# Management Board Report of the Alior Bank S.A. Group

## for the first half of 2016

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# I. Summary of Alior Bank's operations in the first half of 2016

## Major events and business initiatives carried out in the first half of 2016

On 31 March 2016 Alior Bank concluded an agreement with GE Capital Group for the acquisition of a spun-off part of Bank BPH. The transaction does not include the purchase of the mortgage loan portfolio denominated in CHF, in other foreign currencies and in Polish zlotys, or BPH TFI.
The conclusion of the agreement complies with the development strategy which has been communicated many times and realized consistently by the Management Board of Alior Bank, which is based on dynamic organic growth and acquisitions, combined with achieving the highest returns on equity. As a result of the transaction the merged bank will reinforce its position on the consolidating market. The number of serviced customers will increase to 3.3 million. The deposit base will increase by over 1/3 (PLN 12 billion), and of high-margin loan portfolios by 1/4 (PLN 8.5 billion).

Alior Bank expects annual target synergies of about PLN 300 million before tax, without accounting for about PLN 160 million of synergies resulting from implementing the business transformation plan for Bank BPH. According to expectations the target level of synergy will be achieved in 2019. One-off integration costs to achieve the planned synergies will be incurred up to 2018; most of them in 2017.

The acquisition of the core operations of Bank BPH will be financed by issuing new ordinary I-series shares with pre-emptive rights, on behalf of the current shareholders. The issue of I-series shares took place in May 2016. The respective registration of the increase in the Bank's share capital in the Register of Businesses was made on 24 June 2016.

The completion of the transaction requires obtaining several regulatory consents.

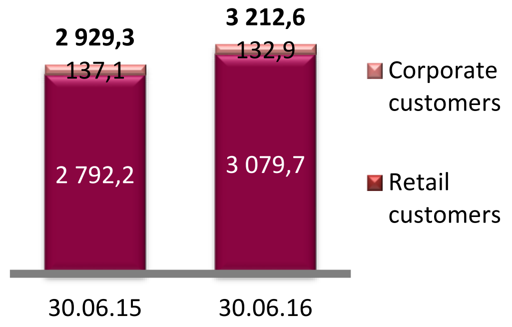
On 29 April 2016, the Management Board of Alior Bank and the Management Board of Bank BPH agreed and signed the demerger plan for Bank BPH.
On 23 June 2016, the President of the Office of Competition and Consumer Protection issued unconditional consent to the concentration consisting of acquiring part of the assets of Bank BPH by Alior Bank.
Moreover, on 19 January 2016, the Polish Financial Supervision Authority issued a decision on the absence of basis for opposing Alior Bank's and PZU SA's intent to engage in the transaction of acquisition by Alior Bank the shares in Bank BPH in a number ensuring more than 50% interest in the share capital and overall number of voting rights at the General Meeting of Bank BPH. On the same day Alior Bank and Bank BPH also obtained the decision of the PFSA on issuing a permit to demerge Bank BPH by transferring part of the assets of Bank BPH to Alior Bank in the form of an organized part of the enterprise of Bank BPH. At the same time, on 19 July 2016, Alior Bank received information on General Electric Company and GE Investments Poland sp. z o.o. obtaining the PFSA's decision which stated that there is no basis for opposing the intention of Alior Bank's to become Bank BPH's parent as of the date of acquiring the shares in Bank BPH by Alior Bank until the date of registering by the Registration court of the increase in Alior Bank's share capital in connection with the Demerger, and then its intention to exceed 50% of the total number of votes at the General Meeting of Bank BPH as a result of the Demerger.

The call to subscribe for the sale of 50,600,821 ordinary bearer shares of Bank BPH which give 66% of the total voting rights took place on 11 July 2016. If the subscription period stipulated in the call is not extended, it will last from 1 August 2016 to 16 August 2016.

The transaction should be closed by the end of 2016.

Alior Bank's business activity in the first half of 2016 was characterized mainly by a dynamic increase in total assets (29.0% on a year-on-year basis compared with 5.5% for the entire banking sector) mainly due to organic growth fuelled by sales which focused mainly on cash loans, housing loans and corporate loans, executed based on own distribution network (the net value of customer loans in the first half of 2016 increased by PLN 3.2 billion, i.e. 10.4% compared with the end of 2015). Additionally, the issue of I-series shares with pre-emptive rights registered in June 2016 with a value of PLN 2.2 billion led to an increase in total liabilities and equity.

As at the end of June 2016, the number of customers served was more than 3.2 million. Approximately 3.08 million are retail customers, and more than 132.9 thousand are business customers. On a year-on-year basis, the number of customers increased by 9.7%. This was due to an increase in the number of retail customers served of 10.3% and a small drop of 3.1% in the number of corporate customers served.

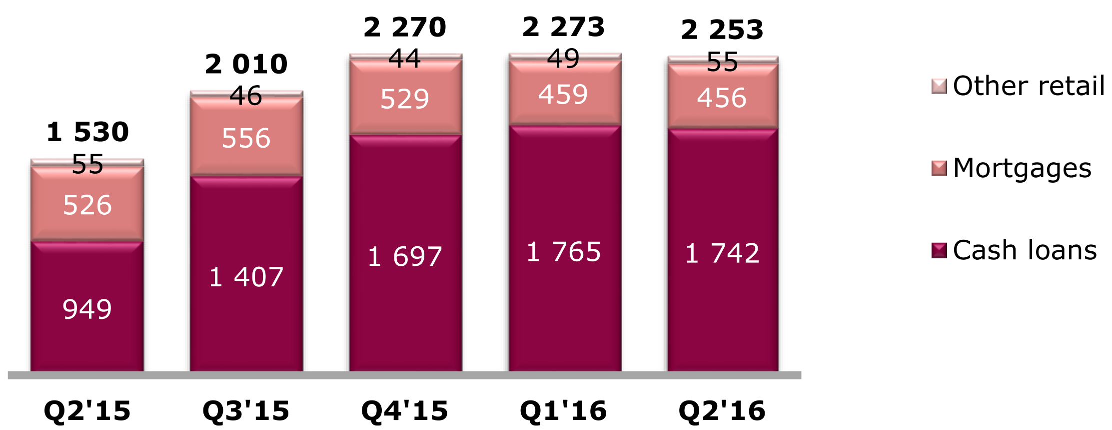



The most important channels for serving new retail customers included: branch offices of Alior Bank (63% of the total number of customers served), T-Mobile Banking Services (19% of the total number of customers served), and Consumer Finance (17% of the total number of customers served).

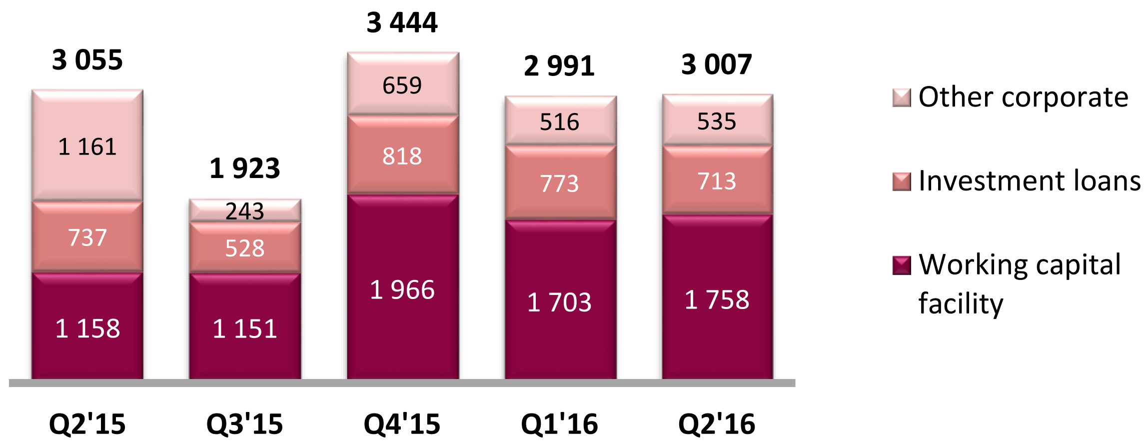
Alior Bank provides services mainly to customers from Poland. The share of foreign customers in the total number of the Bank's customers is negligible.

The detailed amounts of quarterly sales (excluding renewals) in the individual credit product groups for retail customers and corporate customers are presented in the diagrams below.

**Sales of products to retail customers (in PLN million)**




**Sales of products to business customers (in PLN million)**




Sales of current accounts and cash loans through T-Mobile Banking Services were not insignificant, either. Alior Bank's branch which cooperates with the operator also noted a dynamic growth in sales of loans for the purchase of equipment such as smartphones and tablets in T-Mobile outlets. Thanks to the full integration of sales processes by the bank and the operator at the end of June over 93 thousand transactions were financed. Almost 90% of all agreements have been concluded with customers who had not before used T-Mobile Usługi Bankowe banking services. Thanks to the loans for purchases of equipment, the Alior Bank Group is building a database of creditworthy customers with a potential for significantly wider cooperation.

Integration of the bank's and the operator's offers also relates to deposit products. In June 2016 an account with telecommunication services was also launched on the market. Customers for whom this is the basic account may receive a mobile subscription without limits or mobile Internet in T-Mobile even at no charge and throughout the term of the contract with T-Mobile.

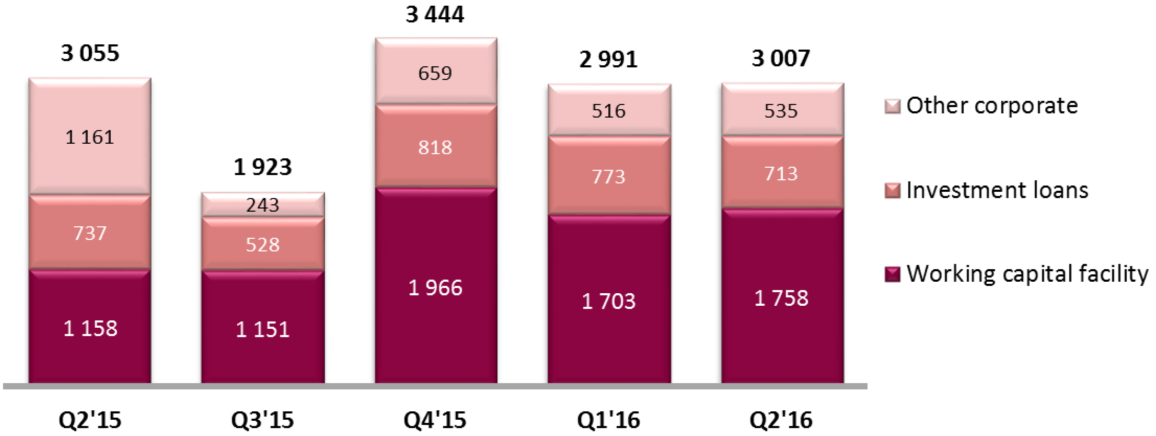
In the second part of the year, further development of cooperation with the operator is planned in respect of credit and deposit products, including introducing the availability of financing equipment through remote T-Mobile sales channels.

Alior Bank, as part of its strategy, focuses not only on increasing its customer base, but also undertakes measures aimed at deepening the Bank's relations with existing customers.

## Distribution network and employment level

### Distribution network

As at the end of the first half of 2016, the Bank had 804 outlets (299 traditional branches, including 6 Private Banking branches, 12 Regional Business Centres and 505 partner outlets).




Alior Bank also uses distribution channels based on a state-of-the-art IT platform, including online banking, mobile banking and call centres.

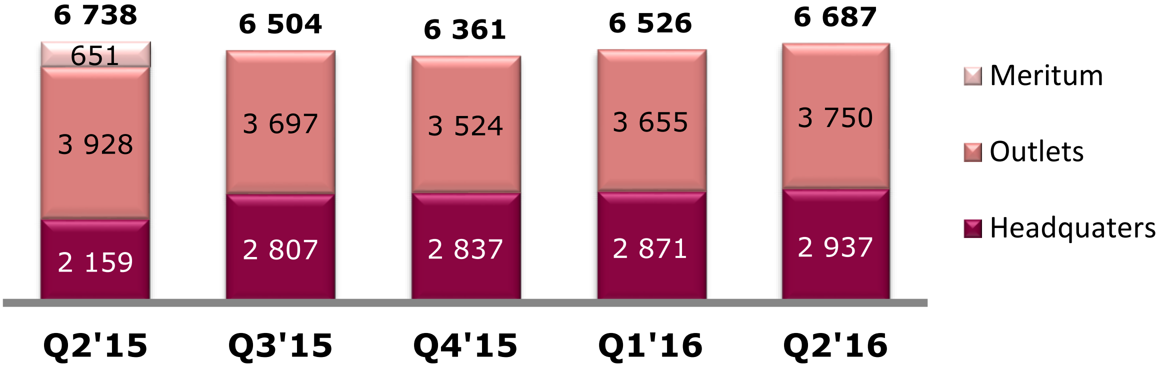
The distribution network described above is strongly supported by 579 service outlets where the Bank's products are offered under the T-Mobile Banking Services brand and delivered by Alior Bank. Out of these service outlets, as at the end of first half of 2016, full banking services were provided by 147 dedicated T-Mobile Banking Services outlets, where customers were served with such banking products as: loan, credit card, debit limit, deposit, currency account, account for individual and business customer.

Furthermore, as at the end of the first half of 2016, the Bank had 71 outlets located in Tesco markets.
Bank's products are also offered with the use of almost 3 thousand financial intermediaries and 10 thousand instalment intermediaries.

### Number of employees

As at the end of the first half of 2016, the employment level at Alior Bank was 6,687 full-time positions (FTEs). This figure means a small decrease compared with the end of the first half of 2015 – of 51 FTEs, i.e. 0.8%.

**Employment level expressed by the number of FTEs:**




## Key financial data

The net profit of the Bank's Group (attributable to the equity holders of the parent company) earned in the first half of 2016 amounted to PLN 161,9 m and was PLN 17,1 m, i.e. 9,6%.. The level of earned financial results was significantly affected by banking tax. The banking tax amounted to PLN 52,9 m in the first half 2016.

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

| in PLN '000 / % | 1st half of 2016 | 2015 | 1st half of 2015 | 2014 |
|---|---|---|---|---|
| Total assets | 47 041 752 | 40 003 010 | 36 466 760 | 30 167 568 |
| Loans and advances to customers, net | 34 136 419 | 30 907 057 | 28 344 652 | 23 647 990 |
| Amounts due to customers | 37 989 929 | 33 663 542 | 29 774 617 | 24 427 988 |
| Equity attributable to equity holders of the parent company | 5 800 370 | 3 512 859 | 3 343 661 | 3 013 163 |
| Net interest income/(expense) | 856 667 | 1 501 013 | 717 714 | 1 229 570 |
| Total income | 1 182 680 | 2 166 013 | 1 044 730 | 1 872 988 |
| Operating expenses | -563 829 | -1 107 892 | -520 392 | -925 271 |
| Banking tax | -52 930 | | | |
| Net profit attributable to the Parent Company | 161 888 | 309 648 | 179 035 | 322 744 |
| NIM | 4,18 | 4,6 | 4,65 | 4,75 |
| ROE (%) | 7,0 | 9,5 | 11,3 | 12,4 |
| ROA (%) | 0,7 | 0,9 | 1,1 | 1,2 |
| Costs / Income | 47,7 | 51,1 | 49,8 | 49,4 |
| Loans / Deposits | 89,9 | 91,8 | 95,2 | 96,8 |
| Solvency ratio | 20,09 | 12,5 | 12,8 | 12,8 |

The key factors which affected the Alior Bank Group's financial results in the first half of 2016 included:

- organic growth, driven mainly by the growth of the loan portfolio (supported by offering products in cooperation with T-Mobile Polska). This increase supported by diligent monitoring of costs significantly contributed to the development of the main income statement items in the first half of 2016;

- the continued recovery of economic growth in Poland which increases the demand for debt financing in an environment of low interest rates. Despite the drop in the pace of growth of GDP in the first quarter of 2016 which was caused by smaller investments, resulting mainly from ending programmes under the EU Financial Perspective for the years 2007-2013, in consecutive quarters we may expect an improvement in GDP dynamics due to further acceleration of household consumption. At the same time, favourable trends on the labour market, historically low levels of interest rates and low energy resource prices remain the key contributors to economic growth.
- On 1 February 2016, the Alior Bank Group began to be subject to a tax imposed on some financial institutions, including banks. According to the new tax law introduction of this tax cannot constitute a basis for changing the terms and conditions of providing financial and insurance services based on contracts concluded before the coming into force of the new tax law, which limits the possibility of accounting for the new tax by the Alior Bank Group in the prices of services provided to its current customers. The additional charge resulting from this tax in the first half of 2016 amounted to PLN 52,9 million.

As at the end of the first half of 2016, the Group's total assets increased by 29% year-on-year to PLN 47 042 m. Net loans and advances to customers increased by 20,4% in the same period, to PLN 34 136 m, and amounts due to customers increased by 27,6% to PLN 37 990 m. Due to a larger scale of deposit acquisition compared with the growth of lending activity, the loans-to-deposits ratio amounted to 89,9% as at the end of the first half of 2016, i.e. 5,3 p.p. lower than at the end of the first half of 2015.

Increases in balance sheet items were accompanied by a dynamic growth of total revenue with interest income as the main component of this growth. In the first half of 2016, total revenue increased to PLN 1 183 m, i.e. by 13,2% year-on-year. The main component of revenue was the interest income (which increased by 19,4% year-on-year in the first half of 2016) represented over 72,4% of total revenue.

In the period from 1 January to 30 June 2016, the Group's operating expenses amounted to PLN 563,8 million and increased by 8,3% compared with the same period of the prior year, i.e. by 4,9 pp less than the increase of revenue in the same period.
Total amount of expenses related to the acquisition of the demerged operation of Bank BPH S.A. amounted to around PLN 11.5 m in the first half of 2016.

Consequently, the cost-to-income ratio was 47,7% as at the end of 2015, 2,1 p.p. higher than in the first half of 2015.

The increase in the scale of operations was accompanied by due care to maintain the capital requirement at the regulatory level. Thanks to the issue of I-series shares with pre-emptive rights with a value of PLN 2.2 billion in connection with the acquisition of Bank BPH, transferring the profit earned in 2015 and in the first quarter of 2016 to the Bank's own funds, the level of the capital adequacy ratio, despite the increase in risk-weighted assets, amounted to 20,93%. Its level was 8,13 p.p. higher than the capital adequacy as at the end of the first half of 2015.

The Bank has identified the following factors which could affect the financial results of the Bank in the coming months:

1) On 1 February 2016, the Alior Bank Group began to be subject to a tax imposed on some financial institutions, including banks. According to the new tax law introduction of this tax cannot constitute a basis for changing the terms and conditions of providing financial and insurance services based on contracts concluded before the coming into force of the new tax law, which limits the possibility of accounting for the new tax by the Alior Bank Group in the prices of services provided to its current customers. The additional charge resulting from this tax in the first half of 2016 amounted to PLN. million.

2) Alior Bank Group's success consisting, among other things, of pursuing the strategy of maintaining high volumes of sales of cash loans and mortgage loans (in respect of individual customers) and working capital loans and investment loans (in respect of business customers), while maintaining the desired high net interest margins and acceptable and manageable costs of risk will constitute a material factor with an impact on the operating results and financial position of the Alior Bank Group in the second half of 2016.

3) In the past few years the Alior Bank Group has engaged in operations in an environment of low interest rates, which limited the Group's possibilities to achieve high interest net rate margins. The scale of negative trends with an impact on the level of net interest margins may increase if the Monetary Policy council decides to once again reduce base interest rates in 2016. In such event, until compensatory steps are taken, the Alior Bank Group's net interest margin may be further reduced which would have an unfavourable impact on the results of the Alior Bank Group.

4) The transaction consisting of acquiring the spun-off part of Bank BPH, will lead to an increase in the operating expenses of Alior Bank in the second half of 2016 and thus will have an impact on the results for 2016 and consecutive periods. The scale of expenses incurred by the Bank in the second half of 2016 in connection with the acquisition of the spun-off part of BPH is impossible to determine at the current stage of the transaction since it depends on many factors which will take place in the second half of 2016.

5) Potential changes in the regulatory environment related, among other things, to the possibility of imposing higher BGF contributions on banks, as well as the potential need to make additional contributions to BFG, may have an unfavourable impact on the Bank's profitability in 2016.

6) For several years the Polish economy availed itself of favourable market conditions and an increase in real GDP, unemployment was low, wages increased and interest rates and energy prices were low. A continuation of these trends would have a positive impact on the Polish banking sector and could lead to an increase in sales of loans by the Alior Bank Group and improvement of the quality of its portfolio. At the same time, it should be emphasized that any slowdown on the European or global market could limit new investments, both domestic and foreign, in Poland, which would have an unfavourable impact on the operations of the Alior Bank Group.

## Ratings

On 5 September 2013, Fitch Ratings Ltd. granted a BB rating with a stable perspective to Alior Bank S.A. The rating remained unchanged in accordance with the assessment made on 12 April 2016.

The full rating evaluation of the Bank assigned by Fitch is as follows:
1. Long-Term Foreign Currency IDR: BB, outlook stable;
2. Short-Term Foreign Currency IDR: B;
3. National Long-Term Rating: BBB+(pol), outlook stable;
4. National Short-Term Rating: F2(pol);
5. Viability Rating (VR): bb;
6. Support Rating: 5;
7. Support Rating Floor: 'No Floor'.

Definitions of Fitch ratings are published on its website at www.fitchratings.com, which includes ratings, criteria and methodologies.

## II. External environment of the Bank's operations

**Poland's economic growth**

In 2015 GDP grew at a high rate of 4.3% y/y. This was the consequence of very good results of the Polish economy in the first quarter of the year(GDP increase of 3.6% y/y) and in the second half of the year, in particular the acceleration of growth in the last quarter, when GDP grew by 4.3% y/y. These results were better that the economists expected, which confirms that the economy is developing dynamically and the source of this development is not only the increasing expenses of households but also the strong foreign demand. However, in the first quarter of 2016 GDP dynamics dropped to 3.0% y/y, as a result of lower investment expenditure, mainly due to the completion of the EU Financial Perspective for the years 2007-2013 programmes. At the same time, new data on the agreements signed under the Financial Perspective 2014-2020 show lower than expected inflow of EU Investment projects in the foreseeable future.

In further quarters we may expect an improvement in GDP dynamics due to further acceleration in household consumption, which will be supported by payments of benefits from the "Rodzina 500 plus" program. Favourable trends on the labour market, historically low levels of interest rates and low energy resource prices remain the key contributors to economic growth.

The main risk factors remain uncertainty and deterioration of the global business activity which may contribute to limiting new capital expenditure on the part of enterprises. In particular, the results of the referendum in Great Britain in which the Brits voted for Brexit raised huge concern for the British economy and its impact on the EU and global financial markets, which is difficult to assess at this moment.

**Situation on the labour market**

From the beginning of 2015 employment in the economy, and in particular in the business sector, grew and is currently at the highest levels in history. Data relating to the number of registered unemployed as at the end of the first quarter of 2016 show the rate of unemployment at 10.0%; according to BAEL the rate of unemployment was 7.0%. At the same time the number of job offers increases and employment forecasts provided by

businesses also stipulate an increase. Good conditions on the labour market do not, however, generate strong pressure on wages, but they did contribute to a slight increase in the gross wage dynamics, which in April and May amounted to 4.4% y/y on average compared with 3.7% y/y in the first quarter of 2016.
The employers' problems related to finding employees remain unresolved and result from an increased number of job offers per one employee, high probability of finding a job and an improvement in the negotiative position of employment conditions. These elements have a slight impact on the increase in the pressure on wages, in combination with a drop in consumer prices, increase the real disposable income and support private consumption.

**Inflation**

The annual dynamics of consumer goods and prices of services in Poland has been negative for several quarters. In June CPI was at a level of -0.8% y/y, and increased slightly since April when it had been -1.1% y/y. External factors – including in particular the global drop in raw material prices, which in particular resulted in a drop in energy and fuel prices – remain the main sources of deflation. For several months food prices have been rising(an increase of 1.1% y/y in June), which is related to lower supply and the effects of last year's drought in Poland.
Stable economic growth, good conditions on the labour market, an increase in cost pressure and gradual extinguishment of the impact of previous drop in raw material prices are the factors which should increase consumer price dynamics in the next few months and thus reduce the scale of deflation.

**Situation in foreign trade**

GUS data shows an increase in foreign trade in the first quarter of 2016; export increased by 4.2% y/y, and import by 3.2% y/y. The increase in foreign trade was mainly due to increased exchange with developed countries (including EU member states) and imports from developing countries. Additionally, for the first time during more than two years an increase in export to Central and Eastern Europe was noted thanks to larger sales to the Ukraine and Belarus. In terms of geographic structure, Germany remains the key export partner (an increase to 28.5%), Czech is the second largest (6.5%) then Great Britain (6.4%), whereas imports are mainly from Germany (22.9%), China (12.6%) and Russia (5.6%).
The weakening of the Polish zloty (mainly the EUR/PLN rate) had a positive effect on the profitability and value of Polish exports. Simultaneously, increased import dynamics resulting from increased costs of imported supplies (mainly due to weaker zloty) was limited by the effect of significantly lower prices of imported energy resources compared with the prior year.

**Increased risk related to the instability on global markets**

In the first half of 2016 uncertainty on the global financial markets continued to increase. The results of the British referendum and Britain's decision to exit the EU came as a huge surprise. The long-term economic effects for Great Britain and the EU economies are uncertain and depend on the ultimate form of the Brexit agreement. In 2015 Great Britain's share in EU imports amounted to 12.0%, and in global imports to 3.7%; this placed the UK among the five largest importers in the world.
Growth prospects in the USA continue to be better than in the Euro Area; however, the latest data from the labour market and negative reassessment of historical data shows that

conditions on the American labour market deteriorated. Weak global demand causes private consumption to be the main factor supporting economic growth in the USA.
Chinese production continues to decrease and in the second quarter of 2016, the GDP only increased by 6.7% y/y, which is the worst result since 1990. To stabilize the situation as of the beginning of the year the Chinese government increased funds to stimulate the economy via infrastructural projects. Despite the actions taken, we may expect moderate slowing in the mid term.

**Currency exchange rates**

From the beginning of 2016 the exchange rates of the Polish currency were volatile. In January, the PLN weakened significantly after S&P reduced the long-term rating of Polish debt in foreign currencies from A- to BBB+. The EUR/PLN exchange rate exceeded the 4.50 level at that time, the USD/PLN rate was 4.15, and the CHF/PLN rate exceeded 4.10. The impact of the reduced rating on the currency markets was short and by the end of March the zloty gradually strengthened its position vis-à-vis the key currencies.
In consecutive months the zloty weakened, partly as a result of the investors once again becoming concerned about Moody's assessment of Poland's creditworthiness. In mid May Moody's finally decided not to change Poland's rating from A2; however, the perspective was changed from stable to negative.
At the end of June the currency markets once again became volatile due to the result of Great Britain's referendum and its decision to exit the EU. The British pound lost much of its value and the GBP/USD rate was temporarily even below 1.30, i.e. at its lowest since the mid 1980s. Weakening of the euro compared with the American dollar to a rate of 1.11 and great uncertainty on the markets translated to temporary weakening of the zloty exchange rate. However, the weakening of the pound sterling led to a significant drop in the GBP/PLN exchange rate, to 5.25 – the lowest rate since 2014.

# III. Main structural and financial data of Polish banking sector in the period from January – May 2016

**Basic structural data**

As at the end of May 2016 there were: 37 national commercial banks, 560 cooperative banks and 26 branches of credit institutions in Poland.
The national banking network included as at the end of May 2016: 7,365 branches, 4,207 sub-branches, branch offices and other customer points of service as well as 2,661 agencies (including partnership outlets). Therefore, the banking network consisted of 14,233 units as at the end of May 2016, 648 units less than in the same period of the previous year.
The number of banking sector employees amounted to 170.6 thousand people as at the end of May 2016 and was by 0.6 thousand (i.e. 0.3%) lower than in the same period of the previous year.
The Polish banking sector has a stable ownership structure. State Treasury controlled 5 banks as at the end of May 2016. Private capital was predominant in case of 566 banks and branches of credit institutions. Foreign capital prevailed in the case of 52 banks and branches of credit institutions.

**Main income statement items**

In the period between January and May 2016, the banking sector generated a net profit at the level of PLN 5.3 billion compared with PLN 6.4 billion in a similar period of the prior year (a drop of 17%).
The net profit level of the sector was mainly influenced by an increase in the result on banking activities (to PLN 23.8 billion, i.e. 2.6% more than in period from January to May 2015), which occurred as a result of a significant increase in net interest income (of 8%), accompanied by a simultaneous decrease in net fee and commission income (of 5.5%).

The increase in net interest income was mainly an effect of the banks adapting their deposit and lending policies to the environment of low interest rates. Interest expense dropped significantly (by 11.2% y/y) while interest income increased slightly (by 1.3% y/y).

The operating costs of banks (including depreciation and provisions) increased by 12.1% y/y to PLN 14.8 billion in the period under analysis. This increase was mainly caused by an increase in the level of HR costs (up 5.5% to PLN 6.6 billion) as well as an increase in general and administrative expenses (of 23% to PLN 6.6 billion). Such a large increase in the Bank's operating costs result mainly from introducing a tax on some financial institutions (the so-called banking tax) as of 1 February. Pursuant to the information published by the PFSA, over the first four months of the tax being in force (from February until May) commercial banks paid PLN 1.17 billion of the respective tax.

The negative balance of financial assets impairment allowance in the period from January to May 2016 compared with the same period of the prior year was 3.4% lower and amounted to PLN 2.6 billion.

**Loans and Deposits**

The amount of banking sector assets as at the end of May 2016 stood at PLN 1,651.0 billion and was by 5.2% (i.e. PLN 81.0 billion) higher than at the end of May 2015.
Gross receivables from non-financial sector increased as at the end of May 2016 by 6.1% compared to the previous year and amounted to PLN 988.4 billion. The main areas of growth were corporates loans (+9.4% y/y) and receivables from households (+4.5% y/y).
Deposits of non-financial sector increased year-on-year by 11.6% to PLN 958.9 billion at the end of May 2016. The growth rate of corporate deposits was similar to the growth rate of household deposits (respective growth of 13.8% and 10.8%). As a result, the value of household deposits as at the end of May 2016 increased to PLN 690.0 billion and the value of deposits held by companies amounted to PLN 247.7 billion at the end of May 2016.

**Equity and capital adequacy ratios**

The level of equity for the capital adequacy ratios, calculated in accordance with the regulations contained in the CRR/CRDIV package was equal to PLN 165.1 billion as at the end of March 2015, and went up by 16.3% compared to the end of March 2015. This increase was, among other things, the effect of retaining a large portion of the profits earned as a result of resigning from or suspending payment of dividend. PFSA recommendations relating to maintaining the Tier I capital ratio and the total capital ratio at the required level had a strong impact on the total capital ratio.

The aggregate capital adequacy ratio of the banking sector amounted to 17.08% as at the end of March 2016 (up 2.20 p.p. compared with the end of March 2015), whereas the Tier-1 ratio as at the end of the said period amounted to 15.68% (up by 2.12 p.p. compared with the end of March 2015).

The growth of the aggregate capital adequacy ratio and the Tier-1 ratio results from the fact that the observed small increase in the aggregate risk-weighted exposure (by 1.3% y/y compared to the end of March 2015) resulting mainly from the growth of the requirement in respect of credit risk, was accompanied by an increase in the level of equity (of 16.3%).

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

**Income statement**

Details of the income statement of the Alior Bank S.A. Group are presented in the following table:

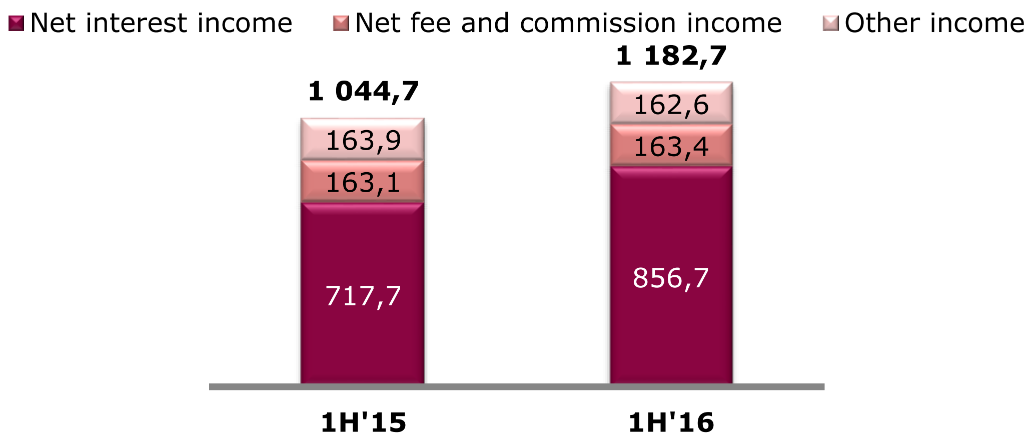
| in PLN '000 | 1.01.16 – 30.06.16 | 1.01.15 – 30.06.15 | change y/y in PLN million | change y/y % |
|---|---|---|---|---|
| Interest income | 1 356 990 | 1 152 461 | 204 529 | 17,7 |
| Interest expenses | -500 323 | -434 747 | -65 576 | 15,1 |
| Net interest income/(expenses) | 856 667 | 717 714 | 138 953 | 19,4 |
| Dividend income | 34 | 42 | -8 | -19,0 |
| Fee and commission income | 275 104 | 260 393 | 14 711 | 5,6 |
| Fee and commission expenses | -111 685 | -97 284 | -14 401 | 14,8 |
| Net fee and commission income / (expenses) | 163 419 | 163 109 | 310 | 0,2 |
| Trading result | 131 136 | 135 816 | -4 680 | -3,4 |
| Net result on other financial instruments | 20 766 | 4 345 | 16 421 | 377,9 |
| Other operating income | 33 720 | 51 047 | -17 327 | -33,9 |
| Other operating expenses | -23 062 | -27 343 | 4 281 | -15,7 |
| Net other operating income / (expenses) | 10 658 | 23 704 | -13 046 | -55,0 |
| Costs of the Bank's operations | -563 829 | -520 392 | -43 437 | 8,3 |
| Net impairment allowance and provisions | -348 857 | -304 139 | -44 718 | 14,7 |
| Banking tax | -52 930 | 0 | -52 930 | 100 |
| Gross profit | 217 064 | 220 199 | -3 135 | -1,4 |
| Corporate income tax | -55 328 | -41 517 | -13 811 | 33,3 |
| Net profit from continuing operations | 161 736 | 178 682 | -16 946 | -9,5 |

| | | | | |
|---|---|---|---|---|
| **Net profit attributable to shareholders of the parent company** | 161 888 | 179 035 | -17 147 | -9,6 |
| **Net loss attributable to non-controlling interests** | -152 | -353 | 201 | -56,9 |
| **Net profit** | 161 736 | 178 682 | -16 946 | -9,5 |

The net profit of the Alior Bank S.A. Group (attributable to the shareholders of the parent company) amounted to PLN 161.9 million in the first half of 2016 and was PLN 17.1 million, i.e. 9.6%, lower than the net profit for the preceding year.
In addition to factors described above, the net profit generated in the first half of 2016 was also affected by the introduction of the so-called banking tax. An additional charge resulting from this tax amounted to PLN 52.9 million in the first half of 2016.

Furthermore, the following income statement items affected the level of net profit generated by the Group:

**Comprehensive income (in PLN million)**




Net interest income is the main component of the Group's income, representing 72.4% of total income. Its increase in annual terms of more than 19.4% was due to the organic growth in the volume of loans for customers and the accompanying increase in the customer deposit base. As a result, the net portfolio of customer loans increased by 20.4% y/y, and deposits from the non-financial sector increased by 27.6%. Maintaining an adequate price policy with respect to both deposit and lending products also had a positive effect on the level of interest income, in view of the fact that the Bank operates in a low interest rate environment.

The Group's profitability measured with the net interest margin was maintained at a very high level of 4.2% in the first half of 2016 and it was 47 bp lower than the interest margin achieved in 2015. A decrease in the net interest margin was due to, among other things, a change in the structure of assets consisting in an increase in a share of assets available-for-sale in total assets from 7.4% in the first half of 2015 to 18.1% in the first half of 2016.

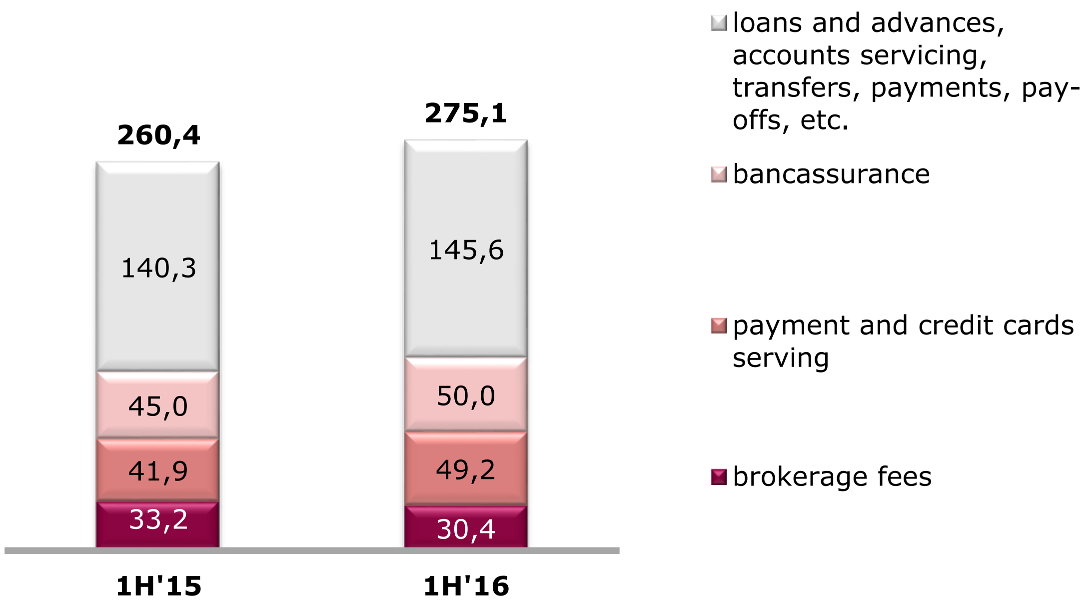
At the same time, the average interest rate on loans was 0.13 pp higher and amounted to 6.06%. In the same period, the average cost of deposits increased to 3.49%, i.e. by 1.83 pp.

The average WIBOR 3M rate amounted to 1.68% in the first half of 2016 and it was 0.9 pp lower than in the first half of 2015.

| | 1st half of 2016 (%) | 1st half of 2015 (%) |
|---|---|---|
| **LOANS / WIBOR 3M** | **6,06 / 1,68** | **5,93 / 1,77** |
| **retail segment, including:** | 7,09 | 6,90 |
| **Consumer loans** | 9,15 | 9,09 |
| **Housing loans** | 4,14 | 4,15 |
| **business segment, including:** | 4,67 | 4,68 |
| **Investment loans** | 4,41 | 4,67 |
| **Working capital loans** | 4,81 | 4,69 |
| **Car loans** | 4,77 | 6,56 |
| **DEPOSITS** | **3,49** | **1,66** |
| **retail segment** | 3,36 | 1,58 |
| **Current deposits** | 0,37 | 0,40 |
| **Term deposits** | 3,06 | 2,56 |
| **business segment** | 3,71 | 1,80 |
| **Current deposits** | 0,09 | 0,07 |
| **Term deposits** | 2,15 | 1,83 |

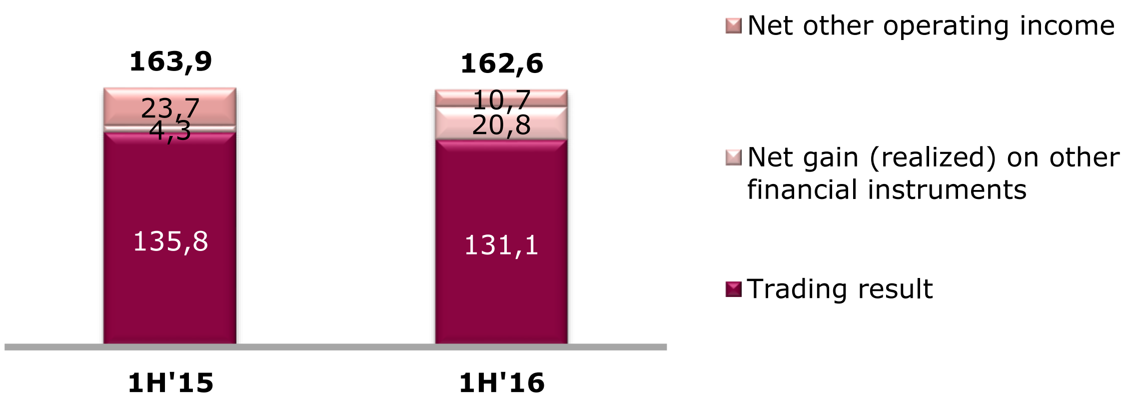
Net fee and commission income/(expense) decreased by 0.2% to PLN 163.4 million. It comprised PLN 275.1 million of commission income (a y/y increase of 5.6%) and PLN 111.7 million of commission expenses (a y/y increase of 14.8%).
Fee and commission income comprised mainly commissions on loans, accounts, transfers, deposits, withdrawals and advances, etc. In the first half of 2016 they amounted to PLN 145.6 million and represented 52.9% of the fee and commission income. Their increase in relation to the previous year resulted mainly from an increase in commissions relating to costs of card and ATM transactions, including costs of the cards issued, costs of compensations and bonuses for customers, commission paid to agents and other commission.

