



**The Management Board's Report on  
operations of the Group of Alior Bank S.A.**  
*for the first half of 2019*

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



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# I. Alior Bank's operations summary of in the first half of 2019

The results of Alior Bank in the first half of 2019 were strongly impacted by one-off events. The bank's result in Q2 2019 has been significantly affected by a write-off related to the food industry exposure. The total write-off of PLN 161 million decreased the result of Q2 2019 to PLN 36 million and consequently first half of 2019 net profit amounted to PLN 158 million. However, it should be noted that apart from the above mentioned extraordinary event, the Bank's result in Q1 2019 was further affected by the contribution to the BGF restructuring fund of PLN 110 M. Excluding the impact of those two events, the Bank's profit for H1 2019 would have been above PLN 428 M.

In the first half of 2019, the Bank continued its dynamic business growth. The number of retail customers increased by 76 thousand. Loan sales in retail segment amounted to PLN 4.04 billion. The business customer segment remains crucial to Bank's strategy. In the first half of 2019, the number of business customers increased by 15 thousand and reached 208 thousand. New segments crucial from Bank's profitability standpoint i.e. micro and leasing performed in line with the plan. and reached a following loan volume increase: PLN 1.4 billion (micro loans) and PLN 1.5 billion (leasing). It should be stressed that the growth of lending in the micro segment was accompanied by a consistent growth of BGK guarantees in new loan sales (up to 90% in H1 2019).

Alior Bank's undertakings within Digital Disruptor Strategy are also worth mentioning. The Bank continues its efforts to increase its competitive advantage in the area of innovations. In March 2019, the Bank opened enrolment to the second edition of its acceleration programme – RBL\_START. This time, the accelerator of Alior Bank will help find solutions in following areas: data analysis, support to customers' loyalty, security and financial services offering through distribution channels not fully utilized so far.

Despite the above challenges relating to costs of risk Bank's growth outlook remains unchanged due to:

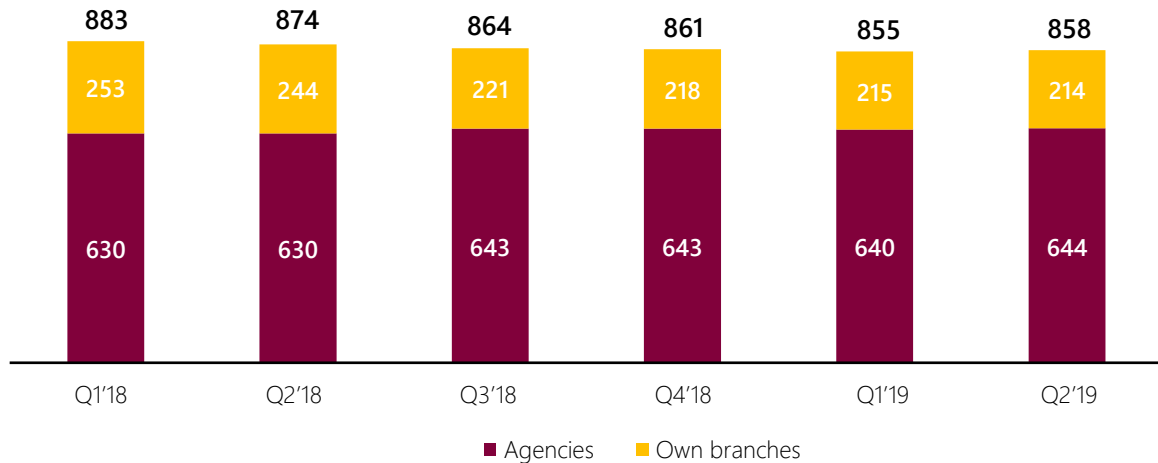
- strong and stable capital position: Tier 1 at 12.92% and TCR at 15.84% i.e. respectively 1.17 pp and 2.09 pp above regulatory requirements;
- loan growth along with provided guidance – PLN 2.8 billion in H1 (strategic plan of PLN 5 billion a year remains in place);
- comfortable liquidity level and stable deposit base (loan/deposit ratio of 87.3%);
- improving asset quality in retail segment (retail segment H1 2019 NPL ratio at the level of 8.8%);
- an optimised cost base – stabilization of costs of about PLN 400 M for a third consecutive quarter (excluding the influence of BGF contributions).



## Distribution network and employment level

### Distribution network

As at 30 June 2019, the Bank operated 858 outlets (198 traditional branches, 8 Private Banking branches, 8 Regional Business Centres and 644 franchise branches).

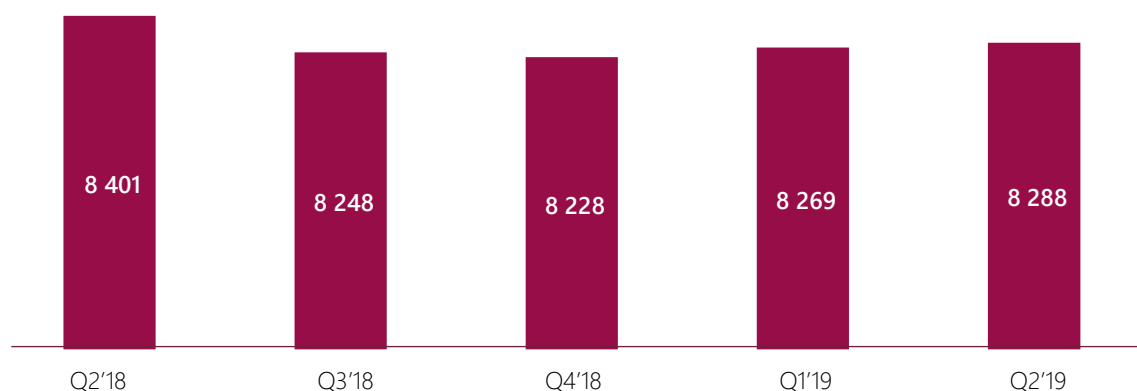


Alior Bank also benefits from distribution channels based on a modern IT platform, covering: online banking, mobile banking and call centres.

### Employment level

As at 30 June 2019, the headcount in the Alior Bank Group was 8,288 FTEs, which means a growth by 60 FTEs versus the end of 2018. It should be noted that the number contains 135 FTEs related to the acquisition of SKOK Jaworzno.

#### Headcount in FTEs





## Core financial data

Selected Alior Bank Group financial data and ratios are presented in the table below.

in PLN M %	30.06.2019	31.12.2018	30.06.2018	31.12.2017
<b>Balance sheet total</b>	77 058	73 420	70 337	69 516
<b>Net loans and advances to customers</b>	56 664	54 246	52 434	51 267
<b>Liabilities to customers</b>	64 886	62 436	59 645	57 657
<b>Equity</b>	6 654	6 486	6 135	6 691
<b>Net interest income</b>	1 632	3 085	1 501	2 856
<b>Total revenue</b>	2 032	3 956	1 963	3 658
<b>Operating expenses</b>	-906	-1 705	-886	-1 854
<b>Banking Tax</b>	-110	-208	-103	-201
<b>Net profit attributable to the shareholders of the parent entity</b>	158	713	354	471
<b>NIM</b>	4.7	4.6	4.6	4.6
<b>ROE</b>	4.8	11.7	12.1	7.4
<b>ROA</b>	0.4	1.0	1.0	0.7
<b>Costs / Income</b>	44.6	43.1	45.2	50.7
<b>Loans / Deposits</b>	87.3	86.9	87.9	88.9
<b>Capital adequacy ratio</b>	15.84	15.85	15.27	15.2

Alior Bank Group net profit (attributable to the shareholders of the parent entity) generated in H1 2019 amounted to PLN 158 M versus the net profit for the H1 of the previous year of PLN 354 M (decrease of 55.5% y/y).

The Group's balance sheet total at the end of June 2019 y/y was up by 9.6% to PLN 77.1 billion. Net loans and advances to customers were up in the same period by 8.1% to PLN 56.7 billion and liabilities due to customers grew by 8.8% to PLN 64.9 billion. Due to this faster growth of deposits versus the loan growth, the Loan/Deposit ratio at the end of June 2019 was at 87.3%, (0.6 pp down vs. the end of June 2018).

The growth of balance sheet items was accompanied by a dynamic growth of total revenues. In H1 2019 the total revenues grew up to PLN 2,032 M (+ 4% y/y). Net interest income constitutes key revenue in H1 2019 which went up 8.8% y/y, and accounted for 80% of the total income. Net fee and commission income amounted in H1 2019 to PLN 329 million and was lower by 5.4% compared to H1 2018.

In H1 2019 Group's operational expenses amounted to PLN 906 M and grew by 2.2% versus previous year (1.3 pp less than the growth of income). As a result cost/income ratio in H1 2019 was 44.6%.

Bank's equity position was further improved. Capital adequacy ratio increased from 15.3% at the end of June 2018 to 15.84% at the end of June 2019.

## Strategy of Alior Bank S.A.

Alior Bank continues its business growth in line with the assumptions of the Digital Disruptor Strategy announced in March 2017 and further upgraded in October 2017 (implementation plan). Initial roadmap of



the Strategy for 2017-2020 provides for about 730 initiatives of various size and complexity, implemented over three years. Half-way through the Strategy, as many as 420 initiatives have been launched (58%) which is consistent with Alior Bank's dynamic project based approach.

Projects at the Bank are performed based on two models: classical and agile (Agilor) which is an internal adaptation of best market practices in Agile. Currently the agile model (Tribes) consist of over 200 persons from business units like Consumer Finance or Monitoring and Collection as well as IT. The implementation of the agile working model in the above areas of the Bank's activity resulted in 30% decrease of Time2Market (Operations), more efficient completion of business project proposals (decrease by around 15 days), increased commitment (NPS measured), faster response to changing priorities.

In H1 2019, the most important completed initiatives included:

- launch of the production version of API as part of fulfilment of the PSD 2 directive requirements. The programming interface of Alior Bank was developed on the basis of the PolishAPI standard in 2.1.1 version, co-developed by among others Polish Bank Association, banks and payment institutions;
- durable media using public blockchain - Alior Bank was the first bank in Poland and one of the first banks in the world implemented a solution based on public blockchain (Ethereum). This solution enables any interested person to verify the correctness of public documents submitted to the bank's clients (tables of fees and commissions, regulations, interest rates tables);
- migration to New online banking – at the beginning of April, Alior Bank completed Customer migration to the new platform. The migration covered over 1.1 million individual and business Customers;
- operational merger of SKOK Jaworzno – As a result of take-over of SKOK "Jaworzno", Alior Bank joined almost 80 thousand new customers and over 200 companies. The operational merger was completed at the beginning of June, within less than 5 months of the approval by the regulator.

Further on in the implementation of the Strategy, the core directions of actions in specific areas include:

- consistent strengthening of core relations with Customers and achievement of objectives related to digitisation by development of Daily Banking products and services and new upgrades of online banking;
- further automation of business customers processes, including improvement of BusinessPro UX and development of REBEL credit system, optimisation of credit and sectoral policies, growing factoring sales, integration of business and risk processes between Alior Bank and Alior Leasing;
- automation in operations by continuing the "Robot Factory" project, digitisation of Customer Identification and implementation of onboarding electronic signatures and customer identification (consolidation vs. new technologies and biometrics, including courier processes);
- use of the PSD 2 potential which providing client consent, will allow to initiate payments from other banks accounts and to retrieve information about accounts and its balance;;
- searching for and implementing further innovative solutions based on Blockchain technology that are part of the Bank's development strategy;
- development of a Fintech ecosystem via Accelerator RBL\_Start. The core objective of the second edition is to find innovative solutions compliant with the Strategy and responding to business needs of individual areas (e.g. data analytics, customer engagement, security improvement).



New products, high service quality, modern IT and effective operations constitute a basis for further Alior Bank's growth and continued implementation of Digital Disruptor Strategy,

### **Alior Bank S.A. operations assessment**

In H1 2019, the Alior Bank Group generated return on equity (ROE) of 4.8% and the cost/income (C/I) ratio of 44.6%.

The level of the financial profit generated by the Bank was primarily affected by its operational activities supported by total assets growth resulting from loan sales (the growth of the gross loan volume in H1 2019 was PLN 2.8 billion).

Good operating results were negatively affected by extraordinary impairment allowances related to the Bank's exposure to a customer operating in food industry. The allowances were recognised in Q2 2019 in the amount of PLN 140 M (announced in the current report No. 24/2019) and additionally in the amount of PLN 21 M. Despite such negative circumstances Bank's capital position remains stable and safe, above minimum regulatory requirements.

### **Factors affecting Alior Bank's operations in the coming quarters**

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

- Monetary Policy Council policy on interest rates;
- on-going consolidation and restructuring processes in the Banking sector;
- regulatory changes;
- banking services offering by non-regulated entities;
- the scale of demand for banking services, as well as the Bank's customers' ability to timely repay of their financial liabilities is largely subject to their financial standing. Apart from Poland's macroeconomic condition, customers' economic standing is also subject to the pursued economic policies. Both a slowdown in the growth rate of Poland's economy and modifications to legal regulations affecting enterprises may have adverse effect on the financial standing of certain customers of the Bank.



## II. Information for Investors

### Listing of Alior Bank shares on the WSE in the first half of 2019

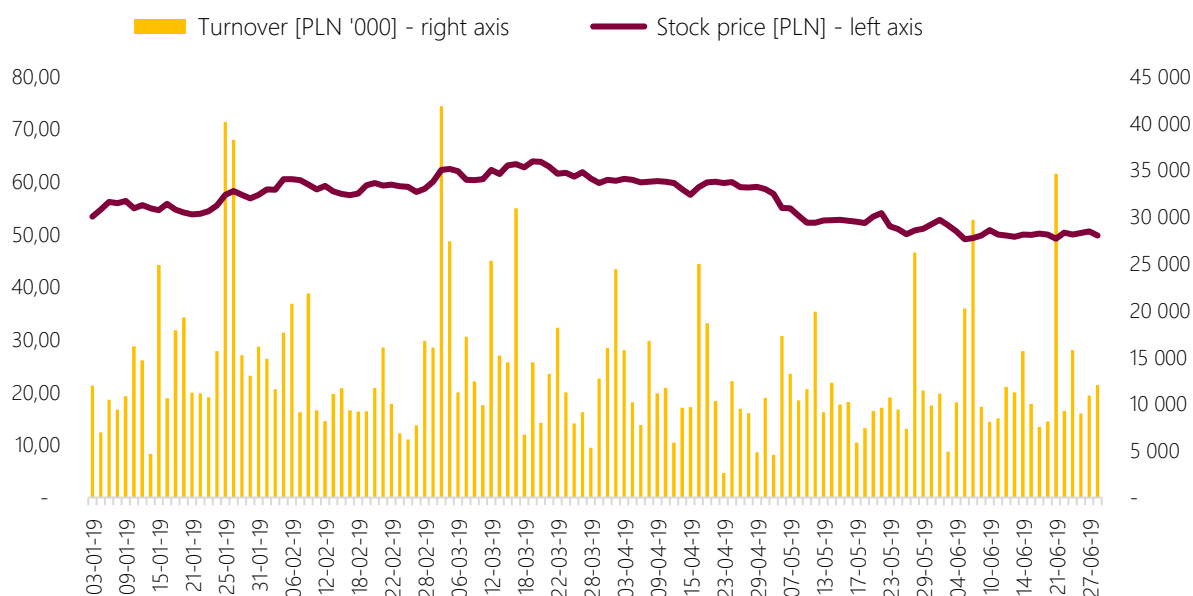
Alior Bank had its début at WSE on 14 December 2012. On 21 March 2014 – within only 15 months of its stock exchange début – the Bank joined the group of twenty largest and most liquid companies listed at WSE (WIG 20).

The total turnover in the Bank's stock in H1 2019 exceeded PLN 1.6 billion (vs. PLN 2.8 billion in H1 2018).

In H1 2019, over 196 thousand transactions were concluded in Alior shares versus 220 thousand transactions in H1 2018.

The price of the Bank's stock at closing on 28 June 2019 was PLN 49.82 with P/E and P/BV ratios of Alior Bank of 9.9 and 0.99 respectively.

The stock prices and turnover at WSE in Warsaw in H1 2019 are presented in the chart below.







## Ratings

Agency	Posting date	Long-term rating	Short-term rating	Outlook
S&P Global Ratings	16.01.2019*	BB	B	stable
Fitch Ratings	30.01.2019	BB	B	stable

\*The rating was upheld on June 17, 2019

On 16 January 2019, Standard and Poor's Global Ratings allotted Alior Bank S.A. rating of BB with a stable outlook.

The full rating of the Bank allotted by Standard and Poor's Global Ratings is as follows:

- Long-Term Issuer Credit Rating at 'BB' with a stable outlook;
- Short-Term Issuer Credit Rating at 'B'.

Definitions of S&P ratings are available at the Agency's site [www.standardandpoors.com](http://www.standardandpoors.com), which presents rating scales, criteria and assessment methodologies of creditworthiness.

On 30 January 2019, Fitch Ratings Ltd. maintaining the rating of BB allotted to Alior Bank. Versus the rating allotted on 5 February 2018, the outlook was changed from positive to stable.

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

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

The definitions of ratings of Fitch Ratings Ltd. are available at the Fitch site [www.fitchratings.com](http://www.fitchratings.com), where ratings, criteria, and methodologies are published.



## III. External conditions to the Bank's functioning

### Poland's economic growth

Economic growth in Q1 2019 of 4.7% y/y was driven by private and public consumption, high exports resilient to global obstacle such as the USA-China trade war and a visible slowed GDP growth in the EUR zone and primarily in Germany. In the first two months, retail sales grew by 6.6% and 6.5% respectively versus the equivalent months of the previous year, and by 3.1% y/y in March. The growth rates of industrial production y/y were 6.1% y/y in January, 6.9% y/y in February and 5.6% y/y in March which was primarily supported with a high growth of building and assembly production + 3.2% y/y in January 15,1% y/y in February and 10.8% y/y in March.

Monthly readouts of macroeconomic data show that also in H1 2019 the high GDP growth rate continued. The slowdown is visible in the monthly data for June. The growth of industrial production in April and May was higher than at the beginning of the year – 9.2% y/y and 7.7% y/y respectively to fall by 2.7% y/y in June. The growth of building and assembly production generated surprised readouts with a growth of 17.4% y/y in April and 9.6% y/y in May, by decreasing by 0.7% y/y in June. In Q2 the dynamic of retail sales gradually decreased – in April, partly due to the later Easter, was high 13.6% y/y to decline to 7.3% y/y in May and 5.3% respectively y/y in June.

NBP's most recent projection increased the forecast of Poland's economic growth in 2019 up to 4.5% from 4% previously and in 2020 up to 4% from 3.7%. No change was made to NBP's forecast for 2021 providing from a 3.5% growth of GDP.

Afterwards, Poland's economy is exposed to a gradually slower growth of GDP which can be, inter alia, due to slower development with our core trading partners, including in particular in the EUR zone (the growth in 2019 is expected to be 1.2%, in 2020 – 1.4% similarly to 2021), in Germany (the forecast provides for 0.7% in 2019, 1.2% in 2020 and 1.4% in 2021) and in the United States (forecast for 2019 – 2.5%, for 2020 – 1.8% and for 2021 – 1.8%). Additionally, it is worth noting that the EU programme financial perspective for 2014-2020 is just about to end and therefore outlays on public and private investments will decrease over the next two years.

The elements that compensate for the imminent slowdown of the national economy should be new government stimulating programmes that cover, inter alia, additional social benefits or reduction of tax burdens thus stimulating internal demand. Another determinant factor supporting economic growth – low interest rates and thus low borrowing costs. Domestic production is further supported with labour imported from countries east of Poland.



## Situation in the labour market

In H1 2019, the labour market remained in a good condition. Since the beginning of the year, the unemployment rate kept dropping to reach the record low level of 5.3% in June. However, the drop of unemployment was not accompanied by a dynamic growth of employment like a year earlier. In June employment grew by 2.8% y/y. The unemployment drop was accompanied by a growth of wages which throughout the period was about 6.8% y/y. In real terms, the growth of wages was kept restricted to the inflation which was higher than a year earlier (in particular in Q2). If the drop of unemployment is a positive factor for real economy as it results in increased disposable income by households and growing consumption, in the long run employers will be facing shortages of labour. The above is one the one hand balanced with growing number of foreign staff but also with growing work productivity which reduces wage pressure. However, on the other hand the continued shortage of labour may reduce the development potential of the private sector and pose obstacles to investments which in the long run may slow economic growth.

## Inflation

Fast economic growth in the first quarter of 2019 went hand in hand with low CPI growth rate rising from 0.9% y/y in January to 1.7% y/y in March. This was caused, among others, by relatively low prices at Poland's main trading partners as well as low quotations of crude oil and energy prices on international markets. In the country at last year levels, electricity prices have been frozen for the majority of consumers. In the second quarter, CPI inflation accelerated significantly - first to 2.2% y/y in April, then 2.4% y/y in May, and to 2.6% y/y in June.

According to the most recent projection of July made by the Economic Institute of the National Bank of Poland (IE NBP), with a likelihood of 50% inflation in 2019 will fall within the range of 1.7-2.3% y/y, in 2020 – 1.9-3.7% and in 2021 – 1.3-3.5%. That means the maintenance to inflation over the projection horizon around the NBP's target (2.5%). According to the same projection, GDP growth with a likelihood of 50% will be 3.9-5.1% in 2019 and 3.0-4.8% in 2020 and 2.4-4.3% in 2021. Assuming no changes to NBP's interest rates, CPI over the time of the projection will accelerate, however staying within the range of deviations from inflation targets. Growing labour costs and relatively strong demand pressure in Poland's economy will support growing consumer prices – it will reach its maximum in 2020. The escalation of the ASF epidemics in China resulting in a growth of domestic meat prices will be another supply impulse to fuel inflation in 2019. Further on, the inflation will be curbed – apart from the moderate inflation with Poland's main trading partners – by high competition in retail trade and gradual closing of the demand gap following the decreasing domestic economic growth.

## Interest rates

In the environment of a moderate inflation pressure and the continued easy monetary policy in the euro zone, the Monetary Policy Council has kept in H1 2019 interest rates unchanged since March 2015, including the reference rate of 1.5%. The Council upheld its standpoint that the current interest rate level is adequate and supports macroeconomic equilibrium.



## FX rates

A major change of rhetoric of two central banks – Fed and the European Central Bank (ECB) was the main event in the FX market in H1 2019. The first one significantly reduced its projected long-term interest rates and abandoned its communicated interest rate increases and event in a presentation made by its head – J. Powell – founded an almost 100% expectations for the first decrease of Fed rates in the new cycle which means a departure from quantitative tightening or reducing balance sheet values. EBC's President did not rule out further decreases of EUR interest rates despite earlier messages on potential normalisation of monetary policies – meaning first departure from negative interest rates and closure of the bond purchase programme (QE) which in fact occurred at the beginning of the year. Nevertheless, FX volatility in H1 2019 in the market was not high and Eurodollar lost 0.8%. Over the period, PLN remained stable to core currencies. PLN appreciated to EUR by 1.1%, to USD – 0.1% and depreciated to CHF by 0.4%.



