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

for the first half of 2018

This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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I. Summary of operations of Alior Bank S.A. in the first half of 2018

The business activities of Alior Bank in the first half of 2018 were primarily marked with a dynamic growth of total assets – by 14% year on year which was mainly due to the organic growth driven with sales focusing primarily on cash loans, instalment loans, housing loans and loans for enterprises, carried out through its own distribution network. As a result, the total value of net customer loans at the end of H1 2018 grew versus the end of H1 2017 by almost PLN 3.6 billion or by 7.3% (and by PLN 1.4 billion or 2.7% versus the end of 2017).

At the end of June 2018, the number of serviced customers exceeded 4.1 million. About 3.9 million are retail customers and almost 180 thousand are business customers.

Structure of asset portfolio by product type and customer segment (%)

It is also worth noting that in H1 2018 the Bank improved its capital position due to very good financial results.

On July 31, 2018 the Bank was recognised by PFSA as other systemically important institution (O-SIIs) which confirms the Bank's major position in Poland's financial ecosystem.

Distribution network and employment level

Distribution network

As at 30 June 2018, the Bank operated 874 outlets (224 traditional branches, 8 Private Banking branches, and 12 Regional Business Centres, and also 630 franchise branches).

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

Employment level

As at 30 June 2018, the headcount at Alior Bank was 8,027 FTEs. Compared to the end of June 2017, that was a drop of FTEs by 1,461.

However, in comparison to the end of the first quarter of 2018, the number of employees in the Bank increased by 23. The increase in employment results from the decision of the Bank's Management Board to transfer persons employed on the basis of a contract of employment (previously not counted) to contracts of employment. The change concerned about 200 full-time positions and was carried out in the period of April-May 2018. At the same time, the Bank pursues a strategy that assumes the conversion of own branches into partner branches, which results in a decrease in employment.

Headcount in FTE

Core financial data

Net profit of the Alior Bank Capital Group (attributable to the shareholders of the parent entity) generated in H1 2018 amounted to PLN 360.0 M and it was higher than the net profit generated in the equivalent period last year by PLN 198.0 M or by 122.3%.

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

in PLN M	30.06.2018	31.12.2017 Restated data	30.06.2017 Restated data	31.12.2016
Balance sheet total	70 538	69 516	61 858	61 160
Net loans and advances to customers	52 674	51 267	49 079	46 247
Due to customers	59 645	57 657	51 720	51 369
Equity attributable to the shareholders of the parent entity	6 336	6 691	6 341	6 160
Net interest income	1 500	2 856	1 386	1 946
Total income	1 994	3 673	1 793	2 681
Operating expenses	-886	-1 854	-1 002	-1 567
Banking Tax	-103	-201	-99	-131
Net profit attributable to the shareholders of the parent entity	360	472	162	575
NIM	4.6	4.6	4.9	4.1
ROE	11.9	7.3	5.2	11.9
ROA	1.0	0.7	0.5	1.1
Costs / Income	44.4	50.5	55.9	58.4
Loans / Deposits	88.3	88.9	94.9	90.0
Capital adequacy ratio	15.4	15.2	13.6	13.6

The major factor that affected the financial results of the Alior Bank Capital Group generated in the first half of 2018 was further increase of credit base as a result of high level of sales supported with an advantageous economic situation.

The Group's balance sheet total at the end of June 2018, on a year on year basis, was up 14.1% to PLN 70.6 billion. Net loans and advances to customers were up in the same period by 7.3% to PLN 52.7 billion and liabilities due to customers grew by 15.4% to PLN 59.6 billion. Due to the continuation of strengthening of the liquidity position of the Bank, a growth of deposits was faster than the growth of loans, the Loan/Deposit ratio at the end of June 2018 was at 88.3%, or almost 7pp down than at the end of June 2017.

The growing balance sheet items were accompanied by a dynamic growth of total income, including the main component which was an increase of net interest. In H1 2018 the total revenues grew up to PLN 1 994 M or by 11.2% y/y. The main income item was net interest which in H1 2018 went up 8.2% y/y, and accounted for 75% of the total income. Net fee and commission income, which in H1 2018 amounted to PLN 214 M and was 4.0% lower than in the equivalent period last year. Additionally, the Group's revenues

generated in H1 2018 were largely affected by the results on instruments measured at fair value through P&L account and the result on revaluation of PLN 185 M (growth by 19% versus the equivalent period of 2017).

In H1 2018, the Group's general and administrative expenses amounted to PLN 886 M and dropped by 11.6% versus the equivalent period last year. As a result, the cost/income ratio in the first half of 2018 was 44.4%.

Despite a major growth of the scale of operations, the Bank's capital position has further improved. The capital adequacy ratio grew from 15.2% at the end of 2017 to 15.4% at the end of June 2018.

Evaluation of the operations of the Alior Bank S.A. Capital Group

In the first half of 2018, the Alior Bank Capital Group generated return on equity (ROE) of 11.9% and the cost/income (C/I) ratio of 44.4%.

The level of the financial profit generated by the Bank was affected by its operational activities which resulted in a further growth of sold loans (the growth of the gross loan volume in H1 2018 PLN 3 billion).

The Management Board of Alior Bank positively evaluates the implementation of strategy as well as the financial performance achieved in H1 2018. The Management Board believes it to be a solid foundation for consistent and safe development of the Bank in the following years.

Factors affecting Alior Bank's operations in the perspective of the coming months

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

- Monetary Policy Council policy on interest rates;
- The scale of demand for banking services, as well as the Bank's customers' ability to timely repay their financial obligations is largely subject to their financial condition. Eventually slowdown in the growth rate of Poland's economy and modifications to legal regulations affecting enterprises may have an adverse effect on the financial conditions of certain customers of the Bank;
- Continuation of underwriting of a large volume of cash loans and mortgage (for individual customers) and working capital and investment loans (for business customers) while maintaining high net interest margins and risk costs;
- Very good situation in the labor market; low unemployment and strong wage growth have a positive impact on private consumption, however, they may hinder the recruitment of new employees and increase labor costs.

II. Information for Investors

Listing of Alior Bank shares on the Warsaw Stock Exchange in the first half of 2018

Alior Bank had its début at SE on 14 December 2012. On 21 March 2014 – within only 15 months of its stock exchange début – the Bank joined the group of twenty largest and most liquid companies listed at WSE.

The total amount of trading in the Bank's stock in H1 2018 was almost PLN 2.8 B. In H1 2018 over 220 thousand transactions were concluded in the shares of Alior Bank versus slightly over 249 thousand transactions in H1 2017.

In H1 2018 the price of the Bank's stock dropped by 16% and at the end of June 2018 it reached PLN 66.90. The dropped prices was due to an increased activity of investors at WSE in the supply part, which was particularly well visible in the banking sector with a very successful 2017. For comparison sake, the value of the WIG Banks index in the same period decreased by 15% and the WIG20 index grew by 13%. At the end of June 2018, the P/E and P/BV ratios for Alior Bank were 14.50 and 1.42 respectively.

The stock prices and trading volumes in the Bank's shares at WSE in Warsaw in the first half of 2018 are presented in the chart below:

Rating

On 5 September 2013, Fitch Ratings Ltd. allotted Alior Bank S.A. a rating of BB with a stable outlook. On 5 February 2018, Fitch Ratings Ltd. maintained the BB rating for Alior Bank changing the outlook from stable to positive.

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

- Long-Term Foreign Currency IDR: BB positive outlook;
- Short-Term Foreign Currency IDR: B;
- National Long-Term Rating: BBB+(Pol), positive outlook;
- National Short-Term Rating: F2(Pol);
- Viability Rating (VR): BB;
- Support Rating: 5;
- Support Rating Floor: 'No Floor'.

The definitions of ratings of Fitch Ratings Ltd. are available at the Fitch site www.fitchratings.com, where ratings, criteria, and methodologies are published.

III. External conditions to the Bank's functioning

Poland's economic growth

In the first half of 2018 the high growth dynamics of Poland's economy continued. In Q1 2018 GDP growth accelerated to 5.2% y/y which came as a surprise after the successful end of the last year. Internal consumption was the core contributor which in the discussed period contributed + 3.6 pp to GDP growth; additionally, on the part of accumulation, it was the growth of inventories that supported the accelerated growth and its contribution to GDP was as much as + 1.9 pp. Consumption overall over that period grew by 4.5% y/y versus 4.9% in Q4 2017. On the other hand, investments – despite a higher growth rate than in Q1 2015 (the growth y/y was 8.1%), added only +0.9 pp to the GDP growth. Also net exports had an adverse impact in the quarter whose contributed was negative at 1.2 pp. The above shows that a slow-down of economic growth in the coming quarters is increasingly likely – although this should not be rapid in view of the good results generated in Q1 this year. Market expectations estimated on the basis of research by Bloomberg show now GDP growth overall for 2018 at 4.4% y/y and in 2019 at 3.5% y/y[1] which results in projections for Q2 of 4.8% y/y.

In the long term the lower EU financing perspective for 2021-2027 poses a risk to Poland's economic growth – this may primarily hit investments; however, over the next years Poland will continue to be financed from the EU budget from the financial perspective for 2014-2020. On the other hand, the main risk factors include uncertainties as to the prospects of global economy and in Poland – developments in labour supply. The low unemployment level stimulates consumption; however, on the other hand, problems with finding employees will become a development barrier, particularly for smaller entities. On the other hand, private consumption should prove supportive.

In H1, the average growth rates of retail sales were 8.0% y/y; the highest growth of sales was recorded in June with 10.3% y/y. Additionally, average monthly growth of industrial production in H1 was 6.5% y/y while the results for June were surprisingly positive at 6.8% y/y. Impressive growth dynamics was achieved by construction and assembly production which in January was 34.7% y/y and in February – 31.4% y/y. Both quarters of the first half were successful for construction and assembly production which in June grew by 24.7% y/y. The high growth of construction and assembly production and of retail sales support the information of a continued economic situation of Poland's economy.

Despite the accelerated CPI index in June up to 2% y/y, the Monetary Policy Council (MPC) did not decide to raise interest rates and after the July meeting, NBP's reference rate will continue to be 1.5% p.a. With the July

[1]Bloomberg projections as at 12.07.2018

meeting, NBP's most recent macroeconomic projections were published. According to NBP's estimates, with a likelihood of 50% GDP growth will fall within the range of 4.0-5.2% in 2018, 2.8-4.7% in 2019 and 2.4-4.3% in 2020.

In the opinion of the Council, the most recent data and results of the projections show an advantageous growth of activity in Poland's economy despite an anticipated slowed GDP growth in the next year. The MPC noted that the existing interest rate levels supported Poland's economy on a path of stable economic growth and macroeconomic balance is maintained. In his comments, the Chairman A. Glapiński stressed that in his opinion no reasons were visible to change the interest rate level in the horizon of inflation projection being the end of 2020.

GDP growth rate

*/consensus forecast for 10/07/2018

Situation in the labour market

In H1 2018 the labour market was in a good condition. Since the beginning of the year, the unemployment rate kept dropping to reach the record low level of 5.9% in June. However, the drop of unemployment was not accompanied by a dynamic growth of employment like a year earlier. In June employment grew by 3.7%. The unemployment drop was accompanied by a growth of wages which throughout the period was about 7.1% to reach 7.5% in June. In real terms, the growth of wages was kept restricted to the inflation which was higher than a year earlier. If the drop of unemployment is a positive factor for real economy as it results in increased disposable income by households and growing consumption, in the long run employers will be facing shortages of labour. The above is on the one hand balanced with a growing number of foreign staff but also with a growing work productivity which reduces wage pressure. However, on the other hand the continued shortage of labour will reduce the development potential of the private sector and pose obstacles to investments which in the long run may slow economic growth.

GDP growth and unemployment rate

*/consensus forecast for 10/07/2018

Inflation

At the beginning of 2018, CPI in Poland slowed down after an abrupt acceleration at the end of 2017 when it reached the level of 2.5% y/y in November. In Q1 CPI dropped to 1.5% versus 2% in the equivalent quarter of 2017 but in the following months the price growth rate was noticeable and reached 2% y/y in June. Thus, the growth of prices in Q2 2018 was 1.7% y/y.

The slower price growth in Q1 was supported with decreasing prices of raw materials in world markets and the wage pressure did not contribute materially to inflation growth. The weakening PLN was operating in the other direction. In Q2, trend reversal in the raw materials market, in particular oil, and further weakening of PLN, again generated an increase of consumer prices. For the entire six-month period, CPI reached the average monthly value of 1.65% y/y. In its July projection, NBP reduced this year's consumer inflation growth to 1.8% y/y from 2.1% y/y forecast in March. CPI projected for the next year was not changed and stays at 2.7% y/y in 2019 while for 2020 the projection was reduced from 3% y/y to 2.9% y/y.

In H1 the fastest growth affected food prices (3.6% y/y) and service prices at restaurants and hotel; however, at the end of the period, there was a noticeable acceleration of fuel price growth. On the other hand, the decreasing prices of clothing and shoeware (-4.1% y/y) had a negative impact on the index. The dynamics of the base inflation index in later months of H1 was systematically slowing down and reached 0.6% y/y in June. That was due to a major drop in price growth of services and a relatively low base inflation in some of the largest economies. However, higher prices of energy raw materials that a year earlier in the world, including oil, have gradually been converted into a faster growth of energy prices.

According to the most recent projection of July made by the Economic Institute of the National Bank of Poland (IE NBP), with a likelihood of 50% inflation in 2018 will fall within the range of 1.5-2.1% y/y, in 2019 – 1.9-3.5% and in 2020 – 1.7-3.9%. That means a return to inflation over the projection horizon to the NBP's target (2.5%). The assumptions underlying the projection provide that over the projection horizon, CPI will grow as a result of a delayed demand and cost effect in Poland's economy. With the assumed no change to

NBP's interest rates, CPI will only be slightly over 2.5% in 2019-2020. Operating costs of enterprises will be growing along with the intensified salary growth which in real terms will be in excess of growing work productivity. Higher inflation will also be fuelled with a growing demand pressure which is manifested in the positive demand gap to be present in 2018-2020. However, the inflation in Poland will be mitigated by moderate inflation abroad.

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

Situation in financial markets

In H1 2018 financial markets witnessed a change of trends prevailing practically throughout 2017. Considering that in the previous year most stocks and bonds appreciated, last February as a result of *inter alia* a dynamic growth of yields of US 10-year T bonds, the stock markets experienced the largest correction since 2015. Combined with the consistent normalisation process of US monetary policies by raising the Fed fund rate and reducing Fed's total assets, a pressure resulted on asset pricing coming from emerging markets (both stocks, bonds and currencies). Another negative factor was the protectionist rhetoric applied by D. Trump's administration, aimed primarily at China. Such circumstances had a major impact on South America for which China and the USA are the largest trade partners. MSCI Latin America in H1 lost 12.1%, MSCI China – 2.2%, and the collective index for emerging markets – MSCI EM -7.3%. Among the core stock indices that closed H1 2018 higher than 2017 was S&P500 (+1.1%) and India's SENSEX (+4.7%). The correction in February only reinforced the multi-year upward trend in global technological companies. Nasdaq closed H1 by as much as 8.1% higher than in 2017 while the 5-year rate of return on the US broad technological company index reached the level of 120.7%.

Despite no direct exposure to the core disadvantageous external factors, Poland’s domestic stock market in H1 was among the weakest in the world (the broad domestic stock index WIG lost 12.6% in that period with only the Turkish XU100 with a drop of 15.7% was falling faster). The situation was due to a major aversion by domestic investors to risky investments and structural problems of Poland's capital market with the most important ones being: no presence of a large number of innovative technology, e-commerce, IT companies at WSE that recorded major gains in foreign markets, as well as due to high fees, non-attractive historic rates of return of investment funds operating in the Polish market versus similar foreign funds.

Selected stock indices (2012.01 = 100)

The US Federal Reserve was one of the core central banks that indeed normalised its monetary policies. Controlling the Euro, Swiss Franc and Japanese Yen, central banks maintained negative short-term interest rates and kept purchasing assets while it was only the ECB that openly declared the time to abandon the unconventional monetary policy.

As a result, low yields prevailed on most T bonds of developed countries – apart from the US debt, the other exception was Italian debt from May due to the results of parliamentary elections and the new government perceived by a part of the market as populist radical which resulted in a growth of premium on Italian bonds versus the German Bunds considered to be the safest instruments in the Euro zone.

Yields of selected 10-year T bonds in developed countries

Polish debt in H1 had exceptionally stable conditions – which was due to no change to NBP's core interest rate as well as to a more balanced economy than in the other countries of the CEE region (in particular in Hungary and Romania): high but single-digit salary growth, no major imbalances in foreign trade, base inflation at low levels.

Yields of 10-year T bonds of selected CEE countries

Source: Bloomberg

FX rates

The stricter monetary policies in the USA along with the deteriorating sentiment in financial markes with concerns of global market condition in H1 2018 did not contribute to any appreciation of the currencies of emerging economies. In Q2 aversion to risk was additionally strengthened with fears of an escalation of trade wars declared by the United States on the rest of the world, primarily China.

The above adversely affected the zloty throughout the period which has been losing against USD and EUR since the beginning of the year which is evidence of the relationship of the domestic currency on sentiments in the EM region. Over the period, there was a major appreciation of the USD both in the major pair EUR-USD but also versus the currency basket which was due to changed market expectations and the fast route on monetary tightening by Fed.

EUR-USD was losing additionally under the pressure of uncertainties in Europe, fuelled on the one hand with a slowing down economic growth of Euro zone countries as well as political risks. In the last half-year, the government changed in Italy and in Germany the conflict in the coalition in A. Merkel's government lasted practically until the end of the period. As a result, in the first six months EUR-USD fell by 2.6%, down to 1.17. At the same time, PLN lost as much as 7.4% against USD and 4.6% against EUR, with the following year end exchange rates: 3.74/USD and 4.37/EUR respectively. Even the good domestic economic situation and stable monetary policies by the MPC could not do much to support the rates.

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

IV. Core structural and financial data of Poland's banking sector in January-May 2018

Core structural details

As at the end of May 2018, there were in Poland: 35 domestic commercial banks, 551 credit unions and 29 branches of credit institutions in Poland. At the end of May 2018, the domestic bank network covered 6 555 branches, 3 698 sub-branches, agencies and other customer service outlets as well as 3 013 representative offices (including franchise outlets). Thus, at the end of May 2018, the domestic banking network covered overall 13 266 outlets which was 634 less than at the end of June 2017.

The headcount at the end of May 2018 was 164.7 thousand persons and was lower than the headcount at the end of June last year by 2.0 thousand people (1.2%).

The long lasting stabilisation of interest rates and the relatively high regulatory burdens result in an increased importance of the scale of operations as a means to improve the effectiveness of entities in the banking sector. The above results in a consolidation process going on for several years with the recent examples of mergers and acquisitions.

