



**Report on Alior Bank's
Supervisory Board Activities
in 2017**

May, 2018

In the accounting period, the Supervisory Board of Alior Bank SA with its registered office in Warsaw (hereinafter referred to as "Bank" or "Alior Bank"), under the provisions of the Code of Commercial Companies, Banking Law and other applicable legislation, the Bank's Articles of Association and the Supervisory Board Operational By-Laws, exercised continuous supervision over the Bank's activities in all its business areas.

While performing its statutory duties in 2017, the Supervisory Board was involved actively in monitoring and supervising key areas of the Bank's operations, including risk management and compliance with the requirements set by supervisory bodies. As part of these duties, the Supervisory Board got familiar with cyclical reports on operational and credit risk, model risk and liquidity risk, as well as risk identified during the review of the internal capital adequacy assessment process (ICAAP). A material aspect of the activities carried out by the Supervisory Board in the accounting period was the oversight of the Bank's financial performance, including in particular the supervision over the implementation of the 2017 financial plan and the achievement of the expected financial result at the close of 2017. The Supervisory Board analysed on an ongoing basis the progress of the development strategy implementation and the status of the Bank's budget implementation. The Supervisory Board received and analysed on a regular basis the periodic reports presenting the current financial performance of the Bank, as well as the capital adequacy ratio and the Bank's capital requirements. In implementing the requirements of supervisory authorities, the Supervisory Board approved the Repair Plan of the Group of Alior Bank SA as part of the implementation of the BRR Directive (Bank Resolution and Recovery).

In 2017, the Supervisory Board appointed members of the Management Board for the 4th term, working closely in this respect with the Appointment and Remuneration Committee, analysing the candidate profiles in terms of their compliance with eligibility requirements. The Management Board for the fourth term was appointed on 9 June 2017, 14 June 2017, and 6 July 2017. On 14 June 2017, the Supervisory Board entrusted Mr. M. Chyczewski the management of the Management Board activities until the Polish Financial Supervision Authority has approved him for the position of the President of the Bank's Management Board.

The Supervisory Board displayed special interest in the 2017-2020 "Digital Rebel" Strategy and its operationalization plan as well as issues related to the status of the integration project with the acquired part of BPH Bank.

On 13 November 2017, the Supervisory Board approved the due diligence of the Company by Bank Pekao to the extent necessary to hold talks about business relations with Bank Pekao by the Company's Management Board. The Supervisory Board received regularly reports informing about project implementation status.

In connection with the Resolution of the Extraordinary General Meeting of Shareholders on 5 December 2017 regarding the rules for shaping the Remuneration Policy of the Members of the Management Board of Alior Bank SA, the Supervisory Board established a model management contract for Management Board Members, remuneration level and rules for variable remuneration, as well as Management Goals for Members of the Management Board, in accordance with the provisions of the Act on the principles of the Remuneration Policy of the Executive Management in certain companies.

Assessment of the company's position including the assessment of internal control systems, risk management, Compliance and internal audit function

As part of the management system, the Bank has an adequate, efficient and effective internal control system that ensures safe operations that comply with the applicable law and adopted strategy of the Bank. The internal control system covers the overall activities of the Bank, i.e. all of its organizational units and organizational outlets, committees and task forces operating at the Bank, as well as Bank's subsidiaries. The internal control system consists of a control function, a compliance unit and an independent internal audit unit.

The control function covers all control mechanisms in the processes used at the Bank, independent monitoring of their compliance and reporting as a part of the control function. The responsibility of the compliance unit is to identify, assess, control, and monitor the risk of non-compliance of the Bank's operations with the effective law, internal regulations, and market standards and to submit reports to this extent.

The internal control system at the Bank is structured in accordance with the model of three separate lines / levels of defence. The first line of defence is related to management of the Bank's operational risk, i.e. it is based on business units whose operation carries various types of risk affecting the attainment of goals by the Bank. The second line of defence against risk includes risk management by employees in dedicated positions or organisational units, irrespective of the risk management at the first line of defence and operations of the compliance unit. The third line of defence includes the activity of the internal audit function. On all three lines of defence, the Bank's personnel, as part of the duties assigned to them, appropriately apply controls or independently monitor compliance with controls.

The control function covers solutions adopted by the Bank concerning the organizational structure, internal procedures and documentation of IT systems, documentation of financial and business operations, and functional control. Functional control consists of all processes including each and every level of management and each employee, each organizational unit, all areas of activity, involving current and periodic analysis of the work progress and performance of individual employees and teams, identification of irregularities and implementation of corrective actions. Specific tasks under the internal audit system are performed by the Internal Audit Section (IAS) with the main task to inspect and assess, in an independent and objective manner, the adequacy and efficiency of the internal control system, and to provide opinion on Bank's management, including the efficiency of management of the risk inherent in the Bank's operations. The Bank has implemented measures to ensure the independence of the internal audit unit. The Supervisory Board and the Management Board receive the reports filed by the internal audit unit, including information on the results of audits carried out, the progress in implementation recommendations made by internal audit function, by the Polish Financial Supervision Authority and by the external auditors, reports on the implementation of the audit plan and the review report on the internal control system. The Supervisory Board approves the operational principles of the internal control system at the Bank.

