Capital Adequacy and Other Information Subject to Disclosure by the Capital Group of Alior Bank S.A. as at 31 December 2017

March 2018

Table of content

1. Introduction

The Report on the "Capital Adequacy and Other Information Subject to Disclosure by the Group of Alior Bank S.A." as at 31 December 2017 has been prepared in line with the requirements of Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) together with the provision of Article 111 of the Banking Act of 29 August 1997 (Journal of Laws of 2012, item 1376) and Recommendation M of the Polish Financial Supervision Authority on operational risk management in banks and Recommendation P of the Polish Financial Supervision Authority on the monitoring system of financial liquidity in banks. The rules of the Information Policy of Alior Bank S.A. approved by the Supervisory Board of Alior Bank S.A.

Unless indicated otherwise, the Report presents consolidated data of the Group of Alior Bank S.A. The way the risk profile in the Bank's Group is developed is primarily affected by Alior Bank S.A., thus, part of the information included in the Report relates to stand alone data of Alior Bank S.A. Unless indicated otherwise, the figures presented in the Report are expressed in thousands of Polish zlotys.

2. Information on the Capital Group

On 31 December 2017, the Capital Group was composed of the following units:

- Alior Bank S.A. – parent company;
- Alior Leasing Sp. z o.o. – 100% in the share capital;
- Serwis Ubezpieczeniowy Sp. z o.o. – 100% in the share capital;
- ABsource Sp. z o.o. – 100% in the share capital;
- Meritum Services ICB S.A. – 100% in the share capital;
- NewCommerce Sp. z o.o. – 100% in the share capital;
- Centrum Obrotu Wierzytelnościami Sp. z o.o. – 100% in the share capital;
- Money Makers S.A. – 60.16% in the share capital.

For the purposes of calculating the solvency ratio in 2017 prudential consolidation has been applied (pursuant to Article 19 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013) – consolidation included Alior Bank S.A. and Alior Leasing sp. z o.o.

3. General rules of risk management in the Bank and the Capital Group

Risk management at Alior Bank S.A. is performed on the basis of internal regulations adopted by the Management Board and accepted by the Supervisory Board inclusive of prudential regulations provided in the provisions of law and good practices recommended by regulators.

The general objectives and framework rules applicable at the Bank in the process of risk management are defined in the Policy of Risk Management at Alior Bank S.A. A detailed policy of the Bank has been regulated in separate documents that detail the rules with regard to:

- credit risk and concentration risk;
- counterparty risk;
- market risk;
- liquidity risk;
- operational risk;
- model risk;
- business risk.

The supreme objective of the Policy of Risk Management at the Bank is to ensure early detection and adequate management of all kinds of risk inherent to the pursued activity. Verification of the risk in terms of its materiality is performed cyclically, once a year or more frequently, if there are premises for changing the risk profile of the Bank or its environment.

After completion of the verification of the risk scope, the Bank has recognised the following kinds of risk as material:

- credit risk – solvency risk (including the counterparty credit risk);
- credit risk – concentration in the industry;
- credit risk – concentration towards a Customer or a group of connected Customers;
- credit risk – concentration in a foreign currency;
- operational risk;
- market risk in the trading book;
- liquidity risk;
- interest rate risk in the banking book;
- model risk;
- business risk;
- reputational risk.

Following verification of the scope of risk, next to the kinds of risk mentioned above, the following ones are considered: credit concentration risk in the region, credit risk of collateral concentration, residual risk, transfer risk, and country risk. The target risk profile of the Bank is assessed on the basis of the current risk profile, strategic plans, and the defined propensity to take risks.

4. Statements regarding risk adequacy

Under a report on the annual risk review process, on 21 November 2017 the Bank's Management Board confirmed adequacy of the applied risk management systems to the risk profile and strategy of the Bank.

During the risk review the Bank's Management Board assessed the Bank's risk profile under which it approved a valid catalogue of the risks identified and material for the Bank's business and which are discussed in the internal capital section. The Management Board confirmed the expected levels of the appetite for risk in terms of the key capital ratios in the Bank, or the total capital ratio at the level of 13.25% and Tier 1 ratio at 10.25%, and also the ratio of the internal capital coverage with equity at 1.2.

The size structure of the assessed risk exposure measured by the metric of the capital requirement for individual kinds of risk during 2017 was maintained at the level congruent with the size structure of the risk exposure across the banking sector in Poland.

The size structure of the assessed risk exposure confirms dominance of the credit risk exposure in the total risk exposure. Pursuant to its policy, the Bank does not maintain a major risk exposure to the market risk further to which the share of that risk in the exposure structure is small. The operational risk exposure measured with the regulatory capital on the basis of the Bank's performance reflects the share in the structure that exists on the market in Poland.

Below is the structure of the capital requirements in the Bank and in the banking sector in Poland as at 30 September 2017 (no data as at 31 December 2017 has been presented due to no availability of data on the banking sector as at the Report's date).

Capital requirement	Bank	Banking sector in Poland
related to the credit risk, and the counterparty credit risk, dilution risk and deliveries with a deferred settlement data	87.54%	90.16%
related to the settlement risk	0.00%	0.00%
related to the position risk, the FX risk, and the commodity	1.28%	1.52%
related to the operational risk	10.86%	7.89%
related to the fixed indirect costs	0.00%	0.00%

related to the credit valuation adjustment	0.32%	0.41%
related to the large exposures in the trading portfolio	0.00%	0.01%
other amounts of exposures to the risk	0.00%	0.01%

Under acceptance of the Asset and Liability Management Policy for 2017-2019 on 4 October 2017 and the Rules of Liquidity Risk Management on 29 August 2017, the Bank's Management Board confirmed the adequacy of the applied liquidity risk management systems for the profile, the scale of business, the strategy, and financial plans of the Bank.

The Bank's Management Board reviewed an expected level of risk tolerance defined by the system of limits imposed on the liquidity risk which results from the appetite for risk inherent in the assumptions of the overall strategy of the Bank's business and that it is coherent with it and by setting a "survival horizon" taking into account scenarios with a various degree of severity and likelihood of materialising. The appetite for the liquidity risk has been defined, among others, by maintaining a surplus of min. PLN 500m against the minimum level of the short-term liquidity gap (metric M1) defined by PFSA No. 386/2008 and by maintaining LCR at the level above 86%; by maintaining the long-term liquidity ratio at the level above 0.8 for long-term liquidity. There are supervisory limits applicable at the Bank imposed on national and European liquidity measures. Additionally, there are internal liquidity risk limits established at the Bank that are aimed at ensuring compliance of the above-mentioned supervisory requirements by the Bank.

The Bank's Management performs a liquidity risk review on the basis of cyclical reports containing a detailed description of the Bank's liquidity profile, including, but not limited to: utilisation levels of limits, liquidity gap analysis, concentration analysis, early termination, renewal, and stability of deposits and their dynamics, development of liquidity measures, observed and expected trends in the development of liquidity risk factors.

As an institution primarily active on the retail market and independent from a foreign parent company, Alior Bank is characterised by a lowered level of the liquidity risk being a consequence of maintaining a stable deposit base (characterised by high stability at 95%), and also a small exposure to long-term mortgage loans denominated in foreign currencies.

Detailed information on the Bank's liquidity risk profile has been discussed in the liquidity risk section.

5. Risk management organisational structure

To efficiently and effectively manage the risk system at Alior Bank S.A., supervision, control, and responsibility for functioning of the system has been entrusted to:

- the Supervisory Board;
- the Risk Committee of the Supervisory Board;
- the Management Board of the Bank;
- Committees (Risk Management and ICAAP Committee, Asset and Liability Committee – ALCO, Operational Risk Committee, Bank Credit Committee);
- Organisational units responsible for individual kinds of risk;
- the Internal Audit Department.

The Supervisory Board exercises supervision over the risk management system, assesses adequacy and effectiveness of the system and supervises compliance of the Bank's policy regarding risk taking with the strategy and financial plan, and accepts the Bank's appetite for risk.

The Risk Committee of the Supervisory Board was established in order to support the Supervisory Board with respect to a model risk management process at the Bank. The Committee operates pursuant to the Operating Rules of the Risk Committee of the Supervisory Board of Alior Bank S.A. approved by the Supervisory Board. The tasks of the Committee include, among others, issuing opinions on comprehensive, current, and future readiness of the Bank to take risk, issuing opinions on risk management strategy at the Bank and analysis of information on implementation of that strategy submitted by the Management Board. Additionally, the Committee supports the Supervisory Board in supervising the implementation of the risk management strategy at the Bank by senior management, performs verification of compliance of the price of liabilities and assets offered to customers, issues opinions on regulations defining the strategy and approach of the Bank to risk taking, and analyses periodic reports on the implementation of the strategy and policies.

The Bank's Management Board exercises overall control over the risk management process, defines the Bank's strategy in terms of management of individual risks and ensures functioning of the risk management system.

Committees support the Bank's Management Board in effective management of individual types of risk. The Management Risk and ICAAP Committee integrates various types of risk, including, proposals of the size of the appetite for risk, supervises the internal capital adequacy assessment process, and also assesses the risk related to the introduction of new products.

The major competences of ALCO include supervision over the market risk, the liquidity risk, and also asset and liability management.

The Operational Risk Committee has been established to support the Management Board in effective operational risk management at the Bank. The Committee monitors the exposure level to the operational risk and assesses the situation with respect to the operational risk for the entire Bank.

The subject of the Bank's Credit Committee operations is to approve lending decisions on undertaking by the Bank balance sheet and off-balance sheet exposures, undertaking decisions on introduction of special offers and taking decisions in all matters that have not been provided for in the Credit Competences Rules that involve taking the credit risk by the Bank up to the awarded competence limit.

The Risk Materiality Group is responsible for the risk review at Alior Bank S.A. The Groups includes representatives of individual divisions and areas of the Bank's operations, which have relevant knowledge relating to current and potential risks. In particular, those are representatives of units responsible for management of the credit risk, the market risk, and the operational risk.

In terms of a variety of phenomena accompanying individual types of risk, each of them is managed by a relevant leading unit. In the case of the credit risk, individual functions involved in identification, measurement, assessment, and monitoring have been divided among several organisational units.

A detailed scope of the tasks of individual units has been presented while discussing each risk type.

The Internal Audit Department conducts independent controls aimed at providing the Supervisory Board and the Bank's Management Board with objective information and assessments concerning the risk management process, its compliance with internal and external regulations.

6. Credit risk

6.1 Credit risk organisation

Strategy

The Bank's strategy assumes a universal nature of an institution that addresses its offer to both Individual and Business Customers.

The Bank has defined the strategy in terms of the credit risk in relation to individual groups of Customers by:

- defining and introducing to the offer lending products, including a detail description of its parameters (product cards), such as: product buyers; subject of financing; product purpose; requirements for borrowers; minimum and maximum amount; lending period, product functioning form and its currency; rules of disbursement, repayment, grace period, and description of applied collateral together with information on the required level of LtV. A strictly defined product offer has been prepared for each of the homogenous groups of Customers;

- defining an expected risk profile of Customers on the basis of individual ratings or scoring assigned to them and the expected percentage of individual groups in the loan portfolio. The Bank has defined the expected distribution of scoring and rating results;
- defining the expected risk profile of lending products implemented in the Bank, expressed by means of standard risk costs. Standard risk costs depend, among others, on the value of the likelihood of impairment loss occurrence and on the value of established collateral;
- conditioning the strategy of credit risk management on the distribution channel for individual products (i.e. the Bank's Branches, Contact Centre, Internet, Agencies and Intermediaries) and the impact of each of them on the credit risk. It has been reflected in credit processes and standard risk costs dedicated to individual channels;
- risk diversification by applying concentration limits;
- risk mitigations by applying differentiated levels of DTI (ratio expressing a relation of the sum of monthly costs relating to servicing of liabilities and monthly financial liabilities other than loan liabilities to net income);
- credit risk mitigation by means of establishing loan collateral;
- credit risk reduction by means of defined monitoring processes.

Organisational structure relating to the process of credit risk management and control

In order to ensure the correctness of loan processes there are Departments at the Bank that carry out strictly defined tasks:

The Risk Model Strategy Department is responsible for:

- developing internal regulations relating to risk model management, or
- designating units responsible for their development,
- defining model quality acceptance criteria,
- issuing recommendations for the Committee in terms of model acceptance for application and implementation in the production environment,
- accepting results of model implementation tests,
- performing model validation,
- preparing a register of models (based on the information provided by the Model
- Owners in cards and model journals) and its administration,
- initiating certain remedial or preventive measures in a situation of model quality deterioration,
- approving model materiality on a quarterly basis and assessing the model risk level at least annually,
- assessing the model risk at the aggregated level and its compliance with the level of appetite for the model risk,
- preparing management information.

The Individual Customer Credit Policy Department is responsible for:

- developing credit policy for uncollateralised products for the individual customer under the defined credit strategy and the budget plan for a given year, especially for introduction of necessary changes to DtI, LtV, maintenance costs, interest rate and currency buffers,
- managing the credit policy in a way that is compliant with the Banking Act, Recommendation T and S and other guidelines of the Polish Financial Supervision Authority,
- developing and supervising the implementation of the credit strategy in terms of criteria governing exposure and determining adequate cut-off points,
- monitoring of the portfolio and processes on the basis of defined reports and issue-specific reviews,
- monitoring of sales channels in terms of offer adequacy and quality of points of sales, employees, and the portfolio,

- developing models used in the credit process products for the individual customer in co-operation with the Scoring Model Team.
- issuing opinions on IT solutions relating to credit risk management,
- carrying out projects in terms of the credit risk relating to products for
- the individual customer,
- preparing simulations of changes in the credit process and the credit policy and assessment of their impact on the Bank's performance,
- merit-based supervision over credit tools ensuring coherence of solutions with parameters of methodologies,
- implementing changes in the risk decision-making systems,
- developing and managing risk decision-making systems in the process of assessing the individual customer,
- co-operating with external entities specialising in managing information on the payment history of the Bank's customers, verified in the credit process,
- developing x-sell offers and credit algorithms,
- implementing assumed portfolio parameters in terms of the credit risk,
- optimising the costs incurred under credit processes.

The Division of Individual Customer Analysis and Collection is responsible for:

- assessing the customer's credit standing, assessing transactions, preparing credit recommendations for higher decision-making levels, taking credit decisions under the awarded competences based on the applicable credit procedures,
- preparing reports on the efficiency and quality of the credit process,
- verifying the conditions set by the credit analyst in a credit decision for credit granting/agreement/disbursement in the IC segment,
- collaborating with respect to fraud identification,
- performing analysis and recommending solutions that optimise analytical processes,
- minimising credit losses by conducting efficient and cost-effective monitoring, restructuring, and collection activities,
- identifying accounts that qualify for amicable or court-awarded enforcement collection,
- monitoring of the economic and financial situation of customers, in the event of the suspected credit standing loss,
- monitoring of cases written to losses and recovering the Bank's receivables,
- identifying cases of breaching the clause of required turnover on customers' accounts and undertaking remedial measures,
- monitoring of the updates of collateral and assignments of insurance for loans, insurance of low own contributions, and ordering (additional) insurance taking,
- conducting restructuring processes, terminating credit agreements, and blocking cards and limits,
- analysing collection processes in terms of using outsourcing, having regard to maximising the effectiveness of recoveries while pursuing cost efficiency,
- identifying agreements for packet sales, executing debt sale transactions,
- performing inspections of individual and business customers before loans are granted, prior to disbursement of tranches and within monitoring,
- establishing direct contacts with a customer subject to collection under the telephone-based service and field support,
- conducting court and enforcement proceedings,
- managing the process of voluntary sale of real properties and assisting a customer subject to collection in this process,
- seizing movable items that constitute credit collateral under field support,
- performing individual monitoring of the credit standing,
- monitoring of renewal of insurance policies and premium payments,
- monitoring of the correctness and timeliness of establishment of target collateral,
- monitoring of the correctness and timeliness of compliance with contractual clauses other than those relating

- to collateral,
- administering loans with established irregularities,
- managing and monitoring of the watch-list and EWS,
- verifying tranches prior to their disbursement,
- introducing amendments to credit agreements that have already been executed (including those incorporating
- the necessity of calculating the current creditworthiness).

