



UPDATE ON CAPITAL PLAN, Q4'2017 GROWTH, AND STRATEGIC KPIs

Warsaw, 10 January 2018



INTRODUCTION

The purpose of this document is to provide an update on:

- Alor Bank's capital plan, in light of certain events having a material positive impact on the Bank's capital position compared to the capital plan underlying the *Digital Disruptor Strategy Implementation Plan* announced on 4 October 2017
- The 2017 growth in light of significantly stronger Q4'2017 gross loan book growth compared to the previously communicated guidance (allowed by the improved capital position)
- The impact on Alor Bank's strategic KPI targets of:
 - The market consensus interest rate hike scenario vs. the scenario assumed in the Bank's *Strategy Implementation Plan*
 - IFRS-9 implementation
 - The bill introducing the removal of the annual limit of the pension and disability contributions
 - The Monetary Policy Council's resolution of 5 December 2017 on lowering the remuneration of the required reserve from 1.35% to 0.50% from 1 January 2018



SUMMARY

- Alior Bank currently targets a **Tier 1 ratio of 15.0%** and a **TCR of 17.0% in 2020** (excluding the effects of any potential dividend payout in 2020), i.e. 3.25pp above the expected minimum regulatory requirements in 2020
- The improved capital position allowed the Bank to **accelerate growth in Q4'2017**, leading to the cumulative 2017 gross loan book growth amounting to **PLN 6.8 B** (estimate), i.e. PLN 0.8 B above the top range of the strategic target and the previously communicated guidance
- The cumulative impact on the strategic KPI targets of: (i) assuming the current market consensus interest rate hike scenario, (ii) IFRS-9 implementation, (iii) the bill introducing the removal of the annual limit of the pension and disability contributions, and (iv) of the Monetary Policy Council's resolution lowering the remuneration of the required reserve, is as follows:

2020 KPI Target	Strategy implementation plan announced on 4 October 2017	As adjusted for the impact of the factors listed above
ROE	14.1%	16.2%
NIM	5.1%	5.3%
C/I	39%	39%
CoR	1.6%	1.7%
Annual gross loan book growth	PLN 5-6 B	PLN 5-6 B



ALIOR BANK'S IMPROVED CAPITAL POSITION COMPARED TO THE CAPITAL PLAN ANNOUNCED ON 4 OCTOBER 2017 (1/3)

Item	Capital plan announced on 4 October 2017	Updated capital plan
OSII* Buffer	<ul style="list-style-type: none">0.25% from Q4'2017	<ul style="list-style-type: none">No OSII buffer designation in 2017OSII buffer designation of 0.25% now assumed for Q4'2018
Systemic Buffer from 1 January 2018	<ul style="list-style-type: none">4%	<ul style="list-style-type: none">3% in accordance with the regulator's guidelines from December 2017 (resulting in a 1pp lower TCR requirement)
AMA**	<ul style="list-style-type: none">Clearance assumed for end-December 201725bps gain on Tier 1 ratio assumed in the strategy time horizon	<ul style="list-style-type: none">The regulator's clearance received as planned in December 2017Currently estimated Tier 1 ratio gain of ~25bps in 2018Further stages of the AMA project planned for 2018-2020 (lowering the floor from 80% currently and extending AMA to the BPH Core and the Romanian branch activities) with a projected additional positive impact on the Tier 1 ratio of 20bps in 2019 and 26bps in 2020 (non-cumulative)
Other developments	<ul style="list-style-type: none">Q3'2017 net profit of 190 M significantly exceeding the assumptions in the original capital plan and market consensus	

* OSII – Other Systemically Important Institutions

** AMA – Advanced Measurement Approach (operational risk management)



ALIOR BANK'S IMPROVED CAPITAL POSITION COMPARED TO THE CAPITAL PLAN ANNOUNCED ON 4 OCTOBER 2017 (2/3)

