debt commercial securities.

The fair value is determined based on the discounted future cash flows method which assumes that the profitability curves will be based on quotations of profitability of securities on the interbank market.

Debt commercial securities are measured based on profitability curves adjusted by the credit spread. The spread is determined based on the prices on the primary market or as at the moment of concluding the transaction. The spread is periodically updated in periods when reliable market quotations are available or when prices from similar volume transactions are acquired. The amount of the spread also changes on the basis of information on changes in the financial standing of the security issuer. Moreover, credit spread is assessed based on quotations of credit swap transactions, if reliable quotations are available.

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

This group includes debt commercial securities which are valued to fair value by using not only market data but also unobservable credit spread value. The spread is calculated on the base of primary market prices or prices from the moment of transaction. This value is periodically updated (in case of reliable market quotations or prices from transactions with comparable volumen). Spread level is also changed on the base of information about financial standing of security issuer. At the end of 2013 sensitivity of these assets valuation amounts 7 PLN thousand/1 basis point of spread.

Conditions to the transfer between levels are described in IFRS and include i.a. availability of pricing from active markets, valuation factors and influence of unobservable factors on fair value.

<b>14.4 Fair value</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Level 1</b>	<b>2 506 302</b>	<b>2 656 157</b>
T-bills	0	93 762
T-bonds	2 441 675	2 416 889

Other bonds	64 627	145 506
<b>Level 2</b>	<b>591 186</b>	<b>1 664 347</b>
Money bills	399 805	1 249 410
Other bonds	191 381	265 048
Deposit certificates	0	149 889
<b>Level 3</b>	<b>291 037</b>	<b>243</b>
Equity instruments	307	243
Other bonds	290 730	0
<b>Valuation of available for sale financial assets by level</b>	<b>3 388 525</b>	<b>4 320 747</b>

<b>14.5 Movements on financial assets available for sale classified as level 3</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Opening balance</b>	<b>243</b>	<b>0</b>
Transfer from Level 1	98 855	0
<b>Increases, including</b>	<b>240 745</b>	<b>248</b>
Acquisition	237 820	248
Revenue recognised in income statement	806	0
Movements on interest	975	0
Fair value adjustment	1 141	0
Foreign exchange differences	3	0
<b>Decreases, including</b>	<b>-48 806</b>	<b>-5</b>
Sale	-48 806	0
Foreign exchange differences	0	-5
<b>Financial assets available for sale classified as level 3 at the end of the period</b>	<b>291 037</b>	<b>243</b>

In 2013 a corporate bond was transferred from level 1 to level 3. In case of this bond there are no market data and the Bank used credit spread as unobservable factor. In addition, the Bank conservatively has transferred NBP bonds from level 1 to level 2. Although there are no market data for them, their fair value was reliably calculated because they are short term debt securities with available yield (equal to reference rate).

## 15. Amounts due from customers

<b>15.1 By type</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012 Adjusted amount</b>
<b>Retail segment</b>	<b>10 585 360</b>	<b>7 552 280</b>
Working capital facility	118 342	82 849
Consumer loans	5 240 515	3 941 840
Consumer finance loans	650 741	50 553
Loans for purchase of securities	160 678	226 932
Credit card borrowings loans	193 157	166 716
Loans for residential real estate	3 393 901	2 305 218
Other mortgage loans	797 964	729 950
Other receivables	30 062	48 222
<b>Corporate segment</b>	<b>9 072 540</b>	<b>6 747 302</b>
Working capital facility	4 854 894	4 087 867
Car loans	239 497	375 210

Investment loans	3 366 771	1 617 932
Acquired receivables (factoring)	561 826	623 095
Other receivables	49 552	43 198
<b>Amounts due from customers</b>	<b>19 657 900</b>	<b>14 299 582</b>

<b>15.2 By gross amounts and carrying amounts</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012 Adjusted amount</b>
<b>Retail segment</b>	<b>10 585 360</b>	<b>7 552 280</b>
Loans for residential real estate	3 393 901	2 305 218
unimpaired	3 336 934	2 292 023
impaired	68 766	22 853
IBNR	-2 380	-5 019
Impairment allowance	-9 419	-4 639
Consumer finance loans	650 741	50 553
unimpaired	645 989	50 972
impaired	21 014	168
IBNR	-2 793	-483
Impairment allowance	-13 469	-104
Other retail loans	6 540 718	5 196 509
unimpaired	6 303 837	5 123 662
impaired	704 269	376 986
IBNR	-45 921	-44 496
Impairment allowance	-421 467	-259 643
<b>Corporate segment</b>	<b>9 072 540</b>	<b>6 747 302</b>
unimpaired	8 838 080	6 550 467
impaired	612 385	450 540
IBNR	-15 789	-22 108
Impairment allowance	-362 136	-231 597
<b>Amounts due from customers</b>	<b>19 657 900</b>	<b>14 299 582</b>

The provision for losses incurred but not reported (IBNR) amounted to: 66 883 PLN thousand as at 31 December 2013 and PLN 72 106 thousand as at 31 December 2012.

<b>15.3 Receivables from customers impaired</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Receivables from customers individually assessed</b>	<b>482 847</b>	<b>299 882</b>
<b>Retail segment</b>	<b>251 106</b>	<b>94 388</b>
Amounts due from customers	473 440	212 737
Impairment allowance	-222 334	-118 349
<b>Corporate segment</b>	<b>231 741</b>	<b>205 494</b>
Amounts due from customers	556 406	386 505
Impairment allowance	-324 665	-181 011
<b>Receivables from customers collectively assessed</b>	<b>117 096</b>	<b>54 682</b>
<b>Retail segment</b>	<b>98 588</b>	<b>41 233</b>
Amounts due from customers	320 609	187 270
Impairment allowance	-222 021	-146 037
<b>Corporate segment</b>	<b>18 508</b>	<b>13 449</b>
Amounts due from customers	55 979	64 035
Impairment allowance	-37 471	-50 586

<b>Receivables from customers impaired</b>	<b>599 943</b>	<b>354 564</b>
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<b>15.4 Change in the balance of receivables impairment allowances (net of IBNR)</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Opening balance	495 983	299 009
Changes during the year:	310 508	196 974
Increases	721 430	479 358
Retail segment	419 434	282 180
Loans for residential real estate	14 699	10 466
Other loans	404 735	271 714
Corporate segment	301 996	197 178
Other loans	284 157	180 717
Acquired receivables (factoring)	12 611	9 664
Other receivables	5 228	6 797
Decreases	-332 973	-224 912
Retail segment	-217 832	-150 556
Loans for residential real estate	-9 966	-7 758
Other loans	-207 866	-142 798
Corporate segment	-115 141	-74 356
Other loans	-108 369	-70 961
Acquired receivables (factoring)	-5 089	-963
Other receivables	-1 683	-2 432
Other changes	-23 775	-19 229
Transfer to costs	-53 906	-37 760
Foreign exchange differences	-268	-483
<b>Impairment allowances at the end of the period</b>	<b>806 491</b>	<b>495 983</b>

<b>15.5 By maturity (as at the balance sheet date)</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Retail segment</b>	<b>10 585 360</b>	<b>7 552 280</b>
≤ 1M	1 515 919	1 354 759
> 1M ≤ 3M	520 859	101 558
> 3M ≤ 6M	300 675	158 692
> 6M ≤ 1Y	281 584	398 584
>1Y ≤ 2Y	891 093	523 198
>2Y ≤ 5Y	2 266 721	1 319 626
>5Y ≤ 10Y	2 044 339	1 620 061
>10Y ≤ 20Y	1 470 208	1 040 088
>20Y	1 293 962	1 035 714
<b>Corporate segment</b>	<b>9 072 540</b>	<b>6 747 302</b>
≤ 1M	3 600 406	3 053 036
> 1M ≤ 3M	972 840	423 785
> 3M ≤ 6M	494 160	484 091
> 6M ≤ 1Y	373 558	767 486
>1Y ≤ 2Y	860 571	670 106
>2Y ≤ 5Y	1 635 095	794 867
>5Y ≤ 10Y	888 140	445 150
>10Y ≤ 20Y	247 770	108 781
<b>Amounts due from customers</b>	<b>19 657 900</b>	<b>14 299 582</b>

<b>15.6 By currency</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Retail segment</b>	<b>10 585 360</b>	<b>7 552 280</b>
PLN	9 564 603	6 472 802
Other	1 020 757	1 079 478
<b>Corporate segment</b>	<b>9 072 540</b>	<b>6 747 302</b>
PLN	7 275 394	5 978 534
Other	1 797 146	768 768
<b>Total receivables</b>	<b>19 657 900</b>	<b>14 299 582</b>

<b>15.7 Ten largest credit exposures</b>	<b>Currency</b>	<b>As at 31.12.2013</b>
Company 1	PLN	395 506
Company 2	EUR,GBP,PLN	190 975
Company 3	PLN	164 467
Company 4	EUR	151 387
Company 5	PLN	148 853
Company 6	EUR	141 604
Company 7	PLN	140 864
Company 8	PLN	120 016
Company 9	EUR	118 000
Company 10	PLN	102 140

<b>15.8 Ten largest credit exposures</b>	<b>Currency</b>	<b>As at 31.12.2012</b>
Company 1	PLN,EUR	155 756
Company 2	PLN,EUR	152 978
Company 3	PLN	119 150
Company 4	PLN	99 775
Company 5	PLN,EUR	84 188
Company 6	PLN	73 521
Company 7	PLN,EUR	66 546
Company 8	PLN,EUR	62 994
Company 9	PLN	57 098
Company 10	PLN	56 993

The two tables above present the loan balance at its nominal value. Details of concentration limits are presented in note 45.

## 16. Amounts due from banks

<b>16.1 By type</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
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Current accounts	99 822	82 861
Overnight Deposits (O/N)	82 157	112 371
Term deposits	2 468	85 131
Security deposits granted	57 280	90 798
Other	12 472	114
<b>Amounts due from banks</b>	<b>254 199</b>	<b>371 275</b>

<b>16.2 By maturity (as at the balance sheet date)</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
≤ 1M	254 199	291 275
> 1M ≤ 3M	0	80 000
<b>Amounts due from banks</b>	<b>254 199</b>	<b>371 275</b>

<b>16.3 By currency</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
PLN	7 323	82 991
EUR	94 043	74 680
GBP	30 779	34 445
USD	76 164	133 759
CHF	20 430	16 421
Other currencies	25 460	28 979
<b>Amounts due from banks</b>	<b>254 199</b>	<b>371 275</b>

Forward repo/reverse repo transactions are concluded by the Bank to optimize current liquidity management; therefore, they are classified exclusively to the banking portfolio. Sporadic transactions appearing in the trading book result from risk-free arbitrage. Repo and reverse repo transactions are short-term and mature no later than within one month, they are concluded mainly in PLN, decidedly less frequently in EUR and USD. Net balances of repo and reverse repo transactions which mature within one month are included in the Bank's liquidity buffer (liquid assets). As at 31 December 2013, the Bank did not have any reverse repo transactions.

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

## 17. Property, plant and equipment

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

<b>As at 31.12.2012</b>	<b>Fixed assets under construction</b>	<b>Plant and machinery (including IT equipment)</b>	<b>Leasehold improvements</b>	<b>Other</b>	<b>Total</b>
Value at cost at the beginning of the period	31 009	81 900	141 440	55 947	310 296
Changes due to:	-10 921	59 326	-5 941	6 525	48 989
Purchases in 2012	2	30 747	13 917	4 468	49 134
Reclassifications in 2012	-10 923	28 586	-19 858	2 195	0
Sales in 2012	0	-7	0	-138	-145
Value at cost at the end of the period	20 088	141 226	135 499	62 472	359 285
Accumulated depreciation as at the beginning of the period	0	40 664	33 524	22 816	97 004
Depreciation for 2012	0	21 943	16 235	9 239	47 417
Other changes	0	10 746	-10 857	-205	-316
Accumulated depreciation as at the end of the period	0	73 353	38 902	31 850	144 105
Impairment allowances as at the beginning of the period	0	27	370	503	900
Changes in impairment allowances in 2012	0	72	-209	-470	-607
Impairment allowances as at the end of the period	0	99	161	33	293
<b>Net value as at the beginning of the period</b>	<b>31 009</b>	<b>41 209</b>	<b>107 546</b>	<b>32 628</b>	<b>212 392</b>
<b>Net value as at the end of the period</b>	<b>20 088</b>	<b>67 774</b>	<b>96 436</b>	<b>30 589</b>	<b>214 887</b>

## 18. Intangible assets

<b>As at 31.12.2013</b>	<b>Capital expenditure</b>	<b>Computer software and licences</b>	<b>Trademark</b>	<b>Total</b>
Value at cost at the beginning of the period	23 826	206 811	300	230 937
Changes in intangible assets	29 934	26 703	0	56 637
Purchases in 2013	5 476	26 702	0	32 178



Capitalized costs of salaries	26 820	0	0	26 820
Other changes	-2 362	0	0	-2 362
Value at cost at the end of the period	53 760	233 514	300	287 574
Accumulated amortization as at the beginning of the period	0	72 997	0	72 997
Amortization for 2013	0	26 527	0	26 527
Accumulated amortization as at the end of the period	0	99 524	0	99 524
Impairment allowances as at the beginning of the period	0	2	0	2
Impairment allowances as at the end of the period	0	2	0	2
<b>Net value as at the beginning of the period</b>	<b>23 826</b>	<b>133 812</b>	<b>300</b>	<b>157 938</b>
<b>Net value as at the end of the period</b>	<b>53 760</b>	<b>133 988</b>	<b>300</b>	<b>188 048</b>

<b>As at 31.12.2012</b>	<b>Capital expenditure</b>	<b>Computer software and licences</b>	<b>Trademark</b>	<b>Total</b>
Value at cost at the beginning of the period	37 783	133 105	300	171 188
Changes in intangible assets	-13 957	73 706	0	59 749
Purchases in 2012	0	51 096	0	51 096
Capitalized costs of salaries	-13 957	22 609	0	8 652
Value at cost at the end of the period	23 826	206 811	300	230 937
Accumulated amortization as at the beginning of the period	0	47 873	0	47 873
Amortization for 2012	0	25 138	0	25 138
Other changes	0	-14	0	-14
Accumulated amortization as at the end of the period	0	72 997	0	72 997
Impairment allowances as at the beginning of the period	461	0	0	461
Impairment allowances as at the end of the period	0	2	0	2
<b>Net value as at the beginning of the period</b>	<b>37 783</b>	<b>12 235</b>	<b>300</b>	<b>50 318</b>
<b>Net value as at the end of the period</b>	<b>23 826</b>	<b>133 812</b>	<b>300</b>	<b>157 938</b>

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

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

## 19. Other assets

	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Sundry debtors</b>	<b>304 255</b>	<b>384 695</b>
Other settlements	36 364	97 303
Receivables related to the sale of goods and services (including insurance)	169 338	165 164
Settlements from investment certificates' transactions	0	41 717
Guarantee deposits	12 025	17 409
Settlements of payment cards	86 528	63 102
<b>Deferred costs</b>	<b>33 522</b>	<b>20 552</b>

Settlements of rental charges and utilities	832	2 669
Reimbursement of lump sum costs incurred by the insurer in connection with the Bank's insurance activities	0	1 949
Maintenance and support of systems, servicing of plant and equipment	5 236	6 885
Accrued income on PCC settlements with the Tax Office	10 043	2 500
Settlements of VAT	4 174	0
Other deferred costs	13 237	6 549
<b>Other assets</b>	<b>337 777</b>	<b>405 247</b>

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

## 20. Amounts due to the Central Bank

As at 31 December 2013 and 31 December 2012 the Bank did not have any amounts due to the Central Bank.

