



# The Management Board's Report on operations of Alior Bank S.A. Group in 2017

(including the Management Board's Report  
on operations of Alior Bank S.A.)

*This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*



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## II. Letter from the President of the Management Board

*Dear Ladies and Gentlemen,*

*2017 was a breakthrough year for Alior Bank. The operational merger with the demerged part of Bank BPH was ended with success and the synergy programme was closed efficiently. As a result, the total integration costs turned out to be by as much as PLN 118 million lower than originally anticipated and the target synergy level was increased, from the originally assumed PLN 374 million to PLN 381 million. The synergy effects in the above amount will be generated in 2018 – a year earlier than originally planned.*

*The important events in 2017 also include: approval and commencement of implementation of the Digital Disruptor Strategy, opening of a branch in Romania, implementation of new digital banking, a major consolidation of the Bank's position in the SME market due to multiple innovations and the successful launch of the new savings and clearing account and further consolidation of the Bank's position on the cash loan and consumer lending market. Additionally, we have developed our cooperation with our partner and strategic investor: the largest banking and insurance group in Central and Eastern Europe – PZU S.A.*

*The consolidated net profit of the Alior Bank Group amounted to PLN 515 million. Return on equity (ROE) was 8.0%, and the C/I ratio – 49.7%. Excluding of the integration costs with the demerged part of Bank BPH and incorporating the target synergy level, the ratios were 11.1% (ROE) and 42.6% (C/I) respectively as compared to the strategic objectives of 14% and 39% respectively.*

*In terms of profitability and cost effectiveness, Alior Bank is a leader of the banking market in Poland and has maintained a fast organic growth rate. Throughout 2017 gross loan book growth amounted to 6.9 billion (as compared to the strategic objective of PLN 5-6 billion) with a simultaneous decrease of cost of risk from 1.9 % in 2016 to 1.7% in 2017. Additionally, the Bank closed the year with a significantly reinforced capital position (Tier 1 capital ratio was 12.1% and TCR ratio – 15.2%) and liquidity ratio (LCR 124%).*

*We would like to thank the Bank's Customers and Shareholders for the trust they put in us. We closed the year with the stock price of PLN 79.5 which means a growth by 47 % versus the price on 31 December 2016. That was a very good result considering that WIG20 grew by 26% and the WIG Banks index grew by 35% over the same period. We are happy that the hard work and aspirations of over 8 thousand staff members of Alior Bank have generated such excellent results.*



Deputy President of the Management Board, acting President of the Management Board,

**Michał Jan Chyczewski**



### III. Letter from the Chairman of the Supervisory Board

*Dear Ladies and Gentlemen,*

*2017 was a time of impressive results for Alior Bank that we generated parallel to the major changes to managing the Bank and in a highly competitive market environment. The major strategic decisions covered restructuring related to the acquisition of the demerged part of Bank BPH, appointment of the management board for a new term of office and commencement to the implementation of the Digital Disruptor Strategy. Apart from excellent results and reinforced capital and liquidity position, we have achieved the success due to our ongoing work on improving customer satisfaction and maintaining a fast rate of organic growth.*

*Along with a stronger market position, Alior Bank faces new perspectives. It is an ambition of the Management Board that Alior Bank becomes a member of a group of most innovative financial institutions on the market. To this end, we have been implementing a comprehensive program of actions related to the launch of an internal model to manage innovations.*

*Another important element of the Bank's strategy is close cooperation with entities in the PZU Group in the area of bancassurance, assurbanking and asset management. The cooperation should also generate cost synergies, use of the customer base potential and search for an optimum area to cooperate with Bank Pekao within one capital group. In order to assess all opportunities for the cooperation, the Management Board of Alior Bank signed a letter of intent with the Management Board of Pekao. I am convinced that the banking arm of the PZU Group gaining strength will contribute to the development of the entire sector, irrespective of the cooperation model that may be approved by both banks.*

*The very good financial results generated in 2017 constitute a solid foundation for effective implementation of the "Digital Disruptor" Strategy. Alior Bank is looking forward with optimism and courage and in the coming years it will continue the consolidation of its position thus contributing to consolidating the capital group.*



Chairman of the Supervisory Board,

**Tomasz Kulik**



## IV. Summary of operations of Alior Bank in 2017

### Major events and business initiatives pursued in 2017

2017 saw some significant changes at Alior Bank that involved

**Announcement and launch of the “Digital Disruptor” strategy for 2017-2020**

**Completion of the operational merger with the demerged assets of BPH and projects aimed at achieving the assumed synergy effects.**

In March 2017 the Management Board of Alior Bank announced a strategy of the Bank for 2017-2020. The strategic goals (financial KPIs) are as follows:

\*net of impairments, NPL disposal, Buy Sell Back transactions,

KPI	Objective
ROE	14%
Net interest margin	4.5%
C/I	39%
CoR	1.6%
Increase in gross loan volume (PLN B)* and securitisation	5-6

and securitisation

On 4 October 2017 the Management Board of Alior Bank presented the strategy implementation plan.

In accordance with the strategy, the Bank endeavours to consolidate its market position by using its technological advantage. The Bank has

been implementing its own IT resources management model (Agilor) and its innovation management model of Alior Bank, supporting the development of its offer for individual and business customer segments on the basis of digital solutions. Those efforts are aimed at ensuring a consolidated competitive position with a high level of innovations and effectiveness.

In the individual customer segment, the Bank plans to significantly increase the proportion of sales via electronic channels. The Bank strives to increase the share of customers for whom it will be the bank of first choice (or the main bank, where customers transfer their salaries or manage their finances). In order to achieve that objective, the Bank has been relying on behavioural segmentation and has been enhancing the innovation level of digital channels. In 2017 the Bank launched a new savings and clearing account “Konto Jakże Osobiste” – the sale of the account was supported inter alia with a TV marketing campaign.

In the business customer segment, the Bank intends to focus on micro-, small, and medium-sized enterprises. The segment provides for developing advantages on the basis of a high level of process automation and the use of digital channels while offering an attractive level of return with a relatively low capital burden. At the end of 2016 the Bank started and continued in 2017 a number of initiatives supporting those intentions; for instance, launch of the [zafirmowani.pl](http://zafirmowani.pl) portal which - apart from banking services offers complementary services facilitating business operations. The success of those initiatives has been evidenced with a very fast growth rate of the

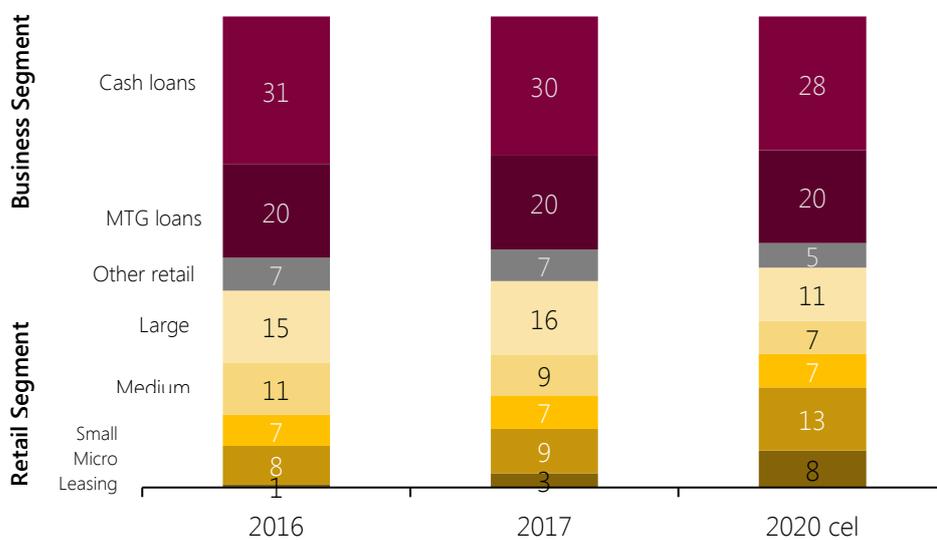


number of customers and lending volumes in the micro segment.

The Bank has been pursuing a number of initiatives to reduce its costs, like for instance robotisation of back-office processes. At the same time, the Bank has been improving its risk function and changing

its asset structure in order to reduce its costs in the long term while striving to accomplish other strategic objectives. Risk cost reduction is supported with a growing share of lease assets and an increasingly common use of securing loan transactions with PLD and Cosme guarantees in cooperation with BGK.

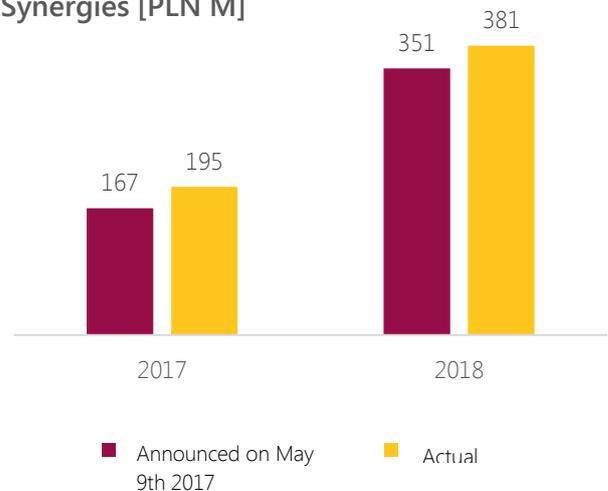
### Structure of the asset portfolio by type of products and customer segment [%]



2017 was saw some very intensive work on the merger with the demerged part of BPH, the purchase of which took place in the fourth quarter of 2016. This process, operationally, and also in terms of incurred integration costs and obtained synergies, was successfully completed. The eventual synergy benefits will be amount to PLN 381 million and will be achieved one year earlier than initially planned (as early as in 2018). In turn, 2017 integration costs amounted to PLN 77 million against the plan of PLN 195 million (2017 was, too, the last period of incurring these costs which will not be charged against the Bank's results any more). Alior Bank thus confirmed its competences in the field of mergers and acquisitions, which in

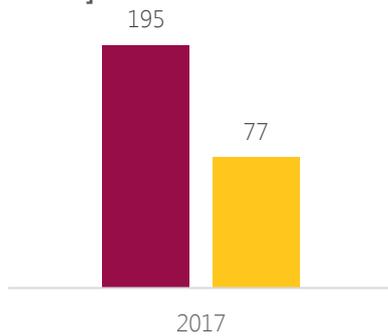
2014-2015 enabled quick integration with Meritum Bank.

### Synergies [PLN M]





### Costs [M PLN]



Worth noticing is the fact that in the second half of 2017 the Bank's capital position improved significantly. The reasons for that include

- issue of PLN 750 million worth subordinated bonds in Q4 2017;
- results exceeding plans;
- approval by the Polish Financial Supervision Authority of use AMA (Advanced Measurement Approach) which improves TCR by approximately 24 basis points.



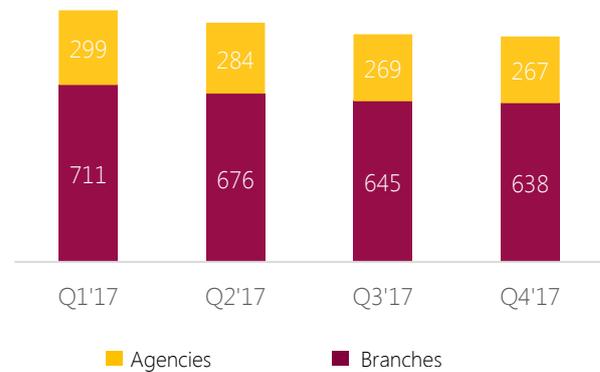
In November 2017 a commissioning agreement was concluded by the Bank with its largest shareholder (PZU SA) for periodic granting of insurance guarantees as unfunded credit protection and a framework agreement for the provision of periodic counter-guarantees. The limit of the exposure under guarantees granted on the basis of the commissioning agreement is PLN 5 billion, valid for a period of three years and is renewable, meaning that the expiry of the guarantee renews the limit by the amount released, less the amount of possible payments

under the guarantee. Currently, the Bank needs not to utilise this capital optimisation instrument to maintain capital ratios at levels higher than regulatory minimums increased by appropriate buffers in the strategy horizon.

### Distribution network and employment level

#### Distribution network

As at 31 December 2017, the Bank operated 905 outlets (248 traditional branches, 7 Private Banking branches, and 12 Regional Business Centres, and also 638 franchise branches).



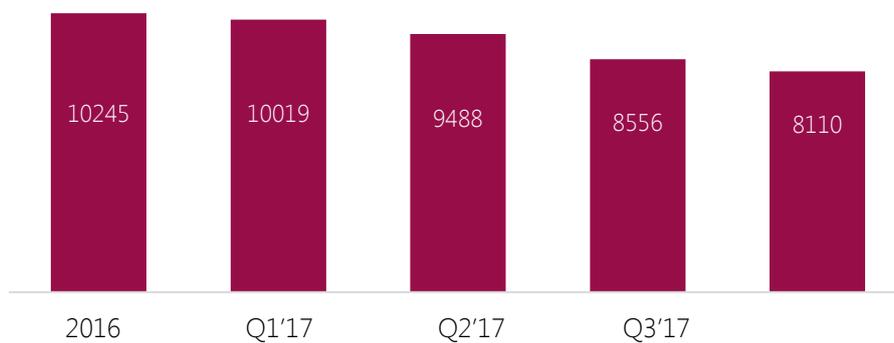
Alior Bank also uses distribution channels relying on a modern IT platform, covering: online banking, mobile banking, call centres and DRONN technology.

#### Employment level

As of the end of 2017, the headcount at Alior Bank was 8,110 FTEs. Compared to the end of 2016 that meant a drop of 2,135 FTEs.



## Headcount in FTEs



## Core financial data

The selected financial data and indicators of the Alior Bank Group are presented in the table below (in PLN '000):

in PLN '000 / %	2017	2016	2015
Balance sheet total	69 493 780	61 160 491	40 003 010
Net loans and advances to customers	51 266 640	46 247 188	30 907 057
Due to customers	57 614 493	51 368 701	33 663 542
Equity attributable to the shareholders of the parent entity	6 760 527	6 158 883	3 512 859
Net interest income	2 841 068	1 946 049	1 501 013
Total income	3 712 341	2 680 698	2 166 013
Operating expenses	-1 845 535	-1 566 560	-1 107 892
Banking Tax	-200 517	-130 893	0
Profit attributable to the shareholders of the parent entity	515 241	575 227	309 648
NIM	4.6	4.1	4.6
ROE	8.0	11.9	9.5
ROA	0.8	1.1	0.9
Costs / Income	49.7	58.4	51.1
Loans / Deposits	89.0	90.0	91.8
Capital adequacy ratio	15.2	13.6	12.5



The selected standalone financial data and indicators of Alior Bank are presented in the table below (in PLN '000):

in PLN '000 / %	2017	2016	2015
Balance sheet total	69 382 178	61 162 795	40 009 419
Net loans and advances to customers	51 244 093	46 248 623	30 913 990
Due to customers	57 655 618	51 404 848	33 674 676
Equity	6 805 243	6 179 812	3 519 267
Net interest income	2 832 992	1 941 874	1 496 696
Total income	3 673 701	2 668 291	2 159 175
Operating expenses	-1 788 003	-1 543 456	-1 098 821
Banking Tax	-200 517	-130 893	
Net profit	538 895	589 024	311 415
ROE	8.3	12.1	9.5
ROA	0.8	1.2	0.9
Costs / Income	48.7	57.8	50.9
Loans / Deposits	88.9	90.0	91.8
Capital adequacy ratio	15.3	13.7	12.5

The net profit of the Alior Bank Group (attributable to the shareholders of the parent entity) generated in 2017 amounted to PLN 515.2 M compared to the net profit for the same period of the previous year of PLN 575.2 M.

The major factors affecting the results and at the same time the comparability of the results, include:

- the profit from the bargain purchase of the demerged part of Bank BPH of PLN 465.0 M in 2016;
- the restructuring provision related to the integration of the demerged part of Bank BPH of PLN 268.1 M, established in 2016;
- current costs of the integration processes with the demerged part of Bank BPH that in 2016 amounted to PLN 37 M and in 2017 – PLN 77.5 M (net of the reversed

restructuring provision); in subsequent years, the Bank will not incur any additional integration costs with the demerged part of Bank BPH as the merger process was completed in 2017;

- the generated merger synergies that in 2017 amounted to PLN 195 M versus the target level of the synergies of PLN 381 M to be achieved as early as in 2018 (a year earlier than originally planned).

The Group's balance sheet total at the end 2017, on a year on year basis, was up 13.6% to PLN 69.5 M. Net loans and advances customers were up in the same period by 10.9% to PLN 51.3 M and liabilities to customers grew by 12.2% to PLN 57.6 M. Due to a faster growth of loans versus the growth of deposits, the Loan/Deposit ratio at the



end of 2017 was at 89.0%, or 1pp down than at the end of 2016.

The growing balance sheet items were accompanied by dynamic growth of total income, including the main component which was an increase of net interest. In 2017 the total income went up to PLN 3,712 M, or by 38.5% y/y. The main income item was net interest which in 2017 went up 46.0% y/y, and accounted for 77% of the total income. Net fee and commission income, which in 2017 amounted to PLN 453 million and was 37% higher than previous year. Furthermore, the Group's income in 2016 was also significantly affected by the result on trading activity in the amount of PLN 369 million (an increase of 15% compared to 2016).

In 2017 the Group's operational expenses amounted to PLN 1,846 M and grew by 17.8% versus the previous year, or 20.7pp less than the growth of income. The Cost/Income ratio in 2017 stood at 49.7%.

Despite a major growth of the scale of operations, the Bank's capital position has been materially improved. The capital adequacy ratio grew from 13.6% at the end of 2016 to 15.2% at the end of 2017.

### **Evaluation of the operations of the Group of Alior Bank S.A. Group**

In 2017, the Alior Bank Group generated return on equity (ROE) of 8.0% and the cost/income (C/I) ratio of 49.7%.

The amount of the profit was both the result of the Bank's operational activity driven by a dynamic growth of the balance sheet total as a result of loan sales (gross growth of loans in 2017: PLN 6.9 billion), as well as actions implemented as part of the synergy plan following the consolidation of the demerged part of Bank BPH (in 2017 the synergy

amounted to PLN 195 million, while integration costs were at PLN 77 million).

Good results on current operations combined with consistent implementation of the synergy plans and successful issue of subordinated bonds stabilised the Bank's capital position. This situation enables the implementation of Alior Bank's strategic goals set out in the Digital Disruptor Strategy for 2017-2020 announced in 2017 in an organic manner without the need to conduct any share issues or any equity optimisation instruments.

The Management Board positively evaluates the implementation of synergy plans, as well as the financial performance achieved in 2017. The Management Board believes it to be a solid foundation for consistent and safe development of the Bank in the following years.

### **Factors affecting Alior Bank's operations in the perspective of the coming year**

The Bank identifies the following factors which may affect the Bank's financial results over the next few months:

- The scale of demand for banking services, as well as the Bank's customers' ability to timely repay their financial obligations is largely subject to their financial condition. Apart from Poland's macroeconomic condition, the customers' economic condition is also subject to the pursued economic policies. Both a slowdown in the growth rate of Poland's economy and modifications to legal regulations affecting enterprises may have an adverse effect the financial conditions of certain customers of the Bank.
- The Bank's loan portfolio covers exposures related to financing a dozen or so projects carried out by companies operating in the renewable energy sector. The Bank keeps



monitoring the financial condition of those entities, regulatory changes and the market condition of the sector. With the conservative financing structures applied by the Bank, most of the projects have prospective potential to repay its obligations. The total amount of provisions on those exposures as at 31 December 2017 was PLN 84.5 million. Any major deterioration of the condition of the borrowers operating in the market may result in a need for the Bank to recognise additional provisions for the purpose.

- Reduction of the interest rate on the required reserve from 1.35% to 0.5% from 1 January 2018
- It is expected that from 1 January 2019 the Act on the removal of the annual limit of the pension and disability contributions will become effective.
- Monetary Policy Council policy on interest rates.
- Possible implementation of the provisions of the Letter of Intent with Bank Polska Kasa Opieki Spółka Akcyjna on the launch of preliminary talks on co-operation announced in Current Report No. 62/2017 of 24 October 2017.



## V. Information for Investors

### Listing of Alior Bank shares on the Warsaw Stock Exchange in 2017

Alior Bank had its début at WSE on 14 December 2012. On 21 March 2014 – within only 15 months of its stock exchange début - the Bank joined the group of twenty largest and most liquid companies listed at WSE.

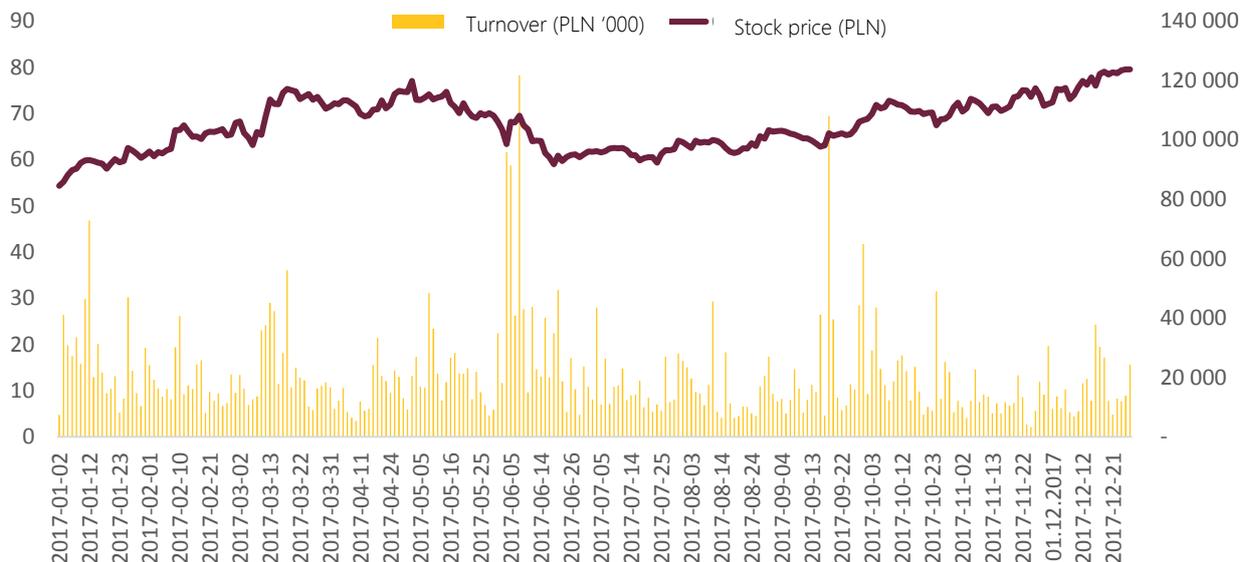
The total amount of trading in the Bank's stock in 2017 was almost PLN 5.14 billion. (vs. PLN 4 billion in 2016). In 2017 over 437 thousand transactions were concluded in the shares of Alior Bank versus slightly over 388 thousand transactions in 2016.

In 2017 the price of the Bank's stock grew by 47% and at the end of December 2017 reached

PLN 79.50. The increased price was related to the very good results in particular after Q2 and Q3 2017, a material improvement of the Bank's liquidity and a positive response by investors of the operationalisation plan of the "Digital Disruptor" strategy.

For comparison sake, the value of the WIG Banks index in the same period increased by 35% and the WIG20 index grew by 26%. At the end of 2017, the P/E and P/BV ratios for Alior Bank were 13.9 and 1.56 respectively.

The stock prices and trading volumes in the Bank's shares at WSE in 2017 are presented in the chart below:





## Relations with Investors



Alior Bank is committed to regular, timely, and effective communication with capital market payers.

The Bank is actively involved in activities aimed at meeting the information needs of stakeholders, while ensuring common and equal access to information in accordance with the highest market standards and the applicable laws.

These above activities are the task of the Investor Relations Department that reports directly to the President of the Bank's Management Board.

The Investor Relations Department regularly arranges meetings of the representatives of the Bank's Management Board and its top managerial staff 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. Other issues discussed include the current macroeconomic situation, the overall condition of the financial sector and the competitive environment of the Bank.

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 communicating with capital market players is the section on investor relations,

updated on an on-going basis, available on the Bank's website at:

<https://www.aliorbank.pl/en/investor-relations/investor-relations.html>

where all interested stakeholders can find information necessary to make a comprehensive assessment of functioning of Alior Bank, such as current and interim reports, presentations of the financial results, information on General Meetings, corporate documents, or current rating prepared upon request of the Bank.

## Ratings

On 5 September 2013, Fitch Ratings Ltd. allotted Alior Bank S.A. a rating of BB with a stable outlook. On 5 February 2018, Fitch Ratings Ltd. maintained the BB rating for Alior Bank changing the outlook from stable to positive.

The full rating of the Bank allotted by Fitch Ratings Ltd. is as follows:

- Long-Term Foreign Currency IDR: BB positive outlook;
- Short-Term Foreign Currency IDR: B;
- National Long-Term Rating: BBB+(Pol), positive outlook;
- National Short-Term Rating: F2(Pol);
- Viability Rating (VR): BB;
- Support Rating: 5;
- Support Rating Floor: 'No Floor'.

The definitions of ratings of Fitch Ratings Ltd. are available at the Fitch site [www.fitchratings.com](http://www.fitchratings.com), where ratings, criteria, and methodologies are published.



## VI. External conditions to the Bank's functioning

### Poland's economic growth



Growth trends in the global economy and those of Poland's main trading partners favoured the domestic boom. Both mature economies, such as the US and the Euro zone, and also developing countries saw an acceleration of their respective economies.

In 2017, the dynamics of the economic growth in Poland clearly increased. The dynamics of GDP was up from quarter to quarter, primarily due to consumption supported by an increase in employment and wages, good consumer sentiment, and payment of benefits. The real growth in consumption was somehow limited by inflation which was higher than in previous years. The preliminary data on the economic situation in Poland published by GUS (Central Statistical Office) showed that in 2017 the economy grew at a rate of 4.6% y/y compared to 2.9% in 2016. Domestic demand was up in real terms by 4.7% y/y against 2.2% y/y in 2016, and total consumption exceeded the 2016 level by 4.2% y/y. Investments accelerated dynamically – to 5.4% y/y against the decline of 7.9% y/y in the previous year, which had 1% impact on GDP. Acceleration in the dynamics of capital expenditures and in particular public investments was seen primarily in the second half of the year, which was due to an inflow of funds from the 2014-2020 EU budget financial framework, but the recovery of investment was still hampered by a decline in capital expenditures by enterprises. Net export contributed slightly below its previous year level; its impact on the economic

growth is estimated at only 0.1% against 0.7% a year before.

On a quarterly basis in 2017 (except for Q2), GDP q/q dynamics accelerated, which was most visible in the second half of the year. According to GUS's quick estimate for 4Q '2017, seasonally unadjusted GDP turned out to be 5.1% higher in real terms compared to 4Q '2016, when the growth was 2.7% y/y.

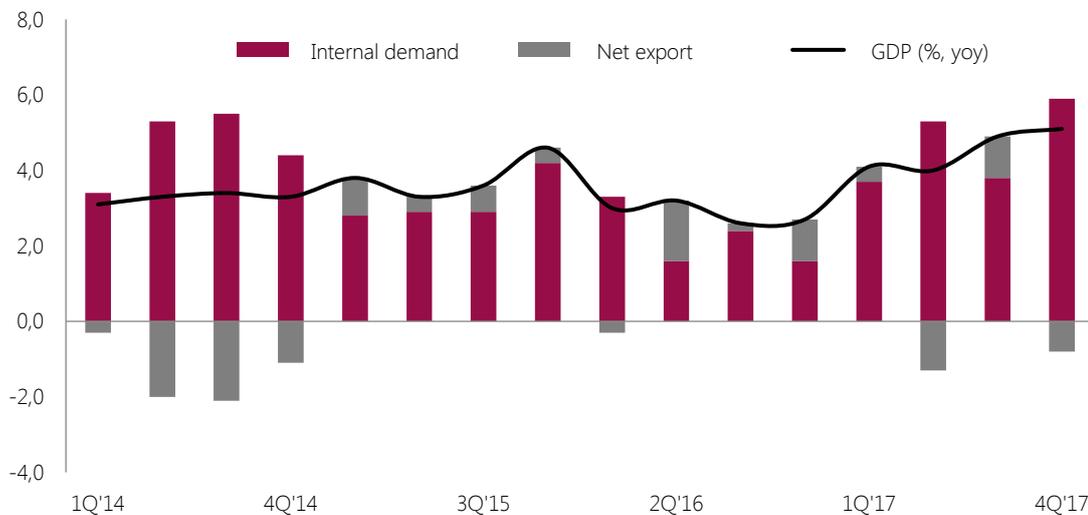
The component of growth continued to show a solid dynamics of consumption and a visible acceleration of investments. The investments grew in the period under review by 11.3% y/y and along with a growth of private consumption by 4.9% contributed to maintaining a high growth rate of internal demand. In Q4 2017 the growth of domestic demand y/y was 6.1% and was higher than recorded in Q3 2017 (growth by 3.9%). The impact of household consumption on the growth of real GDP was 2.5%, while of investments - 2.8%. Thus, considering public consumption and change to stocks, domestic demand had impact on GDP of 5.9%. Net exports (-0.8%) had a negative contribution to the growth versus 1.1% in Q3.



In the coming quarters the economic growth may maintain the current trends<sup>1</sup>, although the dynamics may somewhat slow down. The domestic demand will be favourably influenced by low level of interest rates and the associated low loan costs, and if the absorption of EU structural funds keeps its momentum, prospects for the growth in investment demand should remain positive. The

growing wage bill will continue to improve the financial situation of households, although the impact of transfers from the “Family 500 plus” programme on consumption growth will gradually fade, which, coupled with the expected decrease, against last year, of GDP dynamics in the Euro zone may have a limiting effect on this year's economic growth.

## GDP growth rate



\*Source: Central Office of Statistics

## Situation on the labour market

The economic situation that picked up pace in 2017 favouring the increase in demand for work, led to a continued decline of unemployment and increase in hiring throughout the period. The unemployment rate in November fell to the lowest level in history of 6.5% to stabilise at 6.6% in December. The strengthening negotiation position

meant an increase in wages and unit labour costs, signalling that inflation expectations may increase and margins may deteriorate, at least temporarily. The growing number of overseas employees, mainly from Ukraine, limited wage dynamics. As a consequence, in 2017 the average wage growth rate was higher than in 2016. In real terms, the wage growth was slowed down by inflation, which was higher than in previous year.

<sup>1</sup> Based on the NBP projection, "Inflation Report", November 2017.



## GDP growth and unemployment rate



\*Source: Central Office of Statistics

## Inflation

In 2017 inflation picked up its pace although the consumer price index remained at a moderate level. CPI increased from 0.8% y/y at the end of 2016 to 2.1% at the end of December 2017. The situation was strengthened by a low inflationary pressure resulting from a gradual internal demand pressure which was still present and, on the other hand, from low dynamics of import prices. The increase in CPI was influenced by higher food prices as a result of the growing domestic demand and by a moderate increase in energy prices. Core inflation remained relatively low though, reaching only 0.9% y/y in December, due to decrease in non-food commodity prices as a result of stronger, compared to a previous year, PLN exchange rate and moderate price dynamics in the environment

of Poland's economy. Higher dynamics of enterprise costs was, in turn, contributing to the increase of core inflation.

Moderate price rise in 2017, within the inflation target of the Monetary Policy Council (MPC), and low inflation expectations justified the stabilisation of monetary policy. The Monetary Policy Council has kept interest rates unchanged since March 2015, including the reference rate of 1.50%. The most recent projection of the National Bank of Poland's Economic Institute, issued in November, assumes the consumer price inflation to gradually increase in the projection horizon and only in 2019 will be slightly above 2.5%, which is due to an upward revision of the domestic economic growth path and a forecast scale of improvement of the situation on the labour market in Poland. Domestic



inflation may be limited by the persistently moderate price growth in the Euro zone, low commodity prices, and constant PLN appreciation.

Additionally, in the recent months the Council has been consistent in its opinion that the existing interest rate levels supports Poland's economy on a path of the stable economic growth, although the GDP dynamics this year is likely to be lower than in 2017 and a macroeconomic balance is maintained. According to the Council, inflation in the projection horizon will remain close to the inflation target.

### Foreign trade

Foreign trade turnover maintained its growth, however, the positive balance was lower than a year before, and the rate of import dynamics was higher than that of exports. The foreign trade turnover after twelve months of 2017 amounted to PLN 870.1 billion in exports and PLN 868.0 billion in imports, at current prices. The positive balance was PLN 2.1 billion, while in 2016 it stood at PLN 17.0 billion. Compared 2016, exports increased by 8.3%, and imports grew by 10.4%. In the reporting period the main trade partners of Poland saw an increase in exports and imports to all countries from the top ten of our partners. The turnover with this group in the exports in 2017 accounted for 66.3%, same as 2016, and the total imports for 66.0% (against 66.2% in 2016). Developed EU countries maintained their largest share in trade of goods, and Germany remains a key trade partner.

### Global economy

In 2017 an economic upturn in the world stabilised and the positive symptoms were noticeable primarily in industry and trade. The acceleration

of the economic climate meant improved sentiment in the global financial markets, while stock markets were additionally supported with the accommodation monetary policy of core central banks. At the same time, reduced risk aversion in the world upheld a positive trend in debt markets of emerging markets with stability in developed markets.

In the Euro zone, the recent quarters brought about an economic, supported mainly on consumption by households with a systematic improvement of the situation in the labour market. The y/y growth rate of GDP in Q4 '2017 was at 2.7%<sup>2</sup> y/y, i.e. slightly above expectations. The revival, however, is coupled with still moderate inflation, which for the entire Euro zone amounted to 1.4% y/y (HICP) in December. The above was a justification for loose monetary policy of the ECB, which was based on maintaining record low interest rates and on buying assets. In October, the ECB chose to extend the quantitative easing programme until September 2018, while reducing the scale of monthly purchases since January 2018 from EUR 60 to EUR 30 billion a month. The most recent December projections presented by the central bank indicate that the economic situation in Europe is likely to accelerate, but the price growth will be slow and the HICP should stay below the 2% inflation target throughout the entire three-year forecast period. An economic upturn was also supported with growing world trade.

In the US, GDP growth in 2017 picked up its pace, supported mainly by private consumption, but in the last quarters of the year that pace slightly weakened. Data for 4Q 2017 shows that, in annual terms, the economy grew by 2.5%<sup>3</sup> in comparison

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<sup>2</sup>Source: Eurostat

<sup>3</sup>Source: Eurostat



to 3.2% in 2Q, nevertheless according to the estimated data throughout 2017, y/y GDP increased by 2.3%<sup>4</sup> compared to 1.5% in 2016. The improved economic situation was accompanied by a moderate increase in inflation, while the CPI for December was at the level of 2.1%<sup>5</sup> y/y. However, the American economy remains in a more mature phase of growth, which, despite the still low inflationary pressure, has become a prerequisite for maintaining a path of monetary policy tightening by the Fed and the commencement of a reduction in the balance sheet total. The December meeting ended with a third interest rate increase in 2017, and the current interest rate range in the US is 1.25-1.50%. The Fed estimates that economic conditions will develop in a direction that justifies further gradual rate hikes, while inflation in 2018 is expected to increase and in the medium term will stabilise around the 2% target. The strengthening of monetary policy in the US is clearly supported by a strong labour market and leading indicators, as well as a new fiscal law voted by US legislators.

### FX rates

In 2017 PLN became stronger against the basket of major currencies. The appreciation was contributed by better moods in global financial markets with continued expansive monetary policies of the core central banks, which supported the currencies in emerging economies, including Central and East European countries.

The appreciation seemed to be strongest in the first half of the year, when PLN appreciated against both EUR and USD. The appreciation of currencies of the emerging economies against USD in this period was additionally supported by its depreciation against the core currencies due to a

growing uncertainty as to the prospects of US economic policies. The EUR-USD exchange rate, with a relative strength of the euro, supported on the one hand with a faster economic growth and a decreasing political risk after the elections in France, grew by 8.6% to 1.14 over the first six months of 2017.

In the second half of the year, a clear rebound of USD contributed to the deterioration in the perception of EM currencies, including PLN. The American currency gained on the expectations of the White House Administration to vote on tax cuts and their impact on an accelerating economic growth. The correction was visible particularly in Q3 '2017, however, improvement of the economic situation in the Euro zone along with a decrease of political risks following the elections in Germany and a stable mild ECB policy in the Euro zone prepared grounds for a rebound of EUR against USD. Towards year end EUR-USD went up to almost 1.20. This also favoured PLN, which returned to the original appreciation trend.