The Supervisory Board received on an ongoing basis the reports on institutional control carried out by the Bank's Audit Department and market regulators.

While implementing the instruction set forth in the Compliance Policy binding at the Bank, the Supervisory Board got familiar and approved the 2017 Compliance Plan and then, through the agency of the Audit Committee, received quarterly compliance reports covering in particular the results of identification and assessment of non-compliance risk – including information on key changes in legislation, internal regulations and market standards, results of non-compliance risk testing and the results of the process of monitoring key non-compliance risk indicators, as well as information about the operation of the procedure for notification about breaches and non-compliance by Bank personnel. In addition, the Supervisory Board got familiar with the activities planned and implemented by the compliance unit to promote ethical standards effective at the Bank through training and educational activities. The Bank's Supervisory Board also had the opportunity to discuss directly issues related to the risk of non-compliance with the Head of the Compliance Unit at the Bank who regularly attended the Audit Committee meetings. The Supervisory Board views positively the effectiveness of exercising the control function and the effectiveness of compliance risk management system by the Bank.

The Supervisory Board views positively the risk management system used by the Bank. The system is comprehensive and covers all material risks to which the Bank is exposed and is an integral part of the Bank's management system.

The risk management policy at Alior Bank was adopted by the Management Board and approved by the Supervisory Board. The main objective of the Risk Management Policy is to support the implementation of the Bank's business objectives and corporate strategy through active risk management and ensuring a stable capital position. The risk management strategy aims at defining the management rules for individual types of risk at a level enabling achievement of financial objectives, while ensuring full security of running basic business activities and compliance with regulatory requirements.

The Bank's Management Board is responsible for the development, implementation and effective operation of risk management processes and their systematic improvement. The Supervisory Board supervises the overall compliance of the bank's policy on taking various types of risk with the Bank's corporate strategy and financial plans.

The Bank maintains its exposure to credit risk in connection with its lending activities, which aims at achieving a return on the capital employed. The Bank manages its exposure to credit risk, taking into account the goal of optimizing the quality of the loan portfolio at the assumed rate of return on capital invested and appropriate diversification of assets acquired through lending activities. The Bank achieves good quality of the loan portfolio through appropriately tailored processes for granting and monitoring credit exposures as well as through the process of accepting adequate collaterals for credit exposures that mitigate credit risk.

The Bank has in place a formalized operational risk management system, under which the Bank counteracts the occurrence of operational events and incidents and reduces losses in case of risk materialization. The amount of operational losses in 2017 complied with risk appetite and the operational risk limit adopted for the Bank. On 22 December 2017 the Bank was granted a permission by the Polish Financial Supervision Authority to use the AMA's advanced operational risk measurement method to calculate own funds requirements for

operational risk effective from 2018. PFSA's decision is the result of several months of project efforts aimed at improving the operational risk management processes at the Bank.

The Bank manages the liquidity risk exposure, taking into account the objective of safeguarding full liquidity at any time in the short-, mid- and long-term perspectives i.e. the ability of making timely payment of all liabilities, both in a regular and crisis situation, driven by internal and external factors.

At the Bank, the market risk exposure (including the interest rate risk of the banking ledger) is curtailed formally by a system of limits, periodically updated, introduced by virtue of a resolution of the Supervisory Board or the Management Board, covering all risk measures whose level is monitored and reported by the Bank's organizational units that are independent from business. Market risk management is focused on potential changes to the economic results. Through the quality requirements used by the Bank in relation to the risk management process (internal control system, launching of new products, legal risk analysis, operational risk analysis), non-quantifiable risks related to ongoing fiscal activities are also controlled.

The risk management system used by the Bank is adapted to the Bank's operations and organizational structure, the complexity of its operations, the size and profile of risks. As part of the risk management system, the Bank uses formalized procedures to identify, measure and monitor risks and also uses formalized risk control limits. The management information system used by the Bank enables effective monitoring of the risk level.

The Bank is also in the possession of standing committees supporting the Bank's Management Board in risk management. These include:

- Asset and Liability Committee (ALCO);
- Bank's Credit Committee;
- Operational Risk Committee;
- Risk and ICAAP Management Committee;
- Credit Committee of the Business Customer Risk Division;
- Credit Committee of the Debt Collection Department (KI).

Assessment of the Bank's fulfilment of information requirements

In terms of information requirements, Alior Bank is obliged to comply with applicable laws. Being a public company, the Bank takes active measures to satisfy the informational requirements of its stakeholders, while exercising care for universal and equal access to information in adherence to the highest market standards. According to the Rules of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange, "WSE"), The bank is obliged to comply with the WSE Best Practices, which represent a set of recommendations and operational rules referring in particular to the governing bodies of WSE-listed companies and their shareholders.