## 21. Financial liabilities measured at amortized cost

<b>21.1 By type</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Due to banks</b>	<b>817 973</b>	<b>628 841</b>
Current deposits	11 023	0
Overnights	27 002	0
Credit received	62 228	61 342
Other liabilities	33 796	19 980
Repo	683 924	547 519
<b>Due to customers</b>	<b>20 871 012</b>	<b>17 472 195</b>
Current deposits	8 166 025	4 795 939
Term deposits	11 253 619	11 784 223
Own issue of Banking Securities	1 145 622	656 055
Other liabilities	305 746	235 978
<b>Total liabilities</b>	<b>21 688 985</b>	<b>18 101 036</b>

<b>21.2 By customer type and segment</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Retail segment</b>	<b>14 223 512</b>	<b>12 649 730</b>
Current deposits	5 864 001	3 101 359
Term deposits	8 134 966	9 349 927
Banking securities issued	96 814	113 464
Other liabilities	127 731	84 980
<b>Corporate segment</b>	<b>6 647 500</b>	<b>4 822 465</b>
Current deposits	2 302 024	1 694 580
Term deposits	3 118 653	2 434 296
Banking securities issued	1 048 808	542 591
Other liabilities	178 015	150 998
<b>Total amounts due to customers</b>	<b>20 871 012</b>	<b>17 472 195</b>

<b>21.3 By maturity (as at the balance sheet date)</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
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<b>Retail segment</b>	<b>14 223 512</b>	<b>12 649 730</b>
≤ 1M	7 529 896	6 800 971
> 1M ≤ 3M	2 672 427	3 337 211
> 3M ≤ 1Y	3 895 267	2 388 378
> 1Y ≤ 5Y	121 184	121 036
>5Y	4 738	2 134
<b>Corporate segment</b>	<b>6 647 500</b>	<b>4 822 465</b>
≤ 1M	4 721 607	3 394 636
> 1M ≤ 3M	464 113	546 218
> 3M ≤ 1Y	608 319	316 291
> 1Y ≤ 5Y	846 247	563 200
>5Y	7 214	2 120
<b>Total amounts due to customers</b>	<b>20 871 012</b>	<b>17 472 195</b>

<b>21.4 By currency</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Retail segment</b>	<b>14 223 512</b>	<b>12 649 730</b>
PLN	12 328 403	11 076 226
Other	1 895 109	1 573 504
<b>Corporate segment</b>	<b>6 647 500</b>	<b>4 822 465</b>
PLN	5 542 507	3 678 728
Other	1 104 993	1 143 737
<b>Total amounts due to customers</b>	<b>20 871 012</b>	<b>17 472 195</b>

<b>21.5.1 Ten largest depositors (without banks)</b>	<b>Currency</b>	<b>As at 31.12.2013</b>
Company 1	PLN	131 875
Company 2	PLN	129 096
Natural person 1	PLN	58 630
Company 3	EUR, PLN	55 336
Company 4	EUR, PLN	55 232
Company 5	PLN	50 955
Company 6	PLN	50 459
Company 7	EUR, PLN, USD	47 680
Natural person 2	EUR, PLN	39 745
Company 8	EUR, GBP, PLN	35 100

<b>21.5.2 Ten largest depositors (without banks)</b>	<b>Currency</b>	<b>As at 31.12.2012</b>
Company 1	PLN, EUR, USD	355 443
Company 2	PLN, USD	222 346
Company 3	PLN	85 903
Natural person 1	PLN	56 772
Company 4	PLN, EUR	56 301
Company 5	PLN, EUR	53 824
Company 6	PLN	50 308
Company 7	PLN	40 930
Company 8	PLN	39 191
Company 9	PLN	32 728

In 2009, the Bank started issuing banking securities. This activity was continued in 2011, 2012 and 2013. The following note presents basic information on each issue of those securities.

21.6 Own issues /type of security (nominal value)	Currency	Maturity date	As at 31.12.2013	As at 31.12.2012
PEURDD130108	PLN	08.01.2013	0	542
PEURDU130108	PLN	08.01.2013	0	1 132
P4EQIN130131	PLN	31.01.2013	0	23 493
P4EQUP130131	PLN	31.01.2013	0	1 417
FIX3M7K130322	PLN	22.03.2013	0	27 930
PF3M51130322	PLN	22.03.2013	0	1 100
PGLDTV130425	PLN	25.04.2013	0	22 664
UP345U130517	USD	17.05.2013	0	1 974
P4EQIN130605	PLN	05.06.2013	0	49 489
P4EQUP130605	PLN	05.06.2013	0	425
PGLDTV130612	PLN	12.06.2013	0	23 149
P5EQIN130621	PLN	21.06.2013	0	23 382
P5EQUP130621	PLN	21.06.2013	0	1 820
PF3M65130624	PLN	24.06.2013	0	7 660
PLN100FIX6M675K20130624	PLN	24.06.2013	0	13 510
PU6MWB130624	PLN	24.06.2013	0	15 580
P4EQIN130703	PLN	03.07.2013	0	30 206
P4EQUP130703	PLN	03.07.2013	0	293
PAGRUP130828	PLN	28.08.2013	0	37 536
EP43UP130923	EUR	23.09.2013	0	9 430
EMIXPB130924	EUR	24.09.2013	0	4 044
PAGRUP130924	PLN	24.09.2013	0	33 902
PUP3MK130924	PLN	24.09.2013	0	510
PUPK3M130924	PLN	24.09.2013	0	1 750
UP35UP130927	USD	27.09.2013	0	5 347
UP325U140109	USD	09.01.2014	982	0
PE416U140116	PLN	16.01.2014	404	0
UP325U140116	USD	16.01.2014	843	0
UP340U140123A	USD	23.01.2014	1 506	0
PCRUI140203	PLN	03.02.2014	12 686	13 611
PCRUI140203	PLN	03.02.2014	43	43
PE425U140220	EUR	20.02.2014	3 954	0
UP325U140220	USD	20.02.2014	358	0
EP431F140224	EUR	24.02.2014	829	0
PCRUI140310	PLN	10.03.2014	25 001	25 726
PCRUI140310	PLN	10.03.2014	138	138
EP421U140313	EUR	13.03.2014	415	0
PF6M60140322	PLN	22.03.2014	15 864	15 864
EP431U140325	EUR	25.03.2014	1 298	0
EP435U140325	EUR	25.03.2014	6 978	0
UP325U140327	USD	27.03.2014	2 291	0
PPEQIN140402	PLN	02.04.2014	18 889	23 933
PPEQUP140402	PLN	02.04.2014	102	222
UP36UP140403	USD	03.04.2014	1 506	0
PGLDIN140407	PLN	07.04.2014	46 008	57 336
PGLDTV140407	PLN	07.04.2014	227	227
UP36UP140409	USD	09.04.2014	1 506	0
UP316U140411	USD	11.04.2014	3 012	0
PPEQIN140430	PLN	30.04.2014	19 034	21 463
PPEQUP140430	PLN	30.04.2014	30	30
UP324U140605	USD	05.06.2014	2 390	0
UP329U140605	USD	05.06.2014	968	0
PCOMIN140618	PLN	18.06.2014	24 782	25 638
PCOMUP140618	PLN	18.06.2014	499	499
PAUTIN140725	PLN	25.07.2014	32 151	33 815
PAUTUP140725	PLN	25.07.2014	291	301
PSILIN140825	PLN	25.08.2014	18 464	19 152
PSILUP140825	PLN	25.08.2014	118	118
PPLAIN140915	PLN	15.09.2014	23 623	25 020
PPLAUP140915	PLN	15.09.2014	285	285

EMIXPB140922	EUR	22.09.2014	1 037	1 022
PBWEIN141008	PLN	08.10.2014	25 428	27 131
PBWEUP141008	PLN	08.10.2014	301	313
PBWEIN141105	PLN	05.11.2014	17 077	18 116
PBWEUP141105	PLN	05.11.2014	407	407
UP350U141107	USD	07.11.2014	1 506	0
P4EQIN141204	PLN	04.12.2014	89 097	0
P4EQUP141204	PLN	04.12.2014	917	0
PGOLIN141205	PLN	05.12.2014	15 979	16 431
PGOLUP141205	PLN	05.12.2014	75	75
PWEQIN141205	PLN	05.12.2014	5 219	5 403
PWEQUP141205	PLN	05.12.2014	10	10
PGOLIN141219	PLN	19.12.2014	14 611	14 879
PGOLUP141219	PLN	19.12.2014	305	305
PSMAIN150225	PLN	25.02.2015	53 032	0
PSMAUP150225	PLN	25.02.2015	283	0
PSTXIN150410	PLN	10.04.2015	35 833	0
PSTXUP150410	PLN	10.04.2015	114	0
PETHIN150416	PLN	16.04.2015	8 476	0
PETHUP150416	PLN	16.04.2015	50	0
PETHIN150618	PLN	18.06.2015	9 671	0
ALIOR150629	PLN	29.06.2015	146 700	0
PD10IN150805	PLN	05.08.2015	91 649	0
PD10UP150805	PLN	05.08.2015	282	0
PD95IN150805	PLN	05.08.2015	8 587	0
PD95UP150805	PLN	05.08.2015	450	0
PSMAIN150826	PLN	26.08.2015	54 100	0
PSMAUP150826	PLN	26.08.2015	49	0
PF6M40150922	PLN	22.09.2015	12 079	0
PF6M41150922	PLN	22.09.2015	4 060	0
PE10IN150930	PLN	30.09.2015	75 439	0
PE10UP150930	PLN	30.09.2015	95	0
PBCOIN151006	PLN	06.10.2015	3 799	0
P4EQIN151119	PLN	19.11.2015	89 784	0
P4EQUP151119	PLN	19.11.2015	234	0
PCOMIN151124	PLN	24.11.2015	66 813	0
PCOMUP151124	PLN	24.11.2015	66	0
PISHIN151217	PLN	17.12.2015	53 729	0
PISHUP151217	PLN	17.12.2015	949	0
P2Y15F151222	PLN	22.12.2015	5 271	0
PMIX3M160622	PLN	22.06.2016	3 280	0
PF1Y40161222	PLN	22.12.2016	25 000	0
P4Y20F171222	PLN	22.12.2017	283	0
<b>Total own issues (nominal value)</b>			<b>1 189 601</b>	<b>685 798</b>

## 22. Provisions

	Provisions for disputed claims	Provisions for employee benefits	Total provisions
As at 1 January 2013	840	11 709	12 549
Provisions recorded	1 221	104 354	105 575
Provisions released	-818	-4 978	-5 796
Provisions utilized	-985	-100 769	-101 754
<b>As at 31 December 2013</b>	<b>258</b>	<b>10 316</b>	<b>10 574</b>

	Provisions for disputed claims	Provisions for employee benefits	Total provisions
As at 1 January 2012	1 583	31 068	32 651
Provisions recorded	388	73 544	73 932
Provisions released	-487	-488	-975
Provisions utilized	-644	-92 415	-93 059
<b>As at 31 December 2012</b>	<b>840</b>	<b>11 709</b>	<b>12 549</b>

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

In accordance with IAS 19, the financial discount rate to calculate the provision was determined based on the market rate of return on Treasury bonds, whose currency and maturity dates are similar to those prevailing for the Bank's liabilities under employee benefits.

## 23. Other liabilities

	As at 31.12.2013	As at 31.12.2012 Adjusted amount
Interbank settlements	181 057	176 975
Taxation, customs duty, social and health insurance payables and other public settlements	20 573	19 561
Liabilities in respect of payment card settlements	5 310	7 296
Other settlements	160 780	202 681
including settlements with insurers	127 581	191 926
Accruals	155 654	87 003
Provision for bancassurance resignations	113 147	91 016
Other liabilities	4 757	6 417
Unregistered capital	464 156	0
<b>Total other liabilities</b>	<b>1 105 434</b>	<b>590 949</b>

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

There were no such liabilities in respect of which the group did not settle its payment liabilities following from the contracts concluded as at 31 December 2013 and 31 December 2012.

As at 31 December 2013 unregistered capital is presented in other liabilities in cause of booking on Escrow accounts at the balance sheet date.

## 24. Financial assets and financial liabilities held for trading

The Bank classified derivative instruments and securities (shares, bonds) to financial assets and financial liabilities held for trading as at 31 December 2012 and 31 December 2013 and 31 December 2012. Derivative transactions are concluded for trading purposes and for the purpose of managing market risk. The Bank concludes the following types of derivative transactions: FX-Forward, FX-Swap, IRS, CIRS, FRA, Commodity Futures, Commodity Forwards and Forward security transactions. Derivative financial instruments are measured on a daily basis using the discounted cash flow method. The Bank also enters into option transactions. In accordance with the binding laws, in concluding option transactions, the Bank executes them in a manner ensuring the simultaneous (each time and immediate) conclusion of an opposite option transaction with the same transaction parameters (back to back).

<b>24.1 Derivative financial instruments (nominal value)</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Interest rate transactions	14 702 308	7 174 763
SWAP	13 534 516	4 745 386
Cap Floor Options	1 167 792	2 429 377
Foreign exchange transactions	4 966 064	3 898 412
FX swap	2 490 943	810 518
FX forward	966 688	1 449 566
CIRS	1 219 714	1 274 979
FX options	288 719	363 349
Other options	2 091 796	1 374 746
Other instruments	353 894	450 969
<b>Derivative financial instruments (nominal value)</b>	<b>22 114 062</b>	<b>12 898 890</b>

<b>24.2 Financial assets held for trading</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Shares	1 971	1 393
Bonds	418	116
Interest rate transactions	120 294	67 021
SWAP	116 229	66 406
Cap Floor Options	4 065	615
Foreign exchange transactions	57 842	61 486
FX swap	13 121	4 505
FX forward	20 294	21 763
CIRS	23 883	34 000
FX options	544	1 218
Other options	46 618	26 669
Other instruments	16 148	17 021
<b>Financial assets held for trading</b>	<b>243 291</b>	<b>173 706</b>

<b>24.3 By maturity</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Without specified maturity date	1 971	1 393

≤ 1W	10 783	9 456
> 1W ≤ 1M	20 221	41 697
> 1M ≤ 3M	57 215	9 921
> 3M ≤ 6M	20 757	26 934
> 6M ≤ 1Y	28 281	20 980
> 1Y ≤ 2Y	43 088	17 258
> 2Y ≤ 5Y	46 895	39 884
> 5Y ≤ 10Y	14 080	6 183
<b>Financial assets held for trading</b>	<b>243 291</b>	<b>173 706</b>

<b>24.4 Financial liabilities held for trading</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Interest rate transactions	78 002	47 654
SWAP	73 937	47 039
Cap Floor Options	4 065	615
Foreign exchange transactions	49 499	44 238
FX swap	20 997	13 791
FX forward	8 137	11 932
CIRS	19 377	17 297
FX options	988	1 218
Other options	46 618	26 669
Other instruments	9 971	10 546
<b>Financial liabilities held for trading</b>	<b>184 090</b>	<b>129 107</b>

<b>24.5 By maturity</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
≤ 1W	5 017	7 330
> 1W ≤ 1M	15 550	15 556
> 1M ≤ 3M	16 477	5 212
> 3M ≤ 6M	31 756	22 548
> 6M ≤ 1Y	10 739	9 656
> 1Y ≤ 2Y	45 855	15 456
> 2Y ≤ 5Y	53 900	52 639
> 5Y ≤ 10Y	4 796	710
<b>Financial liabilities held for trading</b>	<b>184 090</b>	<b>129 107</b>

The listing below shows the hierarchy of measurement methods of financial instruments held for trading measured to fair value as at 31 December 2013 and comparative data as at 31 December 2012.

