



WYŻSZA KULTURA. BANK NOWOŚCI.

# REPORT OF THE MANAGEMENT BOARD

ON THE ACTIVITIES OF  
THE ALIOR BANK S.A.  
CAPITAL GROUP IN  
THE FIRST HALF OF 2020

INCLUDING THE REPORT OF THE MANAGEMENT BOARD  
ON THE ACTIVITIES OF ALIOR BANK S.A.

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# I. Summary of activities pursued by Alior Bank in the first half of 2020

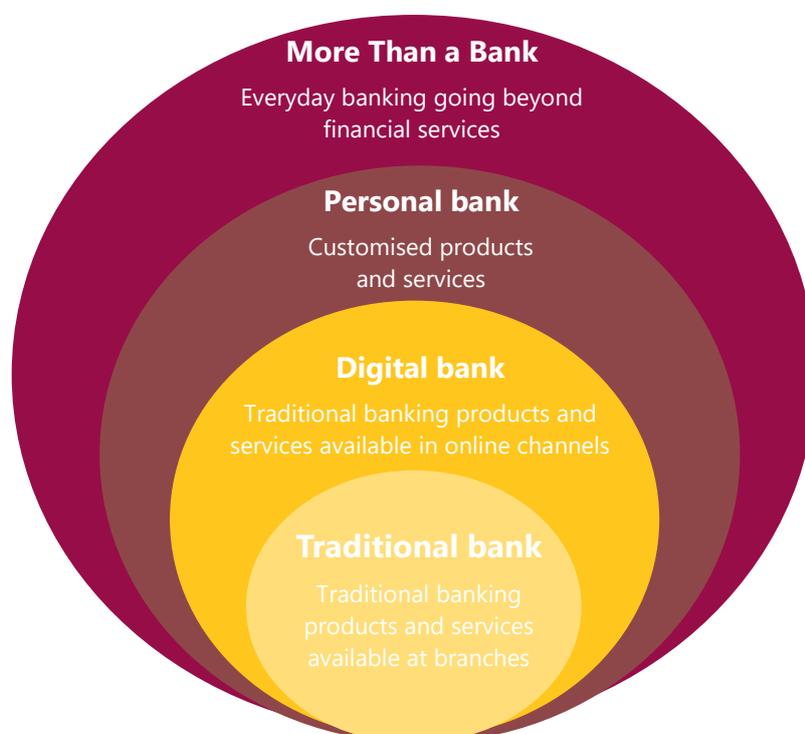


## Summary of strategic activities in the 1<sup>st</sup> half of 2020

The first half of 2020 was the time of dynamic changes for Alior Bank, realized in a difficult market conditions in connection with challenges related to ensuring the safety of employees and customers and maintaining business continuity in the face of the COVID-19 pandemic.

### The “More Than a Bank” strategy

*The business objective of the new strategy is to facilitate everyday activities for customers through the integration of banking and non-banking services provided both by Alior Bank and our partners.*



In the area of business customers, the “More Than a Bank” strategy refers to the delivery of sectoral strategy and expansion of bankers’ competencies to include business advice, as well as the development of the ecosystem of non-banking services related to running and growing a business – accounting and administrative systems or medical and insurance packages.

The strategy provides for tapping the strengths of Alior Bank, i.e. technology and organisational competencies, to enable us to deliver new solutions quickly and effectively.

Strategic pillar	Strategic programmes	The most important effects
Customer experience	Alior Mobile	Non-banking services in Alior Mobile app
	Personalisation	Products meeting Customers’ expectations
	Convenience	Convenient digital processes
	Business customer relationship	Modern service and sector-related support
Transformation of the Bank	Technology leader	Technological advantage
	Effectiveness	Process and cost optimisation
	Risk and capital management	Safety and predictability
	Bank of committed experts	Employee development and social responsibility



## Implementation of the strategy

***We implement innovative solutions to guarantee that customers have maximum comfort and independence from any location and at any time, including during sensitive moments that require identity confirmation.***

In the first half of the year, Alior Bank took advantage of solutions which enabled our customers to access products and services online without the need to visit branches. Solutions enabling remote identity verification were of key importance among the projects. It is an area of priority development, which aims at enabling our customers to access the offer of Alior Bank at any time, place and in an easy way.

In the first half of 2020, the first large project of this nature was an investment in the Autenti FinTech. Alior Bank, BNP Paribas, and PKO Bank Polski have collectively invested in Autenti – a Polish fintech whose offer includes a platform for electronic agreement signing and digital document circulation. The project allows customers to use the latest solutions available on the market. In the first place, the e-signature solution is addressed to entrepreneurs in the process of deferring the repayment of loan installments (credit holidays in connection with COVID-19).

It is also the first joint transaction of this type of banks in the region of Central and Eastern Europe and another, after the creation of the Polish Payment Standard and the Polish API, an example of cooperation between domestic banks in creating solutions beneficial for customers and the entire economy.

It is the first such transaction between banks in Central and Eastern Europe working on an equal footing. This represents another example – after having developed the Polish Payment Standard or the Polish API – which demonstrates that the cooperation of national banks in different areas and models helps to create solutions of a beneficial nature not only for a client but the entire economy. The Autenti investors are eager to have established cooperation with the banking community, which could support the creation of a Polish standard for remote signing and digital circulation of documents, and thus the development of environmentally friendly solutions in this regard.

Remote customer service is a priority not only of our strategy, but also new realities introduced by the COVID-19 epidemic. In the first quarter of 2020 Alior Bank implemented a new method for verifying the customers' identity without the need to visit a branch. **The FOTO ID** (Photo ID) method significantly accelerated the identity verification process – the entire process takes no more than 5 minutes. At the same time, the solution is intuitive and does not require high digital competencies. It is an example of technology that improves the experience of our customers.

Another action aimed at the remote identification of the customer is **cooperation with the Polish Security Printing Works**. One of the areas of cooperation is the use of an e-ID that will make it possible to verify the identity of customers without the need to visit a branch. Thanks to the eDo App application, customers will confirm their personal data using an e-ID and are able to freely use Alior Bank's products and services. The possibilities offered by this application, even at this moment, have revolutionised the market. Safe and remote confirmation of identity or signature has become available to all Alior Bank customers. Thanks to eDO App, it is possible to limit many fraud attempts committed by criminals using stolen or counterfeit IDs.

***To ensure greater convenience and independence of our customers, we have implemented a number of amenities available in the Alior Online and Alior Mobile applications.***

According to strategic priorities, Alior Bank's key development area is online and mobile banking as well as ensuring the free management of own funds from any place. Taking this into account, the first implementations, among other things, the option to recover the forgotten customer number (login to Alior Online) and increase the maximum amount of PIN-less payment to PLN 100.

Alior Bank S.A. also appreciates its current customers. Due to that, we provided our customers with the option to take a **“one click loan”** in a special offer available in Alior Mobile and Alior Online. By doing so persons interested in obtaining additional money have the opportunity to apply in a quick and convenient manner without leaving the house.

Our goal is even simpler and more intuitive handling of transaction systems, which is why the navigation method in Alior Bank’s online banking has changed as well. Functions available thus far in the option screen, such as Trusted Profile, Application for 300+ or Application for 500+, have been transferred to a separate tab – **eOffice**. In this way, all e-administration services are available in one place where customers can manage them in a convenient and intuitive way.

The culmination of activities related to convenience was also the provision of access to the **account aggregator** in May 2020, i.e. the option to access personal accounts in other banks. The option to access accounts in different banks from the Alior Online transaction platform level is a convenient and practical solution for owners of several bank accounts, i.e. over half of customers using online banking. This is yet another implementation, after the simplified credit process, which utilises open banking opportunities.

At Alior Bank, we are constantly looking for ways to personalise offered products and services as well as adapt them to the individual and current needs of our customers. The beginning of 2020 also marked the launch of the **“Compare funds”** tab introduced as part of the development of the investment website of Alior Bank. The new function enabled customers to search for and compare investment funds offered through the bank. Alior Bank is of the assumption that the most important thing is the customer’s convenience, and expectations regarding profit and the level of investment risk tolerance should be treated individually.

On the other hand, for the customers of **the Alior Bank Currency Exchange**, we introduced an option to quickly transfer funds into the account using any debit and credit card. The solution significantly accelerates the transfer of funds to the account at the moment when you urgently need to exchange currency or you want to act on the fact that the exchange rate has become exceptionally beneficial. What distinguishes this service to top up both PLN and foreign currency accounts. This is the first solution of this kind introduced by the bank in Poland.

*A special offer for gamers and e-sports fans is another step towards the personalisation of the range of products and services offered by Alior Bank.*



Looking for new channels of customer contact, Alior Bank S.A. in the first half of 2020. started cooperation with the Polish League of Legends - one of the most popular video games worldwide. A special card with the image of Ashe is available to both current and new customers of Alior Bank. The card may be ordered during the process of opening a Highly Personal Account [Konto Jakże Osobiste] through Alior Online and Alior Mobile as well as by means of any other customer service channel. Thanks to the new card, League of Legends fans will gain access to the Mastercard Priceless Moments programme, within the framework of which they may pick up prizes from the game universe. Some of them will be up for grabs exclusively for Alior Bank customers.

Since May 2020, Alior Bank S.A. is also the Main Sponsor of the Ultraleague [*Ultraliga*], the Polish professional League of Legends league. Polish representatives in the global tournaments of this game have made their

name through significant achievements, which millions of fans in Poland and worldwide follow on an ongoing basis.

### ***Increasing efficiency and developing the working environment at Alior Bank by providing access to innovative solutions to our customers and employees alike.***

During the acceleration programme, in cooperation with the customer service team of Alior Bank, Luna-lang company created a draft version of an original programming environment and provided full support from the graphics side. Luna-lang has developed unique software to combine and analyse data from various systems. The user has access to all information regarding a specific customer available in the bank's systems in one place. Importantly, this technology is user-friendly both for programmers who manage systems and persons who do not know coding languages, i.e. consultants, account managers or managers examining the needs of different customer groups.

The project will translate into a possibility of faster customer service and even greater satisfaction of persons contacting Alior Bank. Tests related to this solution have been completed in March 2020.

## **Basic financial data**



Due to non-recurring events, including mainly those resulting from the COVID-19 pandemic, the Alior Bank S.A. Capital Group in H1 2020 generated a net loss of PLN -513.4 million, i.e. a result PLN 606.5 million lower than the net profit achieved in H1 2019.

The main reasons for this decrease include:

- Recognition of impairment charges related to COVID-19 in the amount of -418.0 million, of which -269.8 million results from changes in model parameters and -148.2 million from individual impairment charges.

- Decrease in income in connection with the CJEU judgement regarding refund of part of the commission in the case of early repayment of consumer loans – Alior Bank S.A. estimated the judgement's impact to be gross PLN -192.1 million, with this amount including:
  1. a provision for historical refunds of part of the commission in the case of consumer loans repaid before 11 September 2019, in the amount of PLN -98 million (impact on other operating expenses),
  2. the current cost of repayable commissions for early repayment of loans in H1 2020 in the amount of PLN -100.2 million (impact on interest income),
  3. an 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 refunds of part of the commission, in the amount of PLN +6.6 million (impact on interest income).
- Decline in net interest income resulting from the reduction of interest rates in connection with three decisions of the Monetary Policy Council of 14 March 2020, 8 April 2020 and 28 May 2020 on the reduction of the NBP reference rate by a total of 1.4 p.p., i.e. to 0.10 percent, and in connection with the decision of the National Bank of Poland on the reduction of the mandatory reserve requirement rate from 3.5% to 0.5%. Alior Bank S.A. estimated that the aforementioned decline in net interest income amounted to PLN -110.2 million in H1 2020.
- Impairment of goodwill due to the acquisition of Meritum Bank ICB S.A., in the amount of PLN -64.4 million. This is a non-recurring event.
- Recognition of the impact of the so-called minor modification within the meaning of IFRS 9 in connection with the application of the so-called non-statutory and statutory credit holidays in relation to COVID-19. The modification reduced the Alior Bank's net interest income by PLN 14.5 million and constitutes a non-recurring event.

As a consequence, the Bank's ROE ratio was -15.8% (vs. 2.9% in H1 2019). After excluding the impact of non-recurring events, i.e. impairment charges in relation to COVID-19, minor modification in connection with the application of the so-called credit holidays and extension of the provision for historical returns of part of the commission in the case of loans repaid before 11 September 2019, the ROE ratio of the Alior Bank Group in the first half of 2020 would amount to 0.6%.

It is worth noting, however, that despite a large impact of non-recurring events and high pressure on results due to unfavourable macroeconomic environment, Tier1 and TCR ratios remained at a high level (13.14% and 15.72%, respectively), leaving a safe buffer above the regulator's requirements (464 bps and 522 bps, respectively). This means that the Group has a surplus of Tier 1 capital of more than PLN 2.2 billion above regulatory minimums.

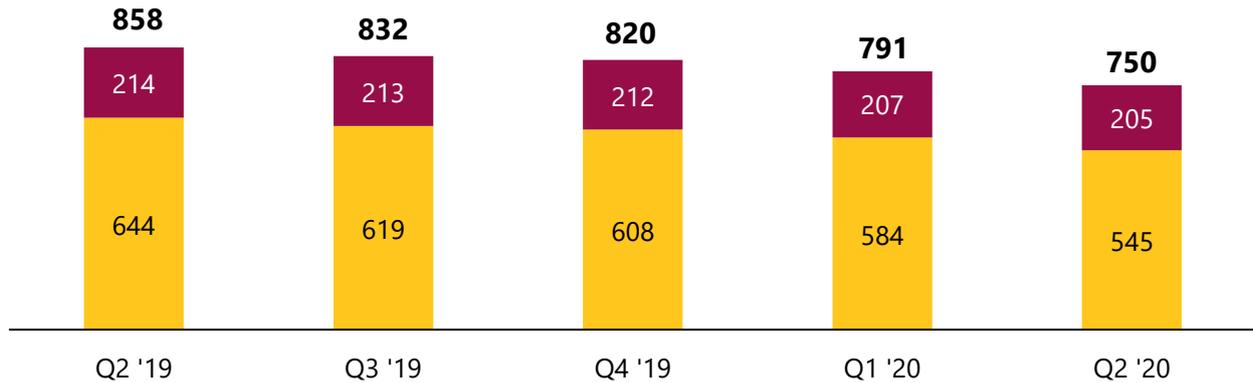
In H1 2020, the Banks's liquidity situation remained at a secure level. It was closely monitored and maintained according to the needs through adapting the deposit base level and funding mobilisation depending on the development of lending action and other liquidity needs. The Group's LCR as at 31.12.2019 was at the level of 148% and was raised to 187% as at 30.06.2020. Therefore, it is 87 p.p. above the regulatory minimum.



## Distribution network and headcount

### Distribution network

At the end of 2020, Alior Bank S.A. had 750 outlets (191 traditional branches, 7 Private Banking branches, 7 Regional Corporate Centres, and 545 partner outlets).



Alior Bank S.A. 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

As at 30 June 2020, employment in the Alior Bank Group was at the level of 8578.54 FTEs.

In the first quarter of 2020, employment was at the level of 8,310.37 jobs, the increase in employment to 8,578.54 FTE in the second quarter of 2020 results from the acquisition by a subsidiary of Alior Bank S.A. of the company Ruch S.A.

### Full-Time Equivalentents (FTEs)





## Assessment of activities pursued by the Alior Bank S.A. Capital Group

In the first half of 2020, the Alior Bank Group generated a net loss of -513,4 million.

The financial result achieved was affected by non-recurring events described above and the unfavourable change in the macroeconomic environment in connection with the on-going COVID-19 coronavirus pandemic.

Despite the unfavorable environment and the recognition of one-off events reducing the net result of Alior Bank S.A. maintains capital ratios at very safe levels above the minimum regulatory levels and allowing for further business expansion. The Bank adjusted its offer to the environment of low interest rates and to the legal environment after the CJEU judgement on the refund of commissions in the case of early repayment of consumer loans. In addition, Alior Bank S.A. conducts a continuous process of optimising efficiency, aimed at reducing the growth of the cost base.

The Management Board of Alior Bank S.A. positively assesses the measures introduced in response to the change of the macroeconomic and legal environment. In the opinion of the Management Board, they form the basis for gradual improvement of the Alior Bank's financial results in future periods.

## II. External environment of the Bank's operations



### Poland's economic growth

The year 2020 will certainly be recorded in the pages of history as the year of an economic crisis on an unprecedented scale, caused by the COVID-19 global pandemic, and the first half of the year will be considered in terms of the previously unseen global economic lockdown. Poland will not be an exception in this respect and similarly to other countries all over the world will probably end the first half of the year with the highest recorded quarterly GDP drop in history. However, the entire period can be divided into two stages. The national economy ended the first quarter in good form. Despite the slower growth in previous quarters, the GDP growth rate remained at a solid level of 2% y/y<sup>1</sup>, although the first social distancing restrictions introduced in mid-March have caused the growth rate to drop from 3.2% y/y<sup>2</sup> recorded in Q4 2019. In Q2 2020, the economy had to face the whole range of consequences brought about by the COVID-19 pandemic, as due to the steadily growing number of infections recorded domestically and globally social distancing restrictions have been expanded, the borders and educational facilities have been closed, and service and production activity in certain industries has come to a complete stop. Importantly, the social distancing measures had a global scale and were introduced in many countries at nearly the same time, which made it even more difficult to adapt the economy to the new circumstances.

As a result, consumption has been gradually declining. Consumers have focused on purchasing first aid goods and health protection products, and fears about the future labour market situation have favoured a greater tendency to save money. There were several factors that had an impact on the situation of enterprises. The first negative impact on turnover was exerted by broken supply chains, another was brought about by governmental restrictions introduced in response to the epidemic, which made it impossible to run a business or significantly limited opportunities to do so.

As a consequence, some enterprises were teetering at the verge of losing liquidity and investment plans of many companies were severely crippled. There was a looming fear of a strong reduction in employment and wages. In response to the extraordinary situation in the country and all over the world, the governments introduced a number of aid programmes supported by looser monetary policy by central banks. In Poland, such programmes included the implementation of the Anti-Crisis Shield aimed at protecting the labour market

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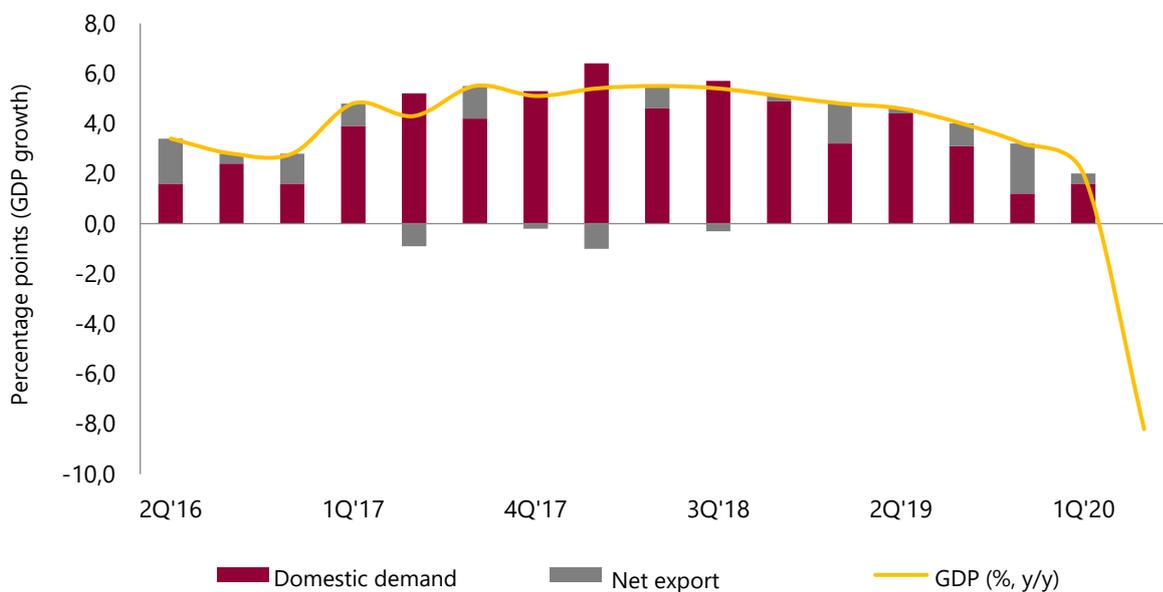
<sup>1</sup> Source: Statistics Poland

<sup>2</sup> Source: Statistics Poland

and monetary policy of the Monetary Policy Council. These measures became a clear opportunity to limit the scale of economic decline in future periods.

Following the economic lockdown in May and June, the country's economy was thawed. Nevertheless, despite all measures taken by the government and the central bank, the second quarter of 2020 ended with an economic decline. A clear growth in retail sales and production at the end of Q2 were not able to completely compensate the economic stagnation in April, which affected the result for the entire quarter. According to a quick reading from the Central Statistical Office, during this period the national economy shrank by approx. 8.2% y/y<sup>3</sup>, affected to the greatest extent by the decline in consumption and limited investments.

## GDP growth



\*/Source: Statistics Poland

Forecasts concerning the condition of the national economy in subsequent quarters of the year are burdened with a large degree of uncertainty. The primary risk factor remains the coronavirus pandemic raging all over the world, where certain countries affected by the epidemic somewhat later than Europe (such as USA) are recording a growing number of infections and some regions in Europe are beginning to show a risk of the

<sup>3</sup> Macroeconomic forecasts by DAM Alior Bank S.A. dated 30.07.2020

epidemic re-emerging. Therefore, it is not possible to exclude the return to sanitary restrictions, which will also affect the national economy through the international trade channel.

Domestically, so far, the recorded increases in the incidence of the disease do not stop the economy from freezing after the period of the earlier lockdown, which brings effects in the form of accelerated production and increased consumption, but the durability of the recovery will be decided in the coming months. For the time being, the liquidity impulse from the Anti-Crisis Shield reduces the risk of losing liquidity by companies and reduces the scale of layoffs, which gives grounds to maintain the upward trend in consumption. On the other hand, infrastructural investments and relatively strong construction should foster at least partial revival of investments this year. Trade remains a risk, as it will depend on the epidemiological situation not only in the EU, but also globally. We forecast that in 2020 the GDP in Poland will drop by 3.6% y/y<sup>4</sup>. Starting from 2021, however, the economy should start growing once again and the low base this year and the planned new pool of funds from the EU budget for the years 2021-2027 along with an additional part of the economy recovery fund allocated for combating the effects of the coronavirus will provide support for the national economy.

### **Situation in the labour market**

The coronavirus pandemic found the domestic labour market in a great condition. The unemployment rate recorded in the last quarter of 2019 reached the historically lowest level of 5%<sup>5</sup>, whereas in Q1 2020 it increased only to 5.5%<sup>6</sup>. The labour market clearly belonged to employees, which resulted in a high increase in wages that reached 7% y/y<sup>7</sup> in Q1 and a persisting increase in employment, but significantly lower than at the end of 2019, which was related to decreasing employee resources on the market. Unfortunately, the epidemiological situation forcing social distancing restrictions in March and April as well as the unfreezing of the economy in subsequent periods under a new sanitary regime shifted the balance of forces on the labour market. During the first lockdown period, enterprises trying to protect themselves from the loss of liquidity reduced employment. This was particularly visible in the services sector where many workers employed under definite contracts and working on commission have lost their jobs. The scale of layoffs was significantly reduced by government aid programmes in the form of the Anti-Crisis Shield, which included subsidies to remunerations or financing under the Polish Development Fund, where one of the conditions was to maintain employment, and various solutions for enterprises aimed at the state co-financing the costs borne by the employer. As a result, the scale of layoffs was limited and at the end of June the unemployment rate reached the level of 6.1%<sup>8</sup>, whereas in the enterprise sector unemployment dropped by no more than 0.5% y/y<sup>9</sup> in H1 2020. The recorded

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<sup>4</sup> Macroeconomic forecasts by DAM Alior Bank S.A. dated 30.07.2010

<sup>5</sup> Source: Statistics Poland

<sup>6</sup> Source: Statistics Poland

<sup>7</sup> Source: Statistics Poland

<sup>8</sup> Source: Statistics Poland

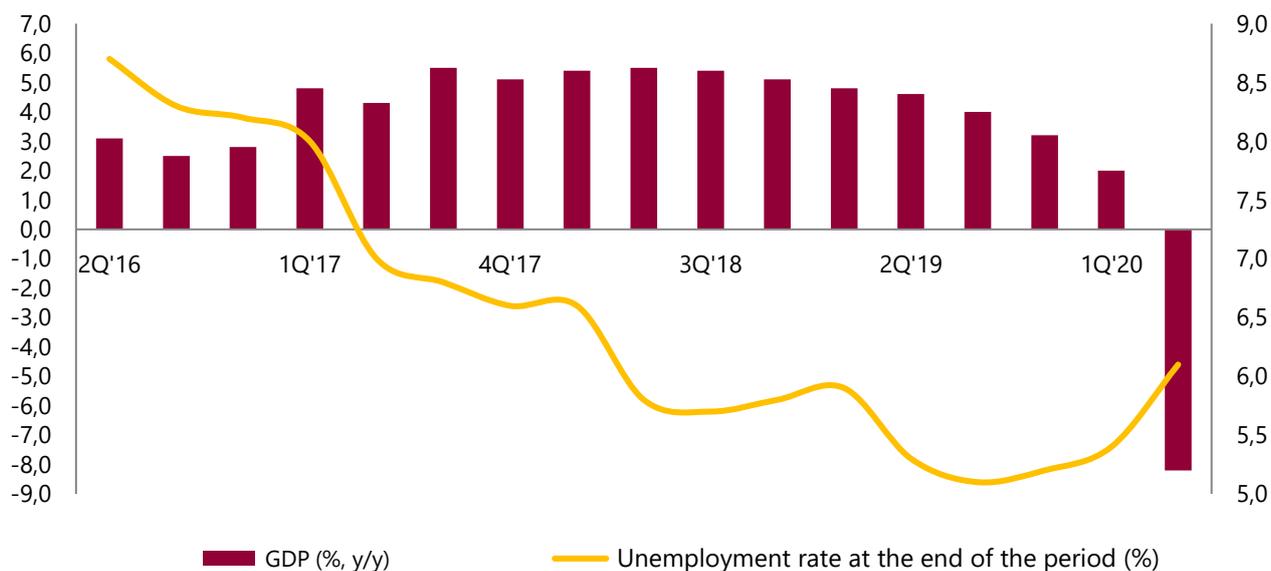
<sup>9</sup> Source: Statistics Poland

growth in unemployment was also managed by reducing the number of hours worked by employees and using carer's allowance and sickness benefits more frequently.

A shift to the employer's market initiated payroll changes. In response to lower demand for labour due to the lockdown and lower demand for goods and services after the economy was unfrozen in Q2 2020, the growth rate of wages in the enterprise sector dropped significantly to 1.8% y/y on average from 7% y/y<sup>10</sup> in Q1 of this year, which meant a decline in average wages y/y to 4.5% from 6.8%<sup>11</sup> in the same period of 2019. In real terms, the increase in wages – with a growing inflation – slowed down from 4.1% y/y at the end of 2019 to 0.3% y/y<sup>12</sup> at the end of June 2020.

In subsequent quarters, employment will continue to fall due to lower demand for labour compared to previous year due to the economic slowdown, which will translate into a higher unemployment rate. The growing unemployment rate will continue to be limited by solutions prepared under the Anti-Crisis Shield, but the scale of those solutions will continue to decline as time passes. On the other hand, the lower supply of employees from abroad, including the Ukraine, may constitute a factor limiting the increase in the unemployment rate. As regards payroll, the economic recovery and return to higher activity of enterprises should foster the return to full working time and, as a consequence, a faster wage growth rate, but this year the return to the growth rates from before the pandemic seems to be unattainable.

### GDP growth rate and unemployment rate



\*/Source: Statistics Poland

<sup>10</sup> Source: Statistics Poland

<sup>11</sup> Source: Statistics Poland

<sup>12</sup> Source: Statistics Poland

## Inflation and interest rates

In H1 2020, consumer inflation was higher compared to the same period of 2019, but the highest growth in prices was recorded in Q1. The beginning of the year brought about a cumulative impact of higher electricity prices, communal waste disposal prices, higher excise duty on alcohol and tobacco, and higher food prices. In subsequent months, food prices have somewhat levelled off, which coincided with the strong decrease in the prices of raw materials all over the world, including crude oil on global market. Due to exogenic factors, inflation dropped from 4.6%<sup>13</sup> y/y in March of this year to 3.3% y/y<sup>14</sup> in June, which is still higher than in the previous year when inflation was at the level of 2.6% y/y<sup>15</sup>. The highest impact on the decrease in prices in the period in question was caused by dropping prices of goods while the prices of services continued to remain high and were additionally supported in June by the desire of service providers to quickly recover losses borne during the economic lockdown period by raising prices to compensate for losses in volume.

