



# **The Management Board's Report on operations of the Alior Bank S.A. Capital Group**

**in 2018**

(including the Management Board Report  
on operations of Alior Bank S.A.)

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. Letter from the President of the Management Board

*Dear Sir or Madam,*

*2018 was an exceptional year for us due to the jubilee we celebrated. That was an important tenth anniversary of Alior Bank. For all those years, Alior Bank as the first start-up bank in Poland, has developed and – more importantly – maintained the position of an innovation leader in banking in the domestic market. The success was possible due to work of multiple people, primarily the founders of Alior Bank headed by Wojtek Sobieraj. We closed last year with a record net profit of PLN 713 M and total assets of over PLN 73 billion which positioned us among the ten largest banks in Poland.*

*Development of partner, long-term relations with customers and their satisfaction are a priority to us. We have been trusted by over 4 million individual customers and almost 200 thousand companies. We acquired almost 250 thousand customers just in 2018. This proves that we meet exactly to respond precisely to our customers' needs in our core segments.*

*Just in the fourth quarter 2018, almost 35 thousand of individual customers opened Konto Jakże Osobiste [Account so much Personal] at Alior Bank – that was a satisfactory eight percent growth in the sale of the product which is key to us. Another edition of Konto Mocno Oszczędnościowe [Very Savings Account] in the fourth quarter 2018 collected as much as PLN 3 billion of funds from individual customers. In June 2018, we launched a very flexible offer for businesses – the 4x4 account gained popularity in a short time and now accounts for 25 percent of sales of all accounts for business customers.*

*In order to improve the effectiveness of our business and support digitisation, we started the "Fabryka Robotów" [Robot Factory] project – so far we have implemented as many as 45 robotised processes. Preliminary credit verification for external channels has been automatised. In telephone sales, as many as 96 percent of loan agreements with individual customers is signed in a remote manner. Every fifth loan to business customers is granted in a fully automated process.*

*We extended our cooperation with Bank Gospodarstwa Krajowego in financing of investments and current business of enterprises – 45 percent of loans in the micro segment portfolio were secured with guarantees granted by BGK.*

*We have been consistently implementing our "Digital Disruptor" strategy. In 2020 we plan to generate return on equity (ROE) of 14 percent. At the end of 2018, ROE reached 11.7 percent which was a major growth versus the previous year when it was 7.4 percent. The other targets for the end of 2020 remain unchanged: interest margin is expected to be minimum 4.5 percent, risk cost ratio should be 1.7 percent and cost to income ratio should be 39 percent. We also expect a continued growth of gross loans of PLN 5-6 billion annually. The results generated last year contributed materially to full implementation of the approved strategy.*

*The operations of Alior Bank in 2018 were appreciated by the sector and business environment – we were awarded multiple prizes and distinctions, mostly in prestigious rankings organised by "Forbes" and "Newsweek".*

*Our bank was found to be the best in banking for micro and small business and was awarded the title of a "Company friendly bank" and a "Bank recommended to companies" in rankings by Forbes. Alior Bank is proud having been selected a "Newsweek friendly bank" where we outclassed competitors in two categories that are crucial for us – Traditional Banking and Online Banking. Additionally, "Global Finance" which is trusted by banks in 180 countries all over the world, awarded us the title of the "Best bank in Poland" 2018. It is a great honour to win the ranking which has been identifying leaders for 25 years.*

*Alior Bank was also awarded an honorary prize in the category: "Innovative banks" in the ranking of Poland's 50 largest banks in 2018. We received distinctions as an "Institution of the Year 2018" and an "IT Leader 2018". It was a great honour for us to have won the first position in the category: "Offering Innovation" in the prestigious Distribution & Marketing Deputy President managing the work of the Management Board of Alior Bank Innovation Awards competition organised by EFMA which every year awards the most innovative financial services all over the world.*

*Last year was a year of good financial results and development of innovations. In September we launched RBL\_LAB – one of the most modern laboratories in Poland to work to develop digital solutions – to improve existing and to test new solutions*



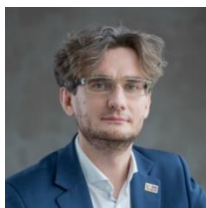
*and to carry out research with users. In 2018 we provided our customers, inter alia, with biometric identification. We also started work on developing a blockchain-based platform which is to act as a durable medium and provide customers with a possibility to verify the authenticity of certain documents. We were among the first banks in Poland to perceive the potential of applying the technology and therefore right from the beginning we joined the Blockchain and New Technology Chamber and we have been actively supporting initiatives in the area.*

*At Alior Bank we have a special approach to innovations and we keep looking for breakthrough solutions for banking. In 2018 we commenced our acceleration programme – RBL\_START. For over three months our specialists worked with z 8 start-ups. As a result, Alior Bank invested in PayPo offering deferred payments for internet purchases. That was the first transaction of our investment fund that will officially start in 2019.*

*All employees of Alior Bank have contributed to the success – over 8 thousand creative passionate people with whom I have the honour to work. So I address my thanks for their intensive work to them. I am happy that we generated such good results.*

*I wish that we all remain persistent in the next year. I believe that the Management Board of Alior Bank reinforced recently by professionals who come from mature banking organisation, will be even more effective in the pursuance of the approved strategy and generate growth for shareholders.*

*With the utmost respect,*



**Krzysztof Bachta**

*President of the Management Board of Alior Bank*



## II. Letter from the Chairman of the Supervisory Board

*Dear Ladies and Gentlemen,*

*The record financial results generated in 2018 confirmed the strength and major potential of Alior Bank. The results clearly demonstrated that the "Digital Disruptor" strategy has been pursued effectively.*

*In 2018, Alior Bank was among the most profitable banks in the entire sector. Return on equity (ROE) of 11.7 percent confirms the consistently pursued growth strategy of the Bank which was translated into growing income – almost PLN 4 billion in 2018 and net profit by 51 percent higher than in the previous year. Those are clear reasons to be satisfied.*

*Alior Bank is one of the fastest growing banks in Poland. The Bank stands out with modern retail banking and SME banking based on recent technological solutions. On that basis, Alior Bank has been founding its competitive advantages. Our ambition is to become one of the best and most innovative banks in Europe.*

*Apart from undoubted business successes, in 2018 there were also changes to the Management Board of Alior Bank. I would like to express my appreciation to President Katarzyna Sułkowska, President Michał Chyczewski and to all those who have contributed to the development and maintenance of the strong market position of Alior Bank.*

*Now half-way in the implementation of the "Digital Disruptor" strategy, the core task of the Management Board, headed by Mr Krzysztof Bachta, will be to focus efforts of the entire team on further effective pursuance of its assumptions and goals. I am convinced that we will continue to be committed with unchanged passion and enthusiasm.*

*I also want to thank the customers who have put their trust in Alior Bank. I thank all the employees of the Bank for their commitment in developing one of the most innovative financial institutions.*

*I expect that in 2019 the Management Board, now composed of managers with many years of experience with large banks, will maintain the position of Alior Bank as a market leader and will contribute to strengthening the entire capital group.*

*I wish you further success and accomplishment of your plans as set forth in the "Digital Disruptor" strategy.*

