



WYŻSZA KULTURA. BANK NOWOŚCI.

ALIOR BANK GROUP MANAGEMENT BOARD'S REPORT 2019

COMPRISING ALIOR BANK S.A. MANAGEMENT BOARD'S
REPORT

This version of the 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. Letter from the President of the Management Board

Year of Mobility

For Alior Bank, 2019 was the year of mobility. Intense work of our whole team focused on increasing customers' comfort and independence in the everyday use of banking products and services. We achieved our goal, which was the development of a modern and intuitive banking available for each customer at any time. The number of Alior Mobile app users increased during the year by close to 85%.

For us, the priority had been to provide support in our customers' migration to the digital world, which was successfully completed in the spring of 2019. Later on, the success of our efforts to create a user friendly mobile application was confirmed by high customer ratings in AppStore and Google Play, as well as the double-digit growth rate of Alior Mobile customer group. On the other hand, redesigning the transaction service in the Alior Online electronic banking to make it more intuitive resulted in over 860k our customers using it actively at the end of Q4.

Alior Bank's activities in this field were also appreciated by the prestigious ranking of the Newsweek weekly magazine, which awarded us the title of Newsweek Friendly Bank for our online banking and mobile application.

First Choice Bank

Our efforts have borne fruit - we are the first choice bank for a growing group of customers. During the year, the number of new savings and settlement accounts with a systematic increase in growth of 65%. The number of ROR from transactions also increased - here we recorded over 60% growth.

All these numbers prove that customers put their trust in us and gladly treat us as a bank with which they want to take care of their finance every day. It is something I am proud of. The Bank Customers Satisfaction Monitor 2019, a cyclical survey conducted by ARC Rynek i Opinia, shows that the Net Promoter Score for our Bank grew from 28% in 2018 to 36% in 2019. This places us among the three banks with the highest increase in this survey.

In the Vanguard of Innovations

We utilised the entry into force in September 2019 of the Union's PSD2, which sanctions the functioning of open banking, to develop our business - and it has already borne fruit. Implementation of a simplified credit process, which allowed as many as 26 million customers of other banks to apply for a loan with us without having to present a statement of earnings, influenced

our sales immediately. We granted first loans using this very process in the first month of the service being available.

In our search for new solutions for our customers we also reached for technology and tools available in the market. The acceleration programme run by our innovation lab RBL_Innovation by Alior Bank enables us to cooperate with startups and FinTechs from all over the world. Alior Bank is an attractive partner for entities interested in implementing their solutions in Poland, which is proven by over 300 applications in the two accelerator editions. According to Global Finance Magazine, our lab counts among top 25 in the world. It is a big honour for us, especially as it took us only two years to achieve this position.

Lately, our venture capital fund has invested in the Polish RegTech Autenti, a platform for online contract signing and document exchange and authorisation both for personal customers as well as enterprises, institutions and corporations. In 2020, we plan further transactions with Central and Eastern Europe companies operating in FinTech, InsureTech and RegTech sectors.

Technology for Effectiveness

Alior Bank is in the vanguard of global banking also because of its use of a durable medium with a public blockchain. We belong to a small group of institutions from all over the world which developed such a solution entirely on their own. Our durable medium facilitates authentication of public documents we provide to our customers, such as rules and regulations or schedules of fees and charges. It is a transparent and easy-to-use tool compliant not only with the regulatory requirements, but also with the idea of ecology. It allowed us to eliminate the necessity of sending documents in paper form, thus leading to real savings.

Technology is certainly one of the key factors increasing our effectiveness. But not the only one. Through constant improvement and simplification of processes, organisation and work methods, we utilise available resources better and better. Today at Alior Bank, we work with 100 robots supporting our customers and us in everyday banking.

I know that the next year will also bring a great many challenges. At the turn of 2019 and 2020, we already introduced a new branch format which changes the form of customers' contacts with a bank branch entirely. It is modern, because today bank branches support the whole IT infrastructure comprising for instance online and mobile banking, online loan applications and automated decisions, and even ATMs and CDMs. But most of all, our branch is a place where we meet with customers, meant to ensure maximum comfort and privacy, because we talk about matters that are truly important for our customers. Just in 2020, we plan to create 30 such modern branches.

2020-2022 Strategy. More than a Bank

We start to implement our new strategy for the years 2020–2022. Once again in the history of our Bank, we are going to set a new standard in the financial services market and reveal to our customers an entirely new banking dimension. Today, our goal is not only to provide banking services. We want to achieve more - to make our customers' lives easier.

Responding to our customers' needs and expectations, we have created a strategy of an organisation that stays close to its customers every day. We combine traditional banking functions and these of a highly personalised digital bank with non-banking services to provide our customers with an absolutely new quality.

Every our effort in the fields of product, technology and organisation will be subjected to the improvement of customer experience. Mobile app development, new implementations of innovative solutions, close cooperation with reliable partners, including tech companies, and simple processes will make us a bank that will accompany customers and help them in everyday life, at its various stages and in various moments.

We set ourselves ambitious goals, but I am sure we will achieve them. Once again we will prove that for us nothing is impossible.

Alior Bank's successes result from the efforts of the whole team. I want to thank all our employees for their commitment and creativity in their daily work. Together, we will provide customer experience that soon will allow to describe us as "more than a bank", and thus we will fulfil the promise made in our new strategy.

With the utmost respect,



Krzysztof Bachta

President of the Management Board of Alior Bank

A handwritten signature in black ink, appearing to read 'Krzysztof Bachta'. The signature is written in a cursive style with a long, sweeping underline.

II. Letter from the Chairman of the Supervisory Board

Strong Foundations, New Strategy

In 2019, Alior Bank once again proved to be one of the most innovative banks in Poland. The organisation that started as a financial startup is a mature entity now. It sets trends in the national market and is a match in international ones, while using the newest technology for the benefit of its customers and to improve efficiency.

Alior Bank, as the first financial entity in Poland and one of the first in the world, introduced a durable medium secured by the public blockchain Ethereum. This way the Bank joined the world's leading innovators using this technology. And due to the Union's PSD2, Alior Bank implemented a simplified credit process which allowed as many as 26 million customers of other banks to apply for a loan with Alior Bank without having to present a statement of earnings.

I congratulate Alior Bank on the agility with which it implements subsequent solutions. It is particularly inspiring, to be able to watch how this team develops and encourage it to achieve further objectives set in the new strategy for the years 2020-2022.

The regulatory changes that took place in the banking sector last year resulted in the necessity to amend Alior Bank's business model as well. The Bank had to remodel many of its existing processes and strengthen its foundations in order to be even better prepared to start implementing its new strategy.

Its capital and liquidity positions improved considerably. At the year end, the Bank achieved ratios testifying to the high level of security of both its customers and activity conducted. The TIER 1 capital ratio amounted to 13.48% and LCR to 147.6%, which confirms the Bank's very strong position in both these areas.

I am convinced that the swift actions of Alior Bank's Management Board and whole team as well as its focus on technology and mobile banking will bring interesting projects that will result in advantages and convenience for our customers. Also further deepening of cooperation with other entities from PZU Capital Group, for instance in the area of insurance or health care, will prove beneficial. In 2019, the growth in the sales of PZU protective insurance by Alior Bank was 80% compared to the previous year. This year, the sales of banking products through insurance channels will lead to a strong increase in the Bank's share in the growth of PZU Group's business volumes. In this regard, I'm counting heavily on our joint Cash project, for which 2020 will be a period of particularly intense development.

Therefore, for this so effective work I want to thank all employees who engaged in building Alior Bank's market position last year. The efforts of the whole team are the reason why Alior Bank remains at the forefront as one of the most innovative banks in the Polish market. Customers appreciated these efforts and considered Alior Bank a reliable partner in their everyday management of home and business finance. At the end of Q4 2019, Alior Bank provided services to over 4 million personal customers and almost 225k business customers. For this, too, special credit is due.

The new strategy is a new beginning. I wish Alior Bank employees every success in achieving these new ambitious goals. I am sure that Alior Bank has every advantage to be more than a bank for its customers.

With sincere regards,



Tomasz Kulik

Chairman of the Supervisory Board

A handwritten signature in black ink that reads "Tomasz Kulik". The signature is written in a cursive style with a prominent flourish at the end.



2019 under the Banner of Books at Alior Bank

In 2019, Alior Bank became a strategic partner of the Zaczytani.org Foundation.

The Foundation's mission is reading promotion and social education. In addition, the fairytale therapy sessions conducted at hospitals by Foundation volunteers help support good health and higher quality of life. The activities conducted together with the Foundation follow the #HigherCulture (#WyższaKultura) motto which is imprinted in the Bank's strategy of social and sponsoring activities. Supporting the Zaczytani.org Foundation, Alior Bank contributes to the development of education, culture and reading in Poland, and plays its part providing good health. This way we fulfil goals 3 and 4 of the UN Sustainable Development Goals.

2019 was a year full of joint projects, events and initiatives with the Zaczytani.org Foundation. The most important among them are described below.

Grand Collection of Books

As a strategic partner of the Zeczytani.org Foundation, we engaged in the action carried out by our partner - the Grand Collection of Books. It is a nationwide social project with the participation of both individuals and institutions such as kindergartens, schools, public offices, museums, etc. The Grand Collection of Books was performed not only among the Bank's employees - over 100 our branches participated, too, acting as open collection points. Books were brought by our customers as well as other residents of towns and cities.



This way, we had collected about 36,000 books which were then transferred to our partner, the Zeczytani.org Foundation, and further on to hospitals, nursing homes, community centres, children's homes and other institutions. A total of more than 603k books were obtained by the Foundation during the Collection. Alior Bank branches joining the Grand Collection of Books allowed to expand the initiative from 7 to 77 towns and cities in Poland, with more than 1,300 collection points participating in the action. We estimate that more than 50,000 people got engaged in the Grand Collection of Books campaign,

III. Summary of Activities of Alior Bank in 2019

2019 brought major changes to Alior Bank's ("Bank") business profile and its risk management area. These changes were necessary to build solid foundations for continued growth in the years to come. **Despite this transformation, the Bank acquired 117k retail and 32k business customers.**



+ 117 000
Retail customers



+ 32 000
Business customers

It added a number of new products and services to its offer and developed an efficient model to move its customers from the analogue to the digital world. With innovation in mind, the Bank remodelled its mobile application - the fact appreciated by its customers who use it more and more willingly (in 2019, the number of app users increased close to 85%). Long-term partner relationship building and customer satisfaction with services rendered are constantly a priority in the Bank's activities.

For the retail segment, the Bank extended the package of services available as part of its Jakże Osobiste account. **At the end of 2019, personal customers could flexibly select and replace additional benefits choosing from among 10 variants offered by the Bank.** Preferential terms of payments in foreign currencies abroad were introduced. The Bank's customers can now change their transaction currency in the new online and mobile banking.



In cooperation with PZU, the new lending platform Cash was introduced, allowing employees of chosen companies to easily apply for a preferential loan, with monthly instalments collected directly from the employee's (the borrower's) remuneration. In addition, the Bank introduced a credit process with creditworthiness assessment based on solutions resulting from the PSD2. Using AIS, customers

provide an access to their account history at other banks, which serves as the basis for determining their creditworthiness.





The business customer segment remains crucial for the Bank's strategic plans. The corporate offer is adapted to the expectations of each segment of companies and uses modern customer acquisition and product processing channels. At the end of December 2019, there were 31,958 active accounts, that is 9,448 more than at the end of 2018 (22,510 accounts), which is an increase by 42% year-over-year. Just in the micro-enterprise segment, the share of online customer acquisition in Q4 2019 increased to 40%.

An automated process of iKonto Biznes and 4x4 account opening in the new Electronic Banking was introduced and a Trusted Profile registration service was added. Customers were granted access to a package management module for cash, domestic, international and economic packages available as part of the 4x4 account. This way they can independently select solutions best suited to their business needs.

The offer for micro-, small and medium-sized enterprises is based on an automated credit process and credit decision in 20 minutes for five types of financing and applying for funding is integrated into current account opening, card ordering and activation of access to online banking.

For customers from the large enterprise segment, the Bank provides various types of financing. Alior Bank treats each such customer individually, and prepares offers for specific entities. The Bank began implementing a sectoral approach through introducing dedicated simplified risk policies for selected sectors and preparing tools and support materials for the sales network.

In response to changes in the external environment, rapid emergence of new technology solutions and growing customer expectations as regards innovating, **the Bank implemented the blockchain technology as a tool for authentication of public documents provided to its customers.** This way customers gained a transparent solution compliant with regulatory requirements, and Alior Bank made a significant step forward in the digitisation of document flow.



In 2019, the Bank implemented a number of projects resulting from the PSD2 and the Payment Services Act coming into force, which required banks to provide test environment and publish production interfaces ensuring a connection with the account information services and payment initiation services.

In 2019, the Bank continued investing in PayPo, a Polish FinTech offering deferred payments for online shopping. In addition, together with the banks PKO BP and BNP Paribas and two venture capital funds, the Bank invested in the Autenti company - an entity offering a platform for digital contract signing and electronic document circulation.

In 2019, 15 contracts with FinTechs were concluded, with 8 projects resulting from the RBL_START acceleration programme. In 2019, the second edition of the Bank's startup programme had attracted more than 200 companies from all over the world, of which 11 were accepted as responding to the Bank's business challenges related to main customer relationship building, advanced data analysis and acquiring new channels to offer banking products.



15 agreements
with Fintechs



8 projects
of RBL_START program

Dynamically changing customer needs count among the drivers of change in the banking sector. They are the reason why **in 2019 Alior Bank introduced a new branch format meeting these expectations.** It changes customers' contacts with a bank branch entirely, through the maximum improvement of space comfort and functionality.





Summary of strategic activities in 2019

The business purpose of the “Digital Disruptor” strategy has been to keep the innovation leadership position in Poland

Under the “Digital Disruptor” strategy, the strengthening of customer relations was supported by intensive investment in innovative technology projects. In line with the business purpose of the strategy, the projects

delivered in 2019 were focused on digital transformation of Alior Bank, by which we have been moving consumers and corporate customers to the digital world in a secure and friendly way.



Digital transformation of Alior Bank



Digital customer experience

Digitalization of processes

Development of Alior Mobile and Alior Online



Education and support for Alior Bank’s employees

Digital tools

Automation of processes

To increase customer comfort and convenience, we have developed flexible products, and digitalised and simplified processes both in the consumer and business segments. Enhanced customer convenience and satisfaction informed a number of accomplished initiatives and activities, such as reducing customer documentation to the minimum, improving the functionalities available in Alior Mobile and Alior Online apps, and refreshing the branch format with a modern and eco-friendly design. **Taking one of the leading positions in the “Forbes” ranking for the fifth time already has demonstrated that we’ve been consistently improving the quality of our customer service.**



The innovative nature of our activities was also strengthened by strategic partnerships developed in collaboration with PZU Group and fintechs. One example of such collaboration **is launching, together with PZU S.A., a platform called CASH, which is a new distribution channel for selected products offered by Alior Bank, and also by PZU SA in the future.** We have been also granted an approval from the Polish Financial Supervision Authority to act as a Third Party Provider. This paves the way for continued growth of the Bank and provision of new digital services for customers by tapping the potential provided by PSD2 Directive and more intensive collaboration within PZU Group.



Delivery of the „Digital Disruptor” strategy in 2019

In 2019, Alior Bank continued delivering its 2017-2020 “Digital Disruptor” Strategy, adapting it to the changing environment and complex customer demand. The project map was focused on delivering projects under six key streams: retail banking, corporate banking, operations and back-office, innovation and fintechs, HR transformation, IT transformation. Open Banking and Customer-Centric Approach were the areas supporting the key streams.



Digital Disruptor Strategy Stream		
	Key Activities	Description
Retail banking	Development of <i>Konto Jakże Osobiste</i> account	We have developed the package of benefits available under the <i>Konto Jakże Osobiste</i> ("How Personal") account. At the end of 2019, our customers could flexibly select and replace extra benefits from among ten benefits offered by the Bank. In 2019, we have provided access to preferential payment terms abroad in foreign currencies. Our customers have been able to choose the currency and change it from the level of the new online and mobile banking.
	Integrated contract	We have implemented an integrated contract for bank account, debit card and savings account under a single application form, both online and in branches.
	Modern and environment-friendly branches	In December 2019, the first branch in a new format was presented. The outlet stands out with its new design and new technologies. The role of the new branch is above all to provide comfort and privacy to customers and working comfort to the banker.
Business banking	Virtual card	Customers from the business segment have been provided with access to new products such as virtual card which enables businesses to manage significant volumes of online payments
	New loan origination system	We have implemented a new loan origination system for the business customer segment which enables us to take swift loan decisions. In addition, businesses from the SME segment can now apply for a funding facility up to PLN 3 million under a single automated loan decision. The Bank has simplified the process and reduced loan decision waiting time even down to 20 minutes. This process can even be delivered on the banker's tablet at the company's offices.
	Development of <i>Zafirmowani.pl</i>	We have implemented new solutions on the <i>Zafirmowani.pl</i> portal. The loan calculator and EU funding search engine allows us to initially verify the company's credit rating and search for crucial information on the funding aid of interest to the company quickly and easily.
Digitisation	Customer migration to Alior Mobile and Online	We have accomplished full migration of consumers from the micro-enterprise segment to the new online (Alior Online) and mobile (Alior Mobile) banking.
	Development of Consumer Finance customer relations	Customers using hire-purchase loans have been provided with automated access to online and mobile banking.
	Development of the <i>Kantor Walutowy</i> app	We have made available a new <i>Kantor Walutowy</i> (Currency Exchange Bureau) app, both in the www and mobile versions. The app has been furnished with extra functions, and the Currency Exchange Bureau's product range has been



expanded to include a multi-currency card with the possibility of making payments in 23 currencies. In addition, work has started to develop modern methods for customer identification and the onboarding process in digital channels.

Operations and back-office

Process robotisation	In addition to operating and collection processes, sales network processes have been robotised, such as: direct, online, telephone sales, Consumer Finance, as well as Brokerage, HR and Audit. A total of 100 robots have been released for production. In 2019 alone, 61 robots were successfully released as part of new technology.
Automation of email contacts	We have implemented a pilot system to automate customer email contacts. This solution was developed together with a startup from the RBL_Start acceleration programme.

Open banking

The TPP status and simplified loan origination process	Alior Bank was granted the approval of the Polish financial regulator KNF for acting as a TPP (Third Party Provider). This will enable us to further simplify our processes and to adapt even better our offering to customer requirements, among other things. Already in 2019, a new loan origination process has been launched, based on access to the customer account history in another bank without the need for them to provide their income certificates.
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Innovation and fintechs

Cash Platform	PZU SA and Alior Bank have launched an innovative online platform called CASH, through which employees will be provided with swift access to cheap and safe advances. Using this facility, employers will be able to offer extra benefits to their employees.
Four pilot projects in the second edition of the RBL_START programme	Four pilot projects were launched as a result of the second edition of the RBL_START accelerator. The selected solutions included, among other things, data integration and analysis, and development of banking products on third-party platforms.
Use of public blockchain to verify documents	Alior Bank has been the first bank in Poland to use the public blockchain. We have also made available our platform with banking documents whose authenticity can be verified using the Ethereum public blockchain network. The application of the public blockchains allows us to maintain complete transparency.



HR transformation

Digital collaboration toolkit

We have delivered a number of initiatives under our Cultural Transformation Programme which have significantly improved the involvement of the Bank's employees. The most important of them include, in particular: successful completion of a pilot project for hybrid application of collaboration cloud, providing solutions which enable remote working from anywhere, and the development of KOMPAS, an in-house employee portal (including e-learning, periodic assessment, annual targets).

IT transformation

Expansion of work under the Agilor agile methodology

This strategy could be delivered owing to the application of the Agilor proprietary production method (adaptation of Agile best practices to the specifics of Alior's operations). Currently, more than 200 people work under the agile model (called Tribes) both from business units and from the IT in four business areas: Consumer Loans, Consumer Finance, Operations and Backoffice, and Monitoring and Collection.

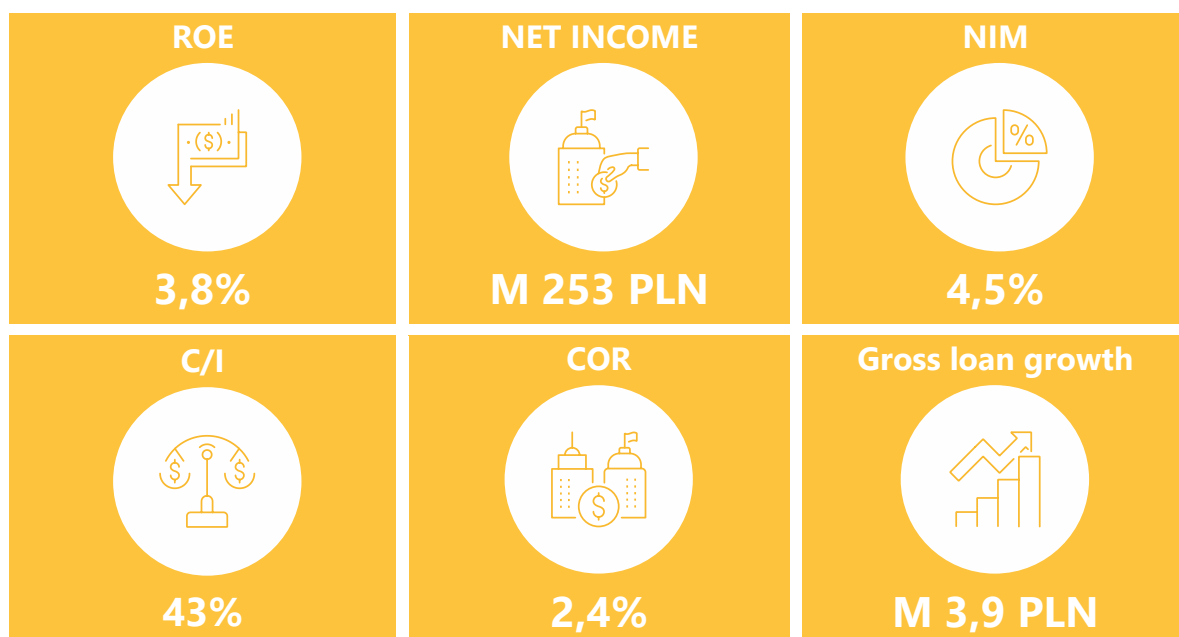
Microservices

We have been developing a modern architecture based on microservices, which will enable us to further reduce Time-2-Market and improve the Bank's performance.

Delivery of new products to customers, high quality of service, agile use of current technologies, and efficient operations provide the basis for continued growth of Alior Bank in the new strategy perspective.



Basic financial data



In 2019, the net profit of Alior Bank S.A. Capital Group amounted to PLN 253 million and was lower than the net profit obtained in the previous year by PLN 461 million, i.e. by 65%.

As the main reasons for this decrease we can name:

- decrease in income in connection with the CJEU judgement regarding refund of part of commission in the case of early repayment of retail loans – the Group estimated the judgement's impact to be gross PLN 378 million, which amount includes:
 - provision for historical refund of part of the commission in the case of loans repaid before 11 September 2019, in the amount of PLN 243 million (impact on other operating expenses) - one-off impact.
 - provision for refund of part of the commission in the case of loans repaid after 11 September 2019, in the amount of PLN 85 million (impact on interest income),
 - adjustment due to the difference between the settlement of the commission in the Bank's books using the effective interest rate method and the linear method of estimating refund of part of the commission, in the amount of PLN 50 million (impact on interest income) - one-off impact.

Impact of these amounts on the Bank's net income in 2019 was PLN 306 million.

- a significant increase in the Cost of Risk related to business customers operating in the AGRO segment (in 2019, provision for this segment amounted to PLN 389 million) - one-off impact.



- significant changes in the risk management area at Alior Bank, necessary to build solid foundations for continued growth in the years to come.

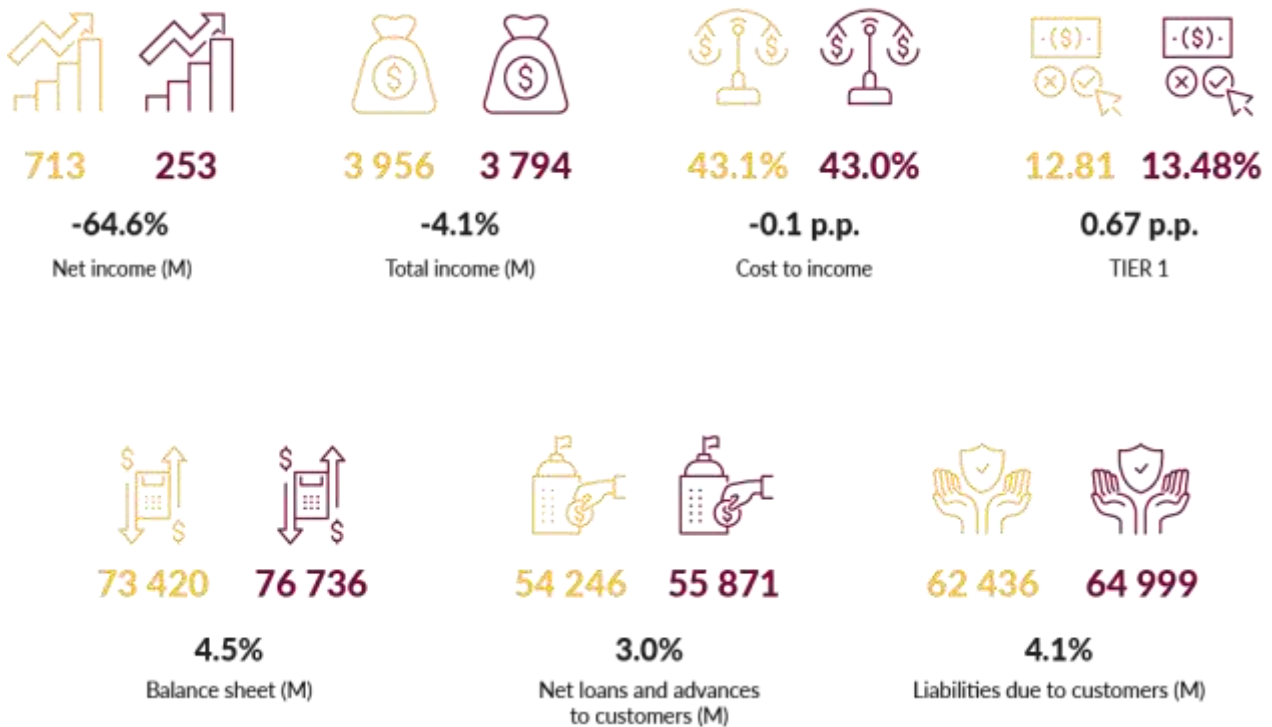
As a consequence, the Bank's profitability ratio ROE was 3.8% (vs. 11.7% in 2018.). Excluding the impact of the CJEU judgment regarding refund of part of commission in the case of early repayment of retail loans, the Bank's ratio ROE in 2019 would be 8.4%

However, it is worth emphasising that even in such a difficult year the Bank's capital position remained unthreatened, and TIER 1 and TCR indicators remained at a stable high level (13.48% and 16.20%, respectively), leaving a safe buffer above the regulatory requirements (198 bps and 270 bps, respectively).

Similarly, the Bank's liquidity situation in 2019 remained on a secure level. It was closely monitored and maintained at an adequate level by adapting the deposit base level and launching the funding acquisition depending on the development of lending action and other liquidity needs.

Summary of the Bank's key data

Change 2019 vs 2018

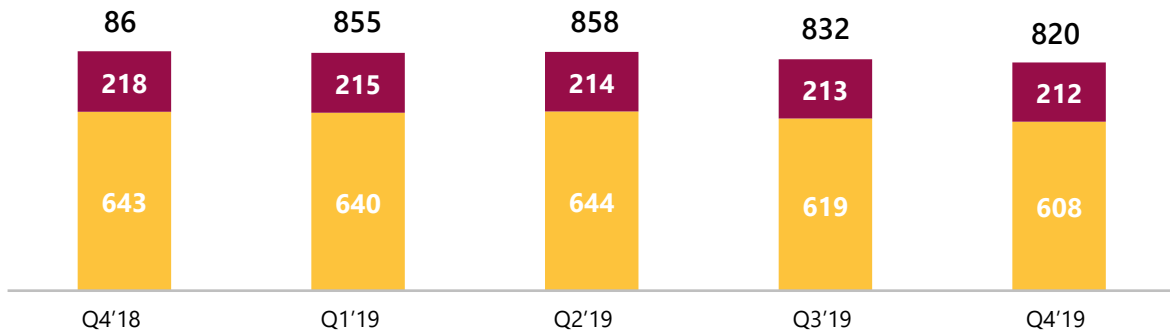




Distribution network and headcount

Distribution network

At the end of 2019, the Bank held 820 outlets (197 traditional branches, 7 Private Banking branches, 8 Corporate Centres, and 608 partner outlets).

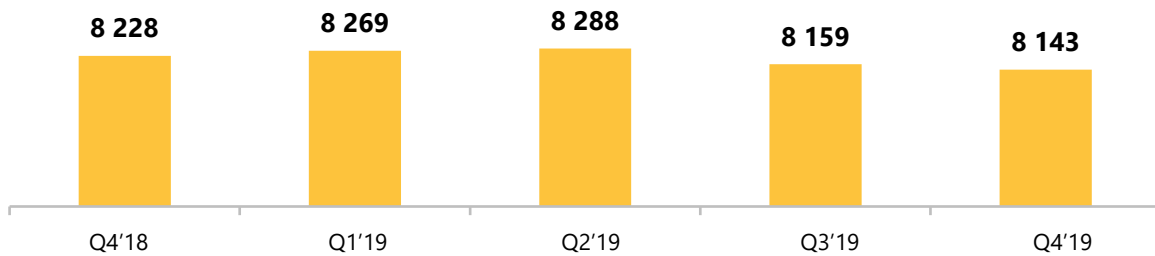


Alior Bank has also used distribution channels based on its state-of-the-art IT platform comprising: online banking, mobile banking and call centres as well as DRONN technology.

Headcount

At the end of 2019, Alior Bank Group employed 8143 FTEs. It is down by 85 on the end of 2018 figure.

Full-Time Equivalentents (FTEs)





Assessment of activity of Alior Bank Group

In 2019, Alior Bank Group achieved return on equity (ROE) at 3.8% and Cost/Income ratio at 43%.

The level of the financial result was affected by activities aimed at improving the Bank's situation in the risk management area, reflected in higher impairment of loan exposures.

In addition to the completed review of the loan portfolio, of particular note is continued and consistent optimisation of the structure of the loan portfolio (continued development of lease and loans provided in the MICRO/SME segment with significant share of BGK's guarantees) as per strategic assumptions. This allowed us to further strengthen the equity position of the Bank.

The Management Board considers successful the changes made in 2019. In the Management Board's view, they were necessary to ensure future growth to the Bank and to achieve its ambitious goals to be adopted in a new strategy.





***If in books you only read
what is written, all reading is
for nothing.***

- William Shakespeare



Engrossed in Reading Academy

In 2019, 82 our employees took part in fairytale therapy training and received Fairytale Educator certificates. These people regularly visit hospitals where they conduct fairytale therapy activities for children – in addition to reading fairy tales, they discuss school required reading, teach classes, play games, and just spend time with the patients. Our volunteers took part in the Polish Language Capital Festival sponsored by Alior Bank.

During the Festival, they conducted, together with Foundation members, fairytale education activities and workshops for the youngest festival participants, as well as educational activities for their parents. The activities took place every day for 6 days. The Foundation delivers 50 hours of fairytale therapy a week throughout Poland, with the audience of about 13,000 children.





IV. External environment of Bank's operations



Poland's economic growth

The economy was slowing down in 2019. The largest economies of the world were affected by significant GDP growth slowdowns, and were even on the brink of recession. Weak market conditions can be due to upheavals in global trade, but also weaker investing activity and lower domestic consumption. Annual economic growth according to

Bloomberg data in 2019 in the US fell from 2.9% y/y to 2.3% y/y, and in the Eurozone from 1.9% y/y to 1.2% y/y.

GDP growth in Poland, which in 2018 stood at more than 5%, has lowered, but still remained above potential in 2019. The high momentum of the national economy kept going mainly in the first six months of the year, and saw growth restriction by the end of the year. According to Statistics Poland's preliminary estimate, in 2019 GDP grew by 4% y/y as compared to 5.1% y/y in the prior year, which is slightly less than the market consensus. It is notable, however, that against the background of weak Europe and moderate growth in the US, Poland's economy proved to be quite resistant to a significant global slowdown.











The biggest effect on economic growth in the last year was still exerted by private consumption, responsible for as much as almost 57% of GDP growth. Private consumption was growing, according to preliminary estimates, at 3.9% y/y, albeit it was lower than in 2018 (4.3% y/y). Consumption was supported by excellent condition of the labour market. The unemployment rate in 2019 fell to record lows of 5%, employment grew at a stable, although slightly slower pace, and wages grew faster than the overall economy. Moreover, household income was supported by tax cuts and a new stage of the "Family 500 Plus" social welfare package, as well as continued optimistic consumer outlook. Low interest rates and the related low credit cost also supported



domestic demand. However, growing inflation reduced real incomes, which reduced consumption, in particular toward the end of the year. We estimate that in Q4 2019 the growth of household consumption decelerated from 4% y/y in the same period of 2018 to about 3.4% y/y.

The second largest component of economic growth – investment – grew in 2019 by 7.8% y/y against 8.9% y/y in 2018. Businesses were increasingly worried about uncertainty related to the expected domestic and foreign demand, as well as worker shortages in the labour market and a slower growth of absorption of European Funds at a later stage of EU's 2014-2020 Financial Perspective. Nevertheless, preliminary estimates by the Statistics Poland (GUS) concerning annual investment dynamics allow us to estimate that in Q4 2019 the investment rate could accelerate again to even more than 7% y/y.

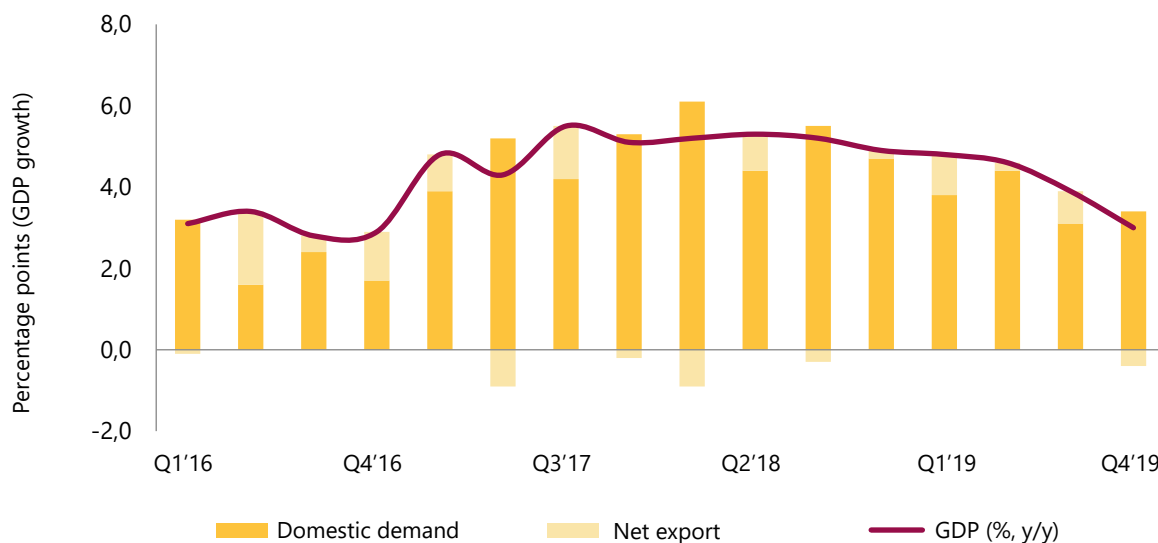
In 2019, the contribution of net exports to the GDP remained positive, although later in the year there was a significant influence of global downturn, including in our largest trade partners, and in Q4 2019 net exports probably had negative contribution to the GDP following three quarters of the year of slightly positive impact on growth.

	2018	2019
US annual economic growth	 2.9%	 2.3%
Eurozone annual economic growth	 1.9%	 1.2%
Statistics Poland's preliminary estimate of GDP	 5.1%	 4.0%
Private consumption growth	 4.3%	 3.9%
Investment growth	 8.9%	 7.8%

Continued stable domestic consumption with moderate investments and slightly negative impact of the foreign trade balance according to Statistics Poland's (GUS) flash estimate resulted in the growth of the Polish economy in Q4 2019 of about 3.1% Y/y against 4.9% y/y in the same period of 2018.



GPW dynamics



*/Source: Statistics Poland's (GUS) and in-house projections by DAM Alior Bank S.A.

Perspectives for the Polish economy in 2020, despite the expected slightly lower growth rate than last year, look quite good. The growth should be still driven by private consumption, although the fact of its slowing down at the end of 2019 suggests stronger households' response to lower disposable income due to higher inflation rate.