The BC Risk Division is, among others, responsible for:

- developing long-term strategies in terms of the credit risk in the BC segment and controlling the status of their implementation,
- developing, reviewing, and updating methodologies of credit risk assessment applied for granting credit products,
- developing requirements and specifications for tools supporting processes, and performing assessments of the credit risk and monitoring,
- developing and supervising policies and processes in terms of BC monitoring,
- building scoring and rating models and model management,
- implementing the process of assigning expert ratings in the case of types of business without implemented statistical models,
- setting and monitoring of PD in the defined cross-sections,
- back-testing of the set parameters of the credit risk,
- managing the industry-specific strategy at the Bank,
- developing methodologies, periodic updating, monitoring of concentration limits,
- developing and administering credit tools and system,
- managing credit sale campaigns,
- managing operational co-operation with BIK, including: production of periodic updating inputs in terms of explanation of errors and complaints concerning credit reports, providing and verifying data provided upon orders of the Bank's units to and from BIK S.A. under so-called packet queries for the segments of individual and business customers,
- analysing changes and preparing their specification on the basis of the requirements of core units managing the course of processes used for supporting credit products,
- controlling the credit portfolio quality in various cross-sections and dimensions,
- analysing credit application, administering and monitoring of credits from the agriculture and food industry (AGRO),
- assessing the credit standing and creditworthiness in accordance with the defined methodologies and expert knowledge, and also taking decisions in line with the applicable credit competences for AGRO industry,
- verifying the terms for disbursing/granting a credit product and issuing provision of posting instructions concerning support for credit accounts for AGRO industry,
- periodic monitoring of the financial and economic conditions of credited customers from
- AGRO industry,
- developing, reviewing, and updating policies and other regulations relating to collateral,
- performing valuations and monitoring of collateral,
- controlling and analysing the quality of all collateral in the Bank,
- managing the Collateral Module,
- supporting court documents relating to collateral establishment,
- developing and updating the rules of co-operation with project monitors, requirements for tools and systems supporting collateral, rules of supporting related entities,
- monitoring of disbursements from housing escrow accounts,
- analysing credit applications and administering loans to large corporations, i.e.: supported by the Large Corporations Department or marked as a LARGE segment to belonging to Related Groups having the total credit exposure in excess of PLN 60m,
- assessing the credit standing and creditworthiness in accordance with the defined methodologies and expert knowledge, and also taking decisions in line with the applicable credit competences,

- structuring of transactions taking into consideration the appetite for risk defined in the Bank,
- measurement of the credit risk and its inclusion in the minimum price of credits,
- verifying the terms for disbursing/granting a credit product and provision of posting instructions concerning support for credit accounts,
- analysing of credit applications and administering of credits of BC credits,
- assessing the credit standing and creditworthiness in accordance with the defined methodologies and expert knowledge, and also taking decisions in line with the applicable credit competences,
- structuring of transactions taking into consideration the appetite for risk defined in the Bank,
- measurement of the credit risk and its inclusion in the minimum price of credits,
- verifying the terms for disbursing/granting a credit product and provision of posting instructions concerning support for credit accounts,
- supporting the Credit Committee of the Business Customer Risk Division,
- supporting the Bank's Credit Committee,
- periodic monitoring of the financial and economic condition of credit customers, sources of repayments and the correct support for BC credits,
- periodic monitoring of the financial and economic condition of financial entities and verifying the available limits,
- periodic monitoring of collateral of the credit exposures of BC, especially verifying its correct establishment, registration in the Bank's systems and the value of collateral,
- monitoring of the portfolio of receivables purchased by the Bank and identifying threats to repayment of debts, receivables acquired under factoring agreements,
- defining the rules of credit analysis for financial entities, especially banks and insurance companies and exercising supervision over processes of establishing, increasing, cancelling, suspending, and monitoring limits for financial entities,
- minimising credit losses in the business customer portfolio by carrying out efficient and cost-effective monitoring, restructuring, and collection and activities,
- analysing the economic, financial, legal, and operational situation of customers that have been transferred for support (inclusive of group links),
- developing and implementing the strategy of recovering assigned exposures or restoring them to the condition providing for return to regular business,
- monitoring and supervising individual stages restructuring, collection, or selling individually assigned exposures,
- preparing credit applications in the processes of restructuring and collection,
- preparing and executing contracts, agreements, and submitting statements on behalf of the Bank relating to provision of exposures to individual processes,
- preparing documentation and forwarding cases to court and enforcement proceedings,
- monitoring of pending court and enforcement proceedings, co-operating with bailiffs,
- performing field inspections under verification of collateral and recovery of receivables in the processes of restructuring and collection,
- estimating provisions and IAS impairments with an individual method for the assigned exposures,
- redeeming and writing down receivables,
- selling receivables on a case-by-case basis and preparing portfolio receivables for sales,
- securing, seizing, and selling assets taken over from customers under restructuring and collection processes,
- developing and administering tools and systems for supporting the processes of monitoring, collection, and restructuring.

The Risk Strategy Department is responsible for:

- developing the Bank's strategy in terms of the capital adequacy,
- co-developing annual budgets in terms of capital requirements,
- monitoring and reporting capital adequacy and defining capital requirements,
- supervising ICAAP, including estimation of the internal capital for individual types of risk,
- developing and updating the classification methodology according to RMF/capital

requirement/internal capital calculation for the credit risk, and also supervising calculation correctness,
- developing methodologies and setting portfolio concentration limits,
- developing the Bank's strategy in terms of the credit risk,
- co-developing annual budgets in terms of risk costs,
- defining portfolio quality goals and operational objectives for credit risk units,
- developing the methodology of setting standard risk costs,
- developing rules, algorithms, and processes of setting up impairments and provisions for impaired financial instruments and estimating parameters and supervising calculation correctness,
- estimating the credit risk and its assessment at an individual and portfolio level in the process of estimating impairments for incurred, but undisclosed losses and merit-based supervision over the process of estimating impairments (IAS 39),
- developing and supervising the implementation of the credit strategy for the Individual Customer in terms of the scoring strategy and loss ratios for individual portfolios,
- developing the methodology of building and monitoring IC scoring models (application and behavioural) and building and implementing new models,
- developing the methodologies of estimating the expected levels of insolvency for the purposes of estimating standard risk costs as a component of the credit margin and budget plans and forecasts,
- participating in development projects in terms of development of quality assessment models and prediction of the loss ratio for new portfolios, channels and processes for IC portfolios.

6.2 Credit risk management

Credit risk management at the Bank is based on the implemented integrated credit risk management system and is composed of the following elements:

credit risk identification, or determination of internal and external factors affecting the level of the credit risk taken by the Bank and constant update of their list;

credit risk measurement and estimation – setting metrics and building econometric models the task of which is quantitative assessment of the current risk and projecting such risk in the future;

credit risk monitoring consisting in summing up all credit risk measurements made in a given reporting period and issuing opinions and recommendations; focuses on collecting credit risk assessments, comparing them over time and building an early warning strategy and a credit risk mitigation strategy on that basis;

supervision over the current and potential types of risk – consists in regular measurement of the credit risk and assessment of the credit risk areas identified in the Bank's system, additionally, supervision over the constant verification of a map of risk developed by the Bank and methods of its measurement is ensured.

The financial dimension of the identified and anticipated credit risk and the place of its occurrence in the Bank are examined in detail. Setting the standard risk costs on the basis of the implemented methodology and their allocation to relevant units of the Bank is the main component of risk assessment. Compliance of the achieved level of risk costs with the planned and approved level of its tolerance is monitored on an ongoing basis.

The Bank includes the following among the basic instruments used for credit risk mitigation:

- methodologies of determining the creditworthiness (including DTI levels) and the credit risk;
- assessments;
- concentration limits;
- monitoring system, including early warning mechanisms;
- legal security for repayment of the Bank's receivables.

6.3 Credit counterparty risk management

The value of exposures is set in accordance with the rules of calculating the capital requirement for the credit risk using the standardised method. The balance sheet equivalent of off-balance sheet transactions, and also the balance sheet equivalent of repo transactions are set in accordance with CRR.

The positive fair value of contracts mounted to PLN 651.6m as at 31 December 2017, determined by summing up positive market values for all continuing transactions. The net value of the credit exposure following inclusion of pre-balancing of transactions for counterparties with framework agreements stood at PLN 368.9m. The balancing benefits amounted to some PLN 282.7m (they have not been included while calculating capital requirements for the credit risk). The value of received collateral amounted to PLN 589m.

The level of collateral that the Bank is obliged to make is as a standard dependent on the level of the current measurement of transactions executed under a given agreement. At the same time, the Bank has not executed an agreement under which the counterparty would be authorised to demand establishment of additional collateral in the event of a change of the creditworthiness.

The credit risk related to derivative instruments operating on the interbank market is mitigated by determining and monitoring available limits for individual types of transactions for the selected banks.

The credit risk underlying provision of derivative instruments to Business Customers who are not banks is accepted and restricted to the amount of treasury limits held by those Customers. Pursuant to the definition applicable at the Bank, a treasury limit is understood as the amount of a potential credit loss that may occur as a result of use of derivative instruments by the Customer. A treasury limit is part of the total credit limit for turnover exposures set for Customers. It is approved on the basis of the Customer's credit standing examined according to the standards applicable at the Bank. Recognition of its knowledge and experience in applying derivatives and knowledge of financial markets is an additional element conditioning a decision on awarding a treasury limit to the Customer. In the case of Individual Customers limits are assigned solely secured with deposits. Business Customers may secure the limits in accordance with a catalogue of collateral accepted by the Bank. The Bank may offer treasury limits to the best Customers without collateral.

6.4 Concentration risk management (concentration limits)

The Bank identifies excessive concentration of each item which is accompanied by the credit risk or the risk of liquidity issues/loss, as a phenomenon that may adversely affect the safety of the Bank's operations.

The knowledge of the scale of threats related to exposure concentration supports correct asset and liability management and development of a safe structure of the loan portfolio.

In order to prevent adverse events resulting from excessive concentration, the Bank mitigates the concentration risk by setting limits and concentration limits and standards resulting from external regulations and internal analysis performed by the Bank.

Concentration risk management in relation to credit operations at the Bank concerns in particular:

1. areas provided for in internal regulations:
   - risk underlying exposures to the entities referred to in Part IV of CRR (so-called large exposures),
   - internal concentration, including the risk underlying exposures to the entities referred to in Article 79a of the Banking Act;
2. the risk underlying exposures to entities characterised by features such as:
   - the same segment,
   - the same industry and sector of the economy, i.e. entities in the same business or trading in similar goods,
   - the same country of residence or the registered seat,

- the same voivodeship of residence or registered seat;

3. the risk underlying the product card, including: the purpose of financing, currency, product type, LtV and the lending period;
4. risk related to the exposures secured with the same type of collateral or by the same collateral provider (including the risk relating to the Bank being collateralised with securities of a similar nature);
5. risk related to the distribution channel;
6. risk related to special offers and promotions;
7. the risk underlying the applied deviations or simplified method of assessing the credit standing (so-called credits granted for a statement);
8. and other areas in which a material risk of credit business may occur.

6.5 Collateral

The Bank permits all types and legal forms of collateral accepted under Polish law. In particular, the Bank accepts the following legal forms of collateral:

- guarantees, re-guarantees, and sureties;
- blocked items;
- pledges;
- transfer of title;
- assignment of receivables;
- loan insurance;
- bills of exchange;
- mortgages;
- powers of attorney to the bank account;
- security deposits as a specific form of collateral;
- statement on submission to enforcement proceedings.

The Bank seeks to establish collateral in a manner that is adequate to the incurred credit risk and flexible to needs and possibilities of Customers. There are products under the offer for Customers that are provided without collateral and such the availability of which is limited by collateral establishment. Collateral may be established in a combined manner which means that collateral of one credit may be made up of various assets at the same time. The purpose is to achieve a combined value of collateral at the level expected by the Bank.

Proportions between the exposure level and the collateral value are regulated by LtV that include various types of risk, among others, the risk of losing the collateral value, the FX risk, the interest rate risk, the liquidity risk, or other appropriate for a given product type. The Bank's customers shall be advised of the value of those ratios during ongoing contacts with bankers or at the Bank's outlets.

While determining the collateral value, the Bank is guided by a principle of prudential measurement and assumes the market value or the possible (real) value to be recovered in a situation of satisfaction out of collateral. The Bank has appropriate tools used to verify measurement of collateral, especially it uses a reliable database of the AMRON system.

The Bank monitors effectiveness of collateral establishment by:

- verifying completeness and correctness of collateral documentation, including:
  - confirmation of establishment of blockades on accounts held with other institutions by those institutions;
  - confirmation of acceptance for implementation of powers of attorney by institutions maintaining the Customer's accounts to which the Bank has a power of attorney;
  - confirmation of entries in relevant registers/accounts (land and mortgage register, court register, register of investment fund participants, deposit account, investment account);
  - confirmation of notification of receivable debtors;
  - confirmation of acceptance of assignment of receivables under insurance policies by

  insurers;
  - confirmation of consent by a spouse, shareholders in a partnership;
- collateral validity check – in the case of collateral accepted for a specific period, a process of collateral renewal is implemented, e.g. insurance policy;
- verification of the current collateral value – review of collateral is done not less frequently than once a year, and in the case of financial collateral the value is monitored daily.

The Bank mitigates the risk related to individual collateral and providers of collateral by setting concentration limits, inclusion of the buffer in terms of the FX risk and the liquidity risk, and by constant monitoring of both effectiveness of collateral establishment, and its value during the lending period.

An amount decreasing the exposure due to application of credit risk mitigation techniques, in line with the comprehensive method of collateral recognition applied by the Bank amount to PLN 466m as at year-end 2017. The collateralised exposures were included in the class of exposures to administration authorities and entities that are not engaged in business, exposures to institutions, exposures to companies, retail exposures, exposures collateralised on real properties, exposures past due, and other exposures, too. The amount of the exposures collateralised by recognised collateral amounted to PLN 3,896m as at year-end 2017.

As at 31 December 2017, the Bank applied credit protection in the form of received guarantees (the value of the exposures collateralised by guarantees amounted to PLN 3,143m) and did not use credit protection in the form of credit derivative instruments.

6.6 Credit analysis process

Examination of the creditworthiness includes entities that:

- apply for credit products;
- guarantee repayment of credit liabilities extended by the Bank;
- accede to the debt;
- take over the debt;
- make up a group of common risk together with the applicant because of their relations.

The credit process is composed of the following stages:

- credit analysis (including, verification of rejection criteria and risk transaction assessment);
- credit decision making;
- in the case of a positive credit decision – agreement execution and disbursement of funds;
- monitoring of the Customer and the credit exposure.