At the end of May 2018, the State Treasury controlled 8 banks. In 557 banks and branches of credit institutions, private capital prevailed. In 50 banks and branches of credit institutions, foreign capital prevailed.

Selected profit and loss account items[2]

In the period between January and May 2018 the banking sector generated net profit of PLN 6.4 billion vs. PLN 5.2 billion in the equivalent period last year (growth by 24.5%).

The net profit of the sector was primarily achieved on an increased profit on banking operations (up to PLN 8 billion, or 12.9% more than in the equivalent period in 2017) which was a consequence of a major growth of net interest income (by 9.1%) with a simultaneous decrease in fee and commission income (by 1.71%).

In the period between January and May 2018, versus the equivalent period last year, there was a growth of interest expense (by 34.1% y/y) with a simultaneous growth of interest income (by 16% y/y).

[2] Source: Monthly data of the banking sector (knf.gov.pl)

Operating expenses of banks (including depreciation/amortisation and provisions) went up in the reporting period by 5.1% y/y, to PLN 14.7 billion. The growth was due to an increased level of employee expenses (by 5.9% up to PLN 7.2 billion) and a growth of overheads (by 4.3% up to PLN 7.5 billion).

The balance of impairment allowances to financial assets in the period from January to May 2018 versus the equivalent period last year grew by 1.4% and amounted to PLN 3.1 billion.

Loans and deposits[3]

Total assets of the banking sector at the end of May 2018 amounted to PLN 1 664 billion and were by 5.9% (or PLN 91.9 billion) higher than at the end of May 2017.

Gross receivables from the non-financial sector at the end of May 2018 versus the previous year grew by 7% and amounted to PLN 1 121 billion. The core growth areas included receivables from enterprises (+9.1% y/y) and receivables from households (+5.9% y/y).

Deposits of the non-financial sector grew at the end of May 2018 y/y by 5.7% up to PLN 1 075 billion. At the end of May 2018, deposits by enterprises and deposits by households accounted for 97.6% of the total deposits of the non-financial sector. The growth rate of deposits by enterprises was lower than the growth rate of deposits by households (growth by 3.7% and 6.2%, respectively). As a result, the value of deposits of households at the end of May 2018 grew up to PLN 782 billion and the value of deposits by enterprises at the end of May 2018 was PLN 267 billion.

Equity and capital ratios[4]

Equity of the banking sector for capital ratios, calculated as per the provisions of the CRR Regulation, at the end of March 2018 amounted to PLN 200.3 billion and was up 12.5% against the figure at the end of March 2017.

The total capital ratio of the banking sector at the end of March 2018 was 18.9% (growth by 1.0 pp vs. the end of March 2017) while the Tier I capital ratio was 17.0% (growth by 0.6 pp vs. the end of March 2017).

[3] Source: Monthly data of the banking sector (knf.gov.pl)

[4] Source: Monthly data of the banking sector (knf.gov.pl)

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

Profit and loss account

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

in PLN '000	Period 1.01.2018 – 30.06.2018	Period 1.01.2017 – 30.06.2017 Restated data	Change y/y (PLN '000)	Change y/y (%)
Interest income	1 851 357	1 760 030	91 327	5,2%
Similar income	87 253	n/d		
Interest expense	-438 809	-374 362	-64 447	17,2%
Net interest income	**1 499 801**	**1 385 668**	**114 133**	**8,2%**
Dividend income	94	2	92	4600,0%
Fee and commission income	396 132	392 363	3 769	1,0%
Fee and commission expense	-181 923	-169 136	-12 787	7,6%
Net fee and commission income	**214 209**	**223 227**	**-9 018**	**-4,0%**
Net income on financial instruments measured at fair value through profit and loss account and result on revaluation	185 157	155 646	29 511	19,0%
Result on instruments measured at fair value through profit and loss and result on revaluation	n/d	1 166	n/d	n/d
Result on other financial instruments	61 368	n/d	n/d	n/d
The result on discontinuation of recognizing assets and liabilities not measured at fair value through profit or loss, including:	32 112	n/d	n/d	n/d
Measured at amortized cost	29 256	n/d	n/d	n/d

Other operating revenues	79 406	60 374	19 032	31,5%
Other operating expenses	-46 181	-32 661	-13 520	41,4%
Result on other operating revenues and expenses	**33 225**	**27 713**	**5 512**	**19,9%**
Group's operating expenses	-886 253	-1 002 059	115 806	-11,6%
Net result on anticipated losses, impairment allowances and provisions	-509 245	-467 699	-41 546	8.9%
Banking Tax	-102 901	-98 728	-4 173	4.2%
Gross profit	**495 455**	**224 936**	**270 519**	**120.3%**
Income tax	-135 482	-62 977	-72 505	115.1%
Net profit	**359 973**	**161 959**	**198 014**	**122.3%**

Net profit of the Alior Bank S.A. Capital Group (attributable to the shareholders of the parent entity) in H1 2018 was PLN 360.0 M and was higher than the net profit generated in the equivalent period last year by PLN 198 M or by over 122%.

Total income (PLN M) – consolidated data

Net interest is the core income item of the Group accounting for 75% of the total income. The annual growth by 8.2% was due to a limited growth of loan volume to customers and the accompanying growth of customer deposits. As a result, the customer net loan portfolio went up by 7.3% year on year, while deposits from customers were up 15.4%. The achieved interest income was also positively affected by an adequate pricing policy – with respect to both deposits and loans in the environment of low interest rate environment in the Bank.

Group's profitability measured with net interest margin by each product at the end of June 2018 was as presented in the table below.

Consolidated data	30.06 2018 (%)
LOANS	6.14
Retail segment, of which:	7.22
Consumer loans	8.67
Loans for residential properties	4.28
Business segment, of which:	4.79
Investment loans	4.02
Working capital loans	5.42
Car Loans	4.00
DEPOSITS	1.31
Retail segment	1.13
Current deposits	0.74
Term deposits	1.84
Business segment	1.64
Current deposits	0.10
Term deposits	1.57

Net fees and commissions dropped by 4.0% down to PLN 214.2 M. The result was due to PLN 396.1 M of commission income (drop by 1.0% year on year) and PLN 181.9 M of commission expenses (growth by 7.6% y/y). The following factors had an impact on the commission income in relation to the first quarter of 2018: (i) an increase in commission income from servicing payment cards and loans and advances, (ii) higher commission costs related to acquiring customers and mailing communication.

The core elements of the net fees and commissions include commissions on loans, accounts, transfers, cash deposits, disbursements and borrowings, etc. In H1 2018 these amounted to PLN 201.5 M and accounted for 51% of the total fee and commission income. The y/y drop was primarily due to a drop of income from servicing bank accounts.

Net fee and commission income (PLN M)

The result on financial assets measured at fair value through profit or loss and trading result, net gain (realized) on other financial instruments, the result on derecognition of financial assets and liabilities not

measured at fair value through profit or loss and net other operating income amounted PLN 279.8 M. (increase by 51.6%).

The result on financial assets measured at fair value through profit or loss and trading result, net gain (realized) on other financial instruments, the result on derecognition of financial assets and liabilities not measured at fair value through profit or loss and net other operating income (PLN M)

In in first half of 2018 the operating expenses amounted to PLN 886 M and were lower than the expenses incurred in the same eriod of the previous year by PLN 116 M, or by 11.6%. The decrease in operating costs is related to the effect of synergies of the merger with the Core of BPH Bank carried out in the previous year.

Personnel costs in the analysed period amounted to PLN 473.9 M and were 14.6% lower than personnel costs incurred in the equivalent period of 2017.

General and administrative expenses in H1 2018 amounted to PLN 322.8 M and were by 9.0% higher than general and administrative expenses incurred in the first half of 2017.

As a result, the cost/income ratio at the end of June 2018 was at 44.4% versus 54.9% at the end of June of 2017.

Operating expenses (PLN M)

Net result on impairment allowances

The amount of impairment allowances and provisions in H1 2018 was PLN -509.2 M versus PLN -467.7 M in H1 2017, meaning an increase of 8.9%, primarily due to increased impairment allowances to receivables from customers in the non-financial sector. The growth was primarily due to growing balances of amounts due from customers as well as due to organic growth of the volumes.

The net provisions calculated on the average balance of customers' gross receivables (risk cost ratio) recorded a drop from 1.8% to 1.7% y/y.

Net impairment allowances (in PLN '000) – consolidated data

	01/01/2018 – 30/06/2018	01/01/2017 – 30/06/2017 Restated data
Stage 3	**-573 572**	**-432,918**
Allowances for receivables from customers	**-573 572**	**-432,918**
Retail customers	-300 628	-269,164
Business customers	-272 944	-163,754
Financial assets	**3 494**	**n/a**
IBNR – receivables from customers without impairment	**n/d**	**-17,162**
Retail customers	n/d	28,128
Business customers	n/d	-45,290
Allowances on expected credit losses (ECL)	**58 961**	**n/a**
Stage 2	**46 244**	**n/a**
Retail customers	28 215	n/a
Business customers	18 029	n/a
Stage 1	**12 717**	**n/a**
Retail customers	2 318	n/a
Business customers	10 399	n/a
POCI	**-2 627**	**n/a**
Provisions for off-balance sheet liabilities	**6 732**	**-6,632**
Property, plant and equipment and intangible assets	**-2 233**	**-10,987**
Net result on anticipated losses, impairment allowances and provisions	**-509 245**	**-467,699**

Balance Sheet

As at 30 June 2018, the balance sheet total of the Alior Bank Capital Group amounted to PLN 70.5 billion and was PLN 1.0 billion (1.5%) higher vs. the end of 2017.

The core items supporting the growth of balance sheet total was a growth of receivables from customers (the growth in H1 2018 by 2.7% or by PLN 1.4 billion), financed mainly with growing liabilities: customer deposits (a growth by PLN 2.0 billion up to PLN 59.6 billion).

The tables below present relevant items of assets, liabilities and equity as at the end of June 2018 along with the data at the end of 2017.

Assets (in PLN '000) Consolidated data	30.06.2018	31.12.2017 Restated data	Change (PLN '000)	Change (%)
Cash and funds with Central Bank	1 480 368	965 391	514 977	53%
Receivables from banks	742 611	901 629	-159 018	-18%
Financial assets	12 880 942	13 642 769	-761 827	-6%
measured at fair value through comprehensive income	8 124 256	n/d		
measured at fair value through profit and loss account	702 996	n/d		
measured at amortised cost	4 053 690	n/d		
available for sale	n/d	12 072 324		
held to maturity	n/d	1 117 894		
held for trading	n/d	452 551		
Hedging derivatives	72 432	87 785	-15 353	-17%
Receivables from customers	52 674 334	51 266 640	1 407 694	3%
Assets hedging liabilities	335 661	408 911	-73 250	-18%
Property, plant & equipment	441 154	475 691	-34 537	-7%
Intangible assets	550 925	548 587	2 338	0%
Investments in subsidiary entities	0	0		
Assets held for sale	271	357	-86	-24%
Income tax assets	860 018	591 782	268 236	45%
Deferred	860 018	591 782	268 236	45%
Other assets	499 527	626 440	-126 912	-20%
Total assets	**70 538 243**	**69 515 982**	**1 022 262**	**1%**

Liabilities and equity Consolidated data	30.06.2018	31.12.2017 Restated data	Change (PLN '000)	Change (%)
Liabilities to banks	698 325	891 645	-193 320	-22%
Liabilities to customers	59 645 174	57 657 019	1 988 155	3%
Financial liabilities	445 932	435 878	10 054	2%
held for trading	n/d	435 878		0%
measured at fair value through profit or loss account	445 932	n/d		
Hedging derivatives	8 756	5 419	3 337	62%
Provisions	184 994	90 457	94 537	105%
Other liabilities	1 149 084	1 693 915	-544 831	-32%
Income tax liability	150 527	135 690	14 837	11%
Current	150 016	135 204	14 812	11%
Deferred	511	486	25	5%
Subordinated liabilities	1 918 988	1 914 976	4 013	0%
Total liabilities	64 201 780	62 824 998	1 376 782	2%
Shareholders' equity	1 304 587	1 292 636	12 551	1%

Supplementary capital	5 385 004	4 820 048	564 956	12%
Revaluation reserve	64 448	13 944	50 504	362%
Other reserves	172 839	183 824	-11 585	-6%
Exchange rate differences on revaluation of foreign entities	-230	594	-824	-139%
Retained profit	-950 158	-92 579	-857 579	926%
Current year's profit	359 973	471 194	-111 221	-24%
Non-controlling interests	0	1 322	-1 322	-100%
Shareholders' equity	6 336 463	6 690 983	-354 520	-5%
Total liabilities and equity	**70 538 243**	**69 515 982**	**1 022 262**	**1%**

The largest asset item is made up of receivables from the Group's customers (PLN 52.7 billion). Their share in balance sheet total as at the end of June 2018 accounted for 74.7%, i.e. up by 0.9 pp. than at the end of December 2017. As at the end of June 2018, another large asset item were financial assets at PLN 12.9 billion, which accounted for 18.3% of total assets (at the end of December 2017 – 19.6% of total assets).

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

The y/y growth of loans and advances to customers in the first half of 2018 by 2.7% was due to both an increased volume of loans granted in the retail segment (up 1.0%, or by PLN 0.3 billion, to PLN 28.5 billion), as well as an increase in the receivable portfolio of corporate customers. The loan volume to the business segment was up 4.8% (or by PLN 1.1 billion) to PLN 24.1 billion.

Loans and advances to customers (PLN B)

The retail segment loan portfolio primarily included cash and operational loans and consumer finance with the volume almost PLN 17.1 billion (drop y/y by 0.3%). They accounted for 60.0% of all loans granted to retail customers and accounted for 32.5% of the entire portfolio of customers' receivables. The second largest item in the retail segment loan portfolio (38.0%) covered housing loans and mortgage loans with the total volume as at the end of June 2018 of PLN 10.8 billion (overall growth y/y by 4.3%).

As at the end of June 2018, operational corporate loans of PLN 12.0 billion (growth by 0.5% y/y) were the largest single item of the business segment loan portfolio, accounting for 49.6% of its total value. Investment loans were the second largest item of the business segment loan portfolio, accounting for 34.9% of the portfolio. Their value as at the end of June 2018 was down by 2.4% compared to PLN 8.4 billion.

Currency structure of the loans and advances to customers

Some slight increase was seen at the end of June 2018, versus the end of June 2017, in PLN denominated loan receivables – to 88.5% of the total loans and advances to customers (up 0.2pp. versus end of 2017). Amounts due from customers in EUR as at the end of June 2018 accounted for 10.8% of total customer receivables and their share versus the end of 2017 rise by 0.9 pp.

Geographical structure of loans and advances to customers as at 30 June 2018 (net value)

Almost 1/4 of the loans granted by the Bank were loans to customers from Mazowieckie Voivodeship. Over 23% of loans are receivables from customers from Śląsk and Dolny Śląsk. Receivables from customers coming from other provinces account for about 54% of the entire loan portfolio. The Group's business is mainly financed with funds of customers from the non-financial sector deposited with the Bank. As at the end of H1 2018 their share in the balance sheet total accounted for 84.6% (an increase of 1.6 pp. against end of 2017). As at 30 June 2018, net equity amounted to PLN 6.3 billion and was slightly down by PLN 0.4 billion than at the end of 2017.The drop was primarily due to the retention of the net profit generated in 2017 as well as in the first half of 2018.

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

The liabilities due to customers largely included liabilities due to the retail segment which at the end of June 2018 accounted for 65.8% of the customers' deposit portfolio. As compared to the end of 2017, the share was increased by 2.4 pp.

Current deposits are the main item of the liabilities portfolio to customers. They accounted for 57% of the entire liabilities to customers as at the end of June 2018 (growth by 1.4 pp versus the end of 2017). Term deposits make second largest item of liabilities due to customers (37% of all liabilities due to customers as at 30 June 2018). As compared to the end of 2017, their share in overall liabilities to customers dropped by 1.3 pp.

The remaining 6.3% of the liabilities to customers as at the end of June 2018 were the funds acquired as a result of the Bank's own issues of debt securities and other liabilities.

Types of liabilities to customers (PLN B)

Currency structure of the liabilities to customers

As at the end of June 2018, the share of PLN deposits in the entire portfolio reduced by 0,6 pp up to 84.7% y/y. The other 15.3% of the liabilities to customers were deposits in foreign currencies. EUR and USD were the most popular foreign currencies in which customers deposited their savings at the end of June 2018.

Geographical structure of liabilities due to customers as at 30 June 2018

The funds deposited with the Bank primarily come from customers from Mazowieckie (30%), Małopolskie (14%), and Śląskie Provinces (10%). Customers from the other provinces deposited funds with the Bank accounting for 45% of the entire deposit base.

Contingent liabilities

The Group grants contingent liabilities to individual customers under overdraft facilities in ROR accounts and credit cards. Those are granted for an unspecified period of time with simultaneous monitoring of the adequacy of funds inflows to the accounts.

The Group grants contingent liabilities to business customers as follows:

- overdraft facility limits for 12 months;
- guarantees, mainly up to 6 years;
- credit cards for an unspecified period of time (with simultaneous monitoring of the adequacy of funds inflows and portfolio or individual monitoring);
- guarantee limits;
- loans disbursed in tranches for up to 2 years.

The guarantee values above reflect the maximum potential loss that would be disclosed on the balance sheet date if all customers defaulted.

As at 30 June 2018, the number of active guarantees granted by Alior Bank was 2,340 for a total amount of PLN 1,364,604 thousand.

The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (1,684) total PLN 773,303 thousand.

As at 30 June 2018 the total value of off-balance sheet contingent liabilities granted to customers was PLN 11,927,110. The amount comprised PLN 10,562,506 thousand off-balance sheet contingent liabilities relating to financing and PLN 1,364,604 thousand of off-balance sheet contingent liabilities relating to guarantees.

Granted off-balance sheet liabilities (PLN '000)

Off-balance contingent liabilities granted to customers	as at 30.06.2018	as at 31.12.2017
Granted off-balance contingent liabilities	11,927,110	12,498,037
Concerning financing	10,562,506	11,253,862
Guarantees	1,364,604	1,244,175

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

by entity	as at 30.06.2018
entity 1	182,000
entity 2	114,964
entity 3	114,330
entity 4	104,532
entity 5	100,000
entity 6	98,415
entity 7	97,173
entity 8	78,852
entity 9	77,907
entity 10	75,085

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

by instrument	as at 30.06.2018
Credit lines	10,310,085
Import L/Cs	221,619
Loan commitments	30,803
Guarantees	1,364,604
Total	**11,927,111**

The Bank did not underwrite any bonds in 2018 (no off-balance sheet liabilities relating to bonds).

Financial projections

Alior Bank S.A. did not publish any projections of its financial results.

VI. Business activities of Alior Bank S.A.

Activities of Alior Bank S.A.