## IV. Core structural and financial data of Poland's banking sector in January – May 2019

### Core structural details

As at the end of May 2019, there were in Poland: 31 domestic commercial banks, 545 credit unions and 32 branches of credit institutions. At the end of May 2019, the domestic bank network covered 6,071 branches, 3,605 sub-branches, agencies and other customer service outlets as well as 2,986 representative offices (including franchise outlets). Thus, at the end of May 2019, the domestic banking network covered overall 12,644 outlets which was 645 less than at the end of June 2018.

The headcount at the end of May 2019 was 160.5 thousand persons and was lower than the headcount at the end of June last year by 4.7 thousand people (2.8%).

The long-lasting stabilisation of interest rates and the relatively high regulatory burdens result in an increased importance of the scale of operations as a means to improve the effectiveness of entities in the banking sector. Therefore, the consolidation process visible for several years and progressing optimisation of cost structures which was most explicit in reduced employment.

Thirteen banks and branches of credit institutions had a majority of domestic capital, of which eight were controlled by the State Treasury at the end of May 2019. In 18 banks and branches of credit institutions, foreign capital prevailed.

### Selected profit and loss account items<sup>1</sup>

In the period between January and May 2019 the banking sector generated net profit of PLN 5.9 billion vs. PLN 6.4 billion in the equivalent period last year (drop by 8.7%).

Impairment allowances that grew by 13.7% y/y was the main factor affecting net profit of the sector. A negative trend was also noticeable in net fees and commissions with the result down by 2.1%. Growing net interest by 8.6% did not compensated for the above negative trends which were intensified by growing operational costs by 5.5% y/y and depreciation/amortisation costs by over 49%.

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<sup>1</sup>Source: Monthly data of the banking sector (knf.gov.pl)



## Loans and deposits

Total assets of the banking sector at the end of May 2019 amounted to PLN 1,996 billion and were by 6.3% (or PLN 115.2 billion) higher than at the end of May 2018. Loans and advances in that period grew by 5.2% (or by PLN 63.4 M). The growth of gross receivables of the banking sector by segment was the following:

- consumer loans – growth by 7.1%;
- operating loans – large enterprises: growth by 7.5%;
- operating loans – SMEs: growth by 9.3%;
- operating loans – households: growth by 8.5%;
- investment loans – large enterprises: growth by 7.9%;
- investment loans – SMEs: growth by 2.0%;
- operating loans – households: drop by 4.7%.

Deposits of the non-financial sector grew at the end of May 2019 y/y by 10.5% up to PLN 1,187.4 billion. The growth rate of deposits from the non-financial sector was as follows:

- deposits by corporates – growth by 6.8%;
- deposits by households – growth by 11.8%;
- deposits of non-commercial institutions, acting for households – growth by 7.0%.

## Equity and capital ratios<sup>2</sup>

The equity of the banking sector for capital ratios, calculated in compliance with the provisions of the CRR Regulation, at the end of March 2019 amounted to PLN 206.8 billion and grew by 3.4% versus the end of March 2018.

The total capital ratio of the banking sector at the end of March 2019 was 18.96% (growth by 10 pp vs. the end of March 2018) while the Tier I core capital ratio was 16.99% (drop by 3 pp vs. the end of March 2018).

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<sup>2</sup> Source: Monthly data of the banking sector (knf.gov.pl)



## V. Alior Bank S.A. Group financial results

### Profit and loss account

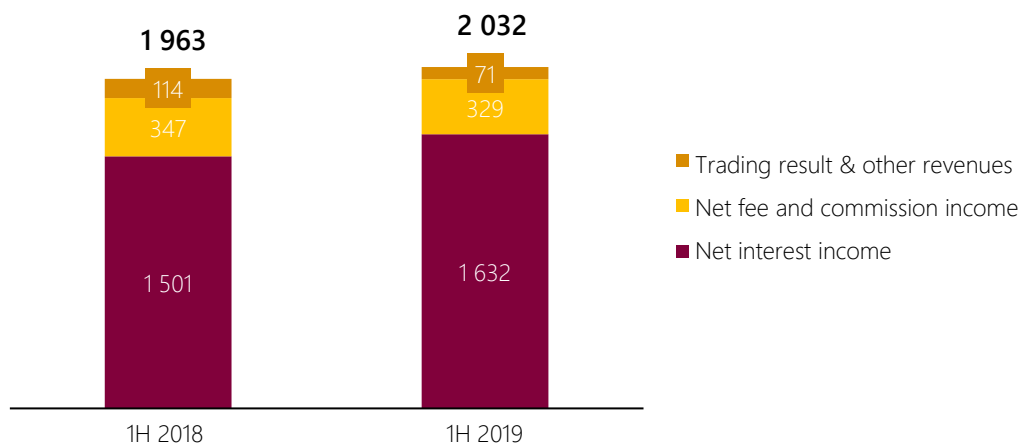
Detailed profit and loss account items of Alior Bank S.A. Group are presented in the table below.

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 Adjusted data	Change y/y ('000)	Change y/y (%)
<b>Interest income</b>	<b>1 990 675</b>	<b>1 852 496</b>	<b>138 179</b>	<b>7.5</b>
Similar income	75 071	87 253	-12 182	-14.0
Interest expense	-433 451	-438 809	5 358	-1.2
<b>Net interest income</b>	<b>1 632 295</b>	<b>1 500 940</b>	<b>131 355</b>	<b>8.8</b>
Dividend income	173	94	79	84.0
Commission and fee income	553 320	529 392	23 928	4.5
Commission and fee expense	-224 535	-181 923	-42 612	23.4
<b>Net fee and commission income</b>	<b>328 785</b>	<b>347 469</b>	<b>-18 684</b>	<b>-5.4</b>
Net income on financial instruments measured at fair value through P&L account and result on revaluation	33 266	53 018	-19 752	-37.3
Result on cessation of recognizing assets and liabilities not measured at fair value through P&L, including:	21 758	32 794	-11 036	-33.7
Measured at fair value through other comprehensive income	14 700	32 112	-17 412	-54.2
Measured at amortised cost	7 058	682	6 376	934.9
Other operating revenue	64 220	74 673	-10 453	-14.0
Other operating expense	-48 001	-46 181	-1 820	3.9
<b>Result on other operating revenues and expenses</b>	<b>16 219</b>	<b>28 492</b>	<b>-12 273</b>	<b>-43.1</b>
Group's operating expenses	-905 955	-886 253	-19 702	2.2
Net result on anticipated losses, impairment allowances and provisions	-777 251	-482 823	-294 428	61.0
Banking Tax	-110 201	-102 901	-7 300	7.1
<b>Gross profit</b>	<b>239 089</b>	<b>490 830</b>	<b>-251 741</b>	<b>-51.3</b>
Income tax	-81 290	-136 537	55 247	-40.5
<b>Net profit</b>	<b>157 799</b>	<b>354 293</b>	<b>-196 494</b>	<b>-55.5</b>
Net profit attributable to the shareholders of the parent entity	157 799	354 293	-196 494	-55.5

Net profit (attributable to the shareholders of the parent entity) in H1 2019 was PLN 158 M and was 55% lower y/y (H1 2018 net profit of PLN 196 M).



## Total income (PLN M) – consolidated data



Net interest is the core income item of the Group accounting for 80% of the total income. The annual growth by 8.8% was due to a limited growth of loan volume to customers and the accompanying growth of customer deposits. As a result, the customer net loan portfolio went up by 4.5% y/y, while deposits from customers were up 3.9%. The generated interest income was also positively affected by an adequate pricing policy – both with respect to deposits and loans, in the low interest rate environment.

The Group's profitability measured with net interest margin by each product in H1 2019 was as presented in the table below.

Consolidated data	30.06.2019 (%)	2018 (%)
<b>Loans</b>	<b>6.13</b>	<b>6.04</b>
<b>Retail segment, of which:</b>	<b>7.25</b>	<b>7.15</b>
Consumer loans	8.91	8.73
Loans for residential properties	4.27	4.24
<b>Business segment, of which:</b>	<b>4.78</b>	<b>4.67</b>
Investment loans	3.85	3.95
Working capital loans	5.53	5.36
Car Loans	3.15	4.59
<b>Deposit</b>	<b>1.03</b>	<b>1.02</b>
<b>Retail segment</b>	<b>1.17</b>	<b>1.11</b>
Current deposits	0.88	0.79
Term deposits	1.82	1.81
<b>Business segment</b>	<b>0.69</b>	<b>0.85</b>
Current deposits	0.10	0.10
Term deposits	1.41	1.57

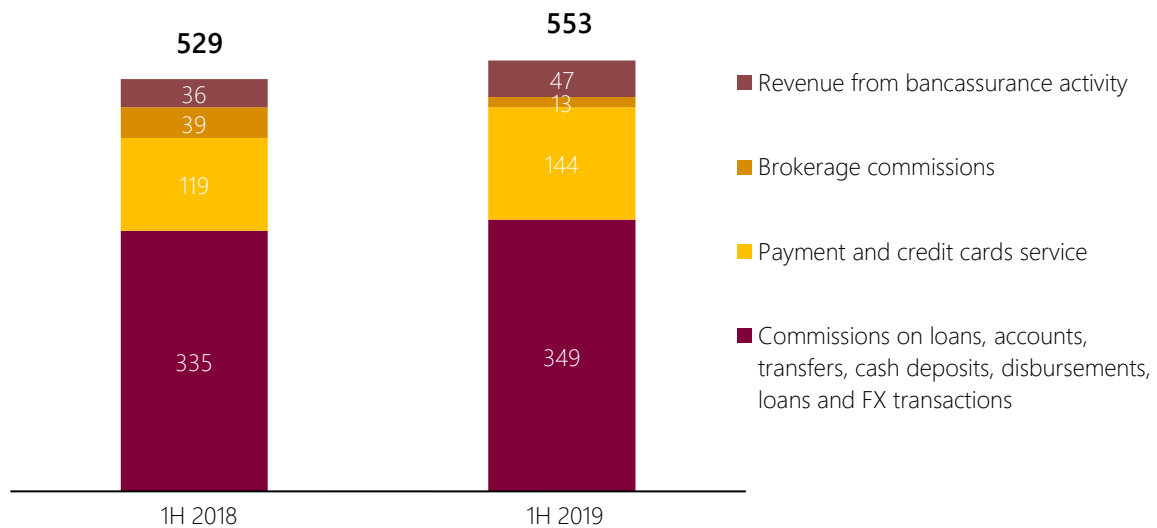
Net fees and commissions dropped by 5.4% down to PLN 329 M. The result was due to PLN 553.3 M of commission income (growth by 4.5% y/y) and PLN 224.5 M of commission expenses (growth by 23.4% y/y).





The core elements of the net fees and commissions include commissions on loans, accounts, transfers, cash deposits, disbursements and loans as well as FX transactions. In H1 2019 these amounted to PLN 349 M and accounted for 63.1% of the total fee and commission income. Increase y/y stems from growth of loan fees and commissions generated by organic loan origination.

#### Net fee and commission income (PLN M)



Trading result and other (sum of the following items in the profit and loss account: *the result on instruments measured at fair value through profit and loss and revaluation result, result on other financial instruments, result on discontinued recognition of assets and liabilities not measured at fair value through profit and loss account, result on other operational income and expenses*) declined in H1 2019 overall by 37.6% to PLN 71,4 M. Groups trading result recorded a y/y decrease of 36% (by PLN 30.8 M) to PLN 55 M, or. The result on trading activity was generated largely as a result of increased FX profit.

In H1 2019, the operating expenses amounted to PLN 906,0 M and were higher than the expenses incurred in H1 2018 by PLN 19,7 M, or by 2.2%. The core reason of the cost growth in this period can be attributed to significant growth in depreciation due to leasing.

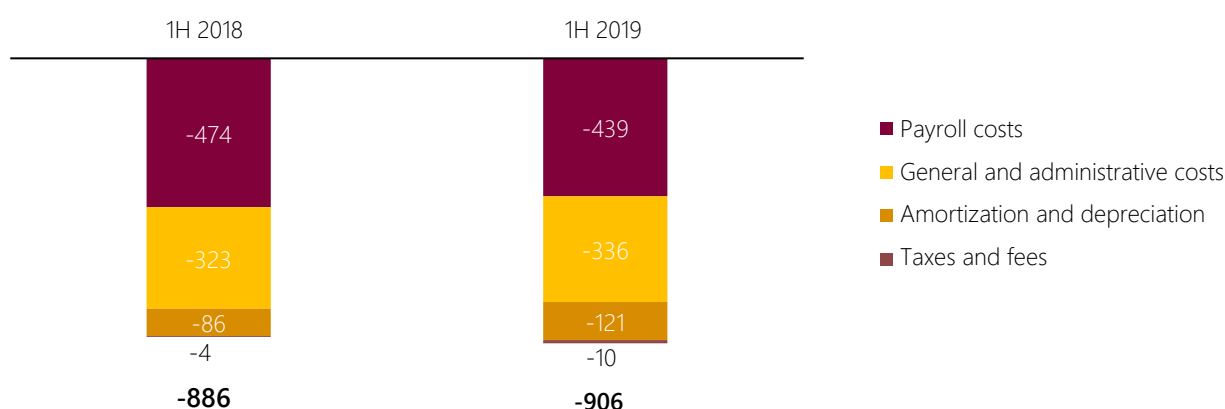
Personnel costs in the analysed period amounted to PLN 439 M and were by 7.4% lower than personnel costs incurred in H1 2018.

General and administrative expenses in 2019 amounted to PLN 336 M and were by 4.1% higher than general and administrative expenses incurred in H1 2018.

As a result, the cost/income ratio in H1 2019 was at 44.6% versus 45.2% in H1 2018.



## Operating expenses (PLN M)



## Net result on impairment allowances

Impairment allowances and provisions were PLN 777.3 M in H1 2019 versus PLN 482.8 M in H1 2018 (growth by 61%). As a consequence in H1 2019 net provisions calculated based on average balance of customers' gross receivables (risk cost ratio) recorded a growth from 1.7% to 2.6% y/y.

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

	01.01.2019-30.06.2019	01.01.2018-30.06.2018 Transformed data	Change y/y
<b>Stage 3 / impaired loans</b>	-818	-546	49.7%
Allowances for receivables from customers	-818	-546	49.7%
Retail customers	-274	-270	1.6%
Business customers	-544	-276	96.7%
Financial assets	4	3	12.1%
Allowances on expected credit losses (ECL)	30	51	-41.5%
<b>Stage 2</b>	25	24	4.2%
Retail customers	24	6	308.2%
Business customers	1	18	-94.5%
<b>Stage 1</b>	5	27	-82.9%
Retail customers	14	9	60.5%
Business customers	-9	18	-151.2%
POCI	-28	-26	7.5%
Recoveries	25	29	-13.8
Provisions for off-balance sheet liabilities	10	7	50.5%
Property, plant and equipment and intangible assets	-2	-2	-25.0%
Assets held for sale	0	0	
<b>Net result on anticipated losses, impairment allowances and provisions</b>	<b>-777</b>	<b>-483</b>	<b>61.0%</b>



Additional impairment allowance are the effect of adopting more conservative assumptions about the valuation of the loan portfolio in the business client segment. In the retail client segment, the impairment allowance are at the level of PLN 226.3 million, lower than in the financial forecast, as a result of the still favorable macroeconomic situation and on-going adequate changes in the credit policy.

## Balance sheet

As at 30 June 2019, the balance sheet total of the Alior Bank Capital Group amounted to PLN 77,1 B and was by PLN 3.6 B (5.0%) higher vs. the end of 2018.

Loans and advances to customers were primarily generating growth of the balance sheet (y/y up PLN 2.4 billion to PLN 56.7 billion) as well as financial assets (y/y up PLN 0.38 billion to PLN 14.1 billion), financed primarily with customers' deposits growth (an increase of PLN 2.5 billion to PLN 64,9 billion).

Tables below present relevant assets positions, liabilities and equity as at the end of June 2019 along with comparable data.

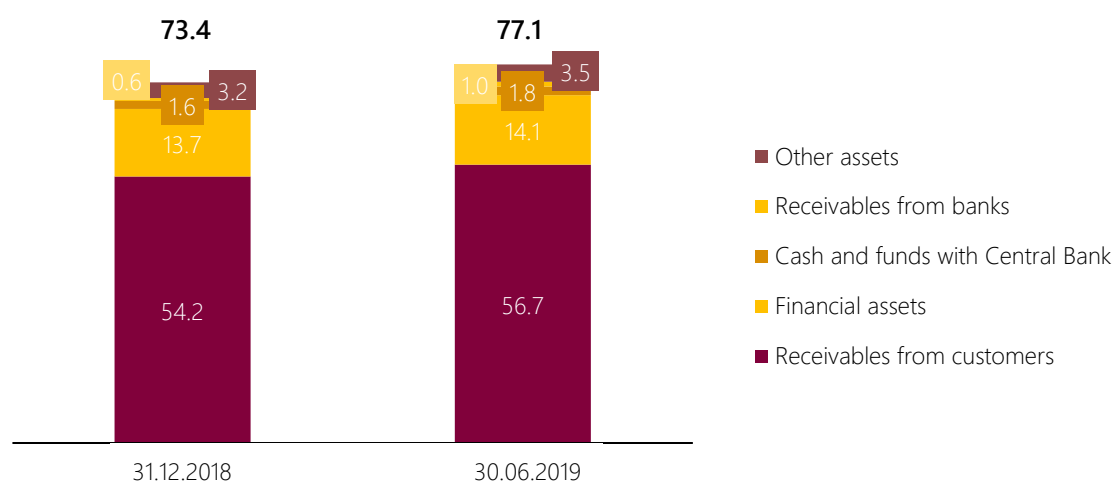
Assets (in PLN '000) Consolidated data	30.06.2019	31.12.2018	Change (PLN '000)	Change (%)
<b>Cash and balances with Central Bank</b>	1 786 149	1 639 033	147 116	9.0
<b>Amounts due banks</b>	998 666	612 444	386 222	63.1
<b>Financial assets</b>	14 110 362	13 727 570	382 792	2.8
<b>Measured at fair value through total income</b>	8 059 939	7 280 080	779 859	10.7
<b>Measured at fair value through profit and loss account</b>	559 550	515 138	44 412	8.6
<b>Measured at amortised cost</b>	5 490 873	5 932 352	-441 479	-7.4
<b>Hedging derivatives</b>	132 587	112 400	20 187	18.0
<b>Receivables from customers</b>	56 664 314	54 245 924	2 418 390	4.5
<b>Assets hedging liabilities</b>	346 178	333 286	12 892	3.9
<b>Property, plant and equipment</b>	814 843	460 659	354 184	76.9
<b>Intangible assets</b>	575 071	572 320	2 751	0.5
<b>Investments in affiliated entities</b>	4 000	4 000	0	0.0
<b>Assets held for sale</b>	102	146	-44	-30.1
<b>Income tax assets</b>	1 099 648	1 035 624	64 024	6.2
<b>Current</b>	6 976	0	6 976	
<b>Deferred</b>	1 092 672	1 035 624	57 048	5.5
<b>Other assets</b>	526 468	676 481	-150 013	-22.2
<b>Total assets</b>	<b>77 058 388</b>	<b>73 419 887</b>	<b>3 638 501</b>	<b>5.0</b>



Liabilities and equity (PLN '000) Consolidated data	30.06.2019	31.12.2018	Change (PLN '000)	Change (%)
Due to banks	1 101 123	593 327	507 796	86
Due to customers	64 885 845	62 435 585	2 450 260	4
Financial liabilities measured at fair value through profit and loss	482 943	416 407	66 536	16
Derivative hedging instruments	16 134	9 381	6 753	72
Provisions	117 120	126 199	-9 079	-7
Other liabilities	1 873 102	1 167 111	705 991	60
Income tax liability	7 733	267 861	-260 128	-97
Current	7 284	267 429	-260 145	-97
Deferred	449	432	17	4
Subordinated liabilities	1 920 387	1 918 093	2 294	0
Total liabilities	70 404 387	66 933 964	3 470 423	5
Share capital	1 305 540	1 305 540	0	0
Supplementary capital	5 393 358	5 386 828	6 530	0
Revaluation reserve	62 090	52 164	9 926	19
Other reserves	171 629	171 629	0	0
Exchange rate differences on translation of foreign entities	109	-202	311	-154
Retained profit	-436 524	-1 143 409	706 885	-62
Current year's profit	157 799	713 373	-555 574	-78
Shareholders' equity	6 654 001	6 485 923	168 078	3
Total liabilities and equity	<b>77 058 388</b>	<b>73 419 887</b>	<b>3 638 501</b>	<b>5,0</b>

The largest asset position comprises of receivables from the Group's customers (PLN 56.7 B). Their share in total assets as at the end of June 2019 accounted for 73.5%, i.e. down by 0.4 pp versus the end of 2018. As at the end of June 2019, another large asset item were financial assets at PLN 14.1 B, which accounted for 18.3% of total assets (at the end of 2018 – 18.7% of total assets).

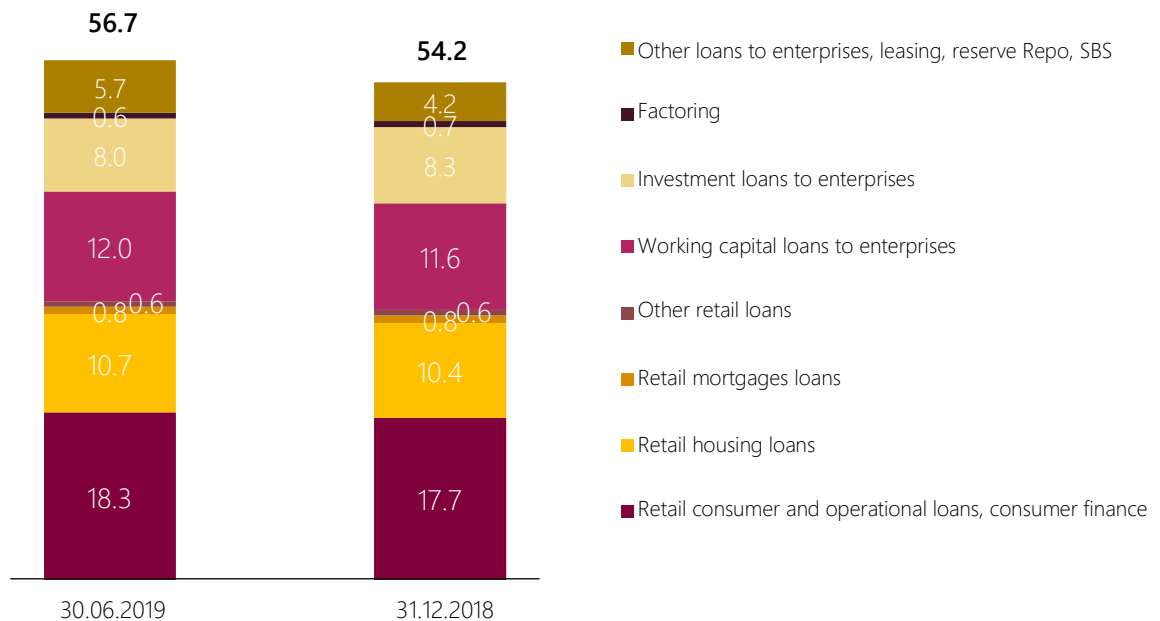
#### Assets of the Group of Alior Bank S.A. (PLN B)





The growth of loans and advances to customers by 4,5% in H1 2019 was due to both an increased volume of retail loans sales (up 3,2%, or by PLN 0.9 billion, to PLN 30.4 billion), as well as an increase in corporate portfolio. Business client segment loan volume grew by 5,9% (PLN 1.5 billion) to PLN 26.30 billion.