The Customer's credit analysis is based on: the credit application; formal and legal documents provided by the Customer; documents relating to the Customer's financial situation; documents concerning the subject of lending and credit legal collateral. The type of financial documents depends on the type of sources of income achieved by the Individual Customer or the legal form and the type of accounting in the case of the Business Customer.

The Customer credit analysis is composed of the following stages:

- verification of the application rejection criteria, including verification of the Customer in the internal bases of the Bank and external ones, such as: CBD-DZ, CBD-BR, BIK, BIG;
- scoring/rating assessment;
- assessment of the credit standing in quantitative terms to service the Customer's debt towards the Bank prepared in line with the guidelines included in detailed lending methodologies,
- transaction risk analysis,
- assessment of the type and quality of the proposed legal collateral of the transaction,
- assessment of the risk of impact of the economic and financial situation of related entities from the common risk group.

6.7 Scoring/Rating

Credit scoring is a tool used for developing individual credit decisions for individual customers. In turn, credit rating is an instrument supporting the decision-making process in the segment of companies. The purposes behind the implementation of scoring and rating models are:

- development of the credit risk level in line with the Bank's appetite for risk by obtaining quantitative and qualitative assessment of the Customers' creditworthiness;
- standardisation of criteria for credit decision making while observing impartiality and objectivism as a result of eliminating or minimising a human factor impact, and thus by minimising the cost of operational risk materialising in that respect;
- shortened time of credit decisions and guarantee of more effective performance of the assessment of loan applications (increased productivity, reduced handling costs, and the improved Customer quality service);
- simplification of the assessment of loan applications through process automation;
- classification of Customers in terms of the risk related to them, and thus providing for multi-dimension assessment of the portfolio and taking more effective managerial decisions;
- monitoring and projection of the loan portfolio quality;
- facilitation of the assessment of the existing credit policy and faster implementation of changes in decision-making processes (this, especially, provides for a quicker diagnosis and elimination of potential irregularities) used for assessing the credit risk of Customers in the business segment and Individual Customers.

Additionally, the Bank uses the assessments of creditworthiness assigned by external institutions of creditworthiness (rating agencies), such as:

- Fitch Ratings;
- Moody's Investors Service;
- Standard and Poor's Ratings Services.

As at 31 December 2017, the Bank applied assessment of creditworthiness awarded by external institutions of creditworthiness for the following classes of exposures:

- exposures or conditional exposures towards governments and central banks;
- exposures or conditional exposures towards institutions.

The Bank performs a quarterly review of current creditworthiness assessments available at licensed websites of the external creditworthiness institutions (Fitch Ratings, Moody's Investors Service, Standard and Poor's Ratings Services) and in Reuters' service. The current assessments are used by the Bank in the calculation process of a capital requirement for the credit risk.

Amounts of the credit exposures to which the Bank has assigned degrees of creditworthiness on the basis of external assessments of creditworthiness are presented in the table below, where 1 means the highest degree of creditworthiness, while 6 denotes the lowest. The exposures below were not classified for decrease by using credit risk mitigation techniques.

Credit creditworthiness degree	Net balance sheet exposure	Net off-balance sheet exposure
1	168,107	3,327
2	603,718	710,360
3	5,862	28,645
4	29,313	1,104
5	1,396	463
6	0	0

6.8 Credit risk identification

A broad range of credit risk reporting has been adopted in the Bank's internal regulations. As assumed reporting is a tool used for identification of threats and effective risk management at the Bank. Reporting is done at the level of each of the risk identification areas. Reports are prepared on a monthly, weekly, or daily basis depending on the identified needs.

The Bank identifies both internal and external factors for credit risk occurrence. They are focused within defined areas of the Bank's operations:

- **Product** – this area defines all types of risk that may be related to a specific product in terms of a single case, as well as across the entire credit portfolio;
- **Collateral** – this verification plain focuses on the correct adoption of collateral, its value, and timeliness and the correct preparation of collateral documentation. Significant importance for mitigation of the credit risk also has auditing of effective implementation of the amended regulations concerning regulations governing legal collateralising of receivables and application of the current standards in the process of collateral establishment;
- **Customer** – here a single Customer is subject to examination, and also separate homogenous groups of Customers are verified in terms of the quality of the created portfolio;
- **Process + regulations** – verification shall cover the quality and effectiveness of the credit process, credit administration, monitoring, collection, and restructuring and co-operation with external collection entities, as well as compliance of the banking regulations governing such processes with external regulations;
- **Systems** – verification shall especially cover: the credit support system and the support system of monitoring and collection, and also effectiveness of their application, as well as the completeness of the list of cases for which the necessity of their application has occurred;
- **Distribution channels** – verification applies to the effectiveness and loss ratio of the distribution channels functioning in the Bank;
- **Employees** – examination shall cover the correctness of application of the policy of competences followed by recognition of any irregularities that could have occurred during the credit process;
- **External conditions** – out of external factors special examination shall cover: the level of market interest rates; FX rates; unemployment rate; rate of the economic growth and production sold and other economic cycle indicators;
- **Correctness of the credit risk management system** – verification periodically checks, if the assumptions made with respect to the Bank’s credit risk management policy are correct.

Each of the defined areas of the Bank's operation is subject to detailed analysis in terms of identification of occurrence of any credit risk.

6.9 Credit risk measurement and estimation

The Bank collects information for the purpose of:

- preventing any criminal events;
- avoiding situations of granting a credit to an insolvent person;
- performing analysis and assessing of the Customer's credit standing in quantitative and qualitative terms;
- performing monitoring of situations on the Customer's accounts;
- performing monitoring of the Customer's economic and financial situation;
- performing monitoring of a homogenously separated part of the portfolio;
- examining effectiveness of processes;
- examining profitability of processes (including, calculation of costs of the completed processes);

- examining loss ratios of credit portfolios for the Bank's defined sub-portfolios.

Data used to measure the credit risk is derived from various systems, both internal systems of the Bank, and external bases. In particular, information is derived from:

- internal databases of the Bank – the main source of data being a data warehouse that collects information from:
  - the central system;
  - the system for credit verification;
  - the scoring system;
  - the rating system;
  - the system for support of monitoring and collection;
  - the document repository;
- available external sources, including the bases of the Credit Information Bureau (Biuro Informacji Kredytowej), Economic Information Bureaux (Biura Informacji Gospodarczej), Central Data Base – Banking Register (Centralna Baza Danych – Bankowy Rejestr, Central Data Base – Restricted Documents (Centralna Baza Danych – Dokumenty Zastrzeżone).

Pursuant to the Bank's internal regulations, risk measurement is performed in relation to the key risk identification areas, including for individual products, established collateral, processes, procedures and system operation rules with regard to all distribution channels and external conditions. Risk measurement is also performed on the basis of a system of concentration limits in relation to industries and entities.

6.10 Review of credits exposures in terms of impairments and provisions

The Bank develops the policy of impairments and provisions for receivables in the form of loans and borrowings in line with the requirements of IAS and IFRS, with special inclusion of Recommendation R of the Polish Financial Supervision Authority. The Bank shall examine all credit exposures in terms of impairments by means of monitoring and registering events recognised as evidencing impairments. For exposures in relation to which such event has occurred and which the Bank recognises as individually material, individual analysis is performed by an expert in terms of estimating the value of a recoverable exposure with special inclusion of estimated recoveries under collateral enforcement. The values of recoverable exposures that are not individually material and for which homogenous groups in terms of risk could be separated shall be determined in accordance with a group measurement model applicable at the Bank. If it is established that the value of exposures is not recoverable in the amount corresponding to the carrying value measurement of an asset, an impairment allowance is established in the amount equal to a difference between the carrying value of the asset and its fair value which constitutes the Bank's cost.

The Bank establishes provisions for incurred, but not reported losses in relation to the entire portfolio of exposures for which no impairment has been found at the level of a single exposure. Such impairment is estimated using the internal model that incorporates characteristics of homogenous groups of receivables separated by the Bank and the degree of credit collateral. The model parameters were estimated on the basis of available historic data and expert adjustment.

As at 31 December 2017:

- provision for incurred, but not reported losses amounted to PLN 344.7m with respect to the Bank's receivables in the form of loans and borrowings. The impairment allowance was estimated for the portfolio of receivables that were unimpaired using the internal model applicable at the Bank. As a result of post-balance sheet date events it was not necessary to change the impairment allowance amount;
- the allowance for impaired amounts stood at PLN 3,061m in relation to the Bank's receivables due under loans and borrowings and at PLN 4.5m in relation to financial instruments qualified as available for sale. The impairment allowance was estimated using the scenario analysis (individual measurement) and the statistical model (group measurement). As a result of post-balance sheet date events it was not necessary to change the impairment allowance

amount;

- with regard to the exposures for which impairment premises were identified, the collateralised items accounted for 51.1% of the exposures, whereas the impairment allowance, in the case of those exposures, stood at PLN 757.2m. The collateralised exposures shall be understood to mean those items to which collateral has been assigned and, according to the estimates, the Bank could be satisfied out of it up to the full or partial amount of the exposures;
- with regard to the exposures for which impairment premises were identified, the items past due date accounted for 74.54% of the exposures, whereas the impairment allowance, in the case of those exposures, stood at PLN 2,684m. The past due exposures shall be understood to mean exposures for which delay in repayment is in excess of 90 days.

Additionally, the exposures are divided into receivable categories: pass; watch; substandard; doubtful; loss pursuant to the rules of the Regulation of the Minister of Finance of 17 December 2008 on the principles of establishing provisions for risks related to banking business, as amended. Receivables are automatically assigned to categories on a daily basis pursuant to the premises recorded in the Bank's central system.

6.11 Monitoring of the credit risk of individual and business customers

All credit exposures of Individual and Business Customers are subject to monitoring and ongoing classification into appropriate process paths. A review of exposures shall cover the following areas:

- customer, particularly in terms:
  - creditworthiness (including, any impact of potential changes of FX rates and interest rates on the creditworthiness);
  - occurrence of signals suggesting that the Customer may have problems in the future with proper repayment of its liabilities;
  - additionally, in the case of the Business Customer:
    - economic and financial analysis;
    - capital and organisational ties of customers;
    - industry;
    - the Customer's inspection;
- individual credit products, particularly, in terms of:
  - adequacy of inflows into the savings and settlement account;
  - utilisation of the awarded limits on the credit card, the renewable limit on the account;
  - credit card renewal possibility;
  - timely repayments;
- credit agreements, particularly, in terms of:
  - credit utilisation in the case of tranche facilities;
  - implementation of detailed terms and conditions of the contract/agreement (covenants);
  - collateral establishment monitoring;
- collateral, particularly, in terms of:
  - the values of accepted collateral;
  - adequacy of the adopted collateral;
  - collateral renewal;
- impairment allowances and provisions, particularly, in terms of:
  - correct establishment and release of impairment allowances in line with International Accounting Standards on the basis of the identified premises;
  - correct establishment and release of specific provisions, including verification of the correctness of standardisation of categories of receivables and establishment of the provision amount, while taking into account the values that decrease the basis for the establishment of a specific provision in accordance with the Regulation of the Minister of Finance.

6.12 Basic information on credit risk monitoring

Value of the balance sheet exposures and the balance sheet equivalent of liabilities and off-balance sheet transactions that do not include credit risk mitigation techniques as at 31 December 2017

PLN '000

EXPOSURE CLASS	TOTAL EXPOSURE AMOUNT
Governments and central banks	14,363,723
Public sector entities	44,336
Institutions	2,032,849
Companies	16,350,539
Retail	30,068,521
Secured on real properties	14,002,757
Exposures at default	4,133,175
Exposures related to a particularly high risk	1
Capital exposures	126,592
Other items	2,477,866
TOTAL	**83,600,359**

Value of the balance sheet exposures and the balance sheet equivalent of liabilities and off-balance sheet transactions that do not include credit risk mitigation techniques as at 31 December 2017 – maturity periods.

PLN '000

EXPOSURE CLASS	<=3M	>3M<=6M	6M<=1Y	>1Y<=2Y	>2Y<=5Y	>5Y<=10Y	>10Y	No specified maturity
Governments and central banks	2,507,586	10,332	26,018	933,919	5,912,548	2,838,093	1,604,469	530,759
Public sector entities	641	5,471	5,000	1,143	80	24,021	7,965	16
Institutions	811,601	61,602	112,382	335,325	337,332	192,684	300	181,624
Companies	1,130,483	1,212,832	2,578,948	2,663,522	4,213,557	2,647,989	1,639,985	263,221
Retail	1,115,279	949,883	2,145,547	3,278,525	5,202,002	11,577,173	5,799,049	1,062
Secured on real properties	447,358	317,102	800,492	762,729	1,071,176	1,208,251	9,393,413	2,234
Exposures at default	1,817,469	102,193	231,553	149,923	310,379	698,301	888,199	-64,842
Exposures related to a particularly high risk	0	0	0	0	0	0	0	1
Capital exposures	0	0	0	0	0	0	0	126,592
Other items	68,721	0	0	0	0	0	0	2,409,145
TOTAL	**7,899,138**	**2,659,415**	**5,899,940**	**8,125,087**	**17,047,073**	**19,186,513**	**19,333,381**	**3,449,811**

Geographic distribution of exposures is not presented due to an immaterial percentage of counterparties from outside Poland.

The industry-based structure of the balance sheet exposure for material classes of exposures as at 31 December 2017 (applies to Business Customers only):

PLN '000

INDUSTRY/EXPOSURE CLASS	Retail		Exposures at default		Secured on real properties		Companies	
		Including SMEs		Including SMEs		Including SMEs		Including SMEs
Construction	151,476	151,476	152,725	143,576	734,846	728,496	749,957	599,813
Water supply; sewerage, waste management and remediation activities	40,094	40,094	16,366	16,366	4,505	4,505	19,810	18,544
Financial and insurance activities	51,489	51,489	11,791	11,791	63,176	63,176	1,839,447	481,191
Professional, scientific and technical activities	432,144	432,144	57,690	57,690	44,795	44,795	96,746	67,202
Administrative and support service activities	202,339	202,339	106,648	88,377	21,680	21,680	107,567	78,961
Arts, entertainment, and recreation	37,786	37,786	19,933	19,933	117,661	24,868	237,613	89,385
Real estate market activities	217,858	217,858	132,857	132,857	642,529	426,223	405,956	397,060
Accommodation and food service activities	117,249	117,249	351,507	351,507	2,050,297	2,023,664	1,835,865	1,780,954
Education	39,479	39,479	7,175	7,175	32,533	6,753	1,115	1,082
Mining and quarrying	9,346	9,346	73,403	73,403	1,930	1,930	66,625	7,600
Wholesale and retail trade; repair of Motor vehicles, including motorcycles	2,273,001	2,273,001	645,489	497,351	369,094	326,188	858,539	633,718
Information and communication	185,407	185,407	35,802	35,802	10,732	10,732	708,277	268,282
Healthcare and social work activities	360,840	360,840	41,246	41,246	77,988	77,988	36,734	35,440
Other service activities	113,478	113,478	3,761	3,761	3,556	3,556	0	0
Manufacturing	1,104,483	1,104,483	393,018	382,083	492,246	402,007	1,603,475	826,539
Agriculture, forestry, hunting, and fishery	63,185	63,185	20,861	20,860	40,000	33,996	326,149	292,261
Transportation and storage	827,783	827,783	57,668	57,667	62,572	62,572	120,842	102,690
Electricity, gas, steam, hot water and air conditioning production and supply	15,338	15,338	620,049	620,049	5,654	5,654	492,129	377,694
Total	6,242,775	6,242,775	2,747,990	2,561,495	4,775,795	4,268,783	9,506,846	6,058,419

The Group's consolidated financial statements show figures relating to the structure of loans and borrowings and basic parameters of the credit portfolio parameters, including:

- Loans not past due and without recognised impairment, including exposures by internal risk classes,
- Loans past due by delinquency dates with and without recognised impairment,
- Changes in the amounts of impairment allowances,
- Size and structure of receivables covered by restructuring.