The above activities are carried out by the Investor Relations Department of Alior Bank, whose crucial values include reliability, credibility, coherence and transparency. The Department's main activities aim at providing permanent, immediate access to information about any significant changes taking place at the Bank that have or might have impact on the

value of shares in the Bank and on building relations with shareholders based on reliable information.

As part of these activities, the Investor Relations Department arranges regularly meetings of the Bank's Management Board and its top management with capital market players, including investors and analysts. The meetings are devoted to discussions on the current financial and operational conditions of the Bank, presentation of its operational strategy and the planned directions of future development. In addition to the above-mentioned issues, the issues related to current macroeconomic environment, general condition of the financial sector and the Bank's competitive landscape are also discussed.

In 2017 there were 297 such meetings, including 153 meetings with 91 foreign investors and 144 meetings with 43 local investors – the meetings were held in the offices of Alior Bank; additionally, domestic and foreign conferences and roadshows were organised. The Bank also participates, on regular basis, in conferences arranged by domestic and foreign brokerage houses.

An important tool for communication with capital market players are investor relations tabs, updated on current basis, available on the Bank's website at <https://www.aliorbank.pl/dodatkowe-informacje/relacje-inwestorskie/relacje-inwestorskie.html>, where all information is published that is necessary for the investor to complete a comprehensive assessment of the Alior Bank's operations, such as current and periodic reports, presentations of financial performance, information about General Meetings of Shareholders, corporate documents or current Bank's rating prepared upon its request.

Given the above, the Supervisory Board of Alior Bank views positively the fulfilment of information requirements in 2017 by the Bank.

Information about educational, cultural and charitable activities

Alior Bank as an institution focusing on social corporate responsibility for years has been supporting local communities by getting involved in a number of initiatives. The efforts are aimed at supporting the implementation of specific projects but also to disseminate knowledge on social responsibility and sustainable development among employees, customers, business partners and shareholders of the Bank. Most importantly the Bank's personnel more and more often submit projects that are important in their opinion and reflect the values represented by the Bank. As a result, every year many internal initiatives are combined with external actions.

Alior Bank was the national sponsor of the 9th Procession of the Three Kings. The largest street nativity play in the world took place on 6 January 2017. The initiative of the "Procession of the Three Kings" Foundation gathered about one million people in over 500 localities in Poland and abroad.

Alior Bank took patronage over the third edition of the "Capital of Polish Language" festival in the locality of Szczebrzeszyn, which took place in the second week of August 2017. The event, popularizing Polish classical and contemporary literature, as a major aspect of social

and national identity, reached the rank of one of the most highly renowned literary festivals in Poland.

In 2017, Alior Bank became the patron of the Christmas illumination of the Warsaw's Nowy Świat Street for the third time.

In 2017, Alior Bank was a partner of the most important conferences in the Central and Eastern Europe dedicated to the issues of innovation: Impact'17 (31 of May – 1 of June in Krakow), as well as Impact'17 fintech (6 – 7 of December in Katowice).

Alior Bank was also a partner of the 27th Economic Forum, which was held in September 2017 in the locality of Krynica-Zdrój. This is an annual international meeting of representatives of the economic and political circles in the Central and Eastern Europe.

In October 2017, the Third European Cybersecurity Forum – CYBERSEC 2017 in Krakow, partnered by Alior Bank.

Alior Bank supports also organisations and associations. In 2017, the Bank supported, among other things, The Social Welfare Home in the locality of Stalowa Wola, supported the statutory activity of the Association for the Unemployed and the Disadvantaged in the City of Cracow and the Malopolska Branch of the Polish Association of the Deaf.

In 2017, many people, including Alior Bank customers, suffered during August storms in the Kujawsko-Pomorskie and Pomorskie Provinces. The Bank developed dedicated solutions to provide help to the affected customers. The aid was intended for customers who have mortgage loans and cash loans at the bank. The Bank also donated funds for the reconstruction of village community centres at two localities that suffered during the storms: Małe Glišno and Orlik in the Brusy Municipality. The Alior Bank personnel also was involved in the assistance for the victims of natural disasters, organizing the collection of cash and the bare necessities of life.

Sponsoring activities

In 2017, Alior Bank supported the Polish National Football Team as the official sponsor of the Polish Football Association as part of further cooperation with the Polish Football Association. Now as many as over 80 thousand fans holds the Football Fan Card issued by the Bank which is used as an ID card, replaces traditional paper tickets and also serves as a pre-paid. This is a core element related to z multimedia platform “Football connects us” where Alior Bank is an official partner.

Considering the above, the Supervisory Board of Alior Bank positively assesses the educational, cultural, charitable and sponsoring activities carried out by the Bank in 2017.

Evaluation of the Financial Statements of Alior Bank SA for the year closed on 31 December 2017

Pursuant to Art. 382 § 3 of the Code of Commercial Companies, the Supervisory Board of the Bank examined the financial statements (separate and consolidated) submitted by the Bank's Management Board for the year closed on 31 December 2017.