Alior Bank is a universal deposit and credit bank, providing services to natural and legal persons, and other entities that are domestic and foreign persons. The Bank's core business covers maintenance of bank accounts, granting loans, issue of bank securities, and purchase and sale of foreign currencies. The Bank is also involved in stock broking activity, financial advisory and intermediation services, arrangement of issues of corporate bonds and provides other financial services.

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

The Bank operates in various divisions that offer specific products and services, addressing specific market segments. The Bank is currently involved in the following sectoral segments:

Individual customer (retail segment)

Business customers (corporate segment)

Treasury activities

Detailed information on the Bank's business operating segments is presented in the condensed consolidated financial statements of the Alior Bank S.A. Capital Group for H1 2018 (note No. 3).

Retail segment

General information

As at 30 June 2018, Alior Bank serviced 3.9 M individual customers. The growth of the number of customers in H1 2018 was due to the organic growth of Alior Bank.

Since 2017 the Bank has been implementing a behavioural segmentation of retail customers which provides for a more precise addressing of products and services to the appropriate buyers. Behavioural segmentation applies both to the development of product offers and to support to the sales network. Additional knowledge of customers and their approach to banking helps us in a better structuring of new offers and results in growing revenues on customers. The "Konto Jakże Osobiste" account is an example of a product that best reflects the alignment to customers' needs – the account was launched in H2 2017 and provides for

an individual selection of benefits. An analysis of customers' behaviour will support the Bank in an optimum alignment of its offer and the channel to reach customers.

Apart from the behavioural segmentation, the Bank has identified the following segments among its retail customers:

- mass customers (persons with assets with the Bank under PLN 100 thousand, with monthly inflows to their personal accounts under PLN 10 thousand);
- affluent customers (persons with monthly inflows to their personal accounts in excess of PLN 10 thousand or holding assets in excess of PLN 100 thousand);
- Private Banking customers (persons with assets exceeding PLN 1M or investment assets exceeding PLN 0.5M).

The segmentation is reflected in the structure of the sales network by making sales units specialise in specific products as follows: universal branches, premium branches and mini-premium and private banking branches.

Distribution channels

As at the end of June 2018, the Bank operated 874 outlets (224 traditional branches, 8 Private Banking branches and 12 Regional Business Centres, and 630 franchise outlets). The Bank's products are also offered in the network of 10 Mortgage Centres, 10 cash centres, about 5,000 of financial intermediaries.

Alior Bank also used distribution channels relying on a modern IT platforms, covering: online banking, mobile banking and call centres and DRONN technology. Over the Internet, including internet banking, the Bank offers possibilities to conclude agreements covering: savings and clearing accounts, FX accounts, savings accounts, deposits, debit cards, and stock broking accounts. The channels are also used to submit applications for credit products: cash loans, credit cards, revolving current account facilities and mortgage loans. In the Internet the Bank also offers HP loans in an on-line process and services of an FX exchange office.

Traditional branches of Alior Bank are located all over Poland, in particular in cities with over 50 thousand inhabitants, and they offer a full range of the Bank's products and services. Franchise outlets on the other hand are located in smaller towns and in specific locations in Poland's largest cities, offering a broad range of services, as well as deposits and loans to retail and corporate customers.

The Bank cooperates with its franchisees on the basis of outsourcing agencies agreements. Under such agency agreements, agents perform exclusive agency services on behalf of the Bank distributing its products. The services are provided in premises owned or rented by the agents approved by the Bank.

As specified above, the Bank's products are also offered in the network of financial intermediaries such as Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines, DFQS, GTF, and others. The offers of the Bank's products available with financial intermediaries vary depending on the agent, but basically such financial intermediaries offer primarily cash loans, consolidation loans, mortgage loans, and HP loans.

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

Core products

The core products for individual customers are as follows:

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

Due to the specific nature of its business in the retail segment, the Bank identified three additional areas of the retail segment with a dedicated offer for each group of the Bank's customers: consumer finance, Private Banking, and stock broking activity.

Credit products

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

Cash loans

Cash loans are the main unsecured credit products for individual customers. Such loan can be granted for any purpose or for payment of financial liabilities (consolidation loan). Cash loans are offered in all of the Bank's distribution channels. These loans feature high margins, and minimum requirements in terms of income evidence and collateral requirements plus a long credit period. Since 2016, the maximum repayment period for the products has been 12 years, being the most attractive in the market. Individual customers may contract loans up to PLN 200,000 without guarantors or other collateral. These products are offered in PLN to the existing and new customers of Alior Bank. The Bank offers cash loans in amount in excess of PLN 200,000 subject to individual terms and conditions.

In 2018 Alior Bank focused its attention on two areas involving cash loans. The first is to attract customers by pursuing marketing activities with communication addressed to new customers. To help attain this goal the Bank modified its offering and launched two TV campaigns. In Q1 of 2018 the Bank continued the "Tailor made loan" campaign, an interesting alternative to products available on the market, where customers may withdraw from the loan within 30 days. In Q2 2018 The Bank carried out a new campaign of "Pożyczki dla Duetów" [Loan for Duos] offering promotional prices for customers (all costs reduced by 33%) when the loan agreement is concluded by more than one borrower.

2018 was the year when Alior Bank developed its remote loan sales channels by introducing an entire on-line purchase of loan for both the existing, as well as for new customers (via the Internet banking system). In June 2018, a new special offer was launched for the process – Online Loans under which the Bank refunds interest to customers on every 12th repaid instalment. Apart from the offer, the Bank continued its dedicated offer of "0% commission internet loan" with preferential terms for customers who commenced their purchase process using a dedicated Internet form.

Another area of the Bank's activities involved CRM initiatives to enhance relationships with customers by activating customers, upselling additional products and increasing credit exposures. This purpose was served by a special loan offers with simplified lending procedure. The Bank also intensified CRM efforts to enhance ties with HP customers, improve effectiveness of cross-selling, and to increase customers' exposures in all profitable segments.

Credit cards

As part of its credit card offer for retail customers, in 2018 the Bank started promotion of new credit cards: Mastercard OK! and TU i TAM. Cashback is the core benefit of the cards: for OK! it is domestic, functioning in selected outlets while for TU i TAM cards it applies to transactions in currencies other than PLN (including internet transactions and executed abroad). In order to make the offer of TU i TAM cards more attractive, as part of promotion individual customers may get an additional refund of expenses at fuel stations in Poland.

Dedicated activities were applied to customers who already hold a credit card: customers by increasing the number of transactions may win a rebate for purchases at Allegro auctions and they are also increasingly more interested in repaying their transactions in comfortable instalments.

The prestigious World Elite Card dedicated to the customers of the Private Banking segment is maintained without any changes. The card is accompanied with a package of services – concierge or assistance of a specialised infoline, insurance and Priority Pass – possibility to use business class lounges at airports.

Revolving overdraft facilities

Overdraft facilities mean the possibility of borrowing to the debit of an account. Within the approved limit, debts may be contracted multiple times – each credit to the account reduces or fully repays the debt. The Bank offers revolving overdraft facilities for amount from PLN 500 to PLN 200 thousand which does not require any additional collateral or guarantee. Alior Bank grants overdraft limits in two ways: in a combined credit process within which customers are granted two products on the basis of the same information and documents – cash loans and an overdraft facility limit or an overdraft facility limit as a single product.

Additionally, in Q2 2018 the Bank provided access to limit approval via new electronic banking in a simplified online process. The process is made available to selected customers subject to optimum offering x-selling in CRM activities.

Mortgage loans

In H1 2018 the Bank continued its policy in the mortgage loan segment. Relying on its two core distribution channels – Mortgage Centres and Branches, the Bank offered mainly PLN housing loans which are the largest item in the mortgage loan portfolio. As a continuation, for customers who generate income in foreign currencies, the Bank maintained its offer of GBP, USD, EUR indexed housing loans.

In 2018 the Bank will focus its efforts on enhancing its customer service standards. To this end, dedicated Mortgage Bankers underwent a number of specialist stationary training sessions. Stress was put on the comprehensive knowledge of mortgage products, pursuance of good practices in mortgage loan approval with reference to the requirements of the Act on mortgage loans and supervision over mortgage loan brokers and agents, and on improving service quality.

Deposit products

Term deposits

The Bank's offer for retail customers indenting to deposit their PLN funds includes standard deposits with a fixed interest rate for various dates. The deposits may be renewed (customers may select if the renewal will relate to the principal and the accrued interest or solely the principal with the interest transferred to a designated account with Alior Bank) or that are not renewable and then at maturity the principal and interest are transferred to a designated account with Alior Bank. The offer also includes deposits in EUR, USD, GBP, and CHF at fixed and variable interest rates. Furthermore, customers interested in depositing larger amounts may resort to the offer of negotiated deposits, then both the term and interest rates are negotiated individually.

Savings accounts

Retail customers are offered PLN-denominated savings accounts with flexible access to deposited funds. The basic product is still a variable interest rate account based on WIBID 1M. The Bank's customers may enjoy numerous promotional offers. In May the Bank launched the "Konto Mocno Oszczędnościowe" account to its offer. Apart from attractive interest rates for funds under PLN 100,000 for four months, it offers the possibility of free internet transfers to the customer's ROR account with Alior Bank. The higher interest rate on a savings account can also be available to customers who decide to set up the "Konto Jakże Osobiste" account and choose this feature as one of the benefits. Additionally, the Bank offers savings accounts for customers who have filed effective applications for child rearing benefits (Family 500+). These customers receive a preferential fixed interest rate for 12 months.

Savings and clearing accounts

In the first half of 2018 the Bank focused on a further development of personal accounts as part of the existing products by adding new functionalities and payment methods.

Now the Bank offers the "Konto Elitarne" account [Elite Account] dedicated to the Private Banking segment, the "Konto Internetowe" account [Internet Account] and the "Konto Jakże Osobiste" account added last September where the customer selects benefits. Any two benefits selected by the account owner are free, after that each benefit cost is PLN 3.5 per month.

In April an additional benefit was added to the "Konto Jakże Osobiste" account in the form of free SMS messages. Holders of the "Konto Jakże Osobiste" account may initially choose from 10 benefits – services and functionalities prepared on the basis of surveys and customer reviews. Those are: free ATM disbursements in Poland, ATMs abroad, a package of free immediate transfers (up to 5 monthly) and a higher interest rate in the savings account or an interest-free overdraft limit for 10 days. Security is provided by travel insurance for overseas trips and an assistance package covering car, medical, and home insurance. The benefits also cover the membership in the loyalty program Mastercard Priceless Specials and refund for contactless payments made by phones.

On top of the saving accounts the Bank also offer FX accounts in four core currencies: USD, EUR, CHF, and GBP. In July 2018 the Bank launched a new multi-currency function which enables adding sub-accounts in USD, EUR, GBP to debit cards issued to the "Konto Jakże Osobiste" account or the "Konto Elitarne" account.

Transactional services

Alior Bank offers a full range of transactional services (including cash deposits and withdrawals, cash deposits to accounts with the Bank and with other banks, instant transfer, and card transactions). In June the Bank was among the first banks in Poland to provide the Apple Pay service supporting contactless phone payments for goods and services for iPhone holders. Apart from existing payments: Android Pay, HCE and BLIK, this is another innovative payment solution which is an element of the Digital Disruptor Strategy.

Currency exchange transactions

Currency exchange transactions may be made at the Bank's outlets, via Internet banking with the following currencies: PLN, EUR, USD, GBP, and CHF, as well as using dedicated transaction platforms. The Bank offers its customers possibilities to conclude exchange transactions for the following currencies: PLN, EUR, USD, CHF, GBP, CAD, NOK, RUB, DKK, CZK, SEK, AUD, RON, HUF, TRY, BGN, ZAR, MXN, and JPY. The transactions may be concluded in multiple channels and at varied prices. The most important are: automatic currency conversion related to foreign transfers and card transactions abroad, transactions concluded in electronic access channels (Autodealing, FX Exchange Office) and transactions negotiated and concluded directly with the Treasury Department.

Bancassurance Products

Insurance products are offered as a supplementing offer to banking products as a voluntary option for customers.

The core group of insurance products are borrowers' payment protection insurance (PPI) aimed at providing customers with support should problems arise in loan repayment. In 2018 the most popular insurance was PPI insurance for cash loans and mortgage loans. In addition to the PPI insurance offer, the Bank also actively promoted stand-alone insurance, i.e. unrelated to any banking product.

PPI insurance may be purchased by customers when concluding a loan agreement. In contrast, the distribution of stand-alone products was focused primarily on remote channels (call centre and Internet), and selected ones were also available in the branch network.

The most popular model of offering insurance is the so-called an individual model in which the Bank acts as an insurance intermediary. On the other hand, in the case of group insurance in which the Bank is a policyholder, the Bank earns no fees, in accordance with applicable regulations.

Structured products and investment insurance

In the case of structured products for individual customers, in the first half of 2018 Alior Bank conducted 20 issues under the First Bond Issue Programme for a total nominal amount of PLN 621 million. All the offered products held a 100% capital guarantee on the maturity day while five of them guaranteed disbursement of a free minimum coupon. The final interest rate depends on the various underlying indices. H1 2018 saw

maturity of 10 products, the best one returned 12.32% to the investors. The securities are offered in public offerings to corporate customers, Private Banking customers and individual customers. Also, selected private banking customers received a new offer of investment certificates with a limited capital guarantee and conditional early redemption – "autocall". The first half of 2018 saw 7 issues of this type being carried out for a total nominal value of PLN 126 M.

In the first half of 2018 the Bank continued agency training in preparation to offer individual insurance policies in co-operation with PZU Życie S.A, Generali Życie S.A., TU na Życie Europa S.A., and Open Life TU Życie S.A. In an open model of co-operation with insurers, customers have an option of concluding an individual life insurance contract with an insurance capital fund.

New products and services for the ratail segment

In 2018 the new major products and services in the commercial offer of the Alior Group for the individual customer segment included:

- launch of property insurance in cooperation with PZU SA, available to mortgage loan borrowers of Alior Bank
- launch of the "Konto Mocno Oszczędnościowe" account which – apart from attractive interest rates for new funds – offers free Internet transfers to customers' own ROR accounts with Alior Bank.

Retail segment areas

Consumer Finance

In the retail segment the Bank also offers Consumer Finance products.

Despite increasingly severe competition the Bank managed to effectively expand business in the segment. In the first half of 2018 strategic projects kept being implementing as they contribute to a dynamic business growth.

In the first half of 2018 the Bank:

- sold 524 thousand loans;
- acquired 232 thousand new customers for the Bank; and
- increased the number of new partners to 1,100.

Continuous technology development and dynamic alignment of sales processes to the Partner's expectations contributed to a dynamic growth in sales of loans and HP loans via the Internet and in the stationary channel. Door-to-door sales remained at a stable, high level.

In H1 2018 Consumer Finance pursued strategic projects related to the Bank's alignment to GDPR and related to the implementation of the Digital Revel Strategy:

- cooperation with BANCOVO in launching the first fully digital platform for financial intermediation
- PAPERLESS – implementation of a solution to abandon the traditional loan form.

The Bank also focused on maintaining its position as a leader in HP loans due to stable cooperation with the existing Partners, establishment of cooperation with the power sector e.g. with seasonal campaigns promoting sales of HP loans and sales growth in the on-line channel.

Private Banking

The Private Banking programme is earmarked for most affluent individual customers, willing to deposit assets with the Bank in excess of PLN 1M, or investment assets in excess of PLN 500,000. The customers are serviced by eight specialist Private Banking branches: three branches in Warsaw, one in each of Katowice, Poznań, Kraków, Gdańsk, and Wrocław. In June 2018 Hotel Europejski became a part of the most recent history of Alior Bank which in that exceptional location opened its new Private Banking branch. Therefore, Alior Bank decided to create a comfortable and discreet place of meetings with customers who entrust their savings to the Bank.

As at 30 June 2018, the Private Banking department and branches employed 84 persons who – on the basis of a broad range of investment and credit products – have developed financial solutions suiting their customers' needs. The number of Private Banking customers as at the end of June 2018 was somewhat over 6 thousand.

For the second time in the survey "Private Banking and Wealth Management Survey" held by "Euromoney", Private Banking of Alior Bank was classified as the best Polish bank in terms of services for affluent customers who hold investment assets of USD 1 to 5 M. In the main category of private banking services, it was ranked 4th in Poland. Non-financial assets of active Private Banking customers called PB Wealth Care are operationally handled by Alior Services Sp. z o.o. whose task is to establish contacts with commercial partners providing such services as legal and tax consulting and alternative investments.

The "Konto Elitarne" account [Elite Account] is dedicated to Private Banking segment customers holding assets in excess of PLN 1M. The Bank charges no fees for services and transactions for the account. Choosing the "Konto Elitarne" account the customer has access to a number of benefits, such as individual private banking account manager, confidentiality of account balances, or prestigious MasterCard World Elite debit card with no additional charge and with a comprehensive extra package.

Stock broking activities

The Bank is involved in stock broking activities through the Brokerage Office of Alior Bank as an organisationally separate arm in Alior Bank. Brokerage services are offered via Alior Bank branches and in remote distribution channels: the Brokerage Office Contact Centre, the Internet banking system integrated with the Alior Bank system, and the Alior Trader transaction platform.

As at 30 June 2018 the Brokerage Office of Alior Bank maintained 172.3 thousand brokerage and deposit and Alior Trader accounts and the value of customers' assets in the accounts was PLN 9.28 billion. Investors using the services of the Brokerage Office of Alior Bank submitted over 562 thousand stock exchange orders in H1 2018 of which 68,000 were completed via Alior Giełda mobile application. Alior Giełda mobile application was launched by the Brokerage Office in September 2016, being one of the most innovative mobile application for individual investors in Poland. It keeps increasing its share in the volume of orders.

The Brokerage Office also offers participation units of Polish and overseas investment funds. As at 30 June 2018, Alior Bank co-operated with seventeen Polish and overseas investment fund companies (TFI) with respect to open-end investment funds (FIO) and six TFIs with respect to closed-end investment funds (FIZ). The total assets collected in investment funds via Alior Bank amounted to over PLN 3.12 billion as at the end of June 2018.

Also, the Brokerage Office of Alior Bank in cooperation with Alior TFI offers asset management services.

As at 30 June 2018 the Brokerage Office of Alior Bank S.A. acted as market maker for 39 issuers and for 52 financial instruments.

Co-operation with third parties to attract retail customers

T-Mobile Usługi Bankowe

In H1 2018 the T-Mobile Usługi Bankowe focused on a further development of its offer as part of the existing products by adding new functionalities and payment methods. In April 2018, a new process was launched in Internet and mobile banking of selling a revolving limit in the account which enables holders of T-Mobile Usługi Bankowe accounts opening of a product within seconds on the basis of on-lone credit decisions. The same process relating to cash loans launched in September 2017 was appreciated by customers for its simplicity and short time in obtaining a loan.

