ALIOR BANK SPÓŁKA AKCYJNA

Annual Individual Financial Statements
for the period from 01 January to 31 December 2011

Selected financial data

Selected financial data	Amounts in PLN million		Amounts in EUR million	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
I. Interest income	851	494	206	123
II. Commission income	434	226	105	56
III. Net profit/loss	151	-98	36	-24
IV. Total net cash flows	74	399	19	100
V. Total Assets	15,410	9,240	3,489	2,333
VI. Equity	1,114	983	252	248
VII. Share capital	500	500	113	126
VIII. Number of shares	50,000,000	50,000,000	50,000,000	50,000,000
IX. Capital adequacy ratio	9,99%	15.67%		
X. Net profit/loss per ordinary share	PLN 3.02	PLN -1.95	EUR 0.73	EUR -0.49

The selected items of the Financial Statements have been converted to EUR according to the following principles:

a) as at 31.12.2011
- Balance sheet items - at the average EUR exchange rate expressed in PLN, announced by the NBP as at 31.12.2011 – 4.4168;
- Income statement and cash flow account items – according to the average EUR rate expressed in PLN, constituting an arithmetic mean of average rates announced by the NBP, valid at the end of each month – 4.1401.

b) as at 31 December 2010
- Balance sheet items - at the average EUR exchange rate expressed in PLN, announced by the NBP as at 31 December 2010 – 3.9603;
- Income statement and cash flow account items – according to the average EUR rate expressed in PLN, constituting an arithmetic mean of average rates announced by the NBP, valid at the end of each month – 4.0042;

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INCOME STATEMENT

(in PLNk)

INCOME STATEMENT	Notes	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Interest income		851,229	494,335
Interest expense		-356,310	-188,753
Net interest income	1	**494,919**	**305,582**
Fees and commission income		434,365	225,980
Fees and commission expense		-125,853	-77,098
Net fee and commission income	2	**308,512**	**148,882**
Trade result	3	141,922	94,931
Net gain (loss) on other financial instruments	4	16,710	15,116
Other operating income		47,087	30,497
Other operating expenses		-19,811	-10,938
Net other operating income and expenses	5	**27,276**	**19,559**
Bank's operating expenses	6	**-635,330**	**-564,732**
Net income on impairment	7	**-189,138**	**-133,104**
Gross profit/loss		**164,871**	**-113,766**
Income tax	8	-13,866	16,176
Net profit/loss		**151,005**	**-97,590**
Number of ordinary shares		**50,000,000**	**50,000,000**
Net profit/loss per share (PLN)	9	3.02	-1.95

COMPREHENSIVE INCOME STATEMENT

(in PLNk)

	Notes	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Net profit/loss		**151,005**	**-97,590**
Other taxable comprehensive income		**-19,445**	**-1,671**
Effects of valuation of financial assets available for sale (net)	22	-19,445	-1,671
Comprehensive income, total		**131,560**	**-99,261**

STATEMENT OF FINANCIAL STANDING

in kPLN

ASSETS	Notes	As at 31.12.2011	As at 31.12.2010
Cash and balances with Central Bank	**10**	**447,083**	**476,400**
Financial assets held for trading	**20**	**236,594**	**37,798**
Financial assets available for sale	**11**	**2,906,975**	**2,422,106**
Receivables from customers	**12**	**10,134,786**	**5,541,573**
Receivables from banks	**13**	**1,105,792**	**241,961**
Tangible fixed assets	**14**	**212,392**	**215,703**
Intangible assets	**15**	**122,854**	**109,131**
Shareholdings in subsidiaries	**30**	**250**	**0**
Current income tax receivables	**8.3,8.4**	**73,648**	**82,953**
Current		*0*	*0*
Deferred		*73,648*	*82,953*
Other assets	**16**	**169,274**	**112,520**
TOTAL ASSETS		**15,409,648**	**9,240,145**

in PLNk

LIABILITIES	Notes	As at 31.12.2011	As at 31.12.2010
Financial liabilities held for trading	**20**	**168,300**	**38,691**
Financial liabilities measured at amortised cost	**17**	**13,602,905**	**7,928,848**
Provisions	**18**	**32,651**	**48,228**
Other liabilities	**19**	**447,203**	**241,752**
Subordinated load	**21**	**44,403**	**0**
Liabilities, total		**14,295,462**	**8,257,519**
Equity	**22**	**1,114,186**	**982,626**
Share capital		**500,000**	**500,000**
Supplementary capital		**502,569**	**595,939**
Revaluation reserve		**-13,019**	**6,426**
Undistributed result from previous years		**-26,369**	**-22,149**
Current year's profit/loss		**151,005**	**-97,590**
TOTAL LIABILITIES		**15,409,648**	**9,240,145**

OFF-BALANCE SHEET LIABILITIES	Notes	in PLNk	
		As at 31.12.2011	As at 31.12.2010
Liabilities granted	**25 a,b,c**	11,202,415	7,077,781
Liabilities received	**25 b,c**	7,503,517	3,785,923

STATEMENT OF CHANGES IN EQUITY

in PLNk

	Share capital	Supplementary capital	Revaluation reserve	Undistributed result from previous years	Current year's result	Total equity
As at 01.01.11	500,000	595,939	6,426	-93,370	0	1,008,995
Change in presentation of settlement of the purchase of the enterprise				-17,280		-17,280
Changes in accounting policy				-9,089		-9,089
As at 01.01.11 (after adjustment)	500,000	595,939	6,426	-119,739	0	982,626
Comprehensive income			-19,445		151,005	131,560
Coverage of previous years' losses from supplementary capital		-93,370		93,370		0
As at 31.12.2011	**500,000**	**502,569**	**-13,019**	**-26,369**	**151,005**	**1,114,186**

	Share capital	Supplementary capital	Revaluation reserve	Undistributed result from previous years	Current year's result	Total equity
As at 01.01.10	500,000	865,870	8,097	-269,931	0	1,104,036
Change in presentation of settlement of the purchase of the enterprise				-20,330		-20,330
Changes in accounting policy on				-1,819		-1,819
As at 1 January 2010 (after adjustment)	500,000	865,870	8,097	-292 080	0	1,081,887
Comprehensive income			-1,671		-97,590	-99,261
Coverage of previous years' losses from supplementary capital		-269,931		269,931		0
As at 31.12.2010	**500,000**	**595,939**	**6,426**	**-22,149**	**-97,590**	**982,626**

CASH FLOW STATEMENT

in PLNk

Operating activity	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Net profit/loss per business year	**151,005**	**-97,590**
Reversals of non-cash items:	**79,684**	**49,052**
Unrealised foreign exchange gains (losses)	-24,357	-63
Income tax paid / refund	0	0
Change in income tax assets	2,208,00	-16,175
Amortisation/depreciation of tangible and intangible assets	56,207	48,584
Impairment	189,138	132,667
Change in provisions	-15,577	-2,480
Net losses/profits on sale of investments	-16,133	-14,936
Interest	-111,802	-101,595
Operating activity result flows before asset change and operating activity liabilities	**230,689**	**-44,318**
Change in credits and other receivables	-5,536,756	-3,011,168
Change in assets available for sale	40,139	16,999
Change in financial assets held for trading	-198,796	-10,958
Change in other assets	-68,800	-66,354
Change in liabilities to the Central Bank	0	-861,698
Change in deposits	5,446,510	3,379,877
Change in liabilities to issue own securities	276,538	187,410
Change in financial liabilities held for trading	129,609	19,840
Change in other liabilities	50,682	339,184
Cash flows from operating activities	**369,815**	**-58,456**
Change in income tax assets/liabilities arising from operating activities	**11,658**	**0**
Net cash flows from operating activities	**381,473**	**-58,456**

Investment activity	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Cash used in investment activities:	**-25,955,253**	**-7,442,630**
Acquisition of property, land and equipment	-23,478	-47,355
Acquisition of intangible assets	-31,655	-29,993
Purchase of financial assets designated for sale	-25,899,870	-7,365,282
Purchase of shares in subsidiaries	-250	0
Cash provided by investment activities:	**25,543,845**	**7,899,906**
Disposal of financial assets designated for sale	25,503,306	7,892,954
Other cash provided by investment activities	40,482	6,952
Disposal of property, land and equipment	57	0
Net cash flows from investment activities	**-411,408**	**457,276**

Financial activity	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Financial expenditures	**-1,700**	**0**
Long-term liabilities repayment	-1,700	0
Financial activity related receipts	**106,023**	**0**
Contraction of long-term liabilities	60,529	0
Incurred subordinated liabilities	45,494	0
Net cash flows from financial activities	**104,323**	**0**

Net cash flows, total	**74,388**	**398,820**
Balance sheet change in cash	**74,388**	**398,820**

in PLNk

Decrease in net cash	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Cash, opening balance	**710,039**	**311,219**
Cash, closing balance	**784,427**	**710,039**
Cash in hand	137,698	93,987
Receivables from central banks, including:	309,385	382,413
limited availability cash	285,631	244,284
Receivables from other banks	337,344	233,639
Additional cash flow disclosures		
Interest income received	687	362,669
Interest expense paid	-359	-201,334

"+" symbol means inflows of cash, i.e. increase in liabilities, decrease in assets and financial income (interest received, foreign exchange gains)

"-" symbol means outflows of cash, i.e. increase in assets, decrease in liabilities, financial expenses (payment of interest, foreign exchange losses)

GENERAL INFORMATION

Alior Bank Spółka Akcyjna is a bank with its registered office in Poland, at Aleje Jerozolimskie 94, 00-807 Warsaw. The Bank has been entered into the register held by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000305178. Tax Identification Number (NIP) – 1070010731.

Alior Bank SA is a member of the Carlo Tassara Capital Group.

Term of operations

On 18 April 2008, the Polish Financial Supervision Authority granted its consent for establishment of the bank under the name of ALIOR BANK S.A.

On 1 September 2008, the Authority gave its official consent for ALIOR BANK S.A. to commence its business, and five days later it allowed the Bank to provide brokerage services.

The term of operations of the bank is indeterminate.

The Bank's operations

The operations of Alior Bank SA:

- accepting cash as demand deposits or term deposits and keeping deposit accounts;
- maintaining other bank accounts;
- granting credits;
- giving and confirming bank guarantees and opening and confirming letters of credit;
- issuing banking securities;
- conducting banking cash settlements;
- granting cash loans;
- issuing payment cards and conducting operations in which such cards are used;
- conducting term financial operations;
- acquiring and disposing of cash liabilities;
- safekeeping of items and securities and letting of safe deposit boxes;
- buying and selling foreign exchange values;
- giving and confirming sureties;
- intermediating in making cash transfers, as well as foreign currency settlements;
- issuing electronic money instruments;
- carrying out contracted activities related to the issuing of securities;

- contracting liabilities associated with the issue of securities;
- trading in securities;
- providing consultation and advisory services in financial matters;
- providing factoring and forfaiting services;
- acting as an agent in concluding leasing agreements;
- acting as an agent in granting loans;
- performing factual work regarding agency in purchasing and selling foreign currencies;
- pursuing brokerage services;
- performing insurance agency activities;
- performing activities related to issuing and servicing financial instruments not constituting securities;
- providing Bank's affiliates with specialist services consisting, in particular, in making IT systems and technologies (including data processing, IT infrastructure/software creation and maintenance) available to such affiliates in order to boost cooperation within the scope of financial services offered;
- selling coins, banknotes and antique coins issued by the NBP and designated for the collector's and other purposes.

The Bank runs its business in Poland and the EEA.

Continuity as going concern

The financial statement has been made under the assumption that the Bank will continue its business in the predictable future. According to the Bank's managers, there are no circumstances negatively influencing the Bank's business.

Approval of the Financial Statements

This financial statement was signed by the Bank's Management Board on February 29, 2012.

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

On November 7, 2011, the Supervisory Board, effective of December 1, 2011, appointed to the Management Board of the Bank: Katarzyna Sułkowska and Witold Skrok, entrusting them both with the functions of Vice-Presidents of the Management Board. Thus, as of December 1, 2011, the Management Board of the Bank operates in a 7-person composition.

Management Board of Alior Bank S.A. as at 31.12.2011:

Mr Wojciech Sobieraj	President of the Management Board
Mr Krzysztof Czuba	Vice-president of the Management Board
Mr Niels Lundorff	Vice-president of the Management Board
Mr Artur Maliszewski	Vice-president of the Management Board
Mr Witold Skrok	Vice-President of the Management Board Mr
Cezary Smorszczewski	Vice-President of the Management Board
Ms Katarzyna Sułkowska	Vice-President of the Management Board

Management Board of Alior Bank S.A. as at 31 December 2010:

Mr Wojciech Sobieraj	President of the Management Board
Mr Krzysztof Czuba	Vice-president of the Management Board
Mr Niels Lundorff	Vice-president of the Management Board
Mr Artur Maliszewski	Vice-president of the Management Board
Mr Cezary Smorszczewski	Vice-President of the Management Board

On 7 October 2011, the Extraordinary General Meeting of the Bank accepted the resignation of Krzysztof Rybiński from the post of a Member of the Bank's Supervisory Board and simultaneously appointed Józef Wancer to the Supervisory Board.
On November 7, 2011, the Supervisory Board elected Józef Wancer as the Deputy Chairman of the Supervisory Board.

Supervisory Board of Alior Bank S.A. as at 31.12.2011:

Ms Helene Zaleski	Chairwoman of the Supervisory Board
Mr Józef Wancer	Deputy Chairman of the Supervisory Board
Ms Małgorzata Iwanicz-Drozdowska	Member of the Supervisory Board

Mr Marek Michalski	Member of the Supervisory Board
Mr Krzysztof Obłój	Member of the Supervisory Board

Supervisory Board of Alior Bank S.A. as at 31.12.2011:

Ms Helene Zaleski	Chairwoman of the Supervisory Board
Mr Krzysztof Rybiński	Deputy Chairman of the Supervisory Board
Ms Małgorzata Iwanicz-Drozdowska	Member of the Supervisory Board
Mr Marek Michalski	Member of the Supervisory Board
Mr Krzysztof Obłój	Member of the Supervisory Board

Information about the certified auditor's fee

The certified auditor's fee paid in 2011 for:
- mandatory audit of the annual statement for 2010 totalled PLN 272,627.58.
- other services amounted to PLN 160,545.46.

SIGNIFICANT ACCOUNTING POLICIES

Basis presentation

Statement of compliance

Alior Bank S.A. maintains its accounts and issues the financial statements in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and any interpretations related thereto, announced in the form of regulations of the European Commission.

The accounting principles applied by Alior Bank SA were used in a continuous manner and they are corresponding to those used in the previous business year, with the exception of changes:
- in presentation of insurance sales income,
- setting-off assets and provisions items due to deferred tax,

which was described in the item "Comparable data" below,
and changes:
- of settlement of the transaction of purchase of a part of Alior Polska enterprise,
– accounting for fees and commissions paid for consideration of a credit application
-of settlement of remuneration for insurance sales agents.

In 2011, the Bank changed its approach to the settlement of the purchase of an organized portion of an enterprise and settled it using the pooling of interests method, changing thereby the opening balance for 2010.The Management Board of the Bank, on the basis of its judgement, adopted the pooling of interest method for the purposes of settlement of this transaction, as a method which in the best way reflects the economic contents of the transaction consisting in uniting entities under one management.

Taking into account the materiality of amounts of fees and commissions charged for consideration of a credit application as well as the increased share of credit applications considered positively, it is purposeful, in the opinion of the Bank's Management Board, to change the manner of presentation of such fees and commissions charged once into a transaction settled until the date of the credit's maturity.

The Bank changed its approach to the settlement of provisions for insurance sales agents which until now have been presented under 'other operating income' category in the Bank's income, changing thereby the opening balance for 2010. Based on the analysis of the historical data and the impact of the provisions on the rate of return on the financial instrument, part of remuneration has been integrally related to the effective interest rate and settled until the date of the financial instrument's maturity. The remainder of remuneration for performed administrative actions related with customers' joining group insurance agreements concluded by the Bank with insurers will be presented in the Bank's income as the revenue from provisions.

The financial statement of Alior Bank S.A. has been drawn up for the period from 01 Jan. 2011 – 31 Dec. 2011. It also includes data of the Brokerage House. The Bank's annual statement has been prepared in accordance with the IFRS based on the version validated by the European Commission and in line with the other applicable laws. As regards the scope uncovered by IAS/IFRS, relevant data has been presented pursuant to the Accounting Act requirements and the corresponding secondary legislation.

Standards and interpretations approved by the European Commission in 2011, connected with the operations conducted by the Bank

Standard	**Type of anticipated amendment to the Accounting Policies**	**Possible effect on the Financial Statements**	**Effective date**
IAS 1	The change concerns widening of the information scope in statement of	The Bank applied the changes in the	After December 31, 2010

Presentation of financial statements	changes in equity	statement for 2011	
IFRS 7 Presentation of financial statements	The change concerns supplementation and joining of interconnected information about risk connected with financial instruments	The Bank applied the changes in the statement for 2011	After December 31, 2010
IFRS 7 Presentation of financial statements	The changes are concerned with disclosing financial asset transfer information.	The Bank shall apply the changes as of January 1, 2012	From 01.01.12

The below draft standards/standard changes and interpretations related to the Bank's business were not approved by the European Commission in 2011.

Standards and interpretations pending approval of the European Commission:

Standard	**Type of anticipated amendment to the Accounting Policies**	**Possible effect on the Financial Statements**	**Effective date**
IFRS 9 Financial Instruments	The new standard contains changed requirements regarding classification and measurement of financial assets, while also providing examples of practical application, including the manner of classification of financial assets in line with IFRS 9, and description of potential effects of application of the revised standard on the entity's financial statements.	The Bank analyses the effect of changes on disclosure and presentation of financial instruments and selection of the date for application of the revised regulations	Applicable for reporting periods starting as of January 1, 2013 with a possibility of earlier application
IFRS 13 Fair value valuation	The IFRS covers: fair value definition, guidelines on defining fair value, requirements related to disclosing data on fair value valuation.	The Bank will analyse the IFRS 13 provisions , paying special attention to the principles applied and the way fair value valuation is presented.	Valid for annual periods commencing on 1 Jan. 2013.
Changes to IAS 12	Stipulated in the changes is waiver from a general principle according to which the valuation of assets and liabilities related to deferred tax should take into account tax consequences of the way in which a given entity plans on regaining the balance sheet value of asset items.	The Bank will analyse the provisions, taking into consideration the possible impact of the proposed changes on the deferred tax in the Bank.	Valid for annual periods commencing on 1 Jan. 2012.

Financial Statement Preparation Basis

Pursuant to art. 45 section 1c of the Accounting Act of 29 September 1994, the Extraordinary General Meeting of Alior Bank SA decided (by force of Resolution No. 2/2008 of 22 July 2008) that the Bank's financial statements would be drawn up in accordance with the IAS and IFRS standards, and the corresponding interpretations announced in the form of the European Commission's regulations.
The statement has been prepared in PLN rounded to a thousand zloty.

Alior Bank’s financial statement for 31.12.2011 has been based on the concept of fair value put against assets and liabilities for which it is possible to reliably evaluate fair value. As regards the other assets and liabilities, the principle of valuation against depreciated or historic costs (taking into account impairment write-downs) has been used.

Comparable data

The statement presented hereunder covers the period from 01 January until 31.12.2011, while the comparative data cover the period from 01 January until 31.12.2010.

The following changes were made in the presentation of data in 2011:

- due to the increasing share of remuneration for performed administrative actions related with customers' joining group insurance agreements in the Bank's income, the result due to bank product insurance were transferred from the result of other operating income and costs to the result of provisions;
- the deferred income assets and provisions were compensated for
- the collateral due to settlement with MasterCard was transferred from ‘receivables from banks’ to receivables from customers’ category.

The data for 31.12.2010 was made comparable with the period being audited and the settlement of the acquisition of the part of Alior Polska and of remuneration for insurance sales agents was changed as described above.

Items on the profit and loss account being changed (31.12.2010)	Data before the change in the presentation	Change in the settlement of the acquisition of the part of Alior Polska	Reclassification of revenues from insurance	Change in the settlement of remuneration for insurance sales agents	Comparable data
Net fee and commission income	**46,901**		109,251	-7,720	**148,882**
Net other operating income and expenses	**128,810**		-109,251		**19,559**
Bank’s operating expenses	**-567 782**	3 050			**-564 732**

Items on the balance sheet being changed (31.12.2010)	Data from the statement for 2010	Transfer of MasterCard collateral	Compensation of deferred income assets and provisions	Change in settlement of acquisition of part of Alior Polska	Change in the settlement of remuneration for insurance sales agents	Comparable data
Current income tax receivables	**203,817**		**-127,050**	**6,186**		**82,953**
Current income tax liabilities	**127,050**		**-127,050**			**0**
Receivables from customers	**5,550,662**	**10 326**			**-9,089**	**5,541,573**
Receivables from banks	**252 287**	**-10 326**				**241 961**
Intangible assets	**132,597**			*-23,466*		**109,131**
Equities	**1,008,995**			*-26,369*		**982,626**

Estimates

Drafting a financial statement according to IFRS requires the Bank's management to make subjective assessments, estimates and assumptions which have impact on the use of the accounting rules and presented amounts of assets, liabilities, revenues and costs. Estimates and assumptions are made on the basis of available historical data and also on the basis of factors considered, under circumstances, appropriate. The results of those actions form a basis for estimates in relation to the carrying amounts of assets and liabilities, which cannot be derived clearly from any other sources. These are estimated values of future cash flows, estimated unrecoverable amounts, future estimated costs of operations, estimated risk values. The aforesaid estimates and assumptions are reviewed on an ongoing basis in terms of whether they are justified.