During the year PLN was also supported by clearly accelerating domestic economy and by stable monetary policy maintained by the Monetary Policy Council, which, while preventing any deficit growth, became the premise for maintaining the country's credit ratings by major rating agencies. In 2017, Moody's maintained A2 rating for Poland but raised the outlook to a stable one, S&P maintained BBB+ with a stable outlook, and Fitch maintained A- with a stable outlook.

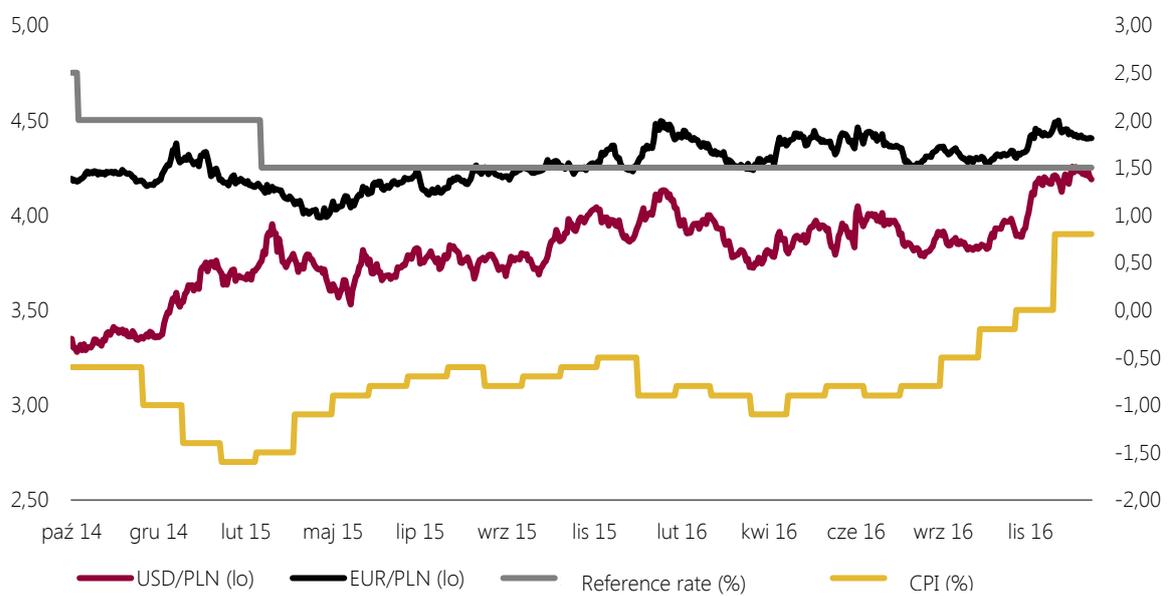
Throughout 2017 PLN gained 16.8% against USD and 5.1% against EUR, with the following year end exchange rates: 3.48/USD and 4.18/EUR respectively.

<sup>4</sup>Source: Bloomberg

<sup>5</sup>Source: Bureau of Labor Statistics



## EUR/PLN and USD/PLN exchange rates vs. CPI and the reference interest rate



Source: Bureau of Labor Statistics



## VII. Core structural and financial data of Poland's banking sector in 2017 r.

### Core structural details

As at the end of 2017, there were: 35 domestic commercial banks, 553 credit unions and 29 branches of credit institutions in Poland. At the end of 2017, the domestic bank network comprised 6,644 branches, 3,806 sub-branches, agencies and other customer service outlets, as well as 2,973 representative offices (including franchise outlets). Thus, at the end of 2017, the domestic banking network comprised in total 13,423 outlets which was 1,083 less than in 2016.

The headcount at the end of 2017 was still 164,400 employees and was lower than the headcount in 2016 by 4,400 employees (2.6%).

The long lasting stabilisation of interest rates and the relatively high regulatory burdens result in an increased importance of the scale of operations as a means to improve the effectiveness of entities in the banking sector. This results in a consolidation process going on for several years which is evidenced with examples of mergers and acquisitions in 2017: purchase of the stake held by Unicredit in PEKAO SA by PZU and PFR or take-over of the operations of Deutsche Bank by BZWBK.

At the end of 2017, the State Treasury controlled 8 banks. In 557 banks and branches of credit

institutions, private capital prevailed. In 51 banks and branches of credit institutions, foreign capital prevailed.

### Selected profit and loss account items<sup>6</sup>

In 2017 the banking sector generated net profit of PLN 13.6 billion vs. PLN 13.9 billion in the same period of the previous year (drop by 2.3%).

The net profit of the sector was primarily achieved on an increased profit on banking operations (up to PLN 24.9 billion, or 4.1% more than in 2016) which was a consequence of a major growth of the net interest income (by 12.1%) with a simultaneous increase in fee and commission income (by 9.1%).

In the period between January and December 2017, versus the equivalent period last year, there was a drop of interest expense (by 2.1% y/y) with a simultaneous growth of interest income (by 7.9% y/y).

Operating expenses of banks (including depreciation/amortisation and provisions) went up in the reporting period by 4.3% y/y, to PLN 33 billion. The growth was due to an increased level of employee expenses (by 5.8% up to PLN 16.6 billion) and a growth of overheads (by 2.8% up to PLN 16.4 billion).

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<sup>6</sup>Source: Monthly banking sector data (knf.gov.pl)



The balance of impairment allowances on financial assets in 2017 versus 2016 went up by 7.8% and amounted to PLN 8.2 billion.

### **Loans and deposits<sup>7</sup>**

The total assets of the banking sector in 2017 amounted to PLN 1,782 billion and were by 4.1% (or PLN 70.4 billion) higher than at the end of 2016.

Gross receivables from the non-financial sector at the end of 2017 versus the previous year were up by 3.2%, and amounted to PLN 1,045 billion. The core growth areas included receivables from enterprises (+6.1% y/y) and receivables from households (+1.7% y/y).

Deposits of the non-financial sector increased y/y at the end of 2017 by 4.1% up to PLN 1,070 billion. At the end of 2017, deposits by enterprises and deposits by households accounted for 97.7% of the total deposits of the non-financial sector. The

growth rate of deposits by enterprises was lower than the growth rate of deposits by households (growth by 3.6% and 4.2%, respectively). As a result, the value of household deposits at the end of 2017 increased to PLN 761.3 billion and the value of corporate deposits at the end of 2017 stood at PLN 285 billion.

### **Equity and capital ratios<sup>8</sup>**

Equity of the banking sector for capital ratios, calculated as per the provisions of the CRR Regulation, at the end of September 2017, amounted to PLN 187.3 billion and was up 8.9% against the figure at the end of September 2016.

The total capital ratio of the banking sector at the end of September 2017 was 18.65% (up by 1.1pp vs. the end of September 2016), while the Tier I capital ratio as at the end of that period was 17.22% (up 1.2pp vs. the end of September 2016).

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<sup>7</sup>Source: Monthly banking sector data (knf.gov.pl)

<sup>8</sup>Source: Monthly banking sector data (knf.gov.pl)



## VIII. Financial results of the Group of Alior Bank S.A.

### Profit and loss account

The detailed profit and loss account items of the Group of Alior Bank S.A. Group are presented in the table below:

in PLN '000	Period 1.01.2017 – 31.12.2017	Period 1.01.2016 – 31.12.2016	Change y/y (PLN '000)	Change y/y (%)
Interest income	3 601 131	2 643 881	957 250	36,2
Interest expense	-760 063	-697 832	-62 231	8,9
Net interest income	2 841 068	1 946 049	895 019	46,0
Dividend income	31	68	-37	-54,4
Fee and commission income	827 876	590 701	237 175	40,2
Fee and commission expense	-374 852	-259 567	-115 285	44,4
Net fee and commission income	453 024	331 134	121 890	36,8
Commercial result and revaluation result	368 956	320 509	48 447	15,1
Realised result on other financial instruments	6 908	21 919	-15 011	-68,5
Other operating income	127 083	113 084	13 999	12,4
Other operating expenses	-84 729	-52 065	-32 664	62,7
Result on other operating income and expenses	42 354	61 019	-18 665	-30,6
Profit on acquisition of the demerged part of BPH	0	465 005	-465 005	-100,0
Group's operating expenses	-1 845 535	-1 566 560	-278 975	17,8
Net result on impairment allowances and provisions	-929 617	-799 887	-129 730	16,2
Banking Tax	-200 517	-130 893	-69 624	53,2



Gross profit	736 672	648 363	88 309	13,6
Income tax	-221 055	-73 337	-147 718	201,4
Net profit	515 617	575 026	-59 409	-10,3
Net profit attributable to the shareholders of the parent entity	515 241	575 227	-59 986	-10,4
Net loss attributable to minority shareholders	376	-201	577	-287,1

Detailed items of the profit and loss account of Alior Bank S.A. are presented in the table below:

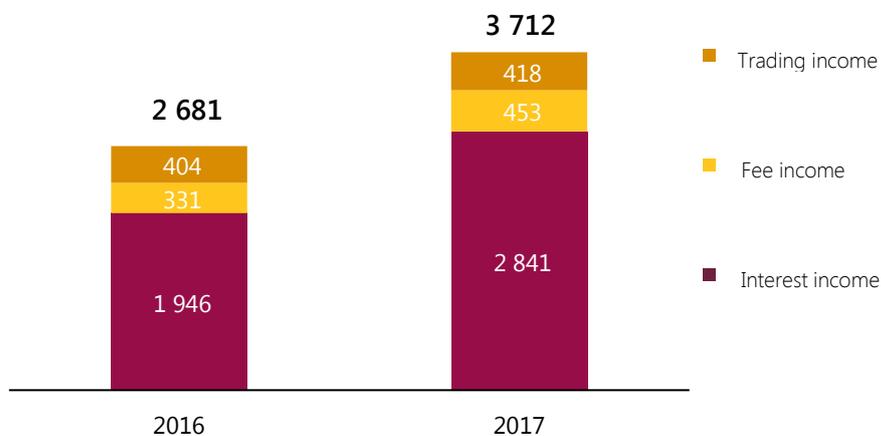
in PLN '000	Period 1.01.2017 – 31.12.2017	Period 1.01.2016 – 31.12.2016	Change y/y (PLN '000)	Change y/y (%)
Interest income	3 590 604	2 639 265	951 339	36,0
Interest expense	-757 612	-697 391	-60 221	8,6
<b>Net interest income</b>	2 832 992	1 941 874	891 118	45,9
Dividend income	31	68	-37	-54,4
Fee and commission income	801 738	592 337	209 401	35,4
Fee and commission expense	-364 867	-257 980	-106 887	41,4
<b>Net fee and commission income</b>	436 871	334 357	102 514	30,7
Commercial result and revaluation result	369 314	319 779	49 535	15,5
Realised result on other financial instruments	6 908	21 919	-15 011	-68,5
Other operating income	105 805	102 014	3 791	3,7
Other operating expenses	-78 220	-51 720	-26 500	51,2
<b>Result on other operating income and expenses</b>	27 585	50 294	-22 709	-45,2
Profit on acquisition of the demerged part of BPH	0	465 005	-465 005	-100,0
Operating expenses	-1 788 003	-1 543 456	-244 547	15,8
Net result on impairment allowances and provisions	-920 466	-794 733	-125 733	15,8
Banking Tax	-200 517	-130 893	-69 624	53,2



Gross profit	764 715	664 214	100 501	15,1
<b>Income tax</b>	-225 820	-75 190	-150 630	200,3
<b>Net profit</b>	538 895	589 024	-50 129	-8,5

Net profit of the Group of Alior Bank S.A. (attributable to the shareholders of the parent entity) in 2017 was PLN 515.2 M and was lower than the net profit in 2016 by PLN 60.0 M, or by 10.4%.

The following profit and loss account items had an impact on the net profit of 2017:



Net interest is the core income item of the Group accounting for 77% of the total income. Net interest increase during the year of 46.0% resulted from the acquisition of demerged part of BPH, as well as from a limited growth of loan volume to customers with simultaneous increase of customer deposits. As a result, the customer net loan portfolio went up 10.9% year on year, while deposits were up 12.2%. The achieved interest income was also positively affected by an adequate pricing policy – with respect to both deposits and loans in the environment of low interest rate environment in the Bank.

Alior Bank's Group profitability measured by NIM per product type in 2017 is presented below.

Consolidated data	2017 (%)	2016 (%)
<b>LOANS / WIBOR 3M</b>	<b>6,26</b>	<b>6,11</b>
Retail segment, of which:	<b>7,40</b>	<b>7,20</b>
Consumer loans	9,06	9,34
Loans for residential properties	4,36	4,15
Business segment, of which:	<b>4,78</b>	<b>4,62</b>
Investment loans	4,22	3,97



Working capital loans	5,22	4,92
Car Loans	5,95	4,21
<b>DEPOSITS</b>	<b>1,25</b>	<b>1,46</b>
Retail segment	<b>1,10</b>	<b>1,36</b>
Current deposits	0,60	0,36
Term deposits	1,63	2,09
Business segment	<b>1,51</b>	<b>1,63</b>
Current deposits	0,11	0,07
Term deposits	1,57	1,67

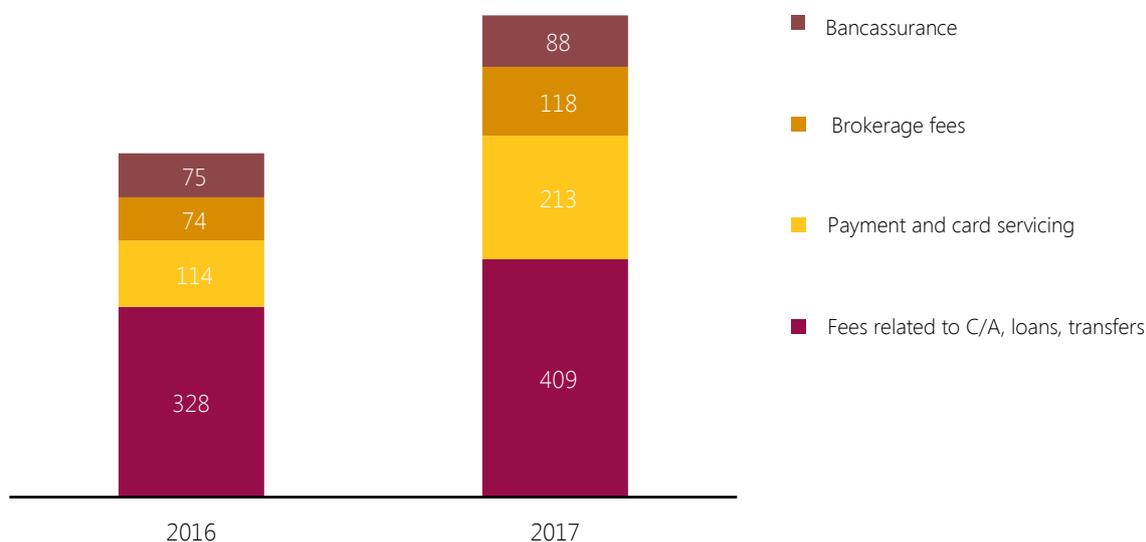
Net fees and commissions grew by 36.8% up to PLN 453.0 M. The result was due to PLN 827.9 M of commission income (growth by 40.2% year on year) and PLN 374.9 M of commission expenses (growth by 44.4% y/y).

The core elements of the net fees and commissions include commissions on loans, accounts, transfers, cash deposits, disbursements and borrowings, etc.

In 2017 these amounted to PLN 409 M and accounted for 49.4% of the total fee and commission income.

Their growth year-over-year was a result of an increase of fees related to current accounts, payments and withdrawals as well as loan fees generated as a result of both organic growth and Core BPH merger.

### Net fee and commission income (PLN M)

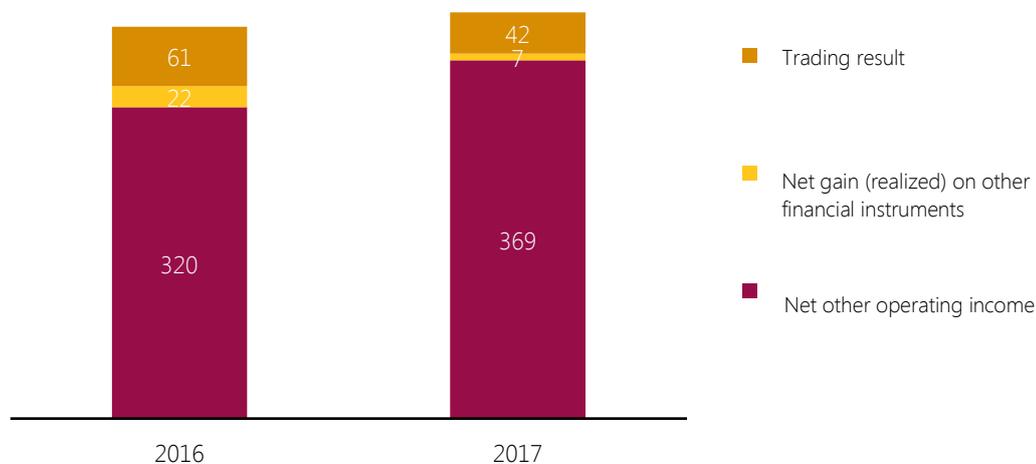


 Commercial result, result achieved on other financial instruments and other operational result together went up in 2017 in total by 3.7% to PLN 418.2 M. In its commercial result, the Group recorded a y/y increase of 15.1% to PLN

369.0 M, or up by PLN 48.4 M. The profit on commercial activities was generated largely on increase of the result on FX transactions.



## The commercial result generated on other financial instruments and the result on other operating income and expenses (PLN M)



In 2017 the operating expenses amounted to PLN 1,845.5 M and were higher than the expenses incurred in the same period of the previous year by PLN 279.0 M, or up 17.8%. Main factor of cost increase in analyzed period versus previous year is related to BPH CORE cost based inherited as a result of the merger. At the same time in 2016 restructuring provision of PLN M 268.1 was created.

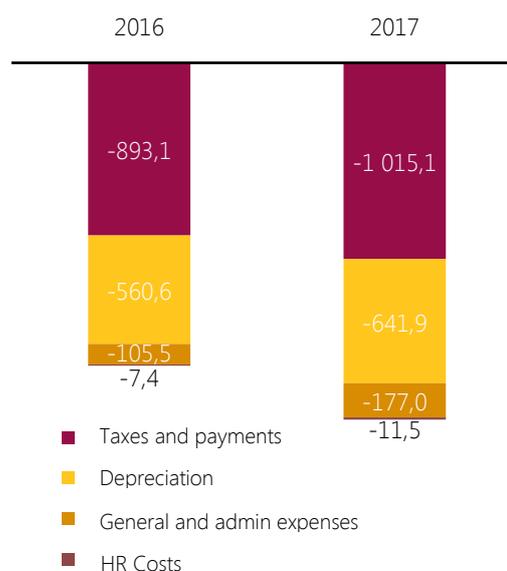
Personnel costs in the analysed period amounted to PLN 1,015 M and were 13.7% higher than personnel costs incurred in 2016.

Overheads in 2017 amounted to PLN 641.9 M and were by 14.5% lower than overheads incurred in 2016.

The overall amount of integration costs incurred by the Bank due to the take-over of the demerged part of Bank BPH amounted to PLN 77 M in 2017.

As a result, the cost/income ratio in H1 2017 was at 49.7% (excluding 47.6% of the integration costs) against 58.4% at the end of 2016.

## Operating expenses (PLN M)



## Synergies and integration costs resulting from the acquisition of the demerged part of BPH

The key event in the integration with the demerged part of BPH was operational integration, completed on 27 March 2017. As from that day the entire Bank operates using a single technological platform and all operating processes are simplified.



Total synergies due to the merger amounted to PLN 195 M in 2017 and in 2018 according to the Banks' estimates they will amount as much as PLN 381 M. Costs incurred by the Bank on integration in 2017 resulting from implementation of synergies closed at PLN 77 M against PLN 195 M initially planned. At the same time, the Bank does not expect additional integration costs in subsequent periods.

### Net result on impairment allowances

The amount of impairment allowances and provisions in 2017 was PLN -929.6 M against PLN -799.9 M in 2016, meaning an increase of 16.2%,

primarily due to increased charges against receivables from customers in the non-financial sector (up from PLN -731.4 M to PLN -888.0 M).

This increase was mainly driven by an increase of balance of receivables from clients related to BPH Core merger as well as organic growth. Additionally in 2017 Bank created loan loss provisions related to renewable energy exposures. Total loan loss provisions for this type of exposures amounted to PLN M 62.

The net provisions calculated on the average balance of customers' gross receivables (risk cost ratio) recorded a drop from 1.9% to 1.7% y/y.

### Impairment allowance (in PLN '000) – consolidated data

	1.01.2017- 31.12.2017	1.01.2016- 31.12.2016	change y/y (%)
Allowances for receivables from customers	-887 952	-731 407	21,4
Retail customers	-491 469	-474 863	3,5
Business customers	-396 483	-256 544	54,5
Debt securities – assets available for sale	16 921	-6 975	-342,6
IBNR – receivables from customers without impairment	-26 558	-36 408	-27,1
Retail customers	33 862	-10 417	-425,1
Business customers	-60 420	-25 991	132,5
Provisions for off-balance sheet liabilities	-6 307	-2 382	164,8
Property, plant and equipment and intangible assets	-25 721	-22 715	13,2
Net result on impairment allowances and provisions	-929 617	-799 887	16,2

### Impairment allowance (in PLN '000) – separate data:

	1.01.2017- 31.12.2017	1.01.2016- 31.12.2016	change y/y (%)
Allowances for receivables from customers	-882 464	-730 640	20,8
Retail customers	-491 469	-474 733	3,5



Business customers	-390 995	-255 907	52,8
Debt securities – assets available for sale	16 921	-6 975	-342,6
IBNR – receivables from customers without impairment	-22 895	-32 021	-28,5
Retail customers	33 862	-10 417	-425,1
Business customers	-56 757	-21 604	162,7
Provisions for off-balance sheet liabilities	-6 307	-2 382	164,8
Property, plant and equipment and intangible assets	-25 721	-22 715	13,2
Net result on impairment allowances and provisions	-920 466	-794 733	15,8

## Balance sheet

As at 31 December 2017, the balance sheet total of the Alior Bank Group amounted to PLN 69.5 billion and was PLN 8.3 billion (13.6%) higher vs. the end of 2016.

Main asset items generating the growth of the balance sheet total included loans and advances to customers (y/y up PLN 5.0 billion to PLN 51.3

billion) and financial assets available for sale (y/y up PLN 2.7 billion to PLN 12.1 billion), main items of liabilities included customers' deposits (an increase of PLN 6.2 billion to PLN 57.6 billion) and equity (up PLN 0.6 billion to PLN 6.8 billion).

The tables below present relevant items of assets, liabilities and equity as at the end of 2017 along with comparable data.

ASSETS (in PLN '000) consolidated data	31.12.2017	31.12.2016	Change (PLN '000)	Change (%)
Cash and funds with Central Bank	965 391	1 082 991	-117 600	-10,9
Financial assets held for trading	452 551	419 551	33 000	7,9
Financial assets available for sale	12 072 324	9 374 646	2 697 678	28,8
Investment securities kept until maturity	1 117 894	1 954	1 115 940	57 110,5
Derivative hedging instruments	87 785	71 684	16 101	22,5
Due from banks	901 629	1 366 316	-464 687	-34,0
Loans and advances to customers	51 266 640	46 247 188	5 019 452	10,9
Assets hedging liabilities	408 911	366 984	41 927	11,4
Property, plant and equipment	475 691	485 796	-10 105	-2,1
Intangible assets	548 587	516 444	32 143	6,2
Investments in subsidiary entities	0	0	0	



Assets held for sale	357	679	-322	-47,4
Income tax assets	569 580	540 262	29 318	5,4
Current	0	0	0	
Deferred	569 580	540 262	29 318	5,4
Other assets	626 440	685 996	-59 556	-8,7
<b>TOTAL ASSETS</b>	<b>69 493 780</b>	<b>61 160 491</b>	<b>8 333 289</b>	<b>13,6</b>

<b>LIABILITIES AND EQUITY (PLN '000) consolidated data</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>Change (PLN '000)</b>	<b>Change (%)</b>
Financial liabilities held for trading	435 878	298 314	137 564	46,1
Due to banks	891 645	428 640	463 005	108,0
Due to customers	57 614 493	51 368 701	6 245 792	12,2
Derivative hedging instruments	5 419	6 119	-700	-11,4
Provisions	90 457	286 815	-196 358	-68,5
Other liabilities	1 674 650	1 433 301	241 349	16,8
Income tax liabilities	104 413	13 945	90 468	648,7
Current	103 927	13 190	90 737	687,9
Deferred	486	755	-269	-35,6
Subordinated liabilities	1 914 976	1 164 794	750 182	64,4
Total equity and liabilities	62 731 931	55 000 629	7 731 302	14,1
Equity	6 761 849	6 159 862	601 987	9,8
Equity (attributable to the shareholders of the parent entity)	6 760 527	6 158 883	601 644	9,8
Share capital	1 292 636	1 292 578	58	0,0
Supplementary capital	4 820 048	4 185 843	634 205	15,2
Revaluation reserve	13 944	-71 615	85 559	-119,5
Other reserves	183 824	183 957	-133	-0,1
Exchange rate differences on revaluation of foreign entities	594	-22	616	-2 800,0
Retained profit	-65 760	-7 085	-58 675	828,2
Current year's profit	515 241	575 227	-59 986	-10,4
Non-controlling holdings	1 322	979	343	35,0
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>69 493 780</b>	<b>61 160 491</b>	<b>8 333 289</b>	<b>13,6</b>



Separate data are as follows:

<b>ASSETS (in PLN '000) separate data</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>Change (PLN '000)</b>	<b>(%) Change</b>
Cash and funds with Central Bank	965 391	1 082 991	-117 600	-10,9
Financial assets held for trading	452 551	419 551	33 000	7,9
Financial assets available for sale	12 072 324	9 374 646	2 697 678	28,8
Investment securities kept until maturity	1 117 894	1 954	1 115 940	57 110,5
Derivative hedging instruments	87 785	71 684	16 101	22,5
Due from banks	898 977	1 364 226	-465 249	-34,1
Loans and advances to customers	51 244 093	46 248 623	4 995 470	10,8
Assets hedging liabilities	408 911	366 984	41 927	11,4
Property, plant and equipment	466 958	483 520	-16 562	-3,4
Intangible assets	510 106	480 913	29 193	6,1
Investments in subsidiary entities	102 025	72 359	29 666	41,0
Assets held for sale	357	679	-322	-47,4
Income tax assets	530 759	532 570	-1 811	-0,3
Current	0	0	0	
Deferred	530 759	532 570	-1 811	-0,3
Other assets	524 047	662 095	-138 048	-20,9
<b>TOTAL ASSETS</b>	<b>69 382 178</b>	<b>61 162 795</b>	<b>8 219 383</b>	<b>13,4</b>

<b>LIABILITIES AND EQUITY (PLN '000) separate data</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>Change (PLN '000)</b>	<b>(%) Change</b>
Financial liabilities held for trading	435 878	298 314	137 564	46,1
Due to banks	743 911	381 235	362 676	95,1
Due to customers	57 655 618	51 404 848	6 250 770	12,2
Derivative hedging instruments	5 419	6 119	-700	-11,4
Provisions	90 433	286 791	-196 358	-68,5
Other liabilities	1 628 318	1 427 757	200 561	14,0
Income tax liabilities	102 382	13 125	89 257	680,1
Current	102 382	13 125	89 257	680,1
Subordinated liabilities	1 914 976	1 164 794	750 182	64,4
<b>Total equity and liabilities</b>	<b>62 576 935</b>	<b>54 982 983</b>	<b>7 593 952</b>	<b>13,8</b>
Equity	6 805 243	6 179 812	625 431	10,1
Share capital	1 292 636	1 292 578	58	0,0
Supplementary capital	4 817 331	4 184 953	632 378	15,1
Revaluation reserve	13 944	-71 615	85 559	-119,5

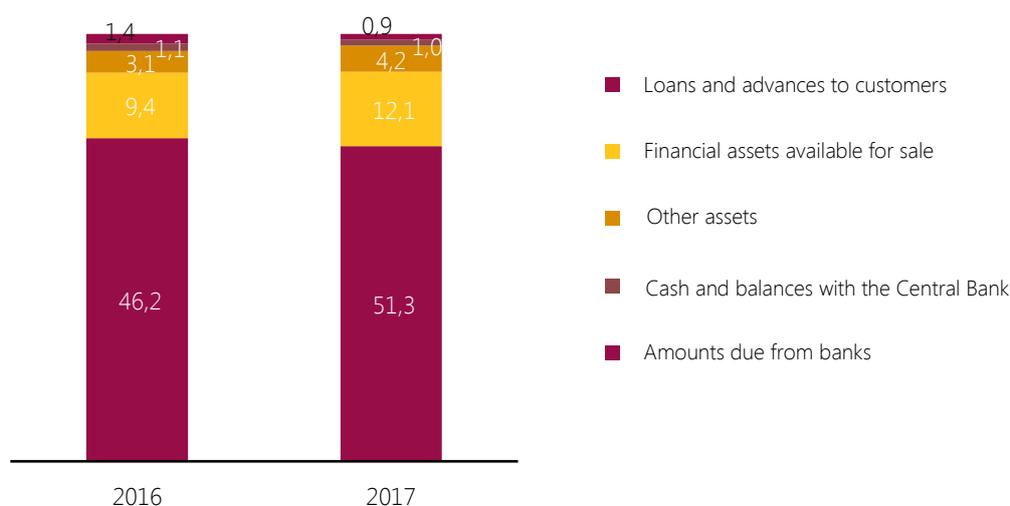


Other reserves	184 894	184 894	0	0,0
Exchange rate differences on revaluation of foreign entities	594	-22	616	-2 800,0
Retained profit	-43 051	0	-43 051	
Profit/(loss) for the current year	538 895	589 024	-50 129	-8,5
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>69 382 178</b>	<b>61 162 795</b>	<b>8 219 383</b>	<b>13,4</b>

The largest asset item is made up of receivables from the Group's customers (PLN 51.3 billion). Their share in balance sheet total as at the end of 2017 accounted for 73.8%, i.e. down by 1.8pp. than at the end of 2016. As at the end of 2017, another large asset item were financial assets available for sale at PLN 12.1 billion, which accounted for 17.4% of total assets (at the end of 2016 – 15.3% of total assets).

The decrease in the share of receivables from customers in the total balance sheet, with the simultaneous increase in assets available for sale, was related to the Group's strategy of improving the liquidity position by raising the level of financing the bank with current deposits, mainly from retail clients

#### Assets of the Group of Alior Bank S.A. (PLN B):

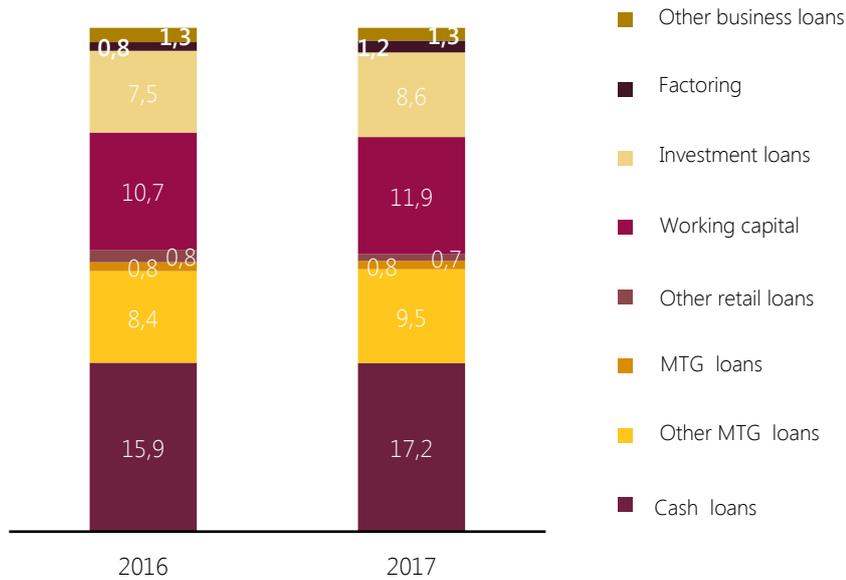


The y/y growth of loans advances to customers by 10.9% was due to both an increased volume of loans granted in the retail segment (up 9. 1%, or by PLN 2.3 billion, to PLN 28.2 billion), as well as

an increase in the receivable portfolio of corporate customers. The loan volume to the business segment was up 13.1% (or by PLN 2.7 billion) to PLN 23.0 billion.



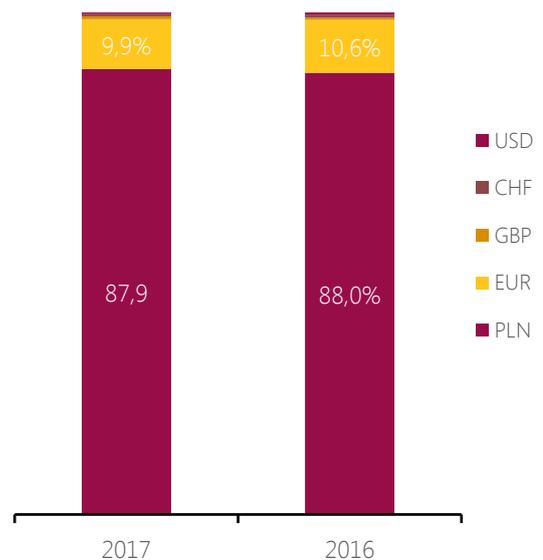
## Loans and advances to customers (PLN B)



The retail segment loan portfolio primarily included consumer, operational loans and consumer finance with the volume of PLN 17.2 billion (growth y/y by 8.3%). They accounted for 60.8% of all loans granted to retail customers and accounted for 33.5% of the entire portfolio of customers' receivables. The second largest item in the retail segment loan portfolio (36.8%) included housing and mortgage loans with a total volume of PLN 10.4 billion as at the end of 2017 (overall growth y/y by 12.3 %).

As at the end of 2017, operational corporate loans of PLN 11.9 billion (growth by 10.8% y/y) were the largest single item of the business segment loan portfolio, accounting for 51.7% of its total value. Investment loans were the second largest item of the business segment loan portfolio, accounting for 37.4% of the portfolio. Their value as at the end of 2017 was up 36.9% compared to the end of 2016 by 15.1% to almost PLN 8.6 billion.

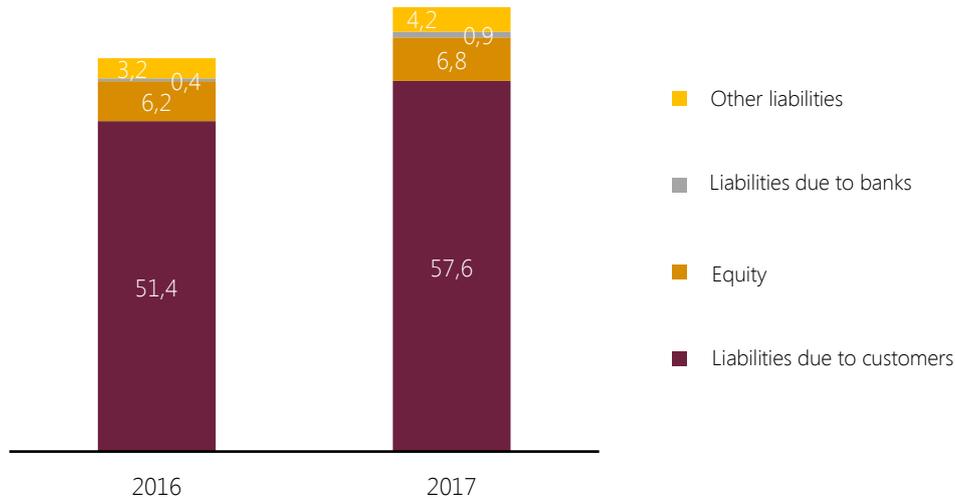
## Currency structure of the loans and advances to customers



Some slight increase was seen at the end of 2017, versus the end of 2016, in PLN denominated loan receivables – to 88.7% of the total loans and advances to customers (up 0.7pp. against 31 December 2016). EUR denominated loans and advances to customers as at the end of 2017 accounted for 9.9% of the total receivables, their share compared to the end of 2016 was down 0.6pp.