The Financial Statements of Alior Bank SA comprise:

- Financial Position Report as of 31 December 2017, showing on the assets and liabilities sides of balance sheet the amount of PLN 69,382,178 thousand;
- Profit and Loss Account for the period from 1 January 2017 to 31 December 2017, showing a net profit of PLN 538,895 thousand;
- Statement of Comprehensive Income from the period from 1 January 2017 to 31 December 2017, showing income totalling PLN 625,070 thousand;
- Statement of Changes in Equity for the accounting year from 1 January 2017 to 31 December 2017, showing an increase in equity by PLN 625,431 thousand;
- additional notes and information.

The Financial Statements of Alior Bank SA Capital Group comprise:

- Financial Position Report as of 31 December 2017, showing on the assets and liabilities sides of balance sheet the amount of PLN 69,493,780 thousand;
- Profit and Loss Account for the period from 1 January 2017 to 31 December 2017, showing a net profit totalling PLN 515,617 thousand, including net profit owed to the shareholders of the parent company in the amount of PLN 515,241 thousand;
- Statement of Comprehensive Income from the period from 1 January 2017 to 31 December 2017, showing income totalling PLN 601,792 thousand;
- Statement of Changes in Equity for the accounting year from 1 January 2017 to 31 December 2017, showing an increase in equity by PLN 601,987 thousand;
- additional notes and information.

The Financial Statements of Alior Bank SA and Alior Bank SA Capital Group for the period from 1 January to 31 December 2017 was drawn up in compliance with the International Financial Reporting Standards (IFRS) applied continuously, adopted by the European Union as of 31 December 2017.

In the Audit Report of an independent auditor – the auditing firm called KMPG Audyt Sp. z o.o. sp.k. with its registered office in Warsaw, at ul. Inflancka 4A, did not report any reservations to the extent that the report presents a reliable and clear picture of the Bank's assets and financial position as of 31 December 2017 and its financial result for the accounting year for the period from 1 January 2017 to 31 December 2017, in compliance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and accepted accounting principles (policy), have been prepared on the basis of properly kept accounting books pursuant to the provisions of Chapter 2 of the Accounting Act and its form and content are consistent the legislation applicable to the Bank including the Ordinance of the Minister of Finance dated 19 February 2009 on current and periodic information disclosed by issuers of securities and the conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2014, item 133, as amended) and provisions of the Bank's Statutes.

The Supervisory Board states that the Financial Statements of Alior Bank SA and Alior Bank SA Capital Group for the accounting year closed on 31 December 2017 was drawn up dutifully and pursuant to the effective law and Bank's Statutes.

The Supervisory Board assesses that the financial statements are consistent with the Bank's books and documents and contain information that reflects accurately the financial position of the Bank and its Capital Group.

The Supervisory Board recommends to the Bank's Ordinary General Meeting of Shareholders to adopt a resolution approving the Financial Statements of Alior Bank SA (separate and consolidated) for the accounting year closed on 31 December 2017.

Evaluation of the Management Board's Report on Operations of the Bank and Bank's Capital Group in 2017

Pursuant to Art. 382 § 3 of the Code of Commercial Companies, the Supervisory Board examined the Management Board's Report on Operations of the Bank and Bank's Capital Group in 2017 including the Report of the Management Board on the activities of Alior Bank S.A.

The Supervisory Board states that the Management Board's Report is full and complete in the understanding of the Accounting Act and was drawn up dutifully and in compliance with the effective law. The abridged Management Board's Report presents all material aspects of Bank's activities in the accounting period. Financial data presented in the Report complies with the data provided in the Financial Statements.

The Supervisory Board recommends to the Bank's Ordinary General Meeting of Shareholders to adopt a resolution approving the Management Board's Report on the Operation of the Bank (Bank's Group) in 2017 including the Report of the Management Board on the activities of Alior Bank S.A.

Evaluation of the Management Board's request for the appropriation of Bank's profit generated in 2017

Pursuant to Art. 382 § 3 of the Code of Commercial Companies, the Management Board filed a request, incorporated into the Management Board's Resolution No. 118 /2018, dated May 21th, 2018, concerning the appropriation of Bank's profit generated in 2017.

The Management Board suggested distributing Bank's operational profit generated in the accounting year 2017, in the total amount of PLN 538,894,624.58, as follows:

- to cover retained earnings, being the result of final settlement of proceeds from one-off sales of separated portion of BPH Bank totalling PLN 43,051,209.19;
- to distribute the remaining portion totalling PLN 495,843,415.39 (in words:) to the reserve capital including restricted profit generated by the Building Society in the amount of PLN 5,819,468.26, based on Article. 5 para. 4 of the Act of 26 October 1995 on certain forms of supporting housing construction (as amended).

Brief assessment of the Bank's condition in 2017

The consolidated net profit of the Alior Bank Group attributable to the shareholders of the parent company in 2017 reached the level of PLN 515 million and was consistent with the current market consensus. The profit generated in Q4 totalling PLN 143 million had a significant impact on profit level. Last year, the Bank generated a return on equity (ROE) at the level of 8.0%. However, if we take into account the synergies resulting from the merger with BPH Bank without integration costs, the ROE in 2017 would amount to 11.1 percent. The costs of integration with a demerged part of BPH Bank, Alior Bank reduced to PLN 105 million against the originally planned PLN 195 million, while synergies generated as a result of the merger amounted to PLN 195 million. The target synergy level of PLN 381 million will be achieved already in 2018.