**Fee and commission income (in PLN million)**




The trading result, result on other financial instruments and other operating income/(expenses) decreased in total by 0.8% to PLN 162.6 million. Trading result alone decreased y/y by 3.4% to PLN 131.1 million i.e. by PLN 4.7 million.
The trading result was generated mostly on margins on foreign exchange transactions and interest rate derivatives concluded with the Bank's customers.

**The trading result on other financial instruments and net other operating income/(expenses) (in PLN million)**



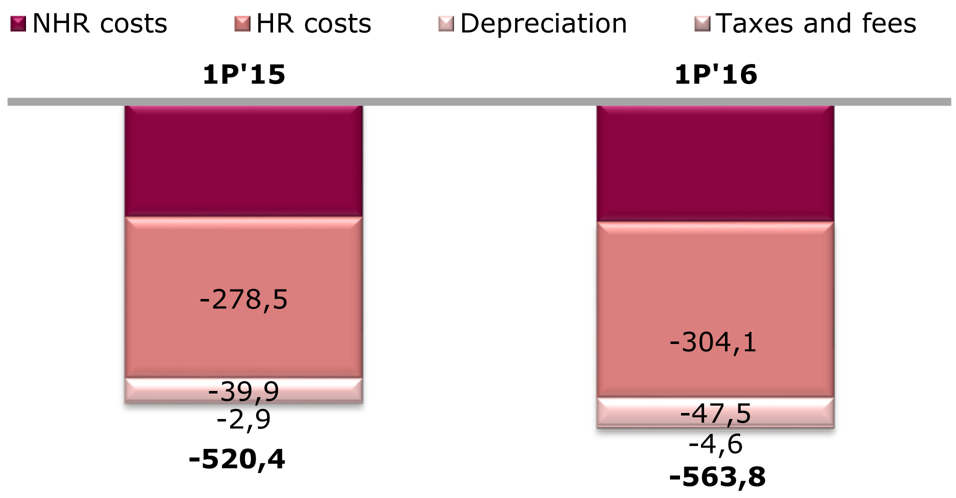

In the first half of 2016 operating expenses amounted to PLN 563.8 million and were PLN 43.4 million (8.3%) higher than operating expenses incurred in the same period in the previous year.

Payroll expenses amounted to PLN 306.1 million in the analysed period and were 9.9% higher than the payroll expenses incurred in the first half of 2015.

Non-payroll expenses amounted to PLN 206.8 million in the first half of 2016 and were 3.9% higher than non-payroll costs incurred in the first half of 2015.
The main reasons behind an increase in material costs included an increase in charges associated with advisory services, the BGF and an increase in training costs compared with the first half of 2015.
Total amount of expenses related to the acquisition of the demerged operation of Bank BPH S.A. amounted to around PLN 11.5 m in the first half of 2016.

As a result, the Costs / Income ratio amounted to 47.7% in the first half of 2016 compared with 49.8% in the first half of 2015.

**Operating expenses (in PLN million)**




The net impairment losses and provisions, which in the first half of 2016 amounted to PLN -348.9 million (PLN -304.1 million in the first half of 2015; an increase of 14.7%) resulted mainly from an increase in write-downs in respect of amounts due from non-financial customers (from PLN -307.9 million to PLN -318.4 million).
This item was also significantly affected by a decrease in the amount of write-downs for IBNR in respect of customers without impairment from PLN +13.9 million in the first half of 2015 to PLN -8,7 million in the first half of 2016.
Net provisions to average balance of gross amounts due from customers (the cost of risk ratio) decreased from 2.2% to 2.0% y/y.

**Net impairment allowance (in PLN million)**

| | 1.01.2016-30.06.2016 | 1.01.2015-30.06.2015 | Change y/y % |
|---|---|---|---|
| **Impairment losses on impaired loans and advances to customers** | -319 579 | -310 961 | 2,8 |
| **financial sector** | -1 206 | -3 013 | -60,0 |
| **non-financial sector** | -318 373 | -307 948 | 3,4 |
| **retail customers** | -208 195 | -208 287 | 0,0 |
| **business customers** | -110 178 | -99 661 | 10,6 |

| | | | |
|---|---|---|---|
| **Debt securities** | -6 975 | 0 | |
| **IBNR for customers without impairment losses** | -8 676 | 13 993 | -162,0 |
| **financial sector** | 656 | 137 | 378,8 |
| **non-financial sector** | -9 332 | 13 856 | -167,3 |
| **retail customers** | -13 639 | 13 445 | -201,4 |
| **business customers** | 4 307 | 411 | 947,9 |
| **Off-balance reserve** | -1 386 | 961 | -244,2 |
| **Property, plant and equipment and intangible assets** | -12 241 | -8 132 | 50,5 |
| **Net impairment losses & provisions** | -348 857 | -304 139 | 14,7 |

**Balance sheet**

As at 30 December 2016, total assets and total liabilities & equity of the Alior Bank Group exceeded PLN 47 billion and were PLN 10.6 billion (29.0%) compared with as the end of the first half of 2015.

The main items that generated the increase in total assets were amounts due from customers, which increased by PLN 5.8 billion y/y and available-for-sale financial assets which increased by PLN 5.8 billion y/y; on the liabilities side, customer deposits increased by PLN 8.2 billion, and equity increased by PLN 2.5 billion.

The following tables present the individual assets, liabilities and equity as at the end of the first half of 2016 and comparative data.

**in PLN '000**

| ASSETS | as at 30.06.2016 | as at 31.12.2015 | Stan na 30.06.2015 | change y/y in PLN million | change y/y % |
|---|---|---|---|---|---|
| Cash and balances with the central bank | 725 871 | 1 750 135 | 1 814 603 | -1 024 264 | -58,5 |
| Financial assets held for trading | 402 487 | 390 569 | 427 473 | 11 918 | 3,1 |
| Available-for-sale financial assets | 8 504 932 | 4 253 119 | 2 713 708 | 4 251 813 | 100,0 |
| Derivative hedging instruments | 53 661 | 139 578 | 49 445 | -85 917 | -61,6 |
| Amounts due from banks | 1 336 745 | 645 329 | 502 779 | 691 416 | 107,1 |

| | | | | | |
|---|---|---|---|---|---|
| Amounts due from customers | 34 136 419 | 30 907 057 | 28 344 652 | 3 229 362 | 10,4 |
| Assets pledged as collateral | 563 369 | 628 332 | 1 495 445 | -64 963 | -10,3 |
| Property, plant and equipment | 218 312 | 228 955 | 184 272 | -10 643 | -4,6 |
| Intangible assets | 392 648 | 387 048 | 357 654 | 5 600 | 1,4 |
| Investments in subsidiaries | 0 | 0 | 0 | | |
| Assets held for sale | 696 | 888 | 1 879 | -192 | -21,6 |
| Income tax assets | 344 404 | 275 453 | 228 238 | 68 951 | 25,0 |
| Current | 322 | 0 | 0 | 322 | |
| Deferred | 344 082 | 275 453 | 228 238 | 68 629 | 24,9 |
| Pozostałe aktywa | 362 208 | 396 547 | 346 612 | -34 339 | -8,7 |
| AKTYWA RAZEM | 47 041 752 | 40 003 010 | 36 466 760 | 7 038 742 | 17,6 |

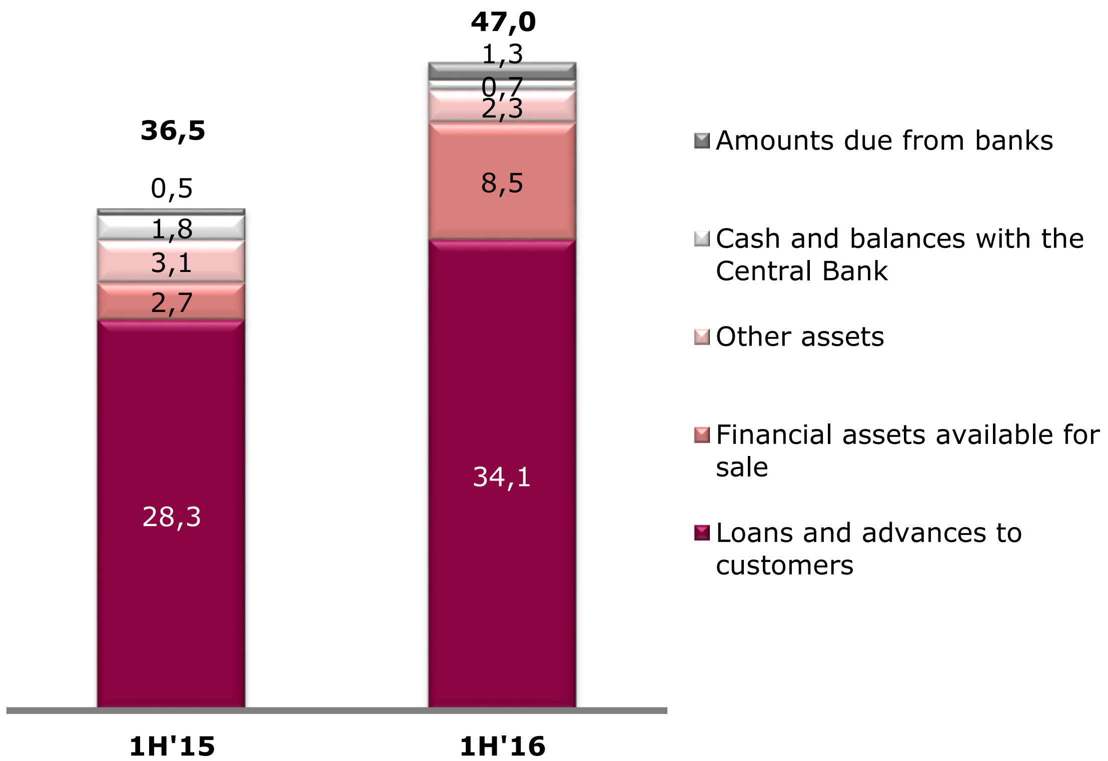
**in PLN '000**

| LIABILITIES AND EQUITY | as at 30.06.2016 | as at 31.12.2015 | stan na 30.06.2015 | change in PLN M y/y | change % y/y |
|---|---|---|---|---|---|
| Financial liabilities held for trading | 298 896 | 310 180 | 324 028 | -11 284 | -3,6 |
| Amounts due to banks | 1 016 777 | 1 051 028 | 1 600 556 | -34 251 | -3,3 |
| Amounts due to customers | 37 989 929 | 33 663 542 | 29 774 617 | 4 326 387 | 12,9 |
| Derivative hedging instruments | | | | | |
| Provisions | 11 551 | 10 813 | 14 014 | 738 | 6,8 |
| Other liabilities | 738 916 | 535 274 | 670 677 | 203 642 | 38,0 |
| Income tax liabilities | 18 876 | 21 776 | 15 666 | -2 900 | -13,3 |
| Current | 18 787 | 21 776 | 15 666 | -2 989 | -13,7 |
| Subordinated liabilities | 1 165 450 | 896 298 | 711 094 | 269 152 | 30,0 |
| Total liabilities | 41 240 395 | 36 488 911 | 33 121 539 | 4 751 484 | 13,0 |
| Equity | 5 801 357 | 3 514 099 | 3 345 221 | 2 287 258 | 65,1 |
| Equity (attributable to equity holders of the parent) | 5 800 370 | 3 512 859 | 3 343 661 | 2 287 511 | 65,1 |
| Share capital | 1 292 577 | 727 075 | 726 812 | 565 502 | 77,8 |
| Supplementary capital | 4 172 467 | 2 279 843 | 2 278 384 | 1 892 624 | 83,0 |
| Revaluation reserve | -3 280 | 15 215 | -22 724 | -18 495 | -121,6 |

| | | | | | |
|---|---|---|---|---|---|
| Other reserves | 183 803 | 184 735 | 185 762 | -932 | -0,5 |
| Retained earnings/ (accumulated losses) | -7 085 | -3 657 | -3 608 | -3 428 | 93,7 |
| Profit/(loss) for the year | 161 888 | 309 648 | 179 035 | -147 760 | -47,7 |
| Non-controlling interests | 987 | 1 240 | 1 560 | -253 | -20,4 |
| TOTAL LIABILITIES AND EQUITY | 47 041 752 | 40 003 010 | 36 466 760 | 7 038 742 | 17,6 |

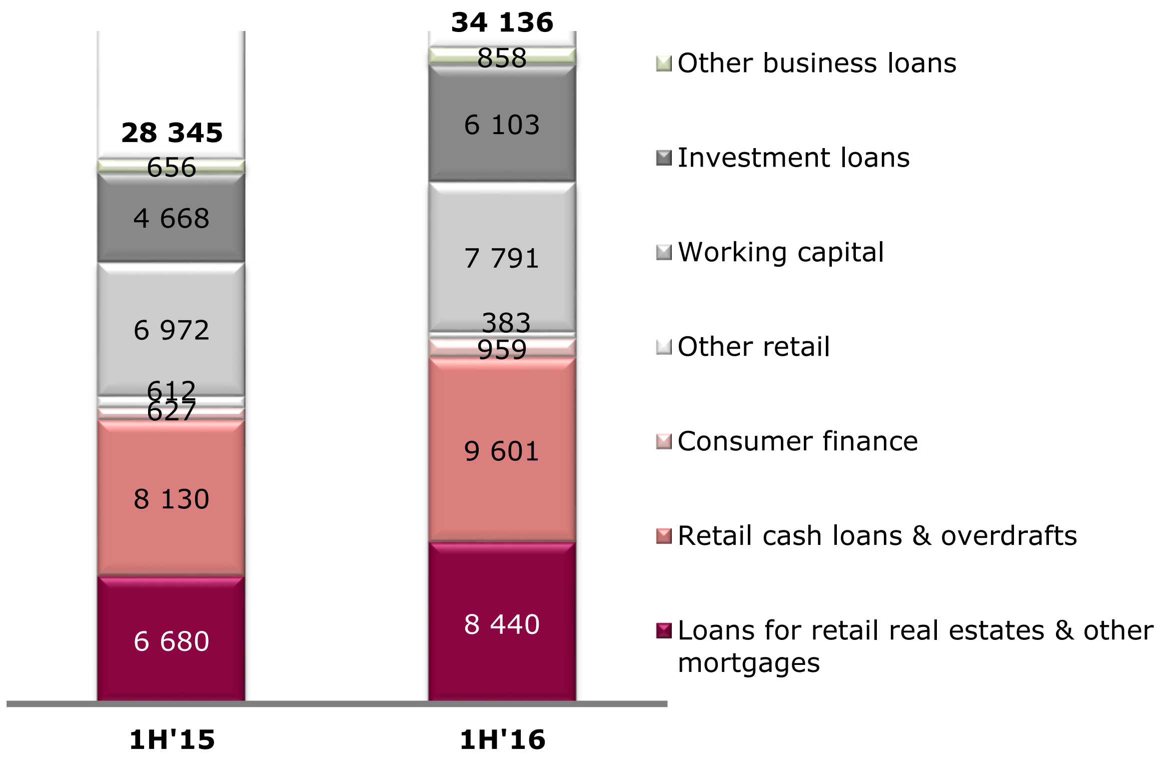
Assets comprise mainly amounts due from the Group's customers (PLN 34.1 billion). As at the end of 2015, they represented 72.6% of total assets, which means that their share decreased by 5.2 pp compared with the end of the first half of 2015. Financial assets available for sale, which as at the end of the first half of 2016 amounted to PLN 8.5 billion and represented 18.1% of total assets (as at the end of the first half of 2015: 7.4% of assets) represented another significant component of total assets.

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




The 20.4% increase in amounts due from customers resulted primarily from an increase in the volume of loans and advances granted in the retail segment, which increased by 20.8% (i.e. by PLN 3.3 billion). An increase in amounts due from business customers was another significant factor which contributed to an increase in the portfolio of receivables. At the same time, the volume of loans granted to the business segment increased by 20.0% (i.e. by PLN 2.5 billion) up to PLN 14.8 billion

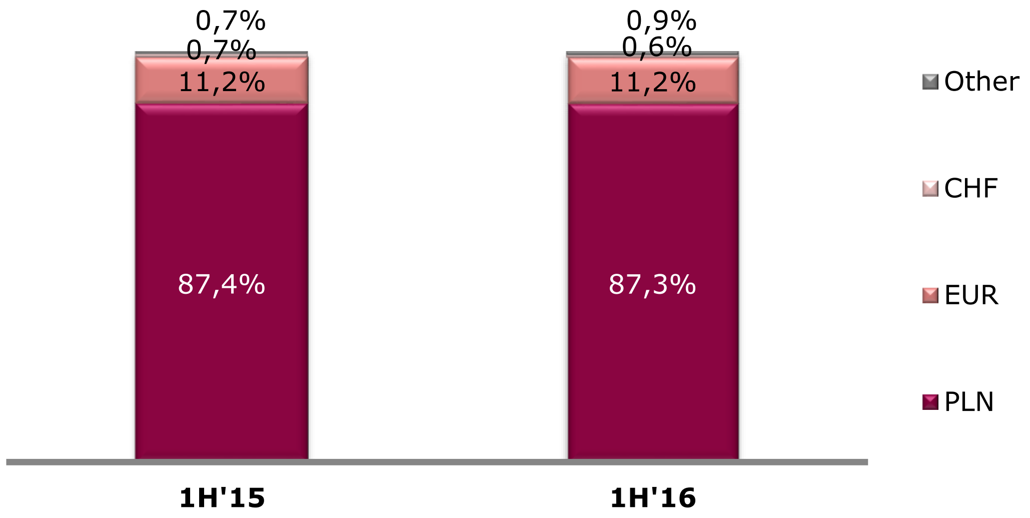
**Amounts due from customers (in PLNmillion )**




The loan portfolio in the retail segment comprised mainly consumer and working capital loans, whose volume exceeded PLN 9.6 billion (a y/y increase of 18.1%). They represented more than 49.5% of all loans and advances granted to retail customers and, at the same time, 28.1% of the total portfolio of amounts due from customers. Housing loans and mortgage loans, whose combined volume as at the end of the first half of 2016 amounted to PLN 8.4 billion (combined increase: 26.4% y/y) constituted the second largest component of the loan portfolio in the retail segment (43.5%). At the same time, the value of Consumer Finance loans granted as at the end of the first half of 2016 amounted to PLN 959 million and it was 52.9% higher than as at the end of the first half of 2015.

Working capital loans, which amounted to PLN 7.8 billion as at the end of first half of 2016 (an increase of 11.1% y/y), were the most significant component of the business segment's loan portfolio and represented nearly 52.8% of its value.
Investment loans, which represented 41.4% of the portfolio, were another significant component of business segment loans. Their value was 30.7% higher as at the end of the first half of 2016 compared with the end of the first half of 2015 and it amounted to more than PLN 6.1 billion.

**Amounts due from customers by currency**




As at the end of the first half of 2016, the share of receivables in PLN decreased by 0.2 pp compared with the end of the first half of 2015. In consequence, they represented 87.3% of total amounts due from customers as at the end of the first half of 2016. Amounts due from customers in EUR as at the 30 June 2016 represented 11.2% of total amounts due from customers, and their share does not changed compared with the end of the first half of 2015.

**Geographical structure of amounts due from customers (as at 30.06.2016)**

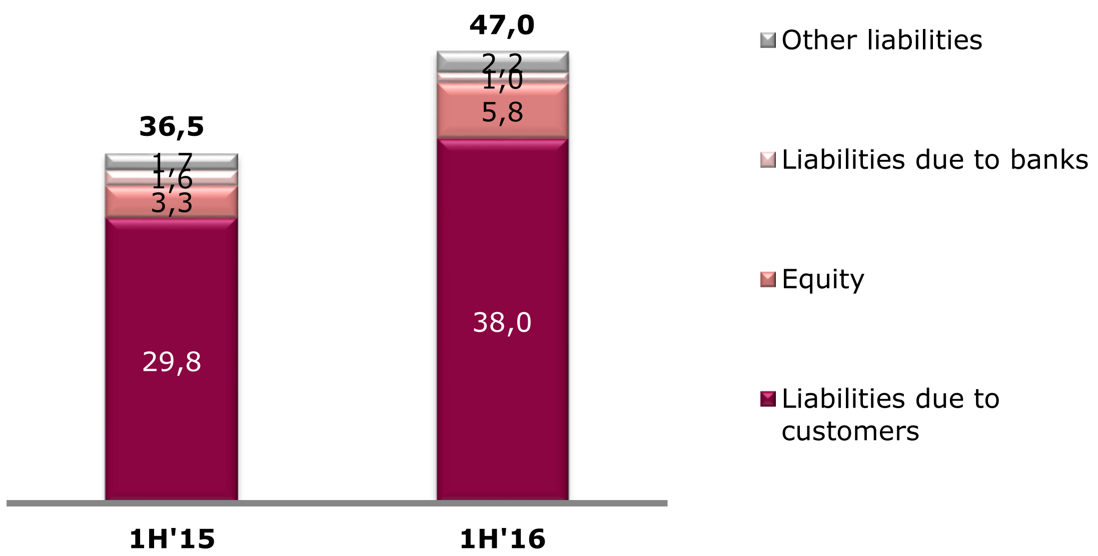
| Voivodeship | % of receivables |
|---|---|
| Mazowieckie | 25% |
| Śląskie | 11% |
| Dolnośląskie | 11% |
| Wielkopolskie | 10% |
| Małopolskie | 8% |
| Pomorskie | 7% |
| Łódzkie | 6% |
| Podkarpackie | 3% |
| Kujawsko-Pomorskie | 3% |
| Lubelskie | 3% |
| Zachodniopomorskie | 3% |
| Warmińsko-Mazurskie | 2% |
| Lubuskie | 2% |
| Podlaskie | 2% |
| Opolskie | 2% |
| Świętokrzyskie | 1% |
| TOTAL | 100% |

Loans granted to customers from the Mazowieckie Voivodeship represented more than a quarter of all loans granted by the Bank. Amounts from customers from the Śląskie and Dolnośląskie Voivodeships represented more than 22% of loans.

Amounts due from customers from the other voivodeships represent approx. 53% of the total loan portfolio.

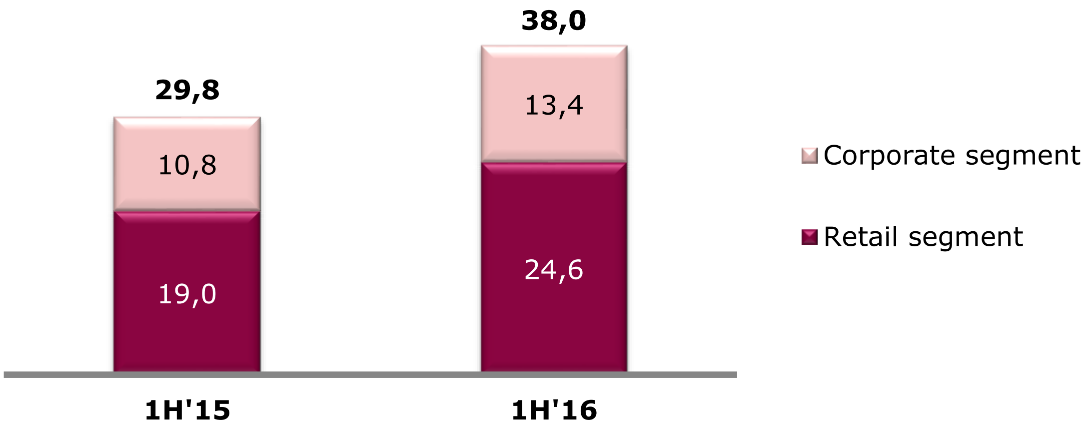
The Group's operations are financed from the funds of non-financial sector customers deposited with the Bank. As at the end of the first half of 2016, they represented 80.8% of total assets.
The balance of equity as at the 30 June 2016 slightly exceeded PLN 5.8 billion and was PLN 2.5 billion higher than as at the end of the first half of 2015. This increase was mainly due to the issuance of series I shares with pre-emptive rights, issued in connection with the takeover of a spun-off part of Bank BPH.
The net profit of the Bank generated in 2015 is allocated to increase the supplementary capital.

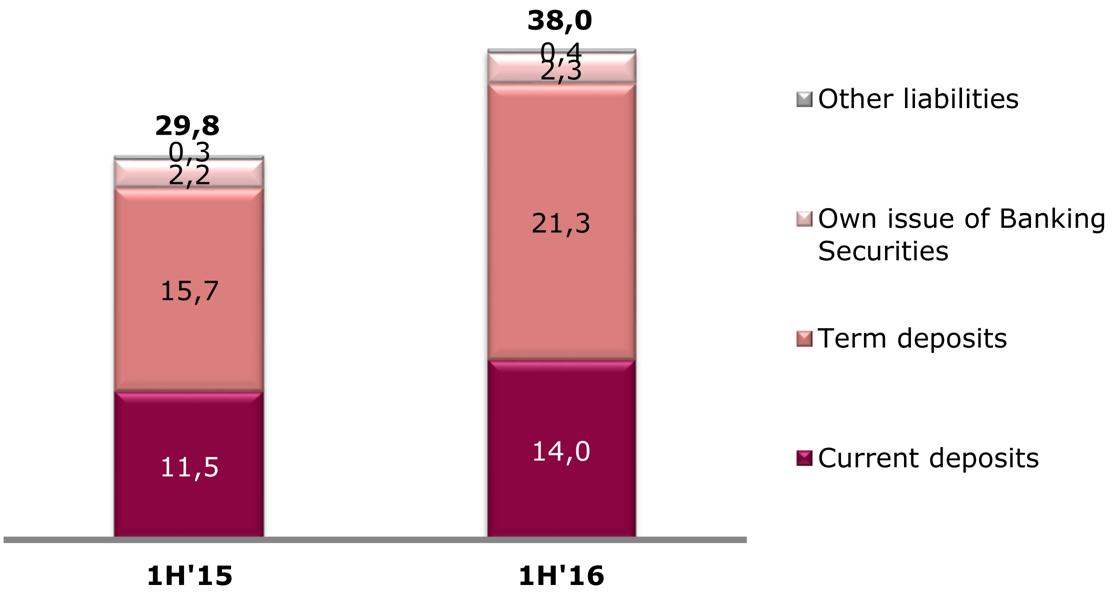
**Equity and liabilities of the Alior Bank Group (in PLN billion)**




Amounts due to the retail segment were the main item of amounts due to customers by type. As at the end of June 30, 2016, they represented 64.6% of the portfolio of customer deposits. Their share decreased by 1.0 pp compared with the end of the first half of 2015. The portfolio of amounts due to customers comprised mostly term deposits. They represented 56.2% of the total amounts due to customers as at the end of the first year of 2016 (a 3.3 pp increase compared with the end of the first half of 2015). The second most significant component of amounts due to customers (36.7% of total amounts due to customers as at the 30 June 2016) was current deposits. Their share in total amounts due to customers as at 30 June 2016 decreased by 2.0 pp compared to the end of the first half of 2015.
The remaining 7.1% of the balance of amounts due to customers as at 30 June 2016 comprised proceeds from issue of bank securities and other liabilities.

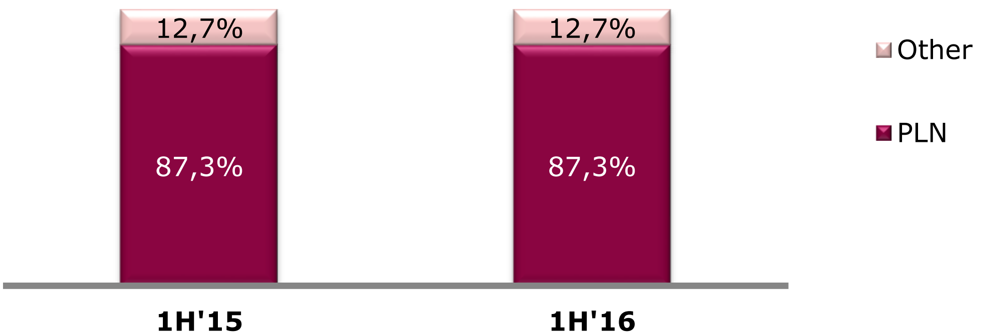
**Amounts due to customers by type (in PLN billion)**




Total amounts due to the ten biggest deposit holders constitute 3.7% of all customer deposits, which reflects the strong diversification of the Bank's deposit base.

**Amounts due to customers by currency**



As at the end of first half 2016, the share of PLN deposits in the total portfolio of amounts due to customers was maintained at a stable level in relation to the previous year of nearly 88%. The remaining slightly more than 12% of amounts due to customers comprised deposits in foreign currencies. As at the end of first half 2016, the most popular foreign currencies in which customers placed their deposits were EUR and USD.

**Geographical structure of amounts due to customers (as at 30.06.2016)**

| Voivodeship | % of liabilities |
|---|---|
| Mazowieckie | 27% |
| Małopolskie | 14% |
| Śląskie | 9% |
| Dolnośląskie | 8% |
| Wielkopolskie | 7% |
| Pomorskie | 6% |
| Podkarpackie | 5% |
| Łódzkie | 4% |
| Lubelskie | 4% |
| Podlaskie | 3% |
| Kujawsko-Pomorskie | 3% |
| Zachodniopomorskie | 2% |
| Świętokrzyskie | 2% |
| Lubuskie | 2% |
| Warmińsko-Mazurskie | 1% |
| Opolskie | 1% |
| **TOTAL** | **100%** |

Funds deposited with the Bank mostly come from customers from the Mazowieckie (27%), Małopolskie (14%) and Śląskie (9%) voivodeships. Customers from the other voivodeships deposited funds with the Bank representing 50% of the total deposit base.

## Financial forecasts

The Alior Bank S.A. Group did not publish any forecasts of its results.

# V. Operations of Alior Bank S.A.

Alior Bank is a universal lending and deposit-taking bank which renders services to individuals, legal persons and other entities which are Polish and foreign persons. The Bank's core activities include maintaining bank accounts, granting loans and advances, issuing structured debt securities and purchasing and selling foreign currency. The Bank also conducts brokerage activities, consulting and financial agency services, arrangement of corporate bond issues and renders other financial services.

The Bank's operations are conducted in various divisions which offer specific products and services addressed to specific market segments. The Bank currently conducts operations in the following industry segments:

- *Individual customers* (retail segment) addressed to the mass and affluent segment and private banking customers to whom the Bank offers a comprehensive range of banking products and services and brokerage products offered by the Brokerage House of Alior Bank S.A., in particular loan products, deposit products and investment funds, personal accounts, *bancassurance* products, transaction services and foreign currency products;

- *Corporate customers* (corporate segment) addressed to small and medium enterprises and large corporate customers to whom the Bank offers a comprehensive range of banking products and services, in particular loan products, deposit products, current and auxiliary accounts, transaction services and treasury products.

- *Treasury activities* comprise transactions on interbank markets and involvement in debt securities. This segment reflects the results of managing the global position (liquidity position, interest rate position and currency position arising from banking operations).

The basic products for individual customers cover:

- loan products: cash loans, credit cards, overdraft facilities, housing loans;
- deposit products: term deposits, savings accounts;
- brokerage products and investment funds;
- personal accounts;
- transaction services: cash deposits and withdrawals, transfers;
- FX transactions.

The basic products for corporate customers cover:

- loan products: credit lines, working capital loans, investment loans, credit cards;
- trade financing products: guarantees, factoring, assuming the creditor's rights;
- deposit products: term deposits;
- current and auxiliary accounts;
- transaction services: cash deposits and withdrawals, transfers;
- treasury products: FX transactions (also at set date), derivatives;
- corporate bond issues.

Revenues of the corporate segment also include revenues from the car loans portfolio.
Reconciling items include items which are not allocated to the individual operating segments and eliminations of intragroup transactions, i.e.:

- internal net interest income calculated on net impairment losses;
- reconciliation of the presentation of the remuneration costs directly related to the sale of financial instruments (incremental costs) for management reporting purposes by deducting the amount relating to incremental costs from the commission income presented in corporate segments;
- commission costs not allocated to business units (including cash management fees, ATM sharing commission, domestic and foreign transfers);
- other operating income and expenses not related directly to operating segments.

The table below presents the basic financial data of the Group by operating segments as at and for the 6 months ended 30 June 2016.

| ( thous. PLN) | Individual customers | Corporate customers | Treasury activities | Total business segments | Reconciling items | Total Bank |
|---|---|---|---|---|---|---|
| Net interest income | 547 739 | 251 033 | 73 686 | 872 458 | -15 791 | 856 667 |
| Net fee and commission income | 45 579 | 130 818 | -3 723 | 172 674 | -9 255 | 163 419 |
| Dividend income | 0 | 0 | 0 | 0 | 34 | 34 |
| Trading result | 83 | 24 636 | 111 420 | 136 139 | -5 003 | 131 136 |
| Net gain realized on other financial instruments | 48 137 | 59 080 | -86 445 | 20 772 | -6 | 20 766 |
| Net other operating income | 59 592 | 1 337 | -2 176 | 58 753 | -48 095 | 10 658 |
| **Net income before net impairment losses** | **701 130** | **466 904** | **92 762** | **1 260 796** | **-78 116** | **1 182 680** |
| Net impairment losses | -220 283 | -116 090 | 0 | -336 373 | -12 484 | -348 857 |
| **Net income after net impairment losses** | **480 847** | **350 814** | **92 762** | **924 423** | **-90 600** | **833 823** |
| General administrative expenses | -454 088 | -161 075 | -1 596 | -616 759 | 0 | -616 759 |
| **Profit/loss before tax** | **26 759** | **189 739** | **91 166** | **307 664** | **-90 600** | **217 064** |
| Income tax expense | 0 | 0 | 0 | 0 | -55 328 | -55 328 |
| **Net profit/loss for the year** | **26 759** | **189 739** | **91 166** | **307 664** | **-145 928** | **161 736** |
| Assets | 28 631 719 | 18 033 084 | 32 545 | 46 697 348 | 344 404 | **47 041 752** |
| Liabilities | 26 936 930 | 14 276 216 | 8 373 | 41 221 519 | 18 876 | **41 240 395** |

## Retail segment (individual customers)

### *General information*

As at 30 June 2016, Alior Bank serviced 3.08 million individual customers. The increase in the number of customers serviced in the first half of 2016 resulted both from the organic growth of Alior Bank and from acquiring SKOK Powszechna and SKOK Wyszyńskiego.

Alior Bank classifies its retail customers in the following categories:

- mass customers (individuals who have not been classified in the affluent or very affluent customers group);
- affluent customers (individuals with monthly inflows to personal accounts of over PLN 5,000 or with assets exceeding PLN 100,000);
- very affluent customers (individuals with assets of over PLN 400,000 or who intend to use funding of at least PLN 1 million).

Alior Bank's basic products and services for retail customers are:

- credit products: cash loans, credit cards, overdraft facilities, housing loans;
- deposit products: term deposits; savings accounts;
- structured debt securities; brokerage products and investment funds;
- personal accounts;
- transaction services: cash payments and disbursements; bank transfers;

- foreign exchange transactions.

Due to the specific nature of the operations conducted in the retail segment the Bank discerned three additional retail segment areas for which it had dedicated offers for a selected group of the Bank's customers: consumer finance, Private Banking and brokerage activities.

**Distribution channels**

As at 30 June 2016 Alior Bank had 804 outlets (299 traditional branches including six *Private Banking* branches (in Warsaw, Katowice, Poznań, Kraków, Gdańsk and Wrocław), and 12 Regional Business Centers, and 505 franchise partner outlets. Alior Bank's products were also offered through a network of ten Mortgage Centers, ten cash centres, almost 3,000 financial intermediary outlets and by approximately 10,000 instalment intermediaries. Alior Bank also used distribution channels based on an advanced IT platform: online banking, mobile banking and call centers. Online banking enables Alior Bank to enter into agreements for: checking accounts, foreign currency accounts, savings accounts, deposits, debit cards and brokerage accounts. Requests for the following credit products are also accepted through these channels: cash loans, credit cards, overdraft limits and mortgage loans. Alior Bank also offers instalment loans through an online process and enables the use of services of a foreign currency exchange desk.

Alior Bank has traditional branches in the largest Polish cities, offering a full range of Alior Bank's products and services. They constituted the key distribution channel for Alior Bank's products and services offered to retail customers. Franchise partner outlets were located in smaller towns as well as in the main cities of Poland. They offer a wide range of Alior Bank products and services, with term deposits and checking accounts for retail and business customers, savings accounts, debit cards, credit cards, cash loans, consolidation loans, housing loans, corporate loans and overdraft facilities in particular.

Cooperation between Alior Bank and its franchise partner outlets is founded upon outsourcing franchisee agreements. Pursuant to such agreements, franchisees exclusively provide agency services relating to the distribution of Alior Bank's products on behalf of Alior Bank. These services are provided on premises owned or leased by the franchisees, and each franchisee is approved by Alior Bank.

As indicated above, Alior Bank's products are also offered through financial intermediary outlet networks, such as Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines, DFQS, GTF and others. Alior Bank's product offerings available through financial intermediaries differ depending on the intermediary, but generally financial intermediaries offer cash loans, consolidation loans and mortgage or housing loans and instalment loans.

Additionally, individual customers are able to access their accounts and perform banking transactions through all ATMs in Poland and through selected ATMs outside Poland. The use of ATMs in Poland and abroad is free of charge for customers who meet certain activity requirement (those who have transferred their salaries, old age or disability pensions). ATMs in Alior Bank's traditional branches are owned and managed by Bankomat 24/Euronet sp. z o.o.

579 service outlets support the sales network described above, from which Alior Bank's products are offered under the T-Mobile Uslugi Bankowe brand delivered by Alior Bank. As at June 30, 2016, in the above-mentioned service outlets, 147 dedicated T-Mobile Uslugi Bankowe outlets provided the full scope of services, where customers could access

banking products such as loans, credit cards, overdraft limits, deposits, foreign currency accounts, and individual and business customer accounts.

As at 30 June 2016 Alior Bank also had 71 outlets located in Tesco supermarkets in Poland, offering credit products under the Tesco Finanse brand.

Sales support in all distribution channels is provided by customer relationship management ("CRM") operating and analytical systems. In connection with its expanding customer base, Alior Bank intends to increase its analytical CRM function to improve its cross-selling ratio.

**Products and services**

Alior Bank's basic products and services intended for retail customers are:

(i) credit products: cash loans, credit cards, overdraft facilities, housing loans; (ii) deposit products: term deposits; savings accounts; (iii) structured debt securities, brokerage products and investment funds; (iv) personal accounts; (v) transaction services: cash payments and disbursements; bank transfers; and (vi) foreign exchange transactions. Due to the specific nature of the operations conducted in the retail segment the Bank discerned three additional retail segment areas for which it had dedicated offers for a selected group of the Bank's customers: consumer finance, Private Banking and brokerage activities.

**Loan products**

Loan products are offered through all of Alior Bank's distribution channels.

*Cash loans*

Alior Bank's key offering of unsecured loan products for individual customers is a cash loan, which may be used for any purpose, including the consolidation of financial liabilities (a consolidation loan).

Cash loans and consolidation loans are characterized by high margins and minimum requirements in respect of documenting income and security terms and conditions. The Management Board believes that the maximum repayment period for these products is ten years, and that they are among the most attractive cash loan products on the market. Individual customers may draw loans or advances up to PLN 200,000 without guarantors or other collateral. The products are offered in PLN and are available to Alior Bank's current and new customers. Alior Bank offers cash loans in amounts exceeding PLN 200,000 on individual terms and conditions.

In 2015 and in the first half of 2016, Alior Bank focused on two areas in its cash loan operations. In the first area, Alior Bank intensified promotional actions aimed at acquiring new customers through marketing campaigns, with a focus on customers who wished to transfer their borrowings to Alior Bank from other financial institutions. As of the beginning of March 2016 and throughout the second quarter of 2016 the Bank promoted the loan under the campaign "We are reducing interest rates by -30%" in the media. The second area covered CRM initiatives aimed at strengthening relationships with customers by encouraging them to increase credit exposure. CRM activities are also concentrated on improving cross-selling to instalment loan customers and increasing Alior Bank's exposure to customers from more profitable segments.

Cash loans are available through all of Alior Bank's distribution channels.

*Instalment loans*

Alior Bank offers a wide range of instalment loan products, with terms adapted to both counterparty and customer expectations, via retailers (chains, independent retailers, and *eCommerce* retailers). The standard offer for crediting the purchase of goods and services constitutes an unsecured loan for a period from three to 60 months, of up to PLN 30,000. Such loan requests are filed at goods or services sales outlets and require a minimum level of formalities and customer involvement. In response to market demand, Alior Bank has made available loans offered on the basis of customer declaration with no independent credit review, which enables a fast conclusion of a loan agreement. The offer of instalment loans through the internet is available on a 24-hour basis. Alior Bank actively seeks to enter new areas such as the eco industry (photovoltaic and solar cells, heat pumps) and the medical industry (aesthetic medicine, dentistry, orthopedics). Alior Bank's intention is to continue its cooperation with key retailers in the Polish market in order to continue the further prudent and stable development of its distribution network.