### Loans and advances to customers (PLN B)

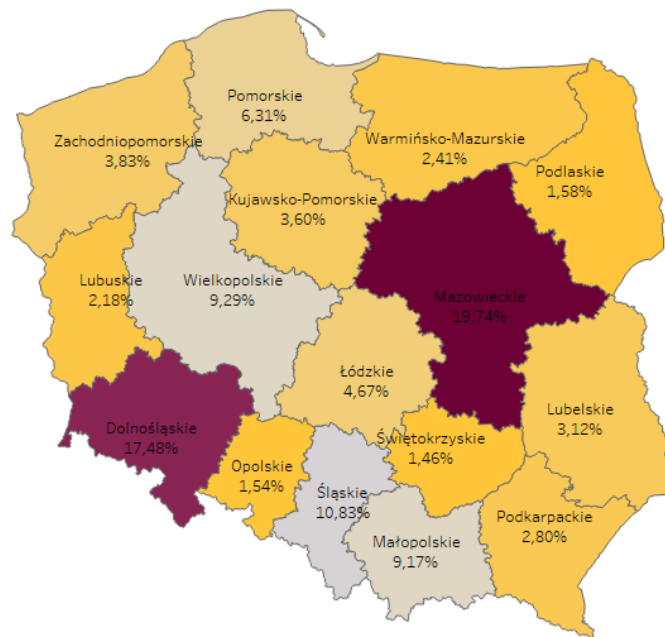


Cash loans, operational loans and consumer finance with the volume of almost PLN 18.3 B (growth by 3.4%) were main components of retail portfolio. Accounting for 60% of all loans granted to retail customers and 32.2% of the entire retail loan portfolio. The second largest item of retail loan portfolio (38%) consists of mortgage loans with the total volume at the end of H1 2019 of PLN 11.5 billion (overall growth by 3.3%).

As at the end H1 2019, operational corporate loans of PLN 12 billion (growth by 3.0% compared to the end of 2018) were the largest single item of the business clients loan portfolio, accounting for 45.5% of its total value. Investment loans were the second largest item of the business segment loan portfolio, accounting for 30.3% of the portfolio. Their value as at the end of H1 2019 was down by 4.1% compared to the end of 2018 to PLN 8.0 billion.



## Geographical structure of loans and advances to customers as at 30 June 2019 (net value)

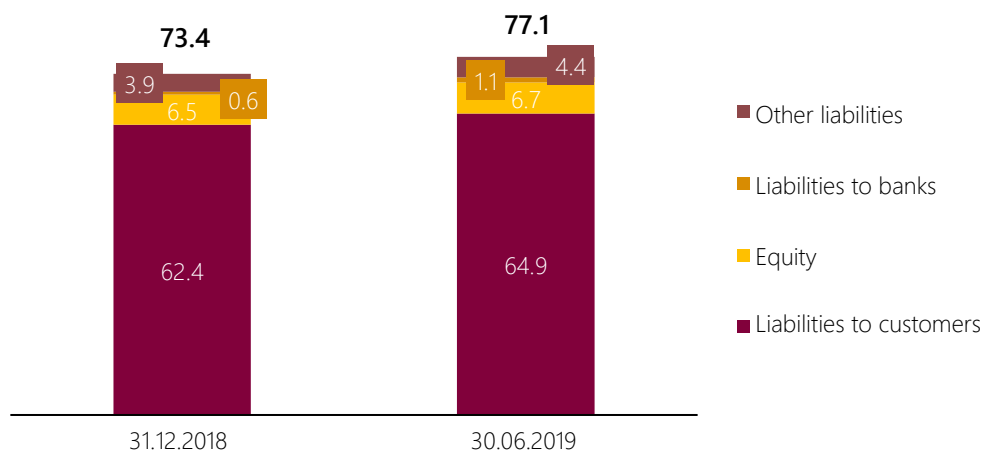


Almost 1/5 of the loans granted by the Bank were loans to customers from Mazowsze. Over 28% of loans are from Śląsk and Dolny Śląsk. Receivables from customers coming from other provinces account for almost 52% of the entire loan portfolio.

As at 30 June 2019, the value of collateral on customers' accounts and assets at Alior Bank S.A. amounted to PLN 38,896 M (including retail segment: 12,338 and business segment: 26,558).

The Group's business is financed mainly with customer deposits. As at the end of June 2019, their share in balance sheet total accounted for 84.2% (drop by 0.8 pp. versus the end of 2018). The equity as at 30 June 2019 was PLN 6.7 B and was slightly higher vs. the end of 2018 (by PLN 0.17 B).

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



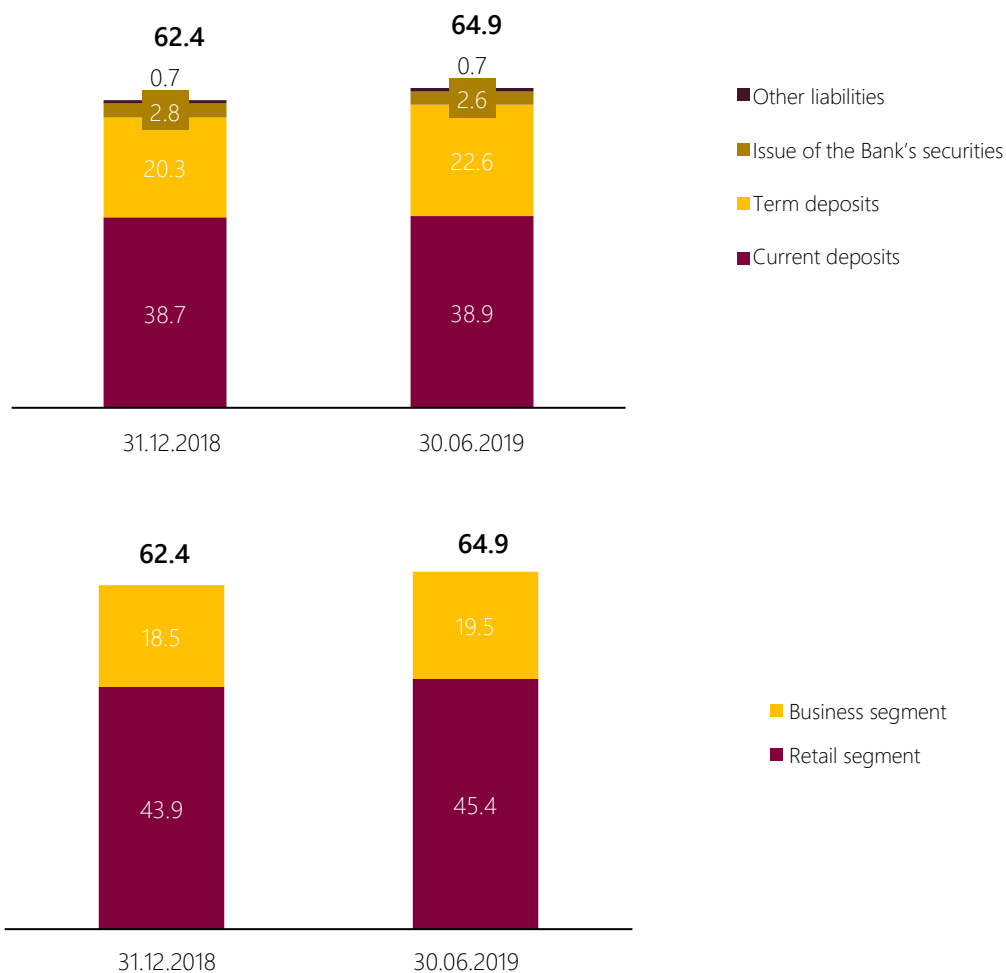


Liabilities due to retail customers at the end of June 2019 accounted for 70% of the customers' deposit portfolio. As compared to the end of 2018, the share slightly declined by 0.4 pp.

Current deposits were the largest item in the liabilities portfolio. They accounted for 60% of the entire liabilities to customers as at the end of June 2019 (decrease by 2 pp versus the end of 2018). Term deposits make second largest item (35% as at 30 June 2019). As compared to the end of 2018, their share in overall liabilities to customers dropped by 3 pp.

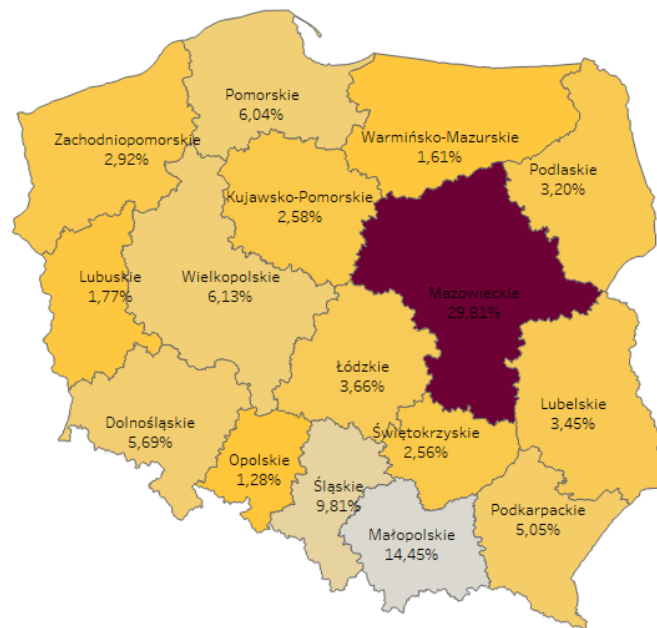
The remaining 5% of the liabilities to customers as at the end of H1 2019 were the funds acquired as a result of the Bank's own issues of securities and other liabilities as well as bond issues.

### Types of liabilities to customers (PLN B)





## Geographical structure of liabilities due to customers as at 30 June 2019



The funds deposited with the Bank primarily come from customers from Mazowsze (30%), Małopolska (14.5%) and Śląsk (10%). Deposit customers from the other provinces accounted for 45.5% of the entire deposit base.

## Contingent liabilities

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

The Group grants contingent liabilities to business customers as follows:

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

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

As at 30 June 2019, the number of active guarantees granted by Alior Bank was 1,756 for a total amount of PLN 877,090 thousand.

The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (1,232) totalled PLN 448,763 thousand.





As at 30 June 2019, the total value of off-balance sheet contingent liabilities granted to customers was TPLN 9,989,417. The amount comprised TPLN 9,112,327 of off-balance sheet contingent liabilities relating to financing and TPLN 877,090 of off-balance sheet contingent liabilities relating to guarantees.

#### Granted off-balance sheet liabilities (PLN '000)

Off-balance contingent liabilities granted to customers	Status as at 30.06.2019	Status as at 31.12.2018
<b>Granted off-balance contingent liabilities</b>	9,989,417	10,902,052
<b>Concerning financing</b>	9,112,327	9,996,156
<b>Guarantees</b>	877,090	905,896

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

By entity	Status as at 30.06.2019	Status as at 31.12.2018
<b>Entity 1</b>	204,865	180,117
<b>Entity 2</b>	74,000	74,000
<b>Entity 3</b>	46,369	52,368
<b>Entity 4</b>	40,000	41,346
<b>Entity 5</b>	32,882	40,000
<b>Entity 6</b>	23,260	30,000
<b>Entity 7</b>	23,093	23,093
<b>Entity 8</b>	20,000	20,000
<b>Entity 9</b>	18,450	16,818
<b>Entity 10</b>	16,630	15,192
<b>Other</b>	377,541	412,962

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

By instrument	Status as at 30.06.2019	Status as at 31.12.2018
Credit lines	8,936,645	9,897,272
Import L/Cs	9,885	17,840
Loan promises	165,797	81,044
Guarantees	877,090	905,896
<b>Total</b>	<b>9,989,417</b>	<b>10,902,052</b>

The Bank did not underwrite any bonds in H1 2019 (no off-balance sheet liabilities relating to bonds).

### Financial projections

Alior Bank S.A. did not publish financial results projections.



## VI. Business activities of Alior Bank S.A.

### Activities of Alior Bank S.A.

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

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

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

Individual customers (retail segment)
Business customers (corporate segment)
Treasury activity

Detailed information on the Bank's business operating segments are presented in the consolidated interim financial statements of the Capital Group of Alior Bank S.A. for H1 2019 (note No. 3).

### Retail segment

#### General information

As at 30 June 2019, Alior Bank serviced 4.1 M individual customers. The growth of the number of customers in 2018 was due to the organic growth of Alior Bank and acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa "Jaworzno".

Since 2017 the Bank has been implementing a behavioural segmentation of retail customers which provides for a more precise addressing of products and services to the appropriate buyers. Behavioural segmentation applies both to the development of product offers and to support to the sales network. In H1 2019, we continued applying strategic segmentation of customers. We implemented customer strategic segmentation in the entire sales network. We trained banking staff and provided them with additional know-how on



customer behaviour and how to effectively sell and talk to customers depending on the segment and their needs. We see that conversations based on customer knowledge and their needs have generated good effects. We are getting ready to implementing new solutions in the other areas of the Bank in 2019.

Apart from the behavioural segmentation, in H1 2019 the Bank identified the following operational segments among its retail customers:

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

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

### Distribution channels

As at the end of June 2019, the Bank operated 858 outlets (198 traditional branches, 8 Private Banking branches and 8 Regional Business Centres, and 644 franchise outlets). The Bank's products are also offered in the network of 10 Mortgage Centres, 10 cash centres, about 3,700 of financial intermediaries.

Alior Bank also used distribution channels relying on modern IT platforms, covering: online banking, mobile banking and call centres and DRONN technology. Over the Internet, including online banking, the Bank offers possibilities to conclude agreements covering: savings and clearing accounts, FX accounts, savings accounts, deposits, debit cards, and stock broking accounts. The channels are also used to submit applications for credit products: cash loans, credit cards, revolving current account facilities and mortgage loans. Traditional branches of Alior Bank are located all over Poland, in particular in cities with over 50 thousand inhabitants, and they offer a full range of the Bank's products and services. Franchise outlets are located in smaller towns and in specific locations in Poland's largest cities, offering a broad range of services, as well as deposits and loans to retail and corporate customers.

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

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

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



## Credit products

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

### Cash loans

Cash loan is the core product in the offer of unsecured credit products for individual customers of Alior Bank. Such loans may be used for any purpose or to repay financial obligations (consolidation loans). Cash loans are offered in all the Bank's distribution channels. Those loans feature high margins, and minimum requirements in terms of income evidence and collateral requirements plus a long credit period, available with optional insurance. Since 2016, the maximum repayment period for the products has been 12 years, being the most attractive in the market. Individual customers may contract loans up to PLN 200 thousand without guarantors or other collateral. The products are offered in PLN and are addressed to existing and new customers of Alior Bank. The Bank offers cash loans in amount in excess of PLN 200 thousand subject to individual terms and conditions.

In H1 2019, Alior Bank focused on two areas with respect to cash loans. The first area is to increase the number of new customers by way of marketing campaigns in the media. At the beginning of the year, the Bank's offer was expanded with "Pożyczka nietypowa" [Non-typical loan] being a product where the price is subject to the amount of the loan. In Q2 a large TV campaign was started for "Pożyczka z mikrokosztami" [Loan with Micro Costs] which was an attractive offer to customers. The related costs converted per PLN 1,000 of the net loan were no more than PLN 6 monthly. The offer was accessible in stationary channels, remote channels and in online banking. The Bank's offer also was extended with a special offer of "Pożyczka internetowa" [Internet Loan] for new customers who filed loan applications over a dedicated internet form and were offered preferential interest rates and zero commission. The loan agreement could be signed in online banking or remotely over the telephone Banker.

In H1 2019, Alior Bank – as part of its Digital Disruptor strategy – continued the development of remote loan sales channels by introducing an entire on-line purchase of loan for both the existing, as well as for new customers of the Bank, via the Internet and mobile banking system.

Another area of the Bank's activities involved CRM initiatives to enhance relationships with customers by activating customers, upselling additional credit, deposit or investment products and increasing credit exposures. The Bank's customers were offered a special loan with a simplified lending procedure. The offer was available in all sales channels, including internet and mobile banking. The policy of selling more products to consumer finance customers was continued and improved. A customer segmentation system was developed in order to maximise the effects of x-selling.

### Credit cards

As part of its credit card offer for retail customers, in H1 2019 the Bank started promotion of new credit cards: Mastercard OK! and TU i TAM. Cashback is the core benefit of the cards: for OK! it is domestic, functioning in selected outlets while for TU i TAM cards it applies to transactions in currencies other than PLN (including internet transactions and executed abroad). For most affluent customers from the Private Banking segment



the offer continues to contain the prestigious World Elite Card which offers a packet of concierge services being assistance of a dedicated customer contact center, insurance and a Priority Pass to airport lounges.

In order to meet the expectations of our Customers who travel abroad and often look for a best form of payment, analyse exchange rates and often are concerned with hidden costs – transactions with the Mastercard TU i TAM credit cards, starting from June are converted at NBP's mean exchange rates without additional costs and commissions. The promotion applies both to cashless payments and ATM withdrawals. Operations in EUR, USD and GBP are converted into PLN at NBP's mean rates as of the settlement date while other currencies are converted into USD at rates set by Mastercard and then into PLN at NBP's mean rates of the settlement date.

Payments with cards are not only more comfortable but also safer than using cash, especially when travelling. It is often that payment cards may offer additional functions like for instance they may serve as a public transportation ticket in London, Madrid or Sankt Petersburg. Additionally, apart from very advantageous conversion, the Mastercard TUiTAM provides access to rebates and priceless attractions offered by the loyalty programme – Priceless Specials. Importantly – the promotion covers both new holders of the TUiTAM cards as well as those who have using the product for some time.

### **Revolving overdraft facilities**

Overdraft facilities mean the possibility of borrowing to the debit of an account. Within the approved limit, debt may be contracted multiple times – each credit to the account reduces or fully repays the debt. The Bank offers revolving overdraft facilities for PLN 500 up to PLN 200 thousand without any additional collateral or guarantee. Alior Bank grants overdraft limits in two ways: in a combined credit process within which customers are granted two products on the basis of the same information and documents – cash loans and an overdraft facility limit or an overdraft facility limit as a single product.

In H1 2019, there was a systematic growing interest in the revolving limit via electronic and mobile banking in a simplified online process. The process is made available to selected customers subject to optimum offering x-selling in CRM activities.

### **Mortgage loans**

In 2019, the Bank plans to continue development in the mortgage loan segment. PLN mortgage loans for housing purposes remain the core and dominating product – the loans are available both jointly with and without insurance products. The product offer is supplemented with GBP, USD, EUR indexed mortgage loans which are addressed to customers who generate their income in foreign currencies. Customers' interests in mortgage products are services by experienced dedicated specialists in Branches and Mortgage Centres.

In H1 2019, the growing sales of mortgage loans favoured the achievement of the expected sales volumes. The sales volumes in H1 were higher by over 11% versus the equivalent period in 2018. It is of major importance that the growth of sales was achieved without major changes to the Bank's pricing and lending policies.

The first half-year was also a period when the Bank took steps to increase its share in mortgage lending in selected attractive property markets. The activities are planned to be finalised in Q3 this year.



## Deposit products

### Term deposits

Individual customers placing PLN deposits are offered deposits with new funds and standard deposits with fixed interest rates and a broad range of terms. The deposit offer also includes deposits in foreign currencies: EUR, USD, GBP and CHF with fixed or variable interest rates (subject to the selected term). The deposits may be renewed (customers may elect if the renewal will relate to the principal and the accrued interest or solely the principal with the interest transferred to a designated account with Alior Bank) or that are not renewable and then at maturity the principal and interest are transferred to a designated account with Alior Bank. Furthermore, customers interested in depositing larger amounts may resort to the offer of negotiated deposits, then both the term and interest rates are negotiated individually. Pursuing its effective product and pricing offer, the Bank improved the stability of its deposit portfolio, in particular by developing a base of long-term deposits (12 months and longer).

### Savings accounts

Retail customers are offered PLN-denominated savings accounts with flexible access to deposited funds. The Konto Mocno Oszczędnościowe is the core product to support acquisition. Apart from attractive interest rates for funds under PLN 100,000 for three months, it offers the possibility of flexible saving with free unlimited internet transfers to the customer's ROR accounts with Alior Bank. The Bank also offers higher interest rates on a savings account to customers who decide to set up a Konto Jakże Osobiste and choose this feature as one of the benefits. Additionally, the Bank offers savings accounts offered solely to new customers and to customers who have filed effective applications for child rearing benefits (Family 500+). Those customers receive a preferential fixed interest rate.

### Savings and clearing accounts

In H1 2019, the Bank was developing its offer of savings and clearing accounts, adding new functionalities to the existing products.

The Bank's offer includes a flag account – Konto Jakże Osobiste which was awarded the EFMA Distribution and Marketing Innovation Award for the most innovative personal account.

In June, a new functionality was added to Konto Jakże Osobiste – card payments without any additional conversion costs. Customers may tailor the account to their specific needs in internet or mobile banking by selecting out of the 10 functionalities with the first two free of charge and each other charged PLN 3.50 monthly. Within the ten functionalities, the Konto Jakże Osobiste provides: free ATM withdrawals in Poland, a packet of free immediate transfers (up to 5 monthly), a higher interest rate in the savings account and an interest-free overdraft limit in the account for 10 days and refund for contactless phone payments. The offer is supplemented with a packet of free SMS, an assistance packet covering motor, medical and home insurance. Travelling customers may also have free withdrawals from ATMs abroad and travel insurance. The loyalty programme – Mastercard Priceless Specials, so far available under Konto Jakże Osobiste, since June has been made available free of charge to all customers in online banking.



The offer of savings and clearing accounts further includes Konto Elitarne dedicated for Private Banking, Konto Internetowe, Podstawowy Rachunek Płatniczy and Konta Walutowe in four major foreign currencies: USD, EUR, CHF, GBP. Holders of FX account may use a multi-currency function which will enable adding sub-accounts in USD, EUR, GBP to debit cards issued to Konto Jakże Osobiste or Konto Elitarne.

### **Transactional services**

Alior Bank offers a broad range of transactional services, including: cash deposits and withdrawals, cash deposits to accounts with the Bank and with other banks, instant transfers, and card cashless transactions. Within its "Digital Disruptor" strategy, the Bank has implemented innovative payment methods in the mobile application via BLIK, HCE, Android Pay and Apple Pay.

### **Currency exchange transactions**

Currency exchange transactions are available at the Bank's outlets, in online banking (PLN, EUR, USD, GBP, CHF), as currency conversion related to foreign transfers and card transactions abroad as well as via dedicated transactional platforms (Autodealing, Kantor Walutowy) and in the Treasury Department. The Bank offers its customers possibilities to conclude exchange transactions for the following currencies: PLN, EUR, USD, CHF, GBP, CAD, NOK, RUB, DKK, CZK, SEK, AUD, RON, HUF, TRY, BGN, ZAR, MXN and JPY.