Alior Bank systematically improves its key financial ratios. Cost efficiency increases in parallel to the constant increase of the scale of Bank's operations. The net interest margin was 4.6% and has remained the highest in the Polish banking sector. An important improvement was also made in the liquidity position – the LCR index increased to 124%.

Total operating income amounted to over PLN 3.7 billion at the end of 2017, which means an increase by 38%. In relation to the constantly growing volume of credits and loans extended, the interest income exceeded PLN 2.8 billion, up by almost 46% compared to the previous year. The fee and commission income also increased significantly, totalling PLN 453 million, up by almost 37% compared to 2016. In turn the trading and other activity income amounted to PLN 418 million.

At the end of 2017 the volume of loans granted by Alior Bank totalled PLN 51.3 billion, up by almost 11% compared to the previous year. The increase in the volume of gross loans reached PLN 6.9 billion. This result significantly exceeds the strategic assumptions (PLN 5-6 billion), and it was primarily affected by an increase in volume in the Q4 2017, when its acceleration was recorded thanks to the strengthening of the Bank's capital position.

In 2017, the balance of funds raised from customer deposits totalled PLN 57.6 billion. (up by 12 percent compared to the previous year). Such a good performance was achieved thanks to successful deposit campaigns – including a new Investment Account – aimed at attracting clients from strategic segments for the Bank.

The Bank also improved its capital position systematically. Compared to the close of the previous year, the TCR and Tier 1 ratios increased, at the end of 2017 at 15.2 and 12.1%, respectively compared to 13.7 and 11.3 percent at the end of 2016.

The Bank's results translated into the prices of its shares at the stock exchange. The year 2017 ended with the stock price at PLN 79.50, which means an increase of 47% compared to the price that prevailed on 31 December 2016. In the same period, the WIG20 index increased by 31%, while WIG-Banks – by 35%.

Report on the performance of supervisory duties over the Bank's operations in 2017

Composition of the Supervisory Board

On 1 January 2017 the composition of the Supervisory Board was as follows:

- Michał Krupiński Chairman of the Supervisory Board
- Małgorzata Iwanicz-Drozdowska Deputy Chairman of the Supervisory Board
- Dariusz Gątarek Member of the Supervisory Board
- Stanisław Ryszard Kaczoruk Member of the Supervisory Board
- Marek Michalski Member of the Supervisory Board
- Sławomir Niemierka Member of the Supervisory Board
- Marciej Rapkiewicz Member of the Supervisory Board
- Paweł Szymański Member of the Supervisory Board

On 8 May 2017, the Extraordinary General Meeting of Shareholders made changes in the composition of the Bank's Supervisory Board and dismissed Mr. Stanisław Ryszard Kaczoruk and appointed Mr. Roman Pałac.

On 14 June 2017, Mr Michał Krupiński, the Chairman of the Supervisory Board, resigned from the position of the Chairman and gave up his membership in the Supervisory Board.

On 29 June 2017, the General Meeting of Shareholders made changes in the composition of the Bank's Supervisory Board and appointed its Tomasz Kulik and Mr. Eligiusz Krześniak to the positions of Supervisory Board members. At the same time, as of 29 June 2017, Mr. Roman Pałac resigned from his position on the Supervisory Board.

On 5 July 2017, the Supervisory Board appointed Mr. Eligiusz Krześniak to the position of the Chairman of the Supervisory Board.

On 18 July 2017 Mr. Marek Michalski resigned from his position on the Supervisory Board.

On 29 September 2017, the Supervisory Board appointed Mr. Tomasz Kulik to the position of Chairman of the Supervisory Board. In parallel on 29 September 2017 Mr. Eligiusz Krześniak resigned from the position of the Chairman, and on 31 October 2017 from his membership in the Supervisory Board.

On 31 October 2017, the Extraordinary General Meeting of Shareholders made changes in the composition of the Bank's Supervisory Board and appointed Artur Kucharski and Mr. Mikołaj Handschke to its composition.

As of 31 December 2017, the composition of the Bank's Supervisory Board was as follows:

- Tomasz Kulik Chairman of the Supervisory Board
- Małgorzata Iwanicz-Drozdowska Deputy Chairman of the Supervisory Board
- Dariusz Gątarek Member of the Supervisory Board
- Mikołaj Handschke Member of the Supervisory Board
- Artur Kucharski Member of the Supervisory Board
- Sławomir Niemierka Member of the Supervisory Board

- Marciej Rapkiewicz Member of the Supervisory Board
- Paweł Szymański Member of the Supervisory Board

The above composition of the Supervisory Board remains valid as of the date of this report.

