

## **The context of the proposed modifications to the Articles of Association of Alior Bank S.A. along with background information**

The following modifications are proposed to be made to the Articles of Association of Alior Bank S.A.:

**1) § 20 section 2 reading as follows:**

„2. The Supervisory Board may create and appoint the Audit Committee and other permanent and ad-hoc committees from among its members. The tasks and competences of particular committees are determined by the Supervisory Board.”

**shall read as follows:**

„2. The Supervisory Board appoints from among its members an Audit Committee, a Risk Committee and other committees required by law. The Supervisory Board may also establish permanent or ad hoc committees to perform specific activities.”

**2) to § 20 section 3 shall be added as follows:**

„3. The tasks and competences of particular committees are determined by the Supervisory Board.”

**3) to § 23 section 2 point 28) shall be added as follows:**

„28) approving the remuneration policy developed by the Management Board and supervising its implementation and functioning.”

**4) from § 31 section 5 reading as follows shall be removed:**

„5. Under the risk management system the Bank:

- 1) uses formalized policies aimed at determining the amount of risk taken and the principles for its management;
- 2) uses formalized procedures aimed at identifying, measuring or assessing and monitoring the risk in respect of the Bank's operations, also taking into consideration the anticipated level of future risk;
- 3) uses formalized limits to reduce risk and principles for proceeding in the event of exceeding the limits;
- 4) uses the adopted management reporting system enabling monitoring the level of risk;
- 5) has an organizational structure adapted to the Bank's risk level and profile.”

**5. after § 31 chapter XIa shall be added reading as follows:**

„CHAPTER XIa” THE RISK MANAGEMENT SYSTEM

§ 31a

1. The tasks of the risk management system are identification, measurement or estimation, control, monitoring and reporting of risk occurring in the Bank's operations.
2. As part of the risk management system, the Bank:
  - 1) applies formal principles for determining the amount of risk taken and risk management principles;
  - 2) uses formal procedures to identify, measure or estimate and monitor the risk occurring in the Bank's operations, also taking into account the expected level of risk in the future;

- 3) applies formal limits limiting the risk and rules of conduct in case of exceeding the limits;
  - 4) applies the adopted system of management reporting enabling monitoring of the level of risk;
  - 5) has an organizational structure adjusted to the level and profile of the risk borne by the Bank.
3. The Bank supervises the risk related to the activities of subsidiaries.”

**6. § 32 reading as follows:**

„§ 32

1. An internal control system operates in the Bank which is aimed at supporting decision-making processes which are aimed at assuring:
  - 1) effectiveness of the Bank’s operations;
  - 2) reliability of financial reporting;
  - 3) compliance of the Bank’s operations with the legal and internal regulations.
2. The internal control system covers:
  - 1) risk control mechanisms;
  - 2) investigating compliance of the Bank’s operations with the legal and internal regulations;
  - 3) internal audit.
3. The internal control system covers the Bank’s organizational units, its branches and subsidiaries.
4. The Supervisory Board supervises the implementation of the internal control system and assesses its adequacy and effectiveness to ensure the Bank’s stable and prudent management.
5. The Management Board is responsible for developing internal control system procedures. The internal control system procedures have to be approved by the Supervisory Board.
6. A separate organizational unit is created within the Bank which conducts internal audits, the objective of which is to audit and assess, in an independent and unbiased way, the adequacy and effectiveness of internal controls and to provide an opinion on the Bank’s management system, including on the effectiveness of managing the Bank’s inherent risks.
7. The internal audit unit reports directly to the Chairman of the Management Board. Taking decisions under the Bank’s management system, the Management Board takes into consideration the results of the audits performed by the internal audit unit. The Bank’s Management Board takes actions aimed at ensuring the uninterrupted and effective operation of internal controls, including proper cooperation of all the Bank's employees with the internal audit unit.
8. The manager of the internal audit unit submits to the Supervisory Board and to the Management Board periodically, at least once a year, information on irregularities noted and conclusions following from the internal audits conducted, and actions taken to remove the irregularities or to act upon the conclusions. The person managing the internal audit unit is entitled to participate in Management Board and Supervisory Board meetings where issues directly related to the tasks of the internal audit unit and supervision over internal controls are discussed. At least once a year the person managing the internal audit unit participates in Supervisory Board meetings at which the operations of the internal audit unit are discussed.

