Management Board Report of the Alior Bank S.A.

for 2016

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Letter from the CEO

Dear Sir / Madam,

A very intense year 2016 has just ended. First of all we financed the acquisition of the core business of Bank BPH. For several years we have been of the opinion that the Polish banking sector is at the beginning of its consolidation process. In 2014 we began our part of this process by acquiring Meritum Bank. However, it was the acquisition of Bank BPH that was the true watershed moment. This allowed the Bank's balance sheet total to increase by more than 30% and thus Alior Bank joined the group of 10 leading banks in Poland. The acquisition of a highly attractive customer base will allow significant acceleration of development and increase in profitability. Bank BPH is also an excellent supplement to the product offer of Alior, in particular in respect of business customers.

The year 2016 was also a period of significant increase in loans in all segments. The hard work of all our bankers enabled achieving, for the first time in history, over net PLN 6 billion of loans. So that the bank's profit compared with the previous year, excluding, introduced this year, banking tax and one-off events associated with the purchase of the core business of Bank BPH, increased by more than 50%.

It was also a very demanding period due to the increased regulatory requirement. Already in the 4th quarter of 2015, we were aware of the increase in capital requirements of 125 base points. This is quite a challenge for a dynamically developing bank. Thanks to the support of our key shareholder – the PZU Group – we managed to implement an innovative capital guarantee instrument, the operation of which enabled us to meet the new, increased capital requirements until the capital increase following from the share issue.

At Alior Bank we have always perceived the future as a chance and possibility. Soon we will have the pleasure of sharing with you the assumptions for the new strategy for the years 2017–2020. I am certain that the pursuit of the Bank's new strategy will bring about positive effects for our customers, employees and shareholders.

You are cordially invited to read the Report.

Yours faithfully,

Wojciech Sobieraj

CEO

Letter from the Chair of the Supervisory Board

Dear Sir / Madam,

This year was yet another in Alior Bank's dynamic development. More importantly, this was achieved while pursuing the plan for the acquisition of the core business of Bank BPH. The Management Board of Alior Bank abided by its declarations made at the beginning of the previous year, which is a positive signal for both its current and future shareholders.

The very efficiently conducted acquisition, financing and integration of the core business of Bank BPH confirmed the competencies of Alior Bank in respect of mergers and acquisitions, attained on the acquisition of Meritum Bank. The fact that the transaction allowed Alior Bank to significantly strengthen its equity position by the option to acquire additional funds on the issue of shares which financed the acquisition and the gain from a bargain purchase is a very important factor.

The increased scale of operations of Alior Bank related to the merger which took place this year in connection with the pursuit of the new strategy for the years 2017–2020 will enable a further increase in shareholder value and the pursuit of new, ambitious and favourable business projects.

On behalf of the Supervisory Board, I would like to cordially thank the Management Board and all the employees for their commitment and I wish them further success in 2017.

Yours faithfully,

Michał Krupiński

Chair of the Supervisory Board

I. Summary of Alior Bank's operations in 2016

Major business events and initiatives executed in 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 did not include the purchase of the mortgage loan portfolio denominated in CHF, in other foreign currencies and in Polish zlotys, or BPH TFI.

The acquisition of the Core Operations of Bank BPH was financed by issuing ordinary I-series shares with pre-emptive rights, of PLN 2.2 billion, 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.

As at 4 November 2016, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register, registered the increase in Alior Bank's share capital by way of issuing 51 ordinary bearer J-series shares with a nominal value of PLN 10.00 each in the Register of Businesses. The capital increase is related to the spin-off of part of Bank BPH. Together with the registration of the capital increase part of Bank BPH in the form of an organized part of the enterprise of Bank BPH was spun off. The spin-off covered all the assets and liabilities of the Core Business of Bank BPH covered by the Demerger Plan and their transfer to Alior Bank. Thus, the demerger of Bank BPH became effective and the Core Business of Bank BPH officially became part of Alior Bank.

The operational merger of both banks is planned at the end of the 1st quarter of 2017.

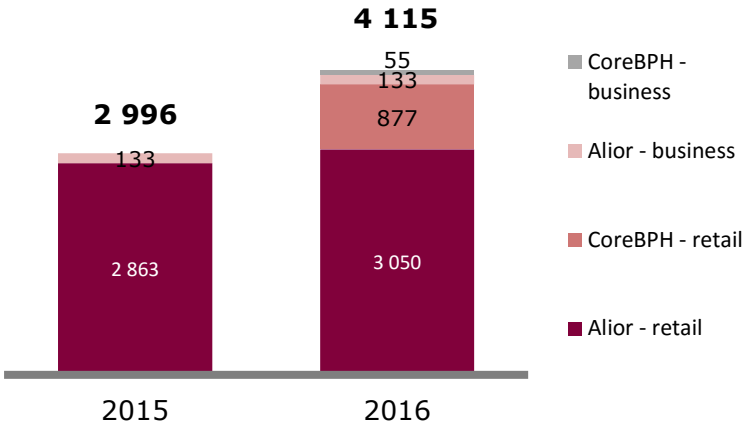
The acquisition of the spun-off part of Bank BPH is one of the features of the development strategy of Alior Bank which has been frequently communicated and consistently effected by the Management Board of Alior Bank, and which is based on dynamic organic growth and acquisitions, connected with achieving the highest levels of return on equity. As a result of the transaction Alior Bank has reinforced its position on the consolidating Polish banking market.

Furthermore, in connection with the acquisition of the spun-off part of Bank BPH, negative goodwill was recognized, which increased the value of the Bank's income in 2016 by PLN 508.1 million. Additionally a decision was taken to charge the restructuring reserve of PLN 268.1 million to the income statement for 2016. Simultaneously, in 2016, the total integration expenses amounted to around PLN 37 million.

In 2016, Alior Bank's business operations were mainly defined by the dynamic growth of its balance sheet total – it increased by PLN 21.2 billion to PLN 61.2 billion (i.e. by 53% year on year) – which was both the effect of the acquisition of the spun-off part of Bank BPH and the organic growth driven by sales of loan products to all groups of clients.

The net value of customer loans as at the end of 2016 increased as a result of the acquisition of the spun-off part of Bank BPH by nearly PLN 8.5 billion, and the remaining growth, i.e. PLN 6.9 billion – was the effect of the organic growth of Alior Bank.

The increase in available-for-sale assets of 120% to PLN 9.4 billion and equity of 76.8% to PLN 6.2 billion, mainly as a result of the issue of I-series shares referred to above also contributed to the increase in the Bank's balance sheet total.



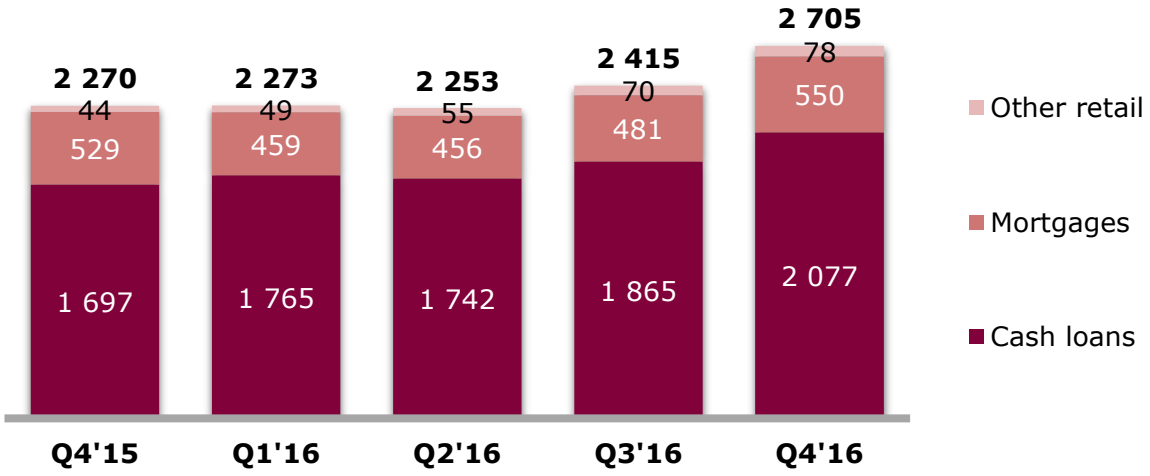
As at the end of 2016, the number of customers serviced was 3.2 million (excluding the customers of the acquired spun-off part of Bank BPH). Approx. 3.05 million are individual customers, and over 132.5 thousand are business customers. Year on year, the number of customers increased by 6.2%. The 6.5% increase in the number of retail customers serviced and an insignificant drop in the number of serviced businesses contributed to the overall increase.

Additionally, as a result of the acquisition of the spun-off part of Bank BPH the number of retail customers increased by 877 thousand and the number of business customers increased by a little over 55 thousand. Thus, the total number of customers serviced as at the end of 2016 exceeded 4.1 million.

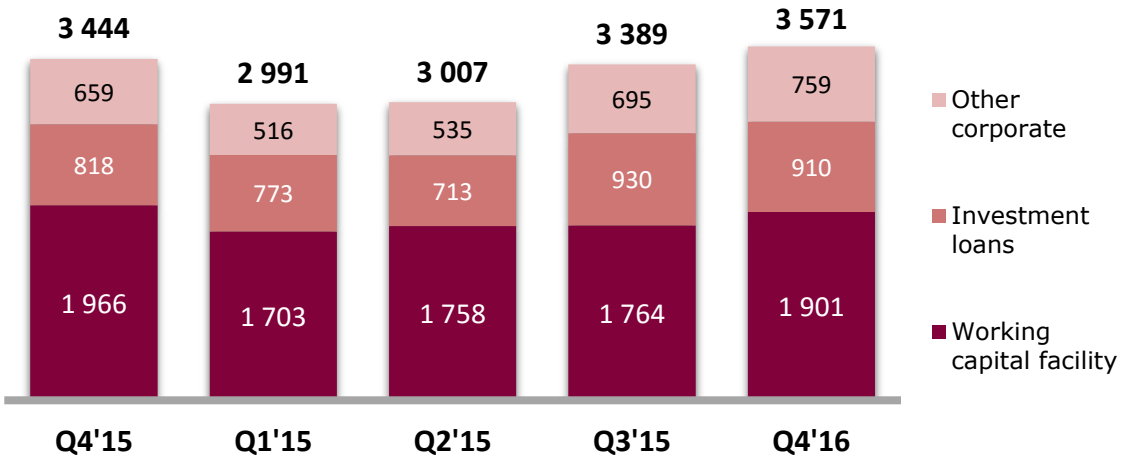
Alior Bank mainly provides services to customers from Poland. The share of foreign customers in the total number of the Bank's customers is small.

The detailed amounts of quarterly new sales (excluding renewals) in the individual product groups for retail and corporate customers (except the sales generated by the acquired spun-off part of Bank BPH) are presented on the diagrams below.

Sales of products to retail customers (in PLN million)



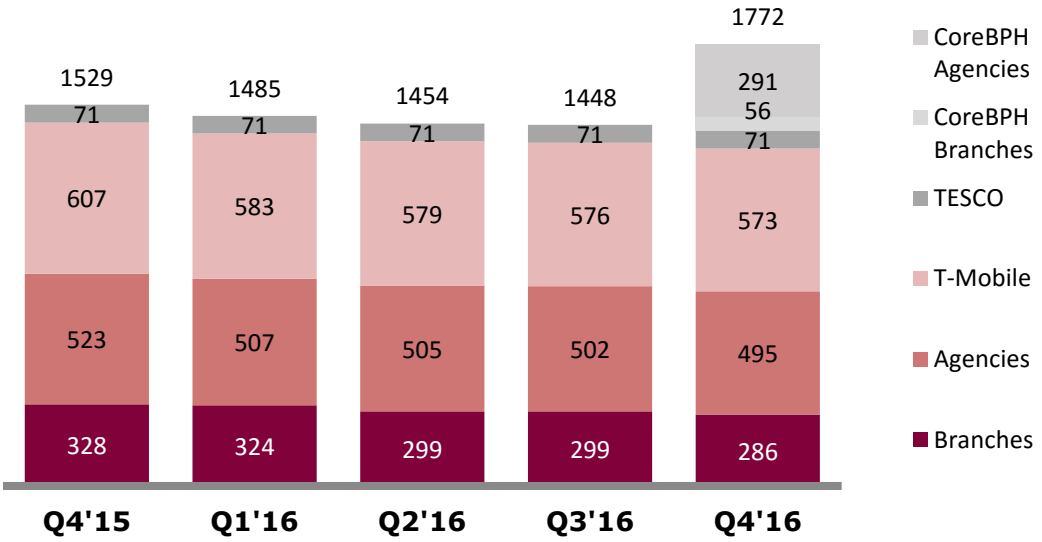
Sales of products to business customers (in PLN million)



Distribution network and employment level

Distribution network

As at the end of 2016, Alior Bank had 286 traditional branches – including 7 Private Banking branches and 11 Regional Business Centres, and 505 partnership outlets). Additionally, the Alior Bank distribution network increased by 56 branches and 291 partnership outlets as a result of acquiring the spun-off part of Bank BPH.



573 service outlets constitute material support for the sales network described above, where the Bank's products are offered under the brand: T-Mobile Banking Services delivered by Alior Bank. In the service outlets referred to above, as at 31 December 2016, 77 dedicated T-Mobile Banking Services outlets provided banking services to customers,

such as: loans, credit cards, overdraft limit, deposits, foreign currency accounts, individual and business customer accounts, etc.

As at the end of 2016, the Bank also had 71 outlets located in Tesco markets.

The Bank's products were also offered through the network of around 3 thousand financial intermediaries' outlets and 10 thousand instalment intermediaries.

Alior Bank also uses distribution channels based on a leading edge IT platform, which comprises: online banking, mobile banking and call centers.

Employment level

At the end of 2016 employment in Alior Bank stood at 10.245 jobs. Compared with the end of 2015, this represents an increase of 61%. The main reason for the increase was the acquisition of a spun-off part of Bank BPH resulting in an increase in the number of jobs by 3 630 by the end of December 2016.

Basic financial data

Net profit of the Alior Bank earned in 2016 amounted to PLN 632.1 million and was higher than the net profit earned in the analogous prior year period of PLN 320.7 million, i.e. by 103%.

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

in PLN'000/ %	2016	2015	2014
Total assets	61 211 849	40 009 419	30 168 078
Loans and advances to customers, net	46 279 849	30 913 990	23 647 990
Amounts due to customers	51 404 848	33 674 676	24 430 968
Capital and reserves attributable to the Company's equity holders	6 222 863	3 519 267	3 017 804
Net interest income	1 941 874	1 496 696	1 214 452
Gain on acquisition of the spun-off part of Bank BPH	508 056	0	0
Total income	3 176 347	2 159 175	1 882 006
Operating expenses	-1 543 456	-1 098 821	-922 158
- including the restructuring reserve related to the acquisition of Bank BPH	-268 121	0	0
Tax on banks	-130 893	0	0
Net profit attributable to shareholders of the parent company	632 075	311 415	337 030
NIM	4,1	4,6	4,7
ROE	13,0	9,5	13,0
ROA	1,2	0,9	1,2
Costs / Income	48,6	50,9	49,0
Loans / Deposits	90,0	91,8	96,8
Capital adequacy	13,7	12,5	12,9

The key factors which had an impact on the results of the Alior Bank in 2016 comprised:

- 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 the diligent monitoring of costs significantly contributed to the development of the main income statement items in 2016;

- acquisition of the spun-off part of Bank BPH. In effect of the acquisition:
  - consolidation included the financial results of the spun-off part of Bank BPH for the period from 4 November, 2016 to 31 December, 2016;
  - profit on buying spun-off part of BPH amounted to PLN 508.1 m;
  - the burden of operating costs and provisioning for restructuring of PLN 268.1 m,
  - integration costs incurred by Alior Bank in connection with the acquisition of spun-off part of Bank BPH amounted in 2016 to around PLN 37 m;
  - significant increase in deferred tax assets resulting in creation tax, mainly on restructuring provisioning in the amount of PLN 268.1 m; this lowered the tax base of the Bank in the income tax at the time of disbursement;
  - integration costs incurred by Alior Bank in connection with the acquisition of the spun-off part of Bank BPH amounted to PLN 37 million in 2016. A significant increase in deferred tax was noted due to setting up a deferred tax asset, mainly in the restructuring reserve, of PLN 268,1 million. This reduced the Bank's corporate income tax base upon expending the amount;
- tax on banks. Beginning on 1 February 2016, Alior Bank was subject to a tax imposed on some financial institutions, including banks. According to the new tax regime the introduction of this tax cannot constitute a basis for changing the terms and conditions for providing financial and insurance services based on contracts concluded before the coming into force of the new tax regulations, which limits the possibility of accounting for the new tax, referred to above, by the Alior Bank in the prices of services provided to its current customers. The additional charge resulting from this tax in 2016 compared with the results for 2015 amounted to PLN 130.9 million.

As at the end of 2016 Bank's total assets and total liabilities and equity, on a year on year basis, increased by 53% to PLN 61.2 billion. During the period, net loans and advances to customers increased by 49.7% to PLN 46.3 billion, and amounts due to customers increased by 52.7% to PLN 51.4 billion. Due to the larger scale of deposit acquisition compared with the growth in lending activity, and the higher amount of deposits acquired with the spun-off part of Bank BPH compared with the respective amount of loans, the loans-to-deposits ratio amounted to 90.0% as at the end of 2016, i.e. were 1.8 p.p. lower than as at the end of 2015.

Increases in balance sheet items were accompanied by a dynamic growth in total revenue with interest income as the main component of this growth. In 2016, total revenue increased to PLN 3,176.3 million, i.e. by 47.1% year-on-year. The main component of revenue was the interest income which increased by 29.7% year-on-year in 2016 and represented 61.1% of total revenue. Additionally, the gain on acquisition of the spun-off part of Bank BPH of PLN 508.1 million described in more detail in the section entitled "Results of the Alior Bank S.A." had a significant impact on the level of revenues in 2016.

In the period from 1 January to 31 December 2016, the Bank's operating expenses amounted to PLN 1,543.5 million and increased by 40.4% compared with the prior year.

The cost-to-income ratio was 48.6% as at the end of 2016 and was 2.3 p.p. lower than in 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 the spun-off part of Bank BPH and transferring the profit earned in 2015 and in the first half of 2016 to the

Bank's own funds, the level of the total capital ratio (TCR), despite the increase in risk-weighted assets of 51.2%, was 1.14 p.p. higher than the TCR at the end of 2015.

II. Alior Bank on the Warsaw Stock Exchange

Quotations of Alior Bank's shares on the WSE in 2016

Alior Bank made its debut on the Warsaw Stock Exchange (WSE) on 14 December 2012. On 21 March 2014, barely 15 months after the stock exchange debut, the Bank joined the circle of the twenty largest and most liquid companies quoted on the Warsaw trading floor.

The total value of trading in the Bank's shares in 2016 amounted to nearly PLN 4 billion (compared with PLN 2.9 billion in 2015). Throughout 2016, more than 388 thousand transactions involving Alior's shares were conducted, compared with slightly more than 248 thousand transactions concluded in 2015.

In 2016, the price of the Bank's shares decreased by 18.5% reaching PLN 54.19 as at the end of December 2016. The drop in the share price was, among other things, the effect of the issue of the I-series shares pre-emptive rights. In connection with the said issue, on 19 May the share price was adjusted by the notional value of the pre-emptive right which amounted to PLN 12.38. Basing on the share price from 30 December 2015 adjusted by the notional value of the pre-emptive rights, in 2016 the share price of the Bank's shares increased by 0.1%.

For comparison, the value of the WIG Bank index in the same period increased by 2.9% and the quotations of the WIG20 index increased by 4.8%. As at the end of 2016 the P/E and P/BV indices for Alior Bank amounted to 24.3 and 1.19 respectively. The above indices for the banking sector, in accordance with the data published in the official WSE List of Stock Quotations amounted to 11.8 and 0.76 respectively.

The share prices (in PLN) and trading volumes (in ths. PLN) of the Bank's shares on the WSE in 2016 are shown in the diagram below:

Ratings

On 5 September 2013, Fitch Ratings Ltd. granted a BB rating with a stable perspective to Alior Bank S.A. The rating was maintained at an unchanged level in accordance with the rating granted on 16 February 2017.

The full rating granted to the Bank by Fitch Ratings Ltd. is as follows:

1. Long-Term Foreign Currency IDR: BB stable perspective;
2. Short-Term Foreign Currency IDR: B;
3. National Long-Term Rating: BBB+(pol), stable perspective;
4. National Short-Term Rating: F2(pol);
5. Viability Rating (VR): bb;
6. Support Rating: 5;
7. Support Rating Floor: 'No Floor'.

Definitions of the Fitch ratings are available on the Agency's website: www.fitchratings.com, where ratings, criteria and methodologies are also published.

Investor relations

Alior Bank perceives a consistent information strategy as an important element contributing to the development of the market value of its shares. Consequently, Alior Bank carefully maintains regular, timely and effective communication with capital market participants.

As a public company, the Bank takes active measures to meet the information needs of its stakeholders, while striving to ensure universal and equal access to information in accordance with the highest market standards and the applicable laws.

These activities are conducted by the Investor Relations Department which reports to the President of the Bank's Management Board. The tasks of the Investor Relations Department are aimed mainly at ensuring constant, immediate access to information on all material changes occurring within the Bank, which have or may have an impact on the price of its shares.

As part of these activities, the Investor Relations Department organizes meetings of the Bank's Management Board and its top management with capital market participants, including potential investors and analysts who prepare reports on the Bank. These meetings are also aimed at discussing the current financial and operating situation of the Bank and at presenting, in a fair manner, the Bank's operating strategy and planned areas of further development. Apart from the above listed issues, issues relating to the present macroeconomic situation, condition of the financial sector and competitive environment of the Bank are also being discussed.

In 2016, 296 meetings were held: 151 meetings with 97 foreign investors and 145 meetings with 53 local investors. The meetings took place both at the premises of Alior Bank and as part of domestic and international conferences and roadshows. The Bank also participated in many conferences organized by domestic and foreign brokerage houses.

At the same time, webpages dedicated to investor relations, updated on an on-going basis are available on the Bank's website These webpages (maintained in both Polish and English) contain a wide range of information necessary for investors to perform a comprehensive assessment of Alior Bank's operations (e.g. current and periodic reports,

presentations of financial results, information on General Meetings, corporate documents and current ratings and evaluations ordered by the Bank).

III. External environment of the Bank's operations

Poland's economic growth

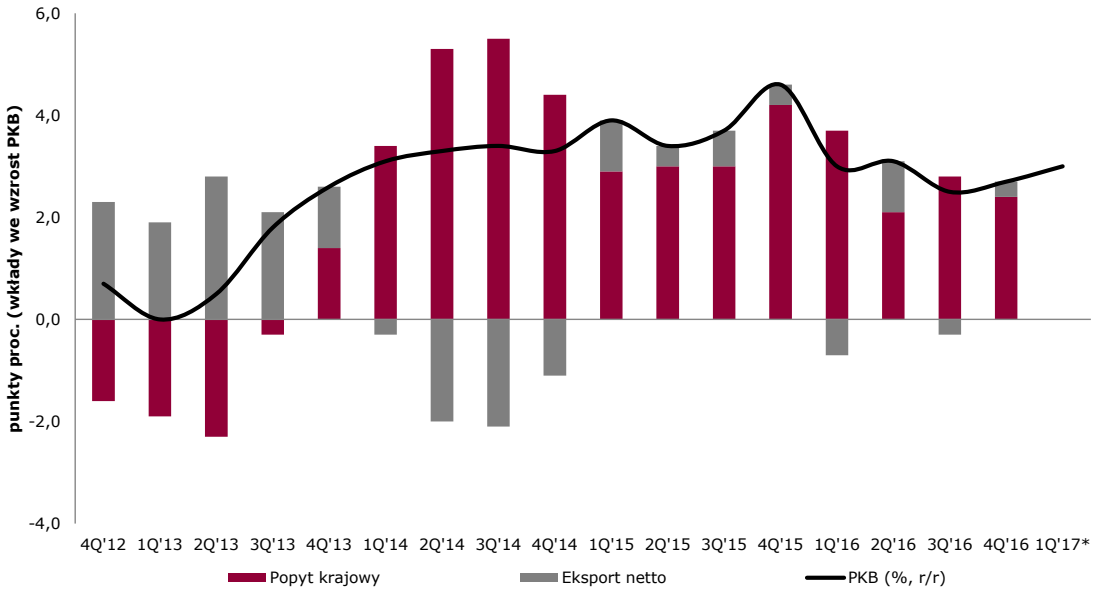
In 2016 Poland's economy grew in a stable manner, although growth dynamics decreased in the second half of the year. According to preliminary estimates of GDP at constant prices in 2016, was higher in real terms by 2.8% compared to 3.9% in 2015. Weak investments and consistent uncertainty as to global growth were the main factors contributing to slower economic growth. Internal demand continued to be the driver of growth, and the input of net exports proved positive only in the 2nd and 4th quarter.

In the 4th quarter of 2016, GDP grew by 2.7% y/y, and domestic demand remained the biggest contributor of growth – and grew by 2.4% y/y. Consumption grew once again in this quarter of the year (4.2% y/y compared with 3.9% y/y in the 3rd quarter of 2016), supported by the stable increase in employment and growing remuneration, the purchasing power of which was additionally increased by the low inflation (only in December reaching a positive value) prevailing over the period. The gradual launching of the "Family 500 plus" was also important for the increase in results for the previous quarters of the year.

Once again investments had a negative impact on the GDP in the 4th quarter of 2016 which dropped by as much as 5.8% y/y compared with 7.7% y/y in the 3rd quarter of 2016, thus consolidating the trend of lower increases in the GDP. The lower dynamics of gross expenditure in non-current assets during the year, was a derivative mainly of the drop in public investments related to the temporary decrease in the use of EU funds after the end of the former EU financial perspective and continued uncertainty as to the regulatory environment of private enterprises. In the 4th quarter of 2016 net export also a positive contribution outlined to the GDP and its impact on the rate of economic growth was negative and amounted to 0.3% compared with -0,3% in the 3rd quarter of 2016.

In consecutive quarters the expected improvement in the pace of expending EU funds and an acceleration in the consumption of households should lead to an increase in the pace of growth of GDP. Favourable trends on the labour market, historically low levels of interest rates and low energy resource prices remain material contributors to economic growth. On the other hand, uncertainty and deterioration in global economic activities remain the risk factors which may contribute to limiting new investment activities of enterprises.

GDP dynamics

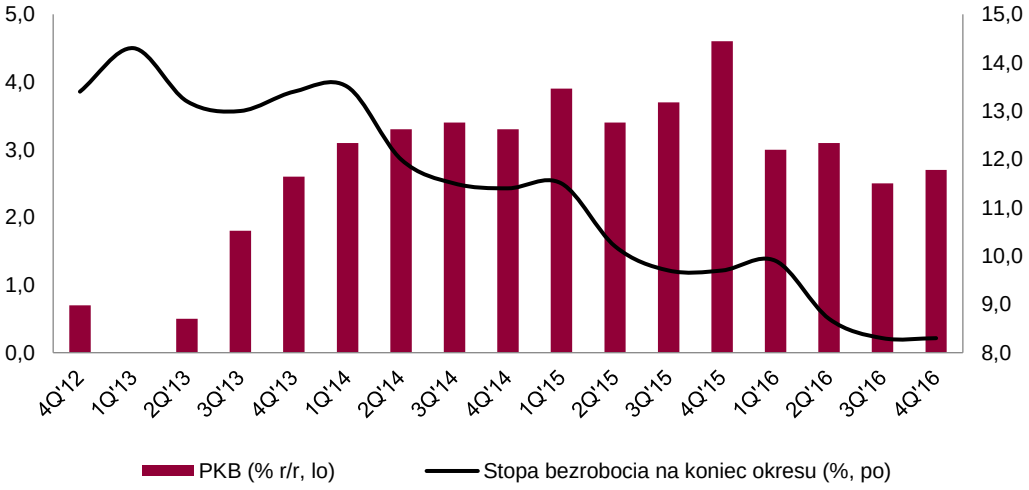


*forecast consensus as at 03.03.2017

Situation on the labour market

Favourable trends on the labour market in 2016 accelerated from quarter to quarter. Employment in the economy increased gradually, which led to a further drop in unemployment and a stable growth in remuneration. In October and November the unemployment rate amounted to 8.2%, which is the lowest value over the period of measurement, and in December the rate increased to no more than 8.3%. The good conditions on the labour market were confirmed by the large number of job offers and demand for new employees reported by companies. The increase in demand for labour was supported by stable economic growth. In consequence, in the second and third quarters of 2016 the average rate of growth in salaries was higher than in 2015 and the real remuneration dynamics was increased by continued deflation, which led to an increase in real disposable income and supported private consumption.

GDP dynamics and the unemployment rate



*forecast consensus as at 03.03.2017

Inflation

During most of 2016 Poland experienced deflationary conditions. CPI reached the lowest levels in the first half of the year when in April it reached the annual record low at -1.1% y/y. The significant drop in the prices of energy commodities on the global markets in the previous years continued to contribute to the low prices, although the deflationary impact of the factor gradually weakened. An additional external factor which reduced the CPI dynamics in Poland was low inflation abroad and the related dynamics of import prices, which was close to nil.

In the second half of the year deflation gradually weakened and in December the annual CPI dynamics was positive for the first time since July 2014 (0.8% y/y). In recent months, apart from the oil prices which were higher than last year, higher food prices also contributed to the increased rate of price growth. Although the external factors partly favoured the increase in inflation, at national level they did not cause any price pressure – base inflation dropped at an average monthly rate of 0.2% y/y. At the same time, the national demand pressure was still not strong enough to neutralize the deflationary impact of external factors.

The newest projection of the Economic Institute of the National Bank of Poland (IE NBP) continued to assume slow acceleration in inflation. In the years 2017 and 2018 inflation should increase to 1.3% and to 1.5% respectively. This means that according to IE NBP the return to the target NBP inflation rates (2.5%) in the projection horizon is improbable.

The reasons for the return of higher inflation may be perceived in the further extinguishment of the impact of the earlier drops in energy raw materials. The increased price dynamics in consecutive quarters will be additionally supported by the maintained stable economic growth and the improving situation on the labour market. Additionally, the increase in the income of households as a result of the implementation of the "Family 500 plus" program and the increase in minimum wages as of January 2017 may stimulate the growth of prices in the economy. On the other hand, the demand pressure in the economy remains low (negative demand gap), which implicates a moderate impact of the revival of the markets on an increase in inflation, and the forecasted stable raw material prices do not contribute to an increase in import prices.

Therefore, the lack of distinct inflationary pressure and the strongly accommodative monetary policy in the Euro Area favour the Monetary Policy Council's decision to maintain interest rates at the lowest level in history. Since March 2015 the reference rate has been 1.50%, the Lombard rate 2.5%, the deposit rate 0.50%, and the bill of exchange rediscount rate 1.75%. At the same time, over the prior several months the Council has consistently stated its opinion that the current level of interest rates contributes to maintaining the Polish economy on a path of sustainable growth and allows maintaining a macroeconomic balance.

Situation in foreign trade

Foreign trade has grown gradually during the year, and in comparison with 2015, exports increased by 6.3% y/y, and imports by 4.9% y/y. The increase in foreign trade was mainly due to increased exchange with developed countries, including EU countries, and imports from developing countries and, as of March 2016, exports to Central and Eastern European countries (including to Russia). In the geographic breakdown of exports, compared with 2015, the share of developed countries (including the EU) and CEE countries increased,

and the share of developing countries dropped. In imports, the share of developed countries (including EU countries) was the highest and lower for CEE countries. In terms of geographic structure, Germany remains the key export partner (an increase to 27.3%), the Czech Republic is the second largest (6.6%) then Great Britain (6.6%), whereas imports are mainly from Germany (23.4%), China (12.1%) and Russia (5.8%).

Over the large part of the year the increase in foreign demand for vehicle parts, supply goods and investment goods manufactured in Poland, as well as the drop in foreign exchange rates (mainly EUR-PLN) had a positive impact on the value of Polish exports. At the same time, increased import dynamics resulting from an insignificant increase in the rate of growth in consumer demand limited the prices of imported goods, which were lower than in the previous year, which mainly related to fuels, and reduced imports of investment goods which was related to a drop in capital expenditure in the Polish economy.

Increased risk related to the instability on global markets

In 2016 global economic growth remained moderate. The continuing uncertainty as to the prospects of the global markets led to lower trade dynamics and industrial production compared with the previous years. The results of the British referendum and Britain's decision to exit the EU also came as a huge surprise. In the second half of the year signals of stabilization of the markets in emerging economies and the insignificant – to date – impact of the Brexit decision on the European economy gave rise to improved feelings. However, the market environment remains uncertain, in particular after changes at the helm and the new economic path taken by the USA.

In the Euro Area for most part of the year economic growth remained stable. GDP dynamics amounted to 1.7% y/y, to which the relatively high consumer demand and systematic improvement in the conditions on the labour market (which translated into an increase in households' disposable income) contributed. The higher rate of growth in consumption of the financial sector compared with the prior year, which has been maintained thanks to the quantitative easing policy of the ECB also contributed to the increase in economic growth in the Euro Area.