Adjustments of the estimates are recognised in the period when the adopted estimates have been changed.

Significant changes to valuations taking place in 2011

Provision for incurred but not reported credit risk (IBNR)

In 2011, the Bank changed the way the IBNR provision is measured using migration matrix methodology to calculation of PD parameters (probability of failing to fulfil the liability) and adjusted recovery levels. The change in the method of measuring the IBNR provision led to an increase in the level of the IBNR provision by PLN 8.6 million.

Incremental costs

Revealing its interest and commission revenue, the Bank presented not only accrued revenue calculated in accordance with depreciated costs (by means of the effective interest rate method) and revenue calculated on a straight-line basis, but also incremental costs settled internally and externally. Personal costs related to loan processing or non-balance sheet involvement are included in the internal incremental costs calculation. The internal incremental cost rate has been presented in PLN for each product group, non-balance sheet involvement or the customer segment a given loan or involvement refer to.

Interest result

Interest income and costs are recognised on the accrual basis in line with depreciated cost with the use of the effective interest rate method. The interest income is

calculated for as long as their obtaining is probable. Calculated interest (to be received and payable) is revealed in the financial standing statement (juxtaposed to relevant items).
The interest result covers fees and commissions related directly to financial assets and liabilities (both revenue and costs) making an integral part of the effective interest rate.

The effective interest rate method consists in calculating depreciated costs of a component of financial assets or liabilities and allocating interest revenue and costs. The effective interest rate discounts the estimated future cash flows to the net balance sheet value of the asset or financial liability component. Calculating its effective interest rates, the Bank evaluates cash flows, paying particular attention to all the contractual conditions of a given financial instrument, disregarding the possible future losses caused by unpaid loans.

Fee and commission income and expenses

Fee and commission revenue stems from financial services provided by the Bank. The fees and commissions directly related to financial assets or liabilities (both revenue and costs), which do not constitute an integral part of the effective interest rate, are calculated on a straight-line basis against income statement and presented as commission revenue or costs.
The other fees and commissions, including insurance commission (which do not constitute an integral part of the effective interest rate and is not calculated on a straight-line basis), related to the financial services offered by the Bank, such as cash management services, brokerage services, investment advisory services, financial planning, investment banking services and asset management services, are recognised in the income statement at the time of the specific service delivery.
The division of the insurance commission into one-time fee (recognition of revenue from services) and fee settled over time (recognition of credit valuation with the use of ESP) is carried out based on the proportion of unit sales prices of the insurance services.

Other operating income and expenses

Included in the other operating income and expenses are costs and revenue not related directly to the Bank's principal business.

The revenue obtained is subject to a one-off recognition in the income statement, while the costs of provision for liabilities related to the return of salaries in connection with insurance (e.g. if a customer withdraws from an insurance contract or pays his loan prematurely) are presented as the other operating income and expenses.

Functional and presentation currency

The financial statement items are evaluated in the currency of the basic economic environment the Bank operates in. Therefore, the statement is drawn up in PLN (the currency of presentation and Bank's functional currency).

Transactions and balances in foreign currencies

Foreign currency transactions are converted into the functional currency in accordance with the NBP's average rates valid on the transaction day. FX difference related revenue and costs, ensuing from transaction settlements and the balance valuation of financial assets and liabilities expressed in foreign currencies, are recognized in the income statement.
Foreign exchange gains or losses for non-cash items, measured at fair value, recognised through profit or loss, are recognised in the income statement, while in the case of non-cash items classified as available for sale, they are recognised in the revaluation provision fund.

Cash and balances with Central Bank

This category is used by the Bank to present its cash and funds kept in its current account in the National Bank of Poland.

Financial assets and liabilities

Recognition of financial instruments

Any and all financial instruments are recognized on the transaction conclusion day – except for standard transactions involving purchase or sale of financial assets recognized in the financial standing statement as of the settlement date.
Classification:

The Bank classifies the held financial instruments in the following categories:

- **Measured at fair value through profit or loss (including the derivatives)**

Financial assets and liabilities appraised at fair value through the financial results constitutes assets and liabilities:

a) qualified, at initial account, as designated for trading, that is, if:

- they were purchased (in the case of liabilities: incurred) mainly in order to resell/rebuy them in a short term;
- are a part of the portfolio of specific financial instruments which are managed jointly in order to generate profit in the short term,

  or

  b) are derivatives (with the exception of derivatives which are effective hedging instruments) indicated, at initial account, as appraised at fair value through profit and loss statement.

As at 31.12.2011, the Bank classified in this category the derivatives, including the embedded derivatives.

Derivatives featuring positive fair value are presented in the financial standing statement as assets, while those with negative fair value as liabilities.

The derivatives (which are not hedging instruments) embedded in other financial instruments are separated by the Bank from the host contract and recognised as derivatives, if:

- the economic characteristics and the risks of the embedded derivatives are not closely related to the economic characteristics and the risks of the host contract;
- an independent instrument, featuring the same contractual conditions as the separated embedded derivative, could be defined as a derivative;
- the host contract is not measured at fair value through profit or loss.

- **Loans and receivables**

The category includes financial assets (not serving as derivatives) with specified payments (or payments that may be specified), which are not quoted in the active market, other than:

a) financial assets which the Bank intends to sell either immediately or in the short term and those which on initial recognition were designated as measured at fair value through profit or loss;

b) financial assets indicated by the entity within initial account as available for sale.

The category covers deposits, loans granted to third parties, debt securities not listed in the active market plus receivables from the "reverse repo" and "buy sell back" transactions.

As at 31.12.2011 the Bank held:

a) receivables from other banks – interbank deposits, repo transactions, bails, security deposits and current account funds;
b) receivables related to loans, purchased debts and other amounts due from the customers.

- **Assets available for sale**

This category includes non-derivative financial assets designated as available for sale or which are not:

a) loans and receivables;
b) investments held to maturity;
c) financial assets at fair value through profit or loss.

As of 31.12.2011, the Bank designated its debt securities within the category of assets available for sale.

- **Investments held to maturity**

As at 31.12.2011, the Bank had no investments held to maturity.

- **Investments in subsidiaries**

As at 31.12.2011, the Bank held 100 % of shares in Alior Instytut Szkoleń spółka z o.o.

- **Other financial liabilities**

The other financial liabilities are defined as commitments (other than those for trading) to provide another entity with cash or other financial assets, appraised at depreciated cost. As of 31.12.2011, the category covers liabilities to banks (including those related to loans received, inclusive of subordinate loan) and liabilities to customers (including those due to deposits, and transactions related to the Bank Securities issued).

Initial appraisal of financial assets and liabilities

At the moment of initial recognition, the financial asset or liability is measured at fair value increased, in the case of non-designated financial asset or financial liability as measured at fair value through profit or loss, to include the costs of the transaction which may be directly assigned to purchase or issue of the financial asset or the financial liability.

Appraisal of assets and liabilities on later date

- **Measured at fair value through profit or loss**

From the moment a transaction is concluded, the Bank evaluates its derivatives against fair value and net income. The fair value of financial instruments is based on quoted market prices. Should the market price be unavailable, the instrument's fair value is estimated through valuation models or cash flow discount techniques. Such transactions are evaluated daily based on market rates and quotations published by the Bloomberg and Reuters systems.

Immediate currency exchange transactions are treated as financial instruments.

- **Loans and receivables**

Loans and amounts due are evaluated against depreciated costs by means of the effective interest rate method taking into account impairment write-downs.

Interbank deposits with maturities over 6 months and transaction values exceeding PLN 10 million (or its equivalent) are subject to valuation against depreciated costs by means of the effective interest rate method taking into account impairment write-downs. The other interbank deposits are measured using the straight-line method.

Receivables are analysed in terms of possible impairment and in case of impairment allowances will be recorded.

- **Assets available for sale**

Instruments qualified as available for sale are appraised up to their fair value with reference of the appraisal result to the revaluation fund.

If it may be objectively proved that the debt financial assets available for sale have lost their value, the accumulated write-down is eliminated from the revaluation reserve and recognized in the net income.

In the case of securities with variable interest rates, the Bank applies straight-line valuation.

- **Investments in subsidiaries**

Investments implemented in subsidiaries are valuated according to principles applied for financial assets available for sale - when they are quoted on security markets, or at the purchase price decreased by impairment write-offs - when they are not quoted on such markets.

- **Other financial liabilities**

After initial account, the Bank valuated other financial liabilities at depreciated cost with the use of the effective interest rate method.
Financial liabilities settled under fiscal rules, including deposits with the initial period over 6 months, transaction values exceeding PLN 10 million (or its equivalent) and Bank Securities issues, are valuated (in the part connected with the principal instrument) against depreciated costs by means of the effective interest rate method. The other financial liabilities are subject to straight-line measurement.

Gains and losses on subsequent measurement

Profits or losses stemming from the change of the fair value of a financial asset or liability qualified as valuated at fair value through financial result are presented under income or costs.
Gains or losses arising from the financial asset classified as available for sale, are recognised in profit or loss, except for gains or losses on measurement at fair value, recognised directly in other comprehensive income.

In the case of financial assets and liabilities measured at amortised cost, the gains and losses are recognised in profit or loss.

Fair value of financial instruments

Fair value of financial instruments is based on quoted market prices – not decreased by transaction costs. If the market price is unavailable, the fair value of an instrument is estimated with the use of valuation models or cashflow discount techniques, based, to maximum possible extent, on batch data from the active market.

Financial instrument valuation methods

Valuation is made against risk factors defined as revaluation prices at the end of the day. Revaluation prices are set based on quotations available in the Reuters information systems from 03.30 p.m. to 04.30 p.m. and include the most representative number of contributors to a single market factor. In the case of securities with no active market, it is possible to define a day-end price based on reference curves specified in accordance with quotations of the most liquid bonds for a given market (the benchmark), considering loan spreads of the security issuer.
The appraisal value is calculated for individual transactions and items under fiscal rules. Valuation (appraisal) is treated in terms of market value – i.e. costs/revenue related to the total closing of an item ensuing from a given transaction as of the valuation day.

General rules of construction of yield curves

Interest rate curves constitute the basic element utilized in the discounted cash flows method (DCF). The flowchart presenting the stages of the financial instrument measurement using a given method is as follows:

<u>Scheme of stages of valuation determination in DFC method</u>

Determination of price of revaluation market factors

↓

Calculation of zero-coupon curves

↓

Interpolation of zero-coupon rates

↓

Calculation of discounting factors

↓

Determination of current value of future cashflows

The Bank creates separate interest rate curves for currencies and financial instruments. Such an approach guarantees conformity of financial instrument valuations with the corresponding market prices, taking into consideration interest rate differences in the markets featuring various currencies and instruments (market segmentation).

In the case of zero coupon rate construction, annual capitalisation has been assumed.

The calculated zero-coupon rates of market quotations are defined for a finite number of maturity dates. In order to utilize zero-coupon rates for the valuation of instruments with any future flow schedule, a specific interpolation method should be used and applied to all the profitability curves defined by the Bank.

Market quotation prices are usually utilized to valuate securities. In the case of illiquid securities or in periods when no reliable market quotations for liquid securities are available, measurement is performed based on the spread adjusted yield curves. The spread stems from a difference, in the credit standing, between the issuer of a given security and the issuers of the securities (or partners in transactions involving other financial instruments) included in the reference curve. What is more, the amount of spread is often caused by differences in liquidity between the indicated financial instruments.

Straight-line risk profile instruments are valued by means of the DCF method. The current value of an instrument is determined as the sum of discounted future cashflows and is applied to instruments of straight-line, symmetrical risk profile: Deposits, Repo, FRA, IRS, CIRS, FX-SWAP, FX-FORWARD, FX-SPOT, CIRS (including Basis Swap).

Excluding financial asset and liability components from the balance sheet

The Bank removes the financial asset from the balance sheet when:

a) the contractual rights to cash flows from the financial asset expire, or
b) the Bank transfers the financial asset and such transfer meets the conditions of removal from the balance sheet.

The Bank may exclude a financial liability component from the balance sheet when the liability has expired – i.e. once the contractual obligation has been fulfilled, redeemed or expired.

Impairment of financial assets

Per each balance sheet day, the Bank assesses whether there are objective reasons for financial assets (or their group) to lose value. A financial asset component or a group of financial assets lose value and impairment occurs only when there is objective evidence for such impairment, ensuing from at least one event taking place following the initial recognition of the asset component, and the event(s) causing the loss influences the expected cash flows stemming from the financial asset component or a group of financial assets the reliable evaluation of which is possible. The abovementioned objective evidence includes information (obtained by the asset component holder) on the following events causing loss:

1. Significant financial problems of the issuer or debtor;
2. Failure to observe agreement provisions – e.g. failure to repay interest or capital on time;
3. A concession granted to the borrower by the Bank (for economic or legal reasons relating to the borrower’s financial difficulty), which would not have been granted otherwise;
4. High probability of the borrower’s bankruptcy or other financial reorganization;
5. Demise of active market for a given financial asset component, related to financial difficulty;
6. Observable data indicating a measurable decrease in the estimated future cash flows related to the group of financial assets (from the moment they were initially recognized) – even though no decrease regarding a single financial asset component has been noticed;

7. Information pertaining to serious negative changes occurring in the technological, market, economic or other environment in which the issuer operates – indicative of the fact that the capital instrument investment costs may be irrecoverable.

In case there is objective evidence for impairment of an unlisted capital instrument which is not valuated against fair value as its fair value may not be reliably established, or of a derivative which must be settled by the provider of such an unlisted capital instrument, the impairment sum is defined as a difference between the balance sheet value of the financial asset component and current value of the estimated future cash flows discounted through the current market return rate deployed for similar financial assets.

If the decreased fair value of a financial asset component available for sale was recognized as the other total income and there is objective evidence for the component impairment, the accumulated losses are written off from equity and recognized in the income statement – even if the financial asset component has not been excluded from the balance sheet.

Profit (loss) on exchange transactions

The FX transaction result includes profits and losses on transaction differences and currency revaluation effects (both executed and pending execution).

Foreign currency transactions are converted into PLN according to the rate valid on the transaction day for a given currency. The monetary items in foreign currencies are translated to PLN at the average exchange rates of the National Bank of Poland, effective as at the balance sheet date for a given currency.

Income tax

Income tax includes current tax and deferred tax.
Income tax is recognized in the income statement except for when the tax makes part of the equity. Current tax is the expected tax liability regarding taxable revenue, set against the tax rate valid on the balance sheet day – along with all the adjustments of the tax liability from previous years.
Deferred tax is calculated in accordance with the balance sheet liability method based on identifying time differences between the tax value and the balance sheet value of assets and liabilities. The deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be

available, allowing for deducting the temporary differences. The balance sheet value of assets due to deferred income tax is verified at the end of each reporting period and reduced in the scope in which the obtaining of tax benefits connected with these assets is probable.

Leasing

The Bank is a party to leasing agreements under which it accepts benefits from foreign fixed assets for use against due fees.

The agreements concluded by the Bank fall within the operating leasing category, as all the risks and benefits from the assets leased are taken by the lessor. Leasing fees are recognized as costs in the income statement by means of the straight-line method – for the entire leasing period.

Intangible assets

Intangible assets

The intangible assets are identifiable assets without a physical form.
Initially, the intangible assets are measured at purchase price or production cost.
After the initial recognition, the intangible assets with an economic useful life, including those internally generated, are recognised at purchase price or production cost less any amortisation and impairment loss.

Intangible asset capital allowances are carried out by means of the straight-line method, in accordance with the depreciation rates defined and the predictable period of their economic usability. The economic usability period, depreciation rates, and the final value of intangible assets subject to depreciation are verified every year.

Trademark

Trademarks are recognized according to purchase prices decreased by impairment write-downs. Due to indefinite period of use, the trademark is tested for impairment on the arranged dates. The tests are based on the estimated value in use. In the event of impairment, impairment write-offs are created.

Later expenditures

The outlay incurred after the initial recognition of intangible asset components is activated only when the future economic benefits of a given component rise. Otherwise, they are juxtaposed to the income statement.

The Bank applies the following useful life periods for the intangible assets:

ITEM	Useful life period
Licences	2-10 years
IT software	2-10 years
Costs of development work	2-5 years
Copyrights and other intangible assets	2-10 years

Tangible fixed assets

Tangible fixed assets

The property, plant and equipment include the assets with the estimated period of use of over one year, complete and used for the purpose of offering services.
Initially, the fixed tangible assets are appraised according to purchase prices or manufacturing costs. Following the initial entry, the fixed tangible assets are recognized in the purchase price or manufacturing costs decreased by depreciation and accumulated impairment write-offs.

Capital allowances on the fixed tangible assets are calculated by means of the straight-line method, in accordance with the specified depreciation rates – for the predictable period of their economic usability. They are juxtaposed to the income statement. The economic usability period, depreciation rates, and the final value of fixed tangible assets subject to depreciation are verified every year.
The impairment loss is recognised or derecognised in the income statement.

Subsequently incurred expenditure

The costs of replacing tangible asset components are recognized in the balance sheet value if it is likely that the Bank will gain future economic benefits (related to a given component) and it is possible to reliably define the purchase price or manufacturing cost.
The Bank uses the following useful life periods for the property, plant and equipment:

ITEM	**Useful life period**
Buildings and structures	10-66 years
Improvements to third party buildings or	5-40 years

structures	
Machines and devices	1-5 years
Equipment	2 – 66 years
Transportation means	2.5 – 6.67 years

Provisions

The Bank’s reserves are recognized in the balance sheet if the Bank is obliged (legally or customarily) towards future events, it is probable that in order to fulfil that obligation it will be necessary to deploy funds featuring economic benefits, and it is possible to reliably estimate the amount of such obligation.
If the effect of the time value of money is significant, the amount of provision is determined by discounting the forecast future cash flows to the current value, with the use of a gross discount rate reflecting the current market time value of money.

Employee benefits

Short-term benefits
The short-term employee benefits include remuneration, bonuses, paid leaves, social insurance contributions and are recognised in the income statement as costs at the moment of their origination.

Long-term benefits
The long-term employee benefits refer to the amount of future benefits the employee will be granted in return for providing his/her services in the current and future periods.
The Bank evaluates its reserves for pensions and retirement schemes. The provision for pension and retirement schemes is calculated actuarially as the present value of future Bank liabilities towards employees, as at the revaluation date. The financial discount rate for calculating the current value of employee benefit obligations has been specified according to the market rates of Treasury bond returns, whose currency and maturity dates are analogous to the currency and the estimated execution date of employee benefits.

Contingent – off-balance sheet liabilities

Contingent liabilities are:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of the Bank;
- a present obligation that arises from past events but is not recognised in the statements because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of liability cannot be reliably determined.

The Bank presents its off-balance sheet liabilities (which cannot be recognized in the balance sheet as assets or liabilities) as contingent liabilities. In particular, these are:

- credit caps;
- factoring limits;
- loans granted (but not paid out);
- guarantees.

Impairment of assets other than financial ones

On the balance sheet day, the Bank's asset values (except for deferred tax assets) are reviewed in order to assess whether there are any factors indicative of the fact that an asset component has lost its value. Should such factors exist, the Bank estimates the recoverable value of such a component.

Impairment occurs when the balance sheet value of an asset component exceeds its recoverable value. A write-off assigned in this manner is recognized in the income statement.

The recoverable value corresponds to the higher of the net selling price of the asset or its value in use.
The usability value is set by the discount of estimated future cash flows for a given asset component – deploying the discount rate before tax. In the case of assets which do not generate independent cash flows, the Bank sets the recoverable value at the level of the centre producing cash, to which the given component belongs.

The impairment loss may be reversed through profit or loss to the level where the book value of the asset does not exceed the book value of a given asset, assuming that no impairment loss has been recorded.
The goodwill impairment loss cannot be reversed.

Other assets and liabilities

The other assets and liabilities are recognized in the amount payable. In relation to other receivables, revaluation write-offs due to impairment are made.

Equity

Share capital

The share capital is presented according to its nominal value – pursuant to the Bank's articles of association.