Organisation of work of the Supervisory Board

The work of the Supervisory Board in the period covered by the report until 14 June 2017 was managed by Mr. Michał Krupiński, then by Mr. Eligiusz Krześniak, followed by Mr. Tomasz Kulik in the position of Supervisory Board Chairman.

The Supervisory Board shall act pursuant to the Articles of Association and the Regulations of the Supervisory Board adopted by it. The Supervisory Board's meetings shall be convened whenever necessary, but at least times in each financial year. Resolutions of the Supervisory Board are adopted by an absolute majority of votes, unless the law or the Articles of Association provide otherwise, in an open vote. In HR matters or upon the request of at least one member, the Chairman of the Supervisory Board shall order a secret ballot. In the case of an equal number of votes, the vote of the chairman of the Supervisory Board is decisive. For the validity of resolutions, at least half of the members of the Supervisory Board must be present at the meeting and all members must be invited. The Supervisory Board may establish standing and ad hoc committees. In such a case, the Supervisory Board determines the regulations of such a committee, its composition and objectives.

In 2017 the following Supervisory Board committees were operational: Promotion and Remuneration Committee, Audit Committee and Risk Committee of the Supervisory Board.

In accordance with the Bank's Articles of Association, at least two members of the Supervisory Board meet the criteria of independence from the Bank and entities having material ties with the Bank. The independence criteria for the Supervisory Board members are set out in the Bank's Supervisory Board Operational Regulations, in accordance with the criteria set out in the Code of Best Practice for WSE Listed Companies.

Operations of the Supervisory Board

In the accounting year 2017, the Supervisory Board held 15 meetings and adopted a total of 80 resolutions regarding, inter alia, the examination of the financial statements and reports on the Bank's and the Bank's Capital Group for 2016, the proposal of profit distribution and acknowledgement of the fulfilment of duties by all Management Board members for the year 2016, adoption of the Supervisory Board's Report on Its Operations in 2016, acceptance of variable pay components, updating of the Bank's Strategy for 2017-2020, approval of the Annual Report of the Bank's Management Board on the implementation of the Model Risk Management Policy, introduction of the Turnaround Plan, approval of the Credit Risk Management Strategy for the risk appetite in the Retail and Business Customer segments, regulatory capital allocation limits and maximum levels of risk parameters, maximum LtV levels in the Retail and Business Customer segments, capital ratio limits: Tier 1 capital and the total capital ratio, maximum DTI levels in the Retail Customer segment, risk strategy and risk appetite for 2017, granting a transactional bonus to the Alior Bank SA Management Board's members, changes in the Audit Committee of the Supervisory Board, Risk Committee

of the Supervisory Board and the Promotion and Remuneration Committee, introduction of the Procedure for the appointment of entity authorized to audit financial statements at Alior Bank SA and its appointment, method of determination and payment of 2016 annual bonus to former employees of Bank BPH SA, updating the Alior Bank Group's budget plan for 2017, appointing the Management Board for the 4th term and new Management Board members, changing of the internal division of powers in the Management Board, appointing of the Chairman of the Supervisory Board, approval of the operational risk management strategy for 2017-2020 and updating of the Operational Risk Management Policy, changes in the Capital Management Policy and Capital Planning in Alior Bank SA, introduction to the application of the Alior Bank SA Policy. in the scope of outsourcing of approved services other than financial audits to a statutory auditor, auditing firm, members of the network, auditing firm related entities, changes to the Compliance Policy and adoption of the "Operational Regulations of Regulatory Compliance Department", opening of the Second Public Bond Issue Program of Alior Bank SA, acceptance of bonus thresholds and targets for the Management Board members for 2017, consent to the due diligence audits of Alior Bank SA, changes in the Bank's assets and liabilities policy, acceptance of changes to some regulations and procedures of the Bank, consent to grant financing to the entities in cases arising out of the Articles of Association and the rules of lending competencies effective at the Bank, approval of the Management Board's motions filed with the Bank's General Meeting of Shareholders, acceptance of the 2018 budget, adoption of the Alior Bank SA Remuneration Policy, moulding of the remuneration of the Management Board Members of Alior Bank SA, the variable pay for the Management Board Members Management Objectives for Board Members of Alior Bank S.A. for 2017 and consent to the conclusion of a contract for the provision of management services with Management Board Members.

Activities of the Supervisory Board Committees in the period covered by the Report

Audit Committee

Until 19 October 2017, the Audit Committee acted in accordance with the requirements of the Act of 7 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public supervision. From 20 October 2017, the Audit Committee has operated in compliance with the requirements laid down in the Act of 11 May 2017 on statutory auditors, auditing companies and public supervision.

As of 1 January 2017 the Audit Committee consisted of:

- Małgorzata Iwanicz-Drozdowska Chairperson of the Committee
- Sławomir Niemierka Member of the Committee
- Stanisław Ryszard Kaczoruk Member of the Committee

On 22 May 2017, Mr. Stanisław Ryszard Kaczoruk was replaced by Mr. Paweł Szymański on the Committee by the Supervisory Board decision.