*With sincere regards,*



**Tomasz Kulik**

*Chairman of the Supervisory Board*



## III. Summary of operations of Alor Bank in 2018

The year 2018 is yet another period of dynamic development of Alor Bank. The Bank's record high performance amounted to PLN 713 m (increasing 51% on a y/y basis). The number of customers grew by 220,000 over that period. Loan sales in that segment reached a volume of PLN 7.2m. The Bank also devotes its high attention to deepening long-lasting relations with individual customers, which was manifested by a solid increase in the sales of on-line deposits by 77%. The corporate customer segment continues to be of key importance for the Bank's strategic plans. In 2018 the number of corporate customers grew by 22,000 and currently is at around 193,000. New segments of great importance for the Bank's profitability include: micro and leasing, were developing in line with the plan reaching the sales growth at PLN 2.7bn (micro loans) and PLN 3bn (leases). It must be stressed that the growth of lending business in the micro segment has been accompanied by a consistent increase of the percentage of BGK guarantees in new sales (up to the level of 87% in Q4 2018). What is worth noting is that Alor continues its activities in the field of increasing its competitive advantage as regards innovation. In 2018 an acceleration programme was successfully completed involving 9 start-ups, and the first CVC transaction was executed, or purchase shares of Paypo.

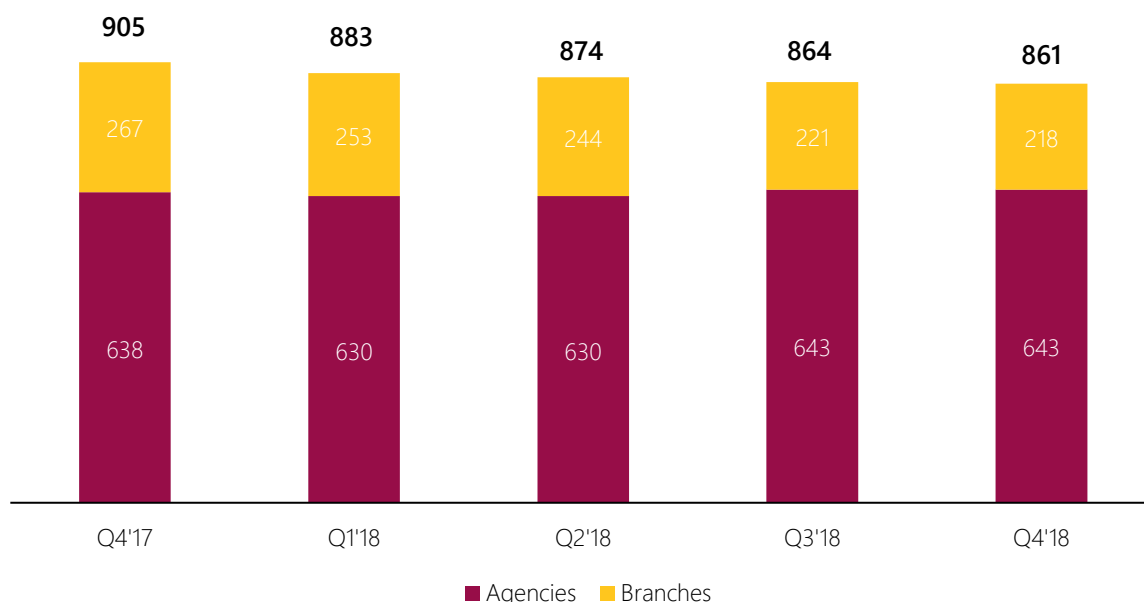
- In 2018 the net profit grew by 51% versus 2017 (2018: PLN 713 m vs. 2017: PLN 472 m). The growth was supported with a continuous improvement of interest margin, continued high effectiveness, and synergies following the merger with the demerged part of Bank BPH finalised in 2017. Additionally, in 2018 we stabilised the cost base (no integration costs related to the merger).
- As at 31 December 2018 ROE stood at 11.7% and was gradually approaching the strategic target, i.e. 14% in 2020. The improved net interest resulted in an increase of total revenues (in excess of PLN 1 billion in Q4 2018). The profitability ratio was at a stable high level in each quarter of 2018.
- The growth of gross loans in 2018 by PLN 5.6 billion is compliant with the growth assumptions approved in the Digital Rebel strategy (PLN 5 billion – PLN 6 billion). The core growth triggers in 2018 include such strategic products as:
  - cash loans (new sales in 2018 of PLN 7.2 billion);
  - loans to micro enterprises (new sales in 2018 of PLN 2.7 billion);
  - leasing (new sales in 2018 of PLN 3.0 billion).
- The stable capital position is reflected in an improvement of Tier 1 and TCR ratios by 71 bp and 64 bp, respectively versus the end of 2017. The Bank's equity position supports the plans to be able to disburse dividend in 2020.

- The cost of risk materialised for the entire 2018 at the level of 1.85%. The core reason for the cost growth in 2018 was the increased level of write-offs related to one of the exposures in the business customer segment. The growth is only temporary – there is a plan for a material slowdown of impairment allowances in the business customer segment in the quarters to come (among others, due to improved prospects for the RES sector) and to maintain the Bank's risk costs at under 1.8%. Additionally, a note should be made of a material improvement in the individual customer segment. There was a further growth of sales of cash loans to customers with core relations as a result of a consistent development of digital sales channels.

## Distribution network and employment level

### Distribution network

As at 31 December 2018, the Bank operated 861 outlets (202 traditional branches, 8 Private Banking branches, and 8 Regional Business Centres, and also 643 franchise branches).

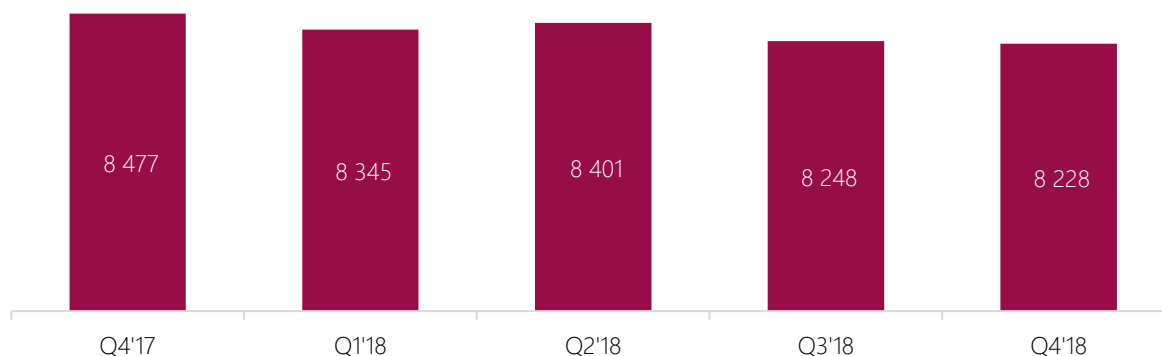


Alior Bank also uses distribution channels relying on a modern IT platform, covering: online banking, mobile banking, and call centres and the DRONN technology.

### Employment level

As at the end of 2018, the headcount at Alior Bank was 8,228 FTEs. Compared to the end of 2017, that marked a drop of FTEs by 249. The headcount growth in Q2 2018 was due to a decision of the Bank's Management Board on conversion of mandate contracts (earlier not treated as FTEs) to employment contracts. The change applied to about 200 FTEs and took place in April and May 2018.