*Credit cards*

Alior Bank offers credit cards to its retail customers. Alior Bank cooperates closely with its key business partner in respect of the credit card business, the MasterCard payment system. Alior Bank has four types of cards aimed at different target groups. The Gold card is aimed at the mass individual customer segment, the World card is dedicated to the *mass affluent* segment, and the World Elite card is dedicated to the Private Banking segment. Under its cooperation with Tesco, Alior Bank issues a MasterCard ClubCard credit card. This card is dedicated to customers serviced by the Tesco Finanse outlet under Project Tesco. Due to the fact that the cards are addressed to various customer segments, they have different characteristics. The additional benefits attached to the World Credit Card are free-of-charge insurance and the Rewards loyalty program. The World Elite Card, as a prestigious card, is characterized by an individually determined high credit limit. The *concierge* service package is offered with the card, which consists of the support of a specialized call center, insurance and Priority Pass, as well as the possibility of using airport lounges. The ClubCard Credit Card enables transactions to be divided into instalments, and enables the use of the ClubCard loyalty program active in the Tesco chain. The card's credit limits are from PLN 500 to PLN 200,000 depending on the type of card. Alior Bank does not require any warranty or additional security when granting those credit cards. All credit cards are secured with chips and enable contactless payments. Alior Bank grants card credit in two ways: under a joint credit process in which the customer is granted two products at the same time based on the same information and documents – a cash loan and a credit card or a credit card as a single product.

*Overdraft facilities*

Overdraft facilities enable the balance of a bank account to be overdrawn. Under the overdraft limit granted, customers may go overdrawn on the balance on the account many times, and each payment made to the account reduces or cancels the overdraft. Alior Bank offers renewable overdraft limits for amounts from PLN 500 to PLN 200,000 and does not require additional security or guarantee. Alior Bank grants the renewable overdraft limit in two ways: under a joint credit process where a customer is granted two products at the same time, based on the same information and documents (a cash loan and an overdraft facility (up to a renewable limit)), or a renewable overdraft limit as a single product.

*Mortgage loans*

In the first half of the year, Alior Bank offered mortgage loans in PLN, EUR, GBP, USD and CHF, repayable over a period of up to 30 years for financing housing or financial needs. The extensive offer of foreign currency loans follows from the requirements of the PFSA regulation that the currency of the loan has to comply with the currency of remuneration of the borrower.

In the first half of 2016, Alior Bank actively and successfully participated in the sale of loans under the government program *"Mieszkanie dla Mlodych"* (Apartments for the Young: "MdM"). In the first half of 2016, sales of loans under the program constituted 29% of the Alior Group's total mortgage loan sales (per value). The significant share of the credit portfolio in the MDM program is the consequence of efficient organization of services due to a technologically advanced process for MdM loans and addressed to that group of Customers availing themselves of the MdM Plus offer. This offer enables finance for housing purposes which were not included in the catalogue of goals specified in the Act regulating the operation of the MDM program.

Alior Bank concentrates on the sale of mortgage loans through specialized entities known as Mortgage Centers *(Centra Hipoteczne).* These are dedicated to servicing mortgage lending intermediaries. Mortgage Centers operate in Warsaw, Kraków, Wrocław, Poznań, Łódź, Gdańsk, Szczecin, Katowice, Lublin and Olsztyn. In the first half of 2016 sales of mortgage loans by Mortgage Centres comprised 65% of Alior Bank's sales (in terms of value). The remaining part of sales was made in Alior Bank branches. All organizational entities which offer mortgage loans operate according to a new automated process, supported with IT tools, implemented in 2015.

**Deposit products**

*Term deposits*

Alior Bank offers two types of deposits to its retail customers: (i) a standard term deposit with a fixed interest rate (one, three, six, ten and 12 months, two years, and other terms offered from time to time) or with a fluctuating interest rate (24 and 36 months) denominated in PLN and selected periods for specific currencies. The term deposits may be renewed (customers may choose whether the principal amount together with accrued interest is renewed or only the principal is renewed, with the interest transferred to a special account maintained by Alior Bank) or non-renewable (on the maturity date the principal and the accrued interest is transferred to the indicated account maintained by Alior Bank). Customers interested in depositing larger amounts may be given access to negotiable deposits, where both the term and the interest on the deposit are established individually.

In 2016, Alior Bank continued to acquire 120-day and 210-day term deposits to encourage customers to deposit new funds with Alior Bank. Additionally, a promotional deposit was introduced during the EURO2016 championship, earning interest which depended on the number of goals scored by the Polish representation. The Bank also maintained the promotion of a term deposit supporting the sales of personal accounts. The deposit is dedicated to customers who open an Internet Account (*Konto Internetowe*), a Reasonable Account (*Konto Rozsądne*) or a Higher Quality Account (*Konto Wyższej Jakości*) and at the same time place a 2-month deposit within 30 days of opening the personal account. In the first half of 2016 promotional deposits constituted 55% of all funds acquired by the Bank on an average (in terms of value).

*Savings accounts*

Alior Bank offers savings accounts denominated in PLN to its retail customers. The funds deposited in savings accounts bear interest according to the WIBID1M interbank base rate decreased by 0.5bp. Interest on savings accounts in the promotional offer for new customers is fixed over a three-month period as of the date of the account opening. Savings accounts may be opened at Alior Bank's outlet or via Internet banking. Alior Bank's individual customers with savings accounts have access to payment cards (MasterCard Debit).

Additionally Alior Bank offers a savings account to customers who have submitted a successful application for child benefit *(Wniosek Rodzina 500+)* with a preferential fixed interest rate over a 12-month period.

Deposit products for retail customers are available through all of Alior Bank's distribution channels.

*Structured debt securities*

Structured debt securities are aimed mainly at retail customers. The minimum amount of investment is PLN 3,000. Interest rates on these accounts are linked to indices, shares, investment funds, commodities and currencies. The most popular products are issues based on a basket of companies where the profit is determined as the sum of the actual rates of return, with the reservation that the profit of half of the companies in the basket is limited to a maximum rate of return of 7-15%. The baskets of companies mainly made up of companies in the following industries: pharmaceutical, financial, and new technologies; or companies selected from certain regions such as Germany, Europe and the USA. As a rule, investment products for individual customers have a 100% guarantee on the principal, with the exception of issues which limit customer risk to a minimum of 98% or 95%, and are offered mainly to affluent customers.

In the first half of 2016, under the first program for the issue of bank securities, Alior Bank issued securities with a total nominal value of more than PLN 386 billion. Apart from products with guaranteed principal based on market indices, these securities included two-currency deposit certificates which allowed customers to benefit from high interest rates and exchange the currencies at a predetermined rate. The securities were offered in a public offering to corporate customers, *Private Banking* customers and to individual customers.

*Personal accounts*

Current accounts with Alior Bank allow active customers to withdraw cash from many ATMs in Poland and throughout the world free of charge, and give access to many other banking products and services, such as bank overdrafts, transfers (including "instant transfers" which allow customers to transfer funds to another Polish bank in just a few minutes), direct debits, standing orders and payment cards (Debit MasterCard PayPass, World Debit MasterCard).

Alior Bank offers the following types of personal accounts: Konto Wyższej Jakości (Higher Quality Account) and Konto Rozsądne (Reasonable Account), aimed mainly at active customers who use Alior Bank as their main bank. The Higher Quality Account is characterized by guaranteed unchanged fees over five years, and is aimed at affluent customer segments. The condition for free-of-charge maintenance of the account is making cash-free payments to the account of at least PLN 2,500 per month or concluding card payment transactions for a minimum of PLN 700 per month. The Reasonable

Account is dedicated to families making food purchases using payment cards. Alior Bank refunds 3% of such expenses to account holders. The account is maintained free-of-charge for active customers on the condition that the customer's remuneration is transferred to that account.

The Internet Account is also offered to individual customers, which is maintained free of charge, without the requirement to deposit salaries, old-age or disability pensions. An additional advantage of the Internet Account is that the following are free of charge: withdrawals from ATMs (Euronet, Planet Cash and abroad), internet transfers, European transfers and issuing a card for the account.

Alior Bank offers a Karta Kibica (Football Fan Card) with a dedicated account. The simple application process and several benefits relating to the Polish national football team have been recognized by a growing group of football fans.

Alior Bank's personal account product is supplemented by foreign currency accounts in four basic currencies: USD, EUR, CHF and GBP. Owners of foreign currency accounts in USD, EUR and GBP have access to withdrawals from many ATMs in Poland and throughout the world (including free-of-charge withdrawals from Alior Bank's ATMs and Euronet and Planet Cash ATMs in Poland) and debit cards (Debit MasterCard).

*Transaction services*

Alior Bank offers a full range of transaction services, including payments in and out of accounts, cash payments to accounts maintained by Alior Bank and by other banks, term deposits and transfers (including transfers to the Social Insurance Institute and to tax offices).

*Foreign exchange transactions*

Foreign exchange transactions may be entered into at Alior Bank's outlets or through internet banking, in respect of the following currencies: PLN, EUR, USD, GBP and CHF. Alior Bank also offers the possibility of exchanging currencies via dedicated trading platforms).

Alior Bank offers its customers the option to complete foreign 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 option to complete transactions is available through many channels and a differentiated price offer is applied. The most important transactions are automatic foreign exchange related to foreign transfers and card transactions made abroad, transactions concluded via electronic access channels (Autodealing, Kantor Walutowy (Foreign Exchange Desk), and eFX Trader Platform and negotiated transactions concluded directly with the Treasury Department.

*New products and services*

In the second quarter of 2016 the following material new products were introduced to the offering of the Alior Group for the retail customer segment:

- cash loan / consolidation loan "We are reducing interest rates by 30%" ("Obniżamy oprocentowanie o 30%");
- TOP MBA loans set up in cooperation with PZU for Master of Business Administration (MBA) students, enabling the financing of studies at the most prestigious institutions in the world (introduced in 2015);
- promotional 120-day and 210-day term deposits encouraging customers to deposit

new funds with Alior Bank, and a promotional 92-day deposit product offer TOP5. An additional product supporting sales of accounts is the two-month deposit with an increased interest rate.

In the second quarter of 2016 Alior Bank joined the government's child benefit scheme, Rodzina 500+, aimed at supporting Polish families. This enables Alior Bank's clients to send an application for child benefit under the Rodzina 500+ scheme through the internet banking system of Alior Bank. Additionally, Alior Bank has prepared a dedicated offer for those filing such applications, by introducing a savings account with an attractive interest rate, for up to PLN 6,000 over a period of 12 months. New clients who open the "Konto Rozsądne dla Rodziny" (Reasonable Family Account) may also use an overdraft facility on similarly attractive terms. Under the special offer of the "Pomocny Limit" (Helpful Overdraft Limit), clients do not incur any interest fees on up to PLN 1,000 for a maximum of ten days.

## Retail segment areas

Alior Bank discerned three additional retail segment areas: consumer finance, Private Banking and brokerage activities.

### Consumer Finance

Alior Bank's installment loans offer (Consumer Finance) is available in each of 3 sales channels, i.e. stationary (10 thousands stationary units of Bank's contractors), direct (door-to-door, i.e. directly to the customer's door) and online (3 thousands internet shops). In 2015-2016, sales in the stationary and online channels recorded the fastest growth, whilst in the direct channel the level of sales remained at a high and stable level.
Bank conducts and intends to continue developing its installment loans business in cooperation with its key partners including RTV Euro AGD, PayU, Allegro, Agata Meble, BRW, Komfort, Philipiak, Vorwerk, Empik "Szkoły językowe", Zepter, Komputronik, Bodzio, Media markt, and Saturn. Simultaneously, a strong position in the agency market is maintained, which enables access to smaller, local retailers.
Owing to the above mentioned activities, in 2015-2016, Alior Bank continued to successively develop its clients' base, which provides it with the perspective of further development of cooperation and sales of other products.
CRM activities directed towards the clients acquired through the installment channel result in the increase in the level of sales of other products.
The critical factor is the development of innovative solutions as well as the entry into new sectors.

### Private Banking

The Private Banking program is available to the most affluent individual customers who entrust Alior Bank with assets exceeding PLN 400,000, or who wish to use financing of at least PLN 1 million. They are serviced by six specialist Private Banking branches: in Warsaw, Katowice, Poznań, Kraków, Gdańsk and Wrocław.

As at June 30, 2016, 64 people worked in the Private Banking branches. The Alior Bank's PB Wealth Care offering is operated by Alior Services and services the non-financial assets of Private Banking customers, and aims to make contact with commercial partners who provide services such as legal and tax advisory or alternative investments.

**Brokerage activities**

The Bank engages in brokerage activities via Biuro Maklerskie Alior Banku, which is an organizationally isolated entity within Alior Bank and which offers its services via 299 Alior Bank outlets and via remote distribution channels and the telephone channel Contact Centre of the Brokerage Office, and the Internet brokerage system integrated with the Alior Bank Integrated Banking System and the Alior Trader transaction platform.
Biuro Maklerskie Alior Banku engages in brokerage activities based on the provisions of the Act on Trading in Financial Instruments and the permit of the Polish Financial Supervision Authority in the following scope: (i) accepting and transferring financial instrument purchase or sale orders; (ii) executing financial instrument purchase or sale orders on the account of the ordering party; (iii) purchasing or selling financial instruments on own account; (iv) investment advisory services; (v) offering financial instruments; (vi) safekeeping or registering financial instruments, including maintaining securities accounts and cash accounts; (vii) preparing investment analyses, financial analyses and other recommendations of a general nature relating to transactions in financial instruments; and (viii) performing the function of a market maker.
As at 30 June 2016, the Brokerage Office of Alior Bank S.A. maintained more than 81.6 thousand brokerage accounts and the Customers' assets accumulated on brokerage accounts amounted to PLN 6.6 billion.

As at 30 June 2016, Alior Bank cooperated with fifteen fund management companies of open investment funds (OIF) and eighteen of closed investment funds (CIF). As at 30 June 2016, the open investment fund offer comprised 482 strategies. Assets accumulated in OIF products via Alior Bank were worth nearly PLN 596 million as at the end of June 2016. Assets accumulated in CIF products via Alior Bank were worth approximately PLN 1,498 million as at the end of June 2016. The total assets accumulated in investment funds via Alior Bank amounted to around PLN 2,094 million as at the end of June 2016.. Moreover, the Brokerage Office of Alior Bank S.A cooperates with Money Makers TFI S.A. in offering asset management services.

In October 2014, the Brokerage Office of Alior Bank S.A. introduced to its offer a portfolio investment advisory service under which it recommends to the customers portfolios of investment funds, stock exchange instruments and mixed portfolios based on an assessment of an individual customer's situation. As at 30 June 2016 The Brokerage Office of Alior Bank S.A. concluded 6,900 contracts with customers for the provision of the service.
As at 30 June 2016, the Brokerage Office of Alior Bank S.A. provided market maker services to 51 issuers and conducted market making activities in respect of 77 financial instruments.

**Cooperation with third parties in gaining new individual customers**

**T-Mobile Banking Services**

Cooperation with T-Mobile contributes to supporting the volume growth of credit products. Sale of current accounts and cash loans based on the T-Mobile Banking services initiative is also important. Alior Bank's branch which cooperates with the operator also noted dynamic growth in sales of loans for the purchase of equipment such as smartphones and tablets in T-Mobile outlets. Thanks to the full integration of sales processes by the bank and the operator at the end of June over 93 thousand transactions were financed. Almost 90% of all agreements have been concluded with customers who had not before used T-Mobile Usługi Bankowe banking services. Thanks to the loans for purchases of equipment the Alior Bank Group is building up a database of creditworthy customers with a potential for significantly wider cooperation.

In June 2016 we also introduced a new credit card to the offer, the affinity type card, which enables the customers to support one of the most favourable actions of CSR T-Mobile - Pomoc Mierzona Kilometrami (Support measured with kilometers). For each purchase made using the card the customer receives points in the MasterCard Rewards Program, which he may then exchange for "bricks" supporting the TVN Foundation "Nie jesteś sam" (You are not alone) or for gadgets of the Pomoc Mierzona Kilometrami action.

Integration of the bank's and the operator's offers also relates to deposit products. In June 2016 an account with telecommunication services was also launched on the market. Customers for whom this is the basic account may receive a mobile subscription without limits or mobile Internet in T-Mobile even at no charge and throughout the term of the contract with T-Mobile.

In the second part of the year further development of cooperation with the operator is planned in respect of credit and deposit products, including introducing the availability of financing equipment through remote T-Mobile sales channels.

**Tesco Project**

On 14 October 2015, Alior Bank concluded an agreement with the British chain of Tesco hypermarkets relating to continuing cooperation on the Polish market. Under the cooperation agreement, credit products branded Tesco Finanse, i.e. cash loans, credit cards integrated with the ClubCard loyalty program and instalment loans are offered in Tesco shops. As at 30 June 2016 financial services under the brand Tesco Finanse were available in 71 outlets located in Tesco shops. The Bank is planning to reinforce cooperation with Tesco by expanding the sales network by consecutive locations in shops belonging to the partner and gradually expanding its portfolio of products and services available to Tesco customers.

## Corporate segment

### *General information*

As at 30 June 2016, Alior Bank serviced over 132.9 thousand business customers in all segments.
The Bank divides its business customers ("business customers") into three basic groups, mainly by the scale of business operations:

1. microbusinesses – entities earning up to PLN 5 million sales revenues and settling with the tax offices both according to the simplified accounting and full accounting system;

2. small and medium businesses – entities engaged in business operations and earning PLN 5-60 million revenues; and

3. large businesses which engage in business and earn revenues exceeding PLN 60 million, including Polish subsidiaries of international companies serviced by Centrum Dużych Firm (Large Businesses Centre) ("corporations").

Alior Bank has a comprehensive offer for business customers addressed both to the smallest customers, including those starting their business (Alior Bank is a partner of the European Guarantee Fund within the scope of financing offer for start-ups) and to large business entities which use technologically advanced deposit and transaction solutions and EU funds. The following were the basic products for business customers:

1. accounts, settlements and deposits: business accounts; cash management accounts; and additional products, such as POS and mPOS payment terminals;

2. loans for business customers: working capital loans; investment loans; EU fund and public program financing support instruments, such as the de minimis guarantee of Bank Gospodarstwa Krajowego; the European Investment Fund guarantee; and

3. products and services for corporations: finance management services; trade financing services; structured loans; non-public and public issues and bond issue programs.

Relations between the Bank and its business customers are regulated by a framework agreement for the provision of banking services. The framework agreement replaces agreements related to the use of Internet banking, opening and using accounts, using the debit card, placing term deposits, using autodealing (a bank Internet platform which enables customers conclusion of various types of foreign exchange transactions and negotiation of terms and conditions of term deposits). Use of a framework agreement limits formalities related to using banking products in the Bank's offer to the necessary minimum. The table below shows the volume of amounts due from customers from the business segment and finance liabilities due to customers from the business segment as at the indicated dates.

| | June 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Amounts due from customers | 14,727.9 | 13,311.7 | 10,347.1 | 9,072.5 |
| Amounts due to customers | 13,432.2 | 12,254.5 | 9,578.6 | 6,608.9 |

**Distribution channels**

Micro-businesses are serviced by 299 of the Bank's branches and 505 partner outlets, small and medium enterprises (SMEs) are serviced by around 300 specialized branch employees, and corporations are serviced by Centrum Dużych Firm in the Bank's head office in Warsaw. Each business customer may use any of the Bank's branches, irrespective of where its account is maintained. Additionally, the Bank's business customers are also serviced over the phone and through distribution channels which use new technologies, in particular the Internet and mobile banking systems.

Services are provided by the Bank's branch employees. Business customers also use the support of two experienced teams of experts comprising the staff of the Trade Finance Department and the Treasury Department. The experts are located throughout Poland and support customers in determining the structure of the transactions, both in current transactions: factoring, guarantees, housing trust accounts, foreign exchange, and foreign

exchange, commodities, interest rate risk hedges, and in implementing specialist products and services adapted to their needs.
Alior Bank offers an extensive online banking system to all of its customers, enabling the monitoring and managing of basic and auxiliary accounts, payment cards, loans and all types of bank transfers. The Bank's business customers may use special solutions, among other things to integrate their system with Alior Bank's Internet banking system or to authorize their transactions using electronic signatures. The Bank also offers a mobile banking system: the simplified version of the standard Internet banking system.

**Products and services**

The basic products for business customers are as follows:

1. accounts, settlements and deposits: business accounts; cash management accounts; and additional products, such as POS and mPOS payment terminals, a free of charge application for individual book of account maintenance;

2. loans for business customers: working capital loans; investment loans; leases; EU fund and public program financing support instruments, such as: the de minimis guarantee of Bank Gospodarstwa Krajowego; the European Investment Fund guarantee; and

3. products and services for corporations: finance management services; trade financing services; structured loans; non-public and public issues and bond issue programs.

**Accounts, settlements and deposits**

The corporate accounts offer is matched to the business expectations of individual customer segments and uses modern acquisition and service handling products. Alior Bank's offer for micro-businesses comprises, among other things, iKonto Biznes, an account for sole proprietorships opened individually via the Internet, using a quick and innovative customer identity confirmation process by a transfer from another Polish bank. The basic account offered by the network of outlets is the Rachunek Partner account, which was the first to entice customers to use its full capabilities, exonerating those holders who pay their social insurance and tax liabilities from fees for maintaining the account. The current services offer is expanded by the Tenants' Association Account (Rachunek Wspólnota), earmarked for tenants' associations, and packages of accounts with a POS payment terminal or website design offer. To customers who maintain full accounting records, Alior Bank offers accounting products. Rachunek Biznes Optymalny is a product enabling full optimization of the scope and terms of services. The standard products comprise the Business Comfort Account (Rachunek Biznes Komfort) and Business Profile (Biznes Profil) where the customer independently selects the package of products and services in accordance with his operating profile – a premium is offered for domestic and foreign transactions, and cash movements.
Business customers have access to many products and cash management services facilitating everyday transactions in their businesses. Cyclic marketing campaigns prepared based on individual industry preferences enable effectively informing customers of products adapted to the nature of operations, new services and promotions. First and foremost, services with a direct impact on the quality of transaction services are promoted,

among others: mass processing (Masowe Przetwarzanie Transakcji) which enables quick recording of receivables from counterparties and the wages account (Rachunek Płacowy), which improves the efficiency of paying wages and salaries to employees while maintaining confidentiality of data.
Alior Bank offers its customers the only mPOS mobile payment terminals on the market. This is a solution directed at small and medium businesses which to-date – due to high costs of processing transactions and unattractive periodic payments – had not accepted payments with payment cards. mPOS is a modern device of small dimensions which thanks to its link to a smartphone or tablet with the mPEP payment application installed becomes a valid card terminal enabling making transactions using a magnetic stripe or microprocessor (chip) and PayPass and PayWave technologies.

*Loans to business customers*
The Bank offers a wide range of modern credit products which respond to the comprehensive needs of business customers.
Alior Bank's credit offer for financing current and investment financing is addressed both to micro-businesses, including entities starting business operations, and to small, medium and large enterprises.
The Bank's operations in the micro-business segment are based on a comprehensive and fully standardized credit offer addressed both to enterprises which are starting operations (Biznes Start (Business Start) Loan with a Guarantee of the European Investment Fund) and to entrepreneurs who have a history of operating on the market – for financing requirements related to current and investment business purposes. The key products in this segment are renewable and investment loans characterized by a simplified sales process up to PLN 1 million, and dedicated price conditions for customers from privileged industries, engaged in professions of public confidence. In April 2016, the Bank implemented a new offer for financing micro-businesses, multi-product credit packages, under a fully-automated lending process which enables obtaining a credit decision within 30 minutes and finalizing the transaction during a single contact with the Bank.
Under the centrally managed Virtual Bankers' team we provide microbusiness customers with comprehensive services and the ability to purchase new business loans by phone. The process is based on assessing creditworthiness based on financial documents delivered by mail and finally confirmed upon signing the loan agreement.
SMEs and large corporations have a more specialized product offer to choose from, enabling more flexibility in structuring optimum financing. At the same time, sales structures – while acquiring a new customer – may use a dedicated product for transferring financing from another bank on preferential terms.

Alior Bank is actively developing its offer for financing entities from the agricultural and food industry, adequately to the various legal forms and types of operations. Individual farmers, also those not covered by the regulations of the Accounting Act, are offered financing of current operations in the form of working capital loans in a credit account and investment financing. Business entities which maintain full accounting or simplified accounting and agricultural manufacturers may use both working capital loans, including collection point sales loans, and investment loans. The loan portfolio in the agricultural and food sector exceeded PLN 1.2 billion as at 30 June 2016.

The key product which has an impact on the amount of lending activity in the business customer segment is the program of Bank Gospodarstwa Krajowego (BGK) supporting entrepreneurship in the SME segment. The de minimis guarantee increases the availability of financing for companies and enables them – among other things – to grant loans to customers who cannot offer collateral. Alior Bank actively offered sales of BGK de minimis guarantees, which placed it in lead position in sales of loans secured with the de minimis guarantee (third among the banks participating in the program in the second quarter of 2016). In December 2015 COSME guarantees were introduced to the credit offer, which are an alternative for businesses which exhausted the de minimis aid and cannot or do not intend to use the de minimis guarantee. The program for servicing de minimis guarantees in Alior Bank was also individually controlled by the Supreme Audit Office (NIK) in 2014 and was positively assessed by NIK in this respect.

Alior Bank is also a partner of the European Investment Fund and has obtained a guarantee line of PLN 250 million for the financing of entities which are starting business operations. Young companies may use funding earmarked for current and investment purposes up to PLN 100 thousand with a guarantee of the European Investment Fund.
Taking into consideration the development of its business customers Alior Bank continued an extensive campaign supporting businesses in using the EU funds from the programmes for the years 2014-2020. Actions are conducted to inform Customers and the sales network of possible participation in the current specialist programmes. In cooperation with an external partner we made available to our business customers the possibility of conducting a free-of-charge audit which allows the entrepreneur to receive information on individually available operational programmes.

*Products and services for corporations*
Alior Bank's offer for corporations covers both standardized products and specialist finance management services. Alior Bank treats each customer individually and prepares offers dedicated to concrete entities. Regionalne Centra Biznesowe (Regional Business Centers) and Departament Dużych Firm closely cooperate with experts from the Debt Issue Department, Structured Loans Department and Trade Finance Department to ensure best tailoring of the offer to the customers' actual needs.
Alior Bank offers trade financing products to corporations, such as: guarantees, letters of credit, incomplete factoring, assuming the rights of creditors based on cooperation agreements. Apart from the products indicated, Alior Bank also offers structured loans, the conditions of which are individually adapted to concrete transactions and security. Structured loans are used, among other things, for financing import and export of goods and raw materials, as well as for the purchase or sale of goods and materials on the domestic market. Basic security which Alior Bank uses in structured loans dedicated to financing import and export, is – for example – assignment of dues from contracts, assignment of export letters of credit, assignment of bank payment guarantees, assignment of rights from an insurance policy and repossessing goods.
Additionally, Alior Bank offers structured loans earmarked for financing real estate projects, project finance transactions (including investments in renewable energy, infrastructural projects, construction of production plants, etc.) and acquisitions. The basic security used by Alior Bank in such loans is mortgage, assignment of revenue generating contracts, pledges on chattels and shares in companies. Alior Bank also grants loans acting with other banks as bank syndicates, both as the organizer and member of the syndicate.
Alior Bank organizes non-public and public corporate bond issues and issue programs (organized in cooperation with Biuro Maklerskie Alior Banku). The product enables Alior Bank customers to diversify the sources of debt financing, obtain cost attractive financing, security or repayment time schedule, and issuers are entitled to introduce its bonds to trading on the Catalyst bond market run by WSE or BondSpot S.A. In terms of arranging the issue of bonds Alior Bank operates, among other things, as the agent bank, dealer/ offerer (Biuro Maklerskie Alior Banku), a payment agent/calculation agent and depositary.

*New products and services*

The iKonto Biznes current account introduced to the Bank's offer in April 2016 was one of the more important products in Alior Bank's offer for businesses, accompanied by a modern opening channel which enabled opening an account totally independently from any location in Poland or abroad and confirming the request using a secure identity verification method – by making a transfer from a personal account. Moreover, in April 2016, the Bank launched a credit package for microbusinesses, with a fully automated standardized process enabling obtaining the lending decision within 30 minutes and obtaining the funds within one business day. The offer is available in the Bank's proprietary branches, in franchise outlets and in the network of selected credit intermediaries. Apart from quick return information for the entrepreneur relating to the possibility of obtaining financing, this enables acquiring a credit limit of up to PLN 500,000 which may be allocated to three products: an overdraft facility, a credit card and a loan scheduled for repayment over up to 10 years. The offer is also available via phone, and the minimized scope of required documents may be delivered via email.

In April 2016 Alior Bank also extended the scope of cooperation with BGK under a de minimis program, introducing the POIG BGK guarantee for financing innovative products, in consideration of their specific nature in the scope of financing current and investment activities. This enables entrepreneurs who are planning investing in new projects to obtain overdraft facilities for current operations and investment loans secured with a POIG BGK guarantee.

Additionally, in June, Alior Bank made available a new Internet service for entrepreneurs: zafirmowani.pl, which offers customers such additional services as a free-of-charge application for independent maintenance of simplified accounting (the Income and Expenses Register), an invoicing system. Additionally, thanks to the cooperating partners the service presents special customer offers, publishes business articles and manuals on specific business activities. Social media functionalities allow contacting registered entrepreneurs and giving mutual recommendations in jointly conducted business transactions. The new tool is to support entrepreneurs in access to new Internet tools, reinforce information related to changes in business regulations and provide a new form for entering in business relations.

As of December 2014, the Bank has been developing services outside the basic scope of its services, creating offers based on third party products and services. They comprise service packages covering, among other things, fiscal cash registers and payment terminals, both stationary and mobile (mPOS).

Additionally, as of December 2014 the Bank has been selling COSME guarantees offered under portfolio guarantee programs. The Bank is also developing an offer supporting entrepreneurs in the use of EU funds under the 2014-2020 perspective.

In April 2015 Alior Leasing was registered which started operating in October 2015 actively offering business customers comprehensive operating and finance lease transactions.

**Treasury activities**

Alior Bank engages in treasury activities in the following areas, among others:

1. foreign exchange transactions, from immediate currency exchange to combined option structures adequate to the customer's needs and knowledge about these instruments;
2. interest rate hedging transactions ensuring stabilization of the costs of financing to customers;
3. commodity price fluctuation hedging transactions;
4. liquidity management – by offering a wide range of products which enable depositing cash surpluses on attractive terms;
5. conducting educational activities to increase customer awareness of the products offered and their related risks;
6. securing the Bank's liquidity risk within the set limits – by concluding transactions on the interbank market, including currency swaps, security purchase/sale transactions and REPO transactions;
7. currency and interest rate risk management by concluding transactions on the interbank market, including currency spots/forwards, interest rate swaps and options and commodity derivatives; and
8. hedge accounting – securing interest rate risk resulting from fluctuations in cash flows from assets with a variable interest rate, using PLN IRS transactions. The Bank's surplus cash flows (in a situation where the value of deposits exceeds the value of the loans) are invested in Treasury bonds and bills denominated in PLN and in debt securities issued by the NBP with a relatively short redemption period. The Bank invests funds under its liquidity management activities.

The Bank manages foreign exchange and interest rate risk by concluding derivative transactions such as FRA, interest rate swaps and base swaps (CIRS). All interest rate and currency positions are managed online under the respective limit levels. For the purpose of settling foreign exchange transactions, interest rate, and money-market transactions, and option products, the Bank maintains treasury limits in over 13 Polish and 17 large international banks. The availability of products, binding maximum transaction dates and available amounts differ depending on the bank, but all in all, according to the Management Board estimates, are sufficient to cover current requirements resulting from transactions exercised by customers or the banking book position four or five times.

The principle of non-involvement in transactions in financial instruments using own funds will continue to be the Bank's strategic method of protecting itself from systemic risk which many banks have to mitigate when the market loses liquidity. The Management Board intends to manage the foreign currency position so as to ensure Alior Bank's level of capital at the current safe level. Limits for interest rate risk should increase at a slightly slower rate than the volume of total assets. The Management Board will continue cooperation with most lead banks in the world in terms of foreign exchange transactions to ensure effectiveness and sufficient access of the Bank's customers to foreign exchange and interest rate products, even if the volume of customer transactions will increase much above that stipulated in the Bank's strategic plan. In the opinion of the Management Board, the Bank's current share in the Polish currency market is approx. 6-7%, and its share in the currency market is estimated by comparing data on cash sales in the Bank's foreign currency transactions with non-financial entities with data on such sales published by the NBP.

*Trading platforms*

Under its treasury activities Alior Bank offers products in the form of trading platforms, the revenue from which is accounted for in revenue from business or retail activities respectively. Alior uses trading platforms based on non-exclusive licence agreements concluded for specified periods, the earliest of which expires in 2018.
The Management Board believes that Alior Bank is the first bank in Central Europe to implement its own algo trading Quasar system on which three currency exchange platforms are based – Autodealing, FX Trader and Currency Exchange Bureau. The location of the Quasar system servers in London, where a vast majority of trading in the Polish currency is executed enables Alior Bank customers access to the unique liquidity generated by the largest banks in the world and exceptionally short transaction execution time.

Autodealing is a contract available both to corporate and individual customers directly under Internet banking. The platform enables concluding spot and forward currency exchange transactions on beneficial terms and enables opening high-interest deposits for any selected number of days, up to 1 year. The following currencies are available under the Autodealing service: PLN, EUR, USD, GBP and CHF.

FX Trader is a platform available from the Internet banking level designated for the most demanding corporate customers. It enables concluding spot and forward transactions and placing orders with a price limit 24 hours a day, 5 days a week for close to 70 currency pairs. Three additional types of orders with a price limit are available on the platform which enable automatic conclusion of a transaction at the exchange rate selected by the customer. The platform is characterized by high liquidity and enables the customers to follow closely the current situation on the currency market.

Currency Exchange Bureau is the first bank currency exchange in the Internet on the Polish market. The platform is designated for both individual customers and firms and is available 24 hours a day, 7 days a week after logging in on the website www.kantor.aliorbank.pl. Alior Bank's Currency Exchange Office enables safe currency exchange at attractive rates and free of charge transfers in Poland and abroad of the funds purchased on the platform. The Currency Exchange offers four types of automatic currency orders which enable concluding transactions at the most favourable exchange rate or cyclically on a specific day of each month. Moreover, individual customers may order free of charge debit cards for accounts denominated in EUR, USD and GBP, and withdraw and pay in funds free of charge in Alior Bank's branches (PLN, EUR, USD, GBP). The customers can open accounts free of charge in 14 currencies; new accounts are opened remotely based on an instruction confirmed only by an SMS code. The entire operation only takes a few seconds and immediately on opening an account the customer obtains access to preferential terms of exchange for the new currency.

### Significant new products or activities

On 7 August 2015, Alior Bank signed a contract with a Romanian operator Telekom Romania Mobile Communications from the Deutsche Telekom Group. In this way, the Bank extended its strategic alliance with the global telecommunications partner for another market in the Central Europe.

The objective of the initiative executed jointly by Alior Bank and Telekom Romania Mobile Communications is to create a branch of the Bank in Romania that would be operating within a model similar to the cooperation between Alior Bank and T-Mobile Polska S.A. The project is of strategic importance to Alior Bank as it is the first step towards the Bank's expansion to foreign markets.

Telekom Romania Mobile Communications belongs to the Telekom Romania Group, the largest integrated telecom operator on the Romanian market. The Group offers comprehensive modern services of fixed-line and mobile telephony, Internet and television and solutions to businesses. Telekom Romania Mobile Communications operates under the brand T-Mobile and currently has 6 million customers.

Alior Bank's cooperation with Telekom Romania Mobile Communications is the first alliance on the local market so broadly combining the world of finance and telecom services. Already in the first quarter of the next year, individual customers will be able to avail themselves of the banking services and as a next step, the offer for businesses will become available. As part of the arrangement, customers of the Romanian operator will obtain access to a wide assortment of modern deposit and loan products, similar to those offered in Poland. In order to execute the project, Alior Bank will form its structures in Bucharest which will be responsible for developing and maintaining the offer on the Romanian market.

Romania is the largest market of South-Eastern Europe and the second largest economy among countries which obtained membership to the European Union in 2004 or later (in terms of the GDP value calculated according to the purchasing power parity). It is also a market with high potential for the development of banking services, as more than one half of Romania's inhabitants do not yet have a bank account, while the number of smartphone users is dynamically growing (currently 28%, the number is expected to double by 2017).

As of 14 January 2016, the National Bank of Romania (the Romanian banking regulator) registered Alior Bank S.A. Varsovia – Sucursala Bucuresti as a branch of a foreign lending institution as defined in Directive 2013/36/EU, under the number RB-PJS-40-071/14.01.2016. Thus one of the conditions provided in the agency agreement with Telekom Romania Mobile Communications has been fulfilled.

In the fourth quarter of 2015, Alior Bank, through its subsidiary Alior Leasing Sp. z o.o., extended the product offer by adding operating leases, finance leases and lease loans. Under the offer, customers may finance a wide range of fixed assets, including agricultural equipment, vehicles and both standard and complicated machines and equipment.

## Capital investments

The table below shows the capital investment of Alior Bank.  All securities were acquired with the Bank's own funds:

1. Shares

- Securities held for trading representing equity rights, admitted to trading on the WSE;
- Securities held for trading representing equity rights, not admitted to public trading.

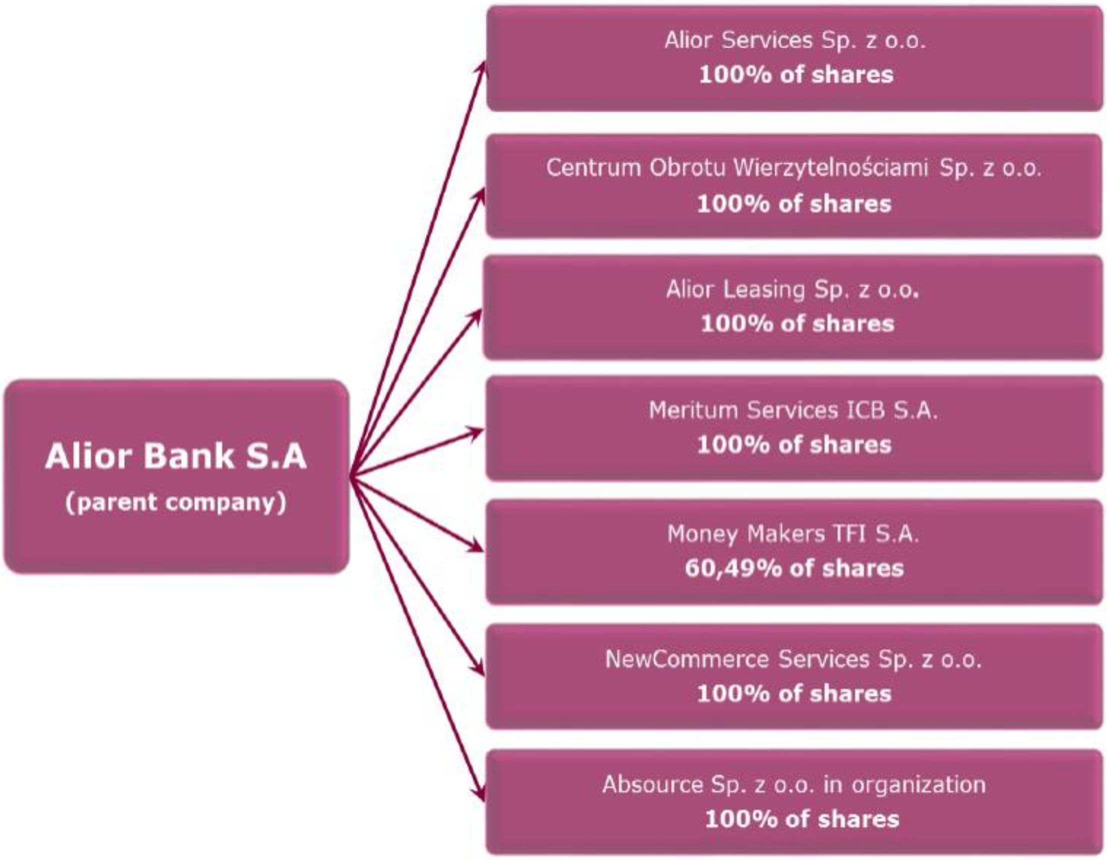
2. Bonds: corporate bonds issued by domestic and foreign issuers, acquired in connection with the Bank's function of market marker.
3. Derivative instruments: forward contracts for shares of companies with WIG 20 and for the WIG20 index, quoted on the WSE, purchased/sold in connection with the Bank's market maker function.
4. Investment certificates: certificates of a closed-ended private equity fund and units in an open-ended investment fund.