At the end of the accounting period, the composition of the Audit Committee was as follows:

- Małgorzata Iwanicz-Drozdowska Chairperson of the Committee
- Sławomir Niemierka Member of the Committee
- Paweł Szymański Member of the Committee

In the accounting year 2017, the Audit Committee held 8 meetings (on 27 January 2017, 3 March 2017, 12 April 2017, 22 May 2017, 22 June 2017, 9 August 2017, 12 October 2017, 24 November 2017), at which issues related to financial reporting and auditing, internal control system and risk management were discussed. With regard to the monitoring of audit activity performance, the Audit Committee met regularly with the Bank's auditor. In the accounting year, the Audit Committee received information on material issues related to accounting and reporting, including issues regarding significant and unusual transactions at the Bank and the method of their posting; regarding the implementation of the IFRS 9 standard and the resulting changes to the Bank's Accounting Policy.

In the scope of control and monitoring the independence of the auditor and the entity authorized to audit financial statements, the Audit Committee assessed the independence of the auditor, including supervision of services provided by the auditor. In order to achieve the aforementioned tasks, the Audit Committee developed a Policy on the appointment of an entity authorized to carry out audits and reviews of financial statements at Alior Bank SA; The policy of delivery by the auditing company carrying out the audit, entities related to the auditing firm and by a member of the auditing company's network of permitted non-audit services at Alior Bank S.A.; The procedure for appointing the entity authorized to audit financial statements at Alior Bank S.A.

In the scope of the monitoring of the internal control system, the Audit Committee received regular reports of the internal audit unit, including information on the findings of audits and controls carried out, progress in the implementation recommendations made by the internal audit, the Polish Financial Supervision Authority and external auditors, reports on the implementation of the control plan and the review report of the internal control system.

As part of monitoring of the risk management system, the Audit Committee received a report on the results of inspections carried out as a part of risk management processes.

As part of monitoring of the Compliance Department's activities, the Audit Committee received quarterly reports developed by the Compliance Unit, including effects of the process of reporting breaches and non-compliance by Bank personnel.

Promotion and Remuneration Committee

The Remuneration Committee was set up by virtue of a Supervisory Board resolution on 7 December 2011, in order to apply the policy on determining the variable pay policy for persons holding managerial positions in the bank adopted by virtue of PFSA Resolution No. 258/2011 of 4 October 2011, which came into in force on 31 December 2011, and then on 21 December 2016 the Remuneration Committee was transformed into a the Promotion and Remuneration Committee. The Committee gives its opinion on the remuneration policy, in accordance with the principles of stable and prudent risk management, capital and liquidity,

and with particular focus on the Bank's long-term interests and the interests of its shareholders; gives its opinion on the acceptability of paying variable remuneration components in the part concerning deferred payment terms of variable remuneration components; gives opinions on and monitors variable remuneration payable to persons holding managerial positions at the Bank, which involve risk management and the Bank's compliance with applicable laws and internal regulations; gives opinions on the classification of positions, which is subject to the remuneration policy with respect to persons having a significant impact on the bank's risk profile; gives opinions on the annual goals of these people; evaluates the effects of work of people covered by the incentive program rules of Alior Bank SA. and presents recommendations regarding the allocation of subscription warrants; prepares opinions, evaluations or recommendations regarding the candidates for the Management Board, regarding the conclusion, amendment and termination of contracts with members of the Management Board, in matters of structure, size, composition and the effectiveness of the Board's activities as an organ and the knowledge, skills and experience of individual members of the Management Board; supervises the Management Board's policy regarding selection criteria and procedures for appointing persons holding the most important functions in the credit risk management process; prepares opinions, assessments or recommendations on other personal matters in which the Supervisory Board or the Committee is competent in accordance with applicable internal regulations and provisions of generally applicable law.

As of 1 January 2017 the Committee consisted of:

- Maciej Rapkiewicz Chairman of the Committee
- Marek Michalski Member of the Committee
- Paweł Szymański Member of the Committee

On 22 May 2017, in place of Mr. Maciej Rapkiewicz and Mr. Paweł Szymański, the Supervisory Board appointed to the Committee Mr. Michał Krupiński (entrusting him the function of the Chairman of the Committee), Mr. Roman Pałac and Mr. Sławomir Niemierka.

On 5 July 2017, in place of Mr. Michał Krupiński and Mr. Sławomir Niemierka, the Supervisory Board appointed Eligiusz Krześniak (entrusting him the function of the Committee's Chairman) and Mr. Tomasz Kulik to the Committee.

On 29 September 2017, the Supervisory Board appointed Mr. Sławomir Niemierka and Mr. Maciej Rapkiewicz to the Committee.

On 5 December 2017, the Supervisory Board appointed Mr. Sławomir Niemierka and Mr. Mikołaj Handschke to the Committee.