In the USA, in 2016 GDP dynamics remained lower than in the previous year, although the economy accelerated from quarter to quarter. In the 3rd quarter of 2016 the GDP rate of growth was 1.9% y/y, and the increase was unvaryingly built mainly by private consumption supported by the stable situation on the labour market. The above triggered the Fed's decision taken in December to increase the rate of Federal fund brackets by 25 base points, to 0.50–0.75%.

In the prior year, the Chinese economy remained under the influence of the global slow-down, although in the second part of the year the conditions improved slightly. In the 4th quarter of 2016 the GDP rate of growth was 6.8% y/y. The stabilization of the rate of economic growth in China was accompanied by an increase in investments and expenditure in the public finance sector and stable consumption. To stabilize the situation, as of the beginning of the year the Chinese government increased funds to stimulate the economy via infrastructural projects.

Currency exchange rates

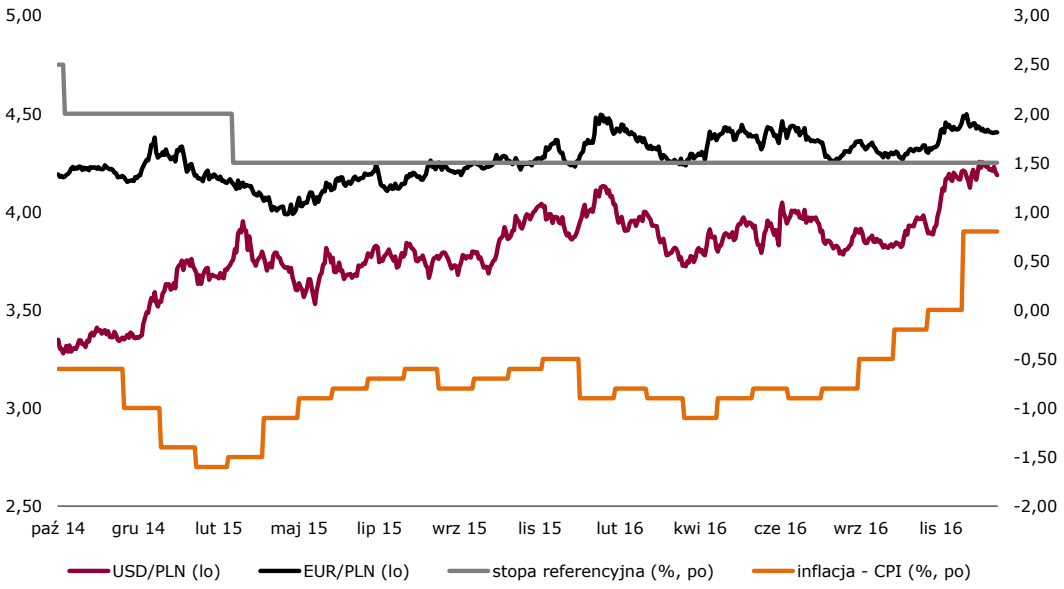
From the beginning of 2016 the exchange rate of the zloty was volatile, which resulted largely from external factors. At the beginning of the year, the PLN weakened significantly after S&P reduced the long-term rating of Polish debt in foreign currencies from A- to BBB+. The EUR/PLN exchange rate exceeded the 4.50 level at that time, and the USD/PLN rate was 4.15. 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 the second quarter Moody's rating agency announced its decision to maintain the Polish rating at an unchanged level of A2; however, the outlook was reduced from stable to negative which was unfavourable for the Polish currency. The result of the referendum in the United Kingdom and its unexpected decision to exit the EU also prevented an improvement in the zloty. The weakening of the euro compared with the American dollar to a rate of 1.11, and the great uncertainty on the markets translated into another weakening of the zloty exchange rate.

At the beginning of the third quarter the PLN rate once again improved, to which favourable external factors contributed this time. In July Fitch's maintained Poland's credit rating at the previous level with a stable outlook. Additionally, the market viewed favourably the presidential project relating to foreign currency loans which mitigated the risk of turbulences in the banking sector and on the foreign currency market.

However, in the final months of the year the prospect of an approaching reduction in interest rates in the USA, which materialized in December, counteracted the strengthening of the PLN. Additionally, the victory of the Republican candidate in the US presidential elections, which led to a significant strengthening of the US dollar at the end of the year, did not allow the PLN to improve significantly. In consequence, at the end of 2016 the PLN was rather stable, although it lost a little both to the US dollar and to the euro.

EUR/PLN and USD/PLN exchange rates against the backdrop of the CPI and reference rate inflation



IV. Basic structural and financial data of the Polish banking sector in 2016

In 2016 the position of the banking sector remained stable. The continued revival of the economy in connection with the stable condition of enterprises and increase in employment in the economy, which led to a drop in unemployment and to an increase in wages caused an increase in the banks' scale of operations in selected areas.

The record lows in interest rates in the period also had an impact on the banks' operations in 2016. On the one hand, this is a challenge due to the need to more actively manage the interest rate levels, and on the other, it remains an important factor reinforcing the demand for bank products and services.

In respect of regulatory events, the implementation of the Act on tax on certain financial institutions as of 1 February 2016 was the most important factor in terms of the results achieved in 2016 by the banking sector.

In respect of risks related to the possibility of introducing new regulations which could have a negative impact on the operations of the banking sector, the issue of how the problem of foreign currency housing loans will be resolved remains open. The gradual increase in the banks' contribution paid to the BFG which has been increasing for the last few years is also of import.

The market conditions in the Polish economy will be of key importance to the bank results in consecutive periods. In particular, the observed reduced speed of growth of the Polish economy, the condition of which will depend on the pace of growth of the largest global economies, will be a particular challenge for banks in future periods. If unfavourable scenarios were to be realized, the negative pressure on the condition of enterprises and consumers would be maintained, which in consequence could lead to a lower pace of growth in EU countries and negatively impact the Polish economy.

Basic Structural Data

As at the end of 2016, 36 national commercial banks, 558 cooperative banks and 27 branches of credit institutions operated in Poland. The number of commercial banks compared with the end of 2015 dropped by 2 banks. The trend of consolidation of the banking industry is expected to be continued in 2017 due to the need to acquire an appropriate scale of operations to maintain operating effectiveness in view of the growing regulatory costs and the scale of capital expenditure necessary to incur in connection with the technological revolution in progress, which imposes, among other things, a change in the banking products and services distribution model.

As at the end of December 2016 the Polish banking industry comprised 7,043 branches, 4,183 affiliates, outlets and other customer service points, and 3,208 representative offices. Therefore, the total number of outlets at the end of 2016 amounted to 14,434 and was 33 outlets lower than at the end of 2015.

The number of employees as at the end of 2016 was similar to the previous level and amounted to 168.8 thousand, which is a decrease of 2,081 persons (i.e. 1.2%).

This data shows that in 2016 banks continued processes aimed at improving operating effectiveness. In 2017, due to the development of mobile banking, and with relation to the

pressure on reducing operating expenses, banks will continue to reduce the number of employees and will strive to further optimize their outlet networks.

The level of concentration in the sector did not change significantly. The share of the five largest banks in the sector's assets dropped slightly as at the end of 2016 and amounted to 48.3%. A drop was also noted in the deposits of the five largest banks, from 55% to 47.5%, with a simultaneous drop in the share of those banks in amounts due from the non-financial sector of 5 pp. to 44.1%.

The Polish banking sector is characterized by a stable shareholding structure. As at the end of May 2016 the State Treasury controlled 5 banks. In respect of 564 banks and branches of credit institutions private capital had majority shareholdings. In 52 banks and branches of credit institutions foreign capital prevailed.

Main income statement items

In the period from January to December 2016, the banking sector generated a net profit at the level of PLN 13.9 billion compared with PLN 11.2 billion in a similar period of the prior year (an increase of 24.3%).

The increase in profit on banking operations (to PLN 59.3 billion, i.e. 6.1% more than in 2015), which was the result of a significant increase in net interest income (of 7.6%), with a simultaneous drop in the net fee and commission income (of 5.4%) had the largest impact on the net result of the sector.

The increase in net interest income was mainly the effect of the banks' adapting their deposit and lending policies to an environment of low interest rates. Interest expense dropped significantly (by 9.4% y/y) while interest income increased moderately (by 2% y/y).

The material growth in the result on other banking operations was mainly due to the settlement of the sale of shares in VISA Europe in the second quarter of 2016 (additional income of PLN 2.5 billion).

The banks' operating expenses (accounting for amortization and depreciation, and provisions) increased by 2.4% year on year, to PLN 35.4 billion in the period under analysis. The increase was caused by an increase in the level of personnel costs (of 2.7% to PLN 15.6 billion) and an increase in general administrative expenses (of 3% to PLN 15.9 billion). The increase in the general administrative expenses results mainly from introducing a tax on certain financial institutions (the so-called tax on banks) as of 1 February. The low increase in general administrative expenses in 2016 compared with 2015 results from the fact that in December 2015 banks made additional payments to the BFG in connection with the announcement of bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin, and paid an additional contribution to the Borrowers Support Fund.

The increase in the negative balance of write-downs and provisions (of PLN 807 million; 14.7%) resulted mainly from an increase in the negative consumer loans balance, an increase in provisions and write-downs in respect of non-financial assets.

The negative balance of the financial and non-financial assets impairment allowance was 11.6% lower and amounted to PLN 7.4 billion IBNR in the period from January to December 2016 compared with the same period of the prior year.

Balance Sheet

The total value of the banking sector assets was PLN 1,711.3 billion as at the end of 2016 and was 7.0% (i.e. PLN 111.3 billion) higher than at the end of 2015.

The key areas of increase in assets were the portfolio of assets available for sale and loans, and on the liabilities side, household and budget sector deposits.

The value of the portfolio of assets available for sale as at the end of 2016 amounted to PLN 304.5 million, i.e. 28.9% higher than as at the end of 2015. In the opinion of experts, this increase is the result of a change in the structure of the banks' balance sheets aimed at reducing the amount of tax paid in connection with the coming into force of the Act on tax on certain financial institutions. Pursuant to the provisions of the Act, Treasury securities (which are part of the portfolio of assets available for sale) reduce the tax base.

Gross amounts due from the non-financial sector increased by 5.2% and amounted to PLN 1,011.8 billion as at the end of 2016 compared with the prior year. The key areas of growth were amounts due from business customers (+5.4% y/y) and amounts due from households (+5.1% y/y).

The increase in loans and advances to business customers related both to the area of loans to large enterprises and to SMEs. Such an increase in lending activities was observed both in loans for current operations and in investment loans. The good financial position of enterprises and the increased use of non-credit forms of financing operations may pose a threat to further increase in lending to enterprises (despite the low cost of loans).

Deposits of the non-financial sector increased by 9.5% to PLN 1,028.1 billion as at the end of 2016. The rate of growth of business deposits was lower than the rate of growth of household deposits (an increase of 8.5% and 9.8% respectively). In effect, the value of household deposits increased to PLN 730.8 billion as at the end of 2016, and the value of business deposits was at a level of PLN 275.0 billion as at the end of 2016.

In respect of the banks' deposit base in consecutive periods, the low interest rate environment which leads to reducing the propensity to save with banks and leads to looking for alternative forms of saving, on the one hand, and the revival of the economy, on the other, which translates into an improvement in the conditions on the labour market and an increase in the deposit base remain a challenge for banks

Equity and capital ratios

The amount of own funds in the banking sector with reference to the capital ratios, calculated pursuant to the regulations included in CRR, amounted to PLN 172.3 billion as at the end of September 2016 and increased by 15.4% compared with the end of September 2015.

The total capital ratio in the banking sector was 17.58% as at the end of September 2016 (an increase of slightly over 2 p.p. compared with the end of September 2015), and the Tier I base capital ratio was 16.01% as at the end of the said period (an increase of approx. 1.8 p.p. compared with the end of March 2015).

The increase in the total capital ratio and base Tier I capital ratio in the period under analysis resulted from the fact that the observed slight increase in the risk-weighted exposure (of 2.2% compared with the end of September 2015) which resulted mainly from an increase in the requirement in respect of credit risk, was accompanied by a material increase in the level of own funds (of 15.4%). The increase in own funds was related,

among other things, to retaining a material portion of the profits earned in 2015 by some banks, eliminating from the financial statements the financial data of Sk Bank and the new shares issues.

V. Financial results of the Alior Bank S.A.

Income Statement

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

in PLN'000	1.01.16 – 31.12.16	1.01.15 – 31.12.15	Change y/y PLN million	Change y/y %
Interest income	2 933 858	2 395 168	538 690	22,5
Interest expense	-991 984	-898 472	-93 512	10,4
Net interest income	1 941 874	1 496 696	445 178	29,7
Dividend income	68	74	-6	-8,1
Fee and commission income	592 337	545 655	46 682	8,6
Fee and commission expense	-257 980	-214 026	-43 954	20,5
Net fee and commission income	334 357	331 629	2 728	0,8
Trading result	319 779	268 576	51 203	19,1
Net gain / loss realized on other financial instruments	21 919	12 923	8 996	69,6
Other operating income	102 014	79 492	22 522	28,3
Other operating expenses	-51 720	-30 215	-21 505	71,2
Other operating income, net	50 294	49 277	1 017	2,1
Gain on acquisition of the spun-off part of Bank BPH	508 056	0		
Costs of the Bank's operations	-1 543 456	-1 098 821	-444 635	40,5
Net impairment losses and allowances	-794 733	-671 772	-122 961	18,3
Tax on banks	-130 893	0		
Profit before tax	707 265	388 582	318 683	82,0
Income tax	-75 190	-77 167	1 977	-2,6
Net profit	632 075	311 415	320 660	103,0

The net profit of the Alior Bank S.A. amounted to PLN 632.1 million in 2016 and was by PLN 311.4 million, i.e. 103%, higher than the net profit for the preceding year.

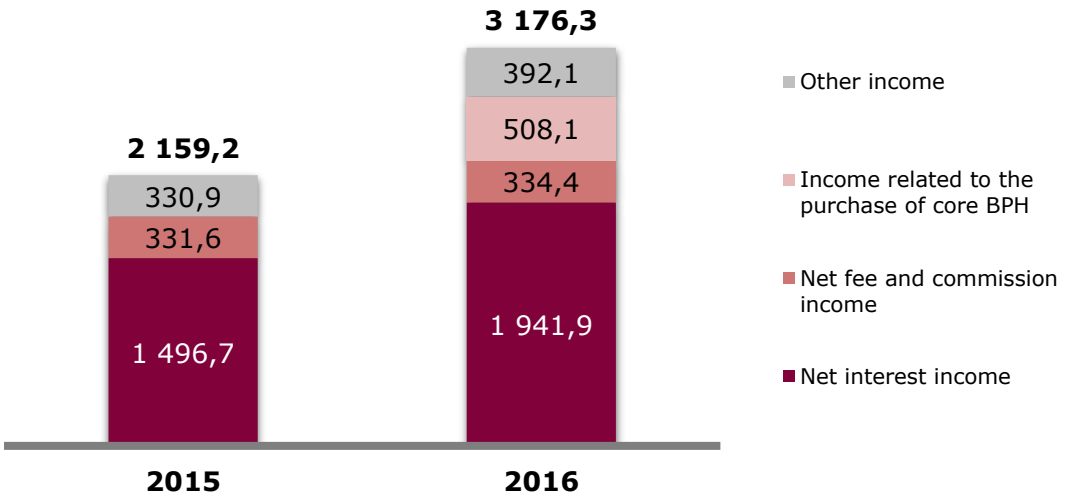
It should be noted that mainly due to:

- the acquisition of the spun-off part of Bank BPH and several one-off related events which took place in 2016, i.e.: consolidation of the financial data of the spun-off part of Bank BPH, recognizing profit on the acquisition of the spun-off part of Bank BPH, setting up a restructuring reserve or the incurred integration costs;
- a material increase in deferred tax resulting from recording a deferred tax asset mainly on the basis of the restructuring reserve of PLN 268.1 million. This reduced the Bank's corporate income tax base upon expending the amount;
- introducing tax on certain financial institutions as of February 2016;

- charging operating expenses for 2015 with the costs related to the payment of funds to the Borrowers' Support Fund and with the costs resulting from announcing bankruptcy by Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin; comparability of the financial results achieved in 2016 with the results for 2015 is significantly limited.

The following items of the income statement had an impact on the level of profits earned in 2016:

Total revenues (in PLN million)



Net interest income is the main component of the Bank's income (representing 61,1% of the total balance). Its 29.7% increase year on year was the consequence of the organic growth of the volume of loans to customers and the accompanying increase in the customer deposit base and acquiring the spun-off part of Bank BPH. The adequate pricing policy in respect of deposit and lending products also had a positive impact on the level of generated interest income in view of the Bank operating in an environment of low interest rates.

The Bank's profitability measured with the net interest margin continued to be high in 2016 at 4.1% and was 50 b.p. lower than the interest margin earned in 2015. The decrease in margin was mainly related to the consolidation of the results of the spun-off part of Bank BPH (only the net interest income of the spun-off part of Bank BPH for the period from 4 November 2016 to 31 December 2016 was covered by consolidation) and to the change in the structure of assets consisting of an increase in the share of available-for-sale assets in the Bank's total assets from 10.6% as at the end of 2015 to 15.3% as at the end of 2016.

At the same time, the average interest rate on loans increased by 0,09 p.p. to 6,11%. At the same time, the average cost of deposits decreased to 1,46 % i.e. by 0,27 p.p.

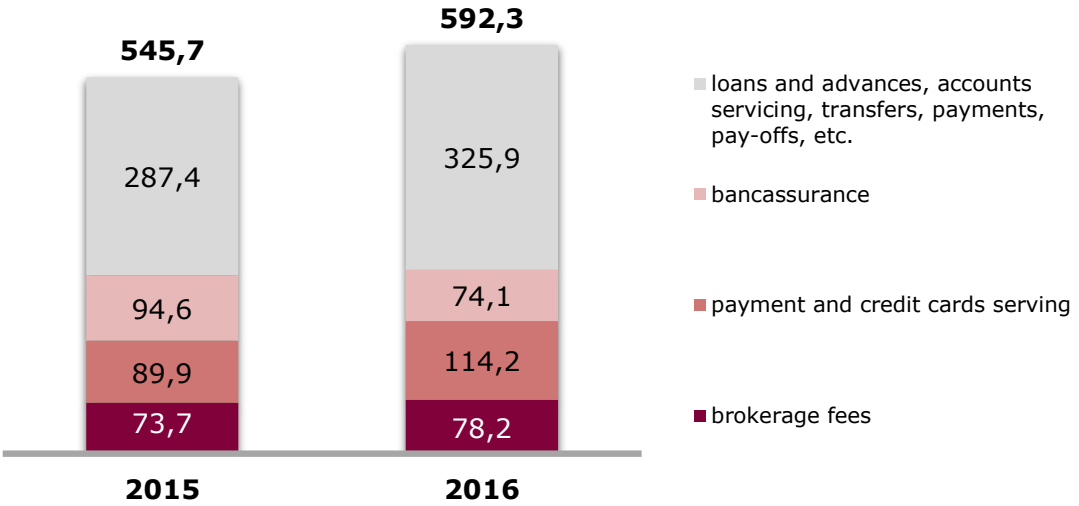
The average 3M WIBOR amounted to 1.7% in 2016 and dropped by 0.04 p.p. compared to the average in 2015.

LOANS / WIBOR 3M	2016 (%) 6,11 / 1.7	2015 (%) 6.02 / 1.74
retail segment, including:	**7,20**	**7.00**
Consumer loans	9,34	9.14
Housing loans	4,15	4.15
business segment, including:	**4,62**	**4.73**
Investment loans	3,97	4.42
Working capital loans	4,92	4.87
Car loans	4,21	6.66
DEPOSITS	**1,46**	**1.73**
retail segment	**1,36**	**1.65**
Current deposits	0,36	0.39
Term deposits	2,09	2.60
business segment	**1,63**	**1.86**
Current deposits	0,07	0.07
Term deposits	1,67	1.91

Net commission income earned in 2016 did not change compared with 2015 and amounted to PLN 334.4 million (+0.8% compared with 2015). Net commission income comprised PLN 592.3 million of commission income (an increase of 8.6% year on year) and PLN 258 million commission expenses (an increase of 20.5% y/y).

Commissions related to loans, accounts, transfers, payments, disbursements and advances, etc. are the main components of fee and commission income. In 2016 they amounted to PLN 325.9 million and constituted 55% of total fee and commission income. Their increase year on year resulted mainly from the increase in commissions related to card and ATM transactions and commissions on transfers, payments and disbursements.

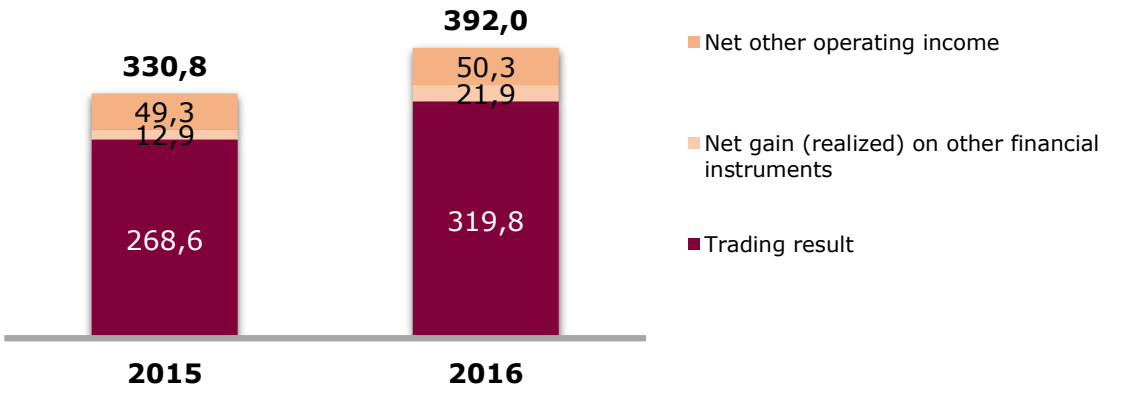
Fee and commission income (in PLN million)



Net trading income, the result realized on other financial instruments and net other operating income increased by 18.5% to PLN 392 million). The Bank recorded a 19.1% increase, year on year, in net trading income to PLN 319.8 million, i.e. of PLN 51.2 million.

Most of the net trading income was earned on margins on foreign exchange transactions and interest rate derivatives concluded with the Bank's customers. Taking over the transactions concluded by the spun-off part of Bank BPH also had an impact on the increase in net trading income.

Net trading income realized on other financial instruments and net other operating income (in PLN million)



The Bank performed initial accounting for the merger and the calculation of gain on a purchase in connection with the acquisition of a separated part of Bank BPH S.A. Due to the fact that they are not yet known all the elements of the settlement between Alior Bank SA and sellers of the separated part of BPH SA, the settlement may still be subject to revision. In accordance with IFRS 3.45 a maximum period to make such adjustments is 12 months from the date of purchase, ie. 4 November 2017.

Measuring the gain from a bargain purchase (in PLN'000)

The fair value of consideration paid – shareholders of GE group settled by the Bank according to the amount of net assets and adjustment to the assets of separated part of Bank BPH as of 4th November 2016.	**1 066 883**
The fair value of consideration paid - other shareholders	305 298
Fair value of acquired identifiable assets and liabilities of acquired entity	**1 880 237**
Gain from bargain purchase	**-508 056**

The net value of identifiable assets and liabilities at fair value exceeds the value of the consideration paid. Therefore, the Bank recognized the excess amount as at the acquisition date, in accordance with the provisions of IFRS 3, directly in the income statement as the gain from a bargain purchase of PLN 508.1 million. The gain from a bargain purchase arose as a result of the Management Board of Alior Bank S.A. negotiating a favourable transaction price.

The amount comprises:

- the difference between the acquisition price and the acquired net assets at book value of PLN 282 million,
- measurement of acquired identifiable assets and liabilities at fair value of PLN 313 million (including PLN 430 million of positive valuation of the acquired assets and PLN 117 million of the negative valuation of impaired assets).At the same time, the difference between the book value of the acquired assets of the spun-off part of BPH SA and the valuation of those assets at fair value in the amount of PLN 430 million will be amortized in the income statement in the following years over the economic life of particular assets acquired. This amount comprises measurement adjustments to fair value: of amounts due from customers of PLN 365.0 million, customer relations in the area of deposits (recognized in intangible assets) of PLN 42 million and property, plant and equipment of PLN 23 million,
- adjustments for deferred tax relating to the fair value valuation of the identifiable assets acquired and acquired liabilities in the amount of PLN -63 million,
- adjustments resulting from differences in accounting policies and methodologies amounting to PLN -23 million.

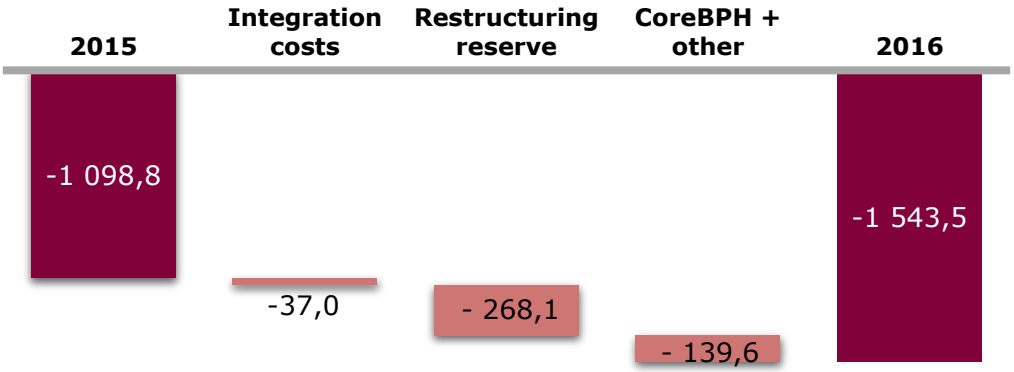
In 2016 operating expenses amounted to PLN 1,543.5 million and were PLN 444.6 million (40.5%) higher than in the prior year.

Payroll expenses in the period under analysis amounted to PLN 877,8 million and were 59,7% higher than the payroll expenses incurred in 2015.

In 2016 non-payroll expenses amounted to PLN 556,9 million and were 21,6higher than in 2015.

The main reason for the increase in expenses was the acquisition of the spun-off part of Bank BPH. A restructuring reserve of PLN 268.1 million was charged to costs (the amount of PLN 32.7 million of existing reserve increased general expenses, rest which amounted PLN 235.4 million increased staff costs). Additionally, due to the consolidation of the financial results of the spun-off part of Bank BPH, the Bank's operating expenses increased by PLN 81.3 million. At the same time, the total amount of costs incurred by the Bank in connection with the acquisition of the spun-off business of Bank BPH amounted to approx. PLN 37 million in 2016.

Operating expenses (in PLN million)



Net impairment losses in 2016 amounted to -PLN 794.7 million (-PLN 671.8 million in 2015 – a 18.3% increase) and resulted mainly from the increase in impairment losses on amounts due from non-financial sector customers (from -PLN 643.1 million to -PLN 728.2 million).

The increase in IBNR in respect of non-impaired customers from –PLN 1.7 million in 2015 to –PLN 32.0 million in 2016 also had an impact on this item.

The net impairment losses and provisions decreased by net of impairment on property, plant and equipment and intangible assets in relation to the average balance of gross amounts due from customers (the cost of risk ratio) amounted to 1.9% in 2016.

Net impairment allowance (in PLN million)

	1.01.2016-31.12.2016	1.01.2015-31.12.2015	change y/y %
Impairment allowances on amounts due from customers	-730 640	-649 137	12,6
financial sector	-2 467	-5 995	-58,8
non-financial sector	-728 173	-643 142	13,2
retail customers	-474 733	-446 218	6,4
business customers	-253 440	-196 924	28,7
Debt securities –assets available for sale	-6 975	-7 981	-12,6
IBNR on non-impaired amounts due from customers	-32 021	-1 726	1 755
financial sector	-108	-842	-87,2
non-financial sector	-31 913	-884	3 510,1
retail customers	-10 417	-1 683	519,0
business customers	-21 496	799	
Provision for off-balance sheet liabilities	-2 382	-560	325,4
Property, plant and equipment and intangible assets	-22 715	-12 368	83,7
Net impairment losses and allowances	-794 733	-671 772	18,3

On 1 February 2016, Alior Bank began to be subject to a tax imposed on some financial institutions, including banks. According to the new tax regime, the 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 regulations, which limits the possibility of accounting for the new tax, referred to above, by the Alior Bank in the prices of services provided to its current customers. The additional charge resulting from this tax in 2016 compared with the results for 2015 amounted to PLN 130.9 million.

Balance Sheet

As at 31 December 2016 the value of total assets of the Alior Bank amounted to PLN 61.2 billion and was PLN 21.2 billion (53%) higher than as at the end of 2015.

The main items generating the increase in the balance sheet total on the assets side: amounts due to customers – an increase of PLN 17.7 billion y/y (including the impact of

the consolidation of results of the spun-off part of Bank BPH of PLN 8.5 billion) and available-for-sale financial assets – an increase of PLN 5.1 billion y/y , i.e. 120%, and on the liabilities side: customer deposits – an increase of PLN 17.7 billion (including the impact of the consolidation of results of the spun-off part of Bank BPH of PLN 12.7 billion) and equity – an increase of PLN 2.7 billion (resulting mainly from the increase in equity as a result of the issuance of I series shares and accumulation of the profits earned).

The tables below show the detailed items of assets, liabilities and equity as at the end of 2016, with comparatives.

in PLN'000

ASSETS	As at 31.12.2016	As at 31.12.2015	change y/y PLN million	change y/y %
Cash and balances with Central Bank	1 082 991	1 750 135	-667 144	-38,1
Financial assets held for trading	419 551	390 569	28 982	7,4
Available-for-sale financial assets	9 357 734	4 253 119	5 104 615	120,0
Investment securities held to maturity	1 954	0	1 954	100,0
Derivative hedging instruments	71 684	139 578	-67 894	-48,6
Amounts due from banks	1 364 226	642 540	721 686	112,3
Loans and advances to customers	46 279 849	30 913 990	15 365 859	49,7
Assets pledged as collateral	366 984	628 332	-261 348	-41,6
Property, plant and equipment	483 520	227 633	255 887	112,4
Intangible assets	480 913	379 820	101 093	26,6
Investments in subsidiaries	72 359	21 975	50 384	229,3
Assets held for sale	679	888	-209	-23,5
Income tax assets	523 371	274 015	249 356	91,0
Current	0	0	0	
Deferred	523 371	274 015	249 356	91,0
Other assets	706 034	386 825	319 209	82,5
TOTAL ASSETS	61 211 849	40 009 419	21 202 430	53,0

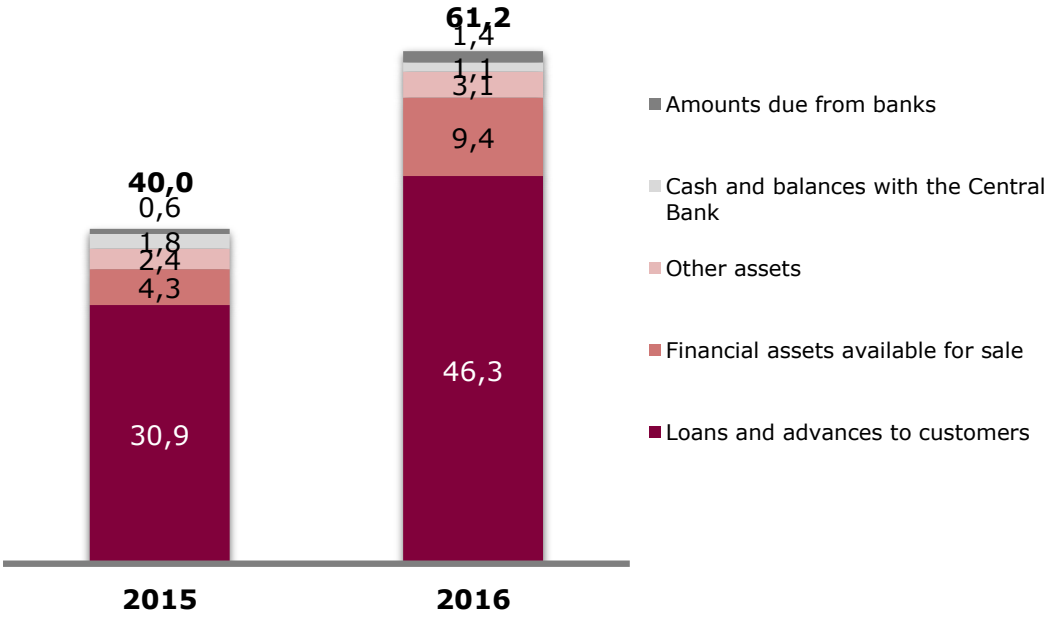
in PLN'000

LIABILITIES AND EQUITY	As at 31.12.2016	As at 31.12.2015	change y/y PLN million	change y/y %
Financial liabilities held for trading	298 314	310 180	-11 866	-3,8
Amounts due to banks	381 235	1 051 028	-669 793	-63,7
Amounts due to customers	51 404 848	33 674 676	17 730 172	52,7
Derivative hedging instruments	6 119	0	6 119	
Provisions	286 791	9 801	276 990	2 826,1
Other liabilities	1 433 760	526 393	907 367	172,4
Income tax liabilities	13 125	21 776	-8 651	-39,7
Current	13 125	21 776	-8 651	-39,7
Subordinated liabilities	1 164 794	896 298	268 496	30,0

Total liabilities	54 988 986	36 490 152	18 498 834	50,7
Equity	6 222 863	3 519 267	2 703 596	76,8
Share capital	1 292 578	727 075	565 503	77,8
Supplementary capital	4 184 953	2 280 668	1 904 285	83,5
Revaluation reserve	-71 615	15 215	-86 830	-570,7
Other reserves	184 894	184 894	0	0,0
Exchange rate differences on valuation of foreign entities	-22	0	-22	
Retained earnings / (accumulated losses)	0	0	0	0
Profit for the year	632 075	311 415	320 660	103,0
TOTAL LIABILITIES AND EQUITY	61 211 849	40 009 419	21 202 430	53,0

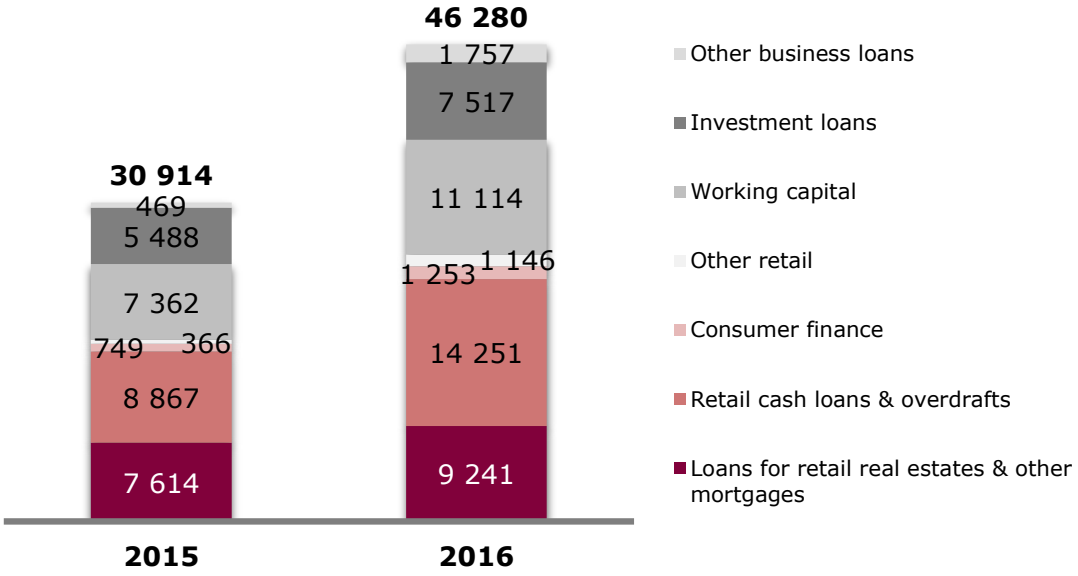
Amounts due from the Bank's customers are the core component of assets (PLN 46.3 billion). As at the end of 2016, their share in total assets was 75.6% and therefore decreased by 1.7 p.p. compared with the end of 2015. Available-for-sale financial assets were the second largest item of assets as at the end of 2016, and amounted to PLN 9.4 billion, representing 15.3% of total assets (as at the end of 2015: – 10.6% of total assets).