In response to the expected deterioration of economic perspectives due to the spreading coronavirus pandemic, both domestically and globally, and the risk of inflation dropping below the inflation target, the Monetary Policy Council decided to clearly ease monetary policy. Starting from March, the reference rate was reduced three times by a total of 1.4 percentage points from 1.5% to 0.1%<sup>16</sup>. The Council also lowered the deposit rate to 0% and the lombard rate to 0.5%. Additionally, as was the case for most central banks all over the world, the Monetary Policy Council decided to launch an asset purchase programme which as at the beginning of July amounted to PLN 101 billion (4.5% of the GDP)<sup>17</sup>. Moreover, in March the Council reduced the base reserve requirement rate by 3 percentage points to 0.5%, whereas the National Bank of Poland also offered banks the possibility of obtaining funds as part of repo operations and refinancing loans granted to enterprises by banks in the form of bill discounting facilities<sup>18</sup>. Actions taken by the Monetary Policy Council were justified by the expected weak economic outlooks for subsequent periods. According to the National Bank of Poland, the GDP decline in 2020 will reach 5.4%. In 2021, the National Bank of Poland expects a recovery and a growth rate of 4.9% y/y. The main element limiting economic growth rate are to be investments made by enterprises. On the other hand, private consumption should recover at a relatively faster rate. Average annual inflation rate will reach 3.3% this year and drop in the next year to the lower deviation from the inflation target.

In our opinion, in subsequent months the price growth will slow down, with the stipulation that during the summer the CPI will remain above 3% y/y due to the persisting high prices in services, including the tourism and catering industries which are returning to operation. The decline in economic activity, lower pressure from the labour market and the expected further slowdown in the increase of food prices will have a limiting impact

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<sup>13</sup> Source: Statistics Poland

<sup>14</sup> Source: Statistics Poland

<sup>15</sup> Source: Statistics Poland

<sup>16</sup> Source: National Bank of Poland

<sup>17</sup> Source: National Bank of Poland

<sup>18</sup> Source: National Bank of Poland

on prices. In the opposite direction, the CPI may be negatively impacted by the crude oil market response and higher operating costs of enterprises under the new sanitary regime. In these circumstances, the CPI may drop to approx. 2.2% y/y in December '20 and to an annual average of 3.3%<sup>19</sup>.

### **Situation in foreign trade**

At the beginning of 2020, disruptions to international trade have deteriorated and the coronavirus pandemic exacerbated the situation. Many supply chains were broken, initially from Asia but as the virus spread also from other countries. During the economic lockdown period, limitations on demand and supply have had their toll on the majority of branches of the economy. According to Statistics Poland, international trade in the period from January to May 2020 has declined and amounted to PLN 393.3 billion in export and PLN 384.3 billion in import, at current prices. Trade balance was positive at PLN 9 billion, as compared to a deficit of PLN 0.2 billion in the same period of 2019. Compared to the same period of 2019, exports and imports declined by 7.4% and 9.6%, respectively. The decline in turnover was mainly related to the effects of restrictions imposed due to the COVID-19 epidemic. The machinery and transport equipment section had a large impact on the decline in turnover. According to data provided by Statistics Poland, in the period under review EU countries, primarily Germany, have remained the main trade partners of Poland.

### **Global economy**

The first half of this year has left a clear imprint on the global economy. Due to its global nature, the COVID-19 epidemic and the rate at which it spread had an impact on the economies of most global regions, although its biggest impact was first visible in Asia, then Europe and both Americas. In response to the epidemiological situation, most countries decided to impose social distancing and economic restrictions, close educational facilities and even borders, which resulted in a decline in economic activity at the turn of Q1 and Q2 of this year. Social distancing brought about various effects, but due to the slower spread of the virus in May and June most European countries and the USA have started to unfreeze their economies and opted to ease most restrictions, which allowed for a gradual return of consumers to the market, restart many branches of the economy and once again open the borders. The global economy recovery process was supported by programmes consisting in easing the monetary and fiscal policy implemented on a wide scale. Many central banks, in both developed and emerging economies, lowered interest rates and launched or expanded the purchase of assets.

In the Eurozone, the impact of the pandemic on social distancing restrictions imposed as early as March became visible in Q1 results. In this period, the GDP dropped by 3.1% y/y compared to the increase by 1%<sup>20</sup> y/y in Q4 2019. Nevertheless, the greatest restrictions in the response to the pandemic were introduced in April, which despite the economic lockdown slowly ending in May and June had the biggest impact on Q2

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<sup>19</sup> Macroeconomic forecasts by DAM Alior Bank S.A. dated 30.07.2020

<sup>20</sup> Source: Bloomberg

2020. The expected decline in GDP in this period is estimated at 15% y/y<sup>21</sup>. Such deep deterioration of the economic situation has left an imprint on demand for labour, in effect resulting in an increase in the unemployment rate to over 7%<sup>22</sup>, which was moderate compared to the decline in GDP, but it was to a large extent mitigated by government aid programmes implemented by individual countries. Lower global demand for goods and services resulted in a decrease of the prices of raw materials on global markets, mainly the prices of energy, primarily crude oil. In this period there was a clear decrease in inflation, which in June reached the level of only 0.3% y/y compared to 1.3% y/y<sup>23</sup> in June of the previous year. The drop in inflation and, mainly, the expected deep recession in the Eurozone initiated unprecedented measures taken by the ECB. The ECB, which kept the main interest rate at 0% and deposit rate below zero for a long time, kept interest rates at an unchanged level, but significantly increased the scale of the asset purchase programme (up to a total of EUR 1470 billion by June 2021<sup>24</sup>) and eased the conditions of the current liquidity programme for banks.

In the USA, the pandemic started spreading more intensely somewhat later than in Europe, which allowed to achieve positive economic results in Q1 of this year. In Q1, the GDP grew by 0.3% y/y compared to 2.3% y/y<sup>25</sup> in Q4 2019. Nevertheless, the introduction of social distancing restrictions, closed or limited activity in many sectors of the economy brought about measurable effects in Q2. The expected GDP drop in this period is forecasted at 10.3% y/y<sup>26</sup>. Economic restrictions were accompanied by a dynamic increase in the unemployment rate, which in April exceeded 14%. Support from the American government as well as the abolishment of restrictions in May and June translated into a partial return of economic activity, but the unemployment rate remained at a high level exceeding 10%. Similarly as in Europe, the economic crisis in the USA had a disinflationary nature thus far due to decreasing prices of raw materials, but also lower pressure on the labour market. At the end of June, inflation in the USA dropped to 0.6% y/y from 1.6% y/y<sup>27</sup> in June of the previous year. Fed also did not delay providing support for the American economy. The Federal Reserve reduced interest rates by 1.5 percentage points (to 0.00%-0.25%)<sup>28</sup> and launched an unprecedented asset purchase programme on an unlimited scale.

In subsequent quarters, global economic recovery remains uncertain. Although most countries decided to partially or fully unfreeze the economy, the virus remains active and the risk of another wave of the pandemic, especially in the Autumn period, is high. Hence, economic forecasts are also burdened with uncertainty. However, it seems that the abolished restrictions will foster at least a partial return of consumption supported by social packages protecting the labour market. Uncertainty of enterprises will remain high, impacting the scale of investments and international trade will continue to be limited by restrictions still in force in certain areas and lower demand for goods and services, which means that recovery in the investment area will be

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<sup>21</sup> Consensus based on Bloomberg forecasts dated 21.07.2020

<sup>22</sup> Source: Eurostat

<sup>23</sup> Source: Eurostat

<sup>24</sup> Source: National Bank of Poland

<sup>25</sup> Consensus based on Bloomberg forecasts dated 21.07.2020

<sup>26</sup> Consensus based on Bloomberg forecasts dated 21.07.2020

<sup>27</sup> Source: Bureau of Labor Statistics USA

<sup>28</sup> Source: Fed

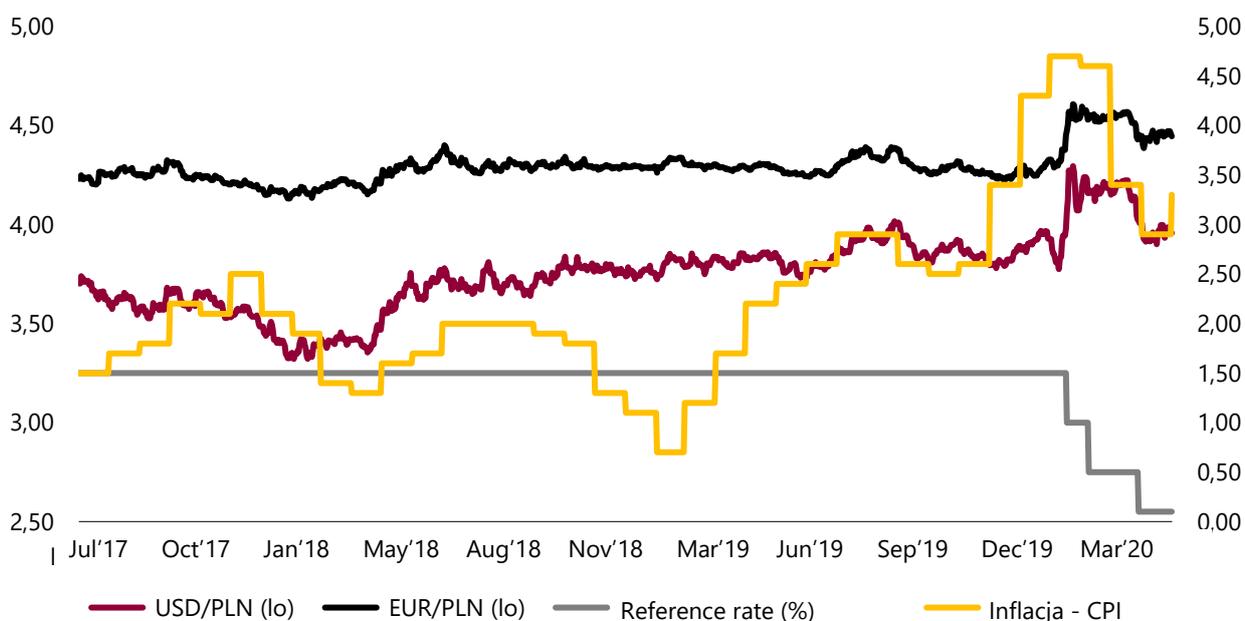
slower. Therefore, this year most mature economies and emerging regions will not avoid a recession. A clear recovery should be visible next year, where investment demand and higher international trade will provide additional support in addition to the effects of a low base.

## Exchange rate

Financial markets in H1 2020 were dominated by volatility. The first months of the pandemic brought an increase in the demand for the American dollar as the main global reserve currency. As a result, EUR-USD rate found itself at the lowest levels since 2017. In the following months, EUR-USD remained under the influence of information on the scale of infections in individual regions of the world as well as actions taken by governments of individual European and US countries to fight with the virus. Measures taken by central banks, including disproportion between a larger scale of monetary easing by the Fed as compared to the ECB, were also of great importance. When optimism returned to the financial markets as subsequent phases of unfreezing major developed economies were being rolled out, these circumstances favoured the Euro. During the first half of the year, the EUR-USD rate became symbolically stronger from 1.1210 at the end of December 2019 to 1.1231 at the end of June.

In the first phase of the crisis, the domestic currency reacted with a dynamic discount to the increase in external risks as well as to the reduction of interest rates by the Monetary Policy Council and announced asset purchase programmes. With the reduction of aversion to risk on financial markets, the initial losses of PLN were reduced in most cases, however this was not enough for it to become stronger compared to December and the same period of last year. As a result, the Polish zloty lost 4.3% to the US dollar and 4.5% to the Euro, reaching the level of 3.96/USD and 4.44/EUR at the end of the period.

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



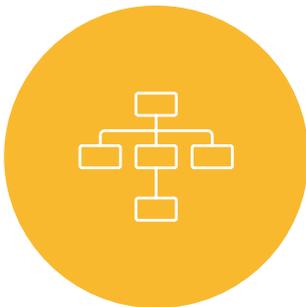
\*/Source Bloomberg



## Key structural and financial figures for the Polish banking sector in 2020

The year 2020 will probably be remembered as one of the more demanding for the domestic sector. This year, Polish banks were in the process of adapting their business practices to the judgements of the CJEU concerning mortgage loans in foreign currencies and the so-called “small CJEU” concerning consumer loans.

However, additional challenges arose quite quickly. The COVID-19 pandemic which has been spreading all over the world for several months has led the economy to a crisis at a scale not previously seen in the post-war history. The Polish economy will suffer to an extent that has not been recorded after 1990 – the domestic GDP dynamics will drop in 2020 significantly below zero. Apart from the obvious impact resulting from the deterioration of economic activity on the results of the banking sector, the banking sector additionally has to struggle with record low interest rates - one of the instruments which the MPC introduced into force in order to support the economy during a period of economic collapse.



## Key structural figures<sup>29</sup>

At the end of May 2020, 30 commercial banks, 535 cooperative banks and 33 branches of credit institutions have been operating in Poland. The banking network comprised 6 206 branches, 3 200 offices, agencies and other customer service outlets and 2 631 representation offices (including partner outlets). Therefore, the banking network comprised a total of 12 037 outlets, i.e. 386 outlets

less than at the end of the previous year.

Headcount at the end of May 2020 fell to 154.5 thousand people and was 2.4 thousand (1.5%) lower as compared to the end of 2019 (156.9 thousand).

At the end of May 2020, commercial banks had a 90% share in sector assets, cooperative banks – 6.7%, and credit institutions – 3.3%.

In terms of capital origin, the State Treasury had 43% share in assets, foreign capital represented 44.8%, and Polish private capital – 12.2%.



**30**

**commercial banks**



**33**

**branches of credit institutions**



**535**

**cooperative banks**

<sup>29</sup>Source: Monthly data for the banking sector (knf.gov.pl)

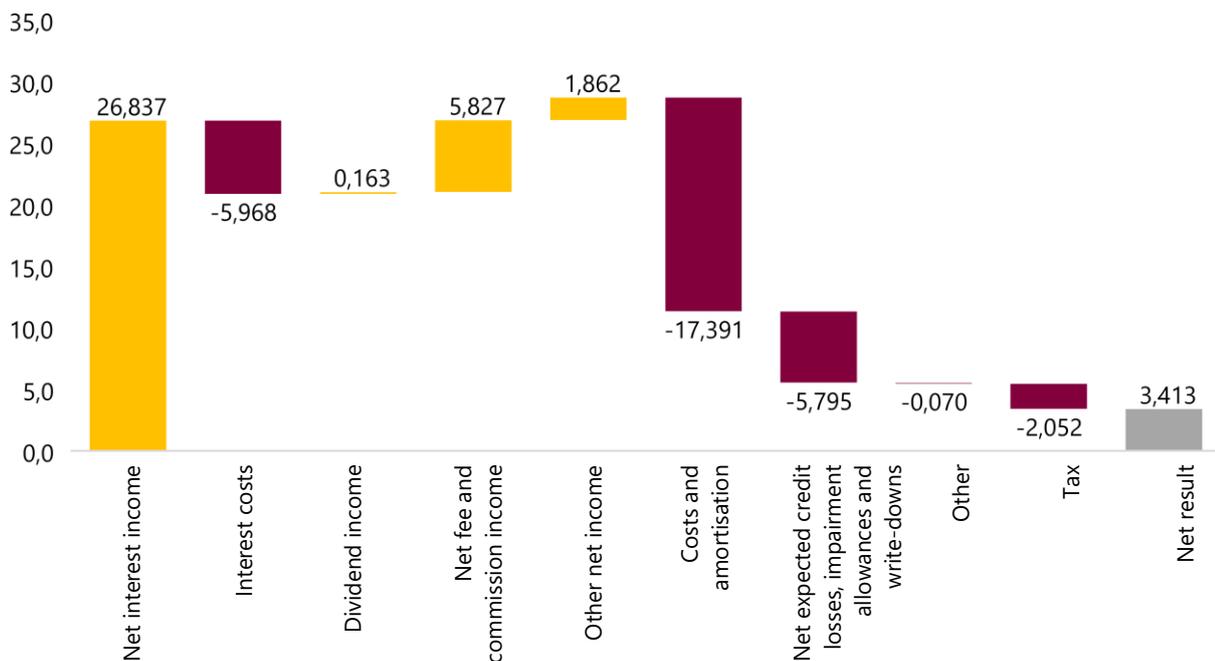


## Key income statement items<sup>30</sup>

In the period from January to May 2020, the banking sector earned a net profit of PLN 3.4 billion compared to PLN 5.9 billion in the same period of the previous year, which meant a decline by PLN 2.4 billion (i.e. 41.7% y/y). 10 commercial and 6 cooperative banks, with a 7.5% share in sector assets\*, recorded a loss. The remaining banks\* generated a profit. In this period, total operating revenues of the sector amounted to PLN 28.7 billion, which means that they were 2.7% lower y/y.

The biggest negative impact on the net result in the period from January to May 2020 was recorded in the result on provisions and impairment charges, which amounted to PLN -5.8 billion and was PLN 1.9 billion lower y/y. In addition, significant declines were recorded in revenues from dividends (PLN -1 billion y/y), other net revenues (PLN -0.9 billion y/y) and interest income (PLN -0.6 billion y/y). Positive impact was recorded mainly in the form of a decrease in interest costs (by PLN 1.2 billion y/y) and profit on commissions (PLN +0.4 billion y/y).

### Financial result of the banking sector in the period from January to May 2020 (PLN billion)



<sup>30</sup>Source: Monthly data for the banking sector (knf.gov.pl)

\*commercial and cooperative banks

April and May 2020 brought a noticeable deterioration of the interest margin, which despite the reduction of the financing costs fell to 2.58% at the end of May 2020 as compared to 2.64% in December 2019 and 2.60% in May 2019.

The return on equity recorded a significant decline in March and continued to fall in the following months. After May 2020, ROE in the banking sector was 5.4%, which is the lowest level at least since 2012. Compared to December 2019, ROE declined by 1.3 p.p. and by 0.72 p.p. y/y. ROA was subject to clear erosion and dropped to 0.56% after May, i.e. 0.15 p.p. compared to December 2019 and by 0.1 p.p. y/y.

A significant increase in impairment charges which could be observed since March of this year resulted in the R/I ratio significantly increasing from 15.9% in May 2019 to 19.8% in May 2020. Keeping administrative costs at a manageable level resulted in the deterioration of operating revenues y/y, the C/I ratio in the entire sector slightly decreased compared to May 2019 from 56.5% to 56.2% in May 2020.

## Loans and deposits<sup>31</sup>

The main source of financing for banks in 2019 were non-financial sector deposits, the growth during the crisis period significantly accelerated, while lending slowed down. In the environment of a rapid deterioration of the economy in Poland and abroad, companies gathered cash reserves despite low interest rates. The trend for savings among households has also intensified. At the same time, banks have introduced a stricter lending policy and the lack of liquidity in the enterprise sector was partially compensated by government aid programmes.

The value of banking sector assets amounted to PLN 2,254 billion in May 2020 and was 15.2% higher y/y and 12.7% higher compared to December 2019. The growth in banking sector assets was driven mainly by the increase in the value of debt instruments.

Loans and advances in May 2020 amounted to PLN 1,318 billion, which means an increase by 3.6% y/y (compared to 4.4% y/y in December 2019) and indicates the continued slowdown of the lending action that deteriorated further as the crisis hit. Despite the lower level of interest rates in the crisis period, the deposits have clearly accelerated, growing at the end of May 2020 to PLN 1,681.6 billion, i.e. by 16.8 y/y.

In the deposit structure, the share of the non-financial sector recorded a slight decline from 82.7% in May of last year to 81.3% in May 2020. In this area, the largest increase was observed in deposits by enterprises (26.5% y/y) due to crisis trends of companies raising the liquidity buffer and gathering funds from the Anti-Crisis Shield. Household deposits accelerated as well, but to a lesser extent than in the case of enterprises – in May 2020 they grew by 11.4% y/y.

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<sup>31</sup> Source: Monthly data for the banking sector (knf.gov.pl)



**2254 mld zł**

**Asset value  
of the banking sector**



**1318 mld zł**

**Loans and advances**



**1681,6 mld zł**

**Deposits**

## Equity and capital ratios<sup>32</sup>

At the end of March 2020 (later figures are not available), the banking sector held PLN 210.3 billion in equity, which grew by 1.7% compared to March 2019. In the period until March 2020, the sector's equity was stable but risk exposure parameters have deteriorated. Initially it can be assumed that those trends will continue in Q2 2020.

The combined capital adequacy ratio of the banking sector was 18.34% at the end of March 2020 (falling by 62 bp compared to March 2019), and the Tier I core capital ratio at the end of the aforementioned period was 16.33% (down by 66 bp compared to March 2019).

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<sup>32</sup> Source: Monthly data for the banking sector (knf.gov.pl)

# III. Financial results of the Alior Bank S.A. Capital Group

## Income statement

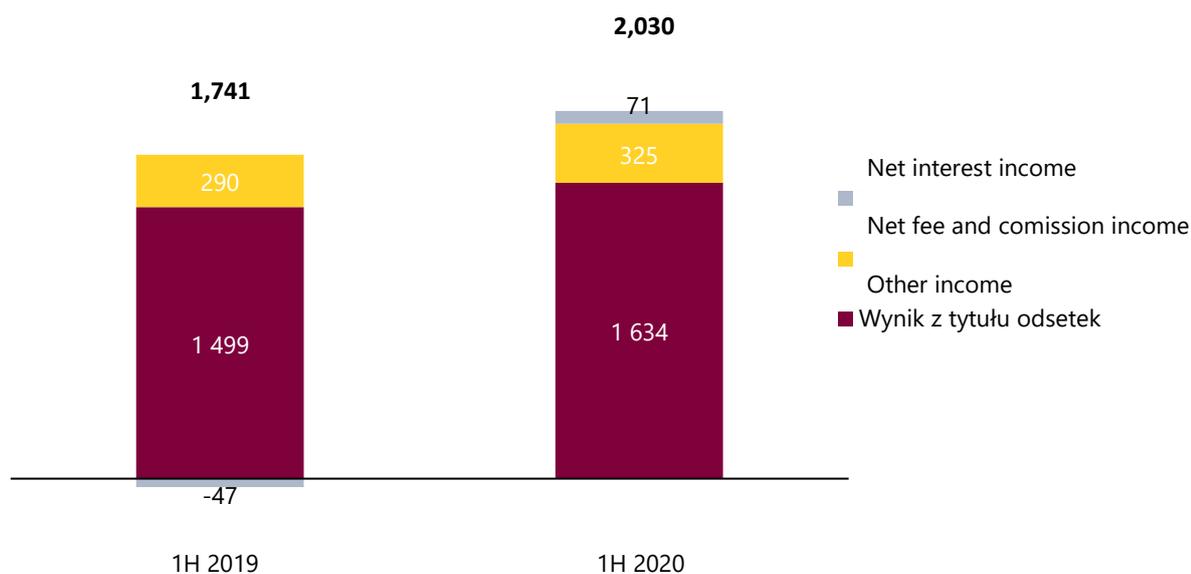
Details of the income statement of Alior Bank S.A. Capital Group are presented in the table below:

	01.01.2020 - 30.06.2020 [in PLN thous.]	01.01.2019 - 30.06.2019 Restated data [in PLN thous.]	YoY Change [in PLN thous.]	YoY Change (%)
<b>Interest income calculated by using the effective interest method</b>	1 756 968	1 998 196	-241 228	-12,1
<b>Income of a similar nature</b>	60 790	68 916	-8 126	-11,8
<b>Interest expenses</b>	-318 893	-433 451	114 558	-26,4
<b>Net interest income</b>	1 498 865	1 633 661	-134 796	-8,3
<b>Fee and commission income</b>	563 597	549 422	14 175	2,6
<b>Fee and commission expenses</b>	-273 842	-224 535	-49 307	22,0
Net fee and commission income	289 755	324 887	-35 132	-10,8
<b>Dividend income</b>	221	173	48	27,7
<b>Net gain/(loss) on financial instruments measured at fair value through profit or loss and net foreign exchange gain/(loss)</b>	16 343	33 266	-16 923	-50,9
<b>Net gain/(loss) on derecognition of financial instruments not measured at fair value through profit or loss, including:</b>	26 618	21 758	4 860	22,3
<b>measured at fair value through other comprehensive income</b>	2 807	14 700	-11 893	-80,9
<b>measured at amortised cost</b>	23 811	7 058	16 753	237,4
<b>Other operating income</b>	68 216	64 220	3 996	6,2
<b>Other operating expenses</b>	-158 648	-48 001	-110 647	230,5
<b>Net other operating income and expenses</b>	-90 432	16 219	-106 651	n/d
<b>Operating expenses of the Group</b>	-876 571	-905 955	29 384	-3,2
Net expected credit losses	-1 211 299	-775 502	-435 797	56,2

<b>Net impairment charges on non-financial assets</b>	-68 590	-1 749	-66 841	3 821,7
<b>Bank tax</b>	-109 889	-110 201	312	-0,3
Profit/loss before tax	-524 979	236 557	-761 536	n/d
<b>Income tax</b>	14 664	-143 377	158 041	n/d
<b>Net profit (loss) on continued activity</b>	-510 315	93 180	-603 495	n/d
<b>Profit (loss) on discontinued activities</b>	-3 052	0	-3 052	n/d
<b>Net profit/loss</b>	-513 367	93 180	-606 547	n/d

The net loss generated by the Alior Bank S.A. Capital Group (attributable to the shareholders of the parent entity) in H1 2020 amounted to PLN 513.4 million. The net result was PLN 606.5 million lower compared to the first half of last year. The net loss was affected by non-recurring events described in Chapter I. Summary of activities pursued by Alior Bank in H1 2020 - Basic financial data.

#### Total income (in PLN million) – consolidated data



Net interest income is the main component of the Alior Bank S.A. Group's income, responsible for 86% of total income. Net interest income decreased in the first half of 2020 compared to the first half of 2019 by -8.3%, i.e. by 135 million, due to the following factors:

- Impact of the reduction of interest rates in connection with three decisions of the Monetary Policy Council of 14 March 2020, 8 April 2020 and 28 May 2020 on the reduction of the NBP reference rate by a total of

1.4 p.p., i.e. to 0.10 percent. The bank estimates that impact on net interest income in H1 2020 amounted to PLN -110 million,

- Impact of current returns and revaluation of provisions on the difference between the effective interest rate method and the linear method as regards refunds of commissions on consumer loans repaid before the initial maturity date. Impact on net interest income in H1 amounted to PLN -94 million,
- Impact of the so-called minor modification within the meaning of IFRS 9 in connection with the application of the so-called non-statutory and statutory credit holidays. Impact on net interest income in H1 amounted to PLN -15,5 million.

At the same time, it should be noted that Alior Bank S.A. significantly reduced the financing cost. In H1 2019 it amounted to 1.17%, whereas in H1 2020 it was reduced to 0.86%.

Net interest margin broken down by individual credit products and the average interest rate on deposits has been presented in the table below.

	30.06.2020 (%)	31.12.2019 (%)
<b>LOANS</b>		
<b>Retail segment, including:</b>		
<b>Consumer loans</b>	6.85	7.50
<b>Residential real estate loans</b>	4.09	4.35
<b>Business segment, including:</b>		
<b>Investment loans</b>	4.40	4.76
<b>Operating loans</b>	4.98	5.30
<b>DEPOSITS</b>		
<b>Retail segment, including:</b>		
<b>Current deposits</b>	0.67	0.91
<b>Term deposits</b>	1.62	1.84
<b>Business segment, including:</b>		
<b>Current deposits</b>	0.12	0.25
<b>Term deposits</b>	0.98	1.58

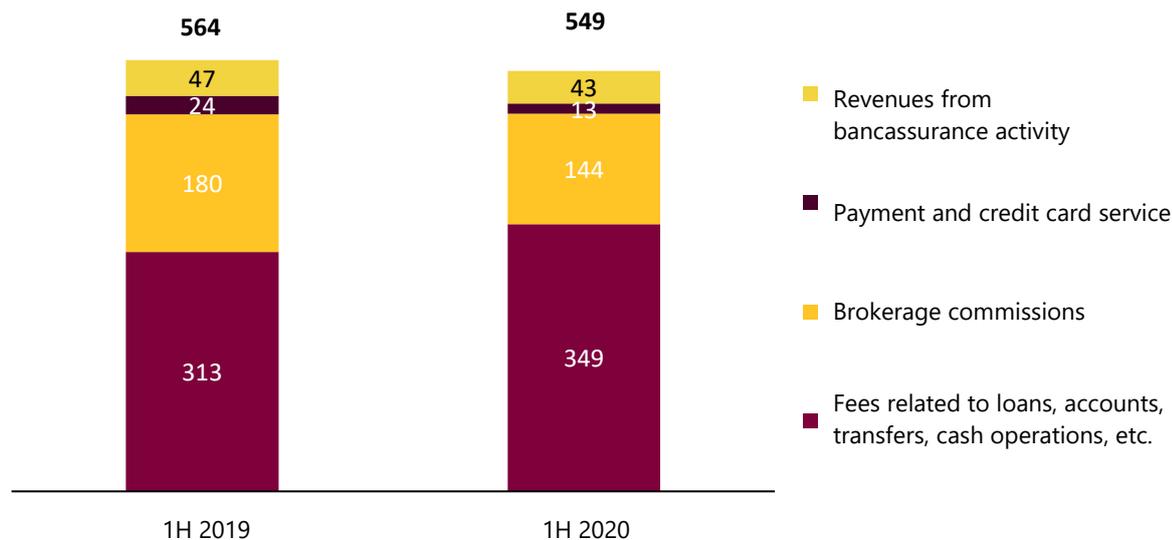
Net fee and commission income in H1 2020 declined by 10.8% compared to the same period of the previous year, down to PLN 290 million. This result was comprised of PLN 564 million in commission income (an increase compared to the first half of 2019 by 2.6%) and PLN 274 million in commission costs (an increase compared to the first half of 2019 by 22.0%).