**Capital Investments**

| | As at 30.06.2016 | | As at 31.12.2015 | |
|---|---|---|---|---|
| | number | Market / nominal value in PLN | number | Market/ Nominal value in PLN |
| **Shares** | **809 464** | **4 586 155** | **853 619** | **1 334 538** |
| **listed** | 707 274 | 4 582 646 | 852 619 | 1 334 538 |
| **Non-listed** | 102 190 | 3 509 | 1 000 | 0 |
| **Bonds** | **2 922** | **813 609** | **2 868** | **286 328** |
| **Derivatives** | **1 198** | **4 199 444** | **182** | **513 649** |
| **Investment certificates** | **16 675** | **1 688 798** | **15 908** | **1 610 313** |

## VI. Business overview of the Alior Bank S.A. Group companies

The Alior Bank S.A. Group as at 30 June 2016:




As at 30 June 2016, the Alior Bank S.A. Group is composed of the following companies: Alior Bank S.A. as the parent company and the subsidiaries in which the Bank holds majority interests. In the reporting period, changes were introduced in the structure of the Alior Bank S.A. Group.

On 27 January 2016 a share sale agreement was concluded based on which the Bank acquired 40 shares in Centrum Obrotu Wierzytelnościami Sp. z o.o. from Alior Services Sp. z o.o. Thus, as at 31 March 2016, Alior Bank S.A. held a 100% interest in Centrum Obrotu Wierzytelnościami Sp. z o.o.

Additionally, on 31 March 2016 the Articles of Association of Absource Sp. z o.o. were signed in an organization in which Alior Bank holds a 100% interest and has 100% voting rights at the General Shareholders' Meeting.
On 4 May 2016 the Company was registered with the Registration Court.

The consolidated financial statements comprise the financial statements of the Bank and the financial statements of the entities listed below. The Bank assessed control in the context of the regulations of IFRS 10 and defined its status as the parent company of the following entities. All subsidiaries are consolidated under the acquisition accounting method.

- **Alior Services Sp. z o.o.:**

  Alior Bank holds a 100% interest and has 100% voting rights at the General Shareholders' Meeting of Alior Services Sp. z o.o.

  Alior Services Sp. z o.o. (previously Alior Raty Sp. z o.o.) is a company whose objectives include : (i) using sales opportunities in respect of its non-financial products and services; (ii) extending and enhancing the offer for Private Banking clients in order to strengthen the company's competitive position. In its operations Alior Services Sp. z o.o. concentrates on: (i) looking for and acquiring external partners to cooperate in offering non-banking services; (ii) associating business customers and external partners. In the first half of 2016 the Company launched new projects in the area of debt collection and insurance agent operations.

- **Centrum Obrotu Wierzytelnościami Sp. z o.o.:**

  Alior Bank holds a 100% interest and has 100% voting rights at the General Meeting of Centrum Obrotu Wierzytelnościami Sp. z o.o.

  Centrum Obrotu Wierzytelnościami Sp. z o.o. is a company whose core business activities include trading in receivables purchased from the Bank. The Company was established to optimize the process of selling the Bank's receivables.

- **Alior Leasing Sp. z o.o.:**

  Alior Bank holds a 100% interest and has 100% voting rights at the General Meeting of Alior Leasing Sp. z o.o.

  Alior Leasing Sp. z o.o. was established in April 2015 and started operating in October 2015.

  The Company's mission is to deliver the best possible lease solutions in response to the expectations of modern firms looking for comprehensive lease offers tailored to their individual needs. Under the Alior Leasing offer firms may avail themselves of the most favourable forms of fixed asset financing necessary for their operation and development. Thanks to products such as: operating and finance leases, lease financing, entrepreneurs gain quick and easy access to vehicles, machines, and agricultural and construction equipment. Alior Leasing has an extensive Sales Network which services both Alior Bank Customers and firms which have not yet become its Customers.

- **Meritum Services ICB S.A.:**

  Alior Bank holds 100% shares and has 100% of the total voting rights at the General Meeting of Meritum Services ICB S.A.

  Meritum Services ICB S.A. is a company whose core business activities comprise service activities within the scope of IT and computer technologies and other IT-related activities. In 2015, the Company's operations were extended to include insurance agent and broker operations, operations related to risk assessment and estimation of losses and other operations supporting insurance and pension funds.

- **Money Makers TFI S.A.:**

Alior Bank holds 60.49% shares and has 60.49% of the total voting rights at the General Shareholders' Meeting of TFI Money Makers S.A.

Money Makers TFI S.A. is a company formed in 2010 whose activities originally focused on asset management related services. From July 2015, after transformation, the Company conducts activities as an Investment Fund Management Company (Towarzystwo Funduszy Inwestycyjnych). Cooperation between Alior Bank and its subsidiary Money Makers TFI S.A. functions in three areas: asset management (managing portfolios of retail customers / private banking), insurance offers of equity funds, and managing Alior SFIO subfunds.

- **NewCommerce Services Sp. z o.o.:**

Alior Bank holds a 100% interest and has 100% voting rights at the General Shareholders' Meeting of NewCommerce Services Sp. z o.o.

NewCommerce Services Sp. z o.o. is a company which will execute tasks related to selling non-banking products, including provision of a new generation shopping platform, in cooperation with its trading partners. The start of the Company's business activities is strictly related to introducing changes and development associated with launching a new edition of the distribution channel for the planned non-banking services constituting the Company's business.
The main reason for the delay in the Company's business operations is the letter received on 10 July 2015 no. DLB/DLB_WL1/703/1/1/2015 sent by the Polish Financial Supervision Authority to management boards of Polish banks (including Alior Bank) with the interpretation relating to the provision of services consisting of issuing so-called prepaid cards and recommending discontinuing such operations, which led to changes in material conditions constituting an integral part of the MyWallet project, related to making available prepaid cards. Therefore, work on MyWallet project was suspended.
At the same time, Alior Bank which holds 100% of shares and has 100% voting rights at the General Shareholders' Meeting of NewCommerce Services Sp. z o.o., due to the fact that NewCommerce Services sp. z o.o. showed a balance sheet loss for the year ended 31.12.2015 and has not budgeted positive results for the year 2016, on 15 June 2016 issued a comfort letter stating that it intends to support financially NewCommerce Services sp. z o.o. should there be any threat to its continuing as a going concern.

- **Absource Sp. z o.o.**

On 31 March 2016 a new company was established: Absource Sp. z o.o. Alior Bank holds a 100% interest and has 100% voting rights at the General Shareholders' Meeting of Absource Sp. z o.o.

Absource Sp. z o.o. is a company whose aims are: (i) IT and computer services; (ii) activities related to IT advisory services; (iii) activities related to software. The operations of Absource Sp. z o.o. concentrate on providing services consisting of making computer software available.

On 1 April 2016, Absource Sp. z o.o. concluded an agreement for providing IT services in the area of making available systems according to a sublicence model and other IT activities to Alior Bank S.A. The agreement was concluded for an indefinite period. Each of the Parties is entitled to terminate the Agreement by giving three months' notice, with effect as at the end of the year.

# VII. Events and contracts significant to the business operations of the Bank's Group

## Information on the planned acquisition of the demerged operation of Bank BPH S.A. and the public issue of shares

On 31 March 2016, the Bank concluded the Share Sale and Demerger Agreement with the Sellers of Bank BPH, relating to the completion of the transaction covering: (i) acquisition of shares constituting a significant interest in Bank BPH by the Issuer, by way of a tender offer for the sale or exchange of shares in Bank BPH; (ii) demerger of Bank BPH pursuant to Art. 529 § 1 item 4 of the Commercial Companies Code (CCC) conducted by transferring the Core Business of Bank BPH to the Issuer (demerger by spin-off) on the terms and conditions described in the Demerger Plan("Demerger"); and (iii) issuing the Issuer's new shares to the shareholders of Bank BPH indicated in the Demerger Plan (i.e. with the exclusion of the Issuer, Bank BPH Sellers and their related entities) (jointly "Transaction"). The Purchase and Demerger Agreement stipulates the acquisition of the Core Business of Bank BPH by the Bank on the date of registration of the increase in the Bank's share capital with the competent court in connection with the Demerger ("Demerger Date"). The Core Business of Bank BPH will constitute an organized part of the enterprise covering all of Bank BPH's assets and liabilities with the exception of the Mortgage Business of Bank BPH which comprises mainly Bank BPH's mortgage loan portfolio (in particular all mortgage loans denominated in PLN and in other currencies, extended to individuals for housing purposes).
The Transaction is expected to be exercised by the end of 2016.

**Stages of completion of the Transaction**
The Transaction comprises the following key elements:
1. increase in the Bank's share capital by way of an issue of the Bank's new shares in a public offering addressed to the Bank's current shareholders, in conformance with the pre-emptive rights ("Offering according to Pre-emptive Terms"), among other things, to finance the Transaction (see par. "Offering according to Pre-emptive Terms" below);
2. acquisition of shares constituting a significant interest in Bank BPH, by way of a tender offer for the sale of all the remaining shares in Bank BPH; (pursuant to Art. 74 section 1 of the Public Offering Act) or shares representing 66% of the share capital of Bank BPH (pursuant to Art. 73 section 1 of the Public Offering Act) ("Tender Offer") (see par. "Tender Offer" below);
3. optionally, Mandatory Squeeze-out of Bank BPH shares, on condition that such a decision is taken by the Bank and that the Bank and Bank BPH Sellers, after the end of the Tender Offer for Bank BPH shares constituting jointly at least 90% of Bank BPH's share capital ("Mandatory Squeeze-out") (see par. "Mandatory Squeeze-out" below);

4. conducting the Demerger pursuant to Art. 529 § 1 item 4 of CCC conducted by transferring the Core Business of Bank BPH to the Bank (demerger by spin-off) on the terms and conditions described in the Demerger Plan in exchange for the Bank's new shares issued to the shareholders of Bank BPH indicated in the Demerger Plan (i.e. with the exception of the Bank and Bank BPH's Sellers and their related entities)(see par. "Demerger" below).

**Price**

The price for the 87.23% interest of Bank BPH Sellers in the Core Business of Bank BPH is PLN 1,225 million, in recognition of potential adjustments which may take place before the end of the term of the Tender Offer, pursuant to the Share Sale and Demerger Agreement ("Bank BPH Sellers' Share Price"). Additionally, the Bank BPH Sellers' Share Price may be subject to further adjustments made after the end of the Tender Offer, depending on the adjusted net book value of non-current assets of the Core Business Bank BPH as at the Demerger Date. The whole Core Business of Bank BPH was valued at PLN 1,532 million, whereas the non-adjusted net book value of non-current assets of the whole Core Business of Bank BPH as at 30 September 2015 was PLN 1,646 million.
Additionally, the Bank will offer to the minority shareholders of Bank BPH the option to sell their shares in Bank BPH at the price specified in the Tender Offer. If the minority shareholder retain their shares in Bank BPH on the Demerger Date, the shares will be exchanged for the Bank's shares as a result of the Demerger.

**Terms and conditions**

The completion of the Transaction depends on the fulfillment of the conditions precedent specified in the Share Sale and Demerger Agreement, which include specifically: (i) obtaining the consent of the appropriate anti-trust authority; (ii) obtaining appropriate consents or decisions of the PFSA by Bank BPH, the Issuer and GEIP; (iii) approving and signing the Demerger Plan by the Management Board of Bank BPH and by the Management Board; (iv) passing the relevant resolution on approving the issue of the Bank's new shares under the Rights Offering by the General Meeting, the draft of which was published by the Bank on 6 April 2016 ("the Capital Increase Resolution"); (v) registering the Bank's share capital increase conducted based on the Capital Increase Resolution by the court; (vi) passing a resolution on approving the Demerger by the General Meeting ("the Demerger Resolution"); (vii) obtaining appropriate tax interpretations related to the demerger of Bank BPH.
Pursuant to the Share Sale and Demerger Agreement the said terms and conditions must be fulfilled before the deadlines set at: 1 June 2016 – in respect of the condition stipulated in point (iv) above, 1 May 2016 – in respect of the condition stipulated in point (iii) above, in recognition of the possibility of extending the deadline; and 1 November 2016 – in respect of the remaining conditions.

**Termination of the Share Sale and Demerger Agreement**

If the terms and conditions stated above are not fulfilled before the appropriate deadlines the Share Sale and Demerger Agreement may be terminated by each of the parties if the parties do not agree on their extension.
Additionally, the Share Sale and Demerger Agreement may be terminated in the cases specified in the said Agreement such as loss of banking licence by Bank BPH or the Bank.

Bank BPH Sellers committed to the Bank that as at the Demerger Date the Core Business of Bank BPH will have a total equity ratio which will comprise exclusively shareholders' equity ("CET1 of Bank BPH Core Business") at the level of 13.25%. If before the Demerger Date amendments are made to the legal regulations or accounting standards in respect of mortgage loans in foreign currencies or another event occurs in the banking sector which may be reasonably expected to have an unfavourable impact on Bank BPH and in consequence will lead to a drop in CET1 of Bank BPH Core Business below 13.25% as at the expected Demerger Date, Bank BPH Sellers have undertaken to restore CET1 of Bank BPH Core Business, among other things, through injecting capital into Bank BPH to the amount agreed in the Share Sale and Demerger Agreement. If a higher amount will be required, Bank BPH Sellers may either restore CET1 of Bank BPH Core Business or resign from this and terminate the Share Sale and Demerger Agreement. In the event of no action on the part of Bank BPH Sellers, the Bank will be entitled to terminate the Share Sale and Demerger Agreement.

**Compensation for the termination of the Share Sale and Demerger Agreement**
The Bank committed itself to making every effort to ensure that the terms and conditions specified in the Share Sale and Demerger Agreement are fulfilled. Those conditions relate to: passing the Capital Increase Resolution and the Demerger Resolution by the General Meeting and registering the Bank's share capital increase based on the Capital Increase Resolution by the registration court. If the Share Sale and Demerger Agreement is terminated due to the conditions not having been met by the agreed deadlines, the Bank will be obliged to pay GEIP a fee of EUR 16,000,000 plus VAT, if payable. If the Bank does not make all due effort to fulfill those terms and conditions, the fee will not constitute the exclusive compensation available to Bank BPH Sellers and will be accounted for as part of the compensation payable by the Bank.

**Rights Offering**
The Bank's intention is to obtain proceeds from the Rights Offering in the amount of PLN 2,200,000,000. The expected proceeds from the Rights Offering will allow both financing the planned Transaction and ensuring the appropriate level of capitalization, which will constitute support for the merged entity's further development (i.e. the Bank and the Core Business of Bank BPH). The strengthened equity position should allow the Bank to maintain CET1 and CAR at levels exceeding 10.75% and 13.75% respectively. The term of the Rights Offering is planned to end in June 2016, depending on the market conditions.
On 6 April 2016, the Bank convened the General Meeting, which according to the agenda was to have passed the Capital Increase Resolution. The Draft Capital Increase Resolution was published by the Bank and is available in the Schedule to the Bank's current report no. 16/2016 dated 6 April 2016, included in the Prospectus by reference. In accordance with the above draft it is proposed that the Bank's share capital be increased by an amount no lower than PLN 10.00 and no higher than PLN 2,200,000,000, i.e. to an amount no lower than PLN 727,074,640 and no higher than PLN 2,927,074,630 by way of issuing no less than 1 new share and no more than 220,000,000 new shares with a nominal value of PLN 10.00 each ("Offered Shares"). The maximum number of Offered Shares in the draft Capital Increase Resolution was determined temporarily by dividing the assumed amount of proceeds from the Rights Offering by the nominal value of the Bank's shares, i.e. PLN 10.00. The draft Capital Increase Resolution stipulates authorizing the Management Board to determine the ultimate number of Offered Shares and their final issue price. Such an ultimate number of Offered Shares and issue price will be determined by the Management Board in consideration of the assumed amount of proceeds from the Rights Offering and

market conditions, including, among other things, the price of the Bank's existing shares on the exchange.
The Rights Offering requires preparing and the approval by the PFSA of the prospectus for the Offered Shares and applying for the admission and introduction of the Offered Shares to trading on the regulated market run by the WSE. Investors should note that due to the different requirements of the Prospectus Regulation compared with the share issue prospectuses, and due to a different planned date of approval of the prospectus relating to the Rights Offering, the content of the prospectus, and in particular the part of the disclosures relating to the Core Business of Bank BPH, may differ significantly from the content of this Prospectus relating to the Bank's Bonds.
The coming to fruition of the Rights Offering is to be guaranteed by the planned conclusion by the Bank – before the publication of the Bank's prospectus relating to the Rights Offering – of an underwriting agreement with one or more financial institution (underwriters) ("Final Underwriting Agreement"). Additionally, on 31 March 2016, the Bank obtained a comfort letter from its key shareholder, PZU ("Comfort Letter"), as described in the paragraph "Comfort Letter" below, in which PZU has undertaken, among other things, to subscribe to and pay for the new issue of the Bank's shares offered under the Rights Offering in proportion to the current share of PZU in the Bank's share capital.
In connection with the potential conclusion of the Final Underwriting Agreement, on 6 April 2016, the Bank signed a Standby Underwriting Agreement ("Standby Underwriting Agreement"), based on which the Bank may conclude the Final Underwriting Agreement with the parties to the Standby Underwriting Agreement, relating to underwriting the increase in the Bank's share capital by way of a Rights Issue to the amount of approximately PLN 1,645 million. The Standby Underwriting Agreement was described in the Bank's current report No. 17/2016 dated 6 April 2016, included by reference in this Prospectus. The remaining part of the Rights Offering is covered by the Comfort Letter.

**Tender Offer**

The acquisition of shares of Bank BPH will be conducted by way of a tender offer for the sale of all the remaining shares in Bank BPH (pursuant to Art. 74 section 1 of the Public Offering Act) or shares representing 66% of the share capital and total number of votes at the General Meeting of Bank BPH (pursuant to Art. 73 section 1 of the Public Offering Act). The Bank is obliged to announce the Tender Offer after the terms and conditions specified in the Share Sale and Demerger Agreement have been fulfilled (see par. "Terms and Conditions" above). However, the Bank is entitled to publish the Tender Offer before the terms and conditions are fulfilled.
Bank BPH Sellers' Share Price will be paid to Bank BPH Sellers by acquiring the respective number of Bank BPH shares from the Bank BPH Sellers under the Tender Offer ("Number of Shares Acquired from Bank BPH Sellers"). The Number of Shares Acquired from Bank BPH Sellers which will be acquired by the Bank from Bank BPH Sellers under the Tender Offer will be determined by dividing the Bank BPH Sellers' Share Price by the share price proposed under the Tender Offer.
In the period between the end of the Tender Offer and the earlier of the following dates: (i) the Demerger Date and (ii) the date falling six months after the end of the term of the Tender Offer ("Transitional Period"), the Bank has undertaken not to exercise, without the prior written consent of Bank BPH Sellers, any rights following from Bank BPH shares, in recognition of the exceptions stipulated in the Share Sale and Demerger Agreement. In the Transition Period Bank BPH Sellers will remain the reference shareholders of Bank BPH.

**Mandatory Squeeze-out**

If after the end of the term of the Tender Offer the Bank and Bank BPH Sellers hold shares which in total represent at least 90% of the share capital of Bank BPH in total, the Bank, pursuant to the Share Sale and Demerger Agreement, may at its discretion, squeeze-out Bank BPH's minority shareholders and demand from Bank BPH Sellers that they act in agreement with the Bank in respect of the squeeze-out.

**Demerger**

The Bank and Bank BPH Sellers have determined in the Share Sale and Demerger Agreement the general principles according to which the Demerger will be conducted, pursuant to which: (i) no new shares in the Bank's share capital will be issued on behalf of the Bank; (ii) all Bank BPH shares held by the Bank will cease to exist and Bank BPH Sellers will become Bank BPH's sole shareholders; and (iii) on the respective date indicated in the Demerger Plan, Bank BPH shareholders (other than the Bank and Bank BPH Sellers, and Bank BPH Sellers' related entities) holding shares in Bank BPH, if such shareholders remain with Bank BPH, will receive shares in the Bank's share capital in accordance with the share exchange principles of Bank BPH shares to Bank shares determined for the purpose of the Demerger. The exchange parity of Bank BPH shares to the Bank's shares issued under the Demerger ("Demerger Shares") ("Share Exchange") will be between 0.46 and 0.35 Demerged Share for each of the shares of Bank BPH. The Share Exchange will be determined in recognition of the market prices and the fundamental value of both banks. The final Share Exchange will be subject to consultations between the Bank and Bank BPH in the Demerger Plan.

Additionally, on 1 April 2016, the Bank concluded a pre-demerger cooperation agreement with Bank BPH, with the support of Bank BPH Sellers ("Pre-Demerger Cooperation Agreement"). The Pre-Demerger Cooperation Agreement specifies the preliminary terms and conditions of the Demerger, including the general terms and conditions of cooperation between the parties in preparing the Demerger Plan and completing the Demerger. The Pre-Demerger Cooperation Agreement also specifies the principles based on which the Share Exchange will be agreed and the principles for allocating the assets and liabilities of Bank BPH to the core Business of Bank BPH and the Mortgage Business of Bank BPH. It also includes certain obligations of Bank BPH related to operating it in the period between the signing of the Share Sale and Demerger Agreement and the Demerger Date.

Pursuant to the Pre-Demerger Cooperation Agreement, the Demerger Plan should be agreed between the Bank and Bank BPH by 30 April 2016, in recognition of the possible extension of the period. The Demerger Plan was agreed and signed on 29 April 2016.

Due to the fact that as a result of the Demerger all shares of Bank BPH acquired by the Bank will cease to exist as a result of a reduction in the share capital of Bank BPH, after the Demerger Date the Bank will not be a shareholder in Bank BPH, and Bank BPH Sellers will become the sole shareholders of Bank BPH (and thus the economic owners of the Mortgage Business of Bank BPH).

**Comfort Letter**

On 31 March 2016, The Bank was informed by its significant shareholder, PZU, that on 31 March 2016, in connection with signing and exercising the Share Sale and Demerger Agreement, at the Bank's request PZU issued a Comfort Letter to Bank BPH Sellers, based on which PZU undertook (among other things), in recognition of all regulatory requirements or PFSA requests, to: (i) vote from all the Bank's shares held directly on the date of issuance of the Comfort Letter (i.e. 25.19% of the Bank's share capital) or on the date of the General Meeting convened in connection with the Transaction (depending on which of the amounts is larger) for passing the Capital Increase Resolution and the Demerger Resolution by the said General Meeting; (ii) sign and pay up the new issue of the Bank's

shares offered under the Rights Offering, in proportion to PZU's current interest in the Bank's share capital, where PZU will in no instance be obliged to subscribe for or take up shares which jointly with PZU's current interest in the Bank (together with related entities whose shares are in the Bank ascribed to PZU in accordance with the respective regulations relating to large blocks of shares in public companies) would constitute over 33% of the total number of shares or votes in the Bank; and (iii) make every effort to obtain, within the deadline compliant with the Share Sale and Demerger Agreement, all regulatory consents (if necessary) required from PZU for the purpose of closing the Transaction by the Bank.
Additionally, PZU undertook, in the period from the issuance of the Comfort Letter to an appropriate final date, not to sell, dispose of or otherwise manage the Bank's shares held directly by PZU on the date of issuance of the Comfort Letter without the consent of Bank BPH Sellers.

**Guarantee issued by GE Capital Global Holdings, LLC**
Exercising the liabilities of Bank BPH Sellers following from the Share Sale and Demerger Agreement is guaranteed by GE Capital Global Holdings, LLC.

**Additional agreements related to the share Sale and Demerger Agreement**
On the date of signing the Share Sale and Demerger Agreement the Bank concluded an agreement with GE Capital US Holdings, Inc. related to continuing to provide certain services related to applications, access rights, IT issues and operating support to the Core Business of Bank BPH by General Electric Group entities over the transition period stipulated in the said agreement.
Additionally, pursuant to the Share Sale and Demerger Agreement, the following agreements will be concluded by the Bank with respective parties on the date of signing the Merger Plan: (i) the outsourcing agreement relating to operating the Mortgage Business of Bank BPH by the Bank; (ii) the outsourcing agreement relating to providing IT services by the Bank to Bank BPH; and (iii) rental agreements relating to the use of the Bank's office space by Bank BPH. Additionally, pursuant to the Share Sale and Demerger Agreement, the following agreements will be concluded by the Bank with respective parties on the date of the Merger: (i) agreement on the current trademark licences of the GE Capital Group which are to be used by the Core Business of Bank BPH until the completion of rebranding; and (ii) the licence agreement relating to the use of certain intellectual property of the GE Capital Group by the Core Business of Bank BPH.

**Strategic grounds for the Transaction**
Conclusion of the Share Sale and Demerger Agreement is consistent with the development strategy which was many times communicated and consistently pursued by the Management Board, and is based on dynamic organic growth and acquisitions in connection with achieving the highest levels of return on equity. As a result of the transaction the merged bank will reinforce its position on the consolidating market.
The Bank expects annual target synergies of about PLN 300 million before tax, without accounting for about PLN 160 million of synergies resulting from implementing the business transformation plan for Bank BPH. According to expectations, the target level of synergy will only be achieved in 2019. Additionally, taking into account the information relating to Bank BPH obtained by the Issuer during the due diligence, even according to the most conservative assumptions the total costs of integrating the Core Business of Bank BPH with the Issuer may reach approximately PLN 950 million. However, taking into consideration the Issuer's experience acquired during the Issuer's integration processes with the acquired entities (in particular with Meritum Bank ICB S.A.), the Issuer does not eliminate the

possibility that the total costs of integration may be reduced to approximately PLN 650 million. The final amount of total integration costs will depend on the detailed course of the integration procedure, in particular in the IT, operations and HR areas, and on several other factors which may have an impact on the amount of those costs. The costs will be expensed by 2018, and most of them in 2017.

- On 6 April 2016, the Bank concluded a Standby Underwriting Agreement with Bank Zachodni WBK Spółka Akcyjna, Goldman Sachs International and J.P. Morgan Securities plc. (hereinafter jointly referred to as "the Underwriters"). In the Standby Underwriting Agreement the Underwriters committed, on the terms and conditions indicated in the Standby Underwriting Agreement, to underwrite the increase in the Bank's share capital up to approximately PLN 1,645 million, by taking up the Bank's new shares issued in the rights offering with pre-emptive rights conducted pursuant to Resolution No. 3 of the Bank's Extraordinary General Meeting held on 5 May 2016.
  On 10 May 2016,the Amended and Restated Standby Underwriting Agreement was signed by and between the Bank, BZWBK, GS, JP Morgan and Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie ("DM PKO BP" and jointly with BZWBK, GS and JP Morgan, "Underwriters"). Based on the Amended and Restated Standby Underwriting Agreement, DM PKO BP acceded to the Standby Underwriting Agreement. The parties also determined the new segregation of underwriting duties between BZWBK, GS, JP Morgan and DM PKO BP up to the amount of about PLN 1,645 million, on the terms and conditions specified in the Amended and Restated Standby Underwriting Agreement, increasing the Bank's share capital by taking up the Bank's new shares issued under the Public Offering with pre-emptive rights conducted based on Resolution No. 3/2016 of the Bank's Extraordinary General Meeting dated 5 May 2016 ("Underwriting Obligation"). Pursuant to the Amended and Restated Standby Underwriting Agreement, the Underwriting Obligation was divided between the Underwriters in accordance with their respective shares in the Underwriting Obligation: BZWBK – 30%, GS – 30%, JP Morgan – 30%, DM PKO BP – 10%. The remaining provisions of the Standby Underwriting Agreement did not change.

- On 29 April 2016 the Management Board of Alior Bank and the Management Board of BPH agreed and signed the BPH demerger plan ("Demerger Plan"), which had been prepared in accordance with Art. 534 §1 and § 2 of the Commercial Companies code ("CCC"). Agreeing and signing the Demerger Plan is one of the conditions for the Share Sale and Demerger Agreement.
  The Demerger will be conducted pursuant to the procedure specified in Art. 529 § 1 section 4 of the Commercial Companies Code (demerger by spin-off) ("Demerger"), where:
  (i) under the Demerger, an organized part of the enterprise of BPH related to BPH's operations other than the Mortgage Business (in accordance with the definition below) ("Spun-off Business") will be transferred to Alior Bank, and the remaining organized part of the BPH enterprise ("Mortgage Business") will remain with BPH;
  (ii) The demerged Business will be transferred to Alior on the date of registration of the increase in the share capital of Alior Bank by way of an issue of the demerger Shares (in accordance with the definition below) as a result of the Demerger ("Demerger Date");
  (iii) the Demerger requires obtaining several regulatory consents specified in the further part of the report;

(iv) performing the Demerger requires passing specific Resolutions (enumerated in the further part of the report) by the General Meeting of Alior Bank and BPH;

(v) The Demerger is an element of the acquisition of the Spun-off Business conducted based on the Share Sale and Demerger Agreement;

(vi) after the Demerger GE Shareholders will be BPH's sole shareholders (in accordance with the definition below); the remaining BPH shareholders (other than Alior Bank or BPH) will become Alior Bank shareholders.

As a result of the Demerger, pursuant to Art. 531 § 1 of CCC, on the Demerger Date Alior Bank will acquire all the rights and obligations of BPH related to the Spun-off Business. Therefore, directly after the Demerger Date, BPH will conduct operations limited to the Mortgage Business and the Spun-off Business will become part of Alior Bank's business.

In connection with the Demerger the share capital of Alior Bank will be increased by at least PLN 10 (ten zlotys) by way of issuance of at least one (1) ordinary bearer J-series Alior Bank share with a nominal value of PLN 10 (ten zlotys) each ("Demerger Shares"). The maximum Alior Bank share capital increase in connection with the Demerger and the maximum number of Demerger Shares have not been determined at this stage as the Share Exchange (in accordance with the definition below) is subject to adjustments with reference to the dilution of Alior Bank's share capital following from the public offering with pre-emptive rights planned by Alior Bank before the Demerger Date. The Demerger Shares will be awarded to BPH shareholders, with the exception of: (i) GE Investments Poland sp. z o.o.; or (ii) DRB Holdings B.V.; or (iii) Selective American Financial Enterprises, Inc.; or (iv) related entities of the entities referred to in points (i) – (iii) above ("GE Shareholders"), on the terms and conditions set out in the Demerger Plan. Additionally, pursuant to Art. 550 § 1 of the CCC no Demerger Shares will be issued in exchange for the shares held by Alior Bank in BPH's share capital and no Demerger Shares will be issued in exchange for potential treasury shares held by BPH.

In connection with the Demerger the share capital of BPH will be reduced, as a result GE Shareholders will remain the sole shareholders of BPH, and all shares held by shareholders other than GE Shareholders will cease to exist.

The following Share Exchange of BPH shares to Alior Bank shares was determined in the Demerger Plan: for 1 (one) share in BPH, a BPH shareholder (with the exception of GE Shareholders) will be ascribed and awarded 0.44 (forty-four hundredths) of a Demerger Share ("Share Exchange "), subject to adjustment related to dilution of Alior's Bank share capital resulting from the rights offering planned by Alior Bank before the Demerger Date.

Pursuant to Article 541 of the CCC, the Demerger will require resolutions of the general meetings of BPH and Alior Bank, including resolutions regarding:

(i) consent to the Demerger Plan;

(ii) consent to the amendments to Alior Bank's Articles of Association to be made in relation to the Demerger as provided for in Schedule 4 to the Demerger Plan; and

(iii) consent to the amendments to the Articles of Association of BPH to be made in relation to the Demerger.

The Demerger will be executed subject to obtaining the following regulatory approvals:

(i) a decision from the Polish Financial and Supervision Authority (the "PFSA") permitting the Demerger in accordance with Article 1 124c section 2 of the Act of 29 August 1997 on the banking law (the "Banking Law");

(ii) a decision from the PFSA permitting the amendments to Alior Bank's Articles of Association to be made in connection with the Demerger as provided for in Schedule 4 to the Demerger Plan in accordance with Article 34, section 2 and in connection with Article 31, section 3 of the Banking Law;

(iii) a decision from the PFSA permitting the amendments to BPH's Articles of Association to be made in connection with the Demerger in accordance with Article 34, section 2 and in connection with Article 31, section 3 of the Banking Law;

(iv) a decision from the PFSA stating that there are no grounds to object to Alior Bank exceeding the threshold of 33%, 50% or more of the votes at the General Meeting of BPH or, alternatively, the lapse of the statutory deadline for the delivery of a decision containing an objection raised with respect to the above in accordance with Article 25 of the Banking Law;

(v) if required, a decision from the PFSA stating that there are no grounds to object to GE Investments Poland sp. z o.o. exceeding the threshold of 50% of the votes at the general meeting of BPH or, alternatively, the lapse of the statutory deadline for the delivery of a decision containing an objection raised with respect to the above in accordance with Article 25 of the Banking Law; and

(vi) a (unconditional or conditional) decision of the relevant antitrust authority (the "Antitrust Authority") consenting to a concentration involving the acquisition of control over the Demerged Business pursuant to the respective competition law, or (ii) a final and non-appealable judgement of a competent court (as a result of an appeal filed by Alior Bank against the decision of the Antitrust Authority) in favour of an appeal and amending the decision consenting to the concentration, or (iii) a decision of the Antitrust Authority on discontinuing the proceedings or the Antitrust Authority returning the clearance request on account of the transaction not being subject to notification pursuant to the respective competition law, or (iv) the lapse of the deadline set out in the respective competition law within which the Antitrust Authority may issue a decision regarding a concentration, provided that under the respective competition law, in the case of the Antitrust Authority's failure to issue a decision within the specified deadline, the concentration may be implemented without the consent of the Antitrust Authority.

- On 29 April 2016 the Bank entered into: (i) an outsourcing agreement concerning the servicing of a portfolio of mortgage receivables of Bank BPH S.A. (the "Ops SLA") and (ii) an IT services outsourcing agreement (the "IT SLA") (together jointly the "Agreements") with Bank BPH S.A.
  The Agreements were executed in connection with the Share Sale and Demerger Agreement regarding the acquisition of the Core Business of Bank BPH S.A.

  The IT SLA concerns the provision of IT services to Bank BPH S.A. required by Bank BPH S.A. to operate and conduct its business as usual following the transfer of the Bank BPH S.A. IT platform to the Bank as a part of the Bank BPH Core Business. The IT services shall include: (i) services supporting Bank BPH S.A. business processes; (ii) IT process services, (iii) user support services and (iv) *ad hoc* / project services. The Bank shall be obliged to maintain a separate dedicated IT platform to provide services under the IT SLA.

The Ops SLA concerns the provision of a wide scope of administration and operation services related to the servicing of the mortgage portfolio retained by Bank BPH S.A. following the demerger and transfer of the Bank BPH Core Business to the Bank.

Under the Agreements the Bank shall receive reimbursement of the actual costs incurred in relation to the provision of services, calculated in accordance with the agreed methodology (the "Costs"). Additionally, each year the Bank shall receive a fee paid in 12 instalments. In the case of the IT SLA, the yearly fee has been fixed in the amount of PLN 1 960 000. In the case of the Ops SLA, the yearly fee shall be equal to 10% of the Costs incurred in a given year (margin based fee). Based on the Costs forecast specified in the schedules to the Ops SLA, the Bank estimates that the fee for the provision of services during the first year of the Ops SLA shall amount to PLN 1,530,000. Due to the variable amount of the Costs borne and the Bank's prediction that the value of the annual fee under Ops SLA in future years will gradually decrease compared to the fee for the first year in which the Ops SLA is in force (as a result of the Cost optimization), it is not possible to precisely determine the amount of the fee for the entire term of the Agreements.

The Bank's fee may be subject to variation depending on the actual performance of the service under the Agreements. Should the Bank exceed the agreed service levels, the yearly fee may be subject to increases up to twice its amount. In the case of a failure to achieve the agreed service levels, contractual penalties will be imposed and the Bank's fee may be subject to a decrease of up to no more than the amount of the yearly fee.

The services under the Agreements will be provided as of the date of the registration of the demerger and the transfer of the Bank BPH Core Business to the Bank (the "Effective Date"). In case of the Ops SLA, the condition precedent of the entry of the agreement into force is either a Polish Financial Supervision Authority permit for the outsourcing of the services covered by the Ops SLA by Bank BPH S.A. to the Bank or a letter of comfort from the Polish Financial Supervision Authority that such permit is not required.

Both Agreements were concluded for a limited period of time and shall expire upon the earlier of: (i) the full settlement of the Bank BPH S.A. mortgage receivables; or (ii) 30 (thirty) years following the Effective Date. Each agreement may be terminated earlier by either party in the circumstances set out therein such as e.g.: (a) with respect to Bank BPH S.A., in the case of: (i) a change of control over Bank BPH S.A. understood also as a sale of 50% of the portfolio mortgage receivables; (ii) the Bank's default under the Agreement which is irremediable; (iii) receipt of a bona fide offer to assume the services covered by a given agreement from a third party, provided however that such termination may not take place before 31 December 2018; (iv) an increase in the Costs of 15% (other than as a result of compliance with the regulatory requirements or changes in the applicable law) compared to the level of Costs for the first year of providing the services under a given agreement; (b) with respect to the Bank, in the case of: (i) Bank BPH S.A's default under the Agreement which is not remedied within a period of 30 days; (ii) submission of a termination notice regarding the second Agreement.

- On 5 May 2016, the Banks' Extraordinary General Meeting adopted a resolution on increasing the share capital by issuing series I-shares in a closed public rights offering, setting 23 May 2016 as the record date for the pre-emptive rights in respect of I-series shares, transferring to the Supervisory Board the authority to consent to entry into an underwriting agreement, conversion into book-entry form and application for the admission of pre-emptive rights, rights to shares and series I shares to trading on the regulated market of the Warsaw Stock Exchange, amending the articles of association and authorizing the Supervisory Board to prepare a consolidated text of the articles of association.

- On 18 May 2016, the Polish Financial Supervision Authority approved the prospectus prepared in connection with the public offering of no more than 220,000,000 ordinary bearer I-series shares with the nominal value of PLN10 each ("Offered Shares") and the application for admitting them and introducing to trading on a regulated (basic) market maintained by the Warsaw Stock Exchange the Offered Shares, no more than 220,000,000 rights to the Offered Shares and 72,707,463 individual pre-emptive rights to the Offered Shares ("Prospectus").
  Moreover, on 18 May 2016, The bank's Management Board set the issue price at PLN 38.90 per Offered Share, and the number of Offered Shares at 56,550,249. The Management Board also determined the final amount of increase in the Bank's share capital at PLN 565,502,490, i.e. up to the amount of PLN 1,292,577,120.

- On 18 May 2016, with reference to the public offering of the Offered Shares on the basis of the Prospectus, conducted in accordance with and on the terms and conditions stipulated in the Standby Underwriting Agreement, Bank Zachodni WBK S.A. ("BZWBK"), Goldman Sachs International ("GS"), J.P. Morgan Securities plc ("JP Morgan") and Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie ("DM PKO BP") (jointly "Offering Managers") concluded an Offering underwriting agreement with the Bank ("Underwriting Agreement"), pursuant to which each of the Offering Managers independently (and not jointly or jointly and severally) undertook, in recognition of certain conditions, to make all reasonable effort to acquire entities which would subscribe to the Offered Shares which are not taken up as a result of pre-emptive rights or additional subscription, at their issue price (in recognition of the provisions of the Underwriting Agreement) and in appropriate proportions, up to the total amount of about PLN 1,645 million ("Liability of the Joint Underwriters").
  With reference to the underwritten Offered Shares for whose purchase the Offering Managers will not be able to find purchasers up to the amount of the Underwriters' Liability, each Offering Manager, in recognition of specific conditions, will independently take up, at the issue price, and pay for such Offered Shares in the respective proportion (30% - BZWBK, 30% - GS, 30% JP Morgan, 10% - DM PKO BP), and the Company will ascribe such Offered Shares to the entities acquired by the Offering Managers or to the Offering Managers themselves (or to entities otherwise indicated by the Offering Managers), depending on the circumstances.
  The Underwriting Agreement includes, among other things, the following provisions:

  (a) GS, JP Morgan and BZWBK act as Joint Global Coordinators, Joint Bookrunners and Joint Underwriters; BZWBK also acts as the Offerer, and DM PKO BP acts as the Local Joint Bookrunner and Underwriter;
  (b) The Company will pay fees and commissions to the Offering Managers of 1.79 percent of the gross amount of the Joint Underwriters' Liability and, in recognition of specific limitations, will reimburse the Offering Managers with all other costs, expenses and fees, including respective VAT;
  (c) the Company will pay (with VAT) all other costs, fees and expenses relating to the Underwriting Agreement and the Offering;
  (d) the Offering Managers' Liability based on the Underwriting Agreement are subject to specific terms and conditions, including, among other things: (i) Powszechny

Zakład Ubezpieczeń SA ("PZU") irrevocably undertakes to take up the Offered Shares in proportion to its existing share in the Company (in compliance with the Comfort Letter issued by PZU on 31 March 2016) and the liability will not be revoked or withdrawn; (ii) a declaration and liability of the Company vis-à-vis the Offering Managers will be true, complete and will not be misleading; (iii) comfort packages will be submitted; (iv) there will be no issue which would require publication of an additional annexe to the Prospectus (with the exception of annexes required with reference to the correct performance of the Company's duties following from the sale of shares and demerger of Bank BPH S.A. or conclusion of the Underwriting Agreement), and other customary terms and conditions;

(e) In the Underwriting Agreement the Company confirms specific standard declarations, guarantees and liabilities in respect of the Offering Managers;

(f) In the Underwriting Agreement the Company indemnifies the Offering Managers, their related entities and respective directors, managers and employees, in a form that is standard for an agreement of this type, indemnifying the Offering Managers from responsibility, among other things, for claims made against them and for losses incurred by them in respect of the Offering;

(g) The Offering Managers will be authorized to terminate the Underwriting Agreement in specific circumstances, in the event that: (i) the Company violates its obligations to the Offering Managers; (ii) any declaration or guarantee of the Company proves untrue, unfair or misleading; (iii) any of the conditions specified in the Underwriting Agreement is not met (or the Offering Managers do not revoke it); (iv) an attempt to revoke or cancel the issue resolution relating to the Offered shares is made; (v) specific material unfavourable changes occur in the financial position or prospects, income, solvency, liquidity, financing position, activities or operations of the Bank's whole Group or in the Core Business of Bank BPH S.A. which in the opinion of the Offering Managers (after consultations with the Company) cause the continuation of the Offering to be impractical or not recommended, or there are changes in credit ratings or ratings of the financial position of the Bank's Group; (vi) disruptions occur on the market, disasters, crises or changes in financial, political or economic conditions; (vii) an additional schedule is published to the Prospectus (save the schedules required in respect of the correct performance of the Company's liabilities following from the BPH S.A. share sale and demerger agreement or concluding the Underwriting Agreement); (viii) the Offering Managers obtain knowledge that the statements included in the Prospectus are untrue, unfair or misleading to a material extent, or an issue arises which may constitute a material non-inclusion of information in the Prospectus which the Offering Managers consider in good faith to be unfavourable and material in the context of the Offering.

Pursuant to the Underwriting Agreement in the period of 180 days of receiving proceeds from the Offering neither the Company, nor its subsidiaries or other related entities which it manages or controls their voting rights, nor any individual acting on their behalf, among others, will issue, offer, sell or conclude a sales agreement, pledge or otherwise dispose of any of the Company's shares or securities exchangeable swappable for or exercisable in the form of the Company's shares, or its warrants or other rights to acquire the Company's shares or other securities the value of which is determined by reference to the price of base securities, including equity swaps, forwards, futures and options, without the prior written consent of the Offering Managers, with the exception of issuing new shares to the minority shareholders of Bank BPH S.A. in connection with the demerger of Bank BPH S.A. (if applicable) and with the exception of some other situations specified in the Underwriting Agreement.

- On 20 May 2016, the Management Board of the National Depository for Securities (Depozyt Papierów Wartościowych S.A. - KDPW) decided to register in the securities deposit maintained by KDPW 72,707,463 individual pre-emptive rights in respect of ordinary bearer I-series shares of the Bank, the subscription date for which was 23 May 2016. The said pre-emptive rights were quoted on the Main Market of the Warsaw Stock Exchange from 25 May 2016 to 27 May 2016.

- On 25 May 2016, the Bank received the decision of the Polish Financial Supervision Authority ("PFSA") dated 24 May 2016 in which PFSA gave its consent for changing the Bank's Articles of Association in connection with the increase in its share capital by way of issuing I-series shares with pre-emptive rights, pursuant to Resolution No. 3/2016 of the Extraordinary General Meeting of the Bank passed on 5 May 2016 on: increasing the share capital by issuing I-series shares under a closed subscription conducted by way of a public offering, setting the subscription date for the I-series shares at 23 May 2016, transferring to the Supervisory Board the competencies to give its consent to concluding an underwriting agreement, dematerializing and applying for admission of the pre-emptive rights, rights to shares and the I-series shares to trading on a regulated market maintained by the Warsaw Stock Exchange, and to amending the Articles of Association and authorizing the Supervisory Board to determine a consolidated text of the Articles of Association.

- On 9 June 2016, the Bank's Management Board received the opinion from the audit of the Demerger Plan in respect of its correctness and fairness, prepared pursuant to Art. 538 § 1 of the CCC by an independent registered auditor appointed by the competent registration court.

- On 10 June 2016, the Bank's Management Board informed of the public offering and issue of 56,550,249 ordinary bearer I-series shares with a nominal value of PLN 10 each becoming effective. 56,550,249 of the Offered Shares were duly subscribed for and paid up. During the subscription period 3,973 subscriptions to exercise pre-emptive rights were made for 56,037,229 Offered Shares and 665 additional subscriptions for 33,183,550 Offered Shares. The additional share subscription was reduced by 98.5%.
  Therefore, on 10 June 2016 56,550,249 Offered Shares were allotted, which means that all the shares offered under the issue were taken up.

- On 15 June 2016, the Management Board of the National Depository for Securities decided to register on 17 June 2016 in the securities deposit maintained by KDPW 56,550,249 individual pre-emptive rights in respect of ordinary bearer I-series shares of the Bank. Share rights were introduced to trading on the exchange on 21 June 2016 based on the resolution of the Management Board of the Warsaw Stock Exchange dated 17 June 2016.

- On 23 June 2016, the President of the Office of Competition and Consumer Protection issued unconditional consent to the concentration consisting of acquiring part of the assets of Bank BPH by Alior Bank.
  Obtaining the consent of the President of the Office of Competition and Consumer Protection was one of the conditions of the share sale and demerger agreement relating to the spun-off business of Bank BPH S.A. dated 31 March 2016 concluded by and

between the Bank and GE Investments Poland sp. z o.o., DRB Holdings B.V. and Selective American Financial Enterprises, LLC.

- On 24 June 2016, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register registered the increase in the Bank's share capital from PLN 727,074,630.00 to PLN 1,292,577,120.00 by way of issuing 56,550,249 ordinary bearer I-series shares with a nominal value of PLN 10.00 each in the Register of Businesses.
  Therefore the total number of votes from all the Bank's issued shares amounted to 129,257,712 and the share capital is represented by 129,257,712 of the Bank's ordinary shares with a nominal value of PLN 10.00 each.

- On 27 June 2016, the Management Board of KDPW decided to register 56,550,249 ordinary bearer I-series shares of the Bank with a nominal value of PLN 10.00 each with the securities deposit maintained by KDPW and assign them the code PLALIOR00045, on condition that the decision to introduce the new issue of shares to trading on the same regulated market on which the Bank's other shares encoded PLALIOR00045 are traded is taken by the company which manages the regulated market, i.e. Giełda Papierów Wartościowych w Warszawie S.A. ("WSE").

- On 28 June 2016, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE") passed the following resolutions:
  (i) Resolution No. 665/2016 on setting the last day for quotations of rights to ordinary bearer I-series shares of the Company with a nominal value of PLN 10 each ("Share Rights") on the Main Market of the WSE, in which the Management Board of WSE decided that 30 June 2016 is to be the last day of quotations of the 56,550,249 Share Rights assigned by Krajowy Depozyt Papierów Wartościowych S.A. ("KDPW") the code PLALIOR00193,
  (ii) Resolution No. 666/2016 on admitting and introducing ordinary bearer I-series shares of the Company ("New Issue Shares") to trading on the Main Market of the WSE, according to which the Management Board of the WSE decided to introduce, as of 1 July 2016, according to ordinary procedures, 56,550,249 New Issue Shares to trading on the basic market on condition that on 1 July 2016 KDPW registers the New Issue Shares and assign them the code PLALIOR00045.

- On 30 June 2016, the Management Board of Alior Bank S.A., acting on the basis of Art. 539 §1 and 2 of the Commercial Companies Code ("CCC"), in connection with Art. 4021 of the CCC once again informed of the planned demerger of Bank BPH S.A. ("BPH") by spinning off an organized part of the enterprise of Bank BPH related to Bank BPH's business other than its mortgage business and transferring it to Alior Bank, according to the procedures specified in Art. 529 §1 item 4 of the CCC ("Demerger"). The following Share Exchange of the Bank's shares to Alior Bank shares was determined in the Demerger Plan: for 1 (one) share in BPH, a BPH shareholder (with the exception of GE shareholders, i.e. (i) GE Investments Poland sp. z o.o.; (ii) DRB Holdings B.V.; (iii) Selective American Financial Enterprises, Inc. and (iv) related entities of the entities referred to in points (i) – (iii) above) 0.44 (forty-four hundredths) Alior Bank shares will be assigned and allotted ("Share Exchange"), in recognition of the adjustment related to the dilution of Alior Bank's share capital following from the public offering of share rights of Alior Bank before the Demerger Date. The Share Exchange, after accounting for the above adjustment relating to the dilution of Alior Bank's share capital was determined at around 0.51. The Demerger Plan was announced and published in accordance with Art. 535 §3 of the CCC by publishing it on the website of Alior Bank: www.aliorbank.pl in the tab "Bank's Merger" (https://www.aliorbank.pl/en/investor-relations/banks-merger.html) on 30 April 2016. Pursuant to Article 540 §3 (1) of the CCC, Alior Bank hereby announces that as of the end of the General Meetings of Alior Bank and BPH shareholders, the agendas of which cover passing a resolution on the Demerger, shareholders may acquaint themselves with the documents referred to in Art. 540 §1 of the CCC published on the Bank's website: www.aliorbank.pl in the tab "Bank's Merger" (https://www.aliorbank.pl/en/investor-relations/banks-merger.html) on 30 April 2016.

- On 11 July 2016, the Bank announced a tender offer for the sale of 50,600,821 ordinary bearer shares of Bank BPH S.A. which entitle to 66% of the total votes in Bank BPH. The tender offer was announced based on Art. 73, section 1 of the Act on Public Offering and the terms and conditions for introducing financial instruments to organized trading and on public companies, pursuant to the agreement for the sale of shares and demerger relating to the core business of Bank BPH concluded by and between the Bank, GE Investments Poland sp. z o.o., DRB Holdings B.V. and Selective American Financial Enterprises, LLC, on 31 March 2016. The Bank informed of the conclusion of the Share Sale and Demerger Agreement in its current report No. 14/2016 dated 1 April 2016. The price of shares of Bank BPH in the Tender Offer was set at PLN 31.18 per one share of Bank BPH. The tender offer was announced on the following conditions:

  (i) the Bank's receiving the decision of the Polish Financial Supervision Authority ("PFSA") on finding no grounds for opposing the Bank's acquisition of Bank BPH shares in a number ensuring exceeding 50% interest in Bank BPH's share capital and total number of voting rights or the lapse of the statutory deadline for submitting the decision with PFSA's objection to this acquisition;
  (ii) covering at least 39,288,005 of Bank BPH shares, granting at least 51.24% of the total number of voting rights in Bank BPH in the tender offer.

  If the subscription period stipulated in the Tender Offer is not extended, it will last from 1 August 2016 to 16 August 2016.

- On 18 July 2016 amendments were made to the content of the Tender Offer consisting mainly of:

  (i) changing the price of shares in the Tender Offer to PLN 31.19 (thirty-one zloty nineteen grosz) per one share of Bank BPH;

  (ii) amending the terms and conditions in the form of covering a specific number of Bank BHP shares in the Tender Offer with subscription, by indicating that the number is 39,275,408 (thirty-nine million two hundred and seventy-five thousand four hundred and eight) Bank BPH shares entitling to at least about 51.23% of the total number of votes in Bank BPH.

  The change in the price of shares in the Tender Offer is the consequence of an adjustment in the information on the arithmetical average from the average daily prices weighted with the volume of trading from the period of 6 (six) months preceding the announcement of the Tender Offer, during which the Company's shares were traded in the basic market of the Warsaw Stock Exchange which cannot be higher than the price of shares in the Tender Offer. Without rounding, this average is PLN 31.1815.

- On 19 July 2016, the Polish Financial Supervision Authority ("PFSA") issued a decision on the absence of basis for objections to Alior Bank's and Powszechny Zakład Ubezpieczeń SA's intent to the direct acquisition by Alior Bank of shares in Bank BPH in a number ensuring more than 50% interest in the share capital and total number of voting rights at the General Meeting of Bank BPH. Receiving this decision by Alior Bank meets the condition specified in item 24 of the Tender Offer for the sale of Bank BPH shares announced by Alior Bank on 11 July 2016 and amended on 18 July 2016. On 19 July 2016, Alior Bank and Bank BPH also obtained the decision of the PFSA on issuing a permit to demerge Bank BPH according to Art. 529 § 1 item 4 of the Commercial Companies Code ("Demerger") by transferring to Alior Bank part of the assets of Bank BPH in the form of an organized part of the enterprise (all Bank BPH's assets and liabilities with the exception of the so-called mortgage business of Bank BPH covering Bank BPH's mortgage loan portfolio (all PLN- and foreign currency-denominated mortgage loans granted to individuals for housing purposes), financial liabilities to GE Group entities and other assets and liabilities related to this loan portfolio, and in addition the majority interest in BPH PBK Zarządzanie Funduszami sp. z o.o. (the sole shareholder of BPH Towarzystwo Funduszy Inwestycyjnych S.A.) and Bank BPH's obligations related to those entities. In addition, the Management Board of Alior Bank informs that on 19 July 2016 it obtained information on General Electric Company and GE Investments Poland sp. z o.o. receiving, on 19 July 2016, PFSA's decision on the absence of grounds for objecting to their intention of becoming Bank BPH's parent from the date of acquiring the shares of Bank BPH to the date of registering the increase in Alior Bank's share capital in connection with the Demerger, and next to exceed 50% of the total number of votes at the General Meeting of Bank BPH as a result of the Demerger. Receipt of the above-mentioned decisions of PFSA constitutes fulfilling three of the conditions for exercising the Demerger specified in item 3.2 of the Demerger Plan.
- On 25 July 2016, Alior Bank S.A received decision from the Polish Financial Supervision Authority (the "PFSA") permitting the amendments to the articles of association of Alior Bank to be made in connection with the intended demerger of Bank BPH in accordance with the procedure stipulated in Article 529 § 1 Section 4 of the Commercial Companies Code (the "Demerger").
  The receipt of the decision of the PFSA described above constitutes the fulfilment of one of the conditions to the Demerger set out in section 3.2 of the Demerger plan.

- Alior Bank S.A. gave notice that it became aware that on 25 July 2016 Bank BPH received a decision dated 22 July 2016 issued by the Polish Financial Supervision Authority (the "PFSA") approving the amendments to the articles of association of Bank BPH in connection with the intended demerger of Bank BPH in accordance with the procedure stipulated in Article 529 § 1 Section 4 of the Commercial Companies Code (the "Demerger") (except for amendments to the articles of association of Bank BPH related to the decrease of the share capital of Bank BPH related to the Demerger). The receipt by Bank BPH of the above-mentioned decision of the PFSA will constitute the fulfilment of one of the conditions for the Demerger as set out in section 3.2 of the Demerger plan once Bank BPH receives the decision of the PFSA approving the amendments to the articles of association of Bank BPH related to the decrease of the share capital of Bank BPH.

- On 26 July 2016, Alior Bank S.A published a written position of the Management Board of Alior Bank adopted on July 26, 2016, regarding the demerger of Bank BPH S.A. ("Bank

BPH”) to be conducted by demerging the core business of Bank BPH into Alior Banku, in the manner set forth in Article 529 § 1 Item 4 of the Commercial Companies Code.

- On 28 July 2016, Alior Bank S.A received the last interpretation of the tax law (tax ruling) related to the demerger of Bank BPH. As a result, the condition provided for in the Share Purchase and Demerger Agreement hasbeen satisfied with respect to the need to obtain all tax rulings related to the demerger of Bank BPH as specified in the Share Purchase and Demerger Agreement.

- On 29 July 2016 the Extraordinary General Meeting of Alior Bank S.A. in resolutions No. 3/2016 and 4/2016 adopted the amendments and unified text to the Bank’s Articles of Association.

  The Extraordinary General Meeting of the Bank adopted Resolution No. 3/2016 on the demerger of Bank BPH Spółka Akcyjna. This constitutes the satisfaction of one of the conditions set forth in the share purchase and demerger agreement concerning the acquisition by the Bank of Bank BPH Spółka Akcyjna demerged business, executed on 31 March 2016 between the Bank and GE Investments Poland sp. z o.o., DRB Holdings B.V. and Selective American Financial Enterprises, LLC.

- Alior Bank S.A. in current report deted 2 August 2016 hereby gave notice of setting the adjusted price for the acquisition of the core business of Bank BPH, at PLN 1,159,645,000 (the “Adjusted Price”). The Adjusted Price was determined pursuant to the Share Purchase and Demerger Agreement based on the tangible book value of the core business of Bank BPH as at 30 June 2016.
  The Adjusted Price may be further adjusted depending on the adjusted tangible book value of the core business of Bank BPH as at the date of registration of the increase of Alior Bank’s share capital by the relevant registry court in connection with the demerger of Bank BPH, i.e. following the completion of the tender offer for the sale of 50,600,821 shares in Bank BPH, announced by Alior Bank.

- On 4 August 2016 Alior Bank S.A. announces that the Tender Offer has been once again amended by changing the condition regarding the minimum number of shares of Bank BPH to be subscribed for in the Tender Offer for its effectiveness. The changed minimum number has been set for 37,180,026 (thirty seven million one hundred eighty thousand twenty six) shares of BPH carrying at least approximately 48.49% of the total number of votes in Bank BPH.
  The amendment to the Tender Offer results from the fact that an adjusted price has been set for the block of shares of Bank BPH sold by GE Investments Poland sp. z o.o., DRB Holdings B.V. and Selective American Financial Enterprises, LLC, for PLN 1,159,645,000, as announced by the Bank in its current report No. 70/2016 of 2 August 2016. The Changed Minimum Number of Shares has been calculated as a quotient of the Adjusted Price and the price of the Bank BPH shares in the Tender Offer (i.e. PLN 31.19). The Changed Minimum Number of Shares corresponds to the number of shares that GE Investments Poland sp. z o.o., DRB Holdings B.V. and Selective American Financial Enterprises, LLC committed to sell on the basis of the share purchase and demerger agreement of 31 March 2016.

- On 5 August 2016 Alior Bank S.A. announced that on 5 August 2016 Bank BPH had received a decision of the Polish Financial Supervision Authority (the “PFSA”) dated 4 August 2016, approving, in accordance with Article 34 Section 2 of the Polish Banking

Law, proposed amendments to the articles of association of Bank BPH related to the planned demerger of Bank BPH to be conducted pursuant to Article 529 § 1 Section 4 of the Commercial Companies Code (the "Demerger"); the proposed amendments reflect a decrease of the share capital of Bank BPH related to the Demerger.
The receipt of the above-mentioned decision of the PFSA together with the receipt of the decision of the PFSA referred to in current report No. 65/2016 dated 26 July 2016 constitutes the fulfilment of the last condition for the Demerger as set out in section 3.2 of the Demerger plan.

- On 8 August 2016 of the satisfaction of the condition of the Tender Offer regarding the placing of subscriptions in the Tender Offer for the minimum number of 37,180,026 Bank BPH shares carrying at least approximately 48.49% of the total number of votes in Bank BPH (the "Condition Concerning Minimum Number of Shares") took place. The satisfaction of the Condition Concerning Minimum Number of Shares means that all the conditions of the Tender Offer have been satisfied. The Condition Concerning Minimum Number of Shares has been satisfied as a result of the placing of subscriptions for the sale of Bank BPH shares by GE Investments Poland sp. z o.o. and DRB Holdings B.V. pursuant to the Share Purchase and Demerger Agreement. These subscriptions were placed following the satisfaction of the last of the conditions precedent of the Share Purchase and Demerger Agreement connected with the obtaining of all the Polish Financial Supervision Authority's consents specified in the Share Purchase and Demerger Agreement, taking into account the changes in this respect included in the annex to the Share Purchase and Demerger Agreement of 8 August 2016.

- Alior Bank obtaining on 9 August 2016: (i) the consent of the Polish Financial Supervision Authority (the "PFSA") to Alior Bank S.A. to keep securities accounts and collective accounts (custodian business) and (ii) the PFSA's decision confirming that there are no grounds to object to the intended indirect acquisition of shares in BPH Towarzystwo Funduszy Inwestycyjnych S.A. ("BPH TFI") by Alior Bank in the number exceeding 50% of votes at the general meeting of BPH TFI (the "Consent re BPH TFI"). The Management Board of Alior Bank explains that the Share Purchase and Demerger Agreement does not provide for the acquisition of BPH TFI by Alior Bank. Nonetheless, the Consent re BPH TFI is required for the sake of formality because from the date of acquisition of shares in Bank BPH by Alior Bank in a tender offer for the sale of shares in Bank BPH announced by Alior Bank to the demerger date of Bank BPH, Alior Bank will be a major shareholder of the entire Bank BPH and BPH TFI is an indirect subsidiary of Bank BPH. Alior Bank will not acquire BPH TFI as a result of the demerger of Bank BPH.

### Other significant events

- On 4 February 2016, the Bank issued 10,000 EUR001 series dematerialized, unsecured, subordinated coupon bearer bonds with EUR 1,000 par value each, with a total par value of EUR 10,000,000. The issue price of each bond corresponds to its par value. The bonds issue was executed pursuant to Art. 33 (2) of the Act on Bonds of 15 January 2015. The interest rate on the bonds was determined based on the LIBOR 6M rate for 6-month deposits in EUR plus a fixed margin, and interest will be payable twice a year. The bonds will be redeemed at their par value on 4 February 2022.
On 19 April 2016, the Bank obtained the consent of PFSA, granted based on Art. 127 of the Banking Law, for classifying the bonds as Tier II instruments in accordance with Art. 63 of CRR. The Bank maintains the records of Bonds in accordance with Art. 8 of the

Act on Bonds of 15 January 2015. The said records will be maintained by the Bank until the repurchase or redemption of all bonds. The Bank will not seek admission or introduction of the bonds to any organized trading within the meaning of the Act on Trading in Financial Instruments of 29 July 2005.

- On 15 February 2016 the Management Board of the Bank informed about the conclusion of an agreement for the construction loan of PLN 78,273,900 and revolving credit of PLN 5,000,000 with one of the Bank's customers. As a result of signing the said agreement, the Bank's total exposure to the Customer and its Group entities increased to PLN 352,162,900.
  The agreement for the highest amount was concluded with one of the Customer's Group entities on 20 November 2013 and was subsequently annexed several times.
  The agreement is for a construction loan in the amount of PLN 185 million, maturing on 10 October 2016. In accordance with the agreement, it is possible to convert the construction loan into an investment loan in the amount of EUR 21 million with a maturity date not later than 31.12.2021. The said loan is a non-revolving facility for financing hotel and commercial facilities. The receivable in respect of the financing granted was secured by, among other things, a mortgage, assignment of rights under an insurance policy, power of attorney to bank accounts and a pledge on shares. The product offered under the agreement bears interest determined on an arm's length basis. The other terms and conditions of the agreement do not differ from the usual terms and conditions of similar agreements.

- On 11 and 14 March 2016, the Bank's Management Board received notifications pursuant to Art. 69 of the Act on Public Offerings, on the change in the total number of shares at the General Meeting by PZU SA and Alior Lux S.à.r.l. & Co. S.C.A. Pursuant to the notifications received as a result of the transaction dated 9 March 2016, (settled on 11 March 2016) PZU SA and its subsidiary PZU Życie SA hold 18,345,820 of the Bank's shares which constitute 25.232% voting rights at the General Shareholders' Meeting. As a result of disposing of Alior Lux S.à.r.l. & Co. S.C.A. does not hold any of the Bank's shares.

- The Bank's Management Board informed about concluding an agreement for a non-revolving facility for the financing of the current operations in the amount of PLN 255,000,000 with a subsidiary Alior Leasing Sp. z o.o. with its registered office in Warsaw ("Alior Leasing") on 25 March 2016. As a result of signing the agreement (which is the agreement of the highest value), the total exposure of the Bank to Alior Leasing increased to PLN 509,048.82 thousand.
  The loan is a non-revolving facility for the financing of financing activities. The final repayment deadline is 24 March 2027. The receivable in respect of the financing granted was secured by, among other things, a registered pledge on a set of movable assets (the leased asset), a notarized statement of submission to enforcement and a power of attorney to dispose of bank accounts.
  The product offered under the agreement bears interest determined on an arm's length basis.
  The other terms and conditions of the agreement do not differ from the usual terms and conditions of similar agreements.
  Alior Leasing, which is the Bank's subsidiary, is consolidated under the acquisition accounting method.

- On 29 March 2016, Alior Bank received a notification from PZU relating to concluding, on 29 March 2016, a written arrangement relating exclusively to unanimous voting on draft resolutions on every item on the agenda of the Ordinary General Shareholders' Meeting which took place on 30 March 2016 and on investigating motions filed during the Ordinary General Shareholders' Meeting which took place on 30 March 2016 concluded by and between PZU, PZU Życie, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2. After concluding the arrangement, the parties has jointly 21,247,464 shares (of which PZU had 18,318,473 shares, PZU Życie had 27,347 shares, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum had 1,644 shares, and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 had 2,900,000 shares) representing 29.22% of the Bank's share capital and entitling to 21,247,464 voting rights at the Ordinary General Shareholders' Meeting which took place on 30 March 2016, constituting 29.22% of the total number of voting rights at the General Shareholders' Meeting. In accordance with the notification received pursuant to Art. 69 of the Act on Public Offerings, as a result of concluding a written arrangement on 27 April 2016 by and between Powszechny Zakład Ubezpieczeń SA, Powszechny Zakład Ubezpieczeń Na Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty UNIVERSUM and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 relating to unanimous voting during the General Meetings and on changing the total number of voting rights formerly held, the above entities jointly hold 21,247,464 of the Bank's shares which entitle to 29.22% votes at the General Meeting.

- The Annual General Shareholders' Meeting held on 30 March 2016, in addition to regular resolutions, passed resolutions in matters relating to closing the financial year 2015 and approval of: the financial statements of the Bank and the Bank's Group, Directors' Report of the Bank and the Group, Supervisory Board Report, appropriation of profit, acknowledgement of the performance of duties by all members of the Management Board and Supervisory Board of the Bank, and appointment of the Supervisory Board of the Bank for the third term of office.

- On 31 March 2016, Alior Bank signed agreements with Powszechny Zakład Ubezpieczeń S.A. ("the Guarantor"), in which the Guarantor granted an Insurance Guarantee to Alior Bank S.A. for unfunded credit protection with respect to a selected portfolio of the Bank's receivables resulting from loans, in accordance with CRR ("the Guarantee"). At the same time, at the Guarantor's request, a third party ("the Counter-Guarantor") granted a Counter-Guarantee to the Bank to secure the performance of the Guarantor's obligations ("the Counter-Guarantee"). Based on the Counter-Guarantee, the Bank may demand that the Counter-Guarantor make a payment resulting from the Guarantee if the Guarantor fails to make such payment. The portfolio of the Bank's receivables covered by the Guarantee (after rounding) amounts to PLN 3,104,239,753. Taking into account the Bank's own contribution amounting to 10% and the limit of the Guarantor's liability with respect to a single loan amounting to PLN 50,000,000, the amount of the Guarantee granted (after rounding) amounts to PLN 2,548,855,794.
  The maximum validity period of the Guarantee is 24 months. A call for payment may be served on the Guarantor until 18 August 2018. At the same time, the Bank has the right to terminate the Guarantee before the end of its validity period. The amount of compensation for granting the Guarantee depends, among other things, on the portfolio amortization and premium for the Counter-Guarantee. The estimated amount of the average monthly compensation in the Guarantee validity period (after rounding) is PLN 2,428,371. The Guarantee provides for contractual penalties which may be due to

the Guarantor from the Bank in the event of the violation of certain obligations of the Bank under the Guarantee Agreement. The maximum cumulative amount of such contractual penalties must not exceed PLN 2,000,000. In accordance with the Counter-Guarantee, the Bank is obliged to pay additional compensation of PLN 1,500,000 in the event of early expiry of the Counter-Guarantee or early termination of the Counter-Guarantee Agreement, and a contractual penalty amounting to 0.10% of the difference between the amount of PLN 2,039,084,635.50 and the amount defined in the Counter-Guarantee as designated for the financing of SMEs by the Bank, or 0.10% of the amount of PLN 2,039,084,635.50 in the event of the failure to provide, by 30.06.2018, the report and information on the fulfilment of the Bank's obligations in respect of financing SMEs as specified in the Counter-Guarantee. The Guarantee and the Counter-Guarantee are intended to reduce the Bank's capital requirement with respect to credit risk.

- On 26 April 2016, the PFSA took the decision relating to the acquisition of Powszechna SKOK in Knurów by Alior Bank. As at 27 April 2016 the Management Board of Alior Bank S.A. assumed management over Powszechna SKOK in Knurów. As of 1 June 2016, Powszechna SKOK in Knurów will be acquired by Alior Bank, as the acquiring Bank. Until the date of acquisition of Powszechna SKOK in Knurów by Alior Bank the SKOK will operate and offer the full scope of services to its members.

- On 21 June 2016 an agreement was concluded with Telekom Romania Mobile Communications S.A. relating to the extension of the deadline for meeting the condition stipulated in the agreement for providing financial intermediation services concluded by and between the parties on 7 August 2015 which was described in the Directors' Report of the Alior Bank S.A. Group for 2015.
  Pursuant to the agreement the parties agreed to extend the deadline for signing contracts for trademarks until 31 July 2016.
  The other conditions, in accordance with the provisions of the agreement, have been met.

- On 30 June 2016 an Extraordinary General Meeting of Alior Bank S.A. was convened for 29 July 2016.

- On 1 July 2016, Alior Bank S.A. published the amounts of expenses related to the subscription of P1A and P1B series bonds. Total expenses incurred in connection with the subscription of P1A and P1B series bonds amounted to PLN 666.5 thousand. Expenses related to the work on preparing the bond issuance scheme and the prospectus are accounted for by the Bank over the period of the issue program, i.e. 12 months of the date of approval of the prospectus by the PFSA. Other expenses relating to the bonds which have been incurred to-date have been accounted for on a one-off basis in the income statement. The average cost of conducting the subscription per one security covered by the subscription, calculated as the quotient of: (i) the total costs of the P1A and P1B series bonds issue and (ii) the total number of P1A and P1B series bonds, was about PLN 3.03.

### Other significant events after the balance sheet date

- On 1 July 2016 the Insurance Guarantee for unfunded credit protection with respect to a selected portfolio of the Bank's receivables resulting from loans, in accordance with CRR ("the Guarantee") granted by Powszechny Zakład Ubezpieczeń S.A. ("the

Guarantor") and the Counter-Guarantee to secure the performance of the Guarantor's obligations ("the Counter-Guarantee") were terminated. The Guarantee was terminated with immediate effect, and the Counter-Guarantee with a 30-day notice. Termination of the Guarantee is related to the obligation to pay an additional fee of PLN 1,500 thousand. The Bank will not have to pay the fee for the period falling after the termination of the Guarantee and the Counter-Guarantee (in recognition of the duty to pay the fee referred to in the previous sentence). With reference to the issue of share rights which took place in June 2016, the Bank ensured an appropriate level of capital to continue in operation without availing itself of the agreements referred to above.

- On 5 August 2016 Alior Bank S.A concluded the agreements with Telekom Romania Mobile Communications S.A. regarding trademarks, thereby completing the last condition specified in the agreement for providing of financial intermediary services, which was concluded between the parties on 7 August 2015.

## VIII. Bond issuance scheme

- Alior Bank S.A. has a bonds issuance scheme with a maximum value of PLN 2 billion set up based on the Resolution of the Bank's Supervisory Board dated 10 August 2015, of which the Bank informed in its current report No.68/2015 from 10 August 2015. The bond issuance scheme was set up due to the Act on Bonds of 15 January 2015 coming into force and replaced the previous bond issuance scheme approved by Resolution of the Supervisory Board No. 28/2013 dated 18 March 2013, of which the Bank informed in current report No. 16/2013 dated 19 March 2013. The type of bonds, offering procedures and detailed terms and conditions for issuing particular series of bonds issued under the scheme are determined by the Bank's Management Board by way of resolutions.
- Until 30 June 2016 under the said issuance scheme the Bank issued the following series of subordinated bonds:

| Series number | Abbreviated name | ISIN | Series value (PLN) | Issue date | Redemption date | Quotation market |
|---|---|---|---|---|---|---|
| I | ALR1221 | PLALIOR00136 | 150 000 000 | 2015-12-04 | 2021-12-06 | BS ASO, GPW ASO |
| I1 | ALR1221 | PLALIOR00136 | 33 350 000 | 2015-12-04 | 2021-12-06 | BS ASO, GPW ASO |

At the motion of the Bank's Management Board the Management Board of KDPW S.A. passed a resolution on assimilating I1-series bonds with I-series bonds and registering them under a joint code ISIN PLALIOR00136.

- On 28 December 2015, the Bank obtained the consent of the PFSA to include PLN 183,350,000, which constitutes a subordinated liability in respect of the I- and I1-series bonds issues in the calculation of Tier II capital.

## IX. Public Subordinated Bond Issue Scheme

- On 28 December 2015, the Supervisory Board of the Bank granted its consent for the Management Board to set up the Public Bond Issue Scheme (Issue Scheme) related to Alior Bank S.A. Subordinated Bonds denominated in PLN and authorized the Management Board to draw financial liabilities through the Bank issuing in series up to 800 000 unsecured, subordinated bearer bonds with a par value of PLN 1,000 each as part of the Issue Scheme.
  - The total nominal value of the Bonds issued under the Issue Scheme shall not exceed PLN 800,000,000.
  - The Bonds will be issued and offered in series over a period not exceeding 12 months from the date of the Polish Financial Supervision Authority approving the basic prospectus prepared in connection with the Issue Scheme.
  - The maturity period of the Bonds issued under the Issue Scheme shall range from 5 to 10 years from the issuance date of a given Bond series.
  - The benefits from the Bonds will be solely monetary.
  - The Bonds shall be issued pursuant to the procedure set out in Article 33.1 of the Bonds Act.
  - The Bonds shall not have a documentary form and will be registered in the deposit of securities maintained in accordance with the provisions of the Act on Trading based on the agreement with the National Securities Deposit (Krajowy Depozyt Papierów Wartościowych S.A.) or the company referred to in Article 5.10 of the Act on Trading in the event of the National Securities Deposit entrusting to it the tasks referred to in Article 48.1.1 of the Act on Trading.
  - The issuance terms of each Bond series shall incorporate the provisions relating to qualifying them as equity funds pursuant to the provisions of the Regulation of the European Parliament and Council No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (EU Official Journal L 176 of 27.6.2013, p. 1).
  - The Bank's Management Board will apply for admittance and introduction to trading of the Bonds on the regulated market run by the Warsaw Stock Exchange ("WSE") as part of the Catalyst system or introduction of the Bonds to trading in an alternative trading system run by the WSE or BondSpot S.A. as part of the Catalyst system.
  - At the same time, the Supervisory Board of the Bank authorized the Bank's Management Board to specify the final issuance terms of the individual series of Bonds issued under the Issuance Scheme, to allot the Bonds to investors and to undertake any other actions aimed at executing the Issuance Scheme.

- The opening of the Issuance Scheme enables issuance of the individual bond series in order to ensure a safe level of the total capital ratio (TCR) in connection with the Polish Financial Supervision Authority increasing from 1 January 2016 the minimum capital requirements for banks, based on the PFSA's letter dated 22 October 2015. From 1 January 2016, according to the recommendation, banks should maintain the capital ratios on a level of at least 13.25% in the case of TCR and 10.25% for Tier 1.
- On 12 April 2016, the Polish Financial Supervision Authority approved the Bank's prospectus prepared in connection with: (i) public offerings on the territory of the Republic of Poland of up to 800,000 unsecured, subordinated bearer bonds with PLN 1,000 par value each, issued under the Public Subordinated Bonds Issue Scheme of Alior Bank S.A.; and (ii) the intention to seek admission and the introduction of up to 800,000 Bonds to trading on the regulated market maintained by Giełda Papierów Wartościowych w Warszawie S.A. in the Catalyst system.

- Until 30 June 2016 under the Public Subordinated Bonds Issue Scheme the Bank issued the following series of subordinated bonds:

| Series number | Abbreviated name | ISIN | Series value (PLN) | Issue date | Redemption date | Quotation 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 |

**Issue of P1A series bonds**

On 27 April 2016, the Bank issued P1A series subordinated bonds under the Public Issue Scheme of Subordinated Bonds.

The total par value of the P1A bonds is PLN 150,000,000. The bonds bear interest at a floating rate equal to the sum of the WIBOR 6M base rate and a margin of 3.25% p.a., starting from the second interest period. In the first interest period, the interest rate is fixed and amounts to 5.00% p.a. The bonds have a maturity of six years and their redemption date is 16 May 2022.

Subscriptions for the bonds were accepted in the period from 14 April 2016 to 15 April 2016, and the bonds were allotted on 18 April 2016.

The average reduction rate for P1A series bonds was 66.25%.

Under the subscription 444,444 P1A series bonds were subscribed for. Subscriptions were submitted by 1,439 investors, and the bonds were allotted to 1,402 investors.

The bonds were introduced to trading on the Catalyst regulated market on 11 May 2016.

**Issue of P1B series bonds**

On 29 April 2016, the Bank issued P1B series subordinated bonds under the Public Issue Scheme of Subordinated Bonds.

The total par value of the issued P1B bonds is PLN 70,000,000. The bonds bear interest at a floating rate equal to the sum of the WIBOR 6M base rate and a margin of 3% p.a., starting from the second interest period. In the first interest period, the interest rate is fixed and amounts to 5.00% p.a. The bonds have been issued for a period of eight years, and they mature on 16 May 2024.

Subscriptions for the Bonds were accepted in the period from 21 April 2016 to 22 April 2016, and the bonds were allotted on 25 April 2016.

The average reduction rate for P1B series bonds was 73.61%.

Under the subscription 265,302 P1B series bonds were subscribed for. Subscriptions were submitted by 1,777 investors, and the bonds were allotted to 1,145 investors.

The bonds were introduced to trading on the Catalyst regulated market on 11 May 2016.

- On 19 May 2016, the Bank obtained the consent of the PFSA to include PLN 150,000,000 and PLN 70,000,000, which constitute subordinated liabilities in respect of the P1B-series and P1B-series subordinated bond issues respectively, in the calculation of Tier II capital.

## X. Report on the risk exposure of Alior Bank

Risk management is one of the key internal processes in Alior Bank S.A. The ultimate goal of the risk management policy is to ensure early recognition and appropriate management of all material risks in the Bank's operations. The Bank isolated the following types of risks resulting from the operations conducted: credit risk (including the risk of credit concentration), interest rate risk in respect of the Banking Book, market risk in respect of the Trading Book, liquidity risk, operational risk, non-compliance risk, model risk, business risk, reputation risk and equity risk. The Bank considers the following risks as the key risks in its operations:

- market risk, also covering the banking book interest risk, liquidity risk, foreign exchange risk and risk of commodity prices;
- credit risk;
- operational risk.

**Market risk**

Market risk is defined as the likelihood of the Bank incurring potential losses in the event of unfavourable changes in market prices (share prices, currency exchange rates, profitability curves), market factors (volatility in financial instrument valuations, the correlation of price changes between particular instruments), and customer behaviour (early deposit withdrawals, early loan repayments).

The process of managing market and liquidity risks is based on achieving, inter alia, the following goals:

- significantly mitigating the volatility of results and changes in the economic value of the Bank's equity;
- developing a structure of assets and liabilities (banking book) which is optimal in terms of profitability and the potential impact on the economic value;
- providing customers with core treasury products in order to help them manage the risk underlying their operations (i.e. hedging);
- guaranteeing the solvency and full availability of liquid funds at any moment and even under the assumption of the occurrence of negative market scenarios;
- ensuring that the processes applied by the Bank comply with the regulatory requirements regarding market risk management and the level of equity required for that purpose.

The market and liquidity risk management process is carried out within the framework of the Bank's relevant risk management policies covering identification, measurement, monitoring and reporting of risks. It also pertains to control over treasury transactions by determining and verifying the principles on which they are concluded, organized and assessed.
There is a clear segregation of duties, competencies and responsibilities within the individual functions, and the principles are specified in internal regulations. The key role in this respect is played by the Financial Risk Management Department (FRMD) which prepares independent cyclic reports using the risk models and measures adopted by the Bank and submits them to appropriate units, including – periodically – to members of the Management Board, Supervisory Board and ALCO. The duties of the Department include, among other things:

- defining market and liquidity risks management policies;
- analysing and reporting the Bank's risk profile;
- determining the amount of economic capital to cover the market and liquidity risks;
- recommending current activities related to managing the banking book risk;
- creating all regulations which define the process of concluding treasury transactions on the interbank market and with the Bank's customers, including developing model documentation;

- coordinating the process of introducing new Treasury products and assessing the related risk;
- supporting and servicing ALCO operations.

The Treasury Department is responsible for carrying out treasury transactions with the Bank's customers, and the Interbank Transaction Team is exclusively responsible for concluding transactions on the interbank market and for maintaining open trading book risk positions, and concluding treasury transactions on the Bank's account. The transactions may be concluded to manage trading book risk positions within the limits set up, and pursuing the Bank's policy in respect of managing the banking book risk within the limits set up.

The Operations Department is responsible for the independence of ad hoc controls of internal treasury operations, including transaction settlements. The Operations Department operates as an entity fully independent of the Treasury Department. The leak-proof and accurate supervision conducted by the Operations Department is the basis for mitigating the operating risk of the Bank's treasury operations.

Supervision over the above-mentioned entities of the Bank was separated up to the level of Management Board Member which is an additional factor guaranteeing their independent operations. The full organizational structure and segregation of competencies have been defined in detail by the Bank's Management Board in the Head Office Organizational Regulations. The Management Board, the Supervisory Board and the Assets and Liabilities Committee (ALCO) take an active role in managing market risks.

The ALCO controls market risk, including liquidity risk, on a current basis. It takes all the respective decisions, unless these were previously qualified as being within the sole competence of the Management Board or the Supervisory Board. ALCO's duties include, among other things:

- current control over market risk management, both related to the trading and the banking book, including issuing decisions relating to the risk management of both books;
- accepting the Bank's operational limits on the monetary and capital markets;
- current control over the Bank's liquidity management, both related to the trading and the banking book;
- commissioning actions to acquire sources of financing for the Bank's operations and supervising the financing plan;
- issuing decisions on managing the model portfolios.

The Bank's basic market and liquidity risks management strategy assumptions as stipulated for a given budget year take the form of an Asset and Liability Management Policy developed annually by the FRMD and submitted by the Management Board to the Supervisory Board for acceptance as part of acceptance of the annual budget. It remains binding until a consecutive update.

The Supervisory Board exercises supervision over risk management, including, but not limited to:

- annual determination of the Bank's strategy in respect of market risk management by accepting the Asset and Liability Management Policy;
- acceptance of the Bank's market risk management strategy, including the key risk limits;
- control over compliance of the Bank's policy in respect of risk acceptance with the Bank's strategy and financial plan through a regular review of the Bank's market risk profile based on the reports received;
- recommendation of actions aimed at changing the Bank's risk profile.

Information on the nature and level of risk is submitted to the Supervisory Board by the Management Board, with the exception of the results of internal control of the market risk management system which is submitted by the Director of the Internal Audit Department.

The Bank's Management Board is responsible, among other things, for:

- supervising the market and liquidity risk management process, monitoring and reporting risks;
- determining the appropriate organization and segregation of duties in the process of concluding treasury transactions;
- accepting policies and instructions regulating market and liquidity risk management within the Bank and efficient operation of the identification systems;
- setting detailed limits for mitigating the Bank's risk and ensuring appropriate mechanisms for their monitoring and notifying cases of exceeding limits.

The Bank's market and liquidity risk exposure is officially mitigated by a system of limits which are updated periodically, introduced by resolutions of the Supervisory Board or the Management Board; the limits cover all measures of market risk whose level is monitored and reported by the Bank's organizational entities independent of the given entity's business. There are three types of limits at the Bank which differ in terms of their scope and the way they operate: basic limits, supplementary limits, and stress-test limits. Market risk management focuses on potential changes in the economic results.
Unquantifiable risks related to treasury operations are also mitigated through the quality requirements in force at the Bank, related to the risk management process (the internal control system, implementation of new products, analysis of legal risk, analysis of operating risk).
For market risk purposes, the Bank estimates Value-at-Risk using an analytic module of the treasury system. The Bank uses a parametric VaR model in accordance with JP Morgan methodology (RiskMetrics). The estimated 99% one-day VaR may be re-scaled to other periods by multiplying variability by a root of a multiple of the one-day period (e.g. 10-day VaR is determined by multiplying one-day VaR by $\sqrt{10}$).

**Foreign exchange risk**

Foreign exchange risk is defined as the risk of potential loss caused by movements in foreign exchange rates. The Bank additionally identifies the impact of foreign exchange movements on its results in the long term, which could occur in the event of converting future foreign currency income and expenses at a potentially less favourable exchange rate. The risk related to future results may be managed under the model currency portfolio. The basic purpose of foreign exchange risk management is to identify those areas of the Bank's operations which may be exposed to foreign exchange risk, and thus to undertake to mitigate the resulting potential losses to the maximum extent. The Bank's Management Board specifies the foreign exchange risk profile, which must be consistent with the applicable financial plan of the Bank.

Under the foreign exchange risk management process, the Bank is obliged to monitor and report the amounts of all its currency positions and VaR, assessed in accordance with the adopted model, within the set limits. The Bank closes each significant currency position with a counter position on the market, thus eliminating the related foreign exchange risk. Open currency positions are maintained within the limits set by the Supervisory Board. The Bank conducts periodical analyses of potential scenarios which are aimed at providing information on the Bank's exposure to foreign exchange risk in the event of foreign exchange fluctuation shocks.

The Bank may also conduct hedging transactions in respect of future highly probable foreign exchange cash flows (e.g. cost of rent, net interest income denominated in foreign currencies). The purpose of such transactions is to limit the fluctuations of results in the current calendar year to a maximum of 60%.

The key foreign exchange risk management tools at Alior Bank include:

- internal procedures for foreign exchange risk management;
- internal models and measurements of foreign exchange risk;
- foreign exchange risk limits and threshold values;
- limitations on foreign exchange trading transactions;
- stress tests.

The basic tool for the measurement of foreign exchange risk at the Bank is the "Value at Risk" model ("VaR Model"), which enables determining the possible amount of loss stemming from the then current foreign currency positions as a result of fluctuations in foreign exchange rates, measured using an assumed confidence level and time horizons (holding period). The Bank determines VaR using the variance-covariance method and a confidence level of 99%. This amount is determined on a daily basis for particular areas responsible for accepting and managing risk, both on an individual and on an overall basis. As at the end of June 2016, the maximum loss on the Bank's currency portfolio (managed as part of the trading book) specified in accordance with the VaR Model with a 10-day holding period could amount to PLN 410,220.06, assuming a confidence level of 99%.

| | As at 30.06.2016 |
|---|---|
| **Holding period [days]** | 10 |
| **VaR [zł]** | 410 220.06 |

**VaR statistics on the Bank's currency portfolio for the first half of 2016.**

| VaR | As at 30.06.2016 |
|---|---|
| **Min** | 21 484.08 |
| **Average** | 115 181.41 |
| **Max** | 924 081.18 |

**VaR statistics on the Bank's currency portfolio for the first half of 2016.**

| Utilization of limits (in millions in the given currency) | | |
|---|---|---|
| **Currencies** | **Limit** | **Utilization** |
| **PLN (gross)** | 18.5 | 13.1 |
| **PLN (net)** | 9.5 | -9.6 |

| Group A | | |
|---|---|---|
| **EUR** | 1.3 | -2.3 |
| **USD** | 2.0 | 0.3 |
| **CHF** | 0.9 | -0.1 |
| **GBP** | 0.9 | -0.1 |
| **Group B** | | |
| **PLN (net)** | 2.6 | 0.5 |
| **AUD** | 0.4 | 0.0 |
| **CAD** | 0.4 | 0.0 |
| **CZK** | 2.6 | 0.0 |
| **DKK** | 2.0 | 0.4 |
| **NOK** | 2.0 | 0.2 |
| **RUB** | 4.0 | 1.8 |
| **SEK** | 2.0 | 0.0 |
| **Other** | 2.0 | 0.1 |
| **Commodities (PLN gross)** | 2.0 | 0.0 |

The VaR model assumes that the distribution of changes in the values of risk factors is normal, which may in practice lead to underestimating the losses in extreme scenarios ("fat tails"). Therefore, the Bank performs stress tests.

The utilization of the stress-test limit for currency positions calculated as the maximum loss the Bank could incur in the event of the most unfavourable daily foreign exchange rate change of those which occurred within at least the last four years, totalled PLN 206,893.12 as at 30 June 2016.

**Stress-test statistics of the currency position in the first half of 2016 (in PLN '000):**

| Minimum | Average | Maximum |
|---|---|---|
| **7.23** | 75.94 | 206.89 |

### Interest rate risk

Interest rate risk is defined as the risk of a negative impact of the levels of market interest rates on the current financial result or the net present value of the Bank's equity. As part of its policy of mitigating the trading book risk, the Bank pays particular attention to specific aspects of interest rate risk that are associated with the banking book, such as:

- repricing risk (i.e. the mismatch of the interest rate tenors of assets and liabilities);
- basis risk, which is defined as the extent to which non-parallel changes in different reference indices that have similar repricing dates can affect the Bank's income;

- modelling accounts with an unspecified maturity date or with an interest rate set by the Bank (e.g. for sight deposits);
- the impact of non-interest bearing items on the risk (e.g. capital, fixed assets).

One of methods of estimating the Bank's exposure to interest rate risk is the determination of BPV. BPV represents the estimated change in the value of a given transaction or position as a result of one basis point change at a given point of the yield curve. BPV values are measured daily for all currencies and at each point of the curve. The BPV estimates as at 30 June 2016 is presented in the tables below:

BPV as at the end of the first half year of 2016 by tenor (in PLN '000):

| Currency as at 30.06.2016 | Up to 6 months | 6 months - 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 2016 (in PLN'000):

| Book | Minimum | Average | Maximum |
|---|---|---|---|
| Banking book | -812.90 | -585.45 | -375.22 |
| Trading book | -33.67 | -4.08 | 32.77 |
| ALCO | 499.05 | 751.62 | 991.20 |
| **Total** | -174.73 | 162.08 | 582.90 |

At the same time, in order to estimate the total level of the interest rate risk, the Bank applies a VaR Model as discussed above. The economic capital to cover the said type of risk measured in this manner as at the end of the first half of 2016 is shown in the table below (99% VaR assuming a holding period of 10 days, in PLN'000).

| VaR | As at 30.06.2016 |
|---|---|
| Banking book | 12 477.19 |
| Trading book* | 1 706.04 |
| **Total** | 12 827.79 |

VaR in the trading book includes the VaR in respect of foreign exchange risk presented above.

Statystyka VaR za okres styczeń – czerwiec 2016 r. (wartości w tys. zł.)

| Book | Minimum | Average | 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 |

For the purpose of managing interest rate risk, the Bank specifies trading operations, which cover securities and derivative contracts concluded for trading purposes, and banking operations, which cover other securities, own issues, borrowings, deposits, loans and derivative transactions used to hedge the banking book risk. The Bank also performs analyses of possible scenarios which cover, among other things, the impact of specific changes in interest rates on the future interest results and the economic value of capital. As part of these scenarios the Bank implements internal limits, the utilization of which is measured daily. Utilization of the limit for changes in the economic value of capital assuming a parallel movement of the interest rate curves of +/- 200 b.p. and non-parallel movements in scenarios of +/- 100/400 b.p. (assuming 1M/10Y tenors, and between them, the shifted linear interpolation) as at the end of June 2016 (in PLN'000) is presented below.

| Scenario (1M/10Y) | Change in 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 |

The table below presents the statistics of the ratio of changes in the net interest income for the first half of 2016, for the scenarios of interest rate increases/decreases of 100 base points in annual terms (in PLN '000).

| Change in the net interest income (PLN '000) | | |
|---|---|---|
| Scenario | Scenario | Scenario |
| Minimum | -57 401 | -111 832 |
| Average | -30 071 | -80 167 |
| Maximum | 6 695 | -40 774 |

## Liquidity risk

The Bank defines liquidity risk as the risk of being unable to fulfil, on conditions favourable for the Bank and at an acceptable cost, its payment obligations resulting from all the Bank's balance sheet and off-balance sheet positions. Therefore, the Bank's liquidity risk management policy consists of maintaining its own liquidity in such a way that it is possible, at any time, to discharge all payment obligations with cash in hand, through the expected contractual inflows from transactions with specified maturity dates or by selling transferable assets and at the same time minimizing liquidity costs.

As part of its management of liquidity risk, the Bank pursues the following goals:

- ensuring, at all times, that there is capacity to settle all obligations on a timely basis;
- maintaining basic liquidity provisions, in case the liquidity position suddenly deteriorates;
- determining the scale of liquidity risk incurred by setting internal liquidity limits;
- minimizing the risk of exceeding the defined liquidity limits;
- monitoring liquidity, so that the Bank is able to maintain liquidity and activate a relevant emergency plan when necessary;
- ensuring that the processes applied by the Bank comply with the regulatory requirements regarding liquidity risk management.

The goals set out above are pursued independently by appropriate organizational units, the competencies and responsibilities of which are clearly defined in the internal regulations. The Bank applies the following measures in the process of liquidity management:

- develops liquidity procedures and policies, including the financing plan for consecutive years of the Bank's operations;
- manages emergency plans with regard to liquidity;
- monitors liquidity limits;
- conducts periodical analyses of the categories and factors which impact the current and future liquidity levels in the form of reports.

Among the liquidity management measurements, the Bank takes into account the following ratios and the related limits for the following types of liquidity:

- financial liquidity – the ability to finance assets and discharge liabilities on a timely basis in the course of the Bank's everyday activities or in other conditions which may be anticipated, without the need to incur losses. In its liquidity management activities, the Bank specifically focuses on a vista and current (up to 7 days) liquidity analysis;
- short-term liquidity defined as the ability to discharge all monetary liabilities which mature within 30 consecutive days;
- medium-term liquidity understood as the ability to meet all liabilities which mature in a period over 1 month and up to 12 months;
- long-term liquidity defined as the ability to meet all monetary liabilities which mature in a period longer than 12 months.

As part of its management of liquidity risk, the Bank also carries out analyses of the maturity profile in a longer term, which to a large extent depends on the assumptions adopted in respect of the development of future cash flows related to asset and liability items. These assumptions specifically take into account:

- stability of liabilities without specified maturities (e.g. current accounts, deposit withdrawals and renewals, level of their concentration);
- option to shorten maturities of specific assets (such as mortgage loans with an early repayment option);
- option to sell assets (liquid portfolio); and they are accepted at the level of the ALCO or the Bank's Management Board.

To identify the realigned liquidity gap, the Bank uses model weights of the core deposits/loan repayments, determined based on the implemented statistical model and historical observations of balances of particular products.
The Bank maintains the liquidity buffer at a high level, investing in debt securities issued by the government and by the highest-ranking corporations, which are highly liquid, within the predefined financial limit plan. This level is controlled by the ratio of liquid assets to the deposit base which as at 30 June 2016 exceeded 24%.
Additionally, the Bank conducts liquidity stress-tests and prepares a plan for acquiring funds in emergency situations, specifies and verifies its liquid asset sale policies, taking into consideration the costs of maintaining liquidity.
In accordance with Resolution No. 386/2008 of the Polish Financial Supervision Authority dated 17 December 2008, the Bank specifies:

- the short-term liquidity gap (i.e. the minimum surplus of current liquidity) defined as the difference between the sum of the base and supplementary liquidity reserve as at the reporting date, and the value of unstable external funds. As at 30 June 2016, the surplus amounted to PLN 4,685 million;
- the ratio of coverage of non-liquid assets with own funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk to non-liquid assets;
- the ratio of coverage of non-liquid assets and assets with limited liquidity with own funds and stable external funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk, and stable external funds to the total of non-liquid assets and assets with limited liquidity;
- the short-term liquidity ratio defined as the total of the base and supplementary liquidity reserve as at the reporting date divided by the value of unstable external funds.

The values of the above-mentioned ratios as at 30 June 2016 were as follows: 8.54; 1.19; 1.92.

Moreover, in accordance with the requirements of the above-mentioned Resolution, the Bank performs an in-depth analysis of the stability and structure of the sources of financing, including the core deposits and concentration levels for term and current deposits. Additionally, the Bank monitors the changes in balance sheet and off-balance sheet items, in particular the amounts of projected outflows relating to guarantees granted to the customers.

To limit concentration risk, the Bank diversifies the structure of the deposit base into retail, business, financial customers, central and local government institutions, monitoring and reporting the share of each of the groups in the entire deposit base on a monthly basis.

In the first half of 2016 the Bank's liquidity remained at a safe level. The position was monitored and maintained at a level adequate to the Bank's needs by adjusting the deposit base and using additional sources of financing depending on the development of lending activity and other liquidity needs.

## Credit risk

Managing credit risk and maintaining it at a safe level, defined in the risk appetite, is of fundamental importance for the stability of the Bank's operations and development. The regulations in force at the Bank, in particular the lending methodology and models for risk assessment adapted to the customer segment, type of product and transaction, principles for determining and monitoring legal collateral for loans and monitoring and debt collection procedures are aimed at controlling credit risk. The Bank focuses on full centralization and automation of processes within the systemic infrastructure, and simultaneous use of available internal and external customer information.

The level of credit risk is limited in accordance with the restrictions following from external regulations, and internal principles set by the Bank, in particular with reference to the limits of credit exposure to one customer, a group of entities related in terms of equity or personal relationships, and particular industries.

The credit risk management system is comprehensive and integrated with the Bank's operating procedures. The basic stages of credit risk management include:

- identification;
- measurement;
- monitoring;
- reporting and controlling.

A process thus identified enables the Bank to efficiently supervise current and potential risks and effectively apply risk management methods and instruments.
Internal and external credit risk factors were identified in the credit risk management system and attributed to respective areas of the Bank's operations:

- Customer – each individual customer and groups of related customers are analyzed, homogenous groups of Customers are also verified in terms of the quality of portfolios set up;
- Product – all types of risk are defined which may be related to the specific product: individual loans and whole portfolios;
- Collateral – the following are verified: correctness of acceptance of collateral; its value and timeliness; accuracy of preparing the documentation for setting up the collateral and updating its value. To limit credit risk, updated regulations for legally securing dues and applying current standards for securing the debts are implemented efficiently;
- Process and regulations – the quality and effectiveness of the crediting process, administration of crediting, monitoring, debt collection and restructuring are verified as well as cooperation with external debt-collecting agencies, and compliance with internal banking regulations which support the processes;
- Systems – in particular, the systems supporting the lending, monitoring and debt collection processes are verified, as well as effectiveness of their application;
- Distribution channels – effectiveness and loss ratio in respect of the distribution channels operating in the Bank are checked;
- Employees – correctness of use of individually-allotted credit competences is investigated, potential irregularities which may have occurred during the lending process are detected;
- External conditions – in particular, the following are monitored: the level of interest rates; currency exchange rates; supply of cash; unemployment rate, changes on the labour market; economic conditions;

- Correctness of the credit risk management system – correctness of the adopted credit risk management policies is verified on a regular basis.

The Bank analyzes risk both on an individual and on a portfolio basis; this entails further action aimed at:

- minimizing the credit risk of individual loans at a predetermined rate of return;
- controlling the total credit risk resulting from the Bank's specific credit portfolio.

As part of the process of minimizing risk of individual exposures, each time when the Bank grants a credit product:

- it assesses the creditworthiness and credit rating of the exposure, taking into consideration, among other things, a detailed analysis of the sources of repayment;
- it assesses the collateral, including verifying their formal, legal and economic status, taking into consideration, among other things, LTV adequacy.

Additionally, as part of the procedure for strengthening risk control over individual exposures, the Bank regularly monitors customers, taking appropriate risk limitation actions in the event of identifying increased risk factors.
In respect of maintaining the credit risk at the level defined in the risk appetite, the Bank:

- determines and controls concentration limits;
- monitors early warning signals under the EWS system;
- regularly monitors the credit portfolio, controlling all material credit risk parameters (such as PD, LTV, DTI, CoR, LGD, NPL, Coverage);
- regularly performs stress tests.

**Assessment of risk in the crediting system**

The Bank sells credit products in accordance with the crediting methodologies appropriate for the customer segment and type of product. Assessment of a customer's creditworthiness which precedes the decision about granting a credit product is made using the following credit-process-supporting tools: scoring or rating; external information (such as CBD DZ, CBD BR, BIK, BIG databases) and the Bank's internal databases. Credit products are granted pursuant to the operational procedures in force at the Bank which indicate the appropriate actions to be taken in the crediting process, the responsible Bank units and the tools to be used.

Credit decisions are taken pursuant to the credit decision system in force at the Bank (competency levels adapted to particular customers' and transactions' risk levels).
In order to regularly assess the assumed credit risk and limit potential losses on credit exposures, the Bank monitors customer's position over the crediting period by identifying early warning signals and performing periodic individual credit exposure reviews.

The monitoring process ends with issuing a recommendation relating to the further Customer cooperation strategy.

**Segregation duties**

The Bank pursues a policy of separating the functions related to acquiring Customers and selling credit products from the functions related to risk assessment, taking credit decisions and monitoring credit exposure.

**Concentration risk management**

Out of concern for the stability and safety of the Bank and appropriate quality of its assets, their diversification, respective returns and appropriate equity levels, concentrations in various areas of the Bank's operations are assessed. The Bank considers excessive concentrations of items which are accompanied by credit risk or liquidity risk to be a phenomenon which will have a negative impact on the Bank's operational safety.

Management of concentration risk in the Bank's credit activities relates to risks which – among other things – result from:

- exposures to individual entities or entities related in personal or organizational terms;
- exposures to entities from the same industry, business sector, engaged in the same operations or selling similar goods;
- exposures to entities from the same voivodeship and particular countries or groups of countries;
- exposures secured with the same type of collateral or by the same collateral provider (including risk of the Bank's securing itself on securities with similar characteristics);
- exposures in the same currency;
- exposures to entities referred to in Art. 71 of the Banking Law;
- the product's datasheet;
- the Customer segment;
- the distribution channels;
- special offers and promotions;
- internal concentration.

Knowledge of the scale of potential dangers related to concentration of the Bank's exposures enables proper asset and liability management, and the safe structuring of the credit portfolio. To prevent unfavourable events following from excessive concentration, the Bank limits concentration risk by setting limits and using concentration standards following from external regulations and those adopted internally.

The Bank introduced:

- principles for identifying credit concentration risk areas;
- a process for determining and updating limits;
- a process for managing limits including the manner of proceeding if the allowable limit is exceeded;
- a process for monitoring concentration risk, including reporting;
- controls of concentration risk management.

In the process of determining and updating concentration limits the following are taken into account:

- reliable economic and market information relating to each of the areas in which exposure concentration occurs, in particular, macroeconomic ratios, industry ratios, information on business trends, taking into account projections of interest rates,

foreign exchange rates, political risk analyses, ratings of governments and financial institutions;
- reliable information on business position of entities, industries, branches, business sectors, overall economic information, including on the economic and political position of countries, and other information necessary to assess the Bank's concentration risk;
- business and qualitative information relating to the management process within entities to which the Bank is exposed, which leads to concentration risk;
- interest rate risk, liquidity risk, operational risk and political risk related to the identified exposures, which may have an impact on an increase in concentration risk.

**Provisions and write-downs**

The Bank assesses all balance sheet loan exposures (groups of loan exposures in the balance sheet) in order to identify objective indications of impairment, based on the most up-do-date information possessed by the Bank as at the revaluation date. The Bank assesses off-balance sheet exposures in terms of the need to set up provisions.

Impairment is identified automatically in the Bank's central system based on the information from the system (default) or data entered by the users.

**Catalogues of indications of impairment**

Customer-related indications of impairment:

- Significant delays in repayment/unauthorized overdraft – this indication relates to business and individual customers; it is recognizable by the system in the event of repayment delays or unauthorized overdraft over a period of more than 90 days, if simultaneously the materiality criteria in respect of the amount due (PLN 500) is met, jointly in all the accounts which the customer owns or of which he is the co-owner, and all the accounts where the customer is the borrower/co-borrower;
- Remedial proceedings – the indication relates to business customers; it is recognized on the basis of flagging of information on a business having filed notification of the commencement of remedial proceedings with the court in the system;
- Bankruptcy/liquidation – the indication relates to business customers; it is recognized on the basis of flagging information on filing a petition for bankruptcy in the system;
- Consumer bankruptcy – the indication relates to individual customers; it is recognized on the basis of flagging information on filing a petition for bankruptcy (consumer bankruptcy) by the borrower in the system;
- Undisclosed customer's assets – the indication relates to business and individual customers; it is recognized on the basis of flagging information on the customer providing untrue information on his assets in the system;
- Significant deterioration in the internal assessment of a scoring/rating – the indication relates to business customers; it is recognized by the system if the scoring/rating drops by at least one class (compared to that previously awarded), and at the same time is below the level accepted by the Bank;
- Significant deterioration in external rating – the indication relates to business customers and is recognized on the basis of flagging information on reducing the customer's external rating from investment to speculative grade in the system;
- Significant deterioration in the economic and financial position – the indication relates to business customers; it is recognized by the system if the assessment of the customer's economic and financial position (in accordance with the RMF classification) deteriorates by at least one category, to the level "substandard", "doubtful" or "loss";
- Demise – this indication relates to individual customers; it is recognized on the basis of flagging in the system, pursuant to confirmed information on a customer's death.

- Lack of information on the customer's place of residence – this indication relates to individual customers; it is recognized on the basis of flagging confirmed information on the absence of the residential address of the customer in the system;
- Loss of job – the indication relates to individual customers; it is recognized on the basis of flagging information on the inability to repay the debt by the customer as a result of the loss of job in the system;
- A customer's financial problems – the indication relates to individual customers; it is recognized on the basis of flagging information on the customer's financial problems (in accordance with BIK data) in the system.

**Account-related indications of impairment:**

- Issuing a banking executory title – the indication is recognized on the basis of introducing information on a Banking Executory Title having been issued;
- Instigating enforcement proceedings – the indication is recognized on the basis of introducing information on instigating enforcement proceedings by the Bank in the system;
- Effective termination of an agreement – the indication is recognized on the basis of introducing information on effective termination to the system, while simultaneously meeting the criterion of materiality of the amount due (PLN 500);
- Restructuring – the indication is recognized on the basis of introducing information to the system on changes in repaying the loan by the customer as a result of his problems with timely repayment in the form of an annexe to the loan agreement or an arrangement with the Bank;
- The exposure is challenged by the borrower at court – the indication is recognized on the basis of information introduced to the system on the exposure position being challenged by the Customer taking court action;
- Identified fraud – the indication is recognized on the basis of information on confirmed fraud entered to the system on the basis of a court judgement.

**Indications of impairment relating to exposure to banks:**

- Delay in repayment exceeding 30 days – the indication is recognized on the basis of information on repayment delays exceeding 30 days;
- Significant deterioration in external rating of the counterparty bank – the indication is recognized on the basis of information on lowering the external rating of the counterparty bank from investment to speculative class;
- Significant deterioration in external rating of the country of residence of the counterparty bank – the indication is recognized on the basis of information on lowering the external rating of the country of residence of the counterparty bank from investment to speculative class;
- Significant deterioration in the financial position of the bank/bankruptcy of the bank – the indication is recognized on the basis of information on the counterparty risk being unacceptable in the process of periodic monitoring of limits.

**Indications of impairment relating to exposure to bonds:**

- Absence of payments in respect of bonds – the indication is recognized on the basis of information on the absence of payments in respect of bonds specified in the Bonds issue terms and conditions;
- The issuer violating other Bond issue terms and conditions, which allows requesting early payment of the Bonds.

If an event arises which may indicate impairment and which is not included in the above list, it is possible to change the account status to default manually. This is done when information is obtained on other material events arising which could indicate impairment. Indications of impairment of balance sheet impairment of a loan exposure (groups of loan exposures in the balance sheet) are registered in the system on the Customer's level or on the account level. Recorded indications of impairment at the level of a given account result in flagging all the accounts of the given Customer as impaired. Similarly, in the event of registering an indication of impairment at Customer level, impairment is propagated to all accounts in the Customer's portfolio. The propagation each time applies to all accounts in respect of which the Customer is the owner/co-owner or borrower/co-borrower. In respect of balance sheet loan exposures which became impaired, the Bank records impairment allowances in order to reduce their carrying amount to the present value of expected future cash flows.

Exposures with identified indications of impairment are classified into those measured on a case-by-case (individual) and on a group basis. The individual assessment applies to exposures carrying the risk of impairment (calculated at customer level) which exceed the established thresholds depending on the customer segment (see table below).

| Customer segment | In PLN |
|---|---|
| | **2016** |
| Individual customer | No treshold |
| Business customer | 500 000 |

Individual assessment is also applied to exposures threatened with impairment in respect of which the Bank is unable to identify the groups of assets with similar credit risk characteristics or does not have a sufficient sample for estimating group parameters.

Individual assessment is based on an analysis of possible scenarios (business customers). Probabilities of realization and expected profits are attributed to each scenario and tree branch. The assumptions adopted for individual measurements are described in detail by the analysts. The amounts of recoveries expected under individual measurements are compared with the profits realized on a quarterly basis.

The group valuation is based on the period of a given exposure being in default and takes into account the specific nature of a given group in terms of the expected recoveries. Security is taken into account on the exposure level.

Exposures in respect of which no indications of impairment have been identified are grouped in keeping with the homogeneity principle in relation to the risk profile and an allowance is recorded against a group of exposures to cover losses incurred but not reported (IBNR). The IBNR amount is established based on PD and LGD parameters, and respective security (taking into account the expected recovery rates).

PD parameters are determined based on the migration matrix and the LIP (Loss Identification Period) levels adopted. The period of historical data which is the basis for assessing the PD parameter was selected so as to achieve two goals: maximize predictivity of the parameters and stability of assessments. Therefore, for most portfolios the Bank uses the 12-month period for observing the migrations between particular delay baskets and the default status to determine PD. Medium and large enterprise portfolios are an exception to this procedure because due to the smaller number of defaults the Bank uses a 24-month period. The PD parameter differs for particular portfolios and delay baskets. PD for particular overdue baskets is determined in LIP periods pursuant to the table below:

| Basket/Portfolio | Accounts/LOR Individual Customer | Mortgage loans Individual Customer | Credit cards Individual Customer | Loans Individual Customer | Other Individual Customer | MICRO Business Customer | Other Business Customer |
|---|---|---|---|---|---|---|---|
| **0 DPD** | 5 | 6 | 5 | 5 | 5 | 5 | 4 |
| **1-30 DPD** | 4 | 3 | 3 | 3 | 4 | 4 | 3 |
| **31-60 DPD** | 3 | 2 | 2 | 2 | 2 | 2 | 2 |
| **61-90 DPD** | 2 | 1 | 1 | 1 | 1 | 1 | 1 |

The LIP periods were determined on the basis of a quantitative analysis considering an event being an initial reason for the loss of ability to service the debt.

**Collateral**

Collateral is set up in an appropriate manner with reference to the credit risk incurred by the Bank and is flexible towards the customer's capabilities. Setting up the collateral does not exonerate the Bank from the duty to assess a customer's credit rating.

A loan has to be secured to ensure the Bank that the loan with the accrued interest and respective costs will be repaid if the borrower defaults on the dates determined in the loan agreement, and restructuring does not bring about the expected effects.

The Bank accepts, in particular, the following legal forms of collateral:

- Guarantees, re-guarantees and warranties;
- Account blocking;
- Registered pledges;
- Re-possession;
- Assignment of debts;
- Loan insurance;
- Bills of exchange;
- Mortgages;
- Power of attorney to bank account;
- Security deposits (as a special form of collateral).

Collateral is verified in the crediting process in terms of the legal ability to secure the Bank's interests, and its market value is assessed as well as the possibility of recovering it in the potential enforcement proceedings.

Debt collateral enables:

- reducing the amounts of impairment write-downs and allowances in accordance with IAS 39;
- applying more favourable risk weights for the purpose of calculating the capital requirement pursuant to Resolution No. 76/2010 of the Polish Financial Supervision Authority.

**Managing repossessed assets**

In justified cases the Bank repossesses assets put up as collateral to satisfy matured dues. Such transactions are conducted on the basis of accepted plans for managing the repossessed asset.
In the first half of 2016 Alior Bank SA only repossessed chattels classified to the widely meant group of vehicles in debt collection and restructuring processes. Assets repossessed in this manner were earmarked exclusively for sale and were not used for internal purposes.
The assets referred to above are repossessed both by internal units of the Bank services and using specialist external cooperating agents accepted by the Bank. Each repossessed chattel is valued to determine the selling price and to settle the repossession transaction with the collateralized loan by independent external experts operating under contracts concluded with the Bank.

**Scoring/rating**
Credit scoring is a tool which supports lending decisions in respect of individual Customers and micro-enterprises, and credit rating is an instrument supporting the decision-making process in the SME segment.

Implementation of the scoring and rating process enables:
- Controlling credit risk thanks to obtaining customer creditability;
- Standardizing the criteria for taking credit decisions in an unbiased and objective manner;
- Shortening the period necessary to take credit decisions and guaranteeing higher effectiveness of credit application assessments (increasing efficiency of work and reducing processing costs);
- Simplifying assessment of credit applications as result of automating the process;
- Customer segmentation in terms of risk;
- Monitoring and forecasting the quality of the credit portfolio;
- Facilitating assessment of the credit policy to-date and faster introduction of changes to decision-making processes used to assess credit risk relating to business and individual customers.

The Bank regularly monitors the correctness of operation of the scoring and rating models. This is done to determine whether the models used correctly diversify risks, and risk parameter assessments correctly reflect appropriate risk aspects. Additionally, functional controls verify correctness of the application of the models in the crediting process.
Currently applied scoring models were developed internally by the Bank. To reinforce risk management of the models operating within the Bank a new team was appointed which performs the function of an independent validation unit. Additionally, a Scoring and Rating Model Validation Committee operates within the Bank which supervises periodic monitoring of all scoring and rating models, which includes giving recommendations and approving periodic monitoring results.

The results of applying the scoring model are as follows:
- The value of the decision score of a given customer/application;
- Scoring class with intrinsic PD;
- Scoring recommendation to the credit application in the form of: "Approval" or "Rejection".

The type of model used to assess individual customers depends on the type and specific nature of the credit product which is being applied for, the credit history and history of cooperation with the Bank. The score has an impact on the amount of the standard cost of risk accruing to a given transaction.

**Monitoring credit risk of individual and business customers**

The following actions ensure constant protection of the quality of the credit portfolio:

- on-going monitoring of the timely servicing of loans;
- periodic reviews, in particular of the financial and economic position of the customers and the value of accepted collateral.

Monitoring individual customers may be divided into the following areas:

- customer;
- credit products granted to the debtor;
- agreements which were the source of the credit exposure;
- accepted collateral;
- amounts of impairment losses and allowances.

Monitoring business customers relate mainly to:

- the customer and its related entities;
- the industry in which the customer operates;
- the credit products granted to the debtor;
- verification of the Customer meeting the contractual provisions included in the agreement which led to the credit exposure;
- collateral accepted (verification of establishment and value of collateral);
- market conditions which have an impact on the customer's creditworthiness;
- amounts of impairment losses and allowances.

All credit exposures in the business customer segment are additionally covered by portfolio monitoring, i.e.:
- assessment on the basis of a dedicated model of behaviour; and
- early warning signal identification process.

All credit exposures of individual and business customers are monitored and classified to appropriate process paths on an on-going basis. To improve monitoring and operational risk control adequate solutions were implemented in the Bank's credit systems. Systemic tools were consolidated to effectively perform monitoring procedures which cover all accounts.
Exposures classified as standard and irregular, which could lead to intensification of actions at the stage of pre-enforcement or debt collection procedures are regularly monitored. Accounts are assessed on terms of restructuring debt to minimize the Bank's losses on default exposures.

**Applying forbearance practices**

In the restructuring process of a Retail Customer the Bank uses the following tools:

- Extending the lending period. Extending the lending period leads to a reduction in monthly principal and interest instalments, and cannot exceed 120 months (for unsecured products), irrespective of the initial lending period. If under the restructuring process the lending period is extended on a one-off basis to the maximum period, the tool cannot be used again in the future. When the lending period is extended, restrictions following from the product statement, such as the age of the borrower, are taken into account.

- Granting a payment grace period (the whole or part of the instalment). In the grace period for the payment of capital and interest instalments the borrower is not obliged to make any payments in respect of the contract concluded. The loan repayment period may be extended by the number of months of the grace period granted (this is not identical to applying the tool which extends the lending period). The grace period for a full instalment is applied for up to 3 months, the grace period for the principal part of the instalment cannot exceed 6 months. The maximum total grace period may amount to 6 months during 2 consecutive years (24 months), as of the date of signing the restructuring annex;
- Consolidation of several liabilities to Alior Bank, including change in the LOR debit limit /unauthorized ROR debit/consumer loan, to an instalment loan. The effect of consolidation is the transformation of several dues resulting from different contracts into one due. The product initiated as a result of the consolidation is paid back in monthly instalments on the basis of a predefined time schedule. The parameters of the product initiated as a result of applying the given tool have to be compliant with the Product Statement: cash loan/consolidation loan.

In particularly justified situations other tools may be used.
In the restructuring process of a Business Customer no restrictions were introduced relating to the forms of forbearance practices applied. Due to the specific nature of the customers, the most frequently used tools are:

- Arrangement through a change in the time schedule for matured exposures (after maturity or termination notice). It consists of transferring the debt from one or more exposures to a non-renewable account with possible time schedule options: settlement of the whole debt on an accrual basis, or settling part of the debt on an accrual basis, and part as a payment at the end of the period.
- An annexe reducing the limit in renewable loans. This consists of systematic reduction in the credit limit (most often on a monthly basis) by the amount specified in the annex.
- The annexe changing the terms and conditions relating to the deadline for payment /amount of instalment or grace period for the principal /interest.

**Monitoring of the risk relating to forbearance practices**
Reporting the quality of a restructured loan portfolio covers reporting at the level of particular overdue period brackets at which the restructuring decision was taken, and at the aggregate level. The base reporting period is a calendar month. In such breakdown the following subprocesses may be identified to which the presented amounts refer:
- The application process (number of applications, number of decisions issued, types of decisions);
- Quality of the loan portfolio (break-down into particular overdue levels, forms of restructuring, application of overrides);
- Measure of overdue period exceeding 90 days on restructured accounts in consecutive quarters, according to the balances as at the end of consecutive quarters after restructuring.

The results of the above monitoring of the restructured portfolio are shown in the monthly presentations for the Management Board.

- The following risks relate to the application of forbearance tools by the Bank:
- Risk of lack/discontinuation of payments;

- Risk of loss of collateral (in particular chattels) or a significant reduction of its value.
- Risk of bankruptcy.

The Bank mitigates the above risks mainly through the Customer analysis, both in terms of financial possibilities and the history of cooperation with the Customer, information from site visits and other sources. Collateral may be used and exposure may thus be reduced before the forbearance tools are used. Using forbearance tools the Bank makes efforts to additionally insure the exposure to the largest possible extent (mortgage, warranties, pledges). Each Customer in respect of whom forbearance tools are used has an allocated care person from the Debt Collection Team who monitors the customer on an on-going basis in respect of delays, so as to react dynamically to any negative premises as they appear. Customers are obliged to cyclically update inventory balances in the event of pledges on inventories or to update their policies. In justified cases the Bank uses on-Site Collection – one of its functions is checking the collateral.

**Assessment of impairment for exposures subject to forbearance practices**
In respect of forbearance practices the Bank adopts more stringent criteria for impairment identification. Apart from the standard catalogue of premises additional criteria are used in respect of these exposures, defined as forbearance granted to a customer upon one of the following situations arising:

- A delay exceeding 30 days;
- Another premise of impairment;
- An analyst's assessment of the timeliness of servicing a debt being at risk (in respect of Retail Customers);
- Assessment of the economic and financial position as Substandard or worse (in respect of Business Customers).

For those exposures, impairment is determined on the basis of an individual scenario analysis based on historical behaviours of similar Customers and features specific for the given Customer. The Bank discounts the expected cash flows using the effective interest rate before applying the forbearance practices.
In 2014 the Bank implemented a mechanism for marking entry to the forbearance status and exiting it in accordance with the provisions of the "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 introduced changes had no impact on the manner of identifying impairment or the terms and conditions for reversing losses.
The Bank does not differentiate its approach to recognizing impairment depending on the type of facilitation granted to the customer. All types of facilitations are subject to additional more stringent criteria for identifying impairment.

**Operational risk**

Operational risk, i.e. possibility of loss resulting from inadequacy or fallibility of internal processes, people, systems or from external threats, is identified as critical risk. Bank, taking into account target operational risk profile, Bank's strategy, and risk management policy determines a holistic approach to operational risk management. A comprehensive programme in this area consists of operational risk management goals, methods of their achievement as well as solutions implemented according to the recommendations proposed

by the Operational Risk Committee. Bank aims to maintain the level of operational risk in accordance with accepted limits and risk appetite.
Taking into consideration the target operational risk profile, the Bank's strategy and risk management policy, the Bank determines a comprehensive approach to operational risk management. The respective comprehensive program comprises operational risk management goals, methods of exercising them and the solutions adopted under the Operational Risk Committee recommendations. The Bank strives to maintain the operational risk level within the adopted limits and its risk appetite.
The purpose of managing the Bank's operational risk is to minimize its operational risk exposure which indicates the possibility of loss resulting from non-compliance or the unreliability of internal processes, people, systems, or external threats.
The Bank has a formalized operational risk management system according to which it counteracts operational events and incidents and mitigates losses if the risk materializes.
The principles and structure of operational risk management at Alior Bank are based on the Banking Law, the provisions of resolutions and recommendations issued by the Polish Financial Supervision Authority and the Bank's Strategy and Operational Risk Management Policy approved by the Management Board and the Supervisory Board.
The Bank specified – among other things – the operational risk management strategy, which covers:

- identification;
- assessment and measurement;
- counteracting;
- controlling;
- monitoring; and
- reporting operational risk.

The Bank uses the standard method to calculate the capital requirement in respect of operational risk.

The following operate under the Bank's risk operational management system: the Supervisory Board, the Management Board and the Operational Risk Committee.
The Management Board, which participates in Alior Bank's risk operational management process, is responsible for the correct functioning of the operational risk management and control processes, and specifically supports the process:

- by accepting the Bank's policy in this respect;
- by determining competences and the segregation of duties in the operational risk management process;
- by appointing and approving the composition of the Operational Risk Committee;
- by approving the level of internal operational risk limits and operational risk appetite;
- by conducting regular assessment of the operational risk management process and the level of use of internal operational risk limits and operational risk appetite;
- by creating and developing an organizational structure in the area of effective operational risk management.

The Supervisory Board supervises the adopted strategy with reference to operational risk, which, among other things:

- approves the Management Board's competencies necessary to manage operational risk;
- approves the Policy specifying the operational risk management policies;
- approves and assesses the pursuit of operational risk management strategy and – if necessary – orders that it be revised;

- periodically assesses the level of risk on the basis of information submitted by the Bank's Management Board and Operating Risk Committee;
- recommends actions to be taken to mitigate risk or change the operational risk profile of the Bank.

The Operational Risk Committee advises and supports the Management Board in effective risk management. The Operational Risk Committee monitors the level of exposure to operational risk on a current basis and assesses the current operational risk position at Bank level. It also participates in the operational risk management process, among other things, by:

- assessing the operational risk of the Bank's projects;
- approving or recommending changes in business continuity plans;
- determining the scope of self-assessment of operational risk by the Bank;
- approving assumptions for conducting stress tests in respect of operational risk and their results.

It also issues the necessary recommendations and decisions to counteract operational issues, and if such are identified, mitigates their effects.

The process of mitigating operational risk is one of the most important elements of operational risk management as the decisions regarding the mitigation of this risk have a direct impact on its profile. Based on the recommendations of the Operational Risk Committee regarding the Bank's operating areas especially exposed to operational threats, the Bank's Management Board takes decisions on the Bank's further actions aimed at mitigating or accepting the operational risk, or on the discontinuation of operations which are exposed to operational risk. The Management Board may decide to insure the identified operational risk.

The Operational Risk Strategy Department is responsible for on-going control and monitoring of operational risk. This entity is also responsible for:

- developing and implementing appropriate operational risk methodologies and controls;
- giving opinions on and consulting the assessment of operational risk of the Bank's projects, products and procedures (new and modified);
- monitoring the level of use of internal operational risk limits and operational risk appetite;
- accumulating high quality data on events and operational results;
- monitoring internal and external events;
- monitoring the level of the Bank's risk using the tools used by the Bank, such as the level of key risk indices (KRI) and self-assessment;
- preparing cyclic reports relating to the operational risk level at the Bank.

The duty to monitor and mitigate operational risk in day-to-day activities relates to all the employees and organizational entities of the Bank. The Bank's employees control the risk level on a current basis in respect of the processes for which they are responsible, and actively minimize the risk exposure, taking action to avoid/limit operating losses. They are responsible for current registration of events and financial operational effects relating to their areas of operation, they define and report the Key Risk Indicator (KRI) levels and the level of tolerance for processes especially exposed to operational risk, they also participate in the self-assessment process commissioned by the Operational Risk Committee.

**Recording events/incidents and operating losses**

The Bank records the events, incidents and operational effects, which enables it to effectively analyse and monitor operational risks in accordance with the internal instruction specifying the recording principles. The records are maintained using the OpRisk system which supports operational risk management and which enables registering, analysing and monitoring data.
The amount of operational losses recorded in the first half of 2016 has been contained within limits and in accordance with the accepted operational risk appetite.

**Model risk**
The purpose of managing model risk is to enable the pursuit of set business goals at an acceptable level of uncertainty resulting from applying models in the Bank's activities. In its processes, the Bank strives to use models to the widest possible extent, achieving automation of the decision-making processes and minimizing the role of the human factor. The Bank forms its model risk management process in a way ensuring achievement of the goal.

The Bank's model risk management bases on three pillars:
- corporate governance – covering internal regulations, the internal control system and defined roles and responsibilities of organizational entities, including the Risk Management Committee and ICAAP, the Bank's Management Board and its Supervisory Board;
- the model risk management process – covering all its stages and the use of adequate tools;
- operational activities in which the Bank engages to identify model risk, implement control procedures, escalation and model risk management, remedial and reorganization decisions taken to limit risk, including decisions taken at meetings of the Risk Management Committee and ICAAP.

As part of the model risk management process compliance of the model risk level with the adopted risk tolerance is assessed and actions are taken to lower that level. The process has the following stages: identifying, measuring, controlling and reporting model risk. The model risk management process is conducted at the level of individual models and model portfolios.
Process tools
In the model risk management process the Bank uses the following tools and techniques:
- model charts, journals and registers presenting current information on the models identified in the Bank;
- monitoring and validation which enable assessing the quality of individual models;
- examining the quality of data for model construction consisting of examining their quality and assessing their usefulness in IT systems in terms of model construction;
- performing aggregated assessments of model risk to evaluate the level of model risk and the adopted tolerance to model risk;
- stress tests (ST) which enable assessing the Bank's sensitivity and resistance to hypothetical and historical extreme events;
- standards of model construction and documentation enabling restricting the model risk level at the stage of their creation;

- other, adequate to the current requirements.

As of 30 June 2016 the Bank complies with Recommendation W of the PFSA for model risk management by banks.

**Capital management (ICAAP)**

Alior Bank manages capital in a manner enabling safe and at the same time effective functioning.

To ensure the security of operations, the Bank defines, within the scope of its risk appetite, appropriate levels of offset of potential unexpected losses in respect of material risks identified under the ICAAP process and risks under the regulatory capital calculation procedures by available capital (and Tier 1 capital).

Under the ICAAP process the Bank identifies and assesses the materiality of all types of risks to which it is exposed in connection with its operations.

| Material risks as at 30 June 2016 |
|---|
| 1. Credit risk (including: insolvency, industry concentration, Customer concentration, currency concentration) |
| 2. Operational risk |
| 3. Liquidity risk |
| 4. Interest rate risk in the Banking Book |
| 5. Market risk |
| 6. Model risk |
| 7. Reputation risk |
| 8. Business risk |
| 9. Operational risk |
| 10. Compliance risk |

The Bank assesses internal capital using external risk assessment models for particular risks identified as material for the Bank. Internal capital is assessed in respect of:

- credit risk based on the VAR methodology in respect of the distribution of losses on the credit portfolio;
- operational risk based on the VAR methodology in respect of the annual distribution of operational losses;
- liquidity risk based on the liquidity gap model on the assumption of stress conditions;
- market risk and interest rate risk in respect of the banking book, based on the VaR methodology;
- reputation risk based on the VAR model in respect of the loss frequency and amount.

The total designated internal capital and the calculated regulatory capital are secured by the value of available capital (and Tier 1) in consideration of appropriate safety buffers.

| Capital ratios of the Bank's Group as at 30.06.2016. | | |
|---|---|---|
| Capital adequacy ratio | Tier1 ratio | Ratio of offsetting internal capital by available capital |
| 20,93% | 17,31% | 3,13 |

Considering the need to secure sustainable growth of its scale of operations, the Bank will expand the available capital base using various channels, i.e. reinvesting profits, issuing subordinated debt, and issuing new shares on the stock exchange.

The Bank's available capital base is expanded while ensuring operating effectiveness, that is realizing the stipulated return on the capital entrusted by shareholders.

## XI. Contingent liabilities

The Group grants contingent liabilities to its individual customers in respect of renewable limits in checking (ROR) accounts. These liabilities are granted for an unspecified period, but at the same time, the adequacy of inflows of funds to the accounts is monitored.
Contingent liabilities for business customers include:

- current account limits (for a period of 12 months);
- guarantees, mainly for a period of 6 years;
- credit cards for an unspecified period (with simultaneous monitoring of adequacy of cash inflows and portfolio or individual monitoring);
- guarantee limits;
- loans launched in tranches for a period of up to 2 years.

The amounts of guarantees shown in the table below reflect the maximum loss which may be incurred and which would be disclosed as at the balance sheet date if the customers defaulted on all their liabilities.

As at 30.06.2016 the number of active guarantees granted by Alior Bank was 2,356 amounting to PLN 1,426,453 thousand.
The Bank ensures maintaining a correct timing structure of the guarantees issued. Active guarantees with a maturity of less than two years (of 1 605) amount to PLN 683,425 thousand.

### a. Off-balance sheet liabilities granted (in PLN'000)

| Off-balance sheet contingent liabilities granted to Customers | as at 30.06.2016 | as at 30.06.2015 |
|---|---|---|
| Off-balance sheet liabilities granted | 9 185 131 | 8 941 675 |
| Relating to financing | 7 758 678 | 7 371 753 |
| Guarantees | 1 426 453 | 1 569 922 |

**Off-balance sheet contingent liabilities granted to Customers – by Customer**

| by Customer | as at 30.06.2016 |
|---|---|
| entity 1 | 146 054 |
| entity 2 | 75 200 |
| entity 3 | 33 345 |
| entity 4 | 30 596 |
| entity 5 | 28 727 |
| entity 6 | 28 044 |
| entity 7 | 24 562 |
| entity 8 | 21 273 |
| entity 9 | 20 920 |
| entity 10 | 20 538 |
| Other | 997 194 |

**b. Off-balance sheet contingent liabilities granted to Customers – by type**

| by type | as at 30.06.2016 |
|---|---|
| credit lines | 7 334 082 |
| import letters of credit | 4 166 |
| loan promises | 420 430 |
| guarantees | 1 426 453 |
| Total | 9 185 131 |

The Bank was not a warrantor or guarantor of any bonds in the first half of 2016 (there were no off-balance sheet liabilities in respect of bonds).

## XII. Internal control system

Alior Bank S.A. has an internal control system which comprises all the control processes that support management. The aim of the system is to ensure the effectiveness of the bank's operations, the reliability of financial reporting, compliance with the risk management policies and with the law, internal regulations and market standards.
Alior Bank's internal controls comprise the control function, the compliance function and an independent internal audit function.
The internal audit function is responsible for providing objective information and assessments relating to the management process, controls, compliance with generally binding legal provisions, best practices and standards, and the bank's internal regulations, supporting the process of the bank's management by recognizing and assessing significant risk exposures and contributing to improving the risk management and control system.
The control function enables achieving the required quality and correctness of the actions performed, eliminates potential irregularities, minimizes risk, thus ensuring safe operation of the Bank. the control function covers all the solutions adopted by the Bank in respect of its organizational structure, internal procedures, documentation of IT systems, documentation of financial and business transactions, and functional controls.

The organizational structure creates a framework for the control function by segregating duties and responsibilities, ensuring organizational independence of the functions responsible for operations from those responsible for controlling those operations, attributing responsibilities for decision-making to appropriate competency levels and to collective bodies. Internal procedures and documentation of the IT system document the course of the processes enabling their analysis and designing an appropriate control function. The functional controls cover all management levels and every employee, all organizational units and all areas of the Bank's operations. They consist of regular analysis of the course and results of work of particular employees and teams. The functional controls are performed in the form of self-control, vertical and horizontal functional control and the automatic performance of processes executed by the IT systems.

### Compliance risk management

Compliance risk management is aimed at minimizing the risk of incurring legal sanctions, financial losses or losing reputation or reliability due to the failure of the Bank, entities acting on its behalf (including subsidiaries) or its employees to comply with the provisions of the law, regulatory requirements, internal regulations and standards adopted by the Bank, including ethical standards. The Compliance Department ensures proper compliance risk management, in particular:

- It identifies and analyses on an on-going basis the key compliance risk areas of the Bank's operations.
- It monitors legislative changes and regulator moves, as well as court and administrative authorities' decisions, and notifies appropriate organizational entities of the Bank of compliance risk or reputation risk.
- It supports the Bank's organizational entities in the process of developing internal regulations and adapting them to the binding legal regulations and regulatory requirements, and ensures the consistency of internal regulations, their compliance with the legal regulations, requirements of the supervisory authorities and best market practices.
- It analyses the Bank's operations in terms of compliance risk on an on-going basis, including in particular in respect of developing new business models, creating and offering new products and services, as well as in terms of relationships with customers, cooperation with whom could expose the Bank to reputation risk.
- It prepares or consults responses to regulators' questions and complaints.
- It gives its opinions on the Bank's promotional and advertising materials.
- It sets standards in the area of ethical conduct of the Bank's employees and supervises compliance with them. It coordinates proceedings in respect of notifications of violations of the law and of ethical conduct.
- It manages the Bank's policy in respect of conflicts of interest and accepting and offering gifts.
- It develops training programs and conducts compliance training for the Bank's employees.
- It ensures, jointly with the Security and Electronic Security Department, the Bank's compliance with the personal data protection regulations.
- It monitors exercising the Bank's corporate governance policy over subsidiaries.

## XIII. Corporate social responsibility

## Relations with customers

Alior Bank plays a key role on the banking market in terms of maintaining and promoting high service quality standards, as confirmed by various awards and distinctions. From the beginning of its existence Alior Bank has been an organization focused on customer needs, providing beneficial advice and tailoring products to customer needs.
The Bank analyses the needs of its stakeholders on an on-going basis, and flexibly tailors its strategy to market conditions, both in terms of the product offer, distribution network, employing experts and the service process.

## Relations with employees

To promote good employee relations Alior Bank is implementing a new HR strategy which accounts for the specific nature of a large and dynamic organization. The adopted formula stipulates active support in achieving common business goals through activities aimed at improving employee experiences throughout the employment cycle, and forming an organizational structure which supports the transformation process. The initiatives taken in the first half of 2016 were focused on building the best job offer in the banking industry, and making preparations for restructuring connected with the Bank's planned further development.

In the first half of 2016 we continued actions aimed at submitting to the candidates comprehensive and complete information about the Bank, its organizational structure and specific nature of the work at the selected position. One of the initiatives pursued to educate the local labour market was Hackathon – a 24-hour programmer marathon for people interested in mobile banking and Internet of Things. The promotional action and the event itself were widely commented in the local start-up environment, and its organization contributed to developing 9 innovative technological ideas and to building potential candidates' awareness of the Bank's offer as an IT industry employer and of new technologies. The pursued actions enable the candidates to make informed decisions on cooperation and positively translate into commitment both at particular stages of recruitment and directly after becoming employed.

New employees are included in a specially prepared program aimed at ensuring their effective introduction to work. Under the introductory training for the sales network we trained 48 groups of 657 new bankers, under the T-Mobile Usługi Bankowe project we trained 180 people, and 241 people under the Tesco Finanse project.

Alior Bank employees may specialize in a given area or manage teams, developing managerial skills. A management system and the implemented new development program enable the effective directing of professionals and allow them to dynamically develop their careers. We make a range of training programs, both external and internal, available to employees. The offer comprises product, sales and quality service, interpersonal skills and management training. As part of the development path in the sales network we offer training, the completion of which is a criterion for promotion. Until the end of June 2016 we covered 888 employees with the training and the courses received the highest ratings from the participants.

In June 2016 Alior Bank completed an intensive eighteen-month intensive Advanced Management Program organized jointly with the Spanish IESE Business School, one of the best business schools in the world in which over 40 key managers of Alior Bank participated. At the same time more than 70 managers completed the 10-month Leader Development Program which supported the management competencies and developed effective teambuilding skills.

In March 2016 we launched another program addressed to line sales managers ("Sales Pistols"), whose aim is to develop management competencies of the best branch directors and to prepare them for succession in key positions. Individual development plans of particular participants will be pursued until the end of 2016 and managers from this group will be regularly included in actions and business projects strategic for the Bank.

Alior Bank offers all its employees real possibilities to develop their competencies within the organization. In the first half of 2016 we conducted 23 tailored training courses for Head Office employees and enabled 240 people participation in the training and in external conferences organized as part of the assigned directors' pool. Additionally, almost 800 employees used internal training conducted by coaches of Alior Instytut Biznesu and under the program "Podziel się wiedzą" ("Share your knowledge"), in which all of the Bank's employees must propose and independently develop a training course in technical skills related to their specialization. The internal e-learning and sector departments jointly developed 27 new training topics to support current business needs, including mandatory training for the structures of Alior Bank in Romania which are currently being established.

The internal audit "Changes under Scrutiny" ("Zmiany pod Lupą") was an element of the dialogue which was to help build relations with employees. The internal audit "Alior Bank under Scrutiny" ("Alior Bank pod Lupą") was an element of the dialogue which was to help build relations with employees. Its purpose was a diagnosis of the current organizational structure of Alior Bank, preferences in respect of the offer for employees and assessment of the quality of tools and processes. The audit was addressed to all Alior Bank employees and attendance was 65%. The conclusions from the audit will enable verifying the actions taken to-date and shaping personnel policy at local and bank-wide level. Implementation of Platforma Sodexo (used to manage non-wage benefits by employees) on 1.06.16 was the effect of the prior year's audit. The platform is used to register for medicare with LuxMed, group PZU insurance and Multisport program. It is also used to report resignation from the said benefits.

The starting point to planning all employee relation initiatives is the observation that employment with Alior Bank is one of several elements comprising their everyday life. The personal needs of our employees are no less important to them during office hours; therefore, we wish to respond to them and propose solutions which facilitate the organization of everyday functioning. Implementation of a benefit platform in the first half of 2016, used to independently manage non-wage benefits by employees, is an example of such an approach. It enables employees to report or resign from such benefits as the medicare package, group insurance or the Multisport program. Such an approach leads to improving comfort at work and translates into effectiveness in performing tasks.

Employee benefits offered by Alior Bank in 2016 focused on three pillars: supporting employee families, promoting sports and inspiring women's professional development.

During winter vacations we invited children of Head Office employees in Warsaw, Kraków and Gdańsk to holiday play centres. As a result, their parents had more comfort at work, which contributed to effective use of the working hours. In May and June 2016 picnics were organized in Gdańsk, Kraków and Warsaw, to which Alior Bank employees with their families were invited. The picnics were a great occasion for better acquainting ourselves and for team integration, which also related to employees from the dispersed sales network of Alior Bank in those regions.

As part of supporting the employees' sports initiatives, the Bank operates 11 sports sections: football, volleyball, basketball, running, yoga, tourist, go-cart, crossfit, sailing, squash and bowling. Groups of employees in each section are committed to actively engage in sports in a given discipline and promote it before a wider audience by actively participating in exercises, competitions, and business leagues. Additionally, on the first March weekend we organized the winter Olympics of Alior Bank in the ski resort of Czarna Góra. Over 300 people participated in skiing, snowboard and sledging competitions and the event was an excellent occasion to better acquaint themselves with each other in a friendly atmosphere of sports rivalry.

In the first half of 2016 we continued pursuing the career development program addressed to women. Its superior purpose is to build an organizational culture in which women are able to fully use their potential by exchanging experience and transferring knowledge. To achieve it in the first half of 2016 we conducted 25 workshops in total throughout Poland, and we invited a group of over 20 ambassadors to a prestigious personal coaching program.

## Educational, cultural and charity activities

Alior Bank is a socially responsible corporation and as such for many years it has supported local communities undertaking many initiatives. Such activities are aimed not only at aiding the completion of various programs, but also spreading knowledge on corporate social responsibility and sustainable growth among employees, customers, business partners and the Bank's shareholders. What is important is that employees more and more often propose their own projects which in their opinion are important and reflect the values represented by the Bank. Moreover, year on year, an increasing number of internal initiatives combine with external actions.

In April 2016, Alior Bank yet again supported the action "Czytam w podróży" ("I read when travelling") aimed at promoting reading and promulgating the works of Zbigniew Herbert. Hundreds of volunteers were involved in this year's edition of the event, and they distributed bookmarks on public transport vehicles, at stops and in stations with the text of a poem of one of the most outstanding Polish poets of the 20th century. As part of a joint project with the Zbigniew Herbert Foundation, Alior Bank's employees actively participated in the action. In more than 320 branches they offered bookmarks to customers promoting the works of the author of "Mr Cogito" and encouraging them to read on the way home, to school, work and in the place of their dream holiday.

Alior Bank engages in educational programs addressed to various age groups, including children. In January 2016, under the cooperation with Fundacja Ekomini in one of the elementary schools of the Mazovian Voivodeship pilot classes started conducted by Alior Bank experts, aimed at popularizing entrepreneurship and financial issues.

## Sponsoring activities

Alior Bank as the official sponsor of the Polish Football Representation continues cooperation with the Polish Football Association. Already more than 21 thousand fans have the Karta Kibica fan cards issued by the Bank. The cards are identity badges and replace the traditional paper tickets to matches, as well as being pre-paid payment cards. This is a key element linked to the multimedia platform "Łączy nas piłka" ("Connected by football"), of which Alior Bank is also an official partner.

### Prizes and awards

In the first half of 2016, Alior Bank S.A. received several prizes and awards. The main ones comprise:

- **an award for Alior Bank in the "Złoty Bankier 2015" rating**. For the fourth year in a row Alior Bank triumphed in the category "Best Cash Loan";
- **main award in the international competition "Retail Banker International"** in the category "Best technology used to directly service customers" for Wirtualny Doradca ("Virtual Advisor") – an artificial intelligence system supporting remote contact with the customers;
- award for **third place in the poll "Best Bank 2016"** organized by "Gazeta Bankowa". Alior Bank was for the first time ranked **in the category "Large Commercial Bank"**;
- **3 awards for Alior Bank in the "Gwiazdy Bankowości 2015" (banking stars) ranking** by "Dziennik Gazeta Prawna" paper in cooperation with PwC. Alior Bank received the third prize for overall business activity. The jury also ranked the Bank second in the category "Innovation" and "Pace of development";
- award for **second place in the competition "Lamparty 2016"** for the most admired creation of banking brand image, organized by TNS Polska;
- award for **third place in the ranking "50 largest banks in Poland in 2016"** developed by the monthly "Miesięcznik Finansowy BANK", in the category "Banks' operating efficiency".

## XIV. Controls applied in the process of preparing financial statements

The financial statements are prepared in the Financial Department in accordance with the Bank's accounting policy adopted by the Management Board and the organization of the Bank's accounting. The policies specify the principles for recording business events in the Bank to reflect in a true, fair and clear manner the assets and financial position of the Bank and its financial results.
As a result of recording those events, the Bank's books of account are created, which form the basis for preparing financial statements.
In the process of preparing financial statements, the following risks were identified:

- risk of incorrect input data;
- risk of incorrect presentation of data in the financial statements;
- risk of using incorrect estimates;
- risk of lack of integration of the operating systems used at the Bank and operating and reporting applications.

To limit the above-mentioned risks, the structure of the process of preparing the financial statements was defined, constituting two layers: the application layer and the factual layer.

The application part of the process consists of the flow of data from the Bank's operating systems through predefined interfaces to the statutory reporting system database.
The application layer is subject to controls compliant with the IT security system policy adopted by the Bank.
The controls cover specifically:

- user management;
- management of the production and development environment;
- integrity of the data transfer systems, including the correctness of operation of the interfaces in terms of completeness of data transfer from operating systems to the reporting environment.

For the purpose of correct management of the process of preparing financial statements, a description of the process was prepared in accordance with the policies adopted by the Bank, which includes all actions contained in the process and their operators. Moreover, the description indicates key control points. The key controls embedded in the process of preparing financial statements include, but are not limited to:

- controlling the quality of financial statements input data, supported by data control applications; a series of principles for ensuring the correctness of data are defined in the applications, as well as the error correction path and strict monitoring of the quality of data;
- controlling the mapping of data from source systems to the financial statements, which ensures correct presentation of data;
- performing analytical reviews based on specialist knowledge, aimed mainly at confronting business knowledge with the financial data and discovering potential signs of incorrect presentation of data or incorrect input data.

The accounting policies include a description of the estimates adopted by the Bank, in accordance with professional judgement and assumptions resulting from IAS/IFRS, which affect presentation of the amounts of income, costs, assets and liabilities as at the balance sheet date. However, due to uncertainty associated with professional judgement and estimates, the amounts of assets and liabilities may change in the future in line with the ultimate effects of transactions.
To eliminate the risk of incorrect estimates, among other things, the following solutions were adopted:

- to estimate loan impairment, the Bank uses models and processes approved by the Bank's Management Board; all models and processes are subject to embedded controls and periodical monitoring and validation, which enables verifying the models' functional assumptions, adequacy of parameters and correctness of implementation;
- to measure financial instruments which are quoted on active markets or which are measured based on such quotations – the required functionality was implemented in the basic systems, and additionally, controls were implemented to be operated by market risk management unit;
- to measure financial instruments which are not quoted on active markets, valuation models were implemented which had been independently checked beforehand and calibrated based on available quotations for these types of transactions;
- to estimate provisions for pension and disability pension one-off benefits – the preparation of estimates was commissioned to an independent actuary;
- to estimate the provision for employee and management bonuses – calculations are applied in accordance with the bonus regulations adopted by the Bank and the Bank's forecast results.

Accounting policies are described in detail in the Annual Consolidated Financial Statements, in the section "Accounting policies".

The implemented organizational structure of the Bank enables segregating duties between the Front -office, Back-office, Risk and Finance. Additionally, the implementation of appropriate internal controls compels the Bank to implement transaction and financial data control in the back office and support units. This area is assessed independently and objectively by the Internal Audit Department both in terms of adequacy of the internal control system, risk management, and in terms of corporate governance.

## XV. Alior Bank S.A.'s shareholders

The Bank's share capital amounts to PLN 1,292,577,120 and consists of 129,257,712 ordinary shares with a par value of PLN 10.00 each, including:

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

Due to the status of Alior Bank as a public company within the meaning of the provisions of the Act on Public Offering and the fact that the Bank's shares are quoted on the regulated market (basic market) maintained by the WSE, the Bank does not have detailed information on all of its shareholders. Alior Bank has information about some of its shareholders who have at least 5% of the total number of votes at the General Meeting and at least a 5% interest in the share capital of Alior Bank, in accordance with the notifications received by Alior Bank.
The following table contains information on significant shareholders, who as at 11 August 2016 directly held shares representing at least 5% of the total number of votes at the General Shareholders' Meeting and the share capital of Alior Bank, in accordance with the notifications received by Alior Bank.

| Shareholder | Number of shares | Par value of shares [PLN] | % share in share capital | Number of votes | Share in total number of votes |
|---|---|---|---|---|---|
| **PZU SA[1]** | 37 773 265 | 377 732 650 | 29.22% | 37 773 265 | 29.22% |
| **Aviva OFE Aviva BZ WBK[2]** | 9 262 138 | 92 621 380 | 7.17% | 9 262 138 | 7.17% |
| **Genesis Asset Managers LLP[3]** | 7 800 773 | 78 007 730 | 6.04% | 5 922 058 | 4.58% |
| **Other shareholders** | 74 421 536 | 744 215 360 | 57.58% | 76 300 251 | 59.03% |
| **Total** | 129 257 712 | 1 292 577 120 | 100% | 129 257 712 | 100% |

*(1) Together with the parties to the agreement dated 27 April 2016, i.e. PZU Życie, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2, based on the number of shares registered at the Extraordinary General Meeting held on 29 July 2016.*
*(2) Based on the number of shares registered at the Extraordinary General Meeting held on 29 July 2016.*
*(3) Based on information received from the shareholder, Genesis Asset Managers LLP holds 7,800,773 shares, but is entitled to voting rights from only 5,922,058 shares. Therefore, it was assumed that the number of shares held by Genesis Asset Managers LLP which do not carry voting rights increases the number of voting rights held by the other Alior Bank shareholders.*

On 11 and 14 March 2016, the Bank's Management Board received notifications pursuant to Art. 69 of the Public Offering Act on the change in the shares of PZU SA and Alior Lux S.à.r.l. & Co. S.C.A. Pursuant to the notifications received as a result of the transaction dated 9 March 2016, (settled on 11 March 2016) PZU SA and its subsidiary PZU Życie SA hold 18,345,820 of the Bank's shares which constitute 25.232% voting rights at the General Meeting. As a result of disposal, Alior Lux S.à.r.l. & Co. S.C.A. does not hold any of the Bank's shares.

In accordance with the notification received pursuant to Art. 69 of the Public Offering Act in accordance with the written agreement concluded on 27 April 2016 between Powszechny Zakład Ubezpieczeń SA, Powszechny Zakład Ubezpieczeń Na Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty UNIVERSUM and PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 on the unanimous voting on General Meetings of the Bank and change in the share in the total number of votes, these entities hold together 21,247,464 shares of the Bank constituting 29.22% of votes at the General Meeting.

Taking the above into consideration, based on the number of shares registered at the Extraordinary General Meeting held on 29 July 2016 Powszechny Zakład Ubezpieczeń SA, Powszechny Zakład Ubezpieczeń na Życie SA, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty UNIVERSUM hold 37,773,265 of the Bank's shares in total, which constitutes 29.22% voting rights at the General Meeting.

On 24 June 2016, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register registered the increase in the Bank's share capital from PLN 727,074,630.00 to PLN 1,292,577,120.00 by way of issuing 56,550,249 ordinary bearer I-series shares with a nominal value of PLN 10.00 each in the Register of Businesses.
Therefore the total number of votes from all the Bank's issued shares amounted to 129,257,712 and the share capital is represented by 129,257,712 of the Bank's ordinary shares with the nominal value of PLN 10.00 each.

In accordance with the best knowledge of the Bank's Management Board, in the period from submitting the previous periodic report to the date of this report there were no changes in the structure of shareholdings with over 5% of the total voting rights apart from those referred to above.

**Shareholders who were Members of the Bank's Management Board as at 11 August 2016**

| Shareholder | Number of shares/votes | Par value of shares held | % share in share capital | Share in total number of votes |
|---|---|---|---|---|
| **Wojciech Sobieraj** | 435,296 | 4,352,960 | 0.60% | 0.60% |
| 435 296 | 4 352 960 | 0,34% | 0,34% | 0.14% |
| 178 421 | 1 784 210 | 0,14% | 0,14% | 0.07% |
| 47 612 | 476 120 | 0,04% | 0,04% | 0.00% |
| 298 | 2 980 | 0,00% | 0,00% | |

In accordance with the notifications dated 2 June 2016 and relating to subscribing to the new issue share rights, the number of the Bank's shares held by Mr Witold Skrok – Deputy CEO of the Bank and Mr Krzysztof Czuba – Deputy CEO of the Bank changed.
Additionally, in connection with the registration of the increase in the Bank's share capital on 24 June 2016, the percentage of shares held by the remaining Management Board Members changed as shown in the table above.
On 17 June 2016, the Bank's Management Board received a notification pursuant to Art. 160 section 1 of the Act on trading in financial instruments of 29 July 2005 from Ms Prof. Małgorzata Iwanicz – Drozdowska – Member of the Bank's Supervisory Board, with information on the sale, on 16 June 2016, of the Bank's 1,465 shares.

Thus, in accordance with the Bank's Management Board's best knowledge, Members of the Supervisory Board of Alior Bank S.A. do not hold any of the Bank's shares.

# XVI. Alior Bank S.A.'s bodies

**Management Board**

| Composition of the Bank's Management Board as at 30.06.2016 | | Composition of the Bank's Management Board as at 31.12.2015 | |
|---|---|---|---|
| Wojciech Sobieraj | CEO | Wojciech Sobieraj | CEO |
| Małgorzata Bartler | Deputy CEO | Małgorzata Bartler | Deputy CEO |
| Krzysztof Czuba | Deputy CEO | Krzysztof Czuba | Deputy CEO |
| Joanna Krzyżanowska | Deputy CEO | Joanna Krzyżanowska | Deputy CEO |
| Witold Skrok | Deputy CEO | Witold Skrok | Deputy CEO |
| Barbara Smalska | Deputy CEO | Barbara Smalska | Deputy CEO |
| Katarzyna Sułkowska | Deputy CEO | Katarzyna Sułkowska | Deputy CEO |

During the reporting period the composition of the Bank's Management Board did not change.

**Wojciech Sobieraj – CEO**
Wojciech Sobieraj has been the CEO of Alior Bank S.A. since April 2008. He was Vice President of the Management Board of Bank BPH S.A. from 2002 to 2006, where he was responsible for the retail banking division. While employed at Bank BPH S.A., he also held the posts of Chair of the Supervisory Boards of Górnośląski Bank Gospodarczy S.A. and BPH Bank Hipoteczny S.A. Previously, in the years 1997–2002, he was an employee, manager and partner of The Boston Consulting Group (BCG) in Boston and in London, and one of the founders of the BCG office in Warsaw, where he was partner and Vice President. He was also head of the BCG financial services division in Central and Eastern Europe, and an expert on mergers and acquisitions and the banking payments market. Between 1991 and 1994, Wojciech Sobieraj was the owner of the Central European Financial Group in New York, which analysed Eastern European capital markets. In that period he gained a broker's licence on Wall Street and worked as an assistant in the Department of Finance and Operations at New York University. He graduated from the Warsaw School of Economics. In 1993, he entered the Stern School of Business at New York University, and in 1995 obtained a Master's degree in Business Administration.

**Małgorzata Bartler Deputy CEO**

Małgorzata Bartler has been Deputy CEO since October 2015. She has over 20 years of experience in the development of human resources management strategies and systems, gained in Polish and international companies, in the following sectors: banking, telecommunications, brewing, entertainment and fuel. Apart from strategic planning, her qualifications cover a wide range of competencies related to managing human resources, including talent management and leadership development, succession planning, managing by objectives and employee appraisal systems, training, acquiring talents and recruitment, building commitment, managing employee relationships, and change management and internal communication. Since 2014, Małgorzata Bartler has been with Alior Bank, where as Director of the Personnel Department she developed the human resources management strategy based on three main pillars: strengthening employees' commitment, building the Bank's position as first choice banking employer and implementing customer-oriented corporate culture. In the years 2008–2014 she was the HR Director in P4, Play network operator. Her work was recognized and she was awarded many prizes and awards, among others, three "Top Employers" certificates and the particularly important title "Best Employer of the Year" awarded on the basis of employee appraisals. Earlier, she had been HR Manager in the Żywiec Group and in Multikino S.A. In both companies she implemented recruitment, training and talent management, remuneration and employee benefit, and internal communication strategies. She began her professional career with Shell, where she worked in the years 1994–1998. She graduated from the Department of Management of the University of Warsaw, and Post-graduate Human Resources Management Studies at the Warsaw School of Economics.

**Krzysztof Czuba – Deputy CEO**

Krzysztof Czuba has been Deputy CEO of Alior Bank S.A. since June 2009. Since the moment the Bank received its banking licence, he has been responsible for strategic advisory services and handling projects related to the launch of the retail offering. He was involved, among other things, in the organization of the activities of the Retail Regions and Branches and prepared the assumptions to the project for starting up the Bank's agencies. Furthermore, he exercised control over the implementation of the Bank's branches' acquisition and finance plans. From 1994 to 2007 he worked for Bank BPH S.A., where he held the posts of: Branch Manager, Macroregion Retail Banking Director, followed by the Bank's Managing Director responsible for the Sales and Distribution Area in the Retail Banking Division. In the years 2003–2004 he was member of the Supervisory Board of Śrubex S.A., and in the years 2007–2008 he was Deputy Chairman of the Supervisory Board of ZEG S.A. In 1995 he graduated in Management from the Kraków University of Economics. He participated in a number of training courses, including: the General Management Programme for Managers of the HVB/BACA Group organized in cooperation with the Executive Academy of Wirtschaftsuniversitat (2006) and Professional Banking Cyber School organized by Finance & Trainer in Switzerland (2006).

**Joanna Krzyżanowska – Deputy CEO**

She has been acting as Deputy CEO of Alior Bank S.A. since June 2015. She has over ten years of experience in managing the development of distribution channels and banking products and services. Since the mid-1990s she has been on management boards of Polish banks and banks with foreign capital. Until 2007 she had been Vice President of GE Money Bank S.A. - she was responsible, among other things, for the Sales and Marketing Function and managed the work of more than 1500 employees. She was responsible for forming the Bank's strategy in respect of developing its position on the cash and car loan markets, consumer loans, credit cards, mortgage loans and developing own distribution channels and distribution in partnership with third parties. From 2008 to 2015 she was the First Vice-President of Meritum Bank. She was responsible, among other things, for building the foundations of consumer finance and on-going management of sales, building stable relations with partners and developing and implementing new products and solutions. She is experienced in bank mergers and acquisitions. She graduated from the University of Gdańsk. She holds a Master's degree in Business Administration (Executive MBA). She completed the Management Development Course (MDC) at GE Crotonville (USA) and several training courses in management, banking and finance.

**Witold Skrok – Deputy CEO**

He has been Deputy CEO since December 2011. Before, from May 2008, he worked for Alior Bank as Finance Area Director. Between 2006 and 2008, he was Managing Director & CFO at Bank BPH S.A. In the same period, he was also Member of the Supervisory Board of Górnośląski Bank Gospodarczy S.A. and collaborated with the Centre for Social and Economic Research (CASE). Between 2004 and 2006, he performed the role of Reporting and Management Information Department Director of Bank BPH S.A. where he was responsible, among other things, for establishing a common reporting platform for obligatory reporting and management information. In 2001, he took the position of Controlling Department Director at Bank BPH S.A. In 2000, he became Controlling Department Deputy Director at Powszechny Bank Kredytowy. In 1991–2000, he worked at the Ministry of Finance's Financial Policy and Analyses Department. In 1999, he was appointed Department Director. Between 1998 and 2000, he also performed the role of Member of the Supervisory Board of Bank Powszechna Kasa Oszczędności S.A. He graduated from the Warsaw School of Economics and completed a number of courses, such as the Visiting Program Partners and Financial Programming and Policy at the IMF Institute in Washington and other training courses in banking, finance and tax.

**Barbara Smalska – Deputy CEO**

She has been Deputy CEO since October 2015. She has 13 years of experience in developing and implementing business strategies and managing the individual customer segment in the insurance sector and in performing various consulting projects in banking and telecommunications. In the years 2013–2014, as Member of the Management Board of PZU SA and PZU Życie SA, she was the person overall responsible for the mass customer segment in the PZU Group. In the years 2008–2013 she was Product Management Office Director at PZU, and Managing Director for Marketing and Individual Products in the years 2012–2013, when she was responsible for various aspects of managing the individual and SME customer segments in the Group, in particular in the areas of products, marketing, sales and CRM. Between 2010 and 2012 she was also Managing Director for Mass Customers. In the years 2002–2008 she was engaged in work for The Boston Consulting Group, participating in many projects from the financial services and telecommunications sector in Poland and Eastern and Central Europe, among other things, in the area of business strategy, operating models, organization and activation of sales networks, reorganization and cost optimization. In the years 2006–2008 as Project Leader, and then Principal, she managed strategic projects for the largest Polish banks, insurers and telecommunications companies, mainly in the area of business strategy and distribution strategy in the retail customer segment. From September 2014 she has been

Member of the Supervisory Board of Link4 TU S.A. Ms Smalska graduated from the Department of Physics at the University of Warsaw and holds a PhD in Physics of Elementary Particles.

**Katarzyna Sułkowska – Deputy CEO**

She has been Deputy CEO since December 2011. Before, between January 2008 and November 2011, she managed the Credit Risk Department at Alior Bank. In her 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 the Retail Collection Department at Bank BPH S.A., where she was responsible, among others, 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 Collection Department. She started her career path at the Regional Accounting Chamber in Kraków in the Information, Analyses and Training Department. She graduated from the Kraków University of Economics with a degree in finance and banking (1997). Subsequently, she completed a number of training courses in Poland and abroad and participated in conferences on debt servicing and credit management,

**Composition of the Management Board**

Pursuant to the Articles of Association, the Management Board is composed of at least three members. Members of the Management Board are appointed for a joint term of three years. The Supervisory Board appoints and dismisses Members of the Management Board in a secret ballot. At the request of the CEO, the Supervisory Board appoints Deputy CEOs. The appointment of two Members of the Management Board, including the CEO, requires the consent of the PFSA. The Supervisory Board applies to the Polish Financial Supervision Authority to grant its consent to the appointment of those two Members of the Management Board. Moreover, the Supervisory Board informs the PFSA of the composition of the Management Board and changes in its composition, immediately after its appointment or a change in its composition. The Supervisory Board also informs the PFSA of members of the Management Board who are responsible specifically for credit risk management and internal audit. Currently, with the consent of PFSA, the CEO is Wojciech Sobieraj and the Deputy CEO is Katarzyna Sułkowska. The Supervisory Board is authorized to suspend individual or all members of the Management Board for important reasons and to delegate Members of the Supervisory Board – for a period of no more than three months – to temporarily perform the functions of Members of the Management Board who had been removed from the Board, have resigned or for other reasons are unable to perform their functions. A Member of the Management Board may also be removed or suspended from performing his duties by a resolution of the General Meeting.

**Competencies of the Management Board**

The Management Board manages the Bank's affairs and represents the Bank. The Management Board is authorized in all matters which are not reserved for the competencies of other Bank's bodies by legal regulations or provisions of the Articles of Association. All issues outside the normal operations of the Bank require Management Board resolutions. The Management Board decides specifically on the following in the form of resolutions:

- it specifies the Bank's long-term operating plans and strategic goals;

- it determines the Bank’s short- and long-term financial plans and monitors their progress;
- it monitors the Bank’s management system, including the management reporting system used to control the Bank’s operations on a current basis;
- it accepts the Bank’s operating principles, policies and regulations, and specifically in respect of prudent and stable management of the Bank, risk management, lending operations, investment activities, the Bank’s management system, asset and liability management, accounting, the Bank’s funds, human resources management and internal control principles;
- it determines the size of the bonus pool for the Bank’s employees and its general break-down;
- it grants proxy powers;
- it takes decisions relating to the issue of bonds by the Bank, with the exception of exchangeable bonds or bonds with pre-emptive rights; it accepts the subscription, acquisition and sale of shares in companies by the Bank;
- it takes decisions about incurring liabilities, managing assets, encumbering or leasing assets (and renting them), whose total value in respect of one entity exceeds 1/100 of the Bank’s share capital, in recognition of art. 8 section 2 of the Management Board Regulations;
- it approves the investment plan and accepts each capital expenditure of the Bank (purchase or sale of fixed assets or property rights) with a value exceeding 1/100 of the Bank’s share capital, in recognition of art. 8 section 2 of the Management Board Regulations;
- it accepts issues relating to the organizational structure of the Bank’s head office, including the creation and liquidation of the Bank’s organizational entities and organizational units of the Bank’s head office;
- it takes decisions on establishing and liquidating the Bank’s branches;
- it takes decisions as to paying out interim dividend to the shareholders, after obtaining the approval of the Supervisory Board;
- it accepts all documents presented to the Supervisory Board or to the General Meeting;
- it considers all other issues which are brought for examination by the Supervisory Board, the General Meeting, members of the Management Board, the Bank’s organizational entities, or committees or teams appointed in accordance with the Bank’s internal regulations;
- it takes decisions on all other issues within the scope of the Bank’s operations, if this is required by other regulations or if such decisions could have a significant impact on the financial position or image of the Bank. The Commercial Companies Code prohibits the General Meeting and the Supervisory Board from giving binding orders to the Management Board regarding the management of the Bank’s operations. Additionally, Members of the Management Board and Supervisory Board are liable to the Bank for losses following from any action or omission which is against the law or provisions of the Bank’s Articles of Association.

In accordance with the regulations of the Commercial Companies Code and the Bank’s Articles of Association, decisions relating to issuing or redeeming shares are within the competencies of the Bank’s General Meeting.

The Bank’s Management Board, on the basis of the Resolution of the General Meeting no. 28/2012 dated 19 October 2012 on the conditional increase of the Bank’s share capital and issue of subscription warrants (regulating the principles for issuing D, E and F series shares with the right to take them up by holders of subscription warrants, that is participants of the Incentive Scheme who are members of the Bank’s Management Board, the Bank’s officers, members of Management Boards of the Bank’s subsidiaries and partners from

Kancelaria Prawna P. Tokarz, B. Kapuściński, M. Zaręba i Wspólnicy s. k.) will have the competencies to:

- offer and issue subscription warrants to participants of the Incentive Scheme other than members of the Bank's Management Board (with reference to members of the Management Board, the competencies lie with the Supervisory Board);
- take all the necessary actions related to launching the new shares and admitting them to trading on a regulated market operated by the WSE immediately after they have been issued;
- conclude an agreement with KDPW on registering the newly-issued shares and, immediately after their issuance, to take all other actions related to their dematerialization.

A detailed description of the actions conducted by the Management Board for the purpose of issuing shares under the Incentive Plan is included in the Regulations of the Incentive Scheme approved by the Supervisory Board.

**Competencies of the CEO**

The competencies of the CEO include, in particular:

- managing the work of the Management Board;
- convening Management Board meetings and presiding over them;
- presenting the position of the Management Board to the Bank's bodies and to third parties;
- issuing internal regulations relating to the Bank's operations and authorizing other members of the Management Board or the Bank's employees to issue such regulations;
- exercising other rights and obligations in accordance with the Regulations of the Management Board.

**Principles of Management Board operations**

The Management Board acts on the basis of the Bank's Articles of Association and the regulations passed by the Management Board and approved by the Supervisory Board. The Management Board takes decisions in the form of resolutions at Management Board Meetings, or by way of a circular resolution. Management Board resolutions are passed by an absolute majority of votes of those Members of the Management Board present at Management Board Meetings, with the exception of resolutions on appointing a proxy, which requires a unanimous vote of all Members of the Management Board. As a rule, resolutions are passed by open vote. However, the person presiding over the Management Board meeting may order a secret ballot; the secret ballot may also be ordered at the request of at least one Member of the Management Board. In the event of an even number of votes, the CEO has the casting vote. In accordance with the Regulations of the Management Board, in order for the resolutions passed by the Board to be valid, at least one-half of the Members of the Management Board have to be present at the meeting and all Members have to have been properly informed of the meeting. Declarations may be made on behalf of the Bank by the following persons:

- two Members of the Management Board jointly;
- one Member of the Management Board jointly with a proxy or a plenipotentiary;
- two proxies jointly;
- plenipotentiaries acting independently or jointly within the limits of the power of attorney granted to them.

**Description of Management Board activities in the financial year 2015**

**Supervisory Board**

| Composition of the Bank's Supervisory Board as at 30.06.2016 | | Composition of the Bank's Supervisory Board as at 31.12.2015 | |
|---|---|---|---|
| Michał Krupiński | - Chair of the Supervisory Board | Helene Zaleski | - Chair of the Supervisory Board |
| Małgorzata Iwanicz-Drozdowska | - Deputy Chair of the Supervisory Board | Przemysław Dąbrowski | - Deputy Chair of the Supervisory Board |
| Dariusz Gątarek | – Member of the Supervisory Board | Małgorzata Iwanicz-Drozdowska | – Member of the Supervisory Board |
| Stanisław Ryszard Kaczoruk | – Member of the Supervisory Board | Sławomir Dudzik | – Member of the Supervisory Board |
| Marek Michalski | – Member of the Supervisory Board | Niels Lundorff | – 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 | Krzysztof Obłój | – Member of the Supervisory Board |

The composition of the Supervisory Board changed in the reporting period due to the end of the second four-year term of office of the Supervisory Board members. In view of the above, on 30 March 2016 the Annual General Meeting appointed the following persons to the Supervisory Board for the new (third) term:

- Mr Dariusz Gątarek;
- Ms Małgorzata Iwanicz – Drozdowska;
- Mr Stanisław Ryszard Kaczoruk;
- Mr Michał Krupiński;
- Mr Marek Michalski;
- Mr Sławomir Niemierka;
- Mr Maciej Rapkiewicz;
- Mr Paweł Szymański.

The appointed members of the Bank's Supervisory Board are not engaged in any activities that are competitive to the Bank's activities and are not partners in any competitor partnerships or members of the authorities of any competitor companies or other legal persons.

**Michał Krupiński** (Chairman of the Supervisory Board) in the years 2011 – 2016. President of Merrill Lynch Polska and chief of investment banking for Central and Eastern Europe in the Bank of America Merrill Lynch. There, he was responsible for supervising and managing merger and acquisition projects, and for financing on private and public markets. He advised on asset management, investment policy and equity structure in the banking and insurance sector, among others. Previously, in the years 2008 – 2011 he was Alternate Executive Director – Member of the Board of Directors of the World Bank in Washington. He co-decided on proposed loans and guarantees of IBRD, loans and guarantees of IDA, IFC, investment guarantees and strategies and policies of the World Bank. In the years 2006 – 2008 he was junior minister in the Ministry of the State Treasury where he was responsible, among other things, for corporate governance. He supervised the energy sector consolidation program. He has a diploma of the Warsaw School of Economics. He graduated, cum laude, from the expert studies on economy at the Catholic University in Louvain. He completed the MBA program at the Columbia University Graduate School of Business, he also studied at the Harvard University. In 2012 he was awarded the title of a Young Global Leader by the Davos World Economic Forum. He is fluent in: English, French, German and Spanish. Currently the chairman of the Management Board of PZU SA.

**Prof. Małgorzata Iwanicz-Drozdowska** (Deputy Chair of the Supervisory Board, independent) has been with the Warsaw School of Economics since 1995, where she received her academic degrees, including the title of Professor in Economic Sciences in 2009. She is a recognized expert in the analyses of bank operations, banking risk, financial security network and financial crises and bank restructuring. For more than 20 years in business practice, including from mid 2007 as member of supervisory boards. She is the author and co-author of more than 130 publications on banking and the financial services market and takes part in numerous Polish and international research projects.

**Dariusz Gątarek** (independent) graduated from applied mathematics at the Warsaw School of Technology in 1981; he has a post-doctoral degree in technical sciences specializing in automatics. Dariusz Gątarek spent 18 years in many financial and advisory institutions in Poland, England and Germany, such as BRE Bank, Societe Generale, Glencore, UniCredit, Deloitte and NumeriX, where he was responsible for the valuation of financial instruments and risk management. In the years 2008-2010 he was also employed as advisor to the President of the NBP. He is professor in the Systems Research Institute of the Polish Academy of Sciences. He is author of many publications on finance topics and often lectures at conferences in many countries throughout the world.

**Stanisław Ryszard Kaczoruk** (independent) is related to the capital market: from 2010 as member of supervisory boards of companies quoted on the WSE: MCI Capital Towarzystwo Funduszy Inwestycyjnych SA, Eficom-Sinersio SA. He participated in projects related to developing strategies for selected customers, cooperated with key advisory companies in the area of acquisitions and restructurings (among others: PKP Energetyka, Elester PKP) and cooperated in organizing TFI KGHM. In the years 1998 – 2015 he was the director and member of management boards of many companies operating on the IT, legal services and advisory markets. Since 2000 he has been president of the international arbitration court Międzynarodowy Sąd Arbitrażowy Sp. z o.o. (from 2013 he is also acting as president of Międzynarodowy Sąd Arbitrażowy SA). He graduated from the Department of Mathematics of Wrocław University. In 1986 he was obtained a doctoral degree in technical sciences covering the application of mathematical models and the theory of systems. He participated in many scientific and research works, published more than a dozen publications on the application of mathematics (including mathematical statistics and the theory of systems) and information technology in economy and environment protection, which were published in many Polish and foreign scientific periodicals.

**Prof. Marek Michalski** (independent) is the Dean of the Department of Law and Administration at the Cardinal Stefan Wyszyński University in Warsaw, head of the Faculty of Private Business Law of the Department of Law and Administration at the Cardinal Stefan Wyszyński University in Warsaw, President of the Arbitration Court at the National Depositary for Securities, Krajowy Depozyt Papierów Wartościowych S.A., and an arbitrator at the Arbitration Court at the Polish Financial Supervision Authority; until 2008, he was also a member of the Council of the Warsaw Stock Exchange. Previously, Prof. Marek Michalski was Director of the Legal Office at Krajowy Depozyt Papierów Wartościowych S.A., as well as advisor to the Minister of the Treasury. He took part in legislative work on securities trading, investment funds, compensation certificates, commodities exchanges and reprivatization. He is the author and a co-author of more than 100 academic publications on matters of securities and financial instruments, public trading of securities, banking law, capital market law, commercial law and joint stock companies.

**Mr Sławomir Niemierka** graduated from the Department of Law and Administration at the University of Warsaw and completed post-graduate studies in European Union Law and Economics and at the Harvard Business School. He is a licensed legal adviser. He is author and co-author of numerous publications on finance law and banking supervision. In 1994–2007, he was a lecturer in post-graduate studies at the Polish Academy of Science, at the University of Warsaw, and at the Higher School of Insurance and Banking. For many years he was employed with the National Bank of Poland – the General Inspectorate for Banking Supervision, where for eight years he led the Inspection Department responsible for inspection activities at banks, foreign bank branches and lending institutions in Poland, including in particular internal control systems and risk management. Member of the Steering Committee of the General Inspectorate of Banking Supervision for the implementation of Basel II, responsible for control over risk models, operating risk and accounting standards. Member of the Risk Management System Development Team at the NBP. In 2010–2011, he was Member of the Management Board of the Bank Guarantee Fund, where he supervised the operational risk management system and inspections and monitoring of banks availing themselves of the Fund's financial support. He has been affiliated with the PZU Group since 2008 as the Managing Director responsible for Audit. In this position he was responsible for developing and implementing the new internal control and internal audit system, and he supervised the internal audit and internal control function in PZU SA and PZU Życie SA. As of 19 March 2012 he is on the Management Board of PZU Życie SA, where he is responsible for the risk management, compliance and security areas.

**Maciej Rapkiewicz** graduated from the Law and Administration Department of Łódź University, completed post-graduate studies in business insurance at the Economic Academy in Kraków, MBA Finance & Insurance at the Łódź University of Technology/ Illinois State University, and doctoral studies at the Department of Economy in the Institute of Finance, Banking and Insurance of Łódź University. In the years 1998-2006 he was employed at PZU SA, from January 2004 to April 2006 in the position of Chief of the Recourse and Premium Arrears Department in the Debt Collection Office. From April 2006 to November 2006 Chairman of the Management Board of ŁSSE S.A. From November 2006 to August 2009, Deputy Chairman of the Management Board (to February 2008 Member of the Management Board) of TFI PZU SA. From January 2010 to March 2010 Director of the Finance Office of TVP S.A. From November 2011 to June 2015 Member of the Management Board of Instytut Sobieskiego. From October 2009 engages in individual business Maciej Rapkiewicz Consulting, specializing primarily in business advisory services: finance management, including: liquidity, risk, costs, finance optimization (including advice on obtaining permits for operating in special economic zones), preparing financial analyses, assessing the effects of regulations (OSR) and preparing a project for securitization of the receivables of financial sector entities (mainly banks and non-life insurers). From September 2015 to March 2016 member of the Supervisory Board of Morizon S.A. - a company quoted on New Connect. From February 2016 Chairman of the Supervisory Board of Dom Invest sp. z o.o. Until February 2016 he had been Member of the Supervisory Board of Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Sochaczew (from February 2015 Deputy Chairman). From July 2015 to March 2016 employed by Towarzystwo Funduszy

Inwestycyjnych BGK S.A., in March 2016 appointed Member of the Management Board of PZU SA.

**Paweł Szymański** (independent) graduated from the Warsaw School of Economics. He has extensive experience in strategic and operational management, strongly directed towards finance and restructuring, and corporate finance management. He acted as chairman of management boards and CFO in the largest Polish and regional concerns. He also has knowledge and experience in private equity funds and transaction advisory services. He combines managerial competencies with wide knowledge on global financial markets acquired in the largest investment banks in Warsaw and London. In the years 1994-1996 he was employed as an analyst in Wood and Company. From 1997 to 2000 he was analyst and then Assistant Director in the Analyses Department of Schroder Securities. In the years 2000 – 2003 he was Director of the Analyses Department of Schroder Salomon Smith Barney. From 2003 to 2004 he was Chairman of Dom Maklerski Banku Handlowego. Between 2004 and 2007 he was Member of the Management Board and CFO of PKN Orlen SA. From 2007 to 2008 he acted as CFO in CTL Logistics Sp. z o.o. In the years 2010 – 2013 he acted as CFO, and then Chairman of the Management Board of Ruch SA. From 2014 to 2015 he was CFO, and then Chairman of the Management Board of Netia SA. In the years 2008-2016 he was also Executive Partner and Member of the Management Board of ICENTIS Capital. He was member of several supervisory boards, including in ACE European Group Limited Sp. z o.o., Polkomtel SA, Anwil SA (Chairman). Since 2013 he is also Member of the Supervisory Board of Ruch SA.

**Competencies of the Supervisory Board**

The Supervisory Board constantly supervises the Bank in all aspects of its operations. Its duties include assessing the Directors' Report on the Bank's operations and the Bank's financial statements for the prior financial year, both in terms of their compliance with the books of account, and other documents, and the actual status, as well as assessing the requests of the Management Board in respect of the distribution of profit or offset of loss, and submitting an annual report on the results of this assessment to the General Meeting. The Supervisory Board represents the Bank in concluding agreements with Members of the Management Board and in disputes with members of the Management Board, unless these competencies are granted to a plenipotentiary appointed by a resolution of the General Meeting.

In accordance with the Articles of Association, the competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations, comprise:

- assessing periodical information relating to internal controls;
- examining and approving the Directors' Reports and the financial statements of the Bank's Group;
- appointing and dismissing Management Board members;
- applying to the Polish Financial Supervision Authority to grant consent to appointing two Members of the Management Board, including the President of the Board;
- concluding and changing agreements with members of the Management Board;
- passing the Regulations of the Supervisory Board;
- approving the Management Board Regulations determined by the Management Board;
- determining the remuneration of the Members of the Management Board employed on the basis of an employment contract or another agreement;
- representing the Bank in issues between members of the Management Board and the Bank;

- suspending individual or all Management Board members in the performance of their duties for important reasons;
- delegating members of the Supervisory Board – for a period of up to three months – to perform the functions of members of the Management Board who have been dismissed, have resigned or are unable to perform their functions for other reasons;
- giving opinions on requests of the Management Board relating to the Bank's establishing or acquiring shares in companies, and selling shares if such investments are of a long-term and strategic nature;
- giving opinions on the Bank's long-term development plans and its annual financial plans;
- passing – at the request of the Management Board – regulations for the creation and use of funds stipulated in the Articles of Association;
- approving the requests of the Management Board to purchase, encumber or sell real estate or shares in real estate, or perpetual usufruct of land, if their value exceeds PLN 5,000,000;
- approving the motions of the Management Board on incurring liabilities or managing assets whose total value in respect of one entity exceeds 5% of the Bank's own funds;
- supervising the implementation and monitoring of the Bank's management system, including specifically supervision over managing compliance risk and assessing the adequacy and effectiveness of the system at least once a year;
- approving the principles for maintaining internal controls and procedures for estimating internal capital, equity management and equity planning;
- approving the Bank's operating strategy and principles of prudent and stable management of the Bank;
- approving the Bank's Organizational Regulations and the overall organizational structure of the Bank adapted to the size and profile of the risks incurred;
- accepting the overall level of the Bank's risks;
- approving the assumptions of the Bank's policy in respect of compliance risk;
- approving the Bank's information policy;
- appointing an independent registered auditor.
- accepting in the form of a resolution the segregation of functions between the Members of the Management Board and submitting the respective information to the PFSA.

**Principles of operation of the Supervisory Board**

The Supervisory Board acts on the basis of the Bank's Articles of Association and the regulations passed by the Supervisory Board. Supervisory Board meetings are convened when necessary, at least three times in each financial year. Resolutions of the Supervisory Board are passed by an absolute majority of votes unless the legal regulations or the Articles of Association stipulate otherwise, by an open vote, or by circular voting. A secret ballot is ordered in respect of personal matters or at the request of at least one member, by order of the Chairman of the Supervisory Board. In the event of an even number of votes, the Chair of the Supervisory Board has the casting vote. For the resolutions to be valid, at least one-half of the members of the Supervisory Board have to be present and all members have to be notified. The Supervisory Board may establish permanent and ad hoc committees.

**Supervisory Board Committees**

In accordance with the Articles of Association and the Regulations of the Supervisory Board, the Supervisory Board may – by way of a resolution – establish permanent and ad hoc

committees. In such cases, the Supervisory Board determines the regulations of such committees, their composition and purpose.
The Remuneration Committee was established on the basis of a resolution of the Supervisory Board on 7 December 2011, to apply the principles for determining policies relating to variable compensation components for persons holding managerial positions at the Bank, adopted by a resolution of the PFSA no. 258/2011 dated 4 October 2011 which came into force on 31 December 2011.

The Remuneration Committee:

- gives its opinion on the policy regarding variable compensation components in accordance with the principles of stable and prudent risk, equity and liquidity management, and specifically taking into consideration the Bank's and its shareholders' long-term interests;
- gives its opinion on the acceptability of paying variable compensation components in the part relating to deferred payment terms of such components;
- gives its opinion and monitors variable compensation payable to persons holding managerial positions at the Bank, related to risk management and the Bank's compliance with the binding legal regulations and internal regulations;
- gives its opinion on the classification of positions which is subject to the variable compensation components policy.

The Remuneration Committee is composed of:

- Maciej Rapkiewicz,
- Marek Michalski,
- Paweł Szymański.

The Audit Committee

The legal basis for appointing the Audit Committee of the Supervisory Board of Alior Bank S.A. is Art. 86 of the Act on registered auditors and their self-government, registered audit companies and public supervision of 7 May 2009 (Journal of Laws No. 77, item 649) ("Act on Registered Auditors").

The competencies and duties of the Audit Committee comprise:

a) monitoring the financial reporting process;
b) monitoring the effectiveness of internal controls, internal audit and risk management;
c) monitoring the performance of audits;
d) monitoring the independence of the registered auditor and the registered audit company.

<u>Composition of the Audit Committee until 04.04.2016:</u>

- Helene Zaleski Chair of the Committee
- Małgorzata Iwanicz-Drozdowska Member of the Committee
- Sławomir Niemierka Member of the Committee

<u>Composition of the Audit Committee from 04.04.2016:</u>

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

The Supervisory Board Risk Committee

The Supervisory Board Risk Committee was appointed on 22 December 2015 by virtue of the Resolution of the Supervisory Board No. 81/2015, to support the Supervisory Board in supervising the process of the Bank's risk management.
The Supervisory Board Risk Committee is composed of:
- Dariusz Gątarek;
- Małgorzata Iwanicz-Drozdowska;
- Sławomir Niemierka.

Supervisory Board Risk Committee:

- Supporting the Supervisory Board in supervising the process of the Bank's risk management.
- Giving opinions on the Bank's overall, current and future readiness to accept risk.
- Giving opinions on the Bank's risk management strategy and analysis of the information relating to exercising the strategy submitted by the Management Board.
- Supporting the Supervisory Board in supervising implementation of the risk management strategy at the Bank by senior management.
- Verifying compliance of the prices of assets and liabilities offered to customers with the Bank's business model and with its risk strategy. In the event of non-compliance, presenting proposals to the Management Board aimed at ensuring adequacy of prices of assets and liabilities to the risk types.
- Giving opinions on regulations determining the Bank's strategy and approach to risk acceptance, in particular:

- Risk management policy at Alior Bank S.A.;
- Operational, liquidity and credit risk management strategy in respect of the risk appetite.

- Analysis of cyclic reports relating to exercising the above strategies and policies.

## General Meeting

The manner of operation of the General Meeting and its basic rights, as well as the shareholders' rights and the manner in which they are exercised are specified in: the Regulations approved by resolution of the Ordinary General Meeting of 19 June 2013, the Bank's Articles of Association and the relevant provisions of the law, including the Commercial Companies Code and the Banking Law.
The General Meeting is convened as an ordinary or extraordinary meeting. The General Meeting is convened by the Bank's Management Board, unless respective regulations, the Bank's Articles of Association or the Regulations of the General Meeting provide otherwise.
The General Meeting is held in the Bank's registered office or in another venue specified in the Bank's announcement on convening the General Meeting. The General Meeting is convened by an announcement published on the Bank's website and in line with the procedure for providing current information according to the binding regulations. The announcement should be made at least twenty-six days before the date of the General Meeting.
Only the persons who were the Bank's shareholders sixteen days before the date of the General Meeting have the right to participate in the General Meeting is (the registration date).
The Bank's shareholders may participate in the General Meeting and execute voting rights in person or by proxy.

The resolutions of the General Meeting are passed by an absolute majority of votes, unless the Commercial Companies Code or the Bank's Articles of Association provide otherwise. One share gives the right to one vote at the General Meeting.

In accordance with the Commercial Companies Code and the Articles of Association of Alior Bank S.A., amendments to the Bank's Articles of Association require passing the respective resolution by the General Meeting and entry into the register. The resolution of the General Meeting on amending the Articles of Association is passed by a majority of three-quarters of all votes.

## XVII. Remuneration policy

Alior Bank's remuneration policy is intended to ensure that employees receive remuneration commensurate with their position, competencies and skills, to encourage the pursuit of long-term goals and to maintain risk at an acceptable level.
The level of basic salary for each employee is periodically reviewed and verified. Alior Bank uses market data to ensure an adequate level of salaries compared with the market level prevailing in its industry. The principles of awarding bonuses are also reviewed periodically.
The policy governing variable remuneration components for persons holding managerial positions at the Bank is an important element of Alior Bank's remuneration policy.

**The policy of variable remuneration components for persons holding managerial positions**

The policy of variable remuneration components for persons holding managerial positions at the Bank sets out the rules applied by Alior Bank S.A. to variable remuneration components for persons holding managerial positions at Alior Bank S.A. The policy was determined based on the provisions of Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed rules for the functioning of the risk management and internal control systems, and detailed conditions for estimating internal capital by banks and a review of the internal capital estimation and maintenance processes, as well as the rules for determining a policy for variable remuneration components for persons holding managerial positions at the bank. The policy promotes appropriate and effective risk management and discourages excessive risk-taking (exceeding the acceptable level of risk as approved by the Supervisory Board or the Management Board) in order to maintain a solid capital base and, having in mind the long-term interests of the Bank, its shareholders' and customers, supports the Bank's sustainable development strategy and prudent risk management policy, mitigates conflicts of interest, and facilitates maintaining a transparent relationship between individual performance and individual remuneration, by focusing on targets associated with responsibilities and actual influence.
The Policy of Variable Remuneration Components for Persons Holding Managerial Positions at Alior Bank S.A. was approved by Resolution no. 97/2011, subsequently amended by Resolutions no. 33/2013 and 55/2015 and 29/2016 of the Bank's Supervisory Board.

The following bodies are responsible for preparation and implementation of the Policy:
The Supervisory Board:

- approves the Policy of Variable Remuneration Components;
- appoints the Remuneration Committee from among its members;

- reads reports of the Audit Department;
- and may instruct Audit Department to conduct additional reviews of whether the Policy of Variable Remuneration Components is up to date and how it operates;
- requests to update the Policy; supervises operating the Policy
- decides to grant or refuse its consent for the payment of some or all variable remuneration components to members of the Management Board;
- after obtaining an opinion of the Remuneration Committee it approves managerial positions at the bank other than Management Board positions which are subject to the Policy of Variable Remuneration Components for Persons Holding Managerial Positions.

The Management Board:

- is responsible for developing, implementing and updating the Policy of Variable Remuneration Components;
- may instruct Audit Department to conduct an additional review of whether the Policy of Variable Remuneration Components is up to date and to prepare a report;
- decides to grant or refuse its consent for the payment of some or all variable remuneration components to persons other than members of the Management Board.

The Remuneration Committee:

- issues opinions on the Policy, being guided by a prudent and stable risk, capital and liquidity management, and with particular care for the long-term good of the Bank and the interests of the Bank's shareholders;
- issues opinions on the permissibility of the payment of variable remuneration components;
- issues opinions on and monitors the variable remuneration of persons holding managerial positions at the Bank relating to risk management and the Bank's compliance with the provisions of the law and with internal regulations;
- issues opinions on the annual targets for the persons listed in paragraph 31 of Resolution no. 258/2011 of the PFSA;
- issues opinions on the classification of positions covered by the Policy.

The Audit Department:

- conducts a review of the execution of the Policy of Variable Remuneration Components, at least once a year;
- presents, via the Director of the Audit Department, a report on the review of the execution of the Policy of Variable Remuneration Components to the Supervisory Board

A Member of the Management Board supervising the HR Function:

- on behalf of the Management Board directly supervises exercising the duties of the Management Board in respect of developing, introducing and updating the Policy;
- may order the Audit Department performance of an additional review of a selected aspect of functioning of the Policy and preparing the respective report. Such report is then presented to the whole Management Board.

The Director of the Remuneration and Benefits Department:

- maintains and updates the Schedule of managerial positions subject to the principles of the Policy of Variable Remuneration Components;
- sends to the PFSA the data referred to in § 34 section 1 of Resolution 258/2011 of the PFSA;
- maintains a register and safeguards written declarations of persons in managerial positions with the Bank obliging them not to use their own hedging strategies or insurances in respect of remuneration and responsibility, with the exception of mandatory insurance following from the specific regulations which would neutralize the actions taken in respect of those persons under the Policy of Variable Remuneration Components;
- once a year (and on other dates at the request of the Supervisory Board, Management Board, Member of the Management Board responsible for the HR Function or Chairman of the Management Board reviews Policy updates.

The persons in managerial positions with the Bank, subject to the Policy, are as follows:

- Members of the Management Board;
- persons in other positions indicated by the Management Board, after obtaining the opinion of the Remuneration Committee.

In preparing the Policy Alior Bank S.A. used the services of an external consultant – Clifford Chance Janicka, Krużewski, Namiotkiewicz i Wspólnicy sp. k.

In the case of variable remuneration, the total amount of variable remuneration is determined based on an evaluation of the performance of a person holding a managerial position at the Bank and the Bank's results in the area of that person's responsibility, taking into account the overall results of the Bank. The evaluation of individual performance takes into account both financial and non-financial criteria. The following financial and non-financial criteria are adopted: the Bank's net profit, return on equity, the Bank's capital adequacy ratios, liquidity ratios, profitability ratios, compliance with the law and internal regulations, sustainability of employment and other criteria adopted as individual objectives to be achieved by individual Employees.

A performance evaluation is conducted once a year and with regard to individual assessment periods covering the previous three years, so that the level of variable remuneration takes into account the Bank's business cycle and the risk associated with its business activities.

Variable remuneration components which are not covered in the Policy are an exception, are used only when recruiting new employees and are limited to the first year of employment.

A fixed part of remuneration represents a sufficiently large portion of the total remuneration, as at the date of its award, to enable flexibility in the policy of variable remuneration components, including lowering or not awarding at all specific variable remuneration components.

The total variable remuneration awarded to persons holding managerial positions at the Bank does not restrict the Bank's ability to increase its capital base.

If severance pay is agreed in an individual employment contract, the severance pay shall reflect the effort, efficiency and quality of the work provided in the last three years of holding a managerial position at the Bank.

Fifty per cent of the variable remuneration is supposed to be an incentive to taking particular care of the Bank's long-term interests. Variable remuneration is awarded or paid if it corresponds to the financial position of the Bank as a whole and is justified by the Bank's results, performance of the organizational unit employing a given person and the person's performance. Variable remuneration should be accounted for and paid transparently, to enable effective execution of the Policy of Variable Remuneration Components.

If the Bank takes advantage of exceptional public intervention, particularly based on the Act on providing support to a financial institution by the State Treasury of 12 February 2009 (Journal of Laws no. 39, item 308, as amended) and the Act on recapitalization of certain financial institutions of 12 February 2010 (Journal of Laws no. 40, item 226 and of 2011, no. 38, item 196), then:

- if maintaining a solid capital base and the timely withdrawal from public aid are threatened, variable remuneration shall only be paid provided that the Bank earned a net profit;
- the Bank adjusts the level and components of remuneration in order to support appropriate risk management and a long-term growth of the Bank's results; this includes introducing remuneration caps for the Management Board of the Bank;
- variable remuneration is paid to the Management Board only in justified cases;
- variable remuneration components shall be allocated based on an analysis of the extent to which objectives set out in individual programmes have been achieved and based on an assessment of the Bank's profitability and liquidity indicators, provided there were no infringements of the law and the Bank's internal regulations

The Bank's results used for the purposes of determining variable remuneration components should take into account the Bank's cost of risk, the cost of capital and liquidity risk in the long-term perspective.

Managers of the internal audit unit, the non-compliance risk management unit and organizational units responsible for risk management and HR matters receive variable remuneration for the achievement of the objectives resulting from the roles performed by them, and their remuneration does not depend on the business results generated by the areas of the Bank controlled by them.

The Bank does not award to persons in managerial positions pension benefits which are not specified beforehand, which for the purposes of the Policy mean pension benefits granted voluntarily by the Bank to individual employees as part of the variable remuneration package.
Persons in managerial positions with the Bank cannot use their own hedging strategies or insurances in respect of remuneration and responsibility, with the exception of mandatory insurance following from the specific regulations which would neutralize the actions taken in respect of those persons under the Policy. These persons submit appropriate written declarations which are registered and maintained by the Director of the Remuneration and Benefits Department.

Variable components of remuneration of persons in managerial positions with the Bank are awarded on the following conditions:

- at least 50% of the awarded variable remuneration is to be an incentive to specifically care for the long-term interests of the Bank and thus comprises financial instruments linked to the Bank's shares, in particular phantom shares or subscription warrants. The remaining portion of the variable remuneration awarded to Authorized Persons is paid out in cash.

- At least 40% of variable remuneration of an Authorized Person other than a Member of the Management Board and at least 60% of variable remuneration of an Authorized Person who is a Member of the Management Board is Deferred Remuneration and is deferred for a period of at least 3 years, i.e. it is not paid out after the Appraisal Period and vests and the payment is made in at least three annual instalments. The Supervisory Board in respect of the Members of the Management Board and the Management Board in respect of Authorized Persons other than the Members of the Management Board each time pass resolutions on vesting rights to a given tranche of the Deferred Remuneration by an Authorized Person on condition of having met the requirements specified in the Policy and in the Resolution of the PFSA.
- In accordance with the principle of proportionality, a minimum amount of variable remuneration which will not be deferred or paid in financial instruments shall be introduced at PLN 100,000 gross.

**Management Option Plan**

On 13 December 2012, based on a power of attorney granted by a Resolution of the Supervisory Board of Alior Bank S.A. of 10 December 2012, preliminary allocation of A, B and C series Subscription Warrants was performed. The said Subscription Warrants entitle their holders to acquire the Bank's shares, in accordance with the Resolution of the General Meeting of Alior Bank S.A. no. 28/2012 of 19 October 2012 on the conditional increase of the Bank's share capital and issue of subscription warrants.

Under the new incentive scheme, it is anticipated that three tranches of subscription warrants (A, B and C series) and the corresponding three tranches of new shares of the Bank (D, E and F series) with a total nominal value of up to PLN 33,312,500 will be issued, including:

The Management Option Plan assumptions stipulated the issue of three tranches of subscription warrants(A, B and C series) and the corresponding three tranches of the Bank's new shares (D, E and F series) with a total par value not exceeding PLN 33,312,500, including:

- up to 1,110,417 A series subscription warrants, which shall entitle their holders to acquire up to 1,110,417 D series shares of the Bank in the period of five years starting from the first anniversary of the first quotation of the Bank's shares on the WSE;
- up to 1,110,416 B series subscription warrants, which shall entitle their holders to acquire up to 1,110,416 E series shares of the Bank in the period of five years starting from the second anniversary of the first quotation of the Bank's shares on the WSE;
- up to 1,110,417 C series subscription warrants, which shall entitle their holders to acquire up to 1,110,417 F series shares of the Bank in the period of five years starting from the third anniversary of the first quotation of the Bank's shares on the WSE.

The Management Option Plan was in force in the years 2013-2015. In accordance with the Policy of Variable Remuneration Components for Persons in Managerial Positions with Alior Bank the Plan will be accounted for until 2020.

With reference to the issue of share rights on 27 April 2016, the Supervisory Board passed a resolution on making a technical adjustment to the Management Option Plan aimed at ensuring the economic neutrality of the plan in respect of authorized persons. The adjustment consists of calculating the drop in the notional value of the Management Option Plan and issuing the respective number of phantom shares with parameters similar to warrants to the persons covered by the plan.

**Incentive Scheme for the Management Board**

Following the end of the three-year validity period of the Original Incentive Program based on the shares of the Bank, the Supervisory Board adopted an Incentive Scheme for the Management Board for the year 2016.

The objective of the Program is to establish additional mechanisms motivating its participants to maintain effective fulfilment of the assigned tasks, managing the Bank in particular, as well as making efforts aimed at further sustainable development of the Bank and its capital group, while preserving correct and effective risk management in the Bank, stability of the senior management of the Bank and pursuing long-term interests of the shareholders by bringing the growth of the value of the stock market valuation of the Bank and simultaneous maintaining an increase of the net value of the assets of the Bank and its companies.

The premium depends on achieving and passing relevant Thresholds of the Results of the Bank as well as Individual Targets. According to the Resolution of the PFSA, the assessment takes into account the results of work of the Authorized Person of the three preceding calendar years. The decision to grant the Premium will be made in regard to provisions of the Policy, financial and non-financial criteria as well as the evaluation of the results of the Bank, and also the evaluation of the results of the Bank in the field of responsibility of the given Authorized Person. According to the Resolution of the PFSA, the Supervisory Board of the Bank will also consider the results of the whole Bank for the three preceding calendar years, when making a premium disbursement decision and the amount of the premium. The Premium shall be paid in the event that the financial situation of the whole Bank shall support it.

The Premium will be a defined percent of the fixed gross annual remuneration of the Authorized Person.

Once the amount of the Premium is determined, it will be disbursed under the conditions set out below.

- 50% of the Premium will be paid out in cash in four tranches: 40% will be paid out without deferment, 60% will be deferred and paid out in 20% tranches in the following years;
- 50% of the Premium will be paid out in the form of the financial instrument motivating to paying special attention to the long term business of the Bank – the "phantom" shares. The phantom shares will be cashed and paid out in the four tranches: 40% will be postponed for 5 months, and 60% will be deferred and cashed out in three 20% tranches.

All or partial Premium may also be paid out in the form of subscription warrants According to the Resolution of the General Assembly of the Bank.

With reference to the planned changes to the Bank's legal and organizational structure consisting of the Bank acquiring, pursuant to Art. 529 § 1 item 4 of the Commercial Companies Code, on the terms and conditions specified in the share Purchase Agreement, the spun-off part of Bank BPH Spółka Akcyjna with its registered office in Gdańsk, i.e. the Core Business of Bank BPH, with the exclusion of its mortgage business, on 29 June 2016, the Supervisory Board passed a resolution on the principles for paying a transaction bonus to the Bank's Management Board. The purpose of the bonus is to specifically motivate Members of the Bank's Management Board to actively cooperate in the process of preparing and exercising the Transaction, in order to ensure its timely completion, in compliance with the strategic assumptions. The Bonus may be granted and paid when the terms and conditions for exercising the Transaction and the Operational Merger of the two banks are met. The Bonus will be paid in accordance with the provisions of the Variable Compensation Components Policy.

## XVIII. Management representations

**Appointing the registered auditor**

The registered audit company auditing the interim financial statements of the Alior Bank Group was appointed in accordance with the legal regulations. This company and the registered auditors performing the audit met the requirements for issuing an unbiased and independent audit opinion on the interim consolidated financial statements, in accordance with the respective legal regulations in force in Poland.

**Policies adopted in the preparation of the financial statements**

The Bank's Management Board hereby represents that to its best knowledge, the interim consolidated financial statements for the first half of 2016 and the comparative figures have been prepared in accordance with the binding accounting policies and that they give a true, fair and clear view of the asset and financial position of the Alior Bank Group and its results. The Directors' Report included in this document reflects the true achievements, development and position of the Alior Bank Group, including a description of its basic risks, in the first half of 2016.

**Material contracts**

The Bank's Management Board represents that as at 30 June 2016 Alior Bank S.A. did not have:

- material loan contracts, warranties and guarantees not relating to operating activities;
- liabilities to the Central Bank.

In the reporting period, the Bank had liabilities resulting from debt securities issued, in particular subordinated bonds, Structured debt securities and other financial instruments.
In the first half of 2016, the Bank did not grant or terminate any lending agreements outside the scope of the Bank's normal business activities.
The Group companies did not grant any loan guarantees or warranties to a single entity or its subsidiaries, whose combined value would exceed 10% of the Bank's equity.
In the last reporting year no transactions with related entities were concluded within the Alior Bank Group on a non-arm's length basis. Transactions with related entities concluded by the Bank or its subsidiaries are described in Note 33 to the consolidated financial statements of the Alior Bank S.A. Group.
The total value of conditional liabilities granted to the Customers amounted to PLN 9 185 131thousand (an increase of 2,7% y/y) as at 30 June 2016. The given amount consisted

of PLN 7 758 678 thousand of off-balance conditional liabilities for the financing and PLN 1 426 453 thousand of off-balance guarantee conditional liabilities.
The Bank does not know of any agreements which could result in future changes in the proportion of shares held by the existing shareholders or bondholders.

## Court proceedings in progress

The value of litigation relating to the Bank's liabilities or receivables pending in the first half of 2016 did not exceed 10% of the Bank's equity. In the Bank's opinion, none of the individual proceedings pending in the first half of 2016 before a court, a competent arbitration body or a public administration body, nor all the proceedings in aggregate, pose a threat to the Bank's financial liquidity.
In the cases related to business customers, the number of executory titles issued by the Bank in the first six months of 2016 was 187 which covered the total indebtedness of PLN 87,029.4 thousand. With respect to individual customers, as at 30 June 2016, the Bank issued 8,172 executory titles and motions for granting an enforcement clause for a total of PLN 102 946.0 thousand.

Signatures of the Management Board

| | | |
|---|---|---|
| 10.08.2016 | Wojciech Sobieraj<br>CEO | ..................................<br>Signature |
| 10.08.2016 | Małgorzata Bartler<br>Deputy CEO | ..................................<br>Signature |
| 10.08.2016 | Krzysztof Czuba<br>Deputy CEO | ..................................<br>Signature |
| 10.08.2016 | Joanna Krzyżanowska<br>Deputy CEO | ..................................<br>Signature |
| 10.08.2016 | Witold Skrok<br>Deputy CEO | ..................................<br>Signature |
| 10.08.2016 | Barbara Smalska<br>Deputy CEO | ..................................<br>Signature |
| 10.08.2016 | Katarzyna Sułkowska<br>Deputy CEO | ..................................<br>Signature |