The Bank additionally provides customers who hold Konto Jakże Osobiste with a multi-currency service to attach their USD, EUR, GBP account to the debit card issued to the Konto Jakże Osobiste account and an additional service to the Konto Jakże Osobiste account of card payments without additional conversion costs.

### **Bancassurance Products**

In 2019, the Bank continued offering voluntary insurance as an addition to banking products. The major group was borrowers' life insurance (PPI) offered to mortgage loans. The offer was also supplemented with stand-alone products offered over the internet and in the call centre; some of them also in the branch network. In the first half of 2019, the Bank focused primarily on activities supporting the growth of sales of the most important groups of insurance products, as well as on the dynamic development of this area. In this respect, the Bank modified the offer of assistance insurance as an element supplementing the installment loan, as well as introduced property insurance for Business Customers. In addition, to meet the insurance needs of our clients, the Bank modified the life insurance of borrowers (so-called PPI) available in the telephone channel and by agreeing with the Insurer raise the limit of sum insured made it possible to buy this product over the phone also with loans exceeding PLN 50,000 PLN. In addition, in Q1 2019, the Bank carried out implementation work under the Foreign Currency Exchange regarding the provision of tourist insurance, which was launched in July 2019.

The Bank continues to focus on offering insurance in the individual model in which it acts as an insurance broker. The group model under which the Bank is the policy holder, is applied for products that are free for customers as an addition to the parameters of specific banking products.



## Structured products and investment insurance

Within its first issue programme of bank securities, in H1 2019 Alior Bank issued 13 securities series with the total nominal value of PLN 510 710 thousand. The securities were offered publicly to individual and Private Banking customers with an adequate investment profile and to corporate customers. Issues of bank securities were characterised with a 100% guarantee of principal at maturity. The value of interest is subject to market indices, most often selected from among baskets of stocks or investment funds. H1 2019 saw maturity of 20 issues, the best one returned 22.06% to the investors. Also, for selected private banking customers the Bank continued an offer of investment certificates with a limited capital guarantee and conditional early redemption – “autocall”. H1 2019 saw 6 issues of this type being carried out for a total nominal value of PLN 60.4 M. The issued certificates were listed at the Warsaw Stock Exchange.

In H1 2019, the Bank continued training for agents to prepare them to offer individual insurance and investments policies in cooperation with PZU Życie SA. Since February 2019, the sale of investment insurance offered by TU Generali – “Kapitałny Portfel” has been discontinued.

## New products and services

In June 2019, a new functionality was added to Konto Jakże Osobiste – card payments without any additional conversion costs. The advantage is that transactions made with a debit card in currencies other than PLN are not charged with any conversion costs of the Bank. Operations in EUR, USD, GBP are converted into PLN by the Bank at NBP’s exchange rates of the transaction settlement date. Transactions in currencies other than EUR, USD, GDP, are converted into USD at rates set by Mastercard and then into PLN at NBP’s mean rates of the transaction settlement date.

Additionally, in H1 2019 the following products were added to the commercial offer of the Alior Bank Capital Group:

- cash loan/consolidation loan “Pożyczka nietykowa” with an attractive commission and interest rates subject to the loan amount;
- cash loan/consolidation loan “Pożyczka z mikrokosztami” with a very attractive interest rates offering a very advantageous price for customers. The related costs converted per PLN 1,000 of the net loan were no more than PLN 6 monthly;
- an offer of “Pożyczka internetowa” [Internet Loan] for new customers who filed loan applications over a dedicated internet form and were offered preferential interest rates and zero commission;
- an offer of TUiTAM card without any commission charged by the Bank for currency conversion.

## Retail segment areas

### Consumer Finance

Additionally, within the retail segment, the Bank also offers Consumer Finance products.

In H1 2019, Consumer Finance continued to pursue projects related to core initiatives that contributed to the accomplishment of the Bank’s strategy. In order to ensure comfort of using the offer, along with the HP loan, the Bank provided Customers with an agreement for access to online banking. The agreement is to support





Customers with easy handling of debt repayments. Customers will be able to monitor loan repayments, check the repayment schedule and repayment history. Customers may file online applications for other products in the Bank's offer, e.g. to open an account. Such solution is also made available to foreigners with sojourn permits in our country.

In H1 2019, the Bank also focused on maintaining its position as a leader in HP loans due to stable cooperation with the existing Partners, acquiring new Partners, with seasonal campaigns promoting sales of HP loans and sales growth in the on-line channel.

### **Private Banking**

The Private Banking programme is earmarked for most affluent individual customers, willing to deposit assets with the Bank in excess of PLN 1M, or investment assets in excess of PLN 500,000. The customers are serviced by eight specialists Private Banking branches: three branches in Warsaw, one in each of Katowice, Poznań, Kraków, Gdańsk, and Wrocław.

As at 30 June 2019, the Private Banking department and branches employed 79 persons who – on the basis of a broad range of investment and credit products – have developed financial solutions suiting their customers' needs. The number of Private Banking customers as at the end of June 2019 was somewhat over 6 thousand.

Non-financial services of Private Banking customers called PB Wealth Care are operationally handled by Alior Services Sp. z o.o. whose task is to establish contacts with commercial partners providing such services as legal and tax consulting, business and property succession or alternative investments. Among promotional activities, it is worth noting that Private Banking of Alior Bank is the Titular Partner of golf tournaments arranged by the Association of Golf Instructors PGA SA.

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

### **Stock broking activities**

The Bank carries out stock brokerage activities through its Brokerage Office – a dedicated unit within Alior Bank. Brokerage offices are offered in branches of Alior Bank and over remote distribution channels: Contact Center of the Brokerage Office, online banking system integrated with the systems of Alior Bank and the transactional platform – Alior Trader.

As at 30 June 2019, the Brokerage Office of Alior Bank maintained 138 thousand brokerage and deposit and Alior Trader accounts and the value of customers' assets in the accounts was PLN 8.7 billion. Investors using the services of the Brokerage Office of Alior Bank submitted over 508 thousand stock exchange orders in H1 2019 of which 72,000 were completed via Alior Giełda broker mobile application. The Alior Giełda application was made available by the Brokerage Office of Alior Bank in September 2016 and is among the most innovative



mobile applications for individual investors in the Polish market. The number of orders executed via the application keep growing and the share of mobile orders in total orders is 24%.

The Brokerage Office of Alior Bank also offers participation units of Polish and foreign investment funds. As at 30 June 2019, Alior Bank co-operated with fifteen Polish and overseas investment fund companies (TFIs) with respect to open-end investment funds (FIOs). In the area of non-public FIZ (closed-end investment funds), in H1 2019 the Brokerage Office was involved solely in after-sale services. The total assets collected in investment funds via Alior Bank amounted to PLN 1.67 billion as at the end of June 2019.

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

As at 30 June 2019, the Brokerage Office of Alior Bank S.A. acted as market maker for 36 issuer and for 43 financial instruments.

In March 2019, the Brokerage Office of Alior Bank was ranked first by "Puls Biznesu" for the best brokerage account among 16 brokerage houses in Poland. The experts awarded the brokerage account primarily for access to the mobile application Alior Giełda, round-the-clock telephone services and a competitive offer. In H1 2019, the Brokerage Office offered a new investment services to its customers – [Iwestycje.aliorbank.pl](https://www.inwestycje.aliorbank.pl) and started services in new online banking of Alior Bank. In H1 2019, the Brokerage Office was actively involved in projects and webinars organised by the Warsaw Stock Exchange, WSE Foundations and Gazeta Parkiet.

## **Co-operation to attract retail customers**

### **T-Mobile Usługi Bankowe**

In H1 2019, T-Mobile Usługi Bankowe focused on the development of Mobile Banking and adaptation of Electronic Banking to the requirements of the PSD2 Directive.

T-Mobile Usługi Bankowe implemented to its Android and iOS mobile banking a possibility to add virtual cards to Google Pay and Apple Pay directly from the mobile application which supports contactless phone payments for goods and services.

In compliance with the requirements of the PSD2 Directive, in June T-Mobile Usługi Bankowe launched open banking thus making it possible for third entities (TPP) to provide two new services – account information (AIS) and initiation of payments on the customer's behalf (PIS) – on the basis of access to payment accounts in T-Mobile Usługi Bankowe. Open banking provides third parties (TPP) with a possibility to initiate payments, aggregate information on customers' transactions, access to account information or confirmation of fund availability in payment accounts.

Additionally, in June 2019 T-Mobile Usługi Bankowe launched a solution based on the Ethereum blockchain. The platform makes it possible for the Bank's customers to verify the authenticity of documents, thus ruling out the possibility of manipulation, and full transparency with respect to banking documents. With the new functionality, T-Mobile Usługi Bankowe once again became a pioneer of the most innovative solutions.



### Alior Bank's branch in Romania

In 2019 the foreign branch of Alior Bank in Romania continued its commercial activity commenced on 18 October 2017 (operations started on 18 July 2016). In H1 2019, sales of banking products were increased both in stationary channels: intermediaries (DSA) and brokers, and in remote channels where customers' identity could be verified via "penny transfers"; as a result, there was a dynamic growth of the customer portfolio and one of the highest percentage growth of lending volumes in the Romanian market. As at 30.06.2019, the DSA channel was composed of 128 FTEs. Additionally, in H1 2019 works were intensified to get adapted to the changing regulatory environment which resulted in the need to implement changes set forth in new AML regulations in Romania (EU MLD IV Directive) and the PSD2 Directive. The plan for the coming months covers an extended sale of loans by acquiring loan applications in the form of internet leads and via the local intermediary and in cooperation with Telesales Telekom Romania. In a longer time horizon, work will be focused on shortening the time to activate products to enable filing in digital channels, using innovative solutions available in the market in cooperation with FinTechs.

The offer of Alior Bank's Branch in Romania is available in cooperation with Telekom Romania over its sales network. The offer named Telekom Banking provides customers in Romania with access to core banking products of everyday use: ROR account, online FX exchange office, available in the local currency (RON) and many foreign currencies, cash loans and consolidation loans offered in two pricing options: fixed and variable interest rates: savings accounts and term deposits. The products are available at [www.telekombanking.ro](http://www.telekombanking.ro), and in the network of 60 sales outlets called "SiS" (as at 30 June 2019), located in Romania's largest cities. Alior Bank's banking products are offered directly by Telekom Romania at 242 outlets all over the country.

The loan portfolio, which includes: cash loans, consolidation loans, debit lines and Device Financing, increased almost 10 times in the first half of 2019.

As at 30 June 2019, the Branch in Romania employed 194 people (82 FTEs in the Head Office and 112 FTEs in SIS).

### Bancovo

Bancovo has been operating in the market since 2018, developing new category of services in Poland: on-line financial intermediation. "Bancovo" brand belongs to NewCommerce Services Sp. z o.o. With the platform customers may compare actual credit offers and obtain cash via the Internet in an easy and fast way (end-2-end) due to innovative solutions based on API, RPA, big data, machine learning, and supported by advanced UX.

The first TV advertising campaign of Bancovo was broadcast from February to April 2019 with the aim of building brand awareness among customers. Broadcast of the spot contributed to the material increase of loan sales on the platform (+119%), as well as increased operational efficiency of the business (+55%).

As at 30 June 2019, Bancovo has a base of over 100,000 registered users.

At the turn of 2018 and 2019, the Company has started working on a collaborative project with PZU and Alior named "Cash" - a platform for granting loans to employees of Entities invited to take part in the programme. Piloting is scheduled on Q3 2019.



Bancovo is a leader of on-line intermediation in Poland, the platform is more and more attractive with the number of banks and lending institution that offer their services on the platform. At the end of H1 2019, Bancovo offered products of 15 financial institution via the platform, including expanding its product offer with micro segment, introducing microfactoring to the offer.

Innovativeness and uniqueness of Bancovo's model won numerous awards and distinctions, the most important include:

- Product Innovation of the Year – awarded by Retail Banker International;
- The Heart Corporate Innovation Awards 2018 in the category of Digital Business.

The solution is scalable, it has an open architecture so it can easily be implemented also in other countries. Bancovo aspires to become a digital centre of customers' personal finances.

## **Business segment**

### **General information**

Alior Bank features a comprehensive and modern offer for business customers of Micro, SME segments, as well as the corporate segment. As at 30 June 2019, the Bank services over 207.5 thousand business customers and the total loan exposure was PLN 23.2 billion.

The offer for enterprises and the service quality of business customers have been appreciated by independent experts:

- Alior Bank was awarded the title of the "Institution of the Year 2018". It was awarded as the best bank in corporate financing; it was also appreciated for top quality of business customer services – both in branches and over the Infoline;
- Alior Bank won the competition – Leaders of Banking and Insurance. It was appreciated for the Zafirmowani.pl portal – an innovative web portal addressed to micro and small enterprises. The portal was ranked first in the category "The most important innovation for bank".

In order to learn about opinions of business people on the solutions offered by Alior Bank for companies and on the improvement of a better match of the offer to companies' needs, Alior Bank established a Business Customer Council to be an advisory body to developing new products and services for business and to improving the Bank's internal processes. The first meeting of the Business Customer Council was held on 27 June 2019. The meeting was attended by representatives of business, members of the management board of Alior Bank and people responsible for products, risks and operations. The meeting was devoted to solutions in electronic banking at Alior Bank and services business segment customers.

## **Accounts, settlements and deposits**

The offer of business accounts is suited to the expectations of each customer segment and relies on modern acquisition channels and product handling. In H1 2019, the number of newly opened accounts was 12,197 or by 1,163 more versus H1 2018 (11,034 accounts) which was a growth by 10% y/y. Alior Bank offers from standard services in its network of branches and franchise outlets, and offers the possibility to open company accounts



over the Internet with a fast confirmation process of customer's identity with a transfer from another bank or via courier service. Via remote channels, micro segment enterprises can open the following accounts: iKonto Biznes, Rachunek 4x4 or Rachunek Partner.

Along with the Partner account, Alior Bank promotes "Cashback for entrepreneurs" which guarantees a fixed fuel price at all fuel stations in Poland – only PLN 3.90 per litre. The maximum amount of refund for fuel purchases is PLN 100 monthly.

The holders of iKonto Biznes are addressed a promotion under which the business people who actively perform transactions may get an annual bonus of up to PLN 1,500.

4x4 account – an innovative solution which gives customers an opportunity to adapt account parameters to the company's needs and to the type of transactions executed. The Bank charges no fees for account maintenance, use of the first debit card, transfers to ZUS/tax offices and accounting on [zafirmowani.pl](http://zafirmowani.pl). In such individual parametrisation, customers may select 4 transactional packets: cash, domestic, foreign and savings. The packets offer an opportunity for entrepreneurs to use a broad range of facilities and rebates versus standard fees and commissions. Each packet is priced at only PLN 10 monthly.

All the above accounts are addressed to entrepreneurs using a simplified accounting system. The offer is supplement with Rachunek Wspólnota addressed to housing communities.

Alior Bank offers the following accounts to business customers keeping books of account: Biznes Optymalny, Biznes Komfort and Biznes Profil under which the customer selects options suitable to the company's profile.

Alior Bank also offers corporations with broad opportunities for investing cash surpluses. Standard term deposits available in multiple channels are supplemented with a deposit account featuring an attractive interest rate and automatic overnight deposits.

### New products and services

- Automatic opening process of iKonto Biznes and Rachunek 4x4 in new Electronic Banking – the customer is sent documents to the specified e-mail address and the business data is automatically downloaded from the Central Registration and Information on Businesses;
- Possibility to get registered of a Trusted Profile in electronic banking and sign correspondence to public administration bodies with the Trusted Profile. The Trusted Profile is a comfortable and secure tool with which business people may correspond online with public administration bodies. Over 20 thousand customers have already subscribed to the solution;
- Provision in electronic banking of a module to manage the following packets: cash, domestic, foreign and savings, available in Rachunek 4x4. Customers may activate or deactivate packets and verify their status. With the solution, customers may select options best suited to their businesses;
- Offering Rachunek 4x4 for agribusiness.



## Added services

The web portal [www.zafirmowani.pl](http://www.zafirmowani.pl) for micro enterprises was extended with new functionalities, such as communication and event module which gives an opportunity to its users to:

- get registered to webinars and conferences organised by the Bank within the "Zafirmowani.pl Academy";
- get information on coming payments to ZUS or Tax Office.

The tool available in the portal in the form of a questionnaire supports users in choosing the form of business activity. Additionally, business people holding company accounts with Alior Bank may connect to the portal [www.zafirmowani.pl](http://www.zafirmowani.pl) directly from online banking (without additional login). With the automatic mechanism of combining account history with accounting documents, customers may also verify the payment status of invoices in the accounting module.

In H1 2019, 957 customers attended conferences and webinars organised by the Bank in the zafirmowani.pl Academy.

## Settlement and transaction products

The offer of Alior Bank for companies was extended with virtual cards that support management of large payment volumes in the Internet. The cards do not have physical form and function solely in the Internet environment within the Smart Data service to generate one-off card numbers for each transaction. The solution ensures data confidentiality and a high level of transaction security.

Alior Bank offers to business people:

- PLN virtual debit cards;
- virtual credit cards;
- multicurrency virtual cards with access to 23 currencies without conversion costs.

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

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

## Loans for business customers

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



The Bank's operations in the micro enterprise and SME segment rely on a comprehensive, fully standardised credit offer. Pursuing the Digital Disruptor strategy, the Bank has provided an opportunity to process financing via a new credit application named Feniks KB. The application, connected to external databases, limits the number of required details which facilitates and shortens credit processes for exposures up to PLN 2 M.

Medium-sized and large company segment are offered by Alior Bank to use a standardised credit offer providing fast access to financing. Alior Bank treats each customer individually and develops offers dedicated for specific entities. In order to increase its market shares in the corporate lending area, a new Structured Loan Department was established. Its primary tasks are to reinforce the Bank's role in financing corporations by providing adequate and specialised services.

In cooperation with the European Investment Bank, Luxembourg, Alior Bank has been using a credit line to provide investment financing to SME and Large customer segments.

With respect to servicing Customers from the top segments, a strategy has been developed for corporate Customers by transforming Regional Business Centres into Corporate Centres specialised in servicing large entities, and by the establishment of the Business Customer Council. Additionally, in May a unit was established responsible for structured loans in order to develop servicing of large Customers. The changes to the corporate sales network are combined with development of online banking technologies Business Pro and of the product offer.

### **Bancassurance Products**

In H1 2019, Alior Bank started offering voluntary insurance as a supplement to its banking products. The Bank started cooperating with PZU S.A. and offered property insurances (against fire and other risks) for customers having non-revolving mortgage-backed loans. The insurance is offered in the individual model where Alior Bank acts as the insurance agent.

### **New products and services**

- Feniks KB – a fully automated credit system that provides for one credit application to cover working capital loans and purchase loans in five products: current account overdraft, business loan, credit card, factoring and leasing;
- Multiproduct limit for bank's customers – a functionality to analyse additional product potential for the bank's existing customers;
- Loan applications may be filed under a pre-approved offer via online banking (new AIB or BusinessPro), also by the customer's representative. With the functionality it is possible to attach documents from the customer's/representative's disk and have them authorised with one-off SMS code; the functionality is available for sole proprietorships;
- A functionality of signing an unsecured loan agreement with the Customer in online banking (new AIB or BusinessPro). The operation is authorised with one-off SMS code sent to the customer's trusted phone. The solution is addressed both to sole proprietorships and companies with spouses.



## EU funds and support programs

Alior Bank has been actively involved in government programmes supporting the development of SMEs.

With the guarantees granted by Bank Gospodarstwa Krajowego (BGK) under the de minimis government programme since 2013 and under the programme of the National Guarantee Fund continued since June 2018, Alior Bank has granted over 44 thousand loans totalling almost PLN 16 billion. Alior Bank is ranked third in terms of sale of de minimis guarantees and continues intensive sales of COSME guarantees financed with the European Investment Fund. At the end of H1 2019, almost 7,000 micro enterprises used the instrument. The total amount of Cosme Guarantees granted is over PLN 2.2 billion.

An interesting offer on the part of Alior Bank for SMEs now covers Loans with a Biznesmax guarantee, granted by BGK funded with the EU Smart Development programme. The guarantee may secure as much as 80% of the loan amount. Loans covered with the Biznesmax guarantee may be used to finance net investment outlays and VAT (including VAT on investments financed with EU grants). The guarantee may apply to investment loans with repayments up to 20 years and amounts up to PLN 2.5 million. Enterprises that correctly draw the guaranteed loan maybe refunded interest paid over 3 years from disbursement of the financing. In June 2019 the bank signed an annex extending the applicability of the Biznesmax guarantees in a pro-ecological procedure. With the amendment, the guarantee may also cover loans for investment projects covering pro-ecological innovations with ecological effects, for instance for renewable energy sources.

Additionally, Alior Bank provides comprehensive support in acquiring subsidies. As part of our “European Package”, the Bank offers loan commitments and bridge financing. Customers may obtain loans to finance their own constriction to investments supported with subsidies and loans for technological innovations.

Since the beginning of 2019, Alior Bank has been intensifying its efforts to increase sales of Thermo Modernisation Loans (to finance comprehensive thermo modernisation) of apartment buildings. The offer is addressed to housing cooperatives and communities and to social housing societies (TBS). Pursuant to agreements with Bank Gospodarstwa Krajowego, the offer was extended to two additional provinces. Apart from the province of Łódź, the thermo modernisation loan may be acquired by customers from the Dolnośląskie and Podlaskie provinces. The loan is co-financed with EU Regional Operational programmes for 2014-2020. The funds were provided to Alior Bank by Bank Gospodarstwa Krajowego (BGK).

On 1 March 2019, Alior Bank was among the first banks in Poland to sign an agreement with the European Investment Bank (EIB) for access to the EU programme ELENA to support thermo modernisation of apartment buildings. As a result, over the next three years the bank will be able to improve the effectiveness and financing volumes of such investments. Funds from ELENA will support a number of information and advisory actions for investors – mainly housing communities, housing cooperatives and social housing societies.

## Trade financing

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

In H1 2019, the bank implemented process automation in factoring and Housing Trust Accounts.

The recourse factoring offered by Alior Bank in the automated process is a fast method to improve financial liquidity. The offer is addressed primarily to those enterprises that run their business in Poland and use PLN as





their settlement currency and have completed minimum one financial year of at least 10 months of business operations.

The Bank approves factoring in the automatic process on the basis of customers' representations. The offer of Alior Bank, apart from the simplified formalities, stands out with the amount of approved working capital: from PLN 50 thousand to PLN 500 thousand.

With respect to Housing Trust Accounts, the bank centralised services and opened an opportunity to customers [Developers] an opportunity to make enquiries and be services via online banking. Now, via online banking customers may file applications in the following categories: amount disbursable, execution of payments instructions, registration of development contracts and settlement of each fund distribution.