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



The increase loans and advances to customers of 49.7% resulted mainly from the 47.1% (i.e. PLN 8.3 billion) increase in the volume of loans and advances granted in the retail segment. The second important factor supporting the increase in the portfolio of receivables was the increase in amounts due from business customers. The volume of loans to the business segment increased by 53.1% (i.e. PLN 7.1 billion) to PLN 20.4 billion.

Loans and advances to customers (in PLN million)

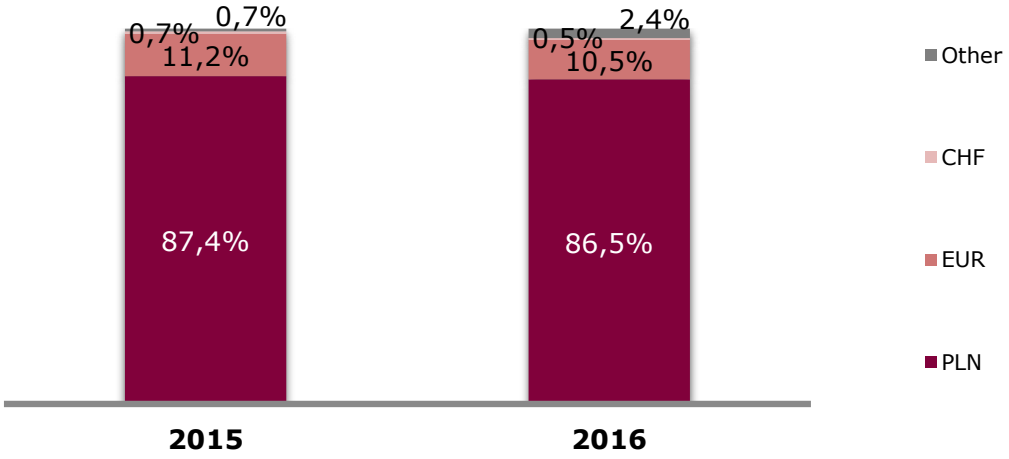


Consumer and working capital loans with a volume exceeding PLN 14.2 billion (up by 60.7% y/y) were the main component of the loan portfolio in the retail segment. They comprised 55% of all loans and advances to retail customers and at the same time 30.8% of the total amounts due from customers. Housing loans and mortgage loans had the second largest share in the loan portfolio of the retail segment (35.7%) with an aggregate volume of PLN 9.2 billion as at the end of 2016 (an aggregate increase of 21.4% y/y). As at the end of 2016 the value of Consumer Finance loans granted amounted to PLN 1.3 billion and was 67.3% higher than as at the end of 2015.

Working capital loans which amounted to PLN 11.1 billion as at the end of 2016 (an increase of 51% y/y) were the most material component of the business loan portfolio representing almost 54.5% of its total value.

Investment loans were another significant item in the business segment loan portfolio, representing 37.0% of the said portfolio. As at the end of 2016 their balance increased by 37% to over PLN 7.5 billion compared with the end of 2015.

Structure of loans and advances to customers by currency



As at the end of 2016 the share of PLN receivables dropped by 0.9 p.p. compared with the end of 2015. In effect, their share in the total loans and advances to customers amounted to 86.5% as at the end of 2016. As at 31 December 2016 amounts due from customers in EUR constituted 10.5% of the total loans and advances to customers, and their share dropped by 0.7 p.p. compared with the end of 2015.

Geographical structure of loans and advances to customers (net of the acquired spun-off part of Bank BPH, as at 31.12.2016)

Voivodship	% of receivables
Mazowieckie	24
Śląskie	12
Dolnośląskie	11
Wielkopolskie	9
Małopolskie	9
Pomorskie	7
Łódzkie	5
Zachodniopomorskie	4
Kujawsko-Pomorskie	4
Podkarpackie	3
Lubelskie	3
Warmińsko-Mazurskie	2
Lubuskie	2
Podlaskie	2
Opolskie	2
Świętokrzyskie	1
TOTAL	100

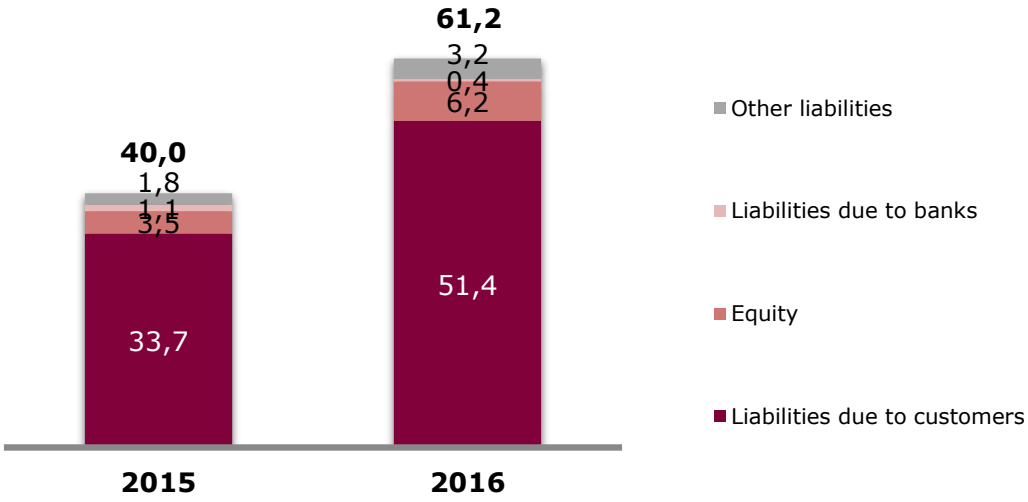
Almost 1/4 of the loans granted by the Bank are loans granted to customers from the Mazowieckie Voivodship. Approx. 23% of the loans are amounts due from the customers from the Śląskie and Dolnośląskie Voivodships.

Amounts due from the residents of the remaining voivodships represent approx. 53% of the entire loan portfolio.

Deposits of non-financial sector customers placed with the Bank are the source of financing the Bank's operations. As at the end of 2016, they amounted to PLN 51.4 billion and their share in total assets was 84.0%.

The balance of equity as at 31 December 2016 amounted to more than PLN 6.2 billion and it was PLN 2.7 billion higher than at the end of 2015. The above increase was mainly the effect of the issuance of I-series shares with pre-emptive rights related to the acquisition of the spun-off part of Bank BPH. Additionally, the Bank's net profit earned in 2015 and in the first half of 2016 was fully earmarked for increasing supplementary capital.

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

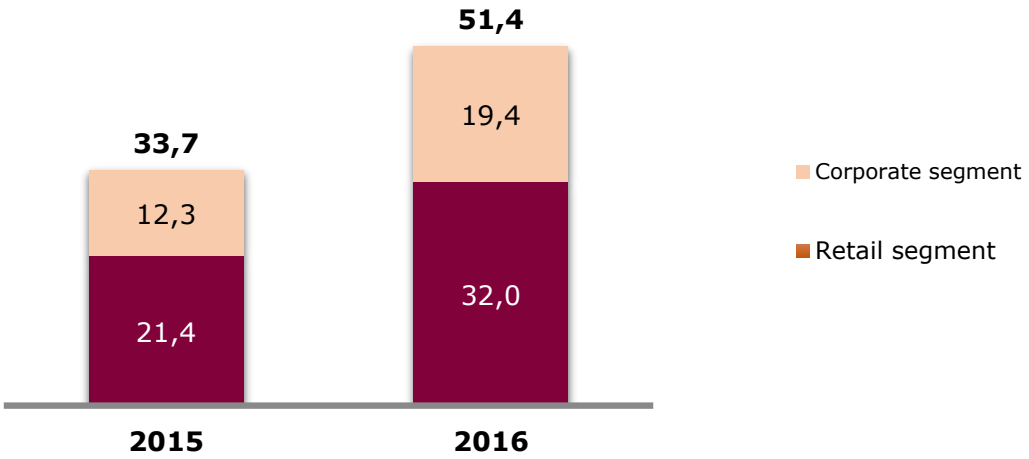


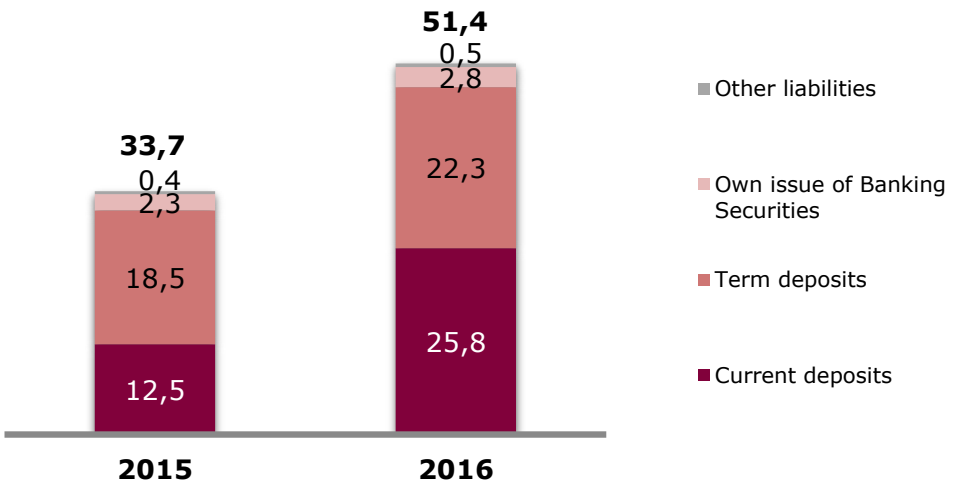
The main item in the structure of amounts due to customers are amounts due to the retail segment which represented 62.4% of the customer deposit portfolio as at the end of 2016. Compared with the end of 2015 this share decreased slightly, i.e. by 1.2 p.p.

Current deposits are the main component of the portfolio of amounts due to customers. They comprised 50.2% of total amounts due to customers as at the end of 2016 (a 13.1 p.p. increase compared with the end of 2015). The second largest item of amounts due to customers are term deposits (43.4% of total amounts due to customers as at the end of 2016). As at the end of 2016, their share in total amounts due to customers dropped by 11.6 p.p. compared with the end of 2015.

The remaining 6.4% of amounts due to customers as at the end of 2016 comprised proceeds from the issuance of bank securities and other liabilities.

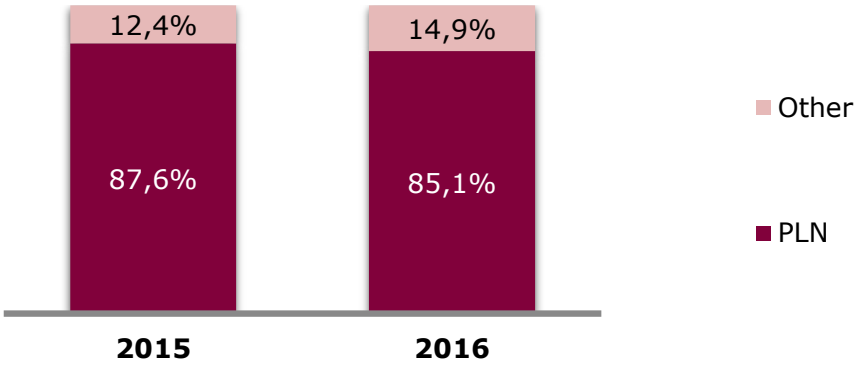
Amounts due to customers by type (in PLN billion)





The sum of amounts due to the ten largest depositaries represents 2.7% of all customer deposits, which shows a strong diversification of the Bank's deposit base.

Structure of amounts due to customers by currency



As at the end of the 2016, the share of PLN deposits in the whole balance of amounts due to customers decreased slightly, from 87.6% to 85.1%. Amounts due in foreign currencies constituted almost 15% of the Bank's deposit base. As at the end of 2016, the most popular foreign currencies in which customers placed their deposits were EUR and USD.

The geographical structure of amounts due to customers (net of the acquired spun-off part of Bank BPH, as at 31.12.2016)

Voivodship	% of liabilities
Mazowieckie	28
Małopolskie	13
Śląskie	9
Dolnośląskie	7
Wielkopolskie	7

Pomorskie	6
Podkarpackie	5
Łódzkie	4
Lubelskie	4
Kujawsko-Pomorskie	3
Podlaskie	3
Świętokrzyskie	3
Zachodniopomorskie	3
Lubuskie	2
Warmińsko-Mazurskie	2
Opolskie	1
TOTAL	**100**

The funds deposited with the Bank mainly come from customers from the Mazowieckie voivodship (28%), Małopolskie voivodship (13%) and Śląskie voivodship (9%). Customers from the other voivodships deposited funds with the Bank which constitute (50%) of the whole deposit base.

Financial forecasts

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

VI. 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, as well as 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.

Reconciliation items cover items which are not allocated to particular operating segments and eliminations of inter-company transactions, i.e.:

- internal net interest income calculated on net impairment losses;
- 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 Bank by operating segments as for the and 12 months ended 31 December 2016.

(PLN'000)	Retail customers	Business customers	Treasury activities	Total business segments	Reconciling items	Total Bank
Net interest income	1 256 669	533 922	155 478	1 946 069	-4 195	1 941 874
Net fee and commission income	118 262	284 500	-7 990	394 772	-60 415	334 357
Dividend income	0	0	0	0	68	68
Trading result	3 885	53 031	277 390	334 306	-14 527	319 779
Net gain / loss realized on other financial instruments	105 447	133 596	-208 017	31 027	-9 108	21 919
Net other operating income	112 241	4 928	-1 617	115 552	-65 258	50 294

Total results before impairment losses	1 596 505	1 009 977	215 243	2 821 725	-153 613	2 668 112
Net impairment losses	-479 566	-288 937	0	-768 502	-26 231	-794 733
Results after impairment losses	1 116 940	721 040	215 243	2 053 223	-179 665	1 873 558
Gain on bargain purchase	0	0	0	0	508 056	508 056
General administrative expenses	-1 035 506	-367 318	-3 645	-1 406 469	-267 880	-1 674 349
Profit/loss before tax	81 433	353 722	211 599	646 754	60 511	707 265
Income tax	0	0	0	0	-75 190	-75 190
Net profit/loss	81 433	353 722	211 599	646 754	-14 679	632 075
Assets	36 446 241	24 205 092	37 145	60 688 478	523 371	61 211 849
Liabilities	34 664 532	20 302 076	9 252	54 975 861	13 125	54 988 986

Retail Segment

General information

As at 31 December 2016 Alior Bank serviced 3.05 million individual customers. Additionally, in connection with the merger of the spun-off part of Bank BPH, the number of individual customers increased by 877,000.

The Bank classifies its retail customers into 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);
- Private Banking customers (individuals with assets of over PLN 1 million or who intend to use funding of at least PLN 0.5 million).

The Bank's basic products and services for retail customers were:

- credit products: cash loans; instalment loans; credit cards; overdraft limits; mortgage loans;
- deposit products: term deposits; savings accounts;
- banking 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 31 December 2016 Alior Bank had 286 branches (including 268 traditional branches, 7 Private Banking branches and 11 Regional Business Centres) and 495 partner outlets. The Bank's products were also offered through the network of 10 Mortgage Centres, 10 Cash Centres, over 3 thousand financial intermediaries' outlets and 10 thousand instalment intermediaries.

Moreover, Alior Bank used distribution channels based on a modern IT platform comprising: online banking, mobile banking, and call centres. Through the internet, including internet banking, the Bank enables concluding the following types of contracts: checking accounts, foreign currency accounts, term deposits, debit cards and brokerage accounts. Through the said channels the following requests are also processed: for credit products: cash loans; credit cards; overdraft limits; and mortgage loans. The Bank also offers instalment loans through the internet, on-line, and enables using the foreign currency exchange office.

The traditional branches of Alior Bank are located in the largest cities throughout Poland and offer a full range of the Bank's products and services, constituting the main distribution channel for the Bank's products and services for retail customers. The partner outlets, on the other hand, were located in smaller towns and in particular locations in key cities in Poland, and offered a wide range of the Bank's products and services, in particular term deposits and checking accounts for retail and business customers, savings accounts, debit cards, credit cards, cash loans, consolidation loans, housing loans, loans for businesses and overdraft facilities.

Cooperation between the Bank and its partner outlets is based on an outsourcing agency agreement. Based on such agreements agents provide exclusively agency services relating to the distribution of the Bank's products on behalf of the Bank. These services are provided on premises owned or leased by agents approved by the Bank.

As indicated above, the Bank's products were also offered through the financial intermediaries' outlet network, such as Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines, DFQS, GTF and others. The Bank's product offer available through the financial intermediaries differs depending on the intermediary, but as a rule financial intermediaries offer cash loans, consolidation loans and mortgage or instalment loans.

Additionally, individual customers were allowed access to their accounts and could perform banking transactions through all the ATM networks in Poland and through ATMs outside Poland. Using all the ATMs in Poland and abroad was free of charge for the customers who met the activity requirement (e.g. who transferred remuneration, pension or disability pension). ATMs in Alior Bank's traditional branches were owned and managed by Bankomat 24/Euronet sp. z o.o.

573 service outlets constitute material support for the sales network described above, where the Bank's products are offered under the T-Mobile Usługi Bankowe brand delivered by Alior Bank. As at 31 December 2016 in the above-mentioned service outlets 77 dedicated T-Mobile Usługi Bankowe outlets provided a full scope of services, and there the

customers could use banking products such as: loans, credit cards, overdraft limit, deposits, foreign currency accounts, individual and business customer accounts.

As at 31 December 2016 the Bank also had 71 outlets located in Tesco markets, which offered credit products under the Tesco Finanse brand.

Sales support in all distribution channels is ensured by Customer Relationship Management (CRM) operating and analytical systems.

In 2016 the Bank stressed the need to implement solutions which increased the operational effectiveness and development of the Customer contact model. In effect of the merger with the spun-off part of BPH, the Bank is also implementing the best practices of both merged institutions to increase the ratio of cross-selling to its customers.

Products and services

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

- loan products: cash advances, instalment loans, credit cards, overdraft facilities, mortgage loans;
- deposit products: term deposits, savings accounts;
- bank securities, brokerage products and investment funds;
- personal accounts;
- transaction services: cash payments and disbursements, bank transfers; and
- 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.

Credit products

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

- Cash advances

The Bank's key product in the offer of non-secured credit products for individual customers is a cash advance, which may be earmarked for any purpose, including the consolidation of financial liabilities (consolidation loan).

Cash advances and consolidation loans are characterized by high margins and minimum requirements in respect of documenting income and security terms and conditions. Since the second half of 2016, the maximum repayment period for those products was extended; currently it is twelve years and is the most attractive on the market. Retail customers may draw an advance or a loan maximum of up to PLN 200 thousand without warrantors or other security. The products are offered in PLN and are addressed to the Bank's current and new customers. The Bank offers cash loans in amounts exceeding PLN 200,000 on individual terms and conditions.

In 2016 Alior Bank focused its cash advance operations on two areas. In the first area, the Bank intensified promotional actions aimed at acquiring new customers, among other things, through marketing campaigns earmarked for customers who wish to transfer their liabilities to Alior Bank from other financial institutions.

From mid-July 2016 to mid-November the Bank promoted in the media its offer "We reduce interest by 60%" (which followed the promotion "We reduce interest by 30%" from the first half of 2016). In November 2016 the promotion of "Consolidation 2.0" was launched – a new offer of external consolidation with additional cash.

Also from November 2016 the Bank offers and promotes in the media "Advance 4.9%" addressed to customers who do not have cash advances/consolidation loans with Alior Bank.

The second area were CRM initiatives aimed at strengthening relationships with customers by activating them, cross-selling and increasing credit exposure. The Bank, while maintaining a high concentration on sales of key products, also intensified CRM actions aimed at developing relationships with customers who have taken out instalment loans, improving cross-selling effectiveness and increasing exposure to customers from all profitable segments.

Cash advances are available through all the Bank's distribution channels.

Under the operations acquired from Bank BPH Alior Bank offered its customers cash and consolidation loans through the distribution channels earmarked for servicing the operations acquired from Bank BPH. The offer was addressed both to existing and new customers of the Bank. The offer was characterized by a long lending period of up to 120 months, a maximum loan amount per customer of up to PLN 200 thousand without the requirement to have warranties and a 21-day notice period. The Bank ensured a preliminary decision already during the first interview or on-line on www.gotówkaonline.pl.

Under the consolidation loan a customer could repay any loan liability with other banks.

Since 1 December the Bank has been offering loans with fluctuating interest based on the 3M WIBOR.

- Instalment loans

The Bank offers a wide range of instalment products adapted both to counterparty and customer expectations via retailers (chains, individual, eCommerce). The standard offer for crediting the purchase of goods and services constitutes an unsecured loan for a period of from 3 to 60 months, of up to PLN 30 thousand. Such loan requests are filed at the goods or services sales outlets and require a minimum level of formalities and customer involvement. In response to market demand, the Bank has on offer loans offered on declaration which enable the fast conclusion of a loan agreement. The offer of instalment loans through the Internet channel is available on a 24-hour basis. The Bank actively enters new areas such as the eco industry (photovoltaic and solar sets, heat pumps), medicine (aesthetic medicine, dentistry, orthopaedics). The Bank intends to continue cooperation with key retailers on the Polish market to ensure further stable and safe growth.

- Credit cards

The Bank offers credit cards to its retail customers. The Bank cooperates closely with its key partner in respect of the credit cards business, the MasterCard payment system. In its offer Alior Bank has three types of cards directed to different target groups. The Gold card is addressed to the mass individual customer segment, and the World Elite card is dedicated to the Private Banking segment. Under its cooperation with Tesco, Alior Bank issues the MasterCard ClubCard credit card. This card is dedicated to customers serviced by the Tesco Finanse outlet under the Project Tesco. Due to the fact that the cards are addressed to various customer segments, they have different characteristics. 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 – the possibility of using airport lounges. The ClubCard Credit Card enables dividing transactions into instalments and using the ClubCard loyalty program active in the Tesco chain. The card's credit limits are from PLN 500 to PLN 200 thousand depending on the type of card. The Bank does not require any warranty or additional security when granting those credit cards. All credit cards are secured with chips and enable paypass payments. Alior Bank grants card credit limits using two methods: in a joint crediting process, under which the customer is simultaneously assigned two products based on the same information and documents – a cash advance and a credit card, or a credit card as a single product.

In 2016 Alior Bank, under the operations acquired from Bank BPH, continued issuing credit cards. The Bank offered its customers cards of two payment systems: VISA and MasterCard. The offer was addressed to meet the requirements of two segments.

The individual customer from the mass segment could be granted a Fair Card. This card enabled the customer to select one of three benefits, i.e.: premium for using the card, a lower interest rate or lower payments for using the card. Another offer for the mass customer segment is the Ryanair card which offers an additional loyalty program jointly with the airline. Under the offer for individual customers, the customer could be granted the card Na Ratunek Dzieciom (Saving the Children) and support honourable causes by paying with the card.

The mass affluent segment could receive a Gold Komfort card, and Platinum and World Elite cards were dedicated to the Private Banking segment. A service package was enclosed with the cards, such as Priority Pass – the possibility of using airport lounges.

- Overdraft facility limits

Overdraft facilities enable overdrawing the balance on a bank account. Under the overdraft limit awarded the customers may overdraw the balance on the account many times, and each payment made to the account reduces or cancels the debt. The Bank offers renewable overdraft limits for amounts from PLN 500 to PLN 200 thousand and does not require additional security or warranty. Alior Bank grants overdraft limits using two methods: a combined lending process under which the customer is granted two products at the same time based on the same information and documents (a cash loan and an overdraft facility) or an overdraft limit as a single product.

- Mortgage loans

In 2016, Alior Bank offered mortgage loans both in PLN, and EUR, GBP, USD and CHF indexed loans, repayable over a period of up to 30 years for financing housing or financial needs. The 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 the income 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 Młodych" (Apartments for the Young: "MdM"). In 2016, sales of loans under the program constituted 20% of total mortgage loan sales (in terms of value). The significant share of the credit portfolio in the MDM program is a consequence of the 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 sales of mortgage loans through specialized entities – Mortgage Centres (Centra Hipoteczne) – dedicated to servicing intermediaries in mortgage lending. Mortgage Centres operate in Warsaw, Kraków, Wrocław, Poznań, Łódź, Gdańsk, Szczecin, Katowice, Lublin and Olsztyn. Sales of mortgage loans through the Mortgage Centres constituted 65% of Alior Bank's sales in 2016 (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.

As part of the merger with Bank BPH SA, Alior Bank acquired the housing savings association business.

Therefore, Alior Bank is authorized to service individual checking accounts and to grant contract loans for housing purposes as part of the operations of the Association.

Deposit products

- Term deposits

The Bank offers two types of deposits to its retail customers: a standard term deposit with a fixed interest rate (1, 3, 6, 9, 10 and 12-month, 2-year and other terms offered from time to time) or with a fluctuating interest rate (24 and 36-months) denominated in PLN, and selected terms for specified foreign currencies. The term deposits may be renewed (the customers may choose whether the principal amount with the accrued interest or only the principal is to be renewed, and the interest is to be transferred to a special account maintained by Alior Bank) or non-renewable (then on the maturity date the principal and the accrued interest is transferred to an indicated account maintained by Alior Bank. Customers interested in depositing larger amounts may use the offer of negotiable deposits, where both the term and interest on the deposit is established individually.

In the second half of the year, the Bank also maintained the promotion of the deposit which supported the sale of personal accounts. The deposit is dedicated to customers who open Konto Internetowe (Internet Account), Konto Rozsądne (Reasonable Account) or Konto Wyższej Jakości (Higher Quality Account) and at the same time place a 2-month deposit within 30 days of the date of opening the personal account. In the second half of 2016 promotional deposits on average constituted 24% of all funds acquired by the Bank (in terms of value).

Alior Bank's offer under the operations acquired with Bank BPH comprises fixed-interest rate deposits: standard (1, 3, 6, 12, 24, 36-month deposits in PLN and 3-month deposits in selected currencies), internet deposits (available in the internet banking system Sez@m, with the option of selecting any term for the deposit from the 1-365 day brackets), loyalty deposits bearing a progressive interest rate (9- or 13-month). Depending on the Customer's choice, the deposits may be renewable (they are automatically extended for consecutive identical contractual periods) or non-renewable (on the maturity date the principal and the interest are transferred to the account with the Bank or await Customer instructions).

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.

Customers interested in investment products are offered 3- and 6-month term deposits in a bundle with insurance and investment products and with investment fund units. In November 2016 a test offer for a 4-month deposit linked to a structured product was introduced.

- Savings accounts

The Bank offers savings accounts denominated in PLN to its retail customers. The funds deposited in savings accounts bear interest according to the WIBID1M rate adjusted down by 0.5 p.p. interest on savings accounts in the promotional offer for new customers is fixed over a period of 3 months as of the date of their opening. Savings accounts may be opened at the Bank's outlet or via Internet banking. The 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.

Under the operations acquired from Bank BPH, Alior Bank offered its customers savings accounts in Polish zlotys. The funds deposited in savings accounts bear a fluctuating interest rate. The offer includes savings account bearing a standard interest rate and for holders of Kapitalne Konto (Capital Account) or Maksymalne Konto (Maximum Account) a preferential interest rate. Savings accounts may be opened at the Bank's outlet, Partnership Outlets, or via Sez@m Internet banking.

- Bank securities

Bank securities are dedicated mainly to retail customers. The minimum amount of investment is PLN three thousand. Interest depends on the behaviour of indices, shares, investment funds, commodities and currencies on which they base. The most popular products are issues based on a basket of companies where the profit is determined as the sum of actual rates of return, with the reservation that the profit of half of the companies from the basket is limited to the maximum rates of return of 7-15%. Baskets of companies in particular issues base mainly on the following industries: pharmaceutical, financial, new technologies, or are selected depending on the region: German, European, American companies. As a rule, investment products for individual customers have a 100% guarantee on the principal, with the reservation of issues which limit customer risk to a minimum of 98% or 95%, offered mainly to affluent customers.

In the second half of 2016 under the first program for the issue of bank securities Alior Bank issued securities with a total nominal value exceeding PLN 590 million. The securities were offered in a public offering to corporate customers, Private Banking customers and to individual customers.

Investment products

In 2016 under the operations acquired from Bank BPH Alior Bank continued pursuing the open architecture strategy offering customers access to several investment products from various suppliers. The Bank offered its customers a selection of funds from three renowned Investment Fund Management Companies: AVIVA Investors Poland TFI S.A., BPH TFI S.A. and Franklin Templeton Investments. Apart from investment funds the Bank also made

available in the Branches which service the operations acquired from Bank BPH structured deposit certificates of Alior Bank.

In 2016 the Bank offered the following types of personal accounts: Konto Wyższej Jakości (the Higher Quality Account), Konto Internetowe (Internet Account) and Konto Rozsądne (Reasonable Account). Konto Wyższej Jakości is characterized by guaranteed unchanged fees over 5 years and is dedicated to the affluent customers segment. The condition for free-of-charge maintenance of the account is making cash-free payments to the account of PLN 2,500 per month or concluding card payment transactions for a minimum of PLN 700. The Reasonable Account is dedicated to families making food purchases using payment cards. The Bank refunds up to PLN 400 of such expenses to the 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 maintained free-of-charge, without the need for transferring salaries, retirement benefits or disability pension to the account. An additional plus of the Internet Account is that the following are free of charge: withdrawals from ATMs (Euronet and abroad), Internet transfers, European transfers and issuing a card to the account.

The offer was expanded by Konto Elitarne (Elite Account) dedicated to Private Banking segment customers with assets exceeding PLN 400 thousand, or using financing of at least PLN 1 million. The Bank does not collect any fees for services and transactions related to using the account. If the customer does not meet the above conditions, the Bank will collect one fee for maintaining the account of PLN 100. With the Elite Account the customer is assigned a private consultant who services the customer wherever he is.