## Equity and liabilities of the Alior Bank Group (PLN B)

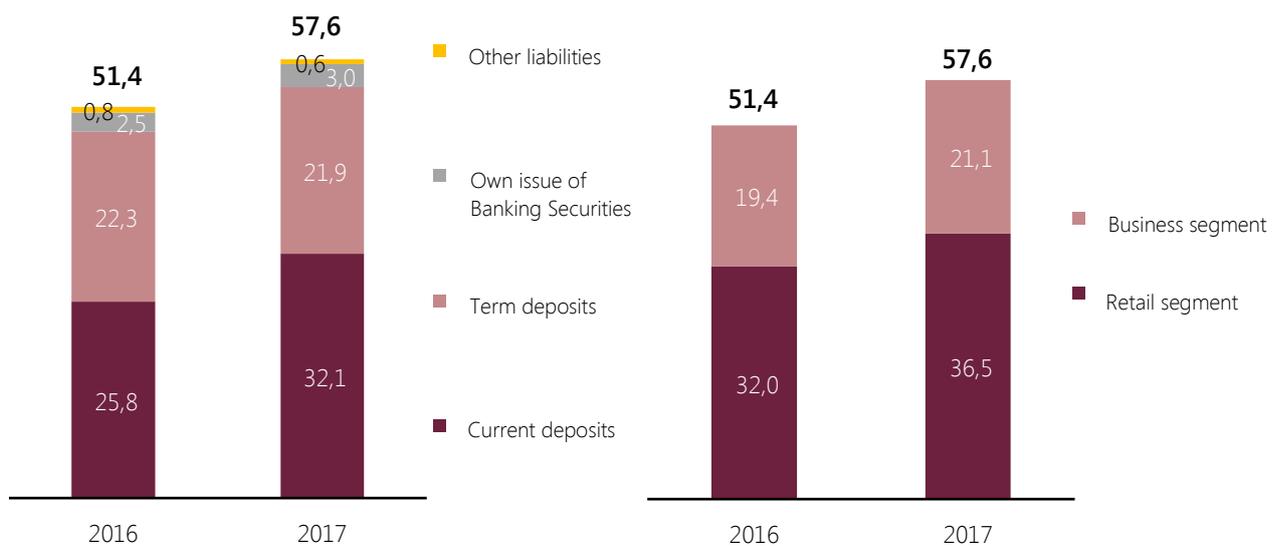


The liabilities due to customers largely included liabilities due to the retail segment which at the end of 2017 accounted for 63.4% of the customers' deposit portfolio. As compared to the end of 2016, the percentage was increased by 1pp.

Current deposits are the main item of the liabilities portfolio to customers. They accounted for 55.7% of the entire liabilities to customers as at the end of 2017 (up 5.5pp versus the end of 2016). Term

deposits make second largest item of liabilities due to customers (38% of the all liabilities due to customers as at 31 December 2017). As compared to the end of 2016, their share in the overall liabilities to customers dropped by 5.4pp. The remaining 6.4% of the liabilities to customers as at the end of 2017 were the funds acquired as a result of the Bank's own issues of debt securities and other liabilities.

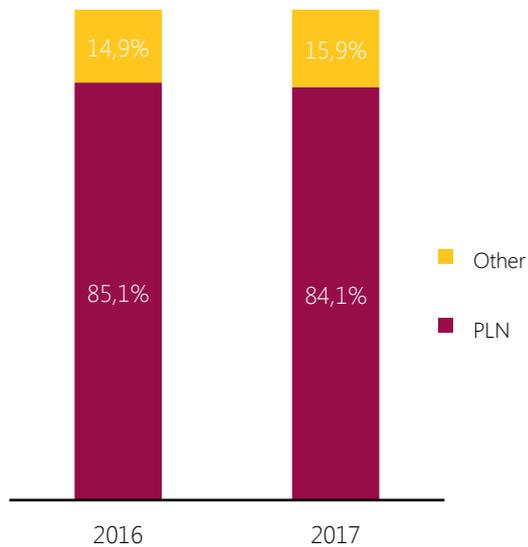
## Types of liabilities to customers (PLN B)





The sum of liabilities to the ten largest depositors accounts for 4.0% of all customers' deposits which is evidence of a strong diversification of the Bank's deposit base.

### Currency structure of the liabilities to customers



As at the end of 2017, the share of PLN deposits in the entire portfolio of liabilities to customers dropped by 1pp. to 84.1%. The other 15.9% of the liabilities to customers were deposits in foreign currencies. EUR and USD were the most popular foreign currencies in which customers deposited their savings at the end of 2017.

### Contingent liabilities

The Group grants contingent liabilities to individual customers under overdraft facilities in ROR accounts and credit cards. Those are granted for an unspecified period of time with simultaneous monitoring of the adequacy of funds inflows to the accounts.

The Group grants contingent liabilities to business customers as follows:

- overdraft facility limits for 12 months;

- guarantees, mainly up to 6 years;
- credit cards for an unspecified period of time (with simultaneous monitoring of the adequacy of funds inflows and portfolio or individual monitoring);
- guarantee limits;
- loans disbursed in tranches for up to 2 years.

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

As at 31 December 2017, the number of active guarantees granted by Alior Bank was 2,549 for a total amount of PLN 1,244,175 thousand.

The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (with the number of 1,804) amount to total PLN 700,369 thousand.

As at 31 December 2017 a total value of off-balance sheet contingent liabilities granted to customers was PLN 12,498,037 thousand. The amount comprised PLN 11,253,862 thousand off-balance sheet contingent liabilities relating to financing and PLN 1,244,175 thousand of off-balance sheet contingent liabilities relating to guarantees.

### Granted off-balance sheet liabilities (PLN '000)

Off-balance contingent liabilities granted to customers	status as at 31.12.2017	status as at 31.12.2016
<b>Granted off-balance contingent liabilities</b>	12 498 037	14 483 652
<b>Concerning financing</b>	11 253 862	12 979 086
<b>Guarantees</b>	1 244 175	1 504 566



#### Off-balance contingent liabilities granted to customers – by entity (PLN '000)

by entity	as at 31.12.2017
entity 1	136 993
entity 2	101 000
entity 3	84 969
entity 4	72 000
entity 5	59 453
entity 6	50 000
entity 7	38 300
entity 8	20 000
entity 9	20 000
entity 10	17 665
Other	643 795

#### Off-balance contingent liabilities granted to customers – by instrument (PLN '000)

by instrument	as at 31.12.2017
credit lines	11 006 544
import L/Cs	18 952
loan commitments	228 366
Guarantees	1 244 175
<b>Total</b>	<b>12 498 037</b>

The Bank did not underwrite any bonds in 2017 (no off-balance sheet liabilities relating to bonds).

#### Financial projections

Alior Bank S.A. did not publish any projections of its financial results.



# IX. Business activities of Alior Bank S.A.

## Activities of Alior Bank S.A.

Alior Bank is a universal deposit and credit bank, providing services to natural and legal persons, and other entities that are domestic and foreign persons. The Bank's core business covers maintenance of bank accounts, granting loans, issue of bank securities, and purchase and sale of foreign currencies. The Bank is also involved in stock broking activity, financial advisory and intermediation services, arrangement of issues of corporate bonds and provides other financial services.

The Bank operates in various divisions that offer specific products and services, addressing specific market segments. The Bank is currently involved in the following sectoral segments:

Individual customer  
(retail segment)

Business segment  
(corporate segment)

Treasury activities

Detailed information on the Bank's business operating segments are presented in the Consolidated Financial Statements of the Group of Alior Bank S.A. for the year ended on 31 December 2017 (note No. 5).

## Retail segment

### General information

As at 31 December 2017, Alior Bank serviced 3.8M individual customers. The growth of the number of customers in 2017 was due to the organic growth of Alior Bank and integration with the demerged part of BPH.

In 2017 the Bank implemented a behavioural segmentation of retail customers which provides for a more precise addressing of products and services to the appropriate buyers. An example of a product that shows the Bank's innovative approach to respond to the Customers' defined needs is the account "Konto Jakże Osobiste" launched in the second half of 2017.

An analysis of Customers' behaviour will support the Bank in an optimum alignment of its offer and the channel to reach Customers. This approach is very closely signed with the Digital Disruptor strategy.

Apart from the behavioural segmentation, the Bank has identified the following segments among its retail customers:

- mass customers (persons with assets with the Bank under PLN 100 thousand, with monthly inflows to their personal accounts under PLN 10 thousand);
- affluent customers (persons with monthly inflows to their personal accounts in excess of PLN 10 thousand or holding assets in excess of PLN 100 thousand);



- Private Banking customers (persons with assets exceeding PLN 1M or investment assets exceeding PLN 0.5 M).

The segmentation is reflected in the structure of the sales network by making sales units specialise in specific products as follows: universal branches, premium branches and mini-premium and private banking branches.

### Distribution channels

As at the end of 2017, the Bank operated 905 outlets (267 traditional branches – including 7 Private Banking branches and 12 locations of Regional Business Centres, and 638 franchise outlets). The Bank's products are also offered in the network of 10 Mortgage Centres, 10 cash centres, about 10,000 outlets of financial intermediaries.

Alior Bank also uses distribution channels relying on a modern IT platform, covering: online banking, mobile banking, call centres and DRONN technology. Through internet banking the Bank offers possibilities to conclude agreements covering: savings and clearing accounts, FX accounts, savings accounts, deposits, debit cards, and stock broking accounts. The channels are also used to submit applications for credit products: cash loans, credit cards, revolving current account facilities, and mortgage loans. In the Internet the Bank also offers HP loans in an on-line process and services of an FX exchange office.

Traditional branches of Alior Bank are located across Poland, especially in cities with at least 50 thousand citizens and they offer a full range of the Bank's products and services. Franchise outlets on the other hand are located in smaller towns and in specific locations in Poland's largest cities, offering a broad range of services, as well as deposits and loans to retail and corporate customers.

The Bank cooperates with its franchisees on the basis of outsourcing agency agreements. Under such agency agreements, agents perform exclusive

agency services on behalf of the Bank distributing its products. The services are provided in premises owned or rented by the agents approved by the Bank.

As specified above, the Bank's products are also offered in the network of financial intermediaries such as Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines, DFQS, GTF, and other. The offers of the Bank's products available with financial intermediaries varies depending on the agent, but basically such financial intermediaries offer primarily cash loans, consolidation loans, mortgage loans, and HP loans.

On 31 October 2017 the Bank terminated the agreement concluded with TESCO on the "TESCO Finanse" project. As of 1 November 2017 it is no longer possible to conclude an agreement at Tesco Finanse points for a new product agreement for Alior Bank or to submit instructions regarding previously concluded contracts, either. Servicing of the existing customers repaying cash loans, consolidation loans, HP loans, and credit cards has been assumed by Alior Bank's own branch network.

Sales in all distribution channels are supported with operational and analytical systems of Customer Relationship Management, CRM)

### Core products

The core products for individual customers are as follows:

- credit products: cash loans, HP loans, credit cards, current account overdraft facilities, mortgage loans;
- deposit products: term deposits, savings deposits;
- bank securities, brokerage products, and investment funds;
- personal accounts;



- transactional services: cash deposits and withdrawals, transfers;
- currency exchange transactions.

Due to the specific nature of its business in the retail segment, the Bank identified three additional areas of the retail segment with a dedicated offer for each group of the Bank's customers: consumer finance, Private Banking, and stock broking activity.

### Credit products

Credit products are offered in all of the Bank's distribution channels.

#### Cash loans

Cash loans are the main unsecured credit products for individual customers. Such loan can be granted for any purpose or for payment of financial liabilities (consolidation loan). Cash loans are offered in all of the Bank's distribution channels. These loans feature high margins, and minimum requirements in terms of income evidence and collateral requirements plus a long credit period. Since 2016, the maximum repayment period for the products has been 12 years, being most attractive in the market. Individual customers may contract loans up to PLN 200,000 without guarantors or other collateral. These products are offered in PLN to the existing and new customers of Alior Bank. The Bank offers cash loans in amount in excess of PLN 200,000 subject to individual terms and conditions.

In 2017 Alior Bank focused its attention on two areas involving cash loans. First on attracting new customers through marketing activities targeted at those who plan to transfer their liabilities to Alior Bank from other financial institutions or to take new liabilities. To help attain this goal the Bank modified its offering and launched two TV campaigns. Q2 and Q3 2017 saw the "Pożyczka Dwuosobowa" campaign offering promotional loan terms when a loan agreement is signed by more than one borrower. The last quarter of 2017

saw the "Pożyczka Przymiarka" campaign, an interesting alternative to products available on the market, where customer may withdraw from the loan within 30 days.

2017 was the year when Alior Bank would enhance its remote loan sale channels by introducing an entire on-line purchase of loan for both the existing, as well as for new customers (via the Internet banking system). This is how the "Pożyczka internetowa z prowizją 0%" was born with preferential terms for customers who commenced their purchase process using a dedicated Internet form.

Another area of the Bank's activities involved CRM initiatives to enhance relationships with customers by activating customers, upselling additional products and increasing credit exposures. This purpose was served by a special loan with simplified lending procedure. The Bank also intensified CRM efforts to enhance ties with HP customers, improve effectiveness of cross-selling, and to increase customers' exposures in all profitable segments.

Within its activity taken over from Bank BPH, Alior Bank has been offering cash and consolidation loans to its retail customers in the distribution channels dedicated to supporting the activities taken over from Bank BPH. Since March 2017, all of the Bank's outlets (including part taken over from Bank BPH) have been offering uniform cash and consolidation loans.

#### Credit cards

As part of the credit card offer for retail customers, in 2017 the Bank gradually changed its offer for specific customer segments. The offer for mass customers was supplemented with a new Mastercard Credit Card OK! the main benefit of which is cashback in selected retail and service outlets. In addition, the previously operated Gold credit card was replaced by a new offer of



Mastercard HERE and THERE for the affluent customer segment, based on: cashback for transactions in a currency other than PLN (including online transactions and those made overseas), Mastercard programme Priceless Specials and Identity Protection (ID Protection).

The prestigious World Elite Card dedicated to the customers of the Private Banking segment is maintained without any changes. The card is accompanied with a package of services – concierge or assistance of a specialised infoline, insurance and Priority Pass – possibility to use business class lounges at airports.

### **Revolving overdraft facilities**

Overdraft facilities mean the possibility of borrowing to the debit of an account. Within the approved limit, debts may be contracted multiple times – each credit to the account reduces or fully repays the debt. The Bank offers revolving overdraft facilities for amount from PLN 500 to PLN 200,000 which does not require any additional collateral or guarantee. Alior Bank grants overdraft limits in two ways: in a combined credit process within which customers are granted two products on the basis of the same information and documents – cash loans and an overdraft facility limit or an overdraft facility limit as a single product.

### **Mortgage loans**

In 2017 the Bank was active in the mortgage segment. The Bank offers of mortgage loans both for property purchase, as well as consolidation and consumption loans for any purpose. Mortgages are granted mainly in PLN, but the Bank also has an offer of loans indexed with GBP, USD, and EUR. Indexed loans are offered only to customers who earn income in the currency of the loan and meet specific criteria.

The Bank's mortgage loans are offered via the Mortgage Centres – specialist units located in major Polish cities. The sales of mortgage loans via

the Mortgage Centres accounts for nearly 70% of the sales value of Alior Bank. The remaining part is sold via the Bank's branches across the country.

An important challenge for 2017 was to adjust the Bank's procedures and policies to the Act on Mortgage Loans and Supervision of Mortgage Loan Intermediaries and agents that came into effect in July 2017. These processes were ready on time and at the same time the Bank enhanced them with an automated IT tool.

## **Deposit products**

### **Term deposits**

The Bank's offer for retail customers indenting to deposit their PLN funds includes standard deposits with a fixed interest rate for various dates. The deposits may be renewed (customers may elect if the renewal will relate to the principal and the accrued interest or solely the principal with the interest transferred to a designated account with Alior Bank) or that are not renewable and then at maturity the principal and interest are transferred to a designated account with Alior Bank. The offer also includes deposits in EUR, USD, GBP, and CHF at fixed and variable interest rates.

Furthermore, customers interested in depositing larger amounts may resort to the offer of negotiated deposits, then both the term and interest rates are negotiated individually.

### **Savings accounts**

Retail customers are offered PLN-denominated savings accounts with flexible access to deposited funds. The basic product is still a variable interest rate account based on WIBID 1M. The Bank's customers may enjoy numerous promotional offers. "Konto oszczędnościowe dla aktywnych" is one of those promotions, introduced in H1 of the year. The offer was to increase the customers' activity and to this end it rewarded customers by increasing the interest rate applicable to the



savings account as long as wages are transferred to the account and transactions with a debit card are made. In the second half of the year, the Bank offered its customers a Deposit Account with an attractive interest rate on new funds up to PLN 100,000 for a period of four months. The higher interest rate on a savings account can also be available to customers who decide to set up a Very Personal Account and choose this feature as one of the benefits. Additionally, the Bank offers savings accounts for customers who have filed effective applications for child rearing benefits (Family 500+). These customers receive a preferential fixed interest rate for 12 months.

### **Savings and clearing accounts**

2017 saw a number of changes in the Bank's offering of personal accounts.

In March 2017, following an operational merger, new types of personal accounts from BPH operations were included in the portfolio of discontinued accounts: Konto Korzystne, Konto Srebrne, and Konto Złote. Aiming to diversify its income by increasing the commission part in H2 the Bank introduced price changes for savings accounts. Main changes were introduced to the service Package Accounts (formerly called Alior Fee Free Accounts) – limiting the subscription fee for bank accounts to 3 operations, setting the minimum withdrawal amount for free withdrawal from Euronet ATMs for PLN 100 for the Internet Account and limiting the refund for food purchases to 1% for Konto Rozsądne.

In September 2017, the Bank introduced a new account, Konto Jakże Osobiste and simplified the existing offer. The Elite Account dedicated to the Private Banking customers segment and the Internet Account remained on sale. The new Konto Jakże Osobiste, unique on the Polish market, differs itself by benefits that are freely selected by the customer. With this innovative approach, every owner of Konto Jakże Osobiste may create and

modify this account by themselves, depending on their current needs and situations. Owners of Konto Jakże Osobiste may initially choose from 9 benefits – services and functionalities prepared on the basis of many surveys and customer reviews. They include: free withdrawals from ATMs in Poland, ATMs abroad, and a package of free instant transfers (up to 5 per month). Customers may also take advantage of a higher interest rate on a savings account or an overdraft in an interest-free account for 10 days. Benefits include a refund for proximity payments by phone (using Android Pay, HCE technology and BLIK services) and participation in the Mastercard Priceless Specials loyalty programme, in which they collect points and to be exchanged for prizes. Security is provided by travel insurance for overseas trips and assistance in emergencies, or an assistance package covering car, medical, and home insurance. Running the Konto Jakże Osobiste is free of charge with a monthly deposits received to the account of at least PLN 1,500. Customers aged 18-26 need not to satisfy this condition. If card transactions exceed PLN 300 per month, the use of credit cards is free. Card issue is free of charge, so are domestic Internet transfers, withdrawals from Alior ATMs or transactions with BLIK. Any two benefits selected by the account owner are free, after that each benefit cost is PLN 3.5 per month.

On top of the saving accounts the Bank also offer FX accounts in four core currencies: USD, EUR, CHF, and GBP. The offer of Alior Bank also contains a Karta Kibica [Football Fan Card] with a dedicated account. A simple application process and a number of benefits around Poland's national football team has been appreciated by an increasing number of football fans.

### **Transactional services**

Alior Bank offers a full range of transactional services (including cash deposits and withdrawals, cash deposits to accounts with the Bank and with



other banks, instant transfer, and card transactions). Customers may use mobile payments with BLIK, Android Pay, as well as HCE payments introduced in 2017. The end of the year saw a new promotional action for Android Pay – “TAPnij KASĘ” – run by the Bank and Google.

### **Currency exchange transactions**

Currency exchange transactions may be made at the Bank's outlets, via Internet banking with the following currencies: PLN, EUR, USD, GBP, and CHF, as well as using dedicated transaction platforms. The Bank offers its customers possibilities to conclude exchange transactions for the following currencies: PLN, EUR, USD, CHF, GBP, CAD, NOK, RUB, DKK, CZK, SEK, AUD, RON, HUF, TRY, BGN, ZAR, MXN, and JPY. The transactions may be concluded in multiple channels and at varied prices. The most important are: automatic currency conversion related to foreign transfers and card transactions abroad, transactions concluded in electronic access channels (Autodealing, FX Exchange Office) and transactions negotiated and concluded directly with the Treasury Department.

### **Bancassurance products**

Insurance products are offered as a supplementing offer to banking products as a voluntary option for customers.

The core group of insurance products are borrowers' payment protection insurance (PPI) aimed at providing customers with support should problems arise in loan repayment. In 2017 the most popular insurance was PPI insurance for cash loans and mortgage loans. In addition to the PPI insurance offer, the Bank also actively promoted stand-alone insurance, i.e. unrelated to any banking product.

PPI insurance may be purchased by customers when concluding a loan agreement. In contrast, the distribution of stand-alone products was

focused primarily on remote channels (call centre and Internet), and selected ones were also available in the branch network.

The most popular model of offering insurance in 2017 was the so-called an individual model in which the Bank acted as an insurance intermediary. On the other hand, in the case of group insurance in which the Bank is a policyholder, the Bank earned no fees, in accordance with applicable regulations.

### **Structured products and investment insurance**

In the case of structured products for individual customers, in 2017 Alior Bank conducted 40 issues under the First Bond Issue Programme for a total nominal amount of PLN 1,135 million. The volume obtained increased by 33% compared to the 2016 issue. Thirty seven products feature a 100% capital guarantee on maturity, and three 95% capital guarantee. The interest rate depends on various underlying indices. 2017 saw maturity of 12 products, the best one returned 18.71% to the investors. The securities are offered in public offerings to corporate customers, Private Banking customers, and individual customers. Also, selected private banking customers received a new offer of investment certificates with a limited capital guarantee and conditional early redemption – “autocall”. 2017 saw 17 issues of this type being carried out for a total nominal value of PLN 150M.

In 2017 the Bank continued agency training in preparation to offer individual insurance policies in co-operation with PZU Życie S.A., Generali Życie S.A., TU na Życie Europa S.A., and Open Life TU Życie S.A. In an open model of co-operation with insurers, customers have an option of concluding an individual life insurance contract with an insurance capital fund.



## New products and services

In 2017 the new major products and services in the commercial offer of the Alior Group for the individual customer segment included:

- implementation of a video verification process with which users at their homes may open accounts remotely in the video process;
- introduction of Konto Jakże Osobiste – a unique account offering flexibility to suit the customer's needs;
- introduction of mobile payments in HCE technology;
- introduction of a loan sale process in a new Internet banking system;
- introduction of a loan sale process in mobile banking.

## Retail segmentu areas

### Consumer Finance

In the retail segment the Bank also offers Consumer Finance products.

Despite increasingly severe competition the Bank managed to effectively expand its Consumer Finance business. 2017 saw implementation of a number of strategic projects which contributed to the dynamic business development and laid foundations for further enhancement of this area in the overall income structure of the Bank.

The efforts of 2017 brought about:

- record sales of loans/HP loans in the Bank's history across all distribution channels (PLN 2.5 billion during the year, marking a 58% increase against 2016);
- launch of 975 thousand loans;
- 493,000 new customers; and
- 3,700 new partners.

Advanced technologies and effective processes contributed to a dynamic growth in sales of loans and HP loans via the Internet and in the traditional

channel. Door-to-door sales remained at a stable, high level.

At the onset of 2017, as the first bank in Poland, Alior Bank launched mobiRATY – a mobile application for loan applications and loan agreements process, fully electronic. This innovation was noticed internationally and awarded the grand prize in the Banking Technology contest, category Best Use of IT for Lending.

## Private Banking

The Private Banking programme is earmarked for most affluent individual customers, willing to deposit assets with the Bank in excess of PLN 1M, or investment assets in excess of PLN 500,000. The customers are serviced by seven specialist Private Banking branches: two branches in Warsaw, one in each of Katowice, Poznań, Kraków, Gdańsk, and Wrocław. The new branch in Warsaw – opened at the end of 2016 in a prestigious location of "Warsaw Spire", broke even in 2017 before the assumed deadline.

Another prestigious location that the Bank will make available to its Private Banking Customers will be a branch in the Europejski Hotel in Warsaw.

As at 31 December 2017, the Private Banking department and branches employed 81 persons who – on the basis of a broad range of investment and credit products – have developed financial solutions suiting their customers' needs. At the end of 2017 the number of private banking customers hit a 7,000 mark.

Private Banking of Alior Bank was ranked first in "Euromoney 2017 Private Banking Survey" in the category of Super Affluent – customers with assets between USD 1M to USD 5M.

Non-financial assets of active Private Banking customers called PB Wealth Care are operationally handled by Alior Services Sp. z o.o. whose task is



to establish contacts with commercial partners providing such services as legal and tax consulting and alternative investments.

Konto Elitarne [Elite Account] is dedicated to Private Banking segment customers holding assets in excess of PLN 1M. The Bank charges no fees for services and transactions for the account. Choosing the Elite Account the customer has access to a number of benefits, such as individual private banking account manager, confidentiality of account balances, or prestigious MasterCard World Elite debit card with no additional charge and with a comprehensive extra package.

### **Stock broking activities**

The Bank is involved in stock broking activities through the Brokerage Office of Alior Bank as an organisationally separate arm in Alior Bank. Brokerage services are offered via Alior Bank branches and in remote distribution channels: the Brokerage Office Contact Centre, the Internet banking system integrated with the Alior Bank system, and the Alior Trader transaction platform.

As at 31 December 2017 the Brokerage Office of Alior Bank maintained 152,800 brokerage and deposit accounts and the value of customers' assets deposited in the accounts amounted to PLN 9.19 billion. Customers of the Brokerage Office submitted over 1.2M stock exchange orders in 2017 of which 120,000 was completed via Alior Giełda mobile application. Alior Giełda mobile application was launched by the Brokerage Office in September 2016, being one of the most innovative mobile application for individual investors in Poland. It keeps increasing its share in the volume of orders.

The Brokerage Office also offers participation units of Polish and overseas investment funds. As at 31 December 2017, Alior Bank co-operated with eighteen Polish and overseas investment fund companies (TFI) with respect to open-end

investment funds (FIO) and seventeen TFIs with respect to closed-end investment funds (FIZ). The total assets collected in investment funds via Alior Bank amounted to app. PLN 3.58 billion as at the end of December 2017. Also, in co-operation with Money Makers TFI the Brokerage Office of Alior Bank offers asset management services.

As at 31 December 2017 the Brokerage Office of Alior Bank S.A. acted as market maker for 39 issuers and for 55 financial instruments.

### **Co-operation with third parties to attract retail customers**

For over 4 years now Alior Bank SA has been maintaining business ties with T-Mobile Banking services of T-Mobile Polska SA offering a number of banking and telecommunication services.

2017 focused on the enhancement of analytical support for sales and performance stabilisation.

The CRM development strategy implemented by the Bank brought about a twofold increase in sales leads compared to the previous year (nearly 1 million) and doubled the volume of sales after CRM in a cash loan year on year (up to 40%). A new Internet banking system was implemented, featuring the RWD technology and coherent with the mobile applications released in the previous year (omnichannel). These systems offer the most secure method for signing in and authorising transactions: through a mobile application (also using biometrics on iPhones). The Android proximity payment application was expanded.

## **Business segment**

### **General informations**

Alior Bank features a comprehensive and modern offer for business customers of Micro, SME segments, as well as the corporate segment. The Bank has a dedicated offer for agricultural segment customers. As at 31 December 2017, Alior Bank



served over 170,000 business customers and the total loan exposure amounted to PLN 21.7 billion.

### Core products

The core products for business customers are as follows:

- credit products: Overdraft facilities, revolving loans, investment loans, and credit cards;
- trade finance products: factoring, reverse factoring, guarantees, and escrow accounts;
- deposit products: term deposits;
- current and subsidiary accounts;
- transactional services: cash deposits and withdrawals, transfers; debit cards;
- treasury products: FX exchange transactions (also term FX transactions), derivative instruments;
- issues of corporate bonds.

### Accounts, settlements and deposits

The offer of business accounts is suited to the expectations of each customer segment and relies on modern acquisition channels and product handling. In 2017 the Bank gained 18,272 new customers' accounts, 3,000 more than the year before (15,083). Besides to the standard handling via an extensive network of the Branches, Alior Bank offers a possibility to open a corporate account via the Internet, supported with a fast process of customer identity verification with a transfer from another bank, via courier service, as well as the dedicated Internet Banking System for retail customers. The most popular account for micro firms via remote channels is iKonto Biznes. In 2017 2,466 customers used this account, four times the number of 2016. The most popular account of those offered to business customers via the branch network is Rachunek Partner [Partner Account] which was the first one in the banking service market for companies to encourage customers to use the account to the full and actively with no fees charged when they make

transfers to ZUS or tax authorities. A supporting account for handling the current business is also Rachunek Wspólnota [Community Account] dedicated to local housing communities, account packages with a POS payment terminal and Rachunek Bezpieczny dedicated to sole traders that also provides an option for life insurance and accident insurance. Alior Bank also offers products to the customers running books of accounts. Rachunek Biznes Optymalny provides for optimisation of services and the applicable terms and conditions. Standard products include Rachunek Biznes Komfort and Biznes Profil available for customers running book of accounts, where the customer selects a package of products and services in line with their business profile – with stress on domestic, foreign transactions, or cash handling.

Business customers have access to multiple transaction products and cash management services, supporting daily transactions in companies. Regular marketing campaigns, developed on the basis of individual sectoral preferences, ensure effective provision of information to customers on products suited to the nature of their business, new services, and promotions. Alior Bank also provides broad opportunities for investing cash surpluses. Standard terms deposits available in multiple channels can be supplemented with a deposit account featuring an attractive interest rate for sole traders and automatic overnight deposits for corporations. Business client current and term deposit volume amounted to PLN B 19.2 which constitutes 34% of total volume of Bank's current and term deposits.

### New deposit products and services

The Bank's flagship is iKonto Biznes dedicated to sole traders which may only be open via an on-line application. As of June 2017 this account also provides for automatic import of company details



to an account application from Central Registration and Information on Business; it is enough to enter firm's NIP number on the front page of the application. The combination of Bank's systems and those of public administration saves the customer's time on filling in business details and helps avoid errors. Since the connection with CRIB was launched the average sales of iKonto Biznes has been up by 71% and with the launch of automatic iKonto Biznes application in the Electronic Banking System by additional 124%. The iKonta Biznes offer was recognised as the best option for a business account in the survey of the Best Bank for Companies by Forbes monthly. In 2017 the Bank also launched Rachunek Bezpieczny, a unique combination of a current account and insurance for sole traders. The product is offered in two variants – individual and family. In the family variant, the insurance covers the life and health of the insured, the life and health of the spouse/partner, and the health of maximum three children.

Also, in December 2017, the online portal for micro and small companies Zafirmowani.pl made it possible to generate JPK\_VAT files from the sales and VAT purchase records in the form of the Uniform Control File.

### **Settlement and transaction products**

Following the merger with Bank BPH SA, some product synergy was generated by providing Alior Bank customers of BPH after 4 November 2016 with a comprehensive product offer, including:

- BusinessPro Internet banking system,
- debit card for PLN and in foreign currencies,
- credit card,
- proximity and mobile payments,
- settlement services – payment order by the client, flexible reporting in mass transaction processing,
- cash services – closed cash management from the level of online banking (ordering convoys,

deposits and withdrawals, preview of differences protocols, preview of lists of escorts, viewing reports on completed transactions), increasing the number of subcontractors for transporting and counting cash, automatic cash withdrawals for mass payments to third parties with identity cards,

- liquidity management services – advanced balance consolidation options and group net balance.

### **New products and services**

In collaboration with card product partners:

- migration of new pre-paid card to Mastercard payment organisation and launching new functionalities: mobile payments, card status, and PIN code management for online card,
- launch of collaboration on a joint offer for business customers (a duet that pays off – bill and financing using a terminal of Centrum Rozliczeń Elektronicznych Polskich ePłatności SA),
- launch of a debit card with a Cashback scheme for entrepreneurs, offering up to PLN 100 of cashback per month on purchase of fuel at petrol stations throughout Poland

### **Loans for business customers**

The Bank offers a broad range of modern credit products responding to its business customers' comprehensive needs.

The Bank's operations in the micro enterprise and SE segment relies on a comprehensive, fully standardised credit offer. The flagship product for micro enterprises is a multi-product credit package, handled in a fully automated credit process, supporting credit decisions within 30 minutes and closing the transaction during a single contact between the customer and the Bank.

SE customers have access to the standard loan offer and multi product loan package.



The offer of Alior Bank for upper segments covers standard products and specialist liquidity management services. Alior Bank treats each customer individually and develops offers dedicated to specific entities. The Regional Business Centres work closely with the experts on Trade Finance, Treasury Products, and Transactional Products to ensure the best matching of the offer to the actual needs of customers.

Alior Bank has been actively developing its financing offer for entities in the agricultural and foodstuff sector, adequately to match different legal forms and types of business operations. In 2017 the Bank launched a new competitive offer for farmers which provides comprehensive financing for farms. The Bank also launched a simplified method for creditworthiness assessment for food manufacturers and streamlined the borrowing process for this group of customers. Strategically, the Bank develops modern forms of financing in the food production and distribution chain, while at the same time seeking to reduce the administrative burden for customers. At the end of 2017, Alior Bank financed 2,700 food producers with a total exposure of nearly PLN 3.4 billion.

### **New products and services**

- Lifting the cap under the Package loan for Micro and SE customers from PLN 500,000 to PLN 600,000,
- Non-revolving loan (Easy Capital) in a preapproved offer up to 10 years for all segments,
- Expanding the credit process in order to offer multiple products with a single contact – a multiproduct offer covering a loan and lease for all segments,
- New proposal for individual farmers to expand a financing option to including overdraft financing in the Micro and Small segment

(limit of PLN 1 million) and to provide investment loans for 30 years even.

### **European funds and aid schemes**

Alior Bank is an active participant in government schemes for support to small and medium-sized enterprises.

The Bank also provides companies with comprehensive support in obtaining subsidies and their effective and safe settlement. We offer to our customers examination of the availability of EU funds and a review of specific conditions to receive a subsidy. As part of our “European Package” we offer loan commitments and bridge financing. Customers may also obtain a loan to finance their own investment contribution with subsidies and a loan for technological innovations.

### **New products and services**

- FG POIR guarantee – in September 2017 the FG POIR guarantee was launched; it is dedicated for customers implementing innovations. Alior Bank was first in Poland to offer loans secured with this guarantee.
- Broadband loan – Alior is today the only bank that has signed a contract with BGK on financing access to high-speed Internet. With this contract our customers in the telecommunications industry may obtain the so-called broadband loan, or investment financing for the development of optical fibre networks. We offer loans with preferential interest, in the amount of PLN 20,000 to PLN 10 million PLN for up to 15 years. The broadband loan offer will soon be extended to include liquidity financing for telecommunications companies in the SME sector.



## Trade financing

In trade financing Alior Bank offers various trade finance products, including: guarantees, letters of credit, recourse factoring, and entering into creditors' rights on the basis of co-operation agreements.

## New products and services

In 2017 a simplified factoring offer was prepared and dedicated to Micro customers. The new offer modifies the principles for granting the product and reduces the volume of legal documentation. The Bank intends to expand this offer in 2018. Alior Bank seeks to fully automate the factoring process for the Micro segment.

## Digital banking

Activity of Alior Bank in digital banking is aimed at increasing the Bank's income using solutions that: enable to sell and handle products in digital channels, maximise customer value, and reduce handling costs, while building the position of a leader in digital innovation.

In 2017 Alior Bank's activities in digital banking were focused on: targets in digital sales, timely implementation of Alior Bank's integration with the demerged part of BPH Bank, implementation of new online and mobile banking, operational launch of the digital disruptor strategy and preparation of customer migration to digital channels. The activities completed both address current business goals, as well as constitute an important basis for the implementation of the strategic goals in the coming years, particularly in terms of delivered volumes of online sales and digital activation of customers.

## Digital sale

The organic growth of remote channels and activities enabled to achieve significant increases in sales in the digital channel both for individual

customers (increase in a sales volume of cash loans by 45% y/y) and businesses (increase in sales of KB current accounts + 113% y/y). Also, in Q4 '2017, all online sales channels for business customers' current accounts, used previously for individual customer products, were launched. The changes introduced will become an important basis for achieving the goals in the next year.

In terms of innovation in digital sales, Alior Bank was the first bank in Poland to enable video verification in 2017, or remote verification of identity of customers submitting the application for setting up a bank account during a video call.