### **Internet and mobile banking for Business Customers**

In H1 2019, actions in the sphere of internet and mobile banking for business Customers covered:

- customer migration to BusinessPro and new online banking (nAIB). The migration was completed on 31 March 2019;
- adaptation of the systems to the requirements of the PSD2 Directive in the areas of Open API and strong authentication. The integration will be completed by the end of Q3 2019;
- integration of banking systems with IFD – the process was completed in Q1 2019.

Additionally, in Q1 2019 we offered availability and fully migrated customers to the "Factoring" module developed in the most recent technology to handle factoring applications in BusinessPro.

Additionally, in BusinessPro we continued the project to modify the graphic design of the system in compliance with guidelines received from our customers.

### **Digital banking**

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

### **Digital sales**

Use of advanced data analysis combined with more process optimisation in H1 2019 resulted in a growth of sales of cash loans in the digital channel by 30.4% y/y. The highest growth of cash loans was noted in digital banking – 74.5% y/y, in particular in the mobile application (158.1% y/y).

The full implementation of back office automation in the application process for savings and clearing accounts resulted in a growth of sale of the account in H1 2019 by 33.8% (y/y). Over the same period, the growth of sale of accounts for business clients was 50.7%.



## New online and mobile banking

In H1 2019, internet and mobile banking were provided with new functionalities and underwent a number of optimisation operations.

In order to meet the customers' expectations, Internet and mobile banking were supplemented with the possibility of managing payment orders, planned payments and joining the Mastercard Priceless Specials programme. A new tab was added with a special offer of deposit products.

Customers using online banking may use the new function of a transfer basket to approve several transfers with one authorisation codes.

Alior Bank's mobile application was extended with payments – an option was added of Google Pay contactless payments with devices using Android and Apple Pay for iPhone, Apple Watch, iPad or Mac with iOS. Additionally, mobile customers may use an alternative payment service in the Internet – BLIK PayByLink where the entire transaction is authorised in the mobile application.

Optimisations have been implemented with which application users more may effectively verify recent transactions in account history, send transfers to telephone registered in BLIK which is displayed with an icon in the contact directory or use a larger number of permitted characters in transfers.

Business customers may now transfer from online banking to Business PRO and from Business PRO to new online banking without the need for another login by changing the context. New filters were added to account history for deposits and statements for credit accounts. An option is offered to open a business account for customers who used to have an individual relation but no business relation. It is possible to open the following additional products: deposit and auxiliary accounts along with payment cards. The recent optimisation for business clients provided an option to manage the packets available for Rachunek 4x4.

Digital banking also offers new functionalities and improvements for customers of the brokerage office. In H1 of the year, additional applications were made available for the following products: Investment and Premium Consulting supported by experts, Investment Funds and Alior Trader Account to make investments on one's own.

In order to get adapted to the requirements of the PSD2 Directive, an option was added to electronic banking to authorise consents for individual payment services.

In April 2019, the customer migration process was finished from the existing online banking system to the new one – the process lasted from September 2018. Overall 1.1 million individual and business customers were migrated.

## Treasury Activity

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

- FX transactions, starting from spot transactions to option structures adequate to customers' needs and knowledge on such instruments;
- interest rate hedging transactions ensuring customers with stable funding costs;
- hedging transactions of commodity prices;



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

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

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

### Transactional platforms

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

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

Autodealing is a service available to both business and individual customers in both online banking systems. The platform supports execution of spot and term FX transactions subject to attractive terms and conditions and opening of deposits for any number of days up to 1 year at high interest rates. In H1 2019, Autodealing was made available in new online banking for individual customers and companies. The currencies available in Autodealing are as follows: PLN, EUR, USD, GBP, CHF, SEK, NOK, CZK.

eFX Trader is a platform accessible from the level of online banking, dedicated to most demanding business customers. It supports the conclusion of spot transactions, term transactions and orders with price limits for 24h, 5 days a week, for almost 70 currency pairs. The platform offers three types of orders with price limits to



execute transactions at the rates selected by customers automatically. The platform is characterised with high liquidity and customers may trace the developments in the FX market.

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

## Capital investments

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

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

	Status as at 30.06.2019		Status as at 31.12.2018	
	Number	Market value / nominal in PLN	Number	Market value / nominal in PLN
<b>Stocks</b>	<b>610 274</b>	<b>60 426 134</b>	<b>602 988</b>	<b>247 884</b>
<b>Listed</b>	463 893	35 172 523	492 788	242 384
<b>Not listed</b>	146 381	25 253 612	110 200	5 500
<b>Bonds</b>	<b>13 290 140</b>	<b>13 913 689 136</b>	<b>3 847</b>	<b>248 963</b>
<b>Investment certificates</b>	<b>550</b>	<b>44 459</b>	<b>832</b>	<b>77 897</b>

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

In 2019 Alior Bank developed RBL\_, a brand that in May 2019 was listed by Global Finance among 25 best innovation laboratories in the world. The many areas of its operation include development of relations with the international start-up ecosystem. In March 2019, as an element of the area, recruitment started to the second edition of the acceleration programme RBL\_START, partnered by: PZU, Mastercard, IBM, Microsoft, Linklaters. From among 200 proposals (a growth of proposals by 100% versus the first edition of the programme), eleven companies were selected: Trustisto, Enable:banking, BillTech, Mobiltek, Upswot,



Bonusway, Bagsoff, ZappyAI, Luna, LogicAI, Domove. Works underway to implement new solutions with FinTechs outside the RBL\_START accelerator path are in progress.

In June 2019 Alior Bank provided production API complying with the requirements of the PSD2 Directive. Via the interface, authorised TPP Third Party Providers will be able – subject to the customers' consent – to initiate payments, download information on the account and funds available.

Another project that was implemented in the first half of 2019 was the implementation of a public blockchain solution (Ethereum). This solution enables any interested person to verify the correctness of public documents (such as: tables of fees and commissions, regulations, interest rates tables) provided to the Bank's customers. By implementing a durable medium, Alior Bank was the first bank in Poland and one of the first banks in the world to use public blockchain for business purposes. In the future, further implementations of innovative solutions based on blockchain technology are planned, which are part of the Bank's development strategy.

Alior Bank has also been operating as a Corporate Venture Capital since 2018. As part of the structures of the Department of Innovation and FinTech, a dedicated investment team was established, which has already completed the first investment in PayPo, and in 2019 more are planned.

### Strategic partnerships

PZU, Lotos, Allegro, Apple, Mastercard – are examples of just a few companies with which we cooperate daily in Alior Bank, jointly pursuing projects or providing mutual services. Alior Bank focuses on developing the existing and building new strategic partnerships as well as to identify synergies under the projects that are pursued.

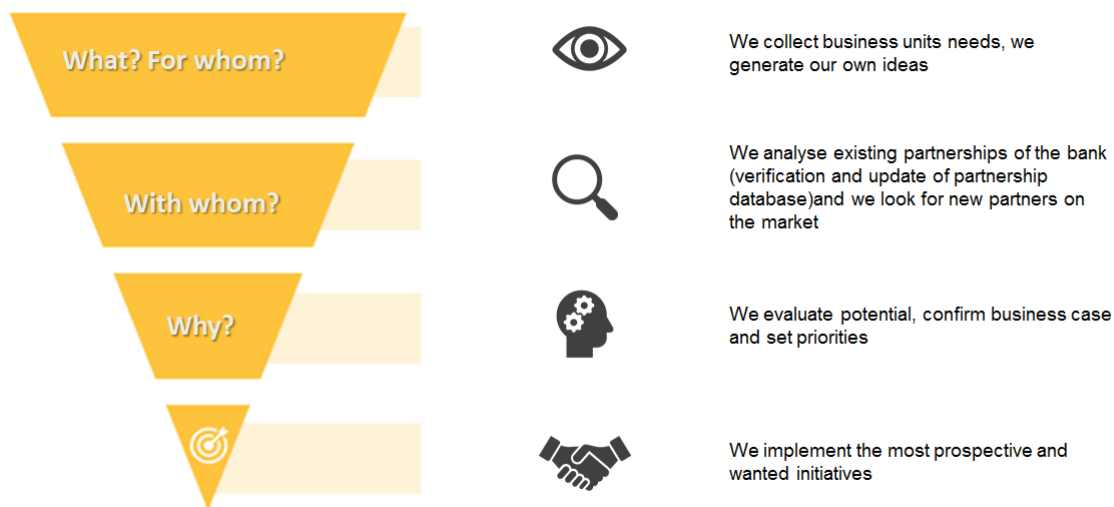
We treat as strategic those partnerships that generate major synergies (in terms of revenues, costs, image) and generate tangible benefits for the Bank, its customers or employees. They should also support the implementation of the Bank's business strategy and facilitate projects in many areas.





From the Bank's viewpoint, strategic partnerships are important for a number of reasons – they facilitate acquisition of new customers, expansion to new markets, implementation of new services (our own or added), optimisation of operations (e.g. in terms of processes or technologies) and strengthen the Bank's image. We look for such companies for cooperation that may support the Bank's strategic objectives, operate on appropriate scale, are well reputed, have an adequate business model and organisational culture. It is important what can be achieved and how this can be done together. Also, how it fits with our Bank's DNA and strategy.

### How do we want to operate?



The PZU Group is our key strategic partner – jointly we carry out a number of initiatives which refer to revenue synergies (bancassurance, assurbanking), cost synergies, innovations or corporate governance. H1 2019 was characterised primarily with a dynamic development of services and initiatives in assurbanking – jointly with PZU we have been carrying out several pilot projects, including one major initiative relating to a new distribution model of cash loans. We also cooperate with such entities like LOTOS Group, WSE, Tauron, or technological companies (e.g. Apple, Google, IBM, Microsoft).

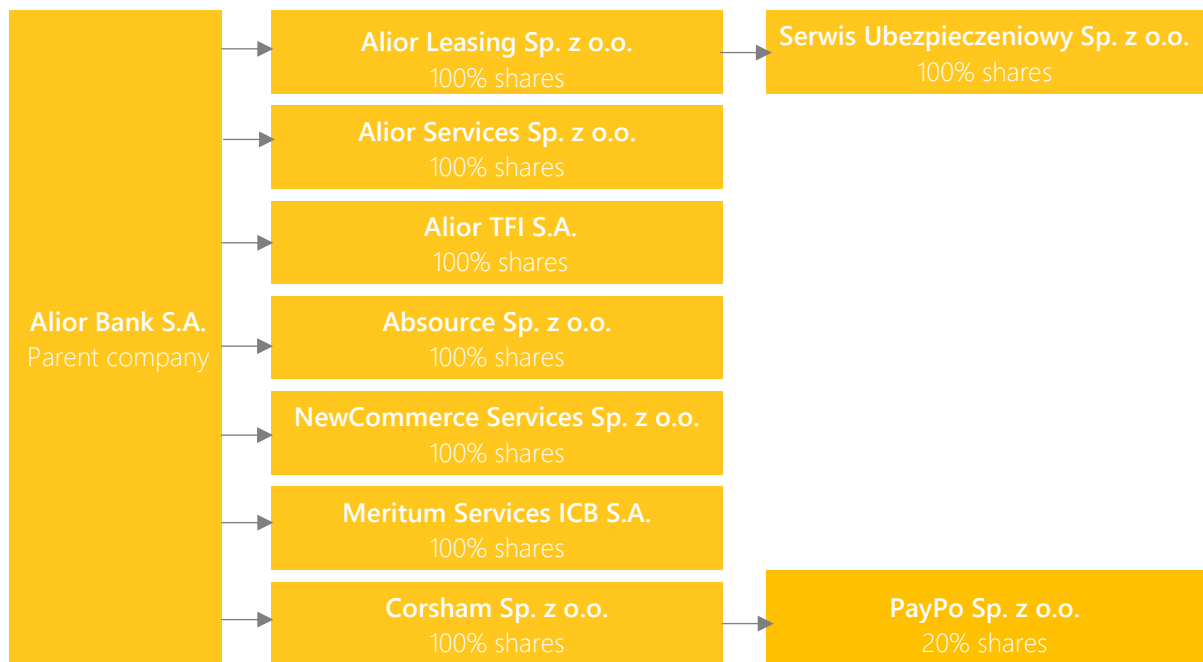
Jointly with the Fintech and Innovation Department, we are following solutions available in the market of rebate programmes and applications scaling the offers of key partners, representing various sectors, e.g. in a review of start-ups in the second edition of the RBL\_Start Accelerator.

In mid-June 2019 we established strategic cooperation with Neckermann. The cooperation will inter alia cover mutual offering and promotion of offers, benefits for the Bank's customers or support in business projects. The joint programme will rely on three pillars. The first will be HP loan of Alior Bank granted to buy tourist services at Neckermann branches. The other two are banking products for individual customers and business customers of Alior Bank covering benefits of the tourist agency. Additional joint marketing and PR actions are planned within the cooperation and a number of initiatives for employees of both organisations.



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

### Capital Group of Alior Bank S.A. as at 30 June 2019



At the end of the reporting period, the Capital Group of Alior Bank S.A. was composed of the following: Alior Bank S.A. as the parent entity and subsidiaries in which the Bank directly holds majority stakes and a full subsidiary of Alior Leasing Sp. z o.o. and PayPo Sp. z o.o. in which a full subsidiary of Alior Bank S.A. holds a stake of 20%.

In the reporting period, there was a change to the structure of the Capital Group of Alior Bank S.A.

On 4 February 2019, Alior Bank S.A. entered into a sales agreement with Blackstones spółka z ograniczoną odpowiedzialnością Holdings sp.k. covering shares in Corsham Sp. z o.o., as a result of which it acquired 100 shares in Corsham sp. z o.o., equivalent to 100% of the Company's capital. On 28 March 2019 Alior Bank S.A. approved a resolution of the General Meeting of Corsham Sp. z o.o. to increase the Company's capital by PLN 5,500,000.00 by issue of 110,000 new, equal and indivisible shares. 80,000 of new shares were acquired by Alior Bank S.A. by covering them with a contribution in the form of all shares in the share capital of PayPo sp. o.o., owned by Alior Bank S.A. (20% share in the share capital of PayPo Sp. o.o.), while the remaining 30,000 Alior Bank S.A. covered by covering them with a cash contribution of PLN 1,500,000.



### Alior Leasing Sp. z o.o.

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

Alior Leasing Sp. z o.o. was set up in April 2015 and has been actually operating since October 2015.

By resolution of 25 January 2019, the Extraordinary General Meeting chose to increase the Company's share capital from PLN 15.004.000,00 to PLN 15.005.000,00 (this increase was registered by the registry court on 29 May 2019), As the sole shareholder the Bank acquired all the newly issued shares.

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

In H1 2019, Alior Leasing concluded new contracts for PLN 1.5 billion (+9% vs. the equivalent period last year). As a result, the loan portfolio financed by the Company grew to PLN 4.72 billion at the end of June 2019 vs. PLN 2.73 billion at the end of June 2018 and PLN 3.90 billion at the end of December 2018. 91% of sales by Alior Leasing in H1 2019 relates to vehicle financing.

### Serwis Ubezpieczeniowy Sp. z o.o.

Alior Bank Sp. z o.o. holds 100% of shares and 100% of the overall number of votes at general meetings of Serwis Ubezpieczeniowy Sp. z o.o. The Company's share capital is PLN 5,000, no change occurred during the reporting period. Serwis Ubezpieczeniowy Sp. z o.o. was set up in November 2016 and has been actually operating since February 2017. Serwis Ubezpieczeniowy Sp. z o.o. operates in the insurance market. The Company's business covers the insurance agency activity.

### Alior Services Sp. z o.o.

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

Alior Services Sp. z o.o. (formerly Alior Raty Sp. z o.o.) has the following objectives: use of sales opportunities of non-financial products and services as well as expansion and adding to the attractiveness of the offer for Private Banking customers to reinforce competitive advantages.

The business of Alior Services Sp. z o.o. focuses on search for and attracting external partners to cooperate in offering non-banking services as well as establishing business contacts between customers and external partners, (iii) acting as an insurance agent.





### Alior TFI S.A.

Alior Bank holds 100 % of shares and 100 % of the overall number of votes at general meetings of Alior TFI S.A. Alior TFI S.A. (formerly Money Makers TFI S.A.) was incorporated in 2010 and originally the company as a brokerage house provided services related to asset management, following its reorganisation in July 2015 the company operates as a TFI. The cooperation of Alior Bank with its subsidiary Alior TFI S.A. mainly concerns the basic business of the company, i.e. the creation and management of investment funds and their representation towards third parties.

In H1 2019, Alior TFI recorded a successful period in terms of sales of investment funds. Since 1 April 2019, the Company has been managed by a management board composed as follows: Dariusz Szwed – President of the Management Board and Artur Włoch – Member of the Management Board. On 21 May 2019 Alior TFI joined the Chamber of Fund and Asset Management (IZFiA).

### Absource Sp. z o.o.

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

Absource Sp. z o.o. has the following objectives: services related to IT and computer technologies as well as IT consulting activities and software-related activities. Business of Absource Sp. z o.o. focuses on sub-licensing of IT software and other IT services.

### NewCommerce Services Sp. z o.o.

Alior Bank holds 100% of shares and 100% of the overall number of votes at general meetings of NewCommerce Services Sp. z o.o. In the period from January to June 2019, the company's share capital was increased from PLN 600,000.00 to PLN 2,595,000.0, and the Bank, as the sole shareholder acquired all the newly issued shares.

The Company has been pursuing a key initiative set forth in the Digital Disruptor Strategy to be the first in Poland to launch a fully digital platform of financial services offering loans to banks and loan companies.

Thanks to the platform operating under the Bancovo brand, for the first time in Poland, customers have gained access to real lending offers and the launch of a 100% offer via Internet. The process of obtaining a loan is customer-friendly thanks to the use of advanced UX. Modern solutions in the field of technology and IT architecture allow you to easily scale the platform, eg in other countries. Bancovo at the end of June 2019 offered products of 15 financial institutions. From the start of operations in March 2018 to the end of June 2019, Bancovo acquired over 100,000 registered users.

### Meritum Services ICB S.A.

Alior Bank holds 100% of shares and 100% of the overall number of votes at general meetings of Meritum Services ICB S.A. Meritum Services ICB S.A. is a company providing services in the area of IT and computer technologies and other IT-related services. In 2015 the business of the Company was extended by operations



of insurance agents and brokers, activities related to risk assessment and estimation of incurred losses, other activities supporting insurance and pension funds.

### Corsham Sp. z o.o.

Corsham spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw was set up in September 2018 and was entered to the National Court Register on 22 October 2018.

On 4 February 2019 Alior Bank S.A. acquired 100% shares in Corsham sp. z o.o. On 28 March 2019 Alior Bank S.A. approved a resolution of the General Meeting of Corsham Sp. z o.o. to increase the company's capital by PLN 5,500,000.00 by issue of 110,000 new, equal and indivisible shares. 80,000 of new shares were acquired by Alior Bank S.A. by covering them with a contribution in the form of all shares in the share capital of PayPo sp. o.o., owned by Alior Bank S.A. (20% share in the share capital of PayPo Sp. o.o.), while the remaining 30,000 Alior Bank S.A. covered by covering them with a cash contribution of PLN 1,500,000.

While PayPo is a start-up offering deferred payments for purchases in the Internet and a buyer protection program. People making online purchases may order products and pay after as many as 30 days without any transactional costs and interest. Using PayPo, customers may receive and verify the goods before payment. If for any reasons the goods are not delivered, no payment is required.



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

### Acquisition of SKOK "Jaworzno"

On 31 January 2019 Alior Bank was provided with consent of the Polish Financial Supervision Authority (PFSA) to take-over Spółdzielcza Kasa Oszczędnościowo-Kredytowa "Jaworzno" (SKOK Jaworzno). The integration process will be supported with the Bank Guarantee Fund (BGF). The Bank's Management Board took over the management of assets of SKOK Jaworzno on 1 February 2019 while on 1 April 2019 the legal merger took place and SKOK Jaworzno was acquired by the Bank. The operational merger successfully ended in June 2019. As a result, the Bank acquired assets with a fair value of PLN 233.6 million, and the book value of purchased receivables from customers was PLN 137.2 million. As a result of the merger, the liabilities taken over by the Bank amounted to PLN 319.8 million.

### Extension of permit to the Bank to use the AMA method

On 14 February 2019 the Bank received approval from the Polish Financial Supervision Authority to implement a major extension of the AMA method by applying the method to historic effects of the acquired business of Bank BPH SA and for overall application by the Bank of the:

- AMA method – with reference to the business of Alior Bank SA including the historic effects of the business of Bank BPH SA, relating to the take-over of the demerged part of BPH SA without the business of the branch in Romania;
- standard method in relation to the branch in Romania;

calculation of equity requirement related to operational risk since 14 February 2019.

### Agreement on terms and conditions of the transaction related to RUCH SA in restructuring

On 11 April 2019 an agreement was concluded covering terms and conditions of the transaction between the Bank, Polski Koncern Naftowy Orlen SA and Powszechny Zakład Ubezpieczeń SA, concerning RUCH SA in restructuring. In accordance with the agreement, the Bank intends to acquire 100% shares in RUCH SA (on a manner agreed between the Bank and PKN Orlen after final approval of the arrangement within the system of accelerated arrangement proceedings) to be further re-sold to PKN Orlen.

The shares in RUCH SA will be acquired by PKN Orlen subject to satisfaction of the terms and conditions as set forth in the agreement, including inter alia:

- final confirmation of satisfying the settlements in accelerated settlement proceedings of RUCH SA;



- the parties to the agreement obtain the required corporate approvals; and
- issue by the President of the Office of Competition and Consumer Protection of the European Commission of approval for the purchase of shares in RUCH SA by PKN Orlen.

On 29 May 2019, the Bank received information of not approving by the District Court for the capital city of Warsaw in Warsaw, 10th Commercial Department for bankruptcy and restructuring, the agreements adopted by the creditors under the accelerated arrangement proceedings of RUCH Spółka Akcyjna in restructuring for procedural reasons in connection with formal issues. In connection with the above, the company (Ruch) filed complaints against these decisions, and the files with complaints were forwarded to the Court of second instance.

Management Board of the Bank maintains its opinion that the restructuring scenario is the most advantageous.

### **Launch of a synthetic securitisation transaction**

On 7 December 2018 the Bank entered into an agreement to carry out synthetic securitisation of its business loan portfolio for PLN 1.5 billion with the European Investment Fund (EIF) and the European Investment Bank (EIB) as a co-guarantor which will support the Bank's further development in the financing of small and medium-sized enterprises.

The transaction was split into three tranches: junior, mezzanine and senior, where the risk of the junior tranche remains with Alior Bank, while the risk of the mezzanine and senior tranches is transferred to EIF and EIB.

This is the first transaction of the type in Poland carried out in line with the European CRR Regulation (Capital Requirements Regulation).

On 7 June 2019, subject to compliance with additional covenants as requested by the European investment Bank, the Bank operationally initiated the securitisation transaction. The final value of the securitised portfolio as 07.06.2019 is PLN 1,029 M.

In line with the securitisation agreement, the Bank shall be entitled to replenish the amortised part of the portfolio over 3 years until 7 June 2019.

## **Material events after the balance sheet date**

### **Changes to the composition of the Bank's Management Board**

On 1 July 2019, Mr. Maciej Surdyk, - Deputy CEO resigned from being Member of the Management Board of Alior Bank S.A. as of July 1st, 2019.