In accordance with IFRS 7, the Bank classified:

- to level 1 – all instruments for which price quotations on active financial markets are available;
- to level 2 – instruments whose prices cannot be observed directly, but the valuation is based on market quotations;

To instruments of this level the discounted cash flows method is used, on the assumption that profitability curves are based on interbank market quotations (including: deposit rates, rates from: FRA, OIS, IRS, basis swap, fx swap; forex transactions). In 2013 there was a transfer of futures for goods from level 2 to level 1. For these assets prices on active goods markets are available.

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

Instruments of this level include options embedded in deposit certificates issued by the Bank and options concluded on the interbank market to hedge embedded option positions. The fair value is determined on the basis of an internal model in consideration of both observable parameters (e.g. price of the base instrument, quotations from the secondary option market), and non-observable parameters (e.g. fluctuations, correlations between base instruments in options based on baskets of instruments). Model parameters are set on the basis of statistical analysis. As the market risk position in respect of the specified options is in exact opposition, changes in the adopted model assumptions have no impact on changes in the fair value of the Bank's position in respect of level 3 option transactions.

<b>24.6 Valuation of financial assets</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Level 1</b>	<b>10 976</b>	<b>1 509</b>
Shares	1 971	1 393
Obligacje	418	116
Other instruments	8 587	0
<b>Level 2</b>	<b>189 400</b>	<b>148 936</b>
SWAP	116 229	66 406
Cap Floor Options	4 065	615
FX swap	13 121	4 505
FX forward	20 294	21 763
CIRS	23 883	34 000
FX options	544	1 218
Other options	3 703	3 408
Other instruments	7 561	17 021
<b>Level 3</b>	<b>42 915</b>	<b>23 261</b>
Other options	42 915	23 261
<b>Total financial assets</b>	<b>243 291</b>	<b>173 706</b>

<b>24.7 Movements on financial assets classified as level 3</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Opening balance</b>	<b>23 261</b>	<b>33 132</b>
<b>Increases, including</b>	<b>57 911</b>	<b>30 208</b>
Derivatives revaluation of previous year	19 423	11 760
Derivatives transactions	21 436	13 748
Positive valuation of derivatives	17 052	4 700
<b>Decreases, including</b>	<b>-38 257</b>	<b>-40 079</b>
Derivatives revaluation of previous year	-4 700	-12 939
Settlement/redemption	-17 068	-7 717
Negative valuation of derivatives	-16 489	-19 423

<b>Financial assets classified as level 3 at the end of the period</b>	<b>42 915</b>	<b>23 261</b>
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<b>24.8 Valuation of financial liabilities</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Level 1</b>	<b>7 064</b>	<b>0</b>
Other instruments	7 064	0
<b>Level 2</b>	<b>173 323</b>	<b>125 629</b>
SWAP	73 937	47 039
Cap Floor Options	4 065	615
FX swap	20 997	13 791
FX forward	8 137	11 932
CIRS	19 377	17 297
FX options	988	1 218
Other options	42 915	23 191
Other instruments	2 907	10 546
<b>Level 3</b>	<b>3 703</b>	<b>3 478</b>
Other options	3 703	3 478
<b>Total financial liabilities</b>	<b>184 090</b>	<b>129 107</b>

<b>24.9 Movements on financial liabilities classified as level 3</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Opening balance</b>	<b>3 478</b>	<b>4 584</b>
<b>Increases, including</b>	<b>9 272</b>	<b>5 765</b>
Derivatives revaluation of previous year	4 519	1 402
Derivatives transactions	3 133	4 179
Positive valuation of derivatives	1 620	184
<b>Decreases, including</b>	<b>-9 047</b>	<b>-6 871</b>
Derivatives revaluation of previous year	-184	-607
Settlement/redemption	-8 573	-1 745
Negative valuation of derivatives	-290	-4 519
<b>Financial liabilities classified as level 3 at the end of the period</b>	<b>3 703</b>	<b>3 478</b>

## 25. Hedge accounting

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

<b>25.1. Hedging instruments (nominal value)</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Interest rate transactions	1 150 000	0
SWAP	1 150 000	0
<b>Hedging instruments (nominal value)</b>	<b>1 150 000</b>	<b>0</b>

<b>25.2. Financial assets held for trading-hedging instruments</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Level 2	12 099	0
Interest rate transactions	12 099	0
SWAP	12 099	0
<b>Financial assets held for trading-hedging instruments</b>	<b>12 099</b>	<b>0</b>

<b>25.3. By maturity</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
> 3M ≤ 6M	1 868	0
> 1Y ≤ 2Y	7 579	0
> 2Y ≤ 5Y	2 652	0
<b>Financial assets held for trading-hedging instruments</b>	<b>12 099</b>	<b>0</b>

## 26. Subordinated liabilities

On 15 November 2011, the Polish Financial Supervision Authority granted its permission to include the subordinated loan of EUR 10 million, concluded on 12 October 2011 by and between Alior Bank S.A. and Erste Group Bank AG in the supplementary funds of Alior Bank S.A. The borrowing agreement was concluded for a period of 8 years, and the interest rate is based on 3M EURIBOR. The loan may be repaid early on if written notification is submitted 30 days before the planned payment date. As at 31 December 2013 and 31 December 2012, the carrying amounts of the borrowing were PLN 41 657 thousand and PLN 41 058 thousand respectively.

On 3 February 2012 the subscription period for C-series bonds issued by Alior Bank S.A. ended. The total nominal value of the bonds is PLN 280 million. The bonds were purchased by open pension funds (OFE), investment fund management companies (TFI) and insurance companies. The bonds were issued for a period of 8 years (the date of redemption is 14 February 2020), and they bear an interest rate based on WIBOR 6M. On 20 March 2012, the Bank obtained the consent of PFSA to include the bonds in its own supplementary funds. From 14 February 2015 the Issuer shall be entitled to early redemption of Series C bonds, if the Polish Financial Supervision Authority approves. The carrying amount of the bonds as at 31 December 2013 was PLN 288 008 thousand and as at 31 December 2012: PLN 290 612 thousand.

On 28 March 2012, PFSA gave its consent to include the subordinated bonds issued for a period of 8 years (issue date: 31 January 2012, to be redeemed on 31 January 2020), in the amount of EUR 4 500 000, bearing an interest rate of 6M LIBOR for 6-month EUR deposits, in the Bank's own supplementary funds. As of 31 January 2015 the Issuer shall be entitled to early redemption of Series B bonds, if the Polish Financial Supervision

Authority approves. The carrying amount of the bonds as at 31 December 2013 was PLN 19 156 thousand and as at 31 December 2012: PLN 18 908 thousand.

## 27. Equity

<b>27.1 Equity</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012 Adjusted amount</b>
Share capital	635 830	635 830
Supplementary capital	1 434 712	1 276 610
Other capital	176 792	163 377
Share-based payments – equity component	176 792	163 377
Retained earnings / (accumulated losses)	-275 382	-176 740
Revaluation reserve	-16 777	10 776
On measurement of available for sale assets	-13 757	10 776
On measurement of hedging derivatives	-3 020	0
Profit/(loss) for the year	219 752	59 460
<b>Total equity</b>	<b>2 174 927</b>	<b>1 969 313</b>

<b>27.2 Revaluation reserve</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012 Adjusted amount</b>
Valuation of financial assets available for sale	-13 757	10 776
treasury bills	0	6
treasury bonds	-17 701	10 355
other bonds	717	2 943
deferred tax	3 227	-2 528
Valuation of hedging instruments	-3 020	0
IRS	-3 728	0
deferred tax	708	0
<b>Revaluation reserve</b>	<b>-16 777</b>	<b>10 776</b>

### 27.3 Break-down of Alior Bank S.A. share capital as at 31 December 2013 and 31 December 2012

<b>Series</b>	<b>Type of shares</b>	<b>Number of shares</b>	<b>Par value of shares</b>	<b>Series at par value (in PLN)</b>
A-series	Ordinary	50 000 000	10	500 000 000
B-series	Ordinary	1 250 000	10	12 500 000
C-series	Ordinary	12 332 965	10	123 329 650
<b>Total</b>		<b>63 582 965</b>		<b>635 829 650</b>

## 28. Fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments is based on prices quoted on an active market, and is not decreased by transaction costs. If the market price is not available, the fair value of an instrument is determined using valuation models or discounted cash flow techniques.

The following are used in valuation techniques:

- latest market transactions concluded directly between informed and interested parties, if such information is available;
- references to present fair value of another instrument with nearly identical characteristics;
- discounted cash flow method.

If there is a measurement technique universally used by market participants for measuring instruments and it was shown to deliver a reliable estimate of prices in actual market transactions, the Bank uses that method. Selected techniques use mainly market data; to a small degree they base on data specific for the Bank. The measurement technique covers all the factors which would be taken into consideration by market participants when determining the price, and complies with the economically accepted methods of valuation of financial instruments. The Bank verifies the correctness of measurement using the prices used in available current market transactions for the same instrument or based on other available market data.

<b>Financial instrument</b>	<b>Frequency</b>	<b>Recognition/presentation</b>
Available-for-sale financial assets	daily	Other comprehensive income
Fx forward, fx swap, fx options	daily	Income statement
CIRS, FRA, IRS	daily	Income statement
Other derivative instruments	daily	Income statement

The fair value of the financial instruments presented in the statement of financial position at fair value as at 31 December 2013 and 31 December 2012 was equal to their carrying amounts.

From 2013 the Bank has applied counterparty credit risk adjustments in derivatives valuation by including BCVA adjustments in valuation. BCVA (Bilateral Credit Value Adjustments) adjustments take into account the possibility of both counterparties default. The BCVA adjustment as at 31 December 2013 amounted to -1 215 508 PLN and includes CVA adjustment (-1 661 391 PLN) and DVA adjustment (+ 445 883 PLN). The amount of adjustment is estimated on the base of following parameters: Probability of Default (PD), Loss Given Default (LGD) parameter, expected positive and negative exposure of transaction (EE and NEE).

PD and LGD parameters are estimated using internal model (including credit risk market quotations). Counterparty exposure is calculated using current valuation and its

projection on the base expected market fluctuations. In addition bilateral obligations resulting from hedging contracts (regulating relationships of counterparties) are taken into account to estimation of credit risk adjustment.

### Fair value measurement for disclosures

The carrying amounts and fair values of the items which are not shown in the statement of financial position at fair value are presented below. The group assumes that fair value of this items (except for credits) is equal to their carrying amount. In the method for calculating the fair value of loans (with the exception of overdraft facilities) the Bank compares the margins earned on newly extended loans (in the month preceding the reporting date) with the margins in the whole loan portfolio. If the margins on newly extended loans are higher than the margins on the current portfolio, the fair value of the loan is lower than its carrying amount. For the remaining financial instruments, the Bank adopts the fair value equal to their carrying amounts.

Financial instrument	As at 31.12.2013		As at 31.12.2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with the Central Bank	1 067 227	1 067 227	1 029 968	1 029 968
Amounts due from customers	19 657 900	19 413 520	14 299 582	14 232 944
Amounts due from banks	254 199	254 199	371 275	371 275
Other assets	337 777	337 777	405 247	405 247
Financial liabilities measured at amortized cost	21 688 985	21 688 985	18 101 036	18 101 036
Subordinated loans	348 821	348 821	350 578	350 578
Other liabilities	1 105 434	1 105 434	590 949	590 949

Valuation for disclosures	As at 31.12.2013	As at 31.12.2012
<b>Level 3</b>		
Cash and balances with the Central Bank	1 067 227	1 029 968
Amounts due from customers	19 657 900	14 299 582
Amounts due from banks	254 199	371 275
Other assets	337 777	405 247
Financial liabilities measured at amortized cost	21 688 985	18 101 036
Subordinated loans	348 821	350 578
Other liabilities	1 105 434	590 949

## 29. Off-balance sheet items

29.1 Off-balance sheet contingent liabilities granted to customers	As at 31.12.2013	As at 31.12.2012
Off-balance sheet liabilities granted	7 078 830	5 608 201
Relating to financing	5 735 711	4 398 412
Guarantees	1 343 119	1 209 789

<b>Pozabilansowe zobowiązania udzielone</b>	<b>7 078 830</b>	<b>5 608 201</b>
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<b>29.2 By maturity</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
≤ 1W	1 570	2 537
> 1W ≤ 1M	43 322	88 561
> 1M ≤ 3M	71 822	185 502
> 3M ≤ 6M	166 456	146 214
> 6M ≤ 1Y	231 507	197 706
> 1Y ≤ 2Y	162 171	198 609
> 2Y ≤ 5Y	299 313	178 648
> 5Y ≤ 10Y	362 684	198 046
> 10Y ≤ 20Y	4 274	13 966
<b>Off-balance sheet liabilities granted in respect of guarantees</b>	<b>1 343 119</b>	<b>1 209 789</b>

The Bank offers its individual customers renewable checking account overdraft limits, which are granted for an indefinite period; at the same time, close monitoring of cash inflows to the account is conducted.

Contingent liabilities in respect of credit cards are granted to individual customers for a period of three years.

The Bank grants contingent liabilities to business customers in respect of:

- current account limits for a period of 12 months;
- guarantees, for a maximum period of 6 years;
- credit cards for a period of up to 3 years;
- loans launched in tranches for a period of up to 2 years.

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

## 30. Notes to the cash flow statement

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

The Bank's cash flows from operating activity cover mainly lending, deposit activities foreign exchange and purchase and sale of securities.

The Bank's investing activity covers the purchase and sale of fixed assets and intangible assets.

The Bank's financing activities cover the loan taken.