In June T-Mobile Usługi Bankowe was one of the first ones in Poland to provide Apple Pay services to use iPhones to make contactless payments for goods and services. Apart from existing payments: Android Pay, HCE and BLIK, this is another innovative payment solution which is an element of the Digital Disruptor Strategy.

Alior Bank's branch in Romania

The year 2018 the foreign branch of Alior Bank in Romania is the continuation of its commercial activity commenced on 18 October 2017 (operations started on 18 July 2016). Cash loans and consolidation loans were the products implemented in H1 2018. The sale process of debit lines in personal accounts was enhanced. The plan for the next month's covers expansion of sales of banking products in remote channels with a possibility to acquire "lead" loan applications from internet partners, implementation of an on-line verification method of customers with a 'penny' transfer and sales of loans via a network of intermediaries/ brokers.

The offer of Alior Bank's Branch in Romania is available in cooperation with Telekom Romania over its sales network. The offer called Telekom Banking provides customers in Romania with access to core banking products of everyday use: ROR account, online FX exchange office, cash loans and consolidation loans. The products are available at www.telekombanking.ro and in the network of 34 sales outlets called "SiS" (as at 30 June 2018), located in Romania's largest cities. Alior Bank's banking products are offered directly by Telekom Romania at about 240 outlets all over the country.

As at 30 June 2018, the Branch in Romania employed 149 people (62 FTEs in the Head Office and 87 FTEs in SIS).

Business segment

General information

Alior Bank features a comprehensive and modern offer for business customers of Micro, SME segments, as well as the corporate segment. As at 30 June 2018, Alior Bank serviced over 180,000 business customers and the total loan exposure amounted to PLN 24.1 billion.

Accounts, settlements and deposits

The offer of business accounts is suited to the expectations of each customer segment and relies on modern acquisition channels and product handling. In the first half of 2018 Alior Bank opened 11.1 thousand company accounts being 1.8 thousand more than in the second half of 2017. Apart from standard services in its large network of branches and partner outlets, the Bank offers the possibility to open company accounts over the Internet with a fast confirmation process of customer's identity with a transfer from another bank or via courier service. Retail customers may also open company accounts by completing an application in the Internet Banking System (SBI). The core accounts for micro enterprises that are opened via remote channels include the "iKonto Biznes" account and the "Rachunek 4x4" account launched last June. The most popular business account sold at the Bank's network is "Rachunek Partner" with a Mastercard Debit Commercial card which under the "Cashback for entrepreneurs" program guarantees a low fuel price at stations in Poland – only PLN 3.90 per litre. The maximum amount of refund for fuel purchases to the customer's business account is PLN 100 monthly. All the above accounts are addressed to entrepreneurs using a simplified accounting system.

The offer is supported with the "Rachunek Wspólnota" acccount [Community Account] dedicated to local housing communities, POS payment terminals and the "Rachunek Bezpieczny" account that also provides an option for life insurance and accident insurance.

Alior Bank offers the following accounts to business customers keeping books of account: "Biznes Optymalny", "Komfort" and "Biznes Profil".

New products and services for the business segment

- "Rachunek 4x4" – price parameters are aligned with the customer's current needs and types of transactions executed. The customer always gets four free benefits: unconditional account maintenance, use of the first debit card, transfers to ZUS/US [tax office] and accounting services at zafirmowani.pl. Additionally, four packages may be selected: cash, domestic, foreign and savings package. Under the packages, entrepreneurs are provided with a range of benefits and reduced fees and commissions. Each package is priced at PLN 10 monthly.
- Use of a virtual advisor (DRONN) in account sales processes – in line with the Digital Disruptor Strategy, in January 2018 Alior Bank started selling accounts for business customers via the DRONN system. The system is based on artificial intelligence technology relying on speech recognition, synthesis and natural language analysis. DRONN collects data from the CEIDG base, contacts owners of newly set up businesses and presents the offer accounts from Alior Bank,

- launch of the Split Payment Mechanism – opening of VAT accounts for entrepreneurs, providing for transactions in the split payment mechanism and handling of outgoing transfers in line with the new principles;
- regulatory and systemic changes in the context of the General Data Protection Regulation (GDPR);
- providing entrepreneurs with a possibility to generate JPK_WB files directly from the electronic banking system;
- development of the web portal www.zafirmowani.pl.

The web portal for micro entrepreneurs www.zafirmowani.pl was expanded with new functionalities, for instance automatic import of data from the Central Registration and Information on Businesses and the base of the Central Statistical Office in the new user registration process and when inputting new counterparties for account settlement. Additionally, during registration new users may apply for a company account and a payment terminal. The catalogue of services offered by the online accounting application was also expanded. Users of the online accounting application may also use online collection and microfactoring services. Since June, the online accounting may also be used by entrepreneurs paying flat income tax.

Business customers have access to multiple transaction products and cash management services, supporting daily transactions in companies. Regular marketing campaigns, developed on the basis of individual sectoral preferences, ensure effective provision of information to customers on products suited to the nature of their business, new services, and promotions. Alior Bank also provides broad opportunities for investing cash surpluses. Standard terms deposits available in multiple channels is supplemented with a deposit account featuring an attractive interest rate and automatic overnight deposits for corporations.

Settlement and transaction products

Developing the functionalities of debit cards, Alior Bank was among few banks in Poland to offer the Apple Pay service to its business customers. With it, Apple users may make fast and safe payments using their iPhones or Apple Watches. – they only need to add Alior Bank's company card to the "Wallet" application on their device.

To meet our corporate customers' expectations, Alior Bank offers advanced products and tools supporting the management of companies' liquidity.

The package of transactional banking products and services covers management of cash flows, monitoring of incoming receivables and their ongoing identification via the internet banking system BusinessPro and automation of accounting processes via BankConnect. The Bank's offer stands out with the service of Automatic Cash Disbursement. The service provides for execution of cash disbursement orders at the bank's counters only on the basis of an ID document shown by the beneficiary. The automatic liquidity management processes offered to customers covers inter alia internal and external funds transfers and consolidation of accounts with the bank.

Loans for business customers

The bank offers a broad range of modern credit products to finance daily and investment needs of its business customers.

The Bank's operations in the micro enterprise and SME segment relies on a comprehensive, fully standardised credit offer. The flagship product for micro enterprises is a multi-product credit package, supporting credit decisions within 30 minutes and closing the transaction during a single contact between the customer and the Bank. The credit approval process is fully automated.

SME customers have access to the standard loan offer and the multi-product loan package.

The offer of Alior Bank for upper segments covers standard products and specialist liquidity management services. Alior Bank treats each customer individually and develops offers dedicated for specific entities. The Regional Business Centres work closely with the experts on Trade Finance, Treasury Products, and Transactional Products to ensure the best matching of the offer to the actual needs of customers.

Alior Bank has been actively developing its financing offer for entities in the agricultural and foodstuff sector, adequately to match different legal forms and types of business operations. In 2018 the Bank launched a new competitive offer for farmers which provides for comprehensive financing for farms. Strategically, the Bank develops modern forms of financing in the food production and distribution chain, while at the same time seeking to reduce the administrative burden for customers. At the end of H1 2018, the Bank's total exposure to Agro sectors was PLN 2.4 billion.

New products and services

- providing access to the credit process in a pilot study covering the offer of a credit package on Bankers' mobile devices (iPads);
- optimisation of the credit process in the small enterprise segment by increasing the volume of loans processed in an accelerated branch processes;
- expansion of the Business Loan offer for investments offered within the Credit Package and relaxation of formal requirements related to documenting the amounts earmarked for investments;
- providing access at partners' branches to collateral in the form of COSME guarantees in order to continue developing of a stable loan portfolio.

European funds and aid schemes

Alior Bank is an active participant in government schemes for support to small and medium-sized enterprises.

With the guarantees granted by Bank Gospodarstwa Krajowego (BGK) under the de minimis government program, since 2013 Alior Bank has granted almost 38.6 thousand loans totalling almost PLN 13 billion. Alior Bank is ranked second in terms of volumes of sold de minimis guarantees. In the last six months, we intensified sales of COSME guarantees financed with the European Investment Fund – at the end of H1 2018 we had over PLN 630 million worth of guarantees granted to almost 3200 customers.

Alior Bank is the only bank to have signed an agreement with BGK to finance access to fast Internet. With this contract, our customers in the telecommunications industry may obtain the so-called broadband loan, or investment or liquidity financing for the development of optical fibre networks. We offer loans with preferential interest rates from PLN 20 thousand to PLN 10 million with repayment period up to 15 years. So far we have granted 6 loans totalling PLN 20 million.

An interesting offer on the part of Alior Bank for SMEs now covers Loans with a Biznesmax guarantee, granted by BGK funded with the EU Smart Development program. The guarantee may cover as much as 80% of the loan amount. Loans covered with the guarantee may be used to finance net investment outlays and VAT (including VAT on investments financed with EU grants). The guarantee may apply to investment loans with repayments up to 20 years and amounts up to EUR 2.5 million. Enterprises that correctly draw the guaranteed loan may be refunded interest paid over 3 years from disbursement of the financing.

The Bank also offers comprehensive support in obtaining subsidies and their effective and safe settlement. We offer to our customer's examination of the availability of EU funds and a review of specific conditions to receive a subsidy. As part of our "European Package" we offer loan commitments and bridge financing. Customers may also obtain a loan to finance their own investment contribution with subsidies and a loan for technological innovations.

New products and services

Thermal Upgrading Loans – a new offer developed to finance comprehensive energy modernisation (in other words – thermal upgrading) of multi-family residential buildings, addressed primarily to housing and communities cooperatives and Social Construction Associations (TBS) from the Province of Łódź. The loan is co-financed with EU Regional Operational Programs for 2014-2020. The funds were provided to Alior Bank by Bank Gospodarstwa Krajowego (BGK).

Trade financing

To its business customers, Alior Bank offers a full range of products supporting trade financing needs. The offer keeps being modified to follow the market and changes to legal regulations.

New products and services

Alior Bank, as one of the first financial institutions, provided customers an opportunity to decide if they wish to use the split payment mechanism. The bank launched the solution on 2 July 2018 which was the first working day of the effectiveness of the Act of 15 December 2017 amending the Act on VAT and certain other Acts. As a result, the bank provided companies that resort to reverse factoring and that select Split Payment as a payment method to creditors, with a possibility to be released from joint and several liabilities. Companies using recourse or non-recourse factoring, the bank provided with an opportunity to finance VAT invoices and use the acquired funds to pay their VAT related liabilities. VAT may be financed irrespective of the net amount of payables, latest on the day specified in the invoice as the payment date.

Apart from the above change due to legal modifications, a solution was developed for companies exporting their goods to Eastern Europe, Asia and Africa. The solution is a loan for the buyers to be used to finance exports of Polish capital goods.

Additionally, Alior Bank implemented changes to support easier access to recourse or non-recourse factoring. The changes cover inter alia shorter procedures and simplification of legal documents and applications filed by customers. Further simplifications, including primarily automated processing of such products and improved accessibility of the offer in the micro and small companies segment will be completed by mid-2019.

Digital banking

Alior Bank's operations in digital banking are aimed at an effective increase of the Bank's revenues while reducing the handling costs. The efforts are focused on developing the brand of a leader in digital innovation and a strong market position.

The works in the frist half of 2018 were focused on optimisation of existing and launch of new solutions in internet and mobile banking.

The activities contributed to implementing the assumptions underlying the Digital Disruptor Strategy and growing revenues of the Bank from the internet and mobile channels.

Digital sales

The organic growth of remote channels and activities enabled to achieve significant increases in sales in the digital channel both for individual customers (increase in the sales volume of cash loans by 24% y/y, current accounts by 43% y/y) and businesses (increase in sales of KB current accounts +116% y/y). In the pre-approved process of loan sales on the basis of prepared offers, 61% of sales are made over the mobile application.

New online and mobile banking

In the first half of 2018 the mobile application and internet banking underwent a number of optimisations concerning the image and handling of deposit and credit products; other new functionalities were added.

Alior Bank's mobile application, available for smartphones with Android and iOS, was expanded inter alia as follows: with respect to payments – execution of transfer series, payments for invoices by scanning QR codes and message exchange with the Bank. Also changes were made to handling payment cards – possibility to change PIN and daily payment limits thus making the application more useful in everyday life.

In order to meet the expectations of foreign customers, an additional (Russian) language version was launched in internet banking while in the mobile application, a possibility was offered to activate it without using the PESEL number.

Business customers may download account statements in the form of Uniform Control Files, handle VAT Split Payments or move on to the "Zafirmowani.pl" platform in a fast way.

At the end of H1 2018, internet and mobile banking were also aligned to the GDPR requirements.

Treasury activities

Alior Bank pursues its treasury operations, among others, in the following areas:

- FX transactions, starting from spot transactions to option structures adequate to customers' needs and knowledge on such instruments;
- interest rate hedging transactions ensuring customers with stable funding costs;
- hedging transactions of commodity prices;
- liquidity management – by offering customers a broad range of products to invest excess funds subject to attractive terms and conditions;

- educational activities in order to raise customers' awareness on the offered products and the related risks;
- hedging liquidity risk of Alior Bank within the approved limits and supervisory metrics – by concluding transactions in the interbank market, including MM deposit transactions, FX swaps, sale/purchase transactions of T paper and REPO transactions;
- managing the FX and interest rate risk of Alior Bank with transactions in the interbank market, including, among others, with FX spot/forward transactions, CIRS and IRS swaps and interest rate swaps;
- managing the risk of commodity price changes with transactions in commodity markets;
- managing the risk of an FX option portfolio within the pre-approved limits by entering into hedging transactions and option transactions in the interbank market;
- trading activity in T bonds by buying and selling T bonds;
- hedge accounting – hedging interest rate risk resulting from banking activity by entering into exchange transactions (IRS, OIS) in PLN and foreign currencies.

Any surplus funding of the Bank (when the deposits are higher than loans) is invested in PLN and FX Treasury bonds and bills and in debt securities issued by NBP with relatively short maturities. The Bank invests its surplus funds as part of its liquidity management.

The principle of non-committing the Bank's own funds into transactions in financial instruments will continue to be a strategic protection method against the systemic risk faced by numerous banks when the market becomes illiquid. The Management Board intends to manage its market risk to ensure that the equity of Alior Bank remains at the current safe level.

Transactional platforms

Within its treasury activities, Alior Bank offers products in the form of transactional platforms with the generated income booked as business or retail income, respectively. Alior Bank uses transactional platforms subject to non-exclusive licence agreements for specified periods with the earlier one expiring in 2022.

Alior Bank is the first bank in Central Europe to have implemented its own algotrading system Quasar which constitutes a basis for three FX platforms – Autodealing, eFX Trader, and FX Exchange Office.

Autodealing is a service available to both business and individual customers, directly in Internet banking. The platform supports execution of spot and term FX transactions subject to attractive terms and conditions and opening of deposits for any number of days up to 1 year at high interest rates. The currencies available in Autodealing are as follows: PLN, EUR, USD, GBP, CHF, and additionally for Business Pro users: SEK, NOK, and CZK.

eFX Trader is a platform accessible from the level of Internet banking, dedicated to most demanding business customers. It supports the conclusion of spot transactions, term transactions and orders with price limits for 24h, 5 days a week, for almost 70 currency pairs. The platform offers three types of orders with price limits to execute transactions at the rates selected by customers automatically. The platform is characterised with high liquidity and customers may trace the developments in the FX market.

The FX Exchange Office is the first internet FX exchange office in the Polish market. The platform is destined for individual customers and for companies, available 24 hours a day, 7 days a week, after login at www.kantor.aliorbank.pl. The FX Exchange Office of Alior Bank provides for safe FX exchange at attractive rates and free domestic and foreign transfers of the funds purchased on the platform. The Exchange Office offers four types of automatic FX orders to enter into transactions at the most advantageous rates or periodically on a specified day each month. Additionally, customers may order free debit cards to accounts in EUR, USD, and GBP and also deposit and withdraw cash for free at branches of Alior Bank (PLN, EUR, USD, and GBP). FX Exchange Office cars are fully supported by Google Pay and Apple Pay and can be used by customers for contactless payments with devices supporting such payment systems. The platform is also available as an application on mobile devices with Android and iOS.

Capital investments

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

- Stocks:
  - Securities available for trading, equity securities admitted to trading at WSE in Warsaw and NYSE;
  - Securities available for trading, equity securities not admitted to trading.
- Bonds: corporate bonds issued by domestic and foreign issuers, acquired due to performing the function of a market maker;
- Investment certificates: certificates of closed-end private equity investment fund and units of open-end investment fund.

	as at 30.06.2018		as at 31.12.2017	
	number	market value / nominal in PLN	number	market value / nominal in PLN
Stocks	614 144	48 782 357	584 789	293 577
Listed	462 640	27 084 615	426 716	292 365
Not listed	151 504	21 697 742	158 073	1 212
Bonds	3 847	248 963	3 910	275 729
Investment Certificates	832	77 897	773	88 795

New products and activities accomplished in the Bank's Capital Group

- Pan-European bank in a cross-border model – relying on the growing openness and integration of financial markets (PSD2, CRR i CRD IV, ALM IV), Alior Bank in cooperation with the German fintechs – Raisin and solarisBank and Mastercard has been working on a digital banking platform on the basis of Open API concepts. The service will be available to EU residents. The new platform is to respond to customers' growing needs and their global lifestyle. Alior Bank will provide attractive FX rates, cards and multi-currency accounts, transfers in almost 100 currencies as well as deposits in various currencies. solarisBank will provide services within its banking infrastructure and Raisin – as an aggregator of deposit offers from all over the EU – will offer various options of savings. Additionally, customers will be able to

use a benefit program offered by Mastercard partners. The service is to be officially launched in Q1 2019 in Germany.

- Alior Bank Start-up Accelerator – a program developed by Alior Bank addressed to start-ups all over the world to identify innovative projects in open banking, developing them in line with business needs and commercialisation (both within the bank's own systems and among its business partners). Selected start-ups will be covered with an ambitious acceleration program to last 15 weeks. Throughout the time, the participants in the Alior Bank Start-up Accelerator will be provided with sound support o experienced mentors from the Bank and program partners in the area of developing a model of cooperation and potential implementation of ideas in the Bank. Additionally, the bank will provide the users with access to API Sandbox, being a special test environment to display services related inter alia to the PSD2 directive. Program participants will also have access to financial support up to PLN 150,000 in the form of a convertible bond.
- In June 2018 the Bank launched a special product offer addressed to citizens of Ukraine. As part of the promotion, the new holders of the internet account will be refunded fees for their first foreign transfer to Ukraine and will be provided with access to a dedicated service in Ukrainian and in Russian, an FX exchange office and internet banking.
- Operating start of BANCOVO. – a fully digital platform for financial intermediation – took place on 6 March 2018. As a result, for the first time in Poland customers got an online access to real offers of many banks and lending companies. The brand is owned by NewCommerce Services sp. z o.o.