## Headcount in FTEs



## Core financial data

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

in PLN '000	2018	2017	2016
<b>Balance sheet total</b>	73 419 887	69 515 982	61 160 491
<b>Net loans and advances to customers</b>	54 245 924	51 266 640	46 247 188
<b>Due to customers</b>	62 435 585	57 657 019	51 368 701
<b>Equity</b>	6 485 923	6 690 983	6 158 883
<b>Net interest income</b>	3 084 524	2 856 141	1 946 049
<b>Total income</b>	3 955 549	3 658 145	2 680 698
<b>Operation expenses</b>	-1 705 003	-1 853 577	-1 566 560
<b>Banking tax</b>	-208 186	-200 517	-130 893
<b>Net profit attributable to the shareholders of the parent entity</b>	713 373	471 194	575 227
<b>NIM</b>	4,60	4,60	4,10
<b>ROE</b>	11,7	7,4	11,9
<b>ROA</b>	1,00	0,70	1,10
<b>Costs/Income</b>	43,10	50,70	58,40
<b>Loans/Deposits</b>	86,90	88,90	90,00
<b>Capital adequacy ratio</b>	15,85	15,21	13,60

The selected standalone financial data and indicators of Alior Bank are presented in the table below (in PLN '000)

in PLN '000	2018	2017	2016
<b>Balance sheet total</b>	73 242 895	69 404 380	61 162 795
<b>Net loans and advances to customers</b>	54 239 172	51 244 093	46 248 623
<b>Due to customers</b>	62 427 865	57 698 144	51 404 848



<b>Equity</b>	6 550 824	6 734 377	6 179 812
<b>Net interest income</b>	3 089 969	2 848 065	1 941 874
<b>Total income</b>	3 892 233	3 619 505	2 668 291
<b>Operation expenses</b>	-1 630 255	-1 796 045	-1 543 456
<b>Banking tax</b>	-208 186	-200 517	-130 893
<b>Net profit attributable to the shareholders of the parent entity</b>	731 074	494 848	589 024
<b>ROE</b>	11,0	7,7	12,1
<b>ROA</b>	1,0	0,8	1,2
<b>Costs/Income</b>	41,9	0,0	57,8
<b>Loans/Deposits</b>	87	89	90
<b>Capital adequacy ratio</b>	16,2	15,3	13,7

The net profit of the Alior Bank Group (attributable to the shareholders of the parent entity) generated in 2018 amounted to PLN 713 m compared to the net profit for the same period of the previous year of PLN 472 m (growth by 51 % y/y).

The Group's balance sheet total at the end of 2018, on a year on year basis, was up by 5.6% to PLN 73.4 billion. Net loans and advances to customers were up in the same period by 5.8% to PLN 54.2 billion and liabilities due to customers grew by 8.3% to PLN 62.4 billion. Due to a faster growth of loans versus the growth of deposits, the Loan/Deposit ratio at the end of 2018 was at 86.9%, or 2pp down versus the end of 2017.

The growing balance sheet items were accompanied by dynamic growth of total income, including the main component which was an increase of net interest. In 2018 the total income went up to PLN 3 956 m, or by 8.1% y/y. The main income item was net interest which in 2018 went up by 8.0% y/y, and accounted for 78% of the total income. Net fee and commission income, which in 2018 amounted to PLN 436 m and was 1.2 % higher than last year. Furthermore, the Group's income in 2018 was also significantly affected by the result on trading activity in the amount of PLN 372 m (an increase of 10% compared to 2017).

In 2018 the Group's operational expenses amounted to PLN 1 705 m and decreased by 8.0% versus the previous year, or 0.1pp more than the growth of income. As a result, the cost/income ratio in 2018 stood at 43.1%.

The Bank's equity position was much improved. The capital adequacy ratio grew from 15.2% at the end of 2017 to 15.85% at the end of 2018.

### Evaluation of the operations of the Alior Bank SA Capital Group

In 2018, the Alior Bank Group generated return on equity (ROE) of 11.7% and the cost/income (C/I) ratio of 43.1%.

The level of the financial profit generated by the Bank was primarily affected by its operational activities supported with a growth of total assets which resulted from sold loans (the growth of the gross loan volume in 2018 was PLN 5.6 billion).



Good results in current activity combined with an optimised structure of the loan portfolio being part of the strategy (a major growth of leasing and loans in the MICRO/SME segment with BGK guarantees) supported an improved capital position of the Bank. It enables the continued implementation of Alior Bank's strategic goals set out in the Digital Disruptor Strategy for 2017-2020 announced in 2017 in an organic manner without the need to conduct any share issues or any equity optimisation instruments.

The Management Board positively views the financial results generated in 2018. The Management Board believes it to be a solid foundation for consistent and safe development of the Bank in the following years.

### **Factors affecting Alior Bank's operations in the perspective of the coming year**

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

- The scale of demand for banking services, as well as the Bank's customers' ability to timely repay their financial obligations is largely subject to their financial condition. Apart from Poland's macroeconomic condition, the customers' economic condition 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 an adverse effect on the financial conditions of certain customers of the Bank;
- Progressing consolidation and restructuring processes in the banking sector;
- Development of the offer of banking services by non-regulated entities;
- Policy of the Monetary Policy Council in the scope on interest rates;
- Regulatory changes.



## IV. Information for Investors

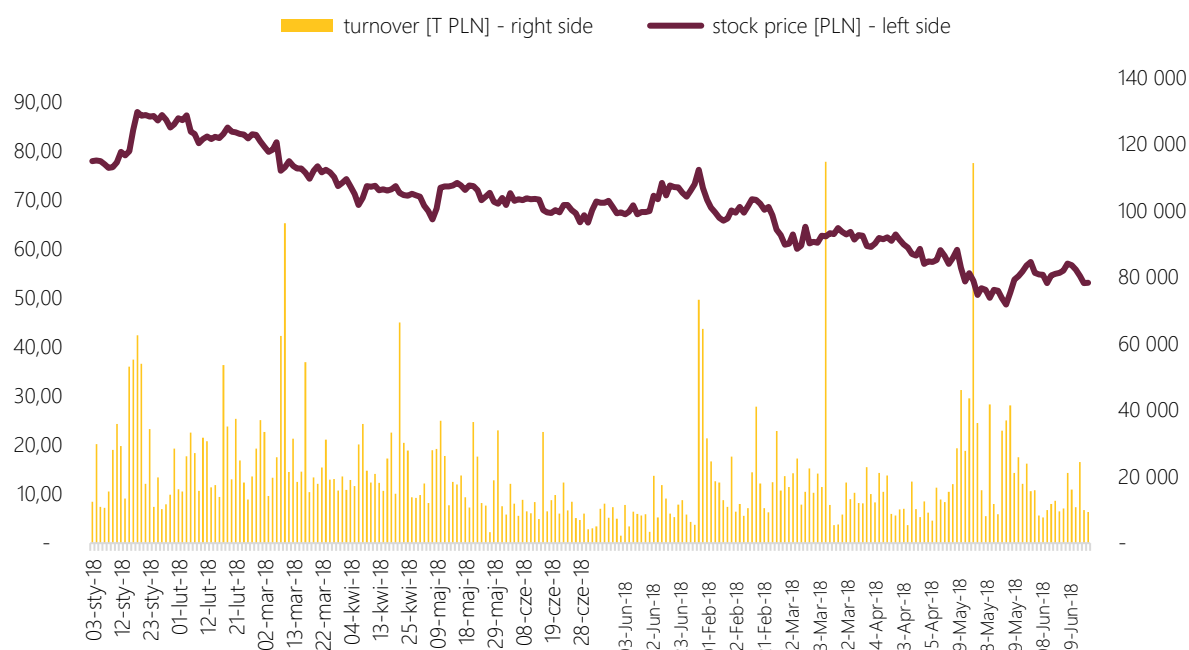
### Listing of Alor Ban shares on the Warsaw Stock Exchange in 2018

Alor 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.