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

<b>30.1 Cash and cash equivalents</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Cash and balances with the Central Bank	1 067 227	1 029 968
Current accounts with other banks	110 819	82 861
Term accounts with other banks	84 624	197 603
<b>Total</b>	<b>1 262 670</b>	<b>1 310 432</b>

\* without interest

<b>30.2 Interest (financing activities)</b>	<b>As at</b>	<b>As at</b>
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	31.12.2013	31.12.2012
Interest expense – loan received	1 412	1 762
Interest expense – own subordinated issue	24 347	25 425
Interest expense – subordinated loan	2 004	2 233
<b>Total adjustments</b>	<b>27 763</b>	<b>29 420</b>

30.3 Operating activities – change in the balance of loans and other receivables	As at 31.12.2013	As at 31.12.2012 Adjusted amount
Change in receivables from customers – statement of financial position	-5 358 318	-4 312 775
Change in amounts due from banks – statement of financial position	117 076	734 517
Change in cash and cash equivalents in the balance sheet – nostro accounts	27 958	28 186
Change in cash and cash equivalents in the balance sheet – deposits up to 3 months	-112 979	-85 066
<b>Change in the balance of loans and other receivables</b>	<b>-5 326 263</b>	<b>-3 635 138</b>

30.4 Operating activities – change in the balance of other liabilities	As at 31.12.2013	As at 31.12.2012 Adjusted amount
Increase/(decrease) in other liabilities – statement of financial position	514 485	90 685
Change in revaluation reserve – statement of financial position	-27 553	23 795
Change in the balance of other liabilities measured at amortized cost - statement of financial position	220 874	573 024
Unrealized foreign exchange gains – loans received	-895	4 945
Change in the deferred income tax provision in the revaluation reserve	-6 462	5 581
Accrued expenses in respect of purchasing fixed assets	1 214	-316
Accrued expenses in respect of purchasing intangible assets	1 586	-14
Interest accrued – loan received	-1 412	-1 762
Financing activities – repayment of interest on loan received	1 421	1 758
<b>Change in the balance of other liabilities</b>	<b>703 258</b>	<b>697 696</b>

30.5 Operating activities – change in the balance of other assets	As at 31.12.2013	As at 31.12.2012
Net increase/decrease in other assets – statement of financial position	67 470	-235 488
<b>Provision for other assets</b>	<b>67 470</b>	<b>-235 488</b>

30.6 Investing activities – purchase of property, plant and equipment	As at 31.12.2013	As at 31.12.2012
Change in balance – statement of financial position	-50 179	-49 134
<b>Purchase of property, plant and equipment</b>	<b>-50 179</b>	<b>-49 134</b>

30.7 Investing activities – purchase of intangible assets	As at 31.12.2013	As at 31.12.2012
Change in balance – statement of financial position	-58 222	-59 749
<b>Purchase of intangible assets</b>	<b>-58 222</b>	<b>-59 749</b>

## 31. Assets pledged as collateral

<b>31.1 Nominal value</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Treasury bonds blocked with BFG	97 724	74 040
Treasury bonds blocked with REPO transactions	683 197	547 152

<b>31.2 Balance sheet value</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
Deposit as collateral of transactions performed in Alior Trader	4 539	2 805
Deposits as derivative transactions (ISDA) collateral	57 280	77 367

## 32. Related-party transactions

In below notes character and value of transactions with subsidiaries and affiliates are presented.

As at 31 December 2013 group of subsidiaries consists of followings:

- Alior Instytut Szkoleń Sp. z o.o. – direct subsidiary (100% of shares);
- Alior Raty Sp. z o.o. – direct subsidiary (100% of shares);
- Obrót Wierzytelnościami Alior Polska Sp. z o.o. Sp. komandyto-akcyjna – subsidiary (100% of shares);
- Centrum Obrotu Wierzytelnościami Sp. z o.o. S.K.A. (100% of shares).

As at 31 December 2012 group of subsidiaries consists of followings:

- Alior Instytut Szkoleń Sp. z o.o. – direct subsidiary (100% of shares);
- Alior Raty Sp. z o.o. – direct subsidiary (100% of shares);
- Obrót Wierzytelnościami Alior Polska Sp. z o.o. Sp. komandyto-akcyjna – subsidiary (100% of shares);
- PAGO Pierwszy Fundusz Inwestycyjny Zamknięty Niestandaryzowany Fundusz Sekurytyzacyjny (100% of issued certificates).

<b>Subsidiaries</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Assets</b>		
Other assets	7	41 968
<b>Total assets</b>	<b>7</b>	<b>41 968</b>
<b>Liabilities and equity</b>		
Financial liabilities measured at amortized cost	28 553	8 842
<b>Total liabilities and equity</b>	<b>28 553</b>	<b>8 842</b>

<b>Affiliates</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Assets</b>		
Financial assets held for trading	0	427
Loans and advances to customers	58 697	17 806
Non-current asset held for sale	38 335	62 298
<b>Total assets</b>	<b>97 032</b>	<b>80 531</b>

<b>Liabilities and equity</b>		
Financial liabilities held for trading	0	294
Financial liabilities measured at amortized cost	130 471	77 282
Other liabilities	65	2
<b>Total liabilities and equity</b>	<b>130 536</b>	<b>77 578</b>

<b>Affiliates</b>	<b>As at 31.12.2013</b>	<b>As at 31.12.2012</b>
<b>Off-balance sheet liabilities granted to customers</b>	<b>20 039</b>	<b>1 668</b>
Relating to financing	10 363	0
Guarantees	9 676	1 668
<b>Derivatives(nominal value)</b>	<b>0</b>	<b>101 820</b>
Interest rate transactions	0	11 880
SWAP	0	11 880
Currency transactions	0	89 940
FX forward	0	89 940

<b>Subsidiaries</b>	<b>1.01.2013- 31.12.2013</b>	<b>1.01.2012- 31.12.2012</b>
Interest expense	-274	-84
Fee and commission income	54	9
Fee and commission expense	-1	-12
Trading result	0	220
Other operating income	5 658	895
General administrative expenses	-119	-113
<b>Total</b>	<b>5 318</b>	<b>915</b>

<b>Affiliates</b>	<b>1.01.2013- 31.12.2013</b>	<b>1.01.2012- 31.12.2012</b>
Interest income	3 072	1 730
Interest expense	-2 351	-4 828
Fee and commission income	331	271
Trading result	26	1 785
Other operating income	74	0
General administrative expenses	-65 012	-55 867
Impairment losses	-21 422	-2 578
<b>Total</b>	<b>-85 282</b>	<b>-59 487</b>

### **Nature of related party transactions**

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

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

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

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

#### 33.1. Transactions with members of the Bank's management and supervisory bodies and other employees

As at 31.12.2013	Suprvisory and Board members, other employees	Supervisory Board	Management Borad	Other employees
<b>Assets</b>				
Financial assets held for trading	3	3	0	0
Loans and advances to customers	74 178	0	6 116	68 062
Other assets	6	1		5
<b>Total assets</b>	<b>74 187</b>	<b>4</b>	<b>6 116</b>	<b>68 067</b>
<b>Liabilities and equity</b>				
Financial liabilities held for trading	48	0	0	48
Financial liabilities measured at amortized cost	144 834	27 867	10 126	106 841
Other liabilities	208	1	2	205
<b>Total liabilities and equity</b>	<b>145 090</b>	<b>27 868</b>	<b>10 128</b>	<b>107 094</b>

As at 31.12.2013	Suprvisory and Board members, other employees	Supervisory Board	Management Borad	Other employees
<b>Off-balance sheet liabilities granted to customers</b>				
Relating to financing	12 776	40	1 689	11 047
	12 776	40	1 689	11 047
<b>Derivatives (nominal value)</b>				
Other options	3 235	1 244	0	1 991
	3 235	1 244	0	1 991

As at 31.12.2012	Suprvisory and Board members, other employees	Supervisory Board	Management Borad	Other employees
<b>Assets</b>				
Loans and advances to customers	55 965	16	1 196	54 753
Other assets	5	0	0	5
<b>Total assets</b>	<b>55 970</b>	<b>16</b>	<b>1 196</b>	<b>54 758</b>
<b>Liabilities and equity</b>				
Financial liabilities held for trading	2	0	0	2
Financial liabilities measured at amortized cost	107 353	28 241	671	78 441
Other liabilities	21	0	1	20
<b>Total liabilities and equity</b>	<b>107 376</b>	<b>28 241</b>	<b>672</b>	<b>78 463</b>

As at 31.12.2012	Suprvisory and Board members, other employees	Supervisory Board	Management Borad	Other employees
Off-balance sheet liabilities granted to customers	<b>12 582</b>	<b>86</b>	<b>960</b>	<b>11 536</b>
Relating to financing	12 582	86	960	11 536
<b>Derivatives (nominal value)</b>	<b>223</b>	<b>0</b>	<b>0</b>	<b>223</b>
Currency transactions	206	0	0	206
FX forward	206	0	0	206
Other options	17	0	0	17

**33.2 Information on the total amount of remuneration paid or payable, broken down by Management and Supervisory Board members**

	1.01.2013-31.12.2013	1.01.2012-31.12.2012
<b>Management Borad</b>		
short-term employee benefits	14 289	10 650
long-term employee benefits	0	331
share-based payments	0	76 653
<b>Total Management Borad</b>	<b>14 289</b>	<b>87 634</b>
<b>Supervisory Board</b>		
short-term employee benefits	625	600
<b>Total Supervisory Board</b>	<b>625</b>	<b>600</b>

**33.3 Number of shares held by the Supervisory Board**

	As at 31.12.2013	As at 31.12.2012
Helene Zaleski*	186 159	190 159
Józef Wancer**	0	53
Małgorzata Iwanicz- Drozdowska	1 465	1 465
<b>Total</b>	<b>187 624</b>	<b>191 677</b>

\*As at 31 December 2013 Helene Zaleski holds 18 615 PDAs of serie G (registrated on 16.12.2013)

\*\*On 5 September 2013, Mr Józef Wancer resigned as Member of the Bank's Supervisory Board

**33.4 Number of shares held by the Management Board**

	As at 31.12.2013	As at 31.12.2012
Wojciech Sobieraj	71 322	70 865
Krzysztof Czuba	168	168
Michał Hucal	70	0
Niels Lunderoff	83 021	80 021
Artur Maliszewski	3 042	3 042
Witold Skrok	168	168
Cezary Smorszczewski*	0	78 731
Katarzyna Sułkowska	2 851	2 851
<b>Total</b>	<b>160 642</b>	<b>235 846</b>

\*On 10 February 2013, Mr Cezary Smorszczewski resigned as Member of the Bank's Management Board

## 34. Management option plan

On 13 December 2012, based on a power of attorney granted in the Resolution of the Supervisory Board of Alior Bank S.A. of 10 December 2012, preliminary allocation of A, B and C series Subscription Warrants was performed. The said Subscription Warrants entitle their holders to acquire the Bank's shares, in accordance with a Resolution of the General Shareholders' Meeting of Alior Bank S.A. no. 28/2012 of 19 October 2012 on the conditional increase of the Bank's share capital and issue of subscription warrants. The Warrants were allocated as follows:

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

The new incentive plan is also addressed to a group of the Bank's key managers who are not Management Board members.

Principles of Incentive scheme performance plan have been determined in the Incentive Scheme Program adopted with a Resolution of the Supervisory Board of Alior Bank S.A.

Under the new incentive plan it is anticipated that three tranches of subscription warrants (A, B and C series) and the corresponding three tranches of new shares of the Bank (D, E and F series) with a total nominal value of up to PLN 33,312,500 will be issued, including:

- up to 1 110 417 A- series subscription warrants which will entitle their holders to take up up to 1 110 417 of the Bank's D-series shares within 5 years of the date of the first anniversary of the date of the first quotation of the Bank's shares on the WSE;
- up to 1 110 416 B- series subscription warrants which will entitle their holders to take up up to 1 110 416 of the Bank's E-series shares within 5 years of the date of the second anniversary of the date of the first quotation of the Bank's shares on the WSE;
- up to 1 110 417 C- series subscription warrants which will entitle their holders to take up up to 1 110 417 of the Bank's F-series shares within 5 years of the date of the third anniversary of the date of the first quotation of the Bank's shares on the WSE.

The eligible persons will be able to take up subscription warrants on the condition that the change in the price of the Bank's shares at the WSE in the reference period (calculated as the difference between the Final Price of the Shares Offered and the average closing price from 30 trading session days preceding the first (for A series subscription warrants), second (for B series subscription warrants) or third (for C series subscription warrants) anniversary of the first quotation of the Bank's shares on the WSE) exceeds the change in the WIG-Banki index in the same period (calculated as the difference between the WIG-Banki index as at the day of the first quotation of the Bank's shares at the WSE and the average closing value of the WIG-Banki index from 30 trading session days preceding the day of the first, second or third anniversary of the first quotation of the Bank's shares at the WSE (as appropriate)).

The issue price of the shares shall amount to the average price of the Bank's shares in the Public Offering calculated by dividing the net proceeds from the Public Offering by the total number of Offered Shares allocated in the Public Offering, increased by 10% (in the case of D series Shares), 15% (in the case of E series shares) or 17.5% (in the case of F series shares).

The new management option plan will be settled in the same way as the original incentive plan (which is described below), i.e. it will affect the Bank's financial result as a component of employee costs and will be recognized, in the same amount, as an increase in equity under other capital – share-based payment – equity component. At the day of start of the plan its value amounted to 24 692 PLN thousand. In 2013 the cost in the amount of 13 413 PLN thousand was recognised.

### **Original incentive plan**

As a result of the settlement of the original incentive plan (established based on the agreement of 25 August 2008), 105 Alior Bank managers, including Management Board members, received (indirectly, though LuxCo 82 s.a.r.l.) on 14 December 2012 2,414,118 Alior Bank shares. The remaining 1,299,909 shares of the Bank resulting from the settlement of the existing incentive plan will be transferred by the Carlo Tassara Group to LuxCo 82 s.a.r.l. upon the sale by the Carlo Tassara Group of at least 30% of the Bank's shares or on 30 June 2014, whichever is earlier. LuxCo 82 S.a.r.l. is a company operating under the Luxembourg law, controlled by the management of Alior Bank and representing the interests of the participants of the incentive plan.

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

Due to the partial expiry of the lock-ups, LuxCo 82 s.a.r.l. sold 405,683 shares of the Bank on 14 May 2013, and another block of 678,856 shares on 1 October 2013. After the said transactions, the number of shares held is 1,329,579. The Bank's Management Board informed of the said transactions in its current reports No. 22/2013 and 40/2013.

## **35. Disputed claims**

In 2013, in respect of business customers, the Bank issued 1,080 executory titles of a total value of PLN 282,175 thousand.

In cases relating to retail customers, the number of executory titles issued by the Bank in 2013 was 10,151 and related to debt with a total value of PLN 392,038 thousand.

The value of proceedings relating to liabilities or receivables of Alior Bank in progress in 2013 did not exceed 10% of Alior Bank's equity.

In the Bank's opinion, no single court, arbitration court or public administration body proceeding in progress in 2013, and none of the proceedings jointly, could threaten the Bank's financial liquidity.