Supplementary capital

The remaining capital is made up of supplementary capital and funds established in accordance with applicable laws, i.e. binding regulations, Bank's articles of associations, and relevant bylaws. The entire capital is presented according to its nominal value.

Revaluation reserve

The revaluation capital is composed of the differences ensuing from the evaluation of financial assets available for sale. The revaluation capital is not subject to division.

Earnings per share

Basic earnings per one share is calculated as the quotient of net profit attributable to ordinary shareholders and the average weighted number of ordinary shares during the period.

Segment reporting

The operating segment is a component of the entity which conducts revenue generating and cost bearing business activities (where revenue and costs are related to transactions with the other components of the same entity), whose operating results are reviewed by the main authority in charge of the operating decisions, making the decisions on allocation of funds to the segment based on those results.
The Bank identifies the following business divisions – segments:

- Business Centres;
- Financing of Vehicles;
- Branches – Individual Customers;
- Branches – Business Customers;
- Debt Issuance Office;
- Projects;
- Treasury and other activities.

Brokerage activity is not presented separately, as brokerage products are sold by branches and the ensuing revenue is assigned to the segments providing services to their respective customers.

In 2011, the Bank conducted its operations in the Republic of Poland. All the revenues and costs of the Bank are generated in that area. Moreover, all the assets are located in it.

ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

1. Net interest income

in PLNk

1.1. by entity	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Interest income	851,229	494,335
financial sector	77,125	27,983
non-financial sector*	682,239	377,175
central and local government institutions	91,865	89,177
Interest expense	-356,310	-188,753
financial sector	-46,177	-22,223
non-financial sector	-307,669	-165,562
central and local government institutions	-2,464	-968
NET INTEREST INCOME	**494,919**	**305,582**

*) in 2011, the bad loan interest amounted to PLN 36,096 thousand

in PLNk

1.2. by product	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Interest income	851,229	494,335
current accounts	14,324	5,380
one-day deposits	2,688	1,093
term deposits	2,012	235
Loans	638,209	372,818
debt instruments	129,217	109,418
Other	64,779	5,391
Interest expense	-356,310	-188,753
current deposits	-11,866	-3,603
term deposits	-299,765	-161,537
Other	-44,679	-23,613
NET INTEREST INCOME	**494,919**	**305,582**

The interest income includes, among others, interest on loans and interest and discount on T-bonds and T-bills issued by the State Treasury.

The interest expenses refer mainly to term deposits for the retail banking customers.

2. Net fee and commission income

	in PLNk	
	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Fees and commission income	434,365	225 980
granted loans	17,667	33,364
remuneration from the insurance sales agency	268,780	101,981
Settlements	61,041	36,815
guarantee liabilities	9,607	6,904
other banking activities	68,493	43,697
other commissions	8,777	3,219
Fees and commission expense	-134,549	-77,098
commissions paid to agents	-30,916	-5,822
trust services	-126	-120
Settlements	-34,032	-30,307
other commissions	-60,779	-40,849
NET FEE AND COMMISSION INCOME	**308,512**	**148,882**

3. Trade result

		in PLNk
	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Foreign exchange transactions result	133,978	91,947
Interest rate transactions result	7,859	2,980
Other financial instruments result	85	4
TRADE RESULT	**141,922**	**94,931**

The foreign exchange transactions result covers exchange result, result on SWAP transactions (FX SWAP and CIRS with capital exchange), currency option result and result on revaluation of assets and liabilities expressed in foreign currencies

The result of interest rate transactions covers the result on interest rate swap transactions, FRA, and interest result due to CIRS transactions

The result on other financial instruments covers the result from trading in capital securities.

In 2011, within the meaning of Resolution no. 76/2010 of the Polish Financial Supervision Authority of March 10, 2010, the business activity of the Bank was significant.

4. Result on other financial instruments

in PLNk

	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Financial assets available for sale	16,134	14,936
Own issue	576	180
income from re-purchase	581	198
losses on repurchase	-5	-18
RESULT ON OTHER FINANCIAL INSTRUMENTS	**16,710**	**15,116**

5. Net other operating income and expense

in PLNk

	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Other operating income from:	47,087	30,497
management of third party assets	35,139	15,412
received compensations, fines and penalties	215	313
Other	11,733	14,772
Other operating expenses due to:	-19,811	-10,938
management of third party assets	-7,747	-4,549
paid compensations, fines and penalties	-25	-119
awards given to customers	-996	-1,251
operating risk	-3,989	-202
Other	-7,054	-4,817
NET OTHER OPERATING INCOME AND EXPENSE	**27,276**	**19,559**

6. Bank's operating expenses

in PLNk

	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Payroll costs	-326,168	-290,054
remuneration due to employment contracts	-278,160	-252,129
remuneration overheads	-44,194	-35,480
Other	-3,814	-2,445
General and administrative costs	-250,196	-223,953
IT costs	-17,013	-16,413
building maintenance expenses	-129,045	-116,533
marketing costs	-48,556	-41,461
training costs	-6,036	-3,677
cost of advisory services	-6,109	-6,178
BFG	-5,522	-1,327
Other	-37,915	-38,364
Depreciation	-56,207	-48,584
real estates and property, plant and equipment	-38,275	-33,479
intangible assets	-17,932	-15,105
Taxes and fees	-2,759	-2,141
TOTAL COSTS OF THE BANK'S OPERATIONS	**-635,330**	**-564,732**

Operating lease of cars per payment dates	From 31.12.2011	From 31.12.2010
To 1 year	3,265	8,232
From 1 to 5 years	8,927	15,127
Total	**12,192**	**23,359**

In the Bank, passenger cars are the object of lease. The agreements concluded by the Bank fall within the operating leasing category, as all the risks and benefits from the assets leased are taken by the lessor. In 2011, a car lease agreement was signed in relation with the expiry of the 3-year contracts. The new agreement is valid for 48 months. As at 31.12.2011, the situation was as following:

- 228 48-month leasing agreements – fixed instalments;
- 296 36-month leasing agreements – fixed instalments;
- 1 60-month leasing agreement – variable instalments.

It is possible to purchase the leasing object upon the leasing agreement termination.

in PLNk

Future liabilities due to real estate lease agreements according to payment schedule	From 31.12.2011	From 31.12.2010
To 1 year	109,533	138,868
From 1 to 5 years	189,702	329,995
More than 5 years*	7,430	12,548
Total	**306,665**	**481,411**

*) lower liabilities in the "over 5 years" period result from taking into account only the agreements whose validity term exceeds 5 years.

The Bank owns no part of the real estate it utilizes. Therefore, the lease costs make up a large item of the general management costs (in the periods analysed, they constituted more than 50% of general management costs). Renting its premises, the Bank concludes agreements for at least 5 years (70% of the agreements are valid for 5 years). The agreements stipulate that lease costs may change depending on inflation fluctuations in a given year. The largest number of premises is located in Warsaw and Cracow.

7. Net income on impairment

in PLNk

	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Write-downs on receivables from customers	-156,009	-131,755
financial sector	-1,088	-151
non-financial sector	-154,921	-131,604
retail customer	-94,743	-91,473
business customer	-60,178	-40,131
Debt securities	-2,013	0
IBNR for customers without impairment loss	-30,613	-518
financial sector	-428	-45
non-financial sector	-30,185	-473
retail customer	-16,100	1,377
business customer	-14,085	-1,850
central and local government institutions	0	0
Tangible fixed assets	-503	-831
Net income on impairment	**-189,138**	**-133,104**

8. Income tax

in PLNk

8.1. Income tax	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Current tax	0	0
Deferred tax	-13,866	16,176
Income tax	**-13,866**	**16,176**

The effective encumbrance of the gross result with the income tax as at 31 December 2011 is associated with creation of an extra asset for tax losses borne by Bank in the preceding years.

in PLNk

8.2. Income tax	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Income as recorded in the accounts	**4,589,356**	**2,407,768**
Costs as recorded in the accounts	**-4,424,485**	**-2,517,314**
Profit (loss) before tax	**164,871**	**-109,546**
Taxable income increasing the tax base	204,757	254,649
Temporary tax-free income	-1,578,835	-791,536
Permanent tax-free income	-7,061	-7,753
Tax costs decreasing the tax base	-242,714	-142,373
Temporary non-tax deductible expenses	1,610,139	813,756
Permanent non-tax deductible expenses	20,894	80,249
INCOME	**172,051**	**97,446**
INCOME DEDUCTIONS	**151,524**	**97,446**
Gifts	0	238
Tax loss settlement	151,524	97,208
TAX BASE	**20,527**	**0**
TAX BASE DEDUCTIONS	**20,527**	**0**
New technology purchase reduction	**20,527**	**0**

TAX BASE (after rounding to full zlotys)	**0**	**0**
Income tax	0	0
TAX PAYABLE TO THE REVENUE OFFICE	**0**	**0**

in PLNk

Non-temporary differences	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Non-taxable income	**7,061**	**7,753**
Revenue related to the calculated interest cost adjustment	4,092	2,502
Termination of the write-down for the receivables purchased from HSBC Polska (payment of amounts due)	2,021	1,645
Other non-taxable income	948	3,606
Costs which do not constitute revenue costs	**20,894**	**80,249**
Representation costs	794	983
Insurance premiums for cars worth more than EUR 20 thousand	1	1
Material costs of maintaining leased company cars (no records)	123	74
Premiums for the National Disabled Persons Rehabilitation Fund	3,047	2,214
Paid interest on tax liabilities	3	1
Costs of non-tax deductible membership fees	0	2
Costs related to the adjustment on interest and commissions (calculated but unpaid)	4,101	2,534
Submitted gifts	123	366
Non-tax deductible costs of staff meetings (consumption, entertainment)	668	346
Other non-tax deductible costs	903	1,764
IBNR reserve for loan debts purchased from HSBC Polska	-1,146	1,392
IBNR reserve for loan debts purchased from HSBC Polska	12,055	64,342
Loss on sale of receivables from Kruk	0	6,230
Costs due to write-off of liabilities from the Customer account on the basis of decision of the Risk Area	222	0

8.3. Assets and provision due to deferred income tax

The deferred tax is calculated on all the temporary differences by means of the balance sheet method against the nominal tax rate valid at the moment of reversing such differences.

Provisions due to deferred tax

Period from 01.01.2011 to 31.12.2011 **in PLNk**

Title of positive temporary differences	**Calculation base**	**Amount of provision due to deferred tax**
Difference in the balance sheet and tax depreciation	43,114	8,192
Interbank deposits (interest calculated)	3,807	723
Debt securities (interest)	13,118	2,492
Debt securities (discount)	9,460	1,797
Interest calculated on credits to be received	114,814	21,815
Interest revenue calculated (CIRS/IRS)	12,303	2,338
Positive valuation (CIRS/IRS)	1,408,956	267,701
Positive valuation (SWAP/FWD/SPOT)	129,389	24,584
Positive valuation (COM FWD FUT)	8,659	1,645
Positive valuation of options	49,115	9,332

Positive valuation of securities: SPOT, TRADE	29	6
Interest calculated on BSB	2,855	542
Tax costs due to SBB/Repo	0	0
Revenue provision	39,804	7,563
Provision due to deferred tax		**348,730**

Period from 01.01.10 to 31.12.2010 **in PLNk**

Title of positive temporary differences	Calculation base	Amount of provision due to deferred tax
Difference in the balance sheet and tax depreciation	15,483	2,942
Interbank deposits (interest calculated)	33	6
Debt securities (interest)	24,323	4,621
Debt securities (discount)	36,661	6,966
Interest calculated on credits to be received	42,937	8,158
Interest revenue calculated (CIRS/IRS)	7,367	1,400
Positive valuation (CIRS/IRS)	450,264	85,550
Positive valuation (SWAP/FWD/SPOT)	14,952	2,841
Positive valuation (COM FWD FUT)	24	4
Positive valuation of options	18,402	3,496
Tax costs due to SBB/Repo	4,593	873
Revenue provision	20,040	3,808
Provision due to deferred tax		**120,665**

Assets due to deferred tax

Period from 01.01.2011 to 31.12.2011 **in PLNk**

Deductible temporary differences	Calculation base	Amount of asset due to deferred tax
Commissions collected in advance	110,213	20,940
Interest calculated on deposits to be paid	41,082	7,806
Interest cost calculated (CIRS/IRS)	12,546	2,384
Negative valuation of CIRS/IRS	1,449,310	275,369
Negative FRA valuation	249	47
Negative valuation of FX SWAP/FWD/SPOT	22,349	4,246
Negative valuation (COM FWD FUT)	5,349	1,016
Negative valuation of options	44,834	8,519
Bonus to be received on option	41,278	7,843
Negative valuation of securities: SPOT, TRADE	4	1
Tax revenues due to SBB/Repo	0	0
Balance sheet costs on SBB/Repo transaction interest	0	0
Payable discount from BPW – own issue	10,410	1,978
Payable discount from BPW – own issue	457	87
Interest purchased on securities	3,223	612
Reserve for future expenses and liabilities	59,132	11,235
IBNR provisions	56,643	10,762
Write-down on receivables threatened by impairment	106,037	20,147
Provisions for off-balance sheet liabilities	0	0
Impairment write-downs	5,032	956
Impairment write-offs on securities	2,013	382
Tax loss	236,814	44,995
Assets due to deferred tax		**419,325**
Net deferred tax in the income statement		**-70,595**

Period from 01.01.10 to 31.12.2010		in PLNk
Deductible temporary differences	**Calculation base**	**Amount of asset due to deferred tax**
Commissions collected in advance	37,546	7,135
Interest calculated on deposits to be paid	43,448	8,255
Interest cost calculated (CIRS/IRS)	5,712	1,085
Negative valuation of CIRS/IRS	456,080	86,655
Negative valuation of FX SWAP/FWD	11,807	2,243
Negative valuation of options	16,187	3,076
Bonus to be received on option	21,213	4,031
Tax revenues due to SBB/Repo	13,706	2,604
Balance sheet costs on SBB/Repo transaction interest	2,601	494
Payable discount from BPW – own issue	2,832	538
Payable discount from BPW – own issue	168	32
Interest purchased on securities	14,331	2,723
Reserve for future expenses and liabilities	75,575	14,359
IBNR provisions	24,476	4,650
Write-down on receivables threatened by impairment	64,736	12,300
Provisions for off-balance sheet liabilities	17	3
Impairment write-downs	871	166
Tax loss	288,298	54,777
Assets due to deferred tax		**205,126**
Net deferred tax in the income statement		**-84,461**

8.4. Assets and provision due to deferred income tax juxtaposed to capital

Period from 01.01.2011 to 31.12.2011		in PLNk
Provisions due to deferred income tax	**Calculation base**	**Tax**
Positive valuation of AFS securities	225	43
Write-offs for provision due to deferred income tax		**43**

		in PLNk
Deferred income tax assets	**Calculation base**	**Tax**
Negative valuation of AFS securities	16,297	3,096
Write-offs for assets due to deferred income tax		**3,096**
Net deferred tax juxtaposed to capital		**-3,053**

Period from 01.01.10 to 31.12.2010		in PLNk
Provisions due to deferred income tax	**Calculation base**	**Tax**
Positive valuation of AFS securities	10,140	1,927
Write-offs for provision due to deferred income tax		**1,927**

		in PLNk

Deferred income tax assets	Calculation base	Tax
Negative valuation of AFS securities (juxtaposed to equity)	2,206	419
Write-offs for assets due to deferred income tax		**419**
Net deferred tax juxtaposed to capital		**1,508**

9. Income/loss per share

	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Net income/loss (PLN thousand) per:	151,005	-97,590
Majority shareholders	150,439	-97,224
Minority interests	566	-366
Number of ordinary shares	50,000,000	50,000,000
NET INCOME/LOSS PER ORDINARY SHARE (PLN)	**3.02**	**-1.95**

10. Cash and balances with Central Bank

in PLNk

	As at 31.12.2011	As at 31.12.2010
Current account at the central bank	309,385	382,413
Cash	137,698	93,987
CASH AND BALANCES WITH CENTRAL BANK	**447,083**	**476,400**

Since 31 Dec. 2008, Alior Bank has maintained obligatory provisions in its current account held in the National Bank of Poland – in the amount consistent with the decisions made by the Monetary Policy Council. In the period 30 June 2009 – 30 December 2010, the obligatory provision rate totalled 3%. Since 31 Dec. 2010, the obligatory provision rate has amounted to 3.5%.

11. Financial assets available for sale

in PLNk

11.1. by type	As at 31.12.2011	As at 31.12.2010
Debt instruments	2,906,975	2,422,106
issued by the State Treasury	1,809,328	2,064,138
T-bills	0	190,993
T-bonds	1,721,306	1,792,311
eurobonds	88,022	80,834
issued by other governmental institutions	29,223	26,753
bonds	29,223	26,753
issued by monetary institutions	889,511	297,708
bonds	135,978	156,926
deposit certificates	333,803	20,864
money bills	419,730	119,918
issued by other financial institutions	168,132	18,672
bonds	131,758	18,672
eurobonds	36,374	0
issued by enterprises	10,781	14,835
bonds	10,781	14,835
FINANCIAL ASSETS AVAILABLE FOR SALE	**2,906,975**	**2,422,106**

in PLNk

11.2. by maturity	As at 31.12.2011	As at 31.12.2010
≤ 1M	419,730	125,181
> 1M ≤ 3M	197,784	221,078
> 3M ≤ 6M	201,131	205,370
> 6M ≤ 1Y	78,088	337,723
> 1Y ≤ 2Y	0	1,001,281
> 2Y ≤ 5Y	1,025,649	393,810
>5Y ≤ 10Y	545,460	137,663
>10Y ≤ 20Y	439,133	0
FINANCIAL ASSETS AVAILABLE FOR SALE	**2,906,975**	**2,422,106**

Presented below are the comparisons of valuation methods pertaining to financial assets available for sale (valuated against fair value) as of 31.12.2011, and comparative data as of 31.12.2010.

Classification consistent with IFRS 7:

- level 1 – all the securities for which there are price quotations in the active financial markets;
- level 2 – instruments for which prices cannot be observed directly, but the validation price is based on market quotations;
- level 3 – instruments for which at least one factor influencing the price may be observed in the market.

11.3. Valuation to fair value

in PLNk

as at 31.12.2011	Fair value	Carrying amount	Difference
Level 1	***2,701,880***	***2,701,880***	***0***
T-bills	0	0	0
Money bills	419,730	419,730	0
T-bonds	1,809,328	1,809,328	0
Other bonds	292,521	292,521	0
Deposit certificates	180,301	180,301	0
Level 2	***205,095***	***205,095***	***0***
T-bills	0	0	0
T-bonds	0	0	0
Other bonds	51,593	51,593	0
Deposit certificates	153,502	153,502	0
Level 3	***0***	***0***	***0***
T-bills	0	0	0
T-bonds	0	0	0
Other bonds	0	0	0
Deposit certificates	0	0	0
FINANCIAL ASSETS AVAILABLE FOR SALE	**2,906,975**	**2,906,975**	**0**

Valuation to fair value

in PLNk

as at 31.12.2010	Fair value	Carrying amount	Difference
Level 1	***2,314,118***	***2,314,118***	***0***
T-bills	190,993	190,993	0
Money bills	119,918	119,918	0
T-bonds	1,873,145	1,873,145	0
Other bonds	130,062	130,062	0
Deposit certificates	0	0	0
Level 2	***107,988***	***107,988***	***0***
T-bills	0	0	0
T-bonds	0	0	0
Other bonds	87,124	87,124	0
Deposit certificates	20,864	20,864	0
Level 3	***0***	***0***	***0***
T-bills	0	0	0
T-bonds	0	0	0
Other bonds	0	0	0
Deposit certificates	0	0	0
FINANCIAL ASSETS AVAILABLE FOR SALE	**2,422,106**	**2,422,106**	**0**

12. Receivables from customers

in PLNk

12.1. by type	As at 31.12.2011	As at 31.12.2010
Operating loans	3,175,293	2,104,095
Consumer loans	2,247,477	1,221,112
Car loans	320,957	160,372
Investment loans	1,028,262	501,689
Loans for purchase of securities	171,913	133,147
Loans in the credit card account	150,740	125,377
Loans for residential real estates	1,782,987	864,485
Other mortgage loans	618,188	207,646
Acquired receivables	510,104	202,606
Other receivables	128,865	21,044
RECEIVABLES FROM CUSTOMERS	**10,134,786**	**5,541,573**

in PLNk

12.2. Impairment write-off for receivables	As at 31.12.2011		As at 31.12.2010	
	Value of receivables	Write-off amount	Value of receivables	Write-off amount
Operating loans	171,476	97,851	92,044	48,170
Consumer loans	212,426	171,747	117,054	86,036
Car loans	20,140	7,830	1,317	756
Investment loans	14,741	2,900	3,989	1,375
Loans for purchase of securities	48	0	929	920
Loans in the credit card account	13,897	11,981	8,682	6,445
Loans for residential real estates	8,304	2,091	386	81
Other mortgage loans	4,980	711	813	78
Acquired receivables	12,311	3,890	1,443	1,017
Other receivables	8	8	0	0
DOUBTFUL RECEIVABLES FROM CUSTOMERS, including:	**458,331**	**299,009**	**226,657**	**144,878**
Receivables assessed on an individual basis	273,872	139,422	145,978	78,305
Receivables assessed on a portfolio basis	184,459	159,587	80,679	66,573

in PLNk

12.3. Impairment write-off for receivables	As at 31.12.2011	As at 31.12.2010
Opening balance	144,878	21,726
Changes of write-offs:	154,131	123,152
Increases	309,113	255,374
Decreases	-153,089	-123,637
Other changes (sale of liabilities)	-2,285	-7,860
Exchange rate differences	392	-725
WRITE-DOWNS – Closing balance	**299,009**	**144,878**

Provisions for the incurred undocumented credit risk (IBNR), as of 31 December 2011, totalled PLN 51,567 thousand, and as of 31 December 2010 - PLN 22,544 thousand.