Alior Bank also offers Karta Kibica (Football Fan Card) with a dedicated account. The simple application process and several benefits relating to the Polish football representation is being acknowledged by a growing group of football fans.

The Bank's private account offer is also supplemented by Konta Walutowe (Foreign Currency Accounts) in four basic currencies: USD, EUR, CHF, GBP.

In 2016, as part of the operations acquired with the spun-off part of Bank BPH, Alior Bank also offered the following checking accounts: Kapitalne Konto (Capital Account) (also offered in the special offer for the Social Insurance Institute – ZUS – customers), Lubię to! Konto (I like it! account), Dopasowane Konto (Tailored Account), Cool Account (for children and youngsters less than 18) and Maksymalne Konto (Maximum Account) dedicated to the affluent customer's segment.

Transaction services

The Bank offers a full scope of transaction services, including payments in and out of the account, cash payments to accounts maintained by the Bank and by other banks, term deposits and transfers (including transfers to the Social Insurance Institute (ZUS) and to tax offices). In the second half of the year the AndroidPay service was implemented which enables paying using the application installed on the telephone and a token payment card.

Foreign exchange transactions

Foreign exchange transactions may be concluded at the Bank's outlet, through Internet banking, in respect of the following currencies: PLN, EUR, USD, GBP, CHF. The Bank also offers the possibility of exchanging currencies via specially dedicated transaction platforms.

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

New products and services

In the second half of the year the following material new products were introduced to the commercial offer of the Alior Group for the individual customer segment:

- cash advance/consolidation loan "We are reducing interest rates by 60%" ("Obniżamy oprocentowanie o 60%"), where the interest rates are reduced not only in the first year of the loan, but in further years as well (2-4) if the advance/loan is correctly serviced by the Customer;
- the consolidation loan "Konsolidacja 2.0", which apart from the consolidation of liabilities from other banks, Customers are also offered additional cash at a 0% commission;
- the cash advance "Pożyczka 4.9%" with a very attractive interest rate, irrespective of the period of the loan, of 4.9% – addressed to Customers who have not taken out cash advances/consolidation loans from Alior Bank;
- the AndroidPay innovative functionality which enables making payments with token MasterCard payment cards.

In the second half of 2016, Alior Bank continued its participation in the government program Rodzina 500+, which stipulated systemic support for Polish families and enabled the Bank's customers to fill in and send Rodzina 500+ applications via Alior Bank's internet banking system. 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 customers 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

The Bank offers products to the retail segment in the following areas:

- Consumer Finance

Alior Bank's instalment loans offer (Consumer Finance) is available in each of 3 sales channels, i.e. stationary (12 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.

The Bank engages and intends to engage in extending instalment loans in the future in cooperation with such key partners as: RTV Euro AGD, Media Expert, 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.

The above actions enabled Alior Bank to gradually expand its customer base in the years 2015–2016, which gives prospects of further developing cooperation and sales of other products.

CRM activities directed towards the clients acquired through the instalment channel result in an increase in the level of sales of other products, mainly cash advances.

An important factor is the development of innovative solutions, such as the new application for selling loans via tablets, as well as the entry into new sectors.

- Private Banking

The Private Banking program is offered to the most affluent retail customers who are ready to entrust the Bank with assets exceeding PLN 1 million, or investment assets exceeding PLN 500 thousand. The financial criteria were changed to improve work effectiveness of bankers and to ensure a higher quality of customer service. In 2016 the Konto Elitarne (Elite Account) was launched as the basic checking account for Private Banking customers. Customers are serviced by seven specialist Private Banking branches: two branches in Warsaw and branches in Katowice, Poznań, Kraków, Gdańsk and Wrocław. In November 2016 a Private Banking branch was opened in a prestigious location in Warsaw – in the Warsaw Spire.

As at 31 December 2016, the Private Banking department and branches employed 74 persons who developed financial solutions tailored to the needs of individual customers based on a wide range of investment and lending products. The non-financial assets of Private Banking customers are serviced in operational terms under the name PB Wealth Care by Alior Services Sp. z o.o., which is responsible for making contact with trade partners who provide such services as legal and tax advice, or advice relating to 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 Alior Bank outlets and via remote distribution channels and the telephone Contact Centre of the Brokerage Office, as well as the Internet brokerage system integrated with the Alior Bank Internet 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:

- accepting and transferring financial instrument purchase or sale orders;
- executing financial instrument purchase or sale orders on the account of the ordering party;
- purchasing or selling financial instruments on own account;
- investment advisory services;
- offering financial instruments;
- safekeeping or registering financial instruments, including maintaining securities accounts and cash accounts;
- preparing investment analyses, financial analyses and other recommendations of a general nature relating to transactions in financial instruments; and

- performing the function of a market maker.

As at 31 December 2016 Biuro Maklerskie Alior Banku maintained 128.7 thousand brokerage and deposit accounts, and the value of customer assets accumulated on the accounts was PLN 8.8 billion.

As at 31 December 2016 Alior Bank cooperated with nineteen investment fund management companies (TFI) in respect of opened-end funds (FIO) and with twenty TFI in respect of closed-end funds (FIZ). Assets accumulated in FIO products via Alior Bank were worth over PLN 2.59 billion as at the end of December 2016. On the other hand, assets accumulated in FIZ products via Alior Bank were worth approx. PLN 1.78 billion as at 31 December 2016. Total assets accumulated in investment funds via Alior Bank amounted to approx. PLN 4.37 billion as at the end of December 2016. Additionally, Biuro Maklerskie Alior Bank in cooperation with Money Makers offers asset management services.

In October 2014, Biuro Maklerskie Alior Bank SA introduced investment portfolio advisory services to its offer, under which it recommends investment fund portfolios, quoted and mixed instrument portfolios to its customers based on the assessment of the individual customer's conditions. As at 31 December 2016, Biuro Maklerskie Alior Bank SA concluded 7.3 thousand agreements for the provision of investment advisory services with its Customers.

As at 31 December 2016 Biuro Maklerskie Alior Bank SA provided market maker services to 45 issuers and engages in market maker operations for 67 financial instruments.

Cooperation with third parties in acquiring retail customers

- T-Mobile Banking Services

Cooperation with T-Mobile resulted in a significant increase in revenues and lending operations in 2016. Sales of loans increased by 94% y/y, and revenues by 60% y/y. Over 9 times more credit cards were sold than in the previous year, which translated into an increase in volume of 530% y/y. The process of financing headphones covered over 112 thousand telecommunication devices.

In October, T-Mobile Banking Services launched a completely new mobile banking application. It was designed in strict compliance with the *mobile first* principle and it offers full functionality of traditional electronic banking. The application was prepared in accordance with the newest trends and is fully compliant with the logic and specificity of Android and iOS systems navigation. Everything from opening an account to the most complicated transactions may be processed via a smartphone – ordering a card to an account, a credit card, or breaking up a card transaction into instalments. Full of useful innovations, it enables making payments in shops or disbursements from ATMs using a phone, without the use of a card. Touch ID or "connect the dots" login instead of the cumbersome passwords, account balance and latest transactions available in the blink of an eye – via widgets and apps, before logging in. The Payment Assistant suggests which bills are to be paid, remembers frequent recipients of transfers and adds quick and easy access to them, and the smart browser will find everything: contacts, transactions, functions.

Expanding cooperation with the Deutsche Telekom Group, the Bank launched its first foreign branch in Romania. As of 18 July 2016 the Romanian branch of Alior Bank started operating and became the rightful participant of the local banking market.

- Project Tesco

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, i.e. cash advances, credit cards integrated with the ClubCard loyalty program and instalment loans are offered in Tesco shops. As at 31 December 2016 financial services under the brand Tesco Finanse were available in 71 outlets located in the largest Tesco shops.

Business segment

General information

As at 31 December 2016 Alior Bank serviced almost 132.5 thousand business customers in all segments. In addition, due to the merger of BPH Bank, the number of clients increased to slightly over 55 thousand.

The Bank divides its business customers ("business customers") into three basic groups, mainly by scale of business operations:

- 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;
- small and medium businesses - entities engaged in business operations and earning PLN 5–60 million revenues;
- large businesses which engage in business on the Polish market 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 ones, including beginners (Alior Bank is partner of the European Guarantee Fund in respect of its financing offer for start-ups), and for large business entities which use technologically advanced deposit and transaction solutions, including EU funds. Alior Bank also has an outstanding offer for enterprises which operate in the agricultural and food sector. The basic products for business customers are as follows:

- accounts, settlements and deposits: business accounts; cash management accounts; and additional products, such as POS and mPOS payment terminals;
- loans for business customers: working capital loans; investment loans; loans for technological innovations; loans dedicated to Agro Customers; instruments supporting EU and public programme funding, such as the de minimis guarantee offered by Bank Gospodarstwa Krajowego, including guarantees from the Operational Programme Innovative Economy (POIG); guarantee of the European Investment Fund; and Cosme Guarantee;
- 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 to conclude various types of foreign exchange transactions and

negotiate the 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.

	2016	2015	2014
Loans and advances to customers	20 388,6	13.318,7	10 347,1
Amounts due to customers	19.369,5	12.265,6	9 581,6

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 monitoring and managing 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 systems with Alior Bank's Internet banking system or to authorize their transactions using electronic signatures. The Bank also offers a mobile banking system: a simplified version of the standard Internet banking system.

Products and services

The basic products for business customers are as follows:

- 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;
- loans for business customers: working capital loans; investment loans; loans for technological innovations; loans dedicated to Agro Customers; leases; instruments supporting EU and public programme funding, such as: the de minimis guarantee of Bank Gospodarstwa Krajowego; the European Investment Fund guarantee; and the Cosme Guarantee;

- 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 offer of business accounts is adapted to the expectations of particular customer segments and uses modern acquisition and product servicing channels. 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 or alternatively via courier post. 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 informing customers effectively about products adapted to the nature of operations, new services and promotions. Above all, services with a direct impact on the quality of transaction services are promoted, among other things: mass processing (Masowe Przetwarzanie Transakcji) which enables the 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 the 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 the 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 an 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 and 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 – a comprehensive offer 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.

As part of the credit package the Customer receives a comprehensive offer of deposit and settlement products and short-term and long-term financial products tailored to his needs. Sales of loans in the micro-business segment are realized by Alior Bank via its own branches, franchise outlets and financial intermediaries cooperating under the agency agreements concluded with Alior Bank. Under the centrally managed Virtual Bankers' team we provide micro-business 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 – when 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. As at the end of 2016, Alior Bank serviced nearly 3.4 thousand customers from the widely understood agrobusiness. 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 1.7 billion as at 31 December 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 a lead position in sales of loans secured with the de PLD and POIG minimis guarantee (third among the banks participating in the program in 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 it 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 of 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 the best tailoring of the offer to the customers' actual needs.

Alior Bank offers trade financing products to corporations, such as: guarantees, letters of credit, recourse factoring, assuming the rights of creditors based on cooperation agreements. Apart from the indicated products 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 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 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 the 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 and services 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. Additionally, as of November 2016, iKonto Biznes accounts may also be opened using courier services. The iKonto Biznes account came high in Internet rankings of firm accounts many times. Moreover, in April 2016, the Bank launched a credit package for micro-businesses, with a fully automated standardized process which enabled a lending decision to be obtained within 30 minutes and funds to be obtained 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 a fast return of 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 of 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 to invest in new technological 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 additional services such as a free-of-charge application for independent maintenance of simplified accounting (the Income and Expenses Register), an invoicing and automatic tax return system (e.g. VAT 7). 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 granting mutual recommendations. The new tool is to support entrepreneurs in conducting business activities and acquiring information related to amendments to business regulations, as well as enable a new form of establishing business relations.

As of December 2014, the Bank has been developing services outside the basic scope of operations, 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 has engaged in treasury activities, among other things, in the following areas:

- currency transactions, starting from instant currency exchange and ending with option structures adequate to the needs and knowledge of the customers concerning these instruments;

- interest rate hedging transactions ensuring stabilization of the costs of financing to customers;
- commodity price fluctuation hedging transactions;
- liquidity management – by offering a wide range of products which enable depositing cash surpluses on attractive terms;
- conducting educational activities to increase customer awareness of the products offered and their related risks;
- 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;
- the Bank's 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
- hedge accounting, i.e. 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 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 30 Polish and international banks. The availability of products, binding maximum transaction deadlines and available amounts differ depending on the bank, but all in all, according to the Management Board estimates, are sufficient to cover the 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 foreign currency market is approx. 6-7%, and its share in the said market is estimated by comparing data on foreign currency cash sales in the Bank's transactions with non-financial entities with data on such transactions 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.

Alior Bank is the first bank in Central Europe which implemented its own algotrading system Quasar, on which three currency platforms are based – Autodealing, eFX Trader and Kantor Walutowy (foreign exchange desk). The location of the Quasar system servers in London where the majority of transactions in the Polish currency is realized enables Alior Bank's customers access to liquidity generated by the largest global banks and to extremely short transaction times.

Autodealing is a service available both for business and individual customers directly via 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 the automatic conclusion of a transaction at an exchange rate selected by the customer. The platform is characterized by high liquidity which enables the customers to closely follow the current situation on the currency market.

Kantor Walutowy (Foreign Exchange Desk) is the first Internet bank currency exchange 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 Foreign Exchange Desk enables safe currency exchange at attractive rates and free of charge transfers in Poland and abroad of the funds purchased on the platform. The Foreign Exchange Desk 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). Customers may open free-of-charge accounts in 14 currencies; the newly opened accounts are fully remote based on the instruction confirmed by an SMS code. The whole transaction lasts several seconds and, immediately after opening, 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 Central Europe.

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 television and solutions to businesses. Telekom Romania Mobile Communications operates under the brand T-Mobile and currently has 6 million customers.

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 financial credit institution within the meaning of Directive 2013/36/EU, with the number RB-PJS-40-071/14.01.2016.

As of 18 July 2016 Alior Bank S.A., Branch in Romania, began operating activities and became a rightful participant of the Romanian banking market.

This is an important element of the initiative pursued jointly by Alior Bank and Telekom Romania Mobile Communications and is based on a model similar to the cooperation between Alior Bank and T-Mobile Polska S.A.

Alior Bank S.A. Varsovia – Sucursala Bucuresti is the first foreign branch of Alior Bank.

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 mid-2017 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.

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).

Alior Bank S.A. Varsovia - Sucursala Bucuresti is the first branch abroad of Alior Bank S.A. As at 31 December 2016 branch in Romania hires 46 full-time empolyees (46 FTE).

Asstes of branch in Romnia (in PLN'000)

ASSETS	As at 31/12/2016
Cash and balances with Central Bank	184
Financial assets held for trading	
Available-for-sale financial assets	
Investment securities held to maturity	
Derivative hedging instruments	
Amounts due from banks	1
Loans and advances to customers	
Assets pledged as collateral	
Property, plant and equipment	987
Intangible assets	4 142
Investments in subsidiaries	
Assets held for sale	
Income tax assets	1 030
Current	
Deferred	1 030
Other asstes	399
TOTAL ASSETS	**6 743**

Liabilities and equity of branch in Romania (in PLN'000)

LIABILITIES AND EQUITY	As at 31/12/2016
Financial liabilities held for trading	
Amounts due to banks	
Amounts due to customers	
Derivative hedging instruments	
Provisions	
Other liabilities	11 901
Income tax liabilities	
Current	
Deferred	
Subordinated liabilities	
Total liabilities	**11 901**
Equity	**-5 158**
Equity attributable to equity holders of the parent	**-5 158**
Share capital	
Supplementary capital	
Revaluation reserve	
Other reserves	
Exchange rate differences on valuation of foreign entities	-22
Retained earnings / (accumulated losses)	
Profit for the year	-5 136
Non-controlling interests	
TOTAL LIABILITIES AND EQUITY	**6 743**

Income statement of branch in Romania (in PLN'000)

In PLN'000	01/01/2016-31/12/2016
Interest income	
Interest expense	
Net interest income	**0**
Dividend income	
Fee and commission income	
Fee and commission expense	-331
Net fee and commission income	**-331**
Trading result	**-23**
Net gain / loss realized on other financial instruments	
Other operating income	
Other operating expenses	-5
Other operating income, net	**-5**
Gain on acquisition of the spun-off part of Bank BPH	
Costs of the Bank's operations	**-5 807**
Net impairment losses and allowances	
Tax on banks	
Profit before tax	**-6 166**
Income tax	1 030
Net profit	**-5 136**

In 2016, Branch recorded a tax loss and therefore does not have to pay income tax. Therefore, we can settle this loss in the future, created a deferred income tax.

Capital investments

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

- 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.
- Bonds: corporate bonds issued by domestic and foreign issuers, acquired in connection with the Bank's function of market marker;
- 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;
- Investment certificates: certificates of a closed-end private equity fund and units in an opened-end investment fund.

	as at 31/12/2016		as at 31/12/2015	
	number	market/nominal value in PLN	number	market/nominal value in PLN
Shares	**929 552**	**6 743 293**	**853 619**	**1 334 538**
Listed	827 362	6 739 784	852 619	1 334 538
Not listed	102 190	3 509	1 000	0
Bonds	**3 129**	**828 882**	**2 868**	**286 328**
Derivatives	**1 981**	**5 820 560**	**182**	**513 649**
Investment certificates	**6 944**	**659 216**	**15 908**	**1 610 313**

VII. Events and contracts significant to the business operations of Alior Bank S.A.'s Group

Acquisition of the spun-off business of Bank BPH S.A.

On 31 March 2016, the Bank signed a Share Sale and Demerger Agreement with the Sellers of Bank BPH – GE Investments Poland sp. z o.o., DRB Holdings B.V. and Selective American Financial Enterprises, Inc. ("Sellers of Bank BPH"), relating to concluding a transaction (jointly: "Transaction") covering: (i) acquisition of shares constituting a significant interest in Bank BPH by the Issuer from the Sellers of Bank BHP, 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) by transferring the Core Business of Bank BPH to Alior Bank (demerger by spin-off) on the terms and conditions described in the Demerger Plan ("Demerger"); and (iii) issuing Alior Bank's new shares to the shareholders of Bank BPH indicated in the Demerger Plan (i.e. with the exclusion of Alior Bank, Bank BPH Sellers and their related entities).

The Purchase and Demerger Agreement stipulated 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 constitutes 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 comprising 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).

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 specified 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 its business in the period between the signing of the Share Sale and Demerger Agreement and the Demerger Date.

At the same time, on 29 April 2016, Alior Bank entered into an outsourcing agreement concerning the servicing of the portfolio of mortgage receivables of Bank BPH S.A. and an IT services outsourcing agreement on behalf of Bank BPH S.A.

Stages of completion of the Transaction

The Transaction comprised the following key elements:

- 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);
- acquiring 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);
- optionally, conducting a 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);
- 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 was determined at the level of 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.

On 2 August 2016, the Bank informed of determining the adjusted acquisition price for the Core Business of Bank BPH, of PLN 1,159,645 thousand ("Adjusted Price"). The Adjusted Price was determined in accordance with the Share Sale and Demerger Agreement, based on the book value of property, plant and equipment of Bank BPH's Core Business as at 30 June 2016.

Terms and conditions

The completion of the Transaction depends on the fulfilment of the conditions precedent specified in the Share Sale and Demerger Agreement, which include specifically: (i) obtaining the decision of the relevant antitrust authority; (ii) Bank BPH, Alior Bank and the Seller obtaining the appropriate consents of the PFSA; (iii) the Management Board of Bank BPH and the Management Board of Alior Bank approving and signing the Demerger Plan; (iv) the General Meeting passing a resolution on approving the Bank's new shares in the Offering according to Pre-emptive Terms; (v) the registration court registering the increase in the Bank's share capital; (vi) the General Meeting passing a resolution on approving the Demerger ("Demerger Resolution"); (vii) obtaining respective tax interpretations related to the demerger of Bank BPH.

On 23 June 2016, the President of the Office of Competition and Consumer Protection issued an unconditional consent to the concentration consisting of the Bank acquiring part of the assets of Bank BPH.

On 30 June 2016, the Management Board of Alior Bank S.A., acting on the basis of Art. 539 §1 and 2 of CCC, in connection with Art. 4021 of the CCC, announced for the second time the planned demerger of Bank BPH by a spin-off of an organized part of the business of Bank BPH related to Bank BPH's operations other than its mortgage business and its transfer to Alior Bank, according to the procedures specified in Art. 529 §1 item 4 of the CCC. 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) will be ascribed and awarded 0.44 of an Alior Bank share ("Share Exchange"), subject to adjustment related to the dilution of Alior's Bank share capital resulting from the public rights offering 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.

On 19 July 2016, the PFSA issued a decision on the absence of a basis for objections to Alior Bank and Powszechny Zakład Ubezpieczeń SA's intent of 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.

Also on 19 July 2016, Alior Bank and Bank BPH obtained the decision of the PFSA on issuing a permit to demerge Bank BPH according to Art. 529 § 1 item 4 of the CCC by transferring to Alior Bank part of the assets of Bank BPH in the form of an organized part of the enterprise, comprising all Bank BPH's assets and liabilities with the exception of the so-called "mortgage business of Bank BPH".

At the same time, on 19 July 2016, General Electric Company and GE Investments Poland sp. z o.o. obtained 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 the increase in Alior Bank's share capital by the Registration Court 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.

On 25 July 2016, Alior Bank received a decision from the PFSA permitting the amendments to Alior Bank's Articles of Association to be made in connection with the planned Demerger of Bank BPH. Similar permission to change the Articles of Association was obtained by Bank BPH.

On 28 July 2016, the Bank received the last missing interpretation of the tax law (individual interpretation) related to the Demerger of Bank BPH.

On 29 July 2016, the Extraordinary General Meeting of the Bank amended the Bank's Articles of Association and passed a resolution on the demerger of Bank BPH.

On 5 August 2016 the Bank was informed that Bank BPH received a decision of the PFSA dated 4 August 2016, 34, section 2 of the Banking Law, on approval of amendments to the Articles of Association of Bank BPH in connection with the planned Demerger of Bank BPH, relating to reducing the share capital of Bank BPH in connection with the Demerger.

Rights Offering

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 a nominal value of PLN 10 each ("Offered Shares") and the application for admitting them and introducing to trading on the regulated (basic) market maintained by the Warsaw Stock Exchange.

At the same time, 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 25 May 2016, Alior Bank received the decision of the Polish Financial Supervision Authority 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.

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%.

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. The shares were introduced to trading on the WSE on 1 July 2016.

Tender Offer

On 11 July 2016, the Bank announced a tender offer for the sale of 50,600,821 ordinary bearer shares of Bank BPH which entitle to 66% of the total votes in Bank BPH.

On 1 August 2016 subscription started for the shares of Bank BPH under the tender offer announced by Alior Bank. The subscription period lasted until 16 August 2016. The final price per one share in the tender offer was set at a level of PLN 31.19.

On 8 August 2016 the condition of the need to cover by subscription at least 37,180,026 of Bank BPH's shares entitling to at least approx. 48.49% of the total number of votes in Bank BPH ("Minimum Number of Shares Condition") in response to the Tender Offer. Meeting the Minimum Number of Shares Condition means that all the conditions of the Tender Offer have been met. The Minimum Number of Shares Condition was met as a result of GE Investments Poland sp. z o.o. and DRB Holdings B.V. subscribing to the Bank BPH shares offered in the execution of the Share Sale and Demerger Agreement. The subscriptions were made after the last of the conditions of the Share Sale and Demerger Agreement were met, relating to obtaining all the PFSA permits specified in the Share Sale and Demerger Agreement, taking into consideration the respective changes based on the annexe to the Share Sale and Demerger Agreement dated 8 August 2016.

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 committed 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 remain the reference shareholders of Bank BPH.

On 19 August 2016 the transaction for the purchase of 46,525,228 of Bank BPH shares, i.e. all Bank BPH shares covered by the subscriptions under the Tender Offer was concluded. The transaction was settled, and therefore the ownership of Bank BPH shares covered by the subscriptions under the Tender Offer was transferred to Alior Bank, on 24 August 2016.

On 25 October 2016, in a supplement to the current report of Alior Bank No.52/2016 dated 23 June 2016, the Bank published information on the costs relating to the subscription of the I-series ordinary bearer shares.

The total costs related to the subscription amounted to approx. PLN 59,578 thousand.

The amount of costs incurred is approx. 2.71% of the value of the subscription. The average cost of the subscription per one security covered by the subscription: PLN 1.28.

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.

On 20 September 2016, Alior Bank, acting in agreement with GE Investments Poland sp. z o.o., Selective American Financial Enterprises, LLC and DRB Holdings B.V. (jointly "GE Capital Entities"), announced the mandatory squeeze-out of Bank BPH S.A. shares ("Bank BPH") shares held by all the remaining shareholders in the Company ("Squeeze-out"). Alior Bank and GE Capital Entities jointly held 76,224,988 shares of Bank BPH, which represent approx. 99.42% of Bank BPH's share capital and in the total number of voting rights in the General Meeting of Bank BPH. The subject of the Squeeze-out are all the remaining shares of Bank BPH, i.e. 442,923 shares of Bank BPH, which represent approx. 0.58% of Bank BPH's share capital and of the total number of voting rights at the General Meeting of Bank BPH ("Shares Subject to Squeeze-out"). The share redemption date was set at 23 September 2016, and the redemption price is PLN 31.19 per one share of Bank BPH. On the day of the redemption the holders of Shares Covered by Squeeze-out were deprived of rights from shares as a result of registering the Shares Covered by Squeeze-out in the securities account of Alior Bank.

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 Demerger Plan was agreed and signed on 29 April 2016.

On 20 October 2016, the Bank notified that it obtained information on the registration of the share capital reduction of Bank BPH from PLN 383,339,555.00 to PLN 148,498,800.00 on 20 October 2016 by the District Court Gdańsk-Północ in Gdańsk, 7th Business Department of the National Court Register, in connection with the demerger of Bank BPH pursuant to Art. 529 § 1 item 4 of the Commercial Companies Code, passed according to the Resolution of the Extraordinary General Meeting of Bank BPH dated 28 September 2016.

Therefore, the registration of the reduction in the Share Capital of Bank BPH constituted one of the stages of registration activities related to the spin-off of part of the operations of Bank BPH in the form of an organized part of the enterprise of Bank BPH comprising all the assets and liabilities specified in the Demerger Plan which constitute the core business of Bank BPH to Alior Bank.

As a result of the registration of the Reduction in the Share Capital of Bank BPH all the shares of Bank BPH held by Alior Bank, i.e. 46,968,051 of Bank BPH shares ceased to exist.

Next, on 4 November 2016, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register, registered the increase in Alior Bank's share capital from PLN 1,292,577,120.00 to PLN 1,292,577,630.00 by way of issuing 51 ordinary bearer J-series shares with a nominal value of PLN 10.00 each in the Register of Businesses, in connection with the demerger of Bank BPH pursuant to Art. 529 § 1 item 4 of the Commercial Companies Code.

Pursuant to Article 530 § 2 of the Commercial Companies Code, together with the Registration of the Capital Increase part of Bank BPH assets in the form of an organized part of the enterprise of Bank BPH was spun off. The spin-off covered all the assets and liabilities of the Core Business of Bank BPH covered by the Demerger Plan and their transfer to Alior Bank. Therefore, the Demerger of Bank BPH became effective and the Core Business of Bank BPH officially became part of Alior Bank.

The Management Board of Alior Bank also indicated that due to the content of Art. 530 § 2 of the Commercial Companies Code, in accordance with which in the event of transferring part of the assets of the demerged company (Bank BPH) to an existing company (Alior Bank), the spin-off is effected on the date of entering the increase in the share capital of the acquirer(Alior Bank) to the register, after the end of the squeeze-out of Bank BPH shares (of which Alior Bank informed in current report No. 78/2016 dated 20 September 2016). Alior Bank sold 100 shares in Bank BPH to an individual who became a minority shareholder of Bank BPH. The transaction was aimed at enabling the increase in the share capital of Alior Bank by issuing 51 ordinary J-series bearer shares of Alior Bank to a minority shareholder of Bank BPH, pursuant to the agreed share exchange rate of 0.51 Alior Bank shares per 1 Bank BPH share. The adopted solution was aimed at eliminating legal risks which could arise if the Demerger was conducted without increasing Alior Bank's share capital.

With the registration of the Capital Increase amendments to Alior Bank's Articles of Association were registered, covering an amendment to the provisions on the amount of share capital of Alior Bank and expanding the scope of operations of Alior Bank, so as to enable it to officially continue the operations of Bank BPH in the scope in which they were transferred to Alior Bank as a result of the Demerger.

After the registration of the Capital Increase the total number of votes in Alior Bank is 129,257,763.

Alior Bank applied to Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository for Securities) to set the reference date and to register 51 ordinary J-series bearer shares with the Depository and to introduce them to trading on the regulated market run by Giełda Papierów Wartościowych w Warszawie S.A. (WSE).

Based on Resolution No. 740/16 of the Management Board of Krajowy Depozyt Papierów Wartościowych S.A. dated 8 November 2016, the Management Board of KDPW decided to register 51 (fifty-one) ordinary J-series bearer shares of the Bank with a nominal value of

PLN 10.00 (ten) each, registered as a result of attributing the Bank's shares pursuant to § 217 of the Detailed Principles of Operation of KDPW, by exchanging Bank BPH shares for the Demerger Shares according to the exchange rate 1:0.51 in connection with the demerger of Bank BPH conducted pursuant to Art. 529 § 1 item 4 of the Commercial Companies Code, by transferring part of the assets of Bank BPH to the Bank, in the depository for securities maintained by KDPW and to assign to them the code PLALIOR00045, on condition that the company which runs the regulated market, i.e. Giełda Papierów Wartościowych w Warszawie S.A. takes the decision to introduce the Demerger Shares to trading on the same regulated market to which the Bank's other shares had been introduced, which had been assigned the code PLALIOR00045.

On 17 November 2016 the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. passed Resolution No. 1213/2016 on admitting to trading on the Main Market of the WSE 51 (fifty-one) ordinary J-series bearer shares of the Bank with a nominal value of PLN 10.00 (ten) each, based on which the Management Board of the WSE stated that 51 (fifty-one) Demerger Shares were admitted to trading on the basic market of the WSE, and decided to introduce, as of 23 November 2016, according to ordinary procedures, to trading on the basic market 51 (fifty-one) Demerger Shares, on condition that on 23 November 2016 Krajowy Depozyt Papierów Wartościowych S.A. register the Demerger Shares and assign to them the code PLALIOR00045.

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. concerning the continuation 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, it was agreed that the following agreements would be concluded: (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 would be concluded by the Bank with respective parties on the date of the Merger: (i) agreement on provisional 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.

On 29 April 2016 the Bank concluded the following agreements with Bank BPH S.A: (i) an outsourcing agreement related to servicing the mortgage receivables portfolio of Bank BPH S.A. ("Ops SLA") and (ii) an outsourcing agreement related to providing IT services to Bank BPH S.A. ("IT SLA") (jointly "Agreements").

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) services supporting Bank BPH S.A. IT processes, (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). 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 fluctuations 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 the 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 comfort letter 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 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.

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.

Strategic grounds for the Transaction

Acquisition of the Core Business of Bank BPH is stipulated in the development strategy of Alior Bank, which provides for growth based on organic development and acquisitions, in connection with achieving high returns on equity. As a result of the acquisition of the spun-off part of Bank BPH, Alior Bank will become 9th largest bank in Poland in terms of assets held. The transaction will bring Alior Bank closer to the achievement of its strategic goal of becoming one of the 5-6 leading banks in Poland over the next few years.

Other significant events

- On 26 January 2016, the Polish Financial Supervision Authority (PFSA) made a decision concerning the acquisition of Spółdzielcza Kasa Oszczędnościowo–Kredytowa im. Stefana Kard. Wyszyńskiego (SKOK Września) by Alior Bank S.A.
- On 27 January 2016, the Management Board of Alior Bank S.A. took up management of the assets of SKOK Września. On 1 March 2016, Alior Bank S.A. (as the acquiring bank) acquired SKOK Września. The acquisition of SKOK Września was accounted for in accordance with IFRS 3. The acquisition did not involve any consideration on the part of the Bank. The process of acquisition of SKOK Września will be carried out with financial support from the BGF pursuant to art. 20g of the Act of 14 December 1994 on the Bank Guarantee Fund. The Bank will obtain support from the BGF in the form of a subsidy to cover the difference between the value of the acquired property rights and the liabilities in respect of guaranteed funds on the deposit accounts the amount of which has been initially determined at PLN 52 534 thousand and recorded in other assets.
- 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 the PFSA, granted based on Art. 127 of the Banking Law, for classifying the bonds as Tier II instruments in accordance with Art. 63 of the 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 the 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 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 its 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 an 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 Meeting which took place on 30 March 2016 and on investigating motions filed during the Ordinary General 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 have 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 Meeting which took place on 30 March 2016, constituting 29.22% of the total number of voting rights at the General Meeting. 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 at 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.