6.13 Capital exposures

The percentage of capital exposures included in the banking portfolio is immaterial, and amounts to a meagre 0.15% of the exposures. As at 31 December 2017, the value of this item stood at TPLN 126,592, while the requirement stood at TPLN 10,127.

6.14 Encumbered assets

The table below presents information on encumbered assets. A given asset is treated as encumbered when it has been pledged or is subject to any form of arrangements aimed at securing or supporting the quality of a balance sheet or off-balance sheet credit transaction from which it may not be freely withdrawn.

PLN '000

Assets	Carrying value of encumbered assets	Fair value of encumbered assets	Carrying value of non-encumbered assets	Fair value of non-encumbered assets
Loans on demand	0	X	1,145,365	X
Equity instruments	0	0	41,929	41,929
Debt securities	408,188	408,188	13,234,408	13,234,408
Loans and advances other than loans on demand	164,493	X	51,371,204	X
Other assets	0	X	3,137,430	X
Total	572,681	408,188	68,930,335	13,276,336

7. Market risk

7.1 Market risk management

The Bank has identified the following types of the market and liquidity risk that are subject to management:

- interest rate risk in the banking book;
- market risk (including: the interest rate risk, the exchange rate risk, and the commodity price risk).

The purpose of market risk management is to mitigate potential losses due to changes in the market interest factors to an acceptable level by appropriately shaping the structure of the balance sheet and off-balance sheet items.

The Bank distinguishes the following market risk factors:

- FX rates;
- interest rate indices;
- prices of shares/indices;
- commodity prices;
- credit spread related to a given issuer's rating;
- option volatility parameters.

The Bank follows a clear division of responsibilities for market risk management which covers:

- conclusion of treasury transactions;
- market risk measurement, monitoring, and reporting,
- process of transaction settlements,
- operational support and service for business processes.

Supervision over the aforementioned activities associated with conclusion of transactions and independent risk measurement and reporting has been separated in the Bank to the level of a Member of the Management Board, which guarantees their full independence.

Apart from relevant organisational units also the Bank's Supervisory Board, Management Board, and the Asset and Liability Committee (ALCO) play an active role in management of the market risk.

In 2017 Alior Leasing, a subsidiary company, became a material company in terms of market risk management at the Group of Alior Bank S.A. The market risk in the company is monitored, controlled, and reported. In agreement with Alior Bank, Alior Leasing introduced internal rules governing market risk management and it periodically reports the market risk.

7.2 Interest rate risk

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

- mismatch risk of repricing periods;
- basis risk, or impact of an unparallel change of various reference indices having a similar repricing period to the Bank's result;
- risk of the profitability curve;
- risk of customers’ options.

At the same time the Bank pays high attention to modelling of products with unspecified maturities and interest rates set by the Bank (e.g. for current deposits), as well as the impact of non-interest items in the risk (e.g. equity, fixed assets).

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

7.3 Interest rate risk measurement and assessment

The interest rate risk of the banking portfolio is measured and assessed by limiting the volatility of net interest income (NII) and by limiting changes to the economic value of the Bank's equity (EVE). In measuring the interest rate risk, the Bank also uses BPV, VaR, repricing gap, and stress tests.

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

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

7.4 Tools for interest rate risk management

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

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

7.5 Interest rate risk monitoring and reporting

Alior Bank regularly monitors and reports:

- interest rate risk measurement level;
- utilisation degree of the internal capital allocated to the interest rate risk;
- use of the internal limits and threshold values for the interest rate risk;
- results of stress tests.

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

7.6 Financial data

Sensitivity metrics

BVP estimation at year-end 2017 is presented in the table below:

Currency (PLN '000)	Up to 6 months	6 months to 1 year	1 year to 3 years	3 to 5 years	5 to 10 years	Total
PLN	3.4	192.5	195.7	95.1	-90	396.7
EUR	-0.5	-8.1	61.3	90	-4.5	138.2
USD	1	8.1	-2.2	-0.2	-1	5.6
CHF	-1	0.1	-1	0	0	-1.8
GBP	-4	2	0	0	0	-2
OTHER	-1	2.1	-1	-0.2	0	-0.3
Total	-1.8	196.7	253	184.7	-96	536.5

BPV statistics in for a period from January to December 2017

Book (PLN '000)	Minimum	Average	Maximum
Banking book	-1,298.3	-575	138.8
Trading book	-75.6	5.9	70
ALCO	419.6	1,440.6	2,225.1
Total	212	872	1,611

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

Book (PLN '000)	VaR
Banking book	8,435
Trading book1	928
Total2	9063

VaR statistics in for a period from January to December 2017

Book (PLN '000)	Minimum	Average	Maximum
Banking book	6,346	18,123	31,068
Trading book	870	2,208	4,009
Total	6,046	19,398	32,043

Change to the economic value of capital

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

Scenario (1M/10Y)	Change to the economic value of equity 31.12.2017
+400 /+100	188,906
+100 /-400	67,831
+200 /+ 200	102,857
-200 / -200	-84,863
-100 / -400	-42,814
-400 / -100	-94,591

Net interest income volatility

Net interest income volatility over a 1-year horizon with a change of interest rates by 100bps (negative scenario) as at year-end 2017 has been presented below.

	31.12.2017
NII	6.96%

Repricing gap

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

[1] VaR of the trading book contains the VaR for the FX risk.

[2] as above

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

2017	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	38,164,862	- 12,742,445	- 12,304,074	1,030,872	-2,762,148	- 3,889,341	-753.042	6,744,685
Accumulated gap	38,164,862	25,422,417	13,118,343	14,149,214	11,387,067	7,497,726	6,744,685	

USD repricing gap in USD '000

2017	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	-45.709	205,957	233,420	135,286	60,501	-16.291	-3.865	569,300
Accumulated gap	-45.709	160,248	393,668	528,955	589,456	573,164	569,300	

EUR repricing gap in EUR '000

2017	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodic gap	839,042	-479.932	-519.347	50,862	33,404	-75.741	-16.156	-167.869
Accumulated gap	839,042	359,109	-160.237	-109.375	-75.972	-151.713	-167.869	

7.7 FX risk

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

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

7.8 FX risk measurement and assessment

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

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

7.9 FX risk management tools

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

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

7.10 Monitoring and reporting of the FX risk

Alior Bank regularly monitors and reports:

- FX risk measure levels;
- use of the internal limits and threshold values for the FX risk;
- results of stress tests.
- Reports concerning the FX risk are made on a daily, weekly, monthly, and quarterly basis.
- FX risk limits are determined so that this risk remained at the limited level.

7.11 Financial data

Sensitivity metrics

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

horizon [days]	10
VaR (PLN)	157,474.83

VaR statistics in the FX portfolio for a period from January to December 2017

Minimum	Average	Maximum
29.26	309.69	1,648.53

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

31.12.2017		
foreign exchange rates	+ 20%	29,930.08
foreign exchange rates	-20%	15,521.79

FX position of the Bank on 31 December 2017

Currencies	Position in '000
gross exposure	59,697
Group A gross	46.012
EUR	15,158
USD	29,589
GBP	359
CHF	905
other gross	13,685

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

7.12 Liquidity Risk

The liquidity risk is understood at the Bank as a risk of failure by the Bank to meet its payment obligations, subject to comfortable conditions and at adequate prices, resulting from the Bank's on- and off-balance sheet items. The liquidity risk inseparably involves financial liquidity defined as a permanent ability to satisfy all liabilities of the Bank combined with a possibility of ensuring appropriate funds for executing the Bank's strategy in terms of growth of the balance sheet total.

The liquidity risk management policy at the Bank consists in ensuring and maintaining the Bank's capability of satisfying both its current and future liabilities while minimising the costs of raising liquidity.

The strategy of liquidity risk management covers the following stages:

- ensuring at any moment of the Bank's business capability of timely repayment of any liabilities (including, regulatory restrictions in terms of liquidity transfer within the Group's companies);
- maintaining liquid assets at an adequate level, i.e. a buffer of unencumbered high quality liquid assets in the case of a sudden deterioration of the liquidity position;
- determination of the scale of the Bank's exposure to the liquidity risk by setting internal liquidity limits, a survival horizon in stress conditions and minimising the risk of trespassing on the liquidity limits defined at the Bank;
- monitoring of the Bank's liquidity situation in terms of occurrence of an emergency situation to launch the Liquidity Maintenance Contingency Plan;
- ensuring compliance of the processes functioning at the Bank with Polish regulatory requirements concerning liquidity risk management.

All the above objectives are pursued independently by relevant organisational units whose competences and responsibilities are strictly defined in internal regulations.

Within the liquidity management process, the Bank:

- develops liquidity procedures and policies, including a funding plan for the next years of the Bank's operations;
- manages contingency liquidity plans;
- manages collateral and encumbrance to assets;
- monitors the liquidity limits and the early warning indicators identifying adverse trends that may result in the increased liquidity risk;
- periodically performs (in the form of reports) analyses of categories and factors affecting the impact on the current and future liquidity level;
- holds stress tests for the liquidity risk.

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

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

- payment liquidity understood as the ability to fund assets and timely performance of the obligations in the course of the Bank's usual business or in other conditions that may be foreseen without suffering a loss. The Bank, in particular, within payment liquidity management, focuses on analysing intraday (immediate) and current liquidity (up to 7 days);
- short-term liquidity defined as the ability to comply with all financial liabilities falling due

within a period of the next 30 days;
- medium-term liquidity understood as capability of satisfying all liabilities with a maturity falling due within a period of 1 to 12 months;
- long-term liquidity means monitoring of the ability to comply with all financial liabilities with a maturity falling due within a period of over 12 months.

Management of payment and short-term liquidity risk covers events that shall have an impact on the Bank's liquidity within a period from 1 day to 1 months. Management of payment and short-term liquidity is the responsibility of the Interbank Transactions Department. By using daily reports, the Financial Risk Management Department supervises management of payment and short-term liquidity.

Controlling and monitoring of medium- and long-term liquidity is the responsibility of the Financial Risk Management Department that prepares reports on a monthly basis which are discussed at ALCO meetings and are presented to the Bank's Management Board.

Liquidity risk measurement is performed at the Bank by the Financial Risk Management Department in a manner completely independent from units responsible for transaction execution. The purpose of risk measurement is to present an impact of all material factors on the Bank's ability to maintain an adequate liquidity level. Besides collective metrics of the liquidity risk analysis also covers individual categories and factors affecting the Bank's current or potential future liquidity level. Liquidity risk measurement covers the Polish currency and all foreign currencies that are material from a point of view of the liquidity risk in which the Bank carries out its operations, and is performed while including all material balance sheet and off-balance sheet items, alike (including, but not limited to derivative instruments).

The Bank's strategy relating to hedging against the liquidity risk consists in:

- developing an appropriate structure of sources of funding,
- limiting the concentration risk by diversifying the deposit base divided by retail, business, financial customers, central government and local government institutions,
- maintaining a liquidity surplus at an adequate level in the form of most liquid securities,
- increasing availability of alternative sources of funding.

The Bank keeps a high buffer of unencumbered high quality liquid assets, investing in top rated Treasury and corporate debt securities, characterised with fast sales possibilities, maintaining funds in its current account with NBP and with other banks (nostro accounts), maintaining funds in hand and investing funds in the interbank market, within the approved limits. The adequacy of the maintained buffer of liquid assets is controlled by comparing it with the designated minimum value of the liquid assets buffer as may be required for survival under a stress test scenario over a time horizon up to 7 days and up to 30 days. As at 31 December 2017, the total buffer of unencumbered liquid assets amounted to PLN 13,979m versus the minimum level of PLN 11,210m, resulting from a shock scenario. To calculate the buffer of liquid assets, the Bank applies appropriate reductions to the components of the buffer in order to account for the risk of market (product) liquidity.

The Bank applies a number of methods to assess the situation in the liquidity area, comprising, among others, monitoring (figures in brackets show values as at year-end 2017):

- ratio of the deposit base ratio and own issues to net loans (1.1);
- deposit base stability (95.05%), including, deposit withdrawals (2%);
- deposit concentration (WWK=2.18% – no concentration);
- balance sheet and off-balance sheet liquidity gap.

The Bank performs the gap analysis on the basis of real cash flows that among others include the following assumptions:

- stability of liabilities with unspecified maturity (e.g. current accounts, deposit renewals);
- possibility of shortening maturities of certain assets
- (e.g. mortgage loans with a possibility of earlier repayment);
- possibilities to sell assets (liquidity portfolio).

Additionally, determining the updated liquidity gap, the Bank applies model weights of the deposit remaining balances/loan repayment rates, determined on the basis of the existing statistical model and historic observations of balances for specific products.

Analysis of maturities of assets and liabilities by real terms as at year-end 2017 is presented in the table below (values in PLN m).

12/31/2017	**1D**	**1M**	**3M**	**6M**	**1Y**	**2Y**	**5Y**	**5Y+**	**TOTAL**
ASSETS	3,257	10,072	2,240	2,630	4,826	6,210	11,612	28,647	69,494
Cash and Nostro	-597	0	0	0	0	0	0	1,963	1,366
Receivables from banks	0	332	0	0	0	164	0	0	496
Securities	3,754	8,760	0	0	0	94	443	486	13,537
Receivables from customers	100	980	2,240	2,630	4,826	5,952	11,168	27,302	55198
Other assets	0	0	0	0	0	0	0	-1.104	-1,104
Liabilities and equity	-228	-4,502	-2,470	-1,854	-2,509	-3,680	-5,793	-48,458	-69,494
Liabilities to banks	-4	-136	-307	-6	-14	-249	-85	-130	-932
Liabilities to customers	-224	-1.710	-1.998	-1.506	-1.846	-2.311	-4.091	-40.334	-54,020
Own issues	0	-100	-166	-341	-650	-1,120	-1,617	-1,142	-5,134
Equity	0	0	0	0	0	0	0	-6.762	-6,762
Other liabilities	0	-2.556	0	0	0	0	0	-90	-2,646
Balance sheet gap	3,029	5,570	-230	776	2,317	2,530	5,819	-19,811	0

Accumulated balance value of	3,029	8,599	8,369	9,145	11,462	13,992	19,811	0	
Derivative instruments – inflows	0	5,029	1,593	1,600	701	364	307	43	9,638
Derivative instruments – outflows	0	-5,048	-1,618	-1,588	-707	-363	-324	-42	-9,690
Derivative instruments – net	0	-19	-24	12	-6	1	-17	0	-52
Guarantee and financial lines	0	-486	-356	-349	-494	187	562	936	0
Off-balance sheet gap	0	-505	-381	-337	-499	188	544	937	-52
Total gap	3,029	5,065	-610	440	1,818	2,718	6,363	-18,874	-52
Total accumulated gap	3,029	8,094	7,483	7,923	9,741	12,459	18,822	-52	

Analysis of maturities of assets and liabilities by contractual dates as at year-end 2017 is presented in the table below (values in PLN m).