Item

IFRS-9 impact

- Lower impact of IFRS-9 in 2018 compared to the assumptions made in the capital plan underlying the *Strategy Implementation Plan* (currently estimated Tier 1 impact ~16bps lower as of 1 January 2018 vs. the capital plan announced on 4 October 2017) in accordance with the final regulatory transitional provisions relating to IFRS-9 implementation
- In accordance with the initial calculation as of 9 January 2018, and in accordance with the 5-year amortization scheme*, the negative impact of IFRS-9 on the Tier 1 ratio is estimated at:
2018 – 20bps (including negative deferred tax asset impact)
2019 – 24bps (cumulative)
2020 – 42bps (cumulative)
- Final IFRS-9 impact to be communicated in the 2017 annual report (it may differ from the above-mentioned initial calculation and differences may be material)

* In accordance with CRR, the IFRS-9 impact on the capital ratios will be amortized over a 5-year period as follows:

2018 – 5%
2019 – 15%
2020 – 30%
2021 – 50%
2022 – 75%
2023 – 100%



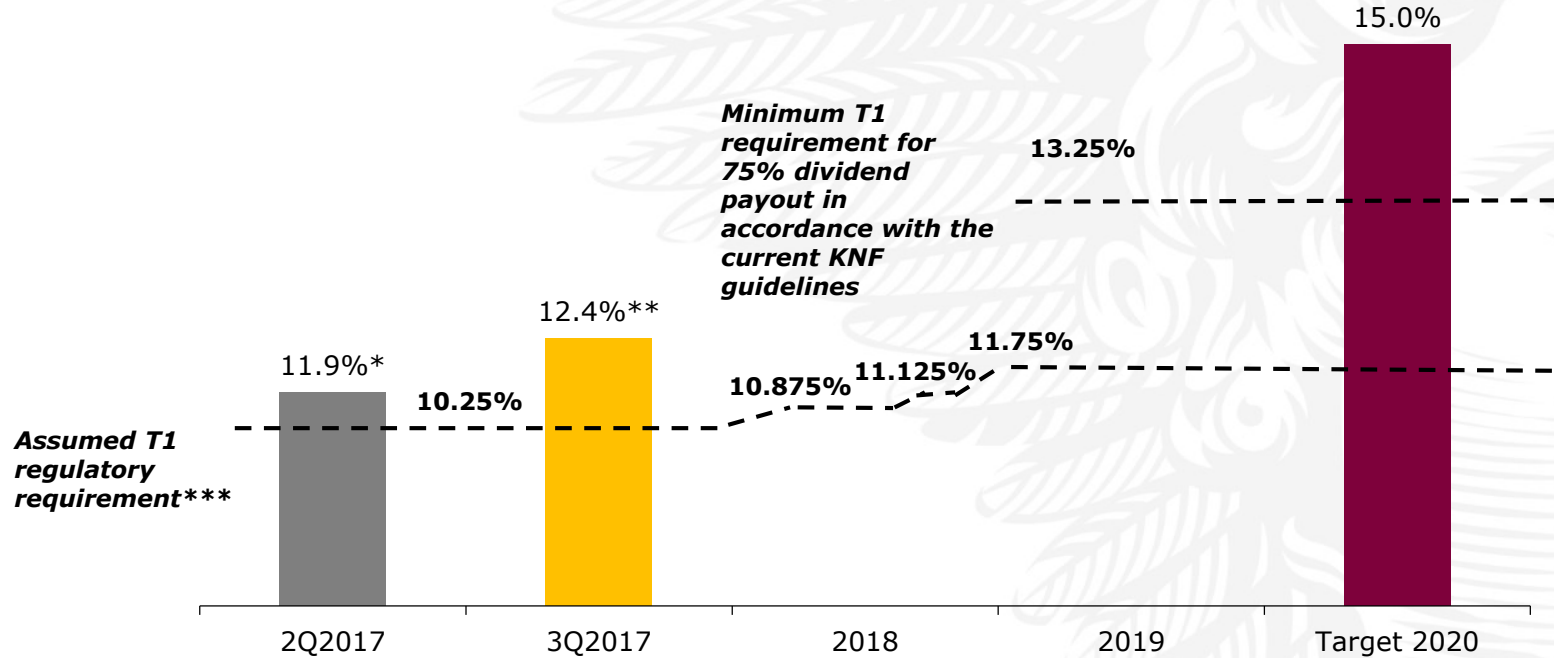
ALIOR BANK'S IMPROVED CAPITAL POSITION COMPARED TO THE CAPITAL PLAN ANNOUNCED ON 4 OCTOBER 2017 (3/3)