12.4. by maturity	As at 31.12.2011	As at 31.12.2010
		in PLNk
≤ 1M	2,774,262	1,803,368
> 1M ≤ 3M	535,766	311,570
> 3M ≤ 6M	569,912	332,874
> 6M ≤ 1Y	904,040	542,198
> 1Y ≤ 2Y	837,537	432,849
> 2Y ≤ 5Y	1,578,224	860,560
>5Y ≤ 10Y	1,447,672	605,242
>10Y ≤ 20Y	836,675	387,331
>20Y	983,772	432,261
Interest	115,654	44,145
Impairment write-off	-299,009	-144,878
IBNR	-51,567	-22,544
Value adjustments	-98,152	-43,403
RECEIVABLES FROM CUSTOMERS	**10,134,786**	**5,541,573**

in PLNk

12.5. by currency structure	As at 31.12.2011	As at 31.12.2010
PLN	8,144,843	4,497,124
EUR	1,619,061	939,449
GBP	4,299	3,595
CHF	258,981	43,167
USD	107,598	58,238
Other	4	0
RECEIVABLES FROM CUSTOMERS	**10,134,786**	**5,541,573**

in PLNk

12.6. 10 largest borrowers	currency	As at 31.12.2011
Company 1	PLN,EUR	95,331
Company 2	PLN	73,990
Company 3	PLN	60,000
Company 4	PLN	56,044
Company 5	EUR	52,061
Company 6	PLN	51,500
Natural person 1	PLN	50,261
Company 7	PLN,EUR	42,978
Company 8	PLN,EUR	41,823
Company 9	PLN	39,047

13. Receivables from banks

in PLNk

13.1. by type	As at 31.12.2011	As at 31.12.2010
Current accounts	54,675	20,360
One-day deposits	174,906	0
Term deposits	258,241	214,068
Reverse Repo	497,799	0
Security deposits granted	89,124	5,965
Other	31,047	1,568
RECEIVABLES FROM BANKS	**1,105,792**	**241,961**

in PLNk

13.2. by maturity	As at 31.12.2011	As at 31.12.2010
≤ 1M	760,487	241,141
> 1M ≤ 3M	191,860	0
> 3M ≤ 6M	148,990	761
>5Y ≤ 10Y	0	0
Interest	4,719	59
IBNR	-264	
RECEIVABLES FROM BANKS	**1,105,792**	**241,961**

in PLNk

13.3. by currency structure	As at 31.12.2011	As at 31.12.2010
PLN	754,556	3,852
EUR	144,750	126,637
GBP	25,822	4,357
USD	161,330	84,208
CHF	4,747	16,866
Other currencies	14,587	6,041
RECEIVABLES FROM BANKS	**1,105,792**	**241,961**

14. Tangible fixed assets

in PLNk

as at 31.12.2011	Fixed assets under construction	Technical devices (including IT equipment)	Investments in third-party facilities	Other	Total
Value according to a purchase price at the beginning of the period	23,826	71,773	125,346	52,822	273,767
Changes due to:	7,183	10,127	16,094	3,125	36,529
Purchases in 2011	36,529	0	0	0	36,529
Repostings in 2011	-29,346	10,127	16,094	3,125	0
Value according to a purchase price at the end of the period	31,009	81,900	141,440	55,947	310,296
Accumulated amortization at the beginning of the period	0	24,662	19,053	13,952	57,667
Changes in depreciation in 2011	0	16,002	13,409	8,864	38,275
Other changes	0	0	1,062	0	1,062
Accumulated amortization at the end of the period	0	40,664	33,524	22,816	97,004
Impairment write-downs at the beginning of the period	0	27	360	10	397
2011 write-down changes			10	493	503
Impairment write-downs at the end of the period	0	27	370	503	900
NET VALUE AT PERIOD END	**31,009**	**41,209**	**107,546**	**32,628**	**212,392**

in PLNk

as at 31.12.2010	Fixed assets under construction	Technical devices (including IT equipment)	Investments in third-party facilities	Other	Total
Value according to a purchase price at the beginning of the period	25,868	56,395	81,458	45,902	209,623
Changes due to:	-2,042	15,378	43,888	6,920	64,144
Purchases in 2010	64,144	0	0	0	64,144
Repostings in 2010	-66,186	15,378	43,888	6,920	0
Value according to a purchase price at the end of the period	23,826	71,773	125,346	52,822	273,767
Accumulated amortization at the beginning of the period	0	11,734	6,120	6,334	24,188
Changes in depreciation in 2010	0	12,928	12,933	7,618	33,479
Accumulated amortization at the end of the period	0	24,662	19,053	13,952	57,667
Impairment write-downs at the beginning of the period	0	20	3	4	27
2010 write-down changes	0	7	357	6	370
Impairment write-downs at the end of the period	0	27	360	10	397
NET VALUE AT PERIOD END	**23,826**	**47,084**	**105,933**	**38,860**	**215,703**

15. Intangible assets

in PLNk

as at 31.12.2011	Expenditure	Software	Other*	Total
Value according to a purchase price at the beginning of the period	28,532	101,863	9,138	139,533
Intangible asset changes	9,251	21,689	715	31,655
Value according to a purchase price at the end of the period	37,783	123,552	9,853	171,188
Accumulated amortization at the beginning of the period	0	27,992	1,949	29,941
Changes in depreciation in 2011	0	16,160	1,772	17,932
Accumulated amortization at the end of the period	0	44,152	3,721	47,873
Impairment write-downs at the beginning of the period	461	0	0	461
Impairment write-downs at the end of the period	461	0	0	461
NET VALUE AT PERIOD END	**37,322**	**79,400**	**6,132**	**122,854**

*) of which the trademark value of PLN 300k

The largest item in the "Other" group is made up of completed development costs. As of 31.12.2011, the gross value of these costs totalled PLN 8,745 thousand.

in PLNk

as at 31.12.2010	Expenditure	Software	Other*	Total
Value according to a purchase price at the beginning of the period	16,225	78,818	2,134	97,177
Increases due to	12,307	23,045	7,004	42,356
Purchases	12,307	23,045	7,004	42,356
Value according to a purchase price at the end of the period	28,532	101,863	9,138	139,533
Accumulated amortization at the beginning of the period	0	14,533	303	14,836

Changes in depreciation in 2010	0	13,459	1,646	15,105
Accumulated amortization at the end of the period	0	27,992	1,949	29,941
Impairment write-downs at the beginning of the period	0	0	0	0
Changes in impairments in 2010	461	0	0	461
Impairment write-downs at the end of the period	461	0	0	461
NET VALUE AT PERIOD END	**28,071**	**73,871**	**7,189**	**109,131**

*) of which the trademark value of PLN 300k

The largest item in the "Other" group is made up of completed development costs. At the end of 2010, the gross value of these costs totalled PLN 8,040 thousand.

16. Other assets

in PLNk

	As at 31.12.2011	As at 31.12.2010
Various debtors	108,079	80,376
other settlements	64,988	43,734
payment card settlements	43,091	36,642
costs settled over time	61,195	32,144
OTHER ASSETS	**169,274**	**112,520**

17. Financial liabilities measured at amortised cost

in PLNk

17.1. by type	As at 31.12.2011	As at 31.12.2010
To Banks	**71,203**	**209,623**
Term deposits	0	201
Credit received	66,283	0
Other liabilities	4,920	5,290
Repo	0	204,132
To Customers	**13,531,702**	**7,719,225**
Current deposits	3,228,946	2,062,263
Term deposits	9,530,614	5,269,473
Own issue	551,549	259,522
Other liabilities	220,593	127,967
TOTAL LIABILITIES	**13,602,905**	**7,928,848**

in PLNk

17.2. by maturity	As at 31.12.2011	As at 31.12.2010
≤ 1M	9,928,826	4,395,472
> 1M ≤ 3M	1,306,419	1,296,202
> 3M ≤ 6M	664,593	823,240
> 6M ≤ 1Y	958,949	278,014
> 1Y ≤ 2Y	428,889	900,912

> 2Y ≤ 5Y	182,760	196,111
>5Y	91,165	5,629
Interest*	41,304	33,268
TOTAL LIABILITIES	**13,602,905**	**7,928,848**

*interest on deposits, interest and discount on bank securities

in PLNk

17.3. by currency structure	As at 31.12.2011	As at 31.12.2010
AUD	1,713	971
CAD	1,431	1,358
CHF	25,435	11,362
CZK	309	2,965
DKK	547	133
EUR	1,200,560	774,569
GBP	99,940	60,393
NOK	2978	251
PLN	11,617,600	6,740,960
RUB	2,012	14
SEK	1,841	672
USD	648,539	335,200
TOTAL LIABILITIES	**13,602,905**	**7,928,848**

in PLNk

17.4. 10 largest depositaries	currency	As at 31.12.2011
Company 1	PLN, USD	103,467
Natural person 1	PLN,EUR,USD	99,975
Natural person 2	PLN,EUR,USD	99,929
Company 2	PLN	60,140
Company 3	PLN	53,629
Natural person 3	PLN	52,329
Company 4	PLN,EUR,USD	48,507
Company 5	PLN	45,780
Company 6	PLN, EUR	43,682
Company 7	PLN	40,451

In 2009, the Bank began issuing bank securities. The activity was continued also in 2011. The following note presents basic information on each issue of those securities.

17.5. Own issues

in PLNk

Security type	*Currency*	*Maturity*	*As at* 31.12.2011	As at 31.12.2010
PLN100WIG2020110609	PLN	09.06.2011	0	3,034
PLN90WIG2020110609	PLN	09.06.2011	0	1,042
EUR100AGRO20110922	EUR	22.09.2011	0	2,573
PLN100AGRO20110922	PLN	22.09.2011	0	4,678
USD100AGRO20110922	USD	22.09.2011	0	511
PDDEUR110125	PLN	25.01.2011	0	13,000
PLN100AUTO20120621	PLN	21.06.2012	11,714	12,682
PFIX2Y120622	PLN	22.06.2012	870	870
PLN100AUTO20120720	PLN	20.07.2012	9,456	9,761
P90WIG120830	PLN	30.08.2012	2,782	3,027
P10WIG120830	PLN	30.08.2012	13,066	14,219
PAURUM121005	PLN	05.10.2012	20,991	22,840
PW20TV121221	PLN	21.12.2012	18,030	18,716
FIX3M7K130322	PLN	22.03.2013	28,140	28,340
PF3M51130322	PLN	22.03.2013	26,250	26,250
PGLDTV130425	PLN	25.04.2013	27,629	34,039
PGLDTV130612	PLN	12.06.2013	27,640	31,646
PF3M65130624	PLN	24.06.2013	7,760	7,760
PU6MWB130624	PLN	24.06.2013	15,690	15,690
PLN100FIX6M675K20130624	PLN	24.06.2013	16,610	16,810
PUP3MK130924	PLN	24.09.2013	570	600
PUPK3M130924	PLN	24.09.2013	1,850	1,850
P5EQIN130621	PLN	21.06.2013	30,156	0
P5EQUP130621	PLN	21.06.2013	2,064	0
PAGRUP130828	PLN	28.08.2013	38,829	0
PAGRUP130924	PLN	24.09.2013	35,129	0
P4EQIN130131	PLN	31.01.2013	24,480	0
P4EQUP130131	PLN	21.06.2013	1,457	0
PGLDIN140407	PLN	07.04.2014	60,169	0
PGLDTV140407	PLN	07.04.2014	279	0
PAUTIN140725	PLN	25.07.2014	36,074	0
PAUTUP140725	PLN	25.07.2014	366	0
PCOMIN140618	PLN	18.06.2014	26,910	0
PCOMUP140618	PLN	18.06.2014	499	0
EMIXPB130924	EUR	24.09.2013	4,571	0
ALIOR191220	EUR	20.12.2019	88,336	0
TOTAL OWN ISSUES			**578,367**	**269,938**

18. Provisions

in PLNk

	Provisions for dispute settlements	Provision for employee benefits	Total provisions
As at 01.01.11	615	47,613	48,228
Establishment of provisions	1111	68,867	69,978
Reversal of provisions	-117	-20,631	-20,748
Utilization of provisions	-26	-64,781	-64,807
As at 31.12.2011	**1,583**	**31,068**	**32,651**

	Provisions for dispute settlements	Provision for employee benefits	Total provisions
As at 01.01.10	87	50,621	50,708
Establishment of provisions	568	62,040	62,608

Reversal of provisions	-33	-6,235	-6,268
Utilization of provisions	-7	-50,650	-50,657
Other changes (reclassification)	0	-8,163	-8,163
As at 31.12.2010	**615**	**47,613**	**48,228**

The provision for retirement compensation or disability bonus as well as for unused leaves is established individually for every employee on the basis of an actuarial valuation prepared by an independent actuarial advisory firm. The basis for determining the value of the provisions is the anticipated value of the retirement compensation or disability bonus which the Bank agrees to pay on the basis of Alior Bank's remuneration regulations and the number of days of unused leave per employee. The ensuing amount is discounted actuarially.

19. Other liabilities

		in PLNk
	As at 31.12.2011	As at 31.12.2010
Interbank settlements	227,495	98,432
Liabilities due to taxes, customs, social and health insurance and other statutory settlements	12,694	11,033
Liabilities related to payment card settlements	26,045	9,494
Other settlements, including:	122,904	53,649
settlements with insurers	84,095	43,772
Accrued expenses	53,006	65,804
Other liabilities	5,059	3,340
OTHER LIABILITIES	**447,203**	**241,752**

As of 31.12.2011 and 31 December 2010, the Bank held no unpaid liabilities connected with the agreements concluded.

20. Financial assets and liabilities held for trading

The Bank classified derivative instruments under financial assets and liabilities held for trading as at 31.12.2011. Derivative transactions are concluded for trading purposes and for the purpose of managing the market risk. The Bank concludes the following types of derivative transactions: FX-Forward, FX-Swap, IRS, CIRS, FRA, and term security transactions. The Bank measures the derivative instruments on a daily basis using a discounted cash flow method. Moreover, Alior Bank SA concludes option transactions. Pursuant to the current laws, while concluding option transactions, the Bank performs them only in a manner guaranteeing simultaneous (each time and immediate) conclusion of an opposite option transaction having the same parameters.

The derivative instruments are measured at fair value through profit or loss. Instruments with a positive valuation are presented in the balance sheet as assets, and instruments with a negative valuation are presented as liabilities.

in PLNk

20.1. Financial assets held for trading	As at 31.12.2011	As at 31.12.2010
Shares	691	0
Interest rate transactions	3,043	1,210
SWAP	3,043	1,210
FRA	0	0
FX Transactions	185,466	25,893
FX swap	26,389	8,207
FX forward	102,098	6,442
CIRS	36,042	2,425
FX options	20,937	8,819
Other options	47,394	10,695
FINANCIAL ASSETS HELD FOR TRADING	**236,594**	**37,798**

in PLNk

20.2. by maturity	As at 31.12.2011	As at 31.12.2010
≤ 1W	10,029	1,390
> 1W ≤ 1M	41,893	2,922
> 1M ≤ 3M	52,349	7,848
> 3M ≤ 6M	25,018	4,112
> 6M ≤ 1Y	41,874	5,766
> 1Y ≤ 2Y	41,735	12,556
> 2Y ≤ 5Y	23,636	3,204
>5Y ≤ 10Y	60	0
FINANCIAL ASSETS HELD FOR TRADING	**236,594**	**37,798**

in PLNk

20.3. Financial liabilities held for trading	As at 31.12.2011	As at 31.12.2010
Interest rate transactions	15,193	221
SWAP	14,944	221
FRA	249	0
FX Transactions	106,971	27,798
FX swap	8,169	593
FX forward	13,321	10,859
CIRS	64,737	7,575
FX options	20,744	8,771
Other options	46,136	10,672
FINANCIAL LIABILITIES HELD FOR TRADING	**168,300**	**38,691**

in PLNk

20.4. by maturity	As at 31.12.2011	As at 31.12.2010
≤ 1W	2,540	309
> 1W ≤ 1M	8,164	2,255
> 1M ≤ 3M	12,531	4,844
> 3M ≤ 6M	11,923	3,676

> 6M ≤ 1Y	69,923	10,852
> 1Y ≤ 2Y	32,443	13,309
> 2Y ≤ 5Y	30,776	3,446
>5Y ≤ 10Y	0	0
FINANCIAL LIABILITIES HELD FOR TRADING	**168,300**	**38,691**

Presented below are the comparisons of valuation methods pertaining to financial instruments held for trading (valuated against fair value) as of 31.12.2011 and 31.12.2010.

Classification consistent with IFRS 7:

- level 1 – all the instruments for which there are price quotations in the active financial markets;
- level 2 – instruments for which prices cannot be observed directly, but the validation price is based on market quotations;
- level 3 – instruments for which at least one factor influencing the price may be observed in the market.

20.5. Valuation of financial assets

in PLNk

31.12.2011	Fair value	Carrying amount	Difference
Level 1	691	691	0
Shares	691	691	0
SWAP	0	0	0
X swap	0	0	0
FX forward	0	0	0
CIRS	0	0	0
FX options	0	0	0
Other options	0	0	0
Level 2	198,748	198,748	0
SWAP	3,043	3,043	0
FX swap	26,389	26,389	0
FX forward	102,098	102,098	0
CIRS	36,042	36,042	0
FX options	20,937	20,937	0
Other options	10,239	10,239	0
Level 3	37,155	37,155	0
SWAP	0	0	0
FX swap	0	0	0
FX forward	0	0	0
CIRS	0	0	0
FX options	0	0	0
Other options	37,155	37,155	0
TOTAL FINANCIAL ASSETS	**236,594**	**236,594**	**0**

in PLNk

31.12.2010	Fair value	Carrying amount	Difference
Level 1	0	0	0
SWAP	0	0	0
FX swap	0	0	0
FX forward	0	0	0
CIRS	0	0	0
FX options	0	0	0

Other options	0	0	0
level 2	27,031	27,031	0
SWAP	1,210	1,210	0
FX swap	8,207	8,207	0
FX forward	6,442	6,442	0
CIRS	2,425	2,425	0
FX options	8,747	8,747	0
Other options	0	0	0
Level	10,767	10,767	0
SWAP	0	0	0
FX swap	0	0	0
FX forward	0	0	0
CIRS	0	0	0
FX options	72	72	0
Other options	10,695	10,695	0
TOTAL FINANCIAL ASSETS	**37,798**	**37,798**	**0**

20.6. Valuation of financial liabilities

in PLNk

31.12.2011	Fair value	Carrying amount	Difference
Level 1	0	0	0
SWAP	0	0	0
FX swap	0	0	0
FX forward	0	0	0
CIRS	0	0	0
FX options	0	0	0
Other options	0	0	0
Level 2	132,620	132,620	0
SWAP	14,944	14,944	0
FRA	249	249	0
FX swap	8,169	8,169	0
FX forward	13,321	13,321	0
CIRS	64,737	64,737	0
FX options	20,744	20,744	0
Other options	10,456	10,456	0
Level 3	35,680	35,680	0
SWAP	0	0	0
FX swap	0	0	0
FX forward	0	0	0
FX options	0	0	0
Other options	35,680	35,680	0
TOTAL FINANCIAL LIABILITIES	**168,300**	**168,300**	**0**

in PLNk

31.12.2010	Fair value	Carrying amount	Difference
Level 1	0	0	0
SWAP	0	0	0
FX swap	0	0	0
FX forward	0	0	0
CIRS	0	0	0
FX options	0	0	0
Other options	0	0	0
Level 2	27,947	27,947	0
SWAP	221	221	0
FX swap	593	593	0
FX forward	10,859	10,859	0
CIRS	7,575	7,575	0
FX options	8,699	8,699	0
Other options	0	0	0

Level 3	10,744	10,744	0
SWAP	0	0	0
FX swap	0	0	0
FX forward	0	0	0
FX options	72	72	0
Other options	10,672	10,672	0
TOTAL FINANCIAL LIABILITIES	**38,691**	**38,691**	**0**

21. Subordinated liabilities

On November 15, 2011, the Polish Financial Supervision Authority granted its consent to include the subordinated borrowing amounting to EUR 10 million, concluded for the period of 8 years on October 12, 2011, to the bank's own supplementary capital.