  The innovative solutions applied in BANCOVO (big data + machine learning systems) support obtaining loans online in a simple and friendly manner. On the basis of the best UX practices, the required data has been limited to a minimum. Within a minute, the customer gets real offers from banks and lending companies to choose from and with a transparent presentation the customer may choose the solution that suits him/her best. The contract is concluded over the Internet subject to top security standards. The Platform provides its Partner with appropriate quality customer profiles due to such tools as prescoring or an anti-fraud shield.

  Now the platform contains offers of 2 banks and 4 lending companies. Those are: Inbank, Alior Bank, Hapi Pożyczki, TakTo Finanse, SuperGrosz and SMS Kredyt. By the end of the year, the offer of cash loans and parabank loans will be extended to 6 banks and 8 lending companies. Afterwards, the offer will be extended with other products like: mortgage loans, loans for micro enterprises, insurance or investment products.

  BANCOVO. in the future plans to be a digital centre of personal finance. The solution is scalable, it has an open architecture so it can easily be implemented in other countries. In 2020 BANCOVO plans to be the leader in online intermediation and sell loans for about PLN 2-3 billion.

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

Alior Bank S.A. Capital Group as at 30 June 2018

At the end of the reporting period the following were member companies of the Alior Bank S.A. Capital Group: Alior Bank S.A., as the parent entity and subsidiary companies in which the Bank directly holds majority interests plus a 100% subsidiary of Alior Leasing Sp. z o.o.

No change in the structure of the Alior Bank S.A. Capital Group occurred during the reporting period.

Alior Bank S.A., as a result of a series of transactions in March 2018 the Bank increased its stake in Money Makers TFI S.A. to 91.48% and as a result on 30 April 2018 it announced a Forced Buyout of the other shares pursuant to Art. 82.1 of the Act on Offering. As a result of executing and settling transactions under the forced buyout, since 7 May 2018 the Bank has held 100% of shares in Money Makers TFI SA. In June 2018,

modifications to the Company's Articles of Association were registered as made pursuant to resolution of the Company's Ordinary General Meeting of 25 April 2018. The changed covered inter alia change of the name of Money Makers Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna to Alior Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna.

Alior Leasing Sp. z o.o.

Alior Bank S.A. holds 100% of shares and 100% of the overall number of votes at general meetings of Alior Leasing Sp. z o.o.

Alior Leasing Sp. z o.o. was set up in April 2015 and has been actually operating since October 2015. Alior Bank started actions to transform the legal form of Alior Leasing into a joint stock company in 2018. By resolution of 19 March 2018, the Extraordinary General Meeting chose to increase the Company's share capital from PLN 15,003.000.00 to PLN 15,004.000.00 (this increase was registered by the registry court on 28 March 2018), As the sole shareholder the Bank acquired all the newly issued shares.

The mission of the company is to provide the best leasing solutions that respond to the expectations of today's companies looking for a comprehensive leasing offer, tailored to their individual needs. With the offer of Alior Leasing, companies may use the most popular forms of funding fixed assets, primarily vehicles, that are required for their functioning and development. With such products as: operational, financial lease and lease loans, enterprises get an easy and fast access to means of transportation, machines and equipment. Alior Leasing has a large sales network and cooperates with a broad group of business partners, dealers and vendors as well as the sales network of Alior Bank. The Company primarily works with sole proprietors and SME enterprises as well as large companies.

In the first half of 2018 Alior Leasing concluded new contracts for PLN 1.4 billion (+132% vs. the equivalent period last year). As a result, the loan portfolio financed by the Company grew to PLN 2.73 billion at the end of June 2018 vs. PLN 858 million at the end of June 2017 and PLN 1.65 billion at the end of December 2017. 90% of sales by Alior Leasing relates to vehicle financing. At the end of H1 2018, the Company’s share in that segment grew up to about 5%.

Serwis Ubezpieczeniowy Sp. z o.o.

Alior Leasing Sp. z o.o. holds 100% of shares and 100% of the overall number of votes at general meetings of Serwis Ubezpieczeniowy Sp. z o.o. The Company's share capital is PLN 5,000, no change occurred during the reporting period.

Serwis Ubezpieczeniowy Sp. z o.o. was incorporated in November 2016 and launched its operating activity in February 2017.

Serwis Ubezpieczeniowy Sp. z o.o. operates in the insurance market. The Company's business covers the activity of insurance agents and brokers.

Alior Services Sp. z o.o.

Alior Bank holds 100% of shares and 100% of the overall number of votes at General Meetings of Alior Services Sp. z o.o.

Alior Services Sp. z o.o. (formerly Alior Raty Sp. z o.o.) was established with the following purpose: (i) using sales opportunities of non-financial products and services; (ii) expanding and adding to the attractiveness of the offer for Private Banking customers to reinforce competitive advantages.

The business of Alior Services Sp. z o.o. focuses on: (i) search for and attracting external partners to cooperate in offering non-banking services; (ii) establishing business contacts between customers and external partners, (iii) acting as an insurance agent. In 2018 the Company launched pilot projects related to (i) cooperation with PZU on validation of a customer rating model in guarantee approval processes, (ii) sales of exclusive products, and (iii) DRONN – preliminary enforced collection of insurance premiums.

Alior TFI S.A.

Alior Bank holds 100 % of shares and 100 % of the overall number of votes at General Meetings of Alior TFI S.A. Alior TFI S.A. (formerly Money Makers TFI S.A.) was incorporated in 2010 and originally the company as a brokerage house provided services related to asset management, following its reorganisation in July 2015 the company operates as a TFI. The cooperation of Alior Bank with its subsidiary Money Makers TFI S.A. covers three areas: asset management (management of portfolios of individual/private banking customers), insurance offers of investment funds and management of Alior SFIO sub-funds.

As a result of the fact that on 7 May 2018 Alior Bank S.A. reached 100% in the share capital of Alior TFI S.A., on 8 June .2018 the Bank proposed to convene an Extraordinary General Meeting with an agenda covering a resolution on reversing share dematerialisation and withdrawing the Company from being traded at NewConnect, operated by the Warsaw Stock Exchange. The Extraordinary General Meeting approved the resolution on 4 July 2018.

Additionally, the Company's Management Board disclosed in its current report no 19/2018 of 14 June 2018 that it had learned about the registration of modifications to the Company's Articles of Association, made pursuant to the resolution of the Ordinary General Meeting of 25 April 2018. The amendments covered inter alia change to the Company's name from Money Makers Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna to Alior Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna.

Absource Sp. z o.o.

On 31 March 2016 the following company was set up: Absource Sp. z o.o. Alior Bank holds 100% of shares and 100% of the overall number of votes at General Meetings of Absource Sp. z o.o.

Absource Sp. z o.o. has the following objectives: (i) services related to IT and computer technologies; (ii) IT consulting activities; (iii) software-related activities. Business of Absource Sp. z o.o. focuses on sub-licensing of IT software and other IT services.

NewCommerce Services Sp. z o.o.

Alior Bank holds 100% of shares and 100% of the overall number of votes at General Meetings of NewCommerce Services Sp. z o.o.

The company pursues one of the key initiatives of the Digital Disruptor Strategy, namely launch of a fully digital financial intermediation platform, first of its kind in Poland.

With the platform operating as BANCOVO. customers, for the first time in Poland, will have access to actual loan offers – from banks and lending institutions. And in future also to mortgage loans and insurance offers. BANCOVO is said to be the most convenient and innovative platform. As it will utilise some state-of-the-art technological solutions and direct integration with financial institutions, the process of selecting an offer, concluding a loan agreement, as never before, is intuitive and quick for the customer. BANCOVO started operations on 6 March 2018. By 2020 the company is to be number 1 in online financial intermediation with volumes of PLN 2-3 billion.

By resolution of 26.06.2018, the Extraordinary General Meeting decided to increase the Company's share capital from PLN 400,000.00 to PLN 500,000.00. As the sole shareholder the Bank acquired the newly issued shares.

Centrum Obrotu Wierzytelnościami Sp. z o.o.

Alior Bank holds 100% of shares and 100% of the overall number of votes at General Meetings of Centrum Obrotu Wierzytelnościami Sp. z o.o.

The purpose of the Company was to expand its business on the property market and debt trading also outside the Alior Bank Capital Group. In 2017 further development of this line of business was abandoned. In December 2017 the Extraordinary General Meeting chose to dissolve COW Sp. z o.o.

Meritum Services ICB S.A.

Alior Bank holds 100% of shares and 100% of the overall number of votes at General Meetings of Meritum Services ICB S.A.

Meritum Services ICB S.A. is a company providing services in the area of IT and computer technologies and other IT-related services. In 2015 the Company's business was extended to include operations of insurance agents and brokers, activities related to risk assessment and estimation of incurred losses, other activities supporting insurance and pension funds.

VIII. Events that are material to the operations of the Alior Bank S.A.

Change of the share in the overall number of votes

On 19 and 24 April 2018, the Bank's Management Board received notifications from BlackRock, Inc. on a change to their share in the overall number of votes at the Bank's General Meetings, made in compliance with ESMA/2015/1597 standards. In accordance with the notifications, BlackRock, Inc. indirectly held 7 392 649 votes at the Bank's General Meeting in the form of 6 898 750 shares of the Bank entitling to 5.29% votes at General Meetings and other financial instruments entitling to 0.38% votes at the Bank's General Meetings.

Transactions between entities of the Alior Bank S.A. Capital Group .

On 26 April 2018, the Bank and its subsidiary company Alior Leasing Sp. z o.o. with its registered office in Wrocław concluded annexes to overdraft facility agreements executed on 25 March 2016.

As a result of the Annexes, the Bank's total exposure to Alior Leasing was increased up to PLN 1,624,830 thousand.

Significant events after the balance sheet date

Statement of the Polish Financial Supervision Authority in the proceedings on the identification of Alior Bank S.A. as the other systemically important institution and the imposition of a buffer of the other systemically important institution

On 31 July 2018 the Polish Financial Supervision Authority ("PFSA") acting pursuant to art. 39 of the Act on macroprudential supervision over the financial system and crisis management in the financial system, after consulting the Financial Stability Committee (acting as the competent authority in the field of macroprudential supervision), unanimously identified Alior Bank S.A. as another systemically important institution and imposed on the Bank a buffer (on an individual and consolidated basis) of another systemically important institution equivalent to 0.25% of the total risk exposure amount calculated in accordance with Art. 92 (3) of the EU CRR Regulation (No. 575/2013).

Completion of analyzes and negotiations regarding a possible merger with Bank Polska Kasa Opieki S.A.

On 7 August 2018 the Management Board of the Bank informed that as of 29 May 2018, among analysed cooperation strategies between Alior Bank and Bank Pekao, Alior Bank found possibility of a merger (within which, the shareholders of Alior Bank would obtain shares in the combined bank) as giving an opportunity to bring potentially the largest additional value to its shareholders among all analized startegies of cooperation between Alior Bank and Bank Pekao. Moreover, on 29 July 2018, Alior Bank decided to commence negotiation in respect of determining the optimal arrangement of potential merger of Alior Bank with Bank Pekao.

At the same time, the Management Board of the Bank informed that the Banks did not reach the agreement on terms and conditions of their merger which could allow, in the opinion of the Alior Bank's Management Board, to bring potentially the largest additional value for Alior Bank's shareholders.

In connection with the foregoing, as of 7 August 2018, the Management Board of the Bank withdrawn from further negotiations with Pekao relating to merger of both Banks.

The Bank continues its consistent efforts to implement its current Digital Disruptor Strategy and further autonomous development within the PZU Group.

IX. Issues of bonds by Alior Bank S.A.

In the first half of 2018 the Bank did not obtain financing through the issue of ordinary or subordinated bonds carried out as a public offer (in accordance with Art. 33.1 of the Act on Bonds of 15 January 2015) and non-public or private issues (in accordance with Art. 33.2 of the Act on Bonds of 15 January 2015).

Public offer of the Bank's bonds

Pursuant to the Resolution of the Bank's Supervisory Board of 23 August 2017 the Bank pursues a second opened public bond issue programme (Second Public Issue Programme) with a maximum value of PLN 1,200,000,000, issued in series in line with Art. 33.1 of the Act on Bonds pursuant to a core prospectus, of which the Bank notified in its Current Report No. 47/2017 of 23 August 2017.

On the basis of the core prospectus for the Second Public Issue Programme, the Bank may issue up to 12,000,000 unsecured, non-subordinated, or subordinated bearer bonds with a nominal value of PLN 100, or a multiple of this amount, with a maturity of up to 10 years from on the day of issue of relevant series of bonds, whereby the Bank's Management Board shall determine the terms of issue of individual series of subordinated bonds in such a way that:

- the total nominal value of all subordinated bonds issued on the basis of the Prospectus (as defined below) remained at or below PLN 600,000,000;
- the unit nominal value of the subordinated bonds was PLN 400,000.

The purpose of issue of bonds of individual series (within the meaning of Art. 32 of the Act on Bonds) will be from time to time indicated in the Final Terms of Issue. Irrespective of the purpose of the issue, subordinated bonds will be qualified, upon obtaining consent of PFSA in accordance with Art. 127.1 of the Banking Act, as instruments in Tier 2 capital, referred to in Art. 63 of the CRR Regulation, and the proceeds from the issue shall be accounted for by the Bank under Tier 2 Capital of the Bank.

The bonds will be issued and offered in series within a period of maximum 12 months from 13 October 2017, i.e. the date of approval of the core prospectus for the Second Public Issue Programme by the Polish Financial Supervision Authority.

Non-public issue of the Bank's bonds

The Bank pursues a programme of own bond issue with a maximum value of PLN 2,000,000,000, established pursuant to the Resolution of the Bank's Supervisory Board of 10 August 2015 (Issue Programme), as reported by the Bank in Current Report No. 68/2015 of 10 August 2015. The type of bonds, the offer procedure, and the detailed terms of issue of individual series of bonds issued as part of the Issue Programme are determined by the Bank's Management Board by way resolutions.

X. Risk report of Alior Bank S.A.

Risk management is one of the most important internal processes at Alior Bank S.A., as well as in the foreign branch and in subsidiaries of the Group of Alior Bank S.A. The supreme objective of the risk management policy is to ensure early detection and adequate management of all kinds of risk inherent to the pursued activity. Within its activity, the Bank identifies the following types of risk:

- credit risk (including concentration risk);
- interest rate risk in the banking book;
- market risk (including: the interest rate risk, the exchange rate risk, and the commodity price risk);
- liquidity risk;
- operational risk;
- compliance risk;
- model risk;
- business risk;
- reputational risk;
- capital risk.

The risk management system at Alior Bank S.A. is based on three independent lines of defence. The first line of defence is implemented in the Bank's operational units and with process owners who develop and implement compliance with control mechanisms in processes. The second line of defence is implemented in organisational units responsible for managing individual risks. It performs a management function within which risk management is implemented on dedicated positions or in organisational units, regardless of the first line, and the activity of the compliance unit. The third line provides senior management and the Supervisory Board with assurance that activities of the first and second line are compliant with their expectations. The third line of defence involves activity of the internal audit unit.

Of the identified risks the Bank treats the following as crucial risks:

- interest rate risk in the banking book;
- market risk (including: the interest rate risk, the exchange rate risk, and the commodity price risk);
- liquidity risk;
- credit risk;
- operational risk.

Rules of market and liquidity risk management

Key rules of market and liquidity risk management are determined by the Policy for Management of Assets, as well as Equity and Liabilities.

The Bank follows a clear division of responsibilities for market and liquidity risk management which covers:

- conclusion of treasury transactions;
- measuring, monitoring, and reporting the market and liquidity risk, including the manner of pursuing the policy for market and liquidity risk management;
- process for transaction closing;
- operational handling and support for business processes including handling the Bank's nostro accounts.

Supervision over the aforementioned activities associated with conclusion of transactions and independent risk measurement and reporting has been separated in the Bank to the level of a Member of the Management Board, which guarantees their full independence.

Apart from relevant organisational units also the Bank's Supervisory Board and Management Board, as well as ALCO play an active role in management of the market risk.

The exposure to the market and liquidity risk is formally mitigated with a system of limits, periodically updated by resolutions of the Management Board or ALCO, covering all risk metrics with their levels monitored and reported by the Bank's organisational units that are independent of business.

There are three types of limits at the Bank that differ in terms of coverage and functioning: core limits (approved by the Supervisory Board), supplementary limits, additional limits.

Market risk

The Bank has identified the following types of the market and liquidity risk that are subject to management:

- interest rate risk in the banking book;
- market risk (including: the interest rate risk, the exchange rate risk, and the commodity price risk).

Interest rate risk

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

- mismatch risk of repricing periods;
- base risk;
- risk of the profitability curve;
- risk of customers' options.

Additionally, with respect to the interest rate risk, the Bank pays special attention to modelling accounts with unspecified maturities and interest rates set by the Bank (e.g. for current deposits), as well as the impact of non-interest items in the risk (e.g. equity, fixed assets).

The purpose of interest rate risk management is to mitigate potential losses due to changes in market interest rates to an acceptable level by appropriately shaping the structure of the balance sheet and off-balance sheet items.

Measurement and limitation of the interest rate risk is performed by monitoring the volatility of net interest income (NII) and changes in the economic value of the Bank's equity (EVE). In addition to the NII and EVE measures in measuring the interest rate risk, the Bank uses BPV, VaR, repricing gap, and stress tests.

BPV identifies the estimated change to the measurement of a transaction/position as a result of a shift of the profitability curve at the relevant point by 1 bp. The BPV value is measured on a daily basis at each point of the curve with reference to each currency.

BPV estimates as at 30 June 2018 and 31 December 2017 for the Bank are presented in tables below.

BPV at the end of H1 2018 – split by tenor (PLN '000)

Currency	Up to 6 months	6 months to 1 year	1-3 years	3- 5 years	5- 10 years	Overall
PLN	-82.5	297.5	194.8	654.1	-49.1	1,014.8
EUR	-41.4	-21.8	44.4	87.8	0.4	69.3
USD	8.6	17.8	2.4	-0.3	-1.2	27.3
CHF	-2.8	-1.3	-0.3	0.0	-0.3	-4.6
GBP	-1.2	1.5	0.1	0.0	0.0	0.4
Other	0.5	0.0	0.0	0.0	0.0	0.5
Total	**-118.8**	**293.8**	**241.4**	**741.6**	**-50.3**	**1,107.7**

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

Currency	Up to 6 months	6 months to 1 year	1-3 years	3- 5 years	5- 10 years	Overall
PLN	3.4	192.5	195.7	95.1	-90	396.7
EUR	-0.5	-8.1	61.3	90	--4.5	138.2
USD	1	8.1	-2.2	-0.2	-1	5.6
CHF	-1	0.1	-1	0	0	-1.8
GBP	-4	2	0	0	0	-2
Other	-1	2.1	-1	-0.2	0	-0.3
Total	**-1.8**	**196.7**	**253**	**184.7**	**-96**	**536.5**

BPV statistics – split by the banking and trade book (PLN '000)

	01.01.2018-30.06.2018			01.01.2017-31.12.2017		
Book	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	-542.9	-266.2	45.6	-1,298.3	-575	138.8
Trading book	-52.7	8.4	80	-75.6	5.9	70
ALCO	846.7	1018.3	1345.7	419.6	1440.6	2,225.1
Total	**431.3**	**760.5**	**1118.5**	**212**	**872**	**1,611**

The table below presents 10-day VaR for the Bank split by the banking and trading book at the end of first half of 2018 and at the end of 2017.