## Online and mobile banking

New online and mobile banking was launched mid-year. Individual groups of customers were implemented in batches to ensure the smoothest possible reception of new solutions and functionalities, as well as the optimum use of the Bank's resources. At the same time, further functional extensions were gradually introduced, in particular: in June the first part of new systems was implemented, in September the new Alior Bank saving account (Konto Jakże Osobiste) was launched, as well as pay-by-link transactions and requesting phone contact, in December functionalities for business customers – sole trader were launched.

The new mobile application of Alior Bank, available for Android and iOS smartphones, can be used to make BLIK transfers to a smartphone (P2P payments), HCE proximity payments, a more convenient fingerprint signing in method (for iOS) or an option to scan invoices. In December, signing in to an iOS application using face biometrics, FaceID module was made available.

At the same time, online and mobile banking was developed for business customers (BusinessPro system). In particular, for mobile banking access to the currency platform – Autodealing, access to



deposits (including creation of new deposits), and full information about cards was implemented.

## Treasury activities

Alior Bank pursues its treasury operations, among others, in the following areas:

- FX transactions, starting from spot transactions to option structures adequate to customers' needs and knowledge on such instruments;
- interest rate hedging transactions ensuring customers with stable funding costs;
- hedging transactions of commodity prices;
- liquidity management – by offering customers a broad range of products to invest excess funds subject to attractive terms and conditions;
- educational activities in order to raise customers' awareness on the offered products and the related risks;
- hedging liquidity risk of Alior Bank within the approved limits – by concluding transactions in the interbank market, including FX swaps, sale/purchase transactions of T paper and REPO transactions;
- managing the FX and interest rate risk of Alior Bank with transactions in the interbank market, including, among others, with FX spot/forward transactions, interest rate swaps and options and commodity derivative instruments; and
- hedge accounting – hedging the interest rate risk resulting from variable cash flows due to variable interest rates applicable to assets by entering into PLN IRS transactions.

Any surplus funding of the Bank (when the deposits are higher than loans) is invested in PLN Treasury bills and securities issued by NBP with relatively short maturities. The Bank invests its funds as part of its liquidity management.

The principle of non-committing the Bank's own funds into transactions in financial instruments will

continue to be a strategic protection method against the systemic risk faced by numerous banks when the market becomes illiquid. The Management Board intends to manage its FX position to ensure that the equity of Alior Bank remains at the current safe level.

## Transactional platforms

Within its treasury activities, Alior Bank offers products in the form of transactional platforms with the generated income booked as business or retail income, respectively. Alior Bank uses transactional platforms subject to non-exclusive licence agreements for specified periods with the earlier one expiring in 2018.

Alior Bank is the first bank in Central Europe to have implemented its own algotrading system Quasar which constitutes a basis for three FX platforms – Autodealing, eFX Trader, and FX Exchange Office.

Autodealing is a service available to both business and individual customers, directly in Internet banking. The platform supports execution of spot and term FX transactions subject to attractive terms and conditions and opening of deposits for any number of days up to 1 year at high interest rates. The currencies available in Autodealing are as follows: PLN, EUR, USD, GBP, CHF, and additionally for Business Pro users: SEK, NOK, and CZK.

eFX Trader is a platform accessible from the level of Internet banking, dedicated to most demanding business customers. It supports the conclusion of spot transactions, term transactions and orders with price limits for 24h, 5 days a week, for almost 70 currency pairs. The platform offers three types of orders with price limits to execute transactions at the rates selected by customers automatically. The platform is characterised with high liquidity and customers may trace the developments in the FX market.



The FX Exchange Office is the first internet FX exchange office in the Polish market. The platform is destined for individual customers and for companies, available 24 hours a day, 7 days a week, after login at [www.kantor.aliorbank.pl](http://www.kantor.aliorbank.pl). The FX Exchange Office of Alior Bank provides for safe FX exchange at attractive rates and free domestic and foreign transfers of the funds purchased on the platform. The Exchange Office offers four types of automatic FX orders to enter into transactions at the most advantageous rates or periodically on a specified day each month. Additionally, customers may order free debit cards to accounts in EUR, USD, and GBP and also deposit and withdraw cash for free at branches of Alior Bank (PLN, EUR, USD, and GBP).

### New material products and actions

For the first overseas Alior Bank branch in Romania, 2017 meant continuation of its business, which was launched on 18 July 2016. On 18 October 2017 the Romanian branch commenced its commercial operation, which was officially launched at a press conference in Bucharest. Ms Celina Waleśkiewicz, Deputy President of the Management Board of Alior Bank and Mr Miroslav Majoros, President of Telekom Romania and General Manager of the branch presented the offer of Telekom Banking services – modern and intuitive banking products that are available in the Internet channel, mobile banking applications (iOS and Android), bank branches and the Contact Centre, as well as in the Telekom Romania sales network.

Using the best practices and innovative solutions of Alior Bank, a personal account was launched in Q4 2017 in Romania for individual customers in RON and foreign currencies: EUR, USD, and GBP. Several debit cards became available to customers of accounts in various currencies, these customers may also apply for a Debit Line in the personal

account in the local currency. On-line Currency Exchange offering FX exchange transactions is a complete novelty on the Romanian market, where customers may exchange 10 currencies at attractive rates, conclude cross-transactions, and submit currency transfers. The accounts in on-line Currency Exchange are free of charge plus customers may order debit cards for various currencies.

Another distinguishing feature of Telekom Banking are free of charge withdrawals from all ATMs in the country and overseas, as well as free transfers in RON via the Internet and mobile banking to any bank in Romania, which is not a standard on that market.

As at 31.12.2017, the Branch in Romania employed 81 people (81 FTEs).

### Capital investments

Capital investments of Alior Bank are presented in the table below. All securities have been acquired with the Bank's own funds:

- Shares:
  - Securities available for trading, equity securities admitted to trading at WSE in Warsaw;
  - Securities available for trading, equity securities not admitted to trading.
- Bonds: corporate bonds issued by domestic and foreign issuers, acquired due to performing the function of a market maker;
- Derivative instruments: term contracts for shares of WIG20 companies and the WIG20 index, listed at WSE, acquired/sold due to performing the function of a market maker;
- Investment certificates: certificates of closed-end private equity investment fund and units of open-end investment fund.



	status as at 31.12.2017		status as at 31.12.2016	
	number	market value / nominal in PLN	number	market value / nominal in PLN
<b>Shares</b>	584 789	293 577	<b>929 552</b>	<b>6 743 293</b>
Listed	426 716	292 365	827 362	6 739 784
Not listed	158 073	1 212	102 190	3 509
<b>Bonds</b>	3 910	275 729	<b>3 129</b>	<b>828 882</b>
<b>Derivatives</b>	0	0	<b>1 981</b>	<b>5 820 560</b>
<b>Investment Certificates</b>	773	88 795	<b>6 944</b>	<b>659 216</b>



## X. Operations of the companies in the Group of Alior Bank S.A.

### The Group of Alior Bank S.A. as at 31 December 2017



At the end of the reporting period the following were member companies of the Group of Alior Bank S.A.: Alior Bank S.A., as the parent entity and subsidiary companies in which the Bank directly holds majority interests plus a 100% subsidiary of Alior Leasing Sp. z o.o.

No change in the structure of the Group of Alior Bank S.A. occurred during the reporting period. On 16 January 2017 the Supervisory Board of Alior Leasing Sp. z o.o. approved acquisition of 100% of shares in Serwis Ubezpieczeniowy Sp. z o.o. The share sale agreement was concluded on 30 January 2017 in Katowice.

Alior Bank S.A. also acquired 104,500 shares of Money Makers TFI S.A. This transaction was concluded outside of the organised market by fulfilling the Financial Instrument Sale Agreement of 8 June 2017. The transaction was settled on 22 June 2017.

Following the settlement the existing holding of Alior Bank S.A. in the share capital and in the overall number of votes at the General Meeting of Shareholders of Money Makers TFI S.A. was up by 1.33%. On 31 December 2017 Alior Bank S.A. held 4,735,442 shares in Money Makers TFI S.A., accounting for 60.16% of the share capital and votes at the General Meeting of Shareholders.



### Alior Leasing Sp. z o.o.

Alior Bank S.A. holds 100% of shares and 100% of the overall number of votes at general meetings of Alior Leasing Sp. z o.o.

Alior Leasing Sp. z o.o. was set up in April 2015 and has been actually operating since October 2015.

Alior Bank took actions aimed at changing the legal form of Alior Leasing into a joint-stock company in 2018. By resolution of 13.01.2017, the Extraordinary General Meeting chose to increase the Company's share capital from PLN 15,001,000.00 to PLN 15,002,000.00 (this increase was registered by the registry court on 21 March 2017), and on 16.03.2017 the Extraordinary General Meeting increased the Company's share capital from PLN 15,002,000.00 to PLN 15,003,000.00 (this increase was registered by the registry court on 15 May 2017) and it currently remains at this level. As the sole shareholder the Bank acquired the newly issued shares.

### Serwis Ubezpieczeniowy Sp. z o.o.

Alior Bank holds 100% of shares and 100% of the overall number of votes at general meetings of Serwis Ubezpieczeniowy Sp. z o.o. The Company's share capital is PLN 5,000, no change occurred during the reporting period.

Serwis Ubezpieczeniowy Sp. z o.o. was incorporated in November 2016 and launched its operating activity in February 2017.

### Alior Services Sp. z o.o.

Alior Bank holds 100% of shares and 100% of the overall number of votes at general meetings of Alior Services Sp. z o.o.

Alior Services Sp. z o.o. (formerly Alior Raty Sp. z o.o.) was established with the following purpose: (i) using sales opportunities of non-financial products and services; (ii) expanding and adding to the

attractiveness of the offer for Private Banking customers to reinforce competitive advantages.

The business of Alior Services Sp. z o.o. focuses on: (i) search for and attracting external partners to co-operate in the offering of non-banking services; (ii) business associating of customers and external partners; (iii) insurance agent activity. In 2017 the company carried out some pilot activity involving (i) collaboration with PZU on validation of the customer rating system in the process of issuing guarantees, and (ii) sale of elite products; the experience the company gained will be used in remote sales channel of the Alior Bank Group.

### Money Makers TFI S.A.

Alior Bank holds 60.16% of shares and 60.16% of the overall number of votes at general meetings of Money Makers TFI S.A. Shares of the Company were admitted to trading in the NewConnect market operated as an alternative trading system by the Warsaw Stock Exchange.

Money Makers TFI S.A. was incorporated in 2010. Originally the company as a brokerage house focused on services related to asset management, following its reorganisation in July 2015 the company operates as a TFI. The cooperation of Alior Bank with its subsidiary Money Makers TFI S.A. covers three areas: asset management (management of portfolios of individual/private banking customers), insurance offers of investment funds and management of Alior SFIO sub-funds.

### Absource Sp. z o.o.

On 31 March 2016 Absource Sp. z o.o. was incorporated. Alior Bank holds 100% of shares and 100% of the overall number of votes at general meetings of Absource Sp. z o.o.

Absource Sp. z o.o. has the following objectives: (i) services related to IT and computer technologies; (ii) activity related to IT consulting; (ii) computer programming activities Business of Absource Sp. z



o.o. focuses on sub-licencing of IT software and other IT services.

#### **NewCommerce Services Sp. z o.o.**

Alior Bank holds 100% of shares and 100% of the overall number of votes at general meetings of NewCommerce Services Sp. z o.o.

The company pursues one of the key initiatives of the Digital Disruptor strategy, namely launch of a fully digital financial intermediation platform, first of its kind in Poland.

With the platform operating as BANCOVO. customers, for the first time in Poland, will have access to actual loan offers – from banks and lending institutions. And in future also to mortgage loans and insurance offers. BANCOVO. is set to be a more convenient and innovative platform. As it will utilise some state-of-the-art technological solutions and direct integration with financial institutions, the process of selecting an offer, concluding a loan agreement, as never before, is intuitive and quick for the customer. The launch of BANCOVO. operations is planned for Q1 2018. By 2020 the company is to be number 1 in online financial intermediation with volumes of PLN 2-3 billion.

#### **Centrum Obrotu Wierzytelnościami Sp. z o.o.**

Alior Bank holds 100% of shares and 100% of the overall number of votes at general meetings of Centrum Obrotu Wierzytelnościami Sp. z o.o.

The purpose of the company was to expand its business on the property market and debt trading also outside the Alior Bank Group. In 2017 further development of this line of business was abandoned. In December 2017 the Extraordinary General Meeting of Shareholders chose to dissolve COW Sp. z o.o.

#### **Meritum Services ICB S.A.**

Alior Bank holds 100% of shares and 100% of the overall number of votes at general meetings of Meritum Services ICB S.A.

Meritum Services ICB S.A. is a company providing services in the area of IT and computer technologies and other IT-related services. In 2015 the company's business was extended to include operations of insurance agents and brokers, activities related to risk assessment and estimation of incurred losses, other activities supporting insurance and pension funds.



# XI. Events and agreement that are material to the operations of Alior Bank S.A. Group

## **Operational merger**

The Bank finalised the take-over process of the assets of the demerged part of Bank BPH. Between 24 and 26 March 2017, the last stage of the merger of the two banks was closed – an operational merger involving transfer of the data of the customers of BPH of the Core Business to the IT systems of Alior Bank SA. The operational merger, ending the integration process from customers' perspectives, means full unification of customer services in terms of access to the branches and the transactional systems by transferring data and product handling to the IT systems of the Bank.

## **Transaction between entities of the Group of Alior Bank S.A. – conclusion of a material agreement**

On 10 March 2017 an agreement was concluded between Alior Bank SA and its subsidiary Alior Leasing Sp. z o.o. on a package of agreements to finance its current business. As a result of the Agreement, the Bank's total exposure to Alior Leasing was increased to PLN 869,000 thousand.

## **Development and approval of the strategy of the Group of Alior Bank S.A. for 2017-2020**

On 13 March 2017 the Management Board of the Bank chose to publish the core assumptions of the

"Strategy of Alior Bank for 2017-2020" approved by the Supervisory Board.

## **Disbursement of deferred tranches of variable remuneration for 2013, 2014 and 2015**

On 14 March 2017 the Supervisory Board of the Bank approved a resolution to issue to Members of the Bank's Management Board deferred tranches of financial instruments within the Managerial Option Programmes for 2013, 2014, and 2015.

Pursuant to Art. 23.2.11 of the Bank's Articles of Association, in connection with the Policy of variable components of remuneration of persons in managerial positions at Alior Bank S.A. and in compliance with Resolution No. 28/2012 of the Ordinary General Meeting of Alior Bank S.A. of 19 October 2012 on the conditional increase of the Bank's share capital and on an issue of subscription warrants, consent was provided to issue deferred warrants and the allocated phantom shares as a result of an adjustment of the Programme related to a share issue with pre-emption rights.

## **Individual recommendation of the Polish Financial Supervision Authority concerning dividend for 2016**

On 23 March 2017, Alior Bank SA received a letter from PFSA with an individual recommendation to



increase its equity by retaining the entire profit generated in the period from 1 January 2016 to 31 December 2016.

### **Implementation of the Management Option Scheme for 2013, 2014, and 2015**

In 2017 the Bank went through two procedures of capital increase in the form of conditional increase by issue of new ordinary bearer shares of D, E and F series with a total nominal value of PLN 210,780, part of the Management Option Scheme for 2013, 2014, and 2015:

- the issue worth PLN 58,610 was completed on 29 August 2017 by registration of 5,861 shares with KDPW (National Depository of Securities).
- the issue worth PLN 152,170 was completed on 15 January 2018 by registration of 15,217 shares with NDS.

The shares were floated under a normal procedure on the primary market. These shares account for 0.7% of any possible rights awarded to the participants of the Subscription Warrant Scheme (scheme's nominal value is PLN 29,792,660.00). New issues account for 0.017% of the Bank's shares issued to date.

### **Changes to the Bank's organisational structure**

In July 2017, with a view to reinforcing its regular legal support while reducing the related costs, the Management Board decided to set up Legal Department in the Bank's organisational structure - its core task will be to provide comprehensive legal services to the Bank and legal supervision over the Bank's involvement in court proceedings. On 31 July 2017 the Bank's Management Board approved resolution No. 254/2017 amending the Organisational Regulations of the Head Office of Alior Bank S.A., to incorporate the newly established Legal Department in the Bank's structure. When the Legal Department was

established, negotiations were continued and on 12 September 2017 an agreement was concluded to close the cooperation with the external law firm P. Tokarz, B. Kapuściński, M. Zaręba i Wspólnicy sp. k., which used to provide legal services to the Bank pursuant to a cooperation agreement of 5 September 2011 and pursuant to several other agreements covering legal support to various areas of the Bank's operations. In accordance with the agreement, the cooperation will be finally ended on 28 February 2018.

### **The plan for operationalisation of the Bank's strategy for 2017-2020**

On 4 October 2017 the Management Board of Alior Bank presented the plan for operationalisation of the Bank's strategy for 2017-2020. The plan was prepared with the participation of 100 key managers and includes detailed descriptions of projects being implemented along with their contribution to the achievement of strategic goals.

### **Letter of Intent with Bank Polska Kasa Opieki Spółka Akcyjna on the launch of preliminary talks on co-operation**

On 23 October 2017 Alior Bank S.A and Bank Polska Kasa Opieki S.A. signed a letter of intent on initial negotiations on potential co-operation strategies that could be developed to increase the value for the shareholders and customers. Engaging in negotiations and conducting relevant evaluations, considering the exchange of information preceded by obtaining appropriate authorisations, will aim at assessing the validity of this co-operation based on various scenarios.

Previous work will not prejudice the recommendation of the Bank's Management Board for any possible scenario of co-operation.

Evaluations are in line with the Digital Disruptor Strategy providing for a possibility of evaluating



the merger and acquisition transactions. The launch of evaluations under this project has no impact on the current business and implementation of strategic initiatives provided for in the Action Plan for operationalisation of the Digital Disruptor Strategy. All potential transactions will be evaluated considering any extra benefits that could be generated for the shareholders compared to the organic growth scenario under implementation.

Public disclosure of inside information on the Management Board's decision to: (i) proceed with a project aimed at evaluation of strategic options within PZU Group, including a potential transaction to merge with Bank Polska Kasa Opieki S.A. and a decision to (ii) select an adviser to assist the Bank in this process was delayed pursuant to Art. 17.4 of MAR until the conclusion date of the letter of intent.

### **Agreement for periodic granting of insurance guarantees as unfunded credit protection and a framework agreement for provision of periodic counter-guarantees**

On 8 November 2017 a commissioning agreement was concluded by the Bank and PZU SA for periodic granting of insurance guarantees as unfunded credit protection and a framework agreement for the provision of periodic counter-guarantees.

The first of these agreements sets out the rules for granting by PZU SA insurance guarantees for unfunded credit protection within the limit of commitment on behalf of and for the benefit of the Bank.

The limit of exposure under guarantees granted on the basis of this agreement is PLN 5 billion. The limit is valid for a period of three years and is renewable, meaning that the expiry of the guarantee renews the limit by the amount

released, less the amount of possible payments made under the guarantee.

Remuneration for granting the guarantee will depend, among other things, on amortisation of the portfolio. Further to that a bonus for counter-guarantee may be included in the remuneration, the release of which PZU SA may commission to a contractor.

At present, it is not possible to provide the amount of remuneration for the guarantee, as it will depend on the amount of the guarantee sum and on the quality of the portfolio secured by the guarantee. The provision of each guarantee will be preceded by the Bank's application and the assessment and valuation of the portfolio presented to the guarantee.

Detailed information on individual guarantees issued by PZU SA under the commission contract for periodic warranty coverage will be made public by the Bank.

To secure the payment of remuneration for the guarantee, the Bank filed a declaration on voluntary submission to enforcement in the form of a notarial deed.

The maximum duration of the guarantees issued under the commission agreement for periodic guarantees is 3 years plus the period for submission of claims. Bank's own contribution in debt receivables is 10%.

The agreement provides for contractual penalties that may be due to PZU SA from the Bank in the event of any breach of certain obligations of the Bank under the agreement. The total maximum amount of contractual penalties may not exceed PLN 2,000,000. The agreement does not exclude a possibility of claiming compensation in excess of the sum of contractual penalties.

Public disclosure of inside information on the Management Board becoming aware of the



adoption of a resolution by the Management Board of PZU SA regarding the acceptance of assumptions for the agreement for granting periodic insurance guarantee between PZU SA and the Bank was delayed pursuant to Art. 17.4 of MAR until the conclusion date of the agreement.

The other agreement sets out the rules for providing counter-guarantees to the Bank upon request of PZU SA by PZU contractor.

The available counter-guarantee limit is PLN 2.6 billion.

The available limit will be reduced each time when each subsequent counter-guarantee is granted by the guarantee sum indicated in this counter-guarantee, while the available counter-guarantee limit will be renewable, which means that expiry of the counter-guarantee will cause the limit to be renewed.

### **Conclusion of a settlement regarding material agreements**

On 19 December 2017, the Bank's Management Board concluded a settlement with Bank BPH S.A. ("BPH"), GE Investments Poland Sp. z o.o. ("GEIP"), DRB Holdings B.V. ("DRB Holdings"), and Selective American Financial Enterprises, LLC ("SAFE") (GEIP, DRB Holdings and SAFE jointly also referred to as the "Sellers") regarding the acquisition of the demerged part of BPH under a spin-off carried out on 4 November 2016 ("Transaction").

The settlement concerned the following agreements concluded by the Bank: (i) agreement of 31 March 2016 between the Bank and the Sellers – the Share Purchase and Demerger Agreement, (ii) agreement of 1 April 2016 between the Bank and BPH with the support of the Sellers – Pre-Demerger and Co-operation Agreement, and (iii) agreements of 17 October 2016 between the Bank and BPH – Demerger Implementation and

Post-Demerger Co-operation Agreement, as well as the division of BPH under a spin-off.

The subject of the Settlement is settlement of the purchase of part of BPH's operations and some other claims, costs, and payments related to the Transaction. Under the Settlement, the Sellers agreed to pay the Bank PLN 94.3 million, and the Bank confirmed that upon receipt of the above-mentioned the amount it would not raise certain claims regarding the settlement of the acquisition of part of BPH's operations.

Signing of the Settlement has no significant impact on the Bank's financial performance and does not affect the method of settling the purchase price of part of BPH's operations in the Bank's books, as the amount specified in the Settlement corresponds to the amount due under the settlement of the acquisition of the demerged part of Bank BPH in the Bank's books disclosed in the report of the Alior Bank Group for Q3 2017.

### **Granting permission for the Bank to use AMA method**

On 22 December 2017 the Management Board of the Bank obtained permission from the Polish Financial Supervision Authority for joint application by the Bank of:

1. Advanced Measurement Approach method – regarding the Bank's operations, with the effect on the demerged part of Bank BPH SA prior to 4 November 2016 (hereinafter: exBPH) and operations of the branch in Romania.
2. Standard method – regarding:
  - historical effects of exBPH operations
  - the branch in Romania to calculate capital requirements for the operational risk from 1 January 2018.

Obtaining permission for AMA method confirms successful completion of a multi-month project to improve the Issuer's operational risk management



processes. The effects are reflected in the Bank's operational risk profile, the quality of management processes, including risk in many dimensions such as the measurement based on an advanced statistical model or the level of operational losses.

Further to that, the effect of obtaining permission for AMA method has increased the ratio on Tier 1 capital from 1 January 2018 by approximately 0.19 percentage points and the total capital ratio (TCR) by approximately 0.24 percentage points.

### Significant events after the balance sheet date

#### Updating information on the capital plan, growth in Q4 2017, and strategic goals

On 10 January 2018, the Bank's Management Board published information regarding the capital plan, growth in Q4 2017 and a potential impact of the selected factors on the expected realization of the key financial indicators.

A number of positive events caused a significant improvement in the Bank's capital position since the announcement of the Strategy Operationalisation Plan on 4 October 2017. Considering the described events, Alior Bank expects to achieve the levels of Tier 1 capital ratio of 15.0% and the TCR ratio of 17.0% in 2020 (without considering the impact of the potential dividend payment in 2020), i.e. 3.25pp over the assumed regulatory minimums in 2020.

The improvement in the capital position enabled the Bank to accelerate growth in Q4 2017 above the upper strategic goal threshold and the level previously forecast.

The Bank also presented the potential estimated impact of the following factors on possible levels of realization of key financial indicators in the 2020 horizon: (i) assumption of a scenario of interest rate growth in line with the market consensus, (ii) implementation of IFRS-9, (iii) lifting of the NII premium limit, and (iv) reduction of the mandatory reserve rate.

2020 KPI Target	Scenario assumed in the <i>Strategy Implementation Plan</i> (25bps hike) <sup>1</sup>	Scenario reflecting the current market consensus on interest rate hikes <sup>2</sup>
<b>ROE</b>		
<b>presented in the <i>Strategy Implementation Plan</i></b>	14.1%	<b>15.1%</b>
adjusted for only additional ZUS costs, and RPP's resolution <sup>4</sup>	13.7%	<b>14.7%</b>
adjusted for only IFRS-9 <sup>3</sup>	15.4%	<b>16.5%</b>
adjusted for IFRS-9, the additional ZUS costs, and RPP's resolution <sup>4</sup>	15.0%	<b>16.2%</b>
<b>NIM</b>		
<b>presented in the <i>Strategy Implementation Plan</i></b>	5.1%	<b>5.2%</b>
adjusted for only RPP's resolution <sup>4</sup>	5.1%	<b>5.2%</b>
adjusted for IFRS-9 and RPP's resolution <sup>4</sup>	5.1%	<b>5.3%</b>
<b>C/I</b>		
<b>presented in the <i>Strategy Implementation Plan</i></b>	39%	<b>38%</b>
adjusted for the additional ZUS costs and RPP's resolution <sup>4</sup>	40%	<b>39%</b>



CoR		
<b>presented in the <i>Strategy Implementation Plan</i></b>	1.6%	<b>1.6%</b>
adjusted for IFRS-9 <sup>3</sup>	1.7%	<b>1.7%</b>
<b>Annual gross loan book growth</b>	5-6 MLD PLN	<b>5-6 MLD PLN</b>

1 One increase of interest rates by the end of 2020: by 25bp in January 2019; no changes in interest rates in foreign currencies

2 Increase of interest rates by the end of 2020: PLN – June 2018 (25bp), March 2019 (25bp), September 2019 (25bp), June 2020 (25bp); EUR – June 2019 (25bp), December 2019 (25bp), September 2020 (25bp)

3 Reflects the decrease in equity due to the implementation of IFRS-9 from 1 January 2018; no significant impact of IFRS-9 on the net profit is expected

4. (i) Entry into force of the Act on Abolition of Limits for Social Security Contributions expected from 1 January 2019 (the amount reflects direct costs of contributions paid by the employer); (ii) decrease of the interest rate on the mandatory reserve from 1.35% to 0.5% from 1 January 2018. None of these two events were included in the Strategy Operationalisation Plan announced on 4 October 2017.

## Management Option Plan for the years 2013, 2014 and 2015

Under the Management Option Plan for the years 2013, 2014 and 2015, the Bank intends to initiate a procedure of the Banks' share capital increase by means of issue of the new ordinary series D, E and F shares with a total nominal value of PLN 11 798 750 (eleven million seven hundred and ninety eight thousand seven hundred and fifty zlotys) constituting 39.6% of all rights to execute granted to participants of the Subscription Warrants Programme (nominal value of the program is PLN 29 792 660.00). New share issue will constitute 0.91% of all shares issued currently and applies to the Managers of the Bank.

Statements of intent to exercise the rights granted by the Bank of Series A Subscription Warrants and taking up 347 296 (three hundred and forty seven thousand two hundred ninety six) of ordinary D series bearer shares ("D Series Shares"), with a nominal value of PLN 10.00 (ten zloty) each, with a total nominal value of PLN 3 472 960 (three million four hundred seventy two thousand nine hundred and sixty zlotys) at an issue price of PLN 61.84 (sixty one zloty and 84/100) per one Series D Share; Series B Subscription Warrants and taking up 514 178 (five hundred fourteen thousand one hundred and seventy eight) of ordinary E series bearer shares ("E Series Shares"), with a nominal value of PLN 10.00 (ten zloty) each, with a total nominal

value of PLN 5 141 780 (five million one hundred and forty one thousand seven hundred eighty zlotys) at an issue price of PLN 64.65 (sixty four zloty 65/100) per one Series E Share and, Series C Subscription Warrants and taking up 318 401 (three hundred and eighteen thousand four hundred one) of ordinary F series bearer shares ("F Series Shares"), with a nominal value of PLN 10.00 (ten zloty) each, with a total nominal value of PLN 3 184 010 (three million one hundred and eighty four thousand and ten zlotys) at an issue price of PLN 66.06 (sixty six zloty 06/100) per one Series F Share, were adopted for the implementation.

The new share issue is fully compliant with the assumptions of the Management Option Plan for the years 2013, 2014 and 2015 providing for issue of three tranches of subscription warrants (Series A, B and C) as well as corresponding three tranches of the Bank's shares (Series D, E and F) of a total nominal value not exceeding PLN 29 792 660,00.



## XII. Issue of own bonds of Alior Bank S.A.

The Bank obtains financing through the issue of ordinary or subordinated bonds carried out as a public offer (in accordance with Art. 33.1 of the Act on Bonds of 15 January 2015) and non-public or private issue (in accordance with Art. 33.2 of the Act on Bonds of 15 January 2015).

### Public offert of the Bank's bonds

Pursuant to the Resolution of the Bank's Supervisory Board of 23 August 2017 the Bank pursues a second opened public bond issue programme (Second Public Issue Programme) with a maximum value of PLN 1,200,000,000, issued in series in line with Art. 33.1 of the Act on Bonds pursuant to a core prospectus, of which the Bank notified in its Current Report No. 47/2017 of 23 December 2017.

Further to that, the Supervisory Board of the Bank, as requested by the Bank's Management Board, also agreed to cease issuing bonds under the existing Public Subordinated Bond Issue Programme of Alior Bank SA, established by Resolution No. 407/2015 of the Bank Management Board of 22 December 2015 and approved by Resolution No. 83/2015 of the Bank's Supervisory Board of 28 December 2015, and to close of the First Public Issue Programme.

On the basis of the core prospectus for the Second Public Issue Programme, the Bank may issue up to 12,000,000 unsecured, non-subordinated,

or subordinated bearer bonds with a nominal value of PLN 100, or a multiple of this amount, with a maturity of up to 10 years from on the day of issue of relevant series of bonds, whereby the Bank's Management Board shall determine the terms of issue of individual series of subordinated bonds in such a way that: (i) total nominal value of all subordinated bonds issued on the basis of the Prospectus (as defined below) remained at or below PLN 600,000,000 and (ii) the unit nominal value of subordinated bonds was PLN 400,000.

The purpose of issue of bonds of individual series (within the meaning of Art. 32 of the Act on Bonds) will be from time to time indicated in the Final Terms of Issue. Irrespective of the purpose of the issue, subordinated bonds will be qualified, upon obtaining consent of PFSa in accordance with Art. 127.1 of the Banking Act, as instruments in Tier 2 capital, referred to in Art. 63 of the CRR Regulation, and the proceeds from the issue shall be accounted for by the Bank under Tier 2 Capital of the Bank.

The bonds will be issued and offered in series within a period of maximum 12 months from 13 October 2017, i.e. the date of approval of the core prospectus for the Second Public Issue Programme by the Polish Financial Supervision Authority.

2017 saw one issue of subordinated bonds under the Second Public Issue Programme.

Series name	Abbreviated name	Bond type	ISIN	Series value (PLN)	Issue date	Redemption date	Listing market
P2A	ALR1225	subordinated	PLALIOR00235	150 000 000	2017-12-14	2025-12-29	RR GPW



## Public Issue of P2A series of subordinated bonds

On 14 December 2017 the Bank issued acquired 375 subordinated bearer series P2A bonds with a nominal value of PLN 400,000 each and a total nominal value of PLN 150,000,000. The bonds bear interest at a floating interest rate which is the sum of the WIBOR 6M base rate and a margin of 2.70% per annum, however, in the first interest period the interest rate is fixed at 4.55% per annum. Bond redemption is falling on 29 December 2025.

The issue was carried out under Art. 33.2 of the Act on Bonds, part the Second Public Issue Programme, based on the Resolution of the Bank Management Board of 9 November 2017, which the Bank announced in Current Report No. 70/2017 of 9 November 2017 on the final terms offer of series P2A bonds.

On 14 December 2017, bonds were registered with KDPW S.A. and marked with ISIN PLALIOR00235 code. On 22 December 2017, the WSE Management Board adopted a resolution to admit bonds to trading on the main market on Catalyst and on 29 December 2017 a resolution to introduce bonds to the main market on Catalyst as

of 8 January 2018 and to list the bonds in the continuous trading system under the abbreviated name of ALR1225.

On 15 January 2018, the Bank was notified of a decision of the Polish Financial Supervision Authority of 5 January 2018 on consent to include, in the calculation of the Bank's Tier 2 capital, PLN 150,000,000 – a subordinated liability due to issue of series P2A subordinated bonds by the Bank on 14 December 2017.

## Non-public issue of the Bank's bonds

The Bank pursues a programme of own bond issue with a maximum value of PLN 2,000,000,000, established pursuant to the Resolution of the Bank's Supervisory Board of 10 August 2015 (Issue Programme), as reported by the Bank in Current Report No. 68/2015 of 10 August 2015. The type of bonds, the offer procedure, and the detailed terms of issue of individual series of bonds issued as part of the Issue Programme are determined by the Bank's Management Board by way resolutions.

2017 saw the following non-public issues of bonds under the Issue Programme:

Series name	Abbreviated name	Bond type	ISIN	Series value (PLN)	Issue date	Redemption date	Listing market
J	ALR0820	ordinary	PLALIOR00201	250 000 000	2017-08-11	2020-08-11	ASO GPW, ASO BondSpot
K	ALR1025	subordinated	PLALIOR00219	400 000 000	2017-10-20	2025-10-20	ASO GPW, ASO BondSpot
K1	ALR1025	subordinated	PLALIOR00219	200 000 000	2017-10-20	2025-10-20	ASO GPW, ASO BondSpot

## Non-public public issue of series J ordinary bonds

On 11 December 2017 pursuant to Article 33.2 of the Act on Bonds, the Bank issued 250,000 bearer series J bonds with a nominal value of PLN 1,000 each and a total nominal value of PLN 250,000,000. Bonds were issued in accordance

with Article 33.2 of the Act on Bonds. The bonds bear interest at a floating interest rate which is the sum of the WIBOR 6M base rate and a margin of 1.19% per annum. They are 3-year bonds and the redemption date on 20 August 2020. Information on Resolution of 25 July 2017 on series J bond issue adopted by the Bank's Management Board



was disclosed in Current Report No. 43/2017 of 25 July 2017.

On 11 August 2017, bonds were registered with KDPW S.A. and marked with ISIN PLALIOR00201 code. Bonds are traded in the alternative trade system Catalyst of GPW w Warszawie S.A. and BondSpot S.A.S in a continuous trading system under the abbreviated name of ALR0820.

### **Non-public issues of series K and K1 of subordinated bonds**

On 20 October 2017 pursuant to Article 33.2 of the Act on Bonds, the Bank issued the following:

- 400,000 subordinated series K bearer bonds with a nominal value of PLN 1,000 each and a total nominal value of PLN 400,000,000.
- 200,000 subordinated series K1 bearer bonds with a nominal value of PLN 1,000 each and a total nominal value of PLN 200,000,000.

The bonds bear interest at a floating interest rate which is the sum of the WIBOR 6M base rate and a margin of 2.70% per annum. They are 8-year bonds with the redemption date on 20 October 2025. Information on Resolutions of 3 October 2017 on series K and K1 bond issue adopted by

the Bank's Management Board was disclosed in Current Report No. 54/2017 of 3 October 2017.

On 11 August 2017 the Management Board of NDS registered series K bonds (code ISIN PLALIOR00219) and series K1 bonds (code ISIN PLALIOR00227). On 7 November 2017, upon considering the request of the Bank's Management Board, Management Board of NDS resolved on assimilation of 200,000 series K1 bonds and 400 000 series K bonds. As of 10 November 2017 code PLALIOR00219 is used for 600,000 bonds of the Bank.

Bonds are traded in the alternative trade system Catalyst of GPW w Warszawie S.A. and BondSpot S.A in a continuous trading system under the abbreviated name of ALR1025.

On 1 December 2017, the Bank was notified of a decision of the Polish Financial Supervision Authority of 23 November 2018 on consent to include in the calculation of the Bank's Tier 2 capital PLN 600,000,000 – a subordinated liability due to issue of series K and K1 subordinated bonds by the Bank.