22. Equity

		in PLNk
	As at 31.12.2011	As at 31.12.2010
Share capital	500,000	500,000
Supplementary capital	476,200	573,790
on retained loss division	-497,431	-404,061
on sale of shares over their nominal value	1,000,000	1,000,000
Undistributed result from previous years	-26,369	-22,149
Revaluation reserve	-13,019	6,426
on valuation of investments available for sale	-13,019	6,426
Current year profit/loss	151,005	-97,590
Total equity	**1,114,186**	**982,626**

Share capital

The Bank's share capital is presented in the nominal value pursuant to the Bank's articles of association and the National Court Register provisions. As of 31.12.2011, the Bank's share capital amounted to PLN 500,000 thousand (fully paid) and consisted of 50,000,000 A series registered shares (worth PLN 10 each). All the shares are not privileged.

The share issue price is PLN 30 per share. The entire surplus ensuing from issuing shares over their nominal value is included in the Company's supplementary capital. Between 01.01 and 31.12.2011, there were no changes in the shareholding structure.

Shareholding structure as of 31.12.2011

Entity's name	**Number of shares**	**Number of votes (in %)**	**Share in capital (%)**
ALIOR LUX S. a r.l. & Co. S.C.A.	39,312,500	78.625	78.625
ALIS S.A.	10,000,000	20	20
ALIOR POLSKA Sp. z o.o.	500,000	1	1

Other shareholders	187,500	0.375	0.375
TOTAL	50,000,000	100	100

Supplementary capital

Pursuant to the resolution passed by the General Meeting of Shareholders, supplementary capital is created from profit write-downs. Moreover, the differences between the issue and nominal share price are referred to supplementary capital. The Bank utilized its supplementary capital to fully cover the losses incurred in 2008, 2009 and 2010.

Revaluation reserve

in PLNk

	As at 31.12.2011	As at 31.12.2010
Valuation of available-for-sale financial assets	-16,072	7,934
- Treasury bills	0	111
- Treasury bonds	-8,491	5,282
other debt instruments	-7,581	2,541
Deferred tax	3,053	-1,508
Revaluation reserve	**-13,019**	**6,426**

23. Fair value

Fair value establishment

Fair value is established in order to see the potential price of transactions made in accordance with market rules between independent parties – on the valuation day. Fair value of financial instruments is based on quoted market prices – not decreased by transaction costs. Should the market price be unavailable, the instrument fair value is estimated through valuation models or cash flow discount techniques.

The following techniques are utilized for valuation:

- recent market transactions made directly between well informed and interested parties, if such information is available;
- reference to the current fair value of another instrument featuring similar characteristics;
- the discounted cash flows method.

If there are valuation techniques generally utilized by market participants plus it has been revealed that a given technique produces reliable estimations of prices obtained in the real market transactions, the Bank will deploy such techniques. The selected valuation techniques take into consideration, as much as possible, market data. They are based on the Bank's specific data to a minimal extent. Valuation techniques cover all the factors which would be taken into account by the market participants establishing the price. They are consistent with the adopted economic financial instrument valuation methods. The Bank verifies the valuation correctness, applying prices ensuing from the available current market transactions for the same instrument or based on the other available market data.

Balance sheet entries valuated against fair value:

Financial instrument	Frequency	Recognition
Financial assets available for sale	Daily	Revaluation capital fund
Fx forward, fx swap, fx options	Daily	Income Statement
CIRS, FRA, IRS	Daily	Income Statement

Fair value of the Bank's financial instruments presented in the balance sheet as fair value – as of 31.12.2011 and 31 December 2010 – equaled the balance sheet value.

	31.12.2011		31.12.2010	in PLNk
Financial instrument	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets held for trading	236,594	236,594	37,798	37,798
Financial assets available for sale	2,906,975	2,906,975	2,422,106	2,422,106
Financial liabilities held for trading	168,300	168,300	38,691	38,691

Presented below are the balance sheet values and fair values for the items not revealed in the balance sheet against fair value. In accordance with its loan fair value calculation method (apart from overdrafts), the Bank compares margins earned on newly granted loans (in the last month preceding the reporting date) and those referring to the whole loan portfolio. If the margins on newly granted loans exceed those referring to the existing portfolio, the loan fair value is lower than its balance sheet value. In the case of the other financial instruments, the Bank assumes their fair value to be the same as their balance sheet value.

	31.12.2011		31.12.2010	in PLNk
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with the Central Bank	447,083	447,083	476,400	476,400
Receivables from customers	10,134,786	10,175,283	5,541,573	5,554,387
Receivables from banks	1,105,792	1,105,792	252,287	252,287
Financial liabilities valuated against depreciated costs	13,602,905	13,602,905	7,928,848	7,928,848

24. Hedge accounting

As of 31.12.2011, the Bank did not apply hedge accounting.

25. Off-balance sheet items

in PLNk

26a. Off-balance sheet contingent liabilities granted to customers	As at 31.12.2011	As at 31.12.2010
Off-balance sheet liabilities granted	3,636,162	3,296,905
finance related	2,911,005	2,731,200
guarantee related	725,157	565,705

in PLNk

25b. Off-balance sheet contingent liabilities – derivative transactions	As at 31.12.2011	As at 31.12.2010
Derivative transactions		
granted	7,336,332	3,387,178
SWAP	944,287	1,023,738
FX SWAP	1,378,855	572,764
FX forward	1,859,404	801,724
CIRS	1,373,048	410,837
OPTIONS	1,043,995	578,115
FRA	500,000	0
Other	236,743	0
received	7,273,380	3,392,173
SWAP	944,287	1,023,738
FX SWAP	1,359,509	562,972
FX forward	1,781,173	810,763
CIRS	1,405,782	416,608
OPTIONS	1,207,587	578,092
FRA	500,000	0
Other	75,042	0

in PLNk

25c. Off-balance sheet contingent liabilities – current transactions	As at 31.12.2011	As at 31.12.2010
Current transactions (FX spot)		
granted	229,822	393,698
received	229,783	393,750

The Bank grants Individual Customers contingent liabilities ensuing from renewable limits in current and savings accounts. These liabilities are granted for an unspecified period of time, but at the same time adequacy of inflows of funds in the accounts is being monitored.

Credit card contingent liabilities are granted to Individual Customers for three years.

The Bank provides its Business Customers with contingent liabilities related to:

- current account limits (12 months);
- guarantees (up to 6 years);
- credit cards (up to 3 years);

- tranche loans (up to 2 years).

26. Cash flow statement - additional information

For the purposes of cash flows, cash and its equivalents cover the balances whose maturity term is shorter than 3 months.

in PLNk

Cash and cash equivalents	As at 31.12.2011	As at 31.12.2010
Cash and balances with Central Bank	447,083	476,400
Current accounts with other banks	54,675	20,360
Term accounts in other banks	282,669	213,279
Total	**784,427**	**710,039**

The Bank recognizes its obligatory provisions (held pursuant to the applicable NBP rules and designated as funds at limited disposal) as part of its cash.
Cash flows from the Bank's operations refer mainly to the Bank's basic activity, i.e. loan and deposit activity and FX transactions.
The Bank's investment activity involves purchasing and selling investment securities, fixed assets and intangibles.
The Bank draws up the statement of cash flow from operating activities using the indirect method, in which the net result of the given reporting period is adjusted by the effects of non-cash transactions, by deferred charges and accrued expenses concerning future or past inflows or cash payments concerning operating activities.

in PLNk

Interest	As at 31.12.2011	As at 31.12.2010
Discount revenue – AFS securities	70,194	66,072
Interest revenue – AFS securities	59,023	43,345
Interest cost –credit received	-1,688	0
Interest cost – subordinated loan	-238	,
Interest cost on own issue	-15,489	-7,822
Total adjustments	**111,802**	**101,595**

Below are the differences in the presentation between the balance sheet notes and the cash flows in 2011:

in PLNk

Operating activities – change in credits and other receivables	
Change in amounts due from clients – balance sheet	-4,603,539
Change in receivables from banks - balance sheet	-853,505
Balance sheet change in cash – nostro accounts	34,315
Balance sheet change in cash – deposits up to 3 months	69,390
Unrealized foreign exchange gains/losses	3,205

Impairment	-186,622
Change in credits and other receivables	**-5,536,756**

in PLNk

Operating activities – change in other liabilities	
Change in other liabilities - balance sheet	205,451
Change in the revaluation capital – balance sheet	-19,445
Change in other liabilities measured at amortised cost – balance sheet	-64,480
Unrealized foreign exchange gain - credit received	-5,766
Change in write-down on deferred tax AFS	-4,561
Interest charged – credit received	-1,688
Financial activities - repayment of interest on credit received	1,700
Financial activities –taking out of a credit	-60,529
Change in other liabilities	**50,682**

in PLNk

Operating activities – change in other assets	
Change in other assets - balance sheet	-56,754
Reserve for fixed assets	-13,109
Other changes	1,063
Change in other assets	**-68,800**

in PLNk

Operating activities – change in liabilities to issue own securities	
Change - balance sheet	292,027
Interest – loss adjustment	-15,489
Unrealised foreign exchange gains	
Change in liabilities to issue own securities	**276,538**

in PLNk

Operating activities – acquisition of property, land and equipment	
Change - balance sheet	36,587
Change in other assets	-13,109
Acquisition of property, land and equipment	**23,478**

in PLNk

Operating activities – change in assets available for sale	
Valuation AFS	24,006
Result on sales AFS	16,133
Change in assets available for sale	**40,139**

27. Liability protection assets

As of 31.12.2011, Treasury bond assets (worth PLN 33,392 thousand) secured the Bank’s own liabilities against the guaranteed cash protection fund – as part of the Bank Guarantee Fund.

28. Business activity segments

For the needs of managerial accounting Alior Bank breaks down its activities into the following business segments:

- Business Centres;
- Financing of Vehicles;
- Branches – Individual Customers;
- Branches – Business Customers;
- Debt Issuance Office;
- Projects;
- Treasury and Other Activities

The Bank services personal and business customers by offering a full range of banking services.

Basic products for natural persons cover:

- credit products – cash loans, credit cards, credit lines in a current account, real estate loans;
- deposit products – term deposits, savings accounts;
- brokerage products and investment funds;
- personal accounts;
- transaction services - cash payments and withdrawals, transfers;
- FX transactions.

Basic product for economic entities:

- loan products – overdrafts, operating loans, investment loans, credit cards;
- deposit products – term deposits;
- current and supplementary accounts;
- transaction services - cash payments and withdrawals, transfers;
- Treasury products – FX transactions (also against a specific deadline), derivatives.

The basic element of the analysis is the profitability of the segments: Business Centres, Financing of Vehicles, Branches – Individual Customers, Branches – Business Customers, Debt Issuance Office. The profitability of the branches includes:

- margin revenue decreased by financing costs (a rate by which the branch makes its settlements with the Treasury Department) plus direct operating costs;
- commission revenue;
- revenues from treasury transactions made by customers;
- direct operating costs.

Revenues of the Branches segment – individual customers also include revenues from the sale of brokerage products (such as revenues from keeping brokerage accounts, intermediating in the trade in securities).

Revenues from treasury and other activities include results ensuing from managing the global position (liquidity and foreign exchange, ensuing from the banking activities of the branches), as well as the costs borne mainly by individual departments of Alior Bank's Head Office.

Results and volumes broken into segments – as of 31.12.2011

in PLNk

Segment Report	BUSINESS CENTRES	VEHICLE FINANCING OFFICE	BRANCHES - IC	BRANCHES - BC	DEBT ISSUANCE OFFICE	PROJECTS	TREASURY AND OTHER	TOTAL BANK
Interest income	**123,553**	**29,382**	**677,409**	**316,092**	**71**	**39,023**	**-334,301**	**851,229**
external revenue	82,215	29,376	349,328	196,707	71	38,843	154,689	851,229
internal revenue	41,338	6	328,081	119,385	0	180	-488,990	0
Interest expense	**-79,593**	**-14,298**	**-421,993**	**-185,727**	**0**	**-14,152**	**359,453**	**-356,310**
external costs	-19,665	-3	-241,078	-53,695	0	-27	-41,842	-356,310
internal costs	-59,928	-14,295	-180,915	-132,032	0	-14,125	401,295	0
Net interest income	**43,960**	**15,085**	**255,416**	**130,364**	**71**	**24,871**	**25,152**	**494,919**
Fees and commission income	25,127	5,699	339,608	91,531	378	5,403	-23,381	434,365
Fees and commission expense	-29	0	-31,273	-4,888	0	0	-89,663	-125,853
Net fee and commission income	**25,098**	**5,699**	**298,335**	**86,643**	**378**	**5,403**	**-113,044**	**308,512**
Net gain (loss) on financial instruments held for trading	563	0	1,125	2,173	63	0	137,998	141,922
Net gain (loss) on other financial instruments	23,343	5	36,043	67,100	0	4	-109,785	16,710
Other operating income	1,074	0	36,945	625	0	0	8,443	47,087
Other operating expenses	-14	-112	-6,770	0	0	-35	-12,880	-19,811
Net other operating income and expenses	**1,060**	**-112**	**30,175**	**625**	**0**	**-35**	**-4,437**	**27,276**
Bank's operating expenses	0	0	0	0	0	0	-635,330	-635,330
Net income on impairment	0	0	0	0	0	0	-189,138	-189,138
Gross profit/loss	94,025	20,677	621,094	286,905	512	30,243	-888,584	**164,871**
Income tax	,	,	,	,	,	,	-13,866	-13,866
Net profit/loss	94,025	20,677	621,094	286,905	512	30,243	-902,450	**151,005**
Investment outlay (asset purchase costs)	0	0	0	0	0	0	68,184	68,184
Depreciation	0	0	0	0	0	0	57,269	57,269
Assets	1,749,285	346,498	5,079,352	2,978,660	0	185,397	5,070,456	15,409,648
Liabilities	623,753	95	9,740,805	2,548,172	0	1,139	2,495,684	15,409,648

Revenues from external customers broken down by products

in PLNk

Product	BUSINESS CENTRES	VEHICLE FINANCING OFFICE	BRANCHES - IC	BRANCHES - BC	DEBT ISSUANCE OFFICE	PROJECTS
Loan products	43,165	16,428	380,821	101,193	71	27,339
Deposit products	21,674	3	87,006	65,690	0	152
Brokerage products and investment funds	0	2	44,506	14	0	0
Treasury Products	23,858	5	37,165	69,255	378	4
Current accounts	3,929	5	61,957	48,018	0	13
Other	1,400	4,232	9,641	2,736	63	2,735
Total	94,026	20,675	621,096	286,906	512	30,243

Results and volumes broken into segments – as of 31.12.2010:

in PLNk

	BUSINESS CENTRES	VEHICLE FINANCING OFFICE	BRANCHES - IC	BRANCHES - BC	DEBT ISSUANCE OFFICE	PROJECTS	TREASURY AND OTHER	TOTAL BANK
Interest income	**57,240**	**6,638**	**303,649**	**170,179**	**0**	**75,979**	**-119,350**	**494,335**
external revenue	39,147	6,647	144,769	114,988	0	75,235	113,549	494,335
internal revenue	18,093	-9	158,880	55,191	0	744	-232,899	0
Interest expense	**-37,117**	**-3,116**	**-190,516**	**-98,083**	**0**	**-25,666**	**165,745**	**-188,753**
external costs	-12,386	-4	-121,846	-33,028	0	-6	-21,483	-188,753
internal costs	-24,731	-3,112	-68,670	-65,055	0	-25,660	187,228	0
Net interest income	**20,123**	**3,522**	**113,133**	**72,096**	**0**	**50,313**	**46,395**	**305,582**
Fees and commission income	16,964	2,610	159,336	68,186	0	7,035	-28,151	225,980
Fees and commission expense	-195	0	0	-3,350	0	-41	-73,512	-77,098
Net fee and commission income	**16,769**	**2,610**	**159,336**	**64,836**	**0**	**6,994**	**-101,663**	**148,882**
Net gain (loss) on financial instruments held for trading	42	0	369	262	0	0	94,258	94,931
Net gain (loss) on other financial instruments	15,792	0	35,882	37,050	0	2	-73,610	15,116
Other operating income	255	0	23,245	322	0	18	6,657	30,497
Other operating expenses	-1	0	-14,736	0	0	-2,346	6,145	-10,938
Net other operating income and expenses	**254**	**0**	**8,509**	**322**	**0**	**-2,328**	**12,802**	**19,559**
Bank's operating expenses	0	0	0	0	0	0	-567,782	-564,732
Net income on impairment	0	0	0	0	0	0	-133,104	-133,104
Gross profit/loss	52,980	6,132	317,229	174,566	0	54,981	-719,654	**-113,766**
Income tax	,	,	,	,	,	,	16,176	16,176
Net profit/loss	52,980	6,132	317,229	174,566	0	54,981	-703,478	**-97,590**

Investment outlay (asset purchase costs)	0	0	0	0	0	0	106,500	106,500
Depreciation	0	0	0	0	0	0	48,584	48,584
Assets	889,929	168,151	2,378,725	1,940,960	0	309,151	3,547,042	9,240,145
Liabilities	572,433	293	4,747,975	2,083,884	0	443	1,828,931	9,240,145

Revenues from external customers broken down by products

in PLNk

Product	BUSINESS CENTRES	VEHICLE FINANCING OFFICE	BRANCHES - IC	BRANCHES - BC	DEBT ISSUANCE OFFICE	PROJECTS
Loan products	28,224	4,351	179,747	80,961	0	52,479
Deposit products	5,708	-13	37,034	22,163	0	739
Brokerage products and investment funds	0	0	27,477	1	0	1
Treasury Products	15,834	0	36,250	37,313	0	2
Current accounts	2,644	0	42,768	32,307	0	5
Other	570	1,793	-6,048	1,822	0	1,756
Total	52,980	6,131	317,228	174,567	0	54,982

29. Subsidiaries

On September 28, 2011, a notary deed was signed, incorporating a company called Alior Instytut Szkoleń sp. z o.o., a 100% subsidiary of Alior Banku S.A. The share capital of the company totals PLN 250 thousand and it was paid up in November 2011. The subject of activity of the company includes:

- publishing books and papers;
- production and distribution of films, video recordings and TV programmes;
- out-of-school education forms;
- foreign language education;
- market and public opinion surveys.

Due to the fact that the scope of conducted activity is insignificant, as well as the financial data, Alior Bank S.A. does not consolidate the financial statements of Alior Instytut Szkoleń Sp. z o.o.

30. Transactions with related entities

The following two tables present the type and value of transactions with related entities, namely with Alior Polska Sp. z o.o., Z. Zaleski STICHTING, Alior Lux Sarl & Co S.C.A., Alior Lux Sarl Sp. z o.o.:

in PLNk

Profit & loss items	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Building lease costs	-52,003	-57,902
Other expenses	-3,904	-3,378
Commission income	15	0
Total	**-55,892**	**-61,280**

in PLNk

Asset and liability items	As at 31.12.2011	As at 31.12.2010
Receivables	0	0
Deposits	25,793	75,116
Other	86,424	5,611

Transactions with related entities

All the transactions with the related entities were made at arm’s lenght.

In the reporting period, the agreements concluded by and between Alior Bank SA and Alior Polska Sp. z o.o. and pertaining to the office area sublease.

On 28 June 2011, Alior Polska Sp. z o.o. and Alior Bank S.A. signed an agreement on transferring cash related to the protection of a granted lease payment guarantee (PLN 103,456.46).

Ms Helene Zaleski, Chairperson of the Alior Bank SA Supervisory Board, also holds the function of the Management Board President of Alior Polska Sp. z o.o.

31. Transactions with managers and supervisors

31.1. Information regarding loans granted to supervisors and managers, and deposits placed by them

in PLNk

Supervisory Board	As at 31.12.2011	As at 31.12.2010
Loans	12	34
Current/term deposits	27,294	22,323
Other	2,004	4,264

in PLNk

Bank's Management Board	As at 31.12.2011	As at 31.12.2010
Loans	99	429
Current/term deposits	1,717	1,717
Other	0	0

in PLNk

Other employees	As at 31.12.2011	As at 31.12.2010
Loans	49,493	29,922
Current/term deposits	58,767	42,680
Other	728	865

Transactions being carried out by the above persons are concluded in accordance with the Regulations governing the use of banking products, based on market rates.