## **36. Notes relating to the Brokerage Office**

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

<b>Cash and cash equivalents</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Cash and cash equivalents deposited in cash accounts with the brokerage office and paid in for purchasing securities in Initial Public Offerings or in public trading in the primary market	140 493	111 156
<b>Total</b>	<b>140 493</b>	<b>111 156</b>

<b>Amounts due from banks conducting brokerage activities, brokerage houses and commodity brokerage houses</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Receivables in respect of transactions concluded on the securities exchange:	819	7 094
WSE	819	7 094
<b>Total</b>	<b>819</b>	<b>7 094</b>

<b>Amounts due from the National Deposit and securities exchange clearing houses</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Amounts due from the settlement fund	24 663	38 666
Amounts due from the compensation fund	35	21
<b>Total</b>	<b>24 698</b>	<b>38 687</b>

<b>Amounts due to the National Deposit and securities exchange clearing houses</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Amounts due to the settlement fund	12	0
<b>Total</b>	<b>12</b>	<b>0</b>

<b>Amounts due to banks conducting brokerage activities, brokerage houses and commodity brokerage houses</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Liabilities in respect of transactions concluded on the securities exchange:	4 569	231
WSE	4 569	231
<b>Total</b>	<b>4 569</b>	<b>231</b>

<b>Customers' financial instruments recorded in securities accounts</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Dematerialized financial instruments:	6 757 613	4 893 481
including those admitted to trading on the regulated market	5 685 514	4 193 389
Financial instruments other than dematerialized	35 659	9 065
<b>Total</b>	<b>6 793 272</b>	<b>4 902 546</b>

### 37. Significant non-adjusting events after the balance sheet date

On 2 January 2014 the District Court for the capital city of Warsaw, the 13th Business Department of the National Court Register (KRS) in Warsaw registered an increase in the share capital by way of issuance of ordinary bearer G-series shares and amendments to the Company's Memorandum of Association. After registration, the Company's share capital is 699 412 610.00 (in words: six hundred and ninety-nine million four hundred and twelve thousand six hundred and ten) zloties and is made up of 69 941 261 (in

words: sixty-nine million nine hundred and forty-one thousand two hundred and sixty-one) shares with a nominal value of 10 (ten) zloties each. The total number of votes following from all the 69 941 261 shares issued by the Company is 69 941 61.

On 12 December 2013 the Bank signed cooperation agreement with T-Mobile Polska Spółka Akcyjna concentrated on preparation of comprehensive bank products and services offering as well as providing a multichannel access to them under the T-Mobile Polska brand. This Agreement is concluded with the following termination clause:

- 1) failure by the Parties to agree on and sign the Appendix to the Agreement regarding trademarks within 30 days following the conclusion of the Agreement;
- 2) failure to obtain the consent of the General Meeting of Shareholders and the Supervisory Board of the Bank to the sale of OPE on terms specified in the Agreement within 60 days following the effective date of the Agreement;
- 3) failure to appoint a person recommended by T-Mobile as member of the Supervisory Board of the Bank within 60 days following the effective date of the Agreement.

After the balance sheet date all condition precedents was not met. Information about this fact was published in current reports no. 6/2014 and 13/2014.

In the period until 30 June 2038, the entity indicated by T-Mobile ("the Purchasing Entity") and T-Mobile shall be entitled to the purchase option in respect of the Bank's business unit comprising the Bank's Branch ("BU"), in particular on condition of obtaining appropriate approval from the PFSA. The option can be executed based on accepting an irrevocable sales offer of the BU submitted by the Bank. The sale can be effected for a price equal to the product of the number of active customers (meeting the criteria specified in the Contract) and a price within the range of PLN 400-500, depending on the execution of relevant obligations of the Bank, as specified in the Contract. Pursuant to the Contract, the said price shall be indexed starting from 2022.

The Purchase Option can be executed by T-Mobile after 5 years from the Contract coming into force or earlier, in cases specified in the Contract, related to the Bank's default on the obligations specified in the Contract or instances of Contract termination or expiry indicated in the Contract, failure to meet the financial objectives related to the Contract or T-Mobile's competitor or its subsidiary obtaining control over the Bank.

On 26 February 2014 The Bank's Management Board gave information in current report no. 16/2014 about its decision concerning changes in Headquarters organization structure which will result in reduction of number of employees and subsequent establishing of rules governing group layoffs. Automation and process refinement as well as a consequent implementation of cost optimization requires an adjustment of the employment level in order to match the Banks requirements of the new organizational structure.

Layoffs program (including severance cost) is a part of Bank's cost structure optimization program in force, which scale of the savings will amount to around PLN 50 M in 2014 and 2015.

The restructuring of head office function units, which will take place from the end of February to June this year, will affect 260 FTEs in Headquarters, which constitutes 4% of the Bank's employment as of 24.02.2014. The Management Board of the Bank intends to ensure adequate severance packages corresponding with employees' employment period. The costs will not adversely affect current business model and Bank's financial performance. They will be accounted for in parallel along with progress of employment optimization process and will be included in Q1 2014 and Q2 2014 results.

The actions taken will contribute to significant increase of Bank's efficiency and C/I ratio decrease to the level below 45% in 2016. Organizational structure and employment optimization in Headquarters does not imply the change of Bank's development strategy. The Bank employed more than 340 persons since the beginning of 2014 and plans to continue recruitment, in particular for the positions connected with banking products and services offering.

Polish Financial Supervision Authority at its meeting on 25.02.2014 unanimously stated that there were no grounds for objections against the planned direct acquisition by Alior Bank S.A. of shares of Money Makers S.A. in a number resulting in exceeding a 50% stake in the total number of votes at the general meeting. In accordance with a decision received on 27.02.2014 Alior Bank will take over shares of a new issue and will purchase shares of one of the present shareholders until 15th of April, 2014, which will result in exceeding a 57,6% stake in the total number of votes at the general meeting of Money Makers S.A. Decision received from the Financial Supervision Authority is a first step to achieve a target to build on the grounds of the acquired company, a competence centre in scope of investment products such as investment funds and individual portfolios management.

### 38. Establishing the Bond Issue Scheme

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

- the amount of the Issue Scheme will not exceed: PLN 2 000 000 000 (two billion zloties);
- maximum maturities of debt securities issued under the Issue Scheme: 10 years;
- the debt securities issued under the Issue Scheme will not be secured;
- the bonds will be issued on the basis of art. 9 (1) (public offering) or art. 9 (2) (public offering) or art. 9 (3) (private offering) of the Act on bonds;
- In accordance with art. 5a of the Act on bonds, the Bonds will not take the form of documents;
- the terms and conditions of issuance of each series of the Bonds may include provisions relating to introducing the Bonds to the CATALYST market run as an alternative trading system by Giełda Papierów Wartościowych S.A. or BondSpot S.A.

At the same time, the Supervisory Board of Alior Bank S.A. authorized the Management Board of Alior Bank S.A. to determine the detailed terms and conditions of issuance of particular Bond series under the Issue Scheme, allotting the bonds to investors and taking all other necessary actions aimed at carrying out the Issue Scheme.

The Bank's Management Board does not intend to acquire funds for financing further organic development of the Bank from bonds issuance. To pursue the adopted strategy aimed at doubling the Bank's share in the market, the organic development of the Bank will be financed with customer deposits.

On 28 June 2013, under the Bond Issue Scheme, Alior Bank issued 146 700 D-series unsecured, dematerialized coupon bearer bonds with a nominal value of PLN 1,000 (one thousand) each, in the total nominal amount of PLN 146 700 000.

### 39. Plan to sell a significant portion of shares

The start-up meeting on the planned sale of 34% of the Bank's shares held by the Carlo Tassara Group was held in the second half of March 2013.

Carlo Tassara is endeavoring to sell the block of shares it holds to a regulated entity (a bank or insurance company) which meets the criteria specified in art. 25h of the Banking Law. Carlo Tassara was informed by PFSA that PFSA will evaluate such a new investor, among other things, in terms of its financial and stability, as well as long-term credit rating, both of the investor and of its country of origin.

Ultimately, Carlo Tassara's exit from the investment in the Bank will take into consideration the timeframe necessary to find a new investor and gain its approval by PFSA. Carlo Tassara will make all efforts to sell the shares to an appropriate investor before the end of 2013.

However, should the sale of the Bank's shares before the end of 2013 require that Carlo Tassara take action non-compliant with the statutory obligation of members of Carlo Tassara authorities to act in the interests of the company, or if conclusion of such a transaction before the end of 2013 prove impossible for other objective reasons (e.g. non-completion of the procedure before PFSA related to the intention to purchase a significant block of shares and exceeding the threshold specified at the General Meeting), Carlo Tassara will immediately take action to develop, in consultation with PFSA, an alternative solution and the time schedule for its completion. Also, Carlo Tassara will resume actions aimed at selling the remaining block of shares immediately after such obstacles are tackled, and PFSA may make the solution conditional on the assessed financial position of Carlo Tassara, including Carlo Tassara's ability to support the Bank financially if necessary. The Carlo Tassara Group is aware of the fact that if the sale is not concluded before the end of 2013, PFSA may take supervisory measures specified in art. 25n of the Banking Law.

### 40. Rating

As part of preparing the Initial Public Offering Alior Bank S.A. committed itself, vis-à-vis the Polish Financial Supervision Authority, to immediately undertake actions aimed at acquiring a rating from a renowned international rating agency at the beginning of 2013.

In the 1st quarter of 2013, the Bank took action to obtain such rating. On 27 March 2013 a contract was concluded by and between Alior Bank S.A. and Fitch Polska S.A.

On 5 September 2013 Fitch Ratings Ltd. Granted a BB rating to Alior Bank S.A. with a stable outlook.

The Bank's full rating granted by Fitch is as follows:

1. Long-term Foreign Currency IDR: BB stable outlook;
2. Short-Term Foreign Currency IDR: B;
3. National Long-Term Rating: BBB+(pol), stable outlook
4. National Short-Term Rating: F2(pol);
5. Viability Rating (VR): bb;

6. Support Rating: 5;
7. Support Rating Floor: 'No Floor'

Fitch rating definitions are available on the Agency's site, under [www.fitchratings.com](http://www.fitchratings.com), where ratings, criteria and methodologies are also published.

## Explanatory notes relating to risks

Risk management is one of the key internal processes in Alior Bank S.A. Group. The ultimate goal of the risk management policy is to ensure early recognition and appropriate management of all material risks in the Bank's operations. Due to the fact that Alior Bank S.A. has dominant impact on the risk profile of Alior Bank S.A. Group, unless stated otherwise, the information and data included in the notes relating to risks, refer to separate data of Alior Bank S.A. The Bank isolated the following types of risks resulting from the operations conducted:

- market risk, also covering the banking book interest risk and liquidity risk;
- credit risk;
- operating risk.

### 41. Market risk

The Bank's market risk is defined as the likelihood of the Bank incurring potential losses in the event of unfavourable changes in market prices (share prices, currency exchange rates, profitability curves), market factors (volatility in financial instrument valuations, the correlation of price changes between particular instruments), and customer behaviours (early deposit withdrawals, early loan repayments). To be more specific, the process of managing market risks is based on achieving the following goals:

- significantly mitigating the volatility of results and changes in the economic value of the Bank's equity;
- developing a structure of assets and liabilities (banking book) which is optimal in terms of profitability and potential impact on economic value;
- providing customers with core treasury products in order to help them manage the risk underlying their operations (i.e. hedging);
- guaranteeing solvency and full availability of liquid funds at any moment and even under the assumption of occurrence of negative market scenarios;
- ensuring that the processes applied at the Bank comply with the regulatory requirements regarding market risk management and the level of equity required for that purpose.

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

There is a clear segregation of duties and responsibilities, and principles specified by internal regulations. The key role in this respect is played by the Financial Risk Management Department which prepares independent cyclic market risk reports using

the market risk models and measures adopted by the Bank and submits them to appropriate units, including – periodically – to members of the Management Board, Supervisory Board and ALCO. The Financial Risk Management Department is responsible, among other things, for:

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

The Treasury Product Sales Department is responsible for carrying out treasury transactions with the Bank's customers, and the Interbank Transaction Department is exclusively responsible for concluding transactions on the interbank market and for maintaining open trading book positions, and concluding treasury transactions on the Bank's account. The transactions may be concluded to manage trading book risk positions within the limits set up, and pursuing the Bank's policy in respect of managing the banking book risk within the limits set up.

The Settlement Department is responsible for the independence of ad hoc controls of internal treasury operations, including transaction settlements. The Settlement Department operates as an entity fully independent of the Treasury Product Sales Department. The leak-proof and accurate supervision conducted by the Settlement Department is the basis for mitigating the operating risk of the Bank's treasury operations.

Supervision over the above-mentioned entities of the Bank was separated up to the level of Management Board Member, which is an additional factor guaranteeing their independent operations. The full organizational structure and segregation of competencies have been defined in detail by the Bank's Management Board in the Head Office Organizational Regulations. Apart from the organizational units specified above the Bank's Supervisory Board, Management Board, and ALCO participate actively in managing the Bank's risk.

The Assets and Liabilities Committee (ALCO, the ALCO Committee) controls market risk, including liquidity risk on a current basis. It takes all the respective decisions, unless these were previously qualified as being under the sole competence of the Management Board or the Supervisory Board.

ALCO's duties include, among other things:

- current control over market risk management, both related to the trading and the banking book, including issuing decisions relating to the risk management of both books;
- accepting the Bank's operational limits on the monetary and capital markets;

- current control over the Bank's liquidity management, both related to the trading and the banking book;
- commissioning actions to acquire sources of finance for the Bank's operations and supervising the financing plan;
- issuing decisions on managing the model portfolios.

The Bank's basic market risk management strategy assumptions as stipulated for a given budget year take the form of Asset and Liability Management Policy developed by the Financial Risk Management Department and submitted by the Management Board to the Supervisory Board for acceptance. This Policy is submitted to the Supervisory Board as part of the annual budget acceptance process and is binding until its consecutive updating.

The Supervisory Board exercises supervision over risk management, including, but not limited to:

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

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

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

- supervising the market risk management process, monitoring and reporting market risks;
- determining appropriate organization and segregation of duties in the process of concluding treasury transactions;
- accepting policies and instructions regulating market risk management within the Bank and efficient operation of the identifications systems;
- setting detailed limits for mitigating the Bank's risk and ensuring appropriate mechanisms for their monitoring and notifying cases of exceeding limits.

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

## 42. Foreign exchange risk

Foreign exchange risk is defined as the risk of potential loss caused by movements in foreign exchange rates. The Bank additionally identifies the impact of foreign exchange movements on the Bank's results in the long term, which could occur in the event of converting future foreign currency income and expenses at a potentially less favourable exchange rate. The risk related to future results may be managed under the model currency portfolio.

The basic purpose of foreign exchange risk management is to identify those areas of the Bank's operations which may be exposed to foreign exchange risk and thus, to undertake to mitigate the resulting potential losses to the maximum extent. The Bank's Management Board specifies the currency risk profile, which must be consistent with the applicable financial plan of the Bank.