## XIII. Risk report of Alior Bank

Risk management is one of the most important internal processes at Alior Bank S.A., as well as in the foreign branch and in subsidiaries of the Group of Alior Bank S.A. The supreme objective of the risk management policy is to ensure early detection and adequate management of all kinds of risk inherent to the pursued activity. Within its activity, the Bank identifies the following types of risk:

- credit risk (including concentration risk),
- interest rate risk in the banking book,
- market risk (including: the interest rate risk, the exchange rate risk, and the commodity price risk),
- liquidity risk,
- operational risk,
- compliance risk,
- model risk,
- business risk,
- reputational risk,
- capital risk.

The risk management system at Alior Bank S.A. is based on three independent lines of defence. The first line of defence is implemented in the Bank's operational units and with process owners who develop and implement compliance with control mechanisms in processes. The second line of defence is implemented in organisational units responsible for managing individual risks. It performs a management function within which risk management is implemented on dedicated positions or in organisational units, regardless of the first line, and the activity of the compliance unit. The third line provides senior management and the Supervisory Board with assurance that activities of the first and second line are compliant with their

expectations. The third line of defence involves activity of the internal audit unit.

Of the identified risks the Bank treats the following as crucial risks:

- interest rate risk in the banking book,
- market risk in the trading book (including: the interest rate risk, the exchange rate risk, and the commodity price risk),
- liquidity risk,
- credit risk,
- operational risk.

### Rules of market and liquidity risk management

Key rules of market and liquidity risk management are determined by the Policy for Management of Assets, as well as Equity and Liabilities.

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

- conclusion of treasury transactions
- measuring, monitoring, and reporting the market and liquidity risk, including the manner of pursuing the policy for market and liquidity risk management,
- process for transaction closing,
- operational handling and support for business processes including handling the Bank's nostro accounts.

Supervision over the aforementioned activities associated with conclusion of transactions and independent risk measurement and reporting was 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 and Management Board, as well as ALCO play an active role in management of the market risk.

The exposure to the market and liquidity risk is formally mitigated with a system of limits, periodically updated by resolutions of the Management Board or ALCO, covering all risk metrics with their levels monitored and reported by the Bank's organisational units that are independent of business.

There are three types of limits at the Bank that differ in terms of coverage and functioning: core limits (approved by the Supervisory Board), supplementary limits, additional limits.

### Market risk

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 in the trading book (including: the interest rate risk, the exchange rate risk, and the commodity price risk).

### Interest rate risk

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

- mismatch risk of repricing periods,
- base risk,
- risk of profitability curve,
- risk of customers' options.

Additionally, with respect to the interest rate risk, the Bank pays special attention to modelling accounts with unspecified maturities and interest rates set by the Bank (e.g. for current deposits), as well as the impact of non-interest items in the risk (e.g. equity, fixed assets).

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

Measurement and limitation of the interest rate risk is performed by monitoring the volatility of net interest income (NII) and changes in the economic value of the Bank's equity (EVE). In addition to the NII and EVE measures in measuring the interest rate risk, the Bank 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.

BPV as at 31 December 2017 and 31 December 2016 for the Bank are presented in tables:

#### BPV at the end of 2017 – split by tenor (PLN '000)

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5-10 years	Total
PLN	3,4	192,5	195,7	95,1	-90	396,7
EUR	-0,5	-8,1	61,3	90	-4,5	138,2
USD	1	8,1	-2,2	-0,2	-1	5,6
CHF	-1	0,1	-1	0	0	-1,8



GBP	-4	2	0	0	0	-2
Other	-1	2,1	-1	-0,2	0	-0,3
<b>Total</b>	<b>-1,8</b>	<b>196,7</b>	<b>253</b>	<b>184,7</b>	<b>-96</b>	<b>536,5</b>

#### BPV at the end of 2016 – split by tenor (PLN '000)

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5-10 years	Total
PLN	-19	305,4	605	111,3	-434	568,9
EUR	-16	0,3	-29	-43,7	-35	-123,1
USD	13	11,1	-13	-0,2	-1	9,9
CHF	-1	-0,3	-2	-0,2	0	-2,7
GBP	0	2,5	0	0	0	2,8
Other	-2	-5	3	-0,1	0	-3,9
<b>Total</b>	<b>-25</b>	<b>314</b>	<b>565</b>	<b>67</b>	<b>-469</b>	<b>452</b>

#### BPV statistics– split by tenor (PLN '000)

Book	01.01.2017-31.12.2017			01.01.2016-31.12.2016		
	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	-1 298,3	-575	138,8	-2 459	-753,75	-375
Trading book	-75,6	5,9	70	-49	-11,39	33
ALCO	419,6	1440,6	2 225,1	499	969,52	1 814
<b>Total</b>	<b>212</b>	<b>872</b>	<b>1 611</b>	<b>-771</b>	<b>204</b>	<b>583</b>

The table below presents 10-day VaR for the Bank split by the banking and trading book at the end of 2017 and 2016.

VaR (in PLN '000)	31.12.2017	31.12.2016
Banking book	8 435	11 849
Trading book	928	1 909
<b>Total</b>	<b>9 063</b>	<b>12 314</b>

VaR statistics split by the banking and trading book for 2017 and 2016 are presented in the table below (99% VaR with the time horizon of 10 days).

Book	01.01.2017-31.12.2017			01.01.2016-31.12.2016		
	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking	6 346	18 123	31 068	3 493	10935	32 883
Trading	870	2 208	4 009	588	1650	5 485
<b>Total</b>	<b>6 046</b>	<b>19 398</b>	<b>32 043</b>	<b>3 733</b>	<b>11 687</b>	<b>38 120</b>

The Bank performs scenario analyses covering, among others, the impact of specified changes to interest rates on future interest income and the economic value of equity. Within those scenarios,

internal limits are maintained the utilisation of which is measured on the daily basis.



Movements in the limit for change of economic value of equity with a parallel shift of interest rate curves by +/- 200bps and non-parallel shifts with scenarios of +/- 100/400bps (in 1M/10Y tenors, between them a linear interpolation of the shifts)

Scenario (1M/10Y)	Change to the economic value of capital 31.12.2017	Change to the economic value of capital 31.12.2016
+400 /+ 100	188 906	233 976
+100 /- 400	67 831	30 853
+200 /+ 200	102 857	106 191
-200 / - 200	-84 863	-108 574
- 100 / - 400	-42 814	-44 898
- 400 / - 100	-94 591	-107 990

at the end of 2017 and 2016 are presented below (PLN '000).

Change of interest result in 1 year horizon with a change of interest rates by 100bp (negative scenario) at the end of 2017 and 2016 is presented below

	31.12.2017	31.12.2016
NII	6,96%	9,49%

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.

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

#### PLN repricing gap in PLN '000

2017	1M	3M	6M	1Y	2Y	5Y	>5Y	TOTAL
<b>Periodical gap</b>	38,164,862	-12,742,445	-12,304,074	1,030,872	-2,762,148	3,889,341	-753,042	6,744,685
<b>Cumulated gap</b>	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
<b>Periodical gap</b>	-45,709	205,957	233,420	135,286	60,501	-16,291	-3,865	569,300
<b>Cumulated gap</b>	-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
<b>Periodical gap</b>	839,042	-479,932	-519,347	50,862	33,404	-75,741	-16,156	-167,869
<b>Cumulated gap</b>	839,042	359,109	-160,237	-109,375	-75,972	-151,713	-167,869	



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

Alior Bank pursues regular monitoring and reporting of:

- FX risk metrics;
- use of FX risk internal limits and threshold values;
- stress test results.

FX risk limits are determined so that this risk remains on a limited levels

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 warning thresholds to the FX risk;
- limitations to allowable FX transactions;
- stress tests.

The FX risk is measured and assessed by limiting the FX positions opened by the Bank.

In order to measure the FX risk, the Bank uses VaR and stress tests.

VaR identifies the potential loss on existing positions, related to changes of FX rates, while maintaining the assumed confidence level and the

position maintenance period. In order to calculate VaR, the Bank applied a variance-covariance method with the confidence level of 99%. The value is determined daily for each area responsible for risk assumption and management, individually and jointly.

As at 31 December 2017, the maximum loss on the FX portfolio held by the Bank (managed within the trading book), is determined on the basis of VaR over the time horizon of 10 days, could be PLN 157,474.83 (PLN 279,628.70 as at 31 December 2016), with the assumed confidence level of 99%.

	31.12.2017	31.12.2016
Horizon [days]	10	10
VaR [PLN]	157 474,83	279 628,70

### VaR statistics in the Bank's FX portfolio in 2017 and 2016

VaR	31.12.2017	31.12.2016
Min	29,26	21,48
Medium	309,69	310,62
Max	1 648,53	4 748,08

### Bank's FX position as at 31 December 2017 and 31 December 2016

Currencies	Position in '000 31 December 2017	Position in '000 31 December 2016
gross exposure	59,697	20,153
group A gross	46,012	4,522
EUR	15,158	268
USD	29,589	118
GBP	359	4,045
CHF	905	90
other gross	13,685	15,631



In order to measure its exposure to the FX risk, the Bank carries out stress tests. Below are presented the results of stress tests of changes to FX rates versus PLN by +/- 20%. (PLN '000)

	31.12.2017	31.12.2016
FX rates + 20%	29 930,08	-1 969,58
FX rates -20%	15 521,79	1 969,58

## Liquidity risk

The liquidity risk means 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 policy of liquidity risk management at the Bank consists of maintaining its own liquidity positions so that payment obligations can be met at any time with the available cash on hand, proceeds from transactions with specific maturities or with sales of marketable assets, while minimising the costs of liquidity maintenance.

Assets and liabilities at Bank are managed by the specially appointed ALCO. A liquidity risk strategy, including the acceptable risk level, the assumed balance sheet structure and the funding plan, is

approved by the Bank's Management Board and further accepted by the Bank's Supervisory Board. Interbank treasury transactions are concluded by the Treasury Department, transactions are settled and booked in the Operations Division and the liquidity risk is monitored and measured in the Financial Risk Management Section. The competences related to liquidity risk management are segregated in a transparent manner up to the Management Board level which ensures complete independence of operation.

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

- quick liquidity,
- short-term liquidity,
- medium term liquidity,
- long-term liquidity.

Within its liquidity risk management, the Bank also performs analyses of the maturity profile over a longer time, largely subject to the assumptions made with respect to future cash flows related to asset and liability items. These assumptions are approved by ALCO and the Bank's Management Board.

## Separate disclosure of the list of maturity dates for contractual flows of the assets and liabilities on the consolidated level as at 31 December 2017 (in PLN M)

12/31/2017	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
<b>ASSETS</b>	6 589	3 561	2 251	2 842	5 595	8 980	22 353	33 307	85 478
Cash & Nostro	1 366	0	0	0	0	0	0	0	1 366
Due from banks	0	332	0	0	0	164	0	0	496
Securities	0	2 045	1	59	208	1 289	6 480	4 898	14 980
Loans and advances to customers	5 223	1 184	2 250	2 783	5 387	7 527	15 873	27 227	67 454
Other assets	0	0	0	0	0	0	0	1 182	1 182
<b>Liabilities and equity</b>	-34 083	-8 202	-6 731	-5 140	-3 876	-1 744	-2 174	-8 263	-70 213
Due to banks	-4	-136	-303	-9	-31	-268	-132	-66	-949
Due to customers	-34 079	-5 594	-6 244	-4 760	-3 151	-258	-195	-65	-54 346



Bank's issues	0	-100	-184	-371	-694	-1 218	-1 847	-1 280	-5 694
Equity	0	0	0	0	0	0	0	-6 762	-6 762
Other liabilities	0	-2 372	0	0	0	0	0	-90	-2 462
<b>Balance sheet gap</b>	<b>-27 494</b>	<b>-4 641</b>	<b>-4 480</b>	<b>-2 298</b>	<b>1 719</b>	<b>7 236</b>	<b>20 179</b>	<b>25 044</b>	<b>15 265</b>
<b>Cumulated balance sheet gap</b>	<b>-27 494</b>	<b>-32 135</b>	<b>-36 615</b>	<b>-38 913</b>	<b>-37 194</b>	<b>-29 958</b>	<b>-9 779</b>	<b>15 265</b>	
Derivative instruments – inflows	0	5 029	1 593	1 600	701	364	307	43	9 637
Derivative instruments – outflows	0	-5 048	-1 618	-1 588	-707	-363	-324	-42	-9 690
<b>Derivative instruments – net</b>	<b>0</b>	<b>-19</b>	<b>-25</b>	<b>12</b>	<b>-6</b>	<b>1</b>	<b>-17</b>	<b>1</b>	<b>-53</b>
Guarantee and financing lines	-11 711	-8	-32	-108	-200	-113	-6	-321	-12 499
<b>Off-balance sheet gap</b>	<b>-11 711</b>	<b>-27</b>	<b>-57</b>	<b>-96</b>	<b>-206</b>	<b>-112</b>	<b>-23</b>	<b>-320</b>	<b>-12 552</b>
<b>Total gap</b>	<b>-39 205</b>	<b>-4 668</b>	<b>-4 537</b>	<b>-2 394</b>	<b>1 513</b>	<b>7 124</b>	<b>20 156</b>	<b>24 724</b>	<b>2 713</b>
<b>Total cumulated gap</b>	<b>-39 205</b>	<b>-43 873</b>	<b>-48 410</b>	<b>-50 804</b>	<b>-49 291</b>	<b>-42 167</b>	<b>-22 011</b>	<b>2 713</b>	

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 from 7 days inclusive to 30 days. As at 31 December 2017, the total buffer of unencumbered liquid assets amounted to PLN 13,979 M versus the minimum level of PLN 11,210 M, 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.

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 85% of liabilities.

Additionally, 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.

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). As at 31 December 2017 the surplus was PLN 7,891 M;
- coverage ratio of illiquid assets with own funds;



- coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds;
- the 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.

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 that as at 31 December 2017 stood at 24%.

As per the above Resolution, the Bank performs 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. Furthermore, 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.

Additionally, 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 at 124% versus the mandatory level of 80%.

In 2017, the Bank's liquidity condition was at a safe level. The situation was closely monitored and maintained at an adequate level by adjusting the level of the deposit base and disbursing financing subject to growth of lending and other liquidity needs.

In 2017 Alior Bank S.A. had one branch in Bucharest which was involved in deposit and lending activity. The task of the Branch is lending 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 Office.

## Credit risk

Management of the credit risk and its maintenance at a safe level, defined in the risk appetite, is of fundamental importance for the Bank's stable operation and development. The credit risk is controlled with the use of the regulations in force at the Bank, in particular lending methodologies and risk measurement models, adjusted to customer segments, product and transaction types, establishing and monitoring of collateral to loans, as well as the processes of monitoring and collection of receivables.

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

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

Such process supports effective supervision over the actual and potential risks and the effective application of risk management methods and instruments.

Managing the risk, both on an individual and portfolio basis, the Bank takes actions aimed at:

- minimising the level of the credit risk of a single loan with an assumed profitability level;



- reducing the overall credit risk resulting from holding a specific loan portfolio by the Bank.

In the mitigation process of the risk level of an individual exposure, when approving a credit product the Bank each time assesses:

- the customer's creditworthiness and credit capacity, including e.g. a detailed analysis of the exposure repayment sources;
- the reliability of the approved collateral, including the verification of its formal legal and economic condition, including e.g. LTV adequacy.

In order to maintain the credit risk at the level defined in the risk appetite, the Bank takes the following measures:

- sets and controls concentration limits;
- monitors early warning signals within the EWS system;
- regularly monitors the loan portfolio, controlling all material parameters of the credit risk (e.g. PD, LGD, LTV, DTI, COR, % NPL, Coverage);
- regularly carries out stress tests.

### **Risk assessment in the credit process**

The Bank grants loan products in line with the lending methodologies appropriate for the customer segment and product type. The assessment of the customer's creditworthiness preceding credit decisions is performed with a system supporting the credit process, scoring or rating tools; external information (e.g. CBD DZ, CBD BR, BIK, BIG bases) and internal bases of the Bank. Credit products are granted in line with the Bank's operational procedures, specifying the steps to take in the lending process, the responsible units of the Bank, and the tools applied.

Credit decisions are taken in line with the credit approval system prevailing at the Bank where

authority levels are suited to the risk level related to each customer and transaction.

In order to regularly assess the assumed credit risk and to mitigate potential losses on the existing loan exposures, during the lending term the Bank monitors the customer's condition by identifying early warning signals and periodic individual reviews of loan exposures. The monitoring process ends with recommendations concerning the strategy of further co-operation with the customer.

### **Division of responsibilities**

The Bank pursues a policy of separating the functions related to customer acquisition and sale of credit products from the functions related to the assessment of the credit risk, approving credit decisions, or monitoring of credit exposures.

### **Concentration risk management**

To ensure stability and safety of the Bank and appropriate asset quality, asset diversification, profitability and an adequate capital level, concentration is identified on an ongoing basis in various areas of operation. The Bank identifies excessive concentration of each item which is accompanied by the credit risk or the risk of liquidity issues/loss, as a situation that may adversely affect the safety of the Bank's operations.

The knowledge of potential hazards related to exposure concentration at the Bank supports correct asset and liability management and development of a safe structure of the loan portfolio. In order to prevent adverse events resulting from excessive concentration, the Bank mitigates the concentration risk by setting limits and applying concentration standards resulting from external regulations and internal concentration standards.

### **Impairment allowances and provisions**

The Bank reviews all on-balance sheet loan exposures (groups of on-balance sheet loan



exposures) to identify objective impairment indications, relying on the most recent data then the items are revalued. The Bank also reviews off-balance sheet exposures in terms of provision establishment. Impairment is automatically identified in the Bank's central system on the basis of systemic information (delays in repayment) or data input by users.

### Impairment indication

The Bank evaluates impairment indications by classifying and diversifying events regarding:

- clients
- accounts
- exposures to banks
- bond exposures

Impaired exposures are split into those that are measured individually or in groups. Individual measurement applies to exposures that may be impaired (calculated at the customer level) in excess of the materiality levels subject to the customer segment (see the table below).

#### Materiality thresholds qualifying customers' exposures to individual measurement

As at 31.12.2017	
Customer Segment	Threshold value (in PLN)
Retail customers	No threshold
Business customers	1,000,000

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

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

Group measurements are based on periods when the affected exposures remain at default; they provide for a specific nature of each group in terms of the anticipated recoveries. The existing collateral is taken into account at the exposure level.

Exposures with no identified impairment indications are grouped in homogeneous groups in terms of the risk profile and a provision is recognised for such group of exposures to cover incurred, but not reported losses (IBNR). The IBNR value is determined on the basis of the PD, LGD parameters and collateral (subject to the anticipated recovery rates).

The PD parameters are determined on the basis of a migration matrix and the applied loss identification periods (LIP). The period of historic data underlying the calculations of the PD parameter has been selected to meet the two objectives: maximum parameter predictability and stable estimates. Because of the above, for most of the portfolios the Bank applies a 12-month observation period of migration between delay baskets and default status to determine PD. The above rule does not apply to the portfolios of medium-sized and large enterprises for which due to a lower number of default events the Bank applies a 24-month period. The PD parameter is differentiated for each portfolio and delay basket. PD values for each overdue basket are determined for LIP periods in compliance with the table below:



Basket\ Portfolio	Overdrafts	Mortgage loans KI	Credit cards KI	Cash loans KI	Other KI	MICRO KB	Other KB
0 DPD	5	6	5	5	5	5	6
1-30 DPD	3	3	3	3	3	3	6
31-60 DPD	2	2	2	2	2	2	6
61-90 DPD	1	1	1	1	1	1	6

The LIP periods were determined on the basis of a quantitative analysis covering the event that originally has caused the loss of ability to service debts.

### Collateral

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

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

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

### Management of assets seized in exchange for debt

In justified instances, the Bank will seize the assets serving as collateral to satisfy the debt due to it. Such operations are performed on the basis of an approved disposal plan of the seized assets.

### Scoring/rating

Credit scoring is a tool supporting credit decisions for individual customers and micro enterprises, while credit rating is an instrument supporting credit decisions in the segment of SMEs and large enterprises.

The Bank regularly monitors the correct functioning of the scoring and rating models. The objective of the review is to verify if the applied models appropriately differentiate risks and the estimated risk parameters properly reflect the relevant risk aspects. Additionally, functional controls are applied to verify the correct application of models in the credit process.

The currently applied scoring models have been developed internally by the Bank. In order to reinforce the risk management process of the models applied in the Bank, there is a team acting as an independent validation unit.

### Monitoring of the credit risk of individual and business customers

Regular control of the quality of the loan portfolio is ensured by:

- ongoing monitoring of timely debt servicing;
- periodic reviews, in particular of the customers' financial and economic condition and the value of the accepted collateral;

All loan exposures of individual and business customers are subject to monitoring and ongoing classification to the appropriate process paths. In order to improve the monitoring and control of the operational risk, adequate solutions have been implemented in the Bank's credit systems. Systemic tools have been consolidated to ensure the effective use of the monitoring procedures, applicable to all accounts.



## Application of forbearance practices

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

- extended lending periods; Extended lending periods result in the reduced monthly principal and interest instalments and it is possible up to 120 months (for unsecured products), irrespective of the original lending period. If within such restructuring, the lending period is extended once to the maximum period, the tool may not be used again in the future. When the lending period is extended, certain restrictions are taken into account as specified in the product features, such as borrower's age.
- offering grace periods (for full or partial instalment); During the grace period in repayment of the principal and interest instalments, the borrower is not obliged to make any payments under the agreement. The loan repayment period may be extended by the term of a grace period (this is not identical to the extension of the lending period). A grace period of a full instalment may be applied by up to 3 months and a grace period of the principal part of instalment – up to 6 months. The maximum grace period may be 6 months within 2 consecutive years (24 months) of the date of the restructuring annex;
- consolidation of several obligations with Alior Bank, including modifications to limit in overdraft accounts/unauthorised debit in ROR/KK, into an instalment loan; Consolidation results in converting a number of debts from various agreements into a single debt. The product activated as a result of consolidation is repaid in monthly instalments in line with the repayment schedule. The parameters of the product activated as a result are compliant with the features of cash loans/consolidation loans.

In specific instances, other tools may be used.

## Monitoring of risk related forbearance practices

Reporting of the quality of the restructured loan portfolio covers reporting at the levels of individual overdue baskets when a restructuring decision has been taken, or at an aggregated level. Calendar months are the core reporting period. The following sub-processes may be identified within that split to which the presented values relate:

- application process (the number of applications, the number of issued decisions, types of decisions);
- the quality of the loan portfolio (split into specific overdue levels, forms of restructuring, applied waivers);
- measurement of overdue in excess of 90 days in restructured accounts in each quarter, as at the end of each quarter after restructuring.

The monthly presentation submitted to the Management Board contains results of the above monitoring of the restructured portfolio.

## Assessment of impairments for exposures subject to forbearance practices

For exposures subject to *forbearance*, the Bank applies stricter criteria to identify impairment indicators. Apart from a standard catalogue of indicators, with respect to such exposures, additional criteria are applied, defined as occurrence at the time the forbearance decision is made.

The Bank does not differentiate its approach to impairment identification on the type of forbearance granted to customers. All types of forbearance are subject to additional stricter criteria of impairment identification.



## Operational risk

The operational risk which means the likelihood of a loss resulting from failure to apply or unreliability of internal processes, people, systems, or external hazards, is identified as a material risk. The Bank has a formalised operational risk management system within which it prevents the occurrence of operational events and incidents and mitigates losses should the risk materialise. The operational risk management system at the Bank relies on the following three pillars:

- corporate governance – comprising internal regulations, the internal control system, and defined roles and responsibilities of individual organisational units,
- operational risk management process – covering all of its stages with the use of adequate tools;
- operational activities – activities taken by the Bank addressed at identifying the operational risk, implementing control procedures, and operational risk management, decisions taken to reduce the operational risk.

For the purpose of calculation of the capital requirements for the operational risk, the Bank used the standardised approach in 2017. Additionally, for several years the Bank has been developing statistical methods to calculate the internal capital for the operational risk. On 22 December 2017 the Bank obtained relevant approval from the Polish Financial Supervision Authority for AMA method to calculate the capital requirement for the operational risk from 1 January 2018 (with the exclusion of historical effects of exBPH operations and the branch in Romania). PFSA decision is a result of months of project work aimed at streamlining the risk management processes at the Bank. If successful, this project will not only significantly reduce the capital requirement for the operational risk, but will also bring a number of process benefits and provide a

tool for accurate estimation of the operational risk and inclusion of that risk in the costs of products and processes.

The following bodies function within the structure of operational risk management: the Supervisory Board, the Risk Committee of the Supervisory Board, the Operational Risk Committee, the Operational Risk Management Department, and operational risk Co-ordinators.

A detailed split of the roles and authority in operational risk management is determined in internal documentation of the Bank.

The amount of gross operational losses, recorded in 2017 at Alior Bank SA fell within the approved appetite and limit for the operational risk at the Bank.

## Model risk

The objective of model risk management is to support the accomplishment of the approved business limits with an acceptable uncertainty level resulting from applying the models in the Bank's business. The Bank endeavours to use the models broadly in its processes, achieving automation of the decision process and minimising the role of the human factor. The model risk management process is handled in a way to ensure achievement of this objective. The model risk management process involves assessment of conformity of the model risk level with the adopted risk tolerance and measures are in place to limit this level. The process includes: model risk identification, measurement, control and reporting. The model risk management process is performed at the level of individual models and at the level of model portfolios.

## Capital management (ICAAP)

Alior Bank manages its capital in a manner ensuring safe and effective functioning of the Bank.



In order to ensure safe functioning, within its risk appetite the Bank defines the adequate coverage levels with its equity (and Tier 1 capital) of potential unexpected losses due to material risks identified in the ICAAP process, as well as risks identified in the calculation process of the regulatory capital.

Within the ICAAP process, the Bank identifies and assesses the materiality of all types of risk to which it is exposed in connection with its business.

#### Material risks as at 31.12.2017

Credit risk (including: insolvency risk, sectoral concentration risk, concentration risk to customers, currency concentration risk)

Operational Risk

Liquidity risk

Interest rate risk in the banking book

Market risk

Model risk

Reputational risk

Business risk

Capital risk

Compliance risk

For each risk identified as material, the Bank estimates the internal capital with the use of internal risk estimation models. Internal capital is estimated for the following risks:

- credit risk on the basis of CreditRisk+ methodology as the value of 99.95<sup>th</sup> the quartile of the distribution of loss in the loan portfolio;
- operational risk on the basis of AMA methodology;

- liquidity risk on the basis of a liquidity gap model assuming a stress scenario;
- market risk and interest rate risk in the banking book on the basis of the VaR methodology;
- reputational risk on the basis of the VaR model of frequency distribution and loss volume.
- business risk on the basis of results of stress tests;
- model risk on the basis of results of stress tests

The estimated total internal capital and the calculated regulatory capital is covered with equity (and Tier 1 capital) subject to appropriate safety buffers.

#### Capital ratios of the Bank's Group

	31.12.2017	31.12.2016
<b>Capital adequacy ratio</b>	15,21%	13,65%
<b>Tier 1 capital ratio</b>	12,10%	11,29%
<b>Internal capital coverage ratio with available capital</b>	2,26	1,67

In view of the need to ensure a balanced growth of the Bank's scale of operations, the Bank develops its available capital base using various channels – profit re-investment, subordinated debt issue and new share issues at the stock exchange.

The Bank develops its available capital while ensuring effective functioning or accomplishment of an assumed return on the equity entrusted by the shareholders.

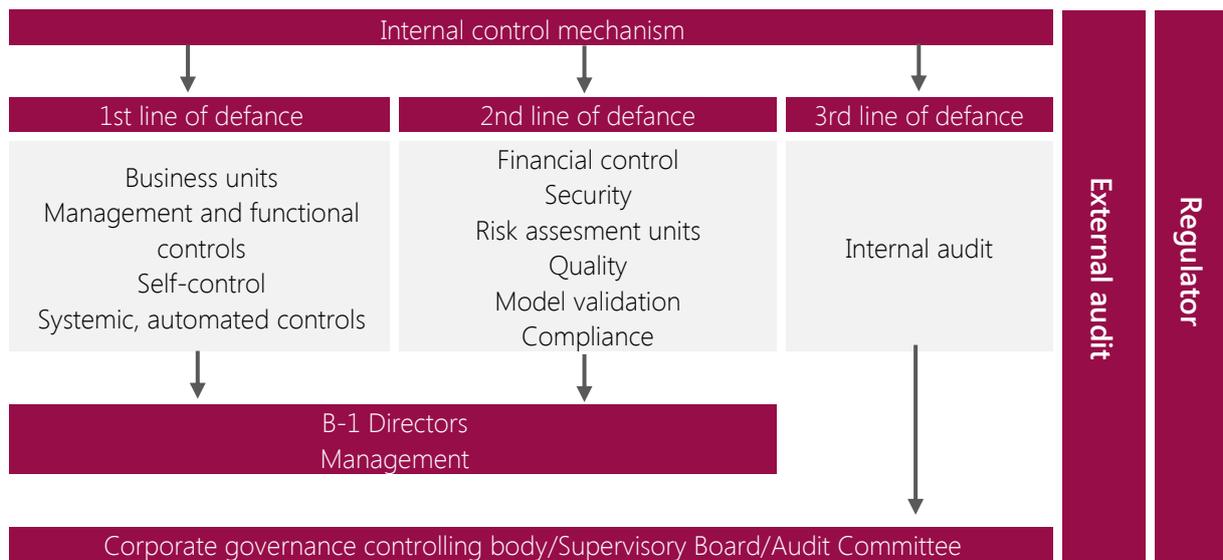


## XIV. Internal control system

Alior Bank S.A. operates an internal control system which covers all controlled solutions and activities ensuring compliance with the statutory objectives of internal control systems, while supporting the Bank's management and contributing effective achievement of its tasks ensuring safety and stability of the Bank's operations. The internal control system is split into: a control function, a compliance unit, and an independent internal audit unit.

The internal control system is adapted to the risk management system, the organisational structure, as well as the volume and complexity of the Bank's operations. The system covers all of the Bank's units and its subsidiary entities.

The Bank's internal control mechanism is as follows:



### Compliance

Compliance is a general objective of the Bank's internal control system and is aimed at mitigating the risk of legal sanctions, financial losses, or reputation loss as a result of failure by the Bank, entities operating on its behalf (including subsidiary entities), or its employees to comply with the law, the requirements of supervisory bodies, the internal regulations, and standards of conduct approved by the Bank, including ethical standards.



The Compliance Department is a dedicated, independent organisational unit of the Bank, reporting directly to a designated member of the Management Board. The Compliance Department ensures compliance of the Bank's operations with the law, the requirements of supervisory bodies, market standards and the internal regulations by managing the compliance risk and the control function.

## XV. Control system in the preparation process of financial statements

The financial statements are made in the Finance Division in line with the accounting policies approved by the Bank's Management Board and the organisation of accounting that set forth the principles of recording economic events of the Bank, reliably and clearly reflecting the Bank's economic and financial condition and the generated financial results. The detailed description of the accounting principles are included in the Consolidated Financial Statements of the Alior Bank Group for the year ended on 31 December 2017 and in Alior Bank's Financial Statements for the year ended on 31 December 2017, in relevant notes in the part "Accounting Policies".

The Bank operates the internal control system, supporting decision processes and enhancing the effectiveness of the Bank's operations, ensuring reliability of financial reporting and its compliance with the international standards, the law, the internal regulations, as well as best practices.

The process of preparing financial data for financial reporting is automated and based on the consolidated General Ledger and the Data Warehouse. IT systems involved in this process are carefully controlled in terms of data integrity and security. This area is also subject to independent and objective assessment of the Internal Audit Department – both in terms of the adequacy of the internal control system, risk management, and corporate governance.



## XVI. Corporate governance statement



A corporate governance statement for 2017 was prepared pursuant to Article 91.5.4 of the Regulation of the Minister of Finance of 19 February 2009 on ongoing and periodic information provided by issuers of securities and conditions to recognise as equivalent the information that is required by the law in Non-Member States.

In 2017 the Bank and its bodies respected the corporate governance rules set forth in the "Code of Best Practice for WSE Listed Companies". Pursuant to the resolution of the Supervisory Board of the Bank of 29 December 2014, the Bank also adopted the Corporate Governance Rules for Supervised Institutions ("Commission's Rules"), which was confirmed in Resolution No. 25/2015 of the Ordinary Shareholders' Meeting of 25 May 2015 provided that in the event of a conflict between the Commission's Rules and the Code of Best Practice, the latter shall prevail.

### Scope of Corporate Governance

According to the Rules of Giełda Papierów Wartościowych w Warszawie S.A. the Bank, as a public company, must follow the Code of Best Practice for WSE Listed Companies, being a set of recommendations and principles of conduct, in particular for bodies of companies listed on WSE and their shareholders. The full text is available at WSE website <https://www.gpw.pl/>.

Within its competences under the Articles of Association and generally applicable law, the Management Board of the Bank intends to introduce all rules of the Code of Best Practice at the Bank. According to the published declarations

on the application of the Code of Best Practice of the WSE as at the date of publication of the report, these rules are applied with the following reservations:

- I.Z.1.8. is applied for financial data published after 2012 – admission and introduction to trading on the WSE Main Market of the Bank's shares in December 2012.
- I.Z.1.10. does not apply – no financial forecasts are published by the Bank.
- II.Z.7 is applied for the Risk Committee and the Audit Committee. In the case of the Nomination and Remuneration Committee, the Bank does not apply European Commission Recommendation 2005/162/EC of 15 February 2005 regarding the role of non-executive or supervisory directors of listed companies and committees of the (supervisory) board – because the Bank must ensure consistent remuneration standards for the management board and key managers within the Group.
- III.Z.6. is not applicable to the Bank – the Bank has appointed its Audit Department.
- Point 2 of IV.R.2. is not applied – considering a great number of technical and organisational activities and the related costs and risks, as well as small market experience in this area, the Bank has chosen, so far, to enable its shareholders to participate in a General Meeting using real-time communication where shareholders may take the floor during a General Meeting from a location other than a venue of the General Meeting. The Bank intends to follow the above recommendation, but as the Bank has not yet



completed the process of its full implementation, the Bank will start to follow this recommendation upon completion of implementation of proper telecommunication systems.

- IV.R.3. not applicable to the Bank – securities issued by the Bank are traded in Poland,
- IV.Z.16. to IV.Z.18 will be followed – so far the Bank has not distributed dividends, pursued conditional dividend distribution, neither has it conducted any split of the nominal value of its shares.

Further to that the Bank's Management Board makes every effort to ensure that the information policy towards investors, both individual and institutional, is as much as possible in line with their expectations.

### Share capital structure

As at the date of report publication, the share capital of the Bank amounts to PLN 1,292,788,410 and is divided into 129,278,841 shares with a par value of PLN 10.00 each.

All of the company's shares are ordinary bearer shares. Rights and obligations attached to the

shares are compliant with legal regulations. No special privileges or limitations for the Bank's shares exist. Rights of Powszechny Zakład Ubezpieczeń SA as the Bank's parent entity are based on the number of shares and the percentage of those shares in the share capital and votes at the General Meeting of Shareholders. The Bank's Articles of Association impose no limitations on exercising the right to vote attached to the Bank's shares or on transfer of the share ownership rights. Limitations resulting from the Original Incentive Programme are presented below.

In the reporting period the Bank carried out two increases of the Bank's share capital that followed settlement of the Original Incentive Programme:

- increase of the Bank's share capital by issue of 5,861 ordinary series D, E, and F bearer shares with the total nominal value of PLN 58,610 (shares registered with National Depository of Securities on 29 August 2017);
- increase of the Bank's share capital by issue of 15,217 ordinary series D, E, and F bearer shares with the total nominal value of PLN 152,170 (shares registered with National Depository of Securities on 15 January 2018).

### Share capital structure per series of issued shares

Share series	Data as at 8 March 2018		Data as at 31 December 2017	
	Number of shares	Value of the series nominal price [PLN]	Number of shares	Value of the series nominal price [PLN]
A	50 000 000	500 000 000	50 000 000	500 000 000
B	1 250 000	12 500 000	1 250 000	12 500 000
C	12 332 965	123 329 650	12 332 965	123 329 650
D <sup>1</sup>	424 385	4 243 850	413 480	4 134 800
E <sup>1</sup>	7 097	70 970	2 785	27 850
F	300	3 000	300	3 000
G	6 358 296	63 582 960	6 358 296	63 582 960
H	2 355 498	23 554 980	2 355 498	23 554 980



<b>I</b>	56 550 249	565 502 490	56 550 249	565 502 490
<b>J</b>	51	510	51	510
<b>Total</b>	129 278 841	1 292 788 410	129 263 624	1 292 636 240

Ordinary bearer series D, E, and F shares with the total nominal value of PLN 152,170 (10,905 series D shares and 4,312 series E shares) not yet registered with the National Court Register (NCR) as at the date of this report

## Shareholders of Alior Bank S.A

As the Bank is a public company under the Act on Public Offering and because the shares of the Bank are listed on a regulated (primary) market operated by WSE, the Bank presents below information on its shareholders that as a date of publication of the report directly hold shares representing at least 5% in the share capital and the total votes at the General Meeting of Shareholders.