VaR (in PLN '000)	30.06.2018	31.12.2017
Banking book	19,982	8,435
Trading book	2,801	928
Total	**22,466**	**9,063**

The table below presents BPV statistics split by the banking and trading book at the end of 2018 and 2017 (99% of 10-day VaR).

	01.01.2018-30.06.2018			01.01.2017-31.12.2017		
Book	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book (with	7,597	13,370	19,982	6,346	18,123	31,068
Trading book	1,382	2,733	4,580	870	2,208	4,009
Total	**8,085**	**15,054**	**22,466**	**6,046**	**19,398**	**32,043**

The Bank performs scenario analyses covering, among others, the impact of specified changes to interest rates on future interest income and the economic value of equity. Within those scenarios, internal limits are maintained the utilisation of which is measured on the daily basis. Movements in the limit for change of economic value of equity with a parallel shift of interest rate curves by +/- 200bps and non-parallel shifts with scenarios of +/- 100/400bps (in 1M/10Y tenors, between them a linear interpolation of the shifts) at the end of H1 2018 and the end of 2017 are presented below (PLN '000).

Scenario (1M/10Y)	Change to the economic value of capital 30.06.2018	Change to the economic value of capital 31.12.2017
+400 /+100	72,103	188,906
+100 /- 400	64,466	67,831
+200 /200	55,150	102,857
-200 / – 200	-53,543	-84,863
- 100 / – 400	-55,352	-42,814
- 400 / – 100	-72,535	-94,591

Change of interest result in 1 year horizon with a change of interest rates by 100bp (negative scenario) at the end of H1 2018 and at the end of 2017 is presented below.

	30.06.2018	31.12.2017
NII	6.23%	6.96%

The repricing gap presents a difference between the present value of assets and liabilities exposed to the interest rate risk, subject to repricing within the time interval, and the items are recognised on the transaction date.

The repricing gap in PLN, EUR and USD as at the end of H1 2018 is presented below.

PLN repricing gap in PLN '000

30.06.2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodical gap	14,753,735	7,560,796	3,536,448	-1,996,563	-3,186,118	-2,407,466	105.286	18,366,118

Accumulated gap	14,753,735	22,314,531	25,850,979	23,854,415	20,668,297	18,260,831	18,366,118	

USD repricing gap in USD '000

30.06.2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodical gap	-733.066	156.834	81.318	-134.121	-52.330	-13.735	-1.580	-696.679
Accumulated gap	-733.066	-576.232	-494.914	-629.035	-681.365	-695.100	-696.679	

EUR repricing gap in EUR '000

30.06.2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
Periodical gap	-233.294	202.024	393.532	18.196	-24.684	-58.347	-4.948	292.478
Accumulated gap	-233.294	-31.270	362.261	380.457	355.773	297.426	292.478	

FX risk

The FX risk is defined as a risk of a loss resulting from changing FX rates. The core objective of FX risk management is to identify those areas of the Bank's business that may be exposed to the risk and to take measures to mitigate potential related losses as much as possible.

Alior Bank pursues regular monitoring and reporting of:

- FX risk metric levels;
- use of FX risk internal limits and threshold values;
- stress test results.

FX risk limits are determined so that this risk remained limited.
The core FX risk management tools at Alior Bank are as follows:

- internal procedures relating to FX risk management;
- internal FX risk models and metrics;
- limits and warning thresholds to FX risk;
- limitations to allowable FX transactions;
- stress tests.

The FX risk is measured and assessed by limiting the FX positions opened by the Bank.

In order to measure the FX risk, the Bank uses VaR and stress tests.

VaR identifies the potential loss on existing positions, related to changes of FX rates, while maintaining the assumed confidence level and the position maintenance period. In order to calculate VaR, the Bank applied a variance-covariance method with the confidence level of 99% The value is determined daily for each area responsible for risk assumption and management, individually and jointly.

The maximum loss on the Bank's FX portfolio (managed within the trading book), designated on the basis of the VaR in a 10-day horizon with the assumed confidentiality level of 99%, is presented below (PLN '000).

	30.06.2018	31.12.2017
VaR (PLN)	998.5	157.5

VaR statistics in the Bank's FX portfolio in H1 2018 and 2017 (PLN '000)

VaR	30.06.2018	31.12.2017
Minimum	115	29.26
Medium	666.7	309.69
Maximum	1,604.1	1,648.53

Bank's FX position at the end of H1 2018 and at the end of 2017

Currencies	Position in '000 30 June 2018	Position in '000 31 December 2017
Gross exposure	39,471	59,697
Group A gross	15,263	46,012
EUR	8,860	15,158
USD	5,891	29,589
GBP	70	359
CHF	443	905
Other gross	24,208	15,631

In order to measure its exposure to FX risk, the Bank carries out stress tests. Below are presented the results of the stress tests of changes to FX rates versus PLN by +/- 20%. (PLN '000):

	30.06.2018	31.12.2017
FX rates +20%	3,218	29,930
FX rates -20%	-12,872	15,522

Liquidity Risk

The liquidity risk means a risk of failure by the Bank to meet its payment obligations, subject to comfortable conditions and at adequate prices, resulting from the Bank's on- and off-balance sheet items. The policy of liquidity risk management at the Bank consists in maintaining its own liquidity positions so that payment obligations can be met at any time with the available cash on hand, proceeds from transactions with specific maturities or with sales of marketable assets, while minimising the costs of liquidity maintenance.

Assets and liabilities at Bank are managed by the specially appointed ALCO. Liquidity risk strategy, including the acceptable risk level, the assumed balance sheet structure and the funding plan, is approved by the Bank's Management Board and further validated by the Bank's Supervisory Board. Interbank treasury transactions are concluded by the Treasury Department, transactions are settled and booked in the Operations Division and the liquidity risk is monitored and measured in the Financial Risk Management

Section. The competences related to liquidity risk management are segregated in a transparent manner up to the Management Board level which ensures complete independence of operation.

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

- intraday liquidity
- quick liquidity,
- short-term liquidity,
- medium term liquidity,
- long-term liquidity,

Within its liquidity risk management, the Bank also performs analyses of the maturity profile over a longer time, largely subject to the assumptions made with respect to future cash flows related to asset and liability items. These assumptions are approved by ALCO and the Bank's Management Board.

Specification of maturity/payment dates of contractual flows of consolidated assets and liabilities as at 30 June 2018 (PLN M)

30.06.2018	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
ASSETS	2 265	2 306	2 208	2 827	5 245	9 270	21 387	41 655	87 163
Cash and Nostro	1 930	0	0	0	0	0	0	0	1 930
Receivables from banks	0	165	0	0	0	126	0	0	291
Securities	0	952	8	115	298	1 399	5 841	5 233	13 846
Receivables from customers	335	1 189	2 200	2 712	4 947	7 745	15 546	33 291	67 965
Other assets	0	0	0	0	0	0	0	3 131	3 131
Liabilities and equity	-36 100	-8 025	-7 059	-4 760	-2 961	-2 064	-2 373	-7 918	-71 260
Due to banks	- 11	- 118	- 9	- 9	- 16	- 367	- 80	- 121	- 731
Liabilities to customers	-36 089	-5 969	-6 788	-4 447	-2 210	- 759	- 267	- 50	-56 579
Own issues	0	- 130	- 262	- 304	- 735	- 938	-2 026	-1 255	-5 650
Equity	0	0	0	0	0	0	0	-6 336	-6 336
Other liabilities	0	-1 808	0	0	0	0	0	- 156	-1 964
Balance sheet gap	-33 835	-5 719	-4 851	-1 933	2 284	7 206	19 014	33 737	15 903
Cumulated balance sheet gap	-33 835	-39 554	-44 405	-46 338	-44 054	-36 848	-17 834	15 903	
Derivative instruments – inflows	0	8 360	1 629	986	350	476	335	43	12 179
Derivative instruments –	0	-8 292	-1 596	- 959	- 350	- 471	- 341	- 43	-12 052

outflows									
Derivative instruments – net	0	68	33	27	0	5	- 6	0	127
Guarantee and financing lines	-11 235	- 1	- 39	- 70	- 140	- 87	- 4	- 350	-11 926
Off-balance sheet gap	-11 235	67	- 6	- 43	- 140	- 82	- 10	- 350	-11 799
Total gap	-45 070	-5 652	-4 857	-1 976	2 144	7 124	19 004	33 387	4 104
Total cumulated gap	-45 070	-50 722	-55 579	-57 555	-55 411	-48 287	-29 283	4 104	

The Bank keeps a high buffer of unencumbered high quality liquid assets, investing in top rated Treasury and corporate debt securities, characterised with fast sales possibilities, maintaining funds in its current account with NBP and with other banks (nostro accounts), maintaining funds in hand and investing funds in the interbank market, within the approved limits. The adequacy of the maintained buffer of liquid assets is controlled by comparing it with the designated minimum value of the liquid assets buffer as may be required for survival under a stress test scenario over a time horizon from 7 days inclusive to 30 days. As at 30 June 2018, the total buffer of unencumbered liquid assets amounted to PLN 12 716 M versus the minimum level of PLN 9 470 M, resulting from a shock scenario. To calculate the buffer of liquid assets, the Bank applies appropriate reductions to the components of the buffer in order to account for the risk of market (product) liquidity.

Attracted deposits constitute a core source of funding for the Bank's business – as at the end of 2017, the amount of deposits accounted for about 85% of liabilities.

Additionally, the Bank holds liquidity stress tests providing for an internal and external and mixed crisis; this includes the development of a fund attraction plan in emergency situations, as well as the identification and verification of the sales rules of liquid assets, providing for the costs of maintaining liquidity.

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

- coverage ratio of illiquid assets with own funds;
- coverage ratio of illiquid assets and assets of limited liquidity with own funds and stable external funds

As at 30 June 2018, the values of the above ratios were as follows: 5.08 and 1.16.

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

Additionally, in line with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (Capital Requirements

Regulation – CRR), the Bank monitors and maintains an adequate level of the Liquidity Coverage Ratio (LCR). As at 30 June 2018 LCR was at 127% versus the mandatory level of 100%.

In H1 2018 Alior Bank S.A. had one branch in Bucharest which was involved in deposit and lending activity. The task of the Branch is lending activity on the basis of the funding acquired from Alior Bank S.A and with the funds acquired from the local market. The liquidity level of the Branch is monitored by dedicated organisational units within the Branch and the Bank's Head Quarter.

Alior Bank holds Alior Leasing, a subsidiary company, which is material in terms of liquidity risk management at the Group of Alior Bank S.A. The liquidity risk in the company is monitored, controlled, and reported. In agreement with Alior Bank, Alior Leasing introduced internal rules of liquidity risk management, including identification of the appetite for liquidity risk and it prepares periodic reports. Reports on liquidity risk in the company prepared by Alior Leasing form an element of liquidity risk management in the company and they are used for consolidation of liquidity risk at the Group level.

In H1 2018 the Bank's liquidity condition was at a safe level. The situation was closely monitored and maintained at an adequate level by adjusting the level of the deposit base and disbursing financing subject to growth of lending and other liquidity needs.

Credit Risk

Management of the credit risk and its maintenance at a safe level, defined in the risk appetite, is of fundamental importance for the Bank's stable operation and development. The credit risk is controlled with the use of the regulations in force at the Bank, in particular lending methodologies and risk measurement models, adjusted to customer segments, product and transaction types, establishing and monitoring of collateral to loans, as well as the processes of monitoring and collection of receivables.

The credit risk management system is comprehensive and integrated with the Bank's operational processes. The core stages of the credit risk management process include the following:

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

Such process supports effective supervision over the actual and potential risks and the effective application of risk management methods and instruments.

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

- minimising the level of the credit risk of a single loan with an assumed profitability level;
- reducing the overall credit risk resulting from holding a specific loan portfolio by the Bank.

In the mitigation process of the risk level of an individual exposure, when approving a credit product the Bank each time assesses:

- the customer's creditworthiness and credit capacity, including e.g. a detailed analysis of the exposure repayment sources;

- the reliability of the approved collateral, including the verification of its formal legal and economic condition, including e.g. LTV adequacy.

In order to maintain the credit risk at the level defined in the risk appetite, the Bank takes the following measures:

- sets and controls concentration limits;
- monitors early warning signals within the EWS system;
- regularly monitors the loan portfolio, controlling all material parameters of the credit risk (e.g. PD, LGD, LTV, DTI, COR, % NPL, Coverage);
- regularly carries out stress tests.

Risk assessment in the credit process

The Bank grants loan products in line with the lending methodologies appropriate for the customer segment and product type. The assessment of the customer's creditworthiness preceding credit decisions is performed with a system supporting the credit process, scoring or rating tools; external information (e.g. CBD DZ, CBD BR, BIK, BIG bases) and internal bases of the Bank. Credit products are granted in line with the Bank's operational procedures, specifying the steps to take in the lending process, the responsible units of the Bank, and the tools applied.

Credit decisions are taken in line with the credit approval system prevailing at the Bank where authority levels are suited to the risk level related to each customer and transaction.

In order to regularly assess the assumed credit risk and to mitigate potential losses on the existing loan exposures, during the lending term the Bank monitors the customer's condition by identifying early warning signals and periodic individual reviews of loan exposures. The monitoring process ends with recommendations concerning the strategy of further co-operation with the customer.

Division of responsibilities

The Bank pursues a policy of dividing the functions related to customer acquisition and sale of credit products from the functions related to the assessment of the credit risk, approving credit decisions, or monitoring of credit exposures.

Concentration risk management

To ensure stability and safety of the Bank and appropriate asset quality, asset diversification, profitability and an adequate capital level, concentration is identified on an ongoing basis in various areas of operation. The Bank identifies excessive concentration of each item which is accompanied by the credit risk or the risk of liquidity issues/loss, as a phenomenon that may adversely affect the safety of the Bank's operations.

The knowledge of potential hazards related to exposure concentration at the Bank supports correct asset and liability management and development of a safe structure of the loan portfolio. In order to prevent adverse events resulting from excessive concentration, the Bank mitigates the concentration risk by setting limits and applying concentration standards resulting from external regulations and internal concentration standards.

Impairment allowances and provisions

The Bank reviews all on-balance sheet loan exposures (groups of on-balance sheet loan exposures) to identify objective impairment indications, relying on the most recent data then the items are revalued. The Bank also reviews off-balance sheet exposures in terms of provision establishment. Impairment is automatically identified in the Bank's central system on the basis of systemic information (delays in repayment) or data input by users.

Impairment indication

The Bank evaluates impairment indications by classifying and diversifying events regarding:

- customers
- accounts
- exposures to banks
- bond exposures

Impaired exposures are split into those that are measured individually or in groups. Individual measurement applies to exposures that may be impaired (calculated at the customer level) in excess of the materiality levels subject to the customer segment (see the table below).

Materiality thresholds qualifying customers' exposures to individual measurement

As at 30.06.2018	
Customer Segment	**Threshold value in PLN**
Retail customers	No threshold
Business customers	1,000,000

Individual measurement is also applied to exposures that may be impaired with respect to which the Bank is not able to identify a group of assets with similar credit risk features or does not have an adequate sample to assess group parameters.

Individual assessments are based on an analysis of potential scenarios (business customers). Each scenarios and each tree branch are assigned the likelihood of occurrence and anticipated recoveries. The assumptions applied for individual measurements are described in detail by persons performing analyses. The value of recoveries anticipated within individual measurements are compared to the actual recoveries on a quarterly basis.

Group measurements are based on periods when the affected exposures remain at default; they provide for a specific nature of each group in terms of the anticipated recoveries. The existing collateral is taken into account at the exposure level.

If no objective impairment indicators exist of loan exposures, they are classified to a group of assets with a similar credit risk and assessed as a group for occurrence of any material deterioration of credit quality since the initial recognition. Assessment of deterioration of credit quality is made on the basis of a set of qualitative and quantitative indicators. Qualitative indicators include: DPD over 30 days, customer's classification to the Watch List category, the exposure is classified as forborne, other risks exist (including risks of the sector, region, etc.). Quantitative indicators include material deterioration of the current

cumulated default probability in the period until the expected maturity versus the cumulated default probability anticipated for the period when the exposure was generated (that is when it was first disbursed or materially modified). The Bank applies 2 models to estimate allowances for exposures that do not show impairment indicators: a model of anticipated losses estimated for 12 months for exposures classified to Basket/Stage 1 (or LCR) and a model of anticipated losses estimated for the period until the maturity of exposures classified to Basket/Stage 2 (including POCI).

Collateral

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

Loan collateral is to secure that the Bank will have the loan repaid along with interest and expenses due should the borrower fail to repay on the contractual dates and any restructuring activities fail to generate the anticipated effects.

Collateral is verified in the credit process for its effectiveness to secure the Bank, its market value is measured as its realisable value in a potential enforcement process.

Management of assets seized in exchange for debt

In justified instances, the Bank will seize the assets serving as collateral to satisfy the debt due to it. Such operations are performed on the basis of an approved disposal plan of the seized assets.

Scoring/rating

Credit scoring is a tool supporting credit decisions for individual customers and micro enterprises, while credit rating is an instrument supporting credit decisions in the segment of SMEs and large enterprises.

The Bank regularly monitors the correct functioning of the scoring and rating models. The objective of the review is to verify if the applied models appropriately differentiate risks and the estimated risk parameters properly reflect the relevant risk aspects. Additionally, functional controls are applied to verify the correct application of models in the credit process.

The currently applied scoring models have been developed internally by the Bank. In order to reinforce the risk management process of the models applied in the Bank, there is a team acting as an independent validation unit.

Monitoring of the credit risk of individual and business customers

Regular control of the quality of the loan portfolio is ensured by:

- ongoing monitoring of timely debt servicing;
- periodic reviews, in particular of the customers' financial and economic condition and the value of the accepted collateral.

All loan exposures of individual and business customers are subject to monitoring and ongoing classification to the appropriate process paths. In order to improve the monitoring and control of the operational risk,

adequate solutions have been implemented in the Bank's credit systems. Systemic tools have been consolidated to ensure the effective use of the monitoring procedures, applicable to all accounts.