### **Notification of the collective dispute**

On 15 July 2019 the Bank informed about the notification of a collective dispute regarding the increase in remuneration for all employees employed under a contract of employment.

### **Opening of the Long-Term Bond Issue Program of Alior Bank S.A.**

On 5 August 2019 the Supervisory Board of the Bank, in accordance with the motion of the Bank's Management Board, agreed to open the Long-Term Bond Issue Program of Alior Bank S.A. and authorized



the Bank's Management Board to repeatedly incur financial liabilities under the Program by issuing unsecured bonds by the Bank. The total nominal value of the Program will not exceed PLN 5,000,000,000.

In addition, the Bank's Supervisory Board, in line with the Bank's Management Board's request, also agreed to close the Bank's bond issue program established by resolution no. 253/2015 of the Bank's Management Board dated July 29, 2015 and approved by resolution no. 54/2015 of the Bank's Supervisory Board of August 10, 2015.



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

In H1 2019, the Bank did not obtain financing through the issue of ordinary or subordinated bonds carried out as a public offer (in accordance with Art. 33.1 of the Act on Bonds of 15 January 2015) and non-public offerings or private issues (in accordance with Art. 33.2 of the Act on Bonds of 15 January 2015).

### **The Bank's issue programmes**

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

The above Issue Program was closed on 5 August 2019 in accordance with the resolution of the Bank's Supervisory Board dated on 5 August 2019.

In addition, pursuant to a resolution of the Bank's Supervisory Board of 5 August 2019, a Long-Term Bond Issue Program was established, the total nominal value of which will not exceed PLN 5,000,000,000.



## X. Risk report of Alior Bank

Risk management is among the most important internal processes at Alior Bank S.A., its foreign branch and in the subsidiaries of the Alior Bank S.A. Group. The supreme objective of the risk management policy is to ensure early detection and adequate management of all kinds of risk inherent to the pursued activity. The risk management system supports the pursuance of the strategy and is aimed at ensuring an adequate level of profitability and security of operations by effective control of risk levels and keeping risks within the approved risk appetite.

Within its activity, the Bank identifies the following types of risk:

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

The risk management system at Alior Bank S.A. relies on three independent lines of defence. The first line of defence functions in the Bank's operational units and is performed by process owners who inter alia design and comply with controls in processes. The second line of defence functions in all organisational units responsible for managing each risk. It performs a management function covering risk management in dedicated positions or in organisational units independent of the first line of defence and the operation of the compliance unit. The third line of defence provides assurance to top management and the Supervisory Board that the operation of the first and second lines of defence is compliant with their expectations. The third line of defence includes the activity of the internal audit function.

From among the identified risks, the Bank treats the following as crucial risks:

- credit risk;
- operational risk;
- liquidity risk;



- interest rate risk in the banking book;
- market risk in the trading book (covering: interest rate risk in the banking book, FX risk and commodity price risk).

## Credit risk

Management of the credit risk and its maintenance at a safe level, defined in the risk appetite, is of fundamental importance for the Bank's stable operation and development. Credit risk is controlled with the Bank's credit risk management system which is comprehensive and integrated with the Bank's operational processes. The core stages of the credit risk management process include the following:

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

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

The description of the risk control system is reflected in the Bank's internal regulations, in particular lending methodologies and risk measurement models, adjusted to customer segments, product and transaction types, establishing and monitoring of collateral to loans, as well as the processes of monitoring and collection of receivables.

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

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

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

- the customer's creditworthiness and credit capacity, including e.g. a detailed analysis of the exposure repayment sources;
- the reliability of the approved collateral, including the verification of its formal legal and economic condition, including e.g. LTV adequacy.

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

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





## Risk assessment in the credit process

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

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

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

## Division of responsibilities

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

## Concentration risk management

Concentration risk is analysed in the Bank with reference to credit activity and is defined as a risk resulting from the Bank's excessive involvement in:

- exposures to individual customers or groups of related customers;
- exposures subject to common or correlated risk factors.

exposures characterised with a potential to generate losses large enough to pose a hazard to the Bank's financial condition.

The Bank identifies and assesses concentration risk by analysis the structure of the portfolio for various risk factors (exposure features) that are material for credit risk; on the basis, groups of exposures were identified where excessive concentration is undesirable and in extreme situations may generate losses in excess of the Bank's appetite for credit risk. The knowledge of potential hazards related to exposure concentration at the Bank supports a safe structure of the loan portfolio.

In order to prevent adverse events resulting from excessive concentration, the Bank mitigates the concentration risk by setting limits and applying concentration standards resulting from external regulations and internal concentration standards.



## Impairment allowances and provisions

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

### Impairment indications

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

Customer
Account
Exposures to banks
Bond exposures

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

### Materiality thresholds qualifying customers' exposures to individual measurement

As at 30.06.2019	
Customer Segment	Threshold value in PLN
Individual customers	No threshold
Business customers	3,000,000

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

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

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

If no objective impairment indicators exist of loan exposures, they are classified to a group of assets with a similar credit risk and assessed as a group for occurrence of any material deterioration of credit quality since



the initial recognition. Assessment of deterioration of credit quality is made on the basis of a set of qualitative and quantitative indicators. Qualitative indicators include: DPD over 30 days, customer's classification to the Watch List category, the exposure is classified as forborne, other risks exist (including risks of the sector, region, etc.). Quantitative indicators include material deterioration of the current cumulated default probability in the period until the expected maturity versus the cumulated default probability anticipated for the period when the exposure was generated (that is when it was first disbursed or materially modified). The Bank applies 2 to models to estimate allowances for exposures that do not show impairment indicators: a model of anticipated losses estimated for 12 months for exposures classified to Stage 1 (or LCR) and a model of anticipated losses estimated for the period until the maturity of exposures classified to Stage 2 (including POCI).

## Collateral

Collateral constitute for the Bank a secondary source of repayment of the collateralised receivables should disadvantageous circumstances occur during the life of a credit product. Loan collateral is to increase the likelihood that Borrowers will comply with their obligations. In a situation when a Borrower fails to repay its obligations on contractual dates and restructuring fails to generate the desired effects, the collateral will give the Bank an opportunity to have the loan repaid along with interest and other costs due.

The Bank sets the method to collateralise loans considering the following:

- anticipated labour effort on the part of the Bank and the cost to establish the collateral;
- type and amount of the collateralised receivables and lending period;
- realistic possibility to satisfy the Bank's claims within the shortest possible time with the accepted collateral;
- existing encumbrances to the proposed collateral in case of collateral on assets;
- financial and economic condition of the person providing guarantee for the customer and personal or ownership relations with other entities – in case of personal guarantees;
- estimated costs of cashing the collateral.

## Management of assets seized in exchange for debt

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

## Scoring/rating

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

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



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

### **Monitoring of credit risk of individual and business customers**

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

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

All loan exposures of individual and business customers are subject to monitoring and ongoing classification to the appropriate process paths. In order to improve the monitoring and control of the operational risk, adequate solutions have been implemented in the Bank's credit systems. Systemic tools have been consolidated to ensure the effective use of the monitoring procedures, applicable to all accounts.

### **Application of forbearance practices**

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

- extended lending periods; Extended lending periods result in the reduced monthly principal and interest instalments and it is possible up to 144 months (for retail credit products), irrespective of the original lending period. When the lending period is extended, certain restrictions are considered as specified in the product features, such as borrower's age;
- offering grace periods (for full or partial instalment or a combination thereof); During the grace period in repayment of the principal and interest instalments, the borrower is not obliged to make any payments under the agreement. The loan repayment period may be extended to adjust the instalment amount to the Borrower's repayment potential (this is not identical to the extension of the lending period). There is a grace period of a full instalment is up to 6 months, the grace period of a principal instalment is up to 12 months (in specific instances, the periods may be extended subject to approval by persons managing the restructuring process);
- capitalisation of overdue amounts (including overdue principal, overdue contractual interest, penalty interest and other accrued fees) – restoration of the exposure to normal situation and offering the Customer an opportunity for timely repayment of consecutive instalments;
- consolidation of several obligations with Alior Bank, including modifications to limit in LOR accounts/unauthorised debit in ROR/KK, into an instalment loan; Consolidation results in converting a number of debts from various agreements into a single debt. The product activated as a result of consolidation is repaid in monthly instalments in line with the repayment schedule. The parameters of the product activated as a result are compliant with the features of cash loans/consolidation loans.

The tools may be combined if this enhances the effectiveness of the restructuring. In specific instances, other tools may be used.



## Monitoring of risk related forbearance practices

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

- application process (the number of applications, the number of issued decisions, types of decisions);
- the quality of the loan portfolio (split into specific overdue levels, forms of restructuring, applied waivers);
- measurement of overdue in excess of 30 days in restructured accounts in each quarter, as at the end of each quarter after restructuring.

## Assessment of impairment for exposures subject to forbearance practices

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

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

## Operational risk

The operational risk which means the likelihood of a loss resulting from failure to apply or unreliability of internal processes, people, systems, or external hazards, is identified as a material risk.

The management objective of operational risk at the Bank and the Capital Group is to maintain operational risk at a secure level and adequate for the business, objectives, strategy and development of the Bank, acceptable to the Bank's Management Board and Supervisory Board as well as to develop quantitative methods and extend their application in managing the organisation with the AMA method.

The Bank has a formalised operational risk management system within which it counteracts to the occurrence of operational events and incidents and mitigates loss should the risk materialise. The operational risk management system at Alior Bank relies on the following three pillars:

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

For several years the Bank has been developing statistical calculation methods of internal capital for operational risk. On 14 February 2019 the Bank received approval from the Polish Financial Supervision



Authority to implement a major extension of the AMA method by applying the method to historic effects of the acquired business of Bank BPH SA and for overall application by the Bank of the:

- AMA method – with reference to the business of Alior Bank SA including the historic effects of the business of Bank BPH SA, relating to the take-over of the demerged part of BPH SA without the business of the branch in Romania;
- standard method in relation to the branch in Romania;

calculation of equity requirement related to operational risk since 14 February 2019. PFSA's decision is a result of many months of designing work to improve the management processes of operational risk at the Bank.

The effects of the project under way since 2016 – apart from a material reduction of the capital requirement for operational risk – included a number of procedural benefits and generation of a precise tool to estimate operational risk and to incorporate the risk inter alia in product prices and process costs.

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

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

The amount of gross operational losses recorded in H1 2019 at Alior Bank S.A. fell within the target and limit for the operational risk at the Bank.

## **Market and liquidity risk**

### **Rules of market and liquidity risk management**

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

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

- conclusion of treasury transactions;
- measurement, monitoring and reporting of market and liquidity risk, including the pursuance of the market and liquidity risk management policy;
- transaction settlement processes;
- operational handling and support for business processes including handling the Bank's nostro accounts.

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



Apart from relevant organisational units also the Bank's Supervisory Board and Management Board, as well as Capital, Assets and Liabilities Management Committee (CALCO) play an active role in management of the market risk.

Exposure to market and liquidity risk is mitigated with a system of limits, periodically updated by resolutions of the Supervisory Board or CALCO, covering all risk metrics with the levels thereof monitored and reported by the Bank's organisational units independent of business.

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

## Market Risk

At the Bank we have identified the following types of market risk that is subject to management:

- interest rate risk in the banking book;
- market risk in the trading book (covering: interest rate risk in the banking book, FX risk and commodity price risk).

Interest rate risk is defined as a risk of adverse impact of market interest rates on the current results or the current value of the Bank's equity.

Market risk in the trading book is defined as a risk of loss in the trading book as a result of changes to market factors such as FX rates, interest rate indices, stock prices/indices, commodity prices.

## Interest rate risk

Due to its policy to mitigate the risks in the trading book, the Bank attaches special importance to specific interest rate risk aspects related to the banking book, such as:

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

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

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

Interest rate of the banking portfolio is measured and mitigated by monitoring the volatility of net interest (NII) and changes to the economic value of the Bank's equity (EVE). Apart from NII and EVE, in its interest rate measurements the Bank applies BPV and VaR, mismatch gap, stress tests and reversed tests.



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

BPV estimates as at 30 June 2019 and 31 December 2018 are presented in the tables below.

#### BPV at the end of H1 2019 – split by tenor (PLN '000)

Currency	Up to 6 months	6 months to 1 year	1-3 years	3- 5 years	5- 10 years	Total
PLN	-51.0	250.4	663.9	722.9	-79.8	1,506.3
EUR	-16.0	73.7	314.2	382.5	38.1	792.5
USD	-4.0	22.3	2.6	-0.3	-1.5	19.1
CHF	-1.7	0.0	0.2	0.0	-0.2	-1.7
GBP	-1.5	1.9	0.0	0.0	0.0	0.4
Other	-1.0	-0.3	2.4	21.5	0.0	22.6
<b>Total</b>	<b>-75.1</b>	<b>348.0</b>	<b>983.2</b>	<b>1,126.6</b>	<b>-43.5</b>	<b>2,339.2</b>

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

Currency	Up to 6 months	6 months to 1 year	1-3 years	3- 5 years	5- 10 years	Total
PLN	-33.2	285.2	445	1,002.6	-121.7	1,577.9
in EUR	-38.8	41.7	258.1	359.3	13.3	633.6
USD	16.3	21.8	4	-0.3	-1.6	40
CHF	-2.4	-0.3	0	0.2	0.7	-1.7
GBP	-1.2	2.2	0.1	0	0	1
Other	-0.4	0	0	0	0	-0.4
<b>Total</b>	<b>-59.6</b>	<b>350.6</b>	<b>707</b>	<b>1,361.7</b>	<b>-109.3</b>	<b>2,250.6</b>

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

Book	01.01.2019-30.06.2019			01.01.2018-31.12.2018		
	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	1,796.96	2,195.28	2,575.87	402.54	1,292.58	2,523.78
Trading book	-88.20	-3.85	80.58	-70.17	-3.73	80.00
<b>Total</b>	<b>1,825.92</b>	<b>2,191.43</b>	<b>2,589.77</b>	<b>431.26</b>	<b>1,288.86</b>	<b>2,476.47</b>

The table below presents 10-day VaR for the Bank split by the banking and trading book at the end of H1 2019 and at the end of 2018.

VaR (PLN '000)	30.06.2019	31.12.2018
Banking book	35.847	36.860
Trading book	1.636	3.422
<b>Total</b>	<b>34.887</b>	<b>37.675</b>





The table below presents BPV statistics split by the banking and trading book at the end of 2019 and 2018 (99% of 10-day VaR).

Book	01.01.2019 - 30.06.2019			01.01.2018 - 31.12.2018		
	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book (with CALCO)	29.624	36.082	43.917	7.597	21.691	39.735
Trading book	1.455	2.499	4.063	738	2.636	4.580
<b>Total</b>	<b>29.426</b>	<b>36.061</b>	<b>45.189</b>	<b>8.085</b>	<b>22.961</b>	<b>40.362</b>

The Bank performs scenario analyses covering inter alia the impact of specified changes to interest rates on future interest income and the economic value of equity. Within those scenarios, internal limits are maintained the utilisation of which is measured on the daily basis. Change measures to the value of economic capital in the scenarios identified by EBA and with a parallel shift of interest rate curves by +/- 200 bp. Scenarios of the results at the end of H1 2019 and at the end of 2018 are presented below (PLN thousand).

Scenario	Change to the economic value of capital 30.06.2019	Change to the economic value of capital 30.12.2018
Parallel upward shift of interest rate curves (EBA)	207.510	200.988
Parallel downward shift of interest rate curves (EBA)	-169.370	-211.665
Steeped interest rate curve (EBA)	1.415	8.074
Flattened interest rate curve (EBA)	54.314	40.782
Growth of short-term interest rates (EBA)	118.120	102.964
Drop of short-term interest rates (EBA)	-132.558	-149.483
Parallel upward shift of curves by 200 bp	183.884	179.746
Parallel downward shift of curves by 200 bp	-168.104	-209.435
Most adverse scenario	-169.370	-211.665
% Tier 1	2.6%	3.2%

Change of interest result in 1-year horizon with a change of interest rates by 100bp (negative scenario) at the end of H1 2019 and at the end of 2018 is presented below.

	30.06.2019	31.12.2018
<b>NII</b>	7.22%	5.96%

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

The repricing gap in PLN, EUR and USD as at the end of H1 2019 is presented below.

#### PLN repricing gap – PLN '000

2019-06-30	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
<b>Periodical gap</b>	3,208,015	12,984,794	6,813,256	-4,900,470	-1,926,619	-3,868,148	-1,000,279	11,310,548
<b>Accumulated gap</b>	3,208,015	16,192,808	23,006,065	18,105,595	16,178,975	12,310,827	11,310,548	



### EUR repricing gap in EUR

2019-06-30	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
<b>Periodical gap</b>	156.536	193.092	204.080	-1.989	-167.137	-314.263	-79.680	-9.360
<b>Accumulated gap</b>	156.536	349.628	553.708	551.720	384.583	70.319	-9.360	

### USD repricing gap in USD

2019-06-30	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
<b>Periodical gap</b>	-339.714	27.866	65.185	-192.088	-99.106	-64.253	-14.354	-616.465
<b>Accumulated gap</b>	-339.714	-311.848	-246.663	-438.752	-537.858	-602.111	-616.465	

## FX risk

The FX risk is defined as a risk of a loss resulting from changing FX rates. The core objective of FX risk management is to identify those areas of the Bank's business that may be exposed to the risk and to take measures to mitigate potential related losses as much as possible. The Bank's Management Board identifies the FX risk profile which must be compliant with the Bank's applicable financial plan.

Alior Bank pursues regular monitoring and reporting of:

- FX risk measure levels;
- utilisation degree of internal limits and threshold values for FX risk;
- results of stress tests.

FX risk limits are determined so that this risk remained limited.

The core FX risk management tools at Alior Bank are as follows:

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

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

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

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

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

(PLN '000)	30.06.2019	31.12.2018
<b>VaR</b>	88.9	154.0



### VaR statistics in the Bank's FX portfolio in H1 2019 and 2018 (PLN '000)

VaR	30.06.2019	31.12.2018
Minimum	24.9	50.92
Medium	197.3	540.58
Maximum	710.6	1,604.13

### Bank's FX position at the end of H1 2019 and at the end of 2018 ('000)

Currencies	30 June 2019	31 December 2018
Gross position	56.743	56.252
Group A gross	50.548	54.389
EUR	14.919	23.253
USD	33.459	27.538
GBP	1.097	2.432
CHF	1.073	1.166
Other gross	6.195	1.863

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

(PLN '000)	30.06.2019	31.12.2018
FX rates + 20%	12 739	-4.203
FX rates -20%	10 034	10.716

## Liquidity Risk

Liquidity risk means the risk of failure by the Bank to meet – subject to comfortable conditions and at adequate prices – its payment obligations resulting from the Bank's on- and off-balance sheet items. Liquidity risk includes funding risk which is a risk of losing the existing funding sources and a risk of no renewal of the required funding or loss of access to new funding sources.

The Bank applies an internal liquidity adequacy assessment process (ILAAP) consisting in effective management of liquidity risk in order to assure that the Bank holds stable funding and adequate liquidity buffers to pay its debt on time as well as in stress situations and to assure compliance with supervisory liquidity requirements. With elements of ILAAP, the Bank identifies its tolerance for liquidity risk being the liquidity risk level that it is ready to accept which is compliant with appetite for the risk and the Bank's overall strategy.

Assets and liabilities at Bank are managed by the specially appointed Capital, Assets and Liabilities Management Committee (CALCO). Liquidity risk strategy, including the acceptable risk level, the assumed balance sheet structure and the funding plan, is approved by the Bank's Management Board and further validated by the Bank's Supervisory Board. Interbank treasury transactions are concluded by the Treasury Department, transactions are settled and booked in the Operations Division and liquidity risk is monitored and measured in the Financial Risks Management Section. The competences related to liquidity risk management are segregated in a transparent manner up to the Management Board level which ensures complete independence of operation.



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

- intraday liquidity;
- current liquidity;
- short-term liquidity;
- medium-term liquidity;
- long-term liquidity.

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

### Specification of maturity/payment dates of contractual flows of consolidated assets and liabilities as at 30 June 2019 (PLN M)

30.06.2019	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
<b>Assets</b>	3 877	2 935	2 464	3 531	6 817	10 752	23 118	41 511	95 005
Cash & Nostro	2 212	0	0	0	0	0	0	0	2 212
Due from banks	418	7	0	0	0	146	0	0	571
Securities	201	1 540	3	353	687	1 637	6 115	4 585	15 121
Due from customers	1 046	1 388	2 461	3 178	6 130	8 969	17 003	33 255	73 430
Other assets	0	0	0	0	0	0	0	3 671	3 671
<b>Liabilities and equity</b>	-43 768	-5 253	-6 705	-4 399	-3 781	-3 996	-1 835	-8 022	-77 759
Due to banks	- 521	- 333	- 48	- 56	- 10	- 28	- 51	- 82	-1 129
Due to customers	-41 234	-4 852	-6 559	-3 948	-3 208	-2 025	- 364	- 73	-62 263
Own issues	- 19	- 63	- 73	- 357	- 487	-1 839	-1 256	-1 143	-5 237
Equity	0	- 4	- 8	- 12	- 24	0	0	-6 606	-6 654
Other liabilities	-1 994	- 1	- 17	- 26	- 52	- 104	- 164	- 118	-2 476
<b>Balance sheet gap</b>	-39 891	-2 318	-4 241	- 868	3 036	6 756	21 283	33 489	17 246
<b>Cumulated balance sheet gap</b>	-39 891	-42 209	-46 450	-47 318	-44 282	-37 526	-16 243	17 246	
Derivative instruments – inflows	3 056	4 825	1 747	1 868	839	438	403	43	13 219
Derivative instruments – outflows	-3 056	-4 784	-1 751	-1 871	- 841	- 442	- 416	- 42	-13 203
<b>Derivative instruments – net</b>	0	41	- 4	- 3	- 2	- 4	- 13	1	16
Guarantee and financing lines	-9 989	0	0	0	0	0	0	0	-9 989
<b>Off-balance sheet gap</b>	-9 989	41	- 4	- 3	- 2	- 4	- 13	1	-9 973
<b>Total gap</b>	-49 880	-2 277	-4 245	- 871	3 034	6 752	21 270	33 490	7 273
<b>Total cumulated gap</b>	-49 880	-52 157	-56 402	-57 273	-54 239	-47 487	-26 217	7 273	



The Bank keeps a high liquidity, investing in Treasury and corporate debt securities, characterised with fast sales possibilities, maintaining funds in its current account with NBP and with other banks (nostro accounts), maintaining funds in hand and investing funds in the interbank market, within the approved limits. The adequacy of the maintained liquidity buffer is controlled by comparing it with the designated minimum value of the minimum liquidity buffer as may be required for survival under a stress test scenario over a time horizon from 7 days inclusive to 30 days.

As at 30 June 2019, the total liquidity buffer amounted to PLN 15,521 M versus the minimum level of PLN 12,458 M, resulting from a shock scenario. To calculate the liquidity buffer, the Bank applies appropriate reductions to the components of the buffer in order to account for the risk of market (product) liquidity.