12/31/2017	**ID**	**IM**	**3M**	**6M**	**1Y**	**2Y**	**5Y**	**5Y+**	**TOTAL**
ASSETS	4,508	3,300	1,827	2,177	4,264	6,660	17,323	29,435	69,494
Cash and Nostro	-597	0	0	0	0	0	0	1,963	1,366
Receivables from banks	0	332	0	0	0	164	0	0	496
Securities	0	2,003	0	10	26	1,018	5,904	4,576	13,537
Receivables from customers	5,105	965	1,827	2,167	4,238	5,478	11,418	24,000	55,198
Other assets	0	0	0	0	0	0	0	-1,104	-1,104
Liabilities and equity	-34,082	-8,354	-6,649	-5,009	-3,745	-1,613	-1,864	-8,177	-69,494
Liabilities to banks	-4	-136	-307	-6	-14	-249	-85	-130	-932
Liabilities to customers	-34,078	-5,562	-6,177	-4,661	-3,082	-244	-162	-54	-54,020
Own issues	0	-100	-166	-341	-650	-1,120	-1,617	-1,142	-5,134
Equity	0	0	0	0	0	0	0	-6,762	-6,762
Other liabilities	0	-2,556	0	0	0	0	0	-90	-2,646
Balance sheet gap	-29,575	-5,054	-4,822	-2,832	519	5,047	15,459	21,258	0
Accumulated balance sheet gap	-29,575	-34,628	-39,450	-42,282	-41,763	-36,716	-21,258	0	
Derivative instruments – inflows	0	5,029	1,593	1,600	701	364	307	43	9,638
Derivative instruments – outflows	0	-5,048	-1,618	-1,588	-707	-363	-324	-42	-9,690
Derivative instruments – net	0	-19	-24	12	-6	1	-17	0	-52
Guarantee and financial lines	-11,711	-8	-32	-108	-200	-113	-6	-321	-12,498
Off-balance sheet gap	-11,711	-26	-56	-95	-206	-112	-24	-320	-12,550
Total gap	-41,285	-5,080	-4,878	-2,927	313	4,935	15,435	20,937	-12,550
Total accumulated gap	-41,285	-46,365	-51,244	-54,171	-53,858	-48,923	-33,488	-12,550	

Under monitoring of the liquidity risk level, the Bank holds liquidity stress tests providing for an internal and external and mixed crisis; this includes the development of a fund attraction plan in emergency situations, as well as the identification and verification of the sales rules of liquid assets, providing for the costs of maintaining liquidity. The results of the stress tests are used to determine the minimum buffer to be maintained of unencumbered high quality liquid assets, are used to develop contingency plans and to determine external limits for liquidity risk.

In the event of liquidity risk increase or deterioration of the liquidity condition, the Bank has contingency plans in place that define warning factors, responsibilities of individual units managing the liquidity risk and the sources and cost of covering the predicted impact of an outflow of cash from the Bank. Contingency plans are subject to periodic verification.

In compliance with Resolution No. 386/2008 of the Polish Financial Supervision Commission of 17 December 2008, the Bank determines and reports the following on a daily basis:

- short-term liquidity gap (minimum current liquidity surplus), defined as a difference between the core and additional liquidity reserve in the reporting period, and the value of external non-stable funds. As at 31 December 2017 the excess was PLN 7,891m;

- coverage ratio of illiquid assets with equity, calculated as the ratio of the Bank's equity reduced by the total capital requirements for the market risk and the settlement/delivery risk, as well as the counterpart risk, to illiquid assets;
- coverage ratio of illiquid assets and limited liquidity assets to equity and external stable funds, calculated as the ratio of the Bank's equity reduced by the total capital requirements for the market risk and the settlement/delivery risk, as well as the counterpart risk and external stable funds to the sum of illiquid assets and limited liquidity assets;
- short-term liquidity gap (minimum current liquidity surplus), defined as the difference between the core and additional liquidity reserve in the reporting period, and the value of external non-stable funds.

As at 31 December 2017, the values of the above ratios were as follows: 5.09; 1.15; 2.30. As at 31 December 2016, they stood at 4.20; 1.14; and 1.95, respectively. Additionally, the Bank controls the levels of the core and supplementary liquidity reserve, calculated in compliance with the above resolution by determining the ratio of the sum of the core and supplementary liquidity reserve to the deposit base which as at 31 December 2017 stood at 26% compared to 22% as at the year-end of 2016.

Additionally, in compliance with the above Resolution, the Bank perform an in-depth long-term liquidity analysis and the stability and structure of funding sources, including the level of balances and concentration for term and current deposits. Further, the Bank monitors the variability of on- and off-balance sheet items, in particular the projected outflows under the credit lines and guarantees granted to customers.

Liquidity measures at 31.12.2017

Liquidity measures	Indicator level
Short-term liquidity gap (in PLN m)	7,891
coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds	1.15
Short-term liquidity ratio	2.30
Coverage ratio of illiquid assets with own funds	5.09

In line with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR), the Bank monitors and maintains an adequate level of the Liquidity Coverage Ratio (LCR). As at 31 December 2017, LCR was 124% versus the required level of 80%. The Bank restricts the currency mismatch by monitoring LCR for material currencies and increasing investments in liquid securities in foreign currencies. While calculating LCR, the Bank includes exposures to derivative instruments and potential margin calls.

The table below presents average values from observations at the end of the month over a 12-month period prior to the end of each quarter in 2017 for hedging against liquidity loss, outflows of net cash, and the net cash outflow coverage ratio.

	3/31/2017	**6/30/2017**	**9/30/2017**	**12/31/2017**
Liquidity buffers (PLN m)	7,260	7,337	8,069	9,004
Total net cash outflows (PLN m)	5,880	6,546	7,827	8,632
Net outflow coverage ratio (LCR)	126%	115%	104%	103%

The Bank also calculates and monitors the amount of the stable funding ratio (Net Stable Funding Ratio – NSFR). As at 31 December 2017 NSFR stood at 114%.

Attracted deposits constitute a core source of funding for the Bank's business – as at the end of 2017, the amount of deposits accounted for about 86% of liabilities. In financing its operations, the Bank focuses on individual customers – the largest deposit base is made up of current accounts of individual customers (42%), while term deposits of individual customers account for 22% of the base. Additionally, while diversifying the sources of funding the Bank raises long-term financial means under its own issues (including, issues of subordinated liabilities). In order to raise funds from the above sources of funding, among others, the Bank carries out deposit campaigns, and also updates its prospectuses.

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

High Concentration Ratio (WWK) statistics for 2017

Minimum	Average	Maximum
1.55%	2.19%	2.79%

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

In 2017 pursuant to the provisions included in the internal regulations on the liquidity risk, Alior Leasing, a subsidiary company, became a material company from a point of view of liquidity risk management at the Group of Alior Bank S.A. It was due to the growth of the company's business, which translated into a material increase of the balance sheet total. The liquidity risk in the company is monitored, controlled, and reported. In agreement with Alior Bank, Alior Leasing introduced internal rules of liquidity risk management, including identification of the appetite for the liquidity risk and it prepares periodic reports. Reports on the liquidity risk in the company prepared by Alior Leasing especially form a starting point for taking decisions on liquidity risk management in the company and they are used for consolidation of the liquidity risk at the Group level.

In 2017 Alior Bank S.A. had a foreign Branch in Bucharest. The Branch conducts lending and deposit-taking activity on the basis of the funding acquired from Alior Bank S.A and with the funds acquired from the local market. The liquidity level of the Branch is monitored by dedicated organisational units within the Branch and the Bank's Head Quarter.

In 2017 the liquidity risk management systems at Alior Bank were appropriate in terms of the Bank's profile and strategy. The liquidity risk remained at a level compliant with the appetite for risk defined in the Policy of Asset and Liability Management for 2017-2019. The situation was closely monitored and maintained at a safe level by adjusting the deposit base and disbursing additional sources of financing subject to growth of lending and other liquidity needs.

8. Operational risk

The rules and the structure of operational risk management at the Bank are based on:

- provisions of the Banking Act,
- provisions of resolutions and recommendations issued by the Polish
- Financial Supervision Authority,
- CRD IV/ CRR packet,
- recommendations of the Basel Committee on Banking Supervision,
- the Operational Risk Management Policy – approved by the Management Board and the Supervisory Board of the Bank.

For the purposes of operational risk management Alior Bank S.A. uses the definition of the operational risk proposed by the Basel Committee on Banking Supervision, pursuant to which the operational risk is a possibility of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. The operational risk further covers the legal risk and events with a low frequency, but high losses. The operational risk does not cover the reputational risk and the strategic risk.

The Bank has a formalised operational risk management system within which it prevents the occurrence of operational events and mitigates losses should the risk materialise. The Bank defines the appetite for the operational risk as the maximum risk level that it is ready to take and accept as an exposure to the operational risk arising out of its operations. Under the operational risk management system the Bank defines detailed limits restricting the size of the exposure to individual categories of events and individual areas of the Bank. Additionally, the Bank determines the levels of Early Warning Signal (EWS).

The supreme objective of the Operational Risk Management Policy at the Bank is to ensure appropriately early risk identification in new and modified products, projects, and processes and to undertake adequate measures to mitigate such risk.

The Bank has a long-term strategy of operational risk management the purpose of which is, among others, to ensure an adequate level of the exposure to the operational risk and the level of its materialisation. In its Operational Risk Management Policy the Bank has defined actions aimed at stable and prudential management of the operational risk in relation to activities, purposes, and growth of the Bank. The operational risk management system at the Bank relies on the three pillars:

- corporate governance,
- operational risk management process,
- operating activities.
- Stages in the operational risk management process comprise:
- risk identification,
- risk measurement and assessment,
- management activities,
- risk control,
- risk monitoring,
- reporting.

The Bank's Management Board is responsible for the operational risk management and control process being actively involved in managing the operational risk at the Bank. Supervision over the implementation of the adopted strategy of the operational risk is exercised by the Supervisory Board and the dedicated Risk Management Committee of the Supervisory Board.

There is the Operational Risk Committee (ORC) in the Bank's organisational structure, which supports the Bank's Management Board in effective operational risk management. On an ongoing basis, the Committee monitors the exposure level to the operational risk and assesses the current situation with respect to the operational risk for the entire Bank.

The Operational Risk Management Department is a dedicated unit which primarily supports the

Management Board and ORC in the process of operational risk management – co-ordinating and supporting the process of operational risk management in the Bank's organisational unit and supervising functioning of the operational risk management system across the entire Bank. The Operational Risk Management Department exercises supervision over the process of operational risk management in the subsidiaries of the Group of Alior Bank S.A.

The duty to monitor and mitigate the operational risk in daily work applies to all employees and organisational units of the Bank. On an ongoing basis, the Bank's employees control the level of the operational risk in their processes and actively mitigate the risk, taking actions to avoid or mitigate operational losses.

The Bank holds records of operational events and losses that supports effective analysis and monitoring of the operational risk. The process of keeping records is carried out using the OpRisk information technology system that supports operational risk management, providing for recording, analysing, monitoring events and risk exposures.

The Bank holds records of operational events and losses that supports effective analysis and monitoring of the operational risk, in line with the internal instruction concerning the registration rules. The process of keeping records is carried out using the OpRisk information technology system that supports operational risk management, providing for recording, analysing, monitoring of data.

In November 2016 a legal merger between Alior Bank S.A. and the demerged part of Bank BPH S.A. took place, covering its primary business without the portfolio of mortgage loans and the Investment Fund Company (Towarzystwo Funduszy Inwestycyjnych).

The process of standardising the rules and practices concerning the operational risk management process (covering, among others, migration of data on operating losses from the demerged and taken-over part of Bank BPH S.A. to OpRisk, implementation of the uniform process of recording events and operating losses for the merged Bank) took few months and was completed prior to the operating merger that took place in March 2017.

The appetite and limits for the operational risk in 2017 were set taking into consideration the operational risk profile of the Bank after the merger.

The sum of operating losses (gross) of the merged Banks in a period from January to December 2017 amounted to TPLN 7,909. The figure comprises the losses identified at Alior Bank and in the taken over part of Bank BPH S.A. that materialised in a period from January to December 2017.

The value of operating losses decreased in 2017 by TPLN 23,285 in comparison with 2016 when it amounted to TPLN 31,194. In 2017 the value of recoveries and operating income due from the operational risk amounted to TPLN 1,194, compared to TPLN 13,923 in 2016.

The amount of the operating losses was within the appetite and limits for the operational risk adopted for 2017. External frauds accounted for the largest percentage in the losses. Further to the losses incurred by the Bank and constant seeking to reduce the operational risk in that area, the Bank undertook measures mitigating the risk of occurrence of similar events in the future, among others, by implementing additional control mechanisms, making changes in the processes and systems, and developing additional training for the Bank's employees.

Operating losses in 2017 – by categories:

Loss category	Gross loss amount in PLN '000
	2017
01. Internal frauds	457
02. External frauds	3,718
03. Rules concerning hiring and safety at the workplace	88
04. Clients, products and operational practices	1,386
05. Damage related to tangible assets	239

06. Interruption to banking operations and system failures	665
07. Performance of transactions, delivery and management of operational processes	1,356
Total sum	**7,909**

In order to monitor the level and profile of the operational risk on an ongoing basis, the Bank uses Key Risk Indicators (KRIs) that allow monitoring changes of operational risk factors, trends in changes of risk exposures, and ensuring early detection of an increase of the operational threat level across all areas of the Bank's business. Monitoring is performed on a monthly basis, and the values of KRI are analysed and discussed at meetings of the Operational Risk Committee, and that information if KRIs have been exceeded in a given quarter is also provided to the Bank's Management Board and Supervisory Board.

The process of operational risk management at Alior Bank S.A. is carried out in a systemic fashion while observing responsibilities assigned at various levels of this risk management. Identified operational events are analysed to implement remedial measures that restrict such type of risk in the future.

The level of operational risk losses is monitored on an ongoing basis and is presented in monthly management reports to the Operational Risk Committee and quarterly to the Bank's Management Board and Supervisory Board.

Business Continuity Management (BCM) is a major element in operational risk management at Alior Bank. Under BCM the Bank implements BMS system and strategies in line with the Business Continuity Management Policy approved by the Bank's Management Board. Under the BCM system, the Bank periodically:

- analyses business processes / operating activities,
- performs a review and updates of the operating strategy in contingency and
- crisis situations,
- develops and implements contingency solutions and Business Continuity Plans (BCP),
- performs tests, updates, and self-assessment of the BCM system,
- builds awareness of BCM in the organisation.
- Implementation of the approved BCM system and strategy is aimed at ensuring execution of
- critical business processes in the event of occurrence of an unexpected disturbance.
- The Bank has periodically tested contingency solutions for the implementation of critical processes (including, back-up locations and disaster recovery solutions).

The Bank calculates the capital requirement for the operational risk based on the standardised method and in line with Title III Part 3 of CRR. The Bank carries out operations in the following business lines: retail banking, commercial banking, retail brokerage business, corporate finance, trade and sale, payments and settlements, asset management, and agency services.

On 22 December 2017 the Bank received a permit from the Polish Financial Supervision Authority to use AMA, the approach of advanced operational risk measurement to calculate requirements for own funds in relation to the operational risk from 2018. A PFSA decision is a result of months of project work aimed at improving the operational risk management processes at the Bank. Consent to apply the AMA approach concerns the existing part of Alior Bank S.A. (prior to the merger). In the case of the demerged and taken over part of Bank BPH S.A. the requirement is calculated as before using the applied method (standardised method).

