The Management Board's Report from operations of the Alior Bank S.A. Capital Group

for the first half of 2017

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II. Letter of the Deputy President of the Management Board

Dear Sirs,

I am happy to announce that that in the first half of 2017 our Bank has reached levels close to target ones in case of two out of five key performance indicators included in the Digital Disruptor Strategy. Net interest margin amounted to 4,8% even surpassing the target of 4,5% and cost of risk were at the level of 1,8% versus strategic target of 1,7%. In terms of net interest margin we are strengthening our position of the most profitable bank in Polish market.

At the same time synergies plan related to acquisition of BPH Core is being successfully executed. After a thorough review we maintain both 2017 target of 167 m and the target for 2018 synergies of 351 m. Good effects of this project allow us to state that assuming inclusion of target synergies in 1H'17 ROE calculation would allow us to land at above 10%. Sustainable ROE increase to the level of 14% coupled with C/I decrease to the level of 39% constitute key focus areas in the on-going operational review of the Digital Disruptor strategy for the years 2018-2020. We would like to present effects of this review after third quarter of 2017.

Profitability will be our main priority.

Deputy President, **Michał Jan Chyczewski**

III. Letter of the Supervisory Board President

Dear Sirs,

First half of 2017 was very successful for Alior Bank. Net profit is very close to market consensus despite acceleration of provisioning for renewable energy (OZE) portfolio, net interest margin increased, cost of risk is lowered and program of synergies generation related to BPH Core acquisition is being successfully implemented. All of this shows that Digital Disruptor Strategy is being consequently executed.

During that period the change of Alior Bank management took place. New management constitutes a team of professionals with long term professional experience, mutually complementary and valuable from the strategy execution standpoint. Half of the management team consists of executives new to the organization with professional experience, among others, in international consulting firms, private equity technological sector and significant banking entities in the market. Second half of management team comprises of key managers from Alior Bank. I note with satisfaction that in case of the program of synergies generation management continuity has been guaranteed through strengthening the position of key persons who up till now were responsible for running the most important integration projects.

New management team declared continuation of Digital Disruptor strategy and promptly started preparation of operational implementation plan for subsequent years. As a Chairman of Supervisory I am able to conclude that leadership change was conducted in a fashion supporting continuation of strategic activities as well as on-going projects continuity and at the same time ensuring new energy inflow. Current financial situation of the Bank and its' market position in conjunction with swiftly conducted management change allow us to optimistically look in the future.

Chairman of the Supervisory Board, **Eligiusz Krześniak**

IV. Summary of operations of Alior Bank in H1 2017

Major events and business initiatives pursued in H1 2017

The most important events that occurred in H1 2017 included the announcement by the Bank of its new strategy for 2017-2020, operational merger of Alior Bank with the demerged part of Bank BPH and the appointment of the Bank's Management Board in a new composition for the next three-year term of office.

1. On 13 March 2017, Alior Bank announced its strategy for 2017-2020 – "Digital Distruptor". As a result of the strategy, the Bank will be able to maintain the top level of net interest margin in the market (4.5%), reduce the C/I ratio to 39% and provide the Bank's shareholders with an increased return on equity from 8% in 2016 to 14% in 2020.

- The objective of Alior Bank is to maintain its position as the innovation leader in Poland and becoming one of the top five innovative banks in Europe. Within the next 4 years, the Bank 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 through a technological revolution in banking in a safe and friendly manner, that will prove to be profitable for shareholders.
- Alior Bank will significantly simplify its offer product and will provide carefully selected, innovative products and services, characterised with simplicity, transparency, friendly nature in handling and possibilities to purchase, access and handle via Internet and mobile banking. That will support the Bank's return to the leading position in terms of customer satisfaction.
- In the business customer segment, the Bank will increase return on the invested capital. Digitisation of processes for micro and small customers, started in 2016, will be continued and the bank will retain its top position in the distribution of programs supporting enterprises. For medium-sized companies and corporations, Alior Bank will focus on developing cash management products. The offer for business customers is supplemented with new products offered by Alior Leasing. Over the next three years, the company is expected to become one of top five leasing companies in Poland.
- Strategic goals of Alior Bank also include a material shift of sales and customer services towards digital channels. All sales and after-sales processes will be available remotely and in 2020 about 40% of sales of core products will take place in digital channels. The transformation will primarily rely on new Internet and mobile banking systems that have been made accessible to customers at the end of June 2017. Despite optimisation and digitisation, Alior Bank's distribution network will remain among the top four in Poland's banking market.
- In view of the dynamic development of the credit intermediary market, Alior Bank intends to develop its own broker with a transparent and broad offer of selected products of its own and offered by other financial institutions. It is the Bank's ambition to become a leading bank in the online intermediation market by 2020.
- An appropriate organisational culture and employees' commitment are key to implementing the strategy. To this end, Alior Bank has been promoting cooperation and customer focus – as a target, 70 percent of the Bank's employees are to service customers directly. Alior Bank has an ambition of becoming a company employing the best and best remunerated specialists in finances and new technologies.

2. In H1 2017 Alior 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 consisting in the transfer of the data of over 2,700 thousand customers of the acquired part of Bank BPH to the IT systems of Alior Bank SA. The process was completed in less than five months from the legal merger and thus it was the fastest completed merger so far in Poland. The operational merger, ending the integration process from customers' perspectives, means full unification of customer services in terms of access to branches and transactional systems by transfer of data and product handling to the IT systems of Alior Bank S.A. The total amount of integration costs in H1 2017 was PLN 66 M. The impact of the take-over of the demerged part of Bank BPH on the financial results of Alior Bank was described in more detail in chapter VII. Financial results of the Alior Bank S.A. Capital Group.

3. 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. The Supervisory Board expressed its special thanks to President Wojciech Sobieraj for his great contribution to the establishment and development of Alior Bank, commencing with a start-up until a leading bank in Poland and Europe.

   - 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 the responsibility of 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, the 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 the 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.
   - The new Management Board is composed of three persons coming from z Alior Bank and three persons appointed from outside the organisation. The combination of the competences of the new members of the Management Board with the internal promotion of persons who had managed and had been actively involved in the Bank's core projects, guarantees the continuation of the future development directions by Alior Bank.

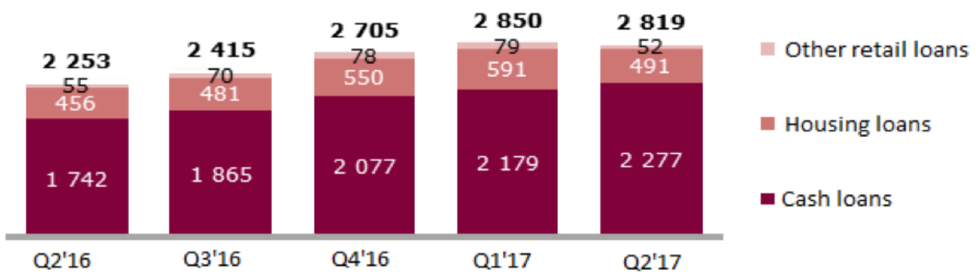
Business activities of Alior Bank in H1 2017 was primarily marked with a dynamic growth of total assets – by 31.5% year on year which was mainly due to the take-over of the assets of the demerged part of Bank BPH and the organic growth driven with sales focusing primarily on cash loans, housing loans and loans for enterprises, carried out through its own distribution network. As a result, the total value of net customer loans in H1 2017 grew versus the end of H1 2016 by almost PLN 15 billion or by 43.8% (by 0.6 billion – 1% vs. the end of 2016).

At the end of June 2017, the number of serviced customers exceeded 3.9 million. About 3.7 million are individual customers and over 182 thousand are business customers.

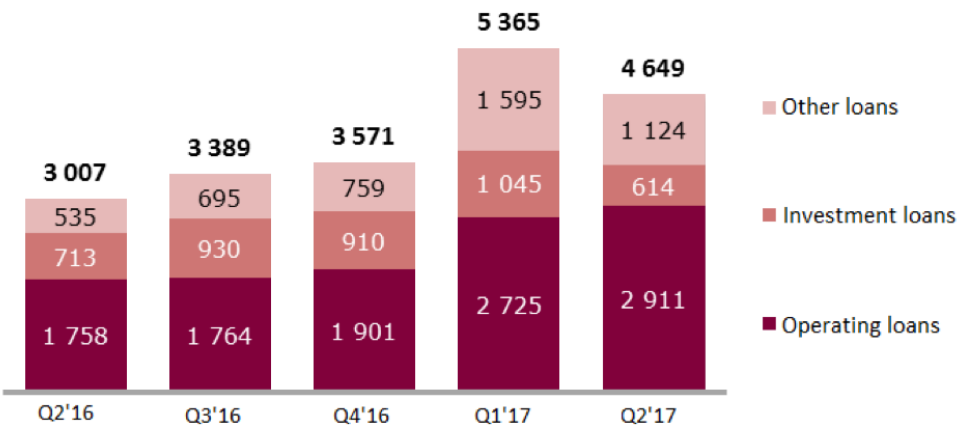
Alior Bank provides its services primarily to customers from Poland. The number of customers in the overall number of the Bank's customers is negligible.

The detailed volumes of quarterly sales of each credit product group to retail customers (net of renewals) and to business customers are presented in the charts below.

Sales of products to retail customers (PLN M)



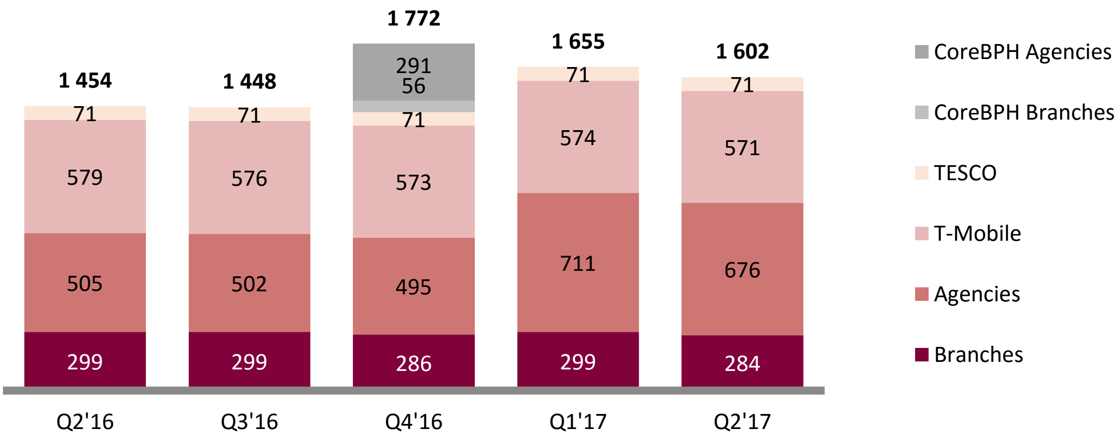
Sales of products to business customers (PLN M)



Distribution network and employment level

Distribution network

As at the end of H1 2017, the Bank operated 960 outlets (284 traditional branches – including 7 Private Banking branches and 12 Regional Business Centres and 676 franchise branches).



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

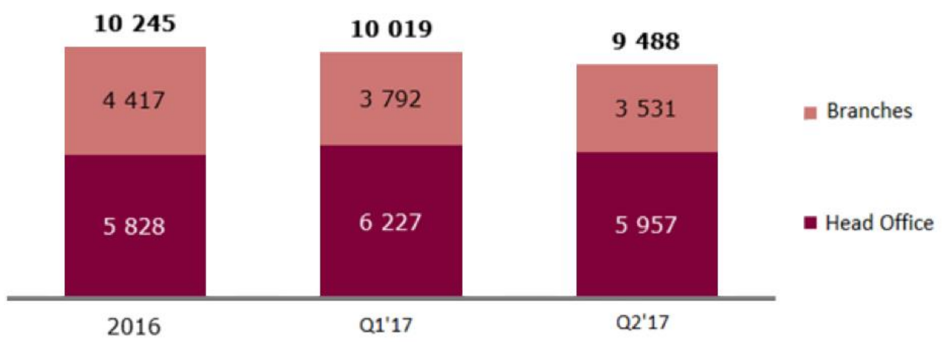
The above distribution network is also materially supported with 571 service points offering the Bank's products under the brand of T-Mobile Banking Services provided by Alior Bank. Within those service points, as at 30 June 2017 comprehensive banking services were provided by 58 dedicated T-Mobile Banking Services outlets where the customers may buy such products as: loans, credit cards, overdraft facilities, deposits, FX accounts, accounts for individual and business customers, etc.

Within the Bank's cooperation with Tesco, in Tesco stores offers credit products branded Tesco Finanse.

Employment level

As at the end of H1 2017, the headcount at Alior Bank was 9,488 FTEs. Compared to the end of 2017, that was a drop of FTEs by 757.

Headcount in FTEs



Core financial data

Net profit of the Alior Bank Capital Group (attributable to the shareholders of the parent entity) generated in H1 2017 amounted to PLN 182.3 M and it was higher than the net profit generated in the equivalent period of last year by PLN 20.4 M or by 12.6 %.

Selected financial data and indicators of the Alior Bank Group are presented in the table below:

in PLN thousand / %	H1 2017	2016	H1 2016	2015
Balance sheet total	61 837 078	61 209 545	47 041 752	40 003 010
Net loan receivables	49 079 354	46 278 414	34 136 419	30 907 057
Due to customers	51 688 524	51 368 701	37 989 929	33 663 542
Equity attributable to the shareholders of the parent entity	6 388 139	6 201 934	5 800 370	3 512 859
Net interest income	1 380 349	1 946 049	856 667	1 501 013
Total revenues	1 816 317	3 188 754	1 182 680	2 166 013
Operating expenses	-992 040	-1 566 560	-563 829	-1 107 892
Banking Tax	-98 728	-130 893	-52 930	0
Profit attributable to shareholders of the parent company	182 311	618 278	161 888	309 648
NIM	4,8	4,1	4,2	4,6
ROE	5,8	12,7	7,0	9,5
ROA	0,6	1,2	0,7	0,9
Costs / Income	54,6	49,1	47,7	51,1
Loans / Deposits	95,0	90,1	89,9	91,8
Total capital ratio	13,6	13,6	20,9	12,5

Some of the major factors that affected the financial results of the Alior Bank Group achieved in H1 2017 were as follows:

- Acquisition of the demerged part of Bank BPH and related: increase of the income resulting from the increase in the Bank's scale of operation, level of achieved cost synergies, the amount of incurred integration costs. The said factor was described in greater detail in the chapter VII. Financial results of the Alior Bank S.A. Capital Group.
- The high level of sales of credit products supported with a good economic situation and the low interest rate environment.
- Recognition of impairment allowances related to the Bank's exposure to enterprises operating in the renewable energy sector. The total amount of provisions established for those exposures in H1 2017 amounted to PLN 52.9 million.

The Group's balance sheet total at the end of H1 2017 year on year grew by 31.5% up to PLN 61.8 billion. At the same time, net loans to customers grew by 43.8% up to PLN 49.1 billion and liabilities to customers by 36.1% up to PLN 51.7 billion. The Group's balance sheet total grew by 1%, net loans to customers grew by 6.1% and liabilities to customers grew by 0.6% comparing to the end of 2016. Due to a faster growth of loans versus the growth of deposits, the Loan/Deposit ratio at the end of H1 2017 was 95.0% or by 5.2 pp higher than the end of H1 2016 as well as 4.9 pp higher comparing to the end of 2016.

The growing balance sheet items were accompanied by dynamic growth of total revenues including the main component which was an increase of net interest. In H1 2017 the total revenues grew up to PLN 1.816 M or by 53.6% y/y. The main revenue item was net interest which in H1 2017 grew y/y by 61.1% and accounted for 76% of total revenues.

In the period from 1 January to 30 June 2017 the Group's operational expenses amounted to PLN 992 M and grew by 75.9% versus the equivalent period last year or by 22.4 pp more than the growth of revenues. The Cost/Income ratio in H1 2017 was 54.6% and was by 6.9 pp higher than the ratio generated in H1 2016.

The growing scale of operation was accompanied by focus to maintain the capital adequacy ratio at the level required by law. Despite a material growth of risk-weighted assets as at the end of H1 2017 the capital adequacy ratio was at a safe level of 13.6%.

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

1. Alior Bank will continue underwriting cash and mortgage loans (for individual customers) and working capital and investment loans (for business customers) while maintaining high net interest margins and acceptable and manageable risk costs,

2. The planned amount of synergy effects that Alior Bank intends to generate in connection with the acquisition of the demerged part of Bank BPH throughout 2017 will amount to about PLN 167 M while the estimated integration costs to be incurred by the bank over the period will be about PLN 195 M.

3. 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 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 renewable energy sector (OZE). With the conservative financing structures applied by the Bank, most of the projects have prospective potential to repay its obligations. The Bank keeps monitoring the financial condition of those entities, regulatory changes and the market condition of the sector. Taking into account the potential negative impact of sectoral regulation on the status of projects financed, the Bank has

established adequate impairment allowances for impaired loans. The total amount of provisions established for those exposures as at 30 June 2017 was PLN 86.9 M. Any deterioration of the condition of the borrowers functioning on thise market may result in a need for the Bank to recognise additional provisions for the purpose.

Ratings

On 5 September 2013, Fitch Ratings Ltd. allotted Alior Bank S.A. a rating of BB with a stable outlook. The rating remained unchanged at the next review of 16 February 2017.

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

- Long-Term Foreign Currency IDR: BB stable outlook;
- Short-Term Foreign Currency IDR: B;
- National Long-Term Rating: BBB+(Pol), stable 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 where ratings, criteria and methodologies are published.

V. External conditions to the Bank's functioning

Poland's economic growth

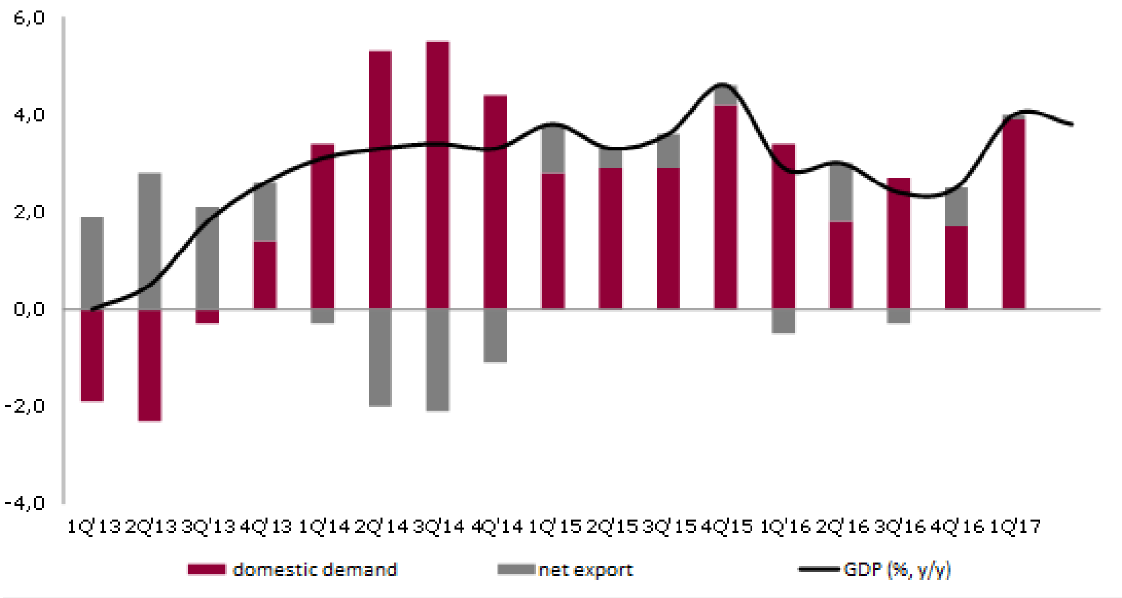
After a slowed GDP growth at the end of the previous year, the beginning of 2017 brought about an acceleration of economic growth. The growth was driven by consumption supported with growth of employment and wages; however, investments and net export contribution remained under expectations.

In Q1 2017 GDP grew by 4% y/y, mainly due to consumption supported by growth of employment and wages, a good mood among consumers as well as disbursements of benefits under the "Family 500 plus" program. The impact of domestic demand on economic growth was 3.9% with the growth on an annual basis being 4.1% which was higher than recorded in Q4 2016. A positive contribution to growing GDP was also made by growing inventories which may indicate a continued economic growth in the coming quarters. In Q1 2017, the impact of investment demand on GDP growth was neutral (as compared to -2.8 pp in Q4 2016) and with a positive impact of tangible working capital assets was translated into a positive impact of gross accumulation. In Q1 there was a slight positive impact of net exports on the economic growth rate which was +0.1 percentage points versus +0.8 percentage points in Q4 2016.

The incoming data with higher frequency for Q2 2017 indicate that n Q2 2017 the economic growth remained at a level similar to the one observed in Q1. Additionally, the increasing growth rate of construction and assembly production – which in June was 11.6% y/y and in the entire H1 reached 7.6% y/y – supports expectations of a recovery of investments in the quarters to come. In Q2 positive growth has also been recorded in retail sales and industrial production which over the six-month period resulted in production growth by 5.7% y/y versus 4.4% in the equivalent period of 2016, and in retail sales by 6.9% y/y versus 5% in the equivalent period in 2016. In June sales grew by 6% y/y while production by 4.5% y/y. The market consensus now provides for GDP growth in Q2 2017 by 3.8% y/y.

In the next quarters, individual consumption is expected to remain the core economic growth driver with a simultaneous growth of investments. Consumption will continue to be supported with an improvement in the labour market and disbursements under the "Family 500 plus" program that positively affect the purchasing power and moods among households. The inflow of EU funds from the 2014-2020 financial perspective and the decreasing uncertainties concerning the business environment should support growing investments. On the other hand, the main risk factors include uncertainties as to the prospects of global economy and in Poland – developments in labour supply. The low unemployment level stimulates consumption; however, on the other hand, problems with finding employees will become a barrier to growing production among enterprises.

GDP growth rate



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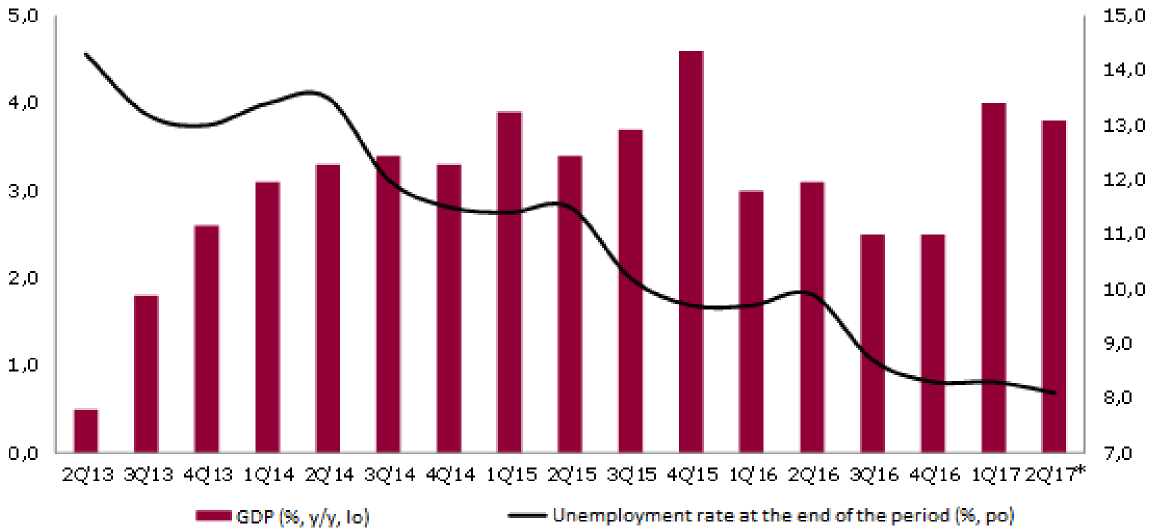
Situation in the labour market

In H1 2017, the favourable trends in the labour market were continued. There has been an accelerated growth of employment since the beginning of the year which resulted in a further drop of the unemployment rate and a stable wage growth. In May the unemployment rate was 7.4% and according to the Ministry of Family, Labour and Social Policy, the result in June was 7.2% which was the lowest level in the history of measurements. The growing unemployment is supported with accelerated economic growth with a simultaneous increased utilisation of manufacturing potential in the economy. The lower unemployment rate was accompanied by higher wage pressure; however, the wage growth rate remains moderate which is due inter alia to a growing number of foreign employees, mainly from Ukraine. In real terms, the growth of wages was restricted by inflation which was higher than a year earlier which made the wage growth in Q1 2017 lowest in the last three years.

GDP growth and unemployment rate



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Inflation

The growth of CPI commenced at the end of the last year continued in H1 – however, after a clear growth at the beginning of the year, it stabilised at a moderate level. In Q1 CPI grew up to 2% versus -0.9% in the equivalent quarter of 2016 but in the following months the growth rate slowed down and reached 1.5% y/y in June which was the lowest result throughout Q2. The stabilised CPI level was supported with the disappearing effects of the earlier raw material prices in world markets with a slightly higher inflation base (related to a domestic upturn) and a faster growth of food prices. The growth of unit labour costs remained moderate and close to the recent years average.

The most recent projection of the NBP's Economic Institute (IE NBP) of last July provides for a growth of inflation during the projected period by 2019. In 2017 CPI is to remain positive at 1.9%. In 2018 and 2019 inflation is expected to grow by 2% and 2.5% respectively. That means a return to inflation over the projection horizon to the NBP's target (2.5%). CPI is expected to remain under demand and cost pressure; in the first quarters of the projection, there will be a price drop of energy raw materials in world markets.

In the environment of a moderate inflation pressure and the continued accommodation monetary policy in the euro zone, the Monetary Policy Council has kept interest rates unchanged since March 2015, including the reference rate of 1.50%. Additionally, in the recent months the Council has been consistent in its opinion that the existing interest rate levels support Poland's economy on a path of stable economic growth and macroeconomic balance is maintained.

Foreign trade

In Q1 foreign trade grew versus the equivalent period last year with imports growing slightly faster than exports. The faster growth of exports and imports was supported with growing world trade, high price competitive advantage of Polish products and growing national economy. Export was growing in all markets, including the euro zone and other European countries which was due to an upturn in world industry and with recurring growing demand for Polish consumer goods and foodstuffs. The accelerated growth of import was due to higher oil prices than a year earlier and a growing domestic demand. There was a slight growth of investment goods import.

Improved moods in global markets

In H1 2017 economic upturn in the world stabilised and the positive symptoms were noticeable primarily in industry and trade. The economic upturn was particularly noticeable in mature economies and translated into improved moods in global financial markets. Additionally, stock markets were supported with the accommodation monetary policy of the 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 accommodation monetary policy of ECB does have effect on the accelerated GDP growth as well as the soft fiscal policies of many countries which is possible in the environment of low interest rates. ECB keeps its interest rates close to zero and keep buying financial assets – although on a lower scale since April than earlier. Economic upturn is also supported with growing world trade.

In the USA, GDP growth in Q1 was reduced; however, the slower economic growth was due to temporary factors which – on the basis of data for Q2, growing employment and positive investments – augur a higher result in Q2 2017. The stable projections of economic growth in the USA has become an argument to tighten Fed's monetary policies – in H1 2017 the Fed made two rises to the interest rate ranges which now is 1.00-1.25%. Additionally, in the Fed's opinion, the positive trends in US economy will support a gradual reduction of balance sheet total by gradual reduction of the scale of asset re-investments.