Attracted deposits constitute a core source of funding for the Bank's business – as at the end of June 2019, the amount of deposits accounted for about 83% of liabilities.

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

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

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

As at 30 June 2019, the values of the above ratios were as follows: 3.67 and 1.18.

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

Additionally, in line with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR), the Bank monitors and maintains an adequate level of the Liquidity Coverage Ratio (LCR). As at 30 June 2019, LCR was at 133% versus the mandatory level of 100%.

In H1 2019, Alior Bank S.A. had one branch in Bucharest which was involved in deposit and lending activity. The task of the Branch is lending activity on the basis of the funding acquired from Alior Bank S.A and with the funds acquired from the local market. The liquidity level of the Branch is monitored by dedicated organisational units within the Branch and the Bank's Head Quarter.

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



In H1 2019, the Bank's liquidity condition was at a safe level. The situation was closely monitored and maintained at an adequate level by adjusting the level of the deposit base and disbursing financing subject to growth of lending and other liquidity needs.

## Model risk

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

### Stages in the model risk management process

The model risk management includes assessment of compliance of model risk with the approved risk appetite and actions taken to reduce the level. The process includes: model risk identification, measurement, control and reporting.

Risk models are identified by acquiring and updates of information on the models functioning in the Bank.

Model risk is measured and assessed with quantitative metrics and qualitative tools. Model risk is measured at the level of individual models and an aggregated level. At the level of individual models, the Bank performs independent model validation, monitors model quality and assesses data quality.

At the level of a model portfolio, the Bank determines the aggregated assessment of model risk level and stress tests.

Model risk management is controlled at several levels:

- organisational units responsible for model management in their respective areas;
- the Risk Model Validation Section by supervising model risk management, developing and implemented adequate tools dedicated to the risk and collecting information throughout the Bank;
- the Model Risk Committee by performing regular supervision over model risk management and the level thereof, the Management Board which is provided with results of reviews of model risk management and compliance with the underlying assumptions;
- the Supervisory Board by approval of the most important assumptions and plans related to model risk management (in compliance with the Management Information System) and verification of implementation thereof.

In order to control model risk level in compliance with the approved tolerance, the Bank applies the following active and passive measures. Active measures include:

- issue and implementation of recommendations in the monitoring and validation process of individual models;
- formulating recommendations on the basis of identified aggregated data.



Passive measures include development of standards related to the development and documentation of models, reviews of data quality, monitoring and validation.

Reporting information concerning model risk for internal purposes. The information relating to model risk supports the management system of the Bank by being considered in taking business decisions. The management reporting coverage on model risk is very extensive and comprehensive which supports appropriate assessment of the risk management and control system and supports decisions related to the process.

## Capital management (ICAAP)

Material risks as at 30.06.2019
Credit risk (including: insolvency risk, sectoral concentration risk, concentration risk to customers, currency concentration risk)
Operational risk
Liquidity Risk
Interest rate risk in the banking book,
Market Risk
Settlement/delivery risk
Model risk
Risk of reputational loss
Business risk
Capital risk
Compliance risk

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

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

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

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

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



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

<b>Capital ratios of the Bank's Capital Group</b>	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>30.06.2018</b>
<b>Capital adequacy ratio</b>	15.84%	15.85%	15.27%
<b>Tier 1 capital ratio</b>	12.92%	12.81%	12.05%
<b>Internal capital coverage ratio with available capital</b>	2.32	2.22	2.35

With a view to ensure a sustainable growth of the scale of business, in H1 2019 the Bank kept extending its available capital base by re-investing its entire profit and worked intensively on optimising the value of risk-weighted assets – both with respect to operational risk discussed above and with respect to credit risk, using for the purpose various instruments to transfer the loan portfolio risks.

In particular with respect to credit risk, on 7 December 2018 the Bank entered into a synthetic securitisation transaction of its loan portfolio to business customers for up to PLN 1.5 billion with the European Investment Fund and the European Investment Bank – that was the first agreement of the type in Poland providing for an innovative optimisation of the risks related to the loan portfolio. The securitisation agreement was operationally activated on 7 June 2019 along with compliance with the additional covenants set forth by the European Investment Bank.





## XI. Internal control system

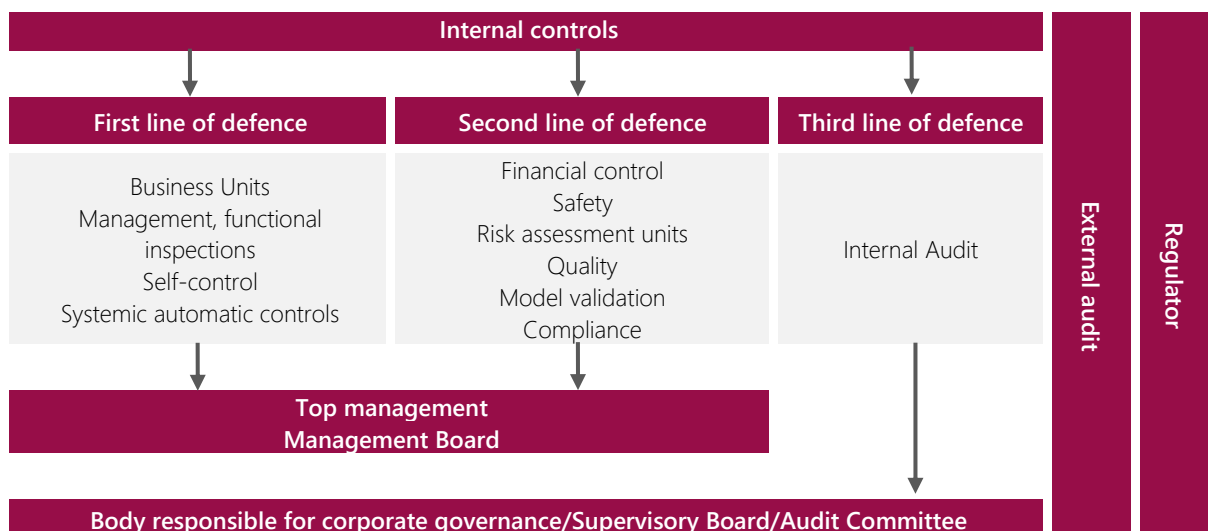
The internal control system which covers solutions and activities (controls) ensuring compliance by the Bank with the statutory objectives of internal control systems, while supporting the Bank's management and contributing effective achievement of its tasks ensuring safety and stability of the Bank's operations.

Within its internal control system, the Bank identifies:

- control function composed of all control mechanisms in the processes functioning at the Bank, independent monitoring of perception of the control mechanisms and reporting within the control function;
- the Regulation Compliance Department which is responsible for identification, assessment, control and monitoring of compliance risk at the Bank;
- A task of the Internal Audit is to examine and assess, in an independent and objective manner, the adequacy and effectiveness of the risk management system and the internal control system in the Bank's operations.

The internal control system covers all the Bank's organisational units and its subsidiaries and is adapted to the nature, risk profile and scale of its business.

The internal control system has been developed in line with the three line of defence model:





## Internal Audit

The mission of the Audit Department is to protect assets and to ensure shareholders that the objectives of the Bank / Group will be achieved subject to an adequate risk level.

The mission of internal audit is carried out by providing an independent, objective assessment of the adequacy and effectiveness of the internal control system.

The Internal Audit Department performs the task by pursuing its audit plan, developed on the basis of risk analysis inherent to the Bank's business and covering all information available in the Bank and its Capital Group. The Supervisory Board and Management Board keep being informed on an ongoing basis and periodically on the results of audits and the implementation status of corrective measures. The Internal Audit Department reports to the President of the Management Board in terms of organisation and to the Audit Committee of the Supervisory Board in terms of functions which ensures adequate independence and impartiality of its activities.

## Compliance

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

The Regulation Compliance Department (DZR) is a stand-alone independent organisational unit of the Bank, reporting directly to the President of the Bank's Management Board; its primary task is to ensure compliance with law, internal regulations and market standards by controlling and managing compliance risk. DZR identified, assesses, controls and monitors compliance risk in line with the Compliance Policy. The detailed rules of operations of the Compliance unit are set forth in the Regulations of the Regulation Compliance Department along with detailed procedures and instructions applicable to the activities related to compliance risk control and management.



## XII. Control system in the preparation of financial statements

The internal control system in the preparation of financial statements is pursued as follows:

- application of Group uniform accounting principles in the sphere of measurement, recognition and disclosure in compliance with the International Financial Reporting Standards;
- application of internal control mechanisms, including segregation of duties within the reporting department, minimum two-step data authorisation, verification of received data for correctness;
- defining the competences and formalising the preparation process of financial statements;
- defining the rules and control over compliance with the workflow of financial and accounting documents and verification thereof in terms of content, formal and accounting aspects;
- holding records of economic events in the integrated financial and accounting system the configuration of which corresponds to the Bank's accounting principles and contains instructions and control mechanisms ensuring data consistency and integrity;
- independent review of financial statements made by an independent external auditor.

The financial reporting process is subject to ongoing verification. The integrated financial and accounting system has an important role in the control process of accounting and financial reporting. It ensures control of the recognised operations but also identified the persons who upload or accept specific transactions. Access to financial data is limited with a system of access rights. Access rights to the system are assigned in line with the assigned roles and responsibilities of each person and are subject to strict control.

The risk of preparing financial statements is mitigated in a quarterly monitoring process of reconciliation of account balances in accounts attributable to each unit in the Bank's general ledger.

In order to ensure data correctness for consolidation purposes, the Bank has implemented a monthly reconciliation process of accounting balances in the portfolio purchased by the Bank, in particular the validity of the repayment schedules of principal and interest in compliance with the applicable contractual terms and conditions. The process will ultimately be supported with direct access to accounting systems of the company.

The Bank's Accounting Principles contain provisions that are aimed at ensuring compliance of accounting and financial statements with the applicable regulations, including in particular the overriding and qualitative features of financial statements, correct measurement and classification of events, protection mechanisms of data sets. In order to ensure compliance of the Accounting Principles with amended applicable regulations, in particular with the International Financial Reporting Standards, the Principles are regularly updated. The last update took place in December 2018.

The auditor selection procedure followed by the Bank ensures its independence in the performance of the commissioned tasks (the selection is made by the Supervisory Board) and a high standard of the services. The results of such reviews and audit are submitted by the auditor to the Audit Committee of the Supervisory Board.



## XIII. Shareholding structure of Alior Bank S.A.

### Share capital structure:

The share capital of the Bank amounts to PLN 1,305,539,910 and is split into 130,553,991 shares with par value of PLN 10.00 each.

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

In the reporting period, there were no changes to the composition of the Bank's equity.

### Shareholders of Alior Bank S.A.

The structure of the Bank's share capital by the series of issued shares

Share series	Data as at 31 December 2018 / 30 June 2019 / 06 August 2019	
	Number of shares	Series value at nominal prices (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
H	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
<b>Total</b>	<b>130,553,991</b>	<b>1,305,539,910</b>



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

#### Ownership structure of the Bank's share capital

Shareholder	Number of shares held/ Number of votes at the GSM			Share in share capital and overall number of votes at General Meetings		
	06.08.2019/ 30.06.2019	07.05.2019	28.02.2019/ 31.12.2018	06.08.2019/ 30.06.2019	07.05.2019	28.02.2019/ 31.12.2018
<b>PZU SA<sup>1</sup></b>	41,658,850 <sup>2</sup>	41,658,850 <sup>3</sup>	41,658,850 <sup>3</sup>	31.91%	31.91%	31.91%
<b>Aviva OFE, Aviva Santander</b>	9,467,000 <sup>2</sup>	9,467,000 <sup>3</sup>	9,467,000 <sup>3</sup>	7.25%	7.25%	7.25%
<b>Nationale-Nederlanden OFE</b>	9,300,000 <sup>2</sup>	7,600,000 <sup>3</sup>	7,600,000 <sup>3</sup>	7.12%	5.85%	5.82%
<b>BlackRock Inc</b>	7,392,649 <sup>4</sup>	7,392,649 <sup>4</sup>	7,392,649 <sup>4</sup>	5.66%	5.66%	5.66%
<b>Other shareholders</b>	62,735,492	64,435,492	64,435,492	48.06%	49.33%	49.36%
<b>Total</b>	<b>130,553,991</b>	<b>130,553,991</b>	<b>130,553,991</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) Jointly with PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Uniwersum

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

(3) Based on the number of shares registered at the Ordinary General Meeting of 26 November 2018

(4) On the basis of the notification of 24 April 2018

#### Changes to the ownership structure of the Bank's share capital

From the publication date of the previous interim report until the publication hereof, the Bank's Management Board did not receive any notifications pursuant to Art. 69 of the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies (Journal of Laws of 2018, items 512, 685), or notifications made in compliance with ESMA/2015/1597 standards.

Any change to the number of shares held by shareholders holding minimum 5% of the overall number of votes at the Bank's General Meetings is related to an update of the information on the list of persons authorised to participate in the Bank's Ordinary General Meeting convened for 28 June 2019.

#### Members of the Management Board who were shareholders of the Bank as at 30.06.2019 and as of the publication date hereof

Shareholder	Number of shares / Number of votes	Nominal value of shares (PLN)	Percentage in the share capital	Share in the total number of votes
<b>Krzysztof Bacht</b>	4,168	41,680	0.00%	0.00%



In the reporting period, the Bank's Management Board received a notification pursuant to Art. 19.1 of the MAR Regulation on a purchase transaction of the Bank's shares; the details are presented in the table below.

Shareholder	Number of purchased shares	Trade Date
Krzysztof Bachta	2,000	08.05.2019

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

### Management stock options scheme

Pursuant to resolution No. 28/2012 of the Extraordinary General Meeting of Alior Bank S.A. of 19 October 2012 on a conditional increase of the Bank's share capital and an issue of subscription warrants and the regulations of an incentive programme approved by the Supervisory Board of Alior Bank S.A. of 27 March 2013, the incentive programme was activated for 2013-2015. The plan covered members of the Management Board and a group of key managers of the Bank who were not members of the Management Board.

The Managerial Option programme provides for an issue of three tranches of subscription warrants (A, B and C series) and corresponding three tranches of the Bank's new shares (D, E and F series) with the maximum nominal value of PLN 33,312,500, including:

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

In compliance with the above rules of the program, series A warrants, entitling their holders to acquire series D shares, expired in December 2018.

Details of non-exercised warrants as at 30 June 2019 are presented in the table below.

Warrant series	Number of issued exercisable warrants	Number of deferred warrants* to be awarded in 2018-2019	Total
A	0	0	0
B	520 263	8 349	528 612
C	490 956	140 844	631 800

\*As per the Policy of variable remuneration components effective in 2013-2015



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

On 5 August 2019 the Bank's Supervisory Board adopted the resolution on issuance of deferred tranche of financial instruments to Ms. Agata Strzelecka, i.e. 5,010 of subscription warrants of C-series and strike price of PLN 66,06 as well as assigned to them 2,538 phantom shares with the strike price of PLN 53,87, within the Management Option Plan for the period preceding the performance of functions in the Management Board, i.e. 2015.



## XIV. Material contracts and commitments

As at 30 June 2019 Alior Bank S.A. did not have:

- obligations towards the central bank;
- any material loan agreements, sureties and guarantees not related to operational activity apart from the contract for periodic opening of insurance guarantees providing unfunded credit protection and a frame agreement for periodic opening of counter-guarantees, concluded on 8 November 2017 with Powszechny Zakład Ubezpieczeń SA. and the agreement of 7 December 2018 providing for a synthetic securitisation of a loan portfolio up to PLN 1.5 billion concluded with the European Investment Fund (EIB) as the counter-guarantor – details are provided in chapter VIII of this Report.

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

In H1 2019, the Bank did not conclude or terminate loan agreements outside the normal scope of the Bank's business.

The Bank's Capital Group entities – outside the normal scope of their business – did not grant any sureties, loans or guarantees which total value for a single entity or its dependent unit would exceed 10% of the Bank's equity.

As at 30 June 2019, the number of active guarantees granted by Alior Bank was 1,756 for a total amount of PLN 877,090 thousand. The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (1 232) total PLN 448,763 thousand.

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

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

Alior Bank did not issue any securities that would provide any specific control rights of the Bank. The financial results of the Capital Group of Alior Bank S.A. are consolidated within the PZU SA. Capital Group. Representatives of PZU SA. are members of the Bank's Supervisory Board.





## XV. Governing Bodies of Alior Bank S.A.

### General Meeting of the Bank

#### General Meetings of the Bank in H1 2019

One General Meeting of the Bank was held in the reporting period on 22 June 2018. The Ordinary General Meeting – apart from resolutions related for formal matters – adopted resolutions on matters relating to the closure of the financial year 2018 and resolutions approving: the financial statements of the Bank and the Bank's Capital Group, the Management Board's report on activities of the Bank's Capital Group, covering the Management Board's report on activities of the Bank, distribution of profit, discharge for all Members of the Bank's Management Board and Supervisory Board. Additionally, the Bank's General Meeting on 28 June 2019 approved resolutions on amending the Bank's Articles of Association and amending Resolutions No. 5/2017 and 6/2017 of the Extraordinary General Meeting of Alior Bank Spółka Akcyjna of 5 December 2017 on the remuneration of Members of the Supervisory Board and the Management Board of Alior Bank S.A.

### Bank's Supervisory Board

Composition of the Bank's Supervisory Board as at 30.06.2019		Composition of the Bank's Supervisory Board as at 31.12.2018	
<b>Tomasz Kulik</b>	Chairman of the Supervisory Board	<b>Tomasz Kulik</b>	Chairman of the Supervisory Board
<b>Marcin Eckert</b>	Deputy Chairman of the Supervisory Board	<b>Małgorzata Iwanicz-Drozdowska</b>	Deputy Chairwoman of the Supervisory Board
<b>Dariusz Gątarek</b>	Member of the Supervisory Board	<b>Marcin Eckert</b>	Member 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>Maciej Rapkiewicz</b>	Member of the Supervisory Board	<b>Wojciech Myślecki</b>	Member of the Supervisory Board
		<b>Maciej Rapkiewicz</b>	Member of the Supervisory Board

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

- On 31 January 2019, Ms Małgorzata Iwanicz-Drozdowska resigned from membership in the Bank's Supervisory Board;



- On 27 February 2019, by resolution of the Supervisory Board, Mr Marcin Eckert was elected Deputy Chairman of the Bank's Supervisory Board.

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

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

## Committees of the Supervisory Board

### Audit Committee

Members of the Committee as at 30.06.2019		Members of the Committee as at 31.12.2018	
<b>Artur Kucharski</b>	Chairman of the Committee	<b>Małgorzata Iwanicz-Drozdowska</b>	Chairwoman of the Committee
<b>Marcin Eckert</b>	Member of the Committee	<b>Artur Kucharski</b>	Member of the Committee
<b>Wojciech Myślecki</b>	Member of the Committee	<b>Marcin Eckert</b>	Member of the Committee
		<b>Wojciech Myślecki</b>	Member of the Committee

In view of the resignation by Ms Małgorzata Iwanicz-Drozdowska from her membership in the Bank's Supervisory Board, on 27 February 2019 the Supervisory Board nominated Mr Artur Kucharski as Chairman of the Audit Committee.

### Appointment and Remuneration Committee

Members of the Committee as at 30.06.2019		Members of the Committee as at 31.12.2018	
<b>Tomasz Kulik</b>	Chairman of the Committee	<b>Tomasz Kulik</b>	Chairman 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>Maciej Rapkiewicz</b>	Member of the Committee
<b>Marcin Eckert</b>	Member of the Committee	<b>Marcin Eckert</b>	Member of the Committee

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

### Risk Committee

Members of the Committee as at 30.06.2019		Members of the Committee as at 31.12.2018	
<b>Dariusz Gątarek</b>	Chairman of the Committee	<b>Dariusz Gątarek</b>	Chairman of the Committee
<b>Maciej Rapkiewicz</b>	Member of the Committee	<b>Małgorzata Iwanicz-Drozdowska</b>	Member of the Committee
<b>Marcin Eckert</b>	Member of the Committee	<b>Maciej Rapkiewicz</b>	Member of the Committee
<b>Artur Kucharski</b>	Member of the Committee		



In view of the resignation by Ms Małgorzata Iwanicz-Drozdowska from her membership in the Bank's Supervisory Board, on 27 February 2019 the Supervisory Board nominated Mr Marcin Eckert and Mr Artur Kucharski to the Risk Committee.

### Bank's Management Board

Composition of the Bank's Management Board as at 30.06.2019		Composition of the Bank's Management Board as at 31.12.2018	
<b>Krzysztof Bachta</b>	President of the Bank's Management Board manages Head Office organisational units responsible for HR, marketing and PR, internal audit, Compliance, support to governing bodies of the Company, investors relations, strategy and he is responsible for the functioning of the procedures to report breach of law, procedure and business ethics existing in the Bank and he receives related reports in line with the decisions of the Bank's internal units	<b>Krzysztof Bachta</b>	Deputy President of the Bank's Management Board, managed the work of the Management Board manages the HR Division and directly supervises the organisational units in the Bank's Head Office responsible for marketing and PR, internal audit, Compliance, support to governing bodies of the Company, investors relations and he is responsible for the functioning of the procedures to report breach of law, procedure and business ethics existing in the Bank and he receives related reports in line with the decisions of the Bank's internal units
<b>Tomasz Biłous</b>	Deputy President of the Management Board manages the organisational units in the Bank's Head Office responsible for finance	<b>Filip Gorczyca</b>	Deputy President of the Management Board managed the Controlling Division, and directly supervises the organisational units in the Bank's Head Office responsible for: data, accounting, taxes and reporting
<b>Marcin Jaszczuk</b>	Deputy President of the Management Board manages the Bank's organisational units responsible for innovation, FinTech, strategic partnerships, supervision over subsidiaries and establishment and operations in other countries as well as for merger and acquisition projects	<b>Marcin Jaszczuk</b>	Deputy President of the Management Board manages the Corporate Development Division which covers the areas of innovation, strategy and FinTech and the following units report to him: directly the Branch T-Mobile Usługi Bankowe and the unit responsible for supervising subsidiaries and the establishment and operations of the Branch T-Mobile Usługi Bankowe in other countries
<b>Seweryn Kowalczyk</b>	Deputy President of the Management Board manages organisational units in the Bank's head Office responsible for security, legal services and personal data protection	<b>Seweryn Kowalczyk</b>	Deputy President of the Management Board manages the organisational units in the Bank's Head Office responsible for security and legal services



<b>Mateusz Poznański</b>	Deputy President of the Management Board manages the organisational units in the Bank responsible for products and sales to retail customers.	<b>Mateusz Poznański</b>	Deputy President of the Management Board manages the Retail Segment Sales Division and the following units report to him: the Bank's organisational units responsible for retail customer services, brokerage activities, external networks, products for individual customers, consumer finance and for relations with individual customers
<b>Agata Strzelecka</b>	Deputy President of the Management Board manages organisational units in the Bank's head Office responsible for IT, operational services and electronic security	<b>Agata Strzelecka</b>	Deputy President of the Management Board manages the IT Division and the following units directly report to him: units in the Head Office responsible for electronic security, digital banking, logistics, procurement, settlements and operational services
<b>Maciej Surdyk</b>	Deputy President of the Management Board manages the organisational units in the Bank responsible for products and sales to business customers and treasury	<b>Maciej Surdyk</b>	Deputy President of the Management Board manages the organisational units in the Bank responsible for sales to business customers, business customer products, sales of treasury products, AGRO business, treasury activities, EU funds and public programmes and relations with business customers
<b>Marek Szcześniak</b>	Deputy President of the Management Board manages the organisational units in the Bank's Head Office responsible for risks materials in the Bank's business, credit risk, capital, operational risk, market and model risk	<b>Marek Szcześniak</b>	Deputy President of the Management Board
<b>Dariusz Szwed</b>	Deputy President of the Management Board manages the organisational units in the Bank responsible for Private Banking and brokerage activity		

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

- on 26 November 2018, Mr Filip Gorczyca, Deputy President of the Bank's Management Board filed his resignation from his function as a Member of the Management Board of Alior Bank S.A. effective on 31 January 2019;
- on 1 January 2019 the Supervisory Board nominated Mr Dariusz Szwed to the Bank's Management Board and entrusted him with the position of the Deputy President of the Bank's Management Board;
- on 1 February 2019 the Supervisory Board nominated Mr Tomasz Biłous to the Management Board and entrusted him with the position of the Deputy President of the Bank's Management Board.