Item	Capital plan announced on 4 October 2017	Updated capital plan
Utilization of capital optimization instruments	<ul style="list-style-type: none">• Temporary utilization of a guarantee line from PZU in 2018 resulting in a Tier 1 capital release of PLN 230 M• Securitization of corporate loan portfolio in 2018, resulting in a Tier 1 capital release of PLN 230 M (replacing the PZU guarantee line utilization)	<ul style="list-style-type: none">• Due to the positive developments in Alior's capital position, no utilization of capital optimization instruments needed in order to maintain the capital buffers at a safe level above the regulatory requirements at all times in the strategy time horizon• PZU guarantee line in place since November 2017 (valid till 2020) which can be utilized with full flexibility with respect to the dates, periods and amounts (costs incurred only when utilized):<ul style="list-style-type: none">◦ no utilization envisaged in the updated capital plan◦ the instrument secures an additional capital buffer (allowing a Tier 1 capital release of up to PLN 300 M) in case of any unexpected negative developments or growth exceeding the strategic targets• Securitization of corporate loan portfolio still considered in 2018, but in view of the improved capital position the currently envisaged transaction size trimmed down (PLN 120 M vs. PLN 230 M Tier 1 capital release) and only in order to potentially further speed up growth compared to the strategic target of PLN 5-6 B annual gross loan book growth
Subdebt issues	<ul style="list-style-type: none">• PLN 750 M in Q4'2017• PLN 200 M in 2018	<ul style="list-style-type: none">• PLN 750 M issued in Q4'2017• No further issuances needed (nor planned) in the strategy time horizon in order to maintain the TCR ratio at a level at least 100bps above the regulatory requirement at all times



ALIOR TARGETS A TIER 1 RATIO SIGNIFICANTLY ABOVE THE REGULATORY MINIMUMS THROUGHOUT THE STRATEGY TIME HORIZON...

Tier 1 ratio evolution



* After inclusion of 1H'2017 net profit

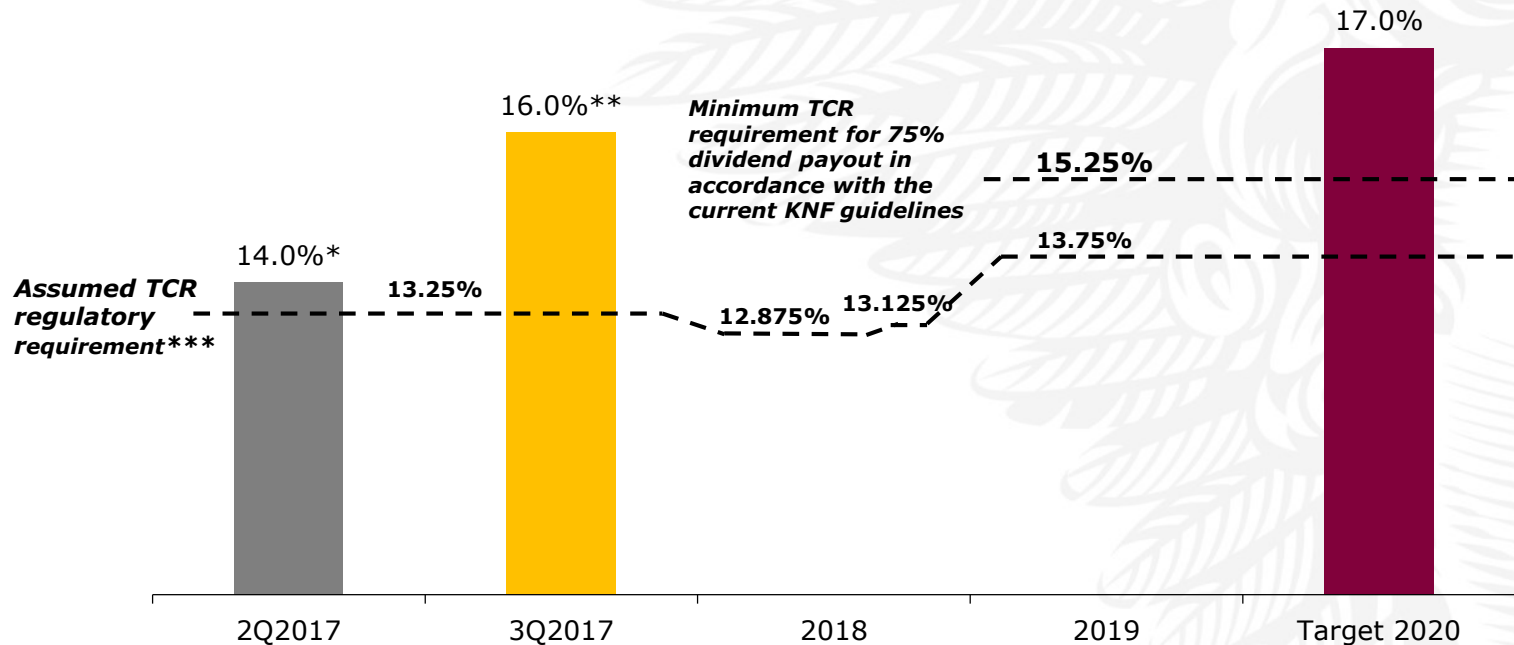
** After inclusion of Q3'2017 net profit