31.2. Information on the total value of remuneration (paid or payable) – separately for MB and SB members

in PLNk

SB staff costs	As at 31.12.2011	As at 31.12.2010
Remuneration	600	601
Remuneration overheads	0	0
Allianz medical insurance	0	0
Total	**600**	**601**

in PLNk

MB staff costs	As at 31.12.2011	As at 31.12.2010
Remuneration	8,558	8,265
Remuneration overheads	346	333
Allianz medical insurance	6	5
Total	**8,909**	**8,603**

	Number of shares	
Shares possessed by MB members	As at 31.12.2011	As at 31.12.2010
Wojciech Sobieraj	62,500	62,500
Niels Lundorff	62,500	62,500
Cezary Smorszczewski	62,500	62,500
Total	**187,500**	**187,500**

As of 31.12.2011, the other MB members and SB members possessed no Alior Bank shares.

32. Assets and liabilities in foreign currencies

As of 31.12.2011, the currency standing of Alior Bank SA was as follows:

in PLNk

Currency	Currency item components – balance sheet assets	Currency item components – balance sheet liabilities	Currency item components – off balance sheet amounts receivable	Currency item components – off balance sheet amounts payable	net currency standing long (+)	net currency standing short (-)
EUR	2,041,822	1,311,322	2,110,807	2,840,711	596	
USD	335,426	684,729	747,799	399,583		-1087
CHF	271,284	29,063	253,728	495,890	59	
GBP	43,368	101,164	68,154	10,552		-194
other	14,589	12,167	86,115	88,418	119	
RAZEM	**2,706,489**	**2,138,445**	**3,266,603**	**3,835,154**	**774**	**-1,281**

The total standing comes to PLN -1,290 thousand, i.e. 2% below the Bank's own resources.

33. Disputable matters

Presented below are court proceedings involving Alior Bank SA – as of 31.12.2011:

- brought by the Bank – a dispute pertaining to PLN 104 thousand;
- against the Bank – a dispute pertaining to PLN 1,242 thousand.

34. Brokerage House notes

Pursuant to the Regulation of the Minister of Finance of 1 October 2010 on special accounting rules for banks, the notes presented below refer to operations performed by the Alior Bank SA Brokerage House.

in PLNk

Cash	As of 31.12.2011	As at 31.12.2010
cash of the brokerage house clients deposited in debt securities issued by the State Treasury	0	0
cash of the brokerage house customers deposited in money accounts and paid up in order to purchase securities in the first public offer (as part of the public primary trading)	86,463	61,370
cash from the settlement fund	0	0
TOTAL	**86,463**	**61,370**

in PLNk

Receivables from bank running brokerage business, brokerage houses and commodity brokerage houses	As of 31.12.2011	As at 31.12.2010
Receivables on concluded stock exchange transactions, including:	687	879
Stock Exchange	687	879
Receivables on concluded transactions in the off stock exchange market	0	0
Receivables on representing other banks (running brokerage business) and brokerage houses in the regulated security markets	0	0
Affiliation receivables	0	0
Receivables on automatic loans executed via the National Depository	0	0
TOTAL	**687**	**879**

in PLNk

Receivables from the National Depository and stock exchange clearing chambers	As of 31.12.2011	As at 31.12.2010
Amounts due from the settlement fund	14,847	4,116
Amounts due from the compensation fund	5	0
TOTAL	**14,852**	**4,116**

in PLNk

Liabilities from the National Depository and stock exchange clearing chambers	As of 31.12.2011	As at 31.12.2010
Liabilities towards settlement fund	169	0
Liabilities towards reimbursement fund	0	0
TOTAL	**169**	**0**

in PLNk

Liabilities from bank running brokerage business, brokerage houses and commodity brokerage houses	As of 31.12.2011	As at 31.12.2010
Liabilities on concluded stock exchange transactions, including:	2,255	1,260

Stock Exchange	2,255	1,260
Liabilities on concluded transactions in the off stock exchange market	0	0
Liabilities on representing other banks (running brokerage business) and brokerage houses in the regulated security markets	0	0
Affiliation related liabilities	0	0
Liabilities on automatic loans executed via the National Depository	0	0
TOTAL	**2,255**	**1,260**

in PLNk

Customers' financial instruments entered into security accounts	As of 31.12.2011	As at 31.12.2010
Dematerialized financial instruments, including:	4,229,991	2,439,925
- tradable in the regulated market	3,655,905	2,085,930
Financial instruments other than dematerialized	6,029	10,104
TOTAL	**4,236,020**	**2,450,029**

35. Transactions excluded from the balance sheet assets and liabilities as of 30 June 2011 – pursuant to IAS 39 par. 17 item b), 18, 19, and 20.

On 20 July 2010, the MB of Alior Bank SA adopted a resolution (validated by the SB on 26 July 2010) on issuing bank securities.

The main purpose of issuing the P34FIZC1502722 series Deposit Certificates was to purchase (jointly with a Polish financial investor) the IPOPEMA 34 Investment Certificates (Closed Investment Fund of Non-Public Assets).

The total value of the Investment Certificate subscriptions submitted by Alior Bank SA matched the nominal value of all the issued P34FIZC1502722 series Deposit Certificates. The Bank issued Certificates worth PLN 84,056 thousand.

The issue of Deposit Certificates and purchase of Investment Certificates were caused by the needs of a Polish financial investor starting its cooperation with Alior Bank SA. The Bank agreed to carry out the transactions against remuneration recognized in the Bank's books as commission revenue.

The remuneration is calculated with the following formula:

certificate nominal value *0,6%*(N/365),

where: N – number of calendar days from the Issue Date.

The requirements of IAS 39 par. 17 item b), 18, 19, and 20 on moving (and excluding) financial assets have been met. The concluded transaction involves moving the asset purchased by the Bank (Investment Certificates) through issuing Deposit Certificates.

The purchase of Deposit Certificates and that of Fund Investment Certificates are strictly related with regards to redemption time and cash flow amounts.
Deposit Certificates make immature redemption possible on condition that the Bank (issuing entity) requires at the same time that the Investment Certificates are purchased.
On Redemption Dates or Early Redemption Dates, the Bank (issuer of Deposit Certificates) will pay the Certificate holder the due balance reflecting the value of Investment Certificates set as the net value of the Fund assets per redeemed/terminated Investment Certificate (WANCI), decreased by cost stipulated in the agreement.
In the event the amount payable to the Deposit Certificate holder exceeds the value obtained by the Bank through its requirement that the Investment Certificates be redeemed, the Bank has the right to exempt itself from the obligation by submitting a declaration of intent on moving the ownership of Deposit Certificates.
The legal title of the abovementioned activity, i.e. Deposit Certificate obligation and Investment Certificate debts, constitute the conditions under which Deposit Certificates should be issued - in particular the so-called Specification of Economic Parameters of the P34FIZC150722 series Deposit Certificates in the definition regarding Deposit Certificate Redemption. That the performance will be duly and timely paid to the Deposit Certificate holder has been ensured by establishing an ordinary pledge on the Investment Certificates obtained by the Bank through the resources earned by issuing Deposit Certificates.
Having considered the two-way value relations between Deposit Certificates and Investment Certificates, as well as the possibility of being exempt from the obligation ensuing from Deposit Certificates (through submitting a declaration on moving the Investment Certificate ownership), which neutrally influences the Alior Bank S.A. balance sheet as defined by IAS 39, plus the fact that there are no risk generating factors created by the Bank – the Bank (acting in favour of economic justification) has decided not to include those transactions in its books.
Deposit Certificates were not redeemed prematurely on or before 31.12.2011.

36. Significant events after the balance sheet date

On February 3, 2012, a notary deed was signed, incorporating a company called Alior Sync sp. z o.o., a 100% subsidiary of Alior Banku S.A. The object of activity of the company includes:

- retail sales of computers, peripheral devices, and software

- activity in the scope of wire and wireless telecommunications, with the exclusion of satellite communication;
- purchase and sales of real estates on own account;
- lease and administration of own or leased real estates;
- accounting and book-keeping activity.

On February 3, 2012 (payment term February 14), a subscription of C series bonds issued by Alior Bank S.A. has been completed. The total par value of the bonds amounts to PLN 280 million. Purchasers of the bonds are OPFs, TFI and Insurance Companies. The bonds are issued for the period of 8 years; after obtaining the consent of the PFSA they will have a status of subordinated debt.

37. Risk report

Any and all activities initiated by Alior Bank SA are carefully analysed and evaluated. Individual risk types are subsequently accepted and managed. It is possible to set apart the following risk types ensuing from the Bank's business:

a. Market risk, covering also the risk of percentage rate of bank ledger and liquidity risk;
b. Credit risk;
c. Operational risk.

37.1. Market risk

The market risk is defined as the probability of the Bank incurring a potential loss in the event of unfavourable changes in market prices (share prices, exchange rates, profitability curves), in market factors (fluctuations in valuations of financial instruments, correlation of changes in prices between various instruments), as well as in customer behaviours (negotiability of the deposit base, earlier repayment of credits). To be more precise, the process of managing market risks is based on realizing several goals:

- significantly mitigate the volatility of yield and changes in economic value of the bank's equity;
- develop a structure of assets and liabilities (banking book) which is optimal in terms of profitability and potential impact on the economic value
- provide customers with core treasury products in order to help them manage the risk underlying their operations (the hedging goal);

- guarantee solvency and full availability of liquid funds at any moment and even under the assumption of occurrence of negative market scenarios;
- ensure that the processes applied at the Bank comply with regulatory requirements for the market risk management and the level of equity maintained for that purpose.

The market risk management process is carried out within the framework of the bank's relevant policies covering: identification, measurement, monitoring and reporting of market risks. Moreover, it also pertains to control of treasury transactions by determining and verifying the principles on which they are concluded, organized and valued.

All the competences, responsibilities and regulation related principles are clearly divided within particular functions. One of the most important roles is played by the Financial Risk Management Department which independently prepares periodic market risk reports, deploying the Bank's market risk models and measurements. Then, it delivers them to appropriate entities (also, from time to time, to the MB, SB and ALCO). The tasks of the Financial Risk Management Department include: defining market risk management principles, analyses and reporting of the Bank's market risk profile, determination of size of economic capital for covering market risk, supporting and service of ALCO activity.

Treasury transactions with the Bank's clients are made by the Treasury Product Sales Department, while the sole right to conclude interbank transactions lies with the Interbank Transaction Team.

It needs to be stressed that the Inter-Bank Transactions Team has the exclusive discretion to maintain open market risk positions within the Trade Book and to execute treasury transactions on behalf of the Bank. The purpose behind such transactions may be to manage any risks underlying the trade portfolio positions within the specified limits and to comply with the policy of managing the risk of the Banking Book maintained within the required limits.

The Banking Operation Department bears responsibility for independent controls of the internal Treasury activities (including transaction settlement). It should be borne in mind that the Banking Operation Department is fully independent of the Treasury Product Sales Department. Moreover, effectiveness and accuracy of the supervision ensured by the Banking Operations Department is the basis for mitigating any operational risks associated with the bank's treasury operations.

Supervision over the aforementioned units of the Bank has been assigned to the level of a Member of the Management Board, which constitutes an extra factor guaranteeing independence of their operations. The complete organizational structure and breakdown of competencies has been precisely defined by the Bank's Management Board in the organizational regulations of the Bank's Head Office. Apart from the abovementioned organizational cells, the MB, SB and ALCO Committee have an active role in managing market risks.

The Asset-Liability Committee (ALCO) constantly supervises the market risk management, including the liquidity management. It takes all decisions related to the process if they have not been previously reserved for the exclusive competencies of the Management Board or the Supervisory Board.

The responsibilities of ALCO include:

- management of market risks (related both to the trading and bank book) – making decisions on risk management connected with both books;
- acceptance of Bank’s operation limits in money and capital markets;
- daily control of the Bank’s liquidity management (related both to the trading and bank book);
- ordering activities related to the acquisition of the Bank’s operations financing sources, and making sure that the Financing Plan is being properly executed;
- making decisions regarding Model Portfolio management.

The basic assumptions related to the bank’s market risk management strategies, predicted in the given budget period, are presented as the Assets & Liabilities Management Policy drawn up by the Financial Risk Management Department. The Policy is submitted by the Management Board to the Supervisory Board for approval. The policy is presented to the Supervisory Board as part of the annual budget acceptance process and remains valid until updated.

The Supervisory Board supervises the risk management process, among others, by:

- determining, annually, the Bank’s strategy for the market risk management by accepting the Asset and Liability Management Policy;
- approving the Bank's market risk management strategy, including the main risk limits;
- overseeing the Bank’s compliance, in terms of risk management, with the strategy and the financial plan of the Bank, by way of regular overview of the Bank’s market risk profile on the basis of received reports;
- recommending activities aimed at changing the Bank’s risk profile;

Information on the nature and level of risk are reported to the Supervisory Board by the Management Board, except for results of internal audits in the market risk management system which are submitted by Director of the Internal Audit Department.

The Bank's Management Board is responsible for:

- supervision over the process of market risk management, monitoring and reporting on market risk:
- defining appropriate organisation and distribution of tasks related to execution of treasury transactions;
- accepting policies and instructions governing the market risk management at the Bank as well as swift functioning of identification systems;
- defining detailed limits for mediation of the Bank's risk and ensuring relevant mechanism of their monitoring, and notifying about exceeded thresholds;

In the bank, the exposure to market risks is formally reduced by the systems of limits (periodically updated) introduced by force of the SB's or MB's resolutions concerning all the market risk measurements whose level is monitored and reported by the independent bank's units. There are three types of limits at the Bank which differ in terms of their scope and the way they operate: basic limits; supplementary limits; stress test limits. In addition, market risk management focuses on potential changes in the economic effects through the Bank's quality requirements related to the risk management process (internal controls, new products, legal risk analysis, operating risk analysis). Non-qualified risks connected with treasury activities also tend to be reduced.

37.1.1 Foreign exchange risk

The foreign exchange risk is defined as a risk of a loss caused by movements in foreign exchange rates. Additionally, the bank identifies the impact of foreign exchange rates on its performance in a long-term perspective which may be the case with conversion of future foreign exchange income and costs at a potentially more unfavourable exchange rate. Future result related risks may be managed under the currency model portfolio.

The main purpose of managing FX risks is to identify the areas in which the bank may be exposed to such risks and, consequently, taking up measures aimed at reducing (as much as possible) possible losses inflicted as a result of such risks. Managing its currency risks, the bank's Management Board specifies the currency risk profile which must be consistent with the applicable financial plan of the bank.

Managing its currency risks, the bank is obligated to monitor and report on the amounts of all the FX positions occupied and threatened funds valuated in accordance with the adopted model – within the framework of adopted limits. The Bank closes every large currency position with an opposite position on the market, thus eliminating the currency risk. Open currency positions are maintained within the limits adopted by the Supervisory Board. Additionally, the Bank conducts periodic analyses of potential scenarios, which are aimed at provision of information about the Bank's exposure to the currency risk in the event of huge fluctuations in the exchange rates.

Aside from managing the ongoing exchange rate risk, the bank may conduct transactions consisting in securing future FX flows with adequately high certainty of execution (e.g. costs of rent, net interest income in foreign currencies). The aim of such transaction is limitation of volatility of the result in the current calendar year by not more than 60%.

To sum up, to main tools for FX risk management the following may be included:

- internal procedures of foreign exchange risk management;
- internal models and measurements of the currency risk;
- foreign exchange risk limits and threshold values;
- limitations to permitted foreign exchange transactions;
- stress tests.

The basic tool for measurement of currency risk applied by the bank is VaR model, which enables determination of possible amount of loss on held FX positions in result of fluctuations of FX rates, maintaining the assumed confidence limit and period during which the positions are held. The Bank determines VaR using the variance-covariance method with the confidence level of 99%. The value is calculated on a daily basis for every area responsible for taking on and managing the risk individually as well as jointly.

In the Bank's currency portfolio, possessed at the end of the year (time horizon: 250 days), the maximum loss specified in accordance with VaR could amount to PLN 63,681.60 – at the 99% trust level.

horizon [days]	250
VaR [PLN]	63,681.60

VaR statistics in the currency portfolio in the January-December 2011 period for Alior Bank SA:

in PLNk

Min	Medium	Max
10.46	171.43	991.13

Presented in the table below is Alior Bank's FX position and FX limit utilization as of 31 December 2012.

Limit utilisation in millions of the currency		
Currencies	**Limit**	**Utilisation**
PLN (gross)	8.0	0.2
PLN (net)	4.0	0.2
A Group		
EUR	0.5	0.0
USD	0.5	0.0
CHF	0.5	0.0
GBP	0.5	0.0
B Group		
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
Commodities	1.0	0.0

While utilisation of stress-test limits for currency items, set as the maximum loss the Bank could incur in the event of the most unfavourable daily FX change out of those occurring within the last 4 years, at the end of December 2011, totalled PLN 10,085.

37.1.2 Interest rate risk

The interest rate risk is defined as a risk of negative impact of market interest rates on the current financial result or the present net value of the Bank's equity. As part of its policy of mitigating the risk in its Trade Book, the Bank pays special attention to specific aspects of the interest rate risk that are associated with the Banking Book, such as:

- risk of repricing dates mismatch;

- basis risk which is defined as the impact of non-parallel changes in different reference indices with similar repricing dates on the Bank's yield;
- modelling of accounts with an unspecified maturity date and the amount of interest set by the Bank (e.g. for current deposits);
- impact of non-interest items on the risk (e.g. capital, non-current assets).

One of methods of estimating the bank's exposure to interest rate risk is determination of the BPV. BPV represents the estimated change in value of the given transaction/position as a result of a change by 1 basis point at a given point of the yield curve. BPV values are measured daily at each point of the curve and per each currency. The BPV estimate as at the end of the year in PLNk is presented in the table below.

in PLNk

Currency	Up to 6 months	6 months – 1 year	1-3 years	3-5 years	5-10 years	10-15 years	Total
PLN	15.3	-22.1	-52.8	-42.2	0.6	0.0	-101.2
EUR	-6.4	-1.9	13.1	-23.1	2.8	0.0	-15.5
USD	7.7	4.2	0.3	0.1	0.0	0.0	12.3
CHF	-0.6	0.5	0.1	-4.3	0.0	0.0	-4.3
GBP	1.4	0.9	0.0	0.0	0.0	0.0	2.3
OTHER	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1
Total	**17.4**	**-18.5**	**-39.3**	**-69.5**	**3.4**	**0.0**	**-106.5**

BPV Statistics for January – December 2011 for Alior Banku **in PLNk**

Book	Min	Medium	Max
Banking Book	-259.8	-136.0	-0.1
Trading Book	-8.2	-1.7	5.8
Total	-259.4	-137.7	1.7

At the same time, in order to estimate the interest rate risk, the Bank applies the Value at Risk model discussed above. Presented in the table below is the economic capital, measured this way, earmarked to cover the abovementioned risks at the end of half-year (99% VaR, horizon: 250 days, PLN thousand).

Book	VaR [PLNk]
Banking Book	7,950
Trading Book[1]	4,218
Total[2]	7,992

VaR statistics for the period January - December 2011 for Alior Bank:

[1]VaR of the Trading Book is contained with the VaR due to FX risk presented above.
[2]as above

			in PLNk
Book	**Min**	**Medium**	**Max**
Banking Book	5,053	17,963	30,019
Trading Book	1,662	4,845	8,741
Total	5,012	16,728	27,221

For the purposes of interest rate risk management, the bank discerns trading activity, which covers securities and derivatives, concluded for commercial purposes, and banking activity, which covers deposits and credits. The Bank also conducts an analysis of the scenarios which covers, among other things, the impact of specific changes in interest rates on the future interest result and the economic value of capital. As part of these scenarios the Bank maintains internal limits, whose utilization is measured in monthly intervals. Utilisation of the limit of change of the capital economic value given parallel shift of percentage curves by +/- 200 b.p. and non-parallel shifts given scenarios of +/- 100/400 b.p. (in tenors of 1M/10Y, and with linear interpolation of the shift between them) as at the end of December 2011 presented below).

	in PLNk
Scenario (1M/10Y)	**Change in the economic value of the capital**
+400 / +100	-29,465
+100 / +400	-18,794
+200 / +200	-29,585
- 200 / - 200	22,638
- 100 / - 400	20,353
- 400 / - 100	37,001

37.1.3 Liquidity risk

The Bank defines liquidity risk as the risk of being unable to execute its payment obligations (under favourable conditions and against reasonable prices) ensuing from balance sheet and non-balance sheet entries possessed by the Bank. The liquidity risk is inseparably associated with financial liquidity defined as permanent capacity of the bank to fulfil all its obligations, combined with the possibility to ensure appropriate funds to fulfil the bank's strategy of increasing the Bank's balance sheet total.

Therefore, the Bank’s liquidity risk management policy consists in maintaining its own liquidity items in such a way that it is possible, at any time, to discharge payment obligations through available receipts from transactions featuring concrete maturity dates or selling transferable assets – while minimizing the liquidity maintenance costs.