- The Annual General 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 30 March 2016 the Extraordinary General Meeting took place which apart from administrative resolutions also passed a resolution 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, 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.
- 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 5 May 2016 the Extraordinary General Meeting took place which apart from administrative resolutions also passed a resolution on increasing the Bank's share capital by issuing I-series shares in a closed subscription conducted by way of a public offering, setting the date of 23 May 2016 as the subscription date for the I-series shares, transferring to the Supervisory Board the responsibility to agree to concluding the underwriting agreement, for dematerialization of the shares and to apply for allowing pre-emptive rights, and rights to shares to be exercised, and to admit the I-series shares to trading on the regulated market run by Giełda Papierów Wartościowych w Warszawie S.A., as well as for amendments to the Articles of Association and for authorizing the Supervisory Board to determine the content of the consolidated Articles of Association.
- 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 Management 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 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 to 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.
- 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 a 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 27 July 2016, the Bank concluded agreements relating to trademarks with Telekom Romania Mobile Communications S.A., meeting the final condition stipulated in the cooperation agreement for providing financial intermediation services by Telekom Romania Mobile Communications S.A., concluded by the parties on 7 August 2015.
- On 29 July 2016, the Extraordinary General Meeting took place which apart from the administrative resolutions passed resolutions on the demerger of Bank BPH Spółka Akcyjna and on adopting the consolidated text of the Articles of Association of Alior Bank S.A.
- On 16 September 2016, the Bank's Management Board passed a resolution on withdrawing, as of 16 September 2016, from conducting – based on the Prospectus – further public offerings for unsecured, subordinated bearer bonds issued under the public program for the issue of subordinated bonds up to a maximum amount of PLN 800,000,000 and for admitting to trading on the regulated market further unsecured, subordinated bearer bonds issued under the Program. The above decision is the result of the Bank's lack of intention to issue in the foreseeable future any further subordinated bonds in public offers based on the Prospectus.
- In connection with the Bank's offering to conduct a transaction covering its acquisition of the spun-off core banking business of Raiffeisen Bank Polska S.A. ("Core Business of RBPL") from Raiffeisen Bank International AG ("RBI") on 6 September 2016, on 21 September 2016 the Bank began a period of exclusive negotiations with RBI on concluding the transaction of purchasing the Core Business of RBPL. The Bank's Management Board notes that the fact of starting the above-mentioned negotiations with RBI does not mean that the acquisition of the Core Business of RBPL will be effected.
- On 25 November 2016 the Bank's Management Board informed of its decision relating to the optimization of its organizational structure, an element of which was the stipulated employment restructuring in Alior Bank S.A. At the same time, the Management Board of Alior Bank S.A. informed that as of 25 November 2016 it started the procedure for notifying the intercompany trade unions operating at the Bank of starting work on the group redundancies agreement, pursuant to Art. 3, section 1 of the Act of 13 March 2003 on special principles of terminating employment relationships for reasons not related to employees
- Next, on 15 December 2016, the Management Board of Alior Bank S.A. informed that on 15 December 2016 an agreement was concluded between the Bank and all the Labour Unions operating at the Bank on determining proceedings in employee-related issues concerning the group redundancies process. The parties to the Agreement determined that group redundancies would be carried out in the period from 1 January to 31 December 2017. Making the predetermined group redundancies would enable generating cost synergies in accordance with the plan which had been previously communicated by Alior Bank S.A. The parties to the Agreement also agreed the criteria for selecting employees whose employment contracts would be terminated under the group redundancies, the severance terms, additional compensation and other benefits which would be awarded to the redundant employees, as well as the principles which should be applied if the need to relocate employees (change their working place) arises. The costs related to

paying benefits to employees who would be made redundant in connection with the employment restructuring would be taken into account in the restructuring reserve.

- On 6 December 2016, in its communiqué from the 336th meeting of the Polish Financial Supervision Authority held on 6 December 2016, the PFSA unanimously considered the State Treasury of the Republic of Poland to be the parent of Alior Bank S.A. within the meaning of Art. 4, section 1 item 8 letter b and item 14 of the Banking Law stating that it has the ability to significantly influence Alior Bank S.A. via Powszechny Zakład Ubezpieczeń S.A.
- On 7 December 2016, the Management Board of Alior Bank S.A. informed that on 7 December 2016 Alior Bank decided to end negotiations relating to the transaction which covers the acquisition of the spun-off, core business of Raiffeisen Bank Polska S.A. from Raiffeisen Bank International AG ("RBI") by the Bank and abandon the intention to acquire the Core Business of RBPL.

Other significant events after the balance sheet date

On 16 February 2017 ,the Management Board of Alior Bank S.A informed that Fitch Ratings Ltd. affirmed an entity rating of Alior Bank granted at the level of BB with stable outlook on the unchanged level.

The Bank's full rating granted by Fitch is as follows:

1. Long-term Foreign Currency IDR: BB, stable outlook
2. Short-Term Foreign Currency IDR: B
3. National Long-Term Rating: BBB+(pol), stable outlook
4. National Short-Term Rating: F2(pol)
5. Viability Rating (VR): bb
6. Support Rating: 5
7. Support Rating Floor: 'No Floor'

In its report, the Fitch Agency has pointed to Alior's VR of 'bb' reflects its rapid credit expansion, higher appetite for credit risk than peers, weak internal capital generation and fast inflow of new impaired loans.

A marked and prolonged weakening in the Polish economy (not Fitch's base scenario) materially affecting the bank's asset quality, capitalisation and profitability, could lead to its VR being downgraded.

Fitch does not anticipate any positive rating actions in the near term. However, the following factors would be positive for the bank's credit profile and in combination could lead to upgrade of its VR: a stronger capitalisation, a moderation of growth rates, stable asset quality and a longer record of solid profitability in an environment of low interest rates and the bank tax.

VIII. Public Subordinated Bond Issue Scheme

On 28 December 2015, the Bank's Supervisory Board agreed to the Management Board opening the Alior Bank S.A. Public Subordinated Bond Issue Scheme ("Issue Scheme") and authorized the Management Board to draw financial liabilities through the Bank issuing

unsecured, subordinated bearer bonds in series of up to 800,000 at a par value of PLN 1,000 per bond as part of the Issue Scheme.

- The total nominal value of the Bonds issued under the Issue Scheme will not exceed PLN 800,000,000;
- The Bonds will be issued and offered in series over a period of no longer than 12 months from the date of approval by the Polish Financial Supervision Authority of the basic prospectus prepared in connection with the Issue Scheme.
- The maturity of the bonds issued under the Issue Scheme will range from 5 to 10 years from the issue date of a given series of bonds;
- The benefits from the bonds will be solely monetary;
- The Bonds shall be issued in accordance with Article 33.1 of the Act on Bonds;
- The Bonds will not be in the form of a document and will be registered in the securities deposit maintained in accordance with the provisions of the Act on Trading on the basis of an 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 that the National Securities Deposit entrusts the tasks referred to in Article 48.1.1 of the Act on Trading to it;
- The terms of issue of every series of bonds will contain provisions on their qualification as equity funds in accordance with the provisions of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ EU L 176 of 27/6/2013, p. 1);
- The Bank's Management Board will apply for the admittance of the Bonds and their introduction into trading on the regulated market operated by the Warsaw Stock Exchange (hereinafter "WSE") under the Catalyst system or the introduction of the Bonds into trading in the 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 terms of issue of the individual series of bonds, to allocate the bonds to investors and to take any other steps to implement the Issue Scheme.

The Issue Scheme enables bonds to be issued in order to ensure a safe level of the total capital ratio (TCR).

On 12 April 2016, the Polish Financial Supervision Authority approved the Bank's prospectus drawn up in connection with: (i) the public offerings in Poland for 800,000 unsecured, subordinated bearer bonds of a nominal value of PLN 1,000 per bond issued under the Alior Bank S.A. Public Subordinated Bond Issue Scheme and (ii) the intention to apply for the admittance and introduction of 800,000 Bonds into trading on the regulated market operated by the Warsaw Stock Exchange under the Catalyst system.

On 16 September 2016, the Bank's Management Board passed a resolution on the withdrawal from holding further public offerings of bonds on the basis of the above base prospectus from 16 September 2016, and the application for the admission of further bonds into trading on the regulated market, issued under the Issue Scheme. As at the date on which it was passed, the decision was made because of the Bank's lack of intention to issue further subordinated bonds in public offerings based on the above prospectus in the near

future. To avoid doubt, the Bank's Management Board confirmed in the notice that the decision does not mean loss of validity of the Issue Scheme, but had the intention of bringing about the expiry of the validity of the prospectus, which, in accordance with Article 49.1b.2 of the Act on the Public Offering, took place on the date of publication of the above notice, namely, 16 September 2016.

Up to 31 December 2016, the Bank has issued two series of subordinated bonds in the Issue Scheme:

Series name	Abbreviated name	ISIN	Series value (PLN)	Issue date	Redemption Date	Listings market
P1A	ALR0522	PLALIOR00151	150,000,000	27/04/2016	16/05/2022	PM WSE
P1B	ALR0524	PLALIOR00169	70,000,000	29/04/2016	16/05/2024	PM WSE

P1A series bond issue

On 27 April 2016, the Bank issued P1A series subordinated bonds within the Issue Scheme.

The total nominal value of the P1A series bonds issued is PLN 150,000,000. Bonds are interest-bearing at a variable interest rate, which is the sum of the WIBOR 6M base rate and the margin of 3.25% per year, starting from the second interest period. In the first interest period, the interest rate is fixed at 5.00% per year. The bonds are six-year bonds with a redemption date of 16 May 2022.

Subscriptions for the bonds were received during the period from 14 April 2016 until 15 April 2016, while the bonds were allocated on 18 April 2016.

The average rate of reduction of the P1A series bonds was 66.25%.

444,444 P1A series bonds were subscribed to in this subscription. 1,439 investors subscribed, whereas they were allocated to 1,402 investors.

The bonds were introduced onto the listing on the main market in Catalyst on 11 May 2016.

P1B series bond issue

On 29 April 2016, the Bank issued P1B series subordinated bonds within the Issue Scheme.

The total nominal value of the P1B series bonds issued is PLN 70,000,000. Bonds are interest-bearing at a variable interest rate, which is the sum of the WIBOR 6M base rate and the margin of 3% per year, starting from the second interest period. In the first interest period, the interest rate is fixed at 5.00% per year. The bonds are eight-year bonds with a redemption date of 16 May 2024.

Subscriptions for the Bonds were received during the period from 21 April 2016 until 22 April 2016, while the bonds were allocated on 25 April 2016.

The average rate of reduction of the P1B series bonds was 73.61%.

265,302 P1B series bonds were subscribed to in this subscription. 1,177 investors subscribed, whereas they were allocated to 1,145 investors.

The bonds were introduced onto the listing on the main market in Catalyst on 11 May 2016.

On 19 May 2016, the Bank received consent from the Polish Financial Supervision Authority for treating PLN 150,000,000 constituting a subordinated liability from the P1A series subordinated bond issue and PLN 70,000,000 as a subordinated liability from the P1B series subordinated bond issue as Tier II capital.

Other significant events

On 4 February 2016, the Bank issued EUR001 series subordinated bonds of a total nominal value of EUR 10,000,000. The bonds have been issued for a period of 6 years (redemption on 4 February 2022). The bond issue was conducted in the procedure of Article 33.2 of the Act on Bonds of 15 January 2015. The interest rate on the bonds was set on the basis of LIBOR 6M for 6-month deposits in euros plus a fixed margin, while interest is paid semi-annually. The Bank keeps the records of the Bonds in accordance with Article 8 of the Act on Bonds of 15 January 2015. No application for admittance and introduction into organized trading within the meaning of the Act on Trading in Financial Instruments of 29 July 2005 will be filed with respect to the bonds.

On 19 April 2016, the Bank received consent from the Polish Financial Supervision Authority to treat the funds obtained from the EUR001 series bond issued as the Tier II instruments referred to in Article 63 CRR.

IX. Report on Alior Bank's Risk exposure

Risk management is one of the most important internal processes at Alior Bank S.A. The overriding objective of the risk management policy is to assure the early recognition and appropriate management of all material risks related to operations. In its activities, the Bank identifies the following types of risk as being material: credit risk (including credit concentration risk), interest rate risk banking book interest rate risk, trading book market risk, liquidity risk, operational risk, risk of non-compliance, model risk, business risk, risk of a loss of reputation and equity risk. The Bank considers the following risk as major in its operations:

- market risk, including banking book interest rate risk, liquidity risk, exchange risk and the commodity price risk;
- 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, exchange rates, yield curves), market factors (volatility in the valuation of financial instruments, the correlation of price changes between individual instruments) and customer behaviour (early deposit withdrawals, early loan repayments).

The process of managing market and liquidity risk includes the achievement of the following objectives:

- significant mitigation of the volatility of results and changes in the economic value of the Bank's equity;
- the development of an optimal structure of assets and liabilities (banking book) in terms of yield and the potential impact on the economic value;
- the provision of basic treasury products to customers to help them manage the risk underlying their operations (hedging objective);
- the assurance of solvency and full availability of liquid funds at all times of operation, even under the assumption of the appearance of negative market scenarios;
- the assurance of compliance of the processes applied by the Bank with the regulatory requirements regarding market risk management and the level of equity held for this purpose.

The market and liquidity risk management process takes place within the framework of the Bank's accepted risk management policies and encompasses risk identification, measurement, monitoring and reporting. It also applies to control over treasury transactions by determining and verifying the principles on which they are concluded, organized and valued.

There is a clear demarcation of powers and responsibilities within the individual functions, as well as the principles specified by the internal regulations. A key role is played by the Financial Risk Management Department, which prepares independent cyclical reports using the models and measures of risk accepted by the Bank and provides them to the respective units, including, periodically, to the members of the Management Board, Supervisory Board and ALCO (Assets and Liabilities Management Committee).

This Department's duties include:

- the definition of the market and liquidity risk management policies;
- the analysis and reporting of the Bank's risk profile;
- the establishment of the amount of economic capital required to cover market and liquidity risk;
- the recommendation of current activities related to managing banking book risk;
- the creation of all regulations defining the process of concluding treasury transactions on the interbank market and with the Bank's customers, including the development of model documentation;
- the coordination of the process of launching new treasury products and the assessment of the related risk;
- the support and servicing of ALCO's activities.

The Treasury Department is responsible for conducting treasury transactions with the Bank's customers, while the Interbank Transaction Team is exclusively responsible for entering into transactions on the interbank market, as it simultaneously has the exclusive powers to keep open trading book risk positions and enter into treasury transactions to the Bank's account. The objective of entering into transactions is to manage the trading book risk positions within the established limits, as well as to pursue the Bank's policy regarding banking book risk management within the established limits.

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

Supervision over the Bank's entities mentioned above has been separated at the level of the Management Board Member which is an additional factor guaranteeing their independent operations. The Management Board, the Supervisory Board and the Assets and Liabilities Management Committee (ALCO) play an active role in managing market risk.

The Assets and Liabilities Committee (ALCO) controls market risk, including liquidity risk, on an ongoing basis. It makes all the related decisions, unless these were previously qualified as lying within the sole responsibility of the Management Board or the Supervisory Board.

ALCO's duties include:

- exercising current control over market risk management, both related to the trading book and the banking book, including issuing decisions relate to the risk management of both books;
- acceptance of the Bank's operational limits on the money and capital markets;
- the exercise of current control over the Bank's liquidity management, both related to the trading and the banking book;
- outsourcing activities related to the acquisition of sources of financing of the Bank's operations and supervision of the financing plan;
- issuing decisions on managing the model portfolios.

The main assumptions to the Bank's market and liquidity risk management strategy, as stipulated for a given budget year, assume the form of an Asset and Liability Management Policy developed annually by the Financial Risk Management Department and presented by the Management Board to the Supervisory Board for acceptance as part of the acceptance of the annual budget.

The Supervisory Board supervises the risk management process, including:

- the annual specification of the Bank's market risk management strategy by accepting the asset and liability management policy;
- the acceptance of the Bank's market risk management strategy, including the key risk limits;
- the control over the compliance of the Bank's policy regarding 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;
- the recommendation of actions intended to change 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 provided 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, as well as monitoring and reporting risks;
- determining the appropriate organization and demarcation of duties in the process of concluding treasury transactions;
- accepting policies and instructions regulating market and liquidity risk management at the Bank and the efficient operation of the identification systems;
- setting detailed limits for mitigating the Bank's risk and ensuring appropriate mechanisms for their monitoring and reporting cases of exceeding limits.

The Bank's market and liquidity risk exposure is officially mitigated by a system of periodically updated limits which are introduced by resolutions of the Supervisory Board or the Management Board, encompassing all measures of risk, the level of which is monitored and reported by the Bank's organizational units which are independent of the business. 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, which are related to the risk management process (the internal control system, the implementation of new products, the analysis of the legal risk and the analysis of operational risk).

The Bank estimates Value-at-Risk for market risk purposes using a parametric model which is consistent with the JP Morgan methodology (RiskMetrics). The estimated 99% one-day VaR may be re-scaled to other periods by multiplying variability by the root of the multiple of the one-day period (e.g. 10-day VaR is determined by multiplying one-day VaR by $\sqrt{10}$).

Exchange risk

Exchange risk is defined as the risk of a potential loss arising, caused by changes in exchange rates. The Bank additionally identifies the impact of exchange movements on its results in the long term, which could take place as a result of converting future foreign currency income and expenses at a potentially less favourable exchange rate. The main objective of exchange risk management is to identify the areas of the Bank's operations which may be exposed to exchange risk and to take steps to mitigate the resulting potential losses from this as much as possible. The Bank's Management Board specifies the exchange risk profile, which must be consistent with the Bank's applicable financial plan.

In the exchange risk management process, the Bank is obliged to monitor and report the amounts of all of its currency positions held and the VaR, estimated in accordance with the adopted model, within the set limits. The Bank closes each significant Forex position by taking out a counter position on the market, thereby eliminating the related exchange risk. Open Forex positions are maintained within the limits set by the Supervisory Board. The Bank conducts periodic analyses of potential scenarios which are designed to provide information on the Bank's exposure to exchange risk in the event of Forex fluctuation shocks.

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

The main exchange risk management tools at Alior Bank are:

- internal procedures for Forex risk management;

- internal models and measurements of Forex risk;
- Forex risk limits and threshold values;
- limitations on Forex trading transactions;
- stress tests.

The main tool for measuring Forex risk at the Bank is the "Value at Risk" model ("VaR Model"), which enables the possible amount of loss arising on currently held Forex positions as a result of fluctuations in exchange rates to be determined, while maintaining the assumed confidence level and time horizons (holding period). The Bank determines VaR using the variance-covariance method at a 99% confidence level. This amount is determined daily for individual areas responsible for accepting and managing risk, both individually and jointly.

As at the end of December 2016, the maximum loss on the Bank's currency portfolio (managed as part of the trading book) specified on the basis of the VaR Model with a 10-day holding period could amount to PLN 279,628.70, assuming a 99% confidence level.

	As at 31/12/2016
Horizon [days]	10
Var [PLN]	279,628.70

VaR statistics on the Bank's Forex portfolio in 2016

VaR	As at 31/12/2016
Min.	21,484.08
Average	310,622.99
Max.	4,758,082.52

The Bank's Forex position and the use of Forex limits on 31 December 2016

Utilization of the limit (in millions of the given currency)		
Currency	**Limit**	**Utilization**
PLN (gross)	26.0	3.4
PLN (net)	13.5	-1.5
Group A		
EUR	2.0	-0.4
USD	3.0	0.0
CHF	1.4	0.0
GBP	1.4	0.0
Group B		
PLN (net)	4.0	0.1
AUD	0.6	-0.2
CAD	0.6	0.0
CZK	4.0	0.0
DKK	2.8	0.0
NOK	2.8	0.3
RUB	6.0	1.3
SEK	3.0	0.0
Others	3.0	0.5
Commodities (PLN gross)	3.0	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 understating the losses in the extreme scenarios ("fat tails"). Therefore, the Bank performs stress tests.

The utilization of the stress-test limit for Forex positions calculated as the Bank's maximum loss in the event of the most unfavourable daily exchange rate change taking place within at least the last four years, amounted to PLN 38,306.42 as at 31 December 2016. The stress-test statistics of the Forex position in 2016 is presented below.

Stress-test statistics of the Forex position in 2016 (in PLN '000)

Minimum	Average	Maximum
7.23	69.41	206.89

Interest rate risk

Interest rate risk is defined as the risk of the negative impact of the level of market interest rates on the current result or net present value of the Bank's capital. Due to the policy of mitigating the trading book risk, the Bank pays particular attention to specific aspects of interest rate risk related to the banking book, such as:

- repricing risk (i.e. the mismatch of the interest rate tenors of assets and liabilities);
- basis risk, namely the extent to which non-parallel changes in different reference indices with 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 the methods for estimating the Bank's exposure to interest rate risk is the determination of the level of BPV, which represents the estimated change in the value of a given transaction or position as a result of a 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 31 December 2016 are presented in the tables below:

BPV as at the end of 2016 by tenor (in PLN '000)

Currency Status 31/12/2016	Up to 6 months	6 months – 1 year	1–3 years	3–5 years	5–10 years	Total
PLN	-19,2	305,4	604,9	111,3	-433,5	568,9
EUR	-16,4	0,3	-28,8	-43,7	-34,5	-123,1
USD	12,5	11,1	-12,6	-0,2	-0,9	9,9
CHF	-0,6	-0,3	-1,6	-0,2	0,0	-2,7
GBP	0,1	2,5	0,2	0,0	0,0	2,8
Other	-1,6	-5,0	2,8	-0,1	0,0	-3,9
Total	**-25,2**	**314,0**	**564,9**	**67,1**	**-468,9**	**451,9**

BPV statistics for January – December 2016 (values in PLN '000)

Book	Minimum	Average	Maximum
Banking book	-2,458.56	-753.75	-375.22
Trading book	-49.28	-11.39	32.77
ALCO	499.05	969.52	1,814.16
Total	-770,67	204.38	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 this type of risk as at the end of 2016 measured in this manner is presented in the table below (99% VaR assuming a holding period of 10 days, in PLN'000).

VaR	Status 31/12/2016
Banking book	11,849.47
Trading book*	1,908.77
Total	**12,313.61**

*The VaR of the trading book contains the VaR from the forex risk presented above.

VaR statistics for January – December 2016 (values in PLN '000)

Book	Minimum	Average	Maximum
Banking book	3,493.40	10,935.53	32,882.94
Trading book	587.77	1,654.74	5,484.71
Total	**3,733.77**	**11,687.27**	**38,119.90**

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

Scenario (1M/10Y)	Change in the economic value of capital
+400 / +100	233,976
+100 / +400	30,853
+200 / +200	106,191
-200 / -200	-108,574
-100 / -400	-44,898
-400 / -100	-107,990

Liquidity risk

Liquidity risk is defined as the risk of being unable to fulfil its payment obligations arising from all the Bank's balance sheet and off-balance sheet positions on conditions which are favourable for the Bank and at a reasonable cost. Therefore, the Bank's liquidity risk management policy involves maintaining its own liquidity positions in such a way that it is possible to fulfil all payment obligations with cash in hand at any time, through the expected contractual inflows from transactions with specified maturities and by selling transferable assets with the simultaneous minimization of liquidity costs.

The Bank has an Assets and Liabilities Management Committee, which is appointed specifically for managing assets and liabilities. The liquidity risk strategy, including the acceptable level of risk, the planned structure of the balance sheet and the financing plan, is approved by the Bank's Management Board and then accepted by the Bank's Supervisory Board. The Treasury Department is responsible for the conclusion of interbank treasury transactions, while the Operations Division is responsible for settling and booking transactions and the Financial Risk Management Department is responsible for monitoring and measuring liquidity risk. The demarcation of responsibilities in liquidity risk management is clear, and makes the separation at the level of Board Member, which guarantees full independence of their activities. In 2016, treasury activities and liquidity risk management were fully centralized at the Alior Bank S.A. Group level.

The Bank pursues the following objectives in liquidity risk management:

- the assurance of the ability to punctually settle all liabilities at all times;
- the maintenance of liquidity of assets at an appropriate level, i.e. a buffer of unencumbered, high-quality liquid assets in the event of a sudden deterioration in the liquidity situation;
- the determination of the scale of liquidity risk assumed by the Bank by setting internal liquidity limits, the period of survival in extreme conditions and the minimization of the risk of exceeding the Bank's defined liquidity limits;
- monitoring the Bank's liquidity to maintain liquidity and activate contingency plans in emergency situations;
- the assurance of compliance of the processes at the Bank with the regulatory requirements regarding liquidity risk management.

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

- it develops liquidity procedures and policies, including the financing plan for successive years of the Bank's operations;
- it manages contingency plans regarding liquidity;
- it manages collateral and encumbrances of assets;
- it monitors the liquidity limits and early warning indicators identifying negative trends which can contribute to an increase in liquidity risk;
- it periodically conducts analyses of categories and factors affecting the current and future level of liquidity in the form of reports;
- it conducts liquidity risk stress tests.

Among the liquidity management measurements used, the Bank highlights the following ratios and their related limits for the following types of liquidity:

- payment liquidity – the ability to finance assets and punctually perform liabilities 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 payment liquidity management activities, the Bank specifically focuses on the intraday and current (up to 7 days) liquidity analysis;
- short-term liquidity – the ability to perform all monetary liabilities which mature within the next 30 days;
- medium-term liquidity – the ability to meet all liabilities which mature within a period of over 1 month and up to 12 months;
- long-term liquidity – monitoring the ability to meet all monetary liabilities which mature in a period of over 12 months.

As part of its liquidity risk management, the Bank also analyses the maturity profile in the longer term, which largely depends on the assumptions made regarding the development of future cash flows related to assets and liabilities. These assumptions specifically take into account:

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

While identifying the realigned liquidity gap, the Bank uses model weights of the core deposits/loan repayments specified on the basis of the statistical model that has been implemented and historical observations of balances of individual products. At the end of 2016, the level of the contractual liquidity gap was as follows:

Contractual liquidity gap as at the end of December 2016

31/12/2016	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	RAZEM
Assets	**11 580**	**3 860**	**1 662**	**2 804**	**4 739**	**7 958**	**18 107**	**26 061**	**76 771**
Cash and Nostro	1 470	0	0	0	0	0	0	0	1 470
Due from banks	1 501	0	0	0	145	0	0	0	1 646
Loans and advances to customers	8 609	805	1 643	2 154	4 186	6 376	14 378	22 404	60 555
Securities	0	3 055	19	650	408	1 582	3 729	901	10 344
Other assets	0	0	0	0	0	0	0	2 756	2 756
Equity and liabilities	**-29 558**	**-7 401**	**-4 911**	**-4 179**	**-3 527**	**-3 353**	**-1 550**	**-7 014**	**-61 493**
Amounts due to banks	-63		-1	-2	-16	-182	-92	-71	-427
Amounts due to customers	-29 495	-5 287	-4 771	-4 026	-3 004	-1 870	-219	-43	-48 715
Own issues	0	-76	-139	-151	-507	-1 301	-1 239	-677	-4 090
Shareholders' equity	0	0	0	0	0	0	0	-6 223	-6 223
Other liabilities	0	-2 038	0	0	0	0	0	0	-2 038

Balance sheet gap	**-17 978**	**-3 541**	**-3 249**	**-1 375**	**1 212**	**4 605**	**16 557**	**19 047**	**15 278**
Cumulative balance sheet gap	**-17 978**	**-21 519**	**-24 768**	**-26 143**	**-24 931**	**-20 326**	**-3 769**	**15 278**	
Derivatives – inflows	0	5 473	1 894	671	1 215	740	423	63	10 479
Derivatives – outflows	0	-5 474	-1 875	-669	-1 181	-735	-411	-62	-10 407
Derivatives – net	**0**	**-1**	**19**	**2**	**34**	**5**	**12**	**1**	**72**
Guarantee and financing facilities	14 333	7	12	19	119	107	13	8	14 618
Off-balance sheet gap	**14 333**	**6**	**31**	**21**	**153**	**112**	**25**	**9**	**14 690**
Total gap	**-3 645**	**-3 535**	**-3 218**	**-1 354**	**1 365**	**4 717**	**16 582**	**19 056**	**29 968**
Total cumulative gap	-3 645	-7 180	-10 398	-11 752	-10 387	-5 670	10 912	29 968	0

The Bank keeps the liquidity buffer at a high level, with non-encumbered liquid assets, investing in government and top rating corporate debt securities, which are highly liquid, while keeping funds on the current account with the NBP and other banks (*nostro* accounts), holding cash in the Bank's tills and investing funds in interbank deposits, within the predefined limits. The adequacy of the level of the liquid assets buffer that is held is controlled by the ratio of the set minimum amount of the liquid assets buffer required to survive the stress scenario over 7 days inclusive and 30 days. As at 31 December 2016, the total buffer of unencumbered liquid assets was PLN 11,704 million compared to the minimum level of PLN 8,690 million, arising from the shock scenario. When calculating the level of the liquid assets buffer, the Bank applies appropriate reductions to the individual components of the buffer in order to take into account the liquidity risk of the market (product).

The main sources of financing of the Bank's activities, including the portfolio of liquid assets, are funds obtained from the deposit base, the level of which, at the end of 2016, was approx. 90% of the liabilities.

In addition, the Bank performs liquidity stress tests taking into account the internal, external and mixed crisis, and prepares a plan for acquiring funds in emergency situations, as well as specifying and verifying its liquid asset sales policies, taking into consideration the costs of maintaining liquidity. The results of the stress tests are used to define the minimum buffer kept of unencumbered high-quality liquid assets and are used in the development of contingency plans and to specify the internal limits on liquidity risk.

In accordance with resolution No. 386/2008 of the Polish Financial Supervision Authority of 17 December 2008, the Bank shall designate and report the following daily:

- 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 31 December 2016, the surplus was PLN 5,568 million;
- the ratio of coverage of illiquid assets with own funds, calculated as the ratio of the Bank's own funds less total capital requirements related to market risk, delivery settlement risk and counterparty risk to illiquid assets;
- the ratio of coverage of illiquid 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 related to market risk, delivery settlement risk and

counterparty risk, and stable external funds to the total of illiquid assets and assets with limited liquidity;
- the short-term liquidity ratio defined as the ratio of the total of the base and supplementary liquidity reserve as at the reporting date to the value of unstable external funds.

The values of these ratios as at 31 December 2016 were respectively: 4.22; 1.15; and 1.90. In addition, the Bank monitors the level of basic and supplementary liquidity reserve calculated in accordance with the above resolution by setting the ratio of the sum of the primary and supplementary liquidity reserves to deposit base which was over 22% on 31 December 2016.

Furthermore, in accordance with the requirements of the above Resolution, the Bank conducts a detailed analysis of long-term liquidity and stability, as well as the structure of sources of finance, taking into account the level of core deposits and the levels of concentration of term and current deposits. In addition, the Bank monitors the volatility of balance sheet and off-balance sheet items, in particular, the values of the projected outflows from loan facilities and guarantees granted to customers.

In addition, in accordance with the regulation of the European Parliament and of the Council (EU) no 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR) the Bank monitors and maintains the Liquidity Coverage Ratio (LCR) at an adequate level. As at 31 December 2016, LCR was 127% compared to the required level of 70%.

In order to reduce concentration risk, the Bank diversifies the structure of the deposit base into retail customers, business customers, financial customers, central and local government institutions, by monitoring and reporting on the share of the individual groups in the whole of the deposit base on a monthly basis.

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

The legal merger between Alior Bank SA and the spun-off part of Bank BPH, which took place on 4 November 2016, resulted in an increase in the level of the Bank's liquidity as a result of the acquisition of Bank BPH's excess liquidity, which is used to finance the Bank's core activities.

Alior Bank S.A. opened its first foreign branch in Bucharest in 2016. This branch will obtain funds to finance lending to finance within the framework of the financing obtained from Alior Bank S.A. and the funds obtained from the local market. The level of the Branch's liquidity is constantly monitored by dedicated organizational units within the branch and the Bank's Head Office.

Credit risk

Managing credit risk and keeping it at a safe level, as defined in the appetite for risk, is of fundamental importance for the stability of the Bank's operations. The regulations in force at the Bank, in particular the lending methodology and models of risk assessment, which are adapted to the customer segment, the type of product and transaction, the principles of determining and monitoring legal collateral on loans, as well as the monitoring and debt recovery procedures, have the objective of controlling credit risk. The Bank focuses on full

centralization and automation of processes within the systemic infrastructure, with the simultaneous use of available internal and external information on customers.

The level of credit risk is limited in accordance with the restrictions arising from external regulations and internal principles set by the Bank, in particular regarding the limits of the credit exposure to one customer, a group of entities related through equity or organizationally and particular sectors of the economy.

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

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

A process defined in this way enables the Bank to proactively supervise current and potential risks and effectively apply risk management methods and instruments.

In the credit risk management system, the Bank identifies the internal and external factors of credit risk, the management of which has been assigned to the respective areas of operation of the Bank:

- Customer – each individual customer and groups of related customers are analysed; homogeneous groups of customers are also verified in terms of the quality of the portfolio formed;
- Product – all types of risk are defined, which may be related to the specific product offered: individual cases and entire loan portfolios;
- Collateral – the following are verified: the correctness of acceptance of collateral; its value and timing; the correctness of preparing the documentation establishing the collateral and updating its value. Updated regulations for legally securing claims and applying current standards for securing claims are effectively implemented in order to reduce credit risk;
- Process and regulations – the quality and effectiveness of the lending process, loan administration, monitoring, debt recovery and restructuring are verified, as is the cooperation with external debt recovery agencies, as well as compliance with external banking regulations which support these processes;
- Systems – in particular, the systems supporting the lending, monitoring and debt recovery processes, as well as the effectiveness of their application, are appropriately monitored;
- Distribution channels – the effectiveness and the loss ratio with regard to the distribution channels operating at the Bank are inspected;
- Employees – the correctness of use of individually-assigned lending responsibilities is investigated, any possible irregularities which may have taken place during the lending process are detected;
- External conditions – in particular, the level of interest rates, exchange rates, the money supply, the rate of unemployment, changes on the labour market and the economic climate are monitored;
- The correctness of the credit risk management system – correctness of the Bank's accepted credit risk management policies is periodically verified.