9. Own funds

The structure of the Group's own funds as at 31.12.2017 is presented in the summary below (for the purposes of calculating the capital adequacy ratio for 2017).

Components of own funds as at 31 December 2017

	Components of own funds	In PLN '000
1.	OWN FUNDS	7,651,276
1.1	TIER 1 CAPITAL	6,088,277
1.1.1	TIER 1 CORE CAPITAL	6,088,277
1.1.1.1	Capital instruments qualified as Tier 1 Core Capital	5,099,770
1.1.1.1.1	Paid capital instruments	1,292,636
1.1.1.1.2	Share premium accounts	3,807,134
1.1.1.2	Retained earnings	366,348
1.1.1.3	Accumulated other comprehensive income	27,980
1.1.1.4 (a)	Reserve capital	184,894
1.1.1.4 (b)	Other supplementary capital	1,010,349
1.1.1.5	Funds for general banking risk	0
1.1.1.6	Adjustments in the transition period relating to instruments in the Tier 1 Core Capital subject to grandfathering provisions	0
1.1.1.7	Minority interest included in the Tier 1 Core Capital	0
1.1.1.8	Adjustments in the transition period due to additional minority interests	0
1.1.1.9	Adjustments in the Tier 1 Core Capital due to prudential filters	-21,428
1.1.1.10	(-) Goodwill	0
1.1.1.11	(-) Other intangible assets	-516,122
1.1.1.12	(-) Deferred income tax assets that rely on future profitability and not explaining temporary differences after deduction of the related income tax provisions	0
1.1.1.13	(-) Gap related to adjustments for the credit risk against the expected losses according to the IRB approach	0
1.1.1.14	(-) Defined benefit pension fund assets	
1.1.1.15	(-) Reciprocal cross holdings in the Tier 1 Core Capital	
1.1.1.16	(-) Excess of deductions from additional positions in Tier 1 over the Tier 1 Core Capital	0
1.1.1.17	(-) Qualifying holdings outside the financial sector that alternatively may be subject to the application of a risk weight of 1250%	
1.1.1.18	(-) Securitisation positions that alternatively may be subject to the application of a risk weight of 1250%	0
1.1.1.19	(-) Deliveries with a deferred settlement data that alternatively may be subject to the application of a risk weight of 1250%	0
1.1.1.20	(-) Positions in a basket for which an institution cannot determine the risk weight under the IRB Approach and which alternatively may be subject to the application of a risk weight of 1250%	0
1.1.1.21	(-) Capital exposures in using the internal model approach that alternatively may be subject to the application of a risk weight of 1250%	0
1.1.1.22	(-) Tier 1 Core Capital instruments of financial sector entities where the institution does not have a significant investment in those entities	0
1.1.1.23	(-) Deferred tax assets that rely on future profitability and arise	0

	from temporary differences	
1.1.1.24	(-) Losses for the current financial year	0
1.1.1.25	(-) Tier 1 Core Capital instruments of financial sector entities where the institution has a significant investment in those entities	0
1.1.1.26	(-) Amount in excess of the 17.65% threshold	0
1.1.1.27	Other adjustments in the transition period in the Tier 1 Core Capital	
1.1.1.28	(-) Additional deductions from the Tier 1 Core Capital pursuant to Article 3 of CRR	0
1.1.1.29	Components of the Tier 1 Core Capital or deductions from the Tier 1 Core Capital – other	-63,514
1.1.2	ADDITIONAL TIER 1 CAPITAL	0
1.1.2.1	Capital instruments qualified as Additional Tier 1 capital	0
1.1.2.2	Adjustments in the transition period relating to the Additional Tier 1 instruments subject to grandfathering provisions	0
1.1.2.3	Instruments issued by subsidiaries that are included in the Additional Tier 1 capital	0
1.1.2.4	Adjustments in the transition period relating to additional inclusion of instruments issued by subsidiaries that are included in the Additional Tier 1 capital	0
1.1.2.5	(-) Reciprocal cross holdings in Tier 1 capital	0
1.1.2.6	(-) Additional Tier 1 instruments of financial sector entities where the institution does not have a significant investment in those entities	0
1.1.2.7	(-) Additional Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities	0
1.1.2.8	(-) Excess of deductions from Tier 2 positions over the Tier 2 capital	0
1.1.2.9	Other adjustments in the transition period in the Additional Tier 1 capital	0
1.1.2.10	Excess of deductions of additional positions in Tier 1 over the Additional Tier 1 capital (deduction in the Tier 1 Core Capital)	0
1.1.2.11	(-) Additional deductions from the Additional Tier 1 capital pursuant to Article 3 of CRR	0
1.1.2.12	Components of Additional Tier 1 capital or deductions from Additional Tier 1 capital – other	0
1.2	TIER 2 CAPITAL	1,563,OOO
1.2.1	Capital instruments and subordinated loans qualified as the Tier 2 capital instruments	1,563,000
1.2.2	Adjustments in the transition period relating to the Tier 2 capital instruments and subordinated loans subject to grandfathering provisions	0
1.2.3	Instruments issued by subsidiaries that are included in the Tier 2 capital	0
1.2.4	Adjustments in the transition period relating to additional inclusion of instruments issued by subsidiaries that are included in the Tier 2 capital	0
1.2.5	Excess of provisions over the expected recognition of losses according to the IRB approach	0
1.2.6	Adjustments due to the general credit risk pursuant to the standardised method	0
1.2.7	(-) Reciprocal cross holdings in Tier 2 capital	0
1.2.8	(-) Tier 2 instruments of financial sector entities where the institution does not have a significant investment in those entities	0

1.2.9	(-) Tier 2 instruments of financial sector entities where the institution has a significant investment in those entities	0
1.2.10	Other adjustments in the transition period in the Tier 2 capital	0
1.2.11	Excess of deduction from Tier 2 positions over Tier 2 capital (deduction in Additional Tier 1 capital)	0
1.2.12	(-) Additional deductions from Tier 2 capital pursuant to Article 3 of CRR	0
1.2.13	Components of Tier 2 capital or deductions from Tier 2 capital – other	0
	Tier 1 Capital Ratio	12.10%
	Capital adequacy ratio	15.21%

For the purposes of calculating the capital adequacy ratio for 2017 prudential consolidation has been applied – consolidation included Alior Bank S.A. and Alior Leasing sp. z o.o.

Features of capital instruments

	Main features of capital instruments	Series A	Series B	Series C and D	Series G and H	Series I and J	Series E and F
1	Issuer	Alior Bank Spółka Akcyjna	Alior Bank Spółka Akcyjna	Alior Bank Spółka Akcyjna	Alior Bank Spółka Akcyjna	Alior Bank Spółka Akcyjna	Alior Bank Spółka Akcyjna
2	Unique identifier (e.g. CUSIP, ISIN, or Bloomberg identifier for offerings on a non-public market)	PLALIOR00045	PLALIOR00045	PLALIOR00045	PLAUOR00045	PLAUOR00045	PLALIOR00045
3	Law or governing law of the instrument included in the regulatory capital	Polish	Polish	Polish	Polish	Polish	Polish
4	Transitional rules specified in CRR	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable
5	Rules specified in CRR applicable after the transitional period	Tier 1 core capital	Tier 1 core capital	Tier 1 core capital	Tier 1 core capital	Tier 1 core capital	Tier 1 core capital
6	Qualified at a standalone or (sub-) consolidated level/ at standalone and (sub-) consolidated level	standalone level/ consolidated level	standalone level/ consolidated level	standalone level/ consolidated level	standalone level/ consolidated level	standalone level/ consolidated level	standalone level/ consolidated level
7	Type of instrument (types identified by each legal system)	ordinary shares	ordinary shares	ordinary shares	ordinary shares	ordinary shares	ordinary shares
8	Amount recognised in the regulatory capital (currency in million as at the last reporting date)	500,000,000	12,500,000	123,329,650 (C) 4,107,040 (D) 27,760 (D)	63,582,960 (G) 23,554,980 (H)	565,502,490 (I) 510 (I)	27,850 (E) 3,000 (F)
9	Nominal value of an instrument	10	10	10	10	10	10

9a	Issue price	30	80	issue prices of individual series C tranches in Current Report 3/2012 of 04.12.2012 62 (D)	73	39	65 (E) 66 (F)
9b	Redemption price	Not applicable	Not applicable	Not applicable	Not applicabl e	Not applicable	Not applicable
10	Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity
11	Original issue date	21.04.200 8	10.05.201 2	23.07.2012 (C) 19.10.2012 (D) 12.09.2017 (D)	28.11.20 13 (G) 25.02.20 15 (H)	(I) (3)	(E) (F)
12	Perpetual or term	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Redemption option upon the issuer's request subject to prior approval by supervisory authorities	No	No	No	No	No	No
15	Dates of options redemption, dates of conditional redemption and redemption amount	Not applicable	Not applicable	Not applicable	Not applicabl e	Not applicable	Not applicable
16	Subsequent redemption dates, if any	Not applicable	Not applicable	Not applicable	Not applicabl e	Not applicable	Not applicable
				Coupons / dividends			
17	Fixed or variable dividend / fixed or variable coupon	Not applicable	Not applicable	Not applicable	Not applicabl e	Not applicable	Not applicable
18	Interest coupon and any related indicator	Not applicable	Not applicable	Not applicable	Not applicabl e	Not applicable	Not applicable
19	Existence of written rights not to disburse dividend	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary, or mandatory (in terms of time)	Fully discretiona ry	Fully discretiona ry	Fully discretionary	Fully discretio nary	Fully discretiona ry	Fully discretionary
20b	Fully discretionary, partially discretionary, or mandatory (in terms of amount)	Fully discretiona ry	Fully discretiona ry	Fully discretionary	Fully discretio nary	Fully discretiona ry	Fully discretionary

21	Existence of options with an increasing interest rate or another redemption inducement	No	No	No	No	No	No
22	Non-cumulative or cumulative	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, an event or events triggering conversion	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
26	If convertible, conversion factor	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
27	If convertible, conversion obligatory or optional	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
28	If convertible, define a type of instrument to which conversion may be made	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
29	Write downs	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
30	In the case of a write down, an event or events triggering a write down	No	No	No	No	No	No
31	In the case of a write down, in full or part	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
32	In the case of a write down, permanent or temporary	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
33	In the case of a temporary write down, description of a write down mechanism	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
34	Position in the allocation hierarchy in the case of liquidation (specify the type of Instrument directly privileged vis-à-vis specific Instrument)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Inconsistent transition features	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

36	If yes, inconsistent features should be defined	No	No	No	No	No	No
37	Write downs	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Own funds during a transition period as at 31.12.2017

PLN '000

Own funds during a transition period		(A) Amount on a disclosure date	(B) Reference to the Article of Regulation (EU) No 575/2013	(C) Amounts included prior to adoption of Regulation (EU) NO 575/2013 or residual amount defined in Regulation (UE) NO 575/2013
Tier 1 Core Capital: capital instruments and other reserves				
1	Capital instruments and the related share premium accounts	5,099,770	Article 26(1), Article 27, 28, and 29, EBA list referred to in Article 26(3)	5,099,770
	Series A	1,500,000	EBA list referred to in Article 26(3)	1,500,000
	Series B	99,924	EBA list referred to in Article 26(3)	99,924
	Series C	685,310	EBA list referred to in Article 26(3)	685,310
	Series D	25,508	EBA list referred to in Article 26(3)	25,508
	Series G	457,995	EBA list referred to in Article 26(3)	457,995
	Series H	172,460	EBA list referred to in Article 26(3)	172,460
	Series I and J	2,158,373	EBA list referred to in Article 26(3)	2,158,373
	Series E	180	EBA list referred to in Article 26(3)	180
	Series F	20	EBA list referred to in Article 26(3)	20
2	Retained earnings	-63,514	Article 26(1)(c)	-63,514
3	Accumulated other comprehensive income (and other reserves, including unrealised profits and losses pursuant to the applicable accounting standards)	1,223,223	Article 26(1)	1,223,223
3a	Funds for general banking risk	0	Article 26(1)(f)	0
4	Amount of eligible positions referred to in Article 484(3), and related share premium accounts for removal from the Tier 1 Core Capital	0	Article 486(2)	0
	Capital injections by the public sector subject to grandfathering provisions acquired before 1 January 2018	0	Article 483(2)	0
5	Minority interests (amount	0	Article 84, 479, 480	0

	permitted in the consolidated Tier 1 Core Capital)			
5a	Independently verified current period profits after deduction of any foreseeable charges or dividends	366,348	Article 26(2)	366,348
6	Tier 1 Core Capital before regulatory adjustments	6,625,827		6,625,827
Tier 1 Core Capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-12,960	Article 34, 105	-12,960
8	Intangible assets (net of the related deferred income tax provision) (negative amounts)	-516,122	Article 36(1)(b), Article 37. and Article 472(4)	-516,122
9	Empty set in EU	0		0
10	Deferred income tax assets that rely on future profitability excluding assets resulting from temporary differences (after deduction of the related deferred income tax provision, if the conditions set in Article 38(3) are met) (negative amount)	0	Article 36(1)(c), Article 38, Article 472(5)	0
11	Reserve capitals reflecting fair value related to gains or losses on cash flow hedges of financial instruments	0	Article 33(a)	0
12	Negative amounts resulting from deductions of the expected loss amounts	0	Article 36(1)(d), Article 40, 159, Article 472(6)	0
13	Each increase of own funds due to securitised assets (negative amount)	0	Article 32(1)	0
14	Gains or losses on liabilities measured at fair value resulting from changes of the creditworthiness of the institution	0	Article 33(b)	0
15	Defined benefit pension fund assets (negative amount)	0	Article 36(1)(e), Article 41, Article 472(7)	0
16	Direct and indirect holdings of the own Tier 1 Core Capital instruments (negative amount)	0	Article 36(1)(f), Article 42, Article 472(8)	0
17	Holdings of the Tier 1 Core Capital instruments of financial sector entities where such entities have reciprocal cross holdings with such institution to inflate artificially the own funds of the institution (negative amount)	0	Article 36(1)(g), Article 44, Article 472(9)	0
18	Direct and indirect holdings by the institution of the Tier 1 Core Capital instruments of financial sector entities where the institution does not have a significant investment in those entities (amount in excess of the 10% threshold	0	Article 36(1)(h), Article 43, 45, 46, Article 49(2) and Article 49(3), Article 79, Article 472(10)	0

	and after deduction of the eligible short positions) (negative amount)			
19	Direct, indirect and synthetic holdings by the institution of the Tier 1 Core Capital instruments of financial sector entities where the institution has a significant investment in those entities (amount in excess of the 10% threshold and after deduction of the eligible short positions) (negative amount)	0	Article 36(1)(i), Article 43, 45, 47, Article 48(1)(b), Article 49(1-3), Article 79, 470, Article 472(11)	0
20	Empty set in EU	0		0
20a	Amount of exposures to the following positions eligible for the application of a risk weight of 1250%, if the institution chooses a deduction option	0	Article 36(1)(k)	0
20b	including: qualifying holdings outside the financial sector (negative amount)	0	Article 36(1)(k)(i), Article 89-91	0
20c	including: securitisation positions (negative amount)	0	Article 36(1)(k)(ii), Article 243(1)(b), Article 244(1)(b), Article 258	0
20d	including: free deliveries of instruments (negative amount)	0	Article 36(1)(k)(iii), Article 379(3)	0
21	Deferred income tax assets that arise from temporary differences (amount in excess of the 10% threshold, after deduction of the related deferred income tax provision if the conditions set in Article 38(3) are met) (negative amount)	0	Article 36(1)(c), Article 38, Article 48(1)(a), Article 470, Article 472(5)	0
22	Amount in excess of the 15% threshold (negative amount)	0	Article 48(1)	0
23	including: direct and indirect holdings by the institution of the Tier 1 Core Capital instruments of financial sector entities where the institution has a significant investment in those entities	0	Article 36(1)(i), Article 48(1)(b), Article 470, Article 472(11)	0
24	Empty set in EU	0		0
25	including: deferred income tax assets that arise under temporary differences	0	Article 36(1)(c), Article 38, Article 48(1)(a), Article 470, Article 472(5)	0
25a	Losses for the current financial year (negative amount)	0	Article 36(1)(a), Article 472(3)	0
25b	Any tax charge relating to Tier 1 Core Capital items foreseeable at the moment of its calculation (negative amount)	0	Article 36(1)(I)	0
26	Regulatory adjustments applied in relation to the Tier 1 Core Capital in terms of the amounts included prior to CRR adoption.	0		0
26a	Regulatory adjustments concerning unrealised profits and losses pursuant to Article 467 and 468;	-8,468		0
	including: ...filter for unrealised loss 1	-42,228	Article 467	0
	including: ...filter for unrealised loss 2		Article 467	0
	including: ...filter for unrealised profit 1	33,870	Article 468	0
	including: ...filter for unrealised profit 2		Article 468	0
26b	Amount that should be deducted or added to the amount of the Tier 1 Core	0	Article 481	0