At the end of the period covered by the report, the composition of the Promotion and Remuneration Committee, following the changes made on 5 December 2017, was as follows:

- Tomasz Kulik Chairman of the Committee
- Mikołaj Handschke Member of the Committee
- Maciej Rapkiewicz Member of the Committee
- Sławomir Niemierka Member of the Committee

In the accounting year 2017, the Committee held 16 meetings (on 17 February 2017, 8 March 2017, 30 March 2017, 13 April 2017, 22 May 2017, 24 May 2017, 7 June 2017, 9 June 2017, 13 June 2017, 6 July 2017, 12 September 2017, 5 December 2017, 8 December 2017, 14 December 2017, 19 December 2017) and performed, for instance, the following tasks: it approved the adoption of the Remuneration Policy at Alior Bank SA, expressed its positive opinion on 2017 targets for persons covered by the incentive scheme principles and for positions subject to severe regimes having material impact on risk profile and viewed positively the award of variable pay for 2016 and payment of deferred tranches for these persons.

The Committee actively participated in the process of adapting the Remuneration Variable Components Policy to the new regulations, recommended changes to the Remuneration Policy project at Alior Bank S.A. and gave the opinion.

In connection with the end of the 3rd term of office of the Bank's Management Board, the Committee, on the basis of the Policy of selecting and assessing members of the Management Board and the Supervisory Board, assessed and recommended candidates for the Management Board. The Committee recommended remuneration conditions for the Management Board, later adopted by resolution of the Supervisory Board.

Risk Committee

The Risk Committee was set up on 22 December 2015 by virtue of Supervisory Board's Resolution No. 81/2015 in order to support the Supervisory Board in the scope of supervising the risk management process at the Bank.

As of 4 April 2017 the Committee consisted of:

- Dariusz Gątarek Chairman of the Committee
- Małgorzata Iwanicz-Drozdowska Member of the Committee
- Sławomir Niemierka Member of the Committee

On 22 May 2017 Mr. Sławomir Niemierka, was replaced by Maciej Rapkiewicz on the Risk Committee by Supervisory Board decision.

At the end of the accounting period, the composition of the Risk Committee was as follows:

- Dariusz Gątarek Chairman of the Committee
- Małgorzata Iwanicz-Drozdowska Member of the Committee
- Maciej Rapkiewicz Member of the Committee

In the 2017 accounting year, the Risk Committee held 4 meetings (on 12 April 2017, 5 July 2017, 18 August 2017, 22 September 2017), at which risk management issues at the Bank were discussed. In carrying out its duties in 2017, the Committee recommended the Supervisory Board to accept: the strategy and risk appetite for 2017, the Management Board's decision to open the Second Public Bond Issue Program Alior Bank SA, Operational Risk Reports and the Bank Management Board's Report on the Model Risk Management Policy for 2016. The Committee additionally accepted the Turnaround Plan for the Alior Bank SA Capital Group, Operational Risk Management Strategy for 2017-2020, changes in the Credit

Risk Concentration Policy, update of the risk appetite for 2017 and adoption of LCR and capital ratio values for 2018 and the update of the Credit Concentration Risk Management Policy.

As part of the on-going supervision over implementation of the strategy, the Committee received monthly reports and participated in a number of discussions, submitting numerous comments and enquiries to provided documents.

During the meetings, the Committee studied in detail the assumptions for loan stress tests. In implementing the supervision over proper risk management at the Bank, the Committee discussed the risk appetite settlement for 2016, the current status of the RES portfolio, the results of the review of the prices of assets and liabilities. The Committee also got acquainted with the detailed work progress status related to the planned implementation of IFRS 9.

Within its tasks involving supervision of the risk management system, the Committee evaluated key documents supporting the risk management process at the Bank.

Self-assessment of the Supervisory Board suitability

In compliance with the Selection and Evaluation Policy of the Management and Supervisory Board Members of Alior Bank SA, adopted on the basis of the Guidelines of the European Banking Authority regarding the assessment of qualifications of members of the management body and persons performing the most important functions, including art. 22 in connection with art. 22aa of the Banking Law Act, the Supervisory Board hereby exercises a positive self-assessment of the suitability of the Supervisory Board as a body based on the criteria set out in the Banking Law and Guidelines of the European Banking Authority and asks the Ordinary General Meeting to approve the said self-assessment.

Summary

The Supervisory Board, bearing in mind information presented in this Report, views positively the manner of Supervisory Board activities and operations, as well as views positively the performance of duties by all Supervisory Board members.

The Supervisory Board requests the Bank's General Meeting of Shareholders to approve this report on its activities in 2017 and to acknowledge the performance of duties by all Supervisory Board members in the accounting period.

Warsaw, dated on May 21th, 2018

Chairman of the Supervisory Board

.....
Tomasz Kulik

.....
Małgorzata Iwanicz-
Drozdowska
Deputy Chairman of the
Supervisory Board

.....
Dariusz Gątarek
Member of the Supervisory
Board

.....
Mikołaj Handschke
Member of the Supervisory
Board

.....
Artur Kucharski
Member of the Supervisory
Board

.....
Sławomir Niemierka
Member of the Supervisory
Board

.....
Maciej Rapkiewicz
Member of the Supervisory
Board

.....
Paweł Szymański
Member of the Supervisory
Board