The Bank analyses risk, both individual and portfolio, as a result of which it takes steps intended to:

- minimize the level of credit risk of individual loans at a predetermined rate of return;
- reduce the total credit risk arising from the Bank having a specific loans portfolio.

As a part of the process of minimizing the risk of individual exposures, whenever the Bank grants a loan 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 evaluates the collateral, including verifying its formal, legal and economic status, taking into consideration, among other things, LTV adequacy.

Furthermore, as part of the procedure of controlling the risk of individual exposures, the Bank regularly monitors customers, taking appropriate mitigating action in the event of identifying increased risk factors.

In terms of keeping credit risk at a level defined in the Bank's appetite for risk, the Bank:

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

Risk assessment in the lending process

The Bank provides loan products in accordance with the lending methodologies which are appropriate to the customer segment and type of product. The assessment of a customer's creditworthiness, which precedes the decision to award a loan product, is made with the use of the system supporting the lending process, scoring or rating tools, external information (such as CBD DZ, CBD BR, BIK and BIG databases) and the Bank's internal databases. Loan products are granted in accordance with the operational procedures in force at the Bank which indicate the appropriate actions to be taken in the lending process, the responsible Bank units and the tools to be used.

Loan decisions are made in accordance with the loan decision system in force at the Bank (levels of responsibility are adapted to the level of risk related to the customer and the transaction).

In order to regularly assess the assumed credit risk and mitigate potential losses on credit exposures, the Bank monitors the customer's position over the crediting period by identifying early warning signals and performing periodic individual credit exposure reviews.

The monitoring process ends with a recommendation being issued on the further Customer cooperation strategy.

Demarcation of competencies

The Bank pursues the segregation of competencies policy related to acquiring Customers and selling loan products from the function related to credit risk assessment, making lending decisions and monitoring credit exposures.

Concentration risk management

With a view to protecting the Bank's stability and safety, and ensuring the appropriate quality of its assets, their diversification and profitability, and maintaining an appropriate level of equity, the Bank regularly identifies concentration in various areas of activity. Excessive concentration of any individual item accompanied by credit or liquidity risk is considered to have an adverse impact on the Bank's security.

Concentration risk management in the area of the Bank's lending activities relates to (among other things):

- exposures to individual entities or groups of entities related by capital or internal organization;
- exposures to entities operating in the same industry sector, running the same business or trading in similar goods;
- exposures towards entities (or groups of entities) from the same province or country;
- exposures secured with the same type of collateral or by the same collateral provider (including the risk of the Bank establishing collateral on securities with similar characteristics);
- exposures in the same currency;
- exposures to entities referred to in Art. 71 of the Banking Law;
- product specifications;
- customer segment;
- distribution channel;
- special offers and promotions;
- internal concentration.

Being aware of the scale of potential threats resulting from the Bank's exposure concentrations makes it possible to manage assets and liabilities effectively and create a safe loan portfolio structure. To prevent the unfavourable outcome of excessive concentration, the Bank reduces the risk of concentration using various limits and concentration norms as provided in external regulations or internal concentration standards.

The Bank has implemented:

- principles for identifying loan concentration risk areas;
- the process of defining and updating limits;
- the limit management process, specifying procedures to be applied in the event of exceeding acceptable limits;
- risk concentration monitoring process (including reporting);
- control measures applicable in the risk concentration management process.

In the process of establishing and updating concentration limits, the Bank considers the following:

- information on the level of credit risk limited segments of the portfolio and their impact on achieving the objectives of risk appetite in terms of loan portfolio quality and capital position of the Bank;
- reliable economic and market information on all committed areas of concentration, in particular macroeconomic and industry ratios, data on economic trends, projected interest rates, FX rates, political risk analyses, sovereign ratings and ratings of financial institutions;

- reliable information on the economic standing of entities, industries, economic sectors; general economic data including information pertaining to the economic and political situation of countries, as well as other information required to assess concentration risk at the Bank;
- business and qualitative information on the management process in entities in which the Bank has exposures resulting in concentration risk;
- interest rate risk, liquidity risk, operational risk and political risk relating to identified exposures that can contribute to an increase in concentration risk.

Impairment write-downs and provisions

The Bank assesses all balance sheet credit exposures (balance sheet groups of credit exposures) to identify objective indicators of impairment, in accordance with the most current data as at the revaluation date. The Bank assesses off-balance sheet exposures in terms of the need to set up a provision.

Loan impairment is identified automatically in the Bank's central system, based on system information (repayment default) or data input by system users.

Catalogues of indicators of impairment

Customer-related indicators of impairment:

- significant repayment default/unauthorized overdraft – this indicator relates to business customers and retail customers alike and is recognized by the system if the customer is in default or has an unauthorized overdraft for more than 90 days, with a total amount of default for all customer accounts for which he is owner/ co-owner or borrower/co-borrower of at least PLN 500;
- corporate recovery proceedings – this impairment indicator relates to business customers and is recognized on the basis of flagging a note in the system on the entrepreneur filing an application with the court for the commencement of corporate recovery proceedings;
- bankruptcy/liquidation – this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system on filing a petition in bankruptcy;
- consumer bankruptcy – this impairment indicator concerns individual customers and is recognized on the basis of flagging a note in the system about a consumer filing a petition in bankruptcy (so-called consumer bankruptcy);
- undisclosed customer assets – this impairment indicator concerns business customers and retail customers alike and is recognized on the basis of flagging a note in the system about a customer submitting a false statement on property;
- significant deterioration in the internal scoring/rating assessment – this impairment indicator concerns business customers and is recognized by the system when the assessment of customer borrowing drops by at least one class (compared to the original assessment) and at the same time is below the level acceptable by the Bank;
- significant deterioration in the external rating assessment – this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system about reducing the external rating of the customer from the investment to speculative class;

- significant deterioration in the economic and financial condition – this impairment indicator concerns business customers and is recognized on the basis of flagging a note in the system about a deterioration in the assessment of a customer's economic or financial condition (in line with the Resolution of the Ministry of Finance classification) by at least one category to the level of "below standard", "doubtful", or "lost";
- customer demise – this impairment indicator refers to retail customers and is recognized upon flagging a note in the system about a customer's demise;
- no information on a customer's whereabouts – this impairment indicator refers to retail customers and is recognized by flagging a note in the system about the proven lack of the possibility of determining a customer's registered address;
- job loss – this impairment indicator concerns retail customers and is recognized on the basis of flagging a note in the system about a customer's lack of ability to repay debt following the loss of a job;
- financial difficulties of a customer – this impairment indicator concerns individual customers and is recognized on the basis of flagging a note in the system about the financial problems of a customer (in accordance with data from BIK – Credit Information Bureau).

Account-related indicators of impairment:

- issuance of Bank enforcement title – this impairment indicator is recognized in the system based on input data on the issuance of a Bank Enforcement Title;
- commencement of enforcement proceedings – this impairment indicator is recognized in the system based on input data on the Bank commencing internal enforcement proceedings;
- effective loan agreement termination – this impairment indicator is recognized in the system based on input data on the effective date of termination of a loan agreement where the amount in default is at least PLN 500;
- restructuring – this impairment indicator is recognized in the system based on input data on customer problems with timely debt repayment, changes in credit servicing principles made in the form of an annex to the loan agreement or signing an appropriate arrangement with the Bank;
- debt submitted by the borrower to court – this impairment indicator is recognized in the system based on the input data on a customer submitting his debt to court;
- identified fraud – this impairment indicator is recognized in the system based on the input data on identified fraud on the basis of a court sentence.

Indicators of impairment relating to exposures towards banks:

- repayment default of more than 30 days – this impairment indicator is recognized based on repayment default of more than 30 days;
- significant deterioration in the external rating by the contractor bank – this impairment indicator is recognized based on information about a deterioration in the external rating from the investment to speculative class;
- significant deterioration in the external rating of the contractor bank's country of registration – this impairment indicator is recognized based on information about a deterioration in the external rating of the country of the contractor bank from investment to speculative class;

- significant deterioration in the financial standing of the bank / insolvency of the bank – this impairment indicator is recognized based on information about customer risk assessed as unacceptable in the process of the periodical monitoring of limits.

Bond-related indicators of impairment:

- lack of underlying bonds payments – this impairment indicator is recognized based on information about the lack of underlying bonds' payment at the dates set forth in the terms and conditions of the Bonds' issuance;
- the issuer's failure to fulfil other conditions set forth in the terms and conditions for the Bonds' issuance which enable the Bank to call for immediate payment.

Each account has the option of manually setting the default in the event of the occurrence of a potential impairment indicator not covered by the above listings. The default status is used where other important factors, not covered by the above listings, are identified that may constitute an indicator of impairment.
Premises for impairment of the carrying value of a credit exposure (a group of credit exposures) are recorded in the system at customer or account level. Recorded impairment indicators at account level result in flagging all the accounts of the given customer as impaired. Similarly, in the event of recording impairment indicators at the customer level, the impairment is propagated to all the customer's accounts in the 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 loan exposures in the balance sheet which became impaired, the Bank records impairment allowances in order to reduce their carrying amount to the present value of expected future cash flows.

The exposures in respect of which indicators of impairment have been identified are divided into those that are measured individually and those that are measured in groups. The individual assessment applies to exposures carrying the risk of impairment (calculated at customer level) which exceed the established thresholds set depending on the customer segment (see table).

Customer segment	PLN
Retail customer	No threshold
Business customer	500,000

Individual assessment is also applied to exposures threatened with impairment in respect of which the Bank is unable to identify a group 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 potential scenarios (business customers). Each scenario and tree branch are attributed the probability of finalization and the expected recoveries. The assumptions adopted for individual valuations are described in detail by the analysts. Recovery amounts expected under individual valuations are compared to the actual recoveries in quarterly cycles.

Group valuation is based on the time of a given exposure being in default and takes into account the specific nature of a given group in terms of the expected recoveries. Collateral is taken into consideration at the exposure level.

The exposures in respect of which no indications of impairment have been identified are grouped in accordance with the principle of maintaining a homogeneous risk profile and IBNR provisions are created for such groups of exposures. The amount of IBNR is determined based on PD, LGD and hedging parameters (taking into account the expected recovery rates).

PD parameters are determined on the basis of the migration matrix and the LIP (Loss Identification Period) levels applied. The period of historical data which is the basis for assessing PD was selected so as to achieve two goals: maximize the predictiveness of parameters and achieve stability of estimation. For this purpose, for most portfolios the Bank uses a 12-month observation period for migration between the delay and default baskets to determine PD. Portfolios of medium and large companies, for which the Bank uses a 24-month period due to a lower number of defaults, are an exception to this rule. The PD parameter is differentiated depending on particular delay portfolios and baskets. PD for particular delay baskets is divided into LIP periods in accordance with the table below:

Basket/ Portfolio	Accounts/LOR (retail customer)	Mortgage loans (retail customer)	Credit cards (retail customer)	Loans (retail customer)	Other (retail customer)	MICRO (business customer)	Other (business customer)
0 DPD	5	6	5	5	5	5	4
1-30 DPD	3	3	3	3	3	3	3
31-60 DPD	2	2	2	2	2	2	2
61-90 DPD	1	1	1	1	1	1	1

The LIP periods were determined based on the quantitative analysis accounting for the event which was the primary cause of default.

Collateral

The Bank's collateral is established in a manner appropriate to the credit risk incurred by the Bank and flexible with regard to customer capacity. Establishing a collateral does not release the Bank from the obligation to regularly examine a customer's creditworthiness.

Loan collaterals are established to ensure that the Bank will have all issued loans and borrowings repaid together with any interest due and payable and the underlying costs in the event that the borrower is unable to repay its debt on a set date and the restructuring has not brought about the expected results.

In particular, the Bank accepts the following legal collateral:

- guarantees, counter guarantees, and sureties;
- blockades of funds;
- registered pledges;
- transfer of title;
- assignment of receivables;
- loan insurance;
- bills of exchange;
- mortgages;
- powers of attorney to bank accounts;
- cash deposits (as a specific form of collateral).

Collateralized assets are verified in the lending process in terms of legal possibilities to effectively secure the Bank's dues. Their market value and recoverable value in the potential enforcement process are also assessed.

Debt collaterals established by the Bank make it possible to:

- reduce impairment write-downs and provisions according to IAS 39;
- use more favourable risk weights to calculate capital requirements 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 utilizing the repossessed asset.

In the first half of 2016, Alior Bank SA repossessed in debt collection and restructuring processes only chattels classified to the widely understood group of vehicles. 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 and using the services of specialist external agents accepted by the Bank. Each repossessed chattel is valued to determine the selling price and settle the repossession transaction with the collateralized loan by independent external experts operating under contracts concluded with the Bank.

Scoring/rating

Credit scoring is an instrument used to make individual loan decisions for individual customers and micro-companies, while credit rating is an instrument to support borrowing decisions in the segment of small, medium and large enterprises.

The scoring and rating models have been implemented to:

- control credit risk by obtaining reliable assessments of a customer's creditworthiness;
- standardize lending criteria in an objective and unbiased manner;
- shorten the periods of credit decision taking and boost the effectiveness of a credit application assessment (increase efficiency and reduce service costs);
- simplify the process of credit application assessment through automation;
- divide customers into segments according to the degree of risk related to them;
- monitor and forecast the quality of the loan portfolio;
- simplify the assessment of current credit policies and speed up changes in the decision-making processes used to assess the credit risks of business and retail customers.

The way the scoring and rating models operate is regularly monitored by the Bank. The objective of models validation is to assess whether the models applied properly differentiate risks, and whether the assessed risk parameters properly reflect the relevant risk aspects. In addition, functional controls verify whether credit process models have been applied in accordance with their designation.

The type of model used to assess retail customers depends on the type and nature of the credit product for which the customer has applied, the credit history and the history of

cooperation with the Bank. The type of model used to assess business customers depends on the segment in which a given customers is classified in terms of the sales revenues generated. The score/rating achieved has an impact on the amount of standard costs of risk charged on the transaction.

The scoring models currently used were built internally in the Bank. To reinforce the risk management models applied by the Bank, a special team was appointed which plays the role of an independent validation unit.

Monitoring credit risks related to retail and business customers

Continuous credit portfolio quality control is ensured by:

- daily monitoring of timely loan repayments;
- periodic reviews – relating mainly to a customer's economic standing and the value of approved collaterals.

The monitoring of the retail customer segment includes the following areas:

- customers;
- credit products granted to debtors;
- agreements from which the credit exposure originated;
- collaterals approved;
- amount of impairment write-downs and provisions recorded.

Monitoring of the business customer segment mainly includes the following areas:

- customers and their related entities;
- business segment;
- credit products granted to debtors;
- verification of the customer's compliance with the provisions of the agreement which is the basis for the customer's credit exposure;
- collaterals approved (verification of their setting up and value);
- market conditions which affect the customer's credit capacity;
- amount of impairment write-downs and provisions recorded.

All credit exposures in the business customer segment are additionally covered by portfolio monitoring, i.e.:

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

All credit exposures of retail and business customers are subject to monitoring and ongoing classification to appropriate process paths. To improve the monitoring process and controls of potential operating risks, adequate solutions have been implemented in the Bank's credit systems. System tools have been consolidated to effectively conduct the monitoring procedures (soon to be applicable to all the accounts).

Commitments classified as standard and dangerous, which may intensify the activity during pre-enforcement and debt collection proceedings, are regularly monitored. Accounts are evaluated with regard to the transformation of debt under the restructuring procedure in order to minimize the Bank's default losses.

Applying forbearance practices

In the restructuring process of the 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 for 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 (with respect to the whole or part of the instalment). During 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;
- the consolidation of several liabilities to Alior Bank, including a 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 based on 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). This consists of transferring the debt from one or more exposures to a non-renewable account with potential options for the time schedule: 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 annex reducing the limit in respect of renewable loans. This consists of a systematic reduction of the credit limit (most often on a monthly basis) by the amount specified in the annex;
- an annex 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 the restructured loan portfolio covers reporting at a level of particular overdue period brackets at which the restructuring decision was taken, and at the aggregate level. The basic reporting period is a calendar month. In such breakdown the following sub-processes 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 Bank identifies the following risks relating to the application of forbearance tools:

- risk of a 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 therefore 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 verification of the collateral.

Assessment of impairment for exposures subject to forbearance practices

In respect of forbearance practices the Bank adopts more stringent impairment identification criteria. Apart from the standard catalogue of indicators, 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 indicator of impairment;
- an analyst's assessment of the timeliness of debt servicing being at risk (in respect of Retail Customers);
- assessment of the economic and financial position as Substandard or worse (in respect of Business Customers).

Impairment of such exposures is determined by analysing an individual scenario based on historical information on behaviour of similar Customers and expected characteristics specific to a particular Customer. The Bank discounts the effective rate for expected cash flows before the implementation of 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 changes introduced had no impact on the manner of identifying impairment or the terms and conditions for

reversing losses. Having identified the premises for impairment subject to forbearance practices, the Bank acts according to the principle that three consecutive timely payments compliant with the new time schedule are the basis for determining the absence of impairment indicators.

The Bank does not differentiate its approach to recognizing impairment depending on the type of facilitation granted to the customer. All types of facilitation are subject to additional, more stringent criteria for identifying impairment.

Operational risk

Operational risk, which is understood as the possibility of incurring losses resulting from the inadequacy or failure of internal processes, staff, systems or external threats, is identified as material risk. The Bank takes into account the target operational risk profile, the Bank's strategy and risk management policy to determine its overall approach to operational risk management. The comprehensive programme in this respect comprises the operational risk management goals, the methods of their execution and the solutions adopted based on the recommendations of the Operational Risk Committee. The Bank's aim is to maintain the operational risk level within the adopted limits and risk appetite.

The Bank has a formalized operational risk management system in place, which is used to prevent the occurrence of operational events and incidents and limit losses in the event that the risk materializes. The principles and the structure of operational risk management in Alior Bank are based on the provisions of the Banking Law, the provisions of resolutions and recommendations of the Polish Financial Supervision Authority, and the Operational Risk Management Strategy and Policy approved by the Bank's Management Board and Supervisory Board.

The Bank has defined the operational risk management system and the main principles for operational risk management, comprising:

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

The Bank applies the standardized approach to calculating the capital requirement in respect of operational risk.

The operational risk management structure at the Bank consists of:

- the Supervisory Board;
- the Bank's Management Board; and
- the Operational Risk Committee (ORC).

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 competencies and 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 risk appetite;
- by conducting regular assessment of the operational risk management process and the level of utilization of internal operational risk limits and risk appetite;
- by creating and developing an organizational structure in the area of effective operational risk management.

Execution of the adopted operational risk strategy is supervised by the Supervisory Board, which, among other things:

- approves the Management Board's competencies which are necessary to manage operational risk;
- approves the Policy specifying the overall operational risk management strategies;
- approves and assesses the pursuit of strategies 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 Operational Risk Committee;
- recommends actions to be taken to mitigate risk or change the Bank's operational risk profile.

The Operational Risk Committee advises and supports the Management Board in effective risk management, including operational risk. The Committee also:

- gives opinions on comprehensive, current and future readiness of the Bank to take risks;
- gives opinions on risk management strategy in the Bank, and analyses submitted by the Management Board information concerning the implementation of this strategy;
- supports the Supervisory Board to oversee the implementation of risk management strategies in the Bank by senior managers;
- gives opinions on regulations defining the strategy and approach of the Bank to take risks, including:
    - risk management policy at Alior Bank SA;
    - the strategy of operational risk management in terms of risk appetite;
- analyses periodically reports on the implementation of the RO strategy and policies according to the SIZ.

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

- supporting the Management Board in the effective management of operational risk;
- recommending to the Management Board appetite for operational risk taking into account the operational risk profile;

- building awareness about the threats of operational risk;
- approving reports for the Management Board and the Supervisory Board about the operational risk;
- recommending to the Management Board and the Bank units taking actions to mitigate the operational risk;
- approving the implementing legislation in the area of operational risk.

The process of mitigating operational risk is one of the most important elements of operational risk management, since 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 which are particularly 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 discontinuing operations which are exposed to increased operational risk. The Management Board may decide to insure the identified operational risk.

The Operational Risk Team is responsible for ongoing 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 utilization of internal operational risk limits;
- 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;
- identification, measurement, control and reporting of model risk with using scenario analyses;
- identification, measurement, control and reporting of model risk using TWS;
- implementing and monitoring follow-up process mitigating operational risk;
- preparing cyclic reports relating to the operational risk level at the Bank.

The operational risk management is systematically reviewed in terms of its actualisation and adequacy, and developed, taking into account the scale and diversity conducted by the Bank's activities. Bank improves the methods of quantification of this risk, among others things, by strengthening the quantitative tools, including statistical model LDA.

The duty to monitor and mitigate operational risk in day-to-day activities relates to all the Bank's employees and organizational entities. The Bank's employees control the risk level on a current basis in respect of the processes they are responsible for, and actively minimize the risk exposure, taking action to avoid/limit operating losses.

Recording events/incidents and operating losses

The Bank records the events, incidents and operating losses, 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 system, which supports operational risk management.

Since the merger of the spun-off part of Bank BPH, works on standardizing the principles and practices regarding operational risk management process are in progress.

The value of the gross operating losses, which were registered in the period from January to December 2016 for the merged Alior Bank SA with the spun-off part of Bank BPH were within the operational risk limits and risk appetite adopted of merged banks.

Model risk

Model risk management is aimed at creating the conditions for the achievement of business goals while maintaining an acceptable level of uncertainty resulting from using models in the Bank's operations. The Bank aims at using models in its processes to the largest extent possible, in order to automate the decision-making process and minimize the role of the human factor. The model risk management process is structured in a manner that guarantees the achievement of this goal.

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

- corporate governance, comprising internal regulations, internal control system and defined roles and responsibilities of organizational units, including the Risk Management Committee, ICAAP, the Bank's Management Board and Supervisory Board;
- the model risk management process, comprising all its stages and adequate tools;
- operations – actions taken by the Bank to identify model risk, implement the procedures for model risk control, escalation and management; remedial decisions made to mitigate risks, including decisions made at the Risk Management Committee and ICAAP meetings.

As part of the model risk management process, the consistency of the model risk level with the risk tolerance adopted is assessed and actions aimed at mitigating the risk level are taken. The stages of this process include: identification, measurement, control and reporting of model risk. The model risk management process is conducted at the level of individual models and the portfolio of models.

The Bank uses the following tools and techniques in the model risk management process:

- cards, logs and registers of models containing up-to-date information on the models identified at the Bank;
- monitoring and validation allowing individual assessment of the quality of models;
- quality analysis of data used to build models, comprising the assessment of quality and usefulness of data contained in IT systems for building models;
- aggregated model risk assessments allowing the assessment of model risk taking into account the adopted tolerance for model risk;

- stress-tests allowing the assessment of the Bank's sensitivity and immunity to hypothetical and historical stress conditions;
- standards for model building and documentation that allow mitigation of model risk at the stage of creating the models;
- other, in accordance with the current needs.

Since 30 June 2016, the Bank has complied with the requirements of Recommendation W issued by the PFSA, concerning model risk management at 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 31/12/2016
1. Credit risk (including the risk of: insolvency, industry concentration, customer exposure concentration, currency concentration)
2. Operational risk
3. Liquidity risk
4. Interest rate risk in the banking book
5. Market risk
6. Settlement risk
7. Model risk
8. Reputation risk
9. Business risk
10. Capital risk
11. Compliance risk

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

- credit risk – on the basis of VaR methodology in respect of the annual distribution of losses on the loan portfolio;
- operational risk – on the basis of VaR model of the annual distribution of operating 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 – on the basis of VaR model of loss frequency and amount distribution.

The total designated internal capital and the calculated regulatory capital are secured by the value of equity (and Tier 1), taking into consideration the appropriate safety buffers.

Capital ratio of the Bank as for 31/12/2016		
Capital adequacy ratio	Tier1 cpital ratio	Coverage ratio
13,67%	**11,32%**	**1,67**

Taking into consideration 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.

X. Contingent liabilities

The Group offers its retail customers contingent liabilities in respect of renewable checking account overdraft limits and credit cards. They are granted for an indefinite period; at the same time, cash inflows to the account are monitored.

The Group grants contingent liabilities to business customers in respect of:

- current account overdraft limits for a period of 12 months;
- guarantees, mainly for a period of up to 6 years;
- credit cards for an unlimited period (at the same time, cash inflows are monitored and portfolio or individual monitoring is performed);
- guarantee limits;
- loans launched in tranches for a period of up to 2 years.

The guarantee amounts shown in the table below reflect the maximum possible loss which would be disclosed as at the reporting date had all customers defaulted.

As at 31 December 2016, there were 3,001 active guarantees issued by Alior Bank for a total amount of PLN 1,560,308 thousand.

The Bank uses its best effort to maintain the correct maturity structure of the guarantees issued. The active guarantees with maturities below two years (there are 2,293 such guarantees) amount to PLN 985,376 thousand.

The Bank uses its best effort to maintain the correct maturity structure of the guarantees issued.

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

Off-balance sheet contingent liabilities granted to customers	As at 31/12/2016	As at 31/12/2015
Off-balance sheet liabilities granted	14 614 625	8 941 675
In respect of financing	13 054 317	7 371 753
Guarantee	1 560 308	1 569 922

Off-balance sheet contingent liabilities granted to customers – by customer (in PLN '000)

by customer	As at 31/12/2016
entity 1	75 200
entity 2	55 742
entity 3	52 152
entity 4	38 700
entity 5	33 345
entity 6	30 596
entity 7	29 601
entity 8	28 727
entity 9	28 044
entity 10	24 025
Other	1164 176

Off-balance sheet contingent liabilities granted to customers – by type of liability (in PLN '000)

by type of liability	As at 31/012/2016
credit lines	12 558 838
import letters of credit	28 842
loan commitments	466 637
guarantees	1 560 308
Total	**14 614 625**

The Bank did not guarantee any bonds in 2016 (there were no off-balance sheet liabilities in respect of bonds).

XI. Internal control system

Alior Bank S.A. has an internal control system which comprises all control processes that support management. The system is designed to support the efficiency of the Bank's operations, reliability of financial reporting, compliance with risk management policies and the law, internal regulations and market standards.

The internal control system of Alior Bank comprises the control function, the compliance function, and the independent internal audit function.

The internal audit function is responsible for providing objective information and assessments concerning the management process, the control function, compliance with

generally applicable laws, good practices and standards and the Bank's internal regulations, as well as for supporting the management process at the Bank through recognition and assessment of material risks and supporting improvement of the risk management and control system.

The control function allows achieving the required quality and correctness of the activities performed, eliminated potential irregularities, and minimizes risk therefore ensuring the safe operation of the Bank. The control function comprises the solutions adopted by the Bank in the area of organizational structure, internal procedures, IT systems documentation, documentation of financial and economic transactions and functional control.

The organizational structure provides an organizational framework for the control function through division of duties and responsibilities, ensuring organizational independence of operational functions from control functions, and assigning responsibility for making decisions to the appropriate competence levels and collective bodies. Internal procedures and IT systems documentation document the processes to allow their analysis and design of the adequate 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 a regular analysis of the course and results of work of specific 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 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 Regulatory Compliance Department ensures proper compliance risk management, in particular:

- identifies compliance risks which are of key importance to the Bank's activities and analyses them on an ongoing basis;
- monitors legislative and regulatory changes, as well as judicial and administrative decisions, and communicates the compliance risk or reputation risk to the Bank's organizational units;
- supports the Bank's organizational units in the process of creating internal regulations and adjusting them to the binding laws and regulations, and ensures the consistency of internal regulations and their compliance with the law, regulatory requirements and good market practices;
- analyses the Bank's activities on an ongoing basis from the perspective of compliance risk, in particular in the development of new business models, creating and offering new products and services, and relations with customers, cooperation with whom may be exposed to reputation risk;
- prepares or consults responses to the regulators' inquiries and complaints;
- expresses opinions on the Bank's promotional and advertising materials;
- sets ethical conduct standards for the Bank's employees and supervises compliance with them; coordinates proceedings in the cases of reported violations of the law or ethics;

- manages the Bank's policies in respect of conflict of interest, accepting and giving gifts;
- prepares training programmes and conducts training for the Bank's employees in compliance risk;
- in cooperation with the Security Department and the Electronic Security Department, ensures the Bank's compliance with personal data protection regulations;
- monitors the execution of owner supervision of the Bank over its subsidiaries.

XII. Corporate social responsibility

Relations with clients

Alior Bank plays a key role on the Polish banking market in terms of maintaining and promoting high service quality standards, as confirmed by various awards and distinctions. Alior Bank is an organization focused on customer needs, providing benefit-based advice and tailoring products to the needs of its customers. By analysing the needs of all stakeholders on an ongoing basis, the Bank flexibly adjusts its strategy to market conditions in terms of the products offered, distribution network, experts employed and the customer service process.

Relations with employees

Maintaining good relations with employees, Alior Bank continues the execution of its HR strategy addressing the specific needs of a large, dynamically growing organization. The Bank adopted a formula of providing active support in the execution of common business goals through actions aimed at providing better employee experience throughout the employment cycle and development of organizational structure that supports the transformation process. The initiatives taken in the first half of 2016 were focused on verifying previous activities and the continuation of effective practices, building the best job offering in the banking sector and preparing the organization for restructuring associated with the planned further development of the bank. The second half of 2016 – in addition to continuing actions addressed to the existing employees of Alior Bank – was a time for the preparation of the business combination with a separated part of the Bank BPH and related communication aimed at preparing the employees for the change and smooth transition.

In 2016, we continued activities aimed at providing job candidates with comprehensive and complete information about the bank, its organizational culture and the nature of work on their chosen position. Hackathon – a 24-hour programming marathon for persons interested in mobile banking and Internet of Things – was one of the initiatives organized for the purposes of educating the local job market. The promotional action and the event itself gained a lot of popularity among local start-ups, and by organizing it we contributed to the development of 9 innovative technological ideas and to building awareness of the bank's offer as an employer in IT and the new technologies sector among prospective candidates. The actions taken allow the candidates to make informed decisions regarding

their work for us and have a positive effect on their involvement at different stages of the recruitment process and after they are employed.

New employees take part in a specially prepared programme, which is aimed at preparing them effectively for their work. Additionally, each new employee is assigned an assistant from among other employees to support them and help them understand the scope of their duties. It has a positive effect on the effectiveness and comfort of work of the new employee, as well as on the performance of the whole organization, ensuring top customer service quality.

The employees of Alior Bank can specialize and become experts in their chosen field or develop their management skills. We offer our employees a range of training programmes conducted by both internal and external trainers. The offer includes product and sales training and training in service quality and interpersonal skills. The total number of training days in 2016 was 9,500.

Alior Bank offers all its employees real opportunities to develop their competencies within the organization. In 2016, 272 Head Office employees took part in management training, 1094 participated in the Knowledge Factory (Fabryka Wiedzy), 1,180 employees took part in external training and conferences financed from the special pool assigned to individual departments, and 5,466 obtained PFSA certificates for sellers of insurance products. Additionally, 326 persons conducted internal training as part of the "Share your knowledge" ("Podziel się wiedzą") programme, which gives all the bank's employees an opportunity to propose and prepare their own training in technical skills relating to their specialization. The internal e-learning team, in cooperation with the industry departments, developed 69 new concepts for training supporting the current needs of the business.

Development opportunities are also addressed to medium and top level management. In March 2016, we launched a programme addressed to sales managers ("Sales Pistols"), aimed at developing the management skills of the best branch managers and preparing them for promotion to key positions. The individual development plans for participants were implemented by the end of 2016, and managers from this group are regularly involved in activities and business projects of strategic importance for the bank.

In May 2016, more than 70 Alior Bank employees completed a one-year Leader Development Programme (Program Rozwoju Liderów). The Programme consisted of three modules: "Me as a leader" (personal effectiveness programme), "Motivation and communication in the team" (development of the ability to give and receive feedback and motivate the team), and "Me as the team leader" (diagnosis of the team potential and how to develop it).

At the same time, in June 2016 we completed an intensive, one-and-a-half-year Advanced Management Program organized in cooperation with the Spanish IESE Business School, one of the best business schools in the world, with the participation of more than 40 key top managers. The Program was based on working on international business cases in the area of strategy, innovation, leadership and change management. It was the only programme of this type executed for the banking sector in Poland.

The internal survey "Alior Bank under the magnifying glass" was part of the dialogue aimed at building relations with employees. It was conducted to diagnose the present organizational culture of Alior Bank and the preferences in the area of the employee offer and to assess the quality of tools and processes. The survey was addressed to all Alior Bank employees, and the response rate was 65%. The survey results made it possible to verify the actions taken to date and to develop HR policy both at local level and the level

of the whole Bank, also in the context of actions associated with the business combination with the separated part of Bank BPH and the integration of both banks.