On 2 June 2017 and agreement was concluded between Powszechny Zakład Ubezpieczeń SA, PZU Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 on purchase and sale of the Bank's shares by parties to the agreement and exercise of the voting rights at the General Meeting of Shareholders.

### Ownership structure of the share capital

	Shareholder <sup>1</sup>			Number of shares and votes at GM		
	8.03.2018	31.12.2017	31.12.2016	8.03.2018	31.12.2017	31.12.2016
<b>PZU SA<sup>1</sup></b>	41 658 850 <sup>2</sup>	41 658 850 <sup>2</sup>	37 773 265 <sup>3</sup>	32,22%	32,23%	29,22%
<b>Aviva OFE Aviva BZ WBK</b>	11 562 000 <sup>2</sup>	11 562 000 <sup>2</sup>	9 262 138 <sup>3</sup>	8,94%	8,94%	7,17%
<b>Nationale-Nederlanden OFE</b>	6 600 000	6 600 000	no data <sup>4</sup>	5,11%	5,11%	no data <sup>4</sup>
<b>Other</b>	69 457 991	69 442 774	82 222 360	53,73%	53,72%	63,61%
<b>Total</b>	129 278 841	129 263 624	129 257 763	100%	100%	100%

(1) Along with the parties to the Agreement of 2 June 2017 (covers data for 2017 and as at 8.03.2018), namely: PZU Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 and the Agreement of 27 April 2016 (covers data for 2016), namely PZU Życie, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2

(2) Based on the number of shares registered at the Ordinary General Meeting of 5 December 2017

(3) Based on the number of shares registered at the Ordinary General Meeting of 29 July 2016

(4) The threshold of 5% was exceeded as a result of purchase transactions of the Bank's shares settled on 3 August 2017.

### Ownership structure of the share capital in 2017

Shareholder <sup>1</sup>	Type of Transaction	Transaction closing date	Number of shares	Number of shares/votes held on GM			
				before the transaction	% udział	after the transaction	% udział
<b>Towarzystwo Funduszy Inwestycyjnych PZU SA</b>	acquisiton	9.06.2017	1 331 617	6 425 961	4,98	7 757 578	6,00
<b>PZU SA<sup>2</sup></b>	acquisiton	3.07.2017	134 841	40 358 420	31,22	40 493 261	31,33



<b>Towarzystwo Funduszy Inwestycyjnych PZU SA</b>	sell	7.07.2017	7 740 710	7 868 632	6,09	127 922	0,10
<b>PZU SA wraz z Pekao SA<sup>3</sup></b>	acquisiton	7.07.2017	7 740 710	33 113 889	25,62	40 854 599	31,60
<b>Nationale-Nederlanden Otwarty Fundusz Emerytalny</b>	acquisiton	3.08.2017	130 000	6 462 823	4,99	6 592 823	5,10

(1) Based on the information received pursuant to Article 69 of the Act on Public Offering

(2) PZU SA acting for and behalf PZU Życie, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Uniwersum, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 pursuant to the Agreement of 2 June 2017

(3) Upon completion of the transaction the Parties to the Agreement of 2 June 2017 held a total of 40,906,135 of the Bank's shares accounting for 31.65 % of the Company's share capital and 31.65% votes at the Company's General Meeting.

## Members of the Management Board, shareholders of the Bank as at 31.12.2017 and as at the publication day of the Report

Shareholder	Number of shares/ Number of votes	Nominal value of shares	Percentage in the share capital	Share in the total number of votes
<b>Katarzyna Sułkowska</b>	28 612	286 120	0,02%	0,02%

In the reporting period, the Bank's Management Board received notifications pursuant to Art. 19.1 of MAR on sale transactions of the Bank's shares; the details are presented in the table below:

Shareholder	Number of sold shares	Transaction date
<b>Witold Skrok</b>	178 421	12.06.2017
<b>Wojciech Sobieraj</b>	435 296	16.06.2017 - 21.06. 2017
<b>Krzysztof Czuba</b>	298	21.06.2017
<b>Celina Waleśkiewicz</b>	3 848	9.10.2017

To the best knowledge of the Bank's Management Board at the end of the reporting period, as at the end of the publication day of the Report the Members of the Supervisory Board of Alior Bank S.A. held no shares in the Bank. No transactions in shares in the Bank were held with Members of the Supervisory Board as parties thereto.

## Governal Bodies of Alior Bank S.A.

### General Meeting of the Bank

The manner of operation and essential authorities of the General Meeting and shareholders' rights and how they can be exercised are specified in: Regulations adopted by the Resolution of the Ordinary General Meeting on 19 June 2013, amended by Resolution 29/2017 of the Ordinary General Meeting on 29 June 2017, the Bank's

Articles of Association and relevant provisions of the law, including provisions of the Code of Commercial Companies and the Banking Act.

### General Meeting of the Bank in 2017

Extraordinary Meeting (on 21 April 2017, 8 May 2017, 19 May 2017) resolved on changes in the composition of the Bank's Supervisory Board. Pursuant to the adopted resolution Mr Stanisław Ryszard Kaczoruk was dismissed from the Supervisory Board as its member and Mr Roman Pałac was appointed to the Supervisory Board as its member.

The Ordinary General Meeting (29 June 2017), adopted resolutions on matters relating to the closure of the financial year 2016 and resolutions approving: the financial statements of the Bank



and the Bank's Group, the Management Board's report on activities of the Bank and the Bank's Group, distribution of profit, discharge for all Members of the Bank's Management Board and Supervisory Board. Further to that, the Meeting resolved on the amendment of the Rules of the General Meeting, introduced changes and determined a number of the members of the Bank's Supervisory Board. Mr Tomasz Kulik and Mr Eligiusz Krześniak were appointed to the Supervisory Board.

The Extraordinary General Meeting (31 October 2017) resolved on appointment of Supervisory Board members. Mr Artur Kucharki and Mr Mikołaj Handschke were appointed to the Supervisory Board.

The Extraordinary General Meeting (5 December 2017) resolved on amendments to the Bank's Articles of Association expanding the scope of authority of the General Meeting and the Supervisory Board of the Bank. It was decided to expand authority of persons who may be appointed to the Bank's Management Board and to introduce a requirement for the Management Board to submit an expense report to the General Meeting after an opinion of the Supervisory Board. Until publication of the report, no decision was received from the Polish Financial Supervision Authority on approval of the amendments to the Articles of Association of the Bank. Also, the Extraordinary General Meeting resolved on the principles of remuneration for the Members of the Supervisory Board and the Management Board of the Bank.

### **Changes in basic principles of management**

Amendments to the Articles of Association of the Bank must be approved by a resolution of the General Assembly and registered with the National

Court Register. Pursuant to the provisions of the Code of Commercial Companies, a notification on an amendment to the Articles of Association to the registry court must be submitted within 3 months from the day the resolution is passed by the General Meeting (in the case when the change regards increasing or decreasing the share capital, the deadline is extended to 6 months).

Additionally, according to the Banking Act of 29 August 1997, some amendments to the Articles of Association require approval of the Polish Financial Supervision Authority. These are cases referred to in Art. 34.2 of the Act, regarding:

- change of the Bank's business name;
- change of the seat, the subject, and the scope of the Bank's operations, including activities referred to in Art. 69.2.1-7 of the Act on Trading in Financial Instruments of 29 July 2005, which the Bank intends to perform pursuant to Art. 70.2 of the Act;
- changes in bodies and their authority, with particular emphasis on the competences of the members of the Management Board appointed upon approval of the Polish Financial Supervision Authority and the principles of making decisions, the basic organisational structure of the Bank, rules for making statements regarding property rights and obligations, the procedure for issuing internal regulations, and the procedure for incurring liabilities or disposal of assets the total value of which in relation to one entity exceeds 5% of own funds;
- principles of operation of the management system, including an internal audit system;
- own funds and financial management principles, and
- share preferences and restrictions in terms of voting rights at the Bank.



## Supervisory Board of the Bank

Composition of the Bank's Supervisory Board as at 31.12.2017		Composition of the Bank's Supervisory Board as at 31.12.2016	
<b>Tomasz Kulik</b>	Chairman of the Supervisory Board	Michał Krupiński	Chairman of the Supervisory Board
<b>Małgorzata Iwanicz-Drozdowska</b>	Deputy Chairman of the Supervisory Board	Małgorzata Iwanicz-Drozdowska	Deputy Chairman of the Supervisory Board
<b>Dariusz Gątarek</b>	Member of the Supervisory Board	Dariusz Gątarek	Member of the Supervisory Board
<b>Mikołaj Handschke</b>	Member of the Supervisory Board	Stanisław Ryszard Kaczoruk	Member of the Supervisory Board
<b>Artur Kucharski</b>	Member of the Supervisory Board	Marek Michalski	Member of the Supervisory Board
<b>Sławomir Niemierka</b>	Member of the Supervisory Board	Sławomir Niemierka	Member of the Supervisory Board
<b>Maciej Rapkiewicz</b>	Member of the Supervisory Board	Maciej Rapkiewicz	Member of the Supervisory Board
<b>Paweł Szymański</b>	Member of the Supervisory Board	Paweł Szymański	Member of the Supervisory Board

In the reporting period, there were changes to the composition of the Bank's Supervisory Board.

- On 8 May 2017 by a resolution of the Extraordinary Meeting of Shareholders Mr Stanisław Ryszard Kaczoruk was dismissed from the Supervisory Board as its member and Mr Roman Pałac was appointed to the Supervisory Board as its member.
- On 14 June 2017 Mr Michał Krupiński resigned as Chairman and a Member of the Supervisory Board,
- On 29 June 2017 Roman Pałac resigned as a Member of the Supervisory Board, On the same day Mr Tomasz Kulik was appointed as a member of the Supervisory Board;
- On 30 June 2017, Mr Eligiusz Krześniak was appointed to the Supervisory Board and on 5 July 2017 was voted as Chairman of the Supervisory Board;

- On 18 July 2017 Marek Michalski resigned from his function as a member of the Supervisory Board;
- On 29 September 2017, Mr Eligiusz Krześniak resigned from his function of the Chairman of the Bank's Supervisory Board and on 31 October 2017 he resigned as a member of the Supervisory Board;
- On 29 September 2017, Mr Tomasz Kulik was appointed as Chairman of the Bank's Supervisory Board;
- On 31 October 2017 Mr Artur Kucharski and Mr Mikołaj Handschke were appointed to the Supervisory Board of the Bank.

Appointed Members of the Bank's Supervisory Board shall not be involved in any activity competitive to the Bank and shall not participate in a competitive company as partners to a partnership or as members of bodies of commercial companies or other competitive legal entities.



Information regarding Supervisory Board Members fulfillment of requirements foreseen by article 22aa of Banking Law are available on Alior Bank's website:

<https://www.aliorbank.pl/dodatkowe-informacje/o-banku/rada-nadzorcza.html>

### Principles of operation of the Supervisory Board

The Supervisory Board, in particular, acts on the basis of the Banking Act of 29 August 1997, Act on the Code of Commercial Companies of 15 September 2000, and the Articles of Association, and also the Rules of the Supervisory Board, which all can be accessed on the Company's website. The Supervisory Board shall exercise ongoing supervision over the Bank's operations in all areas of its operations.

According to the Articles of Association – apart from other authorisations or duties provided for in the generally applicable regulations of law – the authority of the Supervisory Board includes:

- assessment of periodic information on internal control;
- determining remuneration for the Management Board members employed under an employment or other contracts;
- providing opinion to the Management Board's motions regarding establishing and joining companies by the Bank as a partner (shareholder) and disposing of interests

(shares) if such investments are of a long-term and strategic nature;

- providing opinion to the Bank's multi-annual development programmes and annual financial plans;
- adopting the rules of creation and use of funds provided for in the Articles of Association upon request of the Management Board;
- approving rules governing internal control and procedures for internal capital assessment, capital management, and capital planning;
- approving the Bank's operational strategy and principles for prudent and stable management of the Bank;
- accepting the Bank's general risk level.

The Supervisory Board's meetings shall be convened whenever necessary, but at least times in each financial year. Resolutions of the Supervisory Board shall be adopted by an absolute majority of votes, unless otherwise required by regulations of the law or the Articles of Association, in an open ballot at meetings and by circulation. In personal matters or upon request of at least one member, the Chairman of the Supervisory Board shall order a secret ballot. In the event of parity of votes, the Chairman of the Supervisory Board shall have a casting vote. For the resolutions to be valid, all members of the Supervisory Board must be invited to the meeting and at least half of them must be present. The Supervisory Board may establish standing or ad hoc committees

### Committees of the Supervisory Board

#### Audit Committee

Members of the Committee as at 31.12.2017		Members of the Committee as at 31.12.2016	
<b>Małgorzata Iwanicz-Drozdowska</b>	Chairwoman of the Committee	Małgorzata Iwanicz-Drozdowska	Chairwoman of the Committee
<b>Sławomir Niemierka</b>	Member of the Committee	Sławomir Niemierka	Member of the Committee
<b>Paweł Szymański<sup>1</sup></b>	Member of the Committee	Stanisław Ryszard Kaczoruk	Member of the Committee



## Audit Committee activities

During the reporting period the Audit Committee met seven times to discuss the issues of financial reporting and audits, the internal control system, and risk management. The Audit Committee received information on significant issues related to accounting and reporting, including issues regarding the implementation of IFRS 9 and the resulting changes to the Accounting Policy of the Bank. Performing its supervisory duties, the Audit Committee monitored independence of the auditor and the entity authorised to carry out audits of financial statements, assessed independence of the auditor and supervised services rendered by the auditor. To fulfil these tasks, the Audit Committee drafted the Policy for selection of the entity authorised to carry out audits at Alior Bank S.A. To fulfil its monitoring duties, the Audit Committee received regular reports from the internal control function.

## Appointment and Remuneration Committee

The Committee evaluates the remuneration policy in accordance with the principles of stable and prudent risk, capital and liquidity management, and with a particular focus on the Bank's long-term interests and the interests of its shareholders; evaluates the validity of paying variable remuneration components in the part concerning deferred payment terms of variable remuneration

components; evaluates and monitors variable remuneration payable to persons holding managerial positions at the Bank, which involves risk management and compliance by the Bank with the applicable laws and the internal regulations; evaluates classification of positions, which is subject to the remuneration policy with respect to persons having a significant impact on the Bank's risk profile; evaluates the annual goals of these people; evaluates the effects of work of people subject to the incentive programme rules at Alior Bank SA., and presents recommendations regarding allocation of subscription warrants; prepares opinions, evaluations, or recommendations on the candidates to the Management Board on conclusion, amendment, and termination of contracts with the Management Board members, on the structure, size, composition, and effectiveness of the Management Board's operations, and also knowledge, skills, and experience of individual Management Board members; supervises the Management Board's policy on the 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 the applicable internal regulations and provisions of the generally applicable law.

## Members of the Appointment and Remuneration Committee

Members of the Committee as at 31.12.2017		Members of the Committee as at 31.12.2016	
<b>Tomasz Kulik</b>	Chairman of the Committee	Maciej Rapkiewicz	Chairman of the Committee
<b>Mikołaj Handschke</b>	Member of the Committee	Marek Michalski	Member of the Committee
<b>Maciej Rapkiewicz</b>	Member of the Committee	Paweł Szymański	Member of the Committee
<b>Sławomir Niemierka</b>	Member of the Committee		



## Appointment and Remuneration Committee activities

In the reporting period the Appointment and Remuneration Committee met sixteen times to: evaluate adoption of the Remuneration Policy at Alior Bank, targets for 2017 for employees participating in the incentive scheme and for positions subject to restrictions regarding an impact on the risk profile, variable remuneration

for 2016 and payment of deferred tranches. The transaction bonus for the Management Board was positively evaluated, the Committee also approved amendments to the Regulations of the Audit Committee,

Based to the Policy of Selection and Assessment the Committee recommended candidates to the Management Board, appraised the Management Board and each of its members individually

## Risk Committee

Members of the Committee as at 31.12.2017		Members of the Committee as at 31.12.2016	
<b>Dariusz Gątarek</b>	Chairman of the Committee	Dariusz Gątarek	Chairman of the Committee
<b>Małgorzata Iwanicz-Drozdowska</b>	Member of the Committee	Małgorzata Iwanicz-Drozdowska	Member of the Committee
<b>Maciej Rapkiewicz</b>	Member of the Committee	Sławomir Niemierka	Member of the Committee

## Risk Committee

During the reporting period, the Risk Committee met four times to discuss issues on risk management at the Bank. In 2017 performing its obligations, the Committee recommended to the Supervisory Board approving: the risk strategy and appetite for 2017, a decision on opening the Second Public Bond Issue Programme, Operational risk reports, and a report of the Management Board of the Bank on implementation of the Risk Management Policy Model for 2016. Further to that the Committee additionally accepted the Remedy Plan for the Group of Alior Bank S.A., the Operational Risk Management Strategy in 2017-2020, amendments to the Credit Risk Concentration Policy, an update to the risk appetite for 2017, and adoption of the LCR and capital ratios for 2018, and also an update of the "Loan 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. As part of its supervision tasks of risk management at the Bank, the Committee discussed the risk appetite for 2016, the current status of the RES portfolio, results of the review of the valuation of assets and liabilities. The Committee also reviewed the detailed status of works on the planned IFRS9 implementation.

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



## Management Board

Composition of the Bank's Management Board as at 31.12.2017		Composition of the Bank's Management Board as at 31.12.2016	
Michał Jan Chyczewski	Deputy President of the Management Board acting President of the Management Board Reporting units: HR Division, Corporate Development Division, Departments: Management Board, Investor Relations, Marketing and PR, Audit, Procurement	Wojciech Sobieraj	President of the Management Board Reporting units: Division of the President of the Management Board
Filip Gorczyca	Deputy President of the Management Board Reporting units: Departments: Controlling, Data, Accounting, Tax, Financial Reporting	Małgorzata Bartler	Deputy President of the Management Board Reporting units: HR Division
Sylwester Grzebinoga	Deputy President of the Management Board Reporting units: Departments: Safety, Electronic Safety, Regulatory Compliance, Legal	Krzysztof Czuba	Deputy President of the Management Board Reporting units: Business Division
Urszula Krzyżanowska-Piękoś	Deputy President of the Management Board Reporting units: Corporate Banking Development Division Departments: Sales, Private Banking, Treasury, Consumer Finance, Sales Support, External Networks, Relations with Customers, KI Products, Brokerage Office	Joanna Krzyżanowska	Deputy President of the Management Board Reporting units: Indirect Sales Division
Katarzyna Sułkowska	Deputy President of the Management Board Reporting units: KI Analysis and Recovery Division, KB Risk Division, Departments: Risk Strategy, KI Credit Policy, Departments: Operational Risk Management, Risk Strategy Models	Witold Skrok	Deputy President of the Management Board Reporting units: Finance Division
Celina Wałęskiewicz	Deputy President of the Management Board Reporting units: IT Division, Operations Division, Departments: Digital Banking, Digital Channel Development, T-Mobile Banking services, CRM, Phone sales, Customer Retention Department	Barbara Smalska	Deputy President of the Management Board Reporting units: Technology and Development Division; IT Division, Mergers and Electronic Channels Division, Operations Division
		Katarzyna Sułkowska	Deputy President of the Management Board Reporting units: Risk Division

In the reporting period one change occurred to the composition of the Bank's Management Board.

- On 1 June 2017, Mr Wojciech Sobieraj, President of the Management Board of Alior Bank S.A., delivered a written statement to the

Supervisory Board of Alior Bank that he would not apply to become elected to the Management Board of Alior Bank S.A. for the next term of office.



- On 9 June 2017 the Bank's Supervisory Board approved a unanimous resolution on the appointment of the Bank's Management Board as from 29 June 2017 composed as follows: Ms Katarzyna Sułkowska, Mr Michał Jan Chyczewski, and Mr Filip Gorczyca. Additionally, on 14 June 2017 the Supervisory Board approved a resolution appointing Ms Celina Waleśkiewicz and Ms Urszula Krzyżanowska-Piękoś to the Bank's Management Board as from 29 June 2017.
- On 14 June, the Bank's Supervisory Board entrusted all the above Members of the Management Board of Alior Bank with the positions of Deputy Presidents of the Management Board, and Mr Michał Jan Chyczewski was entrusted with managing the work of the Management Board until consent is obtained from the Polish Financial Supervision Authority to appoint him to the position of the President of the Bank's Management Board.
- On 6 July 2017, Bank's Supervisory Board approved a resolution appointing Mr Sylwester Grzebinoga to the Bank's Management Board as from 1 August 2017 and entrusted him with a position of a Deputy President of the Management Board.

In the composition as specified above, the Management Board was appointed for a joint fourth three-year term of office, commencing on 29 June 2017.

Information regarding Management Board Members fulfilment of requirements foreseen by article 22aa of Banking Law are available on Alior Bank's website:

**<https://www.aliorbank.pl/dodatkowe-informacje/o-banku/rada-nadzorcza.html>**

## **Rules for appointing and dismissing managerial staff**

The Members of the Management Board are appointed and dismissed pursuant to the provisions of the Code of Commercial Companies, and also

the Banking Act and provisions of the Bank's Articles of Association. The Management Board has at least three members appointed for a joint term of office of 3 years and the number of Management Board members is determined from time to time by the Supervisory Board. At present, the Management Board members include its President, Deputy Presidents, and Members. Two members of the Management Board, including its President, require approval of the Polish Financial Supervision Authority, which is applied for by the Supervisory Board. The Supervisory Board shall also inform the Polish Financial Supervision Authority on Members of the Management Board to whom it reports, credit risk management and the internal audit function. Currently, the Bank awaits PFSA approval of Michał Chyczewski, who is now Deputy President of the Management Board and acting President of the Management Board, as a Board member; such approval was received for Katarzyna Sułkowska, Deputy President of the Management Board.

## **Competencies of the Management Board**

The Management Board shall direct the affairs of the Bank and represent the Bank. Its competencies shall include all matters not reserved by law or provisions of the Articles of Association to other bodies of the Bank. All matters that go beyond the scope of normal activities of the Bank shall be adopted by a resolution of the Management Board. The Management Board, in the form of resolutions, shall in particular:



- define the Bank's long-term plans of operations and strategic objectives;
- set the Bank's short-term and long-term financial plans and monitor their implementation;
- monitor the system of bank management, including the management reporting system for ongoing inspections of the Bank's operations,
- accept rules, policies and regulations with regard to the Bank's operations, in particular with respect to prudent and stable managing of the Bank, risk management, lending activity, investment activity, the Bank management system, asset and liability management, accounting, the Bank's funds, HR management and rules for the performance of internal control;
- determine the bonus amount for the Bank's employees and how it should be distributed;
- approve proxies;
- take decisions regarding issue of bonds by the Bank, with the exception of convertible bonds or bonds with equity warrants; accept subscription, acquisition, and disposal of shares or interests in companies by the Bank;
- take decisions regarding contracting financial obligations, disposing of the assets, encumbering or leasing assets (including rental) having a total value towards one entity in excess of the 1/100th of the Bank's share capital, subject to Art. 8.2 of the Rules of the Management Board;
- approve an investment plan and accept each own investment of the Bank (acquisition or disposal of fixed assets or property rights) having a value in excess of the 1/100th of the Bank's share capital, subject to Art. 8.2 of the Rules of the Management Board;
- accept matters regarding the organisational structure of the Head Quarter of Bank, including establishment and liquidation of the

Bank's organisational units and the Head Quarter's organisational sections;

- take decisions regarding the establishment and liquidation of the Bank's branches;
- take decisions regarding paying advance on dividend to the shareholders upon the Supervisory Board's consent;
- accept all documents submitted to the Supervisory Board or the General Meeting;
- review other matters brought before the Supervisory Board, the General Meeting, the members of the Management Board, the Bank's organisational units or committees or teams established in line with the Bank's principles;
- take decisions on all other matters regarding the Bank's operations, if required by separate provisions or if such decisions could have a material impact on the Bank's financial situation or image.

Also pursuant to Resolution No. 28/2012 of the Extraordinary General Meeting of Shareholders of 19 October 2012 on conditional share capital increase of the Bank and issue of subscription warrants the Bank's Management Board is authorised to:

- offer and issue subscription warrants to participants of the Incentive Scheme other than the members of the Bank's Management Board (in the case of Management Board Members, this authorisation belongs to the Supervisory Board);
- register new share issue with NDS and undertake all activities for their dematerialisation,
- undertake all necessary actions for admission and introduction of a new share issue to trading on the WSE regulated market, immediately after their issue;

A detailed description of the activities performed by the Management Board for the purpose of



issuing shares under the Incentive Scheme can be found in the Rules of the Incentive Scheme approved by the Supervisory Board.

### **Rules of the Management Board's operation**

The Management Board shall operate on the basis of the Articles of Association and the Rules adopted by the Supervisory Board. The Management Board shall take decisions in the form of resolutions at a meeting of the Management Board and by circulation. The Management Board's resolutions are adopted by an absolute majority of votes cast by Members of the Management Board present at its meeting or by circulation. As a rule, resolutions are adopted by open ballot. In the event of parity of votes, the President of the Management Board shall have a casting vote. According to the Rules of the Bank's Management Board, the validity of resolutions approved by the Management Board shall require at least half of the Management Board's Members to be present at a meeting and when all Members have been duly notified of the meeting. Statements on behalf of the Bank shall be made by:

- two members of the Management Board acting jointly
- one Member of the Management Board acting jointly with a proxy or representative;
- two proxies acting jointly;
- representatives acting individually or jointly within a power of attorney granted to them.

### **Remuneration policy**

The Bank pursues its Remuneration Policy applicable to all employees. Remuneration Policy at Alior Bank S.A. was approved by Resolution No. 72/2017 of the Bank Supervisory Board.

The objectives of the Remuneration policy include:

- promoting proper and effective risk management and discouraging excessive risk taking (above the acceptable risk level at the Bank) in order to maintain a solid capital base and having in mind the long-term interest of the Bank, its shareholders, and customers,
- supporting implementation of the Bank's strategy on sustainable development and a prudent risk management policy,
- mitigating conflicts of interest,
- maintaining a transparent relationship between individual performance and individual remuneration by focusing on goals related to responsibility and real influence,
- preventing the use of structures or methods to avoid this Policy,
- ensure that Bank's employees act in the best interests of their customers, among others, providing them with clear and transparent information about the services and products offered by the Bank.

The Remuneration Policy is the Bank's basic document on its policies and principles regarding remuneration of the Bank's employees, with particular consideration of the following employees who, due to a special nature of their role in the Bank's risk management system, are subject to a separate regulatory regime, i.e.:

- Employees who are Material Risk Takers having an impact on the Bank's risk profile,
- Employees holding Control functions,
- Employees of the Audit Department and the Compliance Department,
- Employees involved in offering or distributing banking, investment, and insurance products and services.

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.

Qualification of an employee as a Material Risk Taker is determined on whether or not that employee has such impact in the meaning of the Commission Delegated Regulation.

Remuneration of employees who are Material Risk Takers comprises a fixed and a variable part. Senior management is not granted undefined retirement benefits. Employees who are Material Risk Takers having an impact on the risk profile undertake to refrain from using individual hedging strategies or insurances for their remuneration and responsibility in order to challenge the effects of considering 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 remainder of variable remuneration is paid 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.

### **Management option scheme**

Based on Resolution No. 28/2012 of the Extraordinary General Meeting of Shareholders 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 the Bank'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.

Granting of subscription warrants was dependent upon fulfilment of conditions stated in Program's Regulations approved by Bank's Supervisory Board. The Management of the Bank is tasked with control of Program execution.

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.

Details on finally awarded warrants to the members Management Board are provided in the table below:

First name and surname	Number of awarded A series warrants	Number of awarded B series warrants	Number of awarded C series warrants
Sobieraj Wojciech	222 086	222 086	222 086
Bartler Małgorzata		27 656	13 784
Czuba Krzysztof	88 833	88 833	88 833
Krzyżanowska Joanna			30 440
Skrok Witold	71 066	88 833	88 833
Smalska Barbara			30 440
Sułkowska Katarzyna	88 833	88 833	88 833
Krzyżanowska – Piękoś Urszula	9 445	18 443	36 000
Waleśkiewicz Celina	18 321	33 312	20 000
<b>Total</b>	<b>498 584</b>	<b>567 996</b>	<b>619 249</b>

Details of non-exercised warrants as at 31.12.2017 are presented in the table below:

Warrant series	List of awarded, exercisable warrants	Number of deferred warrants* to be awarded in 2018-2019	Total
A	514 916	36 450	551 366
B	901 466	144 453	1 045 919
C	668 531	281 670	950 201

\*As per the Policy of variable remuneration components effective in 2013-2015

Referring 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 entitled 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.

Pursuant to the notifications received on 10 July 2017 pursuant to Art. 19.1 of the MAR, transactions of the Management Board Members involving phantom shares issued as part of the adjustment of the Management Option Scheme granted in 2016 and 2017 in connection with the adjustment of the Scheme Regulations pursuant to a resolution of the Bank's Supervisory Board of 25 April 2016 within the Management Option Scheme for 2013, 2014 and 2015 are as follows:



Shareholder	Number of phantom shares	Subscription price [PLN]	Disposal price [PLN]	Transaction date
Urszula Krzyżanowska - Piękoś	28 283	52,72 – 53,87	68,90	6.07. 2017
Katarzyna Sułkowska	87 862	50,43 – 53,87	68,90	6.07. 2017
Celina Waleśkiewicz	21 872	52,72 – 53,87	68,90	6.07. 2017

### Bonus scheme for Management Board

Due to the lapse of a 3-year validity period of the Original Incentive Scheme based on the Bank's shares, the Supervisory Board adopted the Bonus Scheme for the Management Board effective from 2016. 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.

The bonus depends on achieving or over-performing relevant Bank Performance thresholds and achieving Individual Objectives. The appraisal focuses on performance of the Eligible Person in the previous three calendar years. The decision on granting the Bonus will be made considering the provisions of the Policy, financial and non-financial criteria, as well as the assessment of performance of the entire Bank plus the Bank's performance in the area of responsibility of the Eligible Person. When approving payments the Supervisory Board will also consider the overall performance of the Bank for the three previous calendar years. The bonus is paid out if the financial situation of the Bank supports it. The bonus is paid out according to the Remuneration Policy.

As of 01.07.2017 the variable part of remuneration must not exceed 100% of the fixed part.

### Remuneration of the Members of the Management Board and the Supervisory Board at Alior Bank SA in 2017

#### Remuneration of the Members of the Management Board at Alior Bank S.A. in 2017 (in PLN '000)

(in PLN '000)	Period	Fixed remuneration	Variable remuneration 2016 <sup>2016</sup> <sup>1</sup>	Variable remuneration for previous years <sup>2</sup>	Other benefits	Employee benefits (overheads)	Total
Michał Chyczewski	29.06.2017 - 31.12.2017	762	-	-	2	45	809
Katarzyna Sułkowska	01.01.2017 - 31.12.2017	1 560	1 687	406	4	97	3 754
Urszula Krzyżanowska-Piękoś	29.06.2017 - 31.12.2017	600	-	-	2	4	606



<b>Celina Waleśkiewicz</b>	29.06.2017	600	-	-	2	19	621
	- 31.12.2017						
<b>Filip Gorczyca</b>	29.06.2017	610	-	-	2	20	631
	- 31.12.2017						
<b>Sylwester Grzebinoga</b>	01.08.2017	500	-	-	-	16	517
	- 31.12.2017						
<b>Wojciech Sobieraj</b>	01.01.2017	2 520	2 576	1 015	3	142	6 257
	- 31.12.2017 <sup>3</sup>						
<b>Joanna Krzyżanowska</b>	01.01.2017	1 680	1 687	181 <sup>5</sup>	-	104	3 651
	- 31.12.2017 <sup>3</sup>						
<b>Małgorzata Bartler</b>	01.01.2017	1 680	1 687	144 <sup>5</sup>	5	102	3 618
	- 31.12.2017 <sup>3</sup>						
<b>Barbara Smalska</b>	01.01.2017	1 680	1 736	38	5	102	3 561
	- 31.12.2017 <sup>3</sup>						
<b>Krzysztof Czuba</b>	01.01.2017	1 680	1 687	406	4	101	3 878
	- 31.12.2017 <sup>3</sup>						
<b>Witold Skrok</b>	01.01.2017	1 680	1 687	373	-	101	3 842
	- 31.12.2017 <sup>3</sup>						
<b>Michał Hucal</b>	01.01.2017	100 <sup>4</sup>	-	278	-	-	100
	- 31.01.2017 <sup>3</sup>						
<b>Total</b>		<b>15 651</b>	<b>12 747</b>	<b>2 842</b>	<b>30</b>	<b>854</b>	<b>32 125</b>

The salary does not include social security benefits.

1 The values including the disbursement of the annual bonus for 2016 and the transactional bonus in connection with the take-over of the demerged part of Bank BPH

2 The values including cashed phantom shares awarded in 2017 (with phantom shares awarded in 2017 in the Management Option Scheme)

3 Function in the Management Board until 29.06.2017

4 Function in the Management Board after 28.10.2015

5 Variable remuneration including that for the period before appointment to the Management Board of Alior Bank SA.

## Remuneration of the members of the Supervisory Board at Alior Bank S.A. in 2017 (in PLN '000)

Supervisory Board	Period	Remuneration	Employee benefits (overheads)	Total
<b>Gątarek Dariusz</b>	01.01.2017 - 31.12.2017	126	23	150
<b>Handschenke Mikołaj</b>	31.10.2017 - 31.12.2017	22	4	26
<b>Iwanicz-Drozdowska Małgorzata</b>	01.01.2017 - 31.12.2017	134	8	143
<b>Kaczoruk Stanisław</b>	01.01.2017 - 08.05.2017	44	7	52



<b>Krupiński Michał</b>	01.01.2017 - 14.06.2017	64	3	67
<b>Krześniak Eligiusz</b>	29.06.2017 - 31.10.2017	42	7	49
<b>Kucharski Artur</b>	31.10.2017 - 31.12.2017	22	4	26
<b>Kulik Tomasz</b>	29.06.2017 - 31.12.2017	21	0	21
<b>Michalski Marek</b>	01.01.2017 - 19.07.2017	78	10	88
<b>Niemierka Sławomir</b>	01.01.2017 - 31.12.2017	134	4	139
<b>Pałac Roman</b>	08.05.2017 - 29.06.2017	22	4	26
<b>Rapkiewicz Maciej</b>	01.01.2017 - 31.12.2017	75	4	79
<b>Szymański Paweł</b>	01.01.2017 - 31.12.2017	128	23	152
<b>Total</b>		917	106	1 023

The salary does not include prizes in-kind.

### Agreements concluded with the Management Board members

With the Management Board members of the 4th term of office (appointed in June and August 2017) contracts of employment were concluded for an indefinite period of time providing for the following:

- The contracts may be terminated by either Party subject to a 3-9-month notice, effective at the end of a calendar month.
- If the Bank terminates a contract of employment before the end of the term of office, some Members of the Management Board are entitled to compensation in the amount not less than 6 times and not more than 12 times the monthly gross basic remuneration.
- The contracts contain non-competitive clauses, under which the Members of the Management Board, upon termination of their employment relationship with the Bank, must not engage in any competitive activity for 12 months following termination of their agreements. As a result, the Members of the Management Board are entitled to remuneration totalling an equivalent to their gross remuneration for 12 months.

The Extraordinary General Meeting of 5 December 2017 approved a resolution regulating the principles of remuneration of members of the Management Board of Alior Bank. At its meeting of 14 December 2017, the Supervisory Board approved new principles of remuneration of the Management Board based on managerial contracts, relating to the Act of 9 June 2016 on the remuneration of persons managing certain companies and individual contracts for individual Members of the Management Board:

- Management Board Member's contract for the time of performing functions;
- Termination period:
- 1 month in case of performing Management Board Member function for less than 12 months effective at the end of calendar month;
- 3 months in case of performing Management Board Member function for at least 12 months.
- Severance pay in the amount of three times monthly salary in case of contract termination by both sides or termination by the Company in all cases except for negligence to perform basic Management Board duties in case of performing Management Board Member function for at least 12 months.