	Capital in relation to additional filters and deductions required prior to CRR adoption			
	including: ...	0	Article 481	0
27	Eligible deductions from the Additional Tier 1 capital items that exceed the value of the institution's Additional Tier 1 capital (negative amount)	0	Article 36(1)(j)	0
28	Total regulatory adjustments in the Tier 1 Core Capital	-537,550		-529,082
29	Tier 1 Core Capital	6,088,277		6,096,745
	Additional Tier 1 capital: instruments			
30	Capital instruments and the related share premium accounts	0	Article 51, 52	0
31	including: qualified as equity in accordance with the applicable accounting standards	0		0
32	including: qualified as liabilities in accordance with the applicable accounting standards	0		0
33	Amount of eligible positions referred to in Article 484(4), and related share premium accounts for removal from the Additional Tier 1 capital	0	Article 486(3)	0
	Capital injections by the public sector subject to grandfathering provisions acquired before 1 January 2018	0	Article 483(3)	0
34	Eligible Tier 1 capital included in the consolidated Additional Tier 1 capital (including, minority interests not included in row 5) issued by subsidiaries and held by third parties	0	Article 85, 86, 480	0
35	including: instruments to be removed that have been issued by subsidiaries	0	Article 486(3)	0
36	Additional Tier 1 capital before regulatory adjustments	0		0
	Additional Tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings by the institution of the own Tier 1 additional instruments (negative amount)	0	Article 52(1)(b), Article 56(a) Article 57, Article 475(2)	0
38	Holdings of the own Tier 1 additional instruments of financial sector entities, where such entities have reciprocal cross holdings with such institution to inflate artificially the own funds of the institution (negative amount)	0	Article 56(b), Article 58, and Article 475(3)	0
39	Direct and indirect holdings by the institution of the own	0	Article 56(c), Article 59, 60,	0

	Additional Tier 1 capital instruments of financial sector entities, where the institution does not have a significant investment in those entities (amount in excess of the 10% threshold and after deduction of the eligible short positions) (negative amount)		79, Article 475(4)	
40	Direct and indirect holdings by the institution of the own Tier 1 capital instruments of financial sector entities where the institution has a significant investment in those entities (amount in excess of the 10% threshold and after deduction of the eligible short positions) (negative amount)	0	Article 56(d), Article 59, 79, Article 475(4)	0
41	Regulatory adjustments in relation to the Additional Tier 1 capital in terms of the amounts included before CRR adoption and the amounts included in a transition period allocated for removal pursuant to Regulation (EU) No 575/2013 (i.e. residual amounts specified in CRR)	0		0
41a	Residual amounts deducted from the Additional Tier 1 capital in relation to deductions from the Tier 1 Core Capital during a transition period pursuant to Article 472 of Regulation (EU) No 575/2013	0	Article 472, Article 472(3)(a), Article 472(4), Article 472(6), Article 472(8)(a), Article 472(9), Article 472(10)(a), Article 472(11)(a)	0
	Including positions that should be listed, e.g. material net losses for the period, intangible assets, no provisions to cover expected losses, etc.	0		0
41b	Residual amounts deducted from the Additional Tier 1 capital in relation to deductions from the Common Equity Tier 2 during a transition period pursuant to Article 475 of Regulation (EU) No 575/2013	0	Article 477, Article 477(3), Article 477(4)(a)	0
	Including positions that should be listed, e.g. reciprocal cross holdings in the Tier 2 capital instruments, direct holdings of immaterial investments in capital of other financial sector entities, etc.	0		0
41c	Amount that should be deducted or added to the amount of the Additional Tier 1 capital in relation to additional filters and deductions required prior to CRR adoption	0	Article 467, 468, 481	0
	including: ...possible filters for unrealised losses	0	Article 467	0
	including: ...possible filters for unrealised profits	0	Article 468	0
	including: ...	0	Article 481	0

42	Eligible deductions from the Tier 2 capital items that exceed the value of the institution's Tier 2 capital (negative amount)	0	Article 56(e)	0
43	Total regulatory adjustments to the Additional Tier 1 capital	0		0
44	Additional Tier 1 capital	0		0
45	Tier 1 capital (Tier 1 capital = Tier 1 Core Capital + Additional Tier 1 capital)	6,088,277		6,096,745
Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	1,563,000	Article 62, 63	1,563,000
47	Amount of eligible positions referred to in Article 484(5), and related share premium accounts for removal from the Tier 2 capital	0	Article 486(4)	0
	Capital injections by the public sector subject to grandfathering provisions acquired before 1 January 2018	0	Article 483(4)	0
48	Eligible instruments of own funds included in the consolidated Tier 2 capital (including minority interests and the Additional Tier 1 capital instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	Article 87, 88, 480	0
49	including: instruments to be removed that have been issued by subsidiaries	0	Article 486(4)	0
50	Credit risk adjustments	0	Article 62(c) and Article 62(d)	0
51	Tier 2 capital before regulatory adjustments	1,563,000		1,563,000
Tier 2 capital: regulatory adjustments				
52	Direct and indirect holdings by the institution of the own Tier 2 capital instruments and subordinated loans (negative amount)	0	Article 63(b)(i), Article 66(a), Article 67, Article 477(2)	0
53	Holdings of the Tier 2 capital instruments and subordinated loans of financial sector entities where such entities have reciprocal cross holdings with such institution to inflate artificially the own funds of the institution (negative amount)	0	Article 66(b), Article 68, and Article 477(3)	0
54	Direct and indirect holdings by the institution of the Tier 2 capital instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount in excess of the 10% threshold and	0	Article 66(c), Article 69, 70, 79, Article 477(4)	0

	after deduction of the eligible short positions) (negative amount)			
54a	including: new holdings not subject to arrangements concerning a transition period	0		0
54b	including, holdings existing prior to 1 January 2013 and that are subject to arrangements concerning a transition period	0		0
55	Direct and indirect holdings by the institution of the Tier 2 capital instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (after deduction of the eligible short positions) (negative amount)	0	Article 66(d), Article 69, 79, Article 477(4)	0
56	Regulatory adjustments in relation to Tier 2 capital in terms of the amounts included before CRR adoption and the amounts included in a transition period allocated for removal pursuant to Regulation (EU) No 575/2013 (i.e. residual amounts specified in CRR)	0		0
56a	Residual amounts deducted from the Tier 2 capital in relation to deductions from the Tier 1 Core Capital during a transition period pursuant to Article 47 of Regulation (EU) No 575/2013	0	Article 472, Article 472(3)(a), Article 472(4), Article 472(6), Article 472(8)(a), Article 472(9), Article 472(10)(a), Article 472(11)(a)	0
	Including positions that should be listed, e.g. material net losses for the period, intangible assets, no provisions to cover expected losses, etc.	0		0
56b	Residual amounts deducted from the Tier 2 capital in relation to deductions from the Additional Equity Tier 1 during a transition period pursuant to Article 475 of Regulation (EU) No 575/2013	0	Article 475, Article 475(2)(a), Article 475(3), Article 475(4)(a)	0

	Including positions that should be listed, e.g. reciprocal cross holdings in the Tier 1 additional instruments, direct holdings of immaterial investments in capital of other financial sector entities, etc.	0	Article 467, 468, 481	0
56c	Amount that should be deducted or added to the amount of the Tier 2 capital with regard to additional filters and deductions required prior to CRR adoption	0	Article 467	0
	including: ...possible filters for unrealised losses	0	Article 467	0
	including: ...possible filters for unrealised profits	0	Article 481	0
	including: ...	0		0

57	Total regulatory adjustments to Tier 2 capital	0		0
58	Tier 2 Capital	1,563,000		1,563,000
59	Total capital (total capital = Tier 1 capital + Tier 2 capital)	7,651,276		7,659,745
59a	Risk-weighted assets in terms of the amounts included before CRR adoption and the amounts included in a transition period allocated for removal pursuant to Regulation (EU) No 575/2013 (i.e. residual amounts specified in CRR)	0		0
	including: positions not deducted from the Tier 1 Core Capital (residual amounts defined in Regulation (UE) No 575/2013) (positions that should be listed, e.g. deferred income tax assets that rely on future profitability after deduction of the related deferred income tax provision, indirect holdings in the own Tier 1 Core Capital instruments, etc.)	0	Article 472, Article 472(5), Article 472(8)(b), Article 472(10)(b), Article 472(11)(b)	0
	including: positions not deducted from the Additional Tier 1 (residual amounts defined in Regulation (EU) No 575/2013) (positions that should be listed, e.g. reciprocal cross holdings in the Tier 2 capital instruments, direct holdings of immaterial investments in capital of other financial sector entities, etc.)	0	Article 475, Article 475(2)(b), Article 475(2)(c), Article 475(4)(b)	0
	including: positions not deducted from Tier 2 capital (residual amounts defined in Regulation (EU) No 575/ 2013) (positions that should be listed, e.g. indirect holdings in the own Tier 2 capital instruments, indirect holdings of immaterial investments in capital of other financial sector entities, indirect holdings in Material Investment in capital of other financial sector entities, etc.)	0	Article 477, Article 477(2)(b), Article 477(2)(c), Article 477(4)(b)	0
60	Total risk-weighted assets	50,300, 882		50,300,882
	Capital ratios and buffers			
61	Tier 1 Core Capital (expressed as a percentage of the risk exposure amount)	12.10 %	Article 92(2)(a), Article 465	12.12%
62	Tier 1 capital (expressed as a percentage of the risk exposure amount)	12.10 %	Article 92(2)(b), Article 465	12.12%
63	Total capital (expressed as a percentage of the risk exposure amount)	15.21 %	Article 92(2)(c)	15.23%
64	The buffer requirement for individual Institutions (requirement concerning the Tier 1 Core Capital pursuant to Article 92(1)(a)) increased by requirements to maintain a capital conservation and countercyclical buffer, as well as a systemic risk buffer and a buffer for Systemic Importance Institutions (buffer of global Systemic Importance Institutions or a buffer of other Systemic Importance Institutions) expressed as a percentage of the amount of the exposure to risk)	628,76 1	Capital Requirements Directive, Article 128, 129, 130	628,761
65	including: capital conservation buffer	628,76		628,761

	maintenance requirement	1		
66	including: countercyclical buffer maintenance requirement	0		0
67	including: systemic risk buffer maintenance requirement	0		0
67a	including: a buffer for institutions of global systemic importance or a buffer for other systemic importance institutions	0	Capital Requirements Directive, Article 131	0
68	Tier 1 Core Capital available to cover buffers (expressed as a percentage of the total risk exposure amount)	0	Capital Requirements Directive, Article 128	0
69	[immaterial in EU regulations]	0		0
70	[immaterial in EU regulations]	0		0
71	[immaterial in EU regulations]	0		0
Capital ratios and buffers				
72	Direct and indirect holdings of financial sector entities, where the institution does not have a significant investment in those entities (amount below the 10% threshold and after deduction of the eligible short positions)	0	Article 36(1)(h), Article 45, 46, Article 472(10), Article 56(c), Article 59, 60, Article 475(4), Article 66(c), Article 69, 70, Article 477(4)	0
73	Direct and indirect holdings by the institution of the Tier 1 Core Capital instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and after deduction of the eligible short positions)	67,505	Article 36(1)(i), Article 45, 48, 470, Article 472(11)	67,505
74	Empty set in EU	0		0
75	Deferred income tax assets resulting from temporary differences (amount below the 10% threshold, after deduction of the related deferred income tax provision if the conditions set in Article 38(3) are met)	568,99 1	Article 36(1)(c), Article 38, 48, 470, Article 472(5)	568,991
Caps applied for inclusion of provisions in Tier 2 capital				
76	Credit risk adjustments included in Tier 2 capital in relation to exposures covered with the Standardised Approach (before cap application)	0	Article 62	0
77	Cap includes credit risk adjustments in Tier 2 capital under the Standardised Approach	0	Article 62	0
78	Credit risk adjustments included in Tier 2 capital in relation to exposures covered with the Internal Ratings Based Approach (before cap application)	0	Article 62	0
79	Cap includes credit risk adjustments in Tier 2 capital under the Internal Ratings Based Approach	0	Article 62	0
Capital instruments being subject to arrangements on withdrawal (applicable only from 1 January 2013 to 1 January 2022)				
80	Current cap with regard to capital instruments in the Tier 1 Core Capital being subject of arrangements concerning withdrawal	0	Article 484(3), Article 486(2) and Article 486(5)	0
81	Amount excluded with the Tier 1 Core Capital because of the cap (excess over the cap after	0	Article 484(3), Article 486(2) and Article 486(5)	0

	expiry of the redemption and maturity dates)			
82	Current cap with regard to the Additional Tier 1 capital instruments being subject of arrangements concerning withdrawal	0	Article 484(4), Article 486(3) and Article 486(5)	0
83	Amount excluded with the Additional Tier 1 capital because of the cap (excess over the cap after expiry of the redemption and maturity dates)	0	Article 484(4), Article 486(3) and Article 486(5)	0
84	Current cap with regard to the Tier 2 capital instruments being subject of arrangements concerning withdrawal	0	Article 484(5), Article 486(4) and Article 486(5)	0
85	Amount excluded with the Tier 2 capital because of the cap (excess over the cap after expiry of the redemption and maturity dates)	0	Article 484(5), Article 486(4) and Article 486(5)	0

Reconciliation of equity to the amounts in the financial statements

Item	Note/chapter in the financial statements	Amount	Item in the table: Components of equity
Share capital	28.1 Equity	1,292,636	1.1.1.1.1
Supplementary capital	28.1 Equity	4,817,483	1.1.1.1.2, 1.1.1.2
Other reserves	28.1 Equity	184,894	1.1.1.4 (a)
Unrealised profits and losses	28.1 Equity	27,980	1.1.1.3, 1.1.1.9, 1.1.1.29
Profit/(loss) for the year	28.1 Equity	506,077	1.1.1.2
Non-controlling interests	28.1 Equity	0	1.1.1.7
Liabilities disclosed in equity – Subordinated loan	27. Subordinated liabilities	41,709	1.2.1
Liabilities disclosed in equity – Bonds	27. Subordinated liabilities	1,706,909	1.2.1
Total equity and subordinated liabilities included in the own funds in the financial statements		8,577,688	
part of the result that may not be included in the own funds		-139,730	1.1.1.2, 1.1.1.24
Intangible assets measured at carrying value		-516,122	1.1.1.11
Additional value adjustments		-12,960	1.1.1.9
Revaluation capital – financial assets available for sale (80% adjustment of unrealised profits, 100% of unrealised losses)		-8,468	1.1.1.29
Non-controlling interests – adjustment		0	1.1.1.7
Loss carried forward		-63,514	1.2.1
Subordinated loan – amortisation		-26,884	1.2.1
Subordinated bonds – amortisation		-158,734	1.2.1
OWN FUNDS		7,651,276	1

10. Financial leverage

The leverage ratio is calculated in relation to the Tier 1 capital while applying a full and transition definition.