*** Assumptions: increase of Conservation Buffer by 125bps by 2019 and Alior designated as OSII from Q4'18 (+25bps)



...COUPLED WITH AN EQUALLY STRONG TCR BUFFER, LEADING TO ALIOR ACHIEVING DIVIDEND PAYOUT CAPACITY IN 2020 (DISTRIBUTION OF 2019 PROFIT), SUBJECT TO THE REGULATOR'S GUIDELINES AND EXPECTATIONS

TCR evolution



* After inclusion of 1H'2017 net profit

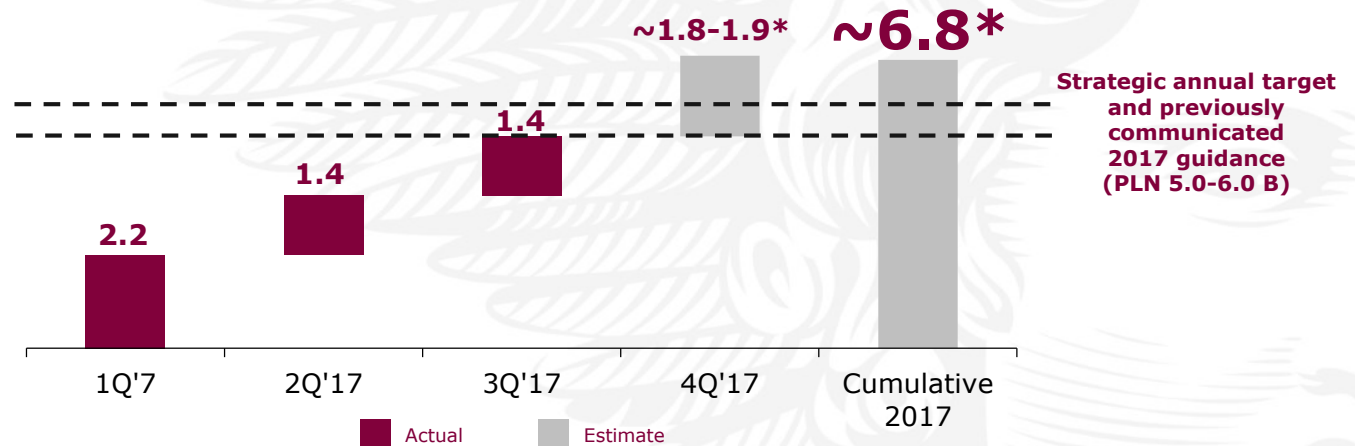
** Pro forma after inclusion of Q3'2017 net profit and PLN 750M subdebt issues concluded in Q4'2017

*** Assumptions: Systemic Buffer at 3% from 2018, increase of Conservation Buffer by 125bps by 2019, Alior designated as OSII from Q4'18 (+25bps)



THE IMPROVED CAPITAL POSITION ALLOWED ACCELERATION OF GROWTH IN Q4'2017, WHICH SIGNIFICANTLY EXCEEDED THE STRATEGIC TARGET AND THE PREVIOUSLY COMMUNICATED GUIDANCE