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

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

The key foreign exchange risk tools comprise:

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

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

As at the end of December 2013, the maximum loss on the Bank's currency portfolio specified in accordance with the VaR Model with a 10-day holding period could amount to PLN 35 149.42, assuming a confidence level of 99%

	31.12.2013	31.12.2012
Level [days]	10	10
<b>VaR [zł]</b>	<b>35 149,42</b>	<b>90 910,47</b>

**Bank's VaR statistics on currency portfolio in years 2013 and 2012 (in '000 PLN).**

VaR	31.12.2013	31.12.2012
<b>Min</b>	7,41	5,77
<b>Average</b>	71,34	79,58
<b>Max</b>	475,09	206,89

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

<b>Utilization of the limit (in millions of currencies)</b>		
<b>Currencies</b>	<b>Limit</b>	<b>Utilization</b>
PLN (gross)	14.0	2.2
PLN (net)	7.0	0.7
<b>Group A</b>		
EUR	1.0	0.3
USD	1.5	-0.1
CHF	0.7	0.0
GBP	0.7	0.0
<b>Group B</b>		
PLN (netto)	2.0	0.0
AUD	0.3	0.0
CAD	0.3	0.0
CZK	2.0	-0.4
DKK	1.5	0.0
NOK	1.5	0.0
RUB	3.0	-0.1
SEK	1.5	0.1
Others	1.5	0.2
Goods	1.5	0.1

### The Bank's currency position and the utilization of currency limits as at 31 December 2012

<b>Utilization of the limit (in millions of currencies)</b>		
<b>Currencies</b>	<b>Limit</b>	<b>Utilization</b>
PLN (gross)	8,0	0,2
PLN (net)	4,0	0,2
<b>Group A</b>		
EUR	0,5	0,0
USD	0,5	0,0
CHF	0,5	0,0
GBP	0,5	0,0
<b>Group B</b>		
PLN (net)	1,0	0,1
AUD	0,2	0,0
CAD	0,2	0,0
CZK	1,5	0,2
DKK	1,0	0,0
NOK	1,0	0,0
RUB	2,0	0,0
SEK	1,0	0,0
Goods	1,0	0,0

The assumption that the changes in risk factors in the VaR Model will have a normal distribution may in practice lead to underestimating the losses in extreme scenarios (the so-called "fat tail phenomenon"). Therefore, the Bank conducts stress tests. The utilization of the stress-test limit for currency positions calculated as the maximum loss the Bank could incur in the event of the most unfavourable daily foreign exchange rate movements of those which have been incurred within at least the last four years, totalled, as at the end of 2013, PLN 20 235.41 zł, and at the end of 2012, PLN 41 707. Statistics of the stress-test of the currency position in 2013 (in PLN'000) were as follows.

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

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

## 43. Interest rate risk

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

- repricing risk (i.e. the mismatch of the interest rate tenors of assets and liabilities);

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

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

#### BPV estimates as at the end of 2013 and 2012

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

Currency 31.12.2012	To 6 months	6 months- 1 year	1 year - 3 years	3 - 5 years	5 - 10 years	10 - 15 years	Total
PLN	4,7	-24,5	-21,9	-62,9	-11,5	0,0	-116,1
EUR	10,2	-14,2	5,3	-6,7	0,2	0,0	-5,2
USD	13,5	-4,5	-0,7	0,0	0,0	0,0	8,3
CHF	0,3	0,4	-2,1	-2,3	0,0	0,0	-3,7
GBP	1,1	0,8	0,0	0,0	0,0	0,0	1,9
Others	-0,4	0,1	-0,4	0,0	0,0	0,0	-0,7
<b>Total</b>	<b>29,4</b>	<b>-41,9</b>	<b>-19,8</b>	<b>-71,9</b>	<b>-11,3</b>	<b>0,0</b>	<b>-115,5</b>

#### The Bank's BPV statistics for 2013

Book	Minimum	Average	Maximum
Banking book	-278,84	-99,05	100,38
Trading book	-48,76	-8,04	22,44
<b>Both books</b>	<b>-281,01</b>	<b>-107,09</b>	<b>116,74</b>

#### The Bank's BPV statistics for 2012

Book	Minimum	Average	Maximum
Banking book	-127,23	-11,85	86,17

Trading book	-15,03	-1,51	9,82
<b>Both books</b>	<b>-128,38</b>	<b>-13,35</b>	<b>95,06</b>

At the same time, in order to estimate the total level of the interest rate risk, the Bank applies the VaR Model as discussed above. The economic capital to cover the said type of risk measured in this manner as at the end of 2012 and 2013 is shown in the table below (99% VaR assuming a holding period of 10 days, in PLN'000).

<b>VaR</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Banking book	5 628	4 292
Trading book*	1 092	731
<b>Both books</b>	<b>5 368</b>	<b>4 096</b>

\*The trading book's VaR includes the VaR in respect of FX risk presented above.

### The Bank's VaR statistics for 2013

<b>Book</b>	<b>Minimum</b>	<b>Average</b>	<b>Maximum</b>
Banking book	3 090	7 343	12 149
Trading book	639	1 504	2 891
<b>Both books</b>	<b>1 959</b>	<b>7 083</b>	<b>11 034</b>

### The Bank's VaR statistics for 2012

<b>Book</b>	<b>Minimum</b>	<b>Average</b>	<b>Maximum</b>
Banking book	1 000	3 749	6 935
Trading book	449	829	1 478
<b>Both books</b>	<b>1 189</b>	<b>3 837</b>	<b>6 242</b>

For the purpose of managing interest rate risk, the Bank specifies trading operations which cover securities and derivative contracts concluded for trading purposes, and banking operations, which cover other securities, own issues, loans, deposits and derivative transactions used to hedge banking book risk. The Bank also performs analyses of possible scenarios which cover, among other things, the impact of specific changes in interest rates on the future interest results and the economic value of capital. As part of these scenarios the Bank implements internal limits, the utilization of which is measured daily. Utilization of the limit for changes in the economic value of capital assuming a parallel movement of the interest rate curves of +/- 200 b.p. and non-parallel movements in scenarios of +/- 100/400 b.p. (assuming 1M/10Y tenors, and between them, the shifted linear interpolation) as at the end of 2013 (in PLN'000) is presented below.

<b>Scenario (1M/10Y)</b>	<b>Change in economic value of capital</b>
+400 / +100	-78 979

+100 / +400	-41 625
+200 / +200	-48 659
- 200 / - 200	52 596
- 100 / - 400	43 569
- 400 / - 100	80 478

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## 44. Liquidity risk

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

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

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

These goals are realized independently by appropriate organizational units whose competencies and responsibilities are clearly defined in internal regulations. The Bank applies the following measures in the process of liquidity management:

- develops liquidity procedures and policies, including the financing plan for consecutive years of the Bank's operations;
- manages the Bank's emergency plans with regard to liquidity;
- monitors liquidity limits;
- in the form of reports, periodically analyzes the categories and factors which impact the current and future liquidity levels.

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

- financial liquidity – the ability to finance assets and discharge liabilities on a timely basis in the course of the Bank's everyday activities or in other conditions which may be anticipated, without the need to incur losses. In its liquidity management

activities, the Bank specifically focuses on a vista and current (up to 7 days) liquidity analysis;

- short-term liquidity defined as the capability of discharging all monetary liabilities which mature within 30 consecutive days;
- medium-term liquidity understood as the capability of discharging all liabilities which mature within 6 months;
- long-term liquidity defined as the capability of discharging all monetary liabilities which mature in a period longer than 12 months.

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

- stability of liabilities without specified maturities (e.g. current accounts, deposits withdrawals and renewals, level of their concentration);
- option to shorten maturities of specific asset items (such as mortgage loans with an early repayment option);
- option to sell assets (liquid portfolio)

and are accepted at the level of the ALCO or the Bank's Management Board.

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

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

The amounts presented in the table above only account for the principal amounts. Interest, adjustments, write-downs are shown in: "Other assets" and "Other liabilities".

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

2013-12-31	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
<b>ASSETS</b>	<b>4 479</b>	<b>836</b>	<b>908</b>	<b>880</b>	<b>1 266</b>	<b>2 616</b>	<b>5 478</b>	<b>9 082</b>	<b>25 545</b>
Cash and Nostro accounts	0	0	0	0	0	0	0	1 179	1 179
Amounts due from banks	0	85	0	0	0	57	0	0	142
Loans and advances to customers	4 479	276	851	688	1 158	1 950	4 161	6 775	20 338
Securities	0	475	57	192	108	609	1 317	588	3 346
Other assets	0	0	0	0	0	0	0	540	540
<b>LIABILITIES AND EQUITY</b>	<b>-9 739</b>	<b>-3 366</b>	<b>-3 168</b>	<b>-3 684</b>	<b>-980</b>	<b>-906</b>	<b>-203</b>	<b>-3 499</b>	<b>-25 545</b>
Liabilities from banks	-11	-711	0	0	0	-34	-104	0	-860
Liabilities from customers	-9 728	-2 651	-3 098	-3 567	-742	-184	-70	-12	-20 052
Own issues	0	-4	-70	-117	-238	-688	-29	-299	-1 445
Other liabilities	0	0	0	0	0	0	0	-3 188	-3 188
<b>Balance-sheet gap</b>	<b>-5 260</b>	<b>-2 530</b>	<b>-2 260</b>	<b>-2 804</b>	<b>286</b>	<b>1 710</b>	<b>5 275</b>	<b>5 583</b>	<b>0</b>
<b>Accumulated balance- sheet gap</b>	<b>-5 260</b>	<b>-7 790</b>	<b>-10 050</b>	<b>-12 854</b>	<b>-12 568</b>	<b>-10 858</b>	<b>-5 583</b>	<b>0</b>	
Derivative instruments - inflows	0	2 282	1 124	412	622	156	486	3	5 085
Derivative instruments - outflows	0	-2 281	-1 122	-421	-613	-158	-487	-3	-5 085
Derivative instruments - net	0	1	2	-9	9	-2	-1	0	0
Guarantee and financial lines	6 682	2	16	48	229	100	2	0	7 079
<b>Off-balance sheet gap</b>	<b>6 682</b>	<b>3</b>	<b>18</b>	<b>39</b>	<b>238</b>	<b>98</b>	<b>1</b>	<b>0</b>	<b>7 079</b>
<b>Total gap</b>	<b>1 422</b>	<b>-2 527</b>	<b>-2 242</b>	<b>-2 765</b>	<b>524</b>	<b>1 808</b>	<b>5 276</b>	<b>5 583</b>	<b>7 079</b>
<b>Total accumulated gap</b>	<b>1 422</b>	<b>-1 105</b>	<b>-3 347</b>	<b>-6 112</b>	<b>-5 588</b>	<b>-3 780</b>	<b>1 496</b>	<b>7 079</b>	

The amounts presented in the table above only account for the principal amounts. Interest, adjustments, write-downs are shown in: "Other assets" and "Other liabilities".

The maturity analysis of realigned assets and liabilities as at the end of 2012 is presented in the table below (amounts in PLNM):

2012-12-31	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
<b>ASSETS</b>	<b>478</b>	<b>4 167</b>	<b>1 199</b>	<b>1 251</b>	<b>1 553</b>	<b>1 870</b>	<b>3 135</b>	<b>7 532</b>	<b>21 185</b>
Cash and Nostro accounts	16	69	58	53	71	90	147	525	1 029
Amounts due from banks	0	153	115	0	0	104	0	0	372
Loans and advances to customers	264	327	755	1 046	1 474	1 526	2 908	6 002	14 302
Securities	198	3 618	271	152	8	150	80	16	4 493
Other assets	0	0	0	0	0	0	0	989	989
<b>LIABILITIES AND EQUITY</b>	<b>-141</b>	<b>-1 682</b>	<b>-1 667</b>	<b>-1 517</b>	<b>-1 449</b>	<b>-1 958</b>	<b>-2 491</b>	<b>-10 280</b>	<b>-21 185</b>
Liabilities from banks	0	-514	0	0	0	-19	-96	0	-629
Liabilities from customers	-141	-1 167	-1 628	-1 404	-1 362	-1 708	-2 395	-6 776	-16 581
Own issues	0	-1	-39	-113	-87	-231	0	-214	-685
Other liabilities	0	0	0	0	0	0	0	-3 290	-3 290
<b>Balance-sheet gap</b>	<b>337</b>	<b>2 485</b>	<b>-468</b>	<b>-266</b>	<b>104</b>	<b>-88</b>	<b>644</b>	<b>-2 748</b>	<b>0</b>
<b>Accumulated balance- sheet gap</b>	<b>337</b>	<b>2 822</b>	<b>2 354</b>	<b>2 088</b>	<b>2 192</b>	<b>2 104</b>	<b>2 748</b>	<b>0</b>	
Derivative instruments - inflows	0	1 345	351	416	757	260	481	4	3 614
Derivative instruments - outflows	0	-1 337	-350	-417	-757	-262	-486	-4	-3 613
Derivative instruments - net	0	8	1	-1	0	-2	-5	0	1
Guarantee and financial lines	0	-561	-561	0	280	841	0	0	-1
<b>Off-balance sheet gap</b>	<b>0</b>	<b>-553</b>	<b>-560</b>	<b>-1</b>	<b>280</b>	<b>839</b>	<b>-5</b>	<b>0</b>	<b>0</b>

<b>Total gap</b>	<b>337</b>	<b>1 932</b>	<b>-1 028</b>	<b>-267</b>	<b>384</b>	<b>751</b>	<b>639</b>	<b>-2 748</b>	<b>0</b>
<b>Total accumulated gap</b>	<b>337</b>	<b>2 269</b>	<b>1 241</b>	<b>974</b>	<b>1 358</b>	<b>2 109</b>	<b>2 748</b>	<b>0</b>	

The amounts presented in the table above only account for the principal amounts. Interest, adjustments, write-downs are shown in: "Other assets" and "Other liabilities".

The maturity analysis of contractual assets and liabilities as at the end of 2012 is presented in the table below (amounts in PLNM):

2012-12-31	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
<b>ASSETS</b>	<b>3 622</b>	<b>1 836</b>	<b>768</b>	<b>769</b>	<b>875</b>	<b>1 966</b>	<b>3 385</b>	<b>7 964</b>	<b>21 185</b>
Cash and Nostro accounts	0	0	0	0	0	0	0	1 030	1 030
Amounts due from banks	0	152	115	0	0	104	0	0	371
Loans and advances to customers	3 622	250	524	461	806	1 263	2 595	4 780	14 301
Securities	0	1 434	129	308	69	599	790	1 165	4 494
Other assets	0	0	0	0	0	0	0	989	989
<b>LIABILITIES AND EQUITY</b>	<b>-6 363</b>	<b>-3 174</b>	<b>-4 277</b>	<b>-2 839</b>	<b>-636</b>	<b>-282</b>	<b>-105</b>	<b>-3 509</b>	<b>-21 185</b>
Liabilities from banks	0	-514	0	0	0	-19	-96	0	-629
Liabilities from customers	-6 363	-2 659	-4 238	-2 726	-549	-32	-9	-4	-16 580
Own issues	0	-1	-39	-113	-87	-231	0	-215	-686
Other liabilities	0	0	0	0	0	0	0	-3 290	-3 290
<b>Balance-sheet gap</b>	<b>-2 741</b>	<b>-1 338</b>	<b>-3 509</b>	<b>-2 070</b>	<b>239</b>	<b>1 684</b>	<b>3 280</b>	<b>4 455</b>	<b>0</b>
<b>Accumulated balance- sheet gap</b>	<b>-2 741</b>	<b>-4 079</b>	<b>-7 588</b>	<b>-9 658</b>	<b>-9 419</b>	<b>-7 735</b>	<b>-4 455</b>	<b>0</b>	
Derivative instruments - inflows	0	1 345	351	416	757	260	481	4	3 614
Derivative instruments - outflows	0	-1 337	-350	-417	-757	-262	-486	-4	-3 613
Derivative instruments - net	0	8	1	-1	0	-2	-5	0	1
Guarantee and financial lines	5 174	8	5	74	216	127	4	0	5 608
<b>Off-balance sheet gap</b>	<b>5 174</b>	<b>16</b>	<b>6</b>	<b>73</b>	<b>216</b>	<b>125</b>	<b>-1</b>	<b>0</b>	<b>5 609</b>
<b>Total gap</b>	<b>2 433</b>	<b>-1 322</b>	<b>-3 503</b>	<b>-1 997</b>	<b>455</b>	<b>1 809</b>	<b>3 279</b>	<b>4 455</b>	<b>5 609</b>
<b>Total accumulated gap</b>	<b>2 433</b>	<b>1 111</b>	<b>-2 392</b>	<b>-4 389</b>	<b>-3 934</b>	<b>-2 125</b>	<b>1 154</b>	<b>5 609</b>	

The amounts presented in the table above only account for the principal amounts. Interest, adjustments, write-downs are shown in: "Other assets" and "Other liabilities".