The starting point to planning employment relations initiatives is the desire to meet the personal needs of Alior Bank employees and suggest solutions that will help them organize their day-to-day work at the bank. As an example of such an approach, let us mention the benefit platform implemented in the first half of 2016, which gives the employees a convenient opportunity to manage their benefits. Through this platform, the employees may apply for or terminate their healthcare package, group insurance or Multisport programme. This approach increases comfort of work and helps employees improve their performance.

The employee benefits offered by Alior Bank in 2016 are based on three pillars: supporting the employees' families, promoting sports and inspiring the professional development of women.

During winter and summer holidays we invited the children of our employees from the Head Office in Warsaw, Kraków and Gdańsk to day camp. As a result, their parents could work more comfortably and use their time at work efficiently. In May, we celebrated the International Day of Families, and employees who wanted to spend more time with their families could finish work 2 hours earlier than on a standard working day. We also organized a contest in which our employees could win cinema tickets for the whole family. In June 2016, we organized picnics for Alior Bank employees and their families in Gdańsk, Kraków and Warsaw. They provided our employees with an excellent opportunity to get to know each other better and integrate within their teams over refreshments and games. It was particularly important in view of the dispersed Alior Bank sales network in those regions. In order to support parents working for Alior Bank, we offered school starter kits for children starting primary school. Big sets of stationery and school aids constituted real financial support for employees with children and relieved them of the trouble of having to buy them. All Alior Bank employees who were parents could also order Christmas presents for their children from a wide range of educational and creative toys and sports equipment. Thanks to this offer, they could save both money and time that they would otherwise spend looking for an attractive gift. Moreover, we organized Christmas workshops at the Head Offices in Warsaw, Kraków and Gdańsk, where employees could gain practical skills and get to know each other better in a friendly Christmas atmosphere.

In order to promote sports among employees, the Bank organized 9 sports sections: football, volleyball, basketball, running, yoga, hiking, crossfit, sailing and squash. In each section, the employees unite around the idea of active practice of a particular discipline and its promotion among a wider group of people, through active participation in training, contests, competitions and business leagues. Additionally, on the first weekend of March we organized the Alior Bank Winter Olympics in the Czarna Góra ski resort, and in mid-September we organized the Summer Olympics in Iława. Almost 800 people participated in both events. They had an excellent opportunity to get to know each other better while competing in a friendly atmosphere.

In 2016, we continued our programme of career development addressed to women. Its overriding objective was to build an organizational culture in which women can fully use their potential through exchange of experience and transfer of knowledge. More than 800 persons participated in workshops organized in the second year of the programme, and more than 20 programme ambassadors were invited to take part in the prestigious personal coaching programme. To complete the programme, we organized an internal conference with the participation of well-known speakers, initiators and academics.

In the area of employee relations, the last quarter of 2016 was a time for preparing the business combination with the separated part of Bank BPH, which formally took place in the first days of November. In the development of the united Bank's structure, we take into consideration both business needs and the need to guarantee the Bank's daily operational efficiency. The key factors that play a role in this process include internal communication, free exchange of information between teams and understanding of the principles of operation, so that the potential of the teams of both banks can be fully utilized.

The Management Board of Alior Bank applies three principles in the process of preparing for the improvement of the employment structure. First, we want the decisions that are made to be responsible, backed by necessary data and analyses. Secondly, they will be made in a dialogue with trade union organizations, taking care of the employees' interest and the safe transition process. Finally, we will do our best to make decisions promptly and inform the employees as soon as possible. Talks with social partners ended with signing an Agreement with all employee organizations, and the agreed terms and conditions of the necessary group redundancy are among the best in the banking sector from the employees' perspective.

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 projects, but also spreading knowledge on corporate social responsibility and sustainable growth among employees, customers, business partners and the Bank's shareholders. Importantly, the employees more and more frequently on their own initiative submit projects which they consider important and which reflect the Bank's values. As a result, every year more internal initiatives are combined with external actions.

In April 2016, Alior Bank supported again the action "Czytam w podróży" ("I read when I travel") aimed at promoting reading and promulgating the works of Zbigniew Herbert. This year, hundreds of volunteers took part in the event. They handed out bookmarks with the text of a poem of one of the greatest Polish 20th century poets on public transport, at bus stops and railway stations. In cooperation with the Zbigniew Herbert Foundation, the employees of Alior Bank actively participated in the event. They handed out bookmarks to customers in more than 320 branches, therefore promoting the works of the author of *Mr Cogito* and encouraging people to read when travelling to school, work or to a holiday destination.

Alior Bank was a patron of the 2nd edition of the "Polish Language Capital" festival in Szczebrzeszyn, which took place in late July – early August 2016. This event, promoting Polish classic and contemporary literature as an important component of social and national awareness, became one of the most important literary festivals in Poland. The second edition was visited by 12 thousand people. Alior Bank was also a patron of the concert of Zbigniew Wodecki and the Mitch&Mitch Orchestra and choir.

In 2016, Alior Bank sponsored the Christmas lights decorating Nowy Świat Street in Warsaw. It was the second time the Bank was responsible for the unique appearance of this splendid street. The residents of Warsaw and tourists could admire the Christmas lights when walking along Nowy Świat until the beginning of February.

Another Christmas event organized by Alior Bank was the charity campaign "Set an example – help children" ("Świeć przykładem – pomóż dzieciom"). On a dedicated website, the Christmas star was lit 50,000 times. As a result, five selected educational and caretaking institutions from Gdańsk, Kraków, Krasnystaw, Szczecin and Warsaw received support worth PLN 50,000.

Alior Bank also took part in "The Santa Claus Day Commercial Cluster" ("Mikołajkowy Blok Reklamowy") – a charity campaign organized by the Polsat Foundation. The Bank's Christmas commercial for a new loan was broadcast during the commercial break, the revenue from which will be paid to the Foundation. "The Santa Claus Day Commercial Cluster" was watched in 2016 by more than 6 million viewers. The total collected of PLN 1.2 million will be spent on the treatment and rehabilitation of sick children.

In 2016, for the second time in a row, Alior Bank became a sponsor and partner of Smogathon, an event organized to fight environmental pollution with the use of various technologies developed by different fields of science and business. Another initiative of the Bank was the sponsorship of the first programming competition in Poland which combined the new technologies with the world of culture -"HackArt". The competition was organized in cooperation with the best cultural institutions in Warsaw: the Syrena Theatre, the Zachęta Art Gallery, the Museum of Warsaw and the Sinfonia Varsovia orchestra.

Alior Bank also takes part in educational programmes addressed to various age groups, including children. In January 2016, in cooperation with the Ekomini Foundation, the Bank commenced pilot educational workshop in one of the primary schools in the Dolnośląskie voivodship. The workshop was run by experts from Alior Bank and its aim was to promote awareness in the area of business and finance.

We also support charity actions initiated by the individual teams, such as: the collection of food for people in need before Easter, the collection of colouring books, crayons and books for children in hospital before Children's Day, and a series of collections of funds or items for people in need before Christmas.

Sponsoring activities

Alior Bank continues cooperation with the Polish Football Association as an official sponsor of the Polish national football team. More than 51,000 fans already have a Fan Card issued by the Bank, which serves as an ID, a match ticket, and a pre-paid payment card. It is a key element associated with the multimedia platform "Łączy nas piłka" ("We are united by football") whose official partner is Alior Bank. Advertisements for the Bank were displayed in stadiums during matches of the national team, and hostesses distributed advertising and information materials among fans. Customers could take part in various contests and win tickets for the matches of the Polish national team on Alior Bank's Facebook profile.

In 2016, Alior Bank was also official partner of a prestigious cycle of golf tournaments Alior Bank Sobienie Golf Tour 2016, the finals of which took place in October in Sobienie Królewskie.

The Bank also supports various organizations and associations. The organizations supported by Alior Bank last year included Związek Harcerstwa Rzeczypospolitej (the Polish Scout Association) – the Bank helped finance the purchase of clothes for the Scout Voluntary Rescue Team, which provided medical services during the World Youth Days. The clothes will also be used during other actions and events in future years.

Alior Bank sponsored the 1st Global Reunion of graduates of the Foreign Trade Faculty of the Warsaw School of Economics, which took place in October 2016. The event was organized to commemorate the 25th anniversary of the Foreign Trade Fraternity and the 110th anniversary of the Warsaw School of Economics.

The Bank was also a partner of the international conference European Radio Forum, which was organized in October 2016 in Kraków by Polskie Radio S.A. in cooperation with the City of Kraków. The event entitled "DAB+, hybrid radio and European digitization strategies" was devoted to digitization and the future innovative use of the radio. It was attended by representatives of leading radio stations from all parts of the world, and the conference was reported on all channels of Polish Radio.

Awards and honours

Alior Bank won a number of awards and honours in 2016. The most important ones are:

- four main prizes for the Virtual Advisor project – the artificial intelligence system supporting remote contact with customers, awarded in the international contests "Retail Banker International", "BAI Global Banking Innovation Awards", "Distribution & Marketing Innovation Awards" (organized by EFMA in cooperation with Accenture), and "Banking Technology Awards";
- third place in the "Best Bank for Business" ranking organized by Forbes monthly and Millward Brown;
- first place in the "Newsweek Friendly Bank" contest in the "Internet Bank" category;
- a "Golden Banker" award presented to Alior Bank. For the fourth year in a row, Alior Bank won the "Best Cash Loan" category.
- third place in the "Best Bank 2016" contest organized by *Gazeta Bankowa* magazine. Alior Bank was evaluated in the "Large Commercial Bank" category for the first time;
- three awards won by Alior Bank in the "Banking Stars 2015" ranking prepared by the *Dziennik Gazeta Prawna* daily in cooperation with PwC. Alior Bank took third place for its overall achievements, and second place in the categories of "Innovation" and "Growth rate";
- second place in the "Leopards 2016" contest for the most admired bank brand image organized by TNS Polska;
- third place in the "50 largest banks in Poland 2016" ranking prepared by the *Miesięcznik Finansowy BANK* magazine in the "Efficiency of banking operations" category;
- two "CEE Capital Markets Awards" for two public issues of bonds and the best secondary issue of shares in Central and Eastern Europe.

XIII. Controls applied in the process of preparing the 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 a 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, consisting of 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 operating systems security policy adopted by the Bank.

The controls cover specifically:

- user rights 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 the 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 the financial statements include, but are not limited to:

- controlling the quality of financial statement 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 the correct presentation of data;

- performing analytical reviews based on specialist knowledge, aimed mainly at confronting business knowledge with the financial data and identifying potential signs of the 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 the presentation of the amounts of income, costs, assets and liabilities as at the reporting 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, the 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 operated by market risk management units were implemented;
- 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 retirement and disability 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 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 and in terms of corporate governance.

XIV. Corporate Governance

The Management Board hereby represents that in 2016 the Bank and its authorities complied with the adopted rules of corporate governance set out in the "Good practices of companies quoted on the WSE". Moreover, based on the resolution of the Bank's Supervisory Board of 29 December 2014, the Corporate Governance Principles for supervised institutions were adopted.

Scope of corporate governance

In accordance with the Rules and Regulations of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) ("WSE"), Alior Bank, as a company quoted on the WSE, is obliged to comply with the principles of corporate governance specified in WSE Good Practices. WSE Good Practices consist of a set of recommendations and proceeding policies which refer specifically to the authorities of listed companies and their shareholders.

The text of the above set of rules is published on the website of Giełda Papierów Wartościowych w Warszawie S.A. at http://corp-gov.gpw.pl.

Within the competencies granted to the Management Board of the Bank by the Articles of Association, and based on generally binding legal regulations, ultimately the Management Board intends to oblige Alior Bank to comply with all the regulations specified in the Good Practices.

Moreover, the Bank's Management Board used its best efforts to ensure that the information policy addressed to investors (both individual and institutional) is as consistent with their expectations as possible.

In 2016, however, the Bank's Management Board did not stipulate the possibility of the shareholders' participation in the General Meeting by way of electronic communication. Non-compliance with this rule as set out in the WSE Good Practices is due to the absence of a regulation stipulating this in the current version of the Bank's Articles of Association (as required by the Commercial Companies' Code), and the absence of an appropriate market practice and experience related to applying this rule, which in consequence could lead to factual and legal doubts and complications.

Additionally, the Bank's Management Board published reports about the implementation of the new set of WSE Good Practices, which entered into force on 1 January 2016. Accordingly, the Bank complies with these practices with the following exceptions:

- Rule I.Z.1.8 is applied with respect to financial data published after 2012 – admission and introduction of the Bank's shares to trading on the WSE Main Market in December 2012.
- Rule I.Z.1.10 is not applicable – the Bank does not publish its financial forecasts.
- Rule III.Z.6 does not apply to the Bank – the Bank has a separate Audit Department.
- Rule IV.R.2 is not applied in the part defined in section 2 – in view of the need to complete many technical and organizational tasks, the related costs and risks and limited experience in this area, for the time being the Bank decided not to offer its shareholders an opportunity of real-time communication during the General Meeting from a remote location. The Bank intends to comply with this recommendation, however, since the process of its implementation has not yet been completed, such compliance will be introduced as soon as the required data communication systems are implemented.
- Rule IV.R.3 is not applicable to the Bank – the securities issued by the Bank are traded on the Polish market.

- Rules IV.Z.16 to IV.Z.18 will be applied – to date, the Bank has not paid dividend or contingent dividend nor has it performed a split of the par value of its shares.
- Rule VI.Z.4 is applied – a detailed description of the remuneration policy is provided in the Directors' Report of the Bank for 2016.

Changes in the basic principles of management

In order to amend the Bank's Articles of Association, the General Meeting must pass a relevant resolution, which must subsequently be registered in the National Court Register. Amendments to the Articles of Association require a majority of three quarters of the votes. Moreover, pursuant to Art. 34.2 of the Banking Law, in specific cases amendments to the Bank's Articles of Association must be approved by the Polish Financial Supervision Authority.

In 2016, there were the following amendments to the Bank's Articles of Association and registrations of the Bank's capital increases, based on the resolutions passed by the General Meeting, relating to:

- an increase of the Bank's share capital by issue of 56,550,249 I-series ordinary bearer shares with a total par value of PLN 565,502,490. The shares were registered in the National Court register on 24 June 2016. The registration constituted satisfaction of one of the terms of the share sale and split agreement relating to the purchase of a separated part of the business of Bank BPH SA dated 31 March 2016, concluded between the Bank and GE Investments Poland Sp. z o.o. DRB Holdings B.V and Selective American Financial Enterprises, LLC. On 27 June 2016, the shares were registered with the National Depositary of Securities (KDPW).
- an increase of the Bank's share capital by issue of 51 J-series ordinary shares with a total par value of PLN 510. On 4 November 2016, the shares were registered with the National Court Register in connection with the split of Bank BPH under Art. 529 § 1.4 of the Commercial Companies Code.

The Bank's share capital as at 31 December 2016 amounted to PLN 1,292,577,630 (in words: one billion two hundred and ninety-two million five hundred and seventy-seven thousand six hundred and thirty zlotys) and was divided into 129,257,763 (in words: one hundred and twenty-nine million two hundred and fifty-seven thousand seven hundred and sixty-three) ordinary shares of PLN 10 (in words: ten zlotys) each, including:

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

In accordance with the Bank's Articles of Association, all existing shares are ordinary bearer shares. No special rights or limitations are attached to the existing shares. The rights and obligations associated with shares are in compliance with the law. Securities issued by the Bank do not grant any special control powers to their holders.

There are no limitations to exercising voting rights carried by the Bank's shares in the Bank's Articles of Association.

The Bank's Articles of Association do not contain any limitations relating to the transfer of ownership title to the Bank's shares. Such limitations result from the original incentive plan described below.

Shareholders of Alior Bank S.A.

Due to Alior Bank's status of a public company within the meaning of the Public Offering Act and the fact that the Bank's shares are listed on a regulated market (the main market) of the WSE, the Bank does not have detailed information on all its shareholders in its possession. Alior Bank has information on some of its shareholders, whose shares represent at least 5% of the total number of votes at the General Meeting and the share capital of Alior Bank, in accordance with the notifications received by Alior Bank under Art. 69 of the Public Offering Act.

The following table contains information on significant shareholders, who as at 9 March 2017 directly held shares representing at least 5% of the total number of votes at the General Meeting and the share capital of Alior Bank, in accordance with the notifications received by Alior Bank under Art. 69 of the Public Offering Act.

Shareholder	Number of shares	Par value of shares [PLN]	% of the 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%
Other shareholders	82,222,360	822,223,600	63.61%	82,222,360	63.61%
Total	129,257,763	1,292,577,630	100%	129,257,763	100%

(1) Together with the parties to the agreement of 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 of 29 July 2016.

(2) Based on the number of shares registered at the Extraordinary General Meeting of 29 July 2016.

On 11 March and 14 March 2016, the 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. in the total number of votes at the General Meeting . In accordance with the notifications received, as a result of the transaction of 9 March 2016 (settled on 11 March 2016), PZU S.A. and its subsidiary PZU Życie S.A. jointly held 18,345,820 shares of the Bank representing 25.232% of the votes at the General Meeting. As a result of disposal, Alior Lux S.à.r.l. & Co. S.C.A. does not hold any shares in the Bank.

In accordance with the notification received under Art. 69 of the Public Offering Act, due to a written agreement on consensual voting at the Bank's General Meetings and a change in the previous joint share in the total number of votes 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, these entities jointly hold 21,247,464 shares of the Bank representing 29.22% of the votes at the General Shareholdings' Meeting.

In view of the above, based on the number of shares registered at the Extraordinary General Meeting of 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 jointly hold 37,773,265 shares of the Bank representing 29.22% of the votes at the General Meeting.

On 24 June 2016, the District Court in Warsaw, the 13th Business Department of the National Court Register, entered the increase in the Bank's share capital from PLN 727,074,630.00 to PLN 1,292,577,120.00 by issue of 56,550,249 I-series ordinary bearer shares with a par value of PLN 10.00 each in the register of entrepreneurs.

Consequently, the total number of votes carried by all outstanding shares of the Bank is 129,257,712, and the share capital is represented by 129,257,712 ordinary shares of the Bank of PLN 10.00 par value each.

On 4 November 2016, the District Court in Warsaw, the 13th Business Department of the National Court Register, entered the increase in the share capital of Alior Bank from PLN 1,292,577,120.00 to PLN 1,292,577,630.00 by an issue of 51 J-series ordinary bearer shares with a par value of PLN 10.00 each in the register of entrepreneurs, in connection with the split of BPH Bank under Art. 529 §1.4 of the Commercial Companies Code.

In accordance with the information obtained from a shareholder, after the submission of the previous periodic report, Genesis Asset Managers LLP disposed of 7,800,773 shares representing 6.04% of the share capital, which carried only 5,922,058 voting rights representing 4.58% of the total number of votes at the Bank's General Meeting.

According to the best knowledge of the Bank's Management Board, in the period from submitting the previous periodic report there were no changes in the structure of shareholders holding at least 5% of the total number of voting rights apart from the ones referred to above.

Shareholders who were members of the Bank's Management Board as at 9 March 2017

Shareholder	Number of shares/votes	Par value of shares	Interest in share capital	Share in total number of votes
Wojciech Sobieraj	435,296	4,352,960	0.34%	0.34%
Witold Skrok	178,421	1,784,210	0.14%	0.14%
Katarzyna Sułkowska	28,612	286,120	0.02%	0.02%
Krzysztof Czuba	298	2,980	0.00%	0.00%

In accordance with the notifications of 2 June 2016 on making subscriptions for newly issued shares under pre-emptive rights, the shareholdings of Mr Witold Skrok, Vice President of the Bank's Management Board, and Mr Krzysztof Czub, Vice President of the Bank's Management Board, changed. Moreover, due to the increase in the Bank's share capital registered on 24 June 2016, the percentage shares of the other Management Board members presented in the table above in the Bank's share capital also changed.

On 22 December 2016, the Management Board of Alior Bank SA informed of receiving a notification dated 22 December 2016 under Art. 19. 1 of the MAR from Ms. Katarzyna

Sułkowska – Vice President of the Bank's Management Board on the sale of the Bank's shares on 21 December 2016.

On 17 June 2016, the Bank's Management Board received a notification pursuant to Art. 160.1 of the Act on trading in financial instruments of 29 July 2005 from Prof. Małgorzata Iwanicz-Drozdowska, a member of the Bank's Supervisory Board, informing about a disposal of 1,465 shares of the Bank on 16 June 2016. Consequently, according to the best knowledge of the Bank's Management Board, the members of the Supervisory Board of Alior Bank SA do not hold any shares in the Bank.

Alior Bank S.A.'s authorities

Management Board

Composition of the Bank's Management Board as at 31.12.2016		Composition of the Bank's Management Board as at 31.12.2015	
Wojciech Sobieraj	President of the Management Board	**Wojciech Sobieraj**	President of the Management Board
Małgorzata Bartler	Vice President of the Management Board	**Małgorzata Bartler**	Vice President of the Management Board
Krzysztof Czuba	Vice President of the Management Board	**Krzysztof Czuba**	Vice President of the Management Board
Joanna Krzyżanowska	Vice President of the Management Board	**Joanna Krzyżanowska**	Vice President of the Management Board
Witold Skrok	Vice President of the Management Board	**Witold Skrok**	Vice President of the Management Board
Barbara Smalska	Vice President of the Management Board	**Barbara Smalska**	Vice President of the Management Board
Katarzyna Sułkowska	Vice President of the Management Board	**Katarzyna Sułkowska**	Vice President of the Management Board

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

Wojciech Sobieraj – President of the Management Board

Wojciech Sobieraj has been President of the Board 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 SA, 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 1994–2002, he was an employee, manager and partner of The Boston Consulting Group (BCG) in Boston and London and one of the creators 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 Central European Financial Group in New York, which analysed Eastern European capital markets. In that period he gained a broker's license 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 commenced studies at New York University, Stern School of Business, where he obtained the title of Master of Business Administration in 1995.

Małgorzata Bartler – Vice President of the Management Board

Ms Bartler has been Vice President since October 2015. She has more than 20 years of experience in developing HR management strategies and systems, gained in Polish and international firms in the following sectors: banking, telecommunications, brewery, entertainment and fuel. In addition to strategic planning, her qualifications include a wide range of skills associated with HR management, including talent management and leadership development, succession planning, management through employee appraisal goals and systems, training, talent acquisition and recruitment, building commitment, employee relations management, change management and internal communication. Małgorzata Bartler has worked for Alior Bank since 2014. As the Personnel Department Director, she developed the HR management strategy based on three main pillars: strengthening employee involvement, building the position of preferred employer among people looking for jobs in the banking sector, and implementing a customer-oriented culture. In the years 2008–2014, she was HR Director for P4, the Play mobile network operator. She has received many awards and honours for her work, including three "Top Employers" certificates and a particularly important "Best Employer of the Year" title awarded on the basis of employees' opinions. Previously she was HR Manager for the Żywiec Group and Multikino SA. In both these companies she implemented strategies for recruitment, training and talent management, employee remuneration and benefits, and internal communication. Her career started at Shell where she worked in the years 1994–1998. Ms Bartler graduated from the Management Faculty at the University of Warsaw and completed post-graduate studies in HR management at the Warsaw School of Economics.

Krzysztof Czuba – Vice President of the Management Board

Krzysztof Czuba has been Vice President of the Management Board of Alior Bank S.A. since June 2009. Since 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 in organizing the activities of the Retail Regions and Branches and prepared the assumptions for the project of opening the Bank's agencies. Furthermore, he exercised control over implementation of the acquisition and financial plans for the Bank's branches. He worked for Bank BPH S.A. from 1994 to 2007, where he held the posts of: Branch Manager, Macroregion Retail Banking Director, followed by the Bank's Managing Director responsible for Sales and Distribution in the Retail Banking Division. In the years 2003–2004 he was a 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 has 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 – Vice President of the Management Board

Joanna Krzyżanowska has been Vice President of the Management Board of Alior Bank S.A. since June 2015. She has several years of experience in managing the development of distribution channels and bank products and services. Since the mid-1990s Ms Krzyżanowska has been a member of the Management Boards of Polish banks and banks with foreign capital. Until 2007, she was Vice President of the Management Board of GE Money Bank SA, where she was responsible, among other things, for the Sales and Marketing Department and managed the work of more than 1,500 persons. She was responsible for shaping the Bank's development strategy addressed to the market of cash and car loans, loans for the purchases of goods and services, credit cards, mortgage loans and development of own distribution channels and relations with external partners. In the years 2008–2015, she was the first Vice President of the Management Board of Meritum Bank. Her tasks included building the bank's consumer finance business from scratch, managing sales on a daily basis, building stable relations with partners, developing and implementing new products and solutions. She has experience in acquisition projects and bank mergers. She graduated from the University of Gdańsk. She has an MA in Business Administration (Executive MBA). She completed a Management Development Course (MDC) at GE Crotonville (USA) and a number of courses in management, banking and finance.

Witold Skrok – Vice President of the Management Board

Witold Skrok has been Vice President 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 SA. 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 was the 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 function 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 – Vice President of the Management Board

Ms Smalska has been Vice President since October 2015. She has 13 years of experience in development and implementation of business strategies, retail segment management in the insurance sector and in the implementation of numerous consulting projects in banking and telecommunications. In the years 2013–2014, as a Management Board member of PZU SA and PZU Życie SA, she was responsible for the whole mass customer segment at the PZU Group. In the years 2008–2013, she held the position of Product Management Office

Director at PZU; in the years 2012–2013, as Managing Director for Marketing and Retail Products, she was responsible for different aspects of the retail customer and SME segment management, in particular for products, marketing, sales and CRM. In the years 2010–2012 she was also the Managing Director for Mass Customers. In the years 2002–2008, Ms Smalska worked for the Warsaw office of The Boston Consulting Group, where she participated in many projects in the financial and telecommunications services sectors in Poland and CEE, concerning, among other things, business strategy, operational model, sales network organization and activation, reorganization and cost optimization. In the years 2006–2008, as Project Leader and Principal, she managed strategic projects for the biggest Polish banks, insurers and telecommunications companies, mainly in the area of business strategy and distribution strategy in the retail customer segment. Since September 2014, she has been a member of the Supervisory Board of Link4 TU SA. Ms Smalska graduated from the Faculty of Physics of the University of Warsaw, she has a PhD in elementary particle physics.

Katarzyna Sułkowska – Vice President of the Management Board

Katarzyna Sułkowska has been Vice President since December 2011. Between January 2008 and November 2011, she managed the Credit Risk Department at Alior Bank. In her role, she was responsible for developing credit policies, product principles and methodological assumptions, designing and implementing credit check processes, and monitoring and collection processes. In the years 2002–2007, she was Managing Director of the Retail Collection Department at Bank BPH S.A., where she was responsible, among other things, 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 began her career 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 various training courses in Poland and abroad and participated in conferences on debt servicing and credit management.

Composition of the Management Board

In accordance with the Articles of Association, the Management Board is composed of at least three members. Members of the Management Board are appointed for a joint three-year term of office. The Supervisory Board appoints and dismisses members of the Management Board by secret ballot. At the request of the President of the Management Board, the Supervisory Board appoints Vice Presidents of the Management Board. The appointment of two Members of the Management Board, including the President, requires the consent of the PFSA. The Supervisory Board applies to the PFSA for consent to appoint those two Members of the Management Board. Moreover, the Supervisory Board informs the PFSA about 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 about members of the Management Board who are responsible specifically for credit risk management and internal audit. Currently, the President of the Management Board, Wojciech Sobieraj, and the Vice President, Katarzyna Sułkowska, have

been approved by the PFSA. 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 not more than three months – to temporarily perform the functions of Management Board members who had been dismissed from the Board, have resigned or are unable to perform their duties for other reasons. A member of the Management Board may also be dismissed 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 makes 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 makes 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, subject to Art. 8, clause 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, subject to Art. 8, clause 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 makes decisions on establishing and liquidating the Bank's branches;

- it makes 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 makes 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 Plan who are members of the Bank's Management Board, the Bank's top managers, members of Management Boards of the Bank's subsidiaries and partners of the law firm 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 Plan 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 the admission and introduction of the new shares 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 the issue of shares under the Incentive Plan will be included in the Regulations of the Incentive Plan approved by the Supervisory Board.

Competencies of the President of the Management Board

Competencies of the President of the Management Board include specifically:

- 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 regulating the Bank's operations and authorizing other Management Board members or other employees of the Bank 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 makes 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 or voting by way of a circular resolution, with the exception of resolutions on appointing a proxy, which require 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; a secret ballot may also be ordered at the request of at least one member of the Management Board. In the event of an equal number of votes, the President of the Management Board 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 must be present at the meeting and all members must be 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.

Supervisory Board

Composition of the Bank's Supervisory Board as at 31/12/2016		Composition of the Bank's Supervisory Board as at 31/12/2015	
Michał Krupiński	Chairman of the Supervisory Board	**Helene Zaleski**	Chairman 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 a 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 the Management Board of Merrill Lynch Polska and head of investment banking for CEE at Bank of America Merrill Lynch. He was responsible for supervising and executing merger and acquisition projects, and projects relating to financing on private and public markets. He provided advice on asset management, investment policy and capital structure for the banking, insurance and other sectors. Previously, in the years 2008-2011, he was Alternate Executive Director - member of the Board of Directors of the World Bank in Washington. He participated in making decisions on proposed loans and guarantees to be granted by IBRD, IDA and IFC loans and guarantees, investment guarantees, strategies and policies of the World Bank. In the years 2006-2008 he was undersecretary of state at the Ministry of the State Treasury, where he was responsible for owner supervision. He supervised the power sector consolidation programme. He graduated from the Warsaw School of Economics. He also has an expert diploma with honours in economics from the Catholic University of Leuven. He completed the MBA programme at the Columbia University Graduate School of Business. He also studied at Harvard University. In 2012, he was awarded the Young Global Leader title by the Davos World Economic Forum. Mr Krupiński is fluent in English, French, German and Spanish. At present he is the President of the Management Board of PZU SA.

Prof. Dr Hab. Małgorzata Iwanicz-Drozdowska (Deputy Chair of the Supervisory Board, independent) has been associated with the Warsaw School of Economics (SGH) since 1995, where she obtained her academic degrees. She is a professor at the SGH Institute of Finance, where she is head of the Financial System Unit. She is a recognized expert in the analyses of bank operations, banking risk, financial security network, financial

crises and bank restructuring. Ms Iwanicz-Drozdowska has been involved in business practice for more than 20 years; since mid-2007 she has been a member of Supervisory Boards. She is the author or co-author of more than 130 publications on banking and the financial services market and takes part in numerous Polish and international research projects.

Prof. Dr Hab. Dariusz Gątarek (independent) graduated from the faculty of applied mathematics at Warsaw University of Technology in 1981 and has a PhD in technology (specialization: automation). Dariusz Gątarek worked for 18 years for many financial and consulting institutions in Poland, England and Germany, such as BRE Bank, Societe Generale, Glencore, UniCredit, Deloitte and NumeriX, where he worked on the measurement of financial instruments and risk management. In the years 2008-2010, he also advised the President of the National Bank of Poland. He is a professor at the System Research Institute of the Polish Academy of Sciences. Mr Gątarek is the author of many publications on finance and a frequent speaker at conferences held in many countries around the world.

Stanisław Ryszard Kaczoruk (independent) has been involved with the capital market since 2010 as a member of the Supervisory Boards of companies listed at the WSE: MCI Capital Towarzystwo Funduszy Inwestycyjnych SA, Eficom-Sinersio SA. He took part in projects associated with the development of strategies for selected clients, cooperated with leading advisory firms in the area of acquisitions and restructuring of companies (including PKP Energetyka, Elester PKP) and helped in the organization of TFI KGHM. In the years 1998-2015, he occupied executive positions and was on the boards of companies active on the IT, legal services and advisory market. He has been the chairman of Międzynarodowy Sąd Arbitrażowy Sp. z o.o. (International Court of Arbitration) since 2000 (since 2013, he has also been chairman of Międzynarodowy Sąd Arbitrażowy SA). He graduated from the Faculty of Mathematics of the University of Wrocław. In 1986, he received his PhD in technical sciences in the application of mathematical models and systems theory. He has participated in a number of research projects and published several works on the applications of mathematics (including mathematical statistics and systems theory) and IT in economy and environmental protection in Polish and foreign academic magazines.

Prof. Dr Hab. Marek Michalski (independent) is the Dean of the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw, head of the Faculty of Private Business Law of the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw and President of the Arbitration Court at Krajowy Depozyt Papierów Wartościowych S.A. (The Polish National Depository for Securities), as well as judge 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 of Krajowy Depozyt Papierów Wartościowych S.A., as well as advisor to the Minister of the State 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 in securities, banking law, capital market law, commercial law and joint stock companies.

Sławomir Niemierka graduated from the Faculty of Law and Administration of the University of Warsaw and completed post-graduate studies in law and economics of the European Union and Harvard Business School. He is a legal counsel (radca prawny). He is the author and a co-author of many publications on financial law and banking supervision.