- Non-compete clause based on which Management Board Member is obliged (assuming he performed the function for at least 3 months) will not perform any activities deemed competitive with reference to the Company for the period of 6 month since the date of contract termination. As a consequence of that former Management Board Members are entitled to severance in the amount of six months salary.

### **Diversity policy with regard to authorities and key managers of Alior Bank S.A.**

The Authorities of Alior Bank S.A. have not yet approved a diversity policy; the Company has not drafted such policy yet. However, for many years the Bank has in practice taken into account the basic elements of the diversity policy in its HR policy, considering the values resulting from differences are an additional asset of the organisation.

Alior Bank S.A. pursues the principle of equal treatment, irrespective of sex, age, property status, family situation, degree of physical fitness, nationality, sexual orientation, beliefs and political and religious views as provided for in Alior Bank's Code of Conduct. The Bank provides working conditions that favour full use and development of unique features, skills, and interests of all employees, including managers, among others by means of training.

A practical aspect that serves as evidence of the application of the diversity principles by Alior Bank to its authorities is the fact that 50% of the Management Board members are females. Further to that, 36.5% of the Bank's top management are females.

Currently, the Bank is to adopt a diversity policy as a formal document supporting the principles applied in this area.

### **Entity authorised to carry out audits of financial statements**

By the Resolution of the Supervisory Board of 22 May 2017, KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. based in Warsaw was selected as the auditor for the Bank's financial statements. The Agreement was concluded for two years.

As at 31 December 2017 the following auditor's remuneration was approved:

- audit of the separate and consolidated financial statements of the Alior Bank Group – PLN 680,000;
- other attestation services – PLN 719,300;
- other non-audit activities – PLN 76,000.

As at 31 December 2016 the remuneration approved for PricewaterhouseCoopers Sp. z o.o. for audit services in the previous reporting period, according to the agreement of 6 June 2014 was:

- audit of the annual financial statements – PLN 680,000;
- other attestation services, including a review of the financial statements – PLN 855,000.

As at the publication date of the report in connection with the audit of the annual financial statements for 2017, the Bank's subsidiaries (this does not apply to Centrum Obrotu Wierzytelnościami Sp. z o.o. whose annual financial statements are not audited) established provisions for audit services as disclosed in the table below:



Company	Auditor	Amount of provision (PLN)
Absource sp. z o.o.	VISTA Audytorzy, Księgowi i Doradcy sp. z o. o.	5 000
Meritum Services ICB S.A.	VISTA Audytorzy, Księgowi i Doradcy sp. z o. o.	4 800
NewCommerce Services sp. z o.o.	Kancelaria Biegłego Rewidenta "Konto" Sp. z o.o.	12 300
Alior Leasing sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	128 000*
Serwis Ubezpieczeniowy Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	30 000*
Alior Services Sp. z o.o.	Mazars Sp. z o.o.	55 000
Money Makers TFI S.A.	Ernst & Young Audyt Polska Sp. z o.o. Sp.k.	25 000

\*Contract's net value



# **XVII. Standalone and Consolidated Statement on Non-Financial Information of Alior Bank S.A**



## Group of Alior Bank S.A. and Alior Bank S.A. – Parent Entity

### Who we are



Alior Bank is a national universal bank and one of the most modern and innovative financial institutions in Poland. This is a place for people who have ideas and business courage to set new standards in banking. Our offer comprises services and products for individual and business

customers, including small and medium-sized enterprises and institutional customers. We combine the principles of traditional banking with innovative solutions – as a result, we have been regularly strengthening our market position and for years we have been consistently setting new development directions of Poland's banking.

### KEY FIGURES – the Bank's position among the biggest banks in Poland



The operations of the Group of Alior Bank S.A. extend to comprise several different, but inter-related segments. This is closely related to the operations of the companies making up the Group. Apart from banking activities, the operations of the Group cover, among others: leasing activities, insurance agency services, asset management, search for and identification of external partners to co-operate in offering non-banking products, IT and computer technologies services, as well as other activities related to IT, online financial intermediation services.

The Bank's core business covers maintenance of bank accounts, granting loans, issue of bank securities, and purchase and sale of foreign

currencies. We are also involved in brokerage activity, financial advisory, and intermediation services, arrangement of corporate bonds issues, and other financial services. In the near future, we plan a major growth of sales via electronic channels.

We offer our banking products and services via a network of our own branches, franchise outlets, and financial intermediaries, as well as the distribution channels based on an IT platform, covering: online banking, mobile banking and telephone service centres. The distribution network is supported with service outlets that offer our products under the following brands: T-Mobile Banking Services provided by Alior Bank S.A.



## Alior Bank products and services

### Individual customers

loans and deposits	brokerage products	investment funds	personal accounts	transactional services	loans and deposits
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### Corporate customers

loans and deposits	trade finance	current & subsidiary accounts	transactional services	treasury products	loans and deposits
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Apart from Alior Bank S.A., which is the parent company, the Group of Alior Bank S.A. is made up of subsidiary companies where the Bank holds majority interests.

### Group of Alior Bank S.A. as of 31 December 2017



Detailed description of the subsidiaries' business is provided in Chapter X hereof



Alior Bank is a public company. Since December 2012 our shares have been listed on the Warsaw Stock Exchange – the public offering of PLN 2.1 billion was the largest private offering in the history of WSE. Since 2014 Alior Bank's shares have been listed in the WIG20 index. Our shareholders include domestic and international investors.

The registered office of Alior Bank is located in Warsaw. However, we operate all over Poland. As at the end of December 2017, Alior Bank operated 248 its own branches, seven Private Banking branches, 12 Regional Business Centres, and 638 partners' outlets (franchise). As part of its retail banking, a foreign branch of Alior Bank was opened in 2016 in Romania.



We primarily provide services to all kinds of customers from Poland and we are available round the clock from any place in the world via our

Internet service ensuring unrestricted access to the banking products offered by Alior Bank.

## Business strategy and corporate social responsibility

**Ethics, Simplicity, Agility, and Team Spirit** – those are the four values that are most important for Alior Bank S.A. We identified the values in the

new business strategy approved in 2017 – “Digital Disruptor”, setting for the activities of the Bank for 2017-2020.

### Our values:

<b>ETHICS</b>	we act fair in internal relations and vis-a-vis customers
<b>SIMPLICITY</b>	we focus on things that actually build value for Customers by promoting simple and effective solutions.
<b>AGILITY</b>	we react fast to changing circumstances and efficiently implement the required solutions.
<b>TEAM SPIRIT</b>	we assume responsibility for accomplishing the objectives of Alior Bank and we adjust our priorities to the strategy of the team and organisation. We follow the principle: “we play with only one goal”



**Our objective is to maintain the position as an innovation leader in Poland and to become one of the most innovative banks in Europe.**

Within the next 4 years, we will invest additional PLN 400 M in innovative technological projects apart from the already planned expenditures on current development works and IT system maintenance. The expenditures will drive the digital transformation of Alior Bank within which highly motivated employees will guide individual and corporate customers to a digital world, in a safe and friendly manner that will create value for the shareholders.

We will simplify our offer and provide carefully selected, innovative products and services, characterised by transparency, friendly nature in handling and possibilities to purchase, access, and handle via Internet and mobile banking. Those

activities will help us regain a leading position in terms of customer satisfaction.

By 2020 we intend to grow the number of retail customers by 77 percent for whom Alior Bank will be the bank of first choice. The above objective will be supported with new behavioural segmentation and focus on customer groups using digital channels and making cashless transactions primarily with cards and smartphones.

We expect that in 2020 we will electronically:

- acquire 30 percent of “daily banking” customers,
- open one half of savings accounts,
- grant 32 percent of loans.

In the business segment, we will focus on micro-, small, and medium-sized enterprises. We wish to



be the bank of first choice for startups and to comprehensively support SMEs.



As early as in 2018 we plan to use the e-state systemic architecture (e.g. Standard Audit File-Tax) for fully automatic and immediate assessment of company's creditworthiness. It is the Bank's ambition to develop comprehensive automatic loan handling in electronic banking channels, while providing top quality consulting services at the Bank's outlets.

Relying on the web platform [zafirmowani.pl](http://zafirmowani.pl), we also wish to develop an offer of complementary non-banking services. We will propose products that, among others, will enable customers use factoring, tools to search for EU funds. The [zafirmowani.pl](http://zafirmowani.pl) portal is to become a core web address offering comprehensive tools to set up, carry on, and develop business activities.

The New Model of Innovation Management at Alior Bank will allow us to use modern technologies to create a bridge between customers' needs and the Bank's strategy. That will make the customers' life easier and will ensure high profitability for the Bank.

We have also established the Fintech Department – a new unit responsible for searching for fintechs on a global scale and for initiating partnership with those that best suit the Bank's strategy. The objective is to establish co-operation with 20 companies by 2020 and make the Bank perceived as the partner of first choice for fintechs in Europe.

We also plan to intensify co-operation with entities in the PZU Group in order to implement cost and revenue synergies. The co-operation will cover, among others, innovation areas, digital channels, IT, real estate properties, marketing, development projects, procurement, and financial products.

A change of the strategy of Alior Bank requires changes to the working mode of the Bank's employees. It is our staff who will lead our customers from the "off-line" to the "on-line" world.

Apart from training and promotion of pro-customer attitudes, the working comfort of our team is very important to us. We regularly survey satisfaction among our staff, asking them about their needs in their place of work and we try our best to provide for such needs.

## Our relations

### Our stakeholders





 We want to learn more about our customers. Therefore, we regularly carry out satisfaction surveys among them so that we learn more about our customers' needs and problems. Friendly and effective communication with customers is a key element of our information policy. The information we disclose, we formulate in a simple and understandable manner.

We also care that the communication is confidential. When we provide data that is subject to banking secrecy, we always take optimum care that such information is transferred subject to the strictest security standards.

We also take care of regular, timely, and efficient communication with capital market players. As a public company we take measures to comply with the disclosure needs of our stakeholders, while ensuring that the information is available publicly and equally in line with the top market standards and the applicable laws.

The activities are carried out by the Investor Relations Department whose basic duty is to develop relations with shareholders based on reliable information and to ensure regular access to information on all major changes taking place at Alior Bank that have or may have impact on the prices of its shares.

The Investor Relations Department regularly arranges meetings of representatives of the Management Board and top managerial staff with capital market players, including investors and analysts. The meetings are devoted to discussions on the current financial and operational conditions of Alior Bank, presentation of its operational strategy and the planned directions of future development. Issues are discussed that are related to current macroeconomic situation, the overall condition of the financial sector and the competitive environment of our Bank.

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. Our representatives regularly participate in conferences organised by domestic and foreign brokerage houses.

In H1 2017, within its efforts aimed at maintaining a high quality of cooperation and service of internal customers, Alior Bank S.A. implemented internal NPS surveys covering the IT and HR areas. The surveys will be carried out regularly to further improve the cooperation and service quality of internal customers. In 2018 we will significantly increase the number of departments covered with the internal NPS survey.

At Alior Bank we are at constant dialogue with employees. We use most popular and most effective communication tools, e.g. meetings, e-mails, posters, stickers, competitions and videos. Each employee receives a regular newsletter with data that is handy in everyday's work. We regularly hold meetings with the trade unions operating in the Bank, we hold satisfaction surveys covering employee benefits. For key directors and managers we organise meetings with the Bank's Management Board.

A meeting with the managerial staff "Meetup" is an example of the dialogue. The conference was devoted to operational launch of the "Digital Disruptor" strategy.

### **Selected organisations where Alior Bank was member in 2017**

Polish Banks Association

Chamber of Brokerage Houses

ACI Polska

Polish Franchise Organization

EFMA



Employers of Poland

Banking Cybersecurity Center

Banking Register of IT Incidents

Acquirers Committee

Polish Association of Factors

Polish Banking Qualification Standards  
Committee

Depository Banks Council

### Our awards



We are happy with external recognition of our activities and the awards granted by independent forums.

In 2017, we were awarded prizes 12 times in Poland. Seven awards referred to the way we do business, one related to the development of our image, and four appreciated our innovation efforts

### Business

- the title of "Company of the Year" awarded during the 27th Economic Forum in Krynica;
- the title of "Business Champion 2016" awarded by Businessman.pl. The title is awarded to companies that have manifested championship in their business;
- first prize in the "Best bank 2017" ranking list organised by the *Gazeta Bankowa* magazine. Alior Bank won in the category of "Large Commercial Banks";
- award in the competition "Leaders of the World of Banking and Insurance". Alior Bank won in the category "Best Bank";
- two prizes in the "Newsweek friendly bank" ranking. The Bank was ranked second in "Traditional banking" and third in "Internet banking";

- three awards in the "50 largest banks 2017" ranking list developed by the *Miesięcznik Finansowy BANK* monthly. The Bank came second in the categories of "Retail banking" and "Accounts for natural persons" and third in the category "Corporate banking";
- the award of the "Leader in Sales Quality of de minimis guarantees" granted by Bank Gospodarstwa Krajowego.

### Innovativeness

- awards in the "Golden Banker 2016" ranking list. Alior Bank won in the category of "Financial innovation" and came second in the category "Cash Loans";
- three awards in the "Banking stars 2016" ranking, prepared by the *Dziennik Gazeta Prawna* daily in co-operation with PwC. For its overall activity, Alior Bank was ranked second, won in the category "Growth rate" and awarded the second place in the "Innovation" category;
- award for the first place in the "Innovation Initiator" competition, organised by *Newsweek Polska* weekly. The Bank won in the category of large enterprises;
- award for the second place in the "Listed Company of the Year 2016" ranking, organised by the *Puls Biznesu* daily and Kantar TNS opinion poll agency. Alior Bank was among three winners in the "Product and service innovation" category.

### Image creation

- award for the second place in the "Leopards 2017" competition for the most admired creation of the Bank brand image, organised by TNS Polska opinion poll agency

We won four prizes abroad, including three for innovations.



- the title of the “Bank of the Year in Poland” in the competition organised by The Banker, owned by Financial Times Ltd;
- the “Banking Technology Award” for the first position in the category: “Best use of IT technologies in lending”. Our mobRATY project was also appreciated – our mobile application used in granting HP loans;
- first prize in the international competition “Retail Banker International” in the category “Best innovation in services” for the HAIZ application;
- award in the international competition “Celent Model Bank 2017”, organised by Celent. Alior Bank won in the “New technologies for consumers” category.

## Foundations of our activities

Employees of the Group of Alior Bank S.A. are required to comply with the law, regulators’ guidelines, and the regulations and procedures in force at the Bank. In their daily operations, the Bank and its employees should follow the “Principles of Good Banking Principles” approved by the Polish Bank Association. Both Alior Bank and Money Makers comply with the Code of Best Practice for WSE Listed Companies (WSE, NewConnect).

**In 2017 no financial penalties were imposed**

## Ethics – rules of conduct

[GRI 102-16 (partly)]

Ethics is one of the core values specified in the Strategy of Alior Bank for 2017-2020 . Every day, we take a number of measures and initiatives that are focused on consolidating the employee's

awareness and attitude towards compliance and ethics.

The organisation follows the Code of Ethics implemented in Alior Bank S.A. and companies: Alior Leasing Sp. z o.o., Serwis Ubezpieczeniowy Sp. z o.o. and the Policy of operation in the customers’ best interests was implemented in Money Makers TFI S.A.<sup>1</sup>

Employees of the rest of the companies are obliged to comply with the Code of Ethics of Alior Bank. It is a collection of the most important rules of conduct related to the Bank’s business. It is addressed both to our employees and people who perform banking activities via the Bank. For the staff of Alior Bank, the Code is a guideline facilitating fair and lawful decisions.

The Code of Ethics contains four parts with the rules of conduct towards customers, vis-a-vis each other, counterparties and the market and the community at large. The Code contains guidelines concerning compliance with the principles of professionalism and personal culture, and also openness to diversity and tolerance. Additionally, in the document the employees will find information encouraging them to take care of the natural environment.

We take all efforts that the Code of Ethics becomes a pillar in our everyday work. In 2017 we organised a Compliance Week to promote the rules in the Code of Ethics. During a series of interactive meetings, employees could find out how to handle ethically the daily challenges of business operations - avoidance of conflicts of interest, principles of data protection, effective mitigation of the risk of misselling while offering banking products and ensuring information security. During the Compliance Week, special stress was

<sup>1</sup> The other companies that belong to the Group of Alior Bank S.A. hire staff employed at Alior Bank S.A. who are obliged to comply with the Code as prevailing in the Bank.



placed also on reminding employees about possibilities of reporting any breaches or questions concerning ethics. Ethical rules are also promoted in the Compliance Bulletin.

The effects of the measures can be noted in a commitment survey in which 96% of staff declared that they knew how to operate ethically.

[GRI 102-17] [GRI 412-1]

We attach great importance to the appropriate organisation of the whistleblowing system – we want employees to be able to provide information or share their doubts in an easy way and without any fear.

In 2017 we redefined the process of breach reporting and guarantees for whistleblowers. Alior Bank provides opportunities for its staff to use multiple communication channels to this end. Such report may be done orally, in writing, or by e-mail to specially dedicated e-mail boxes, including directly to Members of the Management Board or the Supervisory Board.

The existing whistleblowing reporting system also ensures anonymity. The Bank shall not apply any retaliation, discriminative measures or another type of unfair treatment against employees who have in good faith reported breaches.

In 2017 we had 38 reports concerning potential breaches of ethics (including among others, discrimination, mobbing, stalking, etc.).

All reported instances were subject to a detailed analysis and 17 of them were found as justified. In relation to confirmed breaches, recommendations were issued to remedy irregularities.

## Fraud risk management

[GRI 419-1]

A core element to mitigate compliance risk is that the Bank ensures appropriate supervision over conflict of interest management. In the Alior Bank Group the area is regulated in the **Conflict of Interest Management Instruction**.

Instructions related to conflict of interest management apply in the four largest companies of the Group of Alior Bank S.A. (Alior Bank S.A., Alior Leasing Sp.z o.o., Serwis Ubezpieczeniowy Sp.z o.o. and Money Makers TFI S.A.<sup>2</sup>).

In the document, the employees of the Alior Bank Group can find answers to questions how to define conflicts of interest and how to identify their potential or actual effects and how they should act to avoid conflicts of interest. The instruction regulates such important elements like the rules of providing services to close persons, acceptance of gifts and invitations and employment of staff members outside the Group. The document clearly sets the rules of reporting between close persons with special stress on eliminating the risk of nepotism.

Alior Bank also complies with the following internal regulations: Compliance Policy and Crime Prevention Policy. The documents precisely state how Alior Bank ensures compliance with the law, the internal regulations, and the market standards with its control function and compliance risk management. The Bank pursues a policy of full compliance with the law and the principles of fairness and high business ethics in all areas of its operations.

The employees of Alior Bank S.A., Alior Leasing, and Money Makers have been trained in

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<sup>2</sup> The other companies hire staff employed at Alior Bank S.A. who are obliged to comply with the rules as prevailing in the Bank.



procedures preventing abuse and the rules of ethical conduct. The training at Alior Bank covered, among others, the compliance risk where conflicts of interest was one the most popular subjects similarly to bank secrecy and the gift policy. The training is mandatory for all new employees of Alior Bank.

[GRI 201-1] [GRI 205-3]

In 2017 the Bank's employees reported 381 instances of accepted benefits - gifts, invitations to conferences, or training, tickets, gifts in kind, etc. that were recorded in a special register. A vast majority of the reported benefits were within the acceptable limit of PLN 200. In the case of gifts exceeding the value, usually such objects are sold at a charity auction and the proceeds are transferred to an orphanage. Another solution was to offer tickets for an auction to support treatment of an employee of Alior Bank. In the case of invitations to conferences, they were approved if the subjects of such conferences were related to business responsibilities.

In 2017 out of 421 reported potential conflicts of interest, 31 percent were found as actual instances of the applicable principles of avoiding conflicts of interest and therefore, recommendations were issued to restore the required situation. Usually, the breaches referred to servicing close persons or potentially competitive activities.

**In 2017 no confirmed corruption instances were identified in the Group.**

### **Compliance with human rights in the supply chain**

Each entity that wishes to join any bidding procedure organised by the Bank shall be obliged to file a special appendix to the bid – "Business Ethics Declaration" that part of the assessment of the bid in terms of formal legal aspects. By signing the document, the bidder declares that in its business it complies with the applicable laws and

rules of ethical conduct. The most important elements of the declaration are as follows:

- no employment of under-age employees,
- no discrimination of employees on any account,
- compliance with the law with respect to minimum wages and working hours,
- provision of safe and secure working conditions for employees,
- compliance with the regulations concerning environmental protection and no adverse impact on the immediate neighbourhood,
- compliance with the regulations concerning protection of competition and consumers,
- compliance of the internal policies concerning business ethics.

In 2017 the practice was followed solely at Alior Bank S.A., while in 2018 it will also be pursued by the other Group companies.

### **Risk management related to business activity**

[GRI 102-30] [GRI 102-15]

Risk management is one of the major internal processes in the Bank and in the Alior Bank's Group.

The risk management system operated at the Bank is based on three independent lines of defence. The system relies on the standards in force in the banking sector and the guidelines in supervisory regulations and recommendations.

The objective of the risk management policy pursued at the Bank is to ensure an early detection and adequate management of material risks inherent in the Bank's operations.

In its operations, the Bank identifies the following risks as material: credit risk, interest rate risk in the banking book, market risk in the trading book, liquidity, operational, compliance risk, model risk, business risk, reputational, and capital risk. Among them, the Bank treats the following risks as major



one: credit risk, operational risk, interest rate risk in the banking book, market risk in the trading book, and the liquidity risk. From the viewpoint of impact on social, employee-related, environmental, human rights, and counteracting corruption issues,

the operational and compliance risk are of special importance. Additionally, the Bank identifies environmental risk in the process of corporate financing.

### **Selected risks are managed by the Bank subject to factors of sustainable development (ESG – Environmental, Social, Governance)**

<b>Credit Risk</b>	<p>The credit risk is understood at our Bank as a possibility of default by the counterparty. Management of the credit risk and its maintenance at a safe level, defined in the risk appetite, is of fundamental importance for the Bank's stable operation and development. The credit risk is controlled with the use of the regulations in force at the Bank, in particular lending methodologies and risk measurement models, adjusted to customer segments, product and transaction types, establishing and monitoring of collateral to loans, as well as the processes of monitoring and collection of receivables. We endeavour to fully centralise and automate the processes, while relying on available external and internal information on customers.</p> <p>In the mitigation process of the risk level, when approving a credit product we assess:</p> <ul style="list-style-type: none"><li>the customer's creditworthiness and credit capacity, including, for example, a detailed analysis of the repayment sources;</li><li>reliability of the accepted collateral.</li></ul>
<b>Operational Risk</b>	<p>The operational risk is a possibility of occurrence of a loss resulting from inadequate or unreliable internal processes, loss of key employees systems or 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.</p> <p>Alior Bank has a formalised operational risk management system within which we counteract to the occurrence of operational events and incidents and mitigate losses should the risk materialise. The principles and structure of operational risk management at Alior Bank rely on the Banking Act, resolutions and recommendations of the Polish Financial Supervision Authority, and also the internal regulations.</p> <p>We control the operational risk at many levels in the organisation , this is done, among others, by an independent unit of the Bank dedicated to operational risk management.</p>
<b>Market and liquidity risk</b>	<p>At Alior Bank we have identified the following types of the market and liquidity risk that is subject to management:</p> <ul style="list-style-type: none"><li>• Interest rate risk in the banking book;</li><li>• Market risk in the trading book (the risk covering in particular interest rate risk in the banking book and the commodity price risk);</li><li>• Liquidity Risk.</li></ul> <p>The interest rate risk is defined as a risk of adverse impact of market interest rates on the current performance or the current value of the Bank's equity.</p> <p>The FX risk is defined as a risk of a loss resulting from changing FX rates in the open FX positions.</p>



	<p>The FX risk is measured and mitigated by monitoring and limiting the FX positions opened by the Bank.</p> <p>The risk of commodity prices is a risk of a loss due to changing commodity prices. Commodities are understood as any material trading objects identified in terms of type and grade and the quantity of which may be expressed in physical units of measure. The commodity price risk is measured and mitigated by monitoring and limiting open commodity positions so that the risk becomes immaterial for the Bank.</p> <p>The liquidity risk means 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 policy of liquidity risk management at the Bank consists in maintaining its own liquidity positions so that payment obligations can be met at any time with the available cash on hand, proceeds from transactions with specific maturities or with sales of marketable assets, while minimising the costs of liquidity maintenance.</p>
<b>Compliance risk</b>	<p>The compliance risk is a risk of legal sanctions, financial losses, or reputation loss due to incompliance by the Bank or its employees with the law, requirements of supervisory bodies, internal regulations, or the accepted standards of conduct and ethical standards. Of particular importance for the compliance risk are issues related to: use of new regulations, processing and protection of personal data and bank secrecy, conflicts of interest, the protection of confidential information and counteracting market abuse and proper treatment of employees.</p> <p>The Bank operates a cohesive compliance risk management system, composed of:</p> <ul style="list-style-type: none"><li>• Identification and assessment of the compliance risk with an aim to mitigate the risk level and ensure safe functioning in a dynamically changing and demanding legal and market environment, without adverse consequences resulting from a breach of regulations and ethical standards. The process is carried out on an annual basis.</li><li>• Control is performed on the basis of compliance test plans.</li><li>• Monitoring of the compliance risk is aimed at eliminating instances of non-compliance and preventing their recurrence. Monitoring is performed using key risk indicators.</li><li>• Reporting – periodic submission of information on the most important and crucial issues resulting from compliance risk management at the Bank.</li></ul> <p>The approved compliance risk management system ensures that Alior Bank operates in compliance with the law, regulators' requirements, and the approved ethical standards.</p>
<b>Environmental risks</b>	<p>We measure the environmental risk of investments financed by us as a socially responsible financial institution. For customers with a total exposure (existing and requested) in excess of PLN 1 M we perform a detailed assessment of the environmental risk, including the social risk.</p> <p>The environmental risk is defined as a risk of the customer's deteriorated creditworthiness as a result of adverse financial and legal effects due to business activity pursued or taken up by the customer or the proposed collateral for the loan that has or may have material adverse impact on the natural environment or the community.</p> <p>For our employees, we have developed an Environmental Risk Assessment Sheet that provides for a precise determination of the environmental risk level related to the transaction financed by the Bank. Statements and documents submitted by customers are analysed and verified in detail. In certain</p>



instances, we also resort to opinions of independent experts on the environmental and social risk of a project.

There are regulations in place at Alior Bank identifying the types of entities that the Bank does not finance. Those are entities involved in the following operations:

- production or sale of weapons and armaments,
- gambling,
- production of nuclear energy or nuclear fuel,
- tobacco growing, manufacturing of tobacco products,
- fishing in sea waters when the company uses fishing driftnets exceeding 2.5km in length.
- alcohol distillation, rectification, and mixing,
- manufacturing of industrial cooling and ventilation devices, if they use substances depleting the ozone layer,
- coastal transport of goods, if it is related to transport of oil or other environmental hazardous substances with tankers that do not meet the risk requirements of the International Maritime Organisation,
- business activities adversely affecting the neighbouring protected areas in line with domestic laws or international conventions, places of scientific interest, habitats of rare/endangered species and those with adverse impact on places of cultural or archaeological significance,
- enterprises operating contrary to the applicable Polish laws or the laws of the country of business, or without the licences, permits, or approvals that are required to pursue such business,
- speculative transactions and other projects that may generate the reputational risk for the Bank.

Additionally, Alior Bank does not finance activities of religious organisations, political parties, sports clubs, or projects relying on harmful and exploitation related to forced labour, children's work, direct discrimination, or practices that prevent employees from exercising their right of association and collective bargaining.

A detailed description of risk management at Alior Bank can be found in Chapter XIII hereof.

## Customer Focus

### Customer experience

At Alior Bank we wish to transfer our relations with customers to a level that is completely new in Polish and global banking. We call it the "Fifth Dimension of Relations" and we rely on the developed Customer Service Philosophy. The approach is founded on four values characterising the Bank and its employees – Agility, Simplicity, Ethics, and the Team Spirit. We believe that our new approach will convince customers that it is worth banking with Alior Bank.

We know that each customer is different and each has specific needs. So we have abandoned the official banking Book of Standards. Instead, we have implemented Power Cards which contain guidelines for customer relations and not a strict scenario of conduct. We are convinced that departing from strict standards will create opportunities for our employees to service customers in a natural way underlying internal convictions and experience. We wish to service each customer in a manner that we would like to experience ourselves.



## Innovation

Our objective is to maintain the position as an innovation leader in Poland and to become one of the top five innovative banks in Europe.

Alior Bank has been developing its competitive advantage in the area of innovations on the basis of a new model of innovation management. The model provides for an increased dynamics of new idea generation, precise and fast identification of those with the largest potential, on the basis of transparent business criteria and better preparation of those identified for implementation.

The new model provides for systemic testing of new ideas in order to verify if the idea is attractive to customers and if they have potential to be monetised throughout the process of product and solution development and delivery. The tools supporting the model are as follows:

- a) Precyzyjnie zdefiniowane kryteria przeprowadzania przez etapy pomysłu od idei do wdrożenia, co pozwala szybko odrzucać nietrafione pomysły na wczesnych etapach, przy niewielkim koszcie i zaangażowaniu, a poświęcać zasoby na te bardziej atrakcyjne.
- b) Każdy etap budowania innowacyjnych rozwiązań ma zbudowany standardowy zestaw narzędzi do poprawienia jakości, atrakcyjności konceptów biznesowych, co pozwala finalnie na wdrożenie rozwiązania szybciej, z większą dokładnością realizującego potrzeby klienta z dniem wdrożenia pierwszej jego wersji.
- c) The competences of the iLab team are defined to support the above in the area of defining customers' needs jointly with customers, "user experience" UX/UI, skilful development of multi-stage prototypes and testing thereof with the Bank's customers, designing of solutions on the basis of comprehensive and open "design thinking" methodologies.

- d) Competences of the Innovation Center team in searching and defining clients' needs in the portfolio of the Bank's services and products, and in subsequent phases of confronting ideas with clients' expectations in qualitative and behavioral research, UX.
- e) Competences of the team to search for new solutions and ideas for products in cooperation with FinTech partners, and support to new partnerships by active support of start-ups in the accelerator program.
- f) Methods and tools for engaging Bank employees to seek new ideas and solutions for challenges in customer service and building new products - a model of innovation through "crowdsourcing" together with a platform for multidisciplinary group work.

The new model of innovation management in its assumptions is also intended to support cultural transformation in the organization, through elements such as the crowdsourcing model and wide range of innovative tools available to all employees through training and also extensive use of resources of the Innovation Center in initiatives created among the employees themselves.

The concept of cooperation and development of business partnerships is based on most recent technologies and solutions, adjusting the Bank's systems to dynamic creation of new products. It is a priority to develop an OpenAPI environment, without major financial outlays and involvement of large IT teams – we can develop and offer financial platforms in a new open business model which will substantially improve the dynamics and shorten the Bank's response time to the customers' expectations and the changing market and competitors.

The Innovation Management Model of Alior Bank is based on two ecosystems – internal and external. They will support the acquisition of ideas from employees, customers and the fintech sector all



over the world, and transformation of such ideas into innovative solutions for customers. The Bank implements a new career path for innovators and crowdsourcing tools that are aimed at stimulating innovations among employees and opening a way to using their ideas in business.

Digital Disruptor Strategy of Alior Bank entails real technological revolution to take place in branches. Our bankers will be equipped in modern tools to provide comprehensive client service in a time and place most convenient for the client. It will consist among others of 1400 iPads with Open Account created based on the IBM solution MobileFirst class. The banker equipped with the tabled will be able to open and modify client profiles, open both bank current and term deposits and input debit card applications. Processes available in the application will be simple and coherent for both bankers and clients. Good example of that is the OCR technology utilized for state ID scanning which allows most of the required fields in a form to be filled in automatically.

Robotisation and automation are the key assumptions underlying the Digital Disruptor concept. Alior Bank has identified 118 processes for robotisation which will be gradually optimised over the next three years. That will reduce operating expenses, while increasing customers' satisfaction.

Since 2015 we have been successfully using the artificial intelligence mechanism – Dronn which is a system supporting remote contact with customers. For example, Dronn uses biometrics and speech analysis and is one of the most advanced generation of robots. It has been designed for free logical conversations with customers and it is able to respond to answers and ask suitable questions. Virtual Advisor is used in the soft collection process and marketing research.

2017 Dronn performed over 1.2 million calls as part of soft collection, performed almost 1.3 million questionnaire calls and established 77,000 contacts

to collect FATCA statements. In the near future, the Bank plans to continue expanding the scale of its operations, for example, to support remote sales. Being among the best banking solutions in the world, Dronn has been awarded numerous prizes in prestigious international competitions, for instance: Distribution and Marketing Innovation Awards (organised by EFMA in co-operation with Accenture), Retail Banker International, BAI Global Banking Innovation Awards, Banking Technology Awards, or Celent Model Bank Awards.

We have also established the Fintech Department – a new unit responsible for searching for fintechs on a global scale and for initiating partnership with those who best fit into the Bank's strategy. The objective is to establish co-operation with 20 companies by 2020 and make the Bank perceived as the partner of first choice for fintechs in Europe. The above is founded on the PSD2/OpenAPI strategy that focuses on using the opportunities resulting from acceptance of the PSD2 standards. The Bank intends to go beyond complying with the requirements of PSD2 or becoming an external data aggregator (although both models will be tested and used in business). Using the opportunities resulting from implementing the OpenAPI environment, Alior Bank plans to provide its customers with advanced financial services relying on a detailed analysis of data so that customers could see all their accounts in the banking application, including those they may have with other banks. The Bank intends to develop a marketplace to allow its customers selecting any set of the services offered by partners that will be supplemental to traditional banking services.

Apart from the benefits resulting from the diverse offer developed for the customer, we also expect that having access to different innovative solutions coming from secure or less secure sources, the customer will prefer innovative solutions provided by the Bank where their data is as safe as their money.



In December 2017, Alior Bank announced the establishment of a unique acceleration programme for technological start-ups. The Bank will use the programme to cover projects at their early development stages. Within the accelerator, the Bank will provide access for external entities to a platform to develop their own solutions, working in the OpenAPI environment and developed on IBM technologies. Alior Bank wants to be the first financial institution in Poland to develop a dedicated test environment, so-called Sandbox for its partners. It will be made available to external developers and fintechs to work on products developed within the accelerator and to obtain compliance with future requirements of the PSD2 regulations. The most important objective stressed by the PSD2 directive is to ensure safety of the customers' data. Alior Bank has decided that the IBM API Connect solution meets all the Bank's technological requirements, that the use of the platform will significantly accelerate the process of prototype development, designing and adapting the solutions before they are made available to customers.

### Customers' opinions

Established in 2017, the Customer Experience department is the customers' ambassador with the core task of caring for maximum best customer experience in contacts with our Bank, both in terms of traditional banking and brick-and-mortar branches, and digital banking, too. In order to accomplish the objective, we have divided the staff of Customer Experience into two teams specialised in remote services and customer relations in brick-and-mortar branches.

We want customers of Alior Bank to take informed decisions and always understand our products and the offered technological solutions. We try to avoid complicated banking and legal gobbledegook. We see to it that information is provided in a simple language, understood for people who are not

bankers, and the customers can always count on our know-how and competences.

Implementing the Digital Disruptor strategy, we keep working on optimising the processes in order to minimise the customers' efforts – we develop product and process paths to eliminate those elements that may prove difficult or redundant from the customers' viewpoint. We are open to all suggestions and comments coming from customers. The issues that are reported to the Bank in communication addressed to the Management Board, the PR department, or social media, are directed to the dedicated unit – Customer Problem Lab (CPL) – which is a “fast response team” to solve customers' problems and prevent their recurrence. ProblemLab is a response to non-standard enquiries from our customers. Issues reported over a non-standard path, like for instance directly in the company's offices or via social channels, are directed to ProblemLab where we try our best to resolve the problem within 48h. CPL is also responsible for recommending modifications to the Bank's processes and products required by our customers.

[G4-FS14]

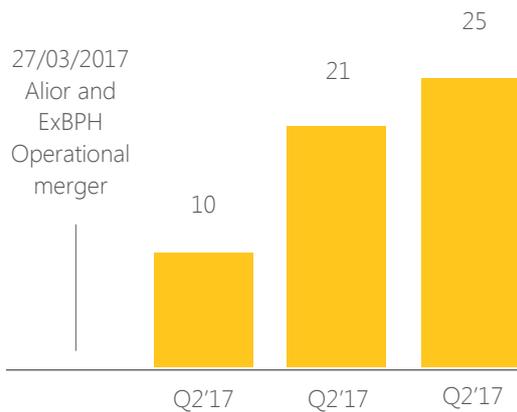
At Alior Bank we closely listen to customers' opinions, among others, as a result of regular surveys of customers' satisfaction following the NPS method (Net Promoter Score). The survey covers both the overall satisfaction level of co-operation with the Bank and satisfaction levels with each product and distribution channel.