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

The Bank maintains the liquidity buffer at a high level, investing in debt securities issued by the government and by the highest ranking corporations, which are highly liquid, within the predefined financial limit plan. This level is controlled by the ratio of liquid assets to the deposit base which as at 31 December 2013 exceeded 15%.

Additionally, the Bank conducts liquidity stress-tests and prepares and prepares a plan for acquiring funds in emergency situations, specifies and verifies its liquid asset sale policies, taking into consideration the costs of maintaining liquidity.

In accordance with Resolution No. 386/2008 of the Polish Financial Supervision Authority dated 17 December 2008, the Bank specifies:

- the short-term liquidity gap (i.e. the minimum surplus of current liquidity) defined as the difference between the total of the base and supplementary liquidity reserve as at the reporting date, and the value of unstable external funds. As at the end of December 2013, the excess amounted to PLN 920 million;

- the ratio of coverage of non-liquid assets with own funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk to non-liquid assets;
- the ratio of coverage of non-liquid assets and assets with limited liquidity with own funds and stable external funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk, and stable external funds to the total of non-liquid assets and assets with limited liquidity;
- the short-term liquidity ratio defined as the ratio of the total of the base and supplementary liquidity reserve as at the reporting date to the value of unstable external funds.

These ratios as at the end of 2013 amounted to: 4.05; 1.09; 1.37 respectively (as at the end of 2012: 3.53; 1.20; 1.63 respectively).

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

On a monthly basis, the Bank also analyzes the concentration of the deposit base aimed at indicating the potential risk of excessive dependency on those sources of funding which are insufficiently diversified. To assess the level of concentration, the Bank sets HCI (High Concentration Indicator) calculated as the ratio of funds accumulated by the largest depositaries to the value of the deposit base. As at 31 December 2013 HCI amounted to 3.8%, which shows that the level of concentration is low. The HCI statistics are shown in the table.

## High Concentration Indicator (HCI) statistics in 2013

Minimum	Average	Maximum
3.0%	4.4%	5.2%

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

In 2013 the Bank's liquidity remained at a safe level. Liquidity was strictly monitored and maintained at an adequate level by adapting the deposit base and initiating additional sources of finance depending on the developments in the lending activity and other liquidity needs.

## 45. Credit risk

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

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

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

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

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

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

1. Customers – examination of individual customers and groups of customers, verification of homogenous customer groups for quality of the constructed loan portfolio;
2. Products – the area covers all the risks potentially related to a specific product (on a one-off basis or for the entire loan portfolio);
3. Collaterals - verified in this area of business is the correctness of collateral acceptance, collateral value and timeliness, and the correctness of the preparation of documentation related to the collateral, as well as any subsequent update of collateral value. Significant to the mitigation of credit risk is an examination of the efficiency of implementing the amended regulations on legal collateralization of loans and the application of binding procedures in this area;
4. Processes and regulations – verification of quality and efficiency of the crediting process, loan administration, monitoring, debt collection and restructuring processes, and cooperation with external debt recovery agencies, as well as verification of the compliance of the Bank's regulations underlying the said processes with the applicable laws;
5. Systems – in particular, verification of credit-support systems and systems supporting debt monitoring and collection, as well as the efficiency of the use of those systems;
6. Distribution channels – verification of the effectiveness (and harmfulness) of the Bank's distribution channels;
7. Employees – examination of proper use of credit competencies granted to employees individually, detection of possible irregularities in the lending process;
8. External conditions – examination of the following external factors, specifically: interest rates level; foreign exchange rates; cash supply volume; unemployment rate; changes on the labour market; economic climate;
9. Credit risk management effectiveness – periodic verification of the effectiveness of the system assumptions concerning the Bank's credit risk management policies.

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

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

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

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

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

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

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

## **Risk assessment in the lending process**

The Bank's commitments are based on crediting methodologies developed for particular customer segments and product types. The assessment of customer credit capacity, preceding the Bank's commitment, is carried out by means of the following lending-supporting tools: scoring and rating tools, external information (e.g. CBD DZ, CBD BR, BIK, BIG databases), and the Bank's internal databases. Commitments are granted pursuant to the Bank's lending processes determining the appropriate steps to be followed in the process, responsible Bank units and tools to be utilized.

Lending decisions are taken in accordance with the decision making process in force at the Bank (levels of competence adapted to the customer- and transaction-related risk level).

In order to regularly assess the credit risk taken and minimize potential losses on credit exposures, the Bank monitors the customer's position throughout the lending period by identifying early warning signals and periodic, individual reviews of credit exposures. The monitoring process ends with issuing recommendations relating to the strategy of further cooperation with the Customer.

## **Segregation of competencies**

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

## **Risk concentration management**

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

Risk concentration management in the area of lending activities relates to:

1. the risk arising from the exposure of the Bank to individual entities or a group of entities related by capital or internal organization;
2. the risk arising from the exposure to entities operating in the same industry sector, running the same business or trading in similar goods;
3. the risk arising from exposure towards entities from the same province, individual countries or groups thereof;
4. the risk of exposure secured with the same type of collateral or secured by the same collateral provider (including the risk of the Bank establishing collateral on securities with similar characteristics);

5. risk arising from exposures in the same currency;
6. risk arising from exposures with the same type of interest rate (fixed or variable), and interest rate index;
7. the risk arising from exposures towards the entities referred to in art. 71 of the Banking Law;
8. the risk arising from product specification;
9. customer segment risk;
10. distribution channel risk;
11. the risk of special offers and promotions;
12. internal concentration risk.

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

The Bank has:

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

#### **Sector concentration - balance sheet and off-balance sheet exposure**

<b>Section (as per PKD 2007)</b>	<b>Section header</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Section A	Agriculture, forestry, hunting and fishery	154 408	72 314
Section B	Mining	197 232	35 861
Section C	Industrial processing	4 070 304	3 354 756
Section D	Production and delivery of electric energy, natural gas, steam, hot water, and air for air-conditioning units	341 682	272 805
Section E	Water supply; management of waste and re-cultivation activities	39 372	77 899
Section F	Construction	3 373 111	2 876 256
Section G	Wholesale and retail trade, automobile repairs (incl. motorcycles)	3 065 647	2 730 701
Section H	Transportation and warehouse management	498 549	419 290
Section I	Hotel, restaurant and catering services	242 324	179 167
Section J	Information and communication	1 168 062	434 690
Section K	Finance and insurance	1 000 968	947 580

Section L	Real estate market administration	2 331 248	948 824
Section M	Professional, scientific and technical activities	538 854	358 764
Section N	Administrative and support services	549 659	401 329
Section O	Public administration and national defence, obligatory social insurance	50	810
Section P	Education	53 719	21 407
Section Q	Healthcare and social support	117 534	102 811
Section R	Culture, leisure and entertainment	22 826	13 849
Section S	Other services	45 621	80 504
Section T	Households employing workers, households producing goods and providing services for their own needs	0	0
Section U	Extraterritorial organizations and teams	0	0

The above exposures contain:

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

**Largest concentration by country as at the end of 2013:**

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

**Largest concentration by country as at the end of 2012:**

<b>Country</b>	<b>31.12.2012</b>
Poland	22 125 013
Cyprus	245 486
Sweden	212 239
France	81 286
Luxembourg	74 400

Portugal	60 001
Great Britain	52 545
Suisse	19 175
Spain	16 474

The above exposures contain:

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

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

1. appropriate, reliable economic and market information on all committed concentration areas, in particular macroeconomic and industry ratios, data on economic trends, projected interest rates, FX rates, political risk analyses, ratings of government and financial institutions;
2. appropriate, reliable information on the economic standing of entities, industries, economic sectors; general economic data including information pertaining to the economic and political situation of the countries, as well as other information required to assess risk concentration at the Bank;
3. economic and qualitative information on the management process in entities with the Bank's exposure that causes concentration risk;
4. interest rate, liquidity, operating or political risk related to the exposure identified which may increase the concentration risk.

### **Impairment allowances and provisions**

The Bank assesses all balance sheet credit exposures (balance sheet groups of credit exposures) in terms of objective premises for impairment, in accordance with the data current as at the revaluation date. The Bank assesses off-balance sheet exposures in terms of the need to set up a provision.

Loan impairment is identified automatically in the Bank's central system, based on system information (repayment default) or data input by system users.

### **Indicators of impairment**

1. Indicators of customer-related impairment:

- significant repayment default/unauthorized overdraft - this evidence relates to business customers and retail customers alike and is recognized by the system if the customer is in default or has unauthorized overdraft for more than 90 days, with a total amount of default for all customer accounts for which he is owner/ co-owner or borrower/co-borrower of at least PLN 500;

- corporate recovery proceedings – this impairment indicator relates to business customers and is recognized on the basis of flagging a note in the system on the entrepreneur filing an application with the court for the commencement of corporate recovery proceedings;
- bankruptcy/liquidation – this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system on filing a petition in bankruptcy;
- consumer bankruptcy – this impairment indicator concerns individual customers and is recognized on the basis of flagging a note in the system about a consumer filing a petition in bankruptcy (so-called consumer bankruptcy);
- undisclosed customer assets – this impairment indicator concerns business customers and retail customers alike and is recognized on the basis of flagging a note in the system about a customer submitting a false statement on property;
- significant deterioration in the internal scoring/rating assessment – this impairment indicator concerns business customers and retail customers alike and is recognized by the system when the assessment of customer borrowing drops by at least one class (compared to the original assessment) and at the same time is below the acceptable Bank level;
- significant deterioration in the external rating assessment - this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system about reducing the external rating of the customer from the investment to speculative class;
- significant deterioration in the economic-financial condition - this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system about a deterioration in the assessment of a customer's economic or financial condition (in line with the Resolution of Ministry of Finance classification) by at least one category to the level of "below standard", "doubtful", or "lost";
- customer demise – this impairment indicator refers to retail customers and is recognized upon flagging a note in the system about a customer's demise;
- no information on a customer's whereabouts – this impairment indicator refers to retail customers and is recognized by flagging a note in the system about the proven lack of a possibility to determine a customer's registered address;
- job loss – this impairment indicator concerns retail customers and is recognized on the basis of flagging a note in the system about a customer's lack of ability to repay a borrowing following the loss of a job;
- financial difficulties of a customer - this impairment indicator concerns individual customers and is recognized on the basis of flagging a note in the system about the financial problems of a customer (in accordance with data from BIK – Credit Information Bureau).

## 2. Indicators of account-related impairment:

- Issuance of Bank enforcement title – this impairment indicator is recognized in the system based on input data on the issuance of a Bank Enforcement Title;
- Commencement of enforcement proceedings – this impairment indicator is recognized in the system based on input data on the Bank commencing internal enforcement proceedings;

- Effective Loan Agreement termination – this impairment indicator is recognized in the system based on input data on the effective date of termination of a loan agreement where the amount in default is at least PLN 500;
  - Restructuring – this impairment indicator is recognized in the system based on input data on customer problems with timely debt repayment, changes in credit servicing principles made in the form of an annex to the loan agreement or signing an appropriate arrangement with the Bank;
  - Debt submitted by Borrower to court – this impairment indicator is recognized in the system based on the input data on a customer submitting his debt to court;
  - Identified fraud – this impairment indicator is recognized in the system based on the input data on identified fraud on the basis of a court sentence.
3. Indicators of impairment relating to exposures towards banks:
- Repayment default of more than 30 days – this impairment indicator is recognized based on repayment default of more than 30 days;
  - Significant deterioration in the external rating by the contractor bank - this impairment indicator is recognized based on information about a deterioration in the external rating from the investment to speculative class;
  - Significant deterioration in the external rating of the contractor bank's country of registration - this impairment indicator is recognized based on information about a deterioration in the external rating of the country of the contractor bank from investment to speculative class;
  - Significant deterioration in the financial standing of the bank / insolvency of the bank - this impairment indicator is recognized based on information about customer risk assessed as unacceptable in the process of the periodical monitoring of limits.
4. Indicators of bond-related impairment:
- Lack of underlying bonds payments – this impairment indicator is recognized based on information about the lack of underlying bonds' payment at the dates set forth in the terms and conditions of the Bonds' issuance;
  - Issuer's failure to fulfil other conditions set forth in the terms and conditions for the Bonds' issuance which enable the Bank to call for immediate payment.

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

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

Exposures for which impairment factors have been identified are divided into individually assessed and collectively assessed. Individual assessment is applied in the case of

exposures incurring the risk of impairment (at customer level), exceeding the thresholds levels set depending on the customer segments (see table below).

Client segment	Limit level	
	2013	2012
Individual client	100 000	100 000
Business client	200 000	200 000

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

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

Group valuation is based on the time in default of a given exposure and accounts for the specific nature of the given group in terms of the expected recoveries. Collateral is taken into consideration at exposure level. In 2013 the Bank implemented a new LGD estimation model which is used to calculate the LGD parameter for the purpose of IBNR allowances and group allowances in respect of loans with identified impairment indicators. The decision to implement the model results from the Bank having accumulated appropriate loan recovery history data which enables it to estimate LGD parameters using its own data. The new model was designed so as to become the basis for assessing LGD for the purpose of calculating capital requirements using the IRBA method in the future. The model uses the Bank's historical recovery data broken down into homogenous product groups. To account for the current behaviour of the portfolio, for some parameters the model only takes into consideration observations from the last 18 months.

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

PD parameters are determined on the basis of the migration matrix and the LIP levels applied. The period of historical data which is the basis for assessing PD was selected so as to achieve two goals: maximize the predictiveness of parameters and for stability of estimation. For this purpose, for most portfolios the Bank uses a 12-month observation period for migration between the delay and default baskets to determine PD. Portfolios of medium and large companies, for which the Bank uses a 24-month period due to a lower

number of defaults, are an exception to this rule. The PD parameter is differentiated depending on particular delay portfolios and baskets.