In the years 1994-2007, he was a lecturer in post-graduate studies at the Polish Academy of Sciences, the University of Warsaw and the School of Insurance and Finance. For many years, he worked for the National Bank of Poland - the General Inspectorate of Banking Supervision (GINB), where for eight years he was head of the Inspection Office, responsible for inspections at banks and Polish branches of foreign banks and lending institutions, including in particular inspections of risk management and internal control systems. A member of the GINB Steering Committee for the implementation of the Basel II Capital Accord responsible for controlling risk models, operational risk and accounting standards. A member of the team for risk management system building at the National Bank of Poland. In the years 2010-2011, he was a member of the Management Board of the Bank Guarantee Fund where he supervised the operational risk management system and the monitoring of banks using financial aid granted by the Fund. From 2008, he was associated with the PZU Group as the Managing Director of Audit. In this role, he was responsible for the development and implementation of a new internal control and internal audit system and supervised the operation of internal audit and internal control at PZU SA and PZU Życie SA. On 19 March 2012, he was appointed a member of the Management Board of PZU Życie SA, where he is responsible for risk management, compliance and security.

Maciej Rapkiewicz obtained a degree in law from the Department of Law and Administration of the University of Łódź, completed post-graduate studies in business insurance at the University of Economic in Kraków, MBA Finance & Insurance at the Technical University in Łódź / Illinois State University, and PhD studies at the Department of Economics in the Institute of Finance, Banking and Insurance of the University of Łódź. In the years 1998-2006 he was employed by PZU SA, where he was the Manager of the Subrogation and Overdue Premium Department in the Collection Office. From April 2006 to November 2006 he was the President of the Management Board of ŁSSE SA. Subsequently, from November 2006 to August 2009, he was the Vice President (from February 2008 - Management Board Member) of TFI PZU SA. From January 2010 to March 2010, he was Director of the Finance Office at TVP SA. From November 2011 to June 2015, he was a member of the Management Board of the Sobieski Institute. Since October 2009, he has run his own business, Maciej Rapkiewicz Consulting, specializing in business consultancy, including: finance management, liquidity, risk, costs, financial optimization (including advice for the purposes of obtaining permits for activity in a special economic zone), financial analyses, assessment of the effects of regulations and preparation of projects concerning securitization of receivables of financial sector entities (mainly banks and non-life insurance companies). From September 2015 to March 2016, he was a member of the Supervisory Board of Morizon SA, a company listed on New Connect. Since February 2016, he has been the Chairman of the Supervisory Board of Dom Invest Sp. z o.o. Until February 2016, he was a member of the Supervisory Board of Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Sochaczew (from February 2015, he was Deputy Chairman). From July 2015 to March 2016, he worked for Towarzystwo Funduszy Inwestycyjnych BGK SA. In March 2016, he was appointed a Management Board Member of PZU SA.

Paweł Szymański (independent) graduated from the Warsaw School of Economics. He has extensive experience in strategic and operational management with a strong focus on finance, corporate restructuring and cost management. He was President of the Management Board and CFO in major Polish and regional corporations. He also has knowledge and experience in the area of private equity funds and transaction consultancy. He combines management skills with extensive knowledge of global financial markets gained in the biggest investment banks in Warsaw and London. In the years 1994-1996

he worked as an analyst for Wood and Company. From 1997 to 2000, he was an analyst and subsequently Assistant Director at the Department of Analyses at Schroder Securities. In the years 2000-2003, he was Director of the Department of Analyses at Schroder Salomon Smith Barney. From 2003 to 2004 he was President of the Bank Handlowy Brokerage House. Between 2004 and 2007, he was a Management Board Member and CFO at PKN Orlen SA. From 2007 to 2008 he was CFO at CTL Logistics Sp. z o.o. In the years 2010-2013, he was CFO and subsequently President of the Management Board of Ruch SA. From 2014 to 2015 he was CFO and then President of the Management Board of Netia SA. Moreover, in the years 2008-2016 he also was Executive Partner and Management Board Member of ICENTIS Capital. He has been a member of a number of Supervisory Boards, including ACE European Group Limited Sp. z o.o., Polkomtel SA, Anwil SA (Deputy Chairman). Since 2013 he has been a 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 Management Report on the Bank's operations and the Bank's financial statements for the prior financial year, in terms of their compliance both with the books of account and other documents and with 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 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 applicable 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 for approval of the appointment of 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 members of the Management Board employed on the basis of an employment contract or other 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;
- secondment of members of the Supervisory Board – for a period of up to three months - to perform the function of Management Board members who have been dismissed, have resigned or are unable to perform their role for other reasons;

- giving opinions on the requests of the Management Board relating to the Bank 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 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, if their value exceeds PLN 5,000,000;
- approving the requests of the Management Board concerning incurring liabilities or disposing of 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 compliance risk management and assessing the adequacy and effectiveness of the said 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 (established by the Management Board) 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 the independent registered auditor.
- The Supervisory Board accepts the division of responsibilities among the Management Board members in the form of a resolution and provides such 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, at meetings or by means of a circular vote. 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 equal number of votes, the Chairman 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 must be present and all members must be invited. 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 rules and regulations for 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 remuneration 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 remuneration components in accordance with the principles of stable and prudent risk, equity and liquidity management, and specifically taking into consideration the Bank and its shareholders' long-term interests;
- gives its opinion on the acceptability of paying variable remuneration components in the part relating to deferred payment terms of such components;
- gives its opinion and monitors variable remuneration payable to persons holding managerial positions at the Bank, related to risk management and the Bank's compliance with the applicable laws and internal regulations;
- gives its opinion on the classification of positions which is subject to the variable remuneration components policy.

The Remuneration Committee is composed of:

- Maciej Rapkiewicz, Chairman of the Committee
- Marek Michalski, Member of the Committee
- Paweł Szymański, Member of the Committee

Audit Committee:

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

The competencies and tasks of the Audit Committee include:

- monitoring the financial reporting process;
- monitoring the effectiveness of internal control, internal audit and risk management systems;
- monitoring the audit of the financial statements;
- monitoring the independence of the registered auditor and the audit firm.

Until 4/04/2016, the Audit Committee was composed of:

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

As of 4/04/2016, the Audit Committee is composed of:

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

The Risk Committee of the Supervisory Board:

The Risk Committee of the Supervisory Board was appointed on 22 December 2015 by resolution of the Supervisory Board no. 81/2015 to support the Supervisory Board in supervising the risk management process at the Bank.

The Risk Committee is composed of:

- Dariusz Gątarek, Chairman of the Committee
- Małgorzata Iwanicz-Drozdowska, Member of the Committee
- Sławomir Niemierka, Member of the Committee

The tasks of the Risk Committee of the Supervisory Board include:

- Supporting the Supervisory Board in supervising the risk management process at the bank.
- Expressing an opinion on the overall, current and future readiness of the bank to accept risk.
- Expressing opinions on the Bank's risk management strategy and analysing the information on the implementation of such strategy provided by the Management Board.
- Supporting the Supervisory Board in supervising the implementation of the risk management strategy at the bank at the top management level.
- Verifying the consistency of the prices of liabilities and assets offered to the customers with the bank's business model and risk management strategy. In the case of any discrepancies, suggesting solutions to the Management Board aimed at ensuring that the prices of liabilities and assets are adequate to the types of risk incurred.
- Expressing opinions of the regulations defining the bank's strategy and approach to taking risk, in particular:
    - the Risk Management Policy of Alior Bank SA;
    - the Strategy for operational, liquidity and credit risk management taking into account the risk appetite.
- Analysis of regular reports on the implementation of the above-mentioned 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 Annual 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 can be either annual or extraordinary. The General Meeting is convened by the Bank's Management Board, unless the relevant laws, the Bank's Articles of Association or the Regulations of the General Meeting provide otherwise. The General Meeting is held at the Bank's registered office or in another place specified in the notice on convening the General Meeting. The General Meeting shall be convened by the publication of an announcement on the Bank's website and in the manner prescribed for providing current information under the provisions on public offering and the terms and conditions for introducing financial instruments to an organized trading system and on public companies. The announcement should be made not later than 26 days before the date of the General Meeting.

Only those persons who were the Bank's shareholders 16 days before the date of the General Meeting (the registration date) shall be entitled to take part in the General Meeting.

A shareholder may take part in the General Meeting and vote either in person or by proxy.

Resolutions of the General Meeting are passed by an absolute majority of the votes, unless the provisions of the Commercial Companies Code or the Bank's Articles of Association provide otherwise. Each share carries 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 a resolution passed by the General Meeting and entry into the register. Resolutions of the General Meeting on amending the Articles of Association are passed by three-quarters of the votes.

General Meetings in the financial year 2016

In 2016, three General Meetings took place, at which a total of 40 resolutions were passed.

- The Annual General Meeting (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, 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.
- The Extraordinary General Meeting (5 May 2016), in addition to regular resolutions, passed a resolution on increasing the Bank's share capital by issue of I-series shares for closed subscription in the form of a public offering, setting the date of granting pre-emptive rights to take up I-series shares on 23 May 2016, granting the Supervisory Board the power to approve the sub-issue agreement, dematerialization and exercise of pre-emptive rights, rights to take up shares and admission of I-series shares to trading on the regulated market of the Warsaw Stock Exchange, as well as on amending the Articles of Association and authorizing the Supervisory Board to draft the consolidated text of the Articles of Association.
- The Extraordinary General Meeting (29 July 2016), in addition to regular resolutions, passed resolutions on the split of Bank BPH Spółka Akcyjna and on adopting the consolidated text of the Articles of Association of Alior Bank SA.

Remuneration policy

The purpose of the remuneration policy of Alior Bank is to ensure that the employees receive remuneration which is adequate to their position, qualifications and skills and encourages them to achieve long-term goals and maintain risk at an acceptable level.

The level of basic remuneration of individual employees is regularly analysed and verified. Alior Bank uses remuneration data from the market to ensure an appropriate level of remuneration compared with the industry. The principles of bonus payment are also verified regularly.

The Policy of variable remuneration components applicable to person holding managerial positions at the Bank is an important element of the Alior Bank remuneration policy.

Variable management remuneration components policy

The variable remuneration components policy applicable to managers at the Bank regulates the principles applied by Alior Bank S.A. with respect to variable components of the remuneration of Alior Bank S.A. managers. The Policy is based on the provisions of Resolution no. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on the detailed rules of the risk management system and internal control system and detailed terms and conditions for estimating the internal capital of banks and reviewing the process of estimating and maintaining internal capital and the principles for determining the policy regarding variable remuneration components of the Bank's managers. The policy promotes appropriate and effective risk management and discourages taking excessive risk (exceeding the acceptable risk level approved by the Supervisory Board or Management Board) in order to maintain a sound capital base and pursue the long-term interests of the Bank, its shareholders and customers; it also supports the execution of the Bank's strategy of sustainable development and conservative risk management policy, mitigates conflicts of interest, allows maintaining a transparent relationship between individual performance and individual remuneration - through focusing on the goals relating to responsibility and real influence.

The Variable Remuneration Components Policy for Alior Bank S.A. Managers was approved by Resolution no. 97/2011, which was subsequently amended by Resolutions nos. 33/2013, 55/2015 and 29/2016 of the Bank's Supervisory Board.

The Bank identifies managerial positions to which the Variable Remuneration Components Policy applies. The Policy applies to persons holding the following managerial positions at the Bank:

- Management Board members;
- Persons holding other positions indicated by the Management Board in consultation with the Appointments and Remuneration Committee of the Supervisory Board.

The following organizational units are responsible for execution of the Policy:

The Supervisory Board:

- it approves the Variable Remuneration Components Policy;
- it appoints members of the Appointments and Remuneration Committee from among its members;
- it orders Policy updates and supervises compliance with the Policy;

- it grants or denies consent for the payment of variable remuneration components or a part thereof to Management Board members.

The Management Board:

- it grants or denies consent for the payment of variable remuneration components or a part thereof to persons other than Management Board members.

The Appointments and Remuneration Committee of the Supervisory Board:

- it issues opinions on the Policy, taking into account prudent and stable market, capital and liquidity management, with a particular focus on the long-term prosperity of the Bank and the interest of its shareholders;
- it expresses opinions on the acceptability of the payment of variable remuneration components;
- it issues opinions and monitors the variable remuneration of persons holding managerial positions at the Bank related to risk management and compliance of the Bank's operations with the law and internal regulations;
- it gives its opinion on the annual goals of persons mentioned in par. 31 of the PFSA resolution 258/2011.

The Management Board member supervising the HR Department:

- on behalf of the Management Board, he or she directly supervises the performance of the Management Board's duties in respect of the preparation, implementation and updates of the Policy;

Director of the Remuneration and Benefits Department:

- he or she sends to the PFSA the information specified in § 34, clause 1 of the PFSA resolution 258/2011;
- he or she maintains the register and keeps written statements of persons holding managerial positions at the Bank, containing an obligation not to use their own hedging strategies or insurance relating to remuneration and responsibility, excluding mandatory insurance required under specific regulations aimed at neutralizing the measures taken against such persons as part of the execution of the Variable Management Components Policy.

At least once a year, or at other intervals, at the request of the Supervisory Board or Management Board, the Audit Department reviews the implementation of the Variable Remuneration Components Policy and, through the Audit Department Director, presents to the Supervisory Board a report on the implementation of the Variable Remuneration Components Policy. The Remuneration and Benefits Department Director reviews the Policy once a year or at other intervals, at the request of the Supervisory Board or Management Board.

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 performance in the area for which that person is responsible measured against the performance of the whole Bank. Both financial and non-financial criteria are taken into account in evaluating the individual performance. The following financial and non-financial criteria are taken into consideration: the Bank's net result, return on equity, the Bank's capital adequacy ratios, the Bank's liquidity ratios, the Bank's profitability ratios, compliance with the law and internal regulations, long-term nature of employment and other criteria resulting from the individual performance goals of the individual employees.

Performance is evaluated once a year with respect to a period of three preceding years, so that the amount of variable remuneration takes into account the entire operating cycle of the Bank and the risk associated with its business activity.

Variable remuneration components that are not covered by the Policy are exceptional, occur only in connection with the recruitment of new employees and are limited to the first year of their employment.

As at the date of granting it, fixed remuneration represents a big enough part of the total remuneration to make it possible to conduct a flexible policy of variable remuneration components, including reducing such components or not granting them at all.

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

If the right to compensation in the event of termination is provided in an individual contract, such compensation shall reflect the amount of work, efficiency and quality of work performed in the last three years of holding a managerial position at the Bank.

Fifty percent of variable remuneration is meant to encourage the employee to take particular care of the Bank's long-term interest. Variable remuneration is granted or paid when the financial situation of the whole Bank, its performance, performance of the organizational unit which employed the person concerned and the performance of that person justify it. Variable remuneration should be assessed and paid in a transparent manner, in line with the variable remuneration components policy.

In the event that the Bank takes advantage of an extraordinary public intervention, in particular based on the Act of 12 February 2009 on support granted by the State Treasury to financial institutions (Journal of Laws No. 39, item 308 as amended) and the Act of 12 February 2010 on recapitalization of certain financial institutions (Journal of Laws No. 40, item 226 and Journal of Laws of 2011, No. 38, item 196):

- if maintaining a sound capital base and timely withdrawal of public support are at risk, variable remuneration will not be paid unless the Bank generates net profit;
- the Bank appropriately adjusts the amount and components of the remuneration to support proper risk management and long-term performance growth; this shall include reduction of the remuneration of the Bank's Management Board;
- variable remuneration is payable to the Management Board only in justified cases;
- variable remuneration components will be granted based on an analysis of how the targets set in the individual programmes are met and evaluation of the Bank' profitability and liquidity, provided than there were no violations of any laws or internal regulations of the Bank.

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

Managers of the internal audit function, compliance risk management function and functions responsible for risk management and personnel issues receive variable remuneration for achieving targets assigned to their functions; their remuneration is not dependent on the business results achieved by the areas of the Bank's operations controlled by them.

The Bank does not grant to managers retirement benefits that are not determined in advance, which for the purposes of the Policy are understood as retirement benefits granted by the Bank at its sole discretion to individual employees as part of a variable remuneration package.

Persons holding managerial positions at the Bank must not use their own hedging strategies or insurance relating to remuneration and responsibility, excluding mandatory insurance required under specific regulations aimed at neutralizing the measures taken against such persons as part of the execution of the Policy. Such persons submit written declarations to this effect, which are recorded and kept by the Director of the Remuneration and Benefits Department.

Variable remuneration components are granted to persons holding managerial positions at the Bank in accordance with the following principles:

- At least 50% of the variable remuneration granted constitutes an incentive to take particular care of the Bank's long-term interest and, therefore, consists of financial instruments linked to the Bank's shares, including in particular phantom shares or subscription warrants. The remaining part of the variable remuneration granted to Eligible Persons is payable in cash.
- At least 40% of the variable remuneration of an Eligible Person other than a Management Board member and at least 60% of the variable remuneration of an Eligible Person who is a Management Board member constitutes Deferred Remuneration and is deferred for a period of at least 3 years, i.e. it is vested and payable in at least three equal annual instalments rather than immediately after the end of the Evaluation Period. Each time, a resolution on granting the right to receive a particular tranche of the Deferred Remuneration to the Eligible Person, provided that the requirements defined in the Policy and the PFSA Resolution have been satisfied, is passed by the Supervisory Board with respect to the Management Board members and by the Management Board with respect to Eligible Persons other than Management Board members.
- In accordance with the proportionality principle, the minimum amount of variable remuneration that cannot be deferred or paid in the form of financial instruments is set at a level of PLN 100,000 (gross).

Management option plan

On 13 December 2012 on the basis of a power of attorney granted by the 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 a Resolution of the Extraordinary 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.

The principles of execution of the incentive scheme have been determined in the Incentive Scheme Rules and Regulations adopted by resolution of the Supervisory Board of Alior Bank S.A. on 27 March 2013. The incentive scheme was addressed to the Management Board members and a group of key managers of the Bank who were not Management Board members.

Under the Management Option Plan, it was 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 par value of up to PLN 33,312,500 would be issued, including:

- up to 1,110,417 A-series subscription warrants, giving their holders the right to acquire up to 1,110,417 D-series shares of the Bank within five years from the first anniversary of the first quotation of the Shares on the WSE;
- up to 1,110,416 B-series subscription warrants, giving their holders the right to acquire up to 1,110,416 E-series shares of the Bank within five years from the second anniversary of the first quotation of the Shares on the WSE;
- up to 1,110,417 C-series subscription warrants, giving their holders the right to acquire up to 1,110,417 F-series shares of the Bank within five years from the third anniversary of the first quotation of the Shares on the WSE.

The Management Option Plan was in force in the years 2013-2015. In accordance with the Variable Management Remuneration Components Policy which is in place at Alior Bank, the Plan will be settled by the year 2020.

Detailed data related to the warrants ultimately awarded to the Management Board Members is presented in the following table:

Name	Number of A-series warrants awarded	Number of B-series warrants awarded	Number of C-series warrants awarded
Sobieraj Wojciech	222,086	222,086	222,086
Bartler Małgorzata		27,656	13,784
Czuba Krzysztof	88,833	88,833	88,833
Krzyżanowska Joanna			30,440
Skrok Witold	71,066	88,833	88,833
Smalska Barbara			30,440
Sułkowska Katarzyna	88,833	88,833	88,833
Total	**470,818**	**516,241**	**563,249**

In connection with the issue of shares with pre-emptive rights, on 27 July 2016 the Supervisory Board adopted a technical adjustment to the Management Option Plan aimed at ensuring that the Plan is economically neutral to the eligible persons. The adjustment consists of calculating the reduction in the theoretical value of the Management Option Plan and allocating an appropriate number of phantom shares with parameters similar to the warrant parameters to the Plan participants.

Incentive Scheme for the Management Board

Due to the fact that the three-year Management Option Plan based on subscription warrants giving the right to acquire the Bank's shares ended as at the end of the year 2015, the Supervisory Board passed the Incentive Scheme for the Management Board, which is in force from 2016.

The objective of the Scheme is to establish additional mechanisms motivating its participants to effectively perform their tasks, including in particular managing the Bank and making efforts aimed at further sustainable development of the Bank and its capital

group, while preserving correct and effective risk management at the Bank, stability of the senior management of the Bank and pursuing the long-term interests of the shareholders by achieving sustainable growth of the value of the Bank's shares on the stock exchange, at the same time maintaining an increase in the net asset value of the Bank and its companies.

The bonus depends on achieving or exceeding the relevant Thresholds of the Results of the Bank as well as Individual Targets. In accordance with PFSA Resolution no 258/2011, this assessment takes into account the Eligible Person's performance during the three preceding calendar years. The decision to grant the Bonus will be made with regard to the provisions of the Policy, financial and non-financial criteria as well as the evaluation of the overall results of the Bank, and the evaluation of the results of the Bank in the field of responsibility of the given Eligible Person. According to the PFSA Resolution, the Supervisory Board will also consider the results of the whole Bank for the three preceding calendar years when making a decision on the disbursement and amount of the Bonus. The Bonus is payable if the financial situation of the whole Bank supports such payment.

The Bonus will be equal to a defined percentage of the fixed gross annual remuneration of the Eligible Person.

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

- 50% of the Bonus will be paid out in cash in four tranches: 40% will be paid out without deferment, 60% will be deferred and paid out in tranches of 20% in the following years,
- 50% of the Bonus will be paid out in the form of a financial instrument motivating to taking particular care of the long term business of the Bank – the "phantom" shares. The phantom shares will be cashed and paid out in four tranches: 40% will be deferred for 5 months, and 60% will be deferred and cashed out in three tranches of 20% each.

Due to the planned changes in the Bank's legal and organizational structure resulting from the acquisition by the Bank of a separated part of Bank BPH Spółka Akcyjna with its registered office in Gdańsk (comprising the core operations of Bank BPH without the mortgage loan business) under Art. 529 § 1.4 of the Commercial Companies Code, on the terms and conditions specified in the Share Purchase Agreement, on 29 June 2016 the Supervisory Board approved the principles for payment of transactional bonus to the Management Board members in order to provide them with a special incentive to take an active part in the process of preparing and concluding the Transaction. The bonus may be granted and paid if the conditions relating to the Transaction and the Operational Merger of the banks set out by the Supervisory Board are satisfied. The Bonus shall be payable in accordance with the Variable Remuneration Components Policy.

Remuneration of the Management Board and Supervisory Board members of Alior Bank S.A. in 2016

Remuneration of the Management Board members of Alior Bank S.A. in 2016 (in PLN '000)

(in PLN '000)	Period	Fixed remuneration	Variable remuneration 2015	Variable remuneration 2014	Healthcare / Life insurance	Remuneration-related charges	Total
Wojciech Sobieraj	01.01.2016-31.12.2016	2,494	0	0	0,7	100	2,595
Katarzyna Sułkowska	01.01.2016-31.12.2016	1,627	0	0	0,7	72	1,700
Joanna Krzyżanowska	01.01.2016-31.12.2016	1,633	329[1]	32[2]	0	79	2073
Małgorzata Bartler	01.01.2016-31.12.2016	1,633[3]	117[4]	0	4,7	74	1829
Barbara Smalska	01.01.2016-31.12.2016	1,680	0	0	4,7	73	1,758
Krzysztof Czuba	01.01.2016-31.12.2016	1,633	0	0	0,7	72	1,706
Witold Skrok	01.01.2016-31.12.2016	1,633	0	0	0	72	1,705
Michał Hucał	01.02.2016-31.12.2016	1,100[5]	0	0	0	0	1,100
Total		**13 433**	**446**	**32**	**12**	**542**	**14 465**

[1] Variable remuneration including the period of performing the function of Meritum Bank Management Board member

[2] Deferred variable remuneration for the period of performing the function of Meritum Bank Management Board member

[3] Remuneration does not take into account the social insurance contribution adjustment for 2015

[4] Variable remuneration including the period before appointment to the Management Board of Alior Bank

[5] Function in the Management Board to 28.10.2015 Only the amount paid as compensation under the non-competition clause is provided.

Remuneration does not include non-cash benefits from the Company Social Fund.

Remuneration of the Supervisory Board members of Alior Bank S.A. in 2016 (in PLN '000)

Supervisory Board	Period	Remuneration	Compensation paid under the non-competition clause	Remuneration-related charges	Total
Małgorzata Iwanicz-Drozdowska	01.01.2016-31.12.2016	132	0	9	141
Marek Michalski *	01.01.2016-31.12.2016	125	0	11	136
Sławomir Niemierka	01.01.2016-31.12.2016	135	0	6	141
Dariusz Gątarek	01.01.2016-31.12.2016	95	0	18	113
Michał Krupiński	01.01.2016-31.12.2016	91	0	2	93
Stanisław Kaczoruk	01.01.2016-31.12.2016	95	0	15	110
Paweł Szymański	01.01.2016-31.12.2016	95	0	18	113
Maciej Rapkiewicz	01.01.2016-31.12.2016	95	0	5	100
Niels Lundorff**	01.01.2016-31.12.2016	33	2,160	5	2,198

Krzysztof Obłój	01.01.2016-31.12.2016	31	0	5	36
Sławomir Dudzik	01.01.2016-31.12.2016	31	0	6	37
Helene Zaleski	01.01.2016-31.12.2016	33	0	0	33
Przemysław Dąbrowski	01.01.2016-31.12.2016	33	0	3	36
Stanisław Popów* **	01.01.2016-31.12.2016	0,7	0	0	0,7
Total		**1 025**	**2 160**	**103**	**3 288**

* Remuneration does not include social insurance contributions adjustment for 2015 (income)

** Resigned from the position of Management Board Member as of 21.04.2014 The stated amount was paid in 2015; the remuneration does not include the social insurance contributions adjustment for 2015 (income)

*** Remuneration does not include the social insurance contributions adjustment for 2015 (income)

The remuneration does not include non-cash benefits.

Employment contracts concluded with Management Board Members

Employment contracts with the Management Board Members are concluded for an unspecified period. The contracts may be terminated by each of the parties with nine months' notice, with effect as at the end of the respective calendar month.

In the event of termination of the employment contract with a Management Board Member by the Bank before the end of his/her term, the Management Board Member shall be entitled to compensation in an amount not lower than six times and not higher than twelve times his/her basic monthly salary.

The contracts contain non-competition clauses on the basis of which Management Board Members cannot undertake any competitive activities within 12 months after termination of their contract with the Bank. In exchange, the Management Board Members are entitled to receive compensation in an amount equivalent to their gross remuneration for 12 months.

Registered audit firm

By a resolution dated 4 April 2014, the Supervisory Board elected PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw as the registered auditor to audit the financial statements. The contract for the review of condensed interim financial statements and audit of the annual financial statements was signed on 6 June 2014. The contract was concluded for the period of performing the services related to the audit of the financial statements for 2014, 2015 and 2016.

	2016	**2015**
Badanie rocznego sprawozdania finansowego	680 000	430 000
Inne usługi poświadczające , w tym przegląd sprawozdania finansowego	855 000	330 000

XVI. Assessment of the operations of Alior Bank and prospects for 2017

Assessment of operations of the Alior Bank S.A.

In 2016, the Alior Bank Group earned net profit attributable to the parent company's shareholders in the amount of PLN 632.1 million and achieved return on equity (ROE) of 13.0 % and the Cost/Income ratio at 49.6% (in both cases taking into account the one-off events).

The amount of the financial result was affected both by the Bank's operating activities driven by the organic growth of total assets resulting from sales of loans (organic growth in net customer loans in 2016 amounted to PLN 6.9 billion) and by the acquisition of a separated part of Bank BPH (which resulted in an increase in the loan portfolio of PLN 8.5 billion).

Due to the consolidation of the financial results of Alior Bank with the financial results of the separated part of Bank BPH, in the period from 4 November 2016 to 31 December 2016 the revenues of Alior Bank increased

Furthermore, due to the acquisition, the revenues of Alior Bank increased by the gain on acquisition of the separated part of Bank BPH, as a result of which the Bank's income increased by PLN 508,1 million in 2016. At the same time, a decision was made to charge a restructuring provision of PLN 268.1 million to the financial result for 2016.

In addition, operating costs in 2016 increased by PLN 37 million of integration costs.

In 2016, the main source of the Group's revenue was the net interest income, which increased y/y by PLN 445,2 million to PLN 1,941.9 million (i.e. by 29.7%) due to a dynamic growth in the lending activity resulting from the merger with a separated part of Bank BPH, the organic growth and effective management of the Bank's pricing policy, despite the pressure of low interest rates.

In 2016, the main sources of the Group's revenues also included net fee and commission income, which in 2016 amounted to PLN 334.4 million (a slight decrease y/y) and represented 10.5% of the revenues generated in 2016. Another significant component of the group's revenues generated in 2016 was the trading result representing 10.1% of the revenues, in particular the result generated on currency and interest rate transactions concluded on behalf of the Bank's customers.

Bearing in mind the efficient execution of the processes leading to the acquisition of the separated part of Bank BPH on 4 November 2016, which were accompanied by normal business activities significantly increasing the scale of Alior Bank's operations, the Management Board has a positive opinion on the operating activities conducted in 2016, the acquisition and the processes leading to the operational merger with the separated part of Bank BPH, as well as on the financial results achieved in 2016. In the opinion of the Management Board, they provide a sound foundation for the consistent and secure development of the Bank in the coming years.

Prospects for 2017

The Bank identifies the following factors which may affect the Bank's financial results in subsequent months:

1) The success of Alior Bank, including successful implementation of the strategy of maintaining high sales volumes of cash and mortgage loans (for retail customers) and operating and investment loans (for business customers), combined with maintaining high net interest margins and acceptable and manageable costs of risk, will be an important factor affecting the results of operations and the financial position of the Alior Bank Group in 2017.

2) The financial results generated in subsequent quarters of 2017 will be significantly affected by the effectiveness of the processes associated with the operational merger of Alior Bank and the separated part of Bank BPH, which is planned to be completed by the end of the 1st quarter of 2017.

   The estimated level of synergies planned for 2017 in connection with the acquisition of a separated part of Bank BPH amounts to approx. PLN 167 million.

   Moreover, in connection with the acquisition of the separated part of Bank BPH, gain on acquisition of separated part of Bank BPH was recognized, increasing the amount of income of the Bank in 2016 by PLN 508.1 million. Additionally a decision was made to charge a restructuring provision of PLN 268.1 million to the financial result for 2016.

   At the same time, the estimated amount of the costs of integration to be incurred by the Bank in 2017 is approx. PLN 195 million.

3) The scale of demand for banking services, as well as the ability of the Bank's customers to repay their financial liabilities on time, depends largely on their financial condition. In addition to the macroeconomic situation in the country, the economic standing of many groups of customers also depends on the economic policy. Both the slow-down in economic growth in Poland and changes in the legal regulations applicable to enterprises may have an adverse effect on the financial standing of selected customers of the Bank. The Bank's loan portfolio contains exposures associated with the financing of several projects executed by companies operating on the renewable energy market.

   The Bank monitors the financial standing of these entities, regulatory changes and the situation in the industry on an ongoing basis. Due to the conservative financing structures applied by the Bank, most projects have good prospects for repayment of their liabilities. The total amount of write-downs recorded for such exposures as at 31 December 2016 amounted to PLN 34 million. A deterioration in the condition of borrowers operating on that market may lead to the need to record additional write-downs in the future.

XV. Management Representations

Appointing a registered auditor

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

Policies adopted in the preparation of financial statements

The Bank's Management Board hereby represents that to its best knowledge the annual consolidated financial statements for the years 2015 and 2016 have been prepared in accordance with the binding accounting policies and that they give a true, fair and clear view of the assets and financial position of the Alior Bank Group and its results. The Management 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 years 2015 and 2016.

Material contracts

The Bank's Management Board represents that as at 31 December 2016 Alior Bank S.A. did not have:

- any 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, Bank Securities and other financial instruments.

In 2016, the Bank did not grant or terminate any lending agreements outside the scope of the Bank's normal business activities.

Other than as part of its ordinary 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 significant 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 34 of the consolidated financial statements of the Alior Bank S.A. Group.

The total value of off-balance sheet contingent liabilities granted to customers as at 31 December 2016 amounted to PLN 14,614,625 thousand (an increase of 62% y/y). This amount comprises off-balance sheet contingent liabilities relating to financing of PLN 13,054,317 thousand and off-balance sheet contingent liabilities relating to guarantees of PLN 1,560,308 thousand.

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 proceedings relating to liabilities or receivables of the Bank in progress in 2016 did not exceed 10% of the Bank's equity. In the Bank's opinion, no single court, arbitration court or public administration body proceeding in progress in 2016 nor all the proceedings jointly could threaten the Bank's financial liquidity.

The total value of debt collection proceedings brought by the Bank, which were initiated in 2016, amounted to PLN 188,524.5 thousand (with respect to corporate customers) and PLN 737,756 thousand (with respect to retail customers).

Signatures of the Management Board

28.02.2017	Wojciech Sobieraj CEO	…… Podpis
28.02.2017	Małgorzata Bartler Deputy CEO	…… Podpis
28.02.2017	Krzysztof Czuba Deputy CEO	…… Podpis
28.02.2017	Joanna Krzyżanowska Deputy CEO	…… Podpis
28.02.2017	Witold Skrok Deputy CEO	…… Podpis
28.02.2017	Barbara Smalska Deputy CEO	…… Podpis
28.02.2017	Katarzyna Sułkowska Deputy CEO	…… Podpis