The total amount of trading in the Bank's stock in 2018 was almost PLN 4.96 billion (vs. PLN 5.14 billion in 2017). In 2018, over 420 thousand transactions were concluded in the shares of Alor Bank versus 437 thousand transactions in 2017.

At the end of 2018, the price of the Bank's stock reached PLN 53.15. At the end of 2018, the P/E and P/BV ratios for Alor Bank were 9.8 and 1.07 respectively.

The stock prices and trading volumes in the Bank's shares at WSE in 2018 are presented in the chart below.





## Relations with Investors

Alior Bank is committed to regular, timely, and effective communication with capital market players. The Bank is actively involved in activities aimed at meeting the information needs of stakeholders, while ensuring common and equal access to information in accordance with the highest market standards and the applicable laws. These above activities are the task of Bank's Investor Relations Department that reports directly to the President of the Bank's Management Board.

As part of the activities policy of the Investor Relations Department, there are regular meetings arranged of the Bank's Management Board with capital market players, including investors and analysts. The meetings are devoted to discussions on the current financial and operational conditions of Alior Bank, presentation of its operational strategy and the planned directions of the Bank's future development. In addition to the above-mentioned issues, the issues related to current macroeconomic environment, general condition of the financial sector and the Bank's competitive landscape are also discussed.

In 2018 there were 265 such meetings, including 142 meetings with 79 foreign investors and 123 meetings with 46 local investors – the meetings were held in the offices of Alior Bank; additionally, domestic and foreign conferences and roadshows were organised. The Bank also participates, on regular basis, in conferences arranged by domestic and foreign brokerage houses.

An important tool for communication with capital market players are investor relations tabs, updated on current basis, available on the Bank's website at <https://www.aliorbank.pl/dodatkowe-informacje/relacje-inwestorskie/relacje-inwestorskie.html>, where all information is published that is necessary for the stakeholders to complete a comprehensive assessment of the Alior Bank's operations, such as current and periodic reports, presentations of financial performance, information about General Meetings of Shareholders, corporate documents or current Bank's rating prepared upon its request.

## 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

On 16 January 2019, Standard and Poor's Global Ratings allotted Alior Bank S.A. 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.



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

### Poland's economic growth

In 2018, the economy in global terms continued on a growth path; however, in H2 symptoms of a slowdown became increasingly visible. In particular, concerns were raised by a reduced dynamics of global commodity trade. Both the largest developed economies and a majority of emerging markets, including Poland, continued positive GDP growth. The annual economic growth as projected by Bloomberg<sup>1</sup> was to be 2.9% in the USA and 1.9% y/y in the eurozone in 2018.

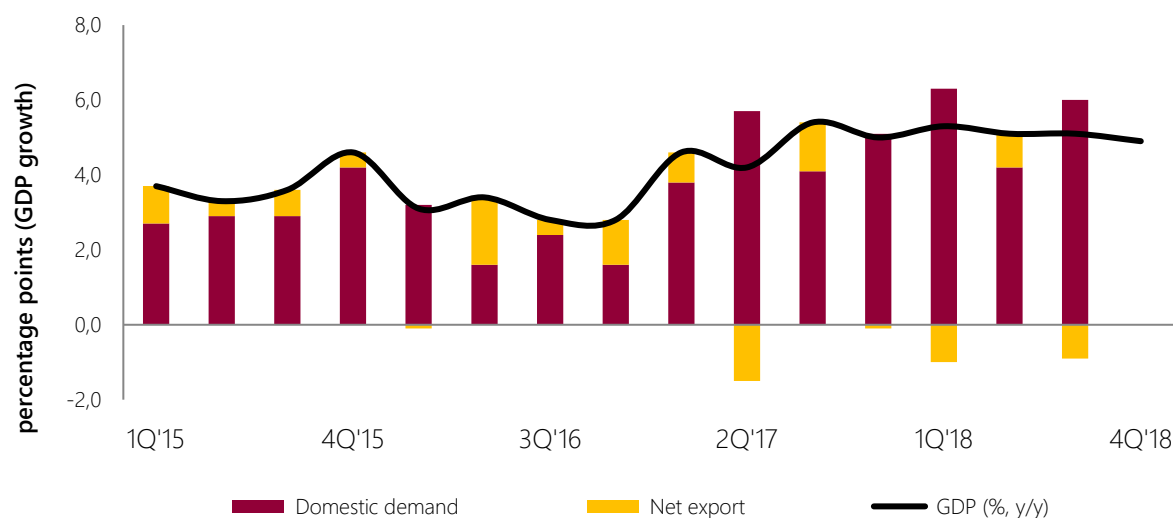
The economic growth in Poland in all the quarters of the year and was oscillated around 5% y/y (only in 4Q 2018 below 5%). GDP dynamics was supported primarily by private consumption that remained high due to the excellent condition in the labour market, increased employment and wages, as well as moderate inflation which was translated into low interest rates that determined the costs of loans. Another factor that contributed to growing consumption was the "Family 500 plus" benefits and the continued good consumer mood. During the reviewed period, GDP was also supported with investments of the public sector, including those with EU support, and by large and medium-sized enterprises; however, their impact on the economic situation proved lower than expected. The positive impact on foreign trade, in particular in Q2 2018 positively contributed to economic growth, began to lose momentum afterwards. Foreign trade balance began to have a negative impact on GDP which was due to slowed growth with Poland's major trading partners, in particular in Germany, and the deteriorating terms of trade on a global scale.

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<sup>1</sup> Forecast of 29.01.2019



## GDP growth rate



\*/ consensus forecast for 29.01.2019

In Q3 2018, GDP growth in Poland remained at 5.1% y/y and was slightly lower than a year earlier (5.4% y/y). The growth was supported primarily by domestic demand which grew by 6.2% y/y that resulted from a growth of gross accumulation of 14.6%, much higher than in Q2 2018 despite a lower growth of total consumption than a year earlier. As a result, the impact of domestic demand on economic growth was +6.0 pp which was due to growing consumption and investments. However, Q3 2018 recorded a negative impact of net exports which was -0.9 pp.