BASKET		LIP
B0**	0 DPD	6, 5, 4
B1	1-30 DPD	3
B2	31-60 DPD	2
B3	61-90 DPD	1
CND*	>90 DPD	1

(\*) for exposures which has not exceeded technical materiality limit for overdue recognition

(\*\*) for not overdue basket (BO) following LIP periods has been used:

6 - Mortgage loans,

5 - Credit cards,

4 - Consumer loans, car loans, corporate loans

### Collateral

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

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

In particular, the Bank accepts the following legal collaterals:

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

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

Debt collaterals established by the Bank make it possible to:

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

### Scoring/rating

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

The scoring and rating models have been implemented to:

1. control credit risk by acquiring reliable forecasts of a customer's creditworthiness;

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

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

The scoring models currently used were built internally in the Bank. The Bank Validation Committee for Scoring and Rating Models was established in order to execute independent reviews of all scoring and rating models, and also in order to issue recommendations and approvals in the scope of approving newly constructed or purchased models.

The scoring models enable obtaining:

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

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

### Amounts due from customers from the non-financial sector not overdue and not impaired by risk category

Class risk	As at 31.12.20 13	As at 31.12.2012
<b>Individuals</b>		
<b>Mortgage loan, Cash loan, Car loan, Credit card, Overdraft</b> (1- best class, 6 - worst class)		
1	875 565	934 645
2	871 413	865 028
3	1 001 028	904 173
4	1 002 355	810 457
5	62 048	32 712
6	7 825	6 694
<b>Cash loan, Credit card, Overdraft - simplified processes</b> (K1- best class, K10 - worst class)		
K1	90 934	57 370
K2	175 193	125 904
K3	433 941	280 541



K4	805 513	457 732
	1 062	
K5	653	576 106
K6	910 080	580 437
K7	557 759	502 387
K8	248 762	294 928
K9	48 060	59 119
K10	5 835	10 603

**Mortgage loans (according to new scoring model, implemented for credit applications after 30.06.2013)**

(M1- best class, M10 - worst class)

M1	596	0
M2	3 090	0
M3	13 999	0
M4	45 072	0
M5	103 971	0
M6	142 642	0
M7	116 154	0
M8	78 897	0
M9	42 917	0
M10	8 036	0
Without scoring	280 315	257 675
	<b>8 994</b>	
<b>Total Individuals</b>	<b>653</b>	<b>6 756 511</b>

**Corporates**

**Long-term products, Car loans, Working capital loans**

(1- best class, 6 - worst class)

1	10 609	18 174
2	36 347	55 731
3	52 672	81 995
4	23 108	37 187
5	261	7
6	100	0

**Models for microenterprise with simplified accounting**

(B1- best class, B10 - worst class)

B1	15 647	9 068
B2	53 877	47 273
B3	71 211	53 841
B4	70 293	68 822
B5	64 222	49 499
B6	31 219	23 512
B7	5 343	6 940
B8	1 233	391
B9	401	44
B10	0	0

**Models for business clients using trading book accounting, car dealers and real estate developers**

(A- best class, J - worst class)

A	99 310	186 674
B	593 015	448 167
C	1 535 848	1 052 185

	D	1 716 203	1 332 329
	E	1 298 200	1 009 664
	F	916 186	604 462
	G	147 757	167 407
	H	187 498	46 208
	I	13 815	14 996
	J	999	532
	Without rating	228 937	14 909
	<b>Total Corporates</b>	<b>7 174 311</b>	<b>5 330 017</b>
	<b>Total</b>	<b>16 168 964</b>	<b>12 086 528</b>

### Monitoring credit risks related to retail and business customers

Continuous credit portfolio quality protection is ensured by:

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

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

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

Monitoring of the business customer segment includes the following areas:

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

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

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

All credit exposures of retail and business customers are subject to monitoring and on-going classification to appropriate process paths. To improve the monitoring process and controls of potential operating risks, adequate solutions in the Bank's credit system have been implemented. System tools have been to effectively conduct the monitoring procedures (soon to be applicable to all the accounts). Commitments classified as standard and dangerous, which may intensify the activity during pre-enforcement and debt collection proceedings, are regularly monitored. Accounts are evaluated with regard

to changing debts under the restructuring procedure in order to minimize the Bank's default losses.

In addition, regular updates are made for a collaterals value and the timeliness of filing credit documents, while the adequacy of receipts on accounts and proper utilization of limits are carefully verified.

Credits in process of restructuring (with overdue payments greater than 30 days) are presented below:

Credit in restructuring	Stan 31.12.2013	Stan 31.12.2012
<b>Retail segment</b>	<b>48 635</b>	<b>25 156</b>
Loans for residential real estate	4 771	1 354
gross value	4 780	1 407
Impairment allowance	-9	-53
Consumer loans	40 886	10 167
gross value	48 860	17 703
Impairment allowance	-7 974	-7 536
Other mortgage loans	2 978	13 635
gross value	2 995	13 636
Impairment allowance	-17	-1
<b>Corporate segment</b>	<b>60 394</b>	<b>42 097</b>
Working capital facility	34 875	21 896
gross value	49 155	29 049
Impairment allowance	-14 280	-7 153
Investment loans	22 145	18 123
gross value	28 483	18 123
Impairment allowance	-6 338	0
Other	3 374	2 078
gross value	3 502	3 326
Impairment allowance	-128	-1 248
<b>total</b>	<b>109 029</b>	<b>67 253</b>

Credit in restructuring impaired	Stan 31.12.2013	Stan 31.12.2012
Retail segment	14 603	10 946
impaired	22 603	18 536
Impairment allowance	-8 000	-7 590
Corporate segment	35 212	8 557
impaired	55 958	16 958
Impairment allowance	-20 746	-8 401
<b>total</b>	<b>49 815</b>	<b>19 503</b>

## The Bank's maximum exposure to credit risk

14.6 Financial instruments exposed to credit risk	As at 31.12.2013	As at 31.12.2012
Financial assets held for trading	243 291	173 706
Financial assets available for sale	3 388 525	4 320 747
Amounts due from banks	254 199	371 275
Loans and advances to customers	19 657 900	14 299 582

<b>Bank's maximum exposure to credit risk</b>	<b>23 543 915</b>	<b>19 165 310</b>
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According to the Bank carrying amount best reflects maximum exposure to credit risk.

## 46. Operational risk

When managing its operational risks, Alior Bank uses definitions put forward by the Basel Committee on Banking Supervision, whereby operational risks refer to possible losses resulting from failure to deploy internal processes, staff, systems or to external threats. The operational risk includes legal risk, while it does not include any reputation or strategic risk.

The Bank manages its operational risk pursuant to the Banking Law, Resolutions No. 76/2010 and 383/2008 of the PFSA, and Recommendation M, which takes into account the guidelines proposed by the Basel Committee on Banking Supervision on operational risk management.

The Bank's internal policy regarding operational risk management has been described in the document entitled "Operational Risk Policy in Alior Bank S.A." (amended in December 2013 according to the Management Board's Resolution No. 491/2013).

The document specifies the following objectives for the operational risk management model:

1. to ensure and maintain compliance of the Bank's activities with the applicable laws;
2. to protect capital and customer deposits, and to ensure stability of the Bank's financial result;
3. to keep operational risk at acceptable and justified levels (subject to monitoring);
4. to evaluate and enhance banking processes in order to reduce operational risk;
5. to boost customer satisfaction and improve the Bank's competitive standing;
6. to reduce capital requirements due to the operational risk.

On-going control of operational risks relates to entities at all levels of the organization and to all the Bank's employees. The Bank's employees control the risk level on a current basis in the area of the processes they are responsible for and actively minimize the risk exposure to avoid operating losses.

As for the identified significant operating threats, the Bank's Management Board decides to reduce operational risk through purchasing appropriate insurance policies.

Periodically, the Bank's Management Board evaluates how the policy has been adhered to with regard to the operational risk management. To this end, the Management Board is regularly informed about any operational risks to which the Bank is exposed.

The Operational Risk Committee (ORC) works within the Bank's organizational structure according to the ORC operational regulations passed by Management Board Resolution No. 244/2013. The Committee monitors the level of exposure to operational risk on a current basis and assesses the current operational risk position at Bank level. It also makes the necessary recommendations and decisions aimed at decreasing the likelihood

of operational risk events and at limiting the negative results of operational risk events and incidents.

The Operational Risk Office (ORO) is responsible for on-going control and monitoring of operational risk. It is also responsible for developing and implementing appropriate operational risk methodologies and instruments. The Bank records all the events, incidents and operational losses pursuant to the "Instructions for Recording Operational Events in Alior Bank S.A." (Management Board Resolution No. 446/2009). This process is supported by the operational risk management system, OpRisk Suite. Analysis and monitoring of data from the system are used to manage operational risk in all areas of the Bank and in the Brokerage House.

To monitor the status and profile of the Bank's operational risk on an on-going basis the Bank uses the Key Risk Indicators – KRI methodology. With its use the Bank monitors changes in operational risk factors and the trends for changes in risk exposure, and ensures early discovery of increased operational risk exposure in all areas of its operations. Monitoring is conducted on a monthly basis and KRI are analyzed and discussed at Operational Risk Committee meetings and forwarded to the Bank's Management Board.

## 47. Capital management

In its Risk Management Policy and Capital Management and Planning Policy the Bank defines its risk appetite as the exposure to particular material types of risk accepted for management and the manner of managing the exposure, and the levels of offsetting potential unexpected losses determined in the provisions of Resolution No. 76/2010 of the Polish Financial Supervision Authority, and particular risks identified under the ICAAP process by available capital (and Tier 1 capital).

In particular credit risk appetite:

- 1) in respect of retail credit exposures, including those secured by mortgage, approved by the Management and Supervisory Board in the Credit Risk Management Strategy in respect of DTI, risk appetite, LTV and own share of Alior Bank S.A. for retail credit exposures, including those secured by mortgage, was defined as the accepted levels: of the relation of the capital requirement in respect of retail exposures, including retail exposures secured by mortgage to own funds, PD and the maximum levels of DTI;
- 2) in respect of credit exposures in the business customer segment, including those secured by mortgage, was defined as the maximum acceptable increase in the PD level and LGD level.

The objective of the Bank is to ensure that – at all times – its own capital is sufficient to cover all the significant types of risk specified above at levels determined by the risk appetite.

## Capital management responsibility

The Management Board, the Supervisory Board and the ALCO take an active role in capital management.

### Competencies of the Supervisory Board

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

### Competencies of the Management Board

1. preparation and implementation of the internal capital estimation processes;
2. preparation and implementation of capital management processes;
3. preparation and implementation of capital planning processes;
4. regular ICAAP reviews;
5. analysis of ICAAP reports (monitoring of capital targets and risk profile);
6. supervision over the ICAAP process.

### Competencies of the Risk Management Committee and ICAAP:

1. supervising the ICAAP process in the Bank, including the process of risk review and assessing the internal capital to cover material risks;
2. monitoring capital goals, limits of capital allocation and limits for the solvency ratio and Tier 1 ratio;
3. giving opinions on ICAAP process reviews.

## Capital adequacy measures

The basic tools for capital management at Alior Bank include:

1. the solvency ratio and Tier1 ratio;
2. analysis of the regulatory capital requirement; and
3. internal capital (ICAAP) and the ratio of covering internal capital with own funds.

### 47.1 Capital adequacy ratio

The capital adequacy (solvency) ratio is calculated in accordance with Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 on the scope of capital requirements for particular risks and the detailed principles to be applied in determining those requirements.

The minimum level of capital adequacy required by the Banking Law is 8%.

Calculation of funds and capital adequacy ratio	As at 31.12.2013	As at 31.12.2012 Adjusted amount
<b>Total own funds for the capital adequacy ratio</b>	<b>2 324 302</b>	<b>2 144 946</b>
Share paid	635 830	635 830
Share premium	0	649 405
Supplementary capital components	1 434 712	627 205
Other capital	176 792	163 377
Current year's reviewed by auditor	219 752	59 460
Accumulated losses, net loss for the current period and loss being approved	-275 382	-176 740

Revaluation reserve – unrealized losses	-18 455	-354
Intangible assets at carrying amount	-188 049	-157 938
Revaluation reserve – unrealized gains	1 177	10 926
Subordinated liabilities	340 134	339 279
The Bank's capital exposure to financial institutions	-2 209	-5 504
<b>Capital requirements</b>	<b>1 543 111</b>	<b>1 129 315</b>
Capital requirements for the following risks: credit, counterparty, dilution and delivery of instruments to be settled at a later date	1 398 651	1 037 453
Total capital requirements for the following risks: equity instrument price risk, debt instrument price risk, commodity prices and FX risk	2 431	1 543
Capital requirement for general interest rate risks	25 766	14 842
Capital requirements for operating risk	116 263	75 477
<b>Tier 1</b>	<b>10.29%</b>	<b>12.73%</b>
<b>Capital adequacy ratio</b>	<b>12.05%</b>	<b>15.19%</b>

Details of bancassurance adjustments are presented in note no. 2.1.

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

Exposure class in the standard method	31.12.2013		31.12.2012	
	Exposure value	Risk weighted exposure value	Exposure value	Risk weighted exposure value
Governments and central banks	4 118 192	15 485	4 862 982	16 669
Institutions – banks	715 099	278 509	1 046 753	384 121
Enterprises	3 993 551	3 993 551	2 703 230	2 683 348
Retail	7 699 944	5 822 565	5 970 014	4 539 362
Secured on real estates	7 588 284	6 027 867	5 581 295	4 347 386
Exposures in the high risk supervisory category	38 298	57 447	62 885	94 328
Other	1 901 577	1 287 699	1 390 705	902 950
<b>Total</b>	<b>26 054 945</b>	<b>17 483 123</b>	<b>21 617 864</b>	<b>12 968 164</b>

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

Exposure type	31.12.2013	31.12.2012 Adjusted amount
Cash in hand and equivalent items	196 648	152 386
Securities	3 388 279	4 320 504
Loans	20 930 349	15 923 304
Property, plant and equipment	215 121	214 887
Intangible assets	188 049	157 938
Other	623 946	414 137
<b>Total</b>	<b>25 542 392</b>	<b>21 183 156</b>

## 47.2. Analysis of the regulatory capital requirement

In calculating its capital adequacy ratios, the Bank analyses the capital requirement regulatory level and the relation of its own funds against the internal capital. The analysis consists in comparing actual values to budget values and explaining the possible differences: whether they are caused by other than the planned scale of the Bank's activity (especially the loan portfolio size) or other than planned asset risk profile. During 2013, the Bank's equity exceeded the total capital requirement.

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

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

#### **47.3. Internal capital**

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

Material types of risk as at 31 December 2013:

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

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

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

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

#### **47.4 CRD IV/CRR package**



In the second half of 2013 the Bank implemented the change project following from the CRR Regulation.

Changes in calculating capital requirements were implemented by the Bank and will constitute an element of capital management in 2014.