9. The Bank's Management Board determines the detailed principles of operation of the Bank's internal control system and the organization and scope of activities of the internal audit unit."

**shall read as follows:**

„§ 32

1. The Bank has an internal control system whose aim is to ensure:
  - 1) effectiveness and efficiency of the Bank's operations;
  - 2) reliability of financial reporting;
  - 3) compliance with the risk management principles;
  - 4) compliance of the Bank's operations with the provisions of law and internal regulations and market standards.
2. As part of the internal control system, the Bank distinguishes:
  - 1) control function aimed at ensuring compliance with control mechanisms concerning, in particular, risk management at the Bank, which includes positions, groups of people or organizational units responsible for the implementation of tasks assigned to this function;
  - 2) a compliance unit with the task of identifying, assessing, controlling and monitoring the risk of non-compliance of the Bank's operations with the law, internal regulations and market standards and presenting reports in this respect;
  - 3) an independent internal audit unit whose task is to audit and assess in an independent and objective manner the adequacy and effectiveness of the risk management system and the internal control system, excluding the internal audit unit.
3. The internal control system includes the organizational units of the Bank, the Bank's branches and subsidiaries.
4. The Supervisory Board supervises the implementation of the internal control system and annually evaluates its adequacy and effectiveness in order to ensure stable and prudent management of the Bank.
5. The Management Board is responsible for the development of the internal control system procedures. Internal control procedures are subject to approval by the Supervisory Board.
6. The internal audit unit reports directly to the President of the Management Board. Supervision over the activity of the internal audit unit is exercised by the Supervisory Board through the Audit Committee.
7. The Bank's Management Board takes actions aimed at ensuring the continuity of the internal control system, including proper cooperation of all the Bank's employees as part of the control function and cooperation with the internal audit unit and compliance.
8. The method of positioning the internal audit and compliance units in the Bank's organizational structure guarantees their independence.
9. The head of the internal audit unit and compliance shall be ensured direct contact with the members of the Management Board and the Supervisory Board. Their appointment and dismissal (after prior hearing) takes place with the consent of the Supervisory Board. In the event of a change in these positions, the Bank shall immediately inform the Polish Financial Supervision Authority and indicate its reasons."

**7) § 34 reading as follows:**

„§ 34

1. The Bank's own funds cover:

- 1) the Bank's basic funds (Tier 1);
  - 2) the Bank's supplementary funds in an amount not exceeding the Bank's basic funds.
2. Basic funds include:
- 1) core funds which comprise:
    - a) paid-up and registered share capital;
    - b) supplementary capital;
    - c) other reserves with the exclusion of all liabilities in respect of preference shares.
  - 2) additional items of basic funds which comprise:
    - a) the general banking risk reserve for unidentified operating risks;
    - b) unappropriated profit from prior years;
    - c) profit which is being approved and net profit for the current reporting period, calculated in accordance with the binding accounting regulations, net of all anticipated charges and dividends, in amounts no higher than the profit verified by registered auditors;
    - d) the Bank's other balance sheet items specified by the Polish Financial Supervision Authority.
  - 3) items decreasing basic funds, specified in the act – the Banking Law, in specific regulations issued on its basis and determined by the Polish Financial Supervision Authority.
3. Supplementary funds are established on the terms and conditions and according to the procedures specified in the act – the Banking Law and in specific regulations issued on its basis, and they comprise:
- 1) the non-current non-financial asset revaluation reserve;
  - 2) subordinated liabilities established after obtaining the consent of the Polish Financial Supervision Authority.
4. The Bank may create special funds.
  5. The Bank may isolate reserves for performing brokerage activities.”

**shall read as follows:**

„§ 34

The Bank's own funds cover:

- 1) paid-up and registered share capital;
- 2) supplementary capital;
- 3) other reserves with the exclusion of all liabilities in respect of preference shares;
- 4) unappropriated profit from prior years;
- 5) profit which is being approved and net profit for the current reporting period, calculated in accordance with the binding accounting regulations, net of all anticipated charges and dividends, in amounts no higher than the profit verified by registered auditors;
- 6) fund from revaluation of financial assets, qualified to the category of assets measured at fair value through other comprehensive income;
- 7) fund from revaluation of the effective part of cash flow hedging;
- 8) the fund related to write-offs and deferred income tax assets.”