The quarterly relationship NPS survey shows us the customers' overall satisfaction level and their willingness to recommend our Bank to others. As a result, due to the fact that the information on the satisfaction levels is accompanied by customers' comments, we are able to perform more comprehensive analyses being a starting point to implement improvements for further growth of our customers' satisfaction with co-operation with us.



In accordance with the survey held in Q4 2017, the relationship NPS of Alior Bank was 25 which was significantly higher than in the surveys we held immediately after the merger with the demerged part of Bank BPH.

The chart below presents the level of relationship NPS resulting from the surveys held by Alior Bank with retail customers on a quarterly basis in 2017, from the merger date with the demerged part of Bank BPH.



Our objective is to reach the level of 45 in the NPS relations review by 2020.

We have been performing regular surveys of NPS of specific products and distribution channels for customer groups that were using the products or channels immediately before the survey – as a result we gain accurate knowledge on how customers view the aspects of the Bank’s operations that are of interest to us. The results of the surveys are presented on an ongoing basis to persons responsible for specific products or channels along with details on the underlying factors and actions that may be taken to improve their operation.

The surveys of the distribution channels also cover monthly satisfaction surveys of service quality on our own and franchise branches. The surveys cover  customers who as a minimum have ROR accounts or deposits or who perform transactions or contract loans who in the two

weeks preceding the survey visited our own and franchise branches. Detailed NPS results are analysed and presented to branch directors or owners of franchise outlets. As a result, we are able to monitor the quality of service on an ongoing basis and are able to respond fast should worrying occurrences take place.

We keep inspiring our employees to act to the benefit of customers – we have activated an internal portal called Inspirujemy [We inspire] where we publish incentivising videos that are very popular.

At Alior Bank we understand that despite all the efforts we take, situations may happen that customers will not be fully satisfied with the provided services. Complaints and claims are also treated by us as important opinions of customers to help us improve the quality of daily services. We facilitate the placement of complaints by customers and we accept them in practically any available form – directly in a branch, by phone over the infoline, in the Internet Banking System, by traditional or electronic mail.

Each filed complaint or claim is assigned a unique number and when so requested by customers, we provide a written acknowledgement of receipt.

We respond to all complaints without undue delay, however, not later than within 30 days. We respond to all subjects touched upon by customers in a reliable and objective and exhaustive manner. We observe the rule that no complaint or claim may be reviewed by a person to whose conduct it relates. When the customers’ claims are not accepted, we justify our position in detail and inform about methods to appeal against our standpoint.

## Responsible sales

At Alior Bank we’ve always paid attention to our products and services being sold to people who actually need them and who may benefit from



them. We strictly adhere to the Counteracting Misselling Policy. We have identified the principles of appropriate product structure and distribution. We limited the number of products and selected products from our offer can be distributed only by duly authorised channels (e.g. Private Banking). On a regular basis we keep monitoring sales processes for the hazard of misselling – we have also identified rules of conduct applicable to the detected instances of misselling. All employees have undergone training on the principles of transparent sales and sales bonuses granted to employees are subject to the quality of sales processes that we control on a regular basis. Post Sale Calls are a core mechanism applied in relation to products with the highest risk of misselling which is complemented by assessment of the quality of documentation, complaints and so called early resignations by customers.

### **Safety of customers' data and transactions**

The safety of finances entrusted to us and our customers' data is of most importance to us. For that reason, restrictive safety procedures that are in force in the Group of Alior Bank S.A. ensure confidentiality, integrity, and availability of the processed information. Our Security Policy and all related procedures are updated on a regular basis in response to the changing market conditions in the sphere of cyber security, and also to include new requirements and guidelines provided by regulators.

In the Group, we see to it that our employees improve their competences in the sphere of information security. All employees have to undergo related training to increase their competences and awareness of the existing hazards. We actively review the effectiveness of such training by simulating socio technical attacks at our staff members.

### **Employees education**

In the Group, we see to it that our employees improve their competences in the sphere of information security. All employees have to undergo related training to increase their competences and awareness of the existing hazards. We actively review the effectiveness of such training by simulating socio technical attacks at our staff members.

### **Secure electronic banking**

As the "digital Disruptor" we are aware that along with technological progress and digitisation of financial services, every day new hazards appear in the market that we have to anticipate and face. That is why we have offered new Internet banking to our customers that has been designed on the basis of the most modern technologies and trends in the area of cyber security thus ensuring a top security level of transactions executed electronically.

- Our customers have access to an encrypted and secure communication channel with the bank, relying on traditional secure login methods (such as traditional passwords, masked passwords), and also on modern biometric methods (login with a fingerprint or face scan) on mobile devices.
- While logging in, the customer may see their personalised security image which may prevent the disclosure of their data on a phishing site (one that pretends to the Bank's site).
- Transactions executed by customers may be accepted with a one-off code sent in a text message, and also a mobile application on a smartphone or tablet (currently available in T-Mobile Banking Services).
- Having regard to the highest security level for card transactions, the Bank is implementing a 3D Secure service for its customers (an



additional authorisation for web card transactions).

In the area of cyber security, we pursue preventive and detection activities. In 2017 we held several hundred advanced security controls and tests of the IT systems and the sensitivity of internal processes. We have a dedicated unit responsible for ongoing monitoring of electronic banking systems and active responses to attempted attacks. We actively analyse new hazards that occur in the market and we also anticipate future trends in the area and on that basis we modify and adjust our security systems.

We are aware that the security of transactions also depends on our customers' conduct in the web and therefore, the Bank and Money Makers remind of the fundamental security rules and inform about hazards on their web sites as they appear. We also address educational actions to our customers via social media or dedicated e-mail communications. For 2018 we plan an internet course for our customers.

In 2017 we were a partner of the Third Cyber Security Forum – CYBERSEC. The conference was devoted to solutions supporting effective activities in cyber space and the development of Poland's economy. During the event, Alior Bank presented its own innovative cryptographic protective device for software installed on users' computers to be soon made available to our business customers. Experts from the Bank took part in the panel on "Innovation & cybersecurity – potential of the CEE region" and in the debate on "Blank cheque for cybersecurity in the financial sector?", presenting model cybersecurity solutions in the banking sector.

## Headcount – who our employees are?

### Number of employees

[GRI 102-8]

We employ 8,419 FTEs<sup>11</sup> in the Group of Alior Bank S.A. A majority of the people work at Alior Bank

S.A., that is 8,110 FTEs. In terms of headcount, Alior Bank S.A. is ranked 4th among the top 10 banks in Poland.

### Alior Bank employees by type of employment

	Alior Bank S.A.	
	mężczyźni	kobiety
indefinite period contract	2314	4238
fixed-term contract	516	882
trial period contract	42	59
replacement contract	21	38

<sup>11</sup> As at the end of 2017



## Employees in terms of FTEs

Alior Bank S.A.		
	mężczyźni	kobiety
full-time	2857	4992
part-time and more	26	213
less than part-time	10	12

 The implementation of the Digital Disruptor strategy at Alior Bank requires changes on the part of our employees and also changes to the HR policy. We are aware that if we wish to transfer our customers in an effective and safe way from the analogue to the digital world, we also have to undergo a cultural transformation inside the Bank. Only on that basis will we be able to accomplish our strategic objectives by 2020.

The four priorities in HR development for 2017-2020 as set forth in the business strategy of Alior Bank are as follows:

- Development of Transformation Leaders;
- Taking Care of Employees' Experience;
- Development of Digital Alior Staff;
- Support for the development of an ethical and effective organisational culture.

### Development of Transformation Leaders

Changes in Alior Bank require new generation leaders. While implementing the strategy, much stress is paid to the role of managers who, as leaders of the organisation, should not only be effective, but are also expected to inspire employees, get them involved and be ambassadors of the values pursued by Alior Bank – ethical attitudes, simplicity, agility, and the team spirit.

We have developed our own leader model to meet the challenges of Alior Bank. A transformation leader must be a person who:

- Sets engaging objectives related to the strategy of Alior Bank and clarifies how they contribute to achieving the objectives. By communicating the objectives, they show their sense referring to Alior's values and customers' perspective.
- Assures independence in the way the tasks are implemented. Demonstrates trust and respect and appreciates the individual contribution of each employee to the accomplishment of the objectives by Alior Bank.
- Supports development, encouraging employees to become responsible for their growth. Inspires and supports employees in their development efforts and takes their professional aspirations into account.
- Follows the four values of the Alior Bank Group – they act fairly in internal relations and contacts with customers, assumes responsibility for the accomplishment of objectives by Alior Bank and adjust their team priorities to the organisation's strategy. Follows the principle: "we play with only one goal". In their operations, they focus on things that actually build value for the Customers by promoting simple and effective solutions. Reacts fast to changing circumstances and efficiently implements the required solutions.

In view of the above, twice a year we also organise meetings for managerial staff. The last one was held in October 2017. That was an opportunity to listen to inspiring speakers and learn about new technologies. Primarily, leaders had an opportunity to listen to live presentations of their colleagues



who implement the Digital Disruptor strategy in various areas of the Bank.

### Working conditions

We keep improving the working environment and conditions at the Bank. For instance, we have implemented “smartphonisation” by providing managers with modern phones to support remote work.

It is also important that at Alior Bank we have been trying to implement new agile working methods. E.g. project teams are set up to combine multiple competences at one place - business, analytical, programming and testing competences - as may be required to carry out a specific project. The core advantage of the approach is to shorten the communication path which supports agile activity and fast response to the changing requirements and technologies.

Every year we survey the commitment of our employees in all our units. On the basis of the results, we initiate activities focusing on increased commitment and improvement in key areas. **In 2017 we achieved the commitment indicator of 44 percent. We plan to have it increased up to 60 percent in 2020.** As many as 82% of employees participated in the survey.

We want the best specialists to work at Alior Bank. Our employees are offered attractive salaries, regulated in the Remuneration Policy that fulfils the following objectives:

- promotes correct and effective risk management and discourages from accepting excessive risks,
- supports implementation of tasks of the sustainable development and prudent risk management policy,
- mitigates conflicts of interest,
- supports the maintenance of a transparent relationship between individual performance and individual remuneration by focusing on

targets relating to responsibility and actual impact,

- guarantees that employees act in the customers’ best interests, including the provision of clear and transparent information concerning our services and products.

All Group companies with more than 10 staff members have their own Remuneration Policies. They were implemented in four largest companies of the Group of Alior Bank S.A.: Alior Bank S.A., Alior Leasing Sp. z o.o., Serwis Ubezpieczeniowy Sp. z o.o. and at Money Makers TFI S.A.

### Benefits

All employees have access to attractive benefits (group life insurance or medical care) and to a broad offer of the Company’s Social Benefit Fund.

For employees we organise sports games, family picnics and day camps for children. We regularly offer various competitions for our employees with attractive prizes.

In 2017 the budget of the Company’s Social Benefit Fund increased from 18 to 37.5 percent of the base as specified in the applicable regulations. Employees have access to 14 types of benefits which were used 30,000 times. This means that each employee with their children were provided on average with three benefits.

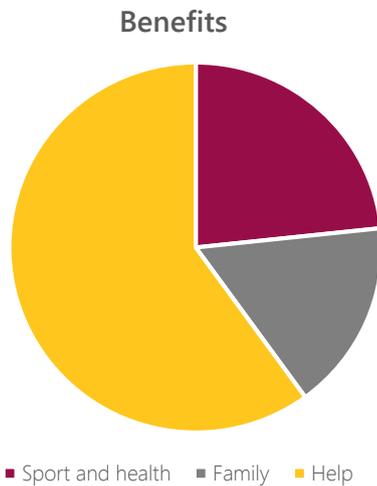
The most popular were multi tickets that were provided to 5,400 persons and multisport cards were used by 4,700 employees. Almost 5,400 children were provided with Christmas packs and summer holidays were subsidised for almost 2,700 employees. Layettees for new-born children were a novelty last year and they were provided to 562 children of our employees.

It is worth mentioning that in June 2017, picnics were held in Kraków, Warsaw, and TriCity to which employees of Alior Bank with their families were invited. They were a great opportunity of teams to meet one another and integrate at barbecue and



sports games; the meetings also hosted the employees of the dispersed sales networks of Alior Bank in those regions.

Supporting sports initiatives, we subsidised sports sections grouping our employees.



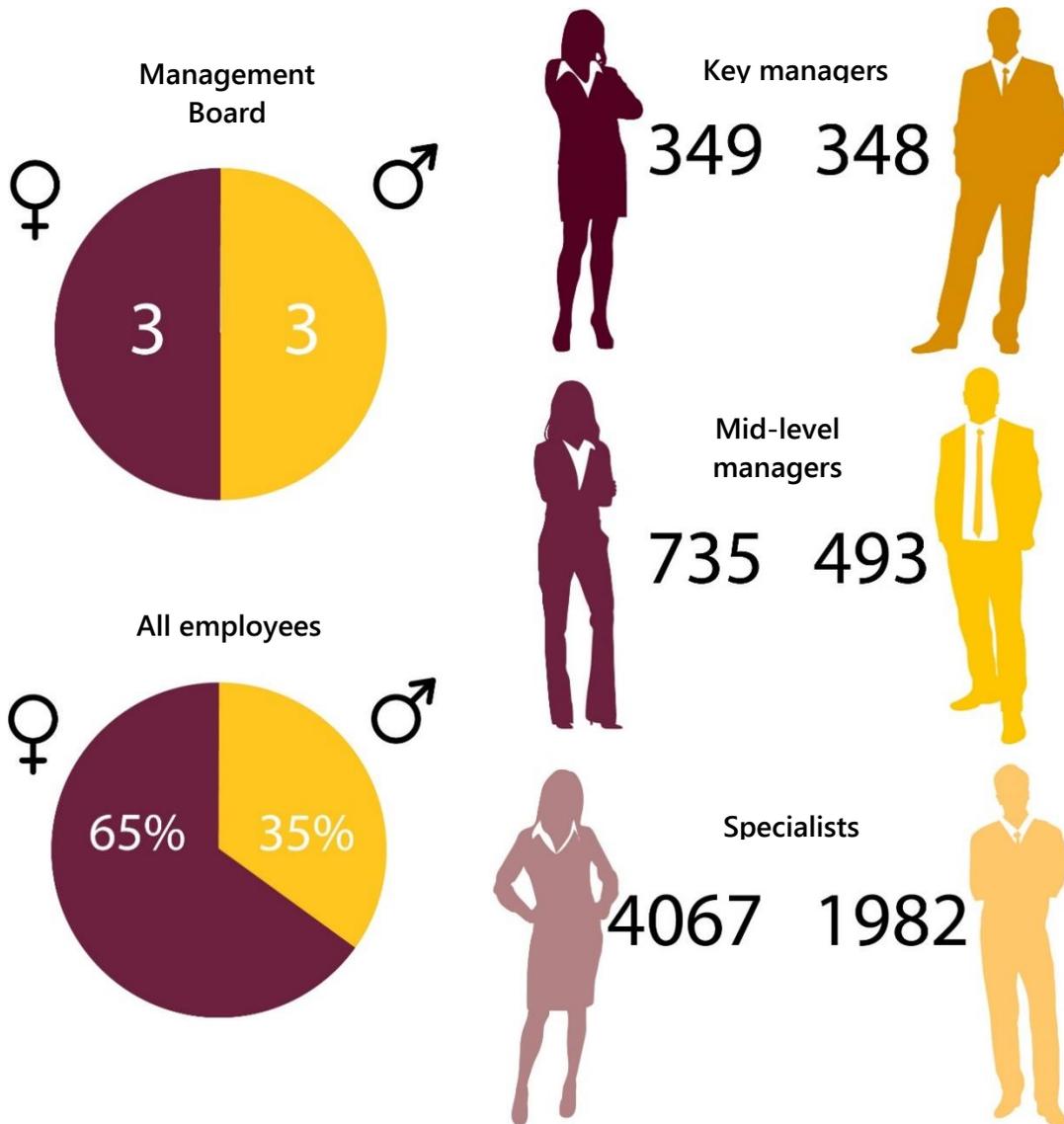
The amount of PLN 334,860 was paid from the Support Fund: this includes 11 allowances to employees and monthly orphan's pensions for 10 children of deceased employees.

### Managing diversity

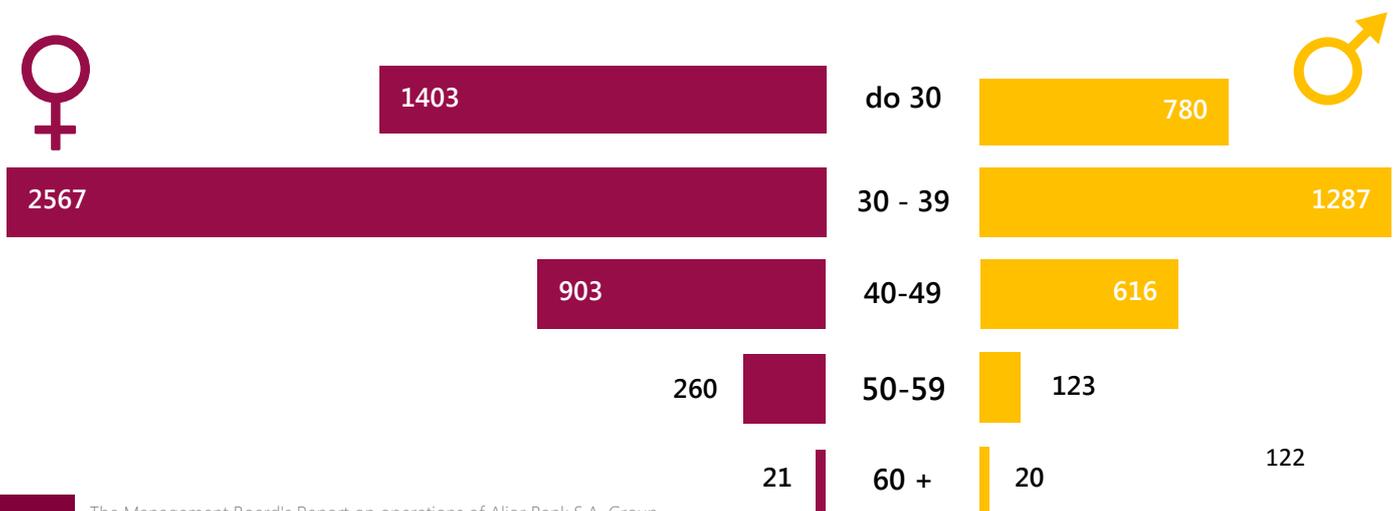
Within the Group of Alior Bank S.A., prevailing is a principle of equal treatment, irrespective of gender, age, financial status, family situation, level of physical fitness, nationality, sexual orientation, political and religious beliefs and views. The principle is specified in our Working Regulations. All employees are provided with working conditions that support complete use and development of their unique features, skills, and interests. We believe that the values resulting from our employees' diversity constitute our additional advantage. In 2018 the Bank intends to approve a diversity policy as a formal document, supporting the principles followed for many years.



### Staff by position level and gender



### Employee structure by age





## BEST PRACTICES

### “PROMOTE GIRLS” PROGRAM FOR WOMEN AT ALIOR BANK

In 2017 for the ladies employed at our Bank, we ran the program titled: “Promote Girls”. The workshop was attended by 24 ambassadors of the program – lady managers – and 400 ladies at lower levels in 9 various locations. For lady managers, the project provided for more understanding of the leader model, development of assertiveness, and communication. Ladies working at lower positions could participate in a number of regional workshops devoted to assertiveness, development of their own brand, and communication skills.

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### The Group of Alior Bank S.A. – lowest level salary versus the minimum pay (PLN 2100 gross) split by core locations and gender



### Employee competence development

Sees to the actual development of competences of the staff. Our development policy gives the employees of Alior Bank an opportunity to become experts in an area of their choice by developing their own competences or related to team management. The management system and the implemented new development model supports effective direction of specialists and dynamic development of their carriers. Employees are offered a broad range of training programmes held by internal and external trainers. The offer covers product, sales training, and training related to service quality, interpersonal, and managerial skills. Within their development paths, we offer training in the sales network the completion of which is a criterion for promotion.

[404-1] In 2017 at the Bank, an average employee was trained for 17 hours across the Group. We were implementing, among others, development programmes for the lower managerial staff within the training cafeteria (feedback, development interviews, target setting, Manager's ABC). New employees are always covered with a specially designed programme to ensure effective induction to their work. Employees may also apply for subsidies to their university studies and foreign language courses.



In our Bank, we attach great importance to developing a culture of knowledge sharing by our employees and know-how development within the organisation. We have created a special project: Share Your Knowledge which groups all employees who are willing to conduct specialist

training and workshops within the organisation. Each employee who will join the programme will be supported by the Training Team in the form of dedicated workshops developing their presentation and training skills.

## Responsibility to the society and the environment

### Support to entrepreneurship development of Polish companies



At Alior Bank we appreciate every business person and we realise the role of small and medium-sized enterprises in Poland's economy. In Poland there are about 1.8 million of SMEs that generate over 50 percent of GDP.

We are aware of the major problems of SMEs and we realise that the shortage of funding is a core issue for such businesses. This in particular applies to newly established companies and enterprises

pursuing innovative projects constituting for instance implementation of results of R&D works.

We have looked carefully at the government programme of "Strategy for Responsible Development by 2020" which provides for support for SMEs in their access to capital as one of the efforts to be taken in the near future. We are proud to stress that Alior Bank has been actively involved in government programmes supporting the development of SMEs.

## BEST PRACTICES

### ZAFIRMOWANI.PL

In 2016 we activated a web platform [www.Zafirmowani.pl](http://www.Zafirmowani.pl) addressed to micro- and small enterprises. The service is free of charge for our customers and companies that have no relations with Alior Bank. The service is a practical guide ensuring professional support in pursuing and developing business operations – it provides the required information and responses to frequently asked questions related to business operations. The platform offers a number of practical solutions to develop the business – one of them is the on-line accounting application popular among users.

With articles and video materials we provide business people with knowledge in the sphere of law, taxes, HR, marketing, and security. The subjects of the guides, developed in co-operation with specialists, lawyers and economists, cover issues closely related to business activities in Poland. Additionally, experts that can be contacted over the portal answering questions and providing support to establish and develop business operations. All of the above is complemented with a base of useful documents – templates of employment contracts, sales contracts, and other agreements frequently used by businesses.

We believe that with the portal we have created a place where business people can obtain comprehensive knowledge and establish business relations within the created community and promote their businesses. In order to find new counterparties and partners, the Zafirmowani.pl portal offers an opportunity to create virtual outlets.

Through Zafirmowani.pl we have also invited business people to dedicated stationary conferences organised in the Google Campus in Warsaw. At the two meetings held in 2017 we provided information to participants on innovative methods of obtaining funding and on the secrets of Internet-based marketing.



The [zafirmowani.pl](http://zafirmowani.pl) portal will continue to be developed and extended with new functionalities, also proposed by our customers.



We are ranked second in sales of de minimis guarantees of BGK – we provided almost 36,000 of such guarantees for the total value of close to PLN 6.9 billion. The volume of guarantees has been translated into lending activity totalling PLN 12 billion. Our credit offer combined with BGK guarantees has been utilised by over 17,500 SMEs. The Bank's customers may also be provided with COSME guarantees – an alternative for those who will not obtain a de minimis guarantee.

We have developed a European Packet for business people – a programme offering support in obtaining EU financing and effective and safe accounting for such financing. We propose for instance stand-by arrangements and bridge financing; customers may obtain loans to finance their own contributions to subsidised investments.

With EU funds under the Operational Programme Smart Development for 2014-2020, we can offer loans to SMEs for technological innovations and portfolio guarantees. Loans for technological innovations is an instrument supporting companies in implementing their own technologies (or purchase) and thus commencing

production of new or much enhanced goods, processes, or services. Portfolio guarantees are addressed to customers who implement innovative investment projects. We were the first bank in Poland to grant loans to customers secured with such guarantee.

Alior Bank is the only bank to have signed an agreement with BGK to finance access to fast Internet. As a result, we offer a broadband loan to our telecommunications customers – investment financing of fibre-optic networks. So far we have received 30 applications for almost PLN 80 M.

We initiate and get involved in initiatives developing Polish entrepreneurship and innovations, providing education in broadly understood economy.

- Alior Bank was a partner to the ranking list: 100% Polish Product organised by the Do Rzeczy weekly. Awards are granted to those enterprises that develop products using Polish materials, Polish labour, and Polish subcontractors and suppliers.
- We have also been a partner to the award: "Innovative product 2017", which is part of the



competition: "I like it, since it is Polish", organised by the Polish Radio. The ranking was created to promote Polish solutions and to support economic patriotism.

- Alior Bank was a partner to most important conferences in Central and Eastern Europe devoted to innovations: Impact'17 which was held in Kraków at the turn of May and June and was devoted to digital transformation of the economy (Economy 4.0) and Impact'17 fintech. The event was held in December in Katowice and was devoted to innovations in banking and finance.
- We were also a partner of the 27th Economic Forum in Krynica-Zdrój. This is an annual international meeting of representatives of economic and political circles of Central and Eastern Europe, organised by the Institute for Eastern Studies Foundation.

### Social commitment

[GRI 203-1]

The Group has no formal procedures or policies regulating the impact on the social environment – nevertheless, operating in line with corporate social responsibility is very important for us and we stress support for initiatives of local communities. We have been committed to social responsibility virtually since our establishment.

Higher culture is a specific area of our CSR at the Bank – this is an association for our customers since the beginning of our operations. In the area of social responsibility this means our commitment

#### BEST PRACTICES – ILLUMINATION ON THE MAIN STREET IN WARSAW

In 2017 for the third time we were the sponsor of Christmas illumination of Nowy Świat Street in Warsaw. The illumination of the most representative street in Warsaw, operated between 9 December and 2 February, is part of a Christmas installation of over 20km which for years has been admired by the inhabitants of Warsaw and tourists.

We believe that support to artistic or literary initiatives will help develop social capital in Poland.

- Alior Bank took a patronage of the third edition of the festival: "Capital of the Polish Language" in Szczepleszyn. The event

to support initiatives promoting culture and to counteract social exclusion by supporting access to cultural and sports values. We do our best to be close to events that are important for Poles.

#### BEST PRACTICES

##### HELP IN NATURAL DISASTER

In 2017 many people, including customers of Alior Bank, suffered in storms in August in the Kujawsko-Pomorskie and Pomorskie Voivodeships. The Bank developed dedicated solutions to provide help to the affected customers. The support was dedicated to the customers who have mortgage loans and cash loans with us. We also provided funds to rebuild rural cultural clubs in two villages that suffered during the storms. Also, employees of Alior Bank became involved in providing assistance to the affected people organising a collection of money and other necessary things.

#### BEST PRACTICES

##### SPONSORING OF SPORT

Under our co-operation with the Polish Football Association (PZPN), as an official sponsor we have been supporting Poland's National Football Team. Currently, as many as over 80,000 fans hold 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 payment card. Many tickets have been offered to people who have restricted access to football games and for whom financial reasons are a major barrier to such access. In co-operation with PZPN, the Association has offered a number of football gadgets that we have been contributing to charity actions.

popularising Polish literature has become one of the most important literary festivals in Poland.

- We were also a patron of the musical show "Z dawna Polski Tyś Królową" [Thou art the



Queen of Poland for Centuries] as part of the celebrations of 300 years of Crowning of the Painting of the Virgin Mary of Jasna Góra. The message of the concert was to search for solutions in a true and open dialogue that would not be addressed against anyone, but that would permanently and in a clear way reform the institutions serving human good and justice.

- We also took a patronage of the 13th Three Kings Procession – an event developing the community awareness of self-organising local communities. The initiative of the “Procession of the Three Kings” Foundation held on 6 January gathered about one million people in over 600 places in Poland and abroad. Due to the commitment and support by partners, Alior Bank included, the Procession became a national cultural institution – we financed, among others, the printing of song books and elements of external identification that are given away for free all over Poland.
- Alior Bank has provided support to the Intermedia Art Development Foundation in Kraków to establish iLab and a Media Art Centre at TVP Kraków.
- We were a sponsor of a CD with Christmas carols performed by Arka Noego – an initiative of the *Niedziela* Catholic weekly and the NIEDZIELA Foundation. Media Institute.
- We founded prizes for the finalists of the 15th edition of the National Artistic Competition “Art by the Handicapped” organised by the Art by the Handicapped Foundation.
- Additionally, we sponsored the special zone EKO-TECHNOARTMOBIL created in Kraków within two initiatives: “Kraków – a City of Startups”, carried out by the Education Development Activation Association, in co-operation with the city authorities and university artists and representatives of local start-ups, and a cyclical start up congress – START #KRK UP-OR KRAKÓW.AND NEW TECHNOLOGIES. The multimedia installation

was developed by students of the Academy of Fine Arts and representatives of start-ups.

We are particularly proud of philanthropic attitudes of our employees. Wherever possible, we support our volunteering employees and help them to become organised. The voluntary activities of Alior staff are focused on helping people in need – we primarily collect objects for people facing social exclusion and those in need.

- In April 2017, during the Easter Charity Action, we collected foodstuffs with long expiry dates. All together, we collected a number of cardboard boxes of foodstuffs that we offered to eateries and people who take care of the homeless and those in need in Kraków, TriCity, and Warsaw.
- During the Meal Action we were collecting foodstuffs and ready dishes that were leftovers from Easter tables. We provided the collected foodstuffs to eateries that take care of the homeless and those in need.
- Within the August action last August: Time to go to school! we were collecting school items for children and teenagers who are supported by educational institutions and local community centres. All in all, we collected four large boxes of articles that we handed over to the local community centre TPD “RADOŚĆ” and “AUGUSTIAŃSKA” in Kraków.
- In December, during the action “Parcel for ...” we published 137 letters with requests from children and teenagers supported by educational institutions in Porszewice, Kraków, Kielce, Stalowa Wola, and elderly people from Rzeszów and Warsaw. All letters found their donors.
- Over 40 boxes of clothing, cosmetics, shoes, and sleeping bags were collected during the action “Collection for ...”. The goods were collected for the homeless.
- We also supported organisations and associations. In 2017 our financial in kind support was provided for instance to the



Social Support Home in Stalowa Wola, the Association Supporting Homeless and Hapless People in Kraków and a local branch of the Polish Association of the Deaf.

- We were involved in the Girls4Tech programme organised by Mastercard to encourage studies of science. Within their voluntary activities, our employees held an educational workshop in Warsaw devoted to payment technologies. The workshop was attended by about 120 girls from Tomaszów Lubelski.

### Management of the environmental impact

We, as Alior Bank S.A., are a friendly bank to our customers and employees, but also to the natural environment. Due to the nature of its business, Alior Bank does not have direct material adverse

impact on the natural environment. Nevertheless, our activities like lending to specific enterprises may have an indirect impact (more information on our approach in the area is provided in Chapter 2.3).

Although we have no formal policy in that area, since the establishment we have been looking carefully at minimising our footprint on the environment. For instance, the use of innovative solutions to reduce printed documentation.

Taking care of the natural environment, we have been promoting the policy of waste segregation. In the near future, we plan to upgrade our electrical installation and replace lighting with energy saving LED solutions. We also use the services of specialist companies to recycle printing cartridges used at the Bank and large dimensional elements.

Consumption of materials and raw materials in the Alior Bank Group

		2016	2017
Paper	Tons	306	221
Gasoline	Tons	97	165
Diesel fuel	Tons	573	760
Fuel oil	Tons	35	35
Natural gas	m3	159 930	145 391
Electricity	GJ	28 156	25 597
Thermal energy	MWh	149 281	135 710

Environmental data for 2017 has been disclosed solely by the Bank due to limited availability of the data at other Group companies and its immateriality.

### On the Report

The above statement on non-financial information of the parent entity of Alior Bank S.A. and its subsidiary entities has been developed in line with the regulatory requirement imposed on public interest companies by the amended Accounting Act. The Group of Alior Bank S.A. is subject to a regulatory obligation at the standalone (Alior Bank) and consolidated level.

The statement presents managerial standpoints, policies, and due diligence procedures in force in the Group and its subsidiary companies in 2017. The major performance indicators were presented for a period from 1 January to 31 December 2017.

The statement has been prepared with reference to the International Non-Financial Reporting Standard – GRI Sustainability Reporting Standards by using selected indicators.



## Requirements of the Accounting Act with respect to disclosures of non-financial data

Brief description of the unit's business model key strategy indicators	yes	Chapter <i>Who are we</i> <i>Business strategy and corporate and social responsibility</i> <i>Our relations</i>
Description of management of risks identified as material	yes	Chapter <i>Risk management related to business activity</i>
Description of policies, due diligence procedures and performance indicators related to business of the entity with reference to prevention to corruption	yes	Chapter <i>Foundations of our activities</i>
Description of policies, due diligence procedures and performance indicators related to areas important for the Bank in its customer relations, service quality, dialogue, responsible sales, and safety of data and transactions	yes	Chapter <i>Customer Focus</i>
Description of policies, due diligence procedures and performance indicators related to the business of the entity with reference to employee matters	yes	Chapter <i>Headcount – who our employees are</i>
Description of policies, due diligence procedures and performance indicators related to business of the entity with reference to observing human rights <i>We define human rights as: right to protect private life, freedom from degrading treatment, right to non-discrimination</i>	yes	Chapter <i>Ethics – rules of conduct</i> Chapter <i>Headcount – who our employees are</i>
Description of policies, due diligence procedures and performance indicators related to the business of the entity with reference to the natural environment	yes	Chapter <i>Risk management related to business activity</i> Chapter <i>Management of environmental impact</i>
Description of policies, due diligence procedures and performance indicators related to the business of the entity with reference to social issues	yes	Chapter <i>Responsibility towards society and environment</i>



## XVIII. Statements of the Management Board

### Selection of the statutory auditor

An entity authorised to audit the financial statements performing an audit of the annual financial statements of the Alior Bank Group, as well as the annual report of Alior Bank SA was selected in compliance with the applicable law. The entity and statutory auditors auditing the financial statements reports shall meet the requirements to express an impartial and independent opinion on these financial statements of the Bank Group and the financial statements of the Bank, in line with applicable regulations of law and professional standards.

### Principles assumed for preparation of the financial statements

The Bank's Management Board declares that to the best of its knowledge the annual consolidated and separate financial statements for 2016 and 2017 and the comparable data were prepared in line with the applicable accounting standards and in a manner reliably and clearly presenting the Alior Bank Group's economic and financial condition and its financial result. The Management Board's Report in this document contains a true view of the development, achievements, and condition (with a description of the basic risk types) of the Alior Bank Group in 2017.

### Material contracts

The Bank's Management Board declares that as at 31 December 2017 Alior Bank S.A. did not have:

- obligations towards the central bank;
- material contracts on loans, sureties, and guarantees not linked to its operations except for the Agreement of 8 November 2017 concluded with PZU SA for periodic granting of insurance guarantees as unfunded credit protection and the framework agreement for provision of periodic counter-guarantees that were listed in Chapter XI of Events and agreements that are material to the operations of the Group of Alior Bank S.A.

In the reporting period the Bank had liabilities arising from debt securities, including in particular subordinated bonds and bank securities and other financial instruments.

In 2017 the Bank did not conclude or terminate loan agreements outside the normal scope of the Bank's business.

The Bank's Group entities – outside the normal scope of their business – did not grant any sureties, loans, or guarantees the total value of which to a single entity or its subsidiary company would exceed 10% of the Bank's equity.

As at 31 December 2017, the number of active guarantees granted by Alior Bank was 2,549 for a total amount of PLN 1,244,175 thousand. The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (1,804) total PLN 700,369 thousand.

During the last financial year within the Alior Bank Group there were no material transactions carried out with the related entities otherwise than at arm's length.



The Bank is not aware of any contracts that could have an impact on proportions of shares held by shareholders and bondholders in the future.

### **Proceedings pending before a court**

Value of proceedings concerning the Bank's liabilities or receivables pending in the 2017 did not exceed 10% of the Bank's equity. According to the Bank, none of the single proceedings pending in 2017 before a court, arbitration authority, or public administration authority, and all proceedings jointly do not pose any threat to the financial liquidity of the Bank.

As at 31 December 2017, the Bank was involved in 622 litigations against corporate customers, the total value of claimed payments was PLN 126,762 thousand. As at 31 December 2017, in the case of retail customers, the Bank was involved in 46,952 litigations for a total amount of PLN 1,043,159 thousand.