2017 quarterly gross loan book growth** evolution (PLN B)



- 2017 growth of PLN 6.8 B (estimate) at PLN 0.8 B above the top range of the strategic target and the previously communicated guidance
- Despite the higher growth, the Bank's liquidity position remained strong with the LCR ratio at 121% as at 31 December 2017 (vs. the new increased regulatory minimum of 100% from 1 January 2018)

* Estimate as of 9 January 2018, subject to potential adjustments

** Definition: excluding loan loss provisions, sale of NPLs, Buy-Sell-Back transactions and securitization, but including portfolio amortization



2020 KPI TARGETS UNDER THE MARKET CONSENSUS INTEREST RATE HIKE SCENARIO AND INCLUDING ADDITIONAL ZUS COSTS AND RPP'S RESOLUTION (1/2)

- Alior rate hike assumptions underlying the *Strategy Implementation Plan* (only 25bps till 2020) were conservative in order to separate the potential impact of positive macroeconomic developments from the managerial effort; therefore, the impact of the current market consensus scenario on interest rate hikes is presented on the next slide in order to provide a better insight into Alior's strategic KPIs development
- Additionally, the impact of the following factors is being presented:
 - IFRS-9 implementation (based on the initial calculation as of 9 January 2018)
 - The bill introducing the removal of the annual limit of the pension and disability contributions
 - The Monetary Policy Council's resolution of 5 December 2017 on lowering the remuneration of the required reserve from 1.35% to 0.50% from 1 January 2018
- The targets presented on the next slide exclude the potential additional upside from initiatives not included in the base plan (e.g. the digital loan sale platform *BANCOVO.*), which – as communicated in the *Strategy Implementation Plan* – may contribute an additional +1.9pp to ROE and -0.8pp to C/I (currently only the costs of those initiatives are included in the base plan and reflected in the KPI targets on the next slide)



2020 KPI TARGETS UNDER THE MARKET CONSENSUS INTEREST RATE HIKE SCENARIO AND INCLUDING ADDITIONAL ZUS COSTS AND RPP'S RESOLUTION (2/2)

2020 KPI Target	Scenario assumed in the <i>Strategy Implementation Plan</i> (25bps hike) ¹	Scenario reflecting the current market consensus on interest rate hikes ²
ROE		
presented in the <i>Strategy Implementation Plan</i>	14.1%	15.1%
adjusted for only additional ZUS costs, and RPP's resolution ⁴	13.7%	14.7%
adjusted for only IFRS-9 ³	15.4%	16.5%
adjusted for IFRS-9, the additional ZUS costs, and RPP's resolution ⁴	15.0%	16.2%
NIM		
presented in the <i>Strategy Implementation Plan</i>	5.1%	5.2%
adjusted for only RPP's resolution ⁴	5.1%	5.2%
adjusted for IFRS-9 and RPP's resolution ⁴	5.1%	5.3%
C/I		
presented in the <i>Strategy Implementation Plan</i>	39%	38%
adjusted for the additional ZUS costs and RPP's resolution ⁴	40%	39%
CoR		
presented in the <i>Strategy Implementation Plan</i>	1.6%	1.6%
adjusted for IFRS-9 ³	1.7%	1.7%
Annual gross loan book growth	PLN 5-6 B	PLN 5-6 B

1 One PLN interest hike by end-2020 – in January 2019 (25bps); no changes in interest rates on other currencies

2 Interest rate hikes by end-2020: PLN – in July 2018 (25bps), March 2019 (25bps), September 2019 (25bps), and June 2020; EUR – in June 2019 (25bps), December 2019 (25bps), and September 2020 (25bps)

3 Reflecting the reduction in equity resulting from IFRS-9 implementation on 1 January 2018; the impact of IFRS-9 on net profit is not expected to be material

4 (i) The costs of the bill introducing the removal of the annual limit of the pension and disability contributions expected to come into force from 1 January 2019 (reflecting the direct costs, i.e. the part of the contributions paid by the employer); (ii) The Monetary Policy Council's (RPP) resolution of 5 December 2017 on lowering the remuneration of the required reserve from 1.35% to 0.50% from 1 January 2018. Neither development was assumed in the *Strategy Implementation Plan* announced on 4 October 2017.