**8) § 35 reading as follows shall be removed:**

„§ 35

1. Special funds are established and released on the basis of a resolution of the General Shareholders' Meeting, unless the obligation to establish the fund follows from the act.
2. Regulations relating to special funds, supplementary capital and other reserves are passed by a resolution of the Supervisory Board at the request of the Management Board; this does not relate to the regulations on managing the Company Social Fund funds, which are passed by the Bank's Management Board in consultation with the company labour union organizations."

**9) § 38 reading as follows shall be removed:**

„§ 38

The general banking risk reserve is set up from annual deductions from net profit in amounts passed by the General Shareholders' Meeting. The reserve is earmarked for unidentified banking risks."

**10) § 40 section 1 point 3) reading as follows shall be removed:**

„3) the general banking risk reserve for unidentified operating risks"

### **Background information**

The subject of amendments to the Articles of Associations contained in the draft resolution of the Extraordinary General Meeting are matters related to the adaptation of the provisions of the Articles of Associations in the scope of:

- 1) internal control system, risk management system and remuneration policy for the provisions of the Banking Law amended in this respect, as well as the inclusion in the Statute of the Regulation of the Minister of Development and Finance of March 6th, 2017, on the risk management system and internal control system, remuneration policy and a detailed method for estimating internal capital in banks (hereinafter referred to as the MF Regulation). In addition, the proposed changes take into account the expectations of the Polish Financial Supervision Authority, formulated for banks in April, 2017. In the amended H Recommendation regarding the internal control system in banks;
- 2) own funds due to the current wording of art. 126 and art. 127 of the Banking Law Act and the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26th, 2013, on prudential requirements for credit institutions and investment firms (CRR Regulation).

Referring in detail to the proposed changes, it should be emphasized that they organize the issue of Supervisory Board committees operating at the Bank. The Articles of Association imposes on the Supervisory Board an obligation to establish committees required by law, indicating in this respect directly the Audit Committee and the Risk Committee.

The changes also concern the regulation of the remuneration policy applied at the Bank with the Bank's Articles of Association. Therefore, the Bank's Supervisory Board is required to approve the remuneration policy developed by the Bank's Management Board and supervise its implementation and operation. Such authorization of the Supervisory Board results directly

from the wording of art. 9a of the Banking Law as well as § 4 and 6 of the Regulation of the Ministry of Finance. In practice, the Supervisory Board is currently approving the remuneration policy - the change in the Articles of Association will therefore confirm the current practice consistent with the law.

The changes in the statute also systematize the general tasks and responsibilities of the Bank's bodies related to the risk management system and the internal control system. The proposed changes correspond in this respect to the current wording of art. 9b and 9c of the Banking Law, listing the objectives and elements that make up the effective functioning of both systems.

Provisions regarding the risk management system have been transferred to the new CHAPTER XIa "RISK MANAGEMENT SYSTEM". In particular, the amendments to the statute in this respect relate to the independence of the internal audit unit and the compliance function, both in the context of their location in the Bank's organizational structure (H Recommendation - Recommendations 12.2 and 23.3) and as mechanisms providing them, regarding the authorization and powers of the manager of internal audit and conformity function (§ 39 of the Regulation on the Ministry of Finance).

Amendments to the Articles of Association regarding own funds include the position of the Polish Financial Supervision Authority of March 31st, 2016. The position indicates that after the entry into force of the CRR Regulation, the regulatory categories of own funds are limited to Tier 1 and Tier II capital and the inclusion of individual accounting items in these categories results from the application of CRR provisions. Therefore, reference in the bank's Articles of Association to these categories would have no regulatory or informative value. The Commission's position indicates that regulation of this term in the bank's own fund's statute should be implemented by withdrawing own funds in accounting terms, i.e. resulting from international accounting standards, provisions of the Accounting Act and regulations governing the companies' operations. Taking into account the guidelines presented in the above-mentioned position of the Commission, the Bank modified the provisions of the Bank's Articles of Association accordingly, including own funds in accounting, which the Bank actually creates and does not refer to the categories of own funds regulations specified in the CRR Regulation. Consequence of the proposed amendments to the statutes in section XIV. Own funds are also the repeal of § 40 paragraph 1 point 3), because the Bank did not create a general risk fund.

In addition, it should be emphasized that all proposed amendments to the Bank's Articles of Associations were approved by the Polish Financial Supervision Authority.