Application of forbearance practices

In the restructuring process of Individual Customers, the Bank applies the following tools:

- extended lending periods; Extended lending periods result in the reduced monthly principal and interest instalments and it is possible up to 120 months (for unsecured products), irrespective of the original lending period. If within such restructuring, the lending period is extended once to the maximum period, the tool may not be used again in the future. When the lending period is extended, certain restrictions are taken into account as specified in the product features, such as borrower's age;
- offering grace periods (for full or partial instalment); During the grace period in repayment of the principal and interest instalments, the borrower is not obliged to make any payments under the agreement. The loan repayment period may be extended by the term of a grace period (this is not identical to the extension of the lending period). A grace period of a full instalment may be applied by up to 3 months and a grace period of the principal part of instalment – up to 6 months. The maximum grace period may be 6 months within 2 consecutive years (24 months) of the date of the restructuring annex;
- consolidation of several obligations with Alior Bank, including modifications to limit in LOR accounts/unauthorised debit in ROR/KK, into an instalment loan; Consolidation results in converting a number of debts from various agreements into a single debt. The product activated as a result of consolidation is repaid in monthly instalments in line with the repayment schedule. The parameters of the product activated as a result are compliant with the features of cash loans/consolidation loans.

In specific instances, other tools may be used.

Monitoring of risk related forbearance practices

Reporting of the quality of the restructured loan portfolio covers reporting at the levels of individual overdue baskets when a restructuring decision has been taken, or at an aggregated level. Calendar months are the core reporting periods. The following sub-processes may be identified within that split to which the presented values relate:

- application process (the number of applications, the number of issued decisions, types of decisions);
- the quality of the loan portfolio (split into specific overdue levels, forms of restructuring, applied waivers);
- measurement of overdue in excess of 90 days in restructured accounts in each quarter, as at the end of each quarter after restructuring.

The monthly presentation submitted to the Management Board contains results of the above monitoring of the restructured portfolio.

Assessment of impairments for exposures subject to forbearance practices

For exposures subject to *forbearance*, the Bank applies stricter criteria to identify impairment indicators. Apart from a standard catalogue of indicators, with respect to such exposures, additional criteria are applied, defined as occurrence at the time the forbearance decision is made.

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

Operational Risk

The operational risk which means the likelihood of a loss resulting from failure to apply or unreliability of internal processes, people, systems, or external hazards, is identified as a material risk. The Bank has a formalised operational risk management system within which it prevents the occurrence of operational events and incidents and mitigates losses should the risk materialise. The operational risk management system at the Bank relies on the following three pillars:

- corporate governance – comprising internal regulations, the internal control system, and defined roles and responsibilities of individual organisational units;
- operational risk management process – covering all of its stages with the use of adequate tools;
- operational activities – activities taken by the Bank addressed at identifying the operational risk, implementing control procedures, and operational risk management, decisions taken to reduce the operational risk.

For the purpose of calculation of the capital requirements for the operational risk, the Bank used the standardised approach in 2017. Additionally, for several years the Bank has been developing statistical methods to calculate the internal capital for the operational risk. On 22 December 2017 the Bank obtained relevant approval from the Polish Financial Supervision Authority for AMA method to calculate the capital requirement for the operational risk from 1 January 2018 (with the exclusion of historical effects of exBPH operations and the branch in Romania). PFSA decision is a result of months of project work aimed at streamlining the risk management processes at the Bank. If successful, this project will not only significantly reduce the capital requirement for the operational risk, but will also bring a number of process benefits and provide a tool for accurate estimation of the operational risk and inclusion of that risk in the costs of products and processes.

The following bodies function within the structure of operational risk management: the Supervisory Board, the Risk Committee of the Supervisory Board, the Operational Risk Committee, the Operational Risk Management Department, and operational risk Co-ordinators.

A detailed split of the roles and authority in operational risk management is determined in internal documentation of the Bank.

The amount of gross operational losses, recorded in H1 2018 at Alior Bank S.A. fell within the approved appetite and limit for the operational risk at the Bank.

Model risk

The objective of model risk management is to support the accomplishment of the approved business limits with an acceptable uncertainty level resulting from applying the models in the Bank's business. The Bank endeavours to use the models broadly in its processes, achieving automation of the decision process and minimising the role of the human factor. The model risk management process is handled in a way to ensure achievement of this objective.

The model risk management process involves assessment of conformity of the model risk level with the adopted risk tolerance and measures are in place to limit this level. The process includes: model risk identification, measurement, control and reporting. The model risk management process is performed at the level of individual models and at the level of model portfolios.

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

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

Capital management (ICAAP)

Alior Bank manages its capital in a manner ensuring safe and effective functioning of the Bank.

In order to ensure safe functioning, within its risk appetite the Bank defines the adequate coverage levels with its equity (and Tier 1 capital) of potential unexpected losses due to material risks identified in the ICAAP process, as well as risks identified in the calculation process of the regulatory capital.

Within the ICAAP process, the Bank identifies and assesses the materiality of all types of risk to which it is exposed in connection with its business.

Material risks as at 30.06.2018
Credit risk (including: insolvency risk, sectoral concentration risk, concentration risk to customers, currency concentration risk)
Operational Risk
Liquidity Risk
Interest rate risk in the banking book
Market risk
Model risk
Risk of reputation loss

Business risk
Capital risk
Compliance risk

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

- credit risk on the basis of CreditRisk+ methodology as the value of 99.95th quartile of the distribution of loss in the loan portfolio;
- operational risk on the basis of AMA methodology;
- liquidity risk on the basis of a liquidity gap model assuming a stress scenario;
- market risk and interest rate risk in the banking book on the basis of the VaR methodology;
- reputational risk on the basis of the VaR model of frequency distribution and loss volume;
- business risk on the basis of results of stress tests;
- model risk on the basis of results of stress tests.

The estimated total internal capital and the calculated regulatory capital is covered with equity (and Tier 1 capital) subject to appropriate safety buffers.

	Capital ratios of the Bank's Capital Group		
	30.06.2018	31.12.2017	30.06.2017
Capital adequacy ratio	15.43%	15.21%	13.65%
Tier 1 capital ratio	12.20%	12.10%	11.54%
Internal capital coverage ratio with available capital	2.35	2.26	2.00

In view of the need to ensure a balanced growth of the Bank's scale of operations, the Bank develops its available capital base using various channels – profit re-investment, subordinated debt issue and new share issues at the stock exchange.

The Bank develops its available capital while ensuring effective functioning or accomplishment of an assumed return on the equity entrusted by the shareholders.

XI. Internal control system

Alior Bank S.A. operates an internal control system which covers all controlled solutions and activities ensuring compliance with the statutory objectives of internal control systems, while supporting the Bank's management and contributing effective achievement of its tasks ensuring safety and stability of the Bank's operations. The internal control system is split into: a control function, a compliance unit, and an independent internal audit unit.

The internal control system is adapted to the risk management system, the organisational structure, as well as the volume and complexity of the Bank's operations. The system covers all of the Bank's units and its subsidiary entities.

The Bank's internal control mechanism is as follows:

Compliance

Compliance is a general objective of the Bank's internal control system and is aimed at mitigating the risk of legal sanctions, financial losses, or reputation loss as a result of failure by the Bank, entities operating on its behalf (inducing subsidiary entities), or its employees to comply with the law, the requirements of supervisory bodies, the internal regulations, and standards of conduct approved by the Bank, including ethical standards.

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

XII. Control system in the preparation process of financial statements

The financial statements are made in the Financial Division in line with the accounting policies approved by the Bank's Management Board and the organisation of accounting that set forth the principles of recording economic events of the Bank, reliably and clearly reflecting the Bank's economic and financial condition and the generated financial results. The detailed description of the accounting principles are included in the Consolidated Financial Statements of the Alior Bank Capital Group for the year ended on 31 December 2017 and in Alior Bank's Financial Statements for the year ended on 31 December 2017, in relevant notes in the part "Accounting Policies".

The Bank operates the internal control system, supporting decision processes and enhancing the effectiveness of the Bank's operations, ensuring reliability of financial reporting and its compliance with the international standards, the law, the internal regulations, as well as best practices.

The process of preparing financial data for financial reporting is automated and based on the consolidated General Ledger and the Data Warehouse. IT systems involved in this process are carefully controlled in terms of data integrity and security. This area is also subject to independent and objective assessment of the Internal Audit Department – both in terms of the adequacy of the internal control system, risk management, and corporate governance.

XIII. Shareholding structure of Alior Bank S.A.

Share capital structure

As at the date of report publication, the share capital of the Bank amounts to PLN 1,305,187,160 and is divided into 130,518,716 ordinary shares with a par value of PLN 10.00 each.

All of the company's shares are ordinary bearer shares. Rights and obligations attached to the shares are compliant with legal regulations. No special privileges or limitations for the Bank's shares exist. Rights of Powszechny Zakład Ubezpieczeń S.A. as the Bank's parent entity are based on the number of shares and the percentage of those shares in the share capital and votes at the General Meeting of Shareholders. The Bank's Articles of Association impose no limitations on exercising the right to vote attached to the Bank's shares or on transfer of the share ownership rights.

In the reporting period the Bank carried out three changes of the Bank's share capital that followed settlement of the Original Incentive Programme:

- increase of the Bank's share capital by issue of 15,217 ordinary series D and E bearer shares with the total nominal value of PLN 152,170 (shares registered with National Depository of Securities on 15 January 2018);
- increase of the Bank's share capital by issue of 1,179,875 ordinary series D, E, and F bearer shares with the total nominal value of PLN 11,798,750 (shares registered with National Depository of Securities on 29 March 2018);
- increase of the Bank's share capital by issue of 60,000 ordinary series D bearer shares with the total nominal value of PLN 600,000 (shares registered with National Depository of Securities on 28 June 2018).

Share capital structure per series of issued shares

Share series	Data as at 30 June 2018 / 9 August 2018		Data as at 31 December 2017	
	Number of shares	Value of the series nominal price [PLN]	Number of shares	Value of the series nominal price [PLN]
A	50,000,000	500,000,000	50,000,000	500,000,000
B	1,250,000	12,500,000	1,250,000	12,500,000
C	12,332,965	123,329,650	12,332,965	123,329,650
D[1]	831,681	8,316,810	413,480	4,134,800
E	521,275	5,212,750	2,785	27,850
F	318,701	3,187,010	300	3,000
G	6,358,296	63,582,960	6,358,296	63,582,960
H	2,355,498	23,554,980	2,355,498	23,554,980
I	56,550,249	565,502,490	56,550,249	565,502,490
J	51	510	51	510
Total	130,518,716	1,305,187,160	129,263,624	1,292,636,240

(1) As of the publication date of this report, the registration process with KRS of the Bank's share capital increase concerning 60,000 series D shares was not completed until the publication date hereof

Shareholders of Alior Bank S.A.

As the Bank is a public company under the Act on Public Offering and because the shares of th Bank are listed on a regulated (primary) market operated by WSE, the Bank presents below information on its shareholders that as a date of publication of the report directly hold shares representing at least 5% in the share capital and the total votes at the General Meeting of Shareholders.

On 2 June 2017 and agreement was concluded between Powszechny Zakład Ubezpieczeń SA, PZU Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 on purchase and sale of the Bank's shares by parties to the agreement and exercise of the voting rights at the General Meeting of Shareholders.

Ownership structure of the Bank's share capital

Shareholder[1]				Share in share capital and overall number of votes at General Meetings		
	09.08.2018	10.05.2018	8.03.2018	09.08.2018	10.05.2018	8.03.2018
PZU SA[1]	41,658,850[3]	41, 658,850[2]	41,658,850[2]	31.92%	31.93%	32.22%
Aviva OFE Aviva BZ WBK	9,467,000[3]	11, 562,000[2]	11,562,000[2]	7.25%	8.86%	8.94%
Nationale-Nederlanden OFE	7,630,000[3]	6, 600,000[2]	6,600,000[2]	5.85%	5.06%	5.11%
BlackRock, Inc.	7,392,649[4]	7, 392,649[4]	No data	5.66%	5.67%	No data
Other shareholders	64,370,217	63,245,217	69,457,991	49.32%	48.48%	53.73%
Total	130,518,716[5]	130,458,716	129,278,841	100%	100%	100%

(1) Along with the parties to the agreement of 2 June 2017 – PZU Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 (2) Based on the number of shares registered at the Extraordinary General Meeting of 5 December 2017
(3) Based on the number of shares registered at the Annual General Meeting convened for 22 June 2018
(4) On the basis of the notification of 24 April 2018
(5) As of the publication date of this report, the registration process with KRS of the Bank's share capital increase concerning 60,000 series D shares was not completed until the publication date hereof.

Changes to the ownership structure of major stakes in the period from the publication of the previous interim report

From the publication date of the previous interim report until the publication hereof, the Bank's Management Board did not receive any notifications pursuant to Art. 69 of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies (Journal of Laws of 2018, items 512, 685), or notifications made in compliance with ESMA/2015/1597 standards. Any change to the number of shares held by shareholders holding minimum 5% of the overall number of votes at the Bank's General Meetings is related to an update of the information on the list of persons authorised to participate in the Bank's Ordinary General Meeting convened for 22 June 2018.

Members of the Management Board who were shareholders of the Bank as at 30 June 2018 and as of the publication date hereof

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

To the best knowledge of the Bank's Management Board, as at the publication date hereof, the Members of the Supervisory Board of Alior Bank S.A. did not hold any shares of the Bank. In the period from publication of the previous interim report, no transactions were executed on the Bank's shares with Members of the Bank's Management Board or Supervisory Board being parties thereto.

Management option scheme

Based on Resolution No. 28/2012 of the Extraordinary General Meeting of Shareholders of 19 October 2012 on conditional share capital increase of the Bank and issue of subscription warrants and the rules for the incentive scheme adopted by the Resolution of the Bank's Supervisory Board of 27 March 2013 the incentive scheme was launched for 2013-2015. It applies to the members of the Management Board and key managers who have not been Management Board members.

Allocation of the warrants was subject to complying with the requirements set forth in the Regulations of the Program approved by the Bank's Supervisory Board. Control over the scheme is exercised by the Management Board.

The Management Option Scheme provided for issue of three tranches of subscription warrants (series A, B, and C) and corresponding three tranches of new shares (series D, E, and F) with a total nominal value of up to PLN 33,312,500, including:

- up to 1,110,417 series A subscription warrants awarding their holder the right to subscribe for 1,110,417 series D shares of the Bank within 5 years, starting on the first anniversary of the date of the first listing of the shares on WSE;
- up to 1,110,416 series B subscription warrants awarding their holder the right to subscribe for 1,110,416 series E shares of the Bank within 5 years, starting on the second anniversary of the date of the first listing of the shares on WSE;
- up to 1,110,417 series C subscription warrants awarding their holder the right to subscribe for 1,110,417 series C shares of the Bank within 5 years, starting on the third anniversary of the date of the first listing of the shares on WSE.

Further to the issue of shares with pre-emptive rights, on 27 July 2016 the Supervisory Board adopted a technical adjustment of the Management Options Scheme to ensure economic neutrality of the scheme for the eligible persons. The adjustment involves calculating the decrease of theoretical value of the Management Options Scheme and issuing phantom shares to the scheme participants, featuring parameters similar to warrants.

In the period under report, the participants in the Program exercised 1,239,875 warrants and acquired 407,296 series D shares, 514,178 series E shares and 318,401 series F shares at the issue price compliant with the assumptions underlying the program.

Number of warrants as at 30 June 2018

Warrant series	Number of warrants as at 31 December 2017	Exercised in H1 2018	Number of warrants as at 30 June 2018, of which:	List of awarded, exercisable warrants	Number of deferred warrants to be awarded in 2018-2019
A	551,366	407,296	144,070	144,070	0
B	1,045,919	514,178	531,741	523,392	8,349
C	950,201	318,401	631,800	490,956	140,844
TOTAL	**2,547,486**	**1,239,875**	**1,307,611**	**1,158,418**	**149,193**

XIV. Governing Bodies of Alior Bank S.A.

General Meeting of the Bank

In the reporting period, one General Meeting of the Bank was held on 22 June 2018 and continued after a break on 25 June 2018 The Bank's Annual General Meeting – apart from technical resolutions – approved other resolutions covering the closing of the financial year of 2017 and approving: financial statements of the Bank and the Bank's Capital Group, Management report from operations of the Bank's Capital Group, covering Management report from the Bank's business, profit distribution, granting vote of approval to all members of the Bank's Management Board and Supervisory Board. Additionally, the Bank's General Meeting approved a resolution on 22 June 2018 appointing Mr Marcin Eckert to the Bank's Supervisory Board and at the continued part of the meeting on 25 June 2018 appointed Mr Wojciech Myślecki to the Bank's Supervisory Board.

Supervisory Board of the Bank

Composition of the Bank's Supervisory Board as at 30.06.2018		Composition of the Bank's Supervisory Board as at 31.12.2017	
Tomasz Kulik	Chairman of the Supervisory Board	**Tomasz Kulik**	Chairman of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	Deputy Chairwoman of the Supervisory Board	**Małgorzata Iwanicz-Drozdowska**	Deputy Chairwoman of the Supervisory Board
Marcin Eckert	Member of the Supervisory Board	**Dariusz Gątarek**	Member of the Supervisory Board
Dariusz Gątarek	Member of the Supervisory Board	**Mikołaj Handschke**	Member of the Supervisory Board
Mikołaj Handschke	Member of the Supervisory Board	**Artur Kucharski**	Member of the Supervisory Board
Artur Kucharski	Member of the Supervisory Board	**Sławomir Niemierka**	Member of the Supervisory Board
Wojciech Myślecki	Member of the Supervisory Board	**Maciej Rapkiewicz**	Member of the Supervisory Board
Maciej Rapkiewicz	Member of the Supervisory Board	**Paweł Szymański**	Member of the Supervisory Board

In the reporting period, there were changes to the composition of the Bank's Supervisory Board:

- On 21 June 2018, the following persons resigned from membership in the Bank's Supervisory Board: Mr Paweł Szymański and Mr Sławomir Niemierka;
- On 22 June 2018 Mr Marcin Eckert was appointed as a Member of the Supervisory Board by resolution of the Bank's Annual General Meeting;
- On 25 June 2018 Mr Wojciech Myślecki was appointed as a Member of the Supervisory Board by resolution of the Bank's Annual General Meeting, continuing after the break.

Appointed Members of the Bank's Supervisory Board shall not be involved in any activity competitive to the Bank and shall not participate in a competitive company as partners to a partnership or as members of bodies of commercial companies or other competitive legal persons.
The information on compliance by Members of the Bank's Supervisory Board with the requirements specified in Art. 22aa of the Banking Act is available at the Bank's web site: https://www.aliorbank.pl/dodatkowe-informacje/o-banku/rada-nadzorcza.html.

Committees of the Supervisory Board

Composition of the Audit Committee

Members of the Committee as at 30.06.2018		Members of the Committee as at 31.12.2017	
Małgorzata Iwanicz-Drozdowska	Chairwoman of the Committee	**Małgorzata Iwanicz-Drozdowska**	Chairwoman of the Committee
Artur Kucharski	Member of the Committee	**Sławomir Niemierka**	Member of the Committee
Marcin Eckert	Member of the Committee	**Paweł Szymański**	Member of the Committee

On 7 March 2018, the Audit Committee composed of: Ms Małgorzata Iwanicz-Drozdowska, Mr Sławomir Niemierka, and Mr Pan Paweł Szymański, was extended by Mr Artur Kucharski. In view of the resignation of Mr Sławomir Niemierka and Mr Paweł Szymański from their membership in the Bank's Supervisory Board, on 22 June 2018 Mr Marcin Eckert was appointed to the Audit Committee. In addition, on 2 August 2018, the Supervisory Board of the Bank appointed Mr Wojciech Myślecki to the Audit Committee.

Members of the Appointment and Remuneration Committee

Members of the Committee as at 30.06.2018		Members of the Committee as at 31.12.2017	
Tomasz Kulik	Chairman of the Committee	**Tomasz Kulik**	Chairman of the Committee
Mikołaj Handschke	Member of the Committee	**Mikołaj Handschke**	Member of the Committee
Maciej Rapkiewicz	Member of the Committee	**Maciej Rapkiewicz**	Member of the Committee
Marcin Eckert	Member of the Committee	**Sławomir Niemierka**	Member of the Committee

In view of the resignation of Mr Sławomir Niemierka from his membership in the Bank's Supervisory Board, on 22 June 2018 Mr Marcin Eckert was appointed to the Appointment and Remuneration Committee.

Composition of the Risk Committee

Members of the Committee as at 30.06.2018		Members of the Committee as at 31.12.2017	
Dariusz Gątarek	Chairman of the Committee	**Dariusz Gątarek**	Chairman of the Committee
Małgorzata Iwanicz-Drozdowska	Member of the Committee	**Małgorzata Iwanicz-Drozdowska**	Member of the Committee
Maciej Rapkiewicz	Member of the Committee	**Maciej Rapkiewicz**	Member of the Committee

In the reporting period, there were no changes to the composition of the Risk Committee.

Bank's Management Board

Composition of the Bank's Management Board as at 30.06.2018		Composition of the Bank's Management Board as at 31.12.2017	
Katarzyna Sułkowska	President of the Management Board Reporting units: HR Division Departments: Management Board, Marketing and PR, Audit, Procurement, Compliance, Legal.	**Michał Jan Chyczewski**	Deputy President of the Management Board acting President of the Management Board Reporting units: HR Division, Corporate Development Division, Departments: Management Board, Investor Relations, Marketing and PR, Audit, Procurement
Filip Gorczyca	Deputy President of the Management Board Reporting units: Division of: Controlling, Departments: Data, Accounting, taxes, Investor Relations, Financial Reporting Section.	**Filip Gorczyca**	Deputy President of the Management Board Reporting units: Departments: Controlling, Data, Accounting, Tax, Financial Reporting
Marcin Jaszczuk	Deputy President of the Management Board Reporting units: Corporate Development Division Departments: T-Mobile Usługi Bankowe Branch, Foreign Markets Section	**Sylwester Grzebinoga**	Deputy President of the Management Board Reporting units: Departments: Safety, Electronic Safety, Regulatory Compliance, Legal
Mateusz Poznański	Deputy President of the Management Board Reporting units: Sales Division KI, Departments: Private Banking, Consumer Finance, External Networks, Relations with Customers, KI Products, Brokerage Office, CRM KI.	**Urszula Krzyżanowska-Piękoś**	Deputy President of the Management Board Reporting units: Corporate Banking Development Division Departments: Sales, Private Banking, Treasury, Consumer Finance, Sales Support, External Networks, Relations with Customers, KI Products, Brokerage Office

Agata Strzelecka	Deputy President of the Management Board Reporting units: IT Division, Digital Banking and Remote Sales Division, Security Division, Departments: Electronic Security, Logistics, Settlements, Operations.	**Katarzyna Sułkowska**	Deputy President of the Management Board Reporting units: Analysis and Recovery Division, KB Risk Division, Departments: Risk Strategy, KI Credit Policy, Departments: Operational Risk Management, Risk Strategy Models
Maciej Surdyk	Deputy President of the Management Board Reporting units: Departments: RCB Sales, KB Products, Sales – Micro Enterprise Segment, Sales – Treasury Products, Sales – SMEs, AGRO Business, Leasing, Treasury, EU Funds and Public Programs Section, CRM KB Section.	**Celina Waleśkiewicz**	Deputy President of the Management Board Reporting units: IT Division, Operations Division, Departments: Digital Banking, Digital Channel Development, T-Mobile Banking services, CRM, Phone sales, Customer Retention Section.

In the reporting period, the following changes to the composition of the Bank's Management Board took place:

- On 12 March 2018 Mr Michał Jan Chyczewski filed his resignation from the function of the Deputy President of the Management Board of Alior Bank S.A., directing the work of the Management Board;
- On 12 March 2018 the Supervisory Board appointed Ms Katarzyna Sułkowska to manage the works of the Management Board;
- On 13 March 2018 the Supervisory Board appointed Mr Marcin Jaszczuk to the position of the Deputy President of the Management Board of Alior Bank S.A.;
- On 13 April 2018 Ms Urszula Krzyżanowska-Piękoś and Ms Celina Waleśkiewicz filed their resignations from membership in the Management Board of Alior Bank S.A.;
- On 13 April 2018, the Bank's Supervisory Board appointed Ms Agata Strzelecka, Mr Mateusz Poznański and Mr Maciej Surdyk to the Management Board to the positions of Deputy Presidents of the Bank's Management Board;
- On 27 April 2018, Mr Sylwester Grzebinoga, Deputy President of the Bank's Management Board filed his resignation from his function as a Member of the Management Board of Alior Bank S.A.;
- On 21 May 2018, the Bank's Supervisory Board took a resolution appointing Ms Katarzyna Sułkowska, the then Deputy President of the Management Board, to the position of the President of the Management Board of Alior Bank S.A.

Appointed Members of the Bank's Supervisory Board are not be involved in any activity competitive to the Bank and do not participate in a competitive company as partners to a partnership or as members of bodies of commercial companies or other competitive legal persons.

The information on compliance by Members of the Bank's Management Board with the requirements specified in Art. 22aa of the Banking Act is available at the Bank's web site: https://www.aliorbank.pl/dodatkowe-informacje/o-banku/zarzad.html.

XV. Rules of social responsibility

Relations with customers

In H1 2018 Alior Bank continued the enhancement of processes and implementation of new solutions aimed at providing Customers with a competitive service level in Polish and global banking.

All actions were taken on the basis of a number of surveys and analyses and a look at the process with the Customers' eyes and listening to their voice with e.g. regular satisfaction level surveys with the NPS (Net Promoter Score) method. At that time we asked an opinion of almost 40 thousand customers who assessed our products and service channels.

The objective was to provide customers with agile and friendly processes and unique products in line with their expectations.

At Alior Bank, care is taken about the Customers' experience at each stage of cooperation with the Bank and in all sales and service channels so that we can become the Bank of first choice and develop long-term relations.

Additionally, we focus on activities to support Customers in taking informed decisions on the basis of understanding the functioning of the products and the offered technological solutions.

A view of banking with the Customers' eyes makes the ongoing work on improvement and continuous development a crucial issue in efforts to gain competitive advantages in the market.

Relations with employees

Alior Bank is a national universal bank and one of the most modern and innovative financial institutions in Poland. This is a place for people who have ideas and business courage to set new standard in banking.

As at 30 June 2018, the headcount at Alior Bank was 8,028 FTEs.

At the beginning of the year, we organised an internal campaign promoting the values of Alior Bank (team spirit, agility, simplicity and ethics). We also worked on the results of an employee commitment survey – individual managers were provided with results for their organisational units;

a group of ambassadors was set up, responsible for initiatives building commitment in the entire Bank.

We strengthened enforced internal communication – we launched a new periodic newsletter devoted to strategy and we launched attractive video formats (interviews with members of the Management Board and reports on important events at the Bank). We arranged open meetings with members of the Management Board in Warsaw, Kraków and Gdańsk. In mid-May a cyclical meeting was held of managerial staff devoted to progress in implementing the Digital Disruptor Strategy.

Development and training

New employees of the Bank undergo an onboarding process following dedicated training programs so that they are well prepared to their jobs. As part of onboarding processes for the sales network, we trained 305 persons.

Employees of Alior Bank are given opportunities to improve their competences on the basis of an extensive training and development offer conducted by internal and external trainers. The direction of our development efforts is determined with the Digital Disruptor Strategy. The offer covers product, sales training and training related to service quality and soft competences. As part of training in the sales network, we offer workshops to improve the employees' business effectiveness. Until the end of June 2018, such training covered 895 employees. We also perform activities in the Training on the Job model, supporting employees in their daily work in regions. Work in the one on one formula is very effective and suited to the development requirements of the addressees. In H1 2018 the project covered 1,756 employees of the sales network.

Alior Bank offers practical opportunities to develop competences inside the organisation to its employees. In H1 2018 we carried out 16 tailored training courses for employees of the Head Office and branches and provided opportunities to 515 persons to use external training and conferences financed from the management pool allocated to departments. Additionally, over 1,320 employees used internal training held by internal trainers and within the program "Share your knowledge" in which all employees of the Bank may offer and develop training in technical skills related to their area of specialisation. The internal team of electronic training (e-learning) jointly with business departments developed 38 new e-training programs supporting business needs.

Alior Bank has also defined a base of development activities for managers. All employees in managerial functions may use the "managerial tooling" which is a pool of training carried out by internal trainers as well as additional training programs carried out by external training companies. Examples of training from the tooling set covers incentivising and development of commitment, change management, diversity management, handling conflict situations, efficient communication.

In parallel, dedicated groups (Regional Directors, Department Directors (B-1), Team Managers (B-2), Regional Directors) are offered central development programs in cooperation with reputable external partners covering elements of diagnostics (on the basis of a 180-degree assessment tool), workshops, tutoring sessions, gamification.

All development activities for managers were designed on the basis of the Transformation Leader Model. Alior's Transformation Leader provides for effective accomplishment of business objectives by developing employees' commitment and durable relationships with customers.

Employee benefits

The offer of employee benefits offered by Alior Bank in 2018 focused on three areas identified by our employees as important ones: actions supporting employees' families, sports promotion and women's professional development.

Within the benefits financed with ZFŚS funds and the rules of allocating the funds as set forth in the Regulations approved last year, during the winter holidays children of our employees had day camps in three cities: Gdańsk, Kraków and Warsaw. In June 2018, family picnics were held in those cities to which employees of Alior Bank with their families were invited. They were an excellent opportunity to get to know each other better and to integrate during joint entertainment, competitions and sports games.

Parents of new born babies get layettes. In order to support sports initiatives, employees are provided with funding of sports sections for employees practising various sports. They also take care of staying fit with the subsidies to Multisport cards.

Employees who take minimum 14 calendar days of holidays receive holiday financial support.

Persons in difficult health and life situation, are provided with welfare benefits; those who wish to improve their housing conditions, are provided with loans for purchase, modernisation and overhauls of apartments.

For H2 more benefits are planned for employees: cinema tickets, summer camps, Sports Olympics and gift parcels for children.

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

On the day of their children's first birthday, employees get a paid day off.

Educational, cultural and social activities

Since the beginning of its operations, Alior Bank has been focusing on promoting cultural initiatives. As a result of initiating the Digital Disruptor Strategy, the bank has been putting stress on those activities that are also characterised with innovation in the area of culture. Therefore, the bank supported the idea of the Kraków Art Foundation which has been documenting the preservation and restoration of the Senster sculpture. Academics and artists from the ASP [Academy of Fine Arts] and AGH [AGH University of Science and Technology] in Kraków committed to restore the cybernetic sculpture Senster made by Edward Ihnatowicz for Panasonic. This is one of the best known and innovative works of contemporary art, related to technologies. Digital documentation is being developed. The grant will support its development, archiving and preparation in a

documentary version, for film purposes, in order to popularise the knowledge of the work and its author.

Alior Bank is also a strategic partner to the conference "Insider Trends CEE", organised by Business Insider (Onet.pl Group). This is one of the major events in Central Europe initiating discussions on future trends in various areas of human activity. The conference – which each year has been attracting trendsetters from various areas of business, culture, media – sums up civilisation progress and has been trying to project the challenges faced by mankind.

The Bank continues its activities supporting cultural initiatives that so far have been associated with Alior Bank's Patronage and strengthened its image as an institution promoting high culture. Therefore, within the celebration of the Year of Zbigniew Herbert, the bank supported the organisers of the concert "Gintrowski – something will be left after us after all", continuing its earlier activities propagating the poet's works.

As an institution putting stress on social corporate responsibility, the bank for years has been supporting local communities, getting involved in a number of initiatives – one of them is the most frequently attended "Procession of the Three Kings". The initiative of the "Procession of the Three Kings" Foundation of a Nativity play held on 6 January 2018 gathered about 1.2 million people in over 600 places in Poland and abroad. Supporting the above initiatives, Alior Bank remembers the importance of historic identity as an element bonding local communities and that is why it was a partner to a special production "Wolves' trail – Accursed Soldiers", made on the occasion of the National Memory Day of Accursed Soldiers by "Gazeta Polska" with the web portal niezależna.pl.

Awards and recognitions

In the first half of 2018, Alior Bank S.A. won a number of awards and distinctions. The most important include:

- The pioneer solutions in internet banking launched by Alior Bank were appreciated by "Miesięcznik Finansowy BANK" [Finance Monthly Magazine], which awarded to Alior Bank an Honorary Award in the category of "Innovative banks", in the ranking of "Poland's 50 largest banks" 2018.
- The title of the "Best bank in Poland" was awarded in 2018 to Alior Bank by "Global Finance". Additionally, appreciation was shown for its approach to customers as well as the results – growth of assets and profitability.

Sponsoring activities

Similarly to previous years, the Bank was the core sponsor of the third edition of the festival: "Capital of the Polish Language" in Szczebrzeszyn. The event which popularises Polish classical and contemporary literature as an important element of social and national identity, has become one of the most important literary festivals in Poland. Every year the festival is attended by over 10 thousand people.

Additionally, Alior Bank sponsored a cycle of concerts "Rhythm of Kryniczanka – Smile with Kiepura" which are an element of the Jan Kiepura Festival and since 2016 it has been very popular among the public (open-air concerts are viewed every day by about 4 thousand viewers). The concerts were produced by the Cultural Centre in Krynica Zdrój broadcast on TV, similarly like the musical show "For centuries you've been the Queen of Poland, Mary!", also sponsored by the bank. The concert at Jasna Góra gathered over 60 000 participants. The broadcast on TVP1 and TV Polonia was viewed by about 1 800 000 people.

Additionally, we sponsored the special zone EKO-TECHNOARTMOBIL created in Kraków within two initiatives: "Kraków – a City of Start-ups", carried out by the Education Development Activation Association, in co-operation with the city authorities and university artists and representatives of local start-ups, and a cyclical start-up congress – START #KRK UP-OR KRAKÓW.AND NEW TECHNOLOGIES. The multimedia installation was developed by students of the Academy of Fine Arts and representatives of start-ups.

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

XVI. Representations of the Management Board

Selection of the statutory auditor

The entity authorised to audit financial statements, performing an audit of the interim financial statements of the Alior Bank Capital Group, as well as the interim report of Alior Bank S.A. was selected in compliance with the applicable laws. The entity and statutory auditors auditing the financial statements reports shall meet the requirements to express an impartial and independent opinion on these interim financial statements of the Bank's Capital Group and the financial statements of the Bank, in line with applicable regulations of law and professional standards.

Principles assumed for preparation of the financial statements

The Bank's Management Board represents that to the best of its knowledge, the semi-annual condensed consolidated and semi-annual condensed separate financial statements for H1 2018 and the comparable data were prepared in line with the applicable accounting standards and in a manner truly, reliably and clearly presenting the Alior Bank Group's economic and financial condition and its financial results. The Management Report in this document contains a true view of the development, achievements, and condition (with a description of the basic risk types) of the Alior Bank Capital Group in H1 2018.

Material contracts

The Bank's Management Board declares that as at 30 June 2018 Alior Bank S.A. did not have:

- obligations towards the central bank;
- material contracts on loans, sureties, and guarantees not linked to its operations except for the Agreement of 8 November 2017 concluded with PZU S.A. for periodic granting of insurance guarantees as unfunded credit protection.

In the reporting period the Bank had liabilities arising from debt securities, including in particular subordinated bonds and bank securities and other financial instruments.

In H1 2018 the Bank did not conclude or terminate any significant loan agreements outside the normal scope of the Bank's business.

The Bank's Capital Group entities – outside the normal scope of their business – did not grant any significant sureties, loans or guarantees to a single entity or its subsidiary units.

As at 30 June 2018, the number of active guarantees granted by Alior Bank was 2,340 for a total amount of PLN 1,364,604 thousand.

The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (1,684) total PLN 773,303 thousand.

During the reporting period, within the Alior Bank Capital Group there were no material transactions carried out withrelated entities otherwise than at arm's length.

The Bank is not aware of any contracts that could have an impact on the proportions of shares held by the shareholders and bondholders in the future.

Proceedings pending before a court

None of the single proceedings pending in the first half of 2018 before a court, arbitration authority or public administration authority, and all proceedings jointly do not pose any threat to the financial liquidity of the Bank. The litigations that in the opinion of the Management Board are important are specified below:

- Case initiated by a customer – a limited liability company for payment of PLN 102,737,728.00. A suit of 27 April 2017 against Alior Bank S.A. and Bank BPH S.A. In the Bank's opinion, the suit has no factual or legal grounds;
- Case initiated by a customer – a limited liability company for payment of PLN 17,843,164.00. Suit of 10 February 2015 originally made against Bank BPH S.A. In the Bank's opinion, the suit has no factual or legal grounds;
- Case sued by a customer – a natural person, representing a group of 84 natural and legal persons to determine the Bank's liability for damage. Suit of 5 March 2018 made against Alior Bank S.A. In the Bank's opinion, the suit has no factual or legal grounds.

Signatures of all Management Board Members

Date	First name and surname	Signature
08.08.2018	Katarzyna Sułkowska President of the Management Board	
08.08.2018	Filip Gorczyca Deputy President of the Management Board	
08.08.2018	Marcin Jaszczuk Deputy President of the Management Board	
08.08.2018	Mateusz Poznański Deputy President of the Management Board	
08.08.2018	Agata Strzelecka Deputy President of the Management Board	
08.08.2018	Maciej Surdyk Deputy President of the Management Board	