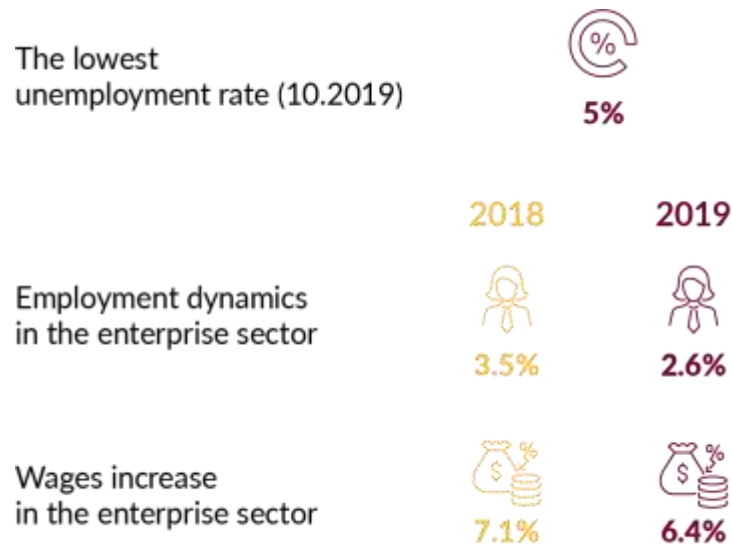
In 2020, it will be visible in particular in the areas more affected by inflation, such as services, than goods purchases, because the most recent goods retail figures show stable dynamics. In the coming months, due to the forecast higher inflation dynamics and lower growth of employment and wages, reduction of consumer disposable income may progress. Hence, private consumption should note slightly lower growth dynamics. Yet, on the business side, in turn, the progressing economic slowdown abroad and the running out of funds from the EU budget, translating into the results on manufacturing and construction&erection activity towards from the end of last year, allow cautious investment estimates. Business will be also held back by persistent shortages of labour, although slightly less than the year before. We expect that in 2020 economic in Poland will slow down the growth towards 3% y/y.

Situation in the labour market

Stable economic growth, staying at 4% on average, stimulated labour demand. Throughout the period, employment was growing, and unemployment rates were falling, reaching in October the lowest figure in the history of such measurements, at 5%. Towards the end of the year, the rate managed to grow near to 5.2%, which partly resulted from weakening employment growth in the



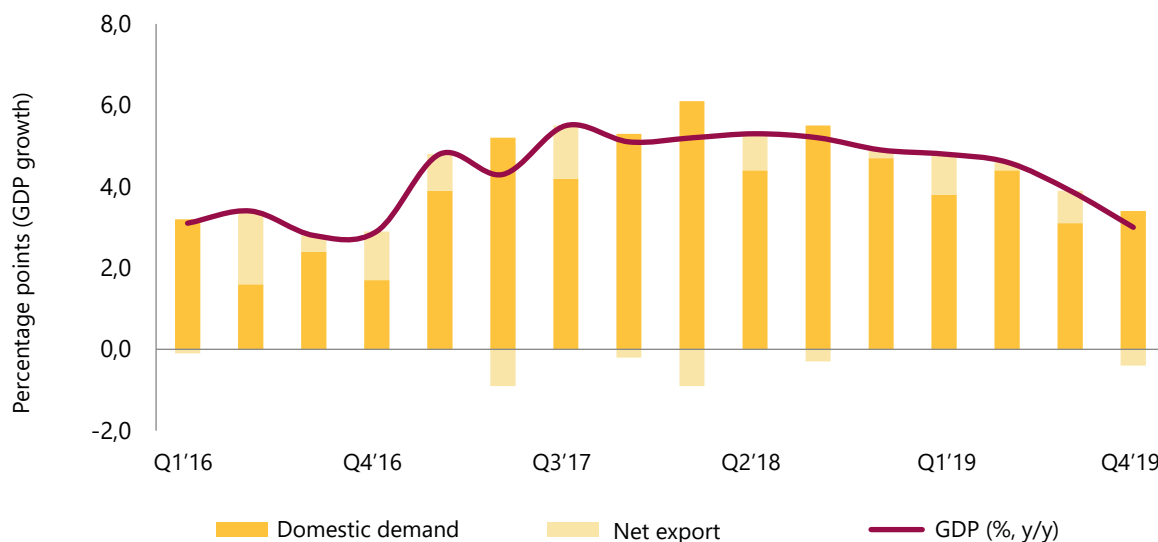
enterprise sector from 3.5% y/y in 2018 to the average of 2.6% y/y in 2019. Insufficient supply of workers in the labour market, at stable GDP growth, translated into growing wages and unit labour costs, stimulating the growth of expected inflation and slight lower margins of businesses. Wages in the enterprise sector had been rising in last year by 6.4% y/y versus 7.1% in 2018. The growth of wages was depressed by growing number of workers from abroad, including mainly from Ukraine, and growing workforce productivity. In real terms, average annual growth of wages, due to growing inflation, slowed down from 5.5% y/y to 4.1% y/y.



Over the next quarters of the year, high workforce costs will continue to affect to the growth of the private sector and hold back private investment projects, which may eventually slow down the economy. Lower economic growth will, in turn, affect demand for labour and reduce the employment growth, which, in some part, will compensate for labour shortages and reduce the pay rise pressure, thus reducing inflation expectations. However, pay rises will be probably supported by the rise of minimum wages, which will be an argument for higher pay claims in the entire labour market. In such circumstances, employers will be, on the one hand, inclined to shift the higher labour costs to final recipients, but, on the other hand, they may seek ways to increase efficiency and automate their operations, which may trigger a slight reduction in FTEs. The unemployment rate in 2020 should slightly rise, but not exceeding 5.5%.



GDP dynamics and unemployment rate



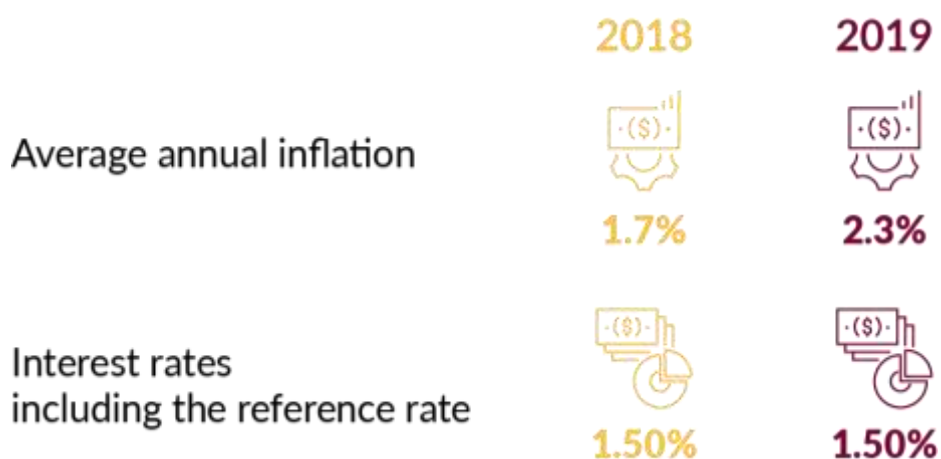
*/Source: Statistics Poland's (GUS) and in-house projections by DAM Alior Bank S.A.

Inflation

Rising prices were the hallmark of 2019, although the initial six months of the year featured relatively moderate inflation. Price rises were restricted by low inflation in the Eurozone and upheavals in international trade which held back global growth and, consequently, prevented commodity prices from rising. Thus, the main inflation categories, such as prices of transportation or energy remained moderate. In 2019, transportation prices grew at 0.7% y/y vs. 4.3% in the prior year, and the segment of residential consumption and energy utilities rose by 1.5% y/y vs. 2.1% in the same period the year before. The middle of the year clearly marked rising food prices due to disturbances in the pork market due to ASF epidemic in China. At the same time, rising labour costs contributed to the tendency of transferring these price rises on to the final consumers. By the end of the year, this trend was already very clear, and at the same time, new inflation pressures became increasingly prominent, such as the projected minimum wages rise and expected power price rises, in addition to the expected waste disposal price hikes or rising excise tax on tobacco and alcohol, which, although to be introduced in 2020, stimulated inflation, including the core inflation, already at the end of 2019. Consequently, consumer inflation, which was below 1% y/y in January, went up to 3.4% y/y in December, the highest level since October 2012. Throughout the entire 2019, average annual inflation rate reached 2.3% y/y vs. 1.7% y/y in 2018.



Moderate average annual price rises in 2019, which did not exceed the inflation target of the Monetary Policy Council, and lower economic growth, justified stabilisation of monetary policy. The Monetary Policy Council kept interest rates at a constant level since March 2015, including the reference rate at 1.50%. The NBP's current inflation projection expects that inflation will grow in 2020 to about 2.8%, i.e., slightly above the inflation target of 2.5%, and will return near that target in 2021. Nevertheless, the November projection does not take into account some one-off factors contributing to inflation since the beginning of the year, which will provide an argument for increasing the projections in the subsequent rounds.



In our opinion, price rises will continue in the subsequent months. The above-mentioned price rises of power, municipal waste disposal or alcohol should temporarily increase inflation, which in Q1 of the year may significantly exceed 4% y/y, and the annual average may be even 3.5%, which means that the range of deviations for inflation (+/- 1%) set by the Monetary Policy Council would be temporarily exceeded. In the next quarters of the year, increasingly prominent maybe arguments for curbing price rises, such as slightly lower pressure from the labour market, where a lower employment rate and at the same time a slight increase in unemployment rate are expected. In addition, lower GDP growth and low inflation in Poland's neighbourhood will exert a downward pressure on this ratio. What's more, following a jump rise of food prices in 2019, the high-base effect will influence food price rises over this year. These factors will reduce pressure on interest rate increases by the Monetary Policy Council despite inflation growth, which makes it likely that monetary policy will remain stable in the subsequent years.

Situation in foreign trade

According to NBP figures, Poland's foreign trade, despite lower volumes of global trade in Q2 and Q3 of the last year, increased in 2019 to PLN 988.0 billion in exports and PLN 977.4 billion in imports (current prices). Trade balance was thus positive at PLN 10.6 billion, as compared with PLN 20.4 billion in 2018. Compared to 2018, exports increase by 6.9%, and imports by 3.4%. Lower



exports dynamics against 7.6% y/y in 2018 may be considered moderate in the face of a marked economic slowdown in Poland's main trade partners, including in the Eurozone and in Germany. Imports rise slowed down more prominently, from 10.7% y/y in 2018, mainly due to suppressed domestic demand in the second half of the year and against high base prices of fuels and commodities in 2018.

According to Statistics Poland's data, in the period reviewed here, EU countries have remained the main trade partners of Poland. Despite economic slowdown throughout Europe, Polish companies managed to increase their exports to their main partners of the Old Continent, but these dynamics were largely lower than the year before. Exports to Germany grew by 4.2% y/y, to the Czech Republic by 2.2% y/y, to the UK by 2.3% y/y, and to France by 11.6% y/y. At the same time, the exports structure saw attempts at diversifying trade partners and the share of EU countries fell from 80.6% in 2018 to 79.8% in the same period of 2019. Among importers, the significance of developing countries, mainly due to China, grew from 25.2% to 26.6%, and the significance of the Eurozone fell from 47% to 45.8%.



Global economy

Gridlocks in international trade caused by trade wars waged under US leadership set their stamp on the global economy last year. Lower dynamics of global demand, in particular of investment demand, accompanied by rising uncertainties regarding the prospects for global economy contributed to lower activity in the manufacturing sector. Economic slowdown was experienced not only by China, the main target of US policies, by also Europe. As expected in free market economy, deteriorated trade conditions also affected US economy. As a result, global growth markedly slowed down from 3.6% in 2018 to estimated 2.9% in 2019. Lower global GDP growth was accompanied by still moderate inflation, supported by stable prices of commodities in financial markets.

In 2019, GDP dynamics were still falling in the Eurozone, although slightly slower than the year before. Economic growth, which was 1.4% y/y in Q1 of the year, by the end of the year reached the



mark of approx. 1% y/y. Domestic demand, including private consumption, remains the biggest contributor to growth in the Eurozone and the investment outlook has deteriorated due to uncertainties among the business community as to how the economy will look like in the future and due to upheavals in international trade. Last year, even the biggest EU economy – Germany – coped with significant GDP slowdown, in Q2 being on the brink of recession (GDP growth of only 0.3% y/y). This coupled with quite low inflation as for this phase of business cycle, which in 2019 averaged 1.2% y/y in the Eurozone (significantly below the 2% of the ECB inflation target), spurred the ECB to return to its accommodative monetary policies. In addition to keeping the main interest rate at zero and deposit rate reduced by 10 basis points to -0.50%, the bank restored its asset buyback operation (QE) at EUR 20 billion per month. At the same time, the ECB announced that its main interest rates would remain at the current level for a longer time, thus keeping in place negative real interest rates in the Eurozone.

Mutual customs tariffs introduced throughout the year by China and the US significantly increased the cost of mutual trade, which was not without effect on US economy. GDP growth at 2.7% y/y in Q1 2019 was only 2.3% y/y in the last quarter of the year. Like in the Eurozone, growing consumption was the main driver of growth, supported by rising employment and wages, as well as growing household disposable income due to increasing prices of financial assets. Unfortunately, investing activity was increasingly weak in each subsequent period, and investment dynamics deteriorated due to companies' concerns about future orders, higher customs tariffs and more problems with finding workers. Wage increase pressure remained, however, moderate, which, coupled with moderate global commodity prices triggered inflation for most of the time not exceeding 2% – FED's inflation target. Nevertheless, weakening economic growth persuaded the FED in the second half of the year to return to its monetary easing policy and reduce interest rates by a total of 75 basis points, from the 2.25-2.50% range to 1.50-1.75% and to end the reduction of the balance sheet

In the coming quarters, growth in the largest developed and developing economies should be slowing down, although the January preliminary trade agreement resolving some key issues between the US and China provides hopes for less pronounced global slowdown at the turn of 2021.

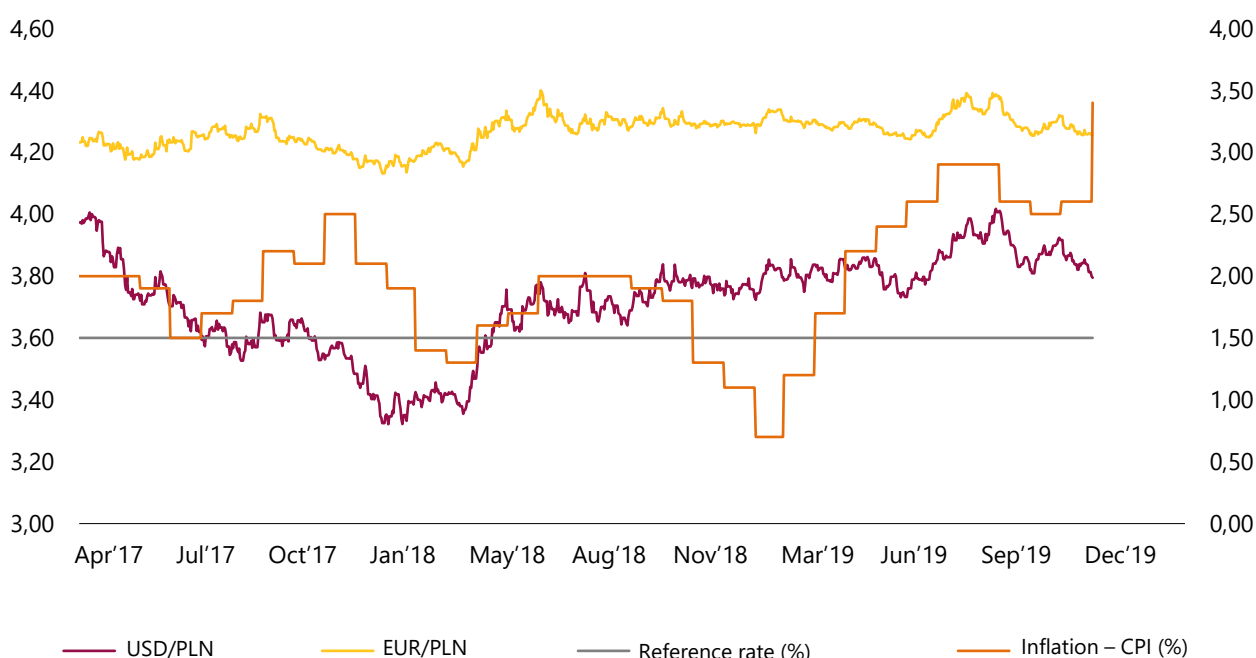


Exchange rate

Financial markets in 2019 were dominated by volatility. On the one hand, investors increasingly feared global economic slowdown, and, on the other, they eagerly responded to a breakthrough in trade wars and China and the US sitting at the negotiation table. In anticipation of trade agreement, risky assets gained, which increased pricing in stock and currency markets from the EM basket. The return of globally important central banks to monetary stimulation out of concern for economic prospects also pushed up the sovereign debt, in particular over the first half of the year. In currency markets, the last year slightly favoured the US dollar due to somewhat more favourable setup of economic parameters than the Eurozone, including, in particular, higher growth rate, which brought about a fall in EUR-USD rate by 2.2%, down to 1.12. In addition, in the Eurozone, persistent uncertainty regarding the political situation in the UK and Brexit negotiations adversely affected the common European currency.

A stronger US dollar in the year clearly pressed heavily on the currencies of emerging economies, including the zloty. The central banks' way back to action and growing expectations regarding the trade agreement to be signed, contributed to certain respite at the end of the year, which, on the annual scale, provided for quite neutral picture of zloty prices, additionally supported by favourable domestic economic situation. As a result, the zloty lost 1.5% to the US dollar, but gained 0.8% versus the euro, reaching at the end of the period 3.79/USD and 4.25/EUR, respectively.

EUR/PLN and USD/PLN rates against CPI inflation and reference rate



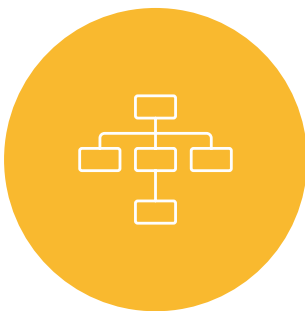
*Źródło Bloomberg





Key structural and financial figures for the Polish banking sector in 2019

In banking, 2019 may be considered a successful, albeit demanding year. Credit demand remained stable and close to the nominal GDP growth rate. The expansion of credit was still supported by high economic growth rate, favourable situation in the labour market, low interest rates and banks' equity surplus. On the consumer side, it is worth noting good financial condition of households, which is related to higher social benefits, lower taxes and rising wages, which translate into higher credit rating and drives demand for both consumer and residential mortgage loans. On the corporate side, the demand remained stable, although it slightly weakened at the end of the year following the more advanced phase of the business cycle, which in 2019 entered a period of slower growth. Nevertheless, the second part of the year initiated a number of new risks in the sector, including, primarily, CJEU case law on foreign currency loans and commission returns.



Key structural figures¹

At the end of December 2019, 30 commercial banks, 538 cooperative banks and 32 branches of credit institutions operated in Poland. The banking network comprised 6348 branches, 3276 offices, agencies and other customer service outlets and 2780 representation offices (including partner outlets). Thus, the banking network comprised 12,404 units, i.e. 583 units less than at the end of the prior year.

Headcount at the end of December 2019 fell to 156,872 and was lower on the prior year (162,500) by 5700 people (i.e. by 3.5%).

Long-term stabilisation of interest rates and relatively high regulatory burden have increased the significance of the scale of operations as a means to improve the performance of banking industry players. The banking sector was further consolidated in 2019. Eurobank became part of Bank Millennium, and BNP Paribas finally absorbed Raiffeisen Polbank.

¹ Source: Monthly data for the banking sector (knf.gov.pl)



At the end of 2019, the State Treasury controlled 8 commercial banks, and 13 commercial banks had a Polish capital majority stake. The number of commercial banks with foreign capital majority stake was 17.



30
commercial banks



32 branches
of credit institutions



538
cooperative banks



-3,5% decrease
in employment compared
to the end of 2018



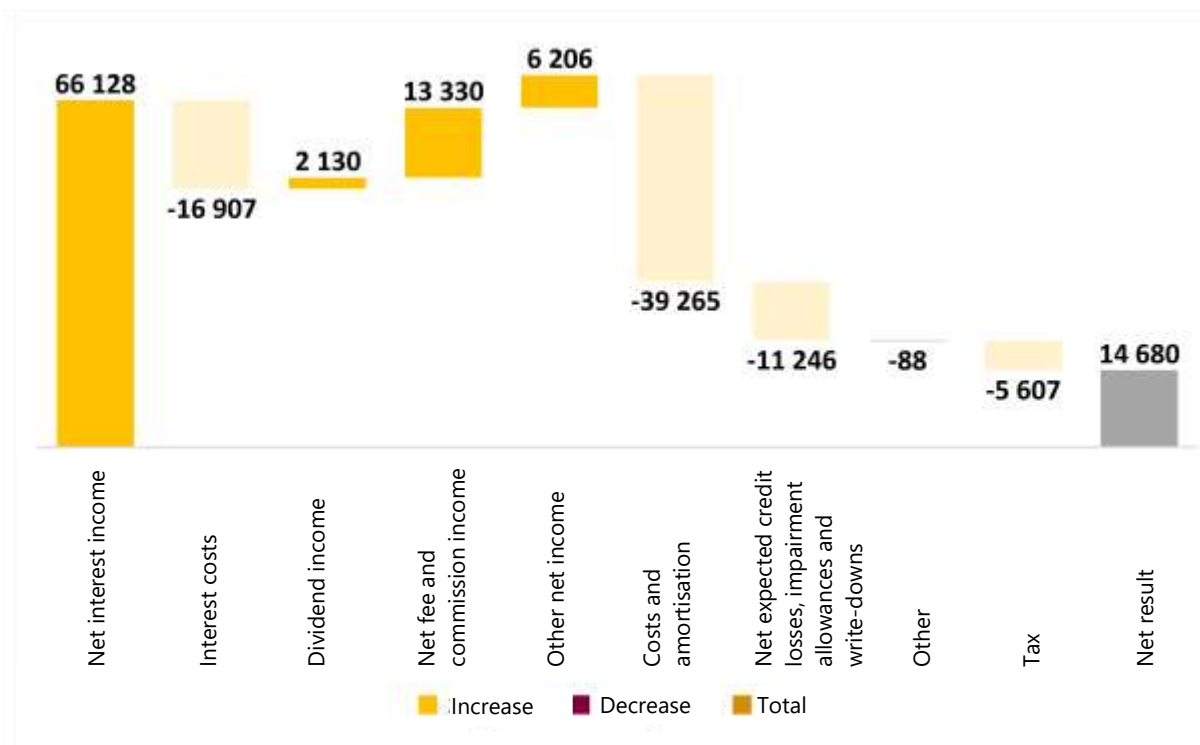
Key income statement items ²

In 2019, the banking sector worked out net profit at PLN 14.7 billion vs. PLN 13 billion at the end of December 2018, which is an increase by PLN 1.6 billion (i.e., 12.5% y/y). Over that period, operating income was PLN 70.9 billion, grows on 2018 by 9.8%. Banks' operating expenses (before amortisation, depreciation and provisions) in the period under study, increased year-on-year by 4.1% to PLN 34.8 billion. The balance of provisions and impairments or impairment reversals in 2019 grew on the prior year by 11.8% to PLN 11.2 billion.

* Source: Monthly data for the banking sector (knf.gov.pl)



Financial result of the banking sector in 2019 (PLN billion)



In 2019, the profitability of the banking sector slightly deteriorated, although the particular results varied quite a lot. The results were adversely affected by taxation burdens and operating expenses, and provisions for credit risk. However, what is notable is consistent growth of net interest margin in the sector and slight increase in leverage accompanied by falling financing costs.

Return on capital in 2019 remained at an average of 6.38%, down from 2018, whereas ROA remained on the average level of 0.67%, which was also less than the year before. The Cost-to-Income ratio in the sector after December 2019 reached 55.4%, which means a fall against 56.3% in December 2018. The ratio of impairment and provisions to net operating income, following a significant increase lasting through August, slightly fell in the later months to 15.9% in December, but was still higher than at the end of 2018.



Loans and deposits³

The main source of funding for banks in 2019 were deposits of the non-financial sector, which grew more than loans, supported by continued economic growth and good situation in the labour market. At the same time, lower interest rates and higher household disposable income translated into higher credit ratings and consistent increase in loan volumes.

Following 12 months of 2019, the banking sector held PLN 2000 billion worth of assets, and this figure went up by 5.6% (i.e. PLN 107 billion) on the end of 2018.



Loans and advances over that period, compared to the prior year, rose by 4.4% and amounted to PLN 1292 billion. At the end of December 2019, deposits grew on the end of 2018 by 8.3%, to reach PLN 1487 billion.



The structure of deposits and loans by sector remained unchanged. The largest item is the non-financial sector. The amount of deposits of the non-financial sector in 2019 grew, with year-on-year dynamics following December at 9.6%. Loans of the non-financial sector still featured lower growth, which, according to the aggregate data, was 5% y/y in 2019.

³ Source: Monthly data for the banking sector (knf.gov.pl)



Equity and capital ratios⁴

At the end of September 2019 (later figures are not available), the banking sector held PLN 210.4 billion in equity, which grew by 0.7% on the end of September 2018. Over the recent period, the sector's equity situation has stabilised. It saw lower growth rates of both own funds and risk exposures.

The combined capital adequacy ratio of the banking sector was 18.91% at the end of September 2019 (falling by 30 bp on the end of September 2018), and the Tier I core capital ratio at the end of the period was 16.97% (down by 34 bp on the end of September 2018).

⁴ Source: Monthly data for the banking sector (knf.gov.pl)





Reading events

The Foundation regularly holds reading events throughout Poland. In 2019, 32 such events took place, of which 14 with the participation of Alior Bank. We jointly took part in the Warsaw Book Fair, where we met children and talked to their guardians about the fairytale therapy. In addition, 3 large outdoor events were held to open the exhibitions of Engrossed in Reading Benches in Kraków, Warsaw and Gdańsk. These events were accompanied by educational games, lectures for adults, meetings with Ambassadors such as Katarzyna Pakosińska, "Hrabi" Cabaret, Katarzyna Błazejewska-Stuhr, Joanna Jabłczyńska, Monika Mrozowska.

Together with the Foundation, the Bank also organised 6 reading meetings with the participation of Ambassadors – 3 meetings by Engrossed in Reading Benches of Alior Bank, and 3 by Engrossed in Reading Libraries of Alior Bank. In addition, we were actively present at the Polish Language Capital Festival in Szczepieszyn. Alior Bank's and the Foundation's special reading zone for children and their parents was created. Every day, we conducted fairytale therapy workshops and participated in discussion panels.

In 2019, Alior Bank directly participated in 14 reading and literature promotion events. These events attracted about 200,000 participants.



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

Income statement

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

	01.01.2019 - 31.12.2019 (in PLN thousand)	01.01.2018 - 31.12.2018 (in PLN thousand)	Change (in PLN thousand)	Change (%)
Interest income	3 905 769	3 805 457	100 312	2.6
Income of a similar nature	153 525	150 915	2 610	1.7
Interest expense	-877 846	-871 848	-5 998	0.7
Net interest income	3 181 448	3 084 524	96 924	3.1
Fee and commission income	1 165 568	1 099 468	66 100	6.0
Fee and commission expense	-498 994	-389 469	-109 525	28.1
Net fee and commission income	666 574	709 999	-43 425	-6.1
Dividend income	344	275	69	25.1
The result on financial assets measured at fair value through profit or loss and FX result	102 010	97 684	4 326	4.4
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	46 236	77 829	-31 593	-40.6
measured at fair value through other comprehensive income	38 807	76 473	-37 666	-49.3
measured at amortized cost	7 429	1 356	6 073	447.9
Other operating income	143 466	127 045	16 421	12.9
Other operating costs	-345 605	-141 807	-203 798	143.7
Net other operating income and expenses	-202 139	-14 762	-187 377	1 269.3



General administrative expenses	-1 630 104	-1 705 003	74 899	-4.4
Net expected credit losses	-1 437 158	-1 047 818	-389 340	37.2
The result on impairment of non-financial assets	-5 946	-6 251	305	-4.9
Banking tax	-225 974	-208 186	-17 788	8.5
Gross profit	495 291	988 291	-493 000	-49.9
Income tax	-242 459	-274 918	32 459	-11.8
Net profit	252 832	713 373	-460 541	-64.6

Particular items of the separate income statement of Alior Bank S.A. are presented below in the table:

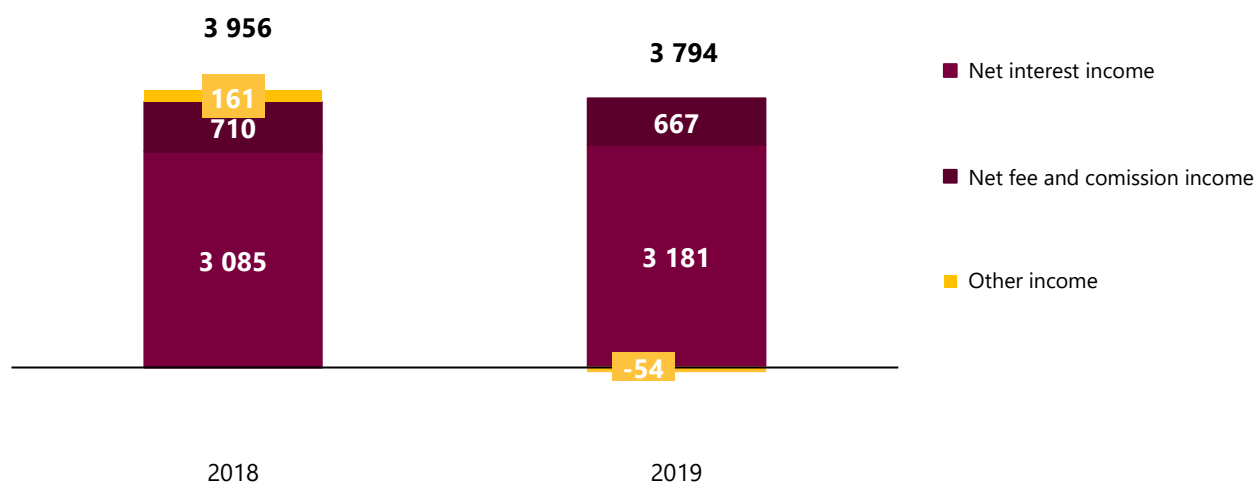
	01.01.2019 - 31.12.2019 (in PLN thousand)	01.01.2018 - 31.12.2018 (in PLN thousand)	y/y change (%)	y/y change (%)
Interest income	3 921 231	3 807 487	113 744	3.0
Income of a similar nature	153 525	150 915	2 610	1.7
Interest expense	-869 540	-868 433	-1 107	0.1
Net interest income	3 205 216	3 089 969	115 247	3.7
Fee and commission income	1 066 391	1 043 793	22 598	2.2
Fee and commission expense	-486 569	-375 893	-110 676	29.4
Net fee and commission income	579 822	667 900	-88 078	-13.2
Dividend income	7 362	7 597	-235	-3.1
The result on financial assets measured at fair value through profit or loss and FX result	102 759	96 974	5 785	6.0
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	46 236	77 829	-31 593	-40.6
measured at fair value through other comprehensive income	38 807	76 473	-37 666	-49.3
measured at amortized cost	7 429	1 356	6 073	447.9



Other operating income	121 611	92 645	28 966	31.3
Other operating costs	-341 193	-140 681	-200 512	142.5
Net other operating income and expenses	-219 582	-48 036	-171 546	357.1
General administrative expenses	-1 529 387	-1 630 255	100 868	-6.2
Net expected credit losses	-1 419 335	-1 034 039	-385 296	37.3
The result on impairment of non-financial assets	-5 946	-6 251	305	-4.9
Banking tax	-225 974	-208 186	-17 788	8.5
Gross profit	541 171	1 013 502	-472 331	-46.6
Income tax	-252 564	-282 428	29 864	-10.6
Net profit	288 607	731 074	-442 467	-60.5

In 2019, the net profit of Alior Bank S.A. Capital Group (attributable to shareholders of the parent company) amounted to PLN 253 million and was lower than the net profit obtained in the previous year by PLN 461 million, i.e. by 65%.

Total income (in PLN million) - consolidated data



Net interest income is the main component of the Group's income responsible for 84% of income. Its inconsiderable Y/y growth (3%) resulted from the limited increase in the loan volumes and a larger deposit base as well as the effects of the CJEU judgement on early repayment of retail loans (its impact on the net interest income in 2019 amounted to PLN 135 million).

The net customer loan portfolio increased by 3% y/y, and customer deposits increased by 4%. Adequate pricing policy in both deposit and credit products had a positive impact on the level of interest income generated in conditions of the Bank's operation in the environment of low interest rates. It is worth mentioning that the cost of financing in 2019 decreased to - 1.17% from compared to - 1.20% in 2018.

The net interest margin broken down into individual loan products and the average interest rate on deposits is presented in the table below.



	2019 (%)	2018 (%)
Loans		
Retail segment, of which:		
Consumer loans	7.50	8.73
Loans for residential properties	4.35	4.24
Business segment, of which:		
Investment loans	4.76	3.95
Working capital loans	5.30	5.36
Deposits		
Retail segment		
Current deposits	0.91	0.79
Term deposits	1.84	1.81
Business segment		
Current deposits	0.25	0.10
Term deposits	1.58	1.57

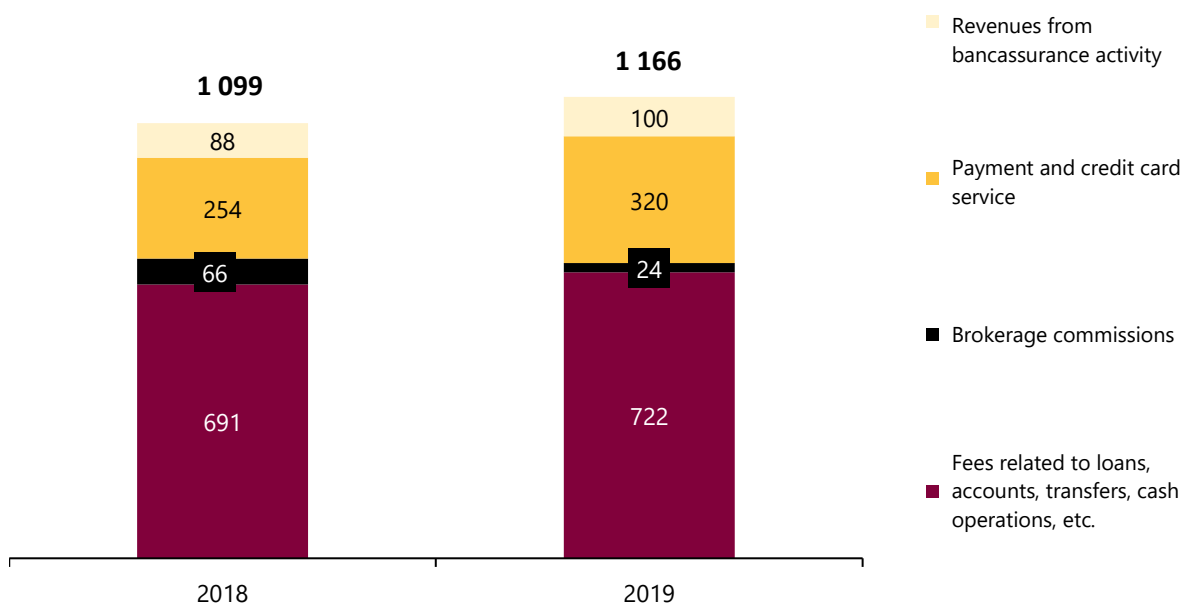
Net fee and commission income went down by 6.1 % to PLN 667 million. This result stemmed from fee and commission income of PLN 1 166 million (y/y increase by 6%) and fee and commission expenses of PLN 499 million (y/y increase by 28%).

The main reason for the decrease were brokerage fees, which is the result of regulations introduced by the Polish Financial Supervision Authority at the end of 2018.

The main component of fee and commission income are commissions related to loans, accounts, transfers, cash deposits, etc. In 2019, they amounted to PLN 722 million and accounted for 62% of fee and commission income. Their year-over-year increase (4.5%) was mainly due to the increase in commissions related to loans as a result of a limited volume growth.

Fee and commission income (in PLN million)





Net trading income and other net income (the total of the following income statement items: net gain/(loss) on financial instruments measured at fair value through profit or loss and net gain/(loss) on revaluation, net gain/(loss) on other financial instruments, net gain/(loss) on derecognition of assets and liabilities not measured at fair value through profit or loss, net other operating income and expenses) went down in 2019 jointly by PLN 215 million to PLN -54 million, as a result of a significant impact created in 2019, provisions for historical returns of part of the commission in the case of loans repaid before 11 September 2019 in the amount of PLN 243 million. As regards the net trading income itself, the Group noted a Y/y increase by 4.4% to PLN 102 million, i.e. by PLN 4.3 million.

In 2019, operating expenses amounted to PLN 1 630 million and were lower than operating expenses incurred in 2018 by PLN 75 million, i.e. by 4.4%.

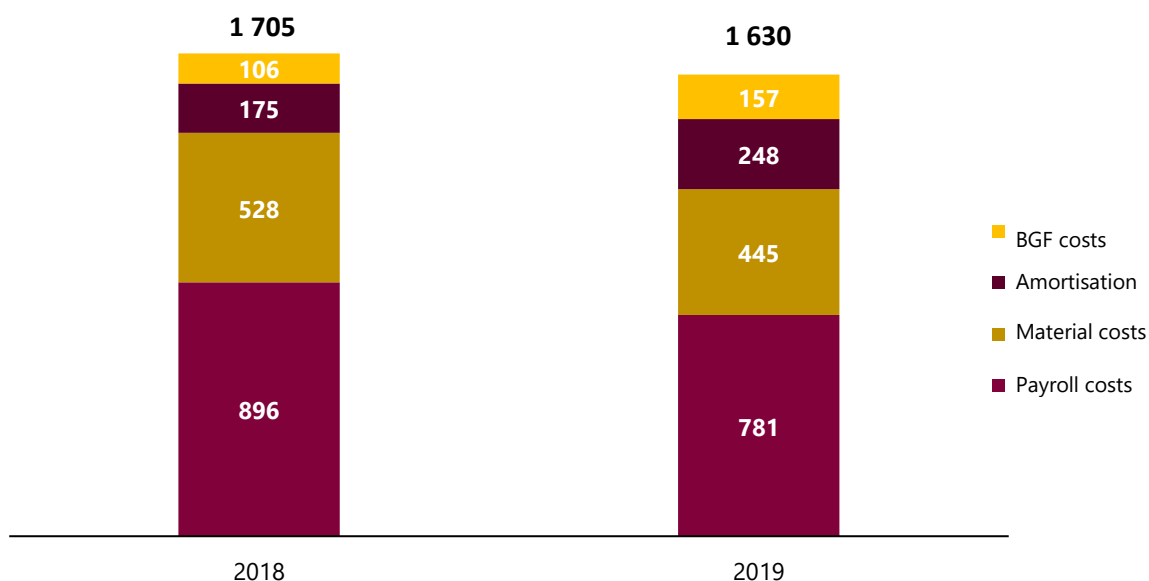
Personnel costs in the period in question amounted to PLN 781 million and were 12.8% lower than personnel costs incurred in 2018

Overhead costs in 2019 amounted to PLN 577 million and were lower by 5.4% than overheads incurred in 2018.

As a result, in 2019 the Cost/Income ratio was at the level of 43.0% compared to 43.1% in 2018.



Operating expenses (in PLN million)



Net impairment allowances

Net impairment allowances and provisions in 2019 amounted to PLN 1 437 million compared to PLN 1 048 million in 2018, which gives an increase by 37%. This increase results from one-off provisions established in 2019 for the exposures of business customers from the AGRO segment in the amount of PLN 389 million. Additionally, in 2019 net provisions calculated in relation to the average gross accounts receivable (Cost of Risk ratio) increased year-over-year from 1.85% to 2.39%.

Net impairment allowances (in PLN thousand) - consolidated data

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018	y/y change (%)
Stage 3	-1 528	-1 250	22.2%
retail customers	-602	-548	9.9%
corporate customers	-926	-702	31.8%
Investment securities	3	3	4.5%
Expected credit loss (ECL)	76	123	-38.1%
Stage 2	58	62	-6.1%



retail customers	71	84	-15.3%
corporate customers	-12	-21	-42.2%
Stage 1	18	61	-70.9%
retail customers	-3	29	-109.9%
corporate customers	21	32	-36.1%
POCI	-56	-56	1.1%
Recoveries from off-balance sheet	61	61	-0.6%
Off-balance provisions	7	71	-90.4%
Net expected credit losses, impairment allowances and provisions	-1 437	-1 048	37.2%

Net impairment allowances (in PLN thousand) - unit data

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018	y/y change (%)
Stage 3	-1 492	-1 237	20.7%
retail customers	-602	-548	9.9%
corporate customers	-891	-689	29.2%
Investment securities	3	3	4.5%
Expected credit loss (ECL)	59	120	-51.1%
Stage 2	44	55	-19.7%
retail customers	71	84	-15.3%
corporate customers	-27	-29	-6.9%
Stage 1	15	66	-77.0%
retail customers	-3	29	-109.9%
corporate customers	18	37	-51.2%
POCI	-56	-56	1.1%
Recoveries from off-balance sheet	61	61	-0.6%



Off-balance provisions	7	74	-90.9%
Net expected credit losses, impairment allowances and provisions	-1 419	-1 034	37.3%

Balance Sheet

As at 31 December 2019, the balance sheet total of Alior Bank S.A. Capital Group amounted to PLN 76.7 billion and was higher by PLN 3.3 billion (4.5%) compared to the end of 2018.

The main asset items generating the increase in the balance sheet total were receivables from customers (Y/y increase by PLN 1.6 billion to PLN 55.9 billion) and financial assets (Y/y increase by PLN 2.1 billion to PLN 15.8 billion), which were financed mainly with the increase in amounts due to customers: customer deposits (increase by PLN 2.6 billion to PLN 65.0 billion).

The tables below present details of assets, liabilities and equity as at the end of 2019 along with comparable data.

ASSETS (in PLN thousand) consolidated data	31.12.2019	31.12.2018	Change (in PLN thousand)	Change (%)
Cash and cash equivalents	1 379 127	2 078 638	-699 511	-33.7
Amounts due from banks	212 885	172 839	40 046	23.2
Investment financial assets	15 798 674	13 727 570	2 071 104	15.1
measured at fair value through other comprehensive income	10 438 695	7 280 080	3 158 615	43.4
measured at fair value through profit or loss	543 925	515 138	28 787	5.6
measured at amortized cost	4 816 054	5 932 352	-1 116 298	-18.8
Derivative hedging instruments	134 832	112 400	22 432	20.0
Loans and advances to customers	55 871 308	54 246 012	1 625 296	3.0
Assets pledged as collateral	335 489	333 198	2 291	0.7
Property, plant and equipment	763 585	460 659	302 926	65.8
Intangible assets	580 352	572 320	8 032	1.4
Investments in subsidiaries	9 822	4 000	5 822	145.6



Asset held for sale	103	146	-43	-29.5
Income tax asset	1 164 764	1 035 624	129 140	12.5
Current tax assets	20 468	0	20 468	
Deferred tax assets	1 144 296	1 035 624	108 672	10.5
Other assets	484 893	676 481	-191 588	-28.3
Total assets	76 735 834	73 419 887	3 315 947	4.5

Liabilities and equity (in PLN thousand) consolidated data	31.12.2019	31.12.2018	Change (in PLN thousand)	Change (%)
Amounts due to banks	822 543	593 327	229 216	38.6
Amounts due to customers	64 999 259	62 435 585	2 563 674	4.1
Financial liabilities measured at fair value through profit or loss	436 856	416 407	20 449	4.9
Derivative hedging instruments	40 676	9 381	31 295	333.6
Provisions	408 577	126 199	282 378	223.8
Other liabilities	1 379 968	1 167 111	212 857	18.2
Income tax liabilities	94 905	267 861	-172 956	-64.6
Current tax liabilities	94 404	267 429	-173 025	-64.7
Deferred tax liabilities	501	432	69	16.0
Subordinated loans	1 793 985	1 918 093	-124 108	-6.5
Total liabilities	69 976 769	66 933 964	3 042 805	4.5
Share capital	1 305 540	1 305 540	0	0.0
Supplementary capital	5 393 358	5 386 828	6 530	0.1
Revaluation reserve	76 404	52 164	24 240	46.5
Other reserves	166 850	171 629	-4 779	-2.8



Foreign operations currency translation differences	605	-202	807	-399.5
Retained earnings / (accumulated losses)	-436 524	-1 143 409	706 885	-61.8
Profit for the year	252 832	713 373	-460 541	-64.6
Non-controlling interests	0	0	0	
Equity	6 759 065	6 485 923	273 142	4.2
Total liabilities and equity	76 735 834	73 419 887	3 315 947	4.5

Presented separately, these data are as follows:

ASSETS (in PLN thousand) separate data	31.12.2019	31.12.2018	Change (in PLN thousand)	Change (%)
Cash and cash equivalents	1 352 604	2 077 630	-725 026	-34.9
Amounts due from banks	212 885	172 839	40 046	23.2
Investment financial assets	15 798 474	13 727 570	2 070 904	15.1
measured at fair value through other comprehensive income	10 438 695	7 280 080	3 158 615	43.4
measured at fair value through profit or loss	543 725	515 138	28 587	5.5
measured at amortized cost	4 816 054	5 932 352	-1 116 298	-18.8
Derivative hedging instruments	134 832	112 400	22 432	20.0
Loans and advances to customers	55 580 512	54 239 260	1 341 252	2.5
Assets pledged as collateral	335 489	333 198	2 291	0.7
Property, plant and equipment	748 671	450 404	298 267	66.2
Intangible assets	531 796	528 501	3 295	0.6
Investments in subsidiaries	216 586	158 681	57 905	36.5
Asset held for sale	103	146	-43	-29.5
Income tax asset	1 006 785	924 383	82 402	8.9



Current tax assets	0	0	0	
Deferred tax assets	1 006 785	924 383	82 402	8.9
Other assets	415 776	517 883	-102 107	-19.7
Total assets	76 334 513	73 242 895	3 091 618	4.2

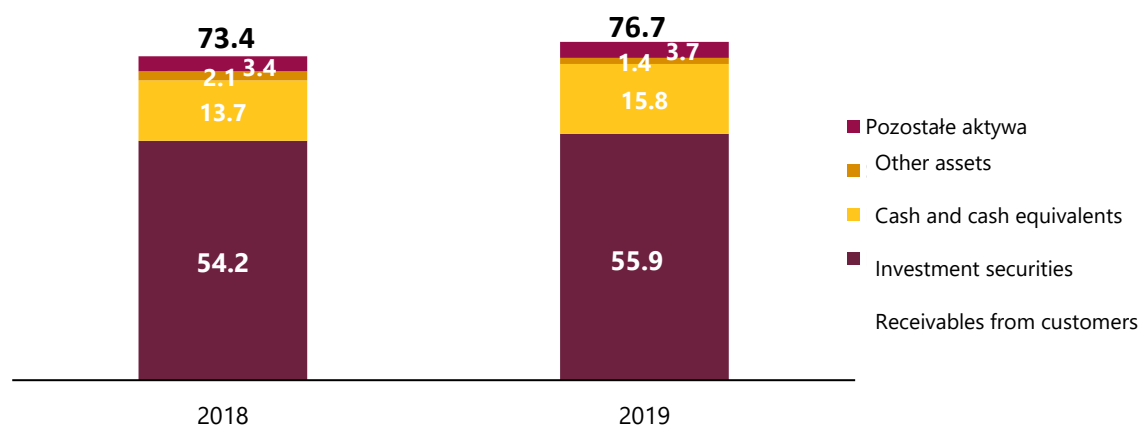
Liabilities and equity (in PLN thousand) separate data	31.12.2019	31.12.2018	Change (in PLN thousand)	Change (%)
Amounts due to banks	365 993	473 842	-107 849	-22.8
Amounts due to customers	65 012 760	62 427 865	2 584 895	4.1
Financial liabilities measured at fair value through profit or loss	436 856	416 407	20 449	4.9
Derivative hedging instruments	40 676	9 381	31 295	333.6
Provisions	408 608	126 172	282 436	223.8
Other liabilities	1 326 157	1 111 457	214 700	19.3
Income tax liabilities	89 779	208 854	-119 075	-57.0
Current tax liabilities	89 779	208 854	-119 075	-57.0
Subordinated loans	1 793 985	1 918 093	-124 108	-6.5
Total liabilities	69 474 814	66 692 071	2 782 743	4.2
Share capital	1 305 540	1 305 540	0	0.0
Supplementary capital	5 388 926	5 382 819	6 107	0.1
Revaluation reserve	76 404	52 164	24 240	46.5
Other reserves	179 505	184 284	-4 779	-2.6
Foreign operations currency translation differences	605	-202	807	-399.5
Retained earnings / (accumulated losses)	-379 888	-1 104 855	724 967	-65.6



Profit for the year	288 607	731 074	-442 467	-60.5
Equity	6 859 699	6 550 824	308 875	4.7
Total liabilities and equity	76 334 513	73 242 895	3 091 618	4.2

The basic asset component are receivables from customers of the Group: PLN 55.9 billion. Their share in the balance sheet total as at the end of 2019 amounted to 72.8% which means that compared to the end of 2018 it decreased by 1.1 pp. Another important asset item as at the end of 2019 were financial assets amounting to PLN 15.8 billion which was 20.6% of total assets (at the end of 2018 – 18.7% of assets).

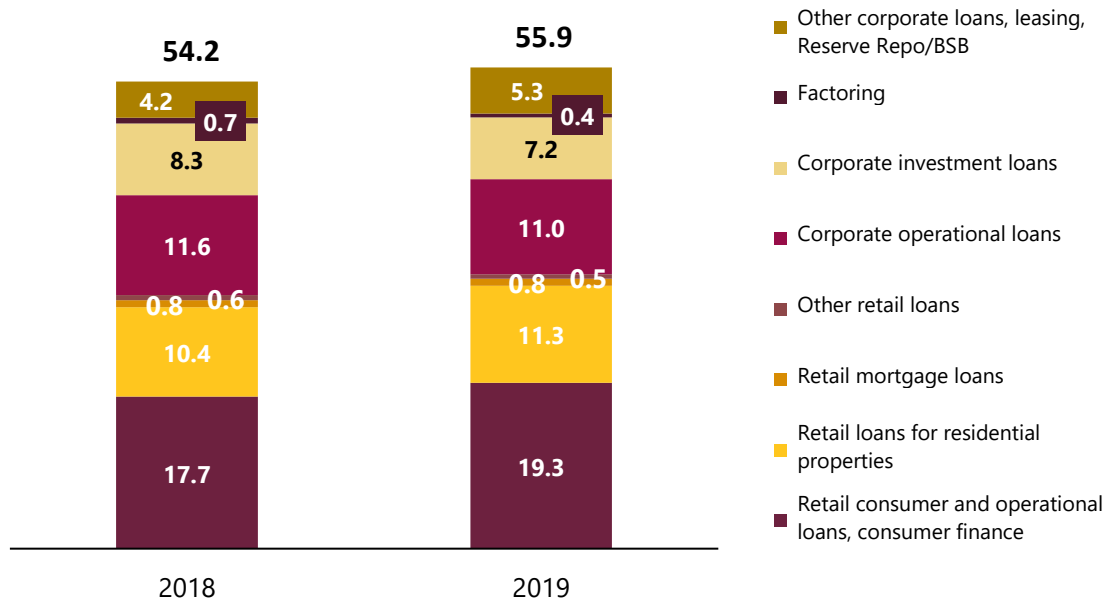
Assets of Alior Bank S.A. Capital Group (in PLN billion)



The year-over-year increase in the accounts receivable portfolio by 3% resulted mainly from the increase in retail loan volume (going up by 8.2%, i.e. by PLN 2.4 billion, to PLN 31.9 billion) and the decrease in the receivables from business customers. Corporate loan volume decreased by 3.2% (i.e. by PLN 0.8 billion) to PLN 24.0 billion.



Receivables from customers (in PLN billion)



The main item in the retail loan portfolio were consumer loans, operating loans and consumer finance, their volume reaching almost PLN 19.3 billion (Y/y increase by 9%). They accounted for 60% of all loans to retail customers and simultaneously for 34% of the entire accounts receivable portfolio. The second largest item in the retail loan portfolio, (38%), were residential real estate loans and mortgage loans the total volume of which at the end of 2019 amounted to PLN 12.1 billion (total y/y increase by 8.0%).

Operating loans for enterprises, which at year-end 2019 amounted to PLN 11.0 billion (y/y decrease by 5.1%), were the most important component of the corporate loan portfolio, accounting for 46% of its value. The second important item as regards corporate loans were investment loans, accounting for 30% of the portfolio in question. Their value as at the end of 2019 decreased compared to year-end 2018 by 13.5%, to PLN 7.2 billion.

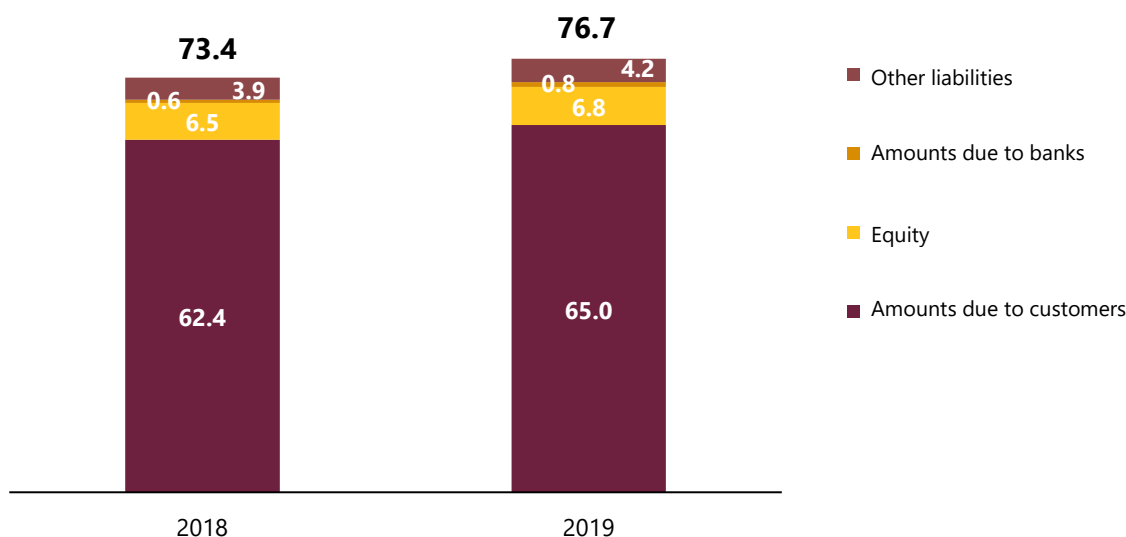


More than 27% loans granted by the Bank are loans to customers from Masovia. Over 20% loans are receivables from customers from Silesia and the Wielkopolska Region. Receivables from residents of the remaining regions account for over 52% of the total loan portfolio.

As at 31 December 2019, the amount of collaterals established on borrowers' accounts and assets within Alior Bank S.A. was PLN 36 956 million (of which retail customers: 12 849 and business customers: 24 117).

The main source of financing of Group operations are the funds from customers deposited at the Bank. At the end of 2019, their share in the balance sheet total was 84.7% (decrease by 0.3 pp compared to year-end 2018). Equity as at 31 December 2019 amounted to PLN 6.8 billion and was 0.3 billion higher compared to the end of 2018.

Equity and liabilities of Alior Bank S.A. Capital Group (in PLN billion)



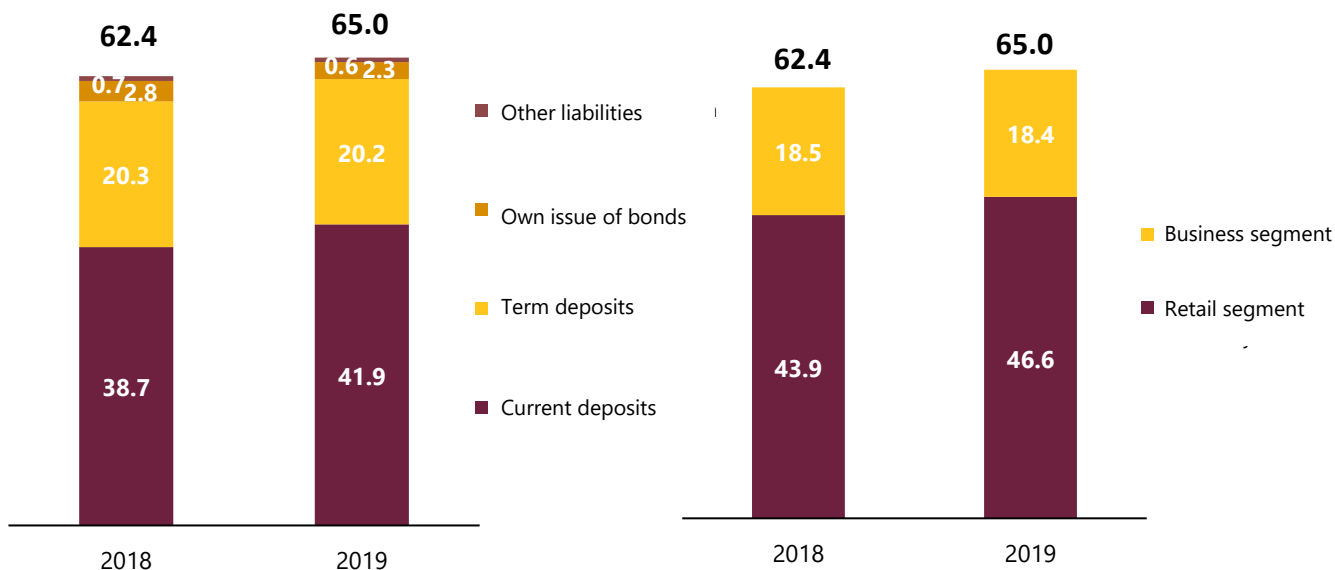
As regards types of amounts due to customers, the main item were amounts due to the retail segment, which at the end of 2019 accounted for 72% of the customer deposit portfolio. This share was higher by 1.3 pp compared to the end of 2018.

Current deposits are the main component of the portfolio of amounts due to customers. They accounted for 64% of all amounts due to customers at the end of 2019 (increase by 2.4 pp compared to year-end 2018). The second most significant item of amounts due to customers are term deposits (31% of all amounts due to customers as at 31 December 2019). Compared to year-end 2018, their share in all amounts due to customers decreased by 1.4 pp.

The remaining 5% of amounts due to customers as at the end of 2019 were funds obtained through issue of the Bank's own securities and other liabilities, as well as own bond issues.

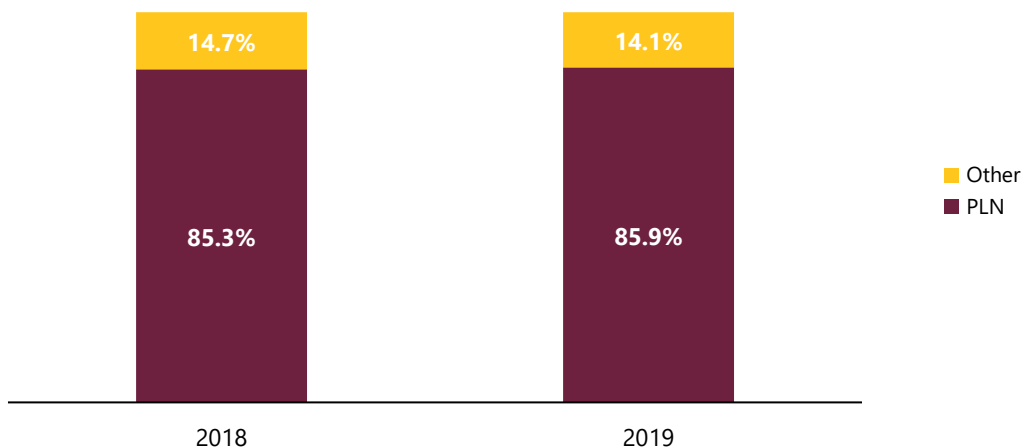


Amounts due to customers per type (in PLN billion):



At the end of 2019, the total liabilities towards top ten depositors accounted for 3.0% of all customer deposits, which testifies to a strong diversification of the Bank’s deposit base.

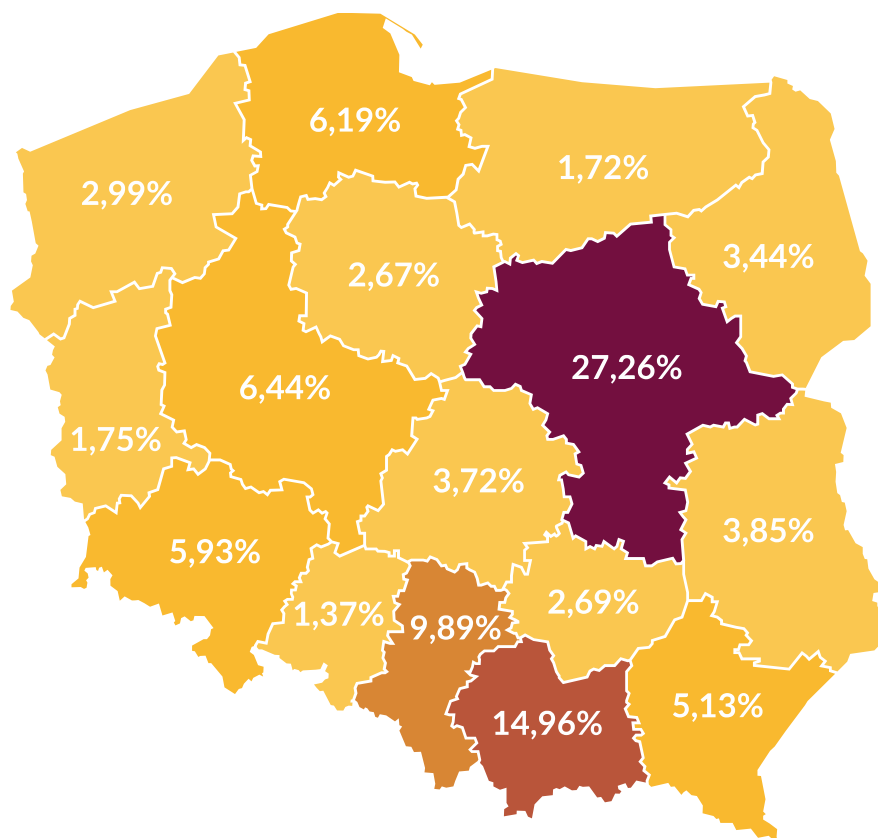
Currency structure of amounts due to customers



As at the end of 2019, the share of PLN deposits in the entire deposit portfolio increased year-over-year by 0.5 pp to 85.9%. The remaining 14.1% of amounts due to customers were foreign currency deposits. The most popular foreign currencies for customer deposits were at the end of 2019 euro and the United States dollar.



Geographical structure of amounts due to customers as at 31 December 2019



Funds deposited at the Bank come mainly from customers from Masovia (27%), the Małopolska Region (15%) and Silesia (10%). Customers from the remaining regions deposited at the Bank funds accounting for less than 48% 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 31 December 2019, the number of active guarantees granted by Alior Bank was 1 564 for a total amount of PLN 841 999 thousand.

The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (1 158) total PLN 484 935 thousand.

As at 31 December 2019 the total value of off-balance sheet contingent liabilities granted to customers was PLN 8 626 829 thousand. The amount comprised PLN 7 784 830 thousand of off-balance sheet contingent liabilities relating to financing and PLN 841 999 thousand of off-balance sheet contingent liabilities relating to guarantees.

Granted off-balance sheet liabilities (in PLN thousand)

Off-balance contingent liabilities granted to customers	31/12/2019	31/12/2018
Granted off-balance contingent liabilities	8 626 829	10 902 052
Concerning financing	7 784 830	9 996 156
Guarantees	841 999	905 896



Off-balance contingent liabilities granted to customers - by entity (in PLN thousand)

By entity	31/12/2019	31/12/2018
Entity 1	221 478	180 117
Entity 2	73 336	74 000
Entity 3	47 625	52 368
Entity 4	40 000	41 346
Entity 5	36 523	40 000
Entity 6	25 373	30 000
Entity 7	23 093	23 093
Entity 8	20 000	20 000
Entity 9	15 000	16 818
Entity 10	13 881	15 192
Other	325 690	412 962

Off-balance contingent liabilities granted to customers - by instrument (in PLN thousand)

By instrument	31/12/2019	31/12/2018
Credit lines	7 703 741	9 897 272
Import L/Cs	3 064	17 840
Loan promises	78 025	81 044
Guarantees	841 999	905 896
Total	8 626 829	10 902 052

The Bank did not underwrite any bonds in 2019 (no off-balance sheet liabilities relating to bonds).

Financial projections

Alior Bank S.A. has not published any projections of financial results.



Factors affecting Alior Bank's operations in the next year



The Bank has identified the following factors which can affect its financial results within the next several months:

- the scale of demand for banking services and the customer ability to repay their financial obligations on time largely depends on their financial condition. In addition to the national macroeconomic situation, the economic standing of many customer groups also depends on economic policies. Both the slowdown of growth of the

Polish economy and change of the legal framework in which businesses operate may adversely affect the financial situation of selected customers of our Bank,

- progressing consolidation and restructuring processes in the banking sector,
- growth of banking services offered by non-regulated entities,
- interest rate policies of the Polish Monetary Policy Committee,
- regulatory changes.

Furthermore, the Bank notices some trends that can provide development opportunities as well as others that will be a challenge for the entire sector.

Opportunities

- Continued economic growth and increasing wealth of the society (including aspirations) ensuring demand for financial services (including loan products which are key for Alior Bank).
- High confidence placed in banks as compared to other players in the financial sector (especially FinTechs and technology companies).
- Regulatory changes related to open banking (PSD2) providing new opportunities for access to customers and development of offering by easier integration of third-party solutions.

Threats

- Risk of sudden downturn in the business cycle and deteriorated economic situation (on the national and/or global scale), translating, among other things, into lower quality of the loan portfolio.
- Deteriorated situation in the banking sector as a result of regulatory changes (especially those that increase the cost of doing business and limiting the scale of revenues), disruptions (e.g. bankruptcy of institutions) or higher costs (e.g. due to payments to the Banking Guarantee Fund (BFG)).
- More fierce competition in the financial services market due to: i) consolidation of the banking sector, ii) development of new financial institutions (FinTechs), iii) perspective of the development of financial services by global technology companies,



- Development of new technologies to enable increased profitability.
- Growing penetration of online access, mobile devices and – as a result – digital banking in Poland.
- Progressing consolidation and restructuring processes in the banking sector.
- and iv) effects of PSD2 regulations coming into force.
- Limited readiness of most customer segments to change their main banking relationship. Low loyalty of customers from younger age segments.
- Continued work pay pressure, especially in the IT area, which makes it more difficult to comply with the projected costs and to reduce employee turnover.
- Risks involving cybersecurity of Polish banking sector actors, including coordinated action.





Engrossed in Reading Libraries

During the several years of its activity, the Foundation established over 1,000 Engrossed in Reading Libraries (Zaczytane Biblioteki) in hospitals, children's homes and community centres, etc. With Alior Bank's support, 288 new libraries were created in 2019 alone. Thanks to them, patients can have a better time at hospital, because, as research has shown, fairy tales help reduce anxiety and fear, as well as facilitate quicker recovery. The purpose of the Libraries is also to promote reading – each reader can take a book home and does not need to return it to the library.

Libraries are regularly replenished by Foundation volunteers. They offer books both for children and for adults. In November, the 1000th Engrossed in Reading Library was established at Warsaw Children's Hospital under Alior Bank's patronage – it was accompanied by a happening with the Foundation Ambassadors and Alior Bank's volunteers.

In 2019, the Foundation established 288 new Engrossed in Reading Libraries. 10 of them were created under direct patronage of Alior Bank. A total of 25,200 direct beneficiaries used Alior Bank's libraries.



VI. Alior Bank's business activity



Alior Bank's activity

Alior Bank is a universal commercial bank providing its services to private individuals, corporations and other entities being domestic or foreign residents. The main operations of the Bank include the keeping of bank accounts, providing loans and advances, issuing bank securities and purchasing and selling foreign exchange. The Bank also pursues brokerage, financial advisory and intermediation services, underwriting of the issuance of corporate bonds, and providing other financial services.

Alior Bank provides its services mainly to customers from Poland. The share of foreign customers of the Bank's total customer base is negligible. A foreign branch of Alior Bank in Romania has been operating since 2016.

The Bank's activity is conducted through various divisions offering specific products and services addressed to particular market segments. The Bank currently operates in the following industry segments:



Detailed information on the Bank's business segments is presented in Consolidated Financial Statements of Alior Bank Group for the year ended 31 December 2019 (Note 5).





Retail segment




General information

As at 31 December 2019, Alior Bank served 4.0 million of consumers. The increase of customer base in 2019 resulted from Alior Bank's organic growth and acquisition of SKOK "Jaworzno".

The Bank has operated a project of behavioural segmentation of retail customers, which enables us to precisely address products and services to the appropriate audience. Behavioural segmentation is useful both for the construction of the product offering, and support of the sales network. In 2019, the Bank continued its strategic segmentation of customers. Strategic segmentation has been implemented in the entire outlet sales network. The bankers and advisers were equipped with comprehensive knowledge on how to recognise customer needs and how to talk about them so that to sell products best suited to their needs. By the middle of the year we have implemented behavioural segmentation also in selected areas of remote channels.

In September 2019, work has begun on updating our behavioural segmentation. In 2020, a new approach will be presented which handles this topic on broader terms to better respond to customer profiles and address their needs.

In addition to behavioural segmentation, the Bank has distinguished the following operating segments among its retail customers:

 <p>Mass customers (individuals whose assets held at the Bank are PLN 100,000 or less, and monthly payments to the personal account are less than PLN 10,000)</p>	 <p>Affluent customers (individuals with monthly payment to personal accounts at more than PLN 10,000 or holding more than PLN 100,000 worth of assets)</p>	 <p>Private Banking customers (individuals holding assets at more than PLN 1 million or holding the <i>Konto Elitarne</i> account)</p>
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The above-mentioned segmentation is reflected in the structure of the sales network by specialisation of sales units: universal branches, premium branches and Private Banking, respectively.



Distribution channels

At the end of 2019, the Bank held 820 outlets (197 traditional branches, 7 Private Banking branches, 8 Corporate Centres, and 608 partner outlets). The Bank's products were also offered within the network of 10 Mortgage Centres, 9 cash centres and a network of about 5000 intermediaries.

 **197**
traditional branches

 **7** Private Banking
branches

 **8** Corporate
Centres

 **608**
partner outlets

In December 2019, the Bank's first branch created in a new format was presented. It is distinguished by its innovative design and new technologies used. The role of the branch is above all to provide comfort and privacy to customers and working comfort to bankers. Materials used are eco-friendly and products come from local suppliers.



Alior Bank has also used distribution channels based on its state-of-the-art IT platform comprising: online banking, mobile banking and call centres as well as DRONN technology. The Bank uses the Internet, including through online banking, to enable its customers to make contracts for: personal accounts, currency accounts, savings accounts, term deposits, debit cards and brokerage accounts. These channels also accept applications for credit products: cash advances, credit cards, overdraft facilities and mortgage loans. Through the Internet, the Bank also has offered hire-purchase loans handled online and enables its customers to use Currency Exchange Bureau services.

Traditional branches of Alior Bank are distributed throughout Poland, especially in cities and towns with more than 50,000 residents, offering full range of its products and services. Partner outlets



are located in smaller towns and in selected locations in the main cities of Poland, offering a broad range of savings & credit services and products for retail and business customers.

The bank collaborates with its partner outlets based on outsourcing agency contracts. Under such agency contracts, agents provide only agency services on behalf of the Bank for the distribution of the Bank's products. These services are provided from the premises owned or rented by the agents approved by the Bank.

As mentioned above, the Bank's products are offered through a network of financial intermediaries, such as Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines, and others, which mainly offer cash advances, consolidation loans and mortgage loans, as well as hire-purchase loans.

One of the key strategic initiatives in 2019 completed by the Bank in collaboration with PZU was to open a new distribution channel for cash advances - the Cash platform. This platform is owned by PZU and is based on the technology provided by the Bancovo.pl service. It will be made available to employees of selected, big establishments. It applies full online process which the customers handle themselves, and the income information provided by them is verified and certified directly by their establishment. An important feature of this process is that repayment is made by deducting instalments from employee's wages and salaries directly by the employer. The first to get access to the platform were PZU Group employees, and more companies follow suit in the future.

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



Cash loans

The main product from Alior Bank's consumer credit offering is the cash loan. It may be spent for any purpose or for the repayment of financial debt (consolidation loan). Cash loans are available in all distribution channels of the Bank.



In 2019, Alior Bank continued its strategy for cash loan sales in two streams. One involves attracting a new group of customers and cross-selling to the existing base, including a large group of customers attracted in the process of selling hire-purchase products. In order to attract new customers, the Bank has introduced in Q1 2019 an "Atypical Advance" offering, whose price depends on the amount of liability. In Q2, a broadly communicated TV campaign has started for the "Advance with Microcosts" product which offers an attractive price to customers. The cost of such advance is no more than 6 zloty per month per each 1000 zloty of net advance/loan. The offering is available in outlets, by remote channels, as well as through online banking. The Bank's offering also features a special "Online Loan" offering for new customers who, by applying through a dedicated online application form, enjoy preferential interest terms and no commission. The contract could be signed by customers themselves through online banking or remotely, with the assistance of a call banker.



In delivering its plans for cross-selling to its existing customers, the Bank was preparing, on a cyclical basis, offerings for the existing advance customers using preferential pricing and simplified loan origination process, both through outlet channels and through online and mobile banking. In addition, a system for the acquisition and cross-selling to Consumer Finance customers has been implemented. What is called "onboarding" are measures to build brand awareness in the initial months of cooperation with the Bank to activate customers in digital channels and to persuade them to buy products and special offerings, not only the cash loan, but also other products addressed to consumers.



The onboarding of customer with instalment products figures into another area of the Bank's activity – implementation of a new approach to the distribution of the advance – linking it with other areas of banking addressed to consumers. Under that approach, the bank rewards active customers and encourages the existing and new customers to being active in daily banking. To deliver this approach, in Q4 2019 a "Cosmic Loan" (*Pożyczka Kosmiczna*) was prepared, to be



broadly communicated on TV and in other media. Attractive advance terms – 0% interest rate – was conditional on the activity of customers using the *Konto Jakże Osobiste* account and their debit cards. This action supported both the purpose of cross-selling and up-selling to the existing customers and to build a primary relationship with the Bank.

In addition, in Q4 2019 the Bank, tapping the opportunities opened up by PSD2 Directive, allowed customers from other banks to apply for Alior Bank's credit products without the need to provide income certificates. This is a facility provided by the Account Information Service (AIS). This solution is available in selected sales outlets and in the Contact Centre. By the end of Q1 2020, this facility is scheduled to be available throughout the entire sales network, also in processes (including online processes).

In the last quarter of 2019, Alior Bank started working on adjusting its business strategy and internal processes to the September CJEU judgement on early repayment of consumer loans.



Credit cards

As part of its credit card offering for retail customers, the Bank continued in 2019 the promotion of the following credit cards: "Mastercard OK!" and "TU i TAM". The main benefit has remained moneyback: for the OK! card the domestic moneyback, operated in selected commercial outlets, and for the "TU i TAM" cards it is accounted for non-PLN transactions (including online transactions and those effected abroad). For the most affluent customers from the Private Banking segment, the offering still encompasses the prestigious World Elite Card, coupled with a concierge services package, i.e. the assistance of a specialised call centre, insurance and Priority Pass – opportunity to use airport lounge services.

Addressing the expectations of customers who, when travelling abroad, are often looking for the best form of payment, analyse currency exchange rates, not infrequently fearing hidden costs, the Bank has launched a promotion under which transactions with the "TU i TAM" Mastercard credit cards have been translated since June 2019 according to the NBP mid-rate without any extra charges and commissions from the Bank.

In addition to very favourable currency translation terms, the Mastercard "TU i TAM" card also provides access to discounts and priceless attractions offered under the Priceless Specials loyalty programme. What's important, this promotion covers both new holders of the "TU i TAM" card as well as those who have held this type of product for a longer time, and in June it has become available



free of charge to all customers, including through our online banking system, in addition to standard acquisition methods in outlets or through the call centre.

In the last quarter of 2019, in collaboration with Innergo (authorised representative of Apple in Poland), the Bank has prepared a promotional action by which new holders of the Mastercard OK! credit card can receive an extra discount to purchase Apple equipment when paying with their credit cards.

Overdraft facilities

Overdraft facility is the ability to borrow against a debit in the account. Debt can be incurred multiple times up to the authorised overdraft limit, and each payment to the account reduces or clears the debt. The Bank offers overdraft facilities for PLN 500 and up to PLN 200,000 without any additional security or guarantee.

In 2019, there was a consistently growing interest in overdraft facility through electronic and mobile banking under our simplified online process. The process is made available to a selected group of customers taking into account optimum offering of x-sell as part of CRM activities.

Mortgage loans

Mortgage loans in Alior Bank are provided mainly for residential purposes related to the purchase of real property. These loans can also finance the finishing, refurbishment or adaptation of property, purchase of a plot of land and house construction. In addition, it is possible to get refund of expenditures incurred during the last 2 years for residential purposes. The amounts from these loans can be used for any purpose unrelated to business activity or to consolidate other liabilities.

Mortgage loans are characterised by long-term exposure (up to 30 years) and maximum LTV at 90%.

They are available against commission or, optionally, against life insurance.

In 2019, the Bank continued its prior policy in the mortgage loan segment which were sold through two primary distribution channels, i.e., branches and Mortgage Centres dedicated to the processing of applications from intermediaries.

In 2019, the Bank offered mainly PLN-denominated loans for residential purposes, which are a dominant item of the mortgage loan portfolio. This offering was complemented with loans indexed to the GBP, USD, EUR for residential purposes, available to those who earn their income in foreign currencies.



In the second half of 2019, the Bank took measures to increase its share of mortgage loan sales in the largest, dominant markets. To achieve this, an attractive offering was launched, available to customers who buy their homes in seven biggest cities, i.e., Warsaw, Krakow, Wroclaw, Poznan, Szczecin, Gdansk, or Lodz. To deliver this policy, strengthening of the branch sales network has been planned for these cities. The year-on-year sales growth was 20%.

Deposit products



Term deposits

Consumers depositing their PLN funds are offered by the Bank with term deposits for new funds and standard term deposits with fixed interest rates and a broad range of available maturities. The deposits on offer also include term deposits in foreign currencies: EUR, USD, GBP and CHF. These term deposits can be revolving or non-revolving. In addition, customers interested in depositing larger amounts can take the opportunity of negotiable term deposits, whereby both the maturity and interest rate are set individually.

Savings accounts

The Bank offers to its retail customers zloty-denominated savings accounts which encourage them to save while keeping flexible access to their funds. The main acquisition product is the 2018-introduced *Konto Mocno Oszczędnościowe* account, and the *Konto Mega Oszczędnościowe* account launched in December 2019. Its main benefit is preferential treatment of

new funds up to PLN 100,000 for three months, by which higher interest accrues to customers who provide regular cash inflows to Alior Bank's personal account. In addition, the holders of the *Konto Mega Oszczędnościowe* account have the option of flexible saving using free, unlimited online transfers to their personal account held at Alior Bank. In addition, the Bank offers higher interest on the savings account to customers who opt for the *Konto Jakże Osobiste* account and choose this feature as one of the benefits. Moreover, the Bank offers savings accounts addressed



exclusively to new customers of the Bank and to customers who have successfully applied for the parental benefit (Family 500+ Application). They can enjoy preferential, fixed interest rate.

Personal accounts

In 2019, the Bank was developing its personal account offering by adding new functionalities to the existing products.

The flagship account in our product range is *Konto Jakże Osobiste*, for which the Bank has been distinguished with EFMA Distribution and Marketing Innovation Awards for the most innovative personal account.

Under the *Konto Jakże Osobiste*, the customer is able to adapt the offering in online banking or mobile app to his or her needs, by selecting from among ten advantages. Frequent visitors will enjoy a new advantage to the *Konto Jakże Osobiste*, introduced in June 2019. The new functionality allows for card payments without extra currency conversion costs.



The *Mastercard Bezczenne Chwile* loyalty programme, initially available as one of the advantages of the *Konto Jakże Osobiste* account, has been made available in the first half of the year to all customers in the online banking system, and thereafter in the mobile app.

The offering of personal accounts is complemented by the *Konto Elitarne* account dedicated to the Private Banking segment, the *Konto Internetowe* (Online Account), the *Podstawowy Rachunek Płatniczy* (Primary Payment Account) and Currency Accounts kept in four primary currencies: USD, EUR, CHF, GBP. Holders of currency accounts can also use the multi-currency service which enables them to link their currency accounts kept in the USD, EUR, GBP to their debit card accompanying the *Konto Jakże Osobiste* or *Konto Elitarne* accounts.



Transactional services

Alior Bank offers a broad range of transactional services, including: incoming and outgoing cash payments, cash payments to accounts kept at the bank and at other banks, instant transfers and cashless transactions using cards. In delivering its "Digital Disruptor" strategy, the Bank has



implemented in its mobile app innovative mobile payment methods through BLIK, Android Pay and Apple Pay, and since December it has also provided customers with the functionality of smart watch payments (Fitbit Pay and Garmin Pay). Throughout 2019, the Bank has launched multiple campaigns targeted at increasing deal volumes with debit cards, offering certain benefits, either financial or as points in the MasterCard Bezcenne Chwile Programme, rewarding customers for transactions made with debit cards. All these measures support the Bank in meeting its overarching goal in the daily banking area, i.e., building lasting customer relationships.

Currency exchange transactions

Currency exchange deals are available at the Bank's branches, through online banking (PLN, EUR, USD, GBP, CHF), as part of currency conversion related to international transfers and card transactions abroad, as well as through special, dedicated dealing platforms (Autodealing, *Kantor Walutowy* (Currency Exchange Bureau) and at the Treasury Department). The Bank has made available to its customers foreign-currency 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.

Holders of the *Konto Jakże Osobiste* account are provided by the Bank with the additional option to use the multicurrency service which enables them to link their currency accounts kept in the USD, EUR, GBP to their debit card accompanying their *Konto Jakże Osobiste* account, and, as part of benefits of the *Konto Jakże Osobiste* account, a service of card payments without extra costs of currency conversion.

Bancassurance products

In 2019, voluntary life insurance has been a major addition to the offering of banking products. Like in the prior years, the main role was still played by borrower's life insurance (called PPI) offered on advances and mortgage loans. Standalone products offered (depending on the product) in the online channel, through the call centre, or through the branch network remained an important element.

Under its insurance offering, in 2019 the Bank continued its activities to support sales growth and development of life insurance related to advances and mortgage loans.

As part of its standalone offering, the Bank offered in 2019 accident coverage, cancer coverage, motor insurance, residential and travel insurance. Towards the end of 2019

152 waluty

w jednej karcie do konta osobistego



bez prowizji banku za przewalutowanie!



changes were made to the online banking platform which facilitated the availability of selected PZU and Link4 products, which so far had been available on the Bank's website only.

In 2019, the Bank also offered group insurance being an extra benefit accompanying banking products. These also included assistance and travel insurance as part of the *Konto Jakże Osobiste* account, travel insurance added to credit and debit cards World Elite, as well as group and assistance insurance for hire-purchase loans. In addition, the product range has been complemented in 2019 with travel insurance offered on the *Kantor Walutowy* (Currency Exchange Bureau) platform.



The Bank is still focused on offering insurance under what is called an individual model, whereby it stands as insurance intermediary and receives compensation for that. The group model, under which the Bank stands as the policyholder, is used for free products for the customer as supplementation of the parameters to improve the parameters of the respective banking product.

Structured products and investment insurance

Under its First Programme of Issuance of Banking Securities, Alior Bank S.A. issued 20 series of securities with a combined nominal value of PLN 686 million. These papers were addressed in public offering to consumers and Private Banking customers with an appropriate investment profile, and to corporate customers. The issues of banking securities were characterised by 100-percent guarantee of the principal amount on the maturity date, and for four series also by guaranteed coupon to be paid to customers on the issuance closing date. The main part of interest depends on the movement of a market index which was usually chosen as part of the stocks or investment fund baskets. In 2019, 34 issues took place, of which the best one closed with 22.06% result. In November 2019, the Bank has originated subscription as part of public offering of 18-month structured bond with guaranteed principal amount on maturity. In addition, the Bank continued its offering of structured certificates for selected Private Banking customers with limited guarantee on the principal amount, and conditional early redemption – “autocall”. Twelve issues of such kind were carried out in 2019 for a total nominal value of PLN 117 million. The certificates were floated on the Warsaw Stock Exchange.

In August 2019, the Management Board of the Bank decided to open up the Second Programme of Issuance of Banking Securities of Alior Bank S.A. The maximum debt of the Bank from all issued and active Banking Securities may not exceed PLN 5,000,000,000 at any time during the operation of the Programme.



New products and services

In 2019, important new products and services for the personal customer segment offered by Alior Bank Capital Group included:

- CASH loan, provided through a dedicated platform to employees of chosen companies, where monthly instalments can be repaid directly from the employee's (the borrower's) remuneration,
- credit process with creditworthiness assessment based on solutions resulting from the PSD2; as part of the process, customers use AIS and provide the Bank with an access to their account history, which serves as the basis for determining their creditworthiness,
- promotional implementation of transparent rules for conversion of transactions executed in a currency other than PLN with the use of Mastercard TU i TAM credit card, where the Bank waived its commission for currency conversion,
- dedicated Travel Insurance offered as part of our Exchange Office,
- possibility to buy some stand-alone insurance in online banking.



Retail segment areas

Consumer Finance

Under its retail segment, the Bank has offered Consumer Finance products.

In 2019, we focused in the Consumer Finance area on maintaining the position of a leader in the market for hire-purchase loans by maintaining stable collaboration with the current partners, acquisition of new counterparties and by supporting out sales with seasonal campaigns to promote instalment loan sales. Under our "Digital Disruptor" strategy, we continued our projects related to the delivery of our key initiatives, as well as activities to intensify sales in the eco area.

For many months we have been offering eco-instalments which customers can use to finance their thermal insulation projects, replacement of obsolete heat sources, and installation of a



photovoltaic system. We have joined consultations with the National Fund for Environmental Protection and Water Management to develop a friendly process to enable customers to finance their projects with the hire-purchase loan and facilitating the award of grants under the "Clean Air" governmental programme.

To improve the attractiveness of its hire-purchase loan offering, the Bank has implemented Extra Services Packages through its online channel to increase the comfort of loan repayment, enhance the security of the customer's finances, and providing support in the event of unforeseen circumstances. Customer trust and security are our highest priority, therefore the number of customers covered by the BIK alerting service as part of the hire-purchase loan has increased. Our customers do not have to fear that someone would abuse their personal details and attempt to take out a loan using their name.

We have cut by half the times of processing and labour intensity of integration with online shops on the part of the Bank by implementing a quicker way to integrate online hire purchase deals with eCommerce entities based on REST API.

With a view to increasing the comfort of the hire-purchase loan offering, such loans are now accompanied by offering to the customer an agreement providing access to the Bank's electronic channels. Through access to "electronic banking", among other things, our customers can now apply online for other products offered by the Bank, e.g. opening an account, which surely strengthens the customer relationship. Such agreements assist customers in current management of loan repayment. Customers can more easily monitor the repayment of loan instalments, check the current schedule and repayment history. Such solution was also made available to foreign nationals holding a stay permit in Poland longer than for visitor stay.



Private Banking

The Private Banking programme is addressed to the wealthiest individuals who entrust the Bank with assets in excess of PLN 1 million. Customers are served by seven specialised Private Banking branches in: Katowice, Poznan, Krakow, Gdansk and Wroclaw, and two branches in Warsaw.

At the end of December 2019, the Private Banking line held slightly more than 6,000 customers who are offered a broad range of investment and credit products adapted to their needs.

The flagship product dedicated to this segment is *Konto Elitarne* account kept free of charge for Customers holding more than PLN 1 million worth of assets. Customers enjoy a number of benefits, such as individual assistance from a Private Banking banker, confidentiality of account balances, or



prestigious debit card MasterCard World Elite, offered at no additional cost, with a rich package of extra services.

Holders of *Konto Elitarne* account are also targeted with promotional, cultural and sporting actions, such as special theatre shows, or golf tournaments held by PGA Poland. An important event was also a competition held in collaboration with MasterCard, with its main prize being travel to alpine ski World Cup races in Kitzbühel.

Brokerage activity

The Bank has operated brokerage activities through Alior Bank Brokerage House – a separate organisational unit. Brokerage services are offered through the Bank's outlets and using remote distribution channels: Brokerage House's Contact Centre, Alior Bank's online banking system, *Alior Gielda*, a mobile app, and *Alior Trader 2*, a dealing platform.



At the end of 2019, the Brokerage House kept 76,200 brokerage accounts, 53,500 deposit accounts, and 6,600 Alior Trader accounts. The combined value of assets on investment accounts is PLN 8.06 billion. Total cash on the above-mentioned accounts was PLN 242.5 million. Compared to the prior year, the share of stock-exchange instructions executed through the *Alior Gielda* mobile app doubled to 27%. In 2019, 24% of transactions executed on the Alior Trader account were instructed through the mobile app.



In 2019, Alior Bank's Brokerage House won, for the second year in a row, the *Puls Biznesu* ranking of the best Brokerage Houses. The first half of 2019 saw the completion of migration of Alior Bank's customers, including the Brokerage House, to the new online banking system which provides for fully remote purchase of products and use of investment services. In April, the Brokerage House has also made available a new investment service – inwestycje.aliorbank.pl – for those who want to proactively invest their savings. In December, customers of the Brokerage House have been offered an opportunity to join a loyalty programme for PKN Orlen shareholders.



Transparent investing
Quotes provided by leading financial institutions



Achieve better investment
results due to low spreads



A wide range of instruments
Currency pairs, CFDs on commodities and indices, spot commodities



Quick withdrawal of funds
It takes a few minutes

In accordance with new requirements, in 2019 the Brokerage House has implemented the designation of operation types on securities as per ISO 15022/200222 standards, and adapted its systems to security trading rounded to four decimal places.

The Alior Bank Brokerage House's services also include the offering of units of Polish and foreign investment funds. As at 31 December 2019, Alior Bank collaborated with 13 Polish and foreign investment fund companies and intermediated in the purchase of units at PLN 1.5 billion within open-ended funds. For non-public closed-end investment funds, in 2019 the Brokerage House only conducted post-sales service. Total assets accumulated in investment funds through Alior Bank were PLN 2.27 billion at the end of December 2019.

As of 31 December 2019, Alior Bank's Brokerage House stopped providing the Market Maker services.





Collaboration in attracting retail customers

T-Mobile Usługi Bankowe

In 2019, T-Mobile Usługi Bankowe (T-Mobile Banking Services) consistently pursued the growth of sales of a new advance and of deposit products. The volume of loans awarded in 2017-2019 increased by PLN 250 million, and the deposit balance by PLN 205 million.



USŁUGI BANKOWE
dostarczane przez Alior Bank

Growing revenues and increased profitability of the project has been TMUB's main goal since the beginning of collaboration with the mobile telecom.

An important part of development are changes in online and mobile banking which have been topped up with a number of functions, both transactional and handling-related, adapted to legal requirements.

In carrying out the digitisation project, the systems were expanded to include a number of self-service functions, and the banking has been adapted to PSD2 Directive.

New functionalities and facilities for customers have been added in the transactional area as part of the development of the offering and the existing products, with a focus on making the payment products and mobile banking more attractive. In that development, the service of contactless payments by mobile phones has been expanded by including the functionality of adding virtual cards to GooglePay (Android) and ApplePay (iOS) directly from the Bank's application level.

To ensure the highest possible satisfaction of customers with the entire digital banking, to enhance their comfort in using our systems and increase the transparency of information, a number of facilities for customers have been introduced, such as: the wire transfer form has been re-designed for operations involving currency conversion on the customer's account, and in mobile banking the functions of retrieval of assessments and surveys of customer satisfaction have been introduced.



Alior Bank's branch in Romania

In 2019, Alior Bank's foreign branch in Romania continued its commercial operations initiated on 18 October 2017 (operating activities began on 18 July 2016).



In 2019, the sales network for banking products was expanded both in outlet channels: 53 "SIS" (Shop in Shop) outlets, 129 direct sales agents, and 9 brokers, including the largest financial broker in the Romanian market – KIWI (figures as at 31/12/2019) and in remote channels: verification of customer identity has been enabled in the process of opening an account in digital channels using a "one-cent transfer charge", and a functionality was implemented for acquiring leads for online advances, and collaboration has been started with 3 online financial intermediaries. This resulted in a dynamic growth of customer portfolio and increased share of new acquisitions of credit products in the market from 0.07% to 1.3%.

In 2019, work intensified related to the adaptation to the changing regulatory environment, resulting in the need to implement changes under new EU and national regulations on payments: PSD2 Directive and Cross-Border Payments Regulation; as well as the 4th Anti-Money Laundering Directive. The branch has continued servicing its customers in its own above-mentioned outlets (SIS) and in 240 points of sale (POS) of Telekom Romania, as well as through digital channels: website www.telekombanking.ro, mobile banking that provides for an innovative log-in and authorisation of transactions using biometric methods, and the updated version of the Currency Exchange Bureau platform <https://schimb.telekombanking.ro/>.

The plan for the subsequent months is to develop further direct sales channels and implement technical solutions to optimise sales of banking products, as well as innovative projects expanding the product range in digital channels, e.g.: the mobile app for the Currency Exchange Bureau platform. Further work will be focused on making available for new and existing customers of our Bank the possibility of applying for deposit and credit products completely online using the Bank's mobile app. This project is being delivered in collaboration with FinTechs which use innovative, advanced solutions for the verification of identity and authentication of digital signatures.

As at 31 December 2019, the Branch in Romania employed 243 full-time equivalents (115 FTEs at the Headquarters, and 128 FTEs at SISs).

Bancovo



In 2019, Bancovo intensified its marketing activities by launching its first TV campaign aimed at building brand awareness among customers. The marketing action has brought tangible effects:



- number of users increasing to almost 200,000 by the end of December 2019
- selling more than 10,000 advances in 2019,
- six-fold improvement of operating performance of the project.

At the end of 2019, the company offered products of more than 25 financial institutions addressed to a broad range of audience, both to consumers (loans/advances), as well as to small-company owners (advances/microfactoring).

In 2019, there was not only swift development of the existing activities of the platform, but also introduction of new Bancovo business projects:

- in Q4 2019, the CASH platform – a joint venture of PZU, Alior Bank and Bancovo was launched in the market. Bancovo is a technology partner of the CASH platform which is the first in Poland to use the BaaS (Broker-as-a-Service) collaboration model. CASH implementation demonstrates that Bancovo's solutions can be easily multiplied, the platform has an open IT architecture, which allows it to be promptly implemented in other business models in Poland as well as in other countries,
- in September 2019, Bancovo has expanded its loan brokerage offering to include hire-purchase financing by launching collaboration with the Polish biggest consumer electronics and home appliance retailer, EURO RTV AGD. Under that solution, Bancovo provides a loan engine and aggregates the offerings of selected financial institutions, which provides paperless financing for the goods offered by the retailer chain,
- In December 2019, Bancovo has launched a new lending process which uses the opportunities offered by PSD2 Directive, whereby customers can in an even more secure and friendly way obtain financing of their needs on the Platform.



Business segment

General information

Alior Bank holds a comprehensive and modern product range for business customers of all segments: micro, small and middle-sized enterprises, as well as corporations. As at the end of 2019, the Bank served more than 224,600 business customers, and the combined loan exposure reached PLN 21.3 billion.

A new Department for Microenterprise Products and Services has been established to increase our share of the growing microenterprise market. Its main purpose is to strengthen the role of the Bank in the financing of sole traders by providing an adequate and specialised service as well as



dedicated products. As at the end of 2019, the Bank served more than 190,000 micro business customers, and the combined loan exposure reached PLN 6.8 billion.

In the area of servicing customers from the highest segments, a strategy for corporate companies has been developed which involves the transformation of Regional Business Centres into Corporate Centres specialised in servicing large entities.

To learn the opinion of business community on Alior Bank's solutions for companies and to even better adapt our offering to business needs, Alior Bank has established a Business Customer Council which is an advisory body consulted when creating new products and services and when streamlining processes for the business community.

The product range for businesses and the quality of service of business customers have been many times recognised by independent experts.

Accounts, settlements and deposits

The business account offering is adapted to the expectations of particular company segments and uses modern customer acquisition and product processing channels. As at the end of December 2019, there were 31,958 active accounts, which is 9448 more than at the end of 2018 (22,510 accounts), an increase by 42% y/y.

Alior Bank has offered its standard service through its network of branches and partner outlets, and micro segment customers are also able to open their company accounts online. The customer can remotely confirm his/her identity and enter into the agreement.

Micro enterprises can open the following accounts through remote channels:

- iKonto Biznes – company owners are addressed with a promotional action whereby those who are active in their transaction volumes can receive even up to 1500 zloty of bonus annually for conducting their daily banking operations. New promotional actions are launched regularly together with the Bank's Partners.
- Partner Account (*Rachunek Partner*) accompanied by "Cashback for Businesses" promotion, which guaranteed fixed fuel prices at all petrol stations in Poland – only 3.90 zloty per litre. The maximum amount of cashback for fuel purchases was PLN 100 per month.
- 4x4 Account (*Rachunek 4x4*) - an innovative solution which enables customers to adapt their account parameters to the company's current requirements and to the usual types of transaction. The Bank collects no charges for the operation of the account, the use of the first debit card, wire transfers to the



Social Security Institution/Tax Office, as well as for accounting on the portal. Under individual parameterisation, the customer can choose from four dealing packages.

The above-mentioned accounts are addressed to company owners who keep their books using simplified accounting rules. The offering is complemented by the *Rachunek Wspólnota* account addressed to residential cooperatives.

Alior Bank proposes the following accounts to the businesses which keep books of account: *Biznes Optymalny*, *Biznes Komfort* and *Biznes Profil*, under which the customer can adapt the specific solutions to the company's operating profile.

Alior Bank also proposes to companies diverse opportunities to invest their financial surpluses. The traditional term deposit offering available through multiple channels is complemented with a deposit account with an attractive interest rate and automatic overnight deposits.

Added services

Web portal www.zafirmowani.pl for entrepreneurs from the microenterprise segment was enriched with new functionalities, including a communication and events module which enables users to register for webinars and conferences held by the bank as part the "Akademia zafirmowani.pl" and to get information on upcoming ZUS or Tax Office payment deadlines.



In addition, businesses holding a company account at Alior Bank can connect to the www.zafirmowani.pl portal directly from the online banking level. Due to automatic mechanism of pairing the account history with accounting documents, the customer can also check in the accounting module the status of invoice payments.

Settlement and transactional products

Alior Bank's offering for companies was expanded to include virtual cards which assist businesses in managing significant volumes of online payments. They have no plastic form, but they operate only in the online environment as part of the Smart Data service which enables customers to generate a single card number for each transaction. Such solution ensures confidentiality of data and high level of transaction security.

Alior Bank offers to businesses:

- virtual debit card denominated in PLN,
- virtual credit card,
- virtual multicurrency card with access to 23 currencies with no currency conversion costs.



The existing offering of contactless payments for companies in the form of Apple Pay and Google Pay was supplemented in 2019 with Garmin Pay and Fitbit Pay payments.

To meet the expectations of corporate customers, Alior Bank offers advanced products and tools to facilitate management of the company's finances.

The package of transactional banking products and services includes the management of cash flows, monitoring of the collection of receivables and their ongoing identification through BusinessPro online banking system, and automation of accounting processes through BankConnect. The Bank's offering is distinguished by the service of Automatic Cash Withdrawal. Liquidity management process automation offered to customers includes, among others, both internal and external transfers of funds, and integration of the accounts inside the Bank

Loans for business customers

Alior Bank offers a broad range of modern loan products by which current and investment needs of business customers are financed.

The Bank's activity in the micro, small and middle-sized enterprises is based on a comprehensive, fully standardised loan offering. Pursuing its "Digital Disruptor" strategy, the Bank made available the possibility of processing the funding through its new loan app called Feniks KB.

In the Biznes Financial Package, the company receives under a single decision as many as five financing forms to choose from. The amount can be divided into: non-revolving credit, overdraft facility, credit card, factoring, and leasing. Such solution enables the customer to spend money for any of the various needs related to their business activity.



Under its new offering for businesses (micro, small and medium sized enterprises), the Bank has increased the funding amount to PLN 3 million, at the same reducing the loan origination decision to 20 minutes. The funds are paid to the company's account within 24 hours from signing the contract. The offering has been also expanded to include leasing and factoring.

To expand the processing of large companies, in May 2019 a new unit has been established, responsible for the structured loan area. Customers from the large companies' segment are provided by Alior Bank with various forms of financing. Alior Bank treats each of those customers individually, and prepares bespoke offerings for specific entities. The Bank has also begun implementing a sectoral approach by introducing dedicated simplified risk policies for selected



sectors and preparing tools and support materials for the sales network. Continuous monitoring of market trends and direct contact with entrepreneurs will provide basis for expanding the already defined portfolio of preferred sectors.

Changes in servicing corporate customers are accompanied by technology development of Business Pro online banking and product offering.

Bancassurance products

In 2019, Alior Bank has launched voluntary life insurance products to complement the offering of banking products for Business Customers. For this purpose, collaboration has been established with PZU SA for offering property insurance (property against fire and other disasters) for customers using non-revolving credit secured by real property. The insurance is offered in so-called individual model, whereby Alior Bank acts as an insurance broker.

EU funds and aid programmes

Alior Bank has for several years now expanded its participation in public programmes, both those financed from EU funds and national funds. This allows us to expand and make more attractive offerings for customers, especially small and medium-sized enterprises (SMEs). A very significant part of funding awarded to companies by Alior Bank have been loans secured by Bank Gospodarstwa Krajowego (BGK) using public (national and EU) funding. Alior Bank has provided, among others, loans with BGK guarantees as part of the National Guarantee Fund (this continues the de minimis programme); under COSME and Creative Europe programmes. For loans backed up with a guarantee, customers benefit from alternative ways to secure their intended funding.

Alior Bank has been a leader in sales of de minimis Guarantees. Since sales have begun in 2013, the Bank awarded 46,000 guarantees for a total amount of PLN 10 billion, thus supporting Polish enterprises.



Alior Bank has been also a leader in sales of COSME guarantees. Since 2015, the Bank has awarded more than 15,500 COSME guarantees for a total amount of PLN 3.5 billion. In 2019, the Bank awarded PLN 1.9 billion worth of loans secured with this instrument.

Almost 90% of new sales of loans for customers from the micro segment and 50% of customers from the segment of small companies are secured with guarantees offered in collaboration with Bank Gospodarstwa Krajowego.



The offering of guarantee programmes also includes special guarantees addressed to innovative enterprises, creative sector, agricultural and food-processing sector or telecom sector customers.

Biznesmax guarantee

Currently, the most attractive loan repayment security for SMEs is Biznesmax guarantee, available under the portfolio guarantee line of the Guarantee Fund of the Smart Growth Operational Programme. This product is a unique combination of a guarantee with a grant.



This guarantee is addressed to enterprises carrying out investment projects with innovative potential at least on the company scale, as well as for those who intend to carry out pro-environmental projects, e.g., the installation of photovoltaic panels, thermal insulation of the company building.

Creative Europe guarantee

In July 2019, Alior Bank was the first bank to offer the Creative Europe guarantee and awarded the first loan with that guarantee. This guarantee supports customers from the broad creative and cultural industries, including audio-visual production (including films, television, video games and multimedia); radio, visual arts, music, literature, performing arts, publishing, translation, design and festivals.



FGR guarantee

Towards the end of 2019, Alior Bank entered into a contract with BGK under which customers will have the opportunity to apply for free security for their investment projects. The Bank has been one of the first institutions to award a loan secured with this guarantee, for an unprecedented guaranteed amount of almost PLN 5 million. Agricultural Guarantee (under the Agricultural



Guarantee Fund) – a guarantee addressed to the agricultural sector and food processors who want to grow by improving their competitiveness versus the Polish and foreign industry.

Loans using EU grants

As part of the broad range of Alior Bank's products, customers can count on support in obtaining EU funding in the form of loan commitments, bridging loans or a technology loan.

Under its "European Package", Alior Bank has been offering comprehensive support to projects with EU grants distributed through the PARP, NCBiR, Ministry of Development, Regional Self-Government Offices. From a loan commitment for EU grant loan to bridging loans, i.e. ones that pre-finance the grant and loan for own contribution, i.e. eligible costs not covered by the grant, loans for non-eligible costs, and loans for VAT financing. With supplementing costs, the Bank proposes the customers to use the Biznesmax guarantee, thus supporting Poland's spending of EU funding under programmes of the 2014-2020 Financial Perspective.

A very popular grant programme is a loan for technology innovation, for which Alior Bank has signed a cooperation agreement with BGK in 2015.

In 2019, the Bank issued loan commitments for a total amount of PLN 95 million, and loans with EU grants, including technology loans, were awarded for PLN 61 million.

Offering for telecoms

A broadband advance is a preferential funding addressed to telecoms, awarded under the Digital Poland Operation Programme for 2014-2020 (POPC).

By the end of 2019, Alior Bank awarded funding under the broadband advance for a combined amount of PLN 75 million.

In addition, for this customer group, the Bank has offered security for commercial loans both for investment projects and for working capital in the form of POPC guarantee. This is an alternative for customers who fail to meet the conditions for being granted a broadband advance.

Funding of thermal insulation projects

Alior Bank has offered a Thermal Insulation Loan. It is an attractive opportunity to finance energy-saving projects in multi-family residential houses, addressed mainly to housing co-operatives, housing communities and Social Housing Societies. The loan, co-funded from EU funds (under regional operational programmes for 2014-2020) and Alior Bank's own funds, has been now offered to investors from Lower Silesian, Lodzkie, and Podlaskie regions.



In 2019, Alior Bank was also awarded a grant from the European Investment Bank to support the funding of thermal insulation projects in multi-family residential buildings, which provides for, among others, refund of 90% of costs of the documentation to be obtained by the customer applying for a thermal insulation loan.

Trade financing

Alior Bank has offered its business customers a full range of products supporting their needs for trade financing. These offering is modified on the go in accordance with market requirements and legislative changes.

In 2019, Alior Bank still focused on process automation in the Trade Financing area for recourse factoring and Residential Trust Accounts.

Alior Bank has included in its offering recourse factoring in an automated process which allows the company to immediately improve its liquidity. This offering is addressed to all enterprises which operate in Poland, settle in the Polish zloty, and have completed at least one financial year with at least 10 months of activity. The Bank takes decisions to award factoring by automated process based on customer's statements.

For Residential Trust Accounts, the Bank has centralised the service and enabled the customers (residential developers) to make queries and conduct daily operations on the account through Online Banking.

In collaboration with BGK, Alior Bank has introduced the funding of current liabilities for SMEs secured by the *de minimis* guarantee. The funding must be spent for a specific purpose and is effected under purchase invoices presented by customers.

The Bank has also replaced its prior accounts receivable insurer with Euler Hermes, thus providing more favourable pricing terms and acceptability of higher sub-limits to business customers.

To disseminate knowledge about changes in the legal and taxation area, Alior Bank conducted in November and December 2019 a series of meetings to present to customers some important changes in the legal environment, in particular regarding VAT taxation, including changes related to the Split Payment mechanism and introduction of the White List of VAT taxpayers.



New products and services

- Automated process of opening *iKonto Biznes* and *Rachunek 4x4* accounts under the new Electronic Banking, whereby the customer receives documents to e-mail address, and the company's details are retrieved directly from the database of the Central Business Register and Information,
- Possibility of registering a Trusted Profile in electronic banking and signing public administration applications with the Trusted Profile. Trusted Profile is a convenient and secure tool whereby entrepreneurs can deal with official matters online in public administration services. More than 20,000 customers have used this solution,
- Availability in the electronic banking platform of a module for the management of the following packages: cash, domestic, international and savings, available under the *Rachunek 4x4* account. It enables the customer to activate or deactivate packages and verify the status. Using this solution, customers can select on their own a solution best suited to their business needs,
- Introduction of offering for micro, small and medium-sized enterprises based on automatic loan origination process Feniks KB and a single origination decision up to 20 minutes for five funding forms: overdraft facility, business loan, credit card, factoring and leasing. The application for funding has been integrated into current account opening, card ordering, and activation of access to online banking,
- Expansion of the offering to include virtual multicurrency cards with the Smart Data reporting service, and the capability of linking as many as 23 currency accounts without currency conversion costs. The Bank has also made available to business customers Garmin Pay and Fitbit Pay payments, thus proposing a broad range of most popular forms of payments with smartphones and smartwatches,
- Appointment of the Business Customer Council which is an advisory body consulted when creating new products and services and when streamlining processes for the business community.





Treasury activity

Alior Bank has operated its Treasury activities in the following areas, among others:

- spot foreign exchange (FX) and transactions to hedge against currency exchange risks;
- interest rate instruments to ensure stable funding costs to its customers;
- transactions to limit the consequences of commodity price volatility;
- liquidity management – by selling products enabling the customers to deposit their surplus cash;
- hedging Alior Bank against liquidity risk to meet the established limits and regulatory metrics;
- managing Alior Bank's currency and interest rate risk exposures through transactions in the interbank market;
- management of commodity price change risk through transactions in commodity markets, management of the currency option portfolio risk under the established limits by entering into hedging and option transactions in the interbank market;
- trading in Treasury bonds portfolio by buying and selling State Treasury bonds;
- applying hedge accounting, i.e. hedging against interest rate risks resulting from banking activities by entering into transactions of exchange of interest streams (IRS, OIS) in the zloty and in foreign currencies.

Surpluses of the Bank's liquid cash are mainly invested in Treasury bonds and Treasury bills denominated in the zloty and in foreign currencies, and in commercial papers issued by the NBP with a relatively short maturity. The Bank invests its surplus cash as part of liquidity management.

The rule of avoiding trading with financial instruments involving one's own equity will be still a strategic way to protect ourselves against potential systemic risks, in times of restricted market liquidity. The Management Board intends to manage market risks so that to ensure Alior Bank's equity at the current, secure level. Alior Bank has been an active player in the interbank market. It has provided liquidity for currency transactions for other professional market players which has allowed it to maintain its existing position in the interbank FX market. Alior Bank has been an NBP Money Market Dealer and participated in the provision of data for the quotation of POLONIA reference rates.





Dealing platforms

As part of its Treasury activities, Alior Bank has been selling its products through dealing platforms, and the revenue from that is posted either as business activity revenue or retail activity revenue, respectively.

Alior Bank has been the first bank in Central Europe to implement its own algo-trading system called Quasar, on which three currency platforms are based – Autodealing, eFX Trader and *Kantor Walutowy*.

Autodealing is a service available both to businesses and consumers directly in online banking. The platform allows them to enter into spot and forward currency exchange transactions on favourable terms, and establish deposits with high interest rates for any period up to one year. The currencies available under the Autodealing service include: PLN, EUR, USD, GBP, CHF, with additional currencies (SEK, NOK, CZK) available to BusinessPro banking users. As of 2019, Autodealing has been implemented in the new AIB Online Banking

eFX Trader is a platform available from the online banking level, intended for the most demanding business customers. It allows for spot, forward deals and instructions with a price limit 24 hours a day 5 days per week for almost 70 currency pairs. Three types of instruction with a price limit are also available on the platform that enable automated transactions at a rate chosen by the customer. The platform stands out with its high liquidity and possibility for the customers to track the current situation in the currency market.

Kantor Walutowy (Currency Exchange Bureau) is the first online currency exchange bureau offered by a bank in the Polish market. The platform is intended both for consumers and for companies, and is available 24/7 upon logging in to www.kantor.aliorbank.pl. Alior Bank's *Kantor Walutowy* allows the customers to securely exchange currencies at attractive rates, as well as free domestic and international transfers of the currencies purchased on the platform.

In 2019, the currency exchange offering has been made more attractive by adding 9 new currencies such as Bulgarian lev (BGN), Mexican peso (MXN), Romanian leu (RON), South-African rand (ZAR) Thai baht (THB), Israeli new shekel (ILS), Hong-Kong dollar (HKD), Croatian kuna (HRK), Turkish lira (TRY).

In July, a new *Kantor Walutowy* (Currency Exchange Bureau) platform was implemented, whereby it gained a new look and was designed in such a way as to make the operation even more intuitive. The portal's pages are fully responsive and adapt to the devices used by Customers. The dealing service has been also enhanced by adding new useful functionalities, such as: phone or e-mail



transfers for all currencies, possibility of sending transfer requests, or easier sharing of payments between friends, e.g. for joint dinner or trip. In September, a mobile version for iOS and Android systems was launched, which has been developed from scratch by Alior Bank's Teams, which provided us with its independent development.

The online Exchange Bureau offers three types of currency exchange orders, which allow customers to make deals at the best rate or cyclically on specific days of each month. In addition, consumers can order the multicurrency card, introduced in 2019, which enables payments in almost 160 currencies, including direct payments in 23 currencies available in the *Kantor Walutowy*.

Consumers may pay in and out money, free of charge, in Alior Bank's branches which offer the cash service in PLN, EUR, USD, GBP. Cards of the *Kantor Walutowy* are fully supported by Google Pay, Apple Pay, Garmin Pay, Fitbit Pay, thus enabling customers to use contactless payments with devices supporting these payment systems. Customers of Alior Bank's *Kantor Walutowy* can buy through it tourist insurance directly through online or mobile app. Customers have increasingly used Kantor Walutowy through mobile app. Almost 60% of logins come from the mobile app which is responsible for about 30% of all completed transactions. Also, business customers appreciate the capabilities of the exchange bureau, which is demonstrated by their number increasing by as much as 30% on the prior year.

In September, PSD2 Directive was implemented both in the online exchange bureau in Poland and in Romania. Since December, users of the multicurrency card have been able to use the Flight Delay Pass service free of charge. This services allows the card owner to use airport lounges with his or her companion if the plane is at least 120 minutes behind schedule. This is an exclusive service available so far for extra charge or reserved exclusively for holders of prestigious payment cards – since December it has been available to all holders of the *Kantor Walutowy* multi-currency card.

In 2019, the Bank has implemented a number of regulatory requirements for financial markets and guidelines of the European and national regulator. It has been modifying internal processes in terms of transparency and acting to the best interest of customers.



Equity investments

Alior Bank's equity investments are presented in the table below. All securities were purchased using the Bank's own funds:

- Shares:
 - trading securities bearing equity rights, admitted to public trading on WSE and NYSE;
 - trading securities bearing equity rights, not admitted to public trading.
- Bonds: corporate bonds issued by domestic and foreign issuers.



- Investment certificates: certificates of a “private equity” closed-end investment fund, and units of an open-ended investment fund.

	Balance as at 31/12/2019		Balance as at 31/12/2018	
	Quantity	Market / nominal nominal in PLN	Quantity	Market / nominal nominal in PLN
Shares/stocks	602 475	117 902	554 483	49 933
Quoted	456 094	52 493	408 101	26 997
Non-quoted	146 381	65 409	146 382	22 935
Bonds	877 988	106 437	914 903	164 388
Investment certificates	17 393	6 310	756	63

New online and mobile banking

In April 2019, Alior Bank has completed the process of customer migration from the old online banking to a new system.

Online and mobile banking has been enhanced with a number of functions, both relating to sale, as well as transactions and processing.



In carrying out the process of customer migration from brick-and-mortar outlets to the digital world (called “digitisation project”), our systems have been expanded to include a number of self-service functions. Now it is possible to modify your personal details (including to replace the data of your identity document with verification of data in databases of the Ministry of Interior and Administration), manage marketing consents, submit FATCA/CRS statements, as well as activate access to Alior Online and Alior Mobile through the website. In



addition, to simplify contact with Call Centre consultants, a capability has been introduced to make an authorised connection from the level of the Alior Mobile app.

A large part of development work on systems has focused on adapting the solutions to the requirements of PSD2 Directive aimed at enhancing the security of customers and their transactions. In the initial two quarters of the year, these changes focused on implementing the legal requirements for the availability of data of the accounts kept by Alior Bank to other entities (other TPP) as part of open banking. The third quarter of the year introduced mainly changes in the security area – including adaptation to the requirements of strong authentication of customers using the systems. Two-factor login has been thus made available, by which customers, when logging in, not only provide their passwords, but also confirm their instruction by applying a text message code or a notice sent to the mobile app. Mobile authentication has been also made available for the authentication of payments and orders made through Alior Online.



In the transactional area, a capability has been introduced of presenting information on whether the recipient of the BLIK telephone transfer has his/her service active, and, in addition, a number of optimisation changes have been rolled out to the processing of BLIK transactions. All this translated into more than one million BLIK transactions carried out in December 2019. Alior Mobile app has been also expanded with the capability of adding Apple Pay or Google Pay to the card (for iOS and Android apps, respectively). Both in online and in mobile banking, a direct debit service



has been introduced in keeping with the modified way to carry out such transactions. The possibility of adding a card to the Mastercard Priceless Specials loyalty programme contributes to greater transaction volumes carried out by customers.

Also a number of changes have been implemented to adapt the system to legal requirements – including changes related to the processing of Split Payments, a new way to process tax transfers, and changes in how currency and international transfers are executed.

Regarding the functionalities dedicated to business customers, the following has been made available: management of packages under the *Rachunek 4x4* account, modification of account



history filtering and exporting, processing of “transfer baskets”, as well as the capability of moving from Alior Online to Business Pro without additional login.

Sales functions have been expanded to include:

- sale of Brokerage House products (including brokerage account and deposit account, and possibility of entering into an investment fund agreement);
- improvements in processing simplified cash advance applications;
- processing of dedicated special offerings for deposits;
- using push notifications in the mobile app for offerings and information conveyance;
- capability of setting up a business account by a consumer who has had no prior business relationship with the bank.

To ensure utmost customer satisfaction, a number of facilities in serving blind and visually impaired customers both in Alior Online and in Alior Mobile have been introduced, and the Alior Online dashboard has been remodelled.

Functional development of both Alior Online and Alior Mobile has translated into a significant growth of user base – in particular of the mobile app, where the year-on-year growth reached 70%.



In addition, changes providing utility improvements are appreciated by users, which translates into continued increase in assessment scores of the app.

Online and mobile banking for Business Customers

In 2019, we have successfully migrated almost 77,000 of customers to the Business Pro online banking, at the same time providing them with the capability of moving between the business and consumer contexts without the need for a new login.

As a result of dynamic implementations, we have adapted the system to a number of regulatory requirements:

- PSD2 Directive for Open API and strong authentication;
- Split Payment - VAT split payment - JPK (Single File Control);
- Article 61b of the General Tax Code – PIT, CIT, VAT transfers to Individual Tax Accounts and microaccounts of Tax Offices.



Based on remarks and suggestions of customers from the small, middle-sized and corporate segments, we have modified the interface of the BusinessPro online banking system to ensure that it meets user needs by being more user-friendly and intuitive.



New products and activities of the Bank's Group

RBL_Innovation by Alior Bank

In response to changes in external environment, increased pace of new technology solutions emerging, and growing expectations of customers for the Bank's innovation – in 2019 Alior Bank has built an internal structure – RBL_Innovation by Alior Bank. Just within six months it was recognised by Global Finance magazine as one of 25 best innovation labs worldwide, and the acceleration programme RBL_START was nominated to BAI Global Awards 2019.



One of the units of the Innovation and FinTech Department is the Blockchain Competence Centre. In Q2 2019, this technology has been implemented in a tool used for the authentication of public documents delivered to the bank's customers, such as: rules and regulations, tariffs of charges and commissions, or interest rate tables. The Bank's customers have gained a transparent solution which is in compliance with regulatory requirements, and Alior Bank has made a significant step forward in digitisation of document flows. In carrying out this project, Alior Bank has been one of the first in the world and the first in Poland financial institution to use the public blockchain technology.

In 2019, the Open Banking Team has implemented a number of projects resulting from the PSD2 Directive and the Payment Services Act becoming effective, by which banks were required to make available a testing environment and publish production interfaces to ensure a connection with the services of access to account information and payment initiation. Alior Bank has enabled universal use of the testing environment through its Developers' Portal in March 2019. In June, the Bank has published an API set with access to production data, which can be used by authorised service providers. At the same time, due to obtaining, as the second bank in Poland, an authorisation for the provision of services in the Third-Party Provider's (TPP) role, the Bank has started to work on tapping the opportunities provided by access to the data held by other banks. Towards the end of 2019, the first service using the API of the largest Polish banks has been launched in the loan origination process.



Another project which was being developed throughout 2019 by the team of RBL_Innovation by Alior Bank is the Bank's investment vehicle which has executed two transactions during that time. One of them is the continuation project investing in PayPo, a Polish fintech which offers deferred payments for online shopping. In addition, jointly with PKO BP and BNP Paribas banks and two venture-capital funds, the vehicle invested PLN 17 million in Autenti company. It is an entity which offers a platform for electronic signing of agreements and digital document flow. It is the first such joint and equal-footing transaction of such a type carried out by banks in Central and Eastern Europe.

RBL_START



In 2019, 15 contracts with fintechs were made, including 8 projects under the RBL_START acceleration programme. In 2019, more than 200 companies from all over the world applied in the second edition of this banking startup programme, of which 11 companies have been accepted as they responded to the Bank's business challenges related to the building of the main relationship with customers, conducting advanced data analysis, and acquiring new channels through which to offer banking products. The operative partners of the RBL_START programme in 2019 were: PZU, Linklaters, Mastercard, Microsoft, IBM.

Strategic partnerships

In 2019, collaboration with the existing strategic partners of the Bank – in particular with PZU Group, Lotos or Mastercard was further strengthened, new strategic partnerships were established, and completely new cooperation areas were developed under the existing partnerships – including with PZU Group, Innergy Systems (Apple Premium Reseller), or Booking Holding. A number of other initiatives and arrangements with new partners are ongoing, and we will ascertain their effects in 2020.

In Alior Bank, we want to personalise more our offering for our Customers, and we are committed to building their positive experience in contacts with the Bank and the services and products we can make available to our customers. The establishment and development of partnerships is to support these processes.

Our key strategic partner is PZU Group, with which we have carried out a number of initiatives – these involve such areas as: income and cost synergies, innovation, or corporate governance. In 2019, we have begun, among other things, intensive cooperation in the Assurbanking area, by delivering 2 extensive strategic projects and taking a number of other, smaller initiatives.



Our key initiatives in the Assurbanking area:

- **Cash Platform** – an innovative online advance platform addressed to employers who can offer it to their employees as part of extra-payment benefits. The employee can receive funding to meet their needs with minimum formalities, quickly and conveniently, and the offering is very attractive. A pilot platform has started in September at PZU Group, and we have reported dynamic growth of loan volumes over the subsequent months.
- **Employee Capital Plans (PPK)** - in 2019, PZU signed agreements for the operation of PPKs in large establishments, encompassing a total of several thousands of people. In 2020, the number of such companies, and thus the number of employees covered, will certainly increase as the PPK offering will be addressed to new groups of entities. Alior Bank has prepared for the employees of such companies an attractive offering involving various banking products. Through the PPK channel, Alior Bank has the opportunity to reach a broad spectrum of individuals who might become the Bank's customers and may expand the range of the Bank's products they currently use. Collaboration under PPK is also an opportunity to reach the companies themselves with an offer of products and services for business customers – offered by the Bank itself and by Alior Bank Group companies (including Alior Leasing).

We have been constantly expanding our insurance offering, delivered in particular by PZU, available through Alior Bank's channels – as products linked to the relevant banking products or as standalone products. We have been implementing new products, and providing the opportunity to buy insurance in new channels.

In 2019, we continued our collaboration with Lotos, expanded our cooperation with Innergo Systems, established new partnerships – with Booking.com, and Rentalcars, among others; we have been expanding the scope of collaboration with Mastercard, we also started negotiations with a number of other partners who will complement the Bank's offering, open up new channels for us to reach the customer, or allow us to achieve other synergies – such as in the CSR areas, or employee acquisition, development and retention.

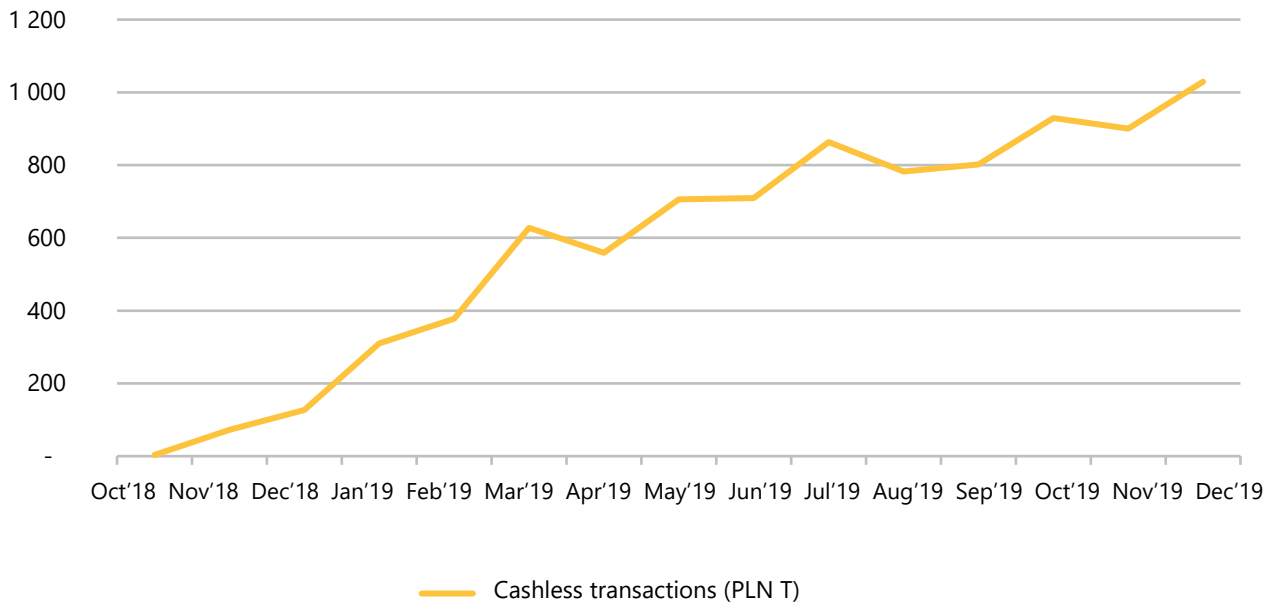
Thus we have started the process of establishing a broader programme, under which we will be soon able to append various partners, their offerings, products and services.

Selected partnerships (outside of the PZU Group) accomplished or under development in 2019:

- **Lotos** – since November 2018 collaboration with Lotos Paliwa has continued based on Mastercard Alior Lotos credit card, which enables the purchase of fuels and products at service stations at a discount, and systematically increases transaction volumes of customers in the fuels industry.



Summary of cashless transaction volumes with ALIOR LOTOS BIZNES credit cards (2018-2019)



- **Innergo Systems** - we have expanded our strategic collaboration with Innergo Systems (Apple partner for mobile solutions for business, called Apple Authorised Enterprise Reseller). The Bank's customers have gained access to the ipromocja.aliorbank.pl platform where they can buy Apple devices on special terms.
- **Booking.com** and **Rental Cars** – we have established collaboration with Booking Holding, which enables Alior Bank's customers to receive attractive offerings (cashback) for transactions completed on the Booking.com platform and a discount for car rental as part of Rental Cars.





Detailed calendar of cooperation with Zaczytani in 2019

February:

- Recruitment of Engrossed in Reading Academy coordinators among Alior Bank employees

April:

- **April 4th: fairytale therapy training for Alior volunteers – Gdańsk**
- **April 5th: fairytale therapy training for Alior volunteers – Kraków**
- **April 12th: fairytale therapy training for Alior volunteers – Warsaw**
- **April 23rd: Grand Collection of Books Conference (Iluzjon Cinema, Warsaw)**

Opening of the Grand Collection of Books 2019 on the World Book and Copyright Day. The conference was attended by the media, Zeczytani.org Foundation Ambassadors, representatives of the Foundation's strategic sponsor (Alior Bank) and the Foundation's partners and friends. Three new Engrossed in Reading Benches were presented (benches' patrons: Katarzyna Pakosińska, "Hrabi" Cabaret, Katarzyna Błazejewska-Stuhr)
- **April 23rd: Start of the Engrossed in Reading Benches exhibition**

A few-month-long exhibition of thematic benches in the shape of open books, designed by artists and illustrators cooperating with the Zeczytani.org Foundation. In Warsaw, 10 benches were presented. Location: the vicinity of the Palace of Culture and Science.



VII. Activity of Alior Bank Group companies



Alior Bank Group as at 31 December 2019



Corsham Sp. z o.o. owns 20% of shares in PayPo Sp. z o.o.

On December 20, 2019 Corsham Sp. z o.o. concluded an agreement under which it acquired shares in the increased share capital of Autenti Sp. z o.o. At the end of the reporting period and as at the date of publication of the Report, the increase was not registered. Both companies are not a subject to consolidation.



The structure of Alior Bank Group has changed in the reporting period.

- On 4 February 2019, Alior Bank S.A. entered into an agreement with Blackstones Spółka z ograniczoną odpowiedzialnością Holdings sp.k. for the sale of shares of Corsham Sp. z o.o., by which it acquired 100 shares of Corsham Sp. z o.o., which is 100% of the share capital of that company.;
- On 17 July 2019, the District Court for Krakow-Śródmieście in Krakow issued an order to delete from the National Court Register (KRS) a company called Centrum Obrotu Wierzytelnościami sp. z o.o. with its registered office in Krakow;
- On 23 October 2019, Alior Bank S.A. signed Articles of Incorporation of RBL_VC Sp. z o.o. which was registered at the KRS on 7 November 2019.



LEASING

Alior Leasing Sp. z o.o.

The company Alior Leasing Sp. z o.o. was established in April 2015, and has operated since October 2015. Alior Bank S.A. holds 100% of its shares and 100% of the overall votes at the General Meeting of Alior Leasing Sp. z o.o. In 2019, the company's share capital increased two-fold to PLN 15,006,000.00, and its headquarters were moved to Warsaw. In 2020, the company intends to change its business status, i.e., to transform itself into a joint-stock company.

The company's mission is to support the growth of businesses by providing best solutions to respond to the expectations of forward-looking companies which search for a comprehensive lease offering adapted to their individual requirements. Under the Alior Leasing offering, companies can use the most popular forms of funding of fixed assets, mainly motor vehicles, necessary for operations and growth. With products such as: operating lease, financial lease and lease loan, businesses gain easy and quick access to transport vehicles, machinery and equipment. Alior Leasing holds an extensive sales network and collaborates with a broad network of business partners, dealers and vendors, as well as with Alior Bank's sales network. The company has collaborated mainly with sole traders and SMEs, but it has also large corporate customers.

In 2019, Alior Leasing Sp. z o.o. originated new contracts at PLN 2.69 billion. The portfolio of contracts funded by the company increased from PLN 5 billion at the end of December 2019 vs. PLN 4.72 billion at the end of June 2019, and PLN 3.90 billion at the end of December 2018. Vast majority of the contracts made by the Company (92%) applies to vehicle financing.



In 2019, Alior Leasing Sp. z o.o. conducted securitisation of some part of its portfolio of accounts receivable at PLN 500 million. Under this transaction, a special purpose vehicle (the "Issuer") with its registered office in Ireland purchased from Alior Leasing Sp. z o.o. accounts receivable resulting from loans and leasing contracts, and paid for that with funds from private issue of bonds. The bonds issued by the Issuer (72% of the value of the securitised receivables portfolio) were taken up by ING Bank Śląski. The underwriter of these bonds is the European Investment Fund. This transaction was arranged jointly by UniCredit Bank AG and ING Bank N.V. The securitisation will enable the company to diversify its funding sources and attract new funding at PLN 360 million. To enable the transaction, Alior Leasing Sp. z o.o. awarded to the Issuer a subordinated loan at PLN 140 million.

Serwis Ubezpieczeniowy Sp. z o.o.

Serwis Ubezpieczeniowy Sp. z o.o. is a company established in November 2016 and has operated since February 2017.

Alior Leasing Sp. z o.o. holds 100% share interest, and 100% of the total votes in General Meeting of Serwis Ubezpieczeniowy Sp. z o.o. The company's share capital is PLN 5000 and has not changed in the reporting period.

Serwis Ubezpieczeniowy Sp. z o.o. operates in the insurance market. The company's object is agency activities related to insurance.

Alior Services Sp. z o.o.

Alior Bank holds 100% interest, and 100% of the total votes in General Meeting of Alior Services Sp. z o.o.

Alior Services Sp. z o.o. acts as insurance agent and delivers other operational and services projects for corporate customers of Alior Bank, as well as projects expanding on the offering for Private Banking customers to strengthen our competitive position.



Alior TFI S.A.

Alior TFI S.A. was established in 2010, initially as a brokerage focused on asset management services, and since July 2015, following transformation, it has been active as Investment Fund Company. Alior Bank holds 100% interest, and 100% of the total votes in General Meeting of Alior TFI S.A.



On 16 October 2019, Extraordinary General Meeting of Alior TFI S.A. resolved to increase its share capital by PLN 600,000.00, which was registered in the National Court Register (KRS) on 12 December 2019. The Bank, as the sole shareholder, has taken up all shares issued and paid them up in full with cash.

The collaboration between Alior Bank and its subsidiary Alior TFI S.A. involves primarily the establishment and management of investment funds, and representing the same in dealing with third parties.

In the reporting period, Alior TFI S.A. conducted liquidation of two funds it managed: *RBL_VC Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych* and *Bonus 4 Green House Development Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*. The Company launched for distribution at the Bank two new sub-funds.

On 21 May 2019, Alior TFI joined the Chamber of Fund and Asset Management (Izba Zarządzających Funduszami i Aktywami, IZFiA).

In 2019, the Alior SFIO fund attracted PLN 812,618,590.97, with outflows at PLN 160,501,176.41. The net balance was PLN 652,117,414.56.

Absource Sp. z o.o.

Absource Sp. z o.o. was established on 31 March 2016. Alior Bank holds 100% of its shares and 100% of votes in General Meeting

Absource Sp. z o.o. is a company whose objects include: provision of services for information and computer technology, activities related to IT advisory, and activities related to software. Absource Sp. z o.o. focuses on the provision of computer software based on sublicensing and conducting other IT activities. Currently, the primary activities of the company consist in provision of the CAFE, CAFEM and SWK Systems under the sublicensing model. This is where Absource Sp. z o.o. generates 99% of its revenues.

NewCommerce Services Sp. z o.o.

Alior Bank holds 100% share interest, and 100% of the total votes in General Meeting of NewCommerce Services Sp. z o.o. In 2019, the company's share capital was increased from PLN 600,000.00 to PLN 2,795,000.00, and the Bank, as the sole shareholder, took up the newly issued shares.

Bancovo has operated since March 2018, creating a new category of services in Poland: online financial intermediation. The "Bancovo" brand belongs to NewCommerce Services Sp. z o.o. The platform allows customers to compare actual loan offerings and enables them to quickly and easily



get cash through the Internet (end-2-end) due to innovative solutions based on API, RPA, big data, machine learning, and supported by advanced UX. Bancovo aspires to become a digital dashboard for customer's personal finances.

At the end of 2019, the company offered products of more than 25 financial institutions addressed to a broad range of audience, both to consumers (loans/advances), as well as to small-company owners (advances/microfactoring).

Meritum Services ICB S.A.

Alior Bank holds 100% share interest, and 100% of the total votes in General Meeting of Meritum Services ICB S.A.

Meritum Services ICB S.A. is a company active in the provision of services for information and computer technologies, and other activities related to IT. In 2015, the company's objects were expanded to include the activities of insurance brokers and agents, activities related to risk assessment and estimation of losses, other activities supporting insurance and pension funds. Currently, the company has derived its revenues from two primary channels:

- a) making available to Alior Bank S.A. software under the Software as a Service (SaaS) model – about 74% of the company's revenue.
- b) hiring of IT specialists to develop Alior Bank S.A.'s systems – approx. 26% of the company's revenue.

Corsham Sp. z o.o.

Corsham Sp. z o.o. with its registered office in Warsaw is a company established in September 2018 and entered to the National Court Register on 22 October 2018.

On 4 February 2019, Alior Bank S.A. acquired 100% of shares of Corsham Sp. z o.o. In 2019, the company's share capital was increased two-fold. On 28 March 2019, Alior Bank S.A. passed a resolution in the General Meeting of Corsham Sp. z o.o. to increase the company's share capital by PLN 5,500,000.00, by issuing 110,000 equal and indivisible shares. Out of this, 80,000 shares were taken up by Alior Bank S.A. and paid for in kind by transferring all shares of PayPo Sp. z o.o. held by Alior Bank S.A. (20% of the share capital of PayPo Sp. z o.o.), whereas the remaining 30,000 were taken up by Alior Bank S.A. against cash payment.

PayPo is a startup which offers deferred payments for online shopping and a shopper protection programme. When shopping online, one can order a product and pay for it even up 30 days later, without any transactional costs and interest. The company has used its proprietary scoring system based on information collected in the web, without the need to provide such information by the



customer. With PayPo, the customer can receive and check out the goods before payment. If the goods do not reach the user for any reason, he/she does not need to pay for it.

On 16 September 2019, due to the accession of a new investor to PayPo Sp. z o.o., Corsham took up 836 shares in the increased share capital of the company to preserve its existing share (20%) of share capital. The shares were paid for in cash.

On 19 December 2019, Alior Bank S.A. passed a resolution in the General Meeting of Corsham Sp. z o.o. to increase the company's share capital which was paid up in full with cash.

On 20 December 2019, Corsham Sp. z o.o. acceded to Autenti Sp. z o.o. Due to the company's interest and arrangements between co-investors, the amount of investment and the number of shares taken up have not been made public.

Autenti Sp. z o.o. is a comprehensive platform to authorise documents and enter into contracts online, using all sIDAS e-signatures available: standard, advanced and qualified ones. The platform established by Autenti Sp. z o.o. can be applied in many industries, which supports the company's aspiration to become a leader for electronic signature in Poland. So far, the company has attracted as key customers BNP Paribas, Vienna Life, Credit Agricole, PGE Lumi and Medicover. The Company intends to strengthen its competitive advantage by developing its platform and carrying out expansion to European markets.

RBL_VC Sp. z o.o.

RBL_VC Sp. z o.o. was established on 23 October 2019. The company's share capital is PLN 5000.00 and is divided into 100 shares, all taken up by Alior Bank S.A. The company was entered to the National Court Register on 7 November 2019.

The company is a target investment vehicle through which Alior Bank intends to conduct venture capital investments. The investments will involve taking up minority stakes at entities operating new solutions in the financial market and financial support services (fin-techs). Currently, it is under the KNF regulatory verification process, before entry to the register of Managers of Alternative Investment Companies (ZASI). Upon registration, it will take over the current role played by Corsham Sp. z o.o. in venture-capital investments.





May:

- **May 10th: Zacytani in the TV programme Dzień Dobry TVN**
The President of the Zacytani.org Foundation, Agnieszka Machnicka, and Foundation Ambassadors (Katarzyna Pakosińska and Joanna Jabłczyńska) were talking about the role of the fairytale therapy in building a bond with a child. This TV meeting was Alior Bank's initiative.
- **Engrossed in Reading Benches Happening – Kraków (Galeria Kazimierz)**
A reading event with the participation of Zacytani.org Foundation Ambassador (Kony Puppets), with fairytale reading and entertainment for children.

- **May 18th: Engrossed in Reading Benches Happening – Gdańsk (Forum Gdańsk)**
A reading event with the participation of Engrossed in Reading Academy volunteers, with fairytale reading and entertainment for children.
- **May 23rd-26th: Warsaw Book Fair (National Stadium)**
A performance on the Literary Sofa on the Fair's main stage - fairytale reading and conversation with Zeczytani.org Foundation Ambassador, actress Monika Mrozowska. The Foundation's stand in the Business Club zone promoted its partnership with Alior Bank.
- **May 25th: Engrossed in Reading Benches Happening - Warszawa (Palace of Culture and Science)**
A reading event with the participation of Zeczytani.org Foundation Ambassadors (e.g. Katarzyna Pakosińska, Adam Fidusiewicz), with fairytale reading and entertainment for children.
- **Engrossed in Reading Benches Exhibition in Warsaw, Kraków and Gdańsk - continued**

June:

- **June 12th: Grand Collection of Books Summary Conference (Iluzjon Cinema, Warsaw)**



VIII. Major events in the activity of Alior Bank Group



Acquisition of SKOK “Jaworzno”

On 31 January 2019, Alior Bank was authorised by the Polish Financial Supervision Authority (KNF) to acquire Spółdzielcza Kasa Oszczędnościowo-Kredytowa “Jaworzno” (SKOK Jaworzno). The integration process took place with support provided by the Bank Guarantee Fund (BFG). The Management Board of the bank assumed the management of assets of SKOK Jaworzno as of 1 February 2019, and on 1 April 2019 SKOK Jaworzno was legally merged with the Bank. The operational merger was successfully completed in June 2019. As a result, the Bank acquired assets with fair value of PLN 233.6 million, and the book value of the acquired accounts receivable from customers was PLN 137.2 million. As a result of the merger, the amounts due to customers, acquired by the Bank, were PLN 319.8 million.

Extension of licence for the Bank using the AMA approach

On 14 February 2019, the Bank has been authorised by the Polish Financial Supervision Authority to implement a significant expansion for the AMA approach by encompassing with this method historical consequences of the acquired business of Bank BPH SA and for combined use by the Bank of:

- AMA approach – regarding Alior Bank SA’s activity taking into account historical consequences of Bank BPH SA’s business for the acquired part of BPH SA without the branch business in Romania.
- standardised approach regarding the Romanian Branch,

for the calculation of own funds requirements for operational risk since 14 February 2019.



Entering into an agreement regarding transactions involving RUCH SA, a company in restructuring

On 11 April 2019, an agreement was made for the terms of transaction between the Bank, Polski Koncern Naftowy Orlen SA and Powszechny Zakład Ubezpieczeń SA, regarding RUCH S.A. in restructuring. Under the provisions of that agreement, the Bank intends to take over 100% shares of the RUCH SA share capital (in a way agreed between the Bank and PKN Orlen upon legal and valid approval of the composition under fast-track composition procedures) for the subsequent re-sale of the same to PKN Orlen.

PKN Orlen will acquire the shares of RUCH S.A. upon meeting the conditions provided for in the agreement, i.e., among others:

- legal and valid confirmation of successful performance of the arrangements agreed by fast-track composition procedures of RUCH S.A.,
- obtaining corporate approvals by the parties to this agreement, and
- issuance by the President of the Office of Competition and Consumer Protection or the European Commission of their consent for the purchase of shares of RUCH S.A. by PKN Orlen.

On 29 May 2019, the Bank received information that the District Court for the Capital City of Warsaw, its X Commercial Division for bankruptcy and restructuring did not accept the composition agreements adopted by creditors' meetings under fast-track composition procedure of RUCH S.A., for procedural reasons related to formal legal deficiencies. Consequently, the company (RUCH S.A.) submitted complaints against these decisions, and the files with the complaints were transferred to the Court of second instance.

On 30 August 2019, the Bank received information that the Regional Court in Warsaw, its Commercial Court, XXIII Commercial Appellate Division approved partial composition agreements with the following proposals for write off:

- 85% of claims under fast-track composition procedure for RUCH S.A. in restructuring, covering the publishers being the company's creditors whom the company owed at least one million zloty as at the date of opening that procedure ("PPU1") and
- 50% of claims under fast-track composition procedure for the company, covering the publishers being the company's creditors whom the company owed more than 100,000 zloty as at the date of opening that procedure ("PPU2").

For the implementation of PPU1 and PPU2 on 2 December 2019, the District Court for the Capital City of Warsaw received three requests for cancellation of the partial composition agreement approved by the Regional Court in Warsaw on 29 August 2019.

The parties to the agreement continue to cooperate on Ruch restructuring and have entered into negotiations to determine the final structure of the transaction which will take place once the conditions are met connected with obtaining corporate approvals and a concentration clearance for PKN Orlen.



Changes to the Management Board of the Bank

On 1 July 2019, Mr Maciej Surdyk – Vice-President of the Management Board resigned as Member of the Management Board of Alior Bank S.A. with effect from 1 July 2019.

Notification of collective dispute

On 15 July 2019, the Bank informed that four trade-union organisations reported a collective dispute regarding pay rises for all those employed under the Labour-Code employment contract. The parties conduct negotiations to resolve the dispute. On 13 February 2020 the parties concluded of the agreement terminating the collective dispute

Opening the Second Programme of Issuance of Banking Securities of Alior Bank S.A.

On 30 August 2019, the Supervisory Board of the Bank, upon request of the Management Board of the Bank, agreed for opening the Second Programme of Issuance of Banking Securities of Alior Bank S.A., and authorised the Management Board of the Bank to incur multiple times financial commitments under the Programme, by issuance by the Bank of banking commercial papers with nominal value equal to or more than PLN 100, or an equivalent amount in foreign currencies. The combined nominal value of the Programme shall not exceed PLN 5,000,000,000.



Provision for loan cost refund - the judgement of the Court of Justice of the European Union (CJEU) of 11 September 2019

On 11 September 2019, the judgement of the Court of Justice of the European Union (CJEU) in the case C-383/18 (the Lexitor case) was issued. In determining the case, the CJEU decided that Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC should be interpreted in such a way that the consumer's right to a reduction of the total cost of a loan in the event of early repayment applies to all costs imposed on the consumer.

The Court unequivocally determined that in the event of early repayment the consumer was entitled to a reduction of all costs included in the total cost of the loan. This judgement, however,



did not determine how this reduction should be calculated with regard to one-off costs, such as commissions and arrangement fees.

Based on legal interpretations held, the Bank's Management Board decided to apply the linear formula for settling loan costs with borrowers, which refers proportionality to the period between the actual date of loan repayment and the date of repayment stipulated in the agreement, and orders an equal division of one-off costs to particular payment dates. Such a position was presented by the President of the Office for Competition and Consumer Protection (UOKiK) and by the Financial Ombudsman.

Following its analysis of the effects of the CJEU ruling, the Bank changed its approach regarding refund of the part of total consumer loan costs pertaining to the period from the early repayment date to the original maturity date. For all early loan repayments made after the CJEU judgement date, the Bank has made refunds on an ongoing basis, and their effect reduces the net interest income.

In addition, the Bank estimated the amounts of expected payments resulting from early repayments of consumer loans made before the date of the CJEU judgement and, in line with IAS 37, it created a provision for this purpose in the amount of PLN 243 099 thousand, charged to other operating expenses. The provision amount was estimated based on complaints filed with the Bank regarding loan cost refund, taking into account their number and rate of inflow starting from the CJEU judgement date, as well as distribution of the refund amount.

Additionally, the Bank estimated the difference between the interest income recognised until the balance sheet date based on the effective interest rate method and the income which should have been recognised taking into account the effect of possible future early repayments of consumer loans and refunds related thereto calculated using the linear formula. As a result, the Bank reduced the relevant interest income by PLN 49 708 thousand.

Cancellation of the decision of the Polish Financial Supervision Authority regarding the identification of Alior Bank S.A. as other institution of systemic importance and imposition of a buffer of other institution of systemic importance

By decision of 14 October 2019, the Polish Financial Supervision Authority cancelled the decision of the Polish Financial Supervision Authority of 31 July 2018 ref. DAZ-W5.751.1.2018 identifying Alior Bank S.A. as other institution of systemic importance, and removed the duty to maintain a buffer (on stand-alone and consolidated basis) of other institution of systemic importance, at the equivalent of 0.25% of the total risk exposures, calculated in accordance with Article 92(3) of the EU CRR Regulation (no. 575/2013).





Major events post balance-sheet date

Changes to the Management Board of the Bank

On 17 January 2020, Mr Mateusz Poznański – Vice-President of the Management Board of the Bank resigned as Member of the Management Board of Alior Bank S.A. with effect from 29 February 2020.

Extension of licence for the Bank using the AMA approach

On 30 January 2020, the Bank was granted by the Polish Financial Supervision Authority a consent for the removal of the lower limit for the application of the advanced method (AMA) in the operating risk area.

The KNF's position demonstrates that the Bank has met all requirements under the CRR Regulation in the areas mentioned in the KNF decision for the AMA approach of 14 February 2019.



IX. Issues of Alior Bank's bonds



Opening a new Multiannual Programme of Issuance of Bonds of Alior Bank S.A.

Under the resolution of the Supervisory Board of the Bank of 5 August 2019, upon request of the Management Board of the Bank, the Bank has opened a Multiannual Bond Issuance Programme (Multiannual Programme) which enables us to carry out multiple issues of unsecured bonds.

The primary parameters of the Multiannual Programme are as follows:

- total aggregate nominal value of the bonds issued under the Multiannual Programme will not exceed PLN 5,000,000,000;
- bonds may be issued in series, in the Polish zloty or in the euro, within five years from the date of entry into force of the resolution opening the Multiannual Programme;
- maturity of the bonds issued under the Multiannual Programme will be no more than ten years since issuance of the respective series of bonds;
- bonds will be issued based on the Act of 15 January 2015 on Bonds, or based on foreign law;
- bonds may be issued as:
 - ordinary, unsubordinated bonds
 - bonds whose liabilities may be, under Article 97(5) of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (as amended), taken into account to calculate the minimum level of own funds and the Bank's redeemable or convertible liabilities, or
 - subordinated bonds to be equity instruments in Tier II of the Bank under Article 62(a) of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012 (as amended).
- bonds issued under the Multiannual Programme may be offered both in the territory of Poland and internationally;
- bonds will be offered in the territory of Poland under base prospectuses drawn up in compliance with Regulation (EU) 2017/1129 of the European Parliament and of the Council



of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (as amended) and approved by the Polish Financial Supervision Authority;

- bonds will be offered outside of Poland based on offering documents made in accordance with the requirements applicable in the country where the bonds are offered.

Detailed terms and conditions for the issue of particular series of the bonds issued under the Multiannual Programme will be set out each time by the Bank's Management Board.

On 10 September 2019, by decision of the Management Board, a bond offering programme was established under the Multiannual Programme related to unsecured, unsubordinated or subordinated issuances of bearer bonds up to PLN 1,500,000,000. The Offering Programme will be covered by a base prospectus to be drawn up by the Bank in compliance with Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

Work related to the preparation of the Prospectus is in progress. The Bank will inform about the process developments on an ongoing basis.

Closing of the existing Programme of Issuance of Bonds of Alior Bank S.A.

On 5 August 2019, the Bank closed the programme of issuance of its bonds, as established by resolution no 253/2015 of the Management Board of the Bank of 29 July 2015 and approved by resolution no 54/2015 of the Supervisory Board of the Bank of 10 August 2015.

Issues and redemptions of bonds conducted by Alior Bank in 2019.

In 2019, the Bank did not conduct any issues of its own bonds. The Management Board of the Bank resolved on 4 October 2019 on early redemption on 21 October 2019 of its own bonds of Series C with a combined nominal value of PLN 80,000,000, issued on 21 October 2014 by Meritum Bank ICB SA (now Alior Bank S.A.) whose final redemption date was at 21 October 2022. These bonds were redeemed.





July:

- **July 19th: A reading event by a bench sponsored by Alior Bank – Kraków (Galeria Kazimierz)**

By Jan Brzechwa Bench (designed by: Kinga Kulawiecka), Zaczytani.org Foundation Ambassadors Katarzyna Błażejewska-Stuhr (the bench's patron) and Maciej Stuhr read aloud to children a story about Elmer the Patchwork Elephant. Children met also with the Eagle Owl - the Foundation's living mascot. And there was open-air entertainment, too.

August:

- **August 4th-10th: Polish Language Capital Festival – Szczebrzeszyn**

The Zaczytani.org Foundation and Alior Bank were responsible for the Small Capital (small stage dedicated to children). Every day, the stage held fairytale therapy sessions conducted by Alior Bank volunteers, while Zaczytani.org Foundation representatives carried out workshops for adults. During the Festival, an Engrossed in Reading Benches exhibition was held, too.

- **August 26th: A reading event by a bench sponsored by Alior Bank – Gdańsk (Forum Gdańsk)**

By In Desert and Wilderness Bench (designed by: Kinga Kulawiecka, patron: Adam Fidusiewicz), Zaczytani.org Foundation Ambassador, actress Julia Kamińska read aloud to the gathered children a story about Elmer the Patchwork Elephant. Children met also with the Eagle Owl - the Foundation's living mascot. And there was open-air entertainment, too.

- **Sorting books with Alior Bank volunteers**

Volunteers of the action #zaangażowaniwpomaganie (#committedtohelping) (Alior Bank) took part in sorting out books for Zaczytani.org Foundation beneficiaries. On behalf of Alior Bank, the event was coordinated by Wojciech Grabiec.

September:

- **September 6th: A reading event by a bench sponsored by Alior Bank – Warsaw, Vistula Boulevards**

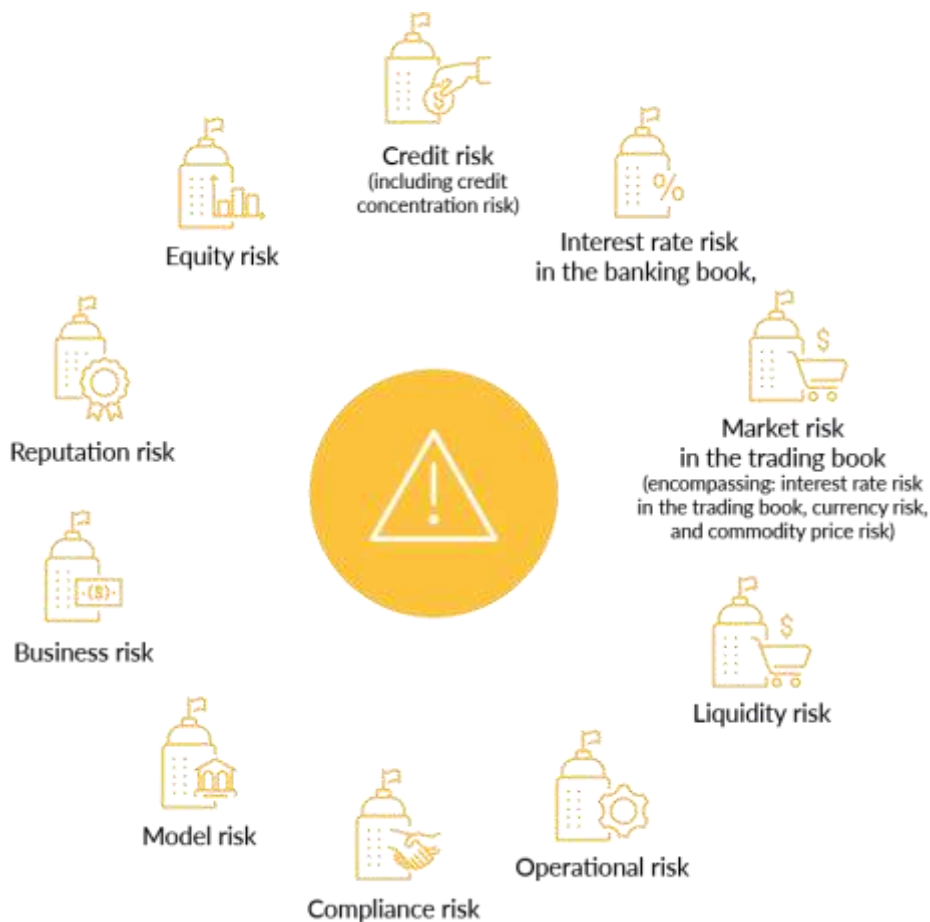
By Weather Bench (designed by: Kinga Kulawiecka), the bench's patron and Zaczytani.org Foundation Ambassador, TVN journalist Bartek Jędrzejak read aloud to the gathered children a story about Tip the Mouse. Children met also with the Eagle Owl - the Foundation's living mascot. And there was open-air entertainment, too.



X. Alior Bank's risk report

Risk management is a crucial in-house process both at Alior Bank and at its foreign branch, as well as in all your Alior Bank Group subsidiaries. The overarching goal of the risk management policy is to ensure early recognition and adequate management of all material risks related to the Bank's activities. The risk management system supports the delivery of the strategy and is aimed at ensuring adequate level of profitability and security of business, through effective control of the risk level and keeping it within the boundaries of the adopted risk appetite.

The Bank recognises the following major risk to its business:



Alior Bank's risk management system is based on three independent defence lines: The first line is implemented at the Bank's operational units and by process owners, who, among other things, design and ensure the compliance with the controls embedded in processes. The second line of defence operates in organisational units responsible for the management of particular risks. It fulfils a management function whereby risk management is delivered at dedicated stations or



organisational units independently from the first line, and the activity of the compliance unit. The third line of defence provides the senior management and the Supervisory Board with assurance that the activities of the first and second lines are in line with their expectations. The third line of defence consists of the activities of the internal audit unit.

In 2019, the bank has implemented a new Alior Bank Group Risk Management Policy which has increased the coherence between risk management rules applied by the Bank and its subsidiaries. The Bank has also conducted major organisational changes in the risk management area aimed at increasing the effectiveness of processes, strengthening control, and improving quality.

The following risks are considered major risks by the Bank:

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



Credit risk

The management of credit risk and maintaining it at a secure level defined by the risk appetite is fundamental for stable operation and growth of the Bank. Credit risk control is delivered by our comprehensive credit risk management system which is integrated into the Bank's operational processes.

The description of how the risk control system operates is reflected in the regulations applicable at the Bank, in particular in credit origination methodologies and in the risk valuation models adapted to the customer segment, type of product and transaction, the rules for establishing and monitoring legal securities for loans, and by debt monitoring and collection processes. In 2019, a risk control department was established as an independent unit conducting additional controls in key processes of credit risk management.



In managing its risks, the Bank takes measures, both on the individual and on portfolio basis, aimed at:

- Minimising the level of credit risk of a single loan at the adopted profitability level



As part of measures to minimise the risk level of a single exposure, the Bank assesses each time when originating a new loan product:

- credibility and credit rating of the customer, taking into account, among other things, detailed analysis of the source from which the exposure is to be repaid,
- credibility of the accepted security, including verification of the formal legal status and economic value, taking into account, among other things, LTV adequacy,
- taking effective monitoring and collection measures adequately defined on the level of a single customer based on the segmentation models applied.
-

- Reducing the overall credit risk resulting from the Bank holding a specific credit loan portfolio



To keep credit risk on the level defined in its risk appetite, the bank has applied the following measures:

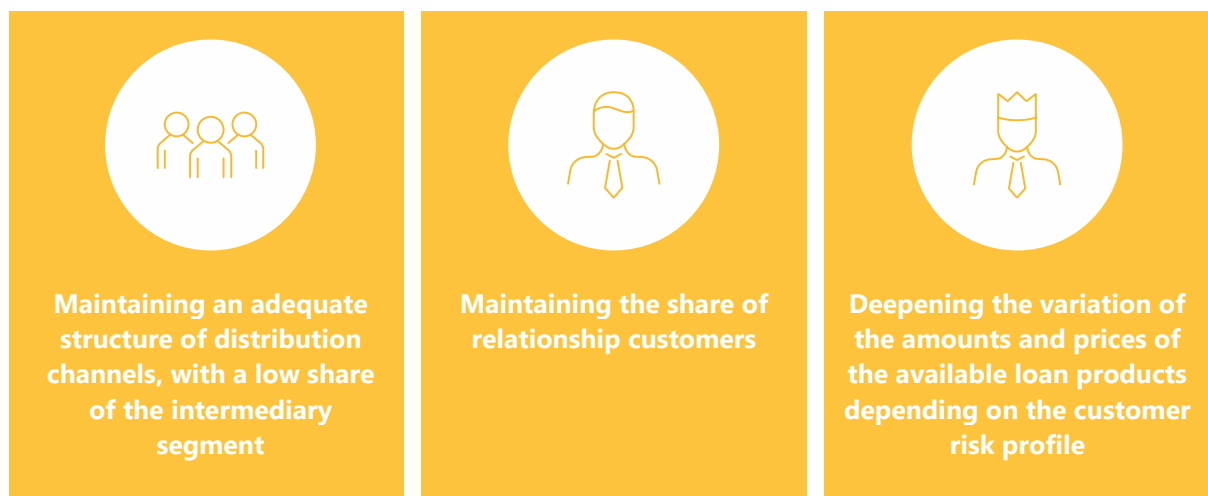
- establishing and controlling concentration limits,
- monitoring of structure and quality of new credit exposure in relation to defined purposes and EWS signals,
- analysing of changes in internal and market factors as well as the sensitivity of the loan portfolio, in particular in relation to negative events identified as potential risk,
- regularly monitoring the loan portfolio, by controlling all major parameters of credit risk (including PD, LGD, LTV, DTI, COR, NPE, NPL, Coverage, loss rate of particular generations),
- regularly conduct of stress tests.

In the retail loan area, in 2019 the cost of risk and portfolio structure were consistent with the credit risk appetite. At the same time, the Bank continued its process of searching for areas of secure growth.

For housing loans, the Bank has expanded its offering of mortgage loans with a very high potential for value growth due to their location in the largest cities. In addition, the Bank has implemented changes to the lending process which result in increased automation and efficiency of the lending process.



For loans other than mortgage loans, the Bank continued optimising its credit policy for cash advances, achieving a reduction of the default rate of that product portfolio by 11% as compared to 2018, including through:



In the area of instalment loans, the Bank has continued its strategy to optimise loan policy, in particular its adaptation to particular market partners and the development of collaboration with parties supplying the desirable customer profile, which results in risk costs for that product improving in 2019 by 29% as compared to 2018, accompanied by portfolio growth by 7%.

In the area of loans for micro- and small enterprises, the Bank has consistently pursued its strategy to optimise loan policies by focusing on precise delineation of customer profiles with the highest loss rates, in particular: in the first step, by limiting and eventually abandoning sales through the loan intermediary channel in the business area, by limiting the available amounts in the most disadvantageous risk classes, by introducing more stringent refusal criteria and stricter credit rating assessment methodology, by expanding customer credibility assessment to include new information sources (external databases), and for collateral, by implementing BGK guarantees to automated processes, at the same time expanding their mandatory scope. The largest number of changes applied to the micro-enterprise segment, which has resulted in improved quality of new loan origination by 60% and 3-fold increase in collateral coverage ratio as compared to prior years.

Regarding loans for business customers, in 2019 the Bank has implemented a number of initiatives to improve the quality of the loan portfolio, including: the parameters of loan policy were adjusted with a view to acquiring new borrowers with the lowest risk profiles, the limit of the available overdraft facilities and collateral requirements were reviewed.

Risk assessment in the loan origination process

The Bank takes decisions to award credit products in accordance with:

- the applicable legislation and KNF recommendations;



- credit risk management policies;
- loan origination methodologies appropriate for the respective customer and type of product;
- operational procedures defining the appropriate activities to be carried out under the loan origination process, the Bank's units responsible for them, and the tools to be used;
- loan responsibility rules whereby responsibility levels are adapted to the level of risk involved in the customer and transaction.

Customer credit rating prior to issuing a decision to award a credit product is conducted using our loan origination support system, scoring or rating tools, external information (including databases of CBD DZ, CBD BR, BIK, credit bureaus) and the Bank's in-house databases.

To conduct regular assessment of the assumed credit risk and to limit potential losses due to credit exposures during the lending process, the Bank monitors the customer's circumstances by identifying early warning signals and conducting periodic, individual reviews of loan exposures. The monitoring process terminates with defining a strategy for further cooperation with the client, issuing possible recommendations regarding changes in the terms of cooperation and then contacting the customer to implement the proposed changes.

Separation of responsibilities

The Bank has in place a policy of the separation of functions related to Customer acquisition and sale of credit products from functions related to the assessment of credit risk, taking loan origination decisions, and monitoring loan exposures.

Concentration risk management

Concentration risk is analysed at the Bank with regard to credit activity and is defined as a threat resulting from the Bank's excessive exposures:

- to single customers or groups of related customers,
- subject to common or correlated risk factors,
- having a potential to generate losses to the extent that may pose threats to the Bank's financial condition.

The Bank identifies and assesses concentration risk by analysing the portfolio structure against various factors (exposure features) important for credit risks, and on this basis defines exposure groups whose excessive concentration is undesirable and in extreme conditions may generate losses that exceed the Banks' credit risk appetite. The awareness of the scale of potential threats related to exposure concentration allows us to create a secure structure of the credit portfolio.



In order to prevent unfavourable events resulting from excessive concentration, the Bank restricts this risks by complying with concentration limits under laws and regulations and by applying in-house limits and standards

Impairment and provisions

The Bank assesses all on-balance-sheet credit exposures (groups of on-balance-sheet credit exposures) to identify objective evidence of impairment, according to information most current as at the value adjustment date. The Bank also assesses off-balance-sheet exposures in terms of the need to establish provisions. Impairment is identified automatically in the Bank's central system based on system information (arrears) or information entered by users. If there is no objective evidence of impairment of the carrying amount of credit exposures, they are aggregated to a group of assets with a similar credit risk profile and assessed as a group in terms of material deterioration of credit quality since initial recognition. The assessment of deteriorated credit quality is based on a set of qualitative and quantitative evidence. Qualitative evidence includes: the exposure is materially past due in excess of 30 days, assignment of customer to the Watch List category, exposure remaining in the forbore category, existence of other risks (including risk of sector, region, etc.). Quantitative evidence is material deterioration of the current aggregate probabilities of default in the period leading to expected maturity against aggregate probabilities of default for that period at the time of exposure generation (i.e., release or major modification). The Bank uses two models to estimate write-offs for exposures for which there is no impairment evidence: model of expected losses estimated within 12 months for exposures classified as Bucket/Stage 1 (or LCR) and model of expected losses estimated at the time leading to maturity for exposures classified as Bucket/Stage 2 (including POCl).

Impairment evidence

The Bank assesses impairment evidence by classifying and varying events related to:



Exposures for which impairment evidence has been identified are classified as those valued individually and those valued as a group. Individual valuation applies to exposures at risk of



impairment (calculated at the customer level), exceeding the significance levels established based on customer segment (see table below).

Significance levels qualifying customer exposures to individual valuation

Customer segment	Level value (zloty)
Consumers	No level
Business customer	3,000,000

Individual assessment is also conducted for exposures at risk of impairment, for which the Bank is unable to define a group of assets with similar credit risk characteristics or does not hold a sufficient sample to estimate group parameters.

Individual valuation is based on the analysis of potential scenarios (business customers). Each scenario and tree branch have assigned to them probabilities of materialisation and the expected recoveries. The assumptions adopted for individual valuations are described in detail by those conducting the analysis. The values of recoveries expected under individual valuations are compared to the realised recoveries on quarterly basis.

The group valuation is based on the time for which the exposure remains in the default state; it takes account of specific features of the group in terms of expected recoveries. Security is incorporated on the exposure level.

Security

Legal security is for the Bank a secondary source of repayment of a secured debt if unfavourable circumstances occur within the lifetime of a credit product. Credit security also increases the probability of Borrowers meeting their obligations. If the Borrower fails to pay the debt by the dates defined in the loan agreement and restructuring measures fail to bring the expected result, the security is to enable the Bank to get reimbursed for the loan along with any interest and costs.

The Bank establishes the security method taking into account:

- expected workload of the Bank and the cost of establishing the security;
- type and amount of the secured debt and the lending period;
- actual possibility of meeting the Bank's claims in the shortest time possible from the adopted security;
- any pre-existing charges on the security, for security in kind;



- Financial and business circumstances of the person providing guarantees to the customer, and his/her personal and ownership relationships with other entities – in the event of personal securities;
- estimates cost of potential materialisation of the security.

Management of the assets taken over instead of the debt

In justified cases, the Bank takes over any assets providing a security in order to satisfy the debt. Such operations are conducted based on an approved plan of management of the asset to be taken over.

Scoring/rating

Credit scoring is a tool to support lending decisions for consumers, and credit rating is an instrument supporting the decision-making process in the micro, small, middle-sized and large enterprises.

The Bank regularly tests its scoring and rating models for accuracy. The purpose is to find out if the models correctly differentiate the risks, and risk parameter estimations adequately reflect the respective risk aspects. In addition, during functional checks the accuracy of application of the models in the lending process is verified.

The scoring models currently used have been built by the Bank's in-house resources. To strengthen the process of managing the risk of the models used at the Bank, there is a team which plays the role of an independent validation unit.

All credit exposures of consumers and business customers are subject to monitoring and current classification to adequate processing paths. To streamline the monitoring and control of the operational risk, adequate solutions in the Bank's lending systems have been implemented. The system tools have been consolidated to effectively conduct the monitoring procedures, and covers all accounts.

Monitoring of credit risk for consumers and businesses

Continuous control of the quality of the credit portfolio is ensured by:

current monitoring of timely repayment of loans

periodic reviews, in particular of financial and business circumstances of customers and the value of the accepted securities



Forbearance practices

The Bank uses the following tools in the process of restructuring of consumers:

- extension of the lending period resulting in lower amounts of monthly principal and interest to be repaid. The extension is possible up to 144 months (for retail credit products), regardless of the initial lending period. If the lending period is extended, any restrictions resulting from the product characteristics are taken into account, for instance the age of the borrower;
- grace periods (applied to a part of or the entire instalment depending on the risk assessment on the single exposure level). During the period of complete grace period for the repayment of principle and interest, the borrower is not required to make any payments under the agreement. The period of loan repayment may be extended to adapt the amount of the instalment to the Borrower's payment capacity in accordance with the restrictions resulting from the product's metrics. Complete grace period is applied for a maximum of six months;
- consolidation of several liabilities at Alior Bank, including the conversion of the overdraft balance/unauthorised debit on the current account/credit card into a loan to be repaid in instalments; the consolidation results in transforming several liabilities under various contracts into a single liability. The product launched as a result of the consolidation is repaid in monthly instalments based on the established schedule. The parameters of the product launched as a result of applying the respective tool are consistent with the products metrics: cash advance/consolidation loan.

Tools can be combined if such solution increases the likelihood that the restructuring will be effective. In particularly justified circumstances, there is a possibility of applying other tools.

Monitoring of risks involved in forbearance practices

As part of reporting activities concerning the portfolio of restructured loans, the following is subject to detailed analysis:

- application process (quantity of applications, quantity of decisions issued, types of decision, time-to-decision, time-to decision delivery);
- quality of the portfolio of restructured lending (by particular form of arrears, forms of restructuring, fact of the application of exceptions), with particular attention to delayed loss ratios.



Assessment of impairment for exposures subject to forbearance practices

For exposures subject to forbearance practices, the Banks applies stricter criteria for the identification of impairment evidence. In addition to the standard set of evidence, an additional quantitative criterion is applied for those exposures, i.e. past due status in excess of 30 days.

An exposure for which an impairment has been identified as a result of it being classified as forbearance (default) maintains such status for at least 12 months. Following that period, the exposure may leave the default status if there are no major delays or any other impairment evidence. Such exposure remains under the forbearance status for another 24 months. After that period, the identification of impairment evidence is conducted against the stricter criteria listed above.



Operational risk

Definition of operational risk

Operational risk is a risk of a loss due to failure to apply or fallibility of internal processes, people and systems, or external events. The operational risk includes legal risks, but does not include reputation risk and business risk.

Purpose of operational risk management

The purpose of the Bank's operational risk management is to keep operational risk at a secure level adequate to the activities, objectives, strategies and development of the Bank, and acceptable to the Bank's Management Board and Supervisory Board.

Measurement and assessment of the operational risk

The Bank has in place a formalised operational risk management system to prevent operating events and incidents from occurring and minimise losses if the risk materialises. Operational risk management encompasses identification, measurement and assessment of operational risk, management activities as well as monitoring and control of risk at all levels, from organisational units responsible for operational risk management in their areas, Operational Risk Coordinators to the Operational Risk Management Department, Operational Risk Committee, to the Management Board and the Supervisory Board.

As part of identification of operational risks, the Bank collect data on events and losses both at the Bank and at its subsidiaries. Measurement and assessment of operational risks is carried out using



quantitative metrics (including calculation of internal capital for operational risk using the AMA model) and qualitative metrics (e.g. self-assessment of operational risks). The AMA model uses in-house and third-party data on operational events, the factors of the business environment and the Bank's in-house factors, as well as the results of scenario analyses.

Measurement and assessment of the operational risk encompasses:

- key Risk Indicators (KRI);
- target and limits;
- calculation of own funds requirements for operational risk – since 01/01/2018, the Bank has calculated the operational risk capital requirement in accordance with an advanced method (AMA) for the Bank, excluding its Romanian Branch, for which the standard method (TSA) is used;
- estimation of the Bank's operational risk internal capital based on the output of the AMA model;
- stress tests;
- scenario analyses;
- operational risk self-assessment;
- determination of the extent to which operational risk limits have been used;
- valuation of actual and potential losses associated with identified operational events.

Operational risk measurement and reporting

The Operational Risk Management Department is responsible for current supervision of and strategic control of the operational risk on the second line of defence. This is an organisational unit responsible for, among others:

- development and rollout of appropriate methodologies and instruments for operational risk management;
- monitoring of the own funds requirements for operational risk in accordance the BIA approach for Alior Leasing, using the standardised approach (TSA) for the Romanian Branch and in accordance with the advanced measurement approach (AMA) for other activities at the Bank;
- providing opinions and consulting operational risk assessment in projects, products and procedures (new and modified ones);
- monitoring of the level of internal utilisation of the operational risk target and limit and taking managerial measures related to the occurrence of increased or high level of operational risk;
- collecting high-quality data on events and their operational consequences;
- monitoring internal and external events;
- monitoring of the Bank's operational risk level using tools, including key risk indicators (KRI), self-assessments, stress tests;



- preparing regular reports on the Bank's operational risk levels.

All workforce and organisational units of the Bank have the responsibility to monitor and limit operational risks in their daily work. The Bank's employees control the level of operational risk on an ongoing basis in the processes they operate and pro-actively minimise the involved risks, taking all possible measures to avoid/limit operational losses. They are responsible for current registration of events and financial consequences within their respective activity areas, they define and report Key Risk Indicators (KRIs) against tolerance levels for processes particularly exposed to operational risks, as well as they take active part in the self-assessment process.

Tools for operational risk management

Operational risk management at Alior Bank is supported by the OpRisk IT system which, among other things, captures operational events and losses, and records the results of scenario analyses.

The Bank records operational events and consequences which enables it to effectively analyse and monitor operational risks. To monitor operational risks and their changes, key risk indicators (KRI) are used, for which tolerance levels are defined.

AMA approach is used for measuring the internal capital for operational risk. Based on the AMA approach, Alior Bank has built its proprietary statistical model used for the estimation of operational risk levels based on Loss Distribution Approach (LDA).

On 14 February 2019, the Bank has been authorised by the Polish Financial Supervision Authority to implement a significant expansion for the AMA approach by encompassing historical consequences of the acquired business of Bank BPH SA and for combined use by the Bank of:

- AMA approach – regarding Alior Bank SA's activity taking into account historical consequences of Bank BPH SA's business for the acquired separated part of BPH SA without the branch business in Romania,
- standardised approach regarding the Romanian Branch for the calculation of own funds requirements for operational risk since 14 February 2019.

The decision of 14 February 2019 also involved a consent for the Bank to maintain its own funds requirements using the AMA method at no less than 60% (previously 80%) of the requirements calculated based on the standardised approach.

The amount of gross operating losses recorded in 2019 for Alior Bank were within the adopted target and limit for the Bank's operational risk.

In connection with the use of an advanced measurement approach (AMA) for operational risks, and to limit the risk of materialisation of rare but potentially severe operational events and in compliance with Article 454 CRR, the Bank purchased a number of insurance policies. These policies



included, among others, coverage for: property (including electronic equipment), third-party liability, tax criminal liability, and professional liability.

The terms of particular policies are adapted to the scale and scope of risks. Such policies are not used as a mechanism to reduce the amount of own funds requirements for operational risk or a factor to mitigate the amount of internal capital for operational risk.



Market and liquidity risks

Rules for the management of market and liquidity risks

The principal rules for the management of market and liquidity risks are defined in the Asset/Liability Management Policy.

The Bank operates a clear separation of responsibilities for market and liquidity risks, covering:



Supervision of the above-mentioned activities related to entering into transactions, and independent risk measurement and reporting is distributed up to the Member of the Management Board level, which ensures full independence of their activity.

In addition to particular organisational units, an active part in the market and liquidity risk management is played by the Supervisory Board and the Management Board of the Bank, as well as the Capital, Assets and Liabilities Management Committee (CALCO).

Exposure to market and liquidity risks is limited by a system of limits which are periodically updated by resolution of the Supervisory Board or the CALCO Committee, covering all risk metric, whose level is monitored and reported by the Bank's organisational units independent from the business.



The Bank operates three types of limit, depending on their scope and method of action: core limits (established on the Supervisory Board level), supplementary limits, additional limits.

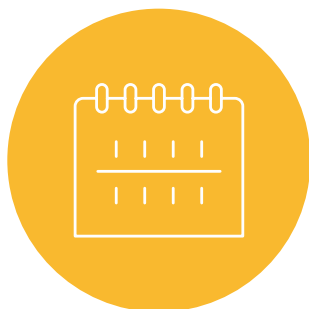


Market risk

The Bank has identified the following market risks to be managed:

- interest rate risk in the banking book,
- market risk in the trading book (encompassing: interest rate risk in the trading book, currency risk, and commodity price risk).

Interest rate risk



Interest rate risk is defined as a risk of adverse effect of market interest rates on the current result or net current value of the Bank's equity. Due to its policy of limiting risks in the trading book, the Bank has attached special importance to specific aspects of interest rate risk related to the banking book, such as:

- risk of repricing gap;
- basis risk;
- yield curve risk;
- customer option risk.

In addition, for interest rate risk, the Bank pays special attention to the modelling of products with undefined maturity and the amount of interest determined by the Bank (e.g. for current deposits), and the effect of non-interest items on risk (e.g., equity, fixed assets).

The purpose of interest rate risk management is to limit potential losses due to changes in market interest rates to an acceptable level by adequate composition of balance sheet and off-balance sheet items.

Interest rate risk is measured and mitigated by monitoring the volatility of net interest income (NII) and changes in economic value of equity (EVE) of the Bank. In addition to NII and EVE metrics, the Bank uses BPV, VaR, repricing gap and stress tests to measure interest rate risk.

The Bank conducts scenario analysis which covers, among other things, the effect of specific interest rate changes on the future net interest income and economic value of equity. Under these scenarios, it maintains internal limits whose use is measured daily. Changes of the economic value of equity metric with the scenarios defined by EBA, and also with parallel shift of interest rate curves



by +/- 200 basis points at the end of 2019 and at the end of 2018 for Alior Bank's Capital Group

Scenario	Change of economic value of equity 31/12/2019	Change of economic value of equity 31/12/2018
Parallel up shift of interest rates (EBA)	117,133	199,744
Parallel down shift of interest rates (EBA)	-157,107	-210,417
Steeper interest rates curve (EBA)	-49,385	9,183
Flatter interest rates curve (EBA)	50,185	39,414
Increase in short-term interest rates (EBA)	84,891	101,249
Decrease in short-term interest rates (EBA)	-130,323	-147,951
Parallel up shift of curves by 200 bp	108,317	179,244
Parallel down shift of curves by 200 bp	-136,170	-208,436
Worst scenario	-157,107	-210,417
Worst scenario as % Tier 1	2.4%	3.2%

are presented below (thousands of zloty).

Change of net interest income within 1 year with change of interest rates by 100 bp (negative scenario) as at the end of 2019 and as at the end of 2018 for Alior Bank's Capital Group is presented below:

31/12/2019		31/12/2018
NII	6.86%	5.98%



Currency risk

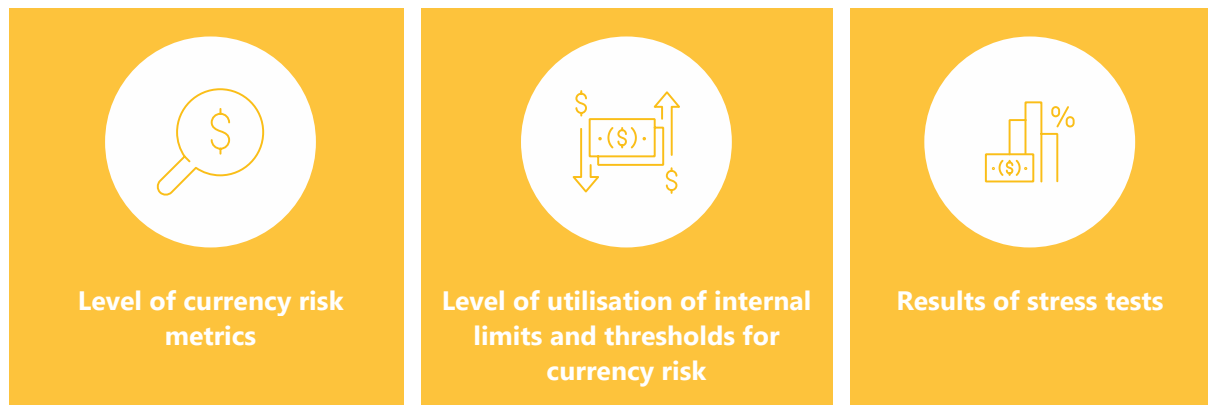
Currency risk is defined as the risk of a loss occurring due to changes in foreign exchange rates. The Bank additionally distinguishes the effect of exchange rates on the Bank's results over a long term, due to currency conversion of future currency income and costs at potentially unfavourable rates. The primary purpose of currency risk management is to identify the areas of activity of the Bank that can be exposed to

that risk and take measures to limit as far as possible any losses occurring out of it. The Bank's



Management Board defines the currency risk profile which must be characterised by compliance with the applicable financial plan of the Bank.

Alior Bank regularly monitors and reports:



Currency risk limits are determined in such a way as to keep the risk at a limited level.

Alior Bank's main currency risk management tools include:

- internal procedures for currency risk management;
- internal models and metrics of currency risk;
- limits and warning thresholds for currency risk;
- restrictions on admissible currency transactions;
- stress tests.

Currency risk is measured and assessed by limiting currency positions taken by the Bank.

To measure credit risk, the Bank uses VaR metric and stress tests.

VaR determines the potential amount of losses on the maintained currency positions due to changes of exchange rates, while keeping the adopted confidence level and position duration. To determine the VaR level, the Bank uses the variance-covariance method at confidence level of 99%. The amount is calculated for each day for particular areas responsible for risk taking and management, individually and in aggregate.

As at 31 December 2019, the maximum loss on the currency portfolio held by the Bank (managed in the trading book), determined based on VaR in time horizon of 10 days, could be PLN 436 thousand (PLN 154 thousand as at 31 December 2018) with the adopted confidence level of 99%. (PLN thousand).



	31/12/2019	31/12/2018
Horizon [days]	10	10
VaR [PLN]	436	154

To measure of Alior Bank's Capital Group exposure to the risk of exchange rate changes, the Bank conducts stress tests. Below are presented the results of stress tests of changes of exchange rates relative to PLN by +/- 20% (PLN thousand).

	31/12/2019	31/12/2018
rates + 20%	23 190	-4 203
rates -20%	-5 761	10 716



Liquidity risk

Definition of liquidity risk

Liquidity risk is the risk of being unable to meet payment obligations resulting from balance sheet and off-balance sheet items held by the Bank on terms and conditions convenient for the Bank and at reasonable prices. The category of liquidity risk includes the funding liquidity risk which is the risk of losing the existing funding sources and the risk of being unable to replenish the required funding, or loss of access to new funding sources.

Purpose of liquidity risk management

The purpose of liquidity risk management is to ensure necessary amount of funding to meet current and future (including potential) liabilities, taking into account the specific features of the activity and the needs that may emerge as a result of changing market or macroeconomic conditions.

Liquidity risk management process

The Bank operates an internal liquidity adequacy assessment process (ILAAP) consisting in effective management of liquidity risk to ensure that the Bank holds stable funding and adequate liquidity



buffers to meet obligations on time, including in stress conditions, and to ensure the compliance with regulatory requirements for liquidity. Through ILAAP items, the Bank defines liquidity risk tolerance, or the liquidity risk level it intends to maintain, that is coherent with the risk appetite and the overall strategy of the Bank.

Organisation of the liquidity risk management process

The Bank has appointed a Capital, Assets and Liabilities Management Committee (CALCO) specifically to manage assets and liabilities. The liquidity risk strategy, including the acceptable risk level, the anticipated balance sheet structure, and the funding plan are approved by the Bank's Management Board and then accepted by the Bank's Supervisory Board. The Treasury Department is responsible for entering into treasury interbank deals, and the transactions are settled and accounted for by the Operations Division, and the monitoring and measurement of liquidity risk is conducted at the Financial Risk Management Department. The separation of responsibilities for the management of liquidity risk is transparent and ensures the separation of responsibilities up to the Member of the Management Board level, which ensures their full operational independence.

Measurement and assessment of liquidity risk

Liquidity risk is measured at the Bank taking into account all significant positions – both on and off balance sheet (including, in particular, derivatives). The liquidity management metrics at the Bank include ratios and the related limits of the following liquidity types:



Liquidity risk measurement and reporting

Alior Bank regularly monitors and reports liquidity risk metrics levels and how much the internal limits and thresholds have been utilised.

As part of liquidity risk management, the Bank analyses the maturity profiles in a longer term, depending to a large extent on the adopted assumptions for future cash flows related to asset and liability positions. These assumptions are subject to acceptance of the CALCO Committee and of the Bank's Management Board.



Listing of maturities of contracted flows of assets and liabilities on the consolidated basis as at 31 December 2019 (PLN million):

31/12/2019	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	RAZEM
ASSETS	1 730	3 270	2 505	3 846	6 343	11 947	22 759	42 698	95 098
Cash and Nostro	1 357	0	0	0	0	0	0	0	1 357
Receivables from banks	0	73	0	0	0	135	0	0	208
Securities	373	1 424	2502	3336	5871	9 298	16 898	33 381	73 083
Receivables from customers	0	1 773	3	510	472	2 514	5 861	5 816	16 949
Other assets	0	0	0	0	0	0	0	3 501	3 501
Liabilities and equity	-46 201	-5 111	-4 742	-3 939	-5 436	-2 720	-1 457	-7 717	-77 323
Owed to banks	-278	-117	-31	-41	-65	-116	-172	-79	-899
Owed to customers	-44 122	-4 921	-4 556	-3 569	-4 011	-1 106	-342	-26	-62 653
Own issues	0	-67	-126	-285	-1 272	-1 394	-826	-793	-4 763
Shareholders' equity	0	-6	-12	-18	-36	0	0	-6 687	-6 759
Other liabilities	-1 801	0	-17	-26	-52	-104	-117	-132	-2 249
Balance sheet gap	-44 471	-1 841	-2 237	-93	907	9 227	21 302	34 981	17775
Accumulated balance sheet gap	-44 471	-46 312	-48 549	-48 642	-47 735	-38 508	-17 206	17775	
Derivatives – inflows	0	7 978	2 077	748	344	761	285	43	12 236
Derivatives – outflows	0	-7 956	-2 084	-744	-344	-774	-289	-42	-12 233
Derivatives – net	0	22	-7	4	0	-13	-4	1	3
Guarantee and financial lines	-8 627	0	0	0	0	0	0	0	-8 627
Off balance sheet gap	-8 627	22	-7	4	0	-13	-4	1	-8 624
Gap, total	-53 098	-1 819	-2 244	-89	907	9 214	21 298	34 982	9 151
Accumulated gap, total	-53 098	-54 917	-57 161	-57 250	-56 343	-47 129	-25 831	9 151	





The Bank maintains a high liquidity buffer by investing in government and commercial debt securities of the highest ranking that can be quickly liquidated, by keeping funds on the current account at NBP and in other banks (nostro accounts), by keeping cash at the Bank’s cash desks, and by investing the funds in interbank deposits, within the established limits. The adequacy of the liquidity buffer is controlled by comparing it with the established minimum liquidity buffer necessary to survive a stress scenario for up to and including 7 days and for 30 days.

As at 31 December 2019, the total liquidity buffer was PLN 14,295 million as compared to a minimum level of PLN 11,398 million under the shock scenario. To calculate the liquidity buffer, the Bank uses appropriate reductions of particular components of that buffer to take into account market liquidity risk (product).

The main source of funding of the Banks activities, including the liquid assets portfolio, are funds acquired from the deposit base whose level as at the end of 2019 was about 86% of total liabilities.

In addition, the Bank conducts liquidity stress tests taking into account an internal, external, and mixed crisis, including it prepares a plan of acquisition of funds in emergency situations, as well as it defines and verifies the rules for the sale of liquid assets, taking into account the cost of maintaining liquidity.

Under resolution 386/2008 of the Polish Financial Supervision Authority of 17 December 2008, the Bank establishes and reports on a daily basis:

- rate of coverage of illiquid assets with own funds,
- rate of coverage of illiquid or restricted-liquidity assets with own funds and stable third-party funds.

These ratios as at 31 December 2019 were, respectively: 3.68 and 1.18.

As required by the above-mentioned Resolution, the Bank conducts a deepened analysis of long-term liquidity, stability and structure of funding sources, taking into account the level of core deposits and concentration of term and current deposits. In addition, the Bank monitors the



volatility of on-balance-sheet and off-balance-sheet items, in particular the projected inflows due to credit lines and guarantees provided to customers.

In addition, under Regulation No 575/2013 of the European Parliament and of the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR), the Bank monitors and maintains on an adequate level the Liquidity Coverage Ratio – LCR. As at 31 December 2019, LCR for the Group was 148% as compared to the required 100%.

Management of liquidity risk at the Bank's foreign Branch

In 2019, Alior Bank S.A. held one foreign branch, in Romania, which conducted deposit and credit activity. The Branch is to conduct credit activity with the funding received from Alior Bank S.A. and from the funding acquired in the local market. The Branch's liquidity level is monitored on an ongoing basis by dedicated organisational units of the Branch and of the Bank's Headquarters.



Model risk

The purpose of model risk management is to make it possible to achieve business goals with an acceptable level of uncertainty resulting from the application of models in the Bank's activities. The Bank strives for the widest possible use of models in its processes to achieve automation of the decision-making process and minimise the role of the human factor. The Bank shapes the model risk management

process in a way which ensures that the goal in question is achieved. The model risk management process assesses compliance of the model risk level with the adopted risk tolerance, and measures are taken in order to limit this level. The stages of the process are: identification, measurement, monitoring, control and reporting of the model risk. The model risk management process is carried out at the level of individual models as well as at the level of the model portfolio.



Capital management (ICAAP)

Alior Bank manages its capital in such a way as to ensure safe and effective operations.

To ensure secure operations, the Bank defines, within the framework of its risk appetite, appropriate own funds coverage levels (as well as Tier 1 capital) of a potential unexpected loss due to major risks

determined under the ICAAP process, as well as the risks identified under the process of calculating the regulatory capital.



Under the ICAAP process, the Bank identifies and evaluates the materiality of all risks it is exposed to in doing its business.

Material risks as at 31/12/2019			
Credit risk (including: insolvency, sectoral concentration, Customer concentration, currency concentration)		Operational risk	Liquidity risk
Interest rate risk in the banking book	Market risk	Settlement/delivery risk	Model risk
Reputation risk	Business risk	Capital risk	Compliance risk

For particular risks identified as material risks, the bank estimates internal capital requirement using its in-house risk estimation models. Internal capital is estimated for the following risks:

- credit risk based on the VaR portfolio method as 99.95 quantile of the distribution of losses on the credit portfolio;
- operational risk based on AMA method;
- liquidity risk based on liquidity gap models taking into account a stress scenario;
- market risk and interest rate risk in the banking book based on the VaR method;
- reputation risk based on the VaR model of the distribution of frequency and amount of losses;
- business risk based on the outcome of stress tests;
- model risk based on the outcome of stress tests.

The total internal capital so determined and the calculated regulatory capital is secured with the amount of own funds (as well as Tier 1) taking into account appropriate security buffers.

Capital ratios of the Bank Group

	31/12/2019	31/12/2018
Capital adequacy ratio	16.20%	15.85%
Tier 1 capital ratio	13.48%	12.81%
Ratio of internal capital coverage by available capital	2.37	2.22



Having regard to the need to ensure balanced growth, in 2019 the Bank has expanded its available capital base by reinvesting all of its profits, and intensively worked to optimise the amount of risk-weighted assets, using in this regard instruments to transfer the risk of credit portfolio.

In particular, for credit risk, the Bank operationally launched on 7 June 2019 a transaction of synthetic securitisation of the credit portfolio of Business Customers with investors from the European Investment Fund, and with the European Investment Bank as the counter-guarantor. The transaction expanded the Bank's funding capacity in the SME segment.

Due to EBI support under the "Juncker Plan", the securitisation transaction also provided Alior Bank Group with additional lending capacity in the SME segment on more favourable terms, in the form of lower interest.

The transaction is structured into three tranches, i.e., junior, mezzanine and senior, where the tranche risk remains with Alior Bank, but the risk of mezzanine and senior tranches is transferred to EFI and EBI.

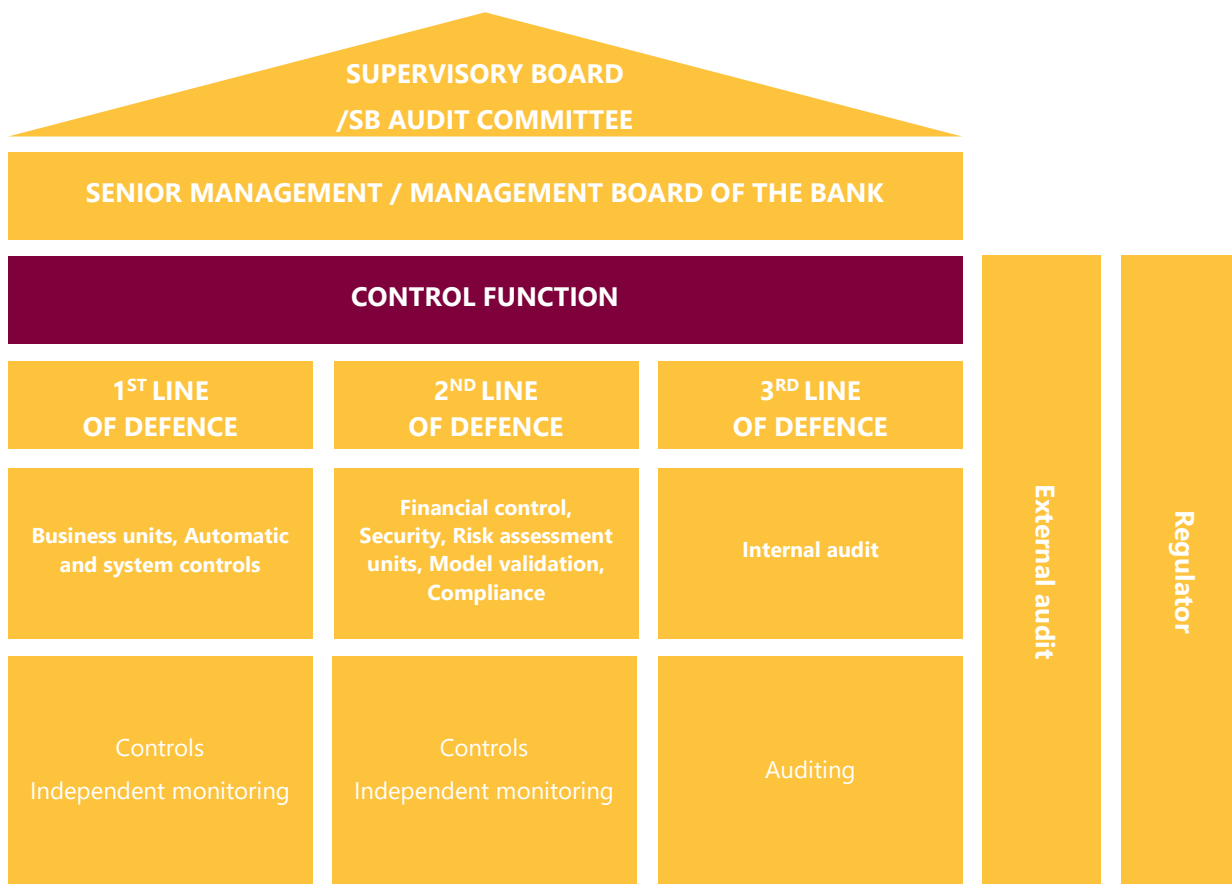
It is the first such transaction in Poland conducted under the regime of the EU's CRR (Capital Requirements Regulation).



XI. Internal control system

The internal control system at Alior Bank is the entirety of solutions and measures to ensure that the internal control system objectives defined by statute are met, and at the same time to support Bank management, contribute to effective performance of tasks, and ensure the security and stable operations of the Bank. The Bank's internal control system comprises: control function, compliance unit, and independent internal audit unit.

The internal control system operated at the Bank is built around the model of three lines of defence:



On all three levels of defence, the employees of the Bank, due to performing their job duties, apply as appropriate certain controls or independently monitor compliance with certain controls. The particular lines of defence are separated from each other, they are characterised by separate roles and responsibilities which are defined in the Bank's organisational rules, as well as in dedicated



policies and procedures. Despite that the lines of defence are disjoint, they share information and coordinate their activities for risks, controls and organisational governance. All three lines of defence have the same task, i.e., support the Bank in achieving the goals of the internal control system.

The Bank's authorities attach special importance to ensuring the quality and correctness of operation of the internal control system. The Bank's Management Board is responsible for designing, introducing and ensuring the operation of an adequate and effective internal control system, in particular it approves the criteria for separation of material processes, the list of material processes, and their connection to the goals of the internal control system, and defines and oversees any corrective action taken to remove the most significant inadequacies. The Supervisory Board's Audit Committee deals with, among other things, current monitoring and annual review of the quality and effectiveness of the internal control system. In particular, the Supervisory Board approves the rules of operation of the internal control system and evaluates the adequacy and effectiveness of that system.

In 2019, the Bank has taken a number of measures to increase the quality and effectiveness of the internal control system. In particular, the Bank has redeveloped the control function matrix, introduced organisational changes to strengthen the control function on the second line of defence, and conducted a training and information campaign in this regard.



Control system in the process of preparation of financial statements

The internal control system for financial reporting at the Bank is delivered by:

- group-wide application of standardised accounting policies for valuation, recognition and disclosures, in accordance with International Financial Reporting Standards;
- application of internal controls, including: separation of responsibilities within the reporting department, at least two-level authorisation of data, verification of the correctness of data received;
- definition of responsibilities and formalising the financial statement preparation process;
- definition of the roles and control of compliance with the circulation of financial and accounting documents, and verification in the substantive, formal and accounting terms;



- keeping a record of business events in an integrated financial and accounting system, whose configuration corresponds to the accounting policies applicable at the Company, and which contains instructions and controls to ensure the coherence and integrity of data;
- independent assessment of financial statements conducted by an independent external auditor.

The process of financial reporting is subject to ongoing verification. The integrated financial and accounting system plays an important role in the control process for accounting and financial reporting. It not only enables the control of correctness of reported operations, but also allows to identify the individuals who enter and accept particular transactions. Access to financial information is restricted by the privilege system. System access privileges are provided depending on the assigned role and scope of responsibility of the individual, and are subject to strict control.

The Bank's accounting policies for contain provisions to ensure the compliance of accounting and financial statements with the applicable regulations, including, in particular: generally accepted accounting principles and qualitative characteristics of financial statements, correctness of valuation and classification of events, mechanisms to secure data sets. To ensure the compliance of our Accounting Policies with updated regulations, including, in particular, with International Financial Reporting Standards, they are regularly updated. The last update was in 2018.

Limitation of the risk of preparation of financial statements is delivered by the Accounting Department, including through supervision over the quarterly process of monitoring of reconciliation of balances on the accounts in the Bank's general ledger, by assigning these accounts to the appropriate substantive units. In addition, the process of entering into contracts and launching new products by particular organisational units of the Bank has been tightened up by introducing mandatory review by the Accounting Policy Team.

In addition, the limitation of the risk of preparation of financial statements is delivered by subjecting the financial statements to a quarterly review (in addition to a semi-annual review) and annual auditing by an independent auditor. The procedure for the selection of the independent auditor as applied by the Bank ensures its independence in delivery of the tasks entrusted to them (the selection is made by the Supervisory Board) and high standard of service. The outcomes of reviews and audits are presented by the auditor to the Supervisory Board's Audit Committee.



The contract with the audit firm KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for conducting the auditing and reviews of standalone and consolidated financial statements was extended for another two years, and covers audits and reviews for 2019–2020.





October:

- **October 19th: A reading event by a bench sponsored by Alior Bank – Kraków (Galeria Kazimierz)**

During a meeting with coordinators, Engrossed in Reading Academy processes were discussed (volunteer onboarding, recruitment, training). A communication and feedback block was included, too. In addition, workshops were held as a starting point for initiation of fairytale therapy activities at educational care facilities (to date they had been carried out at hospitals only). There were also common culinary workshops designed to integrate convention participants. The convention was attended by about 25 people.

- **October 28th: Opening of an Engrossed in Reading Library sponsored by Alior Bank – Gdańsk**

The Library was opened at the children's ward of the St. Wojciech Hospital in Gdańsk. Little patients met with the youngest Zaczytani.org Foundation Ambassador, Julka Cymbaluk. She read aloud a story about Elmer the Patchwork Elephant. Children could also count on other entertaining activities and book gifts.

November:

- **November 5th: Opening of the 1000th Engrossed in Reading Library (patron: Alior Bank) - Warsaw**

The Library was opened at the Warsaw Children's Hospital. Little patients and preschoolers from one of Warsaw kindergartens took part in the meeting. Of course, there was a fairytale: a book *Proszę mnie przytulić* (Hug Me, Please) was read by four Zaczytani.org Foundation Ambassadors playing roles: Katarzyna Pakosińska, Katarzyna Błażejewska-Stuhr, Julia Kamińska and Joanna Jabłczyńska. Mr. Theatre prepared for the kids a special performance telling a story about Elmer the Patchwork Elephant. The children could also count on colourful entertaining activities, huge colouring pages and dances with the Eagle Owl - the Foundation's living mascot. The local media, representatives of the hospital and of the Foundation's strategic partner, Alior Bank, were also present.

- **November 18th: fairytale therapy training for Alior volunteers – Kraków**

- **November 19th: fairytale therapy training for Alior volunteers – Rzeszów**



XII. Corporate governance statement

In 2019, the Bank and its authorities complied with the principles of corporate governance defined in "Best Practice of GPW Listed Companies 2016" ("Best Practice"). By resolution of the Supervisory Board of the Bank of 29 December 2014, the Bank has also adopted the Corporate Governance Rules for Supervised Institutions, published on KNF's website: https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego ("Governance Rules"), which has been affirmed in Resolution 25/2015 of the Annual General Meeting of the Bank of 25 May 2015 with the proviso that if there is a conflict between the KNF's Rules and Good Practices, the later shall prevail.



Scope of corporate governance

Under the Warsaw Stock Exchange ("WSE") Rules, the Bank, as a public company, is required to comply with Best Practice providing a selection of recommendations and rules of conduct addressed, in particular, to the authorities of WSE-listed companies and their shareholders. The text of the document is available on WSE's website

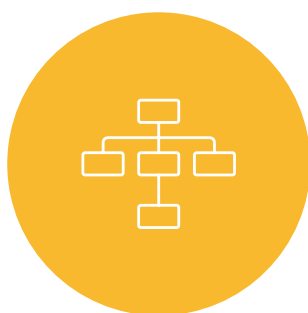
<https://www.gpw.pl/dobre-praktyki>.

The Management Board of the Bank, regarding the competences assigned to it by the Articles and mandatory legislation, intends to implement at the Bank all the principles provided for in Best Practice. As part of ongoing control, in the second half of 2019, a new revision was conducted of how the Bank has used the recommendations and principles included in Best Practice. On 10 September 2019, an information was published on the status of their application by the Bank. As per the published statement, as at the report publication date, the respective rules are applied subject to the following reservations:

- Principle I.Z.1.9. is applied. If a decision is made to pay dividend, the respective information will be published on the Bank's website;
- Principle I.Z.1.10. is not applicable – the Bank does not publish financial projections;
- Principle II.Z.7 applies to the Audit Committee. For the Nomination and Pay Committee, the Bank does not apply the Recommendation of the European Commission 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board due to the need to ensure coherent standards for pay of the Members of the Management Board and key managers within the Group;



- Principle III.Z.6. is not applicable – a separate Audit Department has been established within the Bank;
- Principle IV.R.2. is not applicable for its subparagraph 2 – given the need to perform multiple technical and organisational measures and the involved costs and risks as well as small experience of the market in this regard, the Bank has not currently opted for providing the shareholders with real-time communication capability whereby shareholders would be able to speak at a General Meeting from a location other than the place of deliberations. The Bank intends to comply with this recommendation, but due to the fact that the Bank has not completed the process of its full implementation, this recommendation will be applied as soon as the Bank completes its implementation work for the related communication and IT systems;
- Principle IV.R.3. is not applicable – the securities issued by the Bank are traded on the Polish market;
- Principles IV.Z.16. – IV.Z.18 Will be applied – the Bank has not so far carried out dividend payments, conditional dividend payments, and has not conducted a split of the nominal value of its shares;
- Principle VI.R.3. is not applied. For the Nomination and Pay Committee, the Bank does not apply the Recommendation of the European Commission 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board due to the need to ensure coherent standards for pay of the Members of the Management Board and key managers within the Group.



Structure of share capital

The Bank's share capital is PLN 1,305,539,910 and is divided into 130,553,991 ordinary shares with nominal value of PLN 10.00 each.

All shares of Alior Bank S.A. are bearer ordinary shares to which equal rights and obligations attach. The Articles of Alior Bank S.A. do not restrict the shareholders' rights for exercising voting rights and

disposal of shares. The rights of Powszechny Zakład Ubezpieczeń S.A. as the parent company for the Bank result from the number of shares it holds and the related number of votes in the Bank's General Meeting.

There was no change in the structure of the Bank's share capital in the reporting period.



Structure of share capital of the Bank, by series of shares issued (as at 31/12/2018 / 31/12/2019 / 28/02/2020)

Share series	Number of shares	Value of the series as per nominal price (PLN)
A	50,000,000	500,000,000
B	1,250,000	12,500,000
C	12,332,965	123,329,650
D	863,827	8,638,270
E	524,404	5,244,040
F	318,701	3,187,010
G	6,358,296	63,582,960
H	2,355,498	23,554,980
I	56,550,249	565,502,490
J	51	510
Total	130,553,991	1,305,539,910



Alior Bank share prices in GPW S.A. in 2019

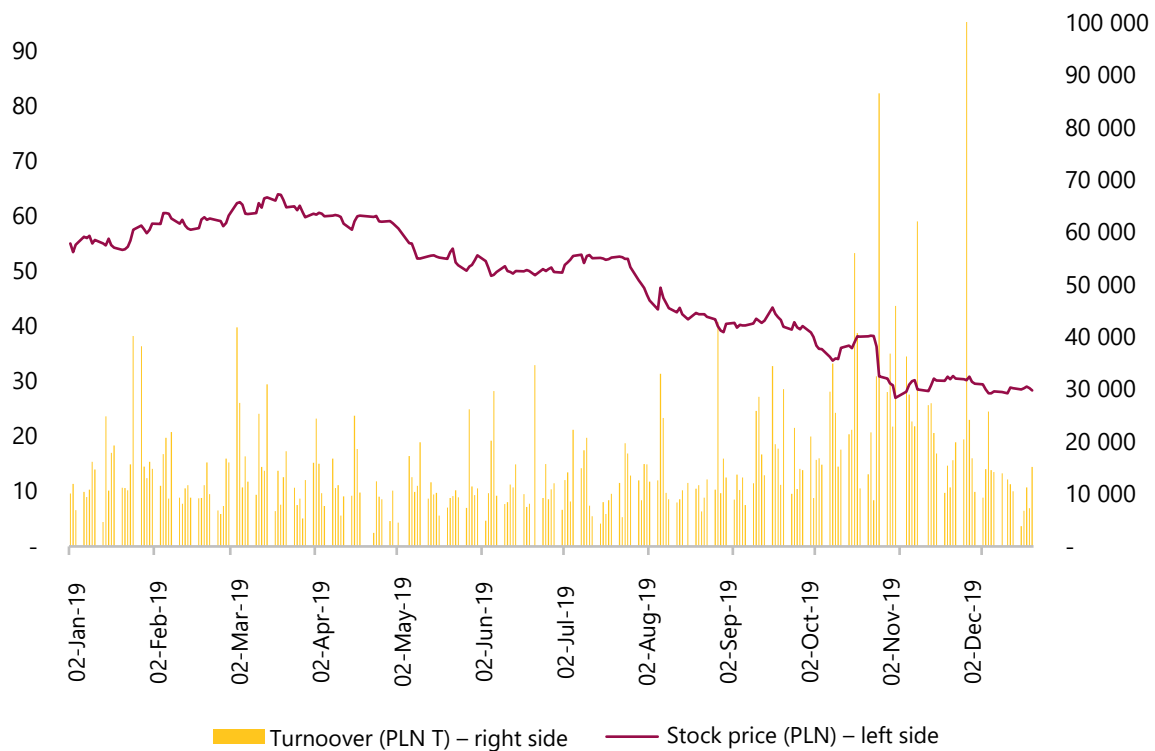
Alior Bank made its Initial Public Offering (IPO) on the Warsaw Stock Exchange on 14 December 2012. On 21 March 2014, only 15 months from its IPO, the Bank joined the group of 20 biggest and most liquid public companies listed in the Warsaw's stock exchange.

Total turnover of the Bank's stock in 2019 was almost PLN 4.10 billion (vs. PLN 4.96 billion in 2018). More than 500,000 transactions involving Alior Bank's stock were conducted in 2019, as compared to 420,000 transactions in 2018.

At the end of 2019, the Bank's stock traded at PLN 28.68. At the end of 2019, P/E and P/BV ratios for Alior Bank were 8.2 and 0.55, respectively.



The following chart shows the development of the Bank's stock prices and trading volumes on the WSE in 2019:



Investor Relations

The Bank has been taking active measures to meet stakeholder information needs, caring for universal and equal access to information, in accordance with the highest market standards and commonly applicable legislation.

The Bank's Management Board holds meetings with the equity market community, including investors and analysts. Such meetings address current financial and operating standing of Alior Bank and present its operating strategy and projected paths of development. In addition, these meetings address topics related to the current macroeconomic situation, general condition of the financial sector, and the Bank's competitive environment.

In 2019, there were 278 such meetings, including 151 meetings and call conferences with 74 international investors, held at the Alior Bank's offices or at national and international conferences and roadshows. The Bank also regularly takes part in conferences and events held by national and foreign brokerage houses.



Ratings

Agency	Date awarded	Long-term rating	Short-term rating	Outlook
S&P Global Ratings	16/01/2019	BB	B	stable
FitchRatings	27/01/2020	BB	B	stable

Full rating assessment of the Bank awarded by Standard and Poor's Global Ratings is as follows:

- Long-Term Issuer Credit Rating at "BB" with stable outlook,
- Short-Term Issuer Credit Rating at "B".

Definitions of S&P ratings are available on the Agency's website www.standardandpoors.com, which also publishes rating scales, criteria and credit rating methodologies.

Full rating assessment of the Bank awarded by Fitch Ratings Ltd. is as follows:

- Long-Term Foreign Currency IDR: BB with stable outlook,
- Short-Term Foreign Currency IDR: B,
- National Long-Term Rating: BBB+(pol), with stable outlook,
- National Short-Term Rating: F1(pol),
- Viability Rating (VR): BB,
- Support Rating: 5,
- Support Rating Floor: 'No Floor'.

Definitions of Fitch Ratings Ltd. ratings are available on the Agency's website www.fitchratings.com, which also publishes ratings, criteria and methodologies.

Alior Bank's Shareholders

Due to the Bank's status as a public company within the meaning of the Public Offering Act and the fact that the Bank's shares are listed on a regulated market (primary market) operated by the WSE, the Bank provides below information on the shareholders who hold at least 5% of the share capital of the Bank and the overall number of votes at the General Meeting.



Ownership structure of the Bank's share capital

Shareholder	Number of shares held/ number of votes at GM		Proportion of the share capital and overall number of votes at GM	
	28/02/2020/ 31/12/2019	05/11/2019	28/02/2020/ 31/12/2019	05/11/2019
Grupa PZU SA¹	41,689,286	41,693,258	31,93%	31,94%
Aviva OFE, Aviva Santander²	9,467,000	9,467,000	7,25%	7,25%
Nationale-Nederlanden OFE²	9,300,000	9,300,000	7,12%	7,12%
Pozostali akcjonariusze	70,097,705	70,093,733	53,69%	53,69%
Razem	130,553,991	130,553,991	100,00%	100,00%

(1) PZU SA, the funds managed by TFI PZU SA and Pekao Investment Banking SA

(2) Based on the number of shares registered at the General Meeting convened on 28 June 2019

Changes to ownership structure of the Bank's share capital

Since the date of delivery of the prior periodic report until the publication of this report, the Management Board of the Bank received no notices under Article 69 of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and on public companies (Journal of Laws 2005 no 184 item 1539, as amended).

On 19 September 2019, the Bank received a notice from BlackRock, Inc on a decrease of its share of votes in General Meeting of the Bank to below 5%, prepared as per ESMA/2015/1597 standards.

Members of the Management Board being the Bank's shareholders as at 31/12/2019 and as at the report publication date

Shareholder	Number of shares /Number of votes	Nominal value of shares (PLN)	Shares as proportion of the share capital	Votes as proportion of overall votes
Krzysztof Bachta*	5,000	50,000	0,00%	0,00%

* On 12 November 2019, Mr Krzysztof Bachta acquired 832 shares of the Bank.



As at the end of reporting period and the date of this report, an individual closely related to the Bank's Vice-President of the Management Board held 1000 shares of the Bank. The transaction of acquisition of 1000 shares of the shares of the Bank was conducted on 20 September 2019.

To the best knowledge of the Bank's Management Board, Members of the Supervisory Board have held no shares of the Bank as at the end of the reporting period and as at the date of this report. In the reporting period, there were no transactions on the Bank's shares whose party would be Members of the Supervisory Board of the Bank.



Significant agreements and obligations

As at 31 December 2019, Alior Bank S.A. did not hold:

- obligations to the central bank,
- significant agreements of advances, suretyships and guarantees which do not apply to operating activities, with the exception of a contract of mandate for periodic provision of insurance guarantees

constituting an unfunded credit protection, and a framework contract of mandate for periodic provision of counter guarantees, entered into on 8 November 2017 with Powszechny Zakład Ubezpieczeń S.A., and the agreement of 7 December 2018 on synthetic securitisation of a portfolio of business loans up to PLN 1.5 billion, entered into with European Investment Funds (EFI) and the European Investment Bank (EBI) as counter-guarantor, which is described in detail in *Chapter X*, in section *Capital management (ICAAP)*.

In the reporting period, the Bank had obligations resulting from the securities issued, including, in particular, subordinated bonds and Banking Securities, and other financial instruments.

In 2019, the Bank did not enter into and did not terminate any loan and advance agreements outside of the normal scope of the Bank's business activity.

The entities comprising the Bank's Group did not grant loans or guarantees together to a single entity or to a subsidiary of that entity whose value would exceed 10% of the Bank's equity outside of normal business activity

As at 31 December 2019, Alior Bank has held 1564 active guarantees for a total amount of PLN 841,999 thousand. The Banks makes sure that the time structure of the guarantees is appropriate. Active guarantees with less than two years to maturity (1158 items) amounted to PLN 484,935 thousand.



In the reporting period, there were no major transactions within Alior Bank Group with the affiliates otherwise than on arm's length.

On 11 April 2019, an agreement was signed for the terms of transaction between the Bank, Polski Koncern Naftowy Orlen Spółka Akcyjna ("PKN Orlen") and Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU"), regarding RUCH S.A. in restructuring, which is described in *Chapter VIII. Major events in the activity of Alior Bank Group*.

The Bank holds no information about any contracts whereby changes to the proportion of shares held by the existing shareholders and bond holders would be made.

Alior Bank has not issued any securities to provide special control rights towards the Bank. Financial results of Alior Bank Group are consolidated within PZU Group. The Bank's Supervisory Board includes representatives of PZU SA.



Authorities of Alior Bank S.A.

General Meeting of the Bank

Rules of operation of the General Meeting

The activities of the General Meeting, its principal rights, the rights of shareholders, and how these rights are exercised are defined in: Rules of Procedure adopted by the resolution of the Annual General Meeting on 19 June 2013, as amended by resolution 29/2017 of the Annual General Meeting of the Bank of 29 June 2017, Articles of the Bank, and the applicable legislation, including the Code of Commercial Partnerships and Companies, and the Banking Law.

General Meeting of the bank is convened by a notice on the Bank's website and in a way defined for the communication of current information as per mandatory legislation. The notice should be given at least 26 days in advance of the date of the General Meeting. Since the date of convening the General Meeting, the Bank posts on its website <https://www.aliorbank.pl/en/investor-relations/general-meetings.html> information required by provisions of the Code of Commercial Partnerships and Companies.

Only the Bank's shareholders registered as such 16 days prior to the General Meeting (registration date) are eligible to participate in the General Meeting of the Bank.

Shareholder(s) representing at least one-twentieth of the share capital may request that certain business be put on the agenda of the next General Meeting and submit draft resolutions on the business put on the agenda.



General Meetings of the Bank in 2019

In 2019, one General Meeting of the Bank was held. In addition to housekeeping resolutions, the Annual General Meeting of the Bank held on 28 June 2019 adopted resolutions on matters related to the closing of the financial year 2018, concerning:

- approval of the Bank's Supervisory Board report,
- approval of the financial statements of the Bank and of the Bank's Group,
- approval of the Bank's Group Management Board Report, including the Bank Management Board Report,
- examination of Management Board report on representation expenses as well as on legal services, marketing services, public relations and social communication services and management consultancy services spending for 2018,
- distribution of profit,
- discharge of all Members of the Management Board and Supervisory Board of the Bank.

In addition, the General Meeting of the Bank adopted resolutions on:

- amendments to the Articles of Alior Bank Spółka Akcyjna,
- amendment of Resolution 5/2017 of the Extraordinary General Meeting of Alior Bank Spółka Akcyjna of 5 December 2017 laying down the rules of pay of Members of the Supervisory Board of Alior Bank Spółka Akcyjna,
- amendment of Resolution 6/2017 of the Extraordinary General Meeting of Alior Bank Spółka Akcyjna of 5 December 2017 laying down the rules of pay of Members of the Management Board of Alior Bank Spółka Akcyjna.

Amendments to the Articles

Under Article 415 of the "Code of Commercial Partnerships and Companies" Act of 15 September 2000 (Journal of Laws of 2019, item 2217) an amendment to the Articles of Alior Bank S.A. requires the Bank's General Meeting to adopt a special resolution by qualified majority of three-fourths of the votes, obtain the approval of the Polish Financial Supervision Authority and registration of the adopted amendment in the Register of Entrepreneurs of the National Court Register.

On 14 January 2019, amendments to the Articles of Alior Bank S.A. were registered in the Register of Entrepreneurs of the National Court Register, concerning:

- organisation of the Supervisory Board (§ 20(2) and (3) of the Articles);
- duty of the Supervisory Board to approve the Pay Policy and to supervise its delivery and operation (§ 23(2)(28) of the Articles);
- risk management system and internal control system (§ 31(5), § 31a and § 32 of the Articles);
- own funds of Alior Bank S.A. (§ 34, § 35, § 38, § 40(1)(3) of the Articles),

adopted by resolution 3/2018 of the Extraordinary General Meeting of the Bank of 26 November 2018.



On 1 August 2019, amendments to the Articles of Alior Bank S.A. were entered to the Register of Entrepreneurs of the National Court Register, consisting in adding Bank's new objects, being activities of the provision of services of initiation of payment transactions from the user's payment account kept by another provider, and the service of access to information on payment accounts of the user kept by another provider or providers (§ 7(2)(17)-(18) of the Articles of Alior Bank S.A., adopted by resolution 35/2019 of the Annual General Meeting of 28 June 2019.

On 18 October 2019, amendments to the Articles of Alior Bank S.A. were registered in the Register of Entrepreneurs of the National Court Register, concerning:

- requirements mentioned in Article 19(1)-(3) and (5) of the Act on the rules of management of State-owned assets with regard to Members of the Supervisory Board (§ 18(5)-(7) of the Articles),
- duty of the Supervisory Board to examine a report on best practice mentioned in Article 7(3) of the Act on the rules of management of State-owned assets (§ 23(2)(3b) of the Articles),
- duty of the Management Board to prepare and submit to the Supervisory Board a report on best practice mentioned in Article 7(3) of the Act on the rules of management of State-owned assets (§ 26(1b) of the Articles).

adopted by resolutions 33/2019 and 34/2019 of the Annual General Meeting of the Bank of 28 June 2019.

Alior Bank S.A. obtained the approval from the Polish Financial Supervision Authority for all of the above-mentioned amendments.

Supervisory Board of the Bank

Composition of the Supervisory Board as at 31/12/2019		Composition of the Supervisory Board as at 31/12/2018	
Tomasz Kulik	Chairman of the Supervisory Board	Tomasz Kulik	Chairman of the Supervisory Board
Marcin Eckert	Deputy Chairman of the Supervisory Board	Małgorzata Iwanicz-Drozdowska	Deputy Chairman of the Supervisory Board
Dariusz Gątarek	Member of the Supervisory Board	Marcin Eckert	Member of the Supervisory Board
Mikołaj Handschke	Member of the Supervisory Board	Dariusz Gątarek	Member of the Supervisory Board



Artur Kucharski	Member of the Supervisory Board	Mikołaj Handschke	Member of the Supervisory Board
Wojciech Myślecki	Member of the Supervisory Board	Artur Kucharski	Member of the Supervisory Board
Maciej Rapkiewicz	Member of the Supervisory Board	Wojciech Myślecki	Member of the Supervisory Board
		Maciej Rapkiewicz	Member of the Supervisory Board

The following changes in the composition of the Supervisory Board of the Bank took place in the reporting period:

- On 31 January 2019, Ms Małgorzata Iwanicz-Drozdowska resigned as Member of the Supervisory Board of the Bank,
- 27 lutego 2019 r. Pan Marcin Eckert został wybrany na Zastępcę Przewodniczącego Rady Nadzorczej Alior Bank S.A.

Members of the Supervisory Board are not engaged in any competitive activity towards the Bank and do not participate in competitive partnerships as their members

Information on how Members of the Supervisory Board of the Bank comply with the requirements provided for in Article 22aa of the Banking Law is available on the Bank's website:

<https://www.aliorbank.pl/en/about-alior-bank/supervisory-board.html>



Rules of operation of Supervisory Board

The Supervisory Board of the Bank operates in particular under the "Banking Law" Act of 29 August 1997, "Code of Commercial Partnerships and Companies" Act of 15 September 2000, as well as the Articles, and Rules of Procedure of the Supervisory Board of the Bank, whose content is available on the company's website. The Supervisory Board exercises continuous oversight of the Bank's activities in all its aspects.

In accordance with the Articles, responsibilities of the Supervisory Board, in addition to other rights and responsibilities provided for by mandatory legislation, include, among others:

- providing an opinion on the report of the Management Board on representation expenses as well as legal services, marketing services, public relations and social communication services and management consultancy services spending;



- assessing periodic information on internal control;
- examining the report on best practice mentioned in Article 7(3) of the Act on the rules of management of State-owned assets;
- applying to the Polish Financial Supervision Authority for acceptance of the appointment of two members of the Management Board of the Bank, including the President of the Management Board;
- adopting the Rules of Procedure of the Supervisory Board and approving the Rules of Procedure of the Management Board established by the Management Board of the Bank,
- determining the pay of Members of the Management Board employed under the Labour-Code contract or other contract;
- representing the Bank on any matters between members of the Management Board and the Bank;
- suspending the activity, for major reasons, of particular or all members of the Management Board of the Bank;
- providing opinions on requests of the Management Board for the establishment and for the Bank's accession as member or shareholder to companies and to dispose of shares where such investments are long-term and strategic;
- providing opinions on multi-annual Bank development programmes and Bank's annual financial plans;
- resolving, at the request of the Management Board, on rules and regulations for the establishment and use of the funds provided for in the Bank's Articles;
- approving requests of the Management Board of the Bank for acquisition, charge or disposal of real property or interest in real property, or perpetual usufruct, if its value is more than PLN 5,000,000. In other cases, the decision is taken by the Management Board of the Bank without the need to obtain the authorisation from the Supervisory Board, subject to the matters decided by the General Meeting under § 17a of the Bank's Articles;
- approving the requests of the Bank's Management Board for incurring a commitment or disposal of assets whose value with regard to a single entity exceeds 5% of the Bank's own funds;
- exercising oversight of the introduction and monitoring of the management system in the Bank, including, in particular, overseeing the compliance risk management, and carrying out, at least once a year, the assessment of adequacy and effectiveness of that system;
- approving the rules of conducting internal control and procedures related to the estimation of internal capital, capital management, and capital planning;
- approving the Bank's business strategy, and the rules of prudent and stable management of the Bank;
- accepting the overall level of risk taken by the Bank;
- approving the Organisational Rules of the Bank and the overall organisational structure of the Bank established by the Management Board of the Bank, adapted to the size and profile of risks taken;



- approving the assumptions of the Bank's policy for compliance risk;
- approving the Bank's information policy;
- selecting the independent auditor;
- approving the pay policy developed by the Management Board and overseeing its introduction and operation.

The following requires the approval of the Supervisory Board:

- entering into a contract for legal services, marketing services, public relations and social communication services and management consultancy services, if the amount of overall compensation for the services provided exceeds PLN 500,000 pre-VAT, per annum,
- amending a contract for legal services, marketing services, public relations and social communication services and management consultancy services if it increases the compensation above the amount mentioned in Paragraph 1,
- entering into a contract for legal services, marketing services, public relations and social communication services and management consultancy services for which the maximum compensation amount is not provided,
- entering into contract for:
 - donation or other contract with a similar effect, with the value exceeding PLN 20,000 or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994 determined based on the last approved financial statements,
 - waiver of debt or other contract with a similar effect, with the value exceeding PLN 50,000 or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994 determined based on the last approved financial statements.

In addition, under Resolution 4/2018 of the Extraordinary General Meeting of Alior Bank Spółka Akcyjna of 26 November 2018, disposal of and acquisition by the Bank of financial assets included in fixed assets, and taking up, acquiring and disposing of shares in connection with the Bank's operations mentioned in § 1 and § 2 of that Resolution, requires an approval of the Supervisory Board of the Bank.

The Supervisory Board appoints from among its Members the Audit Committee, Risk Committee and other committees required by law, it may also appoint standing or ad hoc committees to perform specific activities



Committees of the Supervisory Board

Audit Committee

Composition of the Committee as at 31/12/2019		Composition of the Committee as at 31/12/2018	
Artur Kucharski	Chairman of the Committee	Małgorzata Iwanicz-Drozdowska	Chairwoman of the Committee
Marcin Eckert	Member of the Committee	Artur Kucharski	Member of the Committee
Wojciech Myślecki	Member of the Committee	Marcin Eckert	Member of the Committee
		Wojciech Myślecki	Member of the Committee

On 31 January 2019, Professor Małgorzata Iwanicz-Drozdowska submitted a notice of her resignation as Member of the Supervisory Board with immediate effect.

In connection with this resignation, the Supervisory Board appointed on 27 February 2019 Mr Artur Kucharski the Chairman of the Audit Committee.

The individuals meeting the independence criteria in accordance with the submitted statements are:

- Mr Artur Kucharski and
- Mr Wojciech Myślecki.

The person having the knowledge and skills in the area of accounting or auditing of financial statements is Mr Artur Kucharski. Mr Artur Kucharski gained his knowledge and skills when he worked as a financial auditor at PricewaterhouseCoopers (PWC). Mr Artur Kucharski graduated from a training course held by the Association of Chartered Certified Accountants (ACCA).

The persons who have the knowledge and skills in the sector in which the Bank operates are:

- Pan Wojciech Myślecki and
- Pan Marcin Eckert.

Mr Wojciech Myślecki's expertise of the sector in which the company operates is demonstrated by his long-term professional experience in the financial market, in particular in Bank Zachodni WBK SA and at the Supervisory Board of Generali PTE. Mr Wojciech Myślecki is author of several dozens of academic and research papers on communications, digital processing of signals, as well as the synthesis, analysis and recognition of speech signals, and author or co-author of several dozens of reports, publications and papers on economic transformation and educational systems, the market for power, and the operation of the Polish and European electric power system. He combines his



research and teaching work with holding executive and supervisory functions in commercial companies.

Mr Marcin Eckert's expertise of the sector in which the company operates is demonstrated by his long term professional experience in the financial market related to the functions he holds at PZU Group and in legal and consulting firms (Bird & Bird Szepietowski i wspólnicy, TGC Corporate Lawyers Warszawa, Mazars & Guerard Audyt Sp. z o.o., Ernst & Young Sp. z o.o.). As a legal adviser, he specialises in commercial law, taxation law, labour law, and the principles of pay and incentive programmes.

Activities of the Audit Committee

Under the Rules of the Audit Committee adopted by resolution of the Supervisory Board of the Bank, the Committee provides advice and opinions to the Supervisory Board.

In the reporting period, 14 meetings of the Audit Committee were held, which discussed topics such as: financial reporting process, internal control system, risk management systems, internal audit, performing the activities of financial audit. The Audit Committee was kept informed on material topics concerning accounting and financial reporting, controlled and monitored the independence of the statutory auditor and the entity authorised to audit financial statements. As regards monitoring of the effectiveness of the internal control system and risk management systems as well as internal audit, the Audit Committee was receiving reports from the Audit Department, including information on the results of the conducted audits, progress in the implementation of recommendations, reports on the execution of the control plan, including the report on the activities of the Audit Department as well as adequacy and effectiveness of the internal control system and risk management system. Based on reports of the Regulatory Compliance Department, he monitored the compliance risk management system and the control function.

Nomination and Pay Committee

The Nomination and Pay Committee was established by resolution of the Supervisory Board of the Bank on 7 December 2011.

Committee's responsibilities:

- providing opinions on the Pay Policy in order to ensure compliance of the terms and conditions of pay with regulations, in particular with the Regulation of the Minister of Development and Finance of 6 March 2017 on risk management system and internal control system, pay policy and detailed method of estimating internal capital at banks, in accordance with the principles of stable and prudent management of risk, capital and liquidity, as well as with special consideration of long-term interests of the Bank and interests of its shareholders,
- providing opinions on the classification of jobs, which is governed by the pay policy with regard to individuals having material impact on the risk profile of the Bank (MRT),



providing opinions on annual objectives; providing opinions and monitoring variable pay of the MRT,

- preparing opinions, assessments or recommendations on candidates to the Management Board of the Bank, on entering into, amending or termination of contracts with members of the Management Board, on matters of structure, size, and effectiveness of the Management Board as a body, and the expertise, skills and experience of particular members of the Management Board,
- preparing opinions, assessments or recommendations on other personnel matters for which the Supervisory Board or the Committee are competent as per the applicable in-house regulations and mandatory legislation.

Composition of the Committee as at 31/12/2019		Composition of the Committee as at 31/12/2018	
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	Marcin Eckert	Member of the Committee

There has been no change in the composition of the Nomination and Pay Committee in the reporting period.

Activity of the Nomination and Pay Committee

In 2019, the Nomination and Pay Committee held 16 meetings which, among other things, evaluated the Management Board as a body, provided opinions on the Pay Policy, classification of positions subject to the Pay Policy for individuals having major effect on the Bank's risk profile, and conducted current updates for MRT identification during the year, provided opinions on the objectives of those individuals for 2019 and the topics related to the variable component of the pay of those individuals.

Risk Committee

Composition of the Committee as at 31/12/2019		Composition of the Committee as at 31/12/2018	
Dariusz Gątarek	Chairman of the Committee	Dariusz Gątarek	Chairman of the Committee
Artur Kucharski	Member of the Committee	Małgorzata Iwanicz-Drozdowska	Member of the Committee



Maciej Rapkiewicz	Member of the Committee	Maciej Rapkiewicz	Member of the Committee
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Marcin Eckert	Member of the Committee
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In the reporting period there was a change to the personal composition of the Risk Committee of the Supervisory Board of Alior Bank S.A. In connection with resignation of Ms Małgorzata Iwanicz-Drozdowska from membership of the Supervisory Board of the Bank, the Supervisory Board appointed Mr Marcin Eckert, as of 31 January 2019, and Mr Artur Kucharski, as of 27 February 2019 to the Risk Committee.

Activities of the Risk Committee

The Supervisory Board's Risk Committee was established on 22 December 2015 by Supervisory Board Resolution 81/2015 to support the Supervisory Board in the supervision of the risk management process at the Bank.

Over the reporting period, the Risk Committee held 11 meetings. As part of current supervision of the risk management area and capital adequacy, the Committee was receiving reports and analyses presenting the situation of the Bank and of its major subsidiaries. The Committee was also consulted for key regulatory projects in this regard.

At its meetings, the Supervisory Board's Risk Committee discussed key topics related to the risk management process, in particular concerning: target risk appetite in banking activity, capital position, quality of the credit portfolio and the largest exposures. The committee was receiving, overseeing and commenting on current results from the areas of credit risk, market risk, liquidity risk, operational risk, model risk, as well as the status of implementation of key improvements and optimisation projects. The Committee also examined the mortgage-backed portfolio (Recommendation S) and retail exposures (Recommendation T).

Management Board of the Bank

Composition of the Management Board of the Bank as at 31/12/2019	Composition of the Management Board of the Bank as at 31/12/2018
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Krzysztof Bachta
President of the Management Board



Areas of responsibility: HR, marketing, communication and PR, internal audit, Compliance, providing support to the Company's authorities, investor relations, strategy. Current operation of the procedures for reporting non-compliance with the law, the procedures applicable at

Krzysztof Bachta
Vice-President of the Management Board

Areas of responsibility: HR, marketing and PR, internal audit, Compliance, providing support to the Company's authorities, investor relations, strategy. Current operation of the procedures for reporting non-compliance with the law, the procedures applicable at the Bank, and rules of business ethics.



the Bank, and rules of business ethics.

Tomasz Biłous
Wiceprezes
Zarządu



Areas of responsibility: Subject areas: finance, including management accounting, reporting and accounting policy, taxes, internal accounting and data centre.

Filip Gorczyca
Wiceprezes
Zarządu

Areas of responsibility: Controlling Division, organisational units of the Bank's Headquarters responsible for: data, accounting, taxation and reporting.

Marcin Jaszczuk
Wiceprezes
Zarządu



Areas of responsibility: innovation, FinTech, strategic partnerships, oversight of subsidiaries and activities in other countries, mergers and acquisitions.

Marcin Jaszczuk
Wiceprezes
Zarządu

Areas of responsibility: Corporate Development division, i.e., innovation, strategy and FinTechs, T-Mobile Usługi Bankowe Branch, oversight of subsidiaries and activities in other countries

Seweryn Kowalczyk
Wiceprezes
Zarządu



Areas of responsibility: security, legal services, and protection of personal data.

Seweryn Kowalczyk
Wiceprezes
Zarządu

Areas of responsibility: security and legal services

Mateusz Poznański
Wiceprezes
Zarządu



Areas of responsibility: retail customer products and sales (Consumers and Microenterprises).

Mateusz Poznański
Wiceprezes
Zarządu

Areas of responsibility: Consumer Sales Division, KI products, brokerage, external networks, consumer finance, and consumer relations.

Agata Strzelecka
Wiceprezes
Zarządu



Areas of responsibility: IT, operational support and cybersecurity.

Agata Strzelecka
Wiceprezes
Zarządu

Areas of responsibility: IT Division, cybersecurity, digital banking, logistics, purchasing, settlements and operational support.

Marek Szcześniak
Wiceprezes
Zarządu



Areas of responsibility: risk area, including: credit risk, capital management, operational risk, market risk, and model risk.

Marek Szcześniak
Wiceprezes
Zarządu

By the time the KNF approved the nomination of the Member of the Management Board overseeing the management of major risks for the Bank's activities (26/02/2019), the entire Management Board of the Bank had been provisionally responsible for the risk area.



Dariusz Szwed
Wiceprezes
Zarządu



Areas of responsibility: business customer products and sales, Treasury activity, Private Banking and brokerage).

Maciej Surdyk
Wiceprezes
Zarządu

Areas of responsibility: business customer products and sales, Treasury activity, AGRO business, EU funds and public programmes, and business customer relations.

The following changes to the composition of the Management Board of the Bank took place in the reporting period:

- On 26 February 2019, the Polish Financial Supervision Authority has unanimously approved the appointment of Mr Krzysztof Bachta as President of the Management Board of Alior Bank S.A., and on 27 February 2019, the Supervisory Board of the Bank resolved to appoint Mr Krzysztof Bachta, the existing Vice-President of the Management Board, as President of the Management Board of Alior Bank S.A.,
- In 26 February 2019, the Polish Financial Supervision Authority also approved the nomination of Mr Marek Szcześniak as Member of the Management Board of Alior Bank S.A. supervising the management of major risks in the Bank's activity,
- On 1 July 2019, Mr Maciej Surdyk – Vice-President of the Management Board resigned as Member of the Management Board of Alior Bank S.A. with effect from 1 July 2019.

In addition, on 17 January 2020, Mr Mateusz Poznański resigned as Member of the Management Board with effect from 29 February 2020, which resulted in a new division of responsibilities between Members of the Management Board. The existing area of Retail Customers, including Consumers and Microenterprises reports to Vice-President, Mr Marcin Jaszczuk. Vice-President Tomasz Biłous is now responsible for oversight of subsidiaries and activities in other countries, and President Krzysztof Bachta is now responsible for the Customer Relations Department and M&A Department.

All Members of the Management Board of the Bank, including those who assumed the function of Vice-Presidents of the Management Board in 2019 are not engaged in any competitive activity towards the Bank and do not participate in competitive partnerships as their members, or as members of the authorities of companies, or other, competitive legal persons.

Information on how Members of the Management Board of the Bank comply with the requirements provided for in Article 22aa of the Banking Law is available on the Bank's website:

<https://www.aliorkbank.pl/en/about-aliorkbank/management-board.html>.

Appointment and dismissal of senior management

Under Article 22a(1) of the "Banking Law" Act of 29 August 1997 (Journal of Laws 2019, item 2357), the Management Board of Alior Bank S.A. is composed of at least three Members appointed and



dismissed by the Supervisory Board of Alior Bank S.A. Alior Bank S.A.'s Articles provide, in § 24(1) and (2) thereof, that Members of the Management Board are appointed for a common term of three years. Under Article 22b(1) of the "Banking Law" Act, the President of the Management Board and the Member of the Management Board overseeing the management of major risks in the Bank's activity shall be appointed with the consent of the Polish Financial Supervision Authority. The consent is applied for by the Supervisory Board.

Members of the Management Board of Alior Bank S.A. shall be appointed pursuant to qualification procedure, the purpose of which is to verify and assess the competencies of the candidates, and to select the best candidate in accordance with the requirements of the "Banking Law" Act mentioned in Article 22aa of the "Banking Law" Act.

Under §25a of Alior Bank's Articles, Members of the Management Board of Alior Bank S.A. shall also meet the requirements mentioned in Article 22 of the Act of 16 December 2016 on the rules of management of State-owned assets (Journal of Laws 2019, item 1302).



Responsibilities of the Management Board

Under § 27(1) of Alior Bank S.A.'s Articles, the Management Board represents the Bank vis-à-vis third parties and deals with all matters not reserved by legislation or the Articles to other authorities of the Bank. In particular, the Management Board prepares Alior Bank S.A.'s development strategy and annual budgets.

The Management Board of Alior Bank S.A. acts pursuant to the Rules of Procedure of the Management Board of Alior Bank S.A. which defines the Management Board's organisation of work and detailed responsibilities of the President of the Management Board. Under § 8(1) of the Rules of Procedure of Alior Bank S.A., the Management Board, by resolution:

- determines long-term activity plans and strategic goals of the Bank,
- determines short-term and long-term budgets of the Bank and monitors their execution;
- monitors the Bank's management system, including the management reporting system used for current control of the Bank's activity,
- accepts the rules, policies and regulations for the Bank's activity, and, in particular, for prudent and stable management of the Bank, risk management, credit activity, investing activity, Bank's management system, assets and liabilities management, accounting, Bank's funds, personnel management and rules for conducting internal control,
- determines the amount of the bonus pool for the Bank's employees, and its overall distribution;
- appoints commercial representatives of the Company,



- takes decisions as to the issuing by the Bank of bonds, except for convertible bonds or bonds with pre-emptive rights;
- accepts the take-up, acquisition and disposal by the Bank of shares of companies,
- takes decisions on assuming obligations, disposal of assets, charges and leases of assets whose combined value towards a single entity exceeds one-hundredth of the share capital of the Bank, subject to Article 8(2) of the Rules of Procedure of the Management Board,
- approves the investment plan and accepts each own investment of the Bank (acquisition or disposal of fixed assets or proprietary rights) in the amount exceeding one-hundredth of the share capital of the Bank, subject to Article 8(2) of the Rules of Procedure of the Management Board,
- accepts matters related to the organisation structure of the Bank's Headquarters, including the establishment and liquidation of organisational units of the Bank and of organisational units of the Bank's Headquarters,
- takes decisions on the establishment and liquidation of Bank's branches,
- takes decisions as to payment to shareholders of dividend advances, upon acceptance of the Supervisory Board,
- accepts all documents presented to the Supervisory Board or to the General Meeting,
- examines other matters submitted for examination by the Supervisory Board, General Meeting, Members of the Management Board, organisational units of the Bank, or any committees or teams established under the Bank's internal regulations,
- takes decisions on all other matters within the scope of activity of the Bank, if required by specific legislation or if such decisions can have major effect on the financial situation or reputation of the Bank,
- exercises corporate governance over the group companies.

Under § 3(3) of the Rules of Procedure of the Management Board of Alior Bank S.A., in all other matters each Member of the Management Board takes independent decisions concerning the Division reporting to him or her.

Under § 17(2)(5) and (7) of the Rules of Procedure of Alior Bank S.A., any increase or decrease of share capital, as well as redemption of shares and definition of detailed terms and conditions of such redemption require a resolution of the General Meeting.

By resolution 28/2012 of 19 October 2012 on conditional increase in share capital of the Bank and the issuance of subscription warrants, the General Meeting of Alior Bank S.A. vested to the Management Board of Alior Bank S.A. the right to:



- offer and issue subscription warrants to the participants of the Incentive Programme other than members of the Management Board of the Bank (for Members of the Management Board, these rights are vested in the Supervisory Board),
- register in the National Depository of Securities any newly issued shares and do anything related to their dematerialisation,
- take all necessary measures related to the admission and introduction to trading in the regulated market operated by Warsaw Stock Exchange of shares of new issues immediately after the issue.

The activities carried out by the Management Board for the purpose of issuance of shares under the Incentive Programme are described in detail in the Rules of the Incentive Programme approved by the Supervisory Board, subject to the provisions of the Articles of Alior Bank S.A. Based on a resolution, the Management Board may authorise standing committees or appropriate employees of the Bank to take decisions related to the assumptions of obligations or disposal of assets, as part of daily activities of the Bank, whose total amount towards a single entity does not exceed 5% of the Bank's own funds.



Remuneration policy

The Remuneration Policy applicable at Alior Bank is the core document for the policy and rules of pay of the Bank's staff. It includes the rules for the pay of individuals who, due to their special role in the Bank's risk management system, have been covered by a separate regulatory regime in this regard, i.e.:

- Material Risk Takers (MRT), including the Management Board,
- Individuals exercising Control Functions,
- staff of the Regulatory Compliance Department and Audit Department,
- staff involved in the offering or distribution of banking, investment and insurance products and services.

Objectives of the Policy:

- promote correct and effective management of risks, and discourage from taking excessive risks (exceeding the risk levels acceptable to the Bank) in order to maintain a solid equity base and having regard to the long-term interests of the Bank - its shareholders and customers,
- promote the Bank's strategy for sustainable development and prudent risk management policy,



- mitigate conflict of interest,
- maintain transparent relationship between individual results and individual pay by focusing on goals linked to responsibilities and actual influence,
- ensure that the Bank's staff act in the best interests of their customers, including provide them with clear and transparent information on services and products offered by the Bank.

Particularly important for the achievement of the above-mentioned goals is how the Policy addresses MRTs.

The main Policy statements regarding MRT:

- pay composed of fixed and variable parts,
- avoidance of awarding to MRT pension benefits which are not defined in advance,
- committing MRTs to avoid using individual hedging strategies or insurance regarding remuneration and liability in order to alleviate the consequences of incorporation of risks in the pay system applicable to them,
- except for staff exercising control functions, the total amount of the variable pay is based on the assessment of the results of MRT and of their respective organisational unit as well as results of the Bank within the area of responsibility of that person, taking into account the results of the Bank as a whole,
- maximum ratio of variable pay of MRT to fixed pay: 100%,
- at least 50% of the variable pay of MRT shall be an incentive to detailed commitment to long-term interests of the Bank, and comprises financial instruments linked to the Bank's shares. The remaining part of variable pay is paid out in cash as Cash Variable Pay,
- at least 40% of MRT variable pay, and if MRT variable pay is for a particularly high amount, at least 60% of the variable pay – shall be a deferred pay,
- The variable pay of the Management Board is adapted to the provisions of the Act of 9 June 2016 on the rules of remuneration of executives of certain companies.

Executive Options Programme

The Executive Options Programme for 2013-15 covering the then-members of the Management Board and key managers was adopted by resolution 28/2012 of the Extraordinary General Meeting of Alior Bank S.A. of 19 October 2012 on conditional increase in share capital of the Bank and the issuance of subscription warrants, and the rules & regulations for the incentive programme adopted by resolution of the Supervisory Board of Alior Bank S.A. of 27 March 2013.



Assumptions of the Programme: issuance of three tranches of subscription warrants (series A, B and C) and the corresponding tranches of new shares of the Bank (series D, E and F) with a combined nominal value not exceeding PLN 33,312,500. In December 2018, "A" Series warrants which authorised their holders to take up "D" Series shares expired and "B" Series warrants expired in December 2019.

The number of unrealised warrants as at 31 December 2019 is presented in table below:

Warrant Series	Number of exercisable issued warrants	Total
A	0	0
B	0	0
C	543 725	543 725

In connection with the issuance of shares accompanied by rights issue, on 27 July 2016, the Supervisory Board adopted a technical adjustment of the Executive Option Programme aimed at ensuring economic neutrality of the programme for the eligible individuals, consisting in the calculation of the decrease of theoretical value of the Executive Option Programme and issuance to the individuals covered by this programme of an appropriate number of phantom shares with parameters similar to warrants.

Remuneration of Members of the Management Board and Supervisory Board of Alior Bank S.A. in 2019

Remuneration of Members of the Management Board of Alior Bank S.A. disbursed or accrued in 2019

(in PLN thousand)	Period	Benefits in the form of cash			Payments based on shares settled in cash			Other benefits	Overheads on remuneration	Total
		Remuneration paid and due	Other paid	Remuneration potentially due	Remuneration paid and due	Other paid	Remuneration potentially due			
Krzysztof Bachta	01.01.2019 - 31.12.2019	837	-	30	45	-	30	17	49	1 008
Tomasz Bilous	01.02.2019 - 31.12.2019	702	-	-	-	-	-	21	21	745
Filip Gorczyca	01.01.2019 - 31.01.2019	288	-	81	224	-	81	0	12	686
Marcin Jaszczuk	01.01.2019 - 31.12.2019	766	-	-	-	-	-	20	48	835



Seweryn Kowalczyk	01.01.2019 - 31.12.2019	786	-	13	20	-	13	17	50	899
Mateusz Poznański	01.01.2019 - 31.12.2019	766	-	-	-	-	-	19	50	834
Agata Strzelecka	01.01.2019 - 31.12.2019	847	-	54	80	-	54	19	57	1 111
Maciej Surdyk	01.01.2019 - 31.12.2019 ¹	385	383	-	-	-	-	10	40	818
Marek Szcześniak	01.01.2019 - 31.12.2019	786	-	13	20	-	13	18	49	898
Dariusz Szwed	01.01.2019 - 31.12.2019	766	-	-	-	-	-	17	46	830
Management Board	01.01.2019 - 31.12.2019	6 929	383	190	388	0	190	159	423	8 663
Management Board's Members who ceased to perform their functions in previous years		2 238	8 354	80	220	77	80	4	162	11 215
Total		9 167	8 737	270	608	77	270	163	585	19 878



Remuneration of Members of the Supervisory Board of Alior Bank S.A. in 2018 (PLN thou)

	Period	Remuneration	Mandatory additions to salary ¹	Total
Eckert Marcin	01/01/2019 – 31/12/2019	43	8	51
Gątarek Dariusz	01/01/2019 – 31/12/2019	182	28	210
Handschrke Mikołaj	01/01/2019 – 31/12/2019	172	32	204
Iwanicz-Drozdowska Małgorzata	01/01/2019 – 31/01/2019	15	3	18
Kucharski Artur	01/01/2019 – 31/12/2019	180	28	208
Kulik Tomasz	01/01/2019 – 31/12/2019	0	0	0
Myślecki Wojciech	01/01/2019 – 31/12/2019	169	31	199
Rapkiewicz Maciej	01/01/2019 – 31/12/2019	0	0	0
Total		762	129	891

The pay does not include reimbursement for expenses and PPK (Employee Capital Plans)

¹ Mandatory additions to salary paid

Agreements with Members of the Management Board

Under resolution of the Extraordinary General Meeting of the Bank of 5 December 2017 laying down the rules of pay for members of the Management Board of Alior Bank and under the rules adopted by the Supervisory Board, agreements with Members of the Management Board are as follows:

- agreements for the provision of services corresponding to the Act of 9 June 2016 on the rules of remuneration of executives of certain companies,
- agreements entered into for the term of being at the Management Board,
- agreements with termination notice of:
 - one month, if the member of the Management Board holds the function for less than 12 months with effect at the end of the calendar month,



- three months, if the member of the Management Board holds the function for at least 12 months.
- with severance pay at three times the fixed pay if the agreement is cancelled or if terminated by the Bank otherwise than for breach of core responsibilities by the member of the Management Board, provided that the member of the Management Board has held the function for at least 12 months prior to cancellation of agreement,
- agreements with the prohibition of competitive activities, under which the member of the Management Board agrees that within six months from the date of cessation of his function or termination of agreement, he or she will refrain from competitive activities, for which he/she will be eligible for compensation in the total amount calculated as six times his/her monthly fixed pay, provided that he/she has held the function for at least three months.

Diversity Policy with regard to the authorities and key managers of Alior Bank S.A.

The applicable Diversity Policy is part of the Policy of Selection and Assessment of Members of the Management Board and Supervisory Board. Its purpose is to ensure the diversity of educational background, professional experience, age and sex of members of the Management Board and Supervisory Board, in particular by ensuring the inclusion of women in the process of selection of members of the Management Board and equal treatment of candidates regardless of sex.

In line with the provisions of the Policy of Work Environment Free from Undesirable Behaviour, rules in force at the Bank pertain to: equal treatment of employees irrespective of their sex, age, disability, race, religion, nationality, political opinions, trade union membership, ethnic origin, beliefs, sexual orientation, employment for a definite or indefinite period of time, full-time or part-time employment, etc.





Engrossed in Reading Benches

Engrossed in Reading Benches (Zaczytane ławki) are urban furniture in the shape of open books which raise interest in reading, inspire and educate. Each bench has a QR code which allows to download books in electronic form free of charge. The benches make a Poland tour of Engrossed in Reading Benches exhibitions, which are accompanied by reading events with the participation of Foundation Ambassadors (actors, musicians, artists).

In 2019, 12 new Engrossed in Reading Benches were created, including 3 sponsored by Alior Bank – these Alior Bank's 3 benches attracted an audience of 13.5 million.





XIII. Legal claims

None of the single proceedings pending in 2019 before courts, arbitration authorities, or public authorities, as well as all of them combined do not pose liquidity risks to the Bank. The proceedings which are material in the view of the Management Board of the Bank are presented below:

- case brought by a customer (limited company) for the payment of 109,967,000 zloty for damages incurred in connection with entering into and settlement of Treasury deals. The lawsuit of 27 April 2017 was brought against Alior Bank S.A. and Bank BPH S.A. In the view of the Bank, the action is devoid of reasonable factual or legal basis.
- case brought by a customer (limited company) for the payment of 17,843,000 zloty for damages incurred in connection with settlement of currency options. The lawsuit of 10 February 2015 was brought initially against Bank BPH S.A. In the view of the Bank, the action is devoid of reasonable factual or legal basis. The lawsuit was dismissed in whole, but can be appealed against.
- case brought by a customer – natural person – representative of a group of 84 physical and legal persons for the determination of the Bank's liability for damages. The class action was brought on 5 March 2018 against Alior Bank for the determination of the Bank's liability for damages caused by deficient compliance with the information duty by the Bank towards customers, and deficient performance of contracts for services of receiving and transmission of orders of purchase or sale of investment certificates of investment funds previously managed by Fincrea TFI S.A., and currently by Raiffeisen Bank International AG (Joint-stock company) Branch in Poland. In the view of the claimants, the Bank failed to provide the customers with information on the actual risk of investing in the investment products, by which it has exposed the customers to damages resulting from the loss in value of the investment certificates and the loss of guaranteed profits. In the view of the Bank, the class action is devoid of reasonable factual or legal basis, and should not be resolved to the benefit of the customers. However, the Court in which the class action was brought, by order of 27 September 2019, decided to examine the case as a class action. On 12 November 2019, the Bank filed a complaint against that order. Alior Bank determines that the probability of funds outflow due to this lawsuit is estimated as less than 50%, therefore the Bank did not create any provision for the lawsuit as at 31 December 2019. Currently, estimation of potential financial consequences for the Bank of the Court resolving otherwise than anticipated by the Bank is impossible.

By decision of 6 August 2019 issued pursuant to Article 167(2)(1) in conjunction with Article 167(1)(1) of the Trading in Financial Instruments Act, the Polish Financial Supervision Authority imposed a fine on the Bank at PLN 10,000,000. The proceeding was related to the compliance of operation of Alior



Bank and the Brokerage House of the Bank for the distribution of investment certificates of funds previously managed by Fincrea TFI S.A., now Raiffeisen Bank International AG (Joint-stock company) Branch in Poland. The Bank moved to the KNF for reconsideration of the case. Upon reconsideration, the Polish Financial Supervision Authority, by decision of 3 December 2019, sustained its original decision. On 3 January 2020, the Bank appealed against that decision to the Regional Administrative Court in Warsaw.

Judgment of the Court of Justice of the European Union (CJEU) of 3 October 2019

On 3 October 2019, the Court of Justice of the European Union (CJEU) issued its judgement in the case C260/18. The judgement contains answers (legal interpretations) to questions asked by a Polish court. These questions were posed in connection with the analysis by the Polish court of a case brought by a customer against Raiffeisen Bank concerning a loan contract indexed to CHF concluded by the customer.

In line with applicable rules, the interpretative guidance of the CJEU should be taken into account by national courts when deciding cases. These interpretations, while leaving relevant issues to be assessed by national courts, focus on matters related to the effects that may apply to contracts if the court determining a case decides that some abusive clauses are present in the contract in question. Having analysed the theses included in the CJEU judgement and having reviewed its portfolio of loans indexed to a foreign currency, Alior Bank does not see any significant risk of a negative impact of this judgement on the Bank's result.

In cases in which the Bank was the defendant, the value in controversy as at 31 December 2019 was PLN 332,526,000, and as at 31 December 2018 it was PLN 258,700,000. The amount of provisions for pending contentious cases as at December 2019 was PLN 49,822,000, and PLN 35,064,000 as at the end of 2018.

Cases related to the activity of Alior Bank's subsidiaries

On 26 June 2019, Alior Leasing Sp. z o.o. received a class suit for the payment of severance pay brought by four former members of the Management Board of the company who were dismissed by the Supervisory Board on 20 December 2018. They claim PLN 600,000.

The Management Board of Alior Leasing Sp. z o.o. is of opinion that the claim brought under the class suit is groundless and the risk of these claims being accepted by the Court is low.

Since the beginning of 2019, Alior Leasing Sp. z o.o. received several letters from the four dismissed members of the Management Board of the Company, which contained proposals addressed to the Company for amicable settlement of the dispute with the Company concerning the grounds for termination of contracts for the provision of management services and payment of some part of the benefits under the executive programme. The executive programme encompassed the dismissed members of the Management Board and some staff of the Company.



In the view of the Company and of the Bank, the likelihood of effective award by the Court to the dismissed members of the Management Board of the benefits under the Executive Programme is low. The Company has based its position on legal consultancy obtained by the Management Board of the Company. These circumstances justify the absence of provisions on this account in the Group Financial Statements.

Alior Leasing Sp. z o.o. has identified a risk of potential claims against the Company from third parties, which can result from the activities of certain employees and associates of the Company. As at the date of the Financial Statements, no claims on this account were brought. In the opinion of the Group, there are no circumstances that would justify the establishment of a provision due to that.

The Group refrains from disclosing further information on the above-mentioned potential claims from third parties to prevent any prejudice to its status and courtroom position in the event of potential proceeding.





XIV. Auditor information

Entity authorised to audit financial statements

By resolution of 17 June 2019, the Supervisory Board of the Bank accepted the recommendation of the Audit Committee of the Supervisory Board of Alior Bank S.A. and thus selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw, at 4a Inflancka St. (KPMG) as auditor of annual and semi-annual financial statements of Alior Bank S.A. and Alior Bank Group for 2019 and 2020.

Policy for the selection of the entity authorised to audit and review financial statements in Alior Bank S.A. and the Policy of the provision by audit firm, its affiliates and a member of the audit firm network of admissible services not being an audit in Alior Bank S.A.

The main objective of the *Policy for the selection of the entity authorised to audit and review financial statements in Alior Bank S.A.* is to ensure the adequacy and legal compliance, including to avoid any conflict of interest when selecting the audit firm. The Bank is guided by the principles consistent with business ethics, aiming at transparent relations with the counterparty. The Policy defines the rules of proceeding when selecting the audit firm. The selection is conducted taking into account the principles of impartiality and independence of the auditor company and the analysis of the work conducted by it at the Bank. Differences of opinions for the application of accounting policies or auditing standards are not sufficient to terminate the financial statements auditing agreement. Rules for the rotation of the audit firms and of the key auditor, including any waiting periods are defined.

The main objective of the *Policy of the provision by audit firm, its affiliates and a member of the audit firm network of admissible services not being an audit in Alior Bank S.A.* is to control and monitor the independence of the audit firm and of the independent auditor, including to avoid any conflict of interest. The Policy allows for the provision of admissible services mentioned in Article 136(2) of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision. The provision of admissible services is possible only to the extent unrelated to the Bank's taxation policy, following the analysis of independence, and giving the consent to provide them.

The recommendation on the selection of the audit firm to conduct the audit of financial statements was prepared as a result of a structured selection procedure that meets the mandatory criteria.

In financial year 2019, the audit firm auditing the financial statements provided to Alior Bank S.A. certain admissible services other than audit. The independence of the audit firm was assessed and the consent for the provision of such services was granted each time.

The entity authorised to audit financial statements, conducting the audit of annual financial statements of Alior Bank Group and annual financial statements of Alior Bank S.A. was selected in



accordance with legal provisions. That entity as well as statutory auditors conducting the audit of those statements have met the requirements for being able to express their impartial and independent opinion on the audited interim financial statements of the Bank Group and financial statements of the Bank, in accordance with the applicable legislation and professional standards.

Management Board's Notice prepared under § 70(1)(7) of the Ordinance of the Minister of Finance of 29 March 2018 on current and periodic notices ... (Journal of Laws 2018, item 757)

The Management Board of the Bank hereby notifies, based on the statement of the Supervisory Board of the Bank of 20 January 2020, that an audit firm to audit annual financial statements has been selected in accordance with legislation, including with regard to the selection and the procedure of selection of the audit firm and that:

- the audit firm and the members of the team conducting the audit have met the requirements for being able to prepare their impartial and independent report on annual audit of financial statements in accordance with the mandatory legislation, professional standards and principles of professional ethics,
- the mandatory legislation related to the rotation of the audit firm and of the key independent auditor as well as the mandatory waiting times are complied with,
- the Bank has in place a policy for the selection of the audit firm and a policy for the provision to the company by an audit firm, and affiliate thereof, or a member of its network of additional services other than auditing, including services conditionally exempted from the prohibition of provision by the audit firm.

Remuneration for the auditor

The remuneration (net value) of the Bank's auditor - KPMG Audyt KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for 2018 and 2019 are presented in the table below:

	2018	2019
Auditing of the standalone and consolidated financial statements of Alior Bank Group	820 000	870 000
Review of financial statements	955 000	776 000
Auditing and other attestation services	100 000	300 000
Total	1 875 000	1 946 000



The remuneration (net value) of the auditors of the Bank's subsidiaries (not applicable to Centrum Obrotu Wierzytelnościami Sp. z o.o., whose annual financial statements are not subject to auditing) are presented in the table below:

Company	Auditor	2018	2019
Absource Sp. z o.o.	VISTA Audytorzy, Księgowi i Doradcy Sp. z o. o.	4 500	6 500
Meritum Services ICB S.A.	VISTA Audytorzy, Księgowi i Doradcy Sp. z o. o.	4 800	6 000
NewCommerce Services Sp. z o.o.	Kancelaria Biegłych Rewidentów "Konto" Sp. z o.o.	10 000	10 000
Alior Leasing Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	205 000	205 000
Serwis Ubezpieczeniowy Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	40 000	40 000
Alior Services Sp. z o.o.	UHY ECA Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	30 000	30 000
Alior TFI S.A.	BDO Spółka z ograniczoną odpowiedzialnością Sp.k.	17 000	17 000
Corsham Sp. z o.o.	Ecovis System Rewident Sp. z o.o.	4 500	7 000



XV. Statements of the Management Board

The Management Board of Alior Bank S.A. hereby represents that Alior Banku S.A.:

- to the best of its knowledge, the annual consolidated and standalone financial statements for 2019 and the comparative data were prepared in compliance with the applicable accounting policies and provide a true, fair and clear view of the assets and financial situation of Alior Bank Group and its financial result,
- the Management Board Report contains the true view of the growth, achievements and circumstances (with a description of primary threats and risks) of Alior Bank Group in 2019.