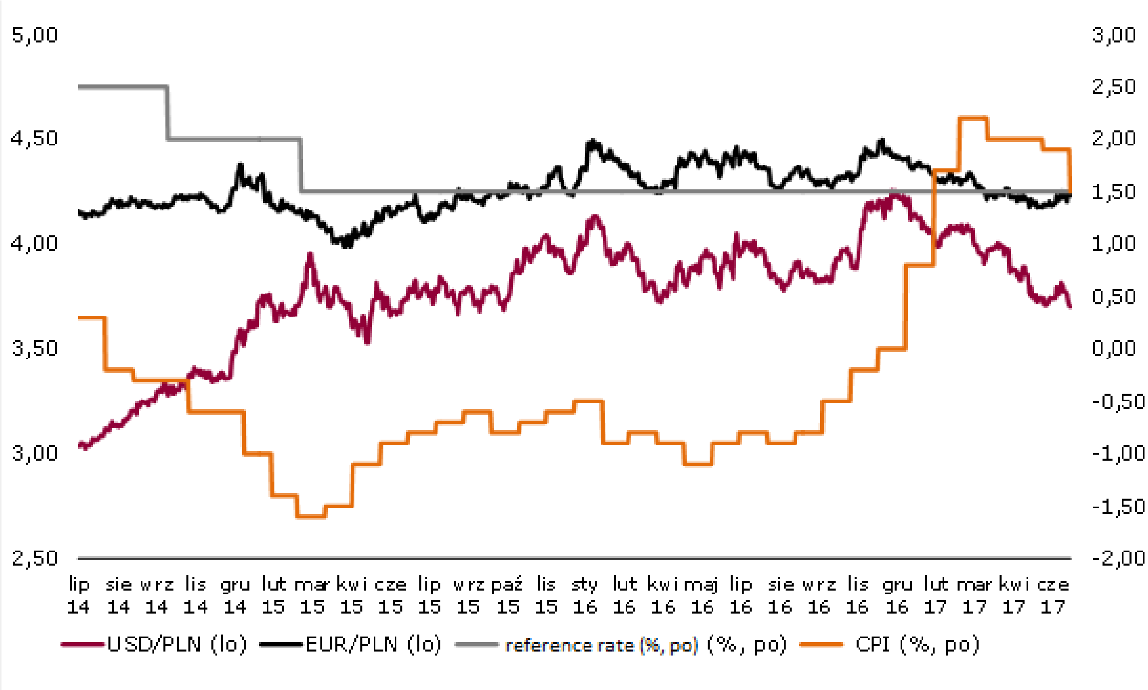
FX rates

The better moods in global financial markets with continued expansive monetary policies of the core central banks, in H1 2017 supported the appreciation of the currencies in emerging economies, including Central and East European countries.

PLN benefited from the global sentiment which resulted in successive appreciation of PLN since the beginning of the year both to the euro and the USD. The appreciation of the currencies of the emerging economies to the USD is additionally supported with its depreciation to 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 this year. Thus, in H1 2017 the zloty gained as much as 11.6% to the USD with an appreciation to the euro by 3.9%, and at the end of the period reached the levels of 3.70/USD and 4.23/EUR respectively.

The national currency was further supported with improving economic growth prospects and continued stable monetary policy by the MPC. In May the PLN appreciation was further supported with the decision of Moody's retaining Poland's credit rating at A2 with a simultaneous improved rating outlook from negative to stable which was due to reduced fiscal and investment risks and reduced political uncertainties in Poland.

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



VI. Core structural and financial data of Poland's banking sector in January – May 2017

Core structural details

As at the end of May 2017, there were in Poland: 35 domestic commercial banks, 556 credit unions and 29 branches of credit institutions. At the end of May 2017, the domestic bank network covered 6 853 branches, 4 095 sub-branches, agencies and other customer service outlets as well as 3 028 representative offices (including franchise outlets). Thus, at the end of May 2017, the domestic banking network covered overall 13 986 outlets which was 206 less than in the equivalent period last year.

The headcount at the end of May 2017 was 166.9 persons and was lower than the headcount in the equivalent period last year by 3.6 people (2.1%).

Poland's banking sector is characterised with a stable ownership structure. At the end of May 2017, the State Treasury controlled 5 banks. In 563 banks and branches of credit institutions, private capital prevailed. In 52 banks and branches of credit institutions, foreign capital prevailed.

Selected profit and loss account items

In the period between January and May 2017 the banking sector generated net profit of PLN 5.2 billion vs. PLN 5.3 billion in the equivalent period last year (drop by 2.2%).

The net profit of the sector relied primarily on an increased profit on banking operations (up to PLN 24.9 billion or 4.8% more than in the period from January to May 2016) that occurred as a result of a major growth of net profit (by 11,1%) with a simultaneous reduced net fee and commission income (by 9.5%).

In the period between January and May 2017, versus the equivalent period last year, there was a drop of interest expense (by 3.5% y/y) with a simultaneous growth of interest income (by 6.6% y/y).

Operating expenses of banks (including depreciation and provisions) in the analysed period grew by 5% y/y up to PLN 15.5 billion. The growth was due to an increased level of employee expenses (by 3.1% up to PLN 6.8 billion) and a growth of overheads (by 10.2% up to PLN 7.2 billion).

The negative balance of impairment allowances to financial assets in the period from January to May 2017 versus the equivalent period last year grew by 5.2% and amounted to PLN 2.8 billion.

Loans and deposits

Total assets of the banking sector at the end of May 2017 amounted to PLN 1 743 billion and were by 5.6% (or PLN 92 billion) higher than at the end of May 2016.

Gross receivables from the non-financial sector at the end of May 2017 versus the previous year grew by 4% and amounted to PLN 1 028 billion. The core growth areas included receivables from enterprises (+5.4% y/y) and receivables from households (+3.2% y/y).

Deposits of the non-financial sector grew at the end of May 2016 y/y by 6.1% up to PLN 1 017 billion. At the end of May 2017, deposits by enterprises and deposits by households accounted for 97.7% of 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 4.1% and 6.7% respectively). As a result, the value of deposits of households at the end of May 2017 grew up to PLN 736 billion and the value of deposits by enterprises at the end of May 2017 was PLN 258 billion.

Equity and capital ratios

The equity of the banking sector for capital ratios, calculated in compliance with the provisions of the CRR Regulation, at the end of March 2017 amounted to PLN 178.1 billion and grew by 8.0% versus the end of March 2016.

The total capital ratio of the banking sector at the end of March 2017 was 17.94% (growth by 0.89 pp vs. the end of March 2016) while the Tier I capital ratio as at the end of the period was 16.45% (growth by 0.81 pp vs. the end of March 2016).

The growth of the total capital ratio and the Tier 1 capital ratio in the analyzed period was due to the fact that the moderate growth of total risk-weighted exposure (by 2.7% versus the end of March 2016) resulting mainly from an increased requirement related to credit risk, was accompanied by a material growth of equity (by 8.0%) year on year.

VII. Financial results of the Alior Bank S.A. Capital Group

Profit and loss account

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

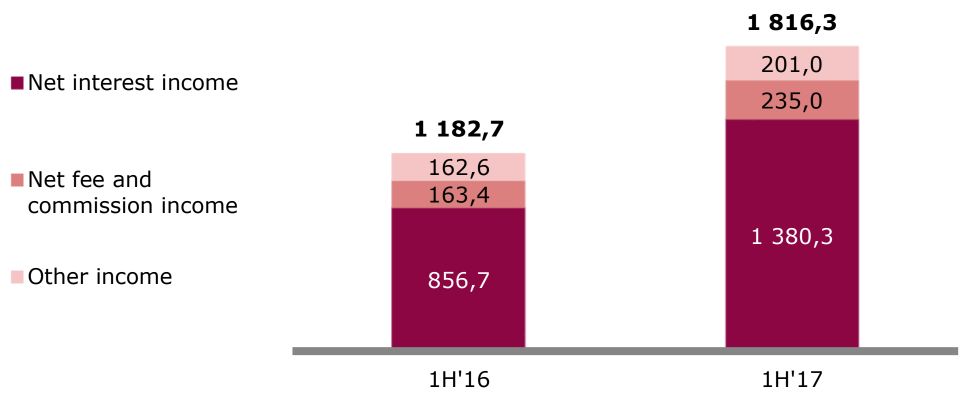
in PLN '000	01.01.2017 - 30.06.2017	01.01.2016 - 30.06.2016	change y/y in PLN'000	change y/y %
Interest income	1 760 030	1 192 133	567 897	47,6
Interest expense	-379 681	-335 466	-44 215	13,2

Net interest income	1 380 349	856 667	523 682	61,1
Dividend income	2	34	-32	-94,1
Fee and commission income	404 101	275 104	128 997	46,9
Fee and commission expense	-169 136	-111 685	-57 451	51,4
Net fees and commissions	234 965	163 419	71 546	43,8
Trading result	171 583	131 136	40 447	30,8
Net gain (realized) on other financial instruments	1 166	20 766	-19 600	-94,4
Other operating income	60 374	33 720	26 654	79,0
Other operating costs	-32 122	-23 062	-9 060	39,3
Net other operating income	28 252	10 658	17 594	165,1
General administrative expenses	-992 040	-563 829	-428 211	75,9
Net impairment charges and provisions	-467 699	-348 857	-118 842	34,1
Banking Tax	-98 728	-52 930	-45 798	86,5
Gross profit	257 850	217 064	40 786	18,8
Income tax	-75 466	-55 328	-20 138	36,4
Net profit on continuing operations	182 384	161 736	20 648	12,8
Net profit attributable to the shareholders of the parent entity	182 311	161 888	20 423	12,6
Net loss attributable to minority shareholders	73	-152	225	-148,0
Net profit	182 384	161 736	20 648	12,8

Net profit of the Alior Bank S.A. Capital Group (attributable to the shareholders of the parent entity) in H1 2017 was PLN 182.3 M and was higher than the net profit generated in the equivalent period last year by PLN 20.4 M or by 12.6%.

The net results generated in H1 2017 were affected by the profit and loss account items specified below:

Total revenues (PLN M)



Net interest is the core revenue item of the Group accounting for 76.0% of total revenues. The annual growth by 61.1% was due to a take-over of the demerged part of Bank BPH as well as organic growth of customer loans volume and the accompanying growth of customer deposits. As a result, the customer net loan portfolio grew year on year by 43.8% while deposits from the non-financial sector grew by 36.1%. The generated interest income was also positively affected by an adequate pricing policy – both with respect to deposits and loans, in the environment of low interest rates.

The Group's profitability measured as net interest margin remained in H1 2017 at a very high level of 4.8% and was higher by 62 bps versus the interest margin generated in H1 2016. The increase of margin was due inter alia to a changed asset structure consisting in a decrease of assets available for sale in overall assets from 18.1%. In H1 2016 to 10.5% in H1 2016 and maintaining the effective pricing policy.

Over the same period, the average interest rate applicable to loans grew by 12 bp to 6.18%. At the same time, the average cost of deposits dropped to 1,18% (by 0,81 pp).

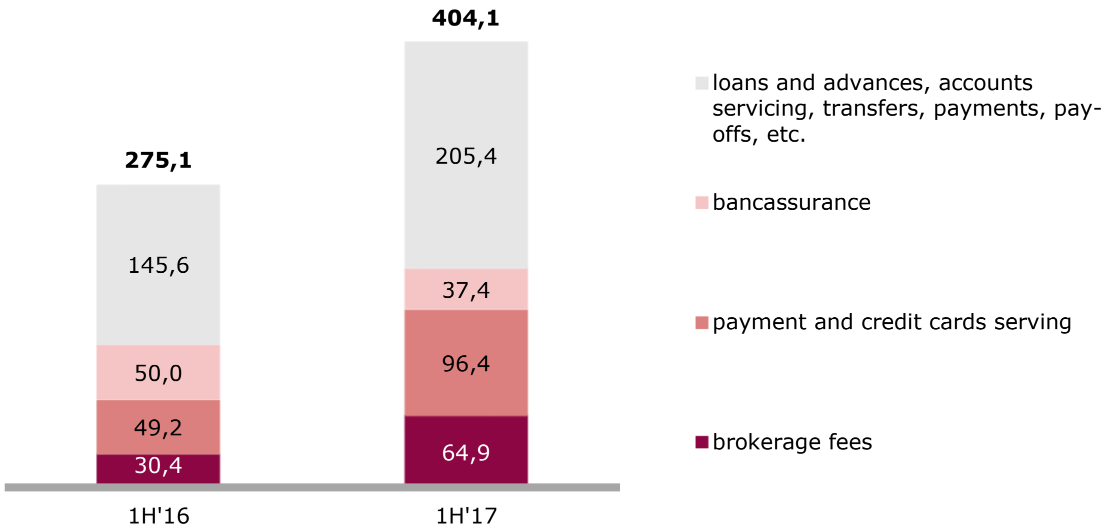
The average WIBOR 3M rate in H1 2017 was 1.73% and was higher by 5 bp versus the average value from H1 2016.

LOANS / WIBOR 3M	H1 2017 (%) 6.18 / 1.73	H1 2016 (%) 6.06 / 1.68
retail segment, of which:	**7.79**	**7.09**
Consumer loans	9.69	9.15
Loans for residential properties	4.26	4.14
business segment, of which:	**4.08**	**4.67**
Investment loans	4.17	4.41
Working capital loans	4.04	4.81
Car Loans	7.65	4.77
DEPOSITS	**1.18**	**1.99**
Retail segment	**1.04**	**1.91**
Current deposits	0.51	0.37
Term deposits	1.59	3.06
business segment	**1.43**	**2.14**
Current deposits	0.11	0.09
Term deposits	1.47	215

Net fees and commissions grew by 43.8% up to PLN 235.0 M. The result was due to PLN 404.1 M of commission revenues (growth year on year by 46.9%) and PLN 169.1 M of commission expenses (growth y/y by 51.4%).

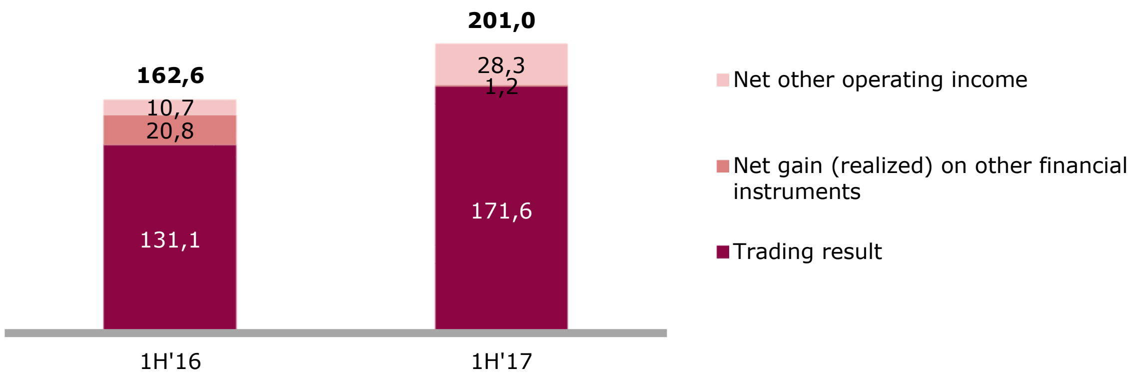
The core elements of the net fees and commissions include commissions related to loans, accounts, transfers, cash deposits, disbursements and borrowings, etc. In H1 2017 they amounted to PLN 205.4 M and accounted for 50.8% of total fee and commission revenues. The growth year on year was primarily due to a growth of commission earning transactions related to handling of bank accounts, commissions on incoming and outgoing transfers and commissions related to granting of loans.

Net fee and commission income (PLN M)



The trading result, the result realised on other financial instruments and net other operating income increased in H1 2017 jointly by 23.6% to PLN 201.0 M. In its commercial result, the Group recorded an increase y/y by 30.8% to PLN 171.6 M or by PLN 40.4 M. The profit on commercial activities was generated largely on margins on FX transactions and in interest rate derivative instruments concluded with the Bank's customers.

The commercial result generated on other financial instruments and the result on other operational revenues and expenses (PLN M)



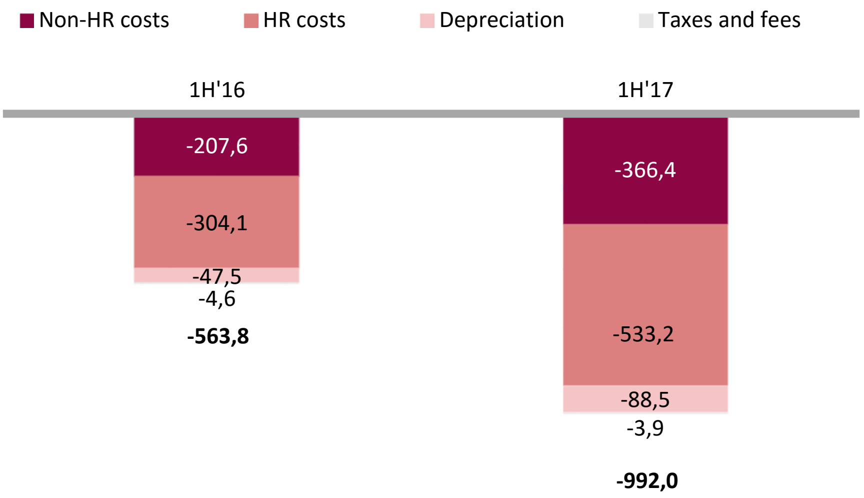
In H1 2017 the general administrative expenses amounted to PLN 992.0 M and were higher than the expenses incurred in the equivalent period last year by PLN 428.2 M (by 75.9%). The core reason of the increased costs on the analysed period versus the equivalent period in the previous year is due to the costs related to the take-over process of the demerged part of Bank BPH.

Employee expenses in the analysed period amounted to PLN 533.2 M and were by 75.3% higher than personnel costs incurred in H1 2016.

General and administrative costs in H1 2017 amounted to PLN 366.4 M and were by 76.5% higher than non-personnel costs incurred in H1 2016.

The overall value of costs incurred by the Bank in connection with the take-over of the demerged part of Bank BPH amounted to about PLN 66 M in H1 2017. As a result, the cost/income ratio in H1 2017 was 54.6% (51.0% excluding integration costs) vs. 47.7% in H1 2016.

Operating expenses (PLN M)



Synergies and integration costs related to BPH Core merger

Operational merger concluded on 27 March 2017 was a key event in the process of integration of BPH Core. Since then the whole Bank functions based on single technological platform and with all operational processes unified.

Year 2017 is the time of synergies execution which this year will amount to M PLN 167. Plan for the following years assumes synergies generation at the level of M PLN 351 in 2018 and target level of synergies of M PLN 374 in 2019.

Integration costs stemming from the synergies execution process according to the plan are to reach M PLN 195. It is worth noting that 2017 is the last year in which integration costs will occur.

Up till now the execution of both synergies and integration cost plan allows for optimism. In Q1'17 the Bank has generated M PLN 15 of synergies exceeding the plan by M PLN 4. In Q2'17 synergies amounted to PLN M 41 and were M PLN 5 above the plan.

Integration costs in Q1'17 amounted to M PLN 50 versus M PLN 55 according to the plan. In Q2'17 the before mentioned amounts were at the level of M PLN 16 (actual) and M PLN 40 (plan) accordingly.

Net impairment write-offs

The level of impairment charges and provisions in H1 2017 amounted to PLN -467.7 M (PLN -348.9 M in H1 2016 – a growth by 34.1%) was primarily due to increased charges for receivables of customers from the non-financial sector (from PLN -318.4 M to PLN -431,3M).

The above line item was materially affected by the increased allowances for IBNR for non-impaired customers from PLN -8.7 M in H1 2016 to PLN -17.2 M in H1 2017.

The net provisions calculated on the average balance of customers' gross receivables (risk cost ratio) recorded a drop from 1.9% to 1.8% y/y.

Net impairment write-offs (PLN M)

	1.01.2017-30.06.2017	1.01.2016-30.06.2016	change y/y in %
Impairment losses on impaired loans and advances to customers	-432 918	-319 579	35,5
financial sector	-1 657	-1 206	37,4
non-financial sector	-431 261	-318 373	35,5
retail customers	-269 164	-208 195	29,3
business customers	-162 097	-110 178	47,1
Debt securities – available-for-sale financial assets	0	-6 974	-
IBNR for customers without impairment losses	-17 162	-8 676	97,8
financial sector	-4 044	656	-
non-financial sector	-13 118	-9 332	40,6
retail customers	28 128	-13 639	-
business customers	-41 246	4 307	-
Off-balance reserve	-6 632	-1 386	378,5
Property, plant and equipment and intangible assets	-10 987	-12 242	-10,2
Net impairment allowance and write-downs	-467 699	-348 857	34,1

Balance sheet

As at 30 June 2017, the balance sheet total of the Alior Bank Capital Group reached the amount of over PLN 61.8 billion and was by PLN 14.8 billion (31.5%) higher vs. the end of H1 2016.

The core items generating the growth of balance sheet total included receivables from customers – a growth y/y by PLN 14.9 billion to PLN 49.1 billion and financial assets available for sale – a drop y/y by PLN 2.0 billion to PLN 6.5 billion as well as customers' deposits – a growth by PLN 13.7 billion to PLN 51.7 billion and equity – a growth by PLN 0.6 billion to PLN 6.4 billion.

The tables below present the individual positions of assets, liabilities and equity as at the end of H1 2017 along with comparable data.

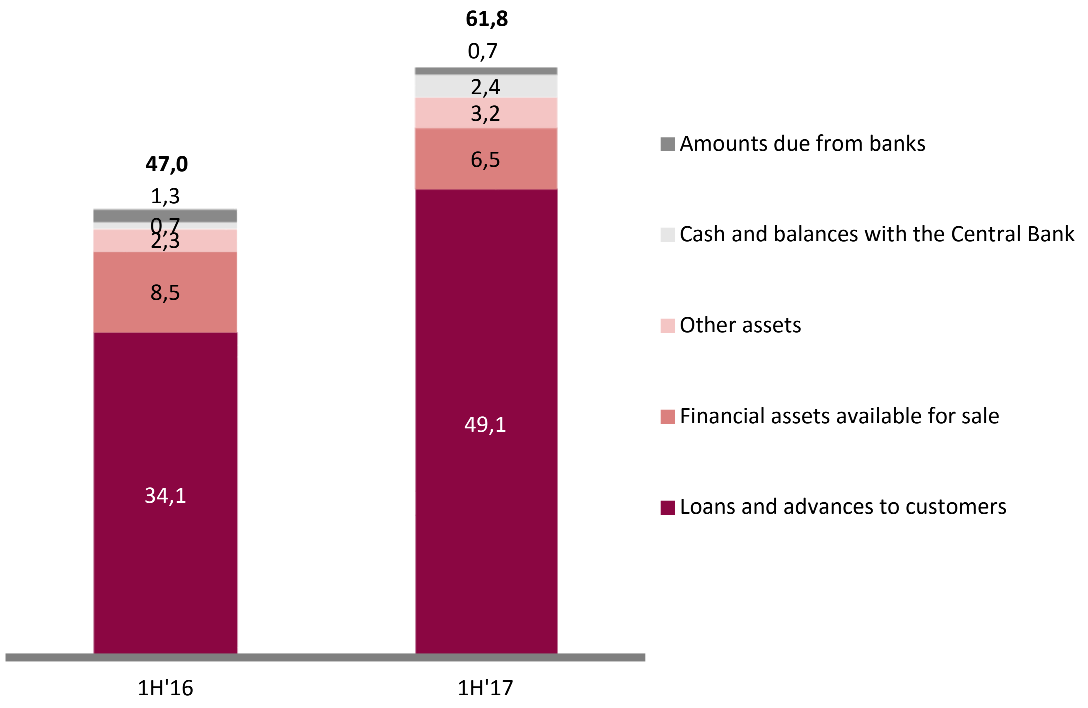
ASSETS (PLN '000)	as of 30.06.2017	as of 31.12.2016	change ('000)	change (%)
Cash and balances with the Central Bank	2 377 158	1 082 991	1 294 167	119,5
Financial assets held for trading	421 042	419 551	1 491	0,4
Available-for-sale financial assets	6 469 215	9 357 734	-2 888 519	-30,9
Investment securities held to maturity	0	1 954	-1 954	-
Derivative hedging instruments	45 904	71 684	-25 780	-36,0
Amounts due from banks	737 342	1 366 316	-628 974	-46,0
Loans and advances to customers	49 079 354	46 278 414	2 800 940	6,1
Assets pledged as collateral	510 962	366 984	143 978	39,2
including pledged assets	162 099	29 783	132 316	444,3
Property, plant and equipment	476 289	485 796	-9 507	-2,0
Intangible assets	545 193	516 444	28 749	5,6

Asset held for sale	468	679	-211	-31,1
Income tax asset	550 373	531 063	19 310	3,6
Current	0	0	0	0,0
Deferred	550 373	531 063	19 310	3,6
Other assets	623 778	729 935	-106 157	-14,5
TOTAL ASSETS	61 837 078	61 209 545	627 533	1,0

LIABILITIES ANS EQUITY (PLN '000)	as of 30.06.2017	as of 31.12.2016	change ('000)	change (%)
Financial liabilities held for trading	366 491	298 314	68 177	22,9
Amounts due to banks	866 687	428 640	438 047	102,2
Amounts due to customers	51 688 524	51 368 701	319 823	0,6
Derivative hedging instruments	8 868	6 119	2 749	44,9
Provisions	186 082	286 815	-100 733	-35,1
Other liabilities	1 139 811	1 439 304	-299 493	-20,8
Income tax liabilities	30 646	13 945	16 701	119,8
Current	29 431	13 190	16 241	123,1
Deferred	1 215	755	460	60,9
Subordinated loans	1 160 811	1 164 794	-3 983	-0,3
Total liabilities	55 447 920	55 006 632	441 288	0,8
Equity	6 389 158	6 202 913	186 245	3,0
Equity attributable to equity holders of the parent	6 388 139	6 201 934	186 205	3,0
Share capital	1 292 578	1 292 578	0	0,0
Supplementary capital	4 819 745	4 185 843	633 902	15,1
Revaluation reserve	-31 339	-71 615	40 276	-56,2
Other reserves	183 824	183 957	-133	-0,1
Foreign operations currency translation differences	55	-22	77	-
Retained earnings / (accumulated losses)	-59 035	-7 085	-51 950	733,2
Profit for the year	182 311	618 278	-435 967	-70,5
Non-controlling interests	1 019	979	40	4,1
TOTAL LIABILITIES AND EQUITY	61 837 078	61 209 545	627 533	1,0

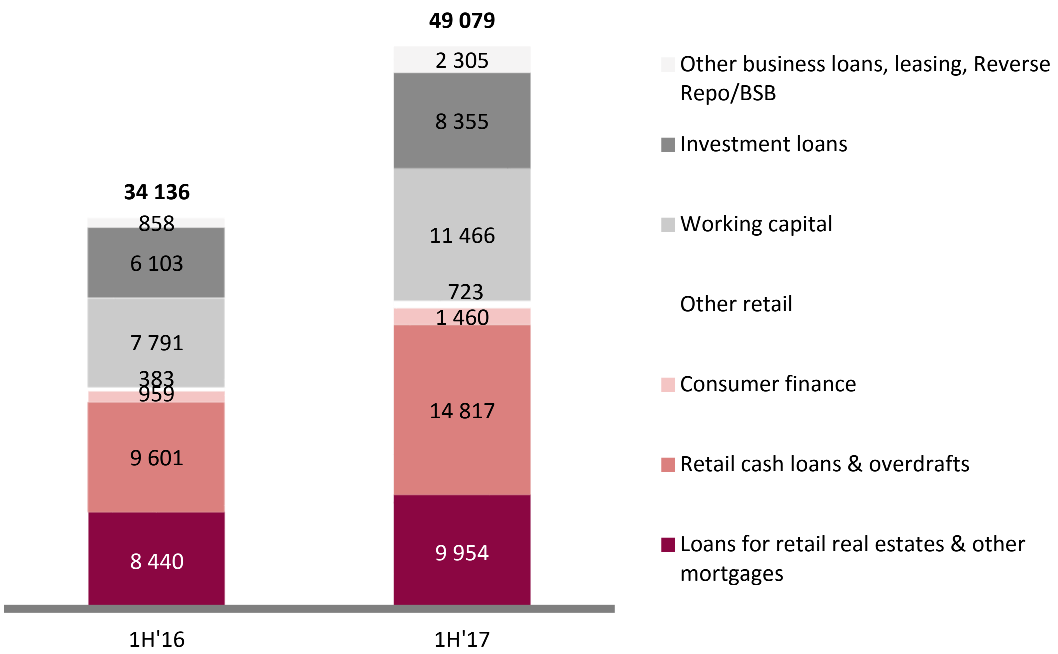
The largest asset item is made up of receivables from the Group's customers (PLN 49.1 billion). Their share in balance sheet total as at the end of H1 2017 accounted for 79.4% and thus it was increased vs. the end of 2016 by 3.8 pp. The second largest items of assets as at the end of H1 2016 were financial assets available for sale of PLN 6.5 billion and which accounted for 10.5% of total assets (as at the end of H1 2016 – 18.1% of total assets; as at the end of 2016 – 10.8% of total assets).