In 2018, the average growth rates of retail sales were 6.5% y/y; the highest growth of sales was recorded in March with 8.8% y/y. Additionally, average monthly growth of industrial production in the entire year was 6% y/y while the results for April showed the highest growth of 9.3% y/y. Impressive growth dynamics was achieved by construction and assembly production which in January was 34.7% y/y and in February – 31.3% y/y. The high growth of industrial and construction production and retail sales underlies the continued high momentum of the national economy also in the last quarter of the year. According to GUS's quick estimate, for the whole of 2018, the GDP growth decomposed seasonally in Q4 reached 4.9% y/y against 5% y/y in the same quarter of 2017. , seasonally unadjusted GDP turned out to be 5.1% higher in real terms compared to Q4 2017, when the growth was 4.8% y/y. GUS data shows that in 2018 domestic demand grew by 5.3% while investments grew by 7.3%. The economic growth was primarily driven by domestic demand – 5.1 pp with private consumption growing by 2.6 pp and investments by 1.3 pp. Foreign trade overall in 2018 had no impact on GDP (0 pp).

In 2018, despite the temporary accelerated CPI index in June up to 2% y/y, the Monetary Policy Council (MPC) did not decide to raise interest rates and throughout the period, NBP's reference rate continued to be 1.50% p.a. With the November meeting, NBP's most recent macroeconomic projections were published. As estimated by NBP, GDP growth in 2018 with a probability of 50% will be 4.4–5.2%, in 2019 – 2.7–4.4% and in 2020 – 2.3–4.2%.



In the opinion of the Council, the most recent data and results of the projections show an advantageous growth of activity in Poland's economy despite an anticipated slowed GDP growth in the next year. The MPC noted that the existing interest rate levels supported Poland's economy on a path of stable economic growth and macroeconomic balance is maintained.

In subsequent quarters, economic growth is expected to continue to be positive however at lower rates. On the one hand, the economy is expected to continue to be supported with private consumption driven with a comfortable situation in the labour market and low borrowing costs with potentially low interest rates remaining. Additionally, the condition of households will continue to be supported with funds transfers under the "Family 500 plus" programme while prospects of EU fund availability for companies seem advantageous. On the other hand, inflation may prove to be a hazard; the major component of inflation will be unpredictable prices of raw materials and energy in financial markets and the restricted supply of labour. The latter may prove to be an obstacle to development of enterprises which will have to cope with shortage of workers and higher labour costs and this in turn will impact the anticipated investments. Another risk for Poland's economic growth is the likely economic slowdown on a global scale, including the euro zone, which may imply a negative contribution in the form of a negative foreign trade balance.

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

The high economic growth in 2018 contributed to a growing demand for labour. Over the whole period, unemployment was shrinking while employment was growing. The unemployment rate in September fell to the lowest level in history of 5.7% to grow in December only to 5.8%. Employment grew by 3.5% y/y on the average – slightly lower than a year earlier. A lower supply of labour with a dynamically growing GDP was translated into growing wages and unit labour costs being a signal of growing inflation expectations and a temporary deterioration of margins generated by enterprises. Nonetheless, in the entire 2018 inflation remained quite moderate.

The growing number of overseas employees, mainly from Ukraine, and improved productivity, limited wage dynamics. As a result, in 2018 the average growth rate of wages was higher than in 2017 slightly over 7% y/y.

In real terms, the growth of wages with a moderate inflation, similar to previous year's, it was 5.4% y/y average in the year.

The continued shortage of labour in the subsequent quarters will restrict the development potential of the private sector and pose obstacles to investments which in the long run may slow economic growth.





## GDP growth and unemployment rate



\*/ GUS source

## Inflation

In 2018 – despite a high economic growth and wage growth faster than a year earlier – the inflation remained moderate. That was facilitated with stable demand pressure and moderate inflation with Poland's major trading partners. From the beginning of the year, CPI remained around 1.9% to reach its maximum in June of 2%. In the second half of the year, primarily due to reduced commodity prices, the index lost its momentum. As a result, CPI dropped from 2.1 % y/y as at the end of 2017, to 1.1% as at the end of December 2018.

The moderate price growth in 2018, comparable to 2017, was facilitated with limited commodity price growth in global markets with pressure in the labour market. The weakening PLN was operating in the other direction. In 2018 the fastest price growth affected fuels (4.3% y/y) and food and energy. The decreasing prices of clothing and footwear (-3.6% y/y) and telecommunications services, had a negative impact on the index. The dynamics of the base inflation index in later months of the year was systematically slowing down and reached 0.6% y/y in December.

Moderate price rise in 2018, within the inflation target of the Monetary Policy Council (MPC), and low inflation expectations justified the stabilisation of monetary policy. The Monetary Policy Council has kept interest rates unchanged since March 2015, including the reference rate of 1.50%. In its November projections, NBP assumes that CPI in 2019 will grow by 3.2% and by 2.9% in 2020. That means a return to inflation over the projection horizon to the NBP's target (2.5%). The assumptions underlying the projection provide that over the projection horizon, CPI will grow as a result of cost and demand pressure in Poland's economy. Costs of enterprises will be growing along with the intensified salary growth which in real terms will be in excess of growing work productivity. Growing inflation may also be triggered by growing demand pressure. CPI and costs of enterprises will also be increased by growing energy prices. The anticipated projection scenario will also be



materially impacted by future condition in global economy. The potential factors of uncertainty include the current tensions in international trade and further growth of protectionism in global trade.

Additionally, in the recent months the Council has been consistent in its opinion that the existing interest rate levels supports Poland's economy on a path of the stable economic growth, although the GDP dynamics this year is likely to be lower than in 2018 and a macroeconomic balance is maintained. According to the Council, inflation in the projection horizon will remain close to the inflation target.

### **Foreign trade**

The foreign trade turnover, despite a slower growth of global trade, in the period January-November 2018 grew and amounted to PLN 868.3 billion in exports and PLN 881.4 billion in imports, at current prices. The negative balance was PLN 13.1 billion, while in the equivalent period of 2017 it was positive at PLN 8.1 billion. Compared to the equivalent period of 2017, exports increased by 6.4%, and imports grew by 9.1%. The growing export dynamics occurred with the weakening PLN which supported price competitiveness of Polish goods. Imports were supported with a high growth of domestic demand; however, the accelerated growth was primarily due to a faster growth of imports of intermediate products, mainly fuels, due to growing oil prices, in particular in the first three quarters of the year.

In the period under report, EU countries remained Poland's major trading partners. Among Poland's major trading partners, a growth of exports was noted to the US, Germany, Russia, the Netherlands, Hungary, France, the Czech Republic, Sweden and the UK; in case of imports – from all the top ten of our partners. Trade with the top ten trading partners accounted for 66.7% in exports and 64.8% in imports. Germany continued to be the largest trading partner – their share in exports grew by 0.6 pp versus the equivalent period last year and accounted for 28.1% while in imports it decreased by 0.7 pp and accounted for 22.4%.

### **Global economy**

In 2018 global economy continued to grow at a solid rate, relying on growing consumer demand and a growth of investments in multiple countries. Nevertheless, in the period under report the growth of GDP and various phases of economic cycles became more visible – both in developed and emerging economies. The improved economic situation was accompanied by a moderate price growth, resulting primarily from accelerated growth of energy and food prices due to higher commodity prices on the global scale. Although the trends in the largest developed economies remain advantageous, in 2018 symptoms began to be seen of deterioration which – along with slower growth of world trade – will result in a slowed growth rate in the next quarters. In the euro zone, GDP growth in 2018 was decreasing on a quarterly basis from 2.4% y/y in Q1 to 1.2% y/y in Q4 which is evidence that the economy has passed over the culminating point in its economic cycle. Internal demand, including private consumption with moderate investments, remained the major growth trigger in the euro zone. Internal demand in the last year was supported with growing employment and accelerated wage growth, consumer optimism and low interest rates. In the first half of the year, the impact of net exports remained positive. The trends were accompanied by a moderate price growth – driven on the one hand with



a faster growth of energy prices with a relatively low base inflation, resulting from a solely moderate wage pressure. In such environment, the European Central Bank kept interest rates close to zero in 2018, including the deposit rate under zero. Nevertheless, the generated economic growth in the euro zone proved sufficient to make ECB close the asset purchase programme at the end of the year. Additionally, ECB announced that it would keep interest rates at the current levels for a longer time which – with a declaration to maintain its total assets at an unchanged level – will result in re-investment of funds from the maturing bonds for quite some time after the end of the QE programme, thus contributing to mild monetary conditions in the euro zone.

In the US, the economic cycle seems to be at a different stage with the highest GDP growth recorded at the end of the year. Bloomberg<sup>2</sup> estimates the economy to have grown in Q4 2018 by 3.1% y/y. Similarly to the euro zone, the growth continued to be driven by faster consumption which was supported with growing employment and wages as well as growing household disposable income as a result of growing prices of financial assets. Additionally, in 2018 there was a growth of investments stimulated with fiscal impulses in the form of lower corporate taxes. Economic growth was accompanied by a slightly faster growing inflation than in other developed economies. The higher inflation was partly due to an economic upturn generating wage pressures which was translated into a base inflation of 2% y/y. CPI that reached Fed's inflation target (2%) resulted in continued tightening of monetary policies last year. Four times Fed increased the range for interest rates to 2.25-2.50%. At the same time, the central bank reduced its total assets limiting re-investments of assets which contributes to intensified monetary tightening. The median of projections by Fed members for a major part of the year indicated potential three consecutive increases of funding costs in the USA in 2019; however, the worsening macroeconomic data at the end of the year with growing impact of restrictions in international trade resulting, inter alia, from duties implemented by Trump administration, generated Fed's more moderate position at the meeting in December and a reduction of the planned increases in 2019 to two.

### **FX rates**

Last year was subject to major volatility in financial markets. The European Central Bank that at the beginning of the year declared to discontinue QE, supported EUR appreciation at the beginning of the year. However, in a short time the mood was dominated by Fed's monetary policies which successively increased US interest rates which – combined with a worsening mood in financial markets subject to concerns about global economic outlooks – resulted in a stronger dollar which had adverse effect on the currencies of emerging economies. Since Q2 aversion to risk was additionally strengthened with fears of an escalation of trade wars declared by the United States on the rest of the world, primarily China. Other developed markets followed the worsening sentiment in the USA. In the euro zone, the situation was additionally adversely affected by uncertainties related to the political situation and prospects of fiscal policies in Italy and the Brexit negotiations. EUR-USD was losing additionally under the pressure of uncertainties in Europe, fuelled on the one hand with slowing down economic growth of euro zone countries as well as political risks and government changes in Italy and in Germany.

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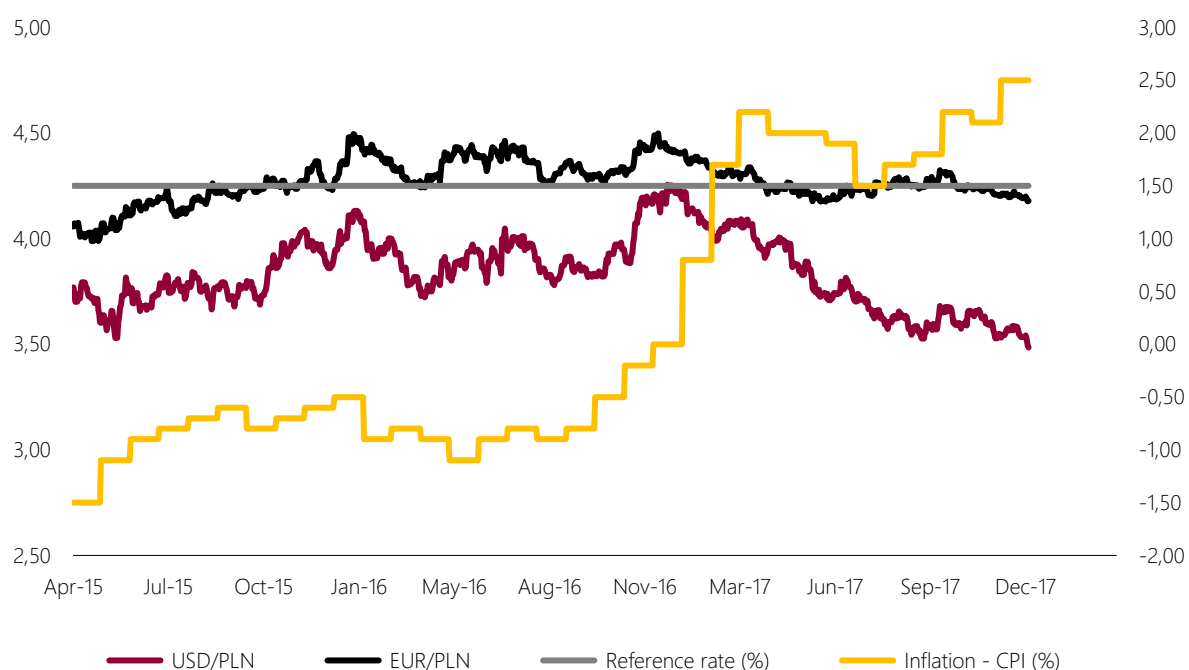
<sup>2</sup> Forecast of 29.01.2019



The above adversely affected the zloty throughout the period which has been losing against USD and EUR since the beginning of the year which is evidence of the relationship of the domestic currency on sentiments in the EM region. Over a major part of the year, there was a major appreciation of the USD both in the major pair EUR-USD but also versus the currency basket which was due to changed market expectations and the fast route on monetary tightening by Fed. The sentiment was slightly changed due to the end of Fed's rhetoric at the end of the year and the slowed rate of monetary tightening generated a weaker dollar to the benefit of EUR and PLN.

As a result, in 2018 EUR-USD fell by 4.4%, down to 1.15. At the same time, PLN lost as much as 7.3% against USD and 2.7% against EUR, with the following year end exchange rates: 3.74/USD and 4.29/EUR respectively. The good domestic economic situation and stable monetary policies by the MPC could not do much to support the rates.

#### EUR/PLN and USD/PLN exchange rates vs. CPI and the reference interest rate



\*/ Bloomberg Source



## VI. Core structural and financial data of Poland's banking sector in 2018

### Core structural details

As at the end of 2018, there were: 32 domestic commercial banks, 549 credit unions and 31 branches of credit institutions in Poland. At the end of 2018, the bank network comprised 6,271 branches, 3,679 sub-branches, agencies and other customer service outlets, as well as 3,028 representative offices (including franchise outlets). Thus, at the end of 2018, the banking network comprised in total 12,978 outlets which was 452 less than in 2017.

The headcount at the end of 2018 was still 162,500 employees and was lower than the headcount in 2017 by 1,900 employees (1.1%).

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. This results in a consolidation process going on for several years which is evidenced with examples of mergers and acquisitions in 2018: purchase of Raiffeisen Polbank by BGŻ BNP Paribas or acquisition of Eurobank by Millennium Bank S.A.

At the end of 2018, the State Treasury controlled 8 commercial banks, while the total number of commercial banks with the majority of domestic capital was at the level of 13. The number of commercial banks with the majority of foreign capital was 19.

### Selected profit and loss account items<sup>3</sup>

In 2018 the banking sector generated net profit of PLN 14.7 billion vs. PLN 13.7 billion in the same period of the previous year (7.5% growth).

In the period between January and December 2018, versus the equivalent period last year, the total operating income increased by 1.8% to PLN 65.2 billion.

Operating expenses of banks (including depreciation/amortisation and provisions) went up in the reporting period by 1.7% y/y, to PLN 33.6 billion. The item of provisions and impairment or reversal of impairment in 2018, as compared to the previous year, increased by 2.5% and amounted to PLN 9.6 billion.

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<sup>3</sup>Source: Monthly data of the banking sector (knf.gov.pl)



### **Loans and deposits<sup>4</sup>**

The total assets of the banking sector in 2018 amounted to PLN 1,896 billion and were by 6.7% (or PLN 119.4 billion) higher than at the end of 2017.

Loans and advances at the end of 2018, as compared to the previous year, increased by 3.0% and amounted to PLN 1.238 billion.

Deposits increased at the end of 2018 in year-on-year terms by 8.2% to PLN 1,372 billion.

### **Equity and capital ratios<sup>4</sup>**

Equity of the banking at the end of September 2018 (later data is not available), amounted to PLN 208.9 billion and was up 12% against the figure at the end of September 2017.

The total capital ratio of the banking sector at the end of September 2018 was 19.21% (up by 3 pp vs. the end of September 2017), while the Tier I capital ratio as at the end of that period was 17.31% (up 0.6pp vs. the end of September 2017).

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<sup>4</sup> Source: Monthly data of the banking sector (knf.gov.pl)



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

### Profit and loss account

The detailed profit and loss account items of the Alior Bank S.A. Capital Group are presented in the table below:

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017 Dane przekształcone*	Zmiana r/r [tys. zł]	Zmiana r/r [%]
<b>Interest income</b>	<b>3 792 544</b>	<b>3 601 131</b>	<b>355 241</b>	<b>9,9</b>
Income of a similar nature	163 828		163 828	
Interest expense	-871 848	-744 990	-126 858	17,0
<b>Net interest income</b>	<b>3 084 524</b>	<b>2 856 141</b>	<b>228 383</b>	<b>8,0</b>
Dividend income	275	31	244	787,1
Fee and commission income	825 562	805 603	19 959	2,5
Fee and commission expense	-389 469	-374 852	-14 617	3,9
<b>Net fee and commission income</b>	<b>436 093</b>	<b>430 751</b>	<b>5 342</b>	<b>1,2</b>
Trading and revaluation result	371 590	337 833	33 757	10,0
Net gain (realized) on other financial instruments	n/d	6 908	n/d	
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	77 829	n/d	n/d	
measured at fair value through other comprehensive income	76 473	n/d	n/d	
measured at amortized cost	1 356	n/d	n/d	
Other operating income	127 045	112 396	14 649	13,0
Other operating costs	-141 807	-85 915	-55 892	65,1
<b>Net other operating income and expenses</b>	<b>-14 762</b>	<b>26 481</b>	<b>-41 243</b>	<b>-155,7</b>
General administrative expenses	-1 705 003	-1 853 577	148 574	-8,0
Net expected credit losses ,impairment allowances and write-downs	-1 054 069	-914 930	-139 139	15,2
Banking tax	-208 186	-200 517	-7 669	3,8
Gross profit	988 291	689 121	299 170	43,4
Income tax	-274 918	-217 551	-57 367	26,4
<b>Net profit</b>	<b>713 373</b>	<b>471 570</b>	<b>241 803</b>	<b>51,3</b>
Net profit attributable to equity holders of the parent	713 373	471 194	242 179	51,4

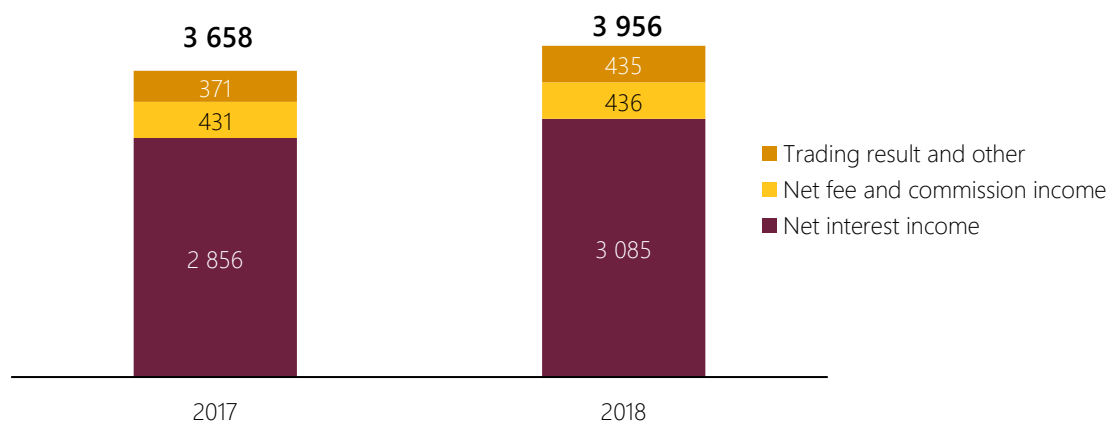


Detailed items of the profit and loss account of Alor Bank S.A. are presented in the table below:

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017 Dane przekształcone*	Zmiana r/r [tys. zł]	Zmiana r/r [%]
<b>Intrest income</b>	<b>3 794 574</b>	<b>3 590 604</b>	<b>203 970</b>	<b>5,7</b>
Income of a similar nature	163 828	n/d		
Interest expense	-868 433	-742 539	-125 894	17,0
<b>Net interest income</b>	<b>3 089 969</b>	<b>2 848 065</b>	<b>241 904</b>	<b>8,5</b>
Dividend income	7 597	31	7 566	24 406,5
Fee and commission income	769 887	779 465	-9 578	-1,2
Fee and commission expense	-375 893	-364 867	-11 026	3,0
<b>Net fee and commission income</b>	<b>393 994</b>	<b>414 598</b>	<b>-20 604</b>	<b>-5,0</b>
Trading and revaluation result	370 880	338 191	32 689	9,7
Net gain (realized) on other financial instruments	n/d	6 908		
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	77 829	n/d		
measured at fair value through other comprehensive income	76 473	n/d		
measured at amortized cost	1 356	n/d		
Other operating income	92 645	91 118	1 527	1,7
Other operating costs	-140 681	-79 406	-61 275	77
<b>Net other operating income</b>	<b>-48 036</b>	<b>11 712</b>	<b>-59 748</b>	<b>-510</b>
General administrative expenses	-1 630 255	-1 796 045	165 790	-9,2
Net expected credit losses ,impairment charges and write-downs	-1 040 290	-905 779	-134 511	15
Banking tax	-208 186	-200 517	-7 669	3,8
Profit before tax	1 013 502	717 164	296 338	41
Income tax	-282 428	-222 316	-60 112	27
<b>Net profit</b>	<b>731 074</b>	<b>494 848</b>	<b>236 226</b>	<b>48</b>

Net profit of the Group of Alor Bank S.A. (attributable to the shareholders of the parent entity) in 2018 was PLN 713m and was up on the net profit last year by PLN 242 m, or by 51%.

#### Total revenue (PLN B) – consolidated data







Net interest is the core income item of the Group accounting for 78% of the total income. The annual increase by 8.0% was due to a limited growth of the loan volume to customers and the accompanying growth of customer deposits. As a result, the customer net loan portfolio went up by 5.8% year on year, while deposits from customers were up 8.3%. The achieved interest income was also positively affected by an adequate pricing policy – with respect to both deposits and loans in the environment of low interest rate environment in the Bank.

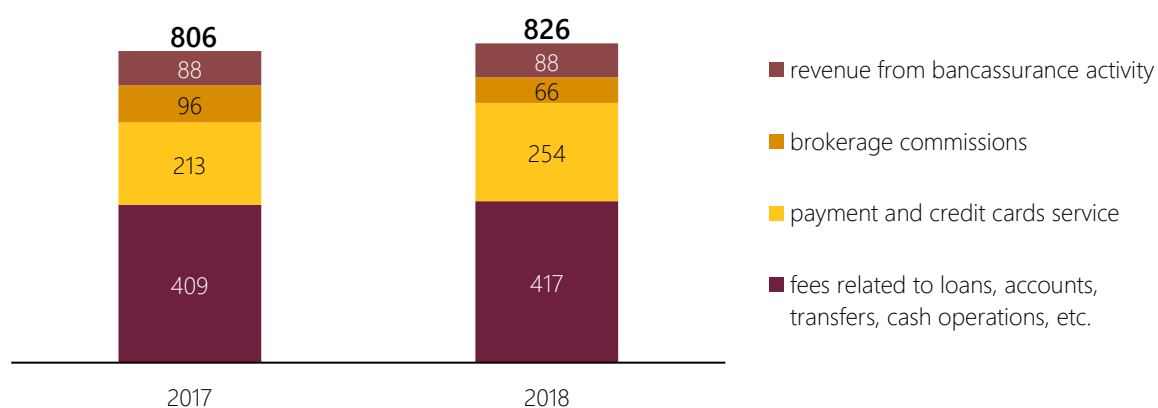
The Group's profitability measured with net interest margin by each product in 2018 was as presented in the table below.:

Consolidated data	2018 (%)	2017 (%)
<b>Loans</b>	<b>6,04</b>	<b>6,26</b>
<b>Retail segment</b> , of which:	<b>7,15</b>	<b>7,40</b>
Consumer loans	8,73	9,06
Loans for residential properties	4,24	4,36
<b>Business segment</b> , of which:	<b>4,67</b>	<b>4,78</b>
Investment loans	3,95	4,22
Working capital loans	5,36	5,22
Car Loans	4,59	5,95
<b>Deposits</b>	<b>1,02</b>	<b>1,25</b>
<b>Retail segment</b>	<b>1,11</b>	<b>1,10</b>
Current deposits	0,79	0,60
Term deposits	1,81	1,63
<b>Business segment</b>	<b>0,85</b>	<b>1,51</b>
Current deposits	0,10	0,11
Term deposits	1,57	1,57

Net fees and commissions grew by 1.2% up to PLN 436 m. The result included PLN 825.6 of commission income (growth by 2.5% year on year) and PLN 389.5 m of commission expenses (growth by 3.9% y/y).

The core elements of the net fees and commissions include commissions on loans, accounts, transfers, cash deposits, disbursements, and borrowings, etc. In 2018 those amounted to PLN 417 m and accounted for 50.6% of the total fee and commission income. The growth y/y was primarily due to growing commissions in relation to loans as a result of an organic growth of volumes.

#### Commission and fee 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 account and revaluation result, the result on other financial instruments, the result on discontinued recognition of assets and liabilities not measured at fair value through profit and loss account, the result on other operational income and expenses*) grew in 2018 overall by 17.1% to PLN 434.7m. In its commercial result, the Group recorded a y/y increase of 10% to PLN 372m, or up by PLN 33.8 m. The result on trading activity was generated largely as a result of increased FX profit.

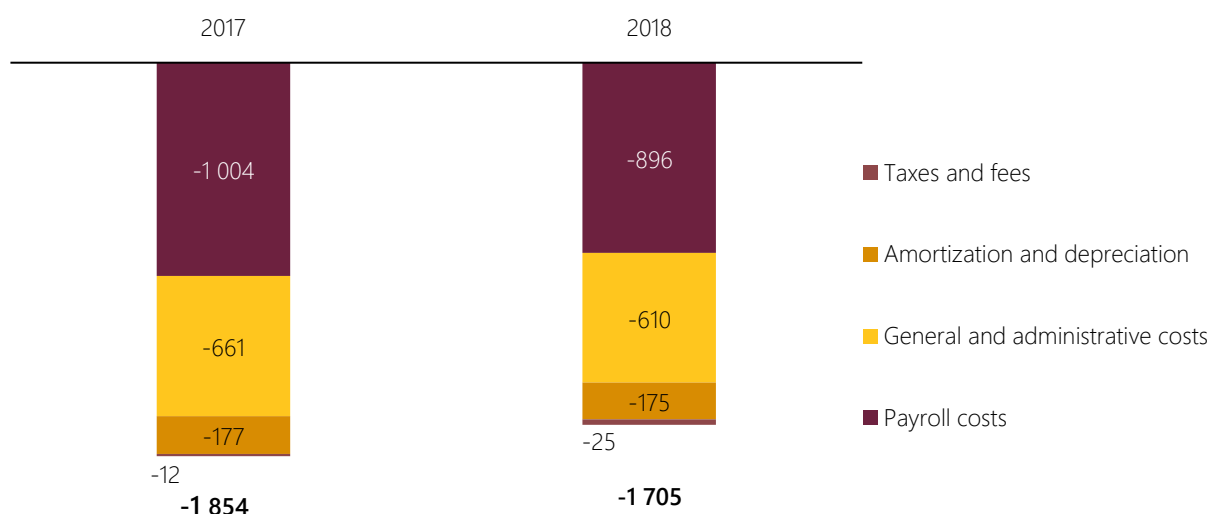
In 2018 the operating expenses amounted to PLN 1 705.0 m and were lower than the expenses incurred in the same period of the previous year by PLN 148.6 m, or by 8.0%. The main driver of this cost decrease in the reporting period versus the same period of the previous year is stability of the cost base due to the take-over of the cost base of the demerged part of BPH.

Personnel costs in the analysed period amounted to PLN 896 m and were by 10.7% m lower than personnel costs incurred in 2017.

General and administrative expenses in 2018 amounted to PLN 610 m and were by 7.8% lower than general and administrative expenses incurred in 2017.

As a result, the cost/income ratio at the end of June 2018 was at 43.1% versus 50.7% in of 2017.

#### Operating expenses (PLN M)



#### Net result on impairment allowances

The amount of impairment allowances and provisions in 2018 was PLN – 1 054.1 m, versus PLN -914,9 m in 2017, meaning an increase of 15.2%. Additionