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Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of Alior Bank S.A.

Report on the Audit of the Annual Consolidated Financial Statements

Opinion

We have audited the accompanying annual consolidated financial statements of Alior Bank S.A. Group (the "Group"), whose parent entity is Alior Bank S.A. (the "Parent Entity"), which comprise:

— the consolidated statement of financial position as at 31 December 2018,

and, for the period from 1 January to 31 December 2018:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the statement of changes in consolidated equity;
- the consolidated statement of cash flows;

and

- notes to the financial statements comprising a summary of significant

accounting policies and other explanatory information

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements of the Group:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable to the Group laws and the provisions of the Parent Entity's articles of association.

Our audit opinion on the consolidated financial statements is consistent with our report to the Audit Committee dated 27 February 2019.



Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with amendments) (the “Act on certified auditors”); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-listed entities and repealing Commission

Decision 2005/909/EC (Official Journal of the European Union L 158 from 27 May 2014, page 77 and Official Journal of the European Union L 170 from 11 June 2014, page 66) (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those standards are further described in the Auditor’s Responsibility for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Ethics

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit

engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditor and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors and the EU Regulation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these

matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Impairment allowances on financial assets and off-balance sheet commitments

The carrying amount of loans and advances to customers amounted to PLN 54,246 million as at 31 December 2018 and PLN 51,267 million as at 31 December 2017. The value of off-balance sheet commitments amounted to PLN 10,902 million as at 31 December 2018 and PLN 12,498 million as at 31 December 2017. Impairment allowance amounted to PLN 4,672 million as at 31 December 2018, as compared to PLN 3,404 million as at 31 December 2017. Provisions for off-balance sheet commitments amounted to PLN 74 million as at 31 December 2018 and PLN 24 million as at 31 December 2017.

The net expected credit losses, impairment allowances and write-downs amounted to PLN 1,054 million for 2018 and PLN 915 million for 2017.

Reference to the separate financial statements: Note 12 “Net expected credit losses, impairment allowances and write-downs”, note 20 “Loans and advances to customers” and note 27 “Provisions”

Key audit matter	Our response
<p>Loans and advances to customers are measured at amortised cost less impairment allowance for losses. The procedures to estimate impairment allowance comprise two major phases – identification of the impairment triggers or significant increase of credit risk and measurement of expected credit losses.</p> <p>Starting from 1 January, for the purpose of impairment allowances calculation, the Group applies International Financial Reporting Standard 9 <i>Financial Instruments</i>, which replaced IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The impairment triggers and significant increase of credit risk are identified mainly on the basis of payment delinquencies and the current probability of default as compared to the level of the above mentioned parameter as at the date of initial recognition of the exposure, while impairment allowances are estimated collectively with the use of statistical methods on the basis of risk parameters. Risk parameters, such as probability of default (PD), loss given default (LGD) or exposure at default (EAD), are determined for individual loan exposures or for homogenous groups of exposures on the basis of their historical performance, taking into account the expected macroeconomic conditions.</p> <p>Impairment allowances constitute the estimation of expected credit losses to be incurred within the next 12 months or within the lifetime of the exposure. We assessed this area to be the key audit matter, as because of the size of the loan portfolio, estimation of expected credit losses has a significant impact on the separate financial statements, is associated with uncertainty and requires substantial judgement to be applied by the Management Board of the Parent Entity. The main risk area is the risk of not identifying existing impairment triggers and the risk of a significant increase of credit risk, as well as of the risk of using inappropriate data to calculate the parameters of statistical model, which may not adequately reflect the level of expected credit losses existing at a given reporting date. In addition, there is a risk of errors</p>	<p>As part of our audit procedures, we performed a critical assessment of both the process and the accounting policies regarding the impairment allowances on loans and advances to customers, along with critical evaluation of the internal control environment with particular attention paid to the automated controls in the Group's IT systems.</p> <p>Our audit procedures conducted with the support of our internal credit risk and IT specialists included among others:</p> <ul style="list-style-type: none"> — critical assessment of design and implementation of relevant internal controls (including general IT system controls) in the process of the classification of loan exposures into stages and the estimation of expected credit losses (including collateral value monitoring) as well as testing the operating effectiveness of those controls. Our procedures were focused particularly on controls of timely monitoring of debtors' standing and calculation of impairment allowances; — critical assessment of methodology used for risk parameters and impairment allowances estimation using both the individual and collective approach in terms of their compliance with IFRS 9 requirements and the best market practice; — analysis of the structure and dynamics of the loan portfolio including quality ratios and provision coverage in order to identify groups of loans with underestimated impairment allowances. <p>Specific audit procedures for loans and advances to customers assessed using group and portfolio methods:</p> <ul style="list-style-type: none"> — review of the results of the impairment model validation process, critical assessment of assumptions and input data used in the estimation of expected credit loss models for specific key credit risk parameters, such as the transfer logic between stages, probability of default (PD) or loss given default (LGD); — recalculation of selected elements of risk parameters used in the calculation of

occurrence in the process of calculating the impairment allowances.

Portfolio of loans to alternative energy producers (wind farms) has been identified as a portfolio, for which the impairment loss calculation involved significantly higher estimation risk. Increased estimation risk arises from high price volatility of green certificates (publicly traded subsidy instrument), which constitute a significant portion of income for entities in this portfolio.

expected credit losses applying statistical methods;

- assessment of the adequacy of the credit losses expected within 12 months by reference to credit losses actually incurred on homogenous portfolios historically;
- evaluation of the correctness of the credit risk model parameters' assignment to particular customer loans on the basis of homogenous portfolio characteristics, e.g. rating class, past due status;
- independent recalculation of expected credit losses using statistical methods;
- analysis of the correctness of the allocation of customer loans into stages considering the qualitative and quantitative criteria;
- assessment of the impact of macroeconomic factors on particular credit parameters of the expected credit loss models and the calculation of expected credit loss allowances.

Specific audit procedures for loans and advances to customers assessed individually for impairment:

- For loans and advances to customers assessed individually on the basis of a selected sample – assessment of the appropriateness of identification of a credit risk significant increase, impairment triggers and for impaired assets – critical assessment of relevant assumptions adopted by the Group and independent calculation of impairment allowances.
- For selected customers from the alternative energy producers sector – critical evaluation of individual exposures, based on information regarding financial standing of the client including sponsor's financial support, as well as, critical evaluation other key assumptions for impairment allowance calculation.

Impact of the first-time adoption of International Financial Reporting Standard 9

The method and impacts of implementing International Financial Reporting Standard 9 – Financial instruments ("IFRS 9") are presented in the separate financial statements in note 4.1 "Changes in accounting standards". The impact of IFRS 9 implementation on retained earnings amounts to PLN 1,030 million.

Key audit matter

implementation of IFRS 9 since 1 January 2018, establishing new rules for recognition, classification and measurement of financial instruments, required an estimation of the impact of the new standard's adoption on the opening balance as at 1 January 2018 and accounting for the change in the retained earnings as of that date.

The new rules of classification and measurement of financial instruments are based on the business models adopted by the Group to manage the financial instruments, and the characteristics of contractual cash flows expected from the financial instruments – the SPPI test (solely payments of principal and interest) performed in order to determine whether contractual cash flows represent solely the repayment of principal and interest on the outstanding balance. Regarding impairment of financial instruments, implementation of the standard required to apply advanced statistical models in order to measure significant increase of credit risk and to estimate expected credit losses for the loan portfolio over the lifetime of the exposure.

We have considered this area a key audit matter, as the application of the new standard required significant changes in business processes, information and reporting systems, and the acquisition of the new data set to be used for the valuation of financial assets. Meeting the classification and measurement criteria and calculation of expected credit losses also requires from the Group's Management to use substantial judgement. The main risk areas connected to the implementation of the new standard concerned the appropriate definition of business models for the Group's financial assets and interpretation of the results of the SPPI tests as well as estimation of expected credit losses described in more details under "Impairment allowances on financial assets and off-balance sheet commitments". In addition, IFRS 9 implementation, by amending IFRS 7 Financial Instruments: Disclosures, resulted in an extended scope of disclosures required in the separate financial statements.

Our response

In addition to the procedures performed for impairment allowances and provisions for off-balance sheet commitments described in the previous key audit matter, our procedures aimed at evaluation of the new standard's adoption, performed with the support of our valuation of financial instruments specialists, included.:

- assessment of the methodology applied by the Group for the classification and measurement of financial instruments in terms of its compliance with IFRS 9 requirements, as well as the best market practice;;
- evaluation of the correctness of assigning financial assets to business models, including the evaluation of the sales of financial instruments that occurred in the audited period;
- independent testing of the correctness of SPPI tests performed by the Group;
- assessment of disclosures, including those related to the first-time adoption of IFRS 9 and quantitative and qualitative requirements, relating in particular to credit risk of financial assets.

Litigations and proceedings before supervisory authorities

Litigations and pending proceedings before supervisory authorities have been described in Note 37 „Legal claims” and in Note 27 „Provisions” to the financial statements.

Key audit matter

As described in Note 37 “Legal claims”, the Parent Entity is a defendant in the proceeding related to determination of the its responsibility for damage caused by inadequate performance of informational duties to its clients and improper performance of contracts regarding receiving and transferring purchase and sale of orders of investment fund certificates managed previously by Fincrea TFI S.A., and currently by Raiffeisen Bank International AG (Joint Stock Company) Branch in Poland („CEF shares”)

Furthermore, on 14 September 2018, proceedings have been initiated against the Parent Entity by the Polish Financial Supervision Authority regarding imposition of a financial penalty in connection with the irregularities found in distribution of the CEF shares. As at the date of the audit report, the Polish Financial Supervision Authority has not completed the proceedings regarding the imposition of a fine.

We considered this area a key matter due to the fact that assessment of risk arising from issues described above results in the requirement to provide significant judgment and significant estimates by the Management Board.

Our response

Our audit procedures concerned key assumptions adopted by the Management Board in assessing the risk of cash outflows with regard to pending proceedings as well as correctness and completeness of the related disclosures in the financial statements. Our examination procedures included among others:

- Analysis of the post-control report and review of the correspondence with supervisory authorities regarding the proceedings initiated against the Parent Entity.
- Review of the results of internal control in relation to the process of offering and sale of CEF shares performed by the Parent Entity’s units through, among others, inspection performed on a sample basis including documents, correspondence with the Parent Entity’s clients; critical assessment of assumptions made by the Parent Entity based on our observations of the internal control results
- Review of the reports prepared by the Legal Department of the Parent Entity and the opinions of the Parent Entity’s external legal advisors.
- Verification of the disclosures in the financial statements regarding litigation and administrative proceedings.

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view of the consolidated financial position of the Group and of its consolidated financial

performance in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable to the Group laws and the provisions of the Parent Entity’s articles of



association and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board of the Parent Entity is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Parent Entity either intends to

liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the accounting act dated 29 September 1994 (Official Journal from 2018, item 395 with amendments) (the "Accounting Act"), the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Entity has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;
- conclude on the appropriateness of the Management Board of the Parent Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the consolidated financial statements to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying



transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Parent Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Parent Entity with a statement that we have complied with relevant ethical requirements regarding

independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Parent Entity, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the report on operations

Other Information

The other information comprise the report on operations of the Group for the year ended 31 December 2018 (the "Report on operations"),

including the corporate governance statement which is a separate part of the Report on operations (together "Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Parent Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the Report on

operations, including the corporate governance statement and the report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our opinion on the consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on

operations was prepared in accordance with applicable laws and the information given in the Report on operations is consistent with the consolidated financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Group included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements and to inform whether the Group disclosed in the Report on operations the name and registered office of its higher-level



parent company preparing a separate report of the group on non-financial information that will cover the Parent Entity and all its subsidiaries.

Opinion on the Report on operations

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying Report on operations, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on operations, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2018, item 757) (the “decree”).

Information about the statement on non-financial information

In accordance with the requirements of the Act on certified auditors, we report that the Parent Entity has prepared a separate report on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act. We have

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements, we have not identified material misstatements in the Report on operations.

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the consolidated financial statements.

not performed any assurance procedures in relation to the separate report on non-financial information and, accordingly, we do not express any assurance conclusion thereon.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Parent Entity is responsible for ensuring compliance of the Group's operations with prudential regulations, including the correctness of determination of capital ratios.

Our obligation is to inform in the audit report whether the Group complies with the applicable prudential regulations specified in separate regulations, and in particular whether the Group has correctly determined the capital ratios presented in Note 43 "Capital Management".

The purpose of the audit of the consolidated financial statements was not to express an opinion on the Group's compliance with the

applicable prudential regulations, and therefore we do not express an opinion on this matter.

Based on our audit of the consolidated financial statements, we would like to inform you that we have not identified any breaches by the Group in the period from 1 January to 31 December 2018 of the applicable prudential regulations set out in separate regulations, in particular as regards the correctness of the Group's determination of capital ratios as at 31 December 2018, which could have a material impact on the consolidated financial statements



Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Services other than audit of the financial statements, which were provided to the Group and entities under the control of the Parent Entity in the audited period are listed in point XVII of the Report on operations.

Appointment of the audit firm

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of Supervisory Board dated 22 May 2017. Our

period of total uninterrupted engagement is 2 years, covering the periods ended 31 December 2017 to 31 December 2018.

On behalf of audit firm

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

Registration No. 3546

Signed on the Polish original

Signed on the Polish original

Marcin Podsiadły

Stacy Ligas

Key Certified Auditor
Registration No. 12774
Limited Partner, Proxy

Member of the Management Board of KPMG Audyt Sp. z o.o., entity which is the General Partner of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k.

Warsaw, 27 February 2019