To be more precise, the Bank realizes the following goals within the liquidity risk management framework:

- it ensures – at all times – the capacity to timely settle all the obligations;
- it maintains basic liquidity provisions – in the case the liquidity situation suddenly deteriorates;
- it minimizes the risk of exceeding the defined liquidity limits;
- it monitors liquidity, paying special attention to possible emergencies, so that it is able to activate a relevant Emergency Plan;
- it makes sure the Bank's processes comply with the regulatory liquidity risk management requirements.

The above objectives are being fulfilled in an independent manner by appropriate organizational units, whose competencies and responsibilities are clearly defined by internal regulations. As part of the liquidity management process the Bank periodically conducts, in the form of reports, an analysis of the categories and factors affecting the current and future liquidity level. Among the liquidity management measurements the bank distinguishes the following factors and the associated limits of the following types of liquidity:

- payment liquidity, understood as capability of financing assets and timely satisfaction of liabilities in the course of normal bank's operations or given other conditions which are foreseeable, without the necessity of incurring loss. In particular, within the payment liquidity management, the bank focuses on analysis immediate and current ratio (up to 7 days);
- short-term liquidity – defined as the capacity to discharge all the pecuniary obligations within payment dates covering the consecutive 30 days;
- medium-term liquidity – defined as the capacity to discharge all the obligations respecting maturity dates up to 6 months;
- long-term liquidity – the capacity to discharge all the pecuniary obligations respecting payment terms over 12 months.

Within the management of liquidity risk, the bank executes also an analysis of the profile of maturity/exigibility in a longer term, which depends to a large extend on adopted assumptions in the scope of shaping of future cashflows, connected with items of assets and liabilities. The assumptions in particular take into account:

- the stability of liabilities featuring unspecified maturity dates (e.g. current accounts, deposit terminations and renewals, concentration levels);
- the possibility to shorten maturity dates of certain assets (e.g. mortgage loans whereby early repayment is possible);
- the possibility to sell certain assets (the so-called liquidity portfolio).

and they are approved by the ALCO Committee or the Bank's MB.

Included in the table below is the analysis of maturities in regard to assets and liabilities (values in PLNm):

PLN million

2011-12-31	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
ASSETS	**353**	**3 111**	**1 003**	**920**	**1 111**	**1 692**	**2 356**	**4 864**	**15 410**
Cash and Nostro	4	27	58	76	98	116	49	19	447
Receivables from banks	0	607	193	149	0	89	0	0	1 038
Receivables from customers	240	552	626	494	861	1 372	2 028	4 134	10 307
Securities	109	1 925	126	201	152	115	279	0	2 907
Other assets	0	0	0	0	0	0	0	711	711
LIABILITIES	**-59**	**-671**	**-1 030**	**-1 419**	**-1 773**	**-3 330**	**-2 191**	**-4 937**	**-15 410**
Liabilities towards banks	0	0	0	0	0	0	-71	-44	-115
Liabilities towards customers	-59	-671	-1 030	-1 348	-1 714	-2 968	-2 060	-3 059	-12 909
Own issues	0	0	0	-71	-59	-362	-60	0	-552
Other liabilities	0	0	0	0	0	0	0	-1 834	-1 834
Balance sheet gap	**294**	**2 440**	**-27**	**-499**	**-662**	**-1 638**	**165**	**-73**	**0**
Accumulated balance sheet gap	**294**	**2 734**	**2 707**	**2 208**	**1 546**	**-92**	**73**	**0**	**0**
Derivative instruments – inflows	0	1 719	928	363	986	275	444	0	4 715
Derivative instruments – outflows	0	-1 679	-890	-351	-1 020	-268	-452	0	-4 660
Derivative instruments - net	0	40	38	12	-34	7	-8	0	55
Guarantee and financial lines	0	-388	-387	0	194	581	0	0	0
Gap	0	-348	-349	12	160	588	-8	0	55
Total gap	**294**	**2 092**	**-376**	**-487**	**-502**	**-1 050**	**157**	**-73**	**55**
Total accumulated gap	**294**	**2 386**	**2 010**	**1 523**	**1 021**	**-29**	**128**	**55**	**0**

Defining its real liquidity gap, the Bank utilizes model loan repayment weights corresponding to the statistical model deployed and historic observations regarding individual product balances.

The Bank keeps its liquidity buffer at a high level, investing in debt securities issued by the government and highest rating companies, which may be quickly made liquid – within the scope defined under a relevant financial program. Such level is monitored by the liquid asset indicator (against the deposit base) which amounted to more than

25% on 31.12.2011. Additionally, the bank draws up (and verifies periodically) a plan of financing and selling liquidity resources, taking into consideration the liquidity maintenance costs.

Pursuant to Resolution No. 386/2008 passed by the Financial Supervision Authority on 17 December 2008, the Bank determines:

- a short-term liquidity gap (minimum surplus of the current liquidity) defined as the difference between the basic value sum coupled with the supplementary liquidity provision as of the reporting date and the value of unstable foreign resources. The surplus value totalled PLN 1,497,396 thousand at the end of December 2011;
- a coefficient for covering assets with the Bank's non-liquid funds – calculated as the quotient of the Bank's own funds decreased by the total value of market risk capital requirements, the delivery settlement risk, and the customer risk to non-liquid assets;
- a coefficient for covering non-liquid assets and assets featuring limited liquidity with the Bank's own funds and stable foreign funds – calculated as the quotient of the Bank's own funds decreased by the total value of market risk capital requirements, the delivery settlement risk, and the risk of the customer and stable foreign funds to the total non-liquid assets and assets featuring limited liquidity;
- a short-term liquidity coefficient defined as the quotient of the total basic value and liquidity supplementary reserve (as of the reporting date) to the value of unstable foreign funds.

The values of the abovementioned coefficients at the end of December 2011 amounted respectively to: 2.48; 1.22; 1.70.

37.2. Credit risk

Credit risk management and maintenance of that risk at a safe level is of fundamental importance for stability of the Bank's activities. Credit risks are controlled by applying specific regulations – especially loan granting methodologies drawn up for individual customer segments, product and transaction types, or principles of setting and monitoring legal protection 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 customer.

Credit risks are reduced both in regard to limits ensuing from internal rules and to those resulting from the Bank's principles of conduct. In particular, such rules and principles refer to limitations in the scope of loan involvement towards one Customer, a group of entities united by capital and organization, and economy sectors. Detailed principles of limiting the concentration risk are described in item "Concentration risk management".

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

1. Credit risk identification;
2. Risk measurement and assessment;
3. Credit risk monitoring;
4. Application of risk steering methods and instruments;
5. Control of existing and potential risks.

Within the credit risk management system there are internal and external factors related to the credit risk occurrence. Such factors may be found in certain areas of the Bank's activity, namely:

1. Products – the area covers all the risks potentially related to a specific product (in the sense of a one-off case or the whole portfolio of loans);
2. Collaterals - what is verified at this plane, is the correctness of collateral acceptance, collateral's value and timeliness and the correctness of preparation of documentation related to the collateral, as well as update of its value. For mitigation of the credit risk, it is also important to examine the efficiency of implementation of amended regulations related to legal security of receivables and application of current conduct standards when securing receivables;
3. Customers – examination of individual clients, verification of homogenous customer groups in regard to the portfolio quality;
4. Processes and regulations – verification of credit process effectiveness and quality, making sure that loan administration, monitoring, debt collection, restructuring and cooperation with external entities are managed according to plans, ensuring that the Bank's regulations (steering the abovementioned processes) comply with applicable laws;
5. Systems – verification of credit support systems and processes supporting monitoring and debt collection, making sure that all the utilization measures are

effective, finding out whether all the cases for which such utilization turned out necessary have been properly examined.

6. Distribution channels – checking effectiveness (and harmfulness) of the Bank's distribution channels;
7. Employees – examination of credit competences granted individually, detection of possible irregularities related to the loan process;
8. External conditions - from among external factors the following ones are especially examined: interest rates level; foreign exchange rates; cash supply volume; unemployment rate; economic climate;
9. Credit risk management effectiveness – periodic verification of whether the system assumptions concerning the Bank's credit risk management policies are effective.

With the view to systematize credit risk analyses and examinations, the Bank undertakes two types of actions aimed at minimizing credit risks occurring in connection with single products or at reducing total credit risks related to specific loan portfolios possessed by the Bank.

Risk assessment in the loan process

An important element conducive to minimizing credit risks in the Bank is the system of making credit decisions executed by proper competence functions, assigned in accordance with the amount involvement level and the risk level referring to a given client or transaction.

The Bank's commitments are based on crediting methodologies created for particular customer segments and product types. The customer creditworthiness assessment, preceding the Bank's commitment, is carried out by means of credit calculators, scoring and rating tools, as well as the external information (e.g. databases of CBD DZ, CBD BR, BIK, BIG) and the Bank's internal databases.

Commitments are granted pursuant to the Bank's loan processes indicating the appropriate actions to be taken up in the process, the responsible Bank units, and tools to be utilized.

As regards the Individual Customer Segment, **credits and collaterals are administered and managed** by the Bank's Corporate Centre, whereas in the case of the Business Customer Segment, loan administration has been centralized only for exposures whereby the commitment decisions were made at a risk level. In all the other cases, administration lies within the competence range of individual business units. Administration is concerned with making changes to the existing agreements, especially alterations related to crediting periods, collaterals and instalment repayment settlements. Periodic reviews (i.e. business customers monitoring) are conducted by personnel qualified to perform loan analyses, each time at the risk level. Such personnel is competent to approve periodic reviews.

Monitoring involves identification of irregularities and mitigation of threats through the deployment of early preventive measures aimed at making Customers fulfil their contractual obligations. Individual risks, threats related to united groups, and portfolios are all monitored regularly. As a result of credit risk monitoring, all the measurements are summed up for a given reporting period. Then, relevant opinions and recommendations are issued. Monitoring is mainly concerned with the general assessment and evaluation of credit risks, based on building and updating early warning strategies and plans for reducing credit risks.

Monitoring results may be as follows: loan limit reductions, no decision on renewed commitment, necessity to repay part of the loan, necessity to set up additional collaterals, no new marketing campaigns offered to the Customer. Pursuant to the monitoring conclusions, clients are classified to appropriate risk groups, which determines the amount of provisions to be maintained.

Division of competences

Credit competences – as a specific kind of competences in the Bank – are treated in terms of a privilege vested in selected persons who are allowed to accept credit risks. Competence types and the way they function have been defined in detail in the "Credit Competence Principles" and "Competence Certification Principles" instructions.

All the personnel recommended for credit competences take part in the so-called certification process whereby their qualifications are carefully checked. Depending on the position, the Bank applies two certification paths: competence tests or an interview. Positive certification is necessary for acquiring credit competences.
A specific right – as part of the credit competences possessed – is the right to approve departures from procedures applicable in the Bank and the right to delegate authorisations (access to both rights is limited).

Bank employees representing business units are allowed to accept only certain departures which are not concerned with creditworthiness and other elements of direct influence onto the transaction risk. Other departures are accepted solely in credit risk units or by Credit Committees holding such authorisations.

Business units generally do not assess and establish collaterals. It means that adopting credit decisions in the case of secured exposures, and especially secured with mortgage, does not lay in competences of business units.

Concentration risk management

With the view to protect the Bank and make sure that its assets represent proper quality, are diversified and profitable, and that the appropriate capital level is maintained, the Bank identifies concentration in various activity areas.
Excessive concentration of particular assets or liabilities, related to credit or liquidity risks, is considered to have negative influence on the Bank's security.

Concentration risk management (related to loans) is concerned with:

1. Risks ensuing from the commitment towards individual entities or those united by capital or organization;
2. Risks ensuing from the commitment towards entities representing the same sector, running the same business or trading in similar goods;
3. The risk stemming from exposure towards entities from the same province, as well as individual countries or groups thereof, the risk stemming from exposures secured with the same type of collateral or secured by the same collateral provider (including risk stemming from the Bank's securing on securities of similar characteristics).
4. Risk ensuing from exposures in the same currency;
5. Risk ensuing form exposures with the same type of interest rate (fixed or variable), and interest rate index;
6. The risk stemming from exposures towards entities referred to in art. 71 of the Banking Law Act;
7. Risks ensuing from the product specification;
8. Risk stemming from the Customer's segment
9. Risks ensuing from the distribution channel;
10. Risk ensuring from special offers and promotions
11. Risks ensuing from internal concentration.

Being aware of threats resulting from the Bank's commitment concentrations makes it possible to manage assets and liabilities effectively and create a safe loan portfolio structure.

To prevent unfavourable events related to excessive concentration from happening, the Bank reduces concentration risks through various limits and concentration norms made in accordance with external and internal rules.

The Bank utilizes:

1. Principles of identifying concentration risk areas (related to loans);
2. The process of defining and updating limits;
3. Limit management processes, specifying procedures to be applied in the case acceptable limits are exceeded;
4. The concentration risk monitoring process (including reporting);
5. Control measures applicable in the concentration risk management process.

Sector concentration as of 31.12.2011: **in PLN thousand**

Sector (as per PKD 2007)	Section header	Total commitment
Section A	Agriculture, forestry, hunting and fishery	71,659
Section B	Mining	20,220
Section C	Industrial processing	2,277,401
Section D	Production and delivery of electric energy, natural gas, steam, hot water, and air for air-conditioning units	39,422
Section E	Water delivery; management of waste and re-cultivation activities	92,712
Section F	Construction	1,788,278
Section G	Wholesale and retail trade, automobile repairs (motorcycles excluded)	2,201,802
Section H	Transportation and warehouse management	317,843
Section I	Activities related to lodging and gastronomic services	94,955
Section J	Information and communication	266,219
Section K	Finance and insurance	573,696
Section L	Real estate market administration	413,708
Section M	Professional, scientific and technical activities	306,669
Section N	Administrative and supportive services	202,587
Section O	Public administration and national defence, obligatory social insurance	680
Section P	Education	18,203
Section Q	Healthcare and social support	98,965
Section R	Culture, leisure and entertainment	18,793
Section S	Other services	30,610
Section T	Households employing workers, households producing goods and providing services for their own purposes	0

Country concentration as of 31.12.2011: in PLN thousand

Country	Total commitment	Share in own funds
POLAND	13,966,426	1417.2%
UK	136,514	13.9%
SPAIN	61,879	6.3%
IRELAND	46,488	4.7%
GERMANY	19,438	2.0%
ISRAEL	16,113	1.6%
ESTONIA	5,424	0.6%
DENMARK	4,771	0.5%
SWEDEN	2,773	0.3%
ICELAND	2,108	0.2%
SWITZERLAND	1,258	0.1%
ITALY	980	0.1%
NORWAY	759	0.1%
OTHER	3,654	0.4%

Specifying and updating the concentration limits, the Bank considers:

1. Appropriate, reliable economic and market information on all the commitment concentration areas, in particular macroeconomic and industry indicators, 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, economy sectors; general economic data including information pertaining to the economic and political situation of the countries, as well as information needed for assessing concentration risks occurring in the Bank;
3. Economic and qualitative information on the management process in entities towards which the Bank is committed and threatened by concentration;
4. The other types of risk, related to the identified commitments causing concentration risks (regarding, *inter alia*, percentage rates, liquidity, operations, political endeavours) which may raise concentration risks.

Write-downs and provisions

The Bank evaluates all balance sheet credit exposures (groups of balance sheet credit exposures) to identify if there is any objective evidence of impairment, according to the most recent data held as at the date of the valuation.

Impairment is identified automatically in the Bank’s central system, based on system information (repayment delays) or data put in by the users.

Impairment factors related to clients:

- **Serious repayment delay/unauthorized overdraft** - a factor which concerns Business Customers and Individual Customers, and which is recognized by the system if the repayment delay or unauthorized overdraft exceed 90 days, whereas the accumulated sum of the customer commitment the pay-term of which has been delayed by at least 91 days should exceed PLN 500 jointly on all accounts of the Customer with regard to which the Customer remains in relationship of the owner/a co-owner or the borrower/a co-borrower;
- **Reparatory proceedings** – a factor which concerns the Business Customer and which is recognized by the central system informing the Bank about the application for commencement of reparatory proceedings submitted to the court by a given entrepreneur;
- **Bankruptcy/liquidation** – a factor which concerns Business Customers and which is recognized by the central system informing the Bank about submission of application for announcement of bankruptcy;
- **Consumer bankruptcy** – a factor which concerns Individual Customers and which is recognized by the central system informing the Bank about submission of application for announcement of bankruptcy by the borrower (so-called consumer bankruptcy) ;
- **Non-disclosed assets of the Customer** – a factor which concerns Business Customers and Individual Customer and which is recognized by the central system informing the Bank about the Customer's submitting untrue property declaration;
- **Significant drop in the internal scoring/rating assessment** – a factor which concerns Business Customers and Individual Customer and which is recognized by the system when the assessment drops by at least one class (in relation to the original assessment) and is at the same time below the level acceptable for the Bank;
- **Significant drop of external rating assessment** - a factor which concerns Business Customers and which is recognized by the central system informing the Bank about a drop of external assessment of the Customer from investment to speculative class;
- **Significant deterioration of economical-financial condition** - a factor which concerns Business Customers and which is recognised by the system in the case of deterioration of assessment of the Customer's economical-financial

condition (in line with RMF classification) by at least one category, to the level "below standard", "doubtful", or "lost";

- **Death** – a factor referring to Individual Customers, recognized upon the central system informing the Bank about the Customer's demise;
- **No information on the Customer's whereabouts** – a factor referring to Individual Customers, recognized by the central system informing the Bank about the impossibility of identifying the Customer's registered place of residence;
- **Job loss** – a factor which concerns Individual Customers and is recognisable by the system informing about the lack of possibility of debt repayment by the Customer in result of job loss ;
- **Financial problems of the Customer** - a factor which concerns Individual Customers and is recognised on the basis of the system informing about the financial problems of the Customer (in accordance with data from the Credit Information Bureau).

<u>Value loss factors related to accounts:</u>

- **Bank's enforcement title** – a factor recognized through the system information on issuing the Bank's Enforcement Title;
- **Commencement of enforcement proceedings** – a factor recognized through the system information on the Bank commencing internal enforcement proceedings.
- **Agreement termination** – a factor recognized on the basis of information pertaining to an effective termination date introduced to the system when at the same time the criterion of significance of the debt amount (PLN 500) is fulfilled;
- **Restructuring** – a factor recognized by the system on the basis of information introduced to it in result of the Customer's problems with prompt service of debt, changes of credit service principles in the form of an annex to the credit agreement or another agreement concluded with the Bank;
- **Exposure questioned by Borrower in court** – a factor based on the information introduced to the system pertaining to an exposure being questioned by the Customer in court;
- **Identified extortion** – a factor recognized by the system on the basis of information pertaining to an identified extortion on the basis of a court sentence.

Catalogue of factors related to impairment, concerning exposure towards banks:

- **Delay in repayment exceeding 30 days** - a factor recognised on the basis on information about delays in repayment exceeding 30 days;
- **Significant deterioration of external rating assessment of bank-contractor** - a factor recognised on the basis of information about the external rating assessment of the bank's contractor being decreased from investment to speculative class;
- **Significant deterioration of external rating assessment of bank-contractor's country of operation** - a factor recognised on the basis of information about the external rating assessment of the bank's contractor's country being decreased from investment to speculative class;
- **Significant deterioration of financial condition of the bank / insolvency of the bank** - a factor recognised on the basis of information about the customer risk, assessed in the course of the process of periodical monitoring of limits at an unacceptable level.

Catalogue of factors related to impairment, concerning exposure due to Bonds:

- Lack of payment due to Bonds - a factor recognised on the basis of information about the lack of payment due to Bonds within timeframes determined in terms and conditions of issuance of the Bonds;
- The Issuer's failure to fulfil other conditions determined in the terms and conditions of issuance of the Bonds, which makes it possible to make the Bonds exigible earlier.

On each of accounts there is also a possibility to set the default status manually. It is marked in the case of finding out that other important factors, not covered by the above catalogue, occurred, which may constitute a factor for the loss of value.

The credit exposure balance sheet impairment factors (of credit exposure balance sheet groups) are recorded in the system at the customer or account level.

Registration of the prerequisites for impairment at the level of a selected account results in all accounts of the given customer being marked as impaired. Similarly, in the event of registration of the prerequisite for impairment at the customer's level, the impairment is propagated to all accounts in the customer’s portfolio. Each time the propagation applies to all accounts for which the Customer acts as the owner/co-owner or the 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 are ascertained are divided into:

1. Valuated individually;
2. Valuated jointly (in groups).

Individual evaluation is utilized in the case of exposures threatened by value loss (calculated at the customer level), exceeding the thresholds depending on the customer segments (see table below).

in PLN

Client segment	Segment code	Threshold amount
Individual Customer	10, 11, 12, 13, 14, 15, 16, 17	100,000
Business Customer	1,2,3,4	200,000

Individually assessed are also exposures threatened by impairment, for which the Bank is incapable of distinguishing asset groups featuring similar credit risk characteristics or for which the Bank does not have sufficient sample to estimate the group parameters

The group assessment is based on the time for which the given exposure is in default and takes into account the specifics of the given group in view of the expected recoveries. Collaterals are taken into account at the exposure level.