Below is presented the division and metrics of the total exposure and the leverage ratio value.

Exposures and the leverage ratio	31.12.2017
Derivative instruments: market value	283,481
Derivative instruments: measurement method of surcharge in line with market value	756,482
Undrawn credit commitments that may be unconditionally cancelled without notice	696,139
Medium/low risk off-balance items related to trade financing	192,011
Medium risk on-balance items related to trade financing and off-balance sheet items related to officially supported export financing	2,321,615
Other off-balance sheet items	176,900
Other assets	70,865,871
Leverage ratio – while applying in full the introduced definition of the Tier 1 capital	8.10
Leverage ratio – while applying a transition definition of the Tier 1 capital	8.09

The leverage ratio is at a satisfactory level. The financial leverage risk has been defined in the Bank as an immaterial risk further to which there is no separate management process of managing that risk in place.

The leverage ratio in 2017 has been presented below.

Leverage ratio	31.03.2017	30.06.2017	30.09.2017	31.12.2017
Leverage ratio – while applying in full the introduced definition of the Tier 1 capital	8.86	8.45	8.31	8.10
Leverage ratio – while applying a transition definition of the Tier 1 capital	8.85	8.44	8.31	8.09

11. Capital requirements

As at year-end 2017 the total capital requirement included requirements relating to:

- Credit risk
- Position risk
- Large exposure risk
- FX risk
- Settlement risk
- Commodity price risk
- Credit valuation adjustment (CVA) risk
- Operational risk
- Counterparty risk

While calculating the capital requirements as at 31 December 2017, the Bank applied the provisions included in Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms of 26 June 2013 and amending Regulation (EU) No. 648/2012 (hereinafter: CRR):

- The capital requirement relating to the credit risk, and also the counterparty risk, was calculated while applying the standardised method pursuant to Title II of Part Three of CRR,
- The capital requirement relating to the position risk was calculated in accordance with Chapter 2 of Title IV of Part Three of CRR, while the general risk requirement was calculated with the application of the maturity ladder approach,

- The requirement relating to large exposures was calculated in accordance with Part Four of CRR,
- The requirement relating to the FX risk was calculated in accordance with Chapter 3 of Title IV of Part Three of CRR,
- The capital requirement relating to the settlement risk was calculated in accordance with Title IV of Part Three of CRR,
- The capital requirement relating to the commodity prices was calculated in accordance with Chapter 4 of Title IV of Part Three of CRR,
- The capital requirement relating to the credit measurement adjustment risk was calculated while applying the standardised method pursuant to Title VI of Part Three of CRR,
- The requirement relating to the operational risk was calculated while applying the standardised method pursuant to Title III of Part Three of CRR.

Since the total FX position as at year-end 2017 did not exceed 2% of the Bank's own funds, the FX requirement amounted to 0. The zero value was also in the case of the requirement relating to large exposures and the settlement and delivery risk.

Capital requirements by risk types:

PLN '000

Capital requirements by risk types	As at 31.12.2017
credit risk	3,522,484
including, the counterparty risk	46,750
credit valuation adjustment (CVA) risk	13,033
large exposure risk	0
position risk	46,690
FX risk	0
settlement risk	0
commodity price risk	4,748
operational risk	437,115
Total	4,024,071

The credit risk requirement by classes of exposures:

PLN '000

Exposure class	Capital requirements for the credit risk
Governments and central banks	106,728
Regional or local authorities	59
Public sector entities	1,222
Institutions	70,216
Companies	849,440
Retail	1,390,400
Secured on real properties	664,202
Exposures at default	343,069
Exposures related to a particularly high risk	0
Capital exposures	18,338
Capital exposures	78,811
TOTAL	3,522,484

Countercyclical buffer

When the obligation to maintain the countercyclical buffer has become effective, the Bank shall start presenting detailed information on the amount of the maintained buffer and the Bank's credit exposures that are of importance for calculation of its countercyclical buffer.

Adjustment due to the special credit risk

Pursuant to Commission Delegated Regulation (EU) No 183/2014 of 20 December 2013 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments, under calculation of the capital requirements the Bank shall include specific credit risk adjustments after obtaining a permit from the Polish Financial Supervision Committee to include a given period result in the Bank's own funds. In particular, as at 31 December 2017, under the specific credit risk adjustments the Bank included adjustments as at the last date at which it included the result in the own funds, i.e. as at 30 September 2017.

12. Internal capital

The Internal Capital Adequacy Assessment Process (ICAAP) operated at Alior Bank S.A. is compliant with the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of internal capital assessment at banks (Journal of Laws of 24 March 2017, item 637).

The purpose of the internal capital adequacy assessment process is to ensure that all risk to which the Bank is exposed were analysed in terms of materiality and that the Bank should have an appropriate amount of capital to cover the risk recognised as material.

The process comprises the following stages:

- identification of material risks;
- quantification of individual risk and the total internal capital;
- stress testing;
- reporting and monitoring of capital objectives, including limits for allocation of the available capital;
- capital management and planning;
- process review.

Each phase is subject to regular verification to adjust it to the Bank's current internal and external situation.

12.1 Risk analysis and selection of the material risk types

The Bank performs a regular review of all possible types of risk that may pose a threat to execution of the Bank's objectives and classifies them as material or immaterial in the Bank's operations. The review is performed once a year or more frequently, if premises for a change of the risk profile of the Bank or its environment have occurred.

As at 31 December 2017 the Bank recognised the following types of risk as material:

- credit risk – insolvency (including, the counterparty credit risk);
- credit risk – concentration in the industry;
- credit risk – concentration towards a customer, a group of connected customers, and also towards capital groups;
- credit risk – concentration in a foreign currency;

- operational risk;
- liquidity risk;
- interest rate risk in the banking book;
- market risk in the trading book;
- settlement/delivery risk with a deferred settlement date
- model risk
- business risk
- reputational risk
- capital risk
- compliance risk.

For each material type of risk the Bank establishes an estimation method of the capital required for its coverage.

In the case of types of risks recognised as material at the Bank as at 31 December 2017 the following internal capital estimation methods were in place:

- credit risk (including the counterparty credit risk) – combination of the statistical estimation method of an unexpected loss on the credit portfolio and the regulatory standardised method
- credit risk of industry-specific concentration – statistical estimation method of an unexpected loss while assuming an adverse scenario of the level of insolvency events taking into the industry's characteristics
- credit risk of customer concentration – statistical estimation method of an unexpected loss while including aggregation of exposures towards a single Customer or a group of connected Customers with capital or organisational ties
- credit risk of concentration in a foreign currency – statistical estimation method of an unexpected loss, while considering PLN depreciation against major currencies that results in an increase of currency exposures
- operational risk – advanced measurement approach to the operational risk (AMA approach)
- liquidity risk – internal model based on crisis scenarios
- interest rate risk in the banking book – internal model based on the VaR method
- market risk in the trading book – internal model based on the VaR method
- model risk – expert method depending on the results of stress tests
- business risk – expert method depending on the results of stress tests
- reputational risk – statistical estimation method of an unexpected loss occurring as a result of risk materialisation

Estimated amounts are aggregated to determine the capital amount required to cover all material risk types incurred by the Group. The Group applies a conservative approach by not including an effect of correlation among various types of risk.

12.2 Process monitoring

The amount of the internal capital estimated for individual material types of risk is regularly monitored in relation to the amount of the available capital. Monitoring results are regularly reported to the Bank's management authorities.

ICAAP and its documentation are subject to a review. During a review it is checked if ICAAP corresponds to the nature and size of the Bank's operations, if there is a clear relation between the required capital level and the strategy of operation and the appetite for risk. Such review is performed once a year or at the moment of occurrence of material changes in the Bank's internal and external environment.

13. Remuneration policy for people in managerial positions

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

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

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

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

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

Minimum 50% of the variable remuneration granted to the Material Risk Taker is to serve as an incentive for special care for the Bank's long-term interests and is therefore composed of financial instruments related to the Bank's shares. The remaining part of the variable remuneration is disbursed in cash as cash variable remuneration.

Minimum 40% of the variable remuneration of the Material Risk Takers for each Assessment Period – and if the variable remuneration of such persons for the relevant Assessment Period is exceptionally high – minimum 60% of the variable remuneration is deferred.

13.1 Management option scheme

Based on Resolution No. 28/2012 of the Extraordinary General Meeting of Shareholders of Alior Bank S.A. of 19 October 2012 on conditional share capital increase of the Bank and issue of subscription warrants and the rules for the incentive scheme adopted by the Resolution of Alior Bank S.A's Supervisory Board of 27 March 2013 the incentive scheme was launched for 2013-2015. It applies to the members of the Management Board and key managers who have not been Management Board members.

The Management Option Scheme provided for issue of three tranches of subscription warrants (series A, B, and C) and corresponding three tranches of new shares (series D, E, and F) with a total nominal value of up to PLN 33,312,500, including:

- up to 1,110,417 series A subscription warrants awarding their holder the right to subscribe for 1,110,417 series D shares of the Bank within 5 years, starting on the first anniversary of the date of the first listing of the shares on WSE;
- up to 1,110,416 series B subscription warrants awarding their holder the right to subscribe for 1,110,416 series E shares of the Bank within 5 years, starting on the second anniversary of the date of the first listing of the shares on WSE;

- up to 1,110,417 series C subscription warrants awarding their holder the right to subscribe for 1,110,417 series C shares of the Bank within 5 years, starting on the third anniversary of the date of the first listing of the shares on WSE;
- Further to the issue of shares with pre-emptive rights, on 27 July 2016 the Supervisory Board adopted a technical adjustment of the Management Options Scheme to ensure economic neutrality of the scheme for the eligible persons. The adjustment involves calculating the decrease of theoretical value of the Management Options Scheme and issuing phantom shares to the scheme participants, featuring parameters similar to warrants. The scheme adjustment is settled in cash.

13.2 Bonus Systems for Management Team

Since 2016 the Management Board has been covered by the Bonus Scheme for the Management Board. The Scheme is set to provide additional incentives motivating its participants to effectively perform the entrusted responsibilities, in particular to manage the Bank and take efforts aimed at further sustained development of the Bank and its group, while maintaining proper and effective risk management in the Bank, stabilising the Bank's management team and long-term shareholder interests by ensuring a sustained increase in stock market valuation of the Bank's shares, while maintaining the growth of the Bank's net asset value and that of its companies.

Further to the changes of the Bank's legal and organisational structure for 2016 consisting in taking over of the demerged part of Bank BPH Spółka Akcyjna with its registered seat in Gdańsk by the Bank comprising the core business of Bank BPH with the exclusion of business related to mortgage loans pursuant to Article 529.1.4 of the Code of Commercial Companies under the rules defined in the Share Purchase Agreement, the Supervisory Board adopted on 29 June 2016 the rules governing the transaction bonus for the members of the Bank's Management Board to especially incentivise the members of the Bank's Management Board to actively co-operate in the process of preparing and executing the Transaction in order to ensure timely execution of the Transaction in compliance with the strategic assumptions. Because the conditions relating to the Transaction and the Operational Merger of the Banks were satisfied, the bonus was awarded.

Other members of the Senior Management Team, with special inclusion of Material Risk Takers, are included in an annual bonus. Except the Persons in Control Functions, the total amount of variable remuneration is based on the assessment of performance of the Material Risk Takers and the organisational unit, as well as the Bank's performance in the area for which such person is responsible, subject to the performance of the entire Bank.

Because of completion of the Transaction and the Operational Merger of the Banks, the Management Board awarded the Transactional Bonus to the members of the Senior Management Team engaged in execution of the Transaction and the Operational Merger.

Pursuant to the Policy of Variable Remuneration Components applicable at the time of awarding, variable remuneration of the Management Board and other Material Risk Takers was granted in financial instruments in the form of phantom shares.

13.3 Quantitative information relating to the remuneration of persons in managerial positions

Below is a summary of quantitative information for persons in managerial positions who are subject to the Policy of Variable Remuneration Components for at least 5 months (PLN '000 gross):

Business Area	Total remuneration value in PLN '000
Sales	18,585
Risk	12,621
Other units	42,921
Total	74,127

(remuneration in PLN '000)	number of persons	Total remuneration for the financial year		Variable remuneration for the financial year		Variable remuneration for the financial year		Variable remuneration awarded in previous years – issued/paid in a given year
		fixed for 2017	variable for 2016	cash	Financial instruments[1]	issued/ disbursed[2]	Deferred to subsequent years	
Members of the Management Board[2]	12	16,301	32,731	16,366	16,366	13,749	19,287	2,557
Persons directly reporting to the Members of the Management Board	26	12,195	9,330	5,202	4,128	5,546	3,526	1,124
Other persons in managerial positions in the Bank	8	3,076	494	442	52	449	41	69
Total	46	31,571	42,556	22,010	20,546	19,744	22,854	3,750

1 According to the value as at the date of awarding
2 Together with remuneration of former Members of the Management Board following the end of their term of office

Below is a summary of quantitative information for warrants issued under the Management Option Scheme (2013-15) awarded to persons in managerial positions who are subject to the Policy of Variable Remuneration Components for at least 5 months:

	Number of issued warrants	**Average weighted fair value of an instrument (PLN)**
Members of the Management Board	263,181	18.21
Persons directly reporting to the Members of the Management Board	50,276	18.92
Other persons in managerial positions in the Bank	5,511	18.44
Total	318,968	18.33

Statement of the Management Board

The Management Board of Alior Bank S.A. hereby represents that the findings described in the Disclosures correspond to the actual status, and the applied system of risk management are adequate from a point of view of the risk profile and strategy of the Group of Alior Bank S.A.

Signatures of all Members of the Management Board

07.03.2018	Michał Chyrzewski ACTING President of the Management Board	.... Signature
07.03.2018	Filip Gorczyca Vice President of the Management Board	.... Signature
07.03.2018	Celina Waleśkiewicz Vice President of the Management Board	.... Signature
07.03.2018	Katarzyna Sułkowska Vice President of the Management Board	.... Signature
07.03.2018	Urszula Krzyżanowska-Piekoś Vice President of the Management Board	.... Signature
07.03.2018	Sylwester Grzebinoga Vice President of the Management Board	.... Signature