On 26 February 2019 the Polish Financial Supervision Authority provided its consent to:

- nominate Mr Krzysztof Bachta to the position of the President of the Management Board of Alior Bank S.A.;
- entrust Mr Marek Szcześniak with the function of a Member of the Management Board of Alior Bank S.A. Supervising management of risks material to the Bank's business.

On 27 February 2019, the Supervisory Board nominated Mr Krzysztof Bachta, Deputy President of the Management Board managing the operations of the Management Board to the position of the President of the Management Board of Alior Bank S.A.

Additionally, after the balance sheet date – on 01 July 2019, Mr Maciej Surdyk, - Deputy CEO resigned from being Member of the Management Board of Alior Bank S.A. as of July 1st, 2019.

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

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



## XVI. Proceedings pending before a court

None of the single proceedings pending in H1 2019 before a court, arbitration authority or public administration authority, and all proceedings jointly do not pose any threat to the financial liquidity of the Bank. The litigations that in the opinion of the Management Board are important are specified below.

- a case initiated by a customer – a limited liability company for payment of PLN 102,738 thousand as damages for losses suffered in connection with execution and settlement of treasury transactions. A suit of 27 April 2017 against Alior Bank SA and Bank BPH SA. In the Bank's opinion, the suit has no factual or legal grounds;
- case initiated by a customer – a limited liability company for payment of PLN 17,843 thousand in settlement of FX option contracts. Suit of 10 February 2015 originally made against Bank BPH SA. In the Bank's opinion, the suit has no factual or legal grounds;
- case initiated by a customer – a natural person, representing a group of 84 natural and legal persons to determine the bank's liability for damage. A class action was initiated on 5 March 2018 against Alior Bank to identify the Bank's responsibility for a loss resulting from inadequate performance of information duties by the Bank to its customers and inadequate performance of providing services to the receipt and forwarding of purchase and sale orders of investment certificates in investment funds managed previously by Fincrea TFI S.A., now Raiffeisen Bank International AG (Spółka Akcyjna), Branch in Poland. In the opinion of the claimants, the Bank failed to provide the customers with information of the actual investment risk in investment products and thus exposed the customers to loss due to impaired value of the investment certificates and loss of guaranteed profit. In the Bank's opinion, the class action has no justified factual or legal grounds and therefore it should not be resolved in favour of the customers. As of the date of the financial statements, the court where the suit was filed issued no ruling as to the admissibility to review the class action. Additionally, Alior Bank assumes that the risk of a resolution of the dispute that would be disadvantageous to the Bank and a material resultant loss is lower than average, therefore as at 30 June 2019 the Bank did not recognise any related provision. Now it is impossible to estimate potential financial effects for the Bank in case of a resolution different than assumed by the Bank.

Additionally, on 14 September 2018 proceedings were initiated against Alior Bank by the Polish Financial Supervision Authority to impose a financial penalty upon the Bank pursuant to Art. 167.2.1 in connection with Art. 167.1.1 of the Act on trading in financial instruments in connection with the detected irregularities. The proceedings are related to the inspection performed by the Polish Financial Supervision Authority between November 2017 and May 2018 covering irregularities in the operations of Alior Bank and the Bank's brokerage



Office with respect to distribution of investment certificates of the investment funds managed by Fincrea TFI S.A., now by Raiffeisen Bank International AG (Spółka Akcyjna), Branch in Poland.

In cases where the Bank was the defendant, the amount of dispute as at 30 June 2019 was PLN 283,852 thousand and as at 31 December 2018 – PLN 258,700 thousand. The amount of provisions for disputed cases was PLN 39,341 thousand as at the end of H1 2019 and PLN 35,064 thousand as at the end of 2018.

### **Affairs related to the operation of Alior Bank SA's subsidiaries**

On 26 June 2019, Alior Leasing sp. z o.o. received a lawsuit in which the dismissed by Supervisory Board on 20 December 2018 members of the Management Board claim for payment of compensation in the amount of PLN 0.6 M.

The Management Board of Alior Leasing sp. o.o. is of the opinion that the above claim is unfounded and that there is a low risk being recognized it by the court.

In addition, on 23 January 2019, Alior Leasing sp. o.o. received from the four former members of the company's Management Board a written proposal for an amicable termination of cooperation and contracts of management, which was based on payment of compensation of the some value of the management option scheme. Bearing in mind the legal opinions issued in this case, the Group is of the opinion that the chances of effective recovery of their rights under the management option scheme by the dismissed Management Board members are low. In connection with the above, no provisions were created in the Group's financial statements.

Alior Leasing sp. z o.o identifies the possibility of claims by external entities in connection with the activities of some former employees and associates of the company. As at the date of this financial statements, claims in this respect were not reported. In the Group's opinion, there are no circumstances justifying the creation of a provision on this account.

The Group will not reveal further information regarding the above-indicated possible claims, in order not to weaken his future position in a potential dispute or administrative proceeding.



## XVII. Rules of social responsibility

### Relations with customers

H1 2019 was characterised with intensive work to minimise customers' efforts and provide customers with the best experience in contacts with the Bank in order to improve comfortable banking.

In particular, we have been focusing on actions to improve our processes – e.g. we have been optimising the process of account closing, pre-mature repayment of cash loans and we have initiated a project to simplify communication addressed to customers in order to tailor the language to recipients. We listen to our customers and therefore we want to initiate changes so that the style of communication of Alior Bank is characterised with simplicity and transparent content. As a result, customers will easily absorb important information and thus communication will become more effective and friendly. We are aware of the importance of educational aspects and therefore from the very first days of induction training for new hires they are presented with product proofs to show how comfortable banking with Alior Bank is. Consultants in the helpline and banking officers in branches use such materials in sales and servicing. Also this year we finished migrating our customers to new Internet platforms with functionalities adapted to market trends and primarily to our customers' expectations. We have supported the process by drafting communication to customers – not only information but also education (by drafting e-mail messages, educational Internet sub-pages dedicated to the subject, instruction videos – so that our consultants/bankers are prepared to answer any questions from customers). We have ensured that our customers – irrespective of the channel they use – receive information on the use of self-service in online banking – folders given to customers at branches serve as examples. We have also provided access to iKiosks where customers can join us in a trip to a digital world.

Additionally, we have developed a tab on our web site titled: "Customer Zone". Relying on customers' opinions collected in the Zone, we have been developing comfortable products and flexible solutions suited to their needs with which Alior Bank is a value partner in daily banking.

We have carried out a pilot project to provide Wi-Fi to customers in selected branches and offer an opportunity to spend time reading the press if the waiting time is long. We have offered free Cash Deposit Machines – we have educated those who had not used the service.

The year also meant intensive work on SMS campaigns to extend the scope of information sent to customers with educational messages once an agreement has been concluded.





Since September 2017, the Bank has operated a recommendation process covering an analysis of problems that are material for: the Customer, image, financial, operational risk. The core objective of the process is to identify key problems and to effectively develop and implement recommendations and remedial measures. When problems are eliminated, the number of complaints is reduced due to a reduction of the underlying reasons which supports to improved customer satisfaction. By July 2019 we analysed 80 events related to customers' complaints of which 42 cases were resolved while with respect to the other modifications to processes or systems are being implemented. The above efforts resulted in a decrease of complaints filed with the Bank.

The Bank has nominated a Customer Ombudsman of Alior Bank. If the Bank's responses to complaints and any appeals are not to the Customers' satisfaction, they may file an appeal with the Customer Ombudsman. The operations of the Customer Ombudsman have positively contributed to improved sense of security among Customers as a result of an efficient and objective verification of problems reported by Customers. In 2019, the Ombudsman's dashboard was opened to publish identified problems to be repaired which effectively supports the increase of the number of complaints.

The above actions are taken on the basis of a number of surveys and analyses and a look at the process with the Customers' eyes and listening to their voice with e.g. regular satisfaction level surveys with the NPS (Net Promoter Score) method. In H1 2019, we asked an opinion of almost 35 thousand customers who assessed our products and service channels.

The analysis of results of reviews is supported with the implementations of new analytical dashboards in H1 2019 which resulted in far-reaching automation of processing information obtained from customers providing for faster, more comprehensive presentation of results, more accurate for recipients.

## Relations with employees

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

As at 30 June 2018, the headcount at Alior Bank was 7,785 FTEs.

We also worked on the results of an employee commitment survey – individual managers were provided with results for their organisational units; we have organised workshops for managers on results of the commitment.

We have reinforced internal communication – we distribute a periodic newsletter devoted to the “Digital Revel” strategy with articles by members of the Management Board, articles on operations in various areas of the Bank written by employees and we continue video formats (interviews with members of the Management Board). We also make video reports from important events at the Bank.

Every quarter we arrange open meetings with members of the Management Board in Warsaw, Kraków and Gdańsk. In March 2019 the first meeting was held with employees followed by another one in June 2019. During the June meeting in Warsaw we offered the attendance in the meeting to all employees by arranging a live broadcast and a possibility to ask questions online to members of the Management Board. The events are



accompanied by periodic meetings of managerial staff with the Management Board, devoted primarily to progress of the Digital Disruptor Strategy.

As part of our education, in June 2019 we held Open days for employees devoted to products of Alior Bank during which bankers from branches presented the product offer to staff of the Head Office. Three all-day events were organised in three locations: Warszawa, Kraków, Gdańsk. They were attended by over 1,700 persons. The events were attended by members of the Management Board who made short presentations and project managers related to the presented products. The events were educational and combined entertainment elements and integrated the employees.

## Development and training

New employees of the Bank undergo an onboarding process following dedicated training programmes so that they are well prepared to their jobs. As part of onboarding processes for the sales network, we trained 285 persons.

Employees of Alior Bank are given opportunities to improve their competences on the basis of an extensive training and development offer conducted by internal and external trainers. The direction of our development efforts is determined with the Digital Disruptor strategy. The offer covers product, sales training and training related to service quality and soft competences. As part of training in the sales network, we offer workshops to improve the employees' business effectiveness. Until the end of June 2019, such training covered 613 employees. We also perform activities in the Training on the Job model, supporting employees in their daily work in regions. Work in the one on one formula is very effective and suited to the addressees' requirements of development. In H1 2019, the project covered 701 employees of the sales network.

Alior Bank offers practical opportunities to develop competences inside the organisation to its employees. In H1 2019, we carried out 16 tailored training courses for employees of the Head Office and branches and provided opportunities to 811 persons to use external training and conferences financed from the management pool allocated to departments. Additionally, over 900 employees used internal training held by internal trainers and within the programme "Share your knowledge" in which all employees of the Bank may offer and develop training in technical skills related to their area of specialisation. The internal team of electronic training (e-learning) jointly with business departments developed 32 new e-training programmes supporting current business needs and updated 20 existing programs.

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

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



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

Alior Bank also provides opportunities to attend workshops and lectures related to well-being. In Q2 2019 lectures were organised covering health aspects, office staff diets and healthy nourishment. The employees of the Head Office could participate in examinations of glucose levels, cholesterol and could have their blood pressure measured at their place of work. Additionally, sessions of office massage were organised, preventive actions to reduce the risk of spine discomfort and yoga workshops.

### **Employee benefits**

The offer of employee benefits offered by Alior Bank in 2019 focused on three areas identified by our employees as the important ones: actions supporting employees' families, sports promotion and women's professional development.

In line with the principles of providing financing from ZFŚS and the distribution rules of the fund as specified in the Regulations developed last year, employees of the Bank may get various benefits. Since the beginning of the year, employees have been actively participating in 13 sports sections which help them exercise and integrate contacts within various units of the Bank. Employees also take care of staying fit with the subsidies to Multisport cards.

On 1 June 2019, family picnics were held in Gdańsk, Kraków and Warsaw to which employees of Alior Bank with their families were invited. They were an excellent opportunity to get to know each other better and to integrate during joint entertainment, competitions and sports games. All the time we care about our employee's youngest children as fresh parents get layettes for their young ones. In June we held a distribution action of codes for cinema tickets so that employees could use the broad offer of cinemas all over the country.

Employees who take minimum 14 calendar days of a holiday leave get a subsidy to their holidays for themselves and their children. Those who regularly use their annual holidays in line with the annual limits set forth in the Labour Code are provided with one additional day of leave for the next year. On the day of their children's first birthday, employees get a paid day off.

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

For H2 of the year we plan more benefits for employees: Sports Olympic Games and Christmas parcels for children.

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

In H2 2019 Alior Bank plans to launch Employee Capital Plans (ECP) thus extending the offer to its employees – the participation in ECP is voluntary.



## Sponsoring activities – educational, cultural and social activities

For the fourth consecutive time, Alior Bank was the general sponsor of the 12th Procession of the Three Kings. The largest Nativity play held on 06 January 2019 gathered about 1.2 million people in over 750 places in Poland and abroad.

Alior Bank became a sponsor of the fifth edition of the festival: “Capital of the Polish Language” in Szczeczeszyn. The event which popularises Polish classical and contemporary literature as an important element of social and national identity, has become one of the most important literary festivals in Poland. This year's participation in the event was exceptionally active – representatives of Alior Bank participated in a panel concerning simple language and a panel on fairy tale therapy. The programme of the festival each day contained fairy tale educational classes for children arranged by volunteers from Alior Bank with the support of our social partner – the Zeczytani.org foundation.

With the Zeczytani.org foundation we have also taken up a number of other social actions to promote reading, social education and support to hospitalised people. The Bank's involved in the Great Book Collection generated over 600 thousand books which were afterwards forwarded to hospitals, social support centres, orphanages, children's clubs, etc. Books were collected in over 100 branches of the Bank all over Poland and thus the coverage of the action was extended from 7 cities in Poland to 74. Volunteers and advisors were active in collecting, counting and sorting books. Additionally, Alior Bank extended its sponsorship to three new Reading Benches that decorate city landscape and are to inspire inhabitants and pedestrians to reading. The first bench named “In the stall” was opened in July in the presence of Maciej Stuhr and his wife Katarzyna Błażejewska-Stuhr. The event was accompanied by healthy nourishment workshops and reading events. The other two benches were opened to the public in August and September. In the second half of the year, Alior Bank will open ten more Reading Libraries in hospitals. Over the last five years, the Zeczytani.org foundation opened over 900 of such libraries. With the libraries, patients can spend their time in hospitals in a more pleasant way and they may also take books home. Additionally, in H1 2019 a series of training in fairy tale therapy was held for our employees. As a result of the training, volunteers from Alior Bank regularly visit medical institutions to hold reading classes for children staying in hospitals.

It is for the second time that in 2019 Alior Bank supported the Festival of Rock Legends in Charlotta Valley. The support covers 6 concerts including by John Fogerty, Foreigner, Thirty Seconds to Mars, Status Quo, Los Lobos and The Australian Pink Floyd Show.

## Corporate volunteering

In 2019 we continued the programme of employee volunteering “Committed to help”. The purpose is to develop social competencies of the Bank's employees by their involvement in social actions.

We classify the actions taken within the programme in four forms:

- involvement in national social and charity actions;
- our own social programmes;
- our own local social programmes of employees;
- employee arranged collections.



For the second time we got involved in the Great Book Collection organised by the Zaczytani.org foundation (a strategic partner of the bank). The action was carried out among the Bank's employees and also in the local communities where our branches operate. In over 100 branches of the bank we opened collection points where everybody could contribute books. As a result, the territorial coverage extended by about 70 new localities where no such collection had been made earlier. As a result of the initiative, we delivered over 36 thousand books to the Zaczytani.org foundation.

Within the actions carried out with the Zaczytani.org foundation, last year we continued our involvement in the Reading Academy. We held the second edition of workshops preparing our volunteers to the role of fairy tale educators, attended by 35 persons. They joined the group of 25 people who had undergone the training last year and perform classes in local hospitals. The objective of the actions of the Reading Academy is to mitigate fears among little patients.

In the last half-year we carried out a number of own and local social initiatives:

1. The educational workshop "Banking is OK", attended by pre-school children and teenagers from educational establishments. Overall, over 50 people participated in three meetings. With fairy tale education, preschoolers were taught about savings and the teenagers were presented the subject of managing their own budgets, basic forms of savings and lending. The participants also had an opportunity to learn about the bank as a working place and to develop their interests.
2. Our volunteers participated in the 14th Warsaw Half Marathon Race held on 31 March. In the initiative accompanying the race = "I run well", the volunteers collected funds for the Polish Humanitarian Organisation (PAH). Additionally, the bank doubled the collected amounts. At the time, runners collected PLN 9 thousand for PAH and as a result the bank also contributed the same amount.
3. As part of our Easter initiatives, we held an integration workshop with the pupils of our social partners:
  - Meet the handicapped in Podolany – a meeting during which volunteers and the participants of the Occupational Therapy Workshop (Handicapped People Foundation) prepared Eastern lambs to be sold at a charity fair;
  - Meet the elderly – a meeting of the people of the Little Brothers of the Poor Association during which we made Easter palms supervised by a professional florist;
  - Meet children – three workshops (Gdańsk, Warszawa, Kraków) during which our employees spent time with children, learned about Polish Easter traditions, made Easter ornaments and attended classes in fairy tale education. In the meantime, adults were making inspiring cups to be sold at a charity fair;
  - Our volunteers made 140 Easter cards which we forwarded to lonely senior citizens via the Little Brothers of the Poor Association. Over 30 people were involved in making the cards;
  - In Gdańsk, Warsaw, Kraków and Rzeszów we organised Easter fairs during which we collected funds to construct St. Lazarus Hospice Centre "Betania" in Przemyśl. The association building the centre collected over PLN 12 thousand. At the fair, visitors could buy lambs made by the volunteers along with handicapped people, inspiring cups decorated by employees and cakes and cookies made by our employees. We invited our social partners to attend the fairs in Warsaw and in Kraków (Handicapped People Foundation in Podolany and Community Homes, Bread of Life Foundation) who collected funds for their operations by selling the articles;



- We have organised a collection of clothing and cosmetics for the homeless patients of the Community Homes, Bread of Life Foundation in Warsaw and the Soup on Monciak in Sopot initiative, as well as household chemistry for refugees, taken care of by the Rescue Foundation. Jointly we passed on over 20 cardboard boxes of articles.
4. On 8 May, a group of 6 volunteers got involved in the revitalisation of a garden by the Social Welfare Home "Birch trees" in Białołęka in Warsaw.
  5. During the annual meeting of the HR Division, several dozen employees got involved in an initiative to make mascots, snakes for children from educational establishments. Ten mascots were passed on to the institutions.
  6. On 14-16 June, volunteers of the programme supported the organisation of the Festival of Songs and Creative Forms of Handicapped Persons in Podolany. A group of 16 employees with their families and friends helped in artistic workshops, issue of meals and integrated with the participants of the festival.

### **Awards and distinctions**

In H1 2019, Alior Bank S.A. won a number of awards and distinctions. The most important include:

- Four statues and the title of the "Institution of the Year 2018" which were awarded to us in the sectoral ranking for the best bank for corporate finance, service quality of business customers, best service quality at branches and the best Infoline;
- BANCOVO – a digital platform for financial intermediaries owned by the Alior Bank Group won in the category – Product Innovation of the Year in the ranking of the UK retail portal – Retail Banker International. In the finals we also fought for awards in the categories: European Retail Bank of the Year and Excellence in Customer Centricity for the generated financial results and services for business customers;
- Our solutions in the sphere of automation and robotisation made us get to the podium of the 17th edition of the competition for innovations: "Leader 2018", organised by "Gazeta Bankowa";
- Zafirmowani.pl, our innovative web portal addressed to micro and small enterprises, made us win in the competition of the Leaders in the World of Banking and Insurance in the category of the most interesting banking innovations;
- An attractive offer, the modern mobile application Alior Giełda and the round the clock telephone service made the experts of "Puls Biznesu" appreciate the stock broking account of Alior Bank, and our Brokerage Office was ranked the best in the ranking of the business magazine;
- In the "Gold Banker" plebiscite organised by "Puls Biznesu" we made the podium twice. Customers and experts appreciated the flexibility of our Konto Jakże Osobiste and the longest interest-free period and an attractive interest rate to our credit card;
- We were ranked second in the 27th edition of the competition of "Gazeta Bankowa" in the category: Large Commercial Bank;
- We were awarded as the Bank of Innovation Efma-Accenture for our Smartphonisation project;
- The international magazine Global Finance published a list of 25 best innovation laboratories in the world of finance. RBL\_ was among the awarded ones. The list was published in The Innovators 2019 competition;



- We were ranked second as a bank with the best personal account and third in the category: Best credit card, in the plebiscite organised by the editors of Puls Biznesu and Bankier.pl;
- An award from the Management of WSE – Benchmark for Alior Bank as a domestic institution which signed a comprehensive agreement to apply the WIBID/WIBOR reference rates.



## XVIII. Statements of the Management Board

The Management Board of Alior Bank S.A. represents as follows:

- To the best of its knowledge, the semi-annual abbreviated consolidated financial statements of the Capital Group of Alior Bank S.A. and semi-annual abbreviated financial statements of Alior Bank S.A. for H1 2019 and comparable data were prepared in line with the applicable accounting standards and in a manner that reliably and clearly presents the Bank's and the Alior Bank Group's economic and financial condition and their financial result;
- The Management Board's Report on operations of the Capital Group of Alior Bank S.A for H1 2019 contains a true view of the development, achievements, and condition (with a description of the basic hazards and risk types) of the Alior Bank Group in H1 2019.





## Signatures of all Management Board Members

Date	First and last name	Signature
05.08.2019	Krzysztof Bachta CEO	
05.08.2019	Tomasz Biłous Deputy CEO	
05.08.2019	Marcin Jaszczuk Deputy CEO	
05.08.2019	Seweryn Kowalczyk Deputy CEO	
05.08.2019	Mateusz Poznański Deputy CEO	
05.08.2019	Agata Strzelecka Deputy CEO	
05.08.2019	Marek Szcześniak Deputy CEO	
05.08.2019	Dariusz Szwed Deputy CEO	