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# Independent Auditor's Report

## To the General Shareholders' Meeting and Supervisory Board of Alior Bank S.A.

### Report on the Audit of the Annual Consolidated Financial Statements

#### Opinion

We have audited the accompanying annual consolidated financial statements of Alior Bank S.A. Group (the "Group"), whose parent entity is Alior Bank S.A. (the "Parent Entity"), which comprise:

- the consolidated statement of financial position as at 31 December 2019, and, for the period from 1 January to 31 December 2019:
  - the consolidated income statement ;
  - the consolidated statement of comprehensive income;
  - the consolidated statement of changes in equity;
  - the consolidated cash flow statement;
- and
- notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements of the Group:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

Our audit opinion on the consolidated financial statements is consistent with our report to the Audit Committee dated 27 February 2020.



## Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (the “Act on certified auditors”); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission

Decision 2005/909/EC (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those regulations are further described in the Auditor’s Responsibility for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence and Ethics

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit

engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditor and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors and the EU Regulation.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

### Impairment of loans and advances to customers

The carrying amount of receivables from customers amounted to PLN 55 871 million as at 31 December 2019 and PLN 54 246 million as at 31 December 2018. The carrying amount of off-balance sheet liabilities amounted to PLN 8 672 million as at 31 December 2019 and PLN 10 902 million as at 31 December 2018. Allowances for expected credit losses as at 31 December 2019 amounted to PLN 5 449 million in comparison to 4 672 million as at 31 December 2018. The provisions for off-balance sheet liabilities amounted to PLN 68 million as at 31 December 2019 and PLN 74 million as at 31 December 2018.

Net impairment losses on financial assets and off-balance sheet commitments in 2019 amounted to PLN 1 437 million, and in 2018 PLN 1 047 million.

The items listed above were presented in the financial statements in Note 12 “Net expected credit losses”, in Note 21 “Loans and advances to customers” and in Note 28 “Provisions”.

| Key audit matter   | Our response   |
|--|--|
| <p>The procedures to estimate expected credit losses on loans and advances to customers measured at amortized cost or at fair value through other comprehensive income comprise two major phases – identification of impairment triggers or significant increase in credit risk and measurement of expected credit losses.</p>   | <p>As part of the audit procedures, we made a critical assessment of the accounting process and policies regarding impairment losses on loans and advances to customers, as well as a critical analysis of the control environment with particular emphasis on automatic controls in the Group’s IT systems.</p>   |
| <p>The impairment triggers and triggers indicating significant increase in credit risk are identified mainly on the basis of payment delinquencies, economic and financial standing of the debtor and current probability of default level as compared to the date of initial recognition of a given exposure, while allowances for expected credit losses are estimated individually for specific loans and advances to customers and collectively for homogenous loan portfolios using statistical methods on the basis of risk parameters. Risk parameters such as probability of default (PD), loss given default (LGD) or exposure at default (EAD) are determined for homogenous groups of loan exposures based on historical data taking into account forward looking information on expected macroeconomic conditions.</p> | <p>Audit procedures conducted with the support of our internal financial risk management and IT specialists included i.a.:</p>   |
| <p>Allowances for expected credit losses are the best estimate of expected credit losses on loans and advances as at the balance sheet date to be incurred within the next 12 month period or within the lifetime of the exposure. We have considered this area as a key audit matter because of the size of the loan portfolio and the significant impact that estimation of expected credit losses may have on the financial statements.</p>   | <ul style="list-style-type: none"> <li>— critical assessment of the design and implementation of relevant internal controls, including general IT system controls, applied in the process of classification of credit exposures into risk categories (buckets) and estimation of allowances for expected credit losses (including monitoring of collateral value) as well as testing the effectiveness of these controls;</li> </ul> |
| <p>Furthermore, estimating allowances for credit losses involves certain uncertainty and requires from the Management to use substantial judgment. The main risk area comprises the failure to identify existing impairment triggers and significant increase in credit risk as well as the application of inappropriate data to calculate the parameters of statistical model, which may not adequately reflect the expected credit losses existing as at a given balance sheet date. Moreover, there is a risk of errors occurring during the impairment allowances calculation process.</p>   | <ul style="list-style-type: none"> <li>— critical analysis of the methodology for estimating risk parameters and allowances for expected credit losses, both on an individual and portfolio basis, in terms of compliance with IFRS 9 requirements and best market practice;</li> </ul>  |
|  | <ul style="list-style-type: none"> <li>— analysis of the structure and dynamics of the changes in the balance of loans and advances to customers, of risk parameters reflecting the quality of the credit portfolio and of the level of allowances for expected credit losses in order to identify portfolios of loans and advances to customers with underestimated impairment allowances;</li> </ul>                               |
|  | <ul style="list-style-type: none"> <li>— critical assessment (taking into account the results of the validation carried out by the Group) of assumptions and input data used in the estimation of expected credit loss models for particular key credit risk parameters, such as in particular the transfer logic between buckets, probability of default (PD) or loss given default (LGD);</li> </ul>                               |
|  | <ul style="list-style-type: none"> <li>— assessment of adequacy of allowances for expected credit losses within the 12-month horizon through reference to</li> </ul>   |

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- credit losses realised on individual homogeneous portfolios in the past;
  - assessment of the correctness of assigning parameters of the expected credit loss model to individual loans and advances to customers based on the characteristics of homogeneous portfolios, e.g. rating class, past due status;
  - independent recalculation of selected risk parameters and expected credit losses calculated using the portfolio method;
  - analysis of the correctness of allocation of credits and loans granted to customers to buckets, taking into account qualitative and quantitative criteria;
  - for substantial loans and advances to customers assessed individually on the basis of a selected sample – assessment of the appropriateness of identification of significant increase in credit risk and impairment triggers and for impaired assets – critical assessment of relevant assumptions adopted by the Group and independent recalculation of impairment allowances

### Conduct risk, including litigations and customer complaints

As at 31 December 2019, provision for partial refund of fees and commissions expense obtained from customers due to consumer loans granted, which were prepaid amounted to PLN 228 million. Moreover, interest income for 2019 was reduced by PLN 50 million due to the refund of these fees and commissions expense as a result of prepayments expected in the future periods (Note 28 "Provisions").

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#### *Key audit matter*

The Group operating on regulated markets is exposed to the risk of changes in law rulings and events (other than those arising from credit risk) that may result in an obligation or liability arising from past events, the settlement of which will require outflow of resources embodying economic benefits ("risk amount"). We consider identification of such events by the Group, providing a reliable estimate of the risk

#### *Our response*

- Our audit procedures included among others:
- assessment of the accounting policy and the methodology adopted by the Group for estimating the financial impact of CJEU decisions and other business risks, legal claims and customer complaints, and the recognition of these
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amount and disclosures in his respect to be the key audit matter.

As at 31 December 2019, in particular it refers to the impact of decision of the Court of Justice of the European Union ("CJEU") of 11 September 2019 (Case C- 383/18) Although this decision did not referred directly to the Group, it has resulted in consequences we refer to below.

The decision changed the interpretation of the provisions of the Consumer Credit Act of 12 May 2011 as regards the obligation to refund a part of fees and commissions expense related to consumer loans granted in the case of a loan repayment before the contractual maturity date. The Group made an estimate of the most expected amount of the expenses to be incurred in connection with the above and which relate to:

– expected refund claims due to the consumer loans which were prepaid in the past; and

– refunds to be made in the future as a result of expected prepayments of already granted consumer loans.

Estimates of the risk resulting from CJEU decision bear significant uncertainty as regards, inter alia, the expected number and the amount of refund claims and the prepayment rate for consumer loans expected in the future.

financial effects in the financial statements;

- assessment of the design, implementation and effectiveness of internal controls with respect to identification, monitoring and estimate of conduct risk and risk resulting from complaints and disputes with clients;
  - analysis of the correspondence, reports and post-inspection recommendations received by the Group from the regulatory authorities;
  - assessment of the Group's internal analyses and reports with respect to compliance and conduct risks;
  - analysis of claims and complaints reported by customers and their impact (also potential) on the financial statement of the Group;
  - analysis of the legal opinion, prepared by the external legal firm, including assessment of the possible impact of the CJEU decision of 11 September 2019 on the Group, taking into account the statement of the President and the Financial Spokesperson of UOKIK (Competition and Consumer Protection Office) in this respect;
  - reasonableness assessment of the assumptions applied on the number of expected customer claims on the basis of observed trends in this respect at the Group;
  - correctness analysis of the relevant input data used for estimates of the risks arising from both CJEU decisions, by their reconciliation with the relevant Group's IT systems;
  - sensitivity analysis of the estimates to changes in the key assumption and independent determination of a range of reasonably probable assumptions, including alternative ones, to make our own estimate and to compare it with the Group's estimate;
  - assessment of the completeness and accuracy of the disclosures required by
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the International Financial Reporting Standards (IFRS), which are related to the estimates presented.

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### **Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements**

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Parent Entity's articles of association and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board of the Parent Entity is responsible for assessing the

Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Parent Entity either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the accounting act dated 29 September 1994 (the "Accounting Act"), the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibility for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Entity has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;





- conclude on the appropriateness of the Management Board of the Parent Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the consolidated financial statements to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are

responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Parent Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Parent Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Parent Entity, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other information

The other information comprises

- Alior Bank Group Management Board's Report 2019 comprising Alior Bank S.A. Management Board's Report ("Management Board's Report") and the statement on corporate governance, which is a separate part of this report)
- Report of Alior Bank S.A. Group on non-financial information for 2019 referred to in art. 55 paragraph 2b of the Accounting Act

- the statement of the Supervisory Board regarding the functioning of the Audit Committee; and
- the Bank's Supervisory Board assessment on the Management's Board Report and financial statements of the Bank and the Group for 2019, as regards their conformity with the books, documents and facts

(together the "Other information").

## Responsibility of the Management Board and Supervisory Board

The Management Board of the Parent Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the Management's Board Report, including separate parts of the



Management's Board Report, is in compliance with the requirements set forth in the Accounting Act.

#### *Auditor's Responsibility*

Our opinion on the consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Management's Board Report was prepared in accordance with applicable laws and the information given in the Management's Board Report is consistent with the consolidated financial statements.

#### *Opinion on the Management's Board Report*

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying Management's Board Report, in all material respects:

#### *Opinion on the statement on corporate governance*

In our opinion, the corporate governance statement, which is a separate part of the Management's Board Report, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (the "decree").

#### *Information about the statement on non-financial information*

In accordance with the requirements of the Act on certified auditors, we report that the Bank has prepared a statement on non-financial information referred to in art. 55 paragraph 2b of the Accounting Act referred to as Report of

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Group included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements and to inform whether the Group prepared a statement on non-financial information.

- has been prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the consolidated financial statements.

Alior Bank S.A. Group on non-financial information for 2019 .

We have not performed any assurance procedures in relation to the statement on non-





financial information and, accordingly, we do not express any assurance conclusion thereon.

#### *Statement on Other information*

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements,

we have not identified material misstatements in the Management's Board Report and the Other information.

## **Report on other legal and regulatory requirements**

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### **Information on compliance with prudential regulations**

The Management Board of the Parent Entity is responsible for the Group's compliance with the applicable prudential regulations defined in separate laws, in particular for the appropriate determination of the capital ratios.

Our responsibility was to inform in our auditor's report whether the Group complies with the applicable prudential regulations defined in separate laws, in particular whether the Group appropriately determined the capital ratios presented in note 44 "Capital management".

The audit objective was not to express an opinion on the Group's compliance with the

applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the consolidated financial statements of the Group, we inform that we have not identified any instances of non-compliance, in the period from 1 January to 31 December 2019, of the Group with the applicable prudential regulations, defined in separate laws, in particular with respect to the determination of the capital ratios as at 31 December 2019, that could have a material impact on the consolidated financial statements.

### **Statement on services other than audit of the financial statements**

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Services other than audit of the financial statements, which were provided to the Group and entities under the control of the Parent Entity in the audited period are listed in in note XIV of the Management's Board Report .



### Appointment of the audit firm

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 22 May 2017 and again in the following years, including resolution dates 26 June 2019 to audit the

annual consolidated financial statements of the Group for the year ended 31 December 2019. Our period of total uninterrupted engagement is 3 years, covering the periods ended 31 December 2017 to 31 December 2019.

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On behalf of audit firm

**KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.**

Registration No. 3546

*Signed on the Polish original*

Marcin Podsiadły

Key Certified Auditor  
Registration No. 12774  
*Limited Partner, Proxy*

Warsaw, 27 February 2020

*Signed on the Polish original*

Stacy Ligas

Member of the Management Board of KPMG  
Audyt Sp. z o.o., entity which is the General  
Partner of KPMG Audyt Spółka  
z ograniczoną odpowiedzialnością sp. k.