Exposures for which no prerequisites for impairment have been identified are grouped taking into account the principle of homogeneousness with respect to the risk profile and a provision is established for the exposure group, whose aim is to cover incurred but not reported losses (IBNR).

The IBNR amount is determined on the basis of PD, LGD parameters, and collaterals (taking into account the expected recovery rates).

Collaterals

The Bank's collaterals are set in accordance with credit risks incurred by the Bank and the Customer's capacity. Once in place, the collaterals do not release the Bank from its obligation to examine customer creditworthiness.

Loan collaterals are put in place in order to make sure that the Bank has its loans repaid along with due interest and costs in the event that the Borrower is incapable of paying back its debts on the agreed dates and restructuring has not brought about the expected results.

In particular, the Bank accepts the following legal collaterals:

1. Guarantees, counter guarantees, and sureties;
2. Blockades;
3. Registered pledges;
4. Ownership transfers;
5. Assignment of claims;
6. Loan insurance;
7. Bills;
8. Mortgages;
9. Powers of attorney to the bank account;
10. Guarantee deposits as a particular form of collateral.

Debt collaterals set by the Bank make it possible to:

- decrease write-downs and provisions pursuant to IAS 37 and IAS 39;
- decrease reserve creation basis pursuant to the Regulation of the Minister of Finance of 16 December 2008;
- utilize more favourable risk weights to calculate capital requirements pursuant to Resolution No. 76/2010 of the Financial Supervision Authority.

Scoring/rating

Credit scoring is an instrument utilized in the making of individual loan decisions for individual customers and micro-companies, while credit rating constitutes an instrument for supporting the decision making process in the segment of Small, Medium and Large Enterprises.

The scoring and rating models have been implemented to:

1. Reduce credit risks by means of acquiring reliable customer creditworthiness forecasts;
2. unify the credit decision criteria in an objective and unbiased manner;
3. shorten the periods in which credit decision are made, and boost effectiveness of credit application assessment (increasing work capacity and decreasing service costs);
4. simplify the process of credit application assessment (automation);
5. Customer classification in terms of the degree of risk connected with them;
6. Monitoring and forecasting quality of loan portfolio;
7. Simplify assessment of the existing credit policies and speed up the implementation of changes in the decision making processes designated to evaluate credit risks related to business and individual customers.

Each model implemented in the Bank must meet the acceptance criteria, such as:

1. Proper discrimination force;
2. Sufficient stability;
3. Proper calibration;
4. Full documentation.

The way the scoring and rating models function is regularly monitored by the Bank.
Such validation is aimed at specifying whether the model applied properly differentiates risks and whether the assessed risk parameters properly reflect the relevant risk aspects. In addition, functional controls verify whether the credit process models have been applied in accordance with their designation.

The Banks assesses its Individual Customers by means of generic scoring cards purchased from an external supplier and statistical cards (application and behavioural) based on data collected by Alior Bank and BIK reports. Statistical scoring cards, prepared by an external company on the basis of the Bank's data sources, are utilized for the assessment of micro-companies.

Scoring makes up an element of the credit process. It is deployed in the system of processing loan applications based on application data.

A processing banker may come up with three different scoring analysis results:
- Acceptance – further processing possible under no additional conditions;
- Pending decision – further processing will be possible once the departure has been approved by a competent person;
- Refusal – further processing possible only by MB.

Pursuant to the so-called T Recommendation, only personnel of the Credit Risk Area is authorized to make the "Pending decision" assessments.

Scoring models are built internally in the Bank or in the case the Bank does not have sufficient quantity and quality of data, generic models purchased from external companies are implemented.
Presently, six scoring models for Individual Customer are used in the Bank. Three of them were created internally, and other three were purchased from an external company. Models for Cash Loan, Credit Card, and Revolving Overdraft Facility were prepared internally. Generic, purchased models, were implemented for Mortgage Credit, Car Credit, and Brokerage Line.

In result of application of the scoring model, one may obtain:

1. Decisive score value for a given Customer/Application,
2. Scoring class with theoretical PD value ascribed,
3. Scoring recommendation for credit application, in the form of: Approval, For decision, Rejection.

The lifecycle of a scoring model comprises following elements:

1. Construction of the model supported with validation tests,
2. Model implementation,
3. Ongoing monitoring of the model and regular validation,
4. When efficiency of a model decreases - it results in undertaking of relevant actions by the Bank Validation Committee for Scoring and Rating models.

In order to execute independent review of all scoring and rating models, and also in order to issue recommendations and approvals in the scope of approval of newly constructed or purchased models, the Bank Validation Committee for Scoring and Rating Models.

As part of construction of new scoring models, a focused-on-Bank-Customer rating strategy construction project is underway, and the present product segmentation is being abandoned.

Benefits from introduction of new scoring strategy focused on Customer:

- Uniformisation of the scoring assessment given to the Customer who applies for a couple of products at the same time,
- Comparability of scoring classes for different products of the Bank.

Rating models have been built internally by the Bank. The following construction stages have been executed:

1. Theoretical models analysis;
2. Choice verification and model calibration through a survey;
3. Tests of the model discrimination capacity, based on the purchased set of financial reports in accordance with the internally defined key;
4. Designation of cut and scale points for particular rating classes. Verification consisting in the activation of the model test phase on data referring to the companies verified by various models and experts while the Bank business was being initiated.

Today, the Bank applies three rating models to assess its business customers:

- for small companies (running full accountancy and yielding annual revenue of up to PLN 20 million);
- for medium and large size companies (revenue over PLN 20 million);
- for car dealers.

All the three models feature a set of quantitative and qualitative variables. Depending on the model, there are 5-10 quantitative variables and 14-17 qualitative ones.

Two other rating models are being implemented:

- for the assessment of territorial self-government units;
- for the assessment of developers.

Ratings are processed in a separate system made available to employees. In particular, three steps are needed to calculate a rating:

1. Introduction of financial report data;
2. Introduction of customer qualitative data;
3. Rating calculation and summary report generation.

The available financing and required collaterals depend on the rating class designated.

Receivables from the non-finance sector customers – non-expired and with no impairment, broken into risk classes and models

in PLNk

Model (product)	Risk class	As at 31.12.2011	As at 31.12.2010
Exposures of individual customers and micro-companies per models and scoring classes (1- best class, 6 – worst class)			
Long-term products – KB segment	1	23,816	34,181
	2	13,806	21,214
	3	12,739	14,377
	4	9,524	4,728
	5	0	0
	6	0	0
Car loans - KB segment	1	13,636	12,183
	2	41,953	21,596
	3	56,775	30,073
	4	29,422	16,293
	5	0	27
	6	0	0
Operating products KB segment	1	10,062	26,615
	2	24,458	63,178
	3	14,806	35,926
	4	2,681	6,901
	5	104	193

	6	156	28
KB products, simplified process (from 22 April 2011)	B1	9,386	0
	B2	23,762	0
	B3	49,901	0
	B4	44,774	0
	B5	44,604	0
	B6	24,933	0
	B7	9,504	0
	B8	2,005	0
	B9	159	0
	B10	285	0
Mortgage loan KI segment	1	611,615	259,601
	2	526,370	260,508
	3	593,290	286,575
	4	626,802	296,830
	5	15,627	2,670
	6	7,076	5,837
Cash loan KI segment, simplified process (from 22 April 2011)	K1	16,849	851
	K2	43,797	665
	K3	91,613	1,341
	K4	161,522	2,157
	K5	217,110	2,178
	K6	224,942	2,010
	K7	216,574	1,622
	K8	141,223	1,135
	K9	38,651	254
	K10	11,633	78
Cash loan KI segment	1	100,797	165,903
	2	208,853	301,090
	3	171,628	256,191
	4	1,090	2,271
	5	65	73
	6	0	1
Car loans - KI segment	1	19,941	12,956
	2	16,974	10,813
	3	5,697	3,888
	4	0	0
	5	0	0
	6	0	0
Credit card KI segment, simplified process (from 22 April 2011)	K1	50	0
	K2	13	0
	K3	27	0
	K4	39	0
	K5	41	0
	K6	42	0
	K7	61	0

	K8	15	0
	K9	1	0
	K10	2	0
Credit card KI segment	1	23,054	15,455
	2	9,234	5,728
	3	11,690	7,037
	4	1,204	660
	5	27	7
	6	13	11
Overdraft KI segment, simplified process (from 22 April 2011)	K1	28	0
	K2	23	0
	K3	37	0
	K4	8	0
	K5	43	0
	K6	33	0
	K7	36	0
	K8	15	0
	K9	9	0
	K10	3	0
Overdraft KI segment	1	10,862	7,880
	2	4,612	2,987
	3	6,968	4,107
	4	788	429
	5	7	3
	6	0	0
Broker's contingent overdraft KI segment	1	81,625	65,366
	2	27,205	30,071
	3	16,099	23,683
	4	4	126
	5	0	71
	6	74	211
TOTAL		**4,726,980**	**2,328,843**
Exposures of small, medium and large companies per rating classes and models (A- best class, J – worst class)			
Model for car dealers	A	0	0
	B	0	0
	C	1,720	1,103
	D	3,343	285
	E	12,272	635
	F	28,611	2,077
	G	3,997	1,600
	H	599	0
	I	1,996	0
	J	0	4,439
Model for small companies	A	16,574	2,024
	B	69,135	82,270
	C	181,071	109,148

	D	306,060	156,630
	E	356,996	268,987
	F	323,737	107,684
	G	114,190	16,823
	H	13,798	12,996
	I	15,769	23,480
	J	1,684	1,049
Model for medium and large companies	A	62,161	3,930
	B	70,720	111,649
	C	293,253	88,746
	D	568,299	239,212
	E	906,273	469,700
	F	462,381	333,469
	G	29,021	22,933
	H	29,904	9,030
	I	13,572	1,657
	J	6,578	0
	TOTAL	**3,893,714**	**2,071,556**
	No scoring/rating	**465,723**	**368,982**
Total amounts due from clients		**9,086,417**	**4,769,381**

The "no scoring/rating" entries are mostly observed in the case of loans granted as part of credit campaigns for which risk scale was assigned at the portfolio level.
In the Bank's portfolio, there are only rare cases in which creditworthiness has not been assessed. Such cases are verified by functional controls, explained in detail to be avoided in the future, and fully documented.

Monitoring credit risks related to individual and business customers

The continuous credit portfolio quality protection is ensured by:

- daily monitoring of timely loan administration;
- periodic reviews – concerned chiefly with the customer economic standing and the value of approved collaterals.

The monitoring of the IC Segment customers includes the following areas:
- customers;
- credit products granted to debtors;
- agreements from which the credit exposure originated;
- collaterals approved;
- amount of write-downs and provisions.

The monitoring of the BC Segment customers involves in particular:
- customers and related entities;

- type of activities;
- credit products granted to debtors;
- agreements from which the credit exposure originated;
- collaterals approved;
- market conditions influencing creditworthiness;
- amount of write-downs and provisions.

All the credit exposures of individual and business customers are subject to monitoring and daily classification to the appropriate process paths. With the view to improve the monitoring process and controls of potential operating risks, the process is based (as much as possible) on the system. System tools have been consolidated 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 losses ensuing from loans not repaid in time.

In addition, collaterals and credit documents are regularly updated, while the account receipt adequacy and limit utilization are carefully verified.

Receivables from the non-finance sector customers – overdue but with no value loss

in PLNk

Overdue period	As at 31.12.2011	As at 31.12.2010
≤ 1M	546,077	551,489
> 1M ≤ 3M	129,953	67,043
> 3M	1,137	4,749
Total	**677,167**	**623,281**

As of 31 December 2010, the value of collaterals for the portfolio of overdue receivables (with no value loss) amounted to PLN 1,111,851 thousand, and as of 31.12.2011: PLN 547,472 thousand. The collaterals include: civil sureties, powers of attorney, registered pledges, blank bills, debt transfers, guarantee deposits, ordinary and deposit mortgages, deposit blockades, and ownership transfers of movables.

37.3. Operational risk

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

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

The Bank's internal policy regarding operating risk management has been described in the document entitled "Operating Risk Policy in Alior Bank SA" (amended in 2009 by the MB) adopted by force of the MB's Resolution No. 151/2009. The document specifies the following objectives of the operating risk management model:

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

According to the Bank's policy, current operating risk control measures should be concerned with entities at all the organizational levels and all the Bank's employees. The Bank employees routinely control operating risk levels within the scope of processes they manage. They are quite active in minimizing those risks, sparing no effort to avoid operating losses.

As for the identified significant operating threats, the Bank's MB decides to reduce operating risks through purchasing appropriate insurance schemes.

From time to time, the Bank's MB evaluates how the policy has been adhered to with regard to the operating risk management. For that purpose, the Management Board is regularly informed about any operational risks which the Bank is exposed to.

The Operating Risk Committee (ORC) works within the Bank's organizational structure. It is a consultative body supporting the MB in the effective risk management. The ORC monitors the levels of exposure to operating risks and assesses the current situation within the scope of operating risks throughout the entire Bank. It also undertakes necessary recommendations and decisions aimed at decreasing the likelihood of operating risk events and at limiting the negative results of operating events and incidents.

Ongoing control and monitoring of the operational risk in 2011 was the responsibility of the Operations Management Department. As of 2012, the function was taken over by the Operating Risk and Operational Continuity Team at the Operations Department. It is also responsible for developing and implementing appropriate operational risk control methodologies and instruments. The Bank records all the events, incidents and operating losses pursuant to the "Instructions for Recording Operating Events in Alior Bank SA" (MB Resolution No. 446/2009). This process is supported by the operating risk management system OpRisk Suite. Analysis and monitoring of data from the system are used to manage operating risk in all areas of the Bank and in the Brokerage House.

For the purposes of ongoing monitoring of the status and profile of operating risk, the Bank applies also the method of Key Risk Indicators. Therefore, it monitors operating risk factor changes, analyses trends of changed risk exposures, and is capable of detecting early higher levels of operating threats throughout the entire Bank. The monitoring is performed in monthly cycles and KRI values are analysed, discussed at the meetings of the Operational Risk Committee, and reported to the Bank's Management Board.

In 2011, 248 operating losses were disclosed in total, and their level reached the amount of PLN 3,953,594 - in comparison to 2010, there was an increase of the operating losses amount by PLN 3,365,574. Significant operating losses occurred in 2011 Q3 in relation to an operational event in result of which a Branch of the bank accepted and posted a closed payment containing fake banknotes, and an event relating to the theft of deposits of the bank's Customer by a banker in 2009-2011. In both cases, relevant organisational units undertook activities aimed at preventing similar events' occurrence in the future. There are also works under way aimed at recovering of a part of incurred losses as part of Bankers Blanket Bond insurance purchased by the bank.

Amounts in PLN

Operating losses	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010
Standard operating losses (gross)	3,953,594	588,020
Credit operating losses (gross)	0	0
Amounts recovered, due to other receivables than insurance	4,147	0
Amounts recovered, due to insurance	133,638	130,943
List of operating losses	248	142

Operating losses (gross)	Period From 01.01.11 To 31.12.2011	Period From 01.01.10 To 31.12.2010	% share of the loss amount in the total loss amount for 2011
Internal frauds	2,368,257	0	59.90%
External frauds	1,249,315	113,099	31.60%
Staff practices and safety at work	0	956	0.00%
Damage/loss of physical resources	88,661	148,944	2.24%
Failures of systems	3,509	1,326	0.09%
Wrong sales practices	27,272	26,640	0.69%
Unauthorized employees' actions	6,142	0	0.16%
External factors	18,197	203,831	0.46%
Management processes	0	0	0.00%
Transaction execution, delivery & process management	192,242	93,223	4.86%
TOTAL	3,953,595	588,020	100.00%

37.4. Capital management

The risk to which the Bank is exposed is limited so that the Bank may carry out the capital objectives defined in the Capital Management Policy. The Bank must make sure that – at all times – its own capital is sufficient to cover all the significant risk types. The Capital Management Policy was developed taking into account the provisions of the Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 December 2011 on detailed principles of functioning of the risk management system and internal control system, and specific terms of assessing internal capital, reviewing the assessment process and maintaining internal capital by banks as well as principles of determining the policy of variable remuneration components in respect of remuneration of persons holding managerial positions at the bank.

Capital management responsibility

The superior role in the process of managing the capital is played by the Supervisory Board, the Management Board and by ALCO. Their competences look as follows:
Competencies of the Supervisory Board:

- validation 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. Analyse ICAAP reports (monitor the capital targets and risk profile)

ALCO is authorised to:

1. Manage the Bank's equity;
2. Plan capital needs;
3. ICAAP supervision.

Capital adequacy measures

The primary capital management tools used at Alior Bank include:

1. Solvency ratio;
2. Regulatory capital requirement analysis, and
3. Internal capital (ICAAP).

37.4.1. Capital adequacy ratio

The solvency ratio is calculated in accordance with the 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 the capital adequacy level required by the Banking Law totals 8%. As regards Alior Bank this ratio as at 31 December 2011 was 9.99 per cent. The total own funds as at the same date used in the calculation of the solvency ratio amounted to PLN 979,553 thousand.

in PLNk

Capital adequacy ratio calculation	31.12.2011
Total own funds for the capital adequacy ratio	**979,553**
Capital requirements	**784,492**
Total capital requirements for the following types of risk: credit, counterparty's credit, dilution and delivery of instruments for settlements at a later date	730,529
Capital requirement against settlement/delivery risk	0
Total capital requirements for the following types of risk: prices of capital securities, prices of debt instruments, prices of goods and currency	706
Capital Requirement for general interest rate risks	7,690
Total capital requirements for operating risks	45,566
Capital adequacy ratio	**9.99%**

Balance sheet and off balance sheet exposures in credit risks – broken into classes as of 31.12.2011:

in PLNk

Exposure class in the standard method	Exposure value	Risk weighted exposure value
Governments and central banks	2,641,313	8,260
Institutions - banks	1,428,369	469,946
Enterprises	2,196,437	2,196,437
Retail	4,724,070	3,543,053
Real estate collateral	3,305,064	2,429,348
Other	998,106	484,116
Total	**15,283,359**	**9,131,160**

Primary balance sheet exposure value in credit risks – broken into exposure types.

in PLNk

Exposure type	As at 31.12.2011	As at 31.12.2010
Cash in hand and equivalent items	137,698	93,987
Securities	2,906,975	2,422,106
Loans	11,126,638	6,286,698
Tangible fixed assets	212,392	215,703
Intangible assets	122,854	109,131
Other	903,091	112,520
Total	**15,409,648**	**9,240,145**

37.4.2. Regulatory capital requirement analysis

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 real values to budget values and explaining the possible differences: are they caused by another scale of the Bank's activity (especially the credit portfolio size) or another asset risk profile? As of 31.12.2011, the Bank’s own capital exceeded the total capital requirement.

37.4.3. Internal capital

ICAAP

In order to ensure that all the threats the Bank is exposed to are analysed for their significance and that the Bank possesses sufficient capital to cover significant risks, the Bank utilizes a comprehensive ICAAP process. It includes the following phases:

1. Analysis of risk types and selection of significant risk types;
2. Risk quantification;
3. Risk aggregation (setting the size of the internal capital required);
4. Reporting
5. Process overview

Each phase is subject to regular verification so that it is adjusted to the current internal situation in the Bank and the external conditions.

Considering risks in the assessment of goals to be achieved by business units

In the Bank’s business model there are goals to be realized by individual business units. They are mainly concerned with the Bank’s profitability including risk assessment elements (expected losses) and capital costs. Capital costs are treated in terms of a quotient of the Bank’s assumed RoE and the regulatory capital amount originating from a given unit’s business.

Rules of internal capital allocation

The Bank allocates its internal capital for credit risks, market risks, liquidity risks, interest rate risks in the bank book, operating risks, and industry concentration. The Bank allocates its internal capital due to credit risk to respective business units and takes into account the internal capital level in assessment of profitability of individual organisational units. Since its inception the Bank has been gathering information on loss ratios arising from each type of the risk. Data collected in this manner is utilized to increase the accuracy and reliability of the economic capital calculations, as well as to streamline the correct capital allocation to business units.

Signatures of all Members of the Management Board

29.02.2012	Wojciech Sobieraj President of the Management Board	.... Signature
29.02.2012	Krzysztof Czuba Vice-President of the Management Board	.... Signature
29.02.2012	Niels Lundorff Vice-President of the Management Board	.... Signature
29.02.2012	Artur Maliszewski Vice-President of the Management Board	.... Signature
29.02.2012	Witold Skrok Vice-President of the Management Board	.... Signature
29.02.2012	Cezary Smorszczewski Vice-President of the Management Board	.... Signature
29.02.2012	Katarzyna Sułkowska Vice-President of the Management Board	.... Signature