The main component of fee and commission income are commissions related to loans, accounts, transfers, cash deposits, and FX transactions. In H1 2020, they amounted to PLN 313 million and accounted for 56% of fee and commission income. Their decrease compared to the first half of 2019 (by 10.4%) resulted mainly from the decline in net income on foreign exchange (FX) transactions. This decline was caused by large daily

fluctuations in the exchange rate on days directly preceding and right after the March decision of the Monetary Policy Council on the reduction of interest rates, as well as decreased trade, including trade in foreign currencies, in connection with the COVID-19 pandemic.

At the same time, Alior Bank S.A. recorded a large increase in income from card service, brokerage fees and insurance sales intermediation. These incomes grew by 24.7%, 81.9% and 9.1%, respectively.

### Fee and commission income (in PLN million)



Net trading income and other net income (the total of the following income statement items: dividend income, 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 H1 2020 by PLN 119 million compared to the same period of 2019, down to PLN -47 million due to the major impact of establishing (on 30.06.2020) an additional provision for historical refunds of part of the commission in the case of consumer loans repaid prior to 11.09.2019 in the amount of PLN 98 million.

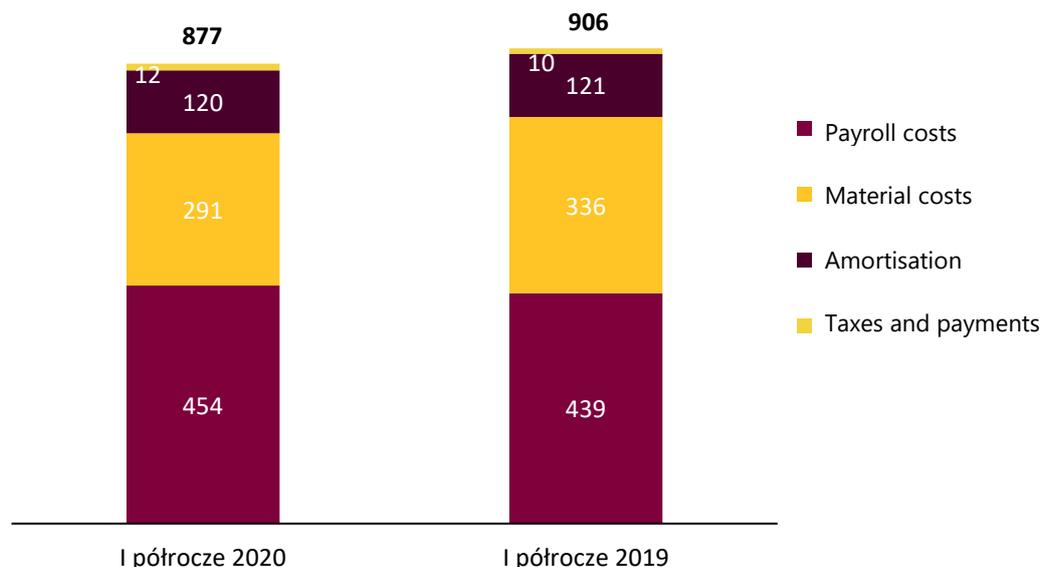
In H1 2020, operating expenses amounted to PLN 877 million and were lower than operating expenses incurred in H1 2019 by PLN 29 million, i.e. by 3.2%.

Personnel costs in the period in question amounted to PLN 454 million and were 3.3% higher than personnel costs incurred in H1 2019.

Overhead costs in H1 2020 amounted to PLN 291 million and were 13.5% lower than overheads incurred in the same period of the previous year, mainly due to lower BGF costs and marketing costs.

As a result of lower income generated by the Group, the Cost/Income ratio for H1 2020 was at the level of 50.3%, compared to 44.6% in H1 2019.

### Operating expenses (in PLN million)



### Net expected credit losses

Net expected credit losses amounted to PLN -1,211 million in H1 2020, compared to PLN -776 million in H1 2019, which means an increase by 56.2%. This increase results from the recognition of impairment charges related to COVID-19 in the amount of PLN -418.0 million, of which PLN -269.8 million results from changes in model parameters and PLN -148.2 million from individual impairment charges. COR ratio in H1 2020, taking into account this event, was at the level of 3.96%.

#### Net expected credit losses (in PLN thous.) – consolidated data

	01.01.2020 - 30.06.2020	01.01.2019 - 30.06.2020	YoY Change (%)
<b>Expected credit losses Bucket 3</b>	-1 022 168	-817 606	25,0
<b>retail customer</b>	-392 256	-273 871	43,2
<b>business customer</b>	-629 912	-543 735	15,8
<b>Securities</b>	-10 344	3 917	n/d
<b>Expected credit losses 1 and 2 (ECL)</b>	-58 804	29 987	n/d
<b>Bucket 2</b>	-59 242	25 373	n/d
<b>retail customer</b>	3 482	24 359	-85,7
<b>business customer</b>	-62 724	1 014	n/d

<b>Bucket 1</b>	438	4 614	-90,5
<b>retail customer</b>	-34 766	13 945	n/d
<b>business customer</b>	35 204	-9 331	n/d
<b>POCI</b>	-11 764	-27 720	-57,6
<b>Recoveries</b>	24 962	25 424	-1,8
<b>Provision for off-balance-sheet liabilities</b>	-133 181	10 496	n/d
<b>Net expected credit losses</b>	-1 211 299	-775 502	56,2

## Net impairment charges on non-financial assets and profit/loss on discontinued activities

Net impairment charges on non-financial assets amounted to PLN -68.6 million as at the end of H1 2020. This is the result of the impairment of goodwill due to the acquisition of Meritum Bank ICB S.A., in the amount of PLN -64.4 million. This is a non-recurring event.

The Profit/loss on discontinued activities item in the amount of PLN -3.1 million concerns the consolidation by the Alior Bank S.A. of the loss generated by RUCH S.A. company for the period since the acquisition of the company's shares on 03.06.2020 to the balance sheet date of 30.06.2020.

## Balance sheet

As at 30 June 2020, the balance sheet total of the Alior Bank S.A. Capital Group amounted to PLN 77.7 billion and was PLN 1.0 billion (1.2%) higher compared to the end of 2019. The main items generating the increase in the balance sheet total were and financial assets (up by PLN 1.0 billion to PLN 16.8 billion), which were financed mainly by the increase in amounts due to customers: customer deposits (up by PLN 0.9 billion to PLN 65.9 billion).

The tables below present details of assets, liabilities and equity as at the end of June 2020 along with comparable data.

<b>ASSETS (in PLN thous.)</b>				
<b>consolidated data</b>	<b>30.06.2020</b>	<b>31.12.2019</b>	<b>Change [in PLN thous.]</b>	<b>Change (%)</b>
<b>Cash and cash equivalents</b>	9	1 379 127	-250 612	-18,2
<b>Receivables from banks</b>	290 545	212 885	77 660	36,5
<b>Investment financial assets</b>	16 756 828	15 798 674	958 154	6,1
<b>Measured at fair value through other comprehensive income</b>	9 100 632	10 438 695	-1 338 063	-12,8
<b>Measured at fair value through profit or loss</b>	517 728	543 925	-26 197	-4,8

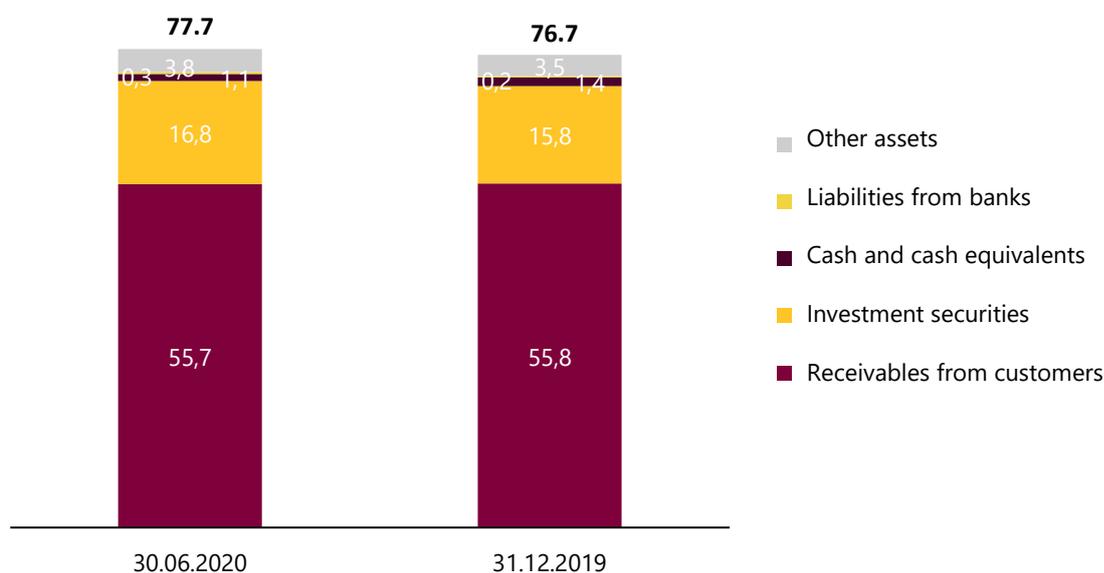
<b>Measured at amortised cost</b>	7 138 468	4 816 054	2 322 414	48,2
<b>Hedging derivatives</b>	379 652	134 832	244 820	181,6
<b>Receivables from customers</b>	55 703 480	55 844 522	-141 042	-0,3
<b>Assets hedging liabilities</b>	383 940	335 489	48 451	14,4
<b>Property, plant and equipment</b>	713 310	763 585	-50 275	-6,6
<b>Intangible assets</b>	507 747	580 352	-72 605	-12,5
<b>Investments in associates</b>	5 333	9 822	-4 489	-45,7
<b>Assets for sale</b>	139 810	103	139 707	135 637,9
<b>Income tax assets</b>	1 223 388	1 169 853	53 535	4,6
<b>Current income tax assets</b>	28 829	20468	8 361	40,8
<b>Deferred income tax assets</b>	1 194 559	1 149 385	45 174	3,9
<b>Other assets</b>	439 361	484 893	-45 532	-9,4
<b>Total assets</b>	77 671 909	76 714 137	957 772	1,2

<b>LIABILITIES AND EQUITY (in PLN thous.)</b> consolidated data	<b>30.06.2020</b>	<b>31.12.2019</b>	<b>Change [in PLN thous.]</b>	<b>Change (%)</b>
<b>Liabilities to banks</b>	967 438	822 543	144 895	17,6
<b>Liabilities to customers</b>	65 865 441	64 999 259	866 182	1,3
<b>Financial liabilities</b>	516 362	436 856	79 506	18,2
<b>Hedging derivatives</b>	89 690	40 676	49 014	120,5
<b>Provisions</b>	402 739	358 869	43 870	12,2
<b>Other liabilities</b>	1 503 086	1 429 676	73 410	5,1
<b>Liabilities of the Group held for sale</b>	165 120	0	165 120	n/d
<b>Income tax liabilities</b>	1 352	94 905	-93 553	-98,6
<b>current income tax liabilities</b>	834	94 404	-93 570	-99,1
<b>deferred tax liabilities</b>	518	501	17	3,4
<b>Subordinated liabilities</b>	1 793 330	1 793 985	-655	0,0
<b>Liabilities, in total</b>	71 304 558	69 976 769	1 327 789	1,9
<b>Share capital</b>	1 305 540	1 305 540	0	0,0
<b>Supplementary capital</b>	5 399 627	5 393 358	6 269	0,1
<b>Revaluation reserve</b>	220 693	76 404	144 289	188,9
<b>Other reserves</b>	166 850	166 850	0	0,0
<b>Exchange differences on translating foreign operations</b>	-158	605	-763	-126,1

<b>Retained earnings</b>	-211 834	-453 669	241 835	-53,3
<b>Current year's profit/loss</b>	-513 367	248 280	-761 647	n/d
<b>Non-controlling interest</b>	0	0	0	0,0
<b>Equity</b>	6 367 351	6 737 368	-370 017	-5,5
<b>Total equity and liabilities</b>	77 671 909	76 714 137	957 772	1,2

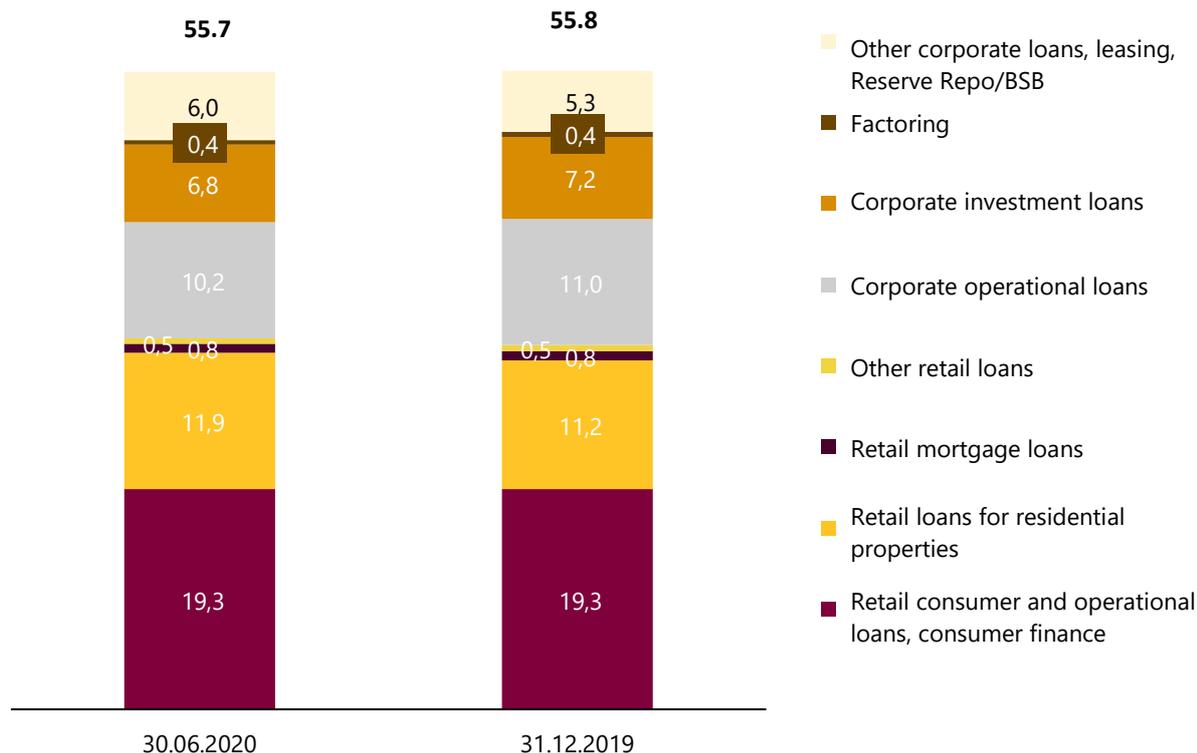
The basic asset component are receivables from customers of the Alior Bank S.A. Group (PLN 55.7 billion). Their shares in the balance sheet total as at the end of June 2020 amounted to 71.7% which means that compared to the end of 2019 it decreased by 1.1 p.p. Another important asset item as at 30.06.2020 were financial assets amounting to PLN 16.8 billion which represents 21.6% of total assets (as at the end of 2019 – 20.6% of assets).

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



The drop in the balance of receivables from customers arises from the limited demand for credit products due to the on-going COVID-19 pandemic.

### Receivables from customers (in PLN billion)

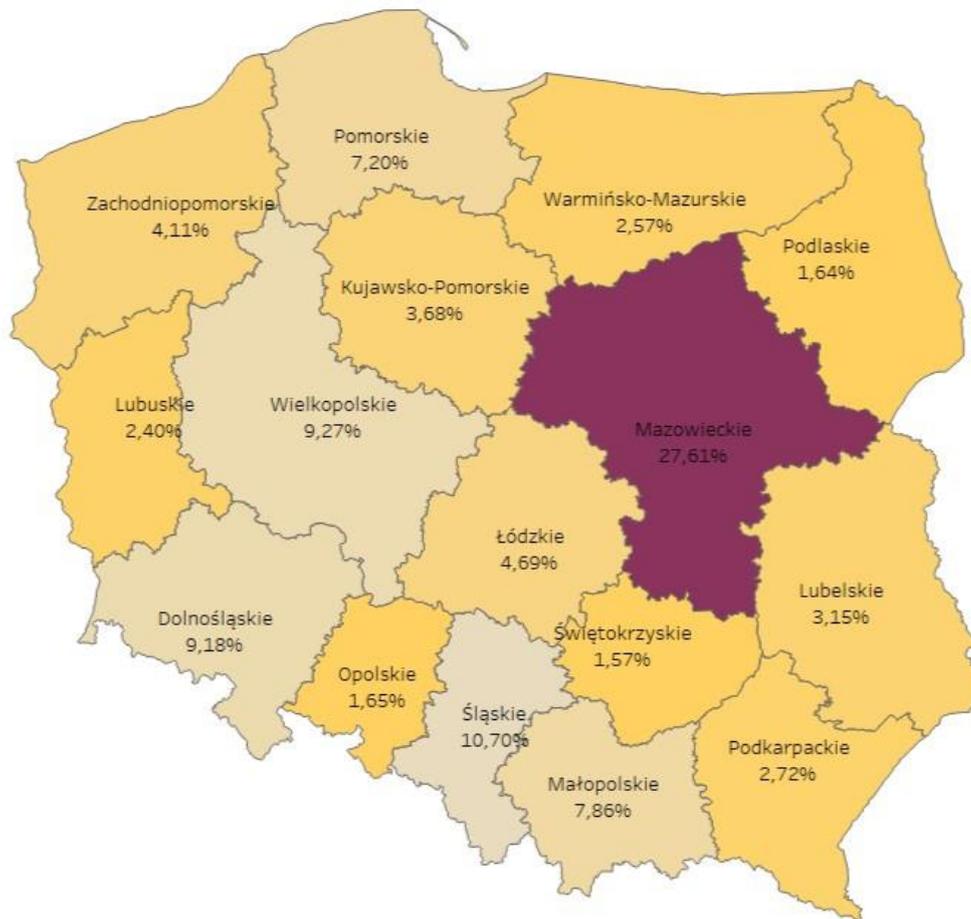


The main item in the retail loan portfolio were consumer loans, operating loans and consumer finance, their volume reaching almost PLN 19.3 billion (the volume persisted at the level recorded as at the end of 2019 due to lower demand for loans during the COVID-19 pandemic period). They accounted for 59% of all loans to retail customers and simultaneously for 35% of the entire portfolio of accounts receivable from customers. The second largest item in the retail loan portfolio (39%) were residential real estate loans and mortgage loans, the total volume of which as at the end of June 2020 amounted to PLN 12.7 billion (total growth up by 5.5% since the beginning of 2020).

Operating loans for enterprises, which in June 2020 amounted to PLN 10.1 billion (decrease by 8% since the beginning of the year), were the most important component of the corporate loan portfolio, accounting for 44% of its value. The second most important item as regards corporate loans were investment loans, accounting for 29% of the portfolio in question. Their value as at the end of June 2020 decreased compared to year-end 2019 by 5.8%, to PLN 6.8 billion.



## Territorial structure of receivables from customers as at 30 June 2020



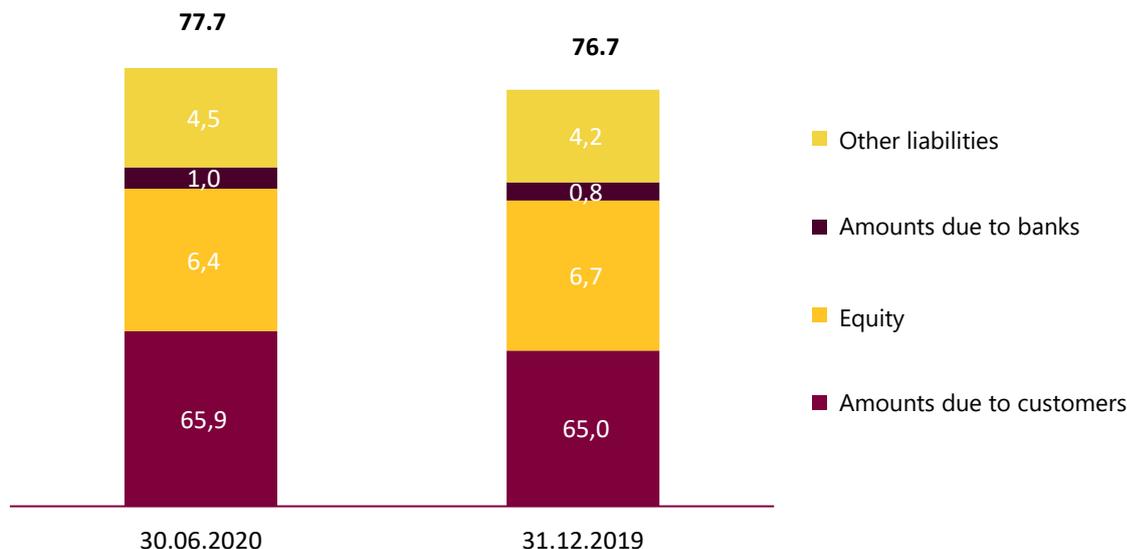
Nearly 28% of loans granted by the Alior Bank S.A. Group are loans to customers from the Mazowsze region. Nearly 20% of loans are receivables from customers from Silesian and Wielkopolskie regions. Receivables from residents of the remaining regions account for over 52% of the total loan portfolio.

As at 30 June 2020, the amount of collaterals established on borrowers' accounts and assets within Alior Bank S.A. totalled PLN 37,081 million (of which PC: 13,504 and BC: 23,577).

The main source of financing of Alior Bank S.A. Group operations are the funds deposited by customers at the Bank. As at the end of June 2020, their share in the balance sheet total was 84.8% (up by 0.1 p.p. compared to year-end 2019).

Equity as at 30 June 2020 amounted to PLN 6.4 billion and was PLN 0.3 billion lower compared to year-end 2019 due to the loss in H1 2020, the reasons of which have been described in Chapter I.

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

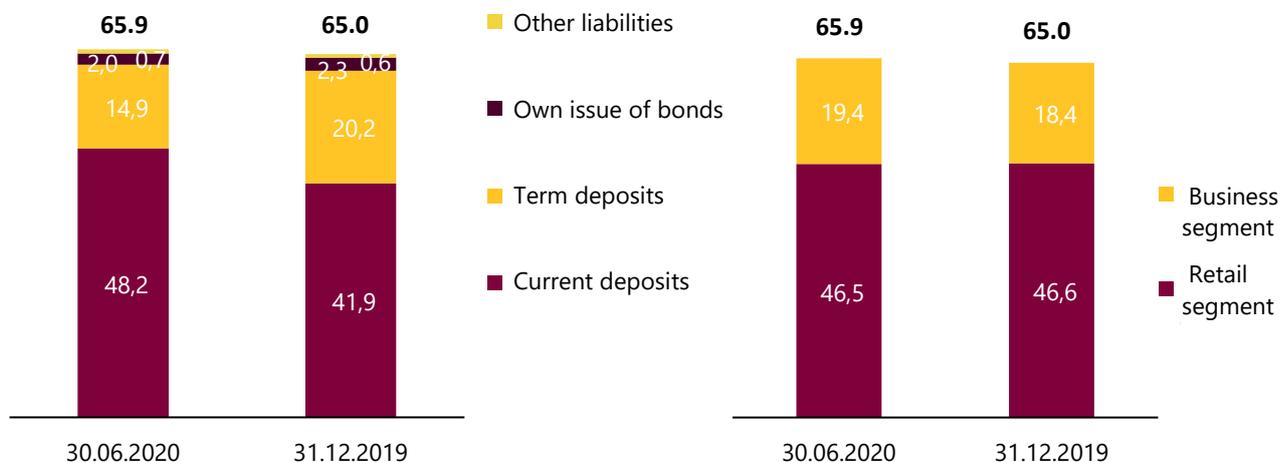


As regards types of amounts due to customers, the main item were amounts due to the retail segment, which as at the end of June 2020 accounted for 70.5% of the customer deposit portfolio. This share was 1.2 pp lower compared to the end of 2019.

Current deposits are the main component of the portfolio of amounts due to customers. They accounted for 73.1% of all amounts due to customers as at the end of June 2020 (up by 8.7 p.p. compared to year-end 2019). The second most significant item of amounts due to customers are term deposits (22.7% of all amounts due to customers as at 30 June 2020). Compared to year-end 2019, their share in all amounts due to customers decreased by 8.4 p.p.

The remaining 4% of amounts due to customers were funds obtained through the issue of the Bank's own securities and other liabilities, as well as own bond issues.

## Amounts due to customers by type (in PLN billion)



## Territorial structure of amounts due to customers as at 30 June 2020



Funds deposited at Alior Bank S.A. come mainly from customers from the Masovia (26%), the Małopolska region (16%) and Silesia (10%). Customers from the remaining regions deposited at the Bank funds accounting for 48.7% of the entire deposit base.



## Contingent liabilities

The Alior Bank S.A. Group grants contingent liabilities to personal customers under overdraft facilities on personal accounts and credit cards. They are granted for an indefinite period of time, but at the same time it is monitored whether adequate funds are being credited to the accounts.

The Alior Bank S.A. Group grants contingent liabilities to business customers under:

- overdraft facilities on current accounts,
- guarantees, mainly for a period of up to 6 years,
- credit cards for an indefinite period of time (while monitoring whether adequate funds are being credited to the accounts and conducting portfolio or individual monitoring),
- guarantee limits,
- credits disbursed in tranches for a period of up to 2 years.

The guarantee values reflect the maximum possible loss that would be disclosed on the balance sheet date if all customers did not satisfy their obligations.

As at 30 June 2020, Alior Bank S.A. has granted 1,392 active guarantees for a total amount of PLN 812,193,000.

As at 31 December 2019, Alior Bank S.A. granted 1,564 active guarantees for a total amount of PLN 841,999,000.

The Bank makes sure that the time structure of the guarantees is appropriate. Active guarantees with less than two years to maturity (1,056 items) amounted to PLN 434,494,000.

The total value of off-balance-sheet contingent liabilities granted to customers as at 30 June 2020 amounted to PLN 9,655,008,000. This amount consisted of PLN 8,842,815,000 in off-balance-sheet contingent liabilities related to financing and PLN 812,193,000 in off-balance-sheet guarantee contingent liabilities.

The total value of off-balance-sheet contingent liabilities granted to customers as at 31 December 2019 amounted to PLN 8,626,829,000. This amount consisted of PLN 7,784,830,000 off-balance-sheet contingent liabilities related to financing and PLN 841,999,000 off-balance-sheet guarantee contingent liabilities.

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

Off-balance-sheet contingent liabilities granted to customers	Status as at 30.06.2020	Status as at 31.12.2019
<b>Off-balance-sheet liabilities granted</b>	9,655,008	8,626,829
<b>Financing</b>	8,842,815	7,784,830
<b>Guarantee</b>	812,193	841,999

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

Breakdown by entity	Status as at 30.06.2020	Status as at 31.12.2019
<b>Entity 1</b>	170,200	221,478
<b>Entity 2</b>	74,000	73,336
<b>Entity 3</b>	48,350	47,625

<b>Entity 4</b>	47,563	40,000
<b>Entity 5</b>	39,050	36,523
<b>Entity 6</b>	31,720	25,373
<b>Entity 7</b>	26,615	23,093
<b>Entity 8</b>	23,093	20,000
<b>Entity 9</b>	15,000	15,000
<b>Entity 10</b>	15,000	13,881
<b>Other</b>	321,602	325,690

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

Broken down by product	Status as at 30.06.2020	As at 31.12.2019
<b>Lines of credit</b>	8,701,836	7,703,741
<b>Import letters of credit</b>	1,025	3,064
<b>Credit commitments</b>	139,954	78,025
<b>Guarantees</b>	812,193	841,999
<b>Total</b>	9,655 008	8,626,829

## Financial projections

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



### Factors affecting Alior Bank's operations in subsequent quarters

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

- the scale of demand for banking services and the customers' 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 slower 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 Council,
- regulatory changes.