Assets of the Alior Bank S.A. Capital Group (PLN billion)



The increased loan portfolio to customers y/y by 43.8% was due to a growth of loan volumes granted in the retail segment (that was increased by 39.1% or by PLN 7.6 billion up to PLN 27.0 billion) as well as a growth of the loan portfolio from business customers. The loan volume to the business segment grew by 50.0% (or by PLN 7.4 billion) to PLN 22.1 billion.

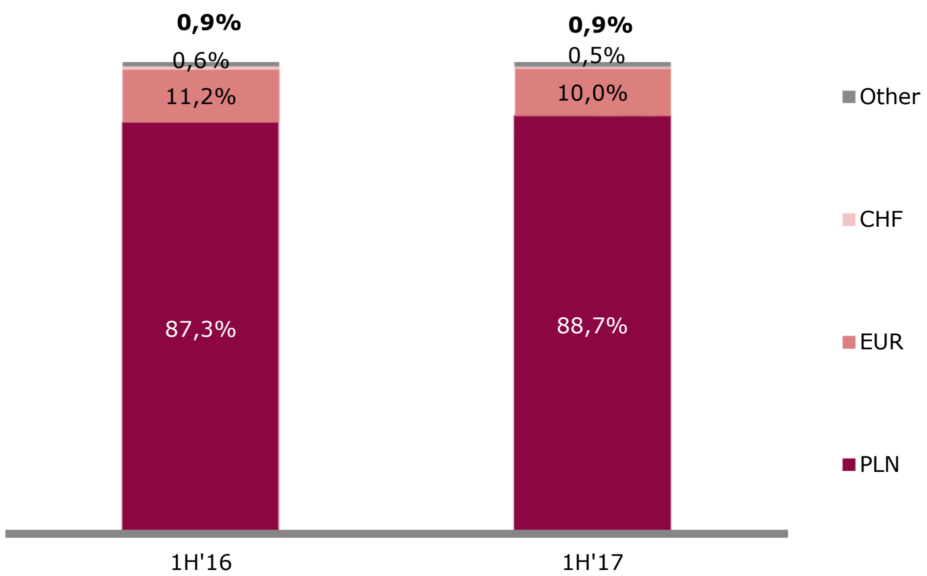
Receivables from customers (PLN M)



The retail segment loan portfolio primarily included cash loans and overdrafts with the volume in excess of PLN 14.8 billion (growth y/y by 54.3%). They accounted for 55.0% of all loans granted to retail customers and accounted for 30.2% of the entire portfolio of customers' receivables. The second largest item in the retail segment loan portfolio (36.9%) covered housing loan and mortgage loans with the total volume as at the end of H1 2017 of almost PLN 10.0 billion (overall growth y/y by 17.9%). Further, the value of Consumer Finance granted loans as at the end of H1 2017 amounted to almost PLN 1.5 billion and was higher by 52.2% than at the end of H1 2016.

Working capital for companies with the value of which as at the end of H1 2017 was PLN 11.5 billion (growth by 47.2% y/y) were the largest single item of the business segment loan portfolio, accounting for 51.8% of its total value. Investment loans were the second largest item of the business segment loan portfolio, accounting for 37.8% of the portfolio. Their value as at the end of H1 2017 grew versus the end of H1 2016 by 36.9%, up to almost PLN 8.4 billion.

Currency structure of the customers' receivables



As at the end of H1 2017 y/y, compared with the end of H1 2016 the share of customers' PLN receivables in the overall loan portfolio was slightly increased to 88.7% (increase by 1.4 p.p vs 30 June 2016). Customers' EUR receivables accounted for 10% of the overall customers' receivables at the end of H1 2017, and their share compared with the end of H1 2016 decreased by 1.2 p.p.

Geographical structural of customers' receivables as at 30.06.2017 (net value)

Voivodeship	% of receivables
Mazowieckie	24
Śląskie	11
Dolnośląskie	11
Wielkopolskie	9
Małopolskie	9
Pomorskie	7

Łódzkie	5
Zachodniopomorskie	4
Kujawsko-Pomorskie	4
Podkarpackie	3
Lubelskie	3
Warmińsko-Mazurskie	3
Lubuskie	2
Podlaskie	2
Opolskie	2
Świętokrzyskie	2
TOTAL	100%

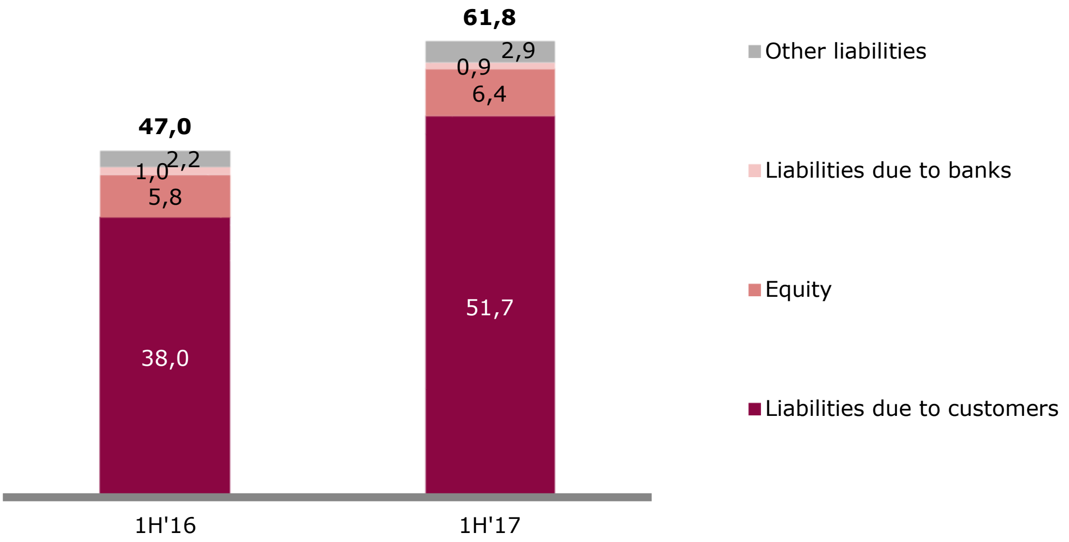
Almost 1/4 of the loans granted by the Bank were loans to customers from Mazowsze. Over 22% of loans are receivables from customers from Śląsk and Dolny Śląsk.

Receivables from customers coming from other voivodeships account for about 54% of the entire loan portfolio.

The Group's business is funded with customers deposits from the non-financial sector customers deposited with the bank. At the end of H1 2017, the share in balance sheet total accounted for 83.6% (growth by 2.8 pp vs the end of June 2016).

The balance of equity as at 30 June 2017 was PLN 6.4 billion and was by over PLN 0.6 billion higher vs the end of H1 2016. The growth was primarily due to the retention of the net profit generated in 2016.

Equity and liabilities of the Alior Bank Capital Group (PLN billion)

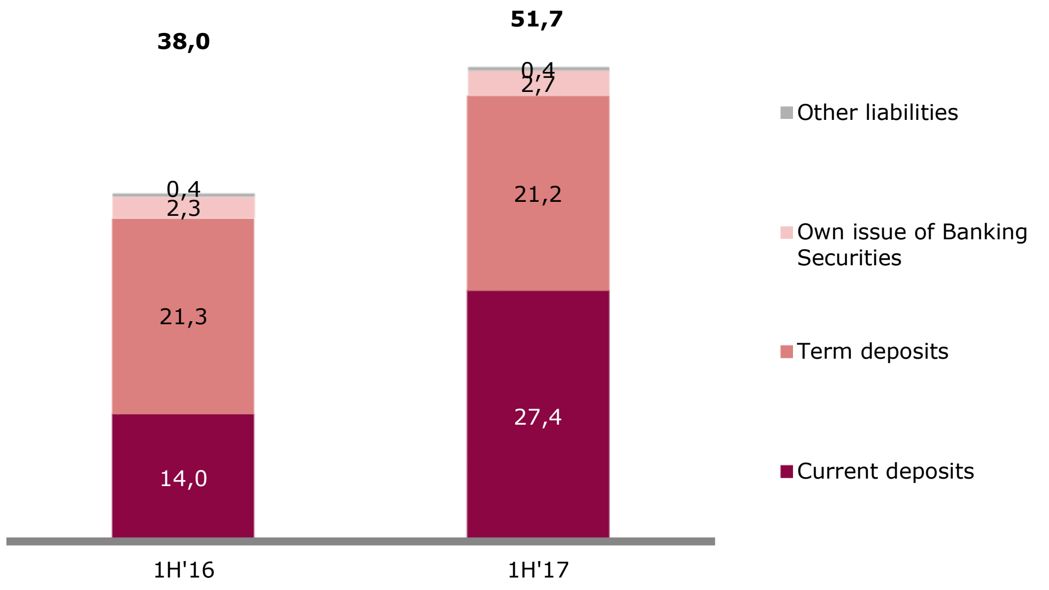


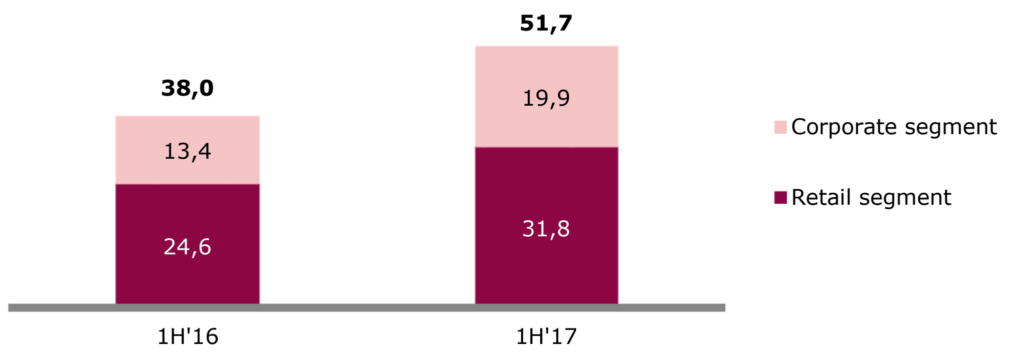
The liabilities due to customers largely included liabilities due to the retail segment which at the end of H1 2017 accounted for 61.6% of the customers' deposit portfolio. As compared to the end of H1 2016, the share was reduced by 3.1 pp.

Current deposits were the single largest item of the liabilities portfolio to customers. They accounted for 53.0% of the entire liabilities to customers as at the end of H1 2017 (growth by 16.3 pp versus the end of H1 2016). The second largest item of liabilities due to customers (41.0% of overall liabilities to customers as at 30 June 2017) includes term deposits. As compared to the end of H1 2016, their share in overall liabilities to customers as at 30 June 2017 dropped by 15.2 pp. Such major change of the term structure of the Bank's deposit date was primarily due to the take-over of the customer deposit portfolio of the demerged part of Bank BPH. Additionally, it was also affected by taking operational actions on an ongoing basis supporting the reduction of interest expenses related to the deposit base.

The remaining 6.0% of the liabilities to customers as at 30 June 2017 were the funds acquired as a result of the bank's own issues of debt securities and other liabilities.

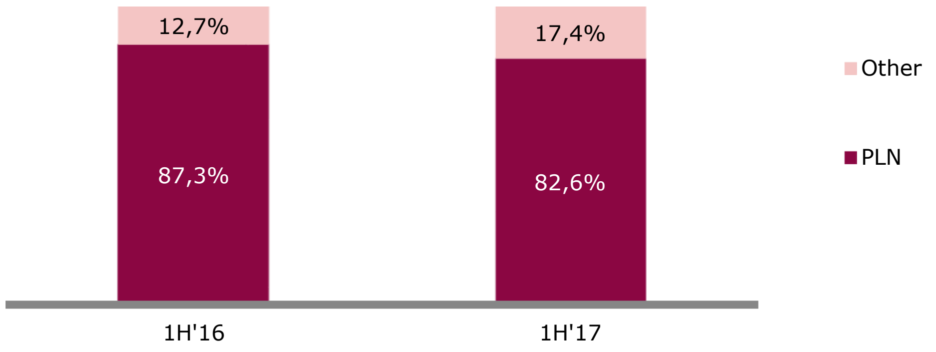
Types of liabilities to customers (PLN billion)





The sum of liabilities to the ten largest depositors accounts for 4.8% of all customers' deposits which is evidence or a strong diversification of the Bank's deposit base.

Currency structure of the liabilities to customers



As at the end of H1 2017, the share of PLN deposits in the entire portfolio of liabilities to customers decreased by 4.7 p.p. to 82.6% y/y, mainly due to the take-over of liabilities of the demerged part of Bank BPH. The other 17.4% of 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 H1 2017.

Geographical structure of liabilities to customers (as at 30.06.2017)

voivodeship	% of liabilities
Mazowieckie	31
Małopolskie	14
Śląskie	9
Dolnośląskie	6
Wielkopolskie	6
Pomorskie	6
Podkarpackie	5
Łódzkie	3
Lubelskie	3
Podlaskie	3
Kujawsko-Pomorskie	3
Zachodniopomorskie	3
Świętokrzyskie	2
Lubuskie	2
Warmińsko-Mazurskie	1
Opolskie	1
TOTAL	100%

The funds deposited with the Bank primarily come from customers from Mazowsze (31%), Małopolska (14%) and Śląsk (9%). Customers from the other voivodeships deposited funds with the Bank accounting for 46% of the entire deposit base.

Financial projections.

The Alior Bank Capital Group did not publish any projections of its financial results.

VIII. Activities of Alior Bank S.A.

Activities of Alior Bank S.A.

Alior Bank is a universal deposit and credit bank, providing services to private individual and business clients, and other entities that are domestic and foreign persons. The Bank's core business covers the maintenance of bank accounts, granting of 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 now involved in the following sectoral segments:

- Individual customers (retail segment) – addressed primarily to mass, affluent and very affluent customers to whom the Bank offers a full range of banking products and services and the products offered by Biuro Maklerskie Alior Bank S.A., in particular credit products, deposit products and investment funds, personal accounts, bancassurance products, transnational services and FX products;
- Business customers (business segment) – for small and medium-sized enterprises and large corporate customers to whom the Bank offers a full range of banking products and services, in particular credit products, deposit products, current and auxiliary accounts, transactional services and treasury products.
- Treasury activity – covers operations in interbank markets and exposures to debt securities. The segment reflects the management results of the global position (liquidity position, interest rate and FX positions resulting from banking operations).

The core products for individual customers are as follows:

- credit products: cash loans, credit cards, current account overdraft facilities, mortgage loans;
- deposit products: term deposits, savings deposits;
- stock broking products and investment funds;
- personal accounts;
- transactional services: cash deposits and withdrawals, transfers;
- currency exchange transactions.

The core products for business customers are as follows:

- credit products: overdraft limits in current accounts, working capital loans, investment loans, credit cards;
- trade finance products: guarantees, factoring, assuming creditors' rights;
- deposit products: term deposits;
- current and subsidiary accounts;
- transactional services: cash deposits and withdrawals, transfers;
- treasury products: FX exchange transactions (also term FX transactions), derivative instruments;
- issues of corporate bonds.

The income from the business segment also covers income from a car loan portfolio.

Reconciliation items covers those that are not allocated to any specific operational segment and exclusions of intragroup transactions, namely:

- internal interest result accruing on the net impairment charges;
- reconciliation of the management presentation of salary costs related directly to sales of financial instruments (incremental costs), consisting in reducing the commission income item in business segments by the amount of incremental costs;

- commission costs not allocated to any business units (e.g. cash handling costs, ATM use costs, costs of domestic and foreign transfers);
- other operational costs and revenues, not related directly to the operation of business segments.

The table below discloses core financial data of the Group split by operational segments as at the end of H1 2017.

(PLN '000)	Individual customers	Business customers	Treasury activities	Total business segments	Reconciliation items	Total Bank
Net interest income	**841 553**	**338 521**	**156 759**	**1 336 833**	**43 516**	**1 380 349**
Net fee and commission income	**90 461**	**120 527**	**-6 205**	**204 783**	**30 182**	**234 965**
Incomes on dividend	**0**	**0**	**0**	**0**	**2**	**2**
Commercial result	**2 511**	**21 589**	**147 483**	**171 583**	**0**	**171 583**
Realised result on other financial instruments	**58 044**	**80 743**	**-137 620**	**1 166**	**0**	**1 166**
Result on other operating incomes and costs	**80 754**	**4 470**	**32**	**85 256**	**-57 004**	**28 252**
Net result before impairment write-offs	**1 073 324**	**565 849**	**160 450**	**1 799 622**	**16 695**	**1 816 317**
Net impairment charges	**-278 700**	**-183 005**	**0**	**-461 705**	**-5 994**	**-467 699**
Net result including impairment write-offs	**794 624**	**382 844**	**160 450**	**1 337 917**	**10 701**	**1 348 618**
Bank's operating expenses	**-803 074**	**-284 868**	**-2 826**	**-1 090 768**	0	**-1 090 768**
Gross profit/loss	**-8 450**	**97 976**	**157 624**	**247 149**	**10 701**	**257 850**
Income tax	0	0	0	0	-75 466	-75 466
Net profit/ loss	**-8 450**	**97 976**	**157 624**	**247 149**	**-64 765**	**182 384**
Assets	35 941 270	25 313 806	31 629	61 286 705	550 373	**61 837 078**
Liabilities	34 561 722	20 845 891	9 661	55 417 274	30 646	

Retail segment

General information

As at 30 June 2017, Alior Bank serviced 3.7 M individual customers. The increase in the number of customers in 2017 resulted from the Alior Bank and the merger with the separated Bank BPH.

The Bank splits its retail customers into the following categories:

- mass customers (persons who have not been classified as affluent customers or Private Banking customers);
- affluent customers (persons with monthly inflows to their personal accounts in excess of PLN 5 thousand or holding assets in excess of PLN 100 thousand):
- Private Banking customers (persons with assets in excess of PLN 1 M or investment assets in excess of PLN 0.5 M).

Distribution channels

As at the end of H1 2017, the bank operated 960 outlets (284 traditional branches – including 7 Private Banking branches and 12 Regional Business Centres and 676 franchise branches). The Bank's products are also offered in the network of 10 Mortgage Centres, 10 cash centres, about 3 thousand outlets of financial intermediaries and 10 thousand of instalment intermediaries.

Alior Bank also uses distribution channels relying on a modern IT platform, covering: online banking, mobile banking and call centres. Over the Internet, including internet banking, the Bank provides for 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. Over the Internet, the Bank also offers instalment loans in an on-line process and the services of an FX exchange office.

Traditional branches of Alior Bank are located in Poland's largest cities and they offer a full range of banking products and services – they constitute the main distribution channel for the Bank's products and services. The smaller franchise outlets are located in smaller towns and in specific locations in Poland's largest cities, offering a broad range of the Bank's services and deposit-loan products for individual and business clients.

As specified above, the Bank's products are also offered in the networks of financial intermediaries like Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines, DFQS, GTF and others. The Bank's offers of products available with financial intermediaries varies by entity but basically such financial intermediaries offer cash loans, consolidation loans, mortgage loans and instalment loans.

The above distribution network is also materially supported with 571 service points offering the Bank's products under the brand of T-Mobile Banking Services provided by Alior Bank. Within those service points, as at 30 June 2017 comprehensive banking services were provided by 58 dedicated T-Mobile Banking Services outlets where the customers may buy such products as: loans, credit cards, overdraft facilities, deposits, FX accounts, accounts for individual and business customers, etc.

Within the Bank's cooperation with Tesco, in Tesco stores offers credit products branded Tesco Finanse.

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

Products and services

The Bank's core products and services for retail customers include:

- credit products: cash loans, instalment loans, credit cards, current account overdraft facilities, mortgage loans;
- deposit products: term deposits, savings deposits;
- bank securities, stock products and investment funds;
- personal accounts;
- transactional services: cash deposits and withdrawals, transfers; and
- 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 the Bank's distribution channels.

Cash loans

The offer of Alior Bank of unsecured credit products for individual customers includes primarily cash loans which may be use for any purpose and to consolidate financial liabilities (consolidation loans).

Cash loans and consolidation loans are characterised with high margins and minimum requirements concerning documentation of income and collateral requirements. Since H2 2016, the maximum repayment period of the products has been extended and now it is twelve years being the most attractive in the market. Individual customers may contract loans up to PLN 200 thousand without guarantors or other collateral. The products are offered in PLN and are addressed to existing and new customers of Alior Bank. The Bank offers cash loans in amount in excess of PLN 200 thousand subject to individual terms and conditions.

In H1 2017 Alior Bank focused its attention related to cash loans on two areas. In the first area, the Bank intensified its promotional activities to attract new customers, inter alia with marketing campaigns addressed to customers who wish to transfer their liabilities to Alior Bank from other financial institutions.

In the period between January and March, the Bank launched a special offer "Carnival loan". Since April the Bank has been offering and promoting a new offer of a "Loan for two" – a new proposal offering preferential terms and conditions for loans contracted jointly with a co-borrower. Since June, the Bank has been foreign an "Internet loan with 0% commission" for web customers.

In March the Bank modified its offer of the Loan for the Agency Channel, having simplified it and adjusted to the needs and requirements of the channel.

The other major area of the CRM initiative was to strengthen relationships with customers by activating customers, upselling additional products and increasing credit exposures. While keeping continued focus on sales of key products, CRM efforts were intensified to develop relationships with instalment customers, improved effectiveness of cross-selling and increased customers' exposures in all profitable segments.

Cash loans are offered in all the Bank's distribution channels. Since January 2017, cash loans can be acquired from the Bank fully on-line.

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 the Bank's outlets (including the part taken over from Bank BPH) have been offering uniform cash and consolidation loans.

Instalment loans

Through external retailers (networks, individual stores, eCommerce), the Bank offers a broad range of instalment loans suited to the expectations of the counterparties and of customers. The standard offer of financing of durables includes unsecured loans for the period of 3 to 60 months up to PLN 30 thousand. Loans are applied for at the sale location of durables and requires minimum formalities and involvement on the part of customers. Responding to the market needs, the Bank offers loans supported solely with customers' statements to conclude loan agreements in a short time. In the internet channel, HO loans are offered round the clock. The Bank has been actively entering new areas like the eco sector (photovoltaic, solar devices, heat pumps), medical sector (aesthetic medicine, dentistry, orthopaedics). It is the Bank's intention to continue cooperation with core retailers in the Polish market in order to ensure its stable and safe development.

Credit cards

The Bank offers credit cards to its retail customers. The Bank has been closely collaborating with its core partner in the credit cards business – MasterCard. Alior Bank offers three types of cards, addressed to various target groups. The Gold card is addressed to the individual mass customer segment while the World Elite card is dedicated to the Private Banking customer segment. Within its cooperation with Tesco, Alior Bank has been issuing the MasterCard ClubCard credit card. The card is dedicated to customers serviced at Tesco Finanse outlets within the Tesco Project. Due to the fact that the cards are offered to various customer segments, they have different features. The World Elite card as a prestigious card is characterised with a high credit limit set on a case by case basis. The card is accompanies with a packet of services – concierge or assistance of a specialised infoline, insurance and Priority Pass – possibility to use business class lounges at airports. With the ClubCard credit card, customers may repay transactions in instalments and use the ClubCard loyalty program operated in the Tesco store chain. Credit limits of the cards range from PLN 500 to PLN 200 thousand depending on the card type. The Bank requires no guarantee or any collateral when issuing such credit cards. All credit cards are chip protected and provide for contactless transactions. Alior Bank grants credit limits in the cards 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 credit cards or credit cards as a single product.

Credit cards are available in three distribution channels (own branches, franchise network and remote sales). Since March, a uniform offer of credit cards has been available in all channels, including those taken over from Bank BPH.

Revolving overdraft facilities

Overdraft facilities mean the possibility of borrowing to the debit of an account. Within the approved limit, debt 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 thousand 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 H1 2017 the Bank offered a broad range mortgage loans to cover housing needs and for any consumer needs, with repayment periods up to 30 years.

In H1 2017 Alior Bank actively and effectively participated in the sale of loans under the government program "Home for the Young" (MDM). Loan sales under the program accounted in 2017 for 20% of overall sales of mortgage loans (in terms of value). The material part of the loan portfolio under the MDM program results from efficient organisation of the supporting services with a technologically advanced process for MdM loans as well as the MdM Plus offer addressed to that group of customers. The MdM Plus offer supports the financing of housing needs that have not been covered with the catalogue of purposes specified in the laws regulating the MDM program.

Alior Bank focuses on selling mortgage loans via its specialised units – Mortgage Centres – dedicated to support intermediaries in the sphere of mortgage loans. The Mortgage Centres operates in Warsaw, Kraków, Wrocław, Poznań, Łódź, Gdańsk, Szczecin, Katowice, Lublin and Olsztyn. The sales of mortgage loans via the Mortgage Centres in H1 2017 accounted for 69% of the sales of Alior Bank (in terms of value). The other sales are carried out in branches of Alior Bank.

As a result of the merger with Bank BPH SA, Alior Bank took over the handling of the Mortgage Savings.

As a result, Alior Bank is authorised to maintain named savings and credit accounts and to grant contractual loans within the operation of the Mortgage Savings.

Deposit products

Term deposits

The Bank offers two types of deposits to its retail customers: standard deposit with fixed interest rates (1, 3, 6, 12 and 24 months and occasionally offered for other terms) or 12- and 24-month deposits without losing interest after the first renewal, maintained in PLN and selected terms for certain currencies. The offer also includes deposits in EUR, USD, GBP, CHF, at fixed and variable interest rates. The deposits may be renewed (customers may elect if the renewal will relate to the principal and 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. Customers interested in depositing larger amounts may resort to the offer of negotiated deposits – both the term and interest rates are negotiated individually.

In H1 the Bank renewed a promotion of deposits for new funds. The offer related to a period of 120 days and 92 days and new funds above a balance deposited as at the day the base is generated earn attractive interest rates.

Simplifying its offer, the Bank withdrew a special offer of deposits dedicated to customers who open an Internet account, Konto Rozsądne or Konto Wyższej Jakości and at the same time open a two-month deposit within 30 days of opening the personal account.

Customers looking for opportunities to deposit larger amounts may obtain individual interest rates and deposit terms in negotiated deposits.

Customers interested with investment products are offered a four-month deposit in a packet with investment products and insurance and investment products.

Savings accounts

The Bank offers PLN-denominated savings accounts to its retail customers. Funds deposited in savings accounts earn interest at WIBID1M reduced by 0.5 pp. The promotional offer for new customers, the interest rate applicable to savings accounts remains fixed for 3 months from opening. Savings accounts may be opened at a Bank's outlet and via internet banking. Individual customers of the Bank holding savings accounts have access to payment cards (MasterCard Debit cards).

Additionally, the Bank offers savings accounts for customers who filed effective applications for child rearing benefits (Family 500+) with a preferential fixed interest rate for 12 months.

Deposit products for retail customers are available in all Bank's distribution channels.

Additionally, for selected customer groups the Bank offers a promotion "Savings accounts for active people". The offer is to increase the customers' activity and to this end it rewards 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.

Bank securities

Bank securities are dedicated primarily to retail customers. The minimum investment amount is PLN 3 thousand. The interest rate is subject to indices, stock prices, investment funds, commodities and currencies that are used as the underlying. The most popular product includes issues relying on a basket of companies where profit is determined as the sum of the actual rates of return – however, the maximum profit of each company in the basket is limited to 15-18% while the maximum loss to -15%. Company baskets for each issue were relying primarily on companies in the sectors of new technologies, retail (foodstuffs and clothing), motor industry. In addition to products relying on company baskets, products are also offered that are based on valuation of units in investment funds. As a rule, investment products for individual customers are 100% guaranteed in terms of principal with the exception of units limiting customers' risk to minimum 98% or 95%, offered primarily to affluent customers.

In H1 2017, the Bank within its first issue program of bank securities, Alior Bank issued securities with the total nominal value of over PLN 540 M. The securities are offered in public offerings to corporate customers, Private Banking customers and individual customers.

Savings and current accounts

In H1 2017 the Bank offered the following types of personal accounts: Konto Wyższej Jakości [High Quality Account], Konto Internetowe [Internet Account] and Konto Rozsądne [Reasonable Account]. Konto Wyższej Jakości is characterised with a guarantee of fixed fees for 5 years and he account will be free as long as minimum PLN 2,500 is transferred to the account monthly or transactions are made with a payment card for minimum PLN 700 monthly. Holders of Konto Rozsądne are refunded up to PLN 400 of annual amounts spent with a card for foodstuffs. The account is free for active customers as long as their salary is transferred to the account.

Konto Internetowe is maintained free of charge without any additional conditions. The additional advantages include free ATM withdrawals (Euronet and abroad), internet transfers, European transfers and issue of cards to the account.

Konto Elitarne [Elite Account] is dedicated to Private Banking segment customers holding assets in excess of PLN 400 thousand or using financing in excess of PLN 1 M. The Bank charges no fees for services and transactions related to the account.

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.

The offer of personal accounts is complemented with FX accounts in four core currencies: USD, EUR, CHF, GBP.

In order to simplify the offer, in H1 2017 the offer of accounts was withdrawn within the business taken over from Bank BPH and the accounts offered by Bank BPH were migrated to the offer of Alior Bank, as close as possible to the previous offer and most advantageous for customers. Additionally, in March 2017 certain fees were changed for holders of Konto Alior Rachunki Bez Opłat [Alior Account with no Fees] and Konto Internetowe [Internet Account]. Additionally, the refund for foodstuff purchases in Konto Rozsądne was reduced from 3% to 1.5% monthly.

Transactional services

The Bank offers a full range of transactional services, including cash deposits and withdrawals, cash deposits to accounts with the Bank and with other banks and transfers (including transfers to ZUS and tax offices). In mid-year, the service of AndroidPay was introduced supporting payments with applications on mobile phones and a token payment card.

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, CHF. The Bank also offers the possibility to exchange currencies via dedicated transactional 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.

New products and services

In H1 the major new products and services in the commercial offer of the Alior Group for the individual customer segment included:

- implementation of the video verification process with which users at their homes may open accounts remotely in the video process;
- implementation of the on-line sale process of loan sale;
- the seasonal promotion "Carnival offer" (January-March) being a sale offer in two variants: PLN 10 thousand for 24 months and PLN 20 thousand for 36 months at an attractive interest rate and a commission reduced by 50% (versus the standard offer);
- cash loans/consolidation loans "Loan for Two" or a proposal of a loan for minimum two co-borrowers (they do not have to be related) with a reduced interest rate by 50% of the interest rate versus the standard offer – to 4.74%;
- "Internet loan with 0% commission" dedicated to customers who look for an offer in the Internet and complete an on-line contact form with the agreement may be signed in a branch or via courier service.

In H1 2017 Alior Bank continued to participate in the government Family 500+ program providing for a systemic support to Polish families enabling the Bank to complete an application for Family 500+ and filing it via the Internet banking system of Alior Bank. Additionally, the Bank retained an offer dedicated to people filing applications of a savings account with an attractive interest rate up to PLN 6 thousand in the period of 12 months from opening.

Retail segment areas

Additionally, within the retail segment, the Bank offers Consumer Finance products.

The offer of Alior Bank related to instalment loans (Consumer Finance) is available in all 3 sales channels: stationary (about 15 thousand stationary counterparties of the Bank), door-to-door and on-line. In 2016-2017 sales were fastest growing in the stationary channel and in the Internet; in the direct channel, sales levels remained at a stable high level.

The Bank pursues and intends to develop is activity in instalment loans in cooperation with its core partners such as: RTV Euro AGD, Terg (Media Expert), PayU, Allegro, Agata Meble, BRW, Komfort, Philipiak, Vorwerk, Empik "Szkoły językowe", Zepter, Komputronik, Bodzio, Media Markt and Saturn. Additionally, a very strong position is maintained in the agency market which supports the reaching of smaller local retailers.

As a result of the above activities, in 2016-2017 Alior Bank successively developed its customer base which supports further development of cooperation and sales of other products.

CRM activities addressed to customers acquired via the instalment channel result in increased sales of other products.

Development of innovative solutions and entering new sectors are material factors supporting the above.

Private Banking

The Private Banking offering is earmarked for most affluent individual customers, willing to deposit assets with the Bank in excess of PLN 1 M or investment assets in excess of PLN 500 thousand. The customers are serviced by seven specialist Private Banking branches: two branches in Warsaw, one in each of Katowice, Poznań, Kraków, Gdańsk and Wrocław.

As at 30 June 2017, the Private Banking department and branches employed 76 persons who – on the basis of a broad range of investment and credit products – have developed financial solutions suiting their customers' needs.

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

Non-financial assets of active Private Banking customers called PB Wealth Care are operationally handled by Alior Services Sp. z o.o. whose is to establish contacts with commercial partners providing such services as legal and tax consulting and alternative investments.

Stock brokerage activities

The Bank is involved in stock broking activities through the Brokerage Office of Alior Banku as an organisationally separate unit in Alior Bank and offers its services via outlets of Alior Bank and over remote distribution channels – both the telephone channel of the Contact Centre of the Brokerage Office and via the Internet brokerage system integrated with the Internet Banking System of Alior Bank, mobile application Alior Giełda and transactional platform Alior Trader.

The Brokerage Office of Alior Bank pursues brokerage activity on the basis of the Act on Trading in Financial Instruments and permits of the Polish Financial Security Authority, in particular in the following areas:

- receiving and transfer of purchase and sale orders of financial instruments;
- execution of purchase and sale orders of financial instruments on account of principals;
- purchase or sale of financial instruments on its own account;
- investment advisory services;
- offering of financial instruments;
- safekeeping and registration of financial instruments, including maintenance of securities accounts and maintenance of cash accounts;
- making investment analysis, financial analysis and other general recommendations relating to transactions in financial instruments; and
- acting as a market maker.

On 27 March 2017 there was a merger of operations of Alior Bank S.A. with the demerged part of Bank BPH SA., as a result of which there was also an operational merger of the brokerage activities of the Brokerage Office of Alior Bank S.A. and the brokerage activity of the demerged part of Bank BPH SA.

As at 30 June 2017 the Brokerage Office of Alior Bank maintained 140.8 thousand brokerage and deposit accounts and the value of customers' assets in the accounts was PLN 9.5 billion.

As at 30 June 2017, Alior Bank cooperated with eighteen investment fund companies (TFI) with respect to open-end investment funds (FIO) and twenty TFIs with respect to closed-end investment funds (FIZ). The assets collected in FIO products via Alior Bank amounted to over PLN 2.35 billion as at the end of June 2017. Assets collected in FIZ products via Alior Bank amounted to about PLN 1.56 billion as at 30 June 2017. The total assets collected in investment funds via Alior Bank amounted to over PLN 3.92 billion as at the end of June 2017. Additionally, the Brokerage Office of Alior Bank – in cooperation with Money Makers – offers asset management services.

In October 2014 the Brokerage Office of Alior Bank launched an offer of portfolio investment advisory services within which it recommends to its customers portfolios of investment funds, stock and mixed instruments, in the basis of an individual assessment of the customers' condition. In June 2017 the Brokerage Office expanded its offer with single-fund investment advisory services, represented by recommended Alior SFIO funds. As at 30 June 2017, the Brokerage Office of Alior Bank held 7.8 thousand active agreement for investment advisory services.

As at 30 June 2017 the Brokerage Office of Alior Bank S.A. acted as market maker for 45 issuer and for 67 financial instruments.

Co-operation with third parties to attract retail customers

T-Mobile Usługi Bankowe [Banking Services] is a strategic partnership between Alior Bank and T-Mobile Polska, for the provision of banking services to individual customers under the T-Mobile brand. For almost three years when the cooperation started, T-Mobile Usługi Bankowe has been generating very good financial results, a solid growth of the loan portfolio (a growth by 60% after H1 y/y), growing revenues (52% of growth after H1 y/y) and continuously improving profitability. The cooperation between Alior Bank and T-Mobile has been focusing on attracting new customers and development of its loan portfolio by offering a broad range of banking services and delivering most modern mobile and internet banking services to customers. The business model is based on remote banking, without its own outlets and cash services, supported with innovative products and online processes as well as new mobile and internet banking, resulting in effective sales, services and product cross-selling.

T-Mobile Usługi Bankowe has one of the best retail offers in the market (Premium and Freemium personal accounts, an offer of 3% profit for funds in the savings account or credit card with exceptional benefits for customers, e.g. Help Measured with Kilometres. In H1 2017 the offer was expanded with a new credit card – Mastercard Travel addressed to travellers, providing additional benefits of a 5% refund for foreign payments with the card of a voucher for PLN 250 to be used in the Fru.pl portal. Additionally, a joint packet of services was implemented for customers of T-Mobile and T-Mobile Usługi Bankowe, combining Pre-paid and Mix with banking products, fully integrated in sales processes, providing for opening a bank account or for financing of telecommunications devices at each T-Mobile outlet.

Business segment

General information

As at 30 June 2017, Alior Bank serviced over 182 thousand customers in all segments. The Bank divides its business customers ("business customers") into four basic groups, primarily by the scale of their business operations:

- Micro – entities with sales revenues for the last financial year or credit exposure not exceeding PLN 5M,
- Small – entities with sales revenues for the last financial year or credit exposure in excess of PLN 5 M up to PLN 20 M,
- Medium-sized – entities with sales revenues for the last financial year or credit exposure in excess of PLN 20 M up to PLN 60 M,
- Large – entities with sales revenues for the last financial year or credit exposure in excess of PLN 60 M.

Alior Bank has comprehensive offers for business customers – including the smallest companies that begin their business operations with a dedicated offer available at www.zafirmowani.pl as well as large business entities using technologically advanced deposit and transactional solutions as well as EU funding. Alior Bank stands out with its broad offer for companies operating in the agri and food sector.

The Bank's active efforts supporting micro enterprises are carried out inter alia via the open web portal – www.zafirmowani.pl. The portal provides information combined with a packet of tools supporting business operations.

In the portal, the Bank cooperates with specialists in the spheres of taxes, HR, marketing and security, lawyers and economists. Entrepreneurs may ask questions to experts and obtain assistance related to the establishment and operating a company. The portal provides a basis of documents required in every company, e.g. templates of employment contracts, contracts for specific work, draft loan agreements, commission contracts. The portal offers the advantage in the form of free accounting online services (from a computer, tablet, smartphone) which covers invoice issuing, accounting for depreciation/amortisation, monitoring of payments and automatic generation of tax returns. External companies are regularly invited to cooperate with the portal that develop special offers and rebates for their products and services. Now rebates are offered e.g. for insurance by LINK 4, T-Mobile services or even free investment audit by EBDF, specialised in attracting EU funding.

The relations between the Bank and its business customers are covered with framework banking services agreements. The framework agreement replaces agreements related to the use of internet banking, opening and use of accounts, us of debit cards, opening term accounts, use of autodealing (bank web platform supporting customers in executing various types of FX transactions and negotiations of deposit terms and conditions). Such framework agreements reduces the formalities related to the use of banking products offered by the Bank to an absolute minimum.

The table below presents – as at the dates specified therein – the volume of receivables from business customer segment and financial obligations to business customer segment.

'000 PLN	H1 2017	2016	H1 2016	2015
Loans and advances to customers	22 125 695	20 382 965	14 752 632	13 311 743
Due to customers	19 871 148	19 333 312	13 432 244	12 254 467

Distribution channels

Micro, small and medium-sized companies are serviced in 266 branches of the Bank. Additionally, micro enterprises have access to 676 franchise outlets. Corporations are serviced by Regional Business Centres and large companies by Large Company Centres, located in the Bank's head office in Warsaw. Each business customer may use any branch of the Bank, irrespective of the place where the account is actually maintained. The Bank's business customers are serviced via telephone banking and distribution channels using new technologies, in particular the internet banking system and the mobile banking system.

The services are provided by branch employees. Additionally, business customers are supported by experienced experts from the Trade Finance Section, the Treasury Department and since last March – also the Transactional Banking Sales Section. The experts are located all over Poland and support customers in setting the structure of their transactions, both with respect to current transactions: factoring, guarantees, housing custody accounts, currency exchange as well as transactions hedging FX risk, commodity and interest rate risk, any by implementing specialist products and service in finance management, suited to their needs.

Alior Bank offers to its customers an extended on-line banking system supporting the monitoring and management of core accounts and ancillary accounts, payment and credit cards, and making all kinds transfers. Additionally, within the BusinessPro System, business customers of the Bank can use special solutions - internal fully integrated with the Alior Bank Internet banking system of the financial accounting (BankConnect module) or authorization of transactions with the use of electronic signature. BusinessPro also provides customers with advanced transaction banking (mass payment processing, direct debit, cash in closed form) and trade finance products (letter of credit, collection, factoring). With the online banking system, customers also have the option of using broker accounts and a platform for negotiating exchange rates.

Products and services for business customers

The core products for business customers are as follows:

- accounts, settlements and deposits: business accounts; cash management services; and additional products like POS payment terminals, a free accounting application within the www.zafirmowani.pl portal;
- loans for business customers: working capital loans; investment loans; loans for technological innovations, promises and EU loans, loans dedicated to Agri customer, leasing; instruments supporting EU funding and public programs like: de minimis guarantees of Bank Gospodarstwa Krajowego; and Cosme Guarantees;
- products and services for corporations: liquidity management services; trade finance products; structured loans; non-public and public issues and bond issue programs.

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. For micro enterprises, Alior Bank offers inter alia iKonto Biznes, accounts for individual entrepreneurs opened via the Internet, supported with a fast process of customer identity verification with a transfer from the customer's personal account or via courier service. In June 2017 the application was automated and thus account opening is even simpler and faster. It is sufficient to provide personal data and the company details will be downloaded automatically, from the Central Electronic Register and Information on Economic Activity. The core account that is offered 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. The services of current business are also expanded with Rachunek Wspólnota [Community Account] dedicated to local housing communities and packets to the account with a POS payment terminal or a service to design web sites. The offer is completed with Rachunek Bezpieczny [Safe Account] providing for health and life protection of entrepreneurs and their facilities. Rachunek Bezpieczny is a unique combination of a current account for customers who are sole proprietors with insurance. The product is offered to entrepreneurs who wish to get protected against financial consequences of accidents. The account 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.

Alior Bank also offers accounts for customers who maintain full accounting records. Rachunek Optymalny [Optimum Account] provides for the optimisation of services and the applicable terms and conditions. The standard products include Rachunek Komfort and Rachunek Profil where the customer selects a packet of products and services in line with their business profile – with stress on domestic, foreign transactions or cash handling.

The Bank further offers the possibility to deposit funds in PLN deposit accounts, standard and negotiated term deposits in PLN and foreign currencies.

Business customers have access to multiple cash management products and services, supporting daily transactions in companies.

As a result of the combined offers of Alior Bank and Bank BPH, the offer of transactional banking products was unified. The most important new products that were added to the offer include for instance: direct debit for buyers which consists in an automatic debit to the debtor's account with liabilities for the provided products or services or automatic cash withdrawals to make cash withdrawals at the Bank's branches on the basis of an ID document submitted by the beneficiary. Additionally, the functionalities were extended by closed cash deposits, balance consolidation and group net balances as well as functionalities of payment cards – contactless payments, AndroidPay, FX cards. Alior Bank in cooperation with the Electronic Clearing Centre Polskie ePłatności provides acceptance services of payment cards with use of POS terminals.

Loans for business customers

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

The credit offer of Alior Bank, developed to finance current and investment needs, is addressed both to micro enterprises, including entities commencing business activities as well as small, medium-sized and large enterprises.

The Bank's operations in the micro enterprise segment relies on a fully standard credit offer for entities commencing their business and enterprises with market history – a comprehensive financing offer of current and investment needs. Working capital and investment loans are the leading products in the segment – they are characterised with a simplified sales process up to PLN 1 M and dedicated pricing conditions for customers in privileged sectors performing public trust professions. To micro enterprises the Bank offers a multi-product credit packet, 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. Since April 2017, the customers have had an opportunity to use collateral in the form of COSME guarantees.

Within a credit packet, customers get a comprehensive offer covering deposit and clearing products as well as short- and long-term financing, suited to their needs. Loans to the micro segment are sold by the Bank via its own branches, franchise outlets and financial intermediaries cooperating under agency agreements with the Bank. Within the centrally managed team of Virtual Bankers, we provide micro segment customers with comprehensive services and purchase of new loans for the enterprises over the phone. The process is based on assessing the creditworthiness on the basis of financial documents delivered by e-mail and finally confirmed at signature of the loan agreement.

Small, medium-sized and large enterprises have access to a very specialised product offer, ensuring more flexibility in structuring their optimum financing. Additionally, the sales structures by attracting new customers, may use a dedicated product to transfer financing from other banks subject to preferential terms and conditions.

Alior Bank has been actively developing its financing offer of entities in the agri and foodstuff sector, adequately to the varied legal forms and types of business operations. At the end of June 2017, Alior Bank serviced over 4.2 thousand customers involved in agri business. For individual farmers, also those who are not subject to the Accounting Act, are offered financing of their current activities with a possibility to suit the repayment schedule to the seasonal nature of agri production. Entities maintaining full accounting records or simplified accounting records and groups of agri producers are also offered produce purchase loans. The loan portfolio in the agri and food sector as at 30 June 2017 exceeded PLN 2.9 billion.

Alior Bank extended its offer to business customers in the agri and foodstuff sector with professional analytical reports and the AgroConcierge service.

With the reports: AgroPrzegląd, AgroTelegram and AgroPrzedsiębiorca, customers interested in the functioning of the agri and foodstuff sector may have access to current and reliable information to manage agri business.

Special attention should be paid to the personalised AgroPrzedsiębiorca report which is an comprehensive analysis of the customer's business versus other companies operating in the same sector. The report is developed by the Institute of Agricultural and Food Economics.

Additionally, Alior Bank as the sole bank in Poland, provided its business customers operating in the agri and foodstuff sector with the AgroConcierge service. Enterprises may commission the search of domestic and global market data a required to manage their agri business and the bank will verify the availability and reliability of such information.

Another important product that affects the volume of lending to business customers is the program of Bank Gospodarstwa Krajowego (BGK), supporting entrepreneurship in the SME segment. De minimis guarantees increases the availability of financing for companies and inter alia provides for lending to enterprises without tangible collateral. Alior Bank has been actively offering of the sales of BGK's de minimis guarantees which placed it as a leader in the sales of loans secured with the de minimis guarantees PLD and OP IE (the program was closed in January 2017, the Bank was ranked third among 10 banks involved in the program. Additionally, COSME guarantees are also available in the credit offer which are an alternative for entrepreneurs who have exhausted their available de minimis assistant and may not or do not intend to resort to de minimis guarantees. The handling program of the de minimis guarantees at Alior Bank was individually verified by the Supreme Audit Office (NIK) in 2014 ended with a positive opinion issued by NIK. On 29 May 2017 The Bank signed an agreement with BGK pursuant to which it will soon extend its offer with loans for innovative SME enterprises with a guarantee financed from the OP SG Fund.

Alior Bank is a partner to the European Investment Fund and received a guarantee line of PLN 250 M to finance entities commencing their business operations. Young companies may resort to financing o their current and investment needs up to PLN 100 thousand with a guarantee from the European Investment Fund.

In view of the development of its business customers, Alior Bank has been continuing its campaign supporting entrepreneurs in the use of EU funding from the EU programs for 2014-2020. Actions are under way to inform customers and the sales network of the current competitions in specialist programs. In cooperation with an external partner, we have provided our business customers with opportunities to be freely audited so that entrepreneurs get information on individually available operational programs.

Further, Alior Bank provides its business customers with the services of Alior Leasing. Enterprises may select: operational, financial leases and lease loans. With the offer of Alior Leasing, companies may use the most popular forms of funding fixed assets that are required for their functioning and development. With such products as: operational, financial lease and lease loans, customers get easy and fast access to machines or equipment without the need to commit their own funds.

Products and services for corporations

The offer of Alior Bank for corporations 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 and the Large Corporation Department closely cooperate with the Debt Issue Section, Structured Loan Section, Trade Finance Sector and Transactional Banking Sale Section to ensure the best adjustment of the offer to the actual needs of customers.

To corporate customers, Alior Bank offers such trade finance products as: guarantees, letters of credit, recourse factoring and assuming creditors' rights on the basis of cooperation agreements. Apart from the above products, Alior Bank also offers structured loans with terms and conditions suited to specific transactions and collateral. Structured loans are used to finance imports and exports of goods and raw materials as well as purchases and sales of goods and raw materials in the domestic market. The core collateral that Alior Bank applies to structured loans to finance imports and exports include for instance assignment of contractual receivables, assignment under export L/Cs, assignment under bank payment guarantees, assignment of rights under insurance policies and transfer of title to the goods.

Additionally, Alior Bank offers structured loans to finance property projects, project finance (including investments in renewable energy, infrastructural projects, construction of production facilities, etc.) and mergers. The core collateral applied by Alior Bank for such loans include mortgages, assignment under revenue generating contracts, pledges on movable assets and interests in companies. Alior Bank also grants loans in cooperation with other banks within bank syndicates – as a participant or arranger.

Corporate customers also have access to a broad offer of modern products and cash management services. Cash management products can be used via the internet banking system BusinessPro.

Alior Bank organises non-public or public issues (in cooperation with the Brokerage Office of Alior Bank) and bond issue programs for its klients. The product supports customers of Alior Bank in diversification of debt funding sources, in obtaining attractive funding in terms of costs, collateral or repayment schedules, while the issuers can have their bonds traded at Catalyst operated by WSE or BondSpot S.A. As part of bond issue arrangement, Alior Bank operates as an issue agent, dealer/offering party (Brokerage Office of Alior Bank), payment agent/calculation agent and depository.

New products and services

In April 2017 the Bank provided access to COSME guarantees to customers interested in credit packets. The guarantee covers 80% of the loan amount. Starting from December 2014, the Bank has been developing services from outside its basic service packet, developing offers on the basis of third party products and services. Those are service packets covering inter alia cash registers and payment terminals, stationary and mobile (mPOS).

The Bank has also been developing an offer supporting enterprises in using EU funding from the 2014-2020 perspective.

The new items in the Bank's offer for business customers also include:

- Rachunek Bezpieczny – a unique combination of a current account for entrepreneurs who are sole proprietors with insurance.
- Combination of an application for iKonto Biznes with the Central Electronic Register and Information on Economic Activity – as a result, the account opening process is simpler and faster. The entrepreneur provides solely their personal data while the company data is automatically downloaded from CEIDG.

Treasury activities

Alior Bank pursues its treasury operations inter alia in the following areas:

- FX transactions, starting from spot transactions to complex optional 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 FX and interest rate risk of Alior Bank with transactions in the interbank market, including inter alia with FX spot/forward transactions, interest rate swaps and options and commodity derivative instruments; and
- hedge accounting – hedging 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.
- custody activities – acting as depository or sub-depository for investment and pension funds.

The Bank manages FX and interest rate risk by entering into derivative contracts such as FRAs, interest rate swaps and base swaps (CIRS). All interest rate and FX positions are managed online within appropriate limits. The Bank has been granted treasury limits with 13 domestic and 17 large international banks to settle FX, interest rate and interbank market transactions and options.

The principle of non-committing the bank's own funds into transactions in financial instruments will continue to be a strategic protection method against 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. The Management Board will continue cooperation with a majority of leading banks involved in FX transactions worldwide in order to ensure the effectiveness and adequate access to FX and interest rate products for the Bank's customers – even if the volume of customers' transactions grows much above the level anticipated in the Bank's strategic plan.

Last march, as a result of the Operational Merger of the systems of Alior Bank and ex-BPH, treasury services were combined with respect to processes, systems and HR resources. The merger generated the anticipated synergy effects while maintaining the customer and transactional base.

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 revenues respectively. Alior Bank uses transactional platforms subject to non-exclusive licence agreements for specified periods with the earlier one expiring in 2018.

Autodealing is a service available to both business and individual customers, directly in internet banking. After the operational merger, the platform was fully integrated with the internet banking system for business customers BusinessPro. The platform supports the conclusion of spot and term FX transactions subject to attractive terms and conditions and the 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 customers using Autodealing via BusinessPro: CZK, NOK, SEK.

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 round the clock, 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 platform is accessible for business customers using both the internet banking system of Alior Bank and the BusinessPro system for business customers.

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. 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 free at branches of Alior Bank (PLN, EUR, USD, GBP). Customers may open free accounts in 14 currencies; new accounts are opened remotely on the basis of instructions confirmed with SMS codes. The entire operations takes only a few seconds and when the account is opened, customers get access to preferential exchange conditions for new currencies.

New material products and actions

On 7 August 2015 Alior signed an agreement with the Romanian operator Telekom Romania Mobile Communications from the Deutsche Telekom Group. Thus the Bank extended its strategic alliance with the global telecommunications operator by another Central European market.

Telekom Romania Mobile Communications is a member of the Telekom Romania Group, the largest integrated telecommunications operator in the Romanian market. The group offers comprehensive, modern services of stationary and mobile telephony, Internet and TV as well as solutions for business. Telekom Romania Mobile Communications operates under the T-Mobile brand and serves now 6 million customers.

On 14 January 2016 the National Bank of Romania (Romanian banking regulator) registered Alior Bank S.A. Varsovia – Sucursala Bucuresti as a branch of a foreign credit institution within the meaning of Directive 2013/36/EU, under number RB-PJS-40-071/14.01.2016.

On 18 July 2016, Alior Bank S.A., Branch in Romania, started operations and became a fully-fledged participant in the Romanian banking market. This is a major element of the initiative pursued jointly by Alior Bank and Telekom Romania Mobile Communications to implement a model similar to the cooperation between Alior Bank and T-Mobile Polska S.A. Alior Bank also intends to open in Romania additional business channels and acquisition channels, apart from its cooperation with Telekom, for instance: FX Exchange office, cooperation with brokers, on-line sales and potential cooperation with other partners.

In 2016 the Branch recorded a tax laws and therefore paid no income tax. Due to the fact that the loss may be accounted for in the future, a deferred income tax asset was established.

Capital investments

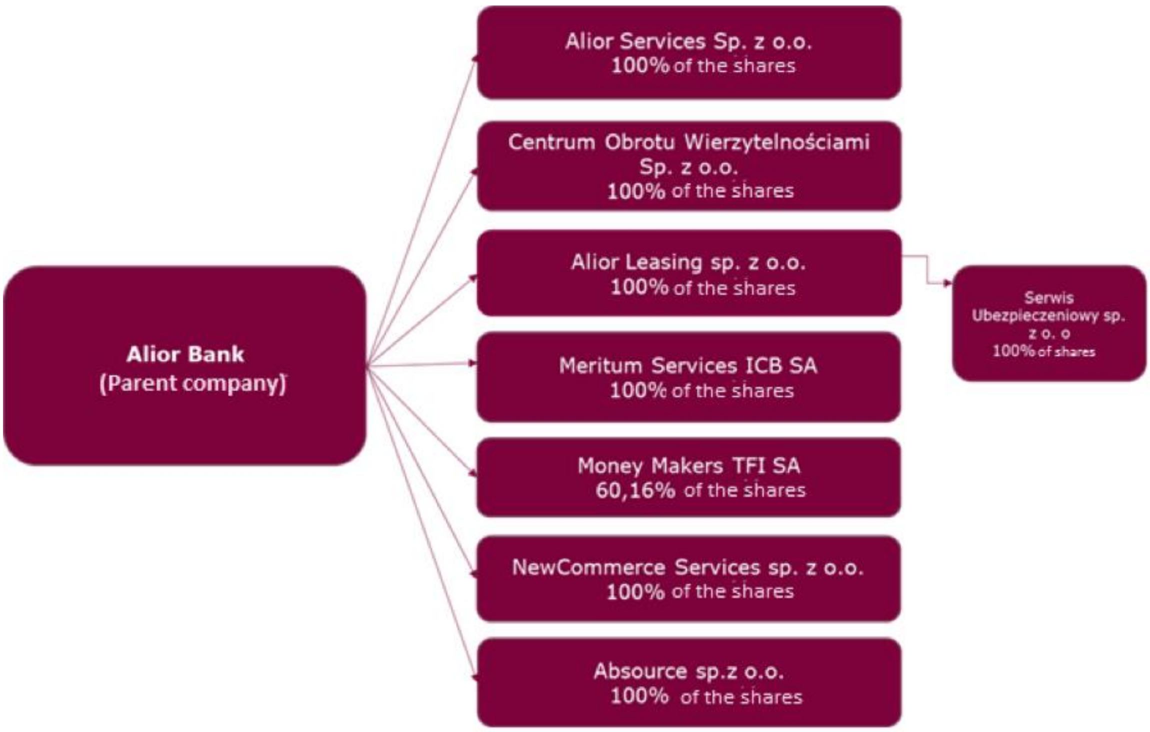
Capital investments of Alior Bank are presented in the table below. All securities have been acquired with the Bank's own funds:

- Stocks:
  - 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 stocks 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 30.06.2017		status as at 31.12.2016	
	number	market value / nominal in PLN	number	market value / nominal in PLN
Stocks	**625 520**	**3 368 315**	**929 552**	**6 743 293**
Listed	616 720	3 368 315	827 362	6 739 784
Not listed	4 400	4 400	102 190	3 509
Bonds	**3 278**	**221 721**	**3 129**	**828 882**
Derivatives	**679**	**2 290 990**	**1 981**	**5 820 560**
Investment cetrificates	**8 455**	**1 266 918**	**6944**	**6596**

IX. Operations of the companies in the Alior Bank S.A. Capital Group

Alior Bank S.A. Capital Group as at 30 June 2017



The Alior Bank S.A. Capital Group as at 30 June 2017 was made up of: Alior Bank S.A., as the parent entity and subsidiary companies in which the Bank holds majority interests. In the reporting period, there was no change to the structure of the Alior Bank S.A. Capital Group.

The consolidated financial statements of include the financial statements of the Bank and financial statements of the companies listed below. The Bank reviewed its control in line with IFRS 10 and identified its status as the parent entity vis-a-vis the following entities. All subsidiary companies are fully consolidated.

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. has the following objectives:

- use of sales opportunities of non-financial products and services;
- expansion 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:

- search for and attracting external parters to cooperate in the offering of non-banking services;
- supporting customers and external partners in establishing business contacts;
- insurance agency services.

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 core business of Centrum Obrotu Wierzytelnościami Sp. z o.o. is to trade in receivables acquired from Alior Bank. The company was set up to optimise the process of receivables sale by Alior Bank.

Alior Leasing Sp. z o.o.

Alior Bank 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.

By resolution of 13.01.2017, the Extraordinary General Meeting decided to increase the Company's share capital from PLN 15,001,000.00 to PLN 15,002,000.00. The Bank as the sole shareholder acquired the newly issued share. The capital increase was registered by the registration court on 27 February 2017. By its resolution of 16.03.2017, the Extraordinary General Meeting decided to increase the Company's share capital from PLN 15,002,000.00 to PLN 15,003,000.00. In that case, the Bank as the sole shareholder also acquired the newly issued share. The capital increase was registered by the registration court on 15 May 2017.

The mission of the company is to provide the best leasing solutions that respond to the expectations of today's companies looking for a comprehensive leasing offer, tailored to their individual needs. With the offer of Alior Leasing, companies may use the most popular forms of funding fixed assets that are required for their functioning and development. With such products as: operational, financial lease and lease loans, enterprises get easy and fast access to means of transportation, machines and agricultural and construction equipment. Alior Leasing operates a large Sales Network, covering both customers of Alior Bank and companies that are not yet serviced by the Bank.

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 business of the company was extended by operations of insurance agents and brokers, activities related to risk assessment and estimation of incurred losses, other activities supporting insurance and pension funds.

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.

Money Makers TFI S.A. was set up in 2010 and originally the company as a brokerage house provided services related to asset management. Since July 2015, after transformation, the company has been operating as an Investment Fund Company. 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.

On 15.12.2016, Money Makers TFI S.A. filed an application to admit 7,870,840 shares of the Company to trading in the NewConnect market operated as an alternative trading system by the Warsaw Stock Exchange. As a consequence of the application, on 5 January 2017 the shares of Money Makers TFI S.A. debuted in the NewConnect market.

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.

By resolution of 07.06.2017, the Extraordinary General Meeting decided to increase the Company's share capital from PLN 200,000.00 to PLN 300,000.00. The Bank as the sole shareholder acquired the newly issued share. The capital increase has not been registered by court yet.

Now the company is involved in financial agency services.

Absource Sp. z o.o.

On 31 March 2016 the following company was set up: Absource Sp. z o.o. 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:

- services related to IT and computer technologies;
- Activity related to IT consulting
- computer programming activities

The activity of Absource Sp. z o.o. focuses on the provision of IT software and other IT services for Alior Bank.

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

Operational merger

Between 24 and 26 March 2017, the last stage of the merger of the Bank with the Core Business of Bank BPH was closed – an operational merger consisting in the transfer of the data of over 2,700 thousand customers of the Core Business of Bank BPH to the Bank's IT systems. The operational merger, ending the integration process from customers' perspective, means full unification of customer services in terms of access to branches and transactional systems by transfer of data and product handling to the Bank's IT systems.

Transactions between entities of the Alior Bank S.A. Capital Group – conclusion of a material agreement

On 10 March 2017 an agreement was concluded between Alior Bank SA and its subsidiary company Alior Leasing Sp. z o.o. concerning a packet 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 869,000.00 thousand.

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

On 13 March 2017 the Management Board of Alior Bank SA decided to publish the core assumptions of the "Strategy of Alior Bank for 2017-2020", approved by the Bank's Supervisory Board.

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

On 14 March 2017 the Supervisory Board of Alior Bank SA approved a resolution to issue to Members of the Bank's Management Board deferred tranches of financial instruments within the Managerial Option Programs 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 Program related to a share issue with pre-emption rights:

- 78,626 series A subscription warrants at the exercise price of PLN 61.84 and 46,542 phantom shares attached to them at the exercise price of PLN 50.43;
- 84,374 series B subscription warrants at the exercise price of PLN 64.65 and 46,000 phantom shares attached to them at the exercise price of PLN 52.72;
- 94,060 series C subscription warrants at the exercise price of PLN 66.06 and 47,623 phantom shares attached to them at the exercise price of PLN 53.87.

Information about the final settlement of the purchase price between Alior Bank and the Sellers of Bank BPH

So far the parties to the transaction have not reached agreement as to the final settlement of the purchase price. The Share Sale and Demerger Agreement provides in such situation that any differences between Alior Bank and the Sellers of Bank BPH will be resolved by an expert that will be an auditing company retained in compliance with the Share Sale and Demerger Agreement.

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.

Statements on share acquisition, execution of the Managerial Option Program for 2013, 2014 and 2015

Within the Managerial Option Program for 2013, 2014 and 2015, the Bank plans to commence the procedure to increase the Bank's share capital by way of a conditional capital increase by issue of new series D, E and F ordinary bearer shares with the nominal value of PLN 58,610.00, accounting for 0.2% of all realisable rights under the Subscription Warrants allotted to Program participants (the nominal value of the program is PLN 29,792,660.00). The new issue will constitute 0.005% of the outstanding shares and applies to managers.

Statements on exercising the rights under the Series A Subscription Warrants allotted by the Bank and acquisition of 2,776 (two thousand seven hundred seventy six) series D ordinary bearer shares ("Series D Shares"), with the nominal value of PLN 10 (PLN ten) each, with the total value of PLN 27,760.00 (PLN twenty seven thousand seven hundred sixty), at the issue price of PLN 61.84 (PLN sixty one and 84/100) per one Series D Share, Series B Subscription Warrants and acquisition of 2,785 (two thousand seven hundred eighty five) series E ordinary bearer shares ("Series E Shares"), with the nominal value of PLN 10 (PLN ten) each, with the total value of PLN 27,850.00 (PLN twenty seven thousand eight hundred fifty), at the issue price of PLN 64.65 (PLN sixty four and 65/100) per one Series E Share and Series C Subscription Warrants and acquisition of 300 (three hundred) series F ordinary bearer shares ("Series F Shares"), with the nominal value of PLN 10 (PLN ten) each, with the total value of PLN 3,000.00 (PLN three thousand), at the issue price of PLN 66.06 (PLN sixty six and 06/100) per one Series F Share, have all been accepted for execution.

Changes to the composition of the Supervisory Board and in the composition of the Management Board of Alior Bank S.A.

In the reporting period, there was a change to the composition of the Bank's Management Board.

Pursuant to resolutions approved by 9 June 2017 and 14 June 2017, the Bank's Supervisory Board entrusted the following persons with the functions of Deputy Presidents of the Management Board of Alior Bank S.A.:

1. Mr Michał Jan Chyczewski,
2. Mr Filip Gorczyca,
3. Ms Katarzyna Sułkowska,
4. Ms Urszula Krzyżanowska-Piękoś,
5. Ms Celina Waleśkiewicz.

All the members were appointed for a joint term of office that began on 29 June 2017.

Additionally, the Supervisory Board entrusted to Mr Michał Jan Chyczewski the management of the work of the Management Board until approval is obtained from the Polish Financial Supervision Authority for his appointment to the position of the President of the Bank's Management Board.

In compliance with the submitted declarations, the appointed Members of the Bank's Management Board are not involved in any competitive business to the business of the Bank and are not involved in competitive companies as partners in civil partnerships or members of bodies of commercial companies or other competitive legal persons.

The nominated Members of the Management Board are not listed in the Register of Insolvent Debtors, maintained pursuant to the Act of 20 August 1997 on the National Court Register.

On 6 July 2017 Mr Sylwester Grzebinoga was appointed by the Supervisory Board of Alior Bank to the position of a Deputy President of the Management Board. He will assume the function on 1 August 2017.

In the reporting period, there were changes to the composition of the Bank's Supervisory Board. On 21 April 2017, the Bank's Extraordinary Meeting – continued after a break on 8 May 2017 – approved resolutions on modifications to the composition of the Supervisory Board – a resolution dismissing Mr Stanisław Ryszard Kaczoruk from the Supervisory Board and a resolution appointing Mr Roman Pałac to the Supervisory Board.

On 14 June 2017, the Chairman of the Bank's Supervisory Board Mr Michał Krupiński filed his resignation from the Supervisory Board, including his function as the Chairman of the Supervisory Board, effective on 14 June 2017.

On 29 June 2017, a Member of the Supervisory Board Mr Roman Pałac filed his resignation from the Bank's Supervisory Board effective on 29 June 2017.

On 29 June 2017, the Bank's General Meeting appointed Mr Tomasz Kulik to the Supervisory Board and appointed Mr Eligiusz Krześniak to the Supervisory Board, effective on 30 June 2017.

On 5 July 2017, the Supervisory Board elected Mr Eligiusz Krześniak as the Chairman of the Supervisory Board of Alior Bank.

On 18 July 2017, a Member of the Supervisory Board Mr Marek Michalski filed his resignation from the Bank's Supervisory Board effective on 18 July 2017.

The appointed Members of the Bank's Supervisory Board are not involved in any competitive business to the business of the Bank and are not involved in competitive companies as partners in civil partnerships or members of bodies of commercial companies or other competitive legal persons.

To the best knowledge of the Bank's Management Board, as at 30 June 2017 the Members of the Supervisory Board of Alior Bank S.A. do hold any shares in the Bank.

Material events after the balance sheet date

Non-public issue of ordinary bonds of Alior Bank S.A.

On 7 July 2017, the Management Board of Alior Bank approved a decision to commence the process of bookbuilding in connection with preparations to a non-public issue of the Bank's ordinary bonds.

The core parameters of the planned issue are as follows:

- the maximum total nominal value will be up to PLN 250,000,000 (PLN two hundred fifty million),
- the interest rate applicable to the bonds will be variable - WIBOR6M increased by a margin of 1.19%,
- the bonds will be unsecured,
- the bonds will mature in 3 years, and
- the planned issued date of the bonds will be 11 August 2017 to be redeemed on 11 August 2020.

Sale of receivables

In the period from 1 July 2017 to the date of publication of these financial statements, the Group made several sales of receivables. The total amount of these transactions reached a gross amount of M PLN 381, and the estimated financial impact of these transactions by the end of 2017, taking into account the collective impact of the models and the tax effect, will amount to approximately M PLN 42.

XI. Public Issue Program of Subordinated Bonds

The Bank has a public issue program of subordinated bonds, opened pursuant to a resolution of the Bank's Supervisory Board on 28 December 2015, issued in series in line with Art. 33.1 of the Act on bonds pursuant to a core issue prospectus, with maturities of 5 to 10 years, up to the maximum value of PLN 800,000,000 ("Public Issue Program"), of which the Bank notified in its current report No. 97/2015 of 28 December 2015.

The Public Issue Program provides for bond issues in order to ensure a safe level of the total capital ratio (TCR). The terms and conditions of each bond series will contain provisions concerning the qualification of the bonds as a component of equity in line with the 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 and amending Regulation (EU) No. 648/2012 (OJ EU L 176 of 27.6.2013, p. 1).

The Bank's Supervisory Board authorised the Management Board to determine the final terms and conditions of each bond series issue, allot bonds to investors and to take all other actions that may be required to achieve the objectives of the Public Issue Program.

On 12 April 2016, the Polish Financial Supervision Authority approved the Bank's issue prospectus made in connection with:

- public issues in the territory of Poland up to PLN 800,000 unsecured subordinated bearer bonds with the nominal value of PLN 1,000 each, to be issued under the Public Issue Program of Subordinated Bonds of Alior Bank S.A.; and
- an intention to apply to admit 800,000 Bonds to trading in the regulated market operated by the Warsaw Stock Exchange within the Catalyst system.

On 16 September 2016, the Bank's Management Board approved a resolution resigning – as from 16 September 2016 – from carrying out pursuant to the core issue prospectus further public bond issues and from applying to have the bonds issued within the Public Issue Program admitted to trading in a regulated market. As of the above date, the decision was due to no intention on the part of the Bank to hold any further public offerings of subordinated bonds in the near future on the basis of the issue prospectus. For the avoidance of any doubts, the Bank's Management Board in the announcement confirmed that the decision does not invalidate the Public Issue Program – it was only intended to have the issue prospectus expired which – in compliance with Art. 49.1b.2 of the Act on Public Offering – occurred when the announcement was published which took place on 16 September 2016.

In H1 2017 the Bank did not hold any bond issue under the Public Issue Program.

Until 30 June 2017, within the Public Issue Program, the Bank issued two series of subordinated bonds as follows:

Series name	Abbreviated name	ISIN	Series value (PLN)	Issue date	Redemption date	Listing market
P1A	ALR0522	PLALIOR00151	150 000 000	2016-04-27	2022-05-16	RR GPW
P1B	ALR0524	PLALIOR00169	70 000 000	2016-04-29	2024-05-16	RR GPW

XII. Risk report of Alior Bank

Risk management is one of the crucial internal processes at 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 bank's books,
- market risk in the trading book,
- liquidity risk,
- operational risk,
- compliance risk,
- model risk,
- business risk,
- reputational risk,
- capital risk.

From among the above risks, the Bank treats the following as crucial risks:

- market risk, covering also interest rate risk in bank's books, FX risk and commodity price risk;
- liquidity risk,.
- credit risk;
- operational risk.

Market risk

Market risk is defined as a likelihood that the Bank may suffer a loss in case of disadvantageous market price changes (stock prices, FX rates, profitability curves), market factors (volatility of prices of financial instruments, correlation of price changes between specific instruments) and also customer behaviour (premature termination of deposits, loan pre-payments).

The market and liquidity risk management process provides for the accomplishment of the following objectives:

- material reduction to profit volatility and changes to the economic value of the Bank's equity;
- development of an optimum structure of assets and liabilities (bank's book) in terms of profitability and potential impact on the economic value of equity;
- offering of core treasury products to customers to support risk management inherent in their business (hedging objective);
- ensuring solvency and overall availability of liquid funding at any time, also assuming adverse market scenarios;
- ensuring compliance of the processes performed in the Bank with the regulatory requirements concerning market risk management and the amounts of equity allocated for the purpose.

Within each function, there is a clear segregation of duties and responsibilities and the rules set forth in internal regulations. The core role is played by the Financial Risk Management Section which independently develops regular reports relying on the models and risk metrics approved by the Bank, and submits the reports to competent units, including the members of the Management Board, Supervisory Board and ALCO. The tasks of the section include inter alia:

- working on the rules of market and liquidity risk management;
- analysis and reports on the Bank's risk profile;
- calculation of the economic capital to cover market and liquidity risk;

- recommending immediate actions related to the management of the bank's book risk;
- development of all regulations defining the conclusion process of treasury transactions in the interbank market and with the Bank's customers, including development of document templates;
- coordination of the new treasury launch process and assessment of the related risks;
- carrying out stress tests for market and liquidity risks;
- giving opinions on new products and assessing the market risk associated with new products;
- support to and servicing the operations of ALCO.

Treasury transactions with the Bank's customers are concluded by the Sales Department of Treasury Products while transactions in the interbank market are concluded solely by the Interbank Transaction Section (Part of the Treasury Department) which is further solely competent to maintain open market risk positions within the trading book and to enter into treasury transactions on the Bank's own account. The objective of the transactions is to manage the risk of trading portfolio positions within the set limits and to pursue the policy with respect to managing the bank's book risk within the set limits.

The Operations Division is responsible for independence of ongoing internal control of treasury activities, including transaction clearing. The Division functions as a fully independent unit of the Treasury Department. The adequacy and accuracy of the supervision performed by the Operations Division results in mitigating the operational risk inherent in the Bank's treasury operations.

Supervision over the units is segregated among Members of the Management Board which is another factor guaranteeing the independence of its operation. The Bank's Supervisory Board and Management Board as well as ALCO play an active role in the management of market risk.

ALCO perform daily control over the management of market risk, including liquidity risk. It takes all related decisions unless previously restricted to the sole competences of the Management Board or Supervisory Board.

The duties of ALCO include inter alia:

- ongoing control over the management of market risk related to the trading book and bank's book, including decisions in risk management for both books;
- approval of the Bank's operational limits in money and capital markets;
- ongoing control over liquidity management at the Bank, related to the trading book and the bank's book;
- recommending actions related to acquiring funding sources for the Bank and supervising the progress of the funding plan;
- decisions of model portfolio management.

The core assumptions underlying the management strategy of market and liquidity risk at the Bank, planned for each budget period, are specified in the Management Policy of Assets and Liabilities, developed on an annual basis by the Financial Risk Management Section and submitted by the Management Board to the Supervisory Board for approval within the approval process of the annual budget.

The Supervisory Board supervises the risk management process, including:

- annual definition of the Bank's strategy with respect to market risk management by accepting the asset and liability management policy;
- acceptance of the Bank's market risk management strategy, including core risk limits;
- control over compliance of the Bank's policies with respect to risks related to the strategy and financial plan by regularly reviewing the Bank's market risk profiles on the basis of the submitted reports;
- recommendation of activities aimed at modifying the Bank's risk profile.

Information on the nature and level of risk is provided to the Supervisory Board by the Management Board with the exception of the results of internal control of the market risk management system which are provided by the Director of the Internal Audit Department. The Bank's Management Board is responsible inter alia for:

- implementation of the market and liquidity risk management strategy, monitoring and providing information on the risk nature and level;
- identification of the appropriate organisation and split of tasks in relation to treasury transactions;
- acceptance of policies and instructions regulating market and liquidity risk management at the Bank and effective functioning of the identification systems of the risks;
- setting detailed limits to mitigate the Bank's risk and to ensure an appropriate mechanism to monitor and notify of any exceeded limit.

At the Bank, exposure to market and liquidity risk is formally mitigated with a system of limits, periodically updated by resolutions of the Supervisory Board or the Management Board, covering all risk metrics with the levels thereof monitored and reported by the Bank's organisational units independent of business. Market risk management is focused on potential changed to the economic results.

The quality requirements related to the risk management process (internal control system, new product launch, analysis of legal risk, analysis of operational risk), also mitigate non-quantifiable risks related to treasury operations.

For the purposes of market risk, the Bank estimates Value-at-Risk relying on a parametric model in line with the methodology of JP Morgan (RiskMetrics). The estimated 99% 1-day VaR may be re-scaled to other times by multiplying the variability by the root of the multiple of the 1-day period (e.g. 10-Day VaR is calculated by multiplying 1-day VaR by $\sqrt{10}$).

FX risk

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 the Bank over a long-time perspective as a result of conversion of future FX-denominated revenues 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.

Within its FX risk management process, the Bank is obliged to monitor and report the volumes of all FX positions and VaR, estimated in accordance with the approved model, within the approved limits. As a part of the currency risk management process, the currency position resulting from the banking activity is transferred to the trading book. Open FX positions are maintained within the limits approved by the Management Board. The Bank performs periodic analyses of potential scenarios in order to obtain information on the Bank's exposure to FX risk in the situation of shock changes to FX rates.

The Bank may also execute transactions to hedge future FX cash flows with adequate realization certainty (e.g. rental costs, FX currency denominated net interest income). The objective is to mitigate the volatility of the results in the current financial year by no more than 60%.

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 FX risk;
- limitations to allowable FX transactions;
- stress tests.

The model of Value at Risk (VaR) is the core tool to measure the Bank's FX risk which means a potential loss on existing FX positions related to changing FX rates while maintaining the assumed confidence level and the period during which the position remained open. 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 assuming and management, individually and jointly.

As at 30 June 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 477,345.10 (PLN 410,220.06 as at 30 June 2016), with the assumed confidence level of 99%.

	As at 30.06.2017
Horizon [days]	10
VaR [PLN]	477 345.10

	As at 30.06.2016
Horizon [days]	10
VaR [PLN]	410 220.06

VaR statistics in the Bank's FX portfolio in H1 2017

VaR	As at 30.06.2017
minimum	30 481.10
Medium	366 177.66
Max	700 373.60

VaR statistics in the Bank's FX portfolio in H1 2016

VaR	As at 30.06.2016
minimum	21 484.08
Medium	115 181.41
Max	924 081.18

The currency position of management within the trading portfolio on 30 June 2017

Currencies	in PLN M
thousand (gross)	13.3
PLN (net)	11.4
Group A	
EUR	-0.4
USD	-3.2
CHF	0.0
GBP	0.0
Group B	
AUD	0.0
CAD	0.0
CZK	0.0
DKK	0.3
NOK	1.4
RUB	2.2
SEK	0.3
Other	0.0
Commodities (PLN gross)	0.0

The currency position of management within the trading portfolio on 30 June 2016

Currencies	In PLN M
thousand (gross)	13.1
PLN (net)	-9.6
Group A	
EUR	-2.3
USD	0.3
CHF	-0.1
GBP	-0.1
Group B	
AUD	0.0
CAD	0.0
CZK	0.0
DKK	0.4
NOK	0.2
RUB	1.8
SEK	0.0
Other	0.1
Commodities (PLN gross)	0.0

An assumed normal distribution of the values of risk factors in the VaR model may in practice result in underestimation of losses in stress scenarios (the phenomenon of "excess kurtosis"). As a result, the Bank performs stress tests.

The use of stress-test limits for FX positions, determined as the Bank's maximum loss in case of the most disadvantageous daily change of FX rates in the last four years, on 30 June 2017 amounted to PLN 226,057.19 (PLN 206,893.12 on 30 June 2016). Herebelow, there statistics of FX position stress-tests for H1 2017 and 2016.

Stress-test statistics of FX position for H1 2017 (PLN '000)

Minimal	Medium	Maximum
21.67	81.34	537.20

Stress-test statistics of FX position for H1 2016 (PLN '000)

Minimal	Medium	Maximum
7.23	75.94	206.89

Interest rate risk

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

- mismatch risk of repricing periods;
- base risk or the impact of non-parallel change of various reference indices with a similar repricing time on the Bank's results;
- risk of profitability curve;
- risk of customers' options.

Additionally, with respect to 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).

One of the methods to estimate the Bank's exposure to interest rate risk is to determine the BPV value which identifies the estimated impact of appraisal of a transaction/position as a result of a shift of the profitability curve by 1 basis point at a specified point. The BPV value is measured on a daily basis at each point of the curve with reference to each currency. BPV estimates as at 30 June 2017 are presented in the tables below:

BPV at the end of H1 2017 – split be tenor (PLN '000)

Currency As at 30.06.2017	Up to 6 months	6 months to 1 year	1 year - 3 years	3- 5 years	5- 10 years	Total
PLN	150,3	-194,0	282,2	174,9	292,1	705,6
EUR	3,4	21,3	35,2	44,1	-11,4	92,7
USD	6,0	20,1	6,9	21,6	-1,0	53,5
CHF	-0,8	0,5	-0,4	1,3	-0,3	0,3
GBP	-2,0	2,0	2,0	3,0	0,0	5,0
Other	-1,7	-2,3	2,2	0,0	0,0	-1,8
Total	**155.2**	**-152.4**	**328.1**	**245.0**	**279.5**	**855.3**

BPV at the end of H1 2016 – split be tenor (PLN '000):

Currency As at 30.06.2016	Up to 6 months	6 months to 1 year	1 year - 3 years	3- 5 years	5- 10 years	Total
PLN	23.0	67.9	722.1	-219.0	-10.5	583.5
EUR	-20.9	7.7	-30.5	-34.6	-7.6	-86.0
USD	5.0	14.9	-11.4	-0.4	-0.5	7.5
CHF	-0.6	-0.4	-2.1	-1.0	0.0	-4.1
GBP	0.6	1.4	0.1	0.0	0.0	2.1
Other	-1.5	0.0	0.0	0.0	0.0	-1.5
Total	**5.5**	**91.5**	**678.3**	**-255.1**	**-18.6**	**501.6**

BPV statistics for January – June 2017 (PLN '000)

Book	Minimal	Medium	Maximum
Banking book	-1 298.26	-797.35	-213.52
Trading book	-48.27	4.56	64.83
COMMITTEE	1 536.69	1 868.71	2 225.05
Total	**-69.06**	**-66.24**	**-62.89**

BPV statistics for January – June 2016 (PLN '000):

Book	Minimal	Medium	Maximum
Banking book	-812.90	-585.45	-375.22
Trading book	-33.67	-4.08	32.77
COMMITTEE	499.05	751.62	991.20
Total	**-174.73**	**162.08**	**582.90**

Additionally, in order to estimate the level of the interest rate risk, the Bank applies the VaR model described above. The economic capital measured with the method to cover such risk as at the end of H1 2017 is presented in the table below (99% VaR with the time horizon of 10 days in PLN '000).

VaR statistics for January – June 2017 (PLN '000)

VaR	As at 30.06.2017
Banking book	18 421.55
Trading book*	2 318.56
Total	**19 737.99**

*VaR of the trading contains the VaR for FX risk as presented above.

Book	Minimal	Medium	Maximum
Banking book	8 463.51	21 734.05	31 067.60
Trading book	1 236.41	2 490.87	4 009.21
Total	**9 187.12**	**23 155.11**	**32 043.17**

VaR statistics for January – June 2016 (PLN '000)

VaR	As at 30.06.2016
Banking book	12 477,19
Trading book*	1 706,04
Total	**12 827,79**

*VaR of the trading contains the VaR for FX risk as presented above.

Book	Minimal	Medium	Maximum
Banking book	3 493.40	8 488.54	15 477.70
Trading book	636.85	1 787.93	3 249.56
Total	**3 733.77**	**9 165.05**	**16 621.52**

In order to manage interest rate risk, the Bank differentiates between trading activity covering securities and derivative instruments, concluded for commercial purposes, and banking activity covering other securities, own issues, loans, deposits and derivative transactions uses to hedge the risk of the bank's book risk. Additionally, the Bank performs scenario analyses covering inter alia 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.

Use of the limit for change of economic value of equity with a parallel shift of interest rate curves by +/- 200 bps and non-parallel shifts with scenarios of +/- 100/400 bps (in 1M/10Y tenors, between them a linear interpolation of the shifts), is presented below (PLN '000).

As at the end of June 2017

Scenario (1M/10Y)	Change to the economic value of capital
+400 / +100	-238 901
+100 / +400	-81 732
+200 / +200	-129 414
- 200 / – 200	108 458
- 100 / – 400	75 395
- 400 / – 100	120 083

As at the end of June 2016

Scenario (1M/10Y)	Change to the economic value of capital
+400 / +100	-131 235
+100 / +400	-85 721
+200 / +200	-87 880
- 200 / – 200	72 678
- 100 / – 400	60 485
- 400 / – 100	72 827

Liquidity risk

Liquidity risk means the risk of failure by the Bank to meet – subject to comfortable conditions and at adequate prices – its payment obligations resulting from the Bank's on- and off-balance sheet items. Thus, 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.

Assets and liabilities at Bank are managed by the dedicated ALCO. 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 validated 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 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. Treasury operations and liquidity risk management are fully centralised at the Alior Bank S.A. Group level.

Within liquidity risk management, the Bank pursues the following objectives:

- ensuring its ability to pay all its obligations when they fall due;
- maintenance of liquid assets at an adequate level – that is a buffer of unencumbered high quality liquid assets in case of a sudden deterioration of the liquidity position;
- determination of the scale of the Bank's exposure to liquidity risk by setting internal liquidity limits, a survival horizon in stress conditions and minimising the risk of trespassing on the liquidity limits defined at the Bank;
- monitoring of the Bank's liquidity condition in order to maintain liquidity and activate contingency plans in case of emergencies;
- ensuring compliance of the processes functioning at the Bank with regulatory requirements concerning liquidity risk management.

All the above objectives are pursued independently by dedicated organisational units whose competences and responsibilities are strictly defined in internal regulations. Within the liquidity management process, the Bank:

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

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

- Payment liquidity – a hazard to losing the ability to fund assets and pay obligations when due in the Bank's normal course of business or in other circumstances that could have been predicted, without suffering a loss. Within payment liquidity management, the Bank focuses on analysing intraday and current liquidity (up to 7 days);
- short-term liquidity – ability to comply with all financial liabilities falling due within a period of the next 30 days;
- medium-term liquidity – ability to comply with all financial liabilities falling due within a period of 1 to 12 months;
- long-term liquidity – ability to comply with all financial liabilities falling due within a period of over 12 months.

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. The assumptions are approved by ALCO and the Bank's Management Board, and provide for:

- stability of liabilities with unspecified maturity (e.g. current accounts, deposit pre-mature termination and renewals, deposit concentration level);
- possibilities to shorten the maturities of specific asset items (e.g. mortgage loans with pre-payment options);
- possibilities to sell assets (liquidity portfolio).

Determining the updated liquidity gap, the Bank applies model weights of the deposit remaining balances/loan repayment rates, determined on the basis of the existing statistical model and historic observations of balances for specific products. As at 30 June 2017, the level of contractual and updated liquidity gap was as follows:

Consolidated contractual liquidity gap as at 30 June 2017

30.06.2017	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	**10 671**	**1 704**	**2 287**	**3 076**	**5 591**	**8 886**	**19 712**	**28 560**	**80 487**
Cash & Nostro	2 743								2 743
Due from banks	0	168	0	0	0	204	0	0	371
Loans and advances to customers	7 928	1 415	2 287	3 036	4 594	7 446	16 114	24 407	67 227
Securities		121		40	997	1 237	3 597	1 506	7 497
Other assets								2 648	2 648
Liabilities and equity	**-29 778**	**-7 276**	**-6 053**	**-4 999**	**-4 338**	**-2 086**	**- 843**	**-6 637**	**-62 009**
Due to banks	- 34		- 1	- 15	- 2	- 148	- 89	- 225	- 514
Due to customers	-29 744	-5 501	-5 831	-4 333	-2 904	- 649	- 249	- 36	-49 248
Bank's issues		- 44	- 221	- 650	-1 431	-1 289	- 505	0	-4 140
Equity								-6 376	-6 376
Other liabilities		-1 732							-1 732
Balance sheet gap	**-19 107**	**-5 572**	**-3 766**	**-1 923**	**1 253**	**6 800**	**18 869**	**21 923**	**18 478**
Cumulated balance sheet gap	**-19 107**	**-24 679**	**-28 445**	**-30 368**	**-29 114**	**-22 314**	**-3 446**	**18 478**	
Derivative instruments – inflows	0	6 448	1 914	966	773	250	347	47	10 745
Derivative instruments – outflows	0	-6 490	-1 919	- 967	- 765	- 249	- 350	- 48	-10 788
Derivative instruments – net	**0**	**- 42**	**- 4**	**- 2**	**8**	**1**	**- 3**	**0**	**- 43**
Guarantee and financing lines	15 046	1	35	150	255	142	27	94	15 752

Off-balance sheet gap	**15 046**	**- 41**	**31**	**148**	**263**	**143**	**25**	**94**	**15 709**
Total gap	**-4 061**	**-5 613**	**-3 735**	**-1 774**	**1 517**	**6 943**	**18 893**	**22 017**	**34 186**
Total cumulated gap	**-4 061**	**-9 674**	**-13 409**	**-15 184**	**-13 667**	**-6 724**	**12 169**	**34 186**	

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 of a stress test scenario over a time horizon from 7 days inclusive to 30 days. As at 30 June 2017, the total buffer of unencumbered liquid assets amounted to PLN 7,550 M versus the minimum level of PLN 6,685 M, resulting from a shock scenario. To calculate 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 – the amount of deposits as at the end of H1 2017 accounted for about 94% 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. The results of the stress tests are used to determine the minimum buffer to be maintained of unencumbered high quality liquid assets, are used to develop contingency plans and to determine external limits for liquidity risk.

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

- Short-term liquidity gap (minimum current liquidity surplus), defined as the difference between the core and additional liquidity reserve in the reporting period, and the value of external non-stable funds. The value of the surplus as at 30 June 2017 was PLN 1,540 M;
- coverage ratio of illiquid assets with equity, calculated as the ratio of the Bank's equity reduced by the total capital requirements for market risk and settlement/delivery risk as well as the counterpart risk, to illiquid assets;
- coverage ratio of illiquid assets and limited liquidity assets to equity and external stable fund, calculated as the ratio of the Bank's equity reduced by the total capital requirements for market risk and settlement/delivery risk as well as the counterpart risk and external stable funds to the sum of illiquid assets and limited liquidity assets;
- Short-term liquidity gap (minimum current liquidity surplus), defined as the difference between the core and additional liquidity reserve in the reporting period, and the value of external non-stable funds.

The values of the above ratios as at 30 June 2017 were as follows: 4.43; 1.08; 1.34. Additionally, the Bank controls the levels of 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 30 June 2017 was in excess of 14%.

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

Further, in line with the 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 30 June 2017 LCR was 92% versus the required level of 80%.

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

In H1 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 H1 2017 Alior Bank S.A. held one branch in Bucharest which was not involved in any deposit or lending activity. The task of the Branch will be to acquire funds to finance credit 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 keeps being monitored by the dedicated organisational units within the Branch and the Bank's Head Office.

Credit Risk

Management of credit risk and maintenance thereof at a safe level, defined in the risk appetite, is of fundamental importance for the Bank's stable operation and development. Credit risk is controlled with 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 Bank takes measures to fully centralise and automate the processes within the systemic infrastructure while relying on available external and internal information on customers.

The level of credit risk is limited in line with the restrictions set forth in external and internal regulations, rules set by the Bank, in particular concerning restrictions to credit exposure to one customer, a group of customers related by capital and organisation and economic sectors.

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.

In its credit risk management system, the Bank identifies internal and external credit risk factors with the management assigned to the relevant areas of the Bank:

- customers – the verification covers each single customer, groups of related customers as well as identified homogeneous customer groups in terms of the quality of their portfolio;
- products – covers all defined risk types that may be inherent in each offered product: single instances and entire loan portfolios;
- collateral – the verification covers correct approval of collateral; its value and duration; correct preparation of documentation establishing the collateral and updates of its values. In order to mitigate credit risk, amended regulations are effectively implemented concerning collateral to debt and updated standards are applied in the processes of collateral establishment;

- process and regulations – the verification covers the quality and effectiveness of the lending process, loan administration, monitoring, collection and restructuring as well as cooperation with external collecting entities and compliance with external regulations and banking regulations supporting the processes;
- systems – the monitoring covers system supporting lending, monitoring and collection processes, and the effectiveness thereof;
- distribution channels – the verification applies to the effectiveness and loss ratio of the distribution channels functioning in the Bank;
- employees – the verification applies to the use of individually allotted credit competences, potential irregularities are detected that may occur in the lending process;
- external conditions – the monitoring covers in particular: the level of interest rates, FX rates, money supply, unemployment rate, changes in the labour market, economic conditions;
- correctness of the credit risk management system – the verification periodically checks if the assumptions made with respect to the Bank's credit risk management policy are correct.

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

- minimising the level of credit risk of a single loan with an assumed profitability level;
- reducing 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, the Bank – when approving a credit product – 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.

Additionally, in order to reinforce risk control of individual exposures, the Bank regularly monitors customers by taking appropriate actions to mitigate risk if any increased risk factors are identified.

In order to maintain 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 credit risk (e.g. PD, LGD, LTV, DTI, COR, % NPL, Coverage);
- regularly carried out stress tests.

Risk assessment in the credit process

The Bank grants credit 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 is ended with recommendations concerning the strategy of further cooperation with the customer.

Division of responsibilities

The Bank pursues a policy of dividing the functions related to customer acquisition and sale of credit products from the functions related to the assessment of 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 credit risk or the risk of liquidity problems/loss, as a phenomenon that may adversely affect the safety of the Bank's functioning.

Concentration risk management in relation to credit risk at the Bank concerns the risk resulting inter alia from:

- exposures to individual entities or entities related by capital or organisation;
- exposures to entities operating in the same industry, sector, pursing the same business or trading in similar goods;
- exposures to entities from the same voivodeship or country or groups thereof;
- exposures secured with the same type of collateral or by the same collateral provider (including the risk relating to the Bank being collateralised with securities of a similar nature);
- exposures in the same currency;
- exposures to the entities referred to in art. 71 of the Banking Act;
- product data sheet;
- customer segment;
- distribution channel;
- special offers and promotions;
- internal concentration.

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 concentration risk by setting limits and applying concentration standards resulting from external regulations and internal concentration standards.

The Bank has:

- identification rules of areas of concentration risk related to credit activity;
- a process of limit setting and updating;
- a process of limit management with a mode of procedure if any limit level is exceeded;
- a process to monitor concentration risk, including reporting;
- control over the concentration risk management process.

In the process of setting and updating concentration risk, the Bank takes into account:

- reliable economic and market information concerning each concentration of exposures, in particular macroeconomic, sectoral ratios, information on economic trends, subject to projected interest rates, FX rates, analysis of political risk, sovereign and financial institutions ratings;

- reliable information on the economic condition of entities, industries, sectors, general economic information, including the economic and political situation of countries as well as other information required to assess the concentration risk inherent in the Bank;
- economic and quality information concerning the management process in the entities with exposures held by the Bank resulting in concentration risk;
- interest rate risk, liquidity risk, operational risk and political risk related to the identified exposures that may result in increased concentration risk.

Impairment charges 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 for the need to establish provisions. Impairment is automatically identified in the Bank's central system on the basis of systemic information (delays in repayment) or data input by users.

Catalogue of impairment indications

Impairment indications relating to customers:

- material delay in repayment/unauthorised debit – the indicator applies to business customers and individual customers; it is recognised by the system when a delay in repayment or unauthorised debit exists for over 90 days while the overdue amount meets the materiality criterion (PLN 500) in all he customer's accounts jointly where the customer is the owner/co-owner or borrower/co-borrower;
- remedial proceedings – the indicator applies to business customers: it is recognised on the basis of information in the system that the enterprise has filed a statement with court on the opening remedial proceedings;
- bankruptcy/liquidation – the indicator applies to business customers; it is recognised on the basis of information in the system that the enterprise has filed for bankruptcy;
- consumer bankruptcy – the indicator applies to individual customers; it is recognised on the basis of information in the system that the debtor has filed for bankruptcy (consumer bankruptcy):
- customer's undisclosed assets – the indicator applies to business customers and individual customers; it is recognised on the basis of information in the system that the debtor has filed an untrue statement on their assets;
- material deterioration of the internal scoring/rating – the indicator applies to business customers; it is recognised by the system when the rating falls by minimum one class (versus the one assigned originally) and at the same time below the level acceptable by the Bank;
- material deterioration of the external rating – the indicator applies to business customers; it is recognised on the basis of information in the system that the customer's rating fell from an investment to speculation grade;
- material deterioration of the economic and financial condition – the indicator applies to business customers; it is recognised in the system in case of deterioration of the customers' economic and financial condition (in compliance with RMF classification) by minimum one category to a level "sub-standard", "doubtful" or "loss";
- death – the indicator applies to individual customers; it is recognised on the basis of information in the system that the customer has died;
- no information on the customer's whereabouts – the indicator applies to individual customers; it is recognised on the basis of confirmed information in the system that there is no address if permanent residence;
- job loss – the indicator applies to individual customers; it is recognised on the basis of information in the system that the customer is not able to repay their debt due to job loss;

- customer's financial problems – the indicator applies to individual customers; it is recognised on the basis of information in the system on customer's financial problems (on the basis of BIK data).

Impairment indications concerning account:

- issue of a bank enforcement title – the indicator is recognised on the basis of information in the system that a bank enforcement title has been issued against the customer;
- initiation of enforced collection proceedings – the indicator is recognised on the basis of information in the system that the Bank initiated enforced collection proceedings;
- effective termination of the agreement – the indicator is recognised on the basis of information in the system with the date o effective termination while the materiality criterion of the debt amount is complied with (PLN 500);
- restructuring – the indicator is recognised on the basis of information in the system – input as a result of the customer's problems with timely debt repayment – on changes to the loan service rules in the form of an annex to the loan agreement or a settlement with the Bank;
- exposure questioned by the debtor in court litigation – the indicator is recognised on the basis of information in the system that the customer questions the exposure in court litigation;
- identified fraud – the indicator is recognised on the basis of information in the system about a fraud confirmed with a court judgement.

Impairment indications concerning exposures to banks:

- delay in repayment in excess of 30 days – the indicator is recognised on the basis of information in delays in repayment in excess of 30 days;
- material deterioration of the internal rating of the counterparty bank – the indicator is recognised on the basis of information in the system that the counterparty bank's rating fell from an investment to speculation grade;
- material deterioration of the external rating of the counterparty bank's country – the indicator is recognised on the basis of information in the system that the country rating of the counterparty bank fell from an investment to speculation grade;
- material deterioration of the bank's financial condition/bank's insolvency – the indicator is recognised on the basis of information on the customer's risk assessed in the periodic monitoring of limits at an unacceptable level.

Impairment indications concerning exposures to bonds:

- no payments under bonds – the indicator is recognised on the basis of information on missing payments under bonds at time specified in the bond issue terms and conditions;
- failure by the issuer to comply with other conditions set forth in the bond issue terms and conditions opening the option to demand pre-mature bond redemption.

In case of any event that may constitute an impairment indicator, not covered with the above catalogue, a possibility exists for an individual change of the account status to default. It is so market in case of information on the occurrence of other material events, not covered with the above catalogue, that may constitute an impairment indicator.

Impairment indicators of on-balance sheet loan exposures (groups of on-balance sheet loan exposures) are recorded in the system at the customer or account level. When an impairment indicator is recorded at the account level, all accounts of the customer are marked as impaired. When an impairment indicator is recorded at the customer level, the impairment propagates to all accounts in their portfolio. The propagation applies to all accounts where the customers is the owner/c-owner or borrower/co-borrower. In the case of impaired on-balance sheet loan exposures, the Bank recognises impairment allowances to reduce their book value to the present value of the anticipated future cash flows.

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).

Materiality thresholds qualifying customers' exposures to individual measurement

As at 30.06.2017	
Customer Segment	**Threshold value in PLN**
Private individual	No threshold
Business customer	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 scenarios and each tree branch are assigned the likelihood of occurrence and anticipated recoveries. The assumptions applied for individual measurements are described in detail by the persons performing the 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 the 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 risk profile and a provision is recognised for such group of exposures to cover incurred but not reported losses (IBNR). IBNR 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 was selected to meet two objectives: maximum parameter predictability and stable estimates. Due to the above, for most 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 due for which to the 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	Accounts LOR KI	Mortgage loans KI	Credit cards KI	Borrowings 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 caused the loss of ability to service debt.

Collateral

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

In particular, the Bank accepts the following collateral:

- guarantees, re-guarantees and sureties;
- blocked items;
- registered pledge;
- transfer of title;
- assignment of receivables;
- loan insurance;
- bill of exchange;
- mortgages;
- powers of account to the bank account;
- security deposits (as a specific form of collateral).

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.

Approved collateral to loans provide for:

- reductions of impairment allowances and provisions in line with IAS 39;
- application of the more advantageous risk weights to calculate the capital requirement in line with the Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms of 26 June 2013 and amending Regulation (EU) No. 648/2012.

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.

In H1 2017 Alior Bank SA in collection and restructuring processes, took over only assets classified as vehicles. Such assets were destined for sale and in no way used for internal needs.

Such assets were taken over by the Bank's internal units and via cooperating specialised external agents, approved by the Bank. Each seized asset is measured to determine its sales price and settle the take-over operation against the secure loan, by independent appraisals acting in line with agreements concluded with the Bank.

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 scoring and rating systems provide for:

- credit risk control with an assessment of the customers' creditworthiness;
- unification of the criteria underlying credit decisions ensuring impartiality and objectivity;
- shortened time of credit decisions and guarantee of more effective assessment of loan applications (increased productivity and reduced handling costs);
- simplification of the assessment of loan applications due to process automation;
- customer segmentation by risk;
- monitoring and projection of the quality of loan portfolio;
- easier assessment of the credit policy and faster modifications to decision processes serving to assess loan applications of business and individual customers.

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 appropriately reflect the relevant risk aspects. Additionally, functional controls are applied to verify the correct application of models in the credit process.

The model type used to assess individual customers is subject to the type and nature of the requested credit product, credit history and the history of cooperation with the Bank. The model selected to assess business customers is subject to the customer being classified in a specific segment on the basis of their sales revenues. Scoring/rating results affect the standard risk costs charged on each transaction.

The scoring models applied now 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 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;

The monitoring of individual customers covers the following areas:

- the customer;
- the score assigned to the debtor;
- the agreement that generated the risk exposure;
- the approved collateral;
- the amounts of impairment allowances and provisions, if any.

The monitoring of business customers covers in particular:

- the customer and its related entities;
- the sector of its business;
- the score assigned to the debtor;
- verification if the customer complies with the covenants of the loan agreement that generated the loan exposure;
- the approved collateral (verification of the existence and value of the collateral);
- market conditions affecting the customer's creditworthiness;
- the amounts of impairment allowances and provisions, if any.

All credit exposures in the business customer segment are additionally subject to portfolio monitoring as follows:

- assessment on the basis of a dedicated model of behavioural assessment; and
- the identification process of early warning signals.

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 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.

Monitoring of exposures classified as standard and increased risk is applied regularly – such exposures could intensify activities at pre-enforcement or collection proceedings. Such accounts are subject to assessment for the possibility to offer restructuring to customers in order to mitigate the Bank's losses due to loan obligations not repaid on time.

Application of forbearance practices

1. In the restructuring process of Individual Customers, the Bank applies the following tools:
    - extension of the lending period. Extended lending periods result in 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, e.g. the borrower's age.
    - granting a grace period in repayment (of an instalment in full or in part). During the grace period in repayment of 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 duration of the 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 at w Alior Bank, including modifications to limit in LOR accounts/unauthorised debit in ROR/KK, into an instalment loan. Such consolidation converts a number of obligations under various contracts into one obligation. 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.
2. In specific instances, other tools may be used.
3. In the restructuring process of business customers no restrictions have been made as to the applied forbearance practices. due to the specific nature of the customers, the most applied tools include:
    - agreement by modifying the repayment schedule of the overdue exposures (after the repayment date or termination). This consists in transfer of the debt from one or more exposures to a non-revolving account with potential repayment schedules: settling the entire debt over time or settling a part of the debt over time with the remaining part repayable at the end of the period;
    - an annex reducing the limit in revolving loans. This consists in a systematic reduction of the credit limit (most often on a monthly basis) by an amount specified in the annex;
    - An annex modifying the repayment period/instalment amount or grace period for principal/interest.

Monitoring of risk related forbearance practices

The reporting of the quality of the restructured loan portfolio covers reporting at the levels of individual overdue baskets when the restructuring decision was 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);
- overdue measurement 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.

With respect to forbearance tools, the bank identifies the following risks:

- risk of non-payment/discontinued repayments;
- risk of collateral loss (in particular movable assets) or a material reduction in value;
- bankruptcy risk.

The Bank mitigates the above risks primarily by analysing customers – both for their financial potential and history of cooperation, information on site visits and other sources. It is possible to realise collateral and thus materially reduce the exposure before forbearance tools are applied. When forbearance tools are applied, the Bank endeavours to collateralise the exposures as much as possible (mortgages, guarantees, pledges). Each customer to which a *forbearance* tool was applied, is assigned an adviser in the Collection Team who keeps monitoring the customer for any delays in order to respond dynamically to any adverse indications. Customers are obliged to regularly update their inventories or insurance policies. In justified instances, the Bank resorts to Field Collection which is also responsible for verification of collateral.

Assessment of impairment for exposures subject to forbearance practices

With respect to the 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 the occurrence of one of the following situations at the time the forbearance decision is made:

- delay in excess of 30 days;
- other impairment indication;
- an assessment by an analyst that hazards exist to timely repayment (in case of individual customers);
- assessment of the customer's economic and financial condition as sub-standard or worse (in case of business customers).

Impairment for such exposures is determined with an individual scenario analysis based in historic behaviour of similar customers and features specific for such customer. The Bank discounts the anticipated cash flows with an effective rate from before the forbearance practice was applied.

In 2014 the Bank implemented a mechanism of marking the entry and exist in the forbearance status, in compliance with "EBA FINAL draft Implementing Technical Standards On Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013". The modifications did not affect the method to identify impairment and the conditions to reverse losses. Having identified impairment indicators to exposures subject to forbearance practices, the Bank applies the principle that 3 consecutive timely repayments incompliance with the new schedule are accepted as disappearance of impairment indicators.

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

Operational Risk

Operational risk which means a likelihood of a loss resulting from failure to apply or unreliability of internal processes, people, systems or external hazards, is identified as material risk. Considering its operational risk profile, strategy and the risk management policy, the Bank determines its overall approach to operational risk management. The comprehensive program in the area is composed of the management objectives of operational risk management, implementation methods thereof and solutions recommended by the Operational Risk Committee. The Bank endeavours to maintain its operational risk level within the approved limits and appetite.

The Bank has a formalised operational risk management system within which it counteracts to the occurrence of operational events and incidents and mitigates loss 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 as well as the Operational Risk Management Strategy and Policy, approved by the Bank's Management Board and Supervisory Board.

The Bank has determined its operational risk management system and the core areas of the operational risk management process, covering:

- identification,
- measurement and review,
- management activities,
- risk control,
- risk monitoring, and
- reporting of operational risk.

For the purpose of calculation of the capital requirements for operational risk, the Bank uses the standardised approach. Additionally, for several years the Bank has been developing statistical methods to calculate internal capital for operational risk and since September 2016 it has been applying a model meeting all the requirements of an advanced measurement of operational risk (AMA).

Alior Bank S.A. meets the general standards of operational risk management, including all qualitative and quantitative criteria related to the application of the AMA method, listed in the Regulation (EU) No. 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. Further, the Bank meets the requirements specified in the recommendations and drafted Technical Standards with respect to the application of advanced measurement of operational risk (RTS). The following bodies function within the structure of operational risk management: Supervisory Board, Risk Committee of the Supervisory Board, Operational Risk Committee and operational risk Coordinators.

The Bank's Management Board is responsible for the operational risk management and control process which is actively involved in managing operational risk at Alior Bank, taking in particular measures to support the process by:

- creating and developing an organisational culture with respect to effective operational risk management,
- approving the appetite and limits for operational risk providing for the operational risk profiles; if such limits are exceeded, it takes appropriate actions to mitigate losses resulting from operational risk,

- accepting and ensuring the implementation and effectiveness of the operational risk management system,
- determining the competences and split of tasks in the sphere of operational risk management and control,
- establishing and approving the composition of the Operational Risk Committee and determining the rules of its functioning,
- performing a periodic review of the operational risk management process.
- The Supervisory Board performs supervision over the implementation of the strategy related to operational risk which inter alia:
- creates and develops an organisational culture with respect to effective operational risk management,
- accepts the management strategy of operational risk and assesses the implementation thereof and recommends audits whenever required,
- accepts the appetite and limits for operational risk providing for the operational risk profile and recommends actions to mitigate or change the profile,
- performs a periodic review of the level of operational risk and implementation of assumptions underlying the operational risk management strategy,
- confirms the competences of the Management Board as required to implement the management strategy of operational risk.

The Risk Committee of the Supervisory Board supports the Supervisory Board in supervising risk management at the Bank, including operational risk:

- provides a comprehensive opinion on the Bank's current and future readiness to accept risk,
- provides its opinion on the risk management strategy at the Bank and analyses the information concerning the strategy submitted by the Management Board,
- supports the Supervisory Board in supervising the implementation of the risk management strategy in the Bank's activities by senior management,
- provides its opinion on the regulations specifying the Bank's strategy and approach to assuming risk.

The Operational Risk Committee supports the Bank's Management Board in effective operational risk management. On an ongoing basis, the Committee monitors the exposure level to operational risk and assesses the current situation with respect to operational risk for the entire Bank. The Committee is involved on the management process of operational risk inter alia by:

- supporting the Management Board in effective management of operational risk,
- recommending to the Management Board of the appetite for operational risk considering the operational risk profile,
- development of awareness of hazards related to operational risk,
- recommending modifications to the Policy,
- approving reports on operational risk for the Management Board and Supervisory Board,
- recommending to the Management Board and the Bank's units actions aimed at mitigating operational risk,
- approving executive regulations in the area of operational risk.

The mitigation process of operational risk is one of the crucial elements in operational risk management since decisions on risk mitigation directly affect its profile. The Bank's Management Board, on the basis of recommendations made by the Operational Risk Committee (KRO) concerning those areas of the Bank's business exposed to operational hazards, takes decisions on further measures to be taken by the Bank in order to mitigate, accept operational risk or discontinue the activity which is accompanied by increased exposure to operational risk. The Bank's Management Board may take decisions to insure identified operational risk.

The Operational Risk Management Section exercises daily control and monitoring of operational risk at the Bank. The unit is inter alia responsible for:

- support to the Management Board and KRO in the management process of operational risk – coordination and support to the operational risk management process in the Bank's organisational units and supervision over the functioning of the operational risk management system in the entire Bank,
- development of awareness on hazards related to operational risk by arranging training on operational risk,
- development of internal regulations on operational risk and any updates thereof,
- review of the operational risk management system to assess its correct functioning,
- determination, verification and monitoring of limit allocation within the operational risk appetite,
- development and maintenance of tools used to measure, assess and monitor operational risk,
- ownership of the AMA model and monitoring of functioning of the model,
- the management information system with respect to operational risk.

The roles of operational risk Coordinators with minimum one appointed in each Division of the Bank and in the Law Firm TKZ include inter alia:

- operational support to the operational risk management process in each division,
- knowledge support on the current operational risk in divisions (DzRO and the competent member of the Management Board or members of KRO),
- coordination and monitoring of the process to register operational events and losses in divisions.

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

Records of all operational events/incidents and losses

The Bank holds records of operational events and losses that supports effective analysis and monitoring of operational risk, in line with the internal instruction concerning the registration rules. The record process is performed with a system supporting operational risk management.

The amount of gross operational losses, recorded between January and June 2017 at Alior Bank SA fell within the approved appetite and limit for 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 Bank develops its model risk management in a manner ensuring the accomplishment of the objective.

The model risk management system at the Bank relies on the following three pillars:

- corporate governance – covering internal regulations, internal control system and defined roles and responsibilities of organisational units, including the Risk Management Committee and ICAAP, the Bank's Management Board, Supervisory Board;
- model risk management process – covering all stages with the use of adequate tools;

- operational activities – activities taken by the Bank addressed at identifying model risk, implementing control procedures, escalation and model risk management, preventive and remedial actions, including decisions taken by the Risk Management Committee and ICAAP.

The model risk management includes assessment of compliance of model risk with the approved risk appetite and actions taken to reduce the 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.

Process tools

In the model risk management process, the Bank uses the following tools and techniques:

- model cards, journals and registers containing updated information on models identified at the Bank;
- model monitoring and validation to ensure the quality assessment of each model;
- verification of the data quality used to develop models consisting in reviewing the quality and assessment of data usability in IT systems in the context of model development;
- aggregated assessment of model risk to assess the level of model risk versus the approved model risk appetite;
- stress tests (TWS) supporting the assessment of the Bank's sensitivity and resilience to hypothetical and historic stress events;
- model and documentation development standards ensuring model risk mitigation when models are developed;
- other, as may be required at any given time.

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 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 30.06.2017	
1.	Credit risk (including: insolvency risk, sectoral concentration risk, concentration risk to customers, currency concentration risk)
2.	Operational Risk
3.	Liquidity risk
4.	Interest rate risk in bank's books
5.	Market risk
6.	Model risk
7.	Risk of reputational loss
8.	Business risk
9.	Capital risk
10.	Compliance risk

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

- credit risk on the basis of the VaR methodology of the annual loss distribution in the loan portfolio;
- operational risk on the basis of the VaR methodology of the annual distribution of operational losses,
- liquidity risk on the basis of a liquidity gap model assuming a stress scenario;
- market risk and interest rate risk in the bank's book on the basis of the VaR methodology;
- reputational risk on the basis of the VaR model of frequency distribution and loss volume.

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 Capital Group as at 30.06.2017		
Capital adequacy ratio	Tier 1 capital ratio	Internal capital coverage ratio with available capital
13.65%	**11.54%**	**1.75**

Capital ratio of the Bank's Capital Group as at 30.06.2016		
Capital adequacy ratio	Tier 1 capital ratio	Internal capital coverage ratio with available capital
20.93%	**17.31%**	**3.13**

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.

XIII. Contingent liabilities

The Group grants contingent liabilities to individual customers being 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.

The 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 30 June 2017, the number of active guarantees granted by Alior Bank was 2,815 for the total amount of PLN 1,367,984 thousand.

The Bank ensures a correct time structure of its guarantees. The active guarantees with expiry dates less than two years (2,010) total PLN 807,861 thousand.

At 30 June 2017, total value of off-balance sheet contingent liabilities granted to customers was TPLN 14,301,685. The amount comprised TPLN 12,933,701 of off-balance sheet contingent liabilities relating to financing and TPLN 1,367,984 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 30.06.2017	status as at 31.12.2016
Granted off-balance contingent liabilities	14 301 685	14 483 652
Concerning financing	12 933 701	12 979 086
Guarantees	1 367 984	1 504 566

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

by entity	status as at 30.06.2017
entity 1	75 200
entity 2	52 152
entity 3	33 345
entity 4	30 596
entity 5	28 727
entity 6	28 044
entity 7	24 025
entity 8	22 889
entity 9	21 273
entity 10	20 920
Other	1 030 814

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

by instrument	status as at 30.06.2017
credit lines	12 582 965
import L/Cs	21 107
loan promises	329 629
Guarantees	1 367 984
Total	**14 301 685**

The Bank did not underwrite any bonds in H1 2017 (no off-balance sheet liabilities relating to bonds).

XIV. Internal control system

Alior Bank S.A. operates an internal control system which covers all the approved control solutions and activities ensuring compliance with statutory objectives of internal control systems while supporting the Bank's management and contributing the achievement of its tasks while ensuring the safety and stability of the Bank's functioning. The objective is to ensure the effectiveness and efficiency of the Bank's operations, the reliability of financial reporting, compliance with the risk management principles and compliance with laws, internal regulations and market standards. The internal control system is adapted to the risk management system, organisational structure as well as the volume and complexity of the Bank's operations. The system covers all the Bank's units and its subsidiary entities.

The internal control system of Alior Bank is composed of the control function, compliance unit and an independent internal audit unit.

The control function supports the accomplishment of the required quality and correctness in performing operations, eliminates potential risk of irregularities, minimises risks thus ensuring safe operation of the Bank. The control functions is composed of all control mechanisms functioning in the Bank’s processes, including the approved solutions with respect to the organisational structure, internal procedures, IT system documentation, documentation of financial and economic operations, independent monitoring of compliance therewith and reporting within the control function.

The organisational structure creates an organisational framework for the control function by segregating duties and responsibilities, ensuring organisational independence of units responsible for operations from units performing control functions to those operations, allocation of responsibility for decisions to the appropriate competence levels and collective bodies. Internal procedures and documentation of IT systems document the performance of processes supporting their analysis and developing of an adequate control function.

The Compliance Unit has the task of identifying, assessment, control and monitoring of compliance risk in the Bank's operations with applicable laws, internal regulations and market standards and generation of the relevant reports.

The internal audit unit is responsible for providing objective information and assessment concerning the risk management process, control function, compliance with the applicable laws, good practices and standards and the Bank's internal regulations, supporting the Bank's management process by identifying and assessment of major hazards and contributing to improvements in the risk and control management system. The independent and objective operation of the internal audit unit consists in a systematic, orderly assessment of the processes and contributing to their improvement. It supports the Bank in achieving its objectives ensuring the effectiveness, also by providing advisory support.

At Alior Bank S.A. there is an internal control system that covers all control processes supporting management. The objective is to ensure the effectiveness and efficiency of the Bank's operations, the reliability of financial reporting, compliance with the risk management principles and compliance with laws, internal regulations and market standards.

The internal control system of Alior Bank is composed of the control function, compliance unit and an independent internal audit unit.

The internal audit unit is responsible for providing objective information and assessment concerning the risk management process, control function, compliance with the applicable laws, good practices and standards and the Bank's internal regulations, supporting the Bank's management process by identifying and assessment of major hazards and contributing to improvements in the risk and control management system.

The control function supports the accomplishment of the required quality and correctness in performing operations, eliminates potential risk of irregularities, minimises risks thus ensuring safe operation of the Bank. The control function covers the solutions approved by the Bank with respect to the organisational structure, internal procedures, IT system documentation, documentation of financial and economic operations and functional control.

The organisational structure creates an organisational framework for the control function by segregating duties and responsibilities, ensuring organisational independence of units responsible for operations from units performing control functions to those operations, allocation of responsibility for decisions to the appropriate competence levels and collective bodies. Internal procedures and documentation of IT systems document the performance of processes supporting their analysis and developing of an adequate control function. Functional control covers all activities related to each management level, all employees, each organisational unit and all areas of the Bank's activities. It consists in a regular analysis of the performance and results of work of each employee and team. Functional control is performed in the form of self-control, vertical and horizontal functional control and automation of processes performed by IT systems.

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 lost reputation as a result of failure by the Bank, entities operating on its behalf (inducing subsidiary entities) or its employees, to comply with law, requirements of supervisory bodies, internal regulations and standards of conduct approved by the Bank, including ethical standards.

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

- it identifies the areas of compliance risk in the Bank's operations, estimates the risk level and identifies the areas in which the compliance risk is very high;
- on an ongoing basis, it analyses changes to the laws applicable to the Bank's business, decisions taken by judicial and administrative bodies, activities of market regulators as well as modifications to the standards of procedure applied by the Bank, including good practices, and communicates the need to comply to the relevant units of the Bank;
- on an ongoing basis, it analyses the Bank's operations for compliance risk, in particular with respect to development of new business models, development and offering of new products and services as well as with respect to customer relations the cooperation with whom may be subject to reputational risk;
- provides opinion on the Bank's promotional and advertising materials;
- monitors compliance risk in the Bank's operation with the use of key risk indicators;
- reviews reports from the Compliance area, including those related to violations of the existing ethical standards;
- determines the standards with respect to ethical conduct by the Bank's employees and supervises the adherence thereto. Coordinates proceedings related to the reported increases of violations of law, procedures and business ethics rules in force at the Bank;
- pursues the Bank’s policy concerning the management of conflicts of interest and receipt and handover of gifts;
- is responsible for the monitoring and detecting irregularities in the area of employee transactions in financial instrument markets and ensure correct handling of confidential information;
- pursues the tasks of personal data controller in compliance with the Act on personal data protection, and ensures – in cooperation with the Security Department and the Electronic Security Department – compliance by the Bank with regulations on personal data protection;
- provides advice and regular assistance to the Bank's employees in the area of Compliance;
- actively promotes the Compliance culture in the Bank by holding training in the area of compliance risk as well as communication to all employees of the Bank in issues falling within the responsibilities of the Department;
- monitors the pursuance of the Bank's ownership supervision over its subsidiary companies;

- within the control function, it is responsible for holding control in the Bank's organisational units with respect to compliance of internal regulations and mode of actions with law and standards of conduct approved by the Bank;
- reports to the Bank's Management Board and the Supervisory Board or the Audit Committee the results of actions taken by the Compliance Department within compliance risk management and the control function.

XV. Rules of social responsibility

Relations with customers

Alior Bank plays a leading role in the Polish market with respect to maintaining and promoting high standards of service quality which is confirmed with numerous distinctions and awards. Since its establishment, Alior Bank has been customer-oriented by providing advice based on benefits and tailoring products to customers' expectations. Analysing the needs of all its stakeholders, the Bank has been flexibly adjusting its strategy to market requirements – in terms of the product offer, distribution network, its specialists and the service process.

Relations with employees

As at 30 June 2017, the headcount at Alior Bank was 9,488 versus 10,808 as at 31 December 2016.

The drop in employment was due to a structure optimisation process resulting from the need to adapt the headcount to the Bank's business needs as a result of the merger held in November 2016 between Alior Bank with the core business of Bank BPH. The optimisation process will last until 31 December 2017.

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 standard in banking.

In H1 2017, in connection with the announcement of its new business strategy for 2017-2020 "Cyfrowy Buntownik" [Digital Distruptor], Alior Bank focused on activities supporting the new strategy and strengthening of the start-up values of Alior Bank (simplicity, agility, team spirit) within a much larger organisation that resulted from the merger of Alior Bank with the core business of Bank BPH.

The initiatives taken at that time were focused on activities aimed at cultural integration during the operational merger of Alior Bank with the core business of Bank BPH, development of an organisational culture support the process of digital transformation as well as on activities supporting the Bank's business and its further organic growth.

Development and training

New employees become covered with a specially designed program to ensure effective induction to their work. Within such induction training for our sales network, we have arranged 35 groups for 400 new banking officers – within the T-Mobile Usługi Bankowe project we have trained 77 people and as a result of the merger with Bank BPH – 514 people.

The employees of Alior Bank get an opportunity to become experts in an area of their choice by selecting 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 programs 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. Until the end of June 2016, such training covered 1,225 employees. We also perform activities in the Training on the Job model, supporting employees in their daily work in regions. In H1 2017 the project covered 786 employees of the sales network.

Alior Bank offers practical opportunities to develop competences inside the organisation to its employees. In H1 2017 we carried out 17 tailored training courses for employees of the Head Office and provided opportunities to 520 persons to use external training and conferences financed from the management pool allocated to departments. Additionally, over 1,200 employees used internal training held by trainers of Alior Instytut Biznesu and within the program "Share your knowledge" in which all employees of the Bank can offer and develop training in technical skills related to their area of specialisation. The internal team of electronic training (e-learning) jointly with business departments developed 36 new e-training programs supporting business needs, including systemic training for the Branch of Alior Bank in Romania.

Employment benefits

The offer of employee benefits offered by Alior Bank in 2017 focused on three areas identified by our employees as the important ones: actions supporting employees' families, sports promotion and women's professional development.

During the winter school holidays, we invited children of the Head Office employees in Gdańsk, Kraków and Warsaw to day play centres. 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 covered the employees of the dispersed sales networks of Alior Bank in those regions.

In order to support sports initiatives of its employees, in 2017 the Bank will continue funding of sports sections for employees practising various sports.

Within the offer of benefits for employees of Alior Bank offers its employees the management of non-salary benefits within the Sodexo platform with the offered group life insurance, Multisport cards and medical care.

Educational, cultural and charity activities

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

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

This year, Alior Bank again became the sponsor of the Christmas illumination of the Nowy Świat street in Warsaw. Thousands of lights and outstanding decorations in colours characteristic for Alior Bank: gold and burgundy glisten from the de Gaulle roundabout to ul. Świętokrzyska. At the junction of ul. Nowy Świat and Aleje Jerozolimskie, surrounding with glittering Christmas trees, an Alior Bank island stands with a lighted bowler hat filled with gifts to the brim. The illumination of ul. Nowy Świat, the most representative street in Warsaw, is a part of a Christmas installation over 20 km long which for years has been impressing the inhabitants of Warsaw and tourists.

Sponsoring activities

Impact is the largest conference in Central and Eastern Europe when issues related to digital transformation of economy are discussed – Economy 4.0. Alior Bank was the partner of this year's event that was held at the break of May and June in Kraków. The conference was addressed primarily to start-ups, representatives of corporations and companies – in particular related to broad innovations, to the world of science and students.

Every year the conference has been attended by over 5,000 people. The conference is attended by people responsible for the development of Poland's economy (including people representing the government) as well as global leaders of innovation. One of the subjects discussed at this year's edition was FinTech – within the session, floor was taken by Tomasz Motyl, director of the Innovation Lab Department of Alior Bank.

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

Awards and recognitions

In H1 2017, Alior Bank S.A. won a number of awards and distinctions. The most important include:

- **awards in the plebiscite "Golden Banker 2016"**. Alior Bank won in the category "Financial innovation" and was classified second in the category "Cash loans";
- **first prize in the international competition "Retail Banker International"** in the category "Best innovation in services" for the HAIZ application;
- **first prize in the plebiscite "Best bank 2017"** organised by "Gazeta Bankowa". Alior Bank won in the category "Large Commercial Banks";
- **three awards in the ranking "Banking stars 2016",** prepared by "Dziennik Gazeta Prawna" in cooperation with PwC. For its overall activity, Alior Bank was classified as second in the category "Growth rate" and awarded the second place in the category "Innovation";
- **award for the first place in the competition "Innovation Initiator",** organised by "Newsweek Polska". The Bank won in the category of large enterprises;
- **three awards in the ranking "50 largest banks 2017",** developed by "Miesięcznik Finansowy BANK". The Bank was classified second in the categories "Retail banking" and "Accounts for natural persons" and this in the category "Corporate banking";
- award for the **second position in the competition "Leopards 2017"** for the most admired creation of the bank brand image, organised by TNS Polska;
- the **title of "Business Champion 2016"** awarded by "Businessman.pl". The title is awarded to companies that have manifested championship in their business;
- **award for the second position in the ranking "Listed Company of the Year 2016",** organised by "Puls Biznesu" and Kantar TNS. Alior Bank was among three winners in the category "Product and service innovation";
- **award in the competition "Leaders of the World of Banking and Insurance"**. Alior Bank won in the category "Best Bank";
- **award in the international competition "Celent Model Bank 2017"**, organised by Celent. Alior Bank won in the category "New technologies for consumers".

XVI. Control system in the preparation process of financial statements

The financial statements are made in the Financial 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.

As a result of recording events in compliance with their economic content, ledgers of the Bank are developed that underlie financial statements.

The following types of risk have been identified in the preparation process of financial statements:

- the risk of incorrect input data;
- the risk of incorrect data presentation in the financial statements;
- the risk of applying incorrect estimates;
- the risk of no integration of operational systems used by the Bank, operational and reporting applications.

In order to mitigate the above risks, the preparation structure of financial statements has been developed in two layers: applications and subject matter aspects.

The application part of the process is composed of data flows from the Bank's operating systems via the defined interfaces to the database of the mandatory reporting system.

The application layer is subject to control in line with the Bank's security policy of the operating systems used in the Bank.

In particular, the control covers:

- management of user rights;
- management of the production and development environments;
- integrity of the data transmission systems, including correct operation of interfaces in terms of complete data transfer from the operating systems to the reporting environment.

For the purposes of managing the preparation process of financial statements, a description of the process has been developed in line with the rules approved by the Bank which details all actions of the process and which identifies the involved parties. Additionally, the description identifies core control points. The core control points embedded in the preparation process of financial statements include inter alia:

- quality control of input data to financial statements, supported with a data control application; the applications define a number of data accuracy rules, error correction paths and close monitoring of data quality level;
- control of data mapping from the source operating systems to financial statements, ensuring correct data presentation;
- an analytical review relying on specialist know-how with the core objective is to confront the existing business know-how with financial data and to intercept any signals of incorrect data presentation or incorrect input data.

The description of the estimates made by the Bank was incorporated in the accounting policies, made on the basis of a professional judgement and to identify assumptions compliant with IAS/IFRS that affect the disclosed values of revenues, expenses, assets and liabilities as at the reporting date. However, the uncertainty related to professional judgements and estimates may result in a situation that the final effects of transactions may affect future changes of the values of assets and liabilities.

In order to avoid the risk of incorrect estimates, the following solutions have been applied:

- for estimates of loan impairments – the Bank applies models and processes approved by the Bank's Management Board, all models and processes are subject to control and periodic monitoring and validation which cover the verification of functional assumptions underlying models, parameter adequacy and correct implementation;
- for measurements of financial instruments listed in active markets or the measurement of which relies on such listings – the requirement functionalities of the core systems have been implemented and additionally control has been implemented performed by the market risk management unit;
- for measurements of financial instruments not listed in active markets – measurement methods have been implemented that were subject to earlier independent verification before application, that were subject to earlier calibration on the basis of available transactional prices for such transactions;
- for estimates of provisions for post-employment benefits – the estimates have been outsourced to an independent actuary;
- for estimates of provisions for employee and management bonus – calculations are applied compliant with the Bank's bonus regulations relaying on projected results of the Bank.

The detailed description of the accounting rules are included in the Consolidated for Financial Statements of the Alior Bank Capital Group for the year ended on 31 December 2016, in the part "Accounting Policies".

The bank's existing organisational structure supports the segregation of duties between the Front-office, Back-office, Risk and Finances. Additionally, the adequate internal control system enforces the implementation of control of transactions and financial data in back office and support units. The area is 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.

XVII. Shareholders of Alior Bank S.A.

The share capital of the Bank amounts to PLN 1,292,577,630 and is split into 129,257,763 shares with par value of PLN 10.00 each, including:

- 50,000,000 series A common shares,
- 1,250,000 series B common shares,
- 12,332,965 series C common shares,
- 410,704 series D common shares,
- 6,358,296 series G common shares,
- 2,355,498 series H common shares,
- 56,550,249 series I common shares,
- 51 series J common shares.

In view of the status of Alior Bank as a public company within the meaning of the Act on Public Offering and the fact that shares of the Bank are listed in a regulated market (primary market) operated by WSE, the Bank does not hold detailed information on its shareholders. Alior Bank holds information on some of its shareholders whose holding exceed 5% of the overall number of votes at General Meetings and the share capital of Alior Bank, in line with notifications received by Alior Bank pursuant to Art. 69 of the Act on Public Offering.

On 13 June 2017 the Management Board of Alior Bank S.A. received a notification pursuant to Art. 69 of the Act of 29 July 2005 on public offering, of the changed share in the overall number of votes at General Meetings of Alior Bank S.A. by Towarzystwo Funduszy Inwestycyjnych PZU SA. In accordance with the notification, on 7 June 2017, the TFI PZU SA Funds acquired 1,331,617 shares of the Bank in ordinary transactions at the Warsaw Stock Exchange and as a result the share of the TFI PZU SA Funds in the overall number of votes at the Bank's General Meeting exceeded the threshold of 5%. After the transaction, the Bank's shares held by the TFI PZU SA Funds - 7,757,578 shares account for 6.0016% of the share in the Bank's share capital and the attached 7,757,578 votes account for 6.0016% of the overall number of votes at the Bank's General Meeting.

On 04 July 2017 the Management Board of Alior Bank S.A. received a notification pursuant to Art. 69 of the Act of 29 July 2005 on public offering, of the changed share in the overall number of votes at General Meetings of Alior Bank S.A. by Powszechny Zakład Ubezpieczeń PZU SA. In accordance with the notification, on 27 June 2017 Powszechny Zakład Ubezpieczeń SA acting in the name and on behalf of Powszechny Zakład Ubezpieczeń SA, Powszechny Zakład Ubezpieczeń Na Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty UNIVERSUM, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1 and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2, acquired 134,841 shares of the Bank in ordinary transactions at the Warsaw Stock Exchange and as a result 40,493,261 shares held by PZU SA account for 31.3275% of the Bank's share capital and the attached 40,493,261 votes account for 31.3275% of the overall number of votes at the Bank's General Meeting.

On 10 July 2017 the Management Board of Alior Bank S.A. received a notification pursuant to Art. 69 of the Act of 29 July 2005 on public offering, of the changed share in the overall number of votes at General Meetings of Alior Bank S.A. by Poszechny Zakład Ubezpieczeń PZU SA. In accordance with the notification, on 04 July 2017 Powszechny Zakład Ubezpieczeń SA acting in the name and on behalf of Powszechny Zakład Ubezpieczeń SA, Powszechny Zakład Ubezpieczeń Na Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty UNIVERSUM, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1 and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2, with its subsidiary entity Pekao SA, acquired 7,740,710 shares of the Bank in ordinary transactions at the Warsaw Stock Exchange and as a result 40,854,599 shares held by PZU SA account for 31.6071% of the Bank's share capital and the attached 40,854,599 votes account for 31.6071% of the overall number of votes at the Bank's General Meeting.

On 10 July 2017 the Management Board of Alior Bank S.A. received a notification pursuant to Art. 69 of the Act of 29 July 2005 on public offering, of the changed share in the overall number of votes at General Meetings of Alior Bank S.A. by Towarzystwo Funduszy Inwestycyjnych PZU SA. In accordance with the notification, on 4 July 2017 the TFI PZU SA Funds sold 7,740,710 shares of the Bank in ordinary transactions at the Warsaw Stock Exchange and as a result 127,922 shares held by the TFI PZU SA Funds account for 0.0990% in the overall number of votes at the Bank's General Meeting and the attached 127,922 votes account for 0.0990% of the overall number of votes at the Bank's General Meeting.

The table below presents information on major shareholders that as at 30 June 2017 directly held shares representing minimum 5% of the overall number of votes at General Meetings and the share capital of Alior Bank, in line with the received notifications.

Shareholder	Number of shares	Nominal value of shares [PLN]	Percentage in the share capital	Number of votes	Number of votes in the total number of votes
PZU SA[1]	40 358 420	403 584 200	31.22%	40 358 420	31.22%
Aviva OFE Aviva BZ WBK[2]	11 562 000	115 620 000	8.94 %	11 562 000	8.94 %
Other shareholders	77 337 343	773 373 430	59.84%	77 337 343	59.84%
Total	129 257 763	1 292 577 630	100%	129 257 763	100%

(1)Along with the parties to the agreement of 2 June 2017 – PZU Życie, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2

(2)On the basis of the number of shares registered at the Ordinary General Meeting of 29 June 2017

Members of the Bank's Management Board who were shareholders of the Bank as at 30 June 2017

Shareholder	Number of shares/Number of votes	Nominal value of shares	Percentage in the share capital	Share in the total number of votes
Katarzyna Sułkowska	28 612	286 120	0.02%	0.02%

In the reporting period, Alior Bank SA received notifications pursuant to Art. 19.1 of the MAT Regulation, concerning the sale transactions of the Issuer's shares; the details are presented in the table below:

Shareholder	Number of sold shares	Transaction Date
Wojciech Sobieraj	435 296	16.06-21.06.2017
Witold Skrok	178 421	12.06.2017
Krzysztof Czuba	298	21.06.2017

XVIII. Governing Bodies of Alior Bank S.A.

Management Board

Composition of the Bank's Management Board As at 30.06.2017		Composition of the Bank's Management Board As at 31.12.2016	
Michał Jan Chyczewski	Deputy President	Wojciech Sobieraj	President of the Management Board
Filip Gorczyca	Deputy President	Małgorzata Bartler	Deputy President
Urszula Krzyżanowska-Piękoś	Deputy President	Krzysztof Czuba	Deputy President
Katarzyna Sułkowska	Deputy President	Joanna Krzyżanowska	Deputy President
Celina Waleśkiewicz	Deputy President	Witold Skrok	Deputy President
		Barbara Smalska	Deputy President
		Katarzyna Sułkowska	Deputy President

On 9 June 2017 the Bank's Supervisory Board approved Resolution No. 40/2017 to nominate the Management Board of Alior Bank Spółka Akcyjna for a new fourth joint three-year term of office starting from 29 June 2017 in the following composition: Michał Jan Chyczewski, Filip Gorczyca, Katarzyna Sułkowska. On 14 June 2017 the Bank's Supervisory Board approved Resolution No. 43/2017 on the appointment of new Members of the Management Board of Alior Bank Spółka Akcyjna for the fourth term of office, appointing the following Members: Urszula Krzyżanowska-Piękoś and Celina Waleśkiewicz, entrusting all Members of the Management Board with the function of Deputy President and entrusting Michał Jan Chyczewski with managing the work of the Management Board until the consent regarding him performing the function of the President of the Management Board is obtained from the Polish Financial Supervision Authority.

On 6 July 2017, after the end of the reporting period, the Bank's Supervisory Board adopted Resolution No. 50/2017 on the appointment of a new Member of the Management Board – Mr Sylwester Grzebinoga – as on 1 August.

Michał Jan Chyczewski – Deputy President

Before his appointment into the composition of the Alior Bank's Management Board he led a transaction advisory group for the sector of financial corporations in Poland for the consulting company Ernst & Young. In the past, he was involved with Bank Gospodarstwa Krajowego (managing director), PKO Bank Polski SA (first deputy president of Kredobank in Ukraine), Bank BPH S.A (senior economist) and the investment group MCI (deputy president of Private Equity Managers S.A., member of the management board of MCI Capital TFI S.A., member of the management board of Invia AS in the Czech Republic). Mr Chyczewski started his professional career in the office of Arthur Andersen Business Consulting in Warsaw in 2002. In 2007-2009 he acted as Undersecretary of State at the Ministry of Treasury of Poland and was responsible for the sector of financial corporations. In 2015-2016 he acted as Permanent Representative of the Republic of Poland to the World Trade Organization in Geneva. A graduate of the University of St.Gallen (International Executive MBA) in Switzerland, Executive Program in Mergers & Acquisitions at Harvard Business School and Quantitative Methods and Information Systems at the Warsaw School of Economics.

Filip Gorczyca – Deputy President

From 2016 until joining Alior Bank, he acted as a Senior Investment Director at the Medicover Group and was responsible for its IPO on Nasdaq Stockholm in May 2017. From 2004 till 2016 he worked for the global consultancy firm PwC, where from 2011 as Vice Director he was responsible for capital markets and financial reporting advisory services in CEE. He was also involved in audits of financial statements and accounting advisory services. Mr. Gorczyca is a certified public accountant and holds an ACCA diploma. He is a graduate of an executive education program at Harvard Business School and holds a Master's degree in Finance and Banking from the Warsaw School of Economics.

Urszula Krzyżanowska-Piękoś – Deputy President

She has been working for Alior Bank from 2008. She has over 20 years of professional experience in managerial positions in the field of banking. Recently, she worked as the Managing Director in the Sales Department. She started her work for Alior Bank by arranging sales structures in the Mazowieckie voivodeship as the Macroregion Director. Her responsibilities covered individual and business customer segments. Then, she worked as the Director of the Sales Department. Mrs Krzyżanowska-Piękoś had a leading role in strategic projects of the Bank, inter alia, she implemented a visionary model of the sales network management based on geolocalisation models; she arranged the sales network management structures for the Business Customer segment; she implemented solutions with regard to sales of banking products with the use of mobile applications that were unique to the European market. She was a leader in the Bank's merger projects where she was responsible for effective implementation of the strategy, restructuring and reorganising of areas of her responsibility. She started her banking career in Bank Pekao SA and before she joined Alior Bank she had worked in Bank BPH. In Bank Pekao SA and Bank BPH she was responsible for sales management. She graduated from the Maria Curie-Skłodowska University in Lublin. She completed several business faculties at postgraduate studies, inter alia, at the Warsaw University, Warsaw University of Technology, Polish Academy of Sciences, Harvard Business Review. She gained an MBA at the High School of Business-National Louis University in Chicago, USA.

Katarzyna Sułkowska – Deputy President

She has been working as the Deputy President from November 2011. From January 2008 to November 2011 she managed the Credit Risk Area in Alior Bank. Within this function she was responsible for developing credit policies, product principles and methodological assumptions, designing and implementing credit check processes, and monitoring and collection processes. In 2002–2007, she was Managing Director of Retail Collections Department at Bank BPH where she was responsible, inter alia, for managing the integration process of two collection structures of Bank BPH and Bank PBK, for the implementation of the new process-based approach and the IT system to support the process. She was also responsible for performing one of the first bundled debt sale transactions.

Between 1998 and 2001, she worked for Citibank Polska where she was Head of the Collections Department. She started her career at the Regional Accounting Chamber in Kraków as an employee in the Information, Analyses and Training Department. She graduated from Cracow University of Economics with a diploma in finances and banking (1997), and then she completed several trainings in Poland and abroad, she also took part in conferences on, inter alia, debt service and credit management.

Celina Waleśkiewicz – Deputy President

Since the beginning of her professional career she has been related with the financial sector, and over 20 years with the banking sector. She has vast managerial experience in creating and developing banking services, managing operations and sales – gained, inter alia, Alior Bank where she has been working from 2007.

Celina Waleśkiewicz was responsible for the merger of Alior Bank with the demerged part of Bank BPH and with Meritum Bank. She supervised the implementation of the partnership with T-Mobile, and was Director of the T-Mobile Banking Services branch. In 2012-2013 she worked as Director of the e-Banking Department in Alior Bank, managing a team of 500 employees. Her responsibilities covered supervision of, inter alia, the Alior Sync project, i.e. first fully virtual Polish bank, which won many awards.

Between 2008 and 2012 she was Director of the Electronic Banking Area that had 300 employees. She was responsible for development of on-line and mobile banking, call centre and CRM of Alior Bank as well as implementation and monitoring of multi-channel sales campaigns. At the Alior Bank establishment stage she was also responsible for formulating business requirements and implementation of integrated sales and customer service channels. She was also engaged in developing and implementation of many innovative projects in Alior Bank.

In 2002-2007, she worked for Bank Przemysłowo-Handlowy PBK S.A. as Director of the e-Banking Department, where she supervised distribution model of products and services via internet and call center, implementation of sales support tools in electronic channels and customer relationship management in multi-channel environment. Previously, as Director of the Alternative Sales Department she was responsible for, inter alia, sales alliances, loyalty and co-branding programs, implementation of new multi-channel solutions for retail customers and a new internet banking system. As Director of the e-Banking Department she dealt with the internet banking development and improving its functionalities.

In 2000-2002, she was Deputy Director of the Bank Card Centre of Powszechny Bank Kredytowy. Her responsibilities covered supervision over development of new products and their implementation as well as cards processes organisation. She was Director of the Cards & Cheques Department with Bank Austria Creditanstalt Poland SA. She was responsible for card transactions, development and implementation of regulations and procedures, new products and cooperation with payment organisations. She started her professional career with PolCard SA, where she served from 1993 to 1998.

Celina Waleśkiewicz holds a degree from the Department of Mathematics of the University of Warsaw. She also completed the Executive MBA programme of the University of Minnesota, Carlson School of Management and the Warsaw School of Economics.

Composition of the Management Board

According to the Articles of Associations, the Management Board shall be composed of at least three members. The Management Board's members shall be nominated for a joint three-year term of office. The Supervisory Board shall appoint and dismiss Members of the Management Board in a secret ballot. Immediately after the appointment of the management board and changes to its composition, the Supervisory Board shall send to the Polish Financial Supervision Authority information on the composition of the management board and changes to its composition and information (resulting from the assessment) on compliance of members of the management board with requirements referred to in Art. 22Aa. The Supervisory Board shall also inform the Polish Financial Supervision Authority on approval and changes in internal division of responsibilities in the bank's management 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. The Supervisory Board shall have the right to suspend individual or all Members of the Management Board in their activities due to important reasons and to delegate Members of the Supervisory Board to perform activities of Members of the Management Board who have been dismissed, filed their resignations or are unable to perform their activities for other reasons, for period no longer than three months. A Member of the Management Board may be also dismissed or suspended in his/her activities by a resolution of the General Meeting of Shareholders.

Competencies of the Management Board

The Management Board shall direct the affairs of the Bank and represents 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, system of the Bank management, 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 taking-up, acquisition and disposal of shares or interests in companies by the Bank;
- take decisions regarding contracting financial obligations, disposing of the assets, encumbrances or lease (including rental) of assets with total value towards one entity exceeding 1/100 of the Bank's share capital, subject to Art. 8.2 of the Regulations 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) with value exceeding 1/100 of the Bank's share capital, subject to Art. 8.2 of the Regulations of the Management Board;
- accept matters regarding the organisational structure of the Head Quarter of Bank, including the 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, General Meeting, 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 material impact on the Bank's financial situation or its image.

Code of Commercial Companies does not allow the General Meeting or the Supervisory Board to issue binding instructions to the Management Board regarding managing the business of the Bank. In addition, members of the management board or supervisory board shall be liable to the Bank for any damage caused by action or omission contrary to law or the Articles of Association. According to provision of the Code of Commercial Companies and the Bank's Articles of Association, decisions regarding issue or redemption of bonds shall belong to competencies of the Bank's General Meeting.

Competencies of President of the Management Board

The powers of the President of the Management Board shall include in particular:

- managing the work of the Management Board;
- convening meetings of the Management Board and chairing the discussions;
- presenting the position of the Management Board towards the Bank's bodies and in external relations;
- issuing internal regulations regarding the Bank's operations and authorising other Members of the Management Board or the Bank's employees to issue such regulations;
- executing other rights and obligations in line with the Rules of the Management Board.

Rules of the Management Board's functioning

The Management Board shall function 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 the meeting of the Management Board and by circulation. The Management Board's resolutions shall be adopted by an absolute majority of votes cast by Members of the Management Board present at its meeting or by circulation, with the exception of resolution on the appointment of a proxy which requires an absolute majority of votes. As a rule, resolutions are adopted by open ballot. However, a chairman of the Management Board's meeting may order a secret ballot; a secret ballot may also be ordered on a request of at least one Member of the Management Board. In the event of parity of votes, the President of the Management Board shall have the vesting vote.

According to the Regulations of the Bank's Management Board, for the validity of resolutions approved by the Management Board, at least half of the Management Board's Members shall be present at the meeting and all the Members shall be duly notified of the meeting. Declarations 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;
- proxies acting individually or jointly within the power of attorney granted to them.

Supervisory Board

Composition of the Bank's Supervisory Board As at 30.06.2017		Composition of the Bank's Supervisory Board As at 31.12.2016	
Małgorzata Iwanicz-Drozdowska	Deputy Chairman of the Supervisory Board	Michał Krupiński	Chairman of the Supervisory Board
Dariusz Gątarek	Member of the Supervisory Board	Małgorzata Iwanicz-Drozdowska	Deputy Chairman of the Supervisory Board
Eligiusz Krześniak	Member of the Supervisory Board	Dariusz Gątarek	Member of the Supervisory Board

Tomasz Kulik	Member of the Supervisory Board	Stanisław Ryszard Kaczoruk	Member of the Supervisory Board
Sławomir Niemierka	Member of the Supervisory Board	Marek Michalski	Member of the Supervisory Board
Maciej Rapkiewicz	Member of the Supervisory Board	Sławomir Niemierka	Member of the Supervisory Board
Paweł Szymański	Member of the Supervisory Board	Maciej Rapkiewicz	Member of the Supervisory Board
Marek Michalski	Member of the Supervisory Board	Paweł Szymański	Member of the Supervisory Board

On 8 May 2017 the Extraordinary General Meeting of Alior Bank Spółka Akcyjna by Resolutions No. 4/2017 and No. 5/2017 changing the composition of the Supervisory Board of Alior Bank Spółka Akcyjna dismissed Stanisław Ryszard Kaczoruk from the Supervisory Board and nominated Roman Pałac to the Supervisory Board.

On 14 June 2017 Michał Krupiński resigned from his membership in the Bank's Supervisory Board as on 14 June. On 29 June 2017 Roman Pałac resigned from his membership in the Supervisory Board of Alior Bank Spółka Akcyjna as on 29 June.

On 29 June 2017 the Ordinary General Meeting of Alior Bank Spółka Akcyjna by Resolutions No. 30/2017 and 31/2017 nominated Tomasz Kulik and Eligiusz Krześniak to the Supervisory Board.

After the end of the reporting period, on 5 June 2017, the Supervisory Board by Resolution No. 34/2017 elected Eligiusz Krześniak to be the Chairman of the Supervisory Board of Alior Bank Spółka Akcyjna.

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 persons.

Eligiusz Krześniak (Chairman of the Supervisory Board) doctor habilitatus of law and advocate based in Warsaw, a graduate of the Faculty of Law and Administration at University of Wrocław. He also studied law at the faculty of law of the Philipps-Universität in Marburg and Rheinische – Wilhelms – Universität in Bonn and State University of North Carolina in Charlotte. A graduate of the Academy of Leadership Psychology and School of Mentors, as part of the Warsaw University of Technology Business School. Author and co-author of several legal books and numerous articles published in Polish legal magazines and newspapers. Managing partner (from 2017) in Squire Patton Boggs Święcicki Krześniak being part of the global law firm. He has vast experience in managing projects with regard to mergers and acquisitions as well as intellectual property and guiding comprehensive negotiations. Mr Krześniak has featured as one of the leading Polish lawyers in the international Chambers Europe, the Legal 500 and annual Rzeczpospolita ranking for years.

In the previous years he served as a Deputy Chairman of PKO Bank Polski S.A. and as a member of Supervisory Board of PZU S.A. Mr Krześniak has also acted as an arbitrator and Chairman of arbitration panels at two leading arbitration courts in Poland – the arbitration court at the National Chamber of Commerce and the arbitration court at the Polish Confederation Lewiatan. He also resolved international commercial legal disputes in ad hoc arbitration.

Prof. Małgorzata Iwanicz-Drozdowska, Ph.D. (Deputy Chairman of the Supervisory Board, independent) has been with the Warsaw School of Economics from 1995, where she received her academic degrees. She is a full professor of finance at the Warsaw School of Economics and a head of the Financial System Unit in the Institute of Finance. She is a well-known specialist in the field of banks' financial analysis, risk management, financial safety net, financial crisis and bank restructuring. She has been involved in the business practice for more than 20 years and from mid-2007 as the member of supervisory boards. She is the author and co-author of more than 130 scientific publications on banking and financial services market and takes part in numerous research projects.

Dariusz Gątarek (independent) is a graduate in applied mathematics from the Warsaw University of Technology in the year 1981, he holds PhD and DSc in control theory. Dariusz Gątarek spent 18 years in many financial and advisory institutions in Poland, the UK and Germany such as BRE Bank, Societe Generale, Glencore, UniCredit, Deloitte and NumeriX specializing in valuing derivatives and risk management. He was advisor to the governor of National Bank of Poland in 2008-2010. He is working as an associate professor at the Systems Research Institute of the Polish Academy of Sciences. Dariusz Gątarek is an author of numerous papers on financial models and a frequent speaker at conferences worldwide.

Tomasz Kulik until the appointment of PZU Management Board he held the position of Director of the Planning and Controlling Department. He prepared the PZU Group Strategy for 2016-2020 and capital and dividend policy. He was also a member of TFI PZU Management Board) in the past also of the PZU Asset Management) in charge of finance, risk, operations and IT. In his capacity as a member of the TFI PZU Management Board he was also responsible for the corporate area. He has gained extensive experience working in insurance and financial institutions. He is a graduate of the Warsaw School of Economics. He also completed MBA studies at the University of Illinois and the Warsaw-Illinois Executive MBA program.

A member of the Association of Chartered Certified Accountants ACCA. For most of his career he was associated with the Aviva Group (former Commercial Union). Mr Tomasz Kulik is at the same time the CFO in the PZU Capital Group.

Sławomir Niemierka is a graduate of the Faculty of Law and Administration at the University of Warsaw, post-graduate European Union Law and Economy studies and Harvard Business School. He is a qualified legal counsel and an author and co-author of numerous publications on financial law and bank supervision. From 1994 to 2007 he was an academic teacher at post-graduate courses at the Polish Academy of Sciences, University of Warsaw and the Academy of Insurance and Finance. For many years he worked in the National Bank of Poland, where for 8 years he headed the Inspection Office responsible for inspections carried out in banks, branches of foreign banks and credit institutions in Poland, including in particular risk management systems and internal control systems. Member of the Steering Committee of the General Inspectorate of Banking Supervision in charge of the implementation of the second Basel Accord, supervision over risk models, operational risk and accounting standards. He was in the Team in charge of the development of the risk management system in the National Bank of Poland. From 2010 to 2011 as a Member of the Management Board of the Bank Guarantee Fund, he supervised the operational risk management system and inspections and monitoring of banks receiving financial assistance from the Fund. He joined PZU Group in 2008 and was appointed the Managing Director in charge of auditing. In this position, he was responsible for developing and implementation of a new internal control and internal audit system as well he supervised operations of internal audit and internal control in PZU SA and PZU Życie SA. On 19 March 2012 he was appointed Member of the Management Board of PZU Życie SA where he is responsible for fraud management, compliance and security area.

Maciej Rapkiewicz graduated from law at the Law and Administration Faculty of the Łódź University, and completed post-graduate studies in business insurance at the Kraków Academy of Economics, MBA Finance & Insurance at the Łódź University of Technology / Illinois State University, and PhD studies at the Economics Faculty at the Finance, Banking and Insurance Institute at the Łódź University. In 1998-2006, he was employed in PZU SA, from January 2004 to April 2006 on the position of Manager of the Recourse and Overdue Premiums Sub-Department in the Recovery Department. From April 2006 to November 2006, President of the Management Board of ŁSSE S.A. Then, from November 2006 to August 2009, Deputy President of the Management Board (until February 2008 – Management Board's Member) of TFI PZU SA. From January 2010 to March 2010, Director of the Finance Department of TVP S.A. From November 2011 to June 2015, Management Board Member of the Sobieski Institute. From October 2009 he has been running his own business, Maciej Rapkiewicz Consulting, specializing primarily in business consulting: finance management, including liquidity, risk, cost, financial optimization management (including consulting in obtaining permits to conduct activity in special economic zones), preparation of analyses in the area of finance, assessment of regulatory impact and preparation of a receivables securitization projects for financial sector entities (mainly banks and non-life insurance companies). From September 2015 to March 2016, Member of the Supervisory Board of Morizon S.A. – company listed at WSE's New Connect market. From February 2016, Chairman of the Supervisory Board of Dom Invest sp. z o.o. Until February 2016 he was a member of the Supervisory Board of Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Sochaczew (from February 2015, as Deputy Chairman). From July 2015 to March 2016, employee of the BGK S.A. Mutual Fund Company; in March 2016 he was appointed to the position of Management Board Member of PZU SA.

Paweł Szymański (independent) is a graduate of the Warsaw School of Economics. He has a wide experience in strategic and operational management aimed at financial area, restructuring and enterprises cost management. He was President of the Management Board and Chief Financial Officer in national and regional biggest companies. He also has knowledge and experience in private equity and transactional advisory areas. He combines management competences with a broad knowledge in global financial markets acquired in the biggest investment banks both in Warsaw and London. Between 1994-1996 he worked as an analyst in Wood and Company. Since 1997 to 2000 he was first an analyst and later he worked as Assistant Director in Analysis Department in Schroder Securities. Between 2000-2003 he was a Director of the Analysis Department in Schroder Salomon Smith Barney. Since 2003 to 2004 he acted as President of the Brokerage House of Bank Handlowy. Between 2004 until 2007 he was a Member of the Management Board and CFO of PKN Orlen SA. Since 2007 until 2008 he was a CFO of CTL Logistics Sp. z o.o. In years 2010-2013 he acted as CFO and next President of the Management Board of Ruch SA. Since 2014 to 2015 he was a CFO, and later a President of the Management Board of Netia SA. Since 2008-2016 he was also an Executive Partner and Member of the Management Board of ICENTIS Capital. He was a member of several the supervisory boards, including ACE European Group Limited Sp. z o.o., Polkomtel SA, Anwil SA (Chairman). Since 2013 he has been also a member of the supervisory board of Ruch SA.

Competencies of the Supervisory Board

The Supervisory Board shall exercise ongoing supervision over the Bank's operations in all areas of its operations. Its responsibilities shall include the assessment of the Management Board Report on the Activities of the Bank and financial statements of the Bank for the previous financial year – both in terms of compliance with the books, other documents and with the facts, and the assessment of the Management Board's motions on profit distribution or loss coverage, as well as submitting the annual written report from the assessment's results to the General Meeting. The Supervisory Board shall represent the Bank during agreement conclusion with Members of the Management Board and disputes with Members of the Management Board, unless such competencies are assigned to a proxy appointed by resolution of the General Meeting.

According to the Articles of Association – apart from other authorisations or duties provided for in commonly applicable regulations of law – competencies of the Supervisory Board shall include:

- assessment of periodic information on internal control;

- examination and approval of reports on operations and financial statements of the Bank's Capital Group.
- appointing and dismissing Management Board's members;
- requesting the Polish Financial Supervision Authority to express its consent to nominate two Members of the Management Board, including the President of the Management Board;
- Concluding and amending contracts with Management Board's members;
- adopting the Rules of the Supervisory Board;
- approving the Rules of the Management Board specified by the Management Board;
- determining remuneration for Management Board members employed under an employment contract or other contract;
- representing the Bank in all matters between members of the Management Board and the Bank,
- suspending individual or all Members of the Bank's Management Board in their activities due to important reasons;
- delegating Members of the Supervisory Board to perform activities of Members of the Management Board who have been dismissed, filed their resignations or are unable to perform their activities for other reasons, for period no longer than three months;
- providing opinion to the Management Board's motions regarding establishing and joining companies by the Bank as a stockholder (shareholder) and disposal of stakes (shares) if such investments are of 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 at a request of the Management Board;
- approving the Management Board's motions with respect to acquisition, encumbrance or disposal of real estate or an interest in real estate or perpetual usufruct if the value exceeds PLN 5,000,000;
- approving of the Management Board's motions with respect to making obligations and disposing of the assets which total value towards one entity exceed 5% of the Bank's equity;
- ensuring supervision over introduction and monitoring the management system at the Bank, including in particular supervision over the compliance risk management and assessing the adequacy and effectiveness of the system at least once a year;
- 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;
- approving the Organisational Regulations of the Bank and the Bank's fundamental organisational structure set by the Management Board, adapted to the risk scope and profile;
- accepting the Bank's general risk level;
- approving the assumptions of the Bank's policy related to compliance risk;
- approving the Bank's disclosure policy;
- selecting a statutory auditor.
- The Supervisory Board in the form of a resolution shall accept a division of competences among Members of the Bank's Management Board and shall next provide PFSA with information on this division.

Principles of the Supervisory Board's functioning

The Supervisory Board shall act pursuant to the Articles of Association and the Regulations of the Supervisory Board adopted by it. The Supervisory Board's meetings shall be convened whenever necessary, but minimum three 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 law or Articles of Association, by open ballot, at meetings and by circulation. In personal matters or at 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 the vesting 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

In accordance with the Articles of Association and the Regulations of the Supervisory Board, the Supervisory Board may establish standing or ad hoc committees by a resolution. In that case, the Supervisory Board shall establish regulations of such committee, its composition and objectives.

The Remuneration Committee was established by resolution of the Supervisory Board on 7 December 2011 in order to apply the principles of determining a policy on variable items of remuneration of persons holding managerial positions in the Bank adopted by PFSA resolution No. 258/2011 of 4 October 2011, that became effective on 31 December 2011. On 21 December 2016 the Supervisory Board by resolution No. 77/2016 on adopting changes to the Regulations of the Remuneration Committee of Alior Bank S.A. adopted the Regulations of the Appointment and Remuneration Committee of Alior Bank S.A.

Appointment and Remuneration Committee shall

- provide opinion on variable components of remuneration in line with principles for prudent and stable management, capital and liquidity management, and with special focus on the long-term interests of the Bank and the interests of the Bank’s shareholders;
- provide opinion on permissibility disbursement of variable components of remuneration in the part relating to deferred payment term of variable components of remuneration;
- provide opinion and monitor variable remuneration paid to persons in managerial positions at the Bank related to risk management and the Bank's compliance with the applicable laws and internal regulations;
- provide opinion with regard to the position classification which is subject to the Policy of variable components of remuneration.

Composition of the Nomination and Remuneration Committee to 22 May 2017:

- Maciej Rapkiewicz (Chairman),
- Marek Michalski,
- Paweł Szymański.

Composition of the Nomination and Remuneration Committee from 22 May 2017:

- Michał Krupiński (Chairman),
- Roman Pałac,
- Sławomir Niemierka,
- Marek Michalski.

On 14 June 2017 Michał Krupiński filed his resignation from the function of a Member of the Bank’s Supervisory Board, including from his function of the chairman of the Supervisory Board and Chairman of the Appointment and Remuneration Committee, effective on 14 June. On 29 June 2017 Roman Pałac filed his resignation from the function of a Member of the Supervisory Board of Alior Bank Spółka Akcyjna, including from his function of a Member of the Appointment and Remuneration Committee, effective on 29 June.

After the end of the reporting period, on 5 July 2017, the Supervisory Board by Resolution No. 48/2017 dismissed Sławomir Niemierka from the Appointment and Remuneration Committee and nominated Eligiusz Krześniak and Tomasz Kulik to the Committee.

Composition of the Nomination and Remuneration Committee from 5 July 2017:

- Eligiusz Krześniak (Chairman),
- Tomasz Kulik,
- Marek Michalski.

Audit Committee

The Audit Committee of the Supervisory Board of Alior Bank S.A is established pursuant to Art. 86 of the Act on Statutory Auditors and their Self-Government, Entities Entitled to Audit Financial Statements and on Public Supervision of 7 May 2009 (Journal of Laws No. 77, item 649) ("Act on Statutory Auditors").

Competencies and duties of the Audit Committee shall include:

- monitoring of the process of financial reporting;
- monitoring of the effectiveness of the internal control system, internal audit system and risk management system;
- monitoring of the performance of financial audit activities;
- monitoring of independence of a statutory auditor and a chartered auditor to audit financial statements.

Composition of the Audit Committee until 8 May 2017:

- Małgorzata Iwanicz-Drozdowska (Chairman),
- Sławomir Niemierka,
- Stanisław Ryszard Kaczoruk.

On 8 May 2017 the Extraordinary General Meeting of Alior Bank Spółka Akcyjna by Resolution No. 4/2017 changing the composition of the Supervisory Board of Alior Bank Spółki Akcyjnej dismissed Stanisław Ryszard Kaczoruk from the Supervisory Board.

On 22 May 2017 the Supervisory Board by Resolution No. 30/2017 nominated Paweł Szymański to the Audit Committee.

Composition of the Audit Committee from 22 May 2017:

- Małgorzata Iwanicz-Drozdowska (Chairman),
- Sławomir Niemierka,
- Paweł Szymański.

Risk Committee of the Supervisory Board

The Risk Committee of the Supervisory Board was established on 22 December 2015 by the Supervisory Board's Resolution No. 81/2015 in order to support the Supervisory Board in respect to a model risk management process at the Bank.

Risk Committee of the Supervisory Board**:**

- Support to the Supervisory Board in supervising a model risk management process at the Bank.
- Providing a comprehensive opinion on the Bank's current and future readiness to accept risk.
- Providing opinion with regard to the Bank's risk management strategy and analysing information provided by the Management Board on the implementation of the strategy.

- Support to the Supervisory Board in the supervision of the implementation of the risk management strategy in the Bank by top managerial staff.
- Verification if the prices of assets and liabilities offered to customers are compliant with the Bank's business model and its risk strategy. In the case of any discrepancies, submission of proposals to the Bank's Management Board to ensure adequate pricing of assets and liabilities for those types of risk.
- Providing opinion on regulations specifying the Bank's strategy and approach to risk taking, in particular:
  - Credit risk management policy at Alior Bank S.A.;
  - Strategy for operational risk management, liquidity risk and credit risk with respect to risk appetite;
- Analysis of periodic reports regarding the implementation of the above strategies and policies.

Composition of the Audit Committee until 22 May 2017:

- Dariusz Gątarek (Chairman),
- Małgorzata Iwanicz-Drozdowska,
- Sławomir Niemierka.

On 22 May 2017 the Supervisory Board by Resolution No. 31/2017 dismissed Sławomir Niemierka from the Risk Committee and nominated Maciej Rapkiewicz.

Composition of the Audit Committee from 22 May 2017:

- Dariusz Gątarek (Chairman),
- Małgorzata Iwanicz-Drozdowska,
- Maciej Rapkiewicz.

General Meeting

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 Resolution of the Ordinary General Meeting on 19 June 2013, the Bank's Articles of Association and relevant provisions of law, including provisions of the Code of Commercial Companies and the Banking Act.

The General Meeting shall be ordinary or extraordinary. The General Meeting shall be convened by the Management Board, unless provisions of applicable laws, the Bank's Articles of Association or Rules of the General Meeting provide otherwise. The General Meeting shall be held at the Bank's registered office or in other place indicated in the announcement of convening the General Meeting. The Bank's General Meeting shall be convened by an announcement published on the Bank's website and in the manner specified for the provision of current information in line with applicable laws. The announcement shall be published not later than 26 days before the date of the General Meeting.

Only persons who are the Bank's shareholders at least 16 days before the date of the General Meeting (Registration Day) shall be entitled to take part in the General Meeting of the Bank. The shareholders may take part in the General Meeting and exercise their voting rights in person or via proxy.

Resolutions of the General Meeting of Shareholders shall be adopted by an absolute majority of votes, unless regulations of the Commercial Companies Code or the Bank's Articles of Association provide otherwise. Each share shall entitle to one vote at the General Meeting.

According to the Code of Commercial Companies and the Articles of Association of Alior Bank S.A., amendments to the Articles of Association shall be adopted by a resolution of the General Meeting and require entering to the register. A resolution of the General Meeting amending the Articles of Association shall be passed by a majority of 3/4 valid votes cast.

XIX. Statements of the Management Board

Selection of the statutory auditor

An entity authorised to audit financial statements auditing interim financial statements of the Alior Bank Capital Group shall be selected in compliance with the applicable law. The entity and statutory auditors auditing the financial statements shall meet the requirements to express an impartial and independent opinion on these financial statements, 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 interim financial statements for 2016 and H1 2017 and comparative data were prepared in line with the applicable accounting standards and in a manner reliably and clearly presenting the Alior Bank Capital Group's economic and financial condition and its financial result. The Management Board's Report in this document contains a true image of the development, achievements and condition (with the description of basic risk types) of the Alior Bank Capital Group in 2016 and H1 2017.

Material contracts

The Bank's Management Board declares that as at 30 June 2017 Alior Bank S.A. did not have:

- material loan agreements, sureties and guarantees not related to the Bank's operating activities,
- obligations towards the central bank.

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 H1 2017 the Bank did not conclude or terminate loan agreements outside the normal scope of the Bank's business.

The Bank's Capital Group entities – outside the normal scope of their business – did not grant any sureties, loans or guarantees which total value for a single entity or its dependent unit would exceed 10% of the Bank's equity.

During the last financial year within the Alior Bank Capital 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 obligations or receivables pending in the H1 2017 did not exceed 10% of the Bank's equity. According to the Bank, none of the single proceedings pending in H1 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.

In cases regarding Business Customers, in the first six months of 2017 the number of enforcement titles issued by the Bank was 424 claims covering the total debt of: TPLN 96,235.7. In cases regarding Retail Customers, as at 30 June 2017, on the basis of those requests to have a writ of execution issued the Bank received 10,709 enforcement titles for the total amount of PLN 214,910.9.

Signatures of all members of the Management Board

Date	Signature
09.08.2017 Michał Jan Chyczewski - Wiceprezes Zarządu	
09.08.2017 Filip Gorczyca - Wiceprezes Zarządu	
09.08.2017 Sylwester Grzebinoga - Wiceprezes Zarządu	
09.08.2017 Urszula Krzyżanowska-Piękoś - Wiceprezes Zarządu	
09.08.2017 Katarzyna Sułkowska - Wiceprezes Zarządu	
09.08.2017 Celina Waleśkiewicz - Wiceprezes Zarządu	