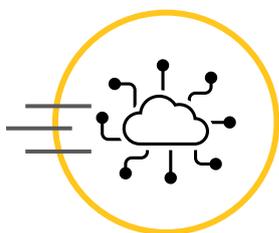
Furthermore, we notice the following opportunities and threats for the bank:

Opportunities	Threats
<ul style="list-style-type: none"> <li>• 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).</li> <li>• High confidence placed in banks as compared to other players in the financial sector (especially FinTechs and technology companies).</li> <li>• 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.</li> <li>• Development of new technologies to enable increased profitability.</li> <li>• Growing penetration of online access, mobile devices and – as a result – digital banking in Poland.</li> <li>• Progressing consolidation and restructuring processes in the banking sector.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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)).</li> <li>• 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, and iv) effects of PSD2 regulations coming into force.</li> <li>• Limited readiness of most customer segments to change their main banking relationship. Low loyalty of customers from younger age segments.</li> <li>• 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.</li> <li>• Risks involving cybersecurity of Polish banking sector actors, including coordinated action.</li> </ul>

# IV. Impact of COVID-19 on the operations of Alior Bank S.A.

## Impact of COVID-19 on the Bank's Strategy

The COVID-19 epidemic intensified three main trends in Polish banking:



Complex expectations of customers towards banks



Increasing trust in remote channels



Access to technologies increasing comfort

Alior Bank's tasks under the influence of the COVID-19 epidemic have gained an even greater importance. Alior Bank implements strategic directions adopted in the new strategy, whereas currently in connection with the COVID-19 epidemic it focuses more strongly on digitising offered products and services as well as on activities supporting the digitisation of customer behaviours (including through communication and educational activities). Our priority is to provide customers with access to products and services offered by Alior Bank to the widest possible extent and in a way that is as convenient and safe as possible.

***Having regard to the comfort and safety of our customers, we are speeding up the implementations – remote customer service is a priority.***

In accordance with the strategic directions indicated in the "More Than a Bank" strategy, Alior Bank has implemented a number of solutions on its own and in cooperation with external partners. Alior Bank S.A. during the COVID-19 epidemic **enabled its customers to use the broadest possible range of services without the need to visit a branch**. Therefore, in the first half of 2020 primarily projects such as a new customer identity verification method (FOTO ID) or a one click loan, were implemented.

For Alior Bank customers who would like to take advantage of direct customer service, we introduced an option to **book a visit at the branch via the Booksy system**. Not only is the service available for individual clients but also for micro-entrepreneurs who either wish or have to personally go to one of the bank outlets.

Importantly, Alior Bank's individual clients as well as micro-entrepreneurs can arrange a visit to the Bank in order to settle matters such as, for example, opening or handling a personal or business account, taking a loan or credit, opening or closing a savings account, handling a mortgage, investments, and more. At the very beginning, the Booksy platform can be used by people who want to go to any of their own branches in Warsaw, Kraków or Wrocław. Depending on how the interest in this solution grows, the list of branches and cities will be kept expanded; in the future, the service may also emerge in the Alior Mobile smartphone application.

At the beginning of the year, **we also launched a large educational campaign aimed at seniors**. Marketing campaigns, cooperation with influencers and direct contact through workshops organised at the branches and the head office of Alior Bank were carried out throughout a few months.

Alior Bank consistently undertakes actions aimed at combating digital exclusion of the elderly. Apart from a series of educational films, the bank is currently launching the #TerazTwojaKolej (#NowItsYourTurn) social campaign. It is aimed at the current customers of the bank and promoted in social media. Its aim will also be to activate seniors in digital channels.

Moreover, Alior Bank **promotes cashless payments**, offering free debit cards for its customers. In connection with the COVID-19 pandemic, it is recommended to use cashless payments. For this reason, Alior Bank prepared a special offer for its customers. Persons who use an account, but do not have an active debit card, could receive it free of charge for a period of 12 months.

In response to the investors' interest, the Bank launched the **#inwestujzdomu (#investfromhome)** campaign, which promotes remote opening of brokerage accounts and investing on the stock exchange via the **Alior Giełda** application.

During that time, over 99% of orders were placed on the stock exchange via online channels, including mainly via electronic banking and the Alior Giełda mobile application. Alior Trader platform is equally popular, as indicated by more than five times increase in new accounts in March compared to January of this year.

### ***We support the business of our customers and advise the best solutions.***

In addition to ensuring the safety and convenience of using the existing range of products and services, Alior Bank assigned a high priority to activities related to the support of entrepreneurs. The main goal and aim of the Alior Bank's strategy is to be close to the customer and support them adequately to their needs and challenges they face. In light of the COVID-19 epidemic, the implementation activities carried out at the bank were extended to include the maximum use of available aid programmes in cooperation with the public administration.

We have provided an option to **submit applications for subsidies for Businesses and Employees under the Financial Shield of the Polish Development Fund**. Participation in the Financial Shield programme of the Polish Development Fund is yet another action undertaken by Alior Bank to support Polish entrepreneurs. In order to minimise the threat of coronavirus infection, the bank provided its customers with safe, remote contact methods via digital channels, without the need to visit an outlet. We have used the qualified signature for this purpose. Documents may be exchanged via e-mail or BusinessPro electronic banking.

Alior Bank also **offered an option to defer the repayment of loan instalments**. Customers may apply to postpone the repayment of a full instalment by 3 months or the principal by 6 months.

**We also adapted the offer to the aid plan of Bank Gospodarstwa Krajowego**. By doing so, customers can obtain working capital financing easier and faster. De minimis guarantees are available for SMEs. The Biznesmax Guarantee in the form of de minimis aid is aimed at innovative and pro-ecological companies. On the other hand, guarantees from the Liquidity Guarantee Fund are a special solution for medium and large companies maintaining complete accounting records. New, more favourable terms and conditions of the aforementioned collaterals consist in increasing the value of the collateral up to 80% of the credit value, extending the guarantee period for working capital facilities even up to 27 months or opting out of the need to submit documentation at the time of submitting the application.

### **Credit facilities with guarantees by Bank Gospodarstwa Krajowego**



**655** new de minimis guarantees

for an approximate amount of **270 million**

By the end of July 2020, Alior Bank granted 655 guarantees on special terms for the duration of COVID-19 for a total amount of PLN 270 million.

Alior Bank S.A. is one of the leader as regards the 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.

The strategic objective of the bank is to support enterprises at every stage of development as well as strengthen our business customer relationships through a comprehensive ecosystem of products and services.

### ***We ensure safe working conditions for our employees.***

Alior Bank S.A. is the leader of innovation and since the beginning of its existence has implemented digital tools to facilitate mobile work. Bearing in mind that the flexibility of access to the work environment is the key to increasing the engagement and efficiency of our employees, we are developing a model of access to services, tools and data by which remote work is:

- possible from any place, assuming it has access to the Internet,
- convenient and enables effective work, and
- meets very high safety standards without any compromises.

In the face of the epidemic and the related necessary precautions, the system which in principle was to become a complementary access channel to the work environment, became the main access channel. The effectiveness of our solutions was confirmed by the fact that the Bank maintained the continuity of its operations.

***Through closer cooperation with our partners, we are able to more effectively respond to the effects of the epidemic.***

PZU and Alior Bank S.A. have engaged start-ups in the fight against the consequences of the pandemic.

As part of this special edition of the accelerator, we were looking for innovative solutions in the following areas:

- prevention, diagnostics and treatment of coronavirus,
- social education in this regard,
- solutions facilitating the use of online services, especially by seniors,
- projects facilitating the transfer of services to remote channels for companies,
- products and services corresponding to the health, financial and insurance needs of customers in connection with the coronavirus pandemic and in similar crisis situations.

Apart from the practical value of the solutions, the selection criteria also included their readiness for implementation and availability to the widest possible group of recipients. Cooperation with Booksy is the first cooperation established as a result of this edition of the accelerator.



## Impact of COVID-19 on financial results

According to the bank's estimates, the impact of the COVID-19 coronavirus epidemic on the bank's gross result as at 30 June 2020 amounted to PLN -542,7 million. In the estimates, the Bank took into account the following elements:

1. Impact of the reduction of interest rates in connection with three decisions of the Monetary Policy Council of 14 March 2020, 8 April 2020 and 28 May 2020 on the reduction of the NBP reference rate by a total of 1.4 p.p., i.e. to 0.10 percent, and in connection with the decision of the National Bank of Poland on the reduction of the mandatory reserve requirement rate from 3.5% to 0.5%. Impact on the bank's results from the revaluation of the interest rate on the bank's assets to a greater extent than the revaluation of liabilities and transactions securing the interest rate risk maintained as part of the hedge accounting policy.
2. Impact of the so-called minor modification within the meaning of IFRS 9 in connection with the application of the so-called non-statutory and statutory credit holidays. The bank understands non-statutory holidays as a deferral of repayment of loan instalments made on the basis of the moratorium of the banking sector of 1 June 2020. The bank understands statutory holidays as the suspension of the loan made on the basis of the so-called Anti-Crisis Shield 4.0.

- Impact on the profit/loss on impairment charges in connection with the creation of model and individual impairment charges concerning the credit portfolio in terms of the portfolio affected by the effects of the COVID-19 pandemic.

The table below presents a summary of the financial impact of the aforementioned factors:

	Impact on gross profit (loss) (in PLN million)
<b>Impact of lower interest rates on net interest income</b>	-110,2
<b>Impact of credit holidays on net interest income</b>	-14,5
<b>Impact of COVID on impairment charges, including:</b>	-418,0
- COVID-19 model write-offs	-269,8
- COVID-19 individual write-offs	-148,2
<b>Total impact on gross profit (loss)</b>	-542,7



## Impact of COVID-19 on the operations of the Bank's branches

During the pandemic, in the period from 12 March to 30 April, we were dealing with temporary unavailability of certain Branches and Partner Outlets. Alior Bank outlets provided customer services to customers during shorter work hours. Alior

Bank S.A. adapted customer support services to the guidelines of the Ministry of Health, including by introducing the so-called hour for seniors. Currently, all Branches are operating normally. In May, we standardised the customer service hours in the entire network of our branches. Customers can now receive customer service between 9:00 and 17:00. The only exception is a single branch located in the shopping mall in Katowice, where the service hours are adapted to the work hours of the entire facility. Depending on the branch, cash desk service is conducted from 9:00 to 17:00 or from 9:30 to 16:30. Fifteen branches in our network are operating in the cashless formula as standard. Partner outlets are providing service during standard work hours.

Customer service is conducted in compliance with the applicable regime of sanitary restrictions. Inside branches, it is mandatory to cover your mouth and nose. Employees comply with the established rules on disinfecting service stations and equipment used by our customers as well. Each outlet has disinfectants available for use by customers. Special see-through screens are set up at all service stations, separating employees from customers. We were forced to temporarily withdraw distributors with mineral water and press, which were thus far available to customers waiting to receive service, and new branches no longer offer access to the Alior Cafe zone. Advertising materials are handed over to customers directly by bankers. We are

continuing to comply with all these restrictions to ensure that the possibility of contracting the COVID-19 virus is limited as much as possible.

Social distancing rules in place at all bank branches has an impact on the organisation of customer service. In our branches, we strictly avoid situations where customers would gather in greater numbers, resulting in a reduced distance between them. At the same time, we are trying to provide service to as many customers as there are customer service desks available. In the current situation, customer service based on a meeting calendar schedule is of particular importance. Customers who arranged a meeting with an account manager do not have to wait to receive service. As one of the first banks, Alior made it possible for its customers to book meetings via the Booksy application. The booking of visits at branches launched on 28 May 2020. Currently, it is possible to book visits via the Booksy application at the branches in Warsaw, Kraków and Wrocław. This form of arranging meetings with account managers may be used by individual customers as well as micro-enterprises. Depending on interest in the new functionality, it may be extended to other cities and appear in the Alior Mobile smartphone application. Cooperation with Booksy is the result of the COVID-19 pandemic and the introduction of a new sanitary regime in public places.

## Impact of COVID-19 on the quality of the credit portfolio

As at 30 June 2020, in the fourth month of the COVID-19 pandemic, the Bank estimated the impact of the environment on the quality of the credit portfolio. Compared to the previous quarter, the ratio of loans overdue by more than 30 days in the regular portfolio increased by 35 bps (i.e. from 1.55% to 1.9%). The level of irregular loans (showing signs of value loss) increased by 60bp (i.e. from 14% to 14.6%).

In the Bank's opinion, this situation is largely caused by the scale of support received by customers both in terms of payment moratoria as well as public and legal assistance, and therefore it is temporary and conditioned on the duration of the aforementioned aid measures. In the following months, the Bank believes that the macroeconomic situation may deteriorate, which will translate into the financial situation of the bank's customers.

An important aspect mitigating the impact of the pandemic on the quality of the Bank's credit portfolio is its structure by industry. The Bank conducts regular analyses concerning the exposure of individual industries to the current situation. These analyses generally include the impact and effects of lockdown, observations of business activity pursued by customers, outlooks in the expected macroeconomic environment, impact of changes in consumer sentiments, effects of changes in global supply chains, as well as the scale of public and legal support and its fundamental impact on support for enterprises.

As a result of the aforementioned analyses, the Bank distinguishes categories of industries in terms of exposure to COVID-19 effects, which directly translate into credit policy parameters:

- High-risk industries (including shopping malls, passenger transport, hotels, restaurants, organisation of sports and cultural events)
- Medium risk industries (including transport of goods, sale and repair of vehicles, manufacture of clothing, textiles, wholesale and retail trade, excluding trade in essential commodities, advertising activities)

- Low risk industries (including production, trade and sale of essential commodities, online sales, pharmaceutical and chemical industries, courier services and parcel kiosks)

The Bank adjusts its credit policies and processes to the current macroeconomic situation and resulting threats.

Changes are aimed at providing support to customers (including as regards business activity conducted by business customers) while at the same time focusing on minimising credit losses of the Bank.

The main changes in the credit policy include:

- implementation of payment moratoria (credit holidays),
- introduction of liquidity loans with a FGP BGK guarantee into the range of offered products,
- expanding the use of the BGK de minimis guarantee to include companies from the SME segment,
- implementation of process simplifications in order to ensure the continuity of operation of processes in a situation of limited opportunities to contact the Customer,
- active management of the industry policy – separation and diversification of financing approval criteria depending on the degree of exposure of individual industries to risks resulting from the COVID 19 pandemic,
- implementation of additional risk assessment and acceptance components for directly or indirectly exposed industries when granting new exposures,
- diversification of the approach to renewing existing exposures depending on the industry.
- The main changes in the policy towards retail customers include:
  - assessment of PD and LGD parameters of new exposures adjusted by the expected impact of a potential recession as part of the credibility assessment and appropriately updated cut-off points,
  - implementation of payment moratoria (credit holidays),
  - a restrictive approach to increasing the exposure of persons applying for the non-statutory moratorium,
  - more restrictive conditions for lending to those employed or running a business in high-risk industries,
  - a restrictive approach to lending to customers whose source of repayment is income from civil law contracts,
  - more restrictive conditions concerning the period of income acquisition – extending the minimum period of employment or conducting business activity (mortgage loans) and limiting lending to persons employed under fixed-term contracts.

The Bank actively supports customers in terms of liquidity by offering both credit support tools and participating in government aid programmes.

The Bank offers the following support tools:

- payment moratoria concerning the deferral of principal or principal and interest instalment payments in 3- or 6-month periods resulting in the corresponding extension of the remaining period. These activities are carried out both to the extent of sectoral consensus and statutory guidelines,
- offering financing secured with guarantees provided by Bank Gospodarstwa Krajowego, i.e. loans with de minimis guarantees on special terms and conditions for the COVID-19 period, cosine guarantees, or guarantees from the liquidity guarantee fund,

- participation in the programme of subsidised interest rates offered under the Shield 4.0 by Bank Gospodarstwa Krajowego,
- intermediation in the processing of applications and providing financing to micro-enterprises and SMEs under agreements concluded with the Polish Development Fund.

As regards the valuation of the credit portfolio, the Bank made a strategic, comprehensive adjustment of the rules regarding the valuation of the credit portfolio and risk parameters (including, in principle, the impact on the quality of the portfolio of assumed macroeconomic scenarios) to the COVID-19 environment.

As a consequence, the Bank recognised impairment charges in connection with an increase in expected credit losses (ECL) due to the COVID-19 pandemic in the amount of approx. PLN 418 million. The aforementioned charge and established provisions are of an extraordinary nature. In the Bank's opinion, the created write-offs constitute the best estimate as at the date of approval of the financial statements. At the same time, the Bank as in the case of other banks operating on the market, points out that the impairment charges and provisions connected with the above were not made by the Bank in Q1 2020, which means that the amount of impairment charges and provisions is adequately higher than it would have been if they were made and established beforehand.

## V. Business activity of Alior Bank S.A.



### Activities pursued by Alior Bank S.A.

Alior Bank S.A. 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 S.A. provides its services mainly to customers from Poland and Romania.

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



Detailed information on the Bank's business segments is presented in the Consolidated Financial Statements of the Alior Bank S.A. Capital Group for the first half of 2020 (Note No. 3).



## Retail segment

### General information

As at 30 June 2020, Alior Bank S.A. served 4.5 million personal customers.

The Bank has developed a modern behavioural segmentation that takes into account many dimensions and available information on its retail customers.

It took into consideration the level of wealth and modernity of customers, life cycle, relationship with the Bank, owned products, and the banking method.

Segmentation refers to values, expectations, attitudes and needs of customers in relation to products and services. Six segments covering the entire customer base have been identified.

In addition, based on the transaction analysis, the segments were analysed in terms of customer interests and "lifestyle".

Segmentation allows to appropriately adjust communication and product packages.

Segmentation made it possible to develop personalised Value Added Services that complement traditional functionalities of products and services offered by the Bank.

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

 <p><b>Mass customers</b> (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><b>Affluent customers</b> (individuals whose personal accounts are credited with more than PLN 10,000 or who are holding assets worth more than PLN 100,000)</p>	 <p><b>Private Banking customers</b> (individuals holding assets worth more than PLN 1 million or who have the Elite Account (<i>Konto Elitarne</i>)).</p>
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The above-mentioned segmentation is reflected in the structure of the sales network: universal branches, premium branches and Private Banking, respectively.

### Distribution channels

As at the end of 30 June 2020, Alior Bank S.A. had 750 outlets (191 traditional branches, 7 Private Banking branches, 7 Corporate Centres, and 545 partner outlets). The Bank's products were also offered within the network of 10 Mortgage Centres and a network of approximately 5000 intermediaries.

 **191**  
traditional branches

 **7**  
Private Banking  
branches

 **7**  
Corporate Centres

 **545**  
partner outlets

The Bank's first branch created in the new format was presented in December 2019. These branches are characterised by innovative design and utilise new technologies. 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 services.

Traditional branches of Alior Bank are located 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 contracts, agents provide only services related to the distribution of the Bank's products on behalf of the Bank. 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 also 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.

After the success of the pilot programme of the Cash platform, the Bank decided to establish cooperation with other companies as well. In June 2020, the bank established cooperation with PKP Telkol. The bank is also in negotiations with other companies – subsequent implementations on the Cash Portal will take place in the next few weeks. Cash is an innovative platform – a portal of employee benefits owned by PZU, based on the Bancovo.pl website technology. By means of the Cash Portal, employees employed on the basis of an employment contract may quickly and easily obtain a low-interest loan for any purpose. The process of applying for a loan is fully remote – from completing the online application until signing the agreement by text message. This loan can also be taken from home. The employee receives money on the next business day after signing the contract. Instalments are automatically deducted from remuneration, so it is not necessary to remember about the date of their repayment. The Cash portal combined the needs of employees and employers. Employers gain an opportunity to offer additional attractive benefits to their employees, whereas employees receive a simple and intuitive way of obtaining money from a safe source and to do so under favourable conditions.



### Cash advances

The main product from Alior Bank's range of consumer loan products for personal customers 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 H1 2020, the Bank continued to promote the "Loan with microcosts", which offers customers an attractive price. Its cost per each PLN 1,000 net of the loan/credit does not amount to more than PLN 6 per month for loans above PLN 55 thousand. The offer was available in stationary channels, remote channels and in online banking.



In Q1 2020, the Bank found itself in a new economic situation related to the restrictions on activity resulting from COVID-19. While maintaining its liquidity, the bank developed remote and online sales channels. Alior Bank introduced a number of improvements to its internal systems and started to effectively activate customers

in online banking. In May, the Bank's also introduced a special offer of an "Online Loan" with attractive APR for customers who do not have loans and have expressed interest in the offer through a dedicated online form. Customers may enter into a contract remotely with the assistance of a phone banker.

In March 2020, a new process of applying for a cash loan was included in the range of services enabling banking from home, in which the customer verification takes place by means of a selfie. FOTO ID is an developed internally customer identification method designed and implemented by Alior Bank employees. It significantly accelerated identity verification – the entire process takes no more than 5 minutes. At the same time, the solution is intuitive and does not require high digital competencies.

The Bank continued to implement its strategy for cross-selling to its existing customers by offering preferential pricing and a simplified loan application process, both through outlet channels and through online and mobile banking. For the purposes of activation and selling additional credit and savings products to the Consumer Finance Customers, the Bank carried out a number of activities aimed at building brand awareness and activating customers in digital channels as well as to persuade them to buy products and take advantage of special offers, not only the cash loan, but also other products aimed at personal customers.

In this way, the Bank continued its new approach to the distribution of loans to its own customers - combining them with other areas of personal customer banking. The Bank rewards active customers and encourages the existing and new customers to be active in daily banking.

In order to meet the needs of the borrowers, Alior Bank S.A has prepared solutions for its customers aimed at mitigating the effects of loan repayment in connection with the coronavirus pandemic. Customers who want to obtain a temporary deferral in the repayment of their credit liabilities in connection with the epidemiological situation were given an opportunity to automatically defer the repayments, i.e. use the so-called Credit Holiday.

The Bank continued to develop the functionalities resulting from the provisions of the PSD2 directive, i.e. the option for customers of other banks to apply for credit products offered by Alior Bank without the need to present a certificate of earnings (access to information on the AIS payment account). The solution is already available in all stationary and remote channels. Currently, within the framework of PSD2, Alior Bank cooperates with six banks: PKO BO, Pekao SA, ING, Santander, mBank and Millennium. It is planned to successively expand access to this service in online processes until the end of Q3 2020.

All activities of Alior Bank in relation to the development of the cash loan were received positively by market experts who in June 2020 gave the Bank an award for the best cash loan product in the 11<sup>th</sup> edition of the prestigious "Golden Banker" competition. It was awarded after analysing both the price parameters and the functionality of the product, taking into account various customer profiles.

## Credit cards

As part of its range of credit card products for retail customers, in 2020 the Bank continued to promote the following credit cards: Mastercard OK! and "TU i TAM" (HERE and THERE). Moneyback continued to be their main benefit: for the OK! card it is the domestic moneyback available in selected commercial outlets, whereas for the "TU i TAM" cards it is accrued for transactions in a currency other than PLN (including online transactions and those executed abroad). For the most affluent customers from the Private Banking segment, the range of offered products and services continues to include 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 executed using the "TU i TAM" Mastercard credit cards have been translated 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.

For customers who have the OK! credit card, we have given them an option to join the programme via a branch, hotline and the Bank's online banking system.

The pre-retention process for Credit Cards was implemented in H1 2020 as well. In cooperation with CRM, we have developed a model which allows us to identify customers who are highly likely to leave the bank. We are addressing the moneyback offer to those customers.

Additionally, we have introduced the process of matching the credit card to the individual needs of customers for Credit Cards (for customers who do not have a credit card), aimed at stimulating customers to make transactions.

In H1 2020, we have recorded increased customer interest in instalment plans on credit cards, i.e. the option to divide the debt balance on a credit card to be repaid in instalments. This is the result of intensive product, marketing and training activities as well as numerous campaigns held by CRM.

## Overdraft facilities

Overdraft facility is the ability to borrow against a debit on the account. Debt can be incurred multiple times up to the authorised overdraft limit and each payment credited to the account reduces or clears the debt. The Bank offers overdraft facilities for an amount from PLN 500 up to PLN 150,000 without any additional securities.

## Mortgage loans

Mortgage loans at 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 a property, purchase of a

plot of land and the construction of a single-family house. In addition, it is possible to get a refund of expenditures incurred during the last 2 years for residential purposes. The funds 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 H1 2020, the Bank continued its prior policy in the mortgage loan segment.

The Bank is oriented towards offering mainly PLN-denominated loans for residential purposes, which are a dominant item of the mortgage loan portfolio. They continue to be complemented by loans indexed to the GBP, USD, EUR for residential purposes, available to those who earn their income in foreign currencies.

The Bank continues to undertake measures to increase its share of mortgage loan sales in the largest, dominant markets, i.e. Warsaw, Cracow, Wrocław, Poznań, Szczecin, Gdańsk or Łódź, through the sale of loans in the "Własne M w Wielkim Mieście" (Own Apt. in the Big City) promotional product range.

Despite the coronavirus pandemic and new economic situation that emerged in connection to that pandemic, the Bank recorded a systematic increase in its share in the mortgage loan market in H1 2020.

In July 2020, the Bank achieved over 100% growth in mortgage loans compared to the average January-February sales, reaching PLN 308 million in July.



### **Term deposits**

The Bank offers term deposits in PLN (with a fixed interest rate) and in foreign currencies (with a fixed or variable interest rate depending on the deposit period) to personal customers. Customers have a wide range of available maturity dates to choose from. The deposit may be opened in a distribution channel of their choice, including via Alior Online online banking and the Alior Mobile mobile application. In addition, customers interested in depositing larger amounts can choose negotiable deposit products, where both the maturity and interest rate are agreed individually.

## Savings accounts

The Bank offers to retail customers savings accounts denominated in PLN which encourage them to save while keeping flexible access to their funds. The main acquisition product is "Konto Mega Oszczędnościowe" (Mega Savings Account) introduced in December 2019. Its main benefit is preferential treatment of new funds up to PLN 100,000 for two 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 Mega Savings Account have the option to save flexibly 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" (Highly Personal Account) 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 for 12 months.

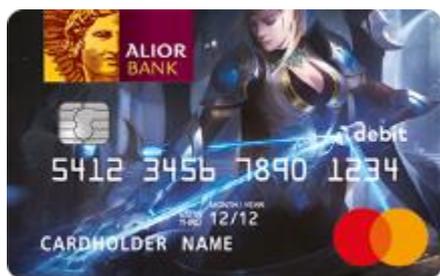


## Personal accounts

In H1 2020, the Bank was developing its personal account product range by adding new functionalities to the existing products.

The flagship account in our product range is the Highly Personal Account.

Under this account, the Customer is able to adapt the product to their own needs in online banking or via the mobile app by selecting benefits from among ten available options. In May 2020, a new benefit was introduced: "Points for gamers", which together with a dedicated debit card issued in cooperation with Riot Games – the developer of the most popular computer game in the world: League of Legends (LoL) – creates a special offer dedicated to the segment of individuals playing computer games.



The Mastercard Priceless Specials loyalty programme, available free of charge to all Mastercard debit card holders in online banking and the mobile application, has been specially extended to include prizes aimed at the gamer segment.

the "Podstawowy Rachunek Płatniczy" (Primary Payment Account) 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 USD, EUR, GBP to their debit card issued for the Highly Personal or Elite Account.

The range of personal account products is complemented by the "Konto Elitarne" (Elite Account) account dedicated to the Private Banking segment, the "Konto Internetowe" (Online Account) account,



## Dealing services

Alior Bank S.A. offers a broad range of dealing 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. The Bank has implemented in its mobile app innovative mobile payment methods through BLIK, Android Pay and Apple Pay, and smart watch payments (Fitbit Pay and Garmin Pay).

## Currency exchange transactions

Currency exchange transactions 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 transaction platforms – Autodealing. In addition, Customers have access to the *Kantor Walutowy* (Currency Exchange) platform available 24/7 at <https://kantor.aliorbank.pl>. Individuals holding foreign currency accounts and those who have entered into a treasury master agreement may exchange currency with a dedicated Currency Dealer 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 Highly Personal 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 issued for the Highly Personal Account and, as one of the benefits of the Highly Personal Account, a service of card payments without extra currency exchange costs.

## Bancassurance products

In 2020, voluntary life insurance has been a major addition to the range of offered banking products. Like in previous years, the main role was still played by borrower's life insurance (called PPI) offered for loans and mortgage loans. Standalone products offered (depending on the product) in the online channel, through the call centre, or through the branch network continued to play an important role.

As part of the range of insurance products, in 2020 the Bank continued its activities to support sales growth and development of life insurance related to loans and mortgage loans. Since March 2020, the Bank has recorded a dynamic growth in the sales of life insurance (PPI) offered for loans. In June 2020, the Bank implemented a new life insurance (PPI) for mortgage loans in cooperation with PZU Życie S.A., which replaced the product offered thus far by TU na Życie Europa S.A.



As part of its standalone product range, in 2020 the Bank offered accident insurance, motor insurance, residential insurance and travel insurance.

In 2020, the Bank also offered group insurance as an extra benefit accompanying banking products. These also included assistance and travel insurance as part of the Highly Personal Account, travel insurance added to World Elite credit and debit cards as well as group and assistance insurance for hire-purchase loans.

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**

In H1 2020, under its First Issue Programme, Alior Bank S.A. issued 9 series of Banking Securities with a combined nominal value of PLN 129,854,000. The Banking Securities issued through a public offering were aimed at personal customers, including 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 one series – also by a guaranteed coupon. 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. Eighteen issues took place in H1 2020, of which the best one closed with an 8% result. In addition, the Bank continued to offer structured certificates with a limited guarantee on the principal amount and conditional early redemption – “autocall” – for selected Private Banking customers. Four issues of such kind were carried out in H1 2020 for a total nominal value of PLN 45,939,200. The certificates were floated on the Warsaw Stock Exchange.

The Bank continued agency training to offer individual insurance policies in cooperation with PZU Życie S.A. As part of cooperation with the insurer, customers have the option to conclude an individual life insurance contract with an insurance capital fund.

### **Consumer Finance**

As regards the retail segment, the Bank offers Consumer Finance products.

In the first half of the year, despite the on-going COVID-19 pandemic, the Consumer Finance area effectively developed its operations in the instalment credit segment. The implementation of strategic projects which have an impact on dynamic business development was continued mainly in the online channel, which due to safe contact enjoyed great interest among customers. Restrictions in the normal operation of stationary stores related to safety during the pandemic as well as numerous promotions and price reductions offered by Partners of the Bank resulted in higher online sales and, therefore, an increase in the share of instalment credits in this channel.

Taking into account the safety of Customers related to signing agreements in stationary networks at the Bank's Trade Partners, we have increased the scale of agreements signed by means of a text message code. In order to optimise commercial processes, we have implemented a solution to help the Bank's Partners to facilitate sales and after-sales service in online channels, the so-called ePanel.

Despite restrictions in the functioning of the Bank and its Partners during the pandemic period, the Bank did not record a downward trend in the sale of instalment credits.



### Private Banking

The Private Banking programme is aimed at 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, Wroclaw, and two branches in Warsaw.

At the end of June 2020, the Private Banking line held more than 6,000 customers. Customers are offered a wide range of investment and credit products customised to their needs.

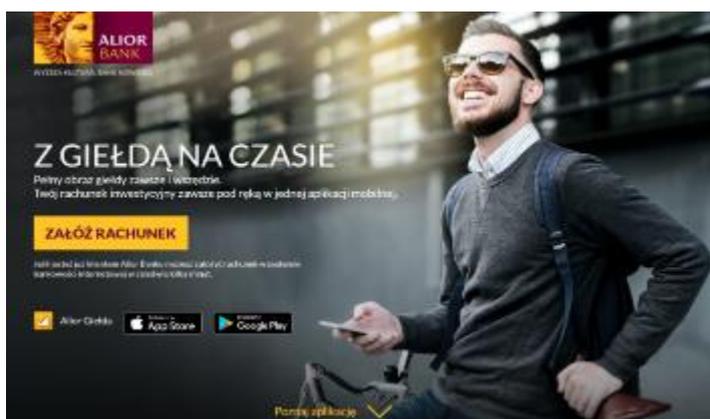
The flagship product dedicated to this segment is the Elite Account, kept free of charge for Customers holding assets worth more than PLN 1 million. Customers enjoy a number of benefits, such as individual assistance from a Private Banking banker, confidentiality of account balances, or prestigious debit card MasterCard World Elite, offered at no additional cost, with a rich package of extra services.

Holders of the Elite Account are also targeted with promotional, cultural and sports campaigns, 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 Center, Alior Bank's online banking system, *Alior Gielda*, a mobile app, and *Alior Trader 2*, a dealing platform.

At the end of H1 2020, the Brokerage House kept 80.6 thousand Brokerage Accounts (up by 6% since the beginning of the year), 53.5 thousand Deposit Accounts, and 7.4 thousand Alior Trader accounts (up by 12% since the beginning of the year). The value of securities accumulated in Brokerage Accounts as at 30 June 2020 amounted to 6.92 billion (up by 16.5% since the beginning of the year). The share of stock-exchange instructions executed through the Alior Gielda mobile app

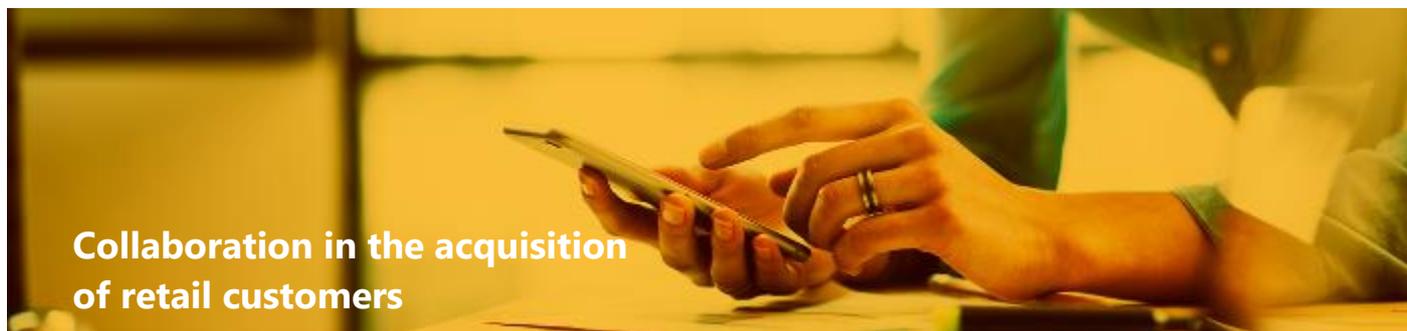


increased substantially as well (from 27% to 37%). The share of Alior Bank's Brokerage House in the trading on the Warsaw Stock Exchange (stocks and PDA) increased twofold from 0.65% in the second half of 2019 to 1.38% in the first half of 2020.

In 2020, the Brokerage Account of Alior Bank's Brokerage House took the podium (second place) in the ranking of the best brokerage accounts prepared by the editorial staff of the "Puls Biznesu" magazine for another year in a row.

Services offered by Alior Bank's Brokerage House also include units of Polish and foreign investment funds. As at 30 June 2020, Alior Bank collaborated with 13 Polish and foreign investment fund companies and in H1 2020 intermediated in the purchase of units of open-end investment funds for the total amount of PLN 0.67 billion. For non-public closed-end investment funds, the Brokerage House only conducted post-sales service. Total assets accumulated in open-end investment funds through Alior Bank amounted to PLN 1.78 billion as at the end of June 2020, whereas in non-public closed-end investment fund - PLN 0.14 billion.

In H1 2020, we continued to develop investment functionalities in remote channels. New solutions for investment customers have been introduced (the "New investment" tab in the online banking system), facilitating the selection of the investment portfolio and enabling a quick search for information about capital market instruments. In January 2020, the Brokerage House provided access to the "Fund Comparison Engine" on the investment website, enabling customers to search for and compare investment funds offered through Alior Bank. In March, we made available videos about the Alior Giełda mobile app, presenting both the basic and advanced functionalities of this tool.



### **T-Mobile Banking Services**

In H1 2020, T-Mobile Banking Services continued its cooperation with the mobile operator as part of the handling and sale of credit and deposit products, focusing on a systematic increase in the quality of customer service and satisfaction with the provided banking services.

The implementation of new functionalities in remote service channels was an important element of growth.

The work carried out in H1 2020 was focused on optimising the existing and introducing new solutions in online and mobile banking as well as adapting digital channels to the requirements related to the crisis caused by the COVID-19 pandemic.



In order to ensure the highest possible customer satisfaction with digital banking as a whole, as per the Bank's strategy, a number of improvements for Customer have been introduced, granting them a higher comfort of using Mobile and Online Banking systems.

T-Mobile Banking Services online banking has been improved as regards the execution of payments, among other improvements. Changes to transfers concerned mainly foreign and European transfers. A number of changes has also been implemented in connection with adapting digital banking to the regulations currently in force. As of 1 January 2020, personal and business customers may use the new method of executing transfers using the Individual Tax Account (IRP).

For customers with special needs, the T-Mobile Banking Services Online Banking has an option to order documents in the form of an audio recording or visual content, a printout in Braille or a document with a font size suitable for the visually impaired.

In Mobile and Online Banking, changes were also made to the view of debit and credit cards. Customers no longer see cards with the Closed, Cancelled and Not Delivered status.

In connection with the plan developed by the Polish Bank Association in response to the crisis caused by the COVID-19 pandemic, the customers were provided an option to temporarily suspend the repayment of loan and credit instalments, i.e. the so-called Credit Holidays. Personal customers may exercise this option by filling out an appropriate form. The form itself was prepared in a simple, transparent form, consistent with the appearance of online banking, so that the process can be carried out efficiently.

### **Alior Bank's branch in Romania**

In H1 2020, Alior Bank's foreign branch in Romania continued its commercial operations initiated on 18 October 2017. The Romanian Branch sold and serviced banking products for retail customers under the Telekom Banking brand in cooperation with Telekom Romania (Deutsche Telekom group).



In Q1 2020, the activities of the Branch were mainly focused on a further dynamic increase in the sales of credit products through an extensive direct distribution network: 51 "SIS" (Shop in Shop) branches, 139 Direct Sales Agents (DSA) and 16 brokers, including the largest financial intermediary on the Romanian market – KIWI (data as at 30.06.2020), and via remote channels: Telemarketing, Call Center, online and mobile banking. As a result, the share of the Branch in the new acquisition of credit products on the Romanian market increased to 2.62% in April 2020 (according to Biroul De Credit SA data).

After the outbreak of the pandemic caused by the COVID-19 virus in the second quarter of 2020, which also covered the territory of Romania, the Branch's activity was focused on ensuring the safety of employees and customers of Telekom Romania. In a very short time, the Branch implemented all guidelines of national sanitary services and recommendations resulting from procedures applicable at the PZU and Alior Bank Group. Employees were allowed to perform work remotely and to launch backup locations to ensure full continuity of operations of the Branch. At the same time, customers were able to apply for "credit holidays" in accordance with local regulatory requirements. In May, an option to repay credit liabilities was also implemented in over

18,000 PayPoint terminals located in small stores or service outlets. This was important for customers who still settle their accounts in cash, which was significantly limited as SIS and Telekom Romania points of sale were closed for more than 3 months due to restrictions imposed in connection with the fight against the pandemic in Romania.

The next key initiative implemented by Telekom Banking was the launch of a pilot functionality enabling new customers to apply and open deposit products completely online from home without the need to go to a branch or meet with a courier. The project was implemented in cooperation with a FinTech – Onfido. It delivered an innovative, safe and simultaneously user-friendly identity verification process utilising innovative technologies. Its commercial launch is planned for Q3 2020.

In the subsequent months, priorities for the Branch include: expanding the range of offered products by a credit card with an instalment plan, continuing to develop direct sales channels, implementing technological solutions optimising the sale of banking products, and implementing new acquisition and service channels, including the launch of a mobile application for the Currency Exchange.

As at 30 June 2020, the Branch in Romania employed 211 full-time equivalents.

## **Bancovo**

In H1 2020, Bancovo acquired over 80,000 new users. This growth resulted both from the television campaign conducted in February 2020 as well as from the development of its own



Bancovo partner programme. In addition, as a result of COVID-19, since March 2020 more customers started to seek funding for their needs online. Since April 2020, as a result of introduced regulations, we have observed a decrease in access to products offered by loan companies which resulted in the intensification of activities in the area of banking products available on Bancovo, including by introducing the first online consolidation loan in Poland in cooperation with the TF Bank Branch in Poland or introducing products offered by Credit Agricole Bank Polska to the market. The activities carried out yielded measurable effects:

- users increased to nearly 280,000 as at the end of June 2020,
- they have submitted nearly 100,000 credit or loan applications in H1 2020.

As at the end of June 2020, the company offered products of more than 25 financial institutions aimed at a wide range of consumers, both personal customers (credits/loans) and corporate customers (loans/microfactoring).

The first half of 2020 was not only a period of fast development of the existing activities of the platform, but also of implementing new Bancovo business projects:

- implementation of the first online consolidation loan in Poland in cooperation with the TF Bank Branch in Poland, which the customer may gain full access in the online process or by phone with the assistance of a Bancovo consultant;
- technological development of the CASH platform – a joint venture of PZU, Alior Bank and Bancovo. Bancovo is a technological 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 replicated, 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;

- introduction of the Credit Agricole cash loan product for sale – it is one of the key players on the consumer finance market in Poland,
- development of credit processes using the opportunities offered by the PSD2 Directive in the area of both customer identification processes (KYC) and customer creditworthiness assessment.



## Business segment

### General information

Alior Bank has 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 2020, the Bank served more than 230 thousand business customers and the combined loan exposure reached PLN 20.37 billion.

### Micro companies

As at 30 June 2020, the provided services to over 200 thousand micro-enterprises. Despite restrictions related to the COVID-19 pandemic, the bank actively acquired new customers, improving the use of online sales channels while maintaining full service at bank branches. In H1 2020, 15,578 customers from the micro-enterprise segment opened a company account, 36% more than in the corresponding period of 2019.

#### Accounts, settlements and deposits

Alior Bank's micro companies offer both an option to open a company account completely online, using remote identity confirmation processes as well as traditional customer service in the network of branches and partner outlets.

The bank offers the following to enterprises from the micro segment:

- iBusiness Account - an account available completely online, enables free use of basic payment services,
- 4x4 Account – a solution which enables customers to adapt their account parameters to the company's current requirements and to the type of transactions being executed. The Bank collects no charges for keeping the account, using the first debit card, wire transfers to the Social Security Institution/Revenue Office as well as for accounting on the [zafirmowani.pl](http://zafirmowani.pl) website. The customer also has the option to choose from four transaction packages.



The holders of both of the aforementioned accounts are the target of a promotional campaign where enterprises actively executing transactions may receive an annual bonus of up to PLN 1,500 for executing

banking operations. Additional promotional campaigns are launched regularly together with the Bank's partners.

In Q2 2020 Alior Bank, as one of the first in Poland, allowed its business customers to participate in the Mastercard Priceless Specials programme in which each payment brings the user closer to the selected prize associated with the passion indicated by them. By making transactions participants collect points which they may exchange for selected material prizes or events free of charge.

Card payments may also be executed using smartphones and other electronic devices via such services as Apple Pay, Google Pay, Garmin Pay and Fitbit Pay.

### Added services

The [www.zafirmowani.pl](http://www.zafirmowani.pl) website aimed at micro companies is a free platform available as an open website. The website is a practical guide and provides important information for enterprises. Expert articles and video materials answer questions that emerge when running, opening and financing an own enterprise. The website also offers tools helpful for modern entrepreneurs when running a business.

During the registration process, users can open a company account completely online, with a debit card and an option to get a bonus of PLN 200 upon meeting the conditions of activity. Website functionalities offer users the option to acquire new, potential partners and customers.

Registered users may use a free accounting application enabling them to keep simplified accounting records (a revenue and expense ledger, flat-rate income tax), featuring a generator of SAF-T mandatory files and the VAT return as well as enabling the automatic calculation of the amount of tax due. In addition, businesses holding a company account at Alior Bank can connect to the [www.zafirmowani.pl](http://www.zafirmowani.pl) website 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.

Registered users also receive access to products offered by website partners.



### Credits

The Bank's activity in the micro-enterprise segment is based on a comprehensive, fully standardised range of credit products.

In the Business Financial Package, under a single decision the company receives 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.

As at the end of June 2020, 97% of the new sales was secured with a BGK S.A. guarantee.



## Improvements for customers during the pandemic

### Remote support

While implementing the "More Than a Bank" strategy, Alior Bank introduced an e-signature solution delivered by a FinTech – Autenti. The new solution was first used by entrepreneurs in the process of deferring the repayment of loan instalments and technical renewals. The Autenti technology allows to sign documents remotely in a safe and fast way.

### Option to defer the repayment of the company's credit liabilities

In order to meet the customers' expectations, we offered an option to defer the repayment of credit instalments, i.e. the so-called "credit holidays". The Customer may apply to postpone the repayment of a full instalment by 3 months or a principal instalment by 6 months.

### Improvements in the credit application process

Alior Bank has introduced a number of improvements in the processing the cases of customer at risk of the economic consequences of the pandemic. They include waiving the need to conduct an on-site inspection of the enterprise, collateral or an investment or the possibility of accepting, in emergency situations, bank statements confirming payments to the revenue office and the Social Insurance Institution instead of certificates.

Products and services offered by the Bank have been adapted to the aid plan of Bank Gospodarstwa Krajowego (BGK). By doing so, customers can obtain working capital financing easier and faster, as described in more detail in the EU Funds and Aid Programmes section.

## Small, medium-sized enterprises and corporations

### Transaction banking and the BusinessPro online banking system

The range of accounts for SMEs and corporations is adapted to the expectations of particular company segments and uses modern customer acquisition and product processing channels. For entrepreneurs running a business in the aforementioned segments, Alior Bank offers Business Optimum and Business Comfort accounts as part of which the customer adapts solutions to the company's business profile. The range of account products is supplemented by a wide range of payment cards, including debit and virtual credit cards that make it easier for customers to manage significant volumes of online payments and a multi-currency card with access to 23 currencies without currency translation costs, the sales of which have been growing dynamically: 1,824 cards as at the end of June 2020 vs 677 cards as at the end of June 2019.

All business cards handle contactless payments via Apple Pay, Google Pay, Garmin Pay and Fitbit Pay.

The package of transaction banking products and services includes the management of cash flows, monitoring the collection of receivables and their ongoing identification through the BusinessPro online banking system, and automation of accounting processes through BankConnect, access to which was granted in the new enova365 accounting system in June 2020 through cooperation between Alior Bank and Soneta.

The Bank introduced a number of user-friendly improvements in the BusinessPro online banking system. These include:

- new intuitive mass transfer, payroll transfer and Revenue Office transfer templates,
- new user-friendly template for credit card repayment,
- a mechanism for supplementing and modifying marketing consents by logging-in to the system,
- processing applications for a subsidy under the Financial Shield offered by the Polish Development Fund.

The Bank also expanded its cooperation with Poczta Polska (the Polish Postal Service). Customers from the segment of small, medium-sized and large companies may deposit cash in PLN in a closed form not only at cash desks in branch offices, night deposits or sorting houses, but also during the work hours of 1,300 branches of the Polish Postal Service. In addition, they can count on special service without any queues.

The outbreak of the pandemic resulted in a decline in the number of new customers by 30% compared to Q2 2019 and stopped the regular growth trend observed previously. In order to restore the growth in new acquisitions, the Bank focuses on establishing long-term relations with enterprises based on cooperation involving a large number of products and a high volume of transactions.

## **Loans**

In order to improve the acquisition of new customers from the SME and corporate segment, Alior Bank S.A. introduced a special offer for entrepreneurs with liabilities in other banks. The offer applies to working capital loans, loans secured with a mortgage and financing in the form of factoring and includes refinancing in PLN, EUR, USD, GBP, without a preparation fee and with a margin reduced to 50% for 12 months.

Alior Bank S.A. also simplified the credit application process for small, medium-sized and large companies. The key changes are as follows:

- extended the validity of credit applications from 30 to 90 days,
- option for corporate customers or commercial company to file a simplified consent form and statements instead of a standard application,
- waived the obligation to provide full financial forecasts for credit cards.

Alior Bank's strategy assumes an increase in the Bank's lending activity in a way that ensures high revenue potential, while at the same time minimising risk costs. As part of implementing the strategy, the bank identifies attractive sectors of the economy, creating a list of the so-called preferred industries. Companies operating in selected industries can count on a favourable pricing policy and faster credit decision time.

In H1 2020 Alior Bank, as part of a consortium together with other financial institutions, granted several prestigious transactions. These include:

- a credit agreement with Grupa Azoty Polyolefins for the largest in years investment in the Polish chemical industry. Total exposure of the Bank in the transaction amounts to more than PLN 370 million.
- a credit agreement with Gaz System SA. Total exposure of Alior Bank in the transaction amounts to more than PLN 250 million.

Alior Bank's strategy assumes an increase in the Bank's lending activity in a way that ensures a high revenue potential, while minimizing the cost of risk. As part of the strategy implementation, the Bank identifies attractive sectors of the economy, creating a list of the so-called preferred industries. Companies operating in selected industries can count on a favorable pricing policy and faster credit decision time.

In the first half of 2020, Alior Bank S.A. ARE. as part of a consortium, together with other financial institutions, signed loan agreements with the following clients:

- Grupa Azoty Polyolefins - financing of the Polimery Police project, where the involvement of Alior Bank S.A. amounts to approximately PLN 370 million.
- Gaz System SA., For the implementation of the investment strategy in 2020-2025, where the involvement of Alior Bank S.A. is approximately PLN 250 million.

As at the end of June of this year, Alior Bank's the total sales of the new overdraft facility in the small, medium-sized and large enterprise segment increased by 122% compared to Q1 of this year and amounted to nearly PLN 2 billion. In the same period, the volume of loans disbursed under automatic decisions increased by 20% (REBEL and SMART).

### **Improvements for customers during the pandemic**

Since the beginning of the pandemic, we focused mainly on the implementation of initiatives that make it easier for enterprises to maintain financial liquidity as well as to operate a business in a safe and stable way.

#### **Remote support**

Alior Bank has introduced remote customer service for customers from the SME and corporate segment via digital channels, without the need to visit a branch. The qualified signature provided by the Ministry of Digital Affairs was used for this purpose. The exchange of master agreements, credit agreements, annexes, after-sales instructions with a qualified signature between the entrepreneur and Alior Bank may take place by e-mail or via the BusinessPro online banking system. Remote support applies to corporate accounts, credits, transaction products, cards and trade financing for new and existing customers. The processing of orders placed by customers via the BusinessPro system is handled by the newly appointed KB Operations Team, which facilitates the daily work of advisors to a significant extent.

#### **Option to defer the repayment of the company's credit liabilities**

In order to meet the customers' expectations, we offered an option to defer the repayment of credit instalments, i.e. the so-called "credit holidays". The Customer may apply to postpone the repayment of a full instalment by 3 months or a principal instalment by 6 months. As at the end of June 2020, 400 applications for the deferral of repayment of liabilities towards Alior Bank were approved in the segment of small, medium-sized and large enterprises.

### **Improvements in the credit application process**

Alior Bank has introduced a number of improvements in the processing the cases of customer at risk of the economic consequences of the pandemic. They include waiving the need to conduct an on-site inspection of the enterprise, collateral or an investment or the possibility of accepting, in emergency situations, bank statements confirming payments to the revenue office and the Social Insurance Institution instead of certificates.

Products and services offered by the Bank have been adapted to the aid plan of Bank Gospodarstwa Krajowego (BGK). By doing so, customers can obtain working capital financing easier and faster, as described in more detail in the EU Funds and Aid Programmes section.

### **Trade finance products**

Alior Bank offers a full range of products supporting trade financing needs. This offer is modified on an on-going basis according to the market requirements and changes to legal regulations.

In H1 2020, the bank implemented a two-stage credit process for factoring transactions with recourse, which enables quick verification of the company and its potential in regard to this form of financing.

The Bank also introduced a new factoring methodology increasing, among other things, the amount of gross advance payment for customers up to 95%. The increase in the amount of advance is an important element of improving the liquidity of an enterprise using factoring. Currently, customers may receive nearly the entire amount of the invoice immediately after it is issued, after the goods are dispatched to the trading partner and after an invoice is submitted to the bank for the purpose of its financing. An early advance payment and its amount are particularly important in the age of the coronavirus when customers face liquidity problems. The Bank introduced the option to grant the Multicurrency Liability Limit [LWW] in PLN together with a sub-limit in PLN for guarantees and letters of credit to the Liquidity Loan with a Liquidity Guarantee Fund Guarantee. It is not only loans, but also instruments securing the payment or performance of liabilities may receive support in the form of a guarantee from Bank Gospodarstwa Krajowego.

Alior Bank has also changed regulations related to establishing and changing exposure limits in regard to banks. This facilitates the path to grant limits for foreign banks and makes it easier to acquire customers - exporters. This is yet another streamlining of processes and a favourable change in the trade finance offer.

### **Financial Shield of the Polish Development Fund for micro-companies and small and medium-sized enterprises**

Alior Bank was actively involved in the Financial Shield Programme of the Polish Development Fund for Companies and Employees and as one of the first banks adapted the electronic banking systems to the process of accepting applications for subsidy. Business customers of Alior Bank could submit applications in Alior Online and BusinessPro online banking starting from the day the programme launched, i.e. from 29 April 2020. Apart from technical solutions, we provided entrepreneurs with educational materials in the form of e-mails and screens in electronic banking, text messages with the most important guidelines on how to complete the

application. We have also created a special information website [www.aliorbank.pl/tarcza](http://www.aliorbank.pl/tarcza), on which we have also made available the calculator to calculate the estimated amount of aid. Thanks to the involvement of bankers and implemented solutions, entrepreneurs can apply for government aid quickly and conveniently. As at 30 June 2020, 14,572 customers received decisions granting financial aid for the total amount of PLN 2,424,633,284.

### EU funds and aid programmes for micro-companies, small and medium-sized enterprises and corporations

Alior Bank S.A. 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 offer more attractive products and services to 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 S.A. has been a leader in sales of *de minimis* Guarantees. Since sales have begun in 2013, the Bank awarded nearly 50 thousand guarantees for the total amount of over PLN 11 billion, thus supporting entrepreneurs in Poland.

In March 2020, numerous changes to the *de minimis* guarantee were introduced in connection with the measures aimed to prevent the effects of COVID-19, consisting in increasing the guarantee coverage from 60% to 80%, extending the period for which the guarantee may be granted from 27 months to 39 months for new sales and abolition of the commission fee for the entire portfolio of exposures covered by *de minimis* guarantee. Changes to the above formula shall be effective until the end of 2020.

Alior Bank has been also a leader in sales of COSME guarantees. Since 2015, the bank has awarded more than 17.6 thousand COSME guarantees for a total amount of PLN 4 billion. In H1 2020, the Bank awarded nearly PLN 0.5 billion in loans secured with this instrument. Almost 90% of new sales of loans for customers from the micro segment and 60% of sales for customers from the segment of small companies are secured with guarantees offered in collaboration with Bank Gospodarstwa Krajowego.

Guarantee programmes offered by the Bank also include special guarantees addressed to innovative enterprises, creative sector enterprises, agricultural and food-processing sector enterprises or telecom sector customers.

### Biznesmax guarantee

Currently, the most attractive loan repayment security for SMEs is the 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.

In order to counteract the COVID-19 effects, in April 2020 the rules for granting Biznesmax guarantees were extended by the option to cover revolving working capital facilities related to the current operations of the company. It is an additional support for entrepreneurs which allows to return part of or even the whole interest paid by the customer on the loan for a maximum of 3 years from the loan disbursement date.

### **EKOFIRMA (ECOCOMPANY) Loan**

Based on the Biznesmax guarantee, Alior Bank S.A. created the EKOFIRMA Loan for the purchase and installation of photovoltaic panels for SMEs. The EKOFIRMA loan is addressed to renewable energy prosumers, i.e. for entrepreneurs operating in the micro, small and medium segments who plan to generate solar power in micro installations with a capacity of up to 50 kW in order to meet the power needs of their own enterprise.

Alior Bank does not require any material securities from the customer. The only security for the EKOFIRMA loan is the Biznesmax guarantee and a blank promissory note. The loan is granted in the maximum amount of up to PLN 500 thousand for 10 years. The security in the form of the Biznesmax guarantee is free for the customer throughout the entire period covered by the guarantee. In addition, the customer may apply for a refund of part or even the entirety of interest paid for the first 3 years of repayment.

### **Creative Europe guarantee**

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

### **Agricultural guarantee (Agricultural Guarantee Fund)**

The process of introducing an agricultural guarantee to the range of products addressed to customers from the agribusiness sector – farmers and processors involved in the production of basic agricultural products, processing or marketing them, was completed. Farmers may count on a guarantee of up to PLN 5 million, whereas processors – up to PLN 10 million. 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 may cover the following types of loans granted in PLN:

- investment loan to finance physical and non-physical investments related to the business activity conducted in the agricultural sector;
- non-revolving working capital facility for financing current business activity, which is related to an investment implemented with the support from EAFRD funds, i.e. receiving grant aid or financed with an investment loan secured with a guarantee under the Agricultural Guarantee Fund.

### **LIQUIDITY GUARANTEE FUND – guarantee for medium-sized and large enterprises**

In April 2020, Bank Gospodarstwa Krajowego provided access to a tool aimed at reducing the effects of the COVID-19 pandemic. The guarantee from the Liquidity Guarantee Fund is addressed to customers from the sector of medium-sized and large enterprises (within the meaning of the EU directive). The guarantee is temporary and will remain in effect until the end of 2020. The main purpose of the guarantee is to maintain lending activity in connection with liquidity needs for enterprises which are or may be affected by the economic effects of the COVID-19 pandemic.

As at the end of June 2020, Alior Bank S.A. secured up to 80% of the transaction volume amounting to over PLN 225 million with the Loan Guarantee Facility (LGF) Guarantee.

### **Loans involving EU grants**

As part of the broad range of products offered by Alior Bank, 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 offers comprehensive support for investments with EU grants distributed through the Polish Agency for Enterprise Development, the National Centre for Research and Development, the Ministry of Development, the Marshal's Offices. From a loan commitment for EU grant loan to bridging loans, i.e. ones that pre-finance the grant and a 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 technological innovation, for which Alior Bank has signed a cooperation agreement with BGK in 2015.

In H1 2020, the Bank issued loan commitments for the total amount of PLN 65 million.

### **Products for telecommunications companies**

By the end of August 2020, products offered by the Bank include a Broadband Loan intended to finance the development of broadband networks in Poland. A broadband loan is preferential funding addressed to telecoms, awarded under the Digital Poland Operational Programme for 2014-2020 (DPOP).



So far, 20 investment projects with a total value of approx. PLN 100 million have been implemented as part of this activity, of which approx. 90% constitutes broadband loan financing.

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 a DPOP guarantee.

### **Funding of thermal insulation projects**

Alior Bank S.A. continues its activities as regards the financing and servicing of entities from the housing sector. Currently, Housing Cooperatives, Housing Communities, Social Housing Associations and selected regions of Local Government Units are offered Thermal Insulation Loans by the Bank, intended to finance the thermal insulation of multi-family residential buildings. 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, Łódzkie, Podlaskie and Małopolskie regions.

So far, investments totalling more than PLN 35 million have been financed under approx. 70 loan agreements.

Approximately 30 customers have thus far used the reimbursement for documentation prepared in the process of applying for the Thermal Insulation Loan. 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.

### **Preferred industries**

The current strategy of Alior Bank assumes an increase in the bank's lending activity in a way that ensures high income potential while minimizing the cost of risk. As part of the implementation of the strategy of Alior Bank S.A. identifies attractive sectors of the economy, creating a list of the so-called Preferred Industries. Operating companies in selected industries, they can count on a favorable pricing policy and a faster period of loan decisions.

The list of preferred industries is updated by the KB Sales and Strategy Department in cooperation with the Risk Department based on the analysis of long-term economic trends as well as short-term forecasts of the macroeconomic situation. In 2020, the list of preferred industries includes, among others production of paper packaging, cosmetics, household chemicals and activities in the field of health protection.





## Treasury activity

Alior Bank S.A. pursues Treasury activities in the following areas:

- spot foreign exchange (FX) and transactions to hedge against currency exchange risks;
- transactions on interest rate instruments to ensure stable funding costs to its customers by hedging against interest rate risk,
- transactions to limit the consequences of commodity price volatility,
- liquidity management – by selling products enabling the customers to deposit their surplus cash and through repo and BSB transactions,
- 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 on the interbank market;
- management of commodity price volatility risk through transactions on commodity markets;
- management of the currency option portfolio risk under the established limits by entering into hedging and option transactions on the interbank market;
- trading on the bond portfolio by buying and selling State Treasury bonds and bonds guaranteed by the State Treasury,
- applying hedge accounting, i.e. hedging against interest rate risks resulting from banking activities and interest rate swap transactions (IRS, OIS) in PLN and in foreign currencies.

Surpluses of the Bank's liquid cash are mainly invested in Treasury bonds and Treasury bills denominated in the Polish 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 transactions on financial instruments involving one's own equity will continue to be a strategic way to protect ourselves against potential systemic risks, i.e. limited market liquidity. The Management Board intends to manage market risks so as to ensure Alior Bank's equity at the current, secure level. Alior Bank has been an active player on the interbank market. It has provided liquidity for currency transactions for other professional market players which has allowed it to maintain its existing position on the interbank FX market. Alior Bank S.A. participated in the provision of data for the quotation of POLONIA reference rates.

### Dealing platforms

As part of its Treasury activities, Alior Bank S.A. 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 S.A. has been the first bank in Central Europe to implement its own algo trading system called Quasar, on the price from which three currency platforms are based – Autodealing, eFX Trader and *Kantor Walutowy* (Currency Exchange).

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 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.

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) is the first online currency exchange bureau offered by a bank on the Polish market. The platform is intended for both personal customers and businesses. The system is available 24 hours a day, 7 days a week upon logging in to the [www.kantor.aliorbank.pl](http://www.kantor.aliorbank.pl) website and via a mobile app available for iOS and Android devices. Alior Bank's Currency Exchange allows the customers to securely exchange currencies at attractive rates as well as execute free domestic and international transfers of the currencies purchased on the platform. The system has many useful functionalities, such as: phone or e-mail transfers for all currencies, option to send transfer requests, or easier sharing of payments between friends, e.g. for a joint dinner or trip, and the option to buy tourist insurance.

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 at the Currency Exchange. Effective as of 21 May 2020, the card is free for new orders. A change in the Tariff of card fees has translated into an increase in card orders by 45% m/m.

The first half of 2020 resulted in the implementation of a new service on the Currency Exchange – quick account top-up. The service allows to immediately top up the account with funds using any credit or debit card – without a long waiting period for the transfer to be executed. The service is also distinguished by the fact that both PLN and foreign currency account can be topped up. The quick account top-up was implemented in cooperation with Dotpay. Both personal and corporate customers may use the service.

The first half of the year was also spent continuously developing the mobile application of the Currency Exchange. The introduced changes and optimisations translated into recognition in the eyes of customers, which is confirmed by an increase in the app rating on the Google Play store (up to 4.1) and the App Store (up to 4.5).

The stability, accessibility and user-friendly interface mean that customers log into the mobile application more frequently. In the first half of the year, the number of logins to the application was 150% higher than the website version of the Currency Exchange. The increase in the number of logins has also translated into an increase in currency exchange in this channel to 43% of all transactions concluded (up by 13% compared to the previous half-year). In May, a competition promoting the Currency Exchange appeared on the Facebook profile of Alior Bank. An automatic BOT was used for the competition – for the first time in the bank's history.

Its task was to ask customers competition questions. The competition was met with a positive response of Facebook users and generated over 1,200 competition applications.

In H1 2020, the Bank has implemented a number of requirements and guidelines of the European and national supervisory authority regarding financial markets and adapted its operations to market and regulatory changes related to COVID-19. It also modified processes in terms of making it easier for customers to remotely access the Bank.



### Equity investments

Equity investments made by the Alior Bank Capital Group have been 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 international issuers.
- Investment certificates: certificates of a "private equity" closed-end investment fund, and units of an open-ended investment fund.

	Status as at 30.06.2020		As at 31.12.2019	
	Volume	Market/ value in PLN thousand	Volume	Market/ value in PLN thousand
<b>Stocks</b>	791,088	112,023	602,475	117,902
<b>Quoted</b>	252,782	55,288	456,094	52,493
<b>Non-quoted</b>	538,306	56,735	146,381	65,409
<b>Bonds</b>	1,226,466	636,119	877,988	106,437
<b>Investment certificates</b>	19,940	7,016	17,393	6,310

## An online and mobile banking

The work carried out in H1 2020 was focused on optimising the existing and introducing new solutions in online and mobile banking as well as adapting digital channels to the requirements related to the crisis caused by the COVID-19 pandemic.

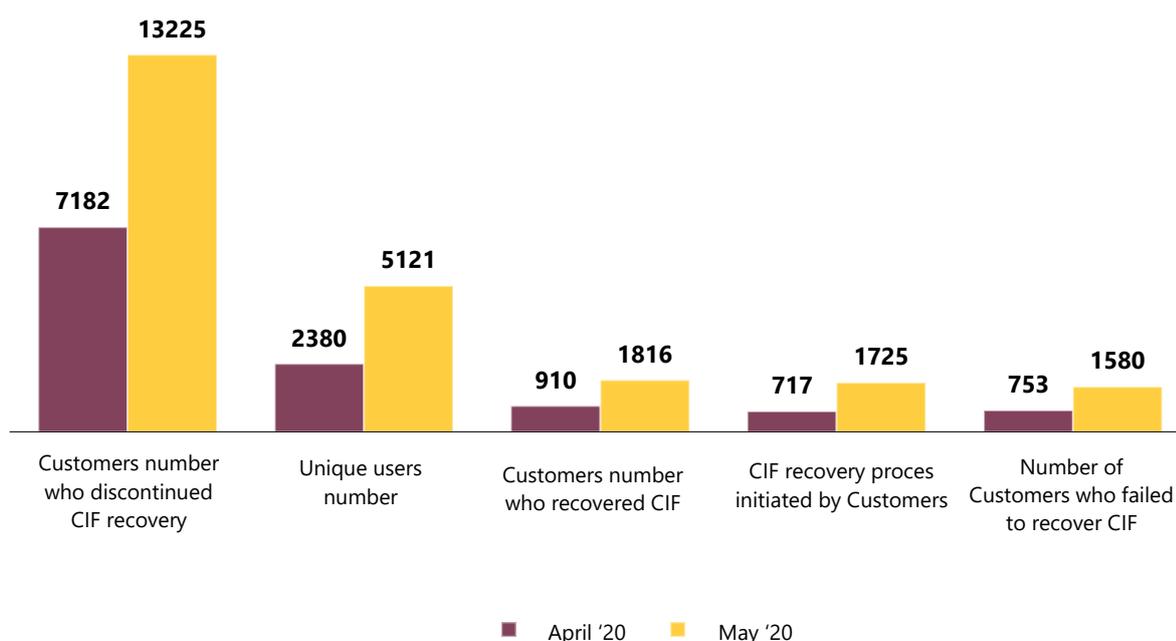
These activities have contributed to the implementation of objectives set out in the Bank's strategy and higher revenue from online and mobile channels.

In H1 2020, the Alior Mobile application and Alior Online online banking have undergone a number of changes related to their appearance and the handling of deposit and credit products; additional new functionalities have also been implemented.

Alior Online online banking has been improved as regards the execution of payments, among other improvements. Changes to transfers concerned mainly foreign and European transfers. Minimum amounts were introduced for international transfers for the BEN cost option. The range of previously unavailable currencies for urgent and express transfers has been extended to include the Thai baht (THB) and the Israeli shekel (ILS).

A number of changes has also been implemented in connection with adapting digital banking to the regulations currently in force. As of 1 January 2020, personal and business customers may use the new method of executing transfers using the *Individual Tax Account* (IRP).

In H1 2020, in response to the needs of customers, an option to independently recover the Customer Identification Number – CIF (login to online banking) – through a website was implemented. In April, 7,182 CIF recovery attempts were recorded, whereas in May this number nearly doubled to 13,225. In May, as many as 36% out of 5,121 unique customers completed the process successfully.



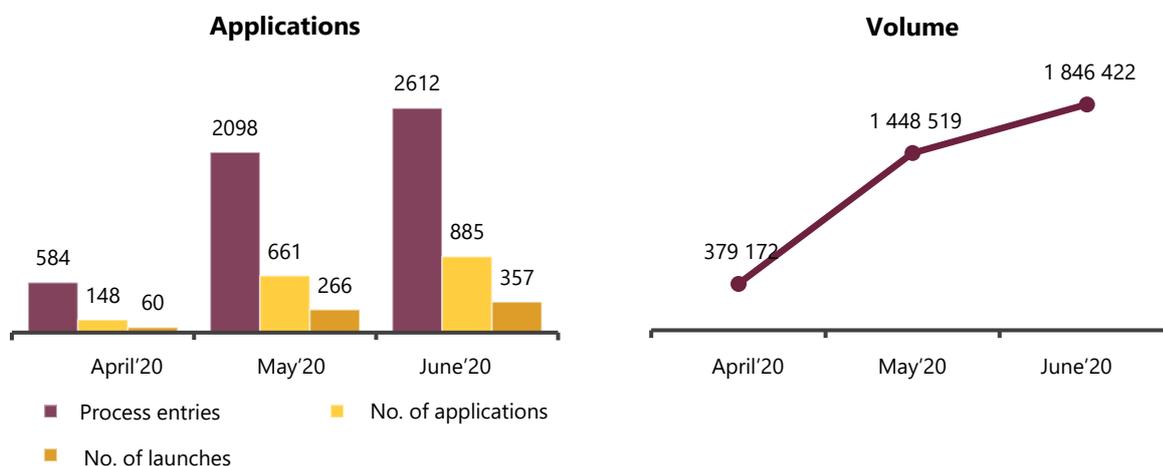
Online banking has been improved by adding new options related to the history of deposit products. "Hide amounts in the portfolio" and "Hide history" option were added to the desktop. Thanks to the new solutions, customers can change the product view and hide both the balance and histories.

Navigation in the *Settings* tab was changed completely to increase the transparency and user-friendliness of online banking. After the changes have been introduced, the options such as *Trusted Profile*, *500 + Application*, *300 + Application* or *Documents* can be found in the *Services* tab. The *Messages* option has been made available via a link at the top of the screen.

Changes were also made to the view of debit and credit cards. Customers no longer see cards with the *Closed*, *Cancelled* and *Not Delivered* status.

For customers with special needs, Alior Online has an option to order documents in the form of an audio recording or visual content, a printout in Braille or a document with a font size suitable for the visually impaired.

For customers using treasury products, an option to send scans of documents by sending a *Message* from the Alior Online and Alior Mobile system was added.



In connection with the plan developed by the Polish Bank Association in response to the crisis caused by the COVID-19 pandemic, the customers were provided an option to temporarily suspend the repayment of loan and credit instalments, i.e. the so-called Credit Holidays. In online banking, personal customers and sole traders may exercise this option by filling out an appropriate form. The form itself was prepared in a simple, transparent form, consistent with the appearance of online banking, so that the process can be carried out efficiently.

In connection with the implementation of the government aid programme for enterprises, the so-called Anti-crisis Shield of the Polish Development Fund, an option to apply for a subsidy was implemented in the system. In the Alior Online system, the customer may apply for a subsidy in 5 short steps until 5 July 2020.

At the end of May 2020, a new edition of the RBL\_START "More than a banking app" programme was also launched with the objective to provide support in the implementation of the new "More than a bank" strategy of Alior Bank. The new challenge seeks to discover new solutions and added services that can be available to

personal customers of Alior Bank via the Alior Mobile application. The final selection of start-ups for the programme from among 150 submissions and the commencement of design works is scheduled for July 2020.

### **Strategic partnerships**

The new “More than a bank” strategy for the years 2020-2022 announced by Alior Bank S.A. stresses the need to expand the range of services available to the customer and change the way in which they approach their banking. Building strategic partnerships in this aspect is one of the key roads to going beyond the framework of banking by implementing projects together with our partners to make day-to-day operations of customers in various areas of their life easier while increasing the number and scope of interactions with the Bank.

The development of services around the Alior Mobile application is one of the priorities for building external partnerships. The services and products are to be ultimately grouped into 5 main areas, within one of them – “Me and my family” – we have signed an agreement with the Polish Security Printing Works. The established cooperation will enable the Bank to provide access to another method of verifying customers’ identity without the need to visit a branch, based on using the eDO App. In this way, customers will be able to confirm their personal data using an e-ID, use an advanced signature and by doing so they will be able to freely use the products and services offered by Alior Bank. The application is integrated with login.gov.pl, so it also ensures a connection to public administration units and offices.

The first half of 2020 also involved continued close collaboration with the existing strategic partners of the Bank – especially with the PZU Group, and the establishment of completely new strategic partnerships or new areas of cooperation within the framework of existing partnerships. We are also looking for opportunities for internal synergies at the Bank (internal partnership) and using a wider approach with regard to our current partners, looking for new areas of cooperation.

Our key strategic partner remains the 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 2020, we have continued to closely cooperate in the Assurbanking area by implementing 2 extensive strategic projects and undertaking a number of other, smaller initiatives.

Our key initiatives in the Assurbanking area included:

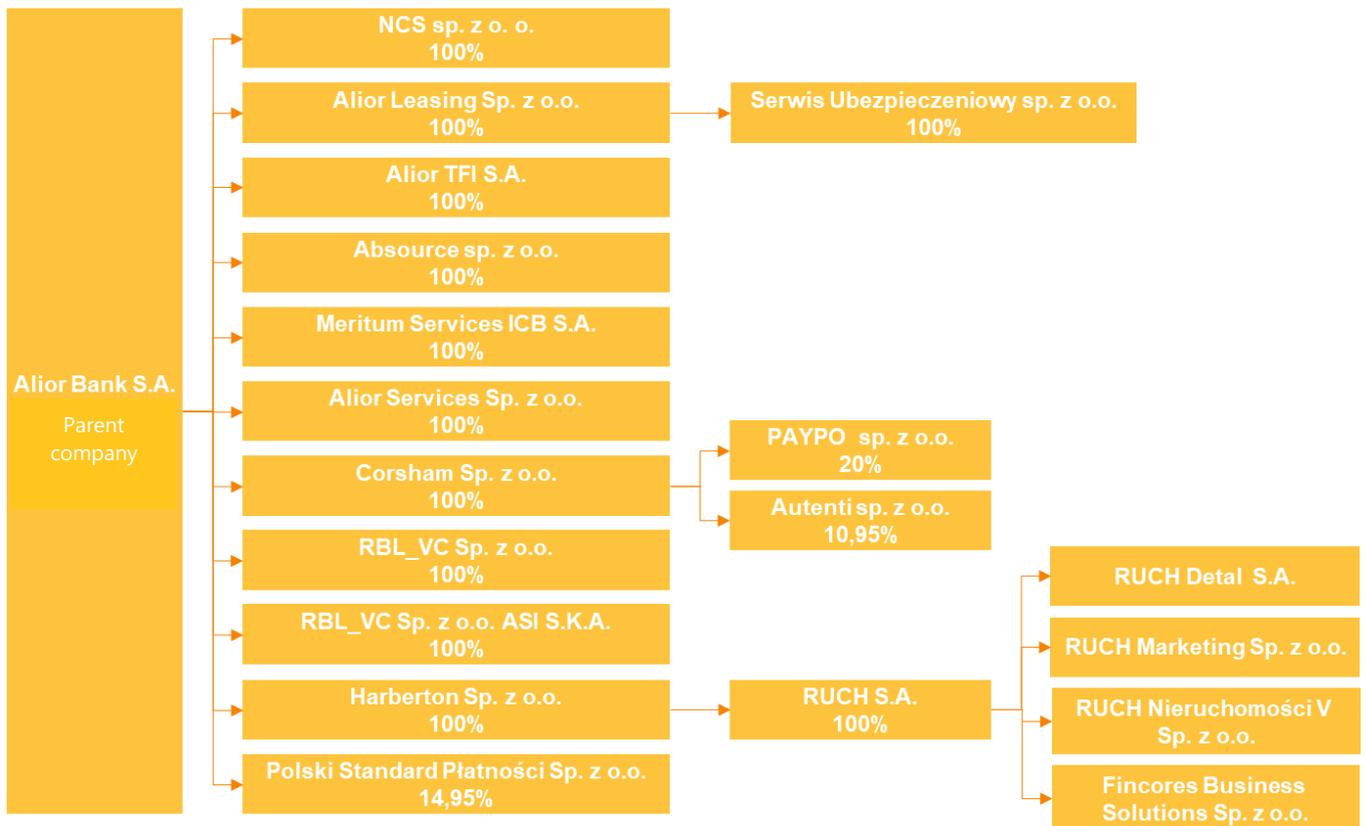
- **CASH website** – an innovative online lending platform aimed at employers, who can offer it to their employees as part of the non-wage benefits package. The employee can receive funding to meet their needs with minimum formalities, quickly and conveniently, and the offered range of products and services is very attractive. After the first phase of the platform’s pilot programme at the PZU Group, it was time to implement it in other work establishments. At the end of June 2020, the Cash website was made available to employees of a company from the PKP Group – PKP Telkol. The implementation is already in progress at several companies and arrangements are being made with a number of other companies as well. We are focusing on building it on a large scale and providing the option to take a loan on very attractive terms available to the greatest number of employees possible.

- **Employee Capital Plans (ECP)** – in 2019, PZU signed agreements for the operation of Employee Capital Plans in large work establishments which collectively employ several hundred thousand employees. In 2020, the number of such companies and the number of employees covered has been growing steadily. For employees working in those companies, Alior Bank prepared an offer including various banking products. Through the ECP channel, Alior Bank has the opportunity to reach a broad spectrum of personal customers who might become the Bank's customers or may expand the range of the Bank's products they currently use. Collaboration under the ECP 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).



## VI. Activity of companies from the Alior Bank S.A. Capital Group

### Alior Bank S.A. Capital Group as at 30 June 2020



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

- On 19 February 2020, Alior Bank S.A. entered into an agreement with Blackstones Spółka z ograniczoną odpowiedzialnością Holdings sp.k. for the sale of shares in Harberton Sp. z o.o. with its registered office in Warsaw, by which it acquired 100 shares in Harberton Sp. z o.o., representing 100% of the share capital of that company.
- On 27 November 2019, Alior Bank S.A. signed the Articles of Incorporation of RBL\_VC Sp. z o.o. ASI spółka komandytowo-akcyjna with its registered office in Warsaw, which was registered in the National Court Register on 17 April 2020,
- On 3 June 2020, Harberton sp. z o.o., a subsidiary of Alior Bank SA, entered into an Investment Agreement to acquire 100% of shares in RUCH S.A. with its registered office in Warsaw, which controls the following subsidiaries companies:
  - RUCH Marketing sp. z o.o. with its registered office in Warsaw,
  - Fincores Business Solutions sp. z o. o. with its registered office in Warsaw,
  - RUCH Nieruchomości V sp. z o.o. with its registered office in Warsaw,
  - RUCH Detal S.A. with its registered office in Warsaw.

## Alior Leasing Sp. z o.o.



The Company offers operational lease, financial lease or leasing of vehicles (92% of agreements) and other fixed assets. The company works mainly with sole traders and SMEs. In 2019, Alior Leasing Sp. z o.o. carried out the securitisation of a part of its portfolio of accounts receivable valued at PLN 500 million. In 2020, the company intends to change its business status, i.e. to transform itself into a joint-stock company.

The leasing company Alior Leasing sp.z o.o. offers operational leasing, financial leasing or a leasing loan, vehicles (92% of contracts) and other fixed assets. Alior Leasing's clients are natural persons running a business and companies from the SME sector.

The company's goal is to support the development of Polish entrepreneurs by providing the best solutions that respond to the expectations of modern companies looking for a comprehensive leasing offer to their individual needs. As part of the Alior Leasing offer, companies can use the most popular forms of financing fixed assets, primarily vehicles, necessary for operation and development. Thanks to products such as: operational leasing, financial leasing and leasing loan, entrepreneurs gain easy and quick access to finance the purchase of means of transport as well as machinery and equipment. Alior Leasing has an extensive sales network and cooperates with an extensive network of business partners, dealers, and the Alior Bank sales network.

The changing market environment, and especially the need to operate in the realities of the COVID-19 pandemic, requires even greater flexibility of processes and efficiency in the operation of the organization.

## Serwis Ubezpieczeniowy Sp. z o.o.

Serwis Ubezpieczeniowy Sp. z o.o operates on the insurance market. The company's object of activity are agency activities related to insurance, leased items offered with insurance.

## Alior Services Sp. z o.o.

The Company was established in 2012, initially as an outsourcer of customer verification, post-sale and customer acquisition systems. In 2013, the company's activities regarding CF were migrated to the Bank. At present, the company is conducting insurance agency activities and implements other operational and service-related projects for corporate customers of Alior Bank as well as projects expanding the range of products and services for Private Banking customers in order to strengthen its competitive position.

## Alior TFI S.A.



Alior TFI S.A. was established in 2010, initially as a brokerage house focused on asset management services, and since July 2015, following its transformation, it has been active as an Investment Fund Company. The collaboration between Alior Bank and its subsidiary Alior TFI S.A. is centred around the primary object of its activity, which is the establishment and management of investment funds as well as their representation towards third parties.

## Absource Sp. z o.o.

Absource Sp. z o.o. is a company providing IT, computer and IT advisory services. It also carries out software-related activities focused on the delivery of the CAFE, CAFEM and SWK systems in the sublicense model (99% of revenue).

## Meritum Services ICB S.A.

The activities pursued by the company include IT and computer technology services. At present, the company generates revenue by providing Alior Bank S.A. access to software in the Software as a Service (SaaS) model – 74% of the revenue, and hiring out IT specialists to develop Alior Bank S.A. systems – 26% of the revenue.

## Corsham Sp. z o.o.

Corsham was established in 2018. In February 2019, Alior Bank S.A. acquired 100% of shares of Corsham Sp. z o.o. and that same year contributed all held shares of PAYPO Sp. z o.o. (20%) to Corsham Sp. z o.o. In December 2019, Corsham Sp. z o.o. acceded to Autenti Sp. z o.o. by taking up 10.95% of its shares. The Company does not conduct operating activities.

## PAYPO Sp. z o.o.



PAYPO is a start-up company which offers deferred payments for online shopping and a shopper protection programme. The company has used its proprietary scoring system based on information collected online, without the need to provide such information by the customer. With PAYPO, the customer can receive and inspect the goods before payment. If the goods do not reach the user for any reason, they do not have to pay for them.

## Autenti Sp. z o.o.



Autenti Sp. 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. So far, the Company has attracted the following key customers: BNP Paribas, Vienna Life, Credit Agricole, PGE Lumi and Medcover. The Company intends to strengthen its competitive advantage by developing its platform and carrying out expansion to European markets.

## Polski Standard Płatności Sp. z o.o.



The main objective of the Company is to organise a system of mobile payments using a mechanism of one-time codes presented by means of a mobile application installed on a phone or other mobile device of the user for authorisation and settlement. The main product of the company is BLIK Mobile Payment System. BLIK has become the most popular solution for P2P settlements. The shareholders of the company are 6 banks: Alior Bank S.A., ING Bank Śląski S.A., Bank Millennium S.A., Santander Bank Polska S.A., mBank S.A. and PKO BP S.A., having equal shares of 14.29% after joining MasterCard.

## RBL\_VC Sp. z o.o.

The Company was registered in the National Court Register in November 2019 and at the beginning of 2020 received an entry on the list of entities managing alternative investment companies kept by the Polish Financial Supervision Authority (ZASI). As a general partner, it will provide management services for RBL\_VC sp. z o.o. ASI S.K.A.

## RBL\_VC Sp. z o.o. ASI S.K.A.

The company was established in October 2019 and registered in the National Court Register in April 2020. The Company (ASI) is an investment vehicle through which Alior Bank intends to make venture capital investments. The investments will involve taking up minority stakes in entities operating in the area of new solutions on the financial and fin-tech market. ASI will ultimately take over the current role of Corsham in the area of venture capital investments.

## NewCommerce Services Sp. z o.o.



The core business of the company is the development of the "Bancovo" brand related to online financial intermediation. The platform allows customers to compare actual loan offers and enables them to quickly and easily acquire cash online (end-2-end). It is possible thanks to innovative solutions based on API, RPA, big data, machine learning, and supported by advanced UX. At the end of 2019, the company offered products of more than 25 financial institutions addressed to both personal customers (credits/loans) and to business owners (loans/micro-factoring). In the fourth quarter of 2019, the company launched another product: the CASH platform – a joint venture with PZU. Bancovo is a technological partner of the CASH platform which is the first in Poland to use the BaaS (Broker-as-a-Service) collaboration model. In 2019, Bancovo has expanded the range of its loan brokerage services to include hire-purchase financing by establishing collaboration with RTV AGD, a company from the EURO RTV AGD group. As part of that solution, Bancovo provides a loan engine that aggregates the offers of selected financial institutions, which provides paperless financing for the goods offered by the retailer chain.

## Harberton Sp. z o.o.

The Company was purchased by Alior Bank S.A. in February 2020 in order to make a capital investment in the RUCH S.A.

## RUCH S.A.



The Company's activity is focused on the retail sale of newspapers and stationery in specialised stores.

## RUCH Detal S.A.

The Company was established in 2018. The Company's core business is retail sale of newspapers, stationery, books, tobacco products, pharmaceutical products as well as alcoholic and non-alcoholic products in specialised stores, through mail-order stores and online. 100% of its shares is held by RUCH S.A.

## RUCH Marketing Sp. z o.o.

The Company was established in 2013. The Company operates in the area of public relations (PR) as well as communication, data processing and management of websites and web portals (hosting), intermediation in the sale of space for advertising purposes in electronic media (Internet), activities of advertising agencies as well as market research and public opinion polling. 100% of its shares is held by RUCH S.A.

## **RUCH Nieruchomości V Sp. z o.o.**

The Company was established in 2012. The Company's business is to rent and manage owned and leased real estate, purchase and sell real estate on its own account, intermediate in the real estate trade, manage real estate on commission and provide auxiliary activities related to keeping building in clean condition. 100% of its shares is held by RUCH S.A.

## **Fincores Business Solutions Sp. z o.o.**

The Company was established in 2011 as RUCH Nieruchomości IV sp. z o. o. In 2017, it changed its business name to Fincores Business Solutions sp. z o.o. as well as its core business. At present, the company pursues bookkeeping and accounting activities as well as tax consulting activity.



## VII. Major events in the activity of the Alior Bank S.A. Capital Group

### **Appointment of the Supervisory Board of the Bank for the fourth term**

On 21 May 2020, the Ordinary General Meeting of Shareholders of the Bank appointed the Supervisory Board of the Bank for the fourth, four-year term.

Composition of the Supervisory Board of the Bank appointed for the fourth term:

- Aleksandra Agatowska
- Ernest Bejda
- Artur Kucharski
- Mikołaj Handschke
- Wojciech Myślecki
- Marek Pietrzak
- Robert Pusz

### **Changes to the composition of 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. effective as of 29 February 2020.

On 12 May 2020, Mr Krzysztof Bachtą resigned from the position of the President of the Management Board of Alior Bank S.A. effective as of 12 May 2020. At the same time, as of 12 May 2020 the Supervisory Board of the Bank appointed Ms Iwona Duda as a Member of the Management Board of the Bank, entrusting her with the position of the Vice-President of the Management Board and managing the works of the Management Board.

On 29 June 2020, the following persons – members of the Management Board: Marek Szcześniak, Tomasz Biłous and Marcin Jaszczuk, in connection with the lapse of the joint term of office of the Management Board of the Bank on 29 June 2020, submitted a resignation from the mandate of a member of the Management Board of the Bank effective as of 29 June 2020, 24:00. At the same time, on 29 June 2020, the Supervisory Board of the Bank appointed the following persons to the Management Board of the Bank for the new term of office:

- Iwona Duda – Vice-President of the Management Board in charge of managing its affairs
- Agnieszka Nogajczyk-Simeonow – Vice-President of the Management Board
- Seweryn Kowalczyk – Vice-President of the Management Board
- Agata Strzelecka – Vice-President of the Management Board
- Maciej Brzozowski – Vice-President of the Management Board
- Dariusz Szwed – Vice-President of the Management Board

### **Extension of licence for Alior Bank S.A. to use the AMA approach**

On 30 January 2020, Alior Bank S.A. was granted by the Polish Financial Supervision Authority permission to remove the lower limit in regard to the application of the advanced method (AMA) in the operating risk area. In H1 2020, the Bank worked to further develop the AMA method and operational risk management.

### **Conclusion of a collective dispute**

On 13 February 2020, an agreement ending a collective dispute with trade unions regarding pay rises for all employees was reached.

### **Approval of the Strategy of Alior Bank S.A.**

On 28 February 2020 the Strategy of Alior Bank S.A. for the years 2020-2022 ("Strategy") was approved. At the same time, Alior Bank S.A. informed that the objectives and assumptions of the Strategy do not constitute a forecast or estimate of the results (including financial results) and refer only to the intended directions of the Bank's operations in the years 2020-2022."

### **Approval of the base prospectus for the bond offering programme**

On 4 May 2020, the Polish Financial Supervision Authority approved the Bank's base prospectus drawn up in connection with:

1. an offering programme in the territory of the Republic of Poland for unsecured bearer bonds with a nominal value of at least PLN 100 each and up to the total maximum nominal value of PLN 1,500,000,000 established by the Bank as part of a multi-annual bond issue programme of the Bank up to the total maximum nominal value of PLN 5,000,000,000; and
2. an intention to apply for admission and marketing of individual series of Bonds on a regulated market (primary or parallel market) for debt securities maintained by the Warsaw Stock Exchange or a regulated market for debt securities maintained by BondSpot SA.

### **Conclusion of agreements specifying the terms and conditions of the transaction concerning RUCH S.A.**

On 28 May 2020, between the company Harberton sp. z o.o. in which the Bank holds 100% of shares and Lurena Investments B.V., with its registered office in the Netherlands, entered into a preliminary sale agreement for 108,824,007 shares of RUCH S.A., representing 100% of the share capital, for the price of PLN 1.00.

On 1 June 2020, the Bank concluded an investment agreement with PKN Orlen, PZU and PZU Życie, in relation to the restructuring of RUCH S.A. The signed investment agreement, together with accompanying documents, specifies the rules for the execution of transactions as part of the next stage of the restructuring process of the Company. The agreement defines, among other things, the principles of the ownership policy towards the Company, including corporate governance issues in the Company and future provisions of the Articles of Association; and the rules for the sale of the Company's shares by the Parties, including the scope of restrictions on the disposal of the Company's shares during the term of the shareholders' agreement, as well as the prohibition to sell the Company's shares within 5 years from the effective date of the shareholders' agreement.

On 3 June 2020, between the company Harberton sp. z o.o. in which the Bank holds 100% of shares and Lurena Investments B.V., with its registered office in the Netherlands, entered into a promised agreement on the sale of shares under which the Bank acquired 108,824,007 shares of RUCH S.A. with its registered office in Warsaw, representing 100% of the share capital, for the price of PLN 1.00.

After final approval of the feasibility of arrangements under accelerated arrangement proceedings for Ruch S.A., PKN Orlen, PZU, PZU Życie and Alior Bank S.A. will take up shares of the new issue of the company Ruch S.A., with PKN Orlen S.A. will take the position of the parent entity of Ruch S.A. The Bank will have the status of a minority shareholder, holding 6% of the Company's share capital.

### **Reduction of interest rates**

In connection with the decisions of the Monetary Policy Council of 17 March 2020, 8 April 2020 and 28 May 2020 on the reduction of the NBP reference rate by 1.4 p.p., i.e. to 0.10 percent, and in connection with the decision of the National Bank of Poland on the reduction of the mandatory reserve requirement rate from 3.5% to 0.5%, the Management Board of the Bank informed that together they will result in the reduction of the net result of the Capital Group of the Bank by approximately PLN 116 to 133 million on a quarterly basis and the NIM index by 0.79 to 0.91 p.p. per annum.

## **Major events post balance-sheet date**

Did not occur.

## VIII. Issues of own bonds of Alior Bank S.A.



### **Approval of the base prospectus for the bond offering programme up to the amount of PLN 1,500,000,000**

On 4 May 2020, the Polish Financial Supervision Authority approved the base prospectus of the Bank ("Prospectus"). The Prospectus was drawn up in connection with:

- an offering programme in the territory of the Republic of Poland for unsecured bearer bonds with a nominal value of at least PLN 100 each and up to the total maximum nominal value of PLN 1,500,000,000 ("Bonds") established by the Bank as part of a multi-annual bond issue programme of the Bank up to the total maximum nominal value of PLN 5,000,000,000; and
- an intention to apply for admission and marketing of individual series of Bonds on a regulated market (primary or parallel market) for debt securities maintained by the Warsaw Stock Exchange or a regulated market for debt securities maintained by BondSpot S.A.
- The offering programme was established by the decision of the Management Board of the Bank on 10 September 2019.
- Based on the Prospectus, the Bank may conduct public offering of the following Bonds:
  - unsubordinated bonds;
  - subordinated bonds which are 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); and
  - bonds the liabilities under which 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.

### **Issues and redemptions of bonds conducted by Alior Bank S.A. in H1 2020**

In H1 2020, the Bank did not conduct any issues of its own bonds. No early redemption of bonds was carried out.

# IX. Alior Bank's risk report

Risk management is a crucial in-house process at Alior Bank S.A., its foreign branch and at all subsidiaries of the Alior Bank S.A. Group. The primary objective of the risk management policy is to ensure early recognition and appropriate management of all relevant types of risk connected with the business activity being conducted. The risk management system supports the delivery of the strategy and is aimed at ensuring an adequate level of profitability and security of business activity by effectively controlling the risk level and keeping it within the boundaries of the adopted risk appetite.

The bank recognises the following major types of risk to its business:



The risk management system in force at Alior Bank is based on three independent lines of defence: The first line of defence is implemented at the Bank's operational units and by process owners who, among other duties, design and ensure the compliance with the control mechanisms embedded in processes. The second line of defence operates in organisational units responsible for the management of particular risks, including its measurement, monitoring, control and reporting. 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 carried out by the internal audit unit.

The Bank exercises supervision over the operations of subsidiaries of the Bank's Capital Group. The Bank supervises the risk management systems in these entities and takes into consideration the level of risk connected with activities of particular entities within the risk monitoring and reporting system at the level of the Bank's Capital Group.

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 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.
- takes 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:

- establishes and controls concentration limits,
- monitors the structure and quality of a new credit exposure in relation to defined objectives and EWS signals,
- analyses changes in internal factors and market factors as well as the sensitivity of the credit portfolio, in particular in relation to negative events identified as a potential risk,
- regularly monitors the loan portfolio, by controlling all major parameters of credit risk (including PD, LGD, LTV, DTI, COR, NPE, NPL, Coverage, loss ratio of particular generations),
- regularly conducts stress tests.

As regards credit risk management, in the Personal Customer segment the Bank continued to optimise the credit policy

- by lowering the maximum acceptable level of the Debt to Income ratio,
- by adjusting the parameters of the credit offer for distribution channels characterised by lower quality, including by reducing the available exposure and limiting cut-off levels, in particular for cash loans,
- by implementing further limitations as regards the required minimum employment period for customers applying for a mortgage loan and working in Great Britain – in response to risk connected with BREXIT.
- In response to the higher credit risk caused by the effects of the COVID-19 pandemic, the Bank adjusted the credit policy in areas most threatened by the crisis, among others by:
  - assessing PD and LGD parameters of new exposures adjusted by the expected impact of a potential recession as part of the credibility assessment and adjusting cut-off points,
  - suspending the increased exposure of persons applying for the non-statutory moratorium,
  - suspending lending to those employed or running a business in high risk industries,
  - suspending lending to customers whose source of repayment is income from civil law contracts,

- introducing more strict conditions concerning the period of income acquisition – extending the minimum period of employment or conducting business activity (mortgage loans) and limiting lending to persons employed under fixed-term contracts,
- limiting the parameters of the available range of credit products, including in particular the amount of available exposure and acceptable assessment of credibility for cash loan,
- introducing the life insurance obligation in increased risk segments (mortgage loans),
- expanding the scope of information obtained to verify the customer and the situation of their employer as regards the stability of income earned by the customer during the period of the pandemic.

Changes in the cash loan credit policy resulted in a change in the quality structure of granted exposures, such as the assessment of credibility, repayment amount or repayment source, reducing the loss ratio of new start-ups expected on the basis of this structure by more than 30%.

As regards housing loans, which are characterised by the lowest loss ratio, after the implementation of changes addressing increased credit risk caused by the pandemic the Bank maintained an increase in lending, which amounted to 43% (comparing Q1 and Q2 2020). In addition, the Bank has implemented changes to the lending process which result in its increased automation and efficiency.

In the area of hire-purchase loans, the Bank has continued its strategy to optimise the credit policy, in particular by adapting it to particular trade partners, e.g. by providing access to remote sales channels and developing cooperation with business partners providing the desired customer profile. These measures resulted in a permanent growth of the hire-purchase loan portfolio by 10% compared to 2019, while maintaining the low loss ratio of this portfolio.

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.

In the area of loans for micro- and small enterprises, in H1 2020 the Bank has consistently pursued its strategy to optimise the credit policy by focusing on precise delineation of customer profiles with the highest loss rates, in particular: by limiting available amounts for the highest risk classes and introducing new, stricter criteria for rejection based on new data sources (external databases). The new lending action is characterised by better quality and a higher level of securities, due to which it will be more resistant to more difficult market and macroeconomic conditions.

In response to the increased financing risk, resulting mainly from the effects of the COVID-19 pandemic, the Bank introduced the following:

- limited financing for industries most affected by the crisis,
- the requirement to obtain a guarantee from BGK,
- a matrix of credit policy parameters broken down into sectors affected and threatened to the greatest extent by the crisis, affected to a slight extent and resilient,
- process simplifications resulting from Anti-Crisis Shields, EBA requirements and simplifications aimed at limiting contacts with the customer and ensuring the continuity of processes with a limited number of employees.

### **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 a 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. In H1 2020, the system of early warning signals (financial and non-financial) was significantly expanded to include signals flowing both from the Bank's internal and external data as well as adapted to the current structure of the Business Customer portfolio. The Bank carries out periodical, individual credit exposure reviews. The monitoring process ends with the development of a strategy for further cooperation with the customer, issuing possible recommendations concerning changes to the terms and conditions of cooperation and, subsequently, contacting the customer in order to implement the proposed changes.

### **Separation of responsibilities**

The Bank implements a policy consisting in the separation of functions related to Customer acquisition and sale of credit products from functions related to the assessment of credit risk, making 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 forborne 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 POCI).

As at 30 June 2020, in relation to the COVID-19 pandemic environment, the Bank comprehensively adjusted the assumptions and parameters of the impairment measurement to the consequences of the pandemic for the quality of the Bank's credit portfolio expected by the Bank. Details of the solution are described in the chapter of the financial statements titled "Quality and valuation of the credit portfolio in the environment of COVID-19".

### Impairment evidence

The Bank assesses impairment evidence by classifying and differentiating 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 for individual valuation (as at 31.12.2019)

Customer segment	Level value (in PLN)
Personal customer	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, medium-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.

## Monitoring of credit risk for consumers and businesses

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. At the same time, the Bank intensively develops the use of early warning signals in the on-going monitoring of credit exposures. They are based both on internal/transaction data and on external information.

Business customers are also monitored on a quarterly basis by individual reviews. The review results in updating customer classification as well as preparing and implementing recommendations on further development of relations with the customer in order to mitigate identified risks and improve the quality of the credit portfolio.

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

on-going monitoring of the timely handling of loans and early warning signals (EWS),

periodical reviews, in particular of the financial and business circumstances of customers, transaction risk and the value of 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.
- Sectoral credit holidays (grace period for the repayment of the entire instalment for 3 months or grace period for repayment of a part of the principal instalment for 6 months).
- Statutory credit holidays for a period of up to 3 months - a grace period for the entire instalment, without the accrual of interest during that period.

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.

In the business customer segment, the Bank applies the following main solutions:

- Extension of the lending period resulting in lower amounts of monthly principal and interest to be repaid.
- Sectoral credit holidays (grace period for the repayment of the entire instalment for 3 months or grace period for repayment of a part of the principal instalment for 6 months).
- Change of the repayment schedule in order to adjust the payment to the current financial standing of the customer.
- Granting consent to sell, in consultation with the customer, a part of securities and adequately reduce the customer's liabilities.
- Changing the nature of the product into a non-renewable product while establishing a repayment schedule (including partial reduction of a non-revolving product).
- Lowering the interest rate.
- Changing the priority of repayments, i.e. repayments counted first towards the principal.
- Changing the loan currency in connection with the change of currency exposure.

### **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 (volume of applications, volume 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, types of product subject to change), with particular attention to delayed loss ratios.

### **Assessment of impairment for exposures subject to forbearance practices**

All exposures subject to forbearance practices are measured in terms of loss value at lifetime.

Forbearance practices affecting the reduction of asset value (including, for example, depreciation) constitute evidence of impairment and are classified to Bucket 2.

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.

### **Risk control in loan origination processes**

As of 1 January 2020, operating activities are carried out by the Risk Control Department, implementing automated control mechanisms in key credit processes. In H1 2020, control processes focused on the following areas:

- analysis and credit decision-making in the Business Customer Segment (the control covers 100% of the newly-granted volume)
- established credit repayment securities in the Business Customer Segment (the control covers 100% of the newly-granted volume)
- whether the Customer qualifies for the Watchlist in the Business Customer Segment
- adequacy of LTV levels in the portfolio of mortgage-backed credit exposures,
- registration of impairment evidence
- assessment of the Bank's history of cooperation with a defaulting Customer

The results of the control along with the relevant recommendations are regularly reported to the Heads of Units, and owing to the adequate placement of individual control mechanisms in processes, the identified errors are corrected on an on-going basis, thus minimising the lack of compliance of the processes performed with internal and external regulations.

The plan to expand control mechanisms for the second half of 2020 covers primarily:

1. key processes in the Personal Customer Segment (credit analysis and decision-making process for mortgage-backed loans, main monitoring processes)
2. expanding control mechanisms in the Business Customer Segment (areas of increased risk resulting from COVID-19, the largest credit exposures).



## Operational risk

Operational risk, which is connected with the possibility of a loss arising due to non-compliance or fallibility of internal processes, human resources, systems or external threats, is identified as a major risk.

The purpose of managing operational risk connected with the Bank and the Capital Group is to maintain operational risk at a safe and adequate level in relation to the activities, objectives, strategies and development of the Bank, approved by the Management Board and the Supervisory Board of the Bank, as well as to develop quantitative methods and expand the extent to which they are used in managing the organisation using the AMA method.

The Bank has in place a formalised operational risk management system within which it prevents operational events and incidents and minimises loss should such risk materialise. The operational risk management system at Alior Bank is based on three pillars:

- corporate governance – including internal regulations, internal control system and defined roles and responsibilities of individual organisational units,
- the operational risk management process – including all of its phases and the use of adequate tools,
- operational measures - actions taken by the Bank that are aimed at identifying operational risk, implementing operational risk control and management procedures, decisions taken to mitigate risk, including in 2020 actions related to the mitigation of the threat caused by **COVID-19 (coronavirus)**.

For several years, the Bank has been developing statistical methods for calculating internal capital for operational risk. On 30 January 2020, the Bank received from the Polish Financial Supervision Authority a letter stating that the Polish Financial Supervision Authority has no objections as to the implementation of changes to the AMA model reported by the Bank, implementing all prior recommendations of the PFSA concerning the AMA model. As a consequence, the prerequisites for continuing to apply the lower limit in the amount of 60% of capital requirements calculated according to the TSA method for the purposes of calculating capital requirements according to the AMA method have ceased. Thus, the Bank applies:

- the AMA approach – with regard to the activity of Alior Bank S.A. without taking into account the activity of the branch in Romania,
- standard approach – with regard to the branch office in Romania,

in order to calculate own funds requirements for operational risk. The PFSA's decision is a result of many months of design work aimed at improving the operational risk management processes at the Bank. The result of the project constituting a continuation of works carried out at the Bank since 2016, apart from a significant

reduction of the capital requirement for operational risk, is a number of procedural benefits and a tool that may be used to precisely estimate operational risk and take that risk into consideration, including in product prices and process costs.

The operational risk management structure in place at the Bank includes: the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board of the Bank, the Operational Risk Committee, the Operational Risk Management Department and Operational Risk Coordinators.

A detailed distribution of roles and competencies in regard to operational risk management has been specified in the internal regulations in force at the Bank.

The amount of net operating losses (including recoveries) recorded in H1 2020 for Alior Bank S.A. were within the adopted target and limit for operational risk of the Bank.



## Market and liquidity risks

### Rules for managing 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 has a clear division of competencies in regard to the management of market and liquidity risks, which includes:



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 and 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).



## 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 interbank treasury deals, and the transactions are settled and accounted for by the Operations Division, whereas 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 monitoring and reporting

Alior Bank S.A. regularly monitors and reports liquidity risk metrics levels and the degree to which 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, liability and off-balance-sheet items. These assumptions are subject to approval by the CALCO Committee and the Bank's Management Board.

List of maturity dates for contractual flows of assets and liabilities on a consolidated basis as at 30 June 2020 (in PLN million):

30/06/2020	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	2 069	1 914	1 845	3 155	6 530	11 173	22 825	42 216	91 727
Cash and Nostro	1 095	0	0	0	0	0	0	0	1 095
Receivables from banks	70	80	0	0	0	219	0	0	369

Receivables from customers	900	991	1 824	2 777	5 056	8 063	15 228	34 323	69 162
Securities	0	841	16	371	1 462	2 871	7 569	4 389	17 519
Other assets	4	2	5	7	12	20	28	3 504	3 582
Liabilities and equity	-53 378	-3 343	-4 396	-3 540	-3 218	-1 891	-1 009	-7 174	-77 949
Owed to banks	-435	-183	-24	-41	-396	-116	-168	263	-1 100
Owed to customers	-51 224	-3 030	-3 774	-2 891	-2 100	-519	-310	-4	-63 852
Own issues	0	-124	-569	-564	-634	-1 152	-437	-754	-4 234
Shareholders' equity	0	-6	-12	-18	-36	0	0	-6 295	-6 367
Other liabilities	-1 719	0	-17	-26	-52	-104	-94	-384	-2 396
Balance sheet gap	-51 309	-1 429	-2 551	-385	3 312	9 282	21 816	35 042	13 778
Accumulated balance sheet gap	-51 309	-52 738	-55 289	-55 674	-52 362	-43 080	-21 264	13 778	
Derivatives – inflows	4 121	5 356	2 488	710	712	499	335	43	14 264
Derivatives – outflows	-4 118	-5 360	-2 483	-708	-704	-490	-332	-44	-14 239
Derivatives – net	3	-4	5	2	8	9	3	-1	25
Guarantee and financial lines	-9 659	0	0	0	0	0	0	0	-9 659
Off balance sheet gap	-9 656	-4	5	2	8	9	3	-1	-9 634
Gap, total	-60 965	-1 433	-2 546	-383	3 320	9 291	21 819	35 041	4 144
Accumulated gap, total	-60 965	-62 398	-64 944	-65 327	-62 007	-52 716	-30 897	4 144	

Comparable data as at 31 December 2019 (in PLN million):

30/06/2020 transformed data	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	1 730	3 270	2 505	3 846	6 343	11 947	22 759	42 676	95 076
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
Receivables from customers	373	1424	2 502	3 336	5 871	9 298	16 898	33 381	73 083
Securities	0	1773	3	510	472	2 514	5 861	5 816	16 949
Other assets	0	0	0	0	0	0	0	3 479	3 479

Liabilities and equity	-46 201	-5 111	-4 742	-3 939	-5 436	-2 720	-1 457	-7 695	-77 301
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	-1106	-342	-26	-62 653
Own issues	0	-67	-126	-285	-1272	-1 394	-826	-793	-4 763
Shareholders' equity	0	-6	-12	-18	-36	0	0	-6 665	-6 737
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	17 775
Accumulated balance sheet gap	-44 471	-46 312	-48 549	-48 642	-47 735	-38 508	-17 206	17 775	
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 30 December 2020, the total liquidity buffer was PLN 17,314 million as compared to a minimum level of PLN 11,665 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 Bank's activities, including the liquid assets portfolio, are funds acquired from the deposit base which as at 30 June 2020 was equal to approx. 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.

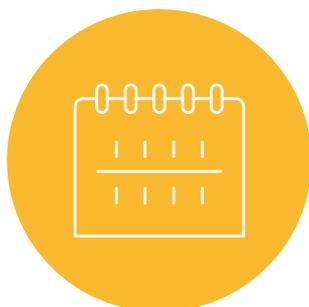
The values of aforementioned ratios as at 30 June 2020 were as follows: 3.59 and 1.21, respectively.

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 the Liquidity Coverage Ratio (LCR) at an adequate level. As at 30 June 2020, LCR for the Group was 187% as compared to the required 100%.

### Management of liquidity risk at the Bank's foreign branch

In H1 2020, Alior Bank S.A. had one foreign branch, in Romania, which conducted deposit and credit activity. The objective of the Branch is to conduct credit activity with the funding received from Alior Bank S.A. and using funding acquired on 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 Head Office.



### 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. The change in the economic value of equity metric with the scenarios defined by EBA, and also with parallel shift of interest rate curves by +/- 200 base points at the end of June 2020 and at the end of 2019 for the Alior Bank Capital Group has been presented below (in PLN thousands).

Scenario	Change in the economic value of equity 30 JUN 2020	Change in the economic value of equity 31 DEC 2019
<b>Parallel upward shift of interest rates (EBA)</b>	-134,162	117,133
<b>Parallel downward shift of interest rates (EBA)</b>	-486	-157,107
<b>Steeper interest rates curve (EBA)</b>	-7,287	-49,385
<b>Flatter interest rates curve (EBA)</b>	-54,716	50,185
<b>Increase in short-term interest rates (EBA)</b>	-100,594	84,891
<b>Decrease in short-term interest rates (EBA)</b>	-8,212	-130,323
<b>Parallel upward shift of curves by 200 bp</b>	-94,153	108,317
<b>Parallel downward shift of curves by 200 bp</b>	2,813	-136,170
<b>Worst scenario</b>	-134,162	-157,107
<b>The most unfavourable scenario as % of Tier 1</b>	2,6%	2,4%

Change of net interest income within 1 year with change of interest rates by 100 bp (negative scenario) as at the end of June 2020 and as at the end of 2019 has been presented below:

	30 JUN 2020	31 DEC 2019
<b>NII</b>	10.00%	6.86%



## 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 30 June 2020, the maximum loss on the currency portfolio held by the Bank (managed in the trading book), determined on the basis of VaR within a time horizon of 10 days, with the assumed confidence level of 99% (in PLN thousand) has been presented below:

	30 JUN 2020	31 DEC 2019
<b>Time horizon [days]</b>	10	10
<b>VaR</b>	296	436

In measuring the exposure of the Capital Group of Alior Bank to the risk of changes in exchange rates, the Bank carries out stress tests. Below are presented the results of stress tests of changes of exchange rates relative to PLN by +/- 20% (PLN thousand).

	30 JUN 2020	31 DEC 2019
<b>Rates +20%</b>	-8 553	23 109
<b>Rates -20%</b>	44 510	-5 761



## 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.

Risk relevant as at 30 June 2020				
Credit risk (including: insolvency, residual, 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	Excessive financial leverage 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,
- operational risk based on the AMA method,
- liquidity risk based on a liquidity gap model assuming a stress scenario,
- market risk based on the VaR method
- interest rate risk in the banking book based on the EVE method,
- reputational risk based on the VaR method,
- business risk based on the results of stress tests,
- model risk based on the results 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 Capital Group of the Bank

	30 JUN 2020	30 JUN 2019
Capital adequacy ratio	15,72%	15,78%
Tier 1 capital ratio	13,14%	12,87%
Ratio of internal capital coverage by available capital	2,24	2,32

On 18 March 2020, the Minister of Finance signed an ordinance on the dissolution of the systemic risk buffer. Abolition of the systemic risk buffer will release the capital accumulated by banks in this respect. The minimum regulatory value of Tier 1 and TCR ratios for Alior Bank after the buffer has been lifted is 8.5% and 10.5%, respectively.

On June 27, 2020, the provisions of the Regulation (EU) 2020/873 of the European Parliament and of the Council of June 24, 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 with regard to certain adjustments in COVID-19 pandemic responses mitigating the impact of a sudden increase in expected loss write-offs on capital ratios. The provisions of the above-mentioned The regulations introduce a number of changes, in particular:

- extend the period of the transitional arrangements regarding the introduction of IFRS 9 by two years and allow for the full addition to their Common Equity Tier 1 capital of any increase in new write-downs for expected credit losses in 2020 and 2021.
- accelerate the introduction of the extension of the indicator supporting small and medium enterprises.
- a transition period in terms of risk weights for exposures of denominated governments and central banks in the currency of any EU member state.

The above changes affect the increase in the Bank's capital ratios as at 30/06/2020.

## X. Internal control system

The internal control system in place at Alior Bank is the entirety of solutions and measures to ensure that the internal control system objectives defined by law 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:



At 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.



## Control system in the process of preparing the financial statements

The internal control system for financial reporting at the Bank is implemented 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 Bank 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 Accounting Policies in force at the Bank 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

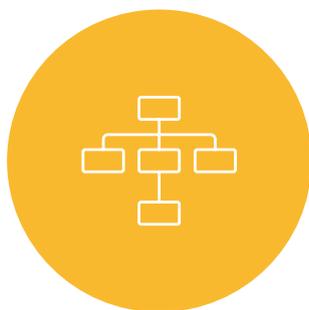
accounts in the Bank's general ledger, by assigning these accounts to the appropriate substantive units. In addition, the process of entering into contracts and launching new products by particular organisational units of the Bank has been tightened up by introducing mandatory review by the Accounting Policy Team.

In addition, risk connected with the preparation of financial statements is limited by subjecting the financial statements to a semi-annual review and an annual audit 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.



# XI. Information for Investors



## 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 (data as at 30.06.2020 / 18.08.2020)

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



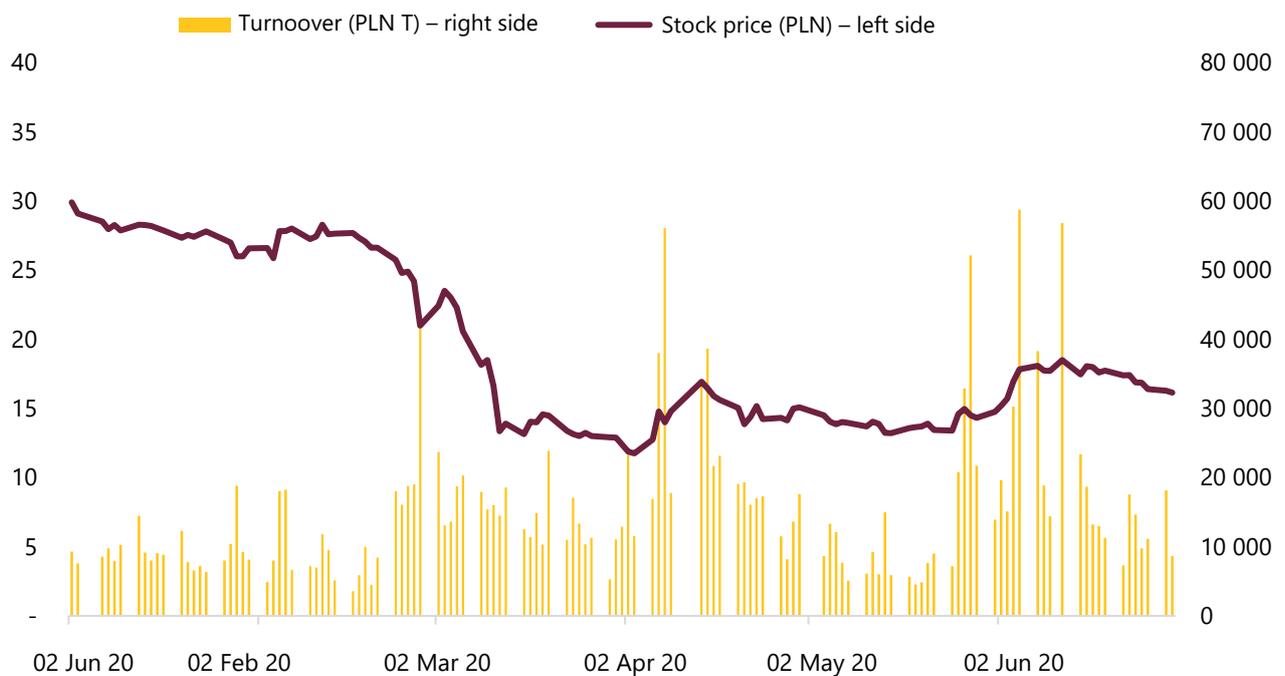
## Alior Bank share prices on the WSE in H1 2020

Alior Bank S.A. 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 H1 2020 was almost PLN 1.9 billion (vs. PLN 1.6 billion in H1 2019). Almost 392 thousand transactions involving Alior Bank's stock were conducted in H1 2020, as compared to 196 thousand transactions in H1 2019.

As at 30 June 2020, the Bank's stock price was at PLN 16.15, whereas P/E and P/BV ratios for Alior Bank were at 9.5 and 0.31, respectively.

The following chart shows the development of the Bank's stock prices and trading volumes on the WSE in H1 2020.





## 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 H1 2020, there were 107 such meetings, including 39 meetings and teleconferences with 22 international investors as well as 68 meetings with 28 local investors. Due to the coronavirus pandemic, the majority of meetings was held by means of a teleconference.

## Ratings

Agency	Date awarded	Long-term rating	Short-term rating	Outlook
<b>FitchRatings</b>	14.04.2020	BB	B	negative
<b>S&amp;P Global Ratings</b>	27.04.2020	BB	B	negative

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

- Long-Term Foreign Currency IDR: BB with negative outlook,
- Short-Term Foreign Currency IDR: B,
- National Long-Term Rating: BBB+(pol), with negative 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](http://www.fitchratings.com), which also publishes ratings, criteria and methodologies.

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 a negative outlook,
- Short-Term Issuer Credit Rating at "B".

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

## Shareholders of Alior Bank S.A.

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 the General Meeting of Shareholders			Shares as proportion of the share capital and the total number of votes at AGM		
	18.08.2020/ 30.06.2020	05.05.2020	28.02.2020/ 31.12.2019	18.08.2020/ 30.06.2020	05.05.2020	28.02.2020/ 31.12.2019
<b>PZU SA Group*</b>	41,658,850	41,689,286	41,689,286	31.91%	31.93%	31.93%
<b>Aviva OFE Aviva Santander</b>	9,467,180	9,467,000	9,467,000	7.25%	7.25%	7.25%
<b>Nationale-Nederlanden OFE**</b>	11,650,000	9,300,000	9,300,000	8.92%	7.12%	7.12%
<b>Other shareholders</b>	67,777,961	70,097,705	70,097,705	51.92%	53.69%	53.69%
<b>Total</b>	130,553,991	130,553,991	130,553,991	100.00%	100.00%	100.00%

\*PZU SA, the funds managed by TFI PZU SA and Pekao Investment Banking SA

\*\*Based on the number of shares registered at the Annual General Meeting convened on 21 May 2020

Since the delivery date 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 (*Dziennik Ustaw* 2005 No 184 item 1539, as amended).

**Members of the Management Board being the Bank's shareholders as at 30 June 2020 and as at the report publication date**

Shareholder	Number of shares/votes	Nominal value of shares (PLN)	Shares as proportion of the share capital	Votes as proportion of overall votes
<b>Agata Strzelecka</b>	1,500	15,000	0.00%	0.00%
<b>Dariusz Szwed</b>	4,600	46,000	0.00%	0.00%

In the reporting period, the Management Board of the Bank received a notice pursuant to Article 19 (1) of the Market Abuse Regulation concerning purchase transactions related to the Bank's shares, which have been presented in the table below:

Shareholder	Number of purchased shares	Transaction date
<b>Agata Strzelecka</b>	1,500	09.03.2020
<b>Dariusz Szwed</b>	4,600	06.03.2020

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.

## XII. Significant agreements and obligations



As at 30 December 2020, Alior Bank S.A. did not hold:

- liabilities towards the central bank,
- significant agreements on loans, 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 the European Investment Funds (EFI) and the European Investment Bank (EBI) as counter-guarantor.

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

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 30 June 2020, Alior Bank has granted 1,392 active guarantees for a total amount of PLN 812,193,000. The Bank makes sure that the time structure of the guarantees is appropriate. Active guarantees with less than two years to maturity (1,056 items) amounted to PLN 434,494,000.

The total value of off-balance-sheet contingent liabilities granted to customers as at 30 June 2020 amounted to PLN 9,655,008,000. This amount consisted of PLN 8,842,815,000 in off-balance-sheet contingent liabilities related to financing and PLN 812,193,000 in off-balance-sheet guarantee contingent liabilities.

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

In H1 2020, agreements specifying the terms and conditions of transactions concerning RUCH S.A. were concluded:

- On 28 May 2020, between the company in which the Bank holds 100% of shares and Lurena Investments B.V., with its registered office in the Netherlands, entered into a preliminary sale agreement for 108,824,007 shares of RUCH S.A. ("Company") with its registered office in Warsaw, representing 100% of the share capital, for the price of PLN 1.00.
- On 1 June 2020, the Bank entered into an investment agreement and a shareholders' agreement in relation to the restructuring of RUCH S.A. with Polski Koncern Naftowy Orlen S.A. ("PKN Orlen"), Powszechny Zakład Ubezpieczeń S.A. ("PZU") and Powszechny Zakład Ubezpieczeń na Życie S.A. ("PZU Życie").

- On 3 June 2020, between the company in which the Bank holds 100% of shares and Lurena Investments B.V., with its registered office in the Netherlands, entered into a promised agreement on the sale of shares. Detailed information about concluded agreements have been provided in the Chapter *VII Major events in the activity of the Alior Bank S.A. Capital 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. The financial results of the Alior Bank S.A. Capital Group are consolidated under the PZU S.A. Capital Group. The Bank's Supervisory Board comprises the representatives of PZU S.A.

# XIII. Governing bodies of Alior Bank S.A.



## General Meeting of the Bank

### Rules governing the General Meeting

The activities of the General Meeting, its principal rights, the rights of shareholders, and how these rights are to be exercised have been defined in: Rules of Procedure of the General Meeting (adopted by the resolution No. 3/2013 of the Annual General Meeting of 19 June 2013, as amended by resolution No. 29/2017 of the

Annual General Meeting of the Bank of 29 June 2017 and resolution No. 3/2020 of the Annual General Meeting of the Bank of 21 May 2020 – consolidated text of the Rules of Procedure including all amendments has been published on the Bank's website), Articles of Association 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/dodatkowe-informacje/relacje-inwestorskie/walne-zgromadzenie.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 matters put on the agenda.

### General Meetings of the Bank in H1 2020

Only one General Meeting of the Bank was held in 2020. In addition to resolutions concerning organisational affairs, the Annual General Meeting of the Bank held on 21 May 2020 adopted resolutions on matters related to the closing of the financial year 2019, concerning:

- approval of the report on the operations of the Supervisory Board of the Bank,
- approval of the financial statements of the Bank and of the Bank's Capital Group,
- approval of the Report on the operations of the Capital Group of the Bank, including the Report of the Management Board on the operations of the Bank and the Report of the Capital Group of the Bank on non-financial information,
- examination of the Report of the Management Board of Alior Bank S.A. on representation expenses as well as expenditures on legal services, marketing services, public relations and social communication services and management consultancy services for the year 2019,

- distribution of profit,
- discharge of all Members of the Management Board and Supervisory Board of the Bank.
- appointment of the Supervisory Board of the Bank for the fourth term of office.

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

- amendments to the Articles of Association of Alior Bank S.A. (adopted amendments to the Articles of Association shall enter into force after they are approved by the Polish Financial Supervision Authority and recorded in the National Court Register),
- amendments to the "Rules of Procedure of the General Meeting of Shareholders of Alior Bank Spółka Akcyjna",
- the introduction of the "Remuneration policy for members of the Management Board and Supervisory Board of Alior Bank S.A.".

## Supervisory Board of the Bank

Composition of the Supervisory Board of the Board as at 30.06.2020		Composition of the Supervisory Board of the Board as at 31.12.2019	
<b>Aleksandra Agatowska</b>	Chairwoman of the Supervisory Board	<b>Tomasz Kulik</b>	Chairman of the Supervisory Board
<b>Ernest Bejda</b>	Deputy Chairman of the Supervisory Board	<b>Marcin Eckert</b>	Deputy Chairman of the Supervisory Board
<b>Mikołaj Handschke</b>	Member of the Supervisory Board	<b>Dariusz Gątarek</b>	Member of the Supervisory Board
<b>Artur Kucharski</b>	Member of the Supervisory Board	<b>Mikołaj Handschke</b>	Member of the Supervisory Board
<b>Wojciech Myślecki</b>	Member of the Supervisory Board	<b>Artur Kucharski</b>	Member of the Supervisory Board
<b>Marek Pietrzak</b>	Member of the Supervisory Board	<b>Wojciech Myślecki</b>	Member of the Supervisory Board
<b>Robert Pusz</b>	Member of the Supervisory Board	<b>Maciej Rapkiewicz</b>	Member of the Supervisory Board

The following changes were made to the composition of the Supervisory Board of the Bank in the reporting period:

- On 18 January 2020, Mr Marcin Eckert resigned as Member of the Supervisory Board of the Bank effectively immediately,
- On 20 May 2020, Members of the Supervisory Board of the Bank appointed for a joint term ending in 2020, i.e. the Chairman of the Supervisory Board, Mr Tomasz Kulik, and Members of the Supervisory Board: Mr Dariusz Gątarek, Mr Mikołaj Handschke, Mr Artur Kucharski, Mr Wojciech Myślecki and Mr Maciej Rapkiewicz resigned from their functions in the Supervisory Board effective as of 20 May 2020,
- On 21 May 2020, the Annual General Meeting of Shareholders of the Bank appointed the Supervisory Board of the Bank for the fourth, four-year term of office. The following persons were appointed to the Supervisory Board of the Bank: Ms Aleksandra Agatowska, Mr Ernest Bejda, Mr Artur Kucharski, Mr Mikołaj Handschke, Mr Wojciech Myślecki, Mr Marek Pietrzak and Mr Robert Pusz.

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, or as members of the authorities of companies, or other, competitive legal persons.

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/dodatkowe-informacje/o-banku/rada-nadzorcza.html>.



### **Rules governing the Supervisory Board**

The Supervisory Board of the Bank operates in particular pursuant to the "Banking Law" Act of 29 August 1997 (*Dziennik Ustaw* 2019, item 2357, as amended), the Act of 15 September 2000 – Code of Commercial Partnerships and Companies (*Dziennik Ustaw* 2019, item 505, as amended) as well as the Articles of Association and the Rules of Procedure of the Supervisory Board of the Bank, the content of which 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,
- 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,
- accepting the overall level of risk taken by the Bank,
- 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 total value of remuneration for provided services exceeds PLN 500,000 net per annum,
- amending a contract for legal services, marketing services, public relations and social communication services and management consultancy services, if it increases remuneration above the amount mentioned in item 1 above,
- 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:
  - a donation or any other agreement of a similar effect, the value of which exceeds 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,
  - a debt release agreement or any other agreement of a similar effect, the value of which exceeds 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 30.06.2020		Composition of the Committee as at 31.12.2019	
<b>Artur Kucharski</b>	Chair of the Committee	<b>Artur Kucharski</b>	Chair of the Committee
<b>Ernest Bejda</b>	Member of the Committee	<b>Marcin Eckert</b>	Member of the Committee
<b>Wojciech Myślecki</b>	Member of the Committee	<b>Wojciech Myślecki</b>	Member of the Committee
<b>Marek Pietrzak</b>	Member of the Committee		

In the reporting period, there was a change in the composition of the Audit Committee of the Supervisory Board of Alior Bank S.A. there was a change to the personal composition of the Risk Committee of the

Supervisory Board of Alior Bank S.A. In connection with the appointment of Members of the Supervisory Board of the Bank to the Supervisory Board of the Bank (as part of the 4th joint term of office), the Supervisory Board appointed the following persons to the Audit Committee of the Supervisory Board: Mr Artur Kucharski, Mr Ernest Bejda, Mr Wojciech Myślecki and Mr Marek Pietrzak effective as of 4 June 2020.

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

- Mr Artur Kucharski,
- Mr Wojciech Myślecki,
- Mr Marek Pietrzak.

The person with knowledge and skills in the area of accounting or auditing the 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 with knowledge and skills related to the sector in which the Bank operates is Mr Wojciech Myślecki. Mr Wojciech Myślecki's expertise of the sector in which the company operates is demonstrated by his long-term professional experience on the financial market, in particular in Bank Zachodni WBK S.A. and at the Supervisory Board of Generali PTE. Mr Wojciech Myślecki is the author of several dozen academic and research papers on telecommunications, digital processing of signals as well as the synthesis, analysis and recognition of speech signals, and an author or co-author of several dozen reports, publications and papers on economic transformation and educational systems, the energy market, and the operation of the Polish and European power system. He combines his research and teaching work with holding executive and supervisory functions in commercial companies.

### **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.

7 meetings of the Audit Committee were held in the reporting period. They focused on such topics as: the financial reporting process, internal control system, risk management systems, internal audit, performance of financial audit activities. 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 Remuneration Committee

Composition of the Committee as at 30.06.2020		Composition of the Committee as at 31.12.2019	
<b>Aleksandra Agatowska</b>	Chair of the Committee	<b>Tomasz Kulik</b>	Chair of the Committee
<b>Ernest Bejda</b>	Member of the Committee	<b>Mikołaj Handschke</b>	Member of the Committee
<b>Mikołaj Handschke</b>	Member of the Committee	<b>Maciej Rapkiewicz</b>	Member of the Committee
		<b>Marcin Eckert</b>	Member of the Committee

In the reporting period there was a change in the personal composition of the Nomination and Remuneration Committee of the Supervisory Board of Alior Bank S.A. In connection with the resignation of Mr Marcin Eckert as Member of the Supervisory Board of the Bank effective as of 18 May 2020 and Mr Tomasz Kulik, Mr Mikołaj Handschke and Mr Maciej Rapkiewicz as Members of the Supervisory Board of the Bank in connection with the ending term of office, on 20 May 2020 the Supervisory Board appoint the following persons to the Nomination and Remuneration Committee of the Supervisory Board: Ms Aleksandra Agatowska, Mr Ernest Bejda and Mr Mikołaj Handschke effective as of 4 June 2020. Ms Aleksandra Agatowska has been appointed as the Chairwoman of the Committee.

### Activities of the Nomination and Remuneration Committee

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

According to the Rules of Procedure of the Nomination and Remuneration Committee adopted by resolution of the Supervisory Board of the Bank, the Committee is tasked with the following duties:

- providing opinions on the Remuneration Policy in order to ensure compliance of the terms and conditions of remuneration 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, remuneration 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 (Material Risk Takers - MRTs), providing opinions on annual objectives; providing opinions and monitoring variable pay of the MRTs,
- preparing opinions, assessments or recommendations regarding candidates to the Management Board of the Bank, regarding entry into, amendment or termination of contracts with Members of the Management Board, regarding matters related to the structure, size, composition and effectiveness of the Management Board as a body, and regarding expertise, skills and experience of individual 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.

In 2020, the Nomination and Remuneration Committee held 7 meetings during which, among other things, it prepared initial assessments regarding the individual adequacy of candidates to the Management Board of the Bank, prepared a secondary assessment regarding the individual adequacy of Members of the Management Board of the Bank appointed for the ending term of office and the collective adequacy of the Management Board, prepared opinions regarding amendments to the Remuneration Policy or the classification of positions subject to the Remuneration Policy to the extent of individuals who have a major impact on the risk profile of the Bank and decisions related to the variable remuneration payable to those persons.

### Risk Committee of the Supervisory Board

Composition of the Committee as at 30.06.2020		Composition of the Committee as at 31.12.2019	
<b>Robert Pusz</b>	Chair of the Committee	<b>Dariusz Gątarek</b>	Chair of the Committee
<b>Artur Kucharski</b>	Member of the Committee	<b>Artur Kucharski</b>	Member of the Committee
<b>Mikołaj Handschke</b>	Member of the Committee	<b>Maciej Rapkiewicz</b>	Member of the Committee
<b>Ernest Bejda</b>	Member of the Committee	<b>Marcin Eckert</b>	Member of the Committee

In the reporting period there was a change in the personal composition of the Risk Committee of the Supervisory Board of Alior Bank S.A. In connection with resignation of Mr Marcin Eckert as Member of the Supervisory Board of the Bank effective as of 18 May 2020 and Mr Dariusz Gątarek, Mr Maciej Rapkiewicz and Mr Artur Kucharski as Members of the Supervisory Board of the Bank in connection with the ending term of office, on 20 May 2020 the Supervisory Board appointed the following persons to the Risk Committee of the Supervisory Board: Mr Robert Pusz, Mr Ernest Bejda, Mr Mikołaj Handschke and Mr Artur Kucharski, effective as of 4 June 2020.

### Activities of the Risk Committee of the Supervisory Board

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.

In the reporting period, the Risk Committee of the Supervisory Board held 7 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. The Committee kept up-to-date on the operational and financial situation of the Bank in the context of impact of the COVID-19 pandemic.

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 30.06.2020*		Composition of the Management Board of the Bank as at 31.12.2019	
 <p><b>Iwona Duda</b> Vice-President of the Management Board in charge of managing its affairs<sup>33</sup></p>	<p>Areas of responsibility: HR, marketing and PR, internal audit, compliance risk and reputation risk management, services for governing bodies of the Company, strategy and on-going compliance with procedures for reporting breaches of law as well as procedures and principles of business ethics in force at the Bank.</p>	<p><b>Krzysztof Bachta</b> President of the Management Board</p>	<p>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 the Bank, and rules of business ethics.</p>
 <p><b>Maciej Brzozowski</b> Vice-President of the Management Board</p>	<p>Until the Polish Financial Supervision Authority approves the appointment of Mr Maciej Brzozowski as a Member of the Management Board of the Bank in charge of supervising the management of risk relevant to the Bank's operations, supervision over the management of relevant risk is exercised by the Management Board of the Bank <i>in gremio</i>.</p>	<p><b>Marek Szcześniak</b> Vice-President of the Management Board</p>	<p>Areas of responsibility: risk area, including: credit risk, capital management, operational risk, market risk, and model risk.</p>

<sup>33</sup> Until the Polish Financial Supervision Authority approves the appointment of Ms Iwona Duda as the President of the Management Board.

 <p><b>Seweryn Kowalczyk</b> <b>Vice-President of the Management Board</b></p>	<p>Subordinate areas: legal area, security and protection of personal data.</p>	<p><b>Seweryn Kowalczyk</b> <b>Vice-President of the Management Board</b></p>	<p>Areas of responsibility: security, legal services, and protection of personal data.</p>
 <p><b>Agnieszka Nogajczyk-Simeonow</b> <b>Vice-President of the Management Board</b></p>	<p>Subordinate areas: finance, accounting and financial reporting, controlling, supervision over subordinates and activity in other countries.</p>	<p><b>Tomasz Biłous</b> <b>Vice-President of the Management Board</b></p>	<p>Subordinate areas: finance, including management accounting, reporting and accounting policy, taxes, own economy and data warehouse.</p>
 <p><b>Agata Strzelecka</b> <b>Vice-President of the Management Board</b></p>	<p>Subordinate areas: operational, IT and cyber security.</p>	<p><b>Agata Strzelecka</b> <b>Vice-President of the Management Board</b></p>	<p>Areas of responsibility: IT, operational support and cybersecurity.</p>
 <p><b>Dariusz Szwed</b> <b>Vice-President of the Management Board</b></p>	<p>Subordinate areas: products and sales as regards personal and corporate customers, treasury activity, brokerage activity.</p>	<p><b>Dariusz Szwed</b> <b>Vice-President of the Management Board</b></p>	<p>Areas of responsibility: business customer products and sales, Treasury activity, Private Banking and brokerage).</p>
		<p><b>Marcin Jaszczuk</b> <b>Vice-President of the Management Board</b></p>	<p>Areas of responsibility: innovation, FinTech, strategic partnerships, oversight of subsidiaries and activities in other countries, mergers and acquisitions.</p>

\*On 7 July 2020, the Management Board adopted Resolution No. 256/2020 of the Management Board of Alior Bank Spółka Akcyjna with its registered office in Warsaw on the internal division of competencies in the Management Board of the Bank, approved on 13 July 2020 by the Supervisory Board of the Bank, thus introducing a new division of competencies among Members of the Management Board appointed for the new, 5<sup>th</sup> term of office.

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

- On 17 January 2020, Mr Mateusz Poznański resigned as Member of the Management Board effective as of 29 February 2020, which resulted in a new division of competencies between Members of the Management Board as of 1 February 2020.
- On 12 May 2020, Mr Krzysztof Bachta resigned as the President of the Management Board of Alior Bank S.A. effective as of 12 May 2020,
- In light of the above, on 12 May 2020 the Supervisory Board of the Bank appointed Ms Iwona Duda to the Management Board of the Bank, entrusting her with the position of the Vice-President of the Management Board in charge of managing its affairs until her appointed as the President of the Management Board of the Bank is approved by the Polish Financial Supervision Authority,
- In connection with the change in the composition of the Management Board of the Bank, as of 20 May 2020 a new division of competencies between the Members of the Management Board was introduced,
- On 29 June 2020, members of the Management Board: Mr Tomasz Biłous, Mr Marcin Jaszczuk and Mr Marek Szcześniak, in connection with the expiry of the joint term of office of the Management Board of the Bank on 29 June 2020, submitted resignations from the position of Member of the Management Board of the Bank effective as of 29 June 2020, 00:00,
- On 29 June 2020, the Supervisory Board of the Bank appointed the following persons to the Management Board of the Bank for the new, 5<sup>th</sup> term of office: Ms Iwona Duda, Mr Maciej Brzozowski, Mr Seweryn Kowalczyk, Ms Agnieszka Nogajczyk-Simeonow, Ms Agata Strzelecka and Mr Dariusz Szwed.

All Members of the Management Board of the Bank, including those appointed as Vice-Presidents of the Management Board of the Bank in H1 2020 are not engaged in any competitive activity towards the Bank and do not participate in competitive partnerships as partners or members of governing bodies of limited companies or other competitive legal persons.

Information on the compliance by Members of the Management Board of the Bank with requirements provided for in Article 22aa of the Banking Law is available on the Bank's website: <https://www.aliorbank.pl/dodatkowe-informacje/o-banku/zarząd.html>.

### **Appointment and dismissal of senior management**

Pursuant to Article 22a.1 of the "Banking Law" Act of 29 August 1997 (*Dziennik Ustaw* 2019, item 2357, as amended), 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. § 24 (1) and (2) of the Articles of Association of Alior Bank S.A. provides for the appointment of Members of the Management Board for a joint term of office lasting 3 years. Pursuant to 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 approval 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 candidate, 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.

Pursuant to §25a of the Articles of Association of Alior Bank S.A., Members of the Management Board of Alior Bank S.A. must also satisfy the requirements mentioned in Article 22 of the Act of 16 December 2016 on Rules for the Management of State-owned Assets (*Dziennik Ustaw* 2020, item 735).



### **Competencies 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. Pursuant to § 8 (1) of the Rules of Procedure of the Management Board of Alior Bank S.A., the Management Board by way of a resolution:

- determines long-term activity plans and strategic goals of the Bank,
- determines short-term and long-term financial plans 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,
- makes decisions regarding the issue of bonds by the Bank, except for convertible bonds or bonds with pre-emptive rights;
- accepts the take-up, acquisition and disposal by the Bank of shares of companies,
- makes decisions regarding the commitments, disposal of assets, charges on and lease (including rental and leasing) of assets whose combined value towards a single entity exceeds one-hundredth of the share capital of the Bank, subject to § 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) the value of which exceeds one-hundredth of the share capital of the Bank, subject to § 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, insofar as they fall within its competencies,
- 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.

In all other matters, pursuant to § 3 (3) of the Rules of Procedure of the Management Board of Alior Bank S.A., each Member of the Management Board makes independent decisions concerning their subordinate areas.

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,
- takes all necessary measures related to the admission and introduction to trading of shares from the new issue on the regulated market operated by the Warsaw Stock Exchange immediately after they are issued.

The activities carried out by the Management Board for the purpose of issuing 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 Association of Alior Bank S.A. Based on a resolution, the Management Board may authorise standing committees or appropriate employees of the Bank to make decisions related to the assumptions of obligations or disposal of assets, as part of daily activities of the Bank, provided that the total amount towards a single entity does not exceed 5% of the Bank's own funds.

## XIV. Disputes



None of the single proceedings pending in 2020 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. 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 the client of 10 February 2015, 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 this decision can still be appealed by the court.
- case brought by a customer – a natural person – a representative of a group of 84 natural and legal persons, concerning the determination of the Alior 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 connected with investing in the investment products, by which it has exposed the customers to damages resulting in the loss in value by 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. By way of a decision dated 27 September 2019, the Court decided to examine the case as a class action. The decision is final. Currently, estimation of potential financial consequences for the Bank of the Court resolving otherwise than anticipated by the Bank is impossible.

On 17 June 2020, the Voivodeship Administrative Court in Warsaw (WSA) issued a judgement in which it repealed the decision of the Polish Financial Supervision Authority (PFSA) of 3 December 2019 upholding an earlier decision of the Polish Financial Supervision Authority of 6 August 2019 on the imposition of two financial penalties on the Bank in the total amount of PLN 10 million and discontinued the proceedings conducted by the Polish Financial Supervision Authority in this regard. The fine related to the proceeding concerning irregularities in the operations of Alior Bank and the Bank's Brokerage House in the area of distribution of investment certificates of funds previously managed by Fincrea TFI S.A. Alior Bank S.A. there is no information as to whether the above ruling has been challenged by the Polish Financial Supervision Authority.

### **Cases related to the activity of subsidiaries of Alior Bank S.A.**

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 of Alior Leasing sp. z o.o. on 20 December 2018. The amount claimed is 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 – Alior Leasing Sp. z o.o. and of Alior Bank, the likelihood that the Court will award benefits under the Executive Programme to dismissed members of the Management Board 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. Court proceedings in this case have not been concluded with a court ruling.

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 Report, no claims were filed in this regard. 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.



# XV. Representations of the Management Board

The Management Board of Alior Bank S.A. hereby represents that:

- to the best of its knowledge, the semi-annual consolidated and standalone financial statements for H1 2020 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 S.A. Capital Group and its financial result,
- The Report on the operations of the Management Board presents a true image of growth, achievements and circumstances (along with a description of primary threats and risks) related to the Alior Bank Capital Group in H1 2020.

## Signatures of all Members of the Management Board:

Date	Full name	Signature
	<p>Iwona Duda Vice-President of the Management Board</p>	
	<p>Maciej Brzozowski Vice-President of the Management Board</p>	
	<p>Seweryn Kowalczyk Vice-President of the Management Board</p>	
	<p>Agnieszka Nogajczyk-Simeonow Vice-President of the Management Board</p>	
	<p>Agata Strzelecka Vice-President of the Management Board</p>	
	<p>Dariusz Szwed Vice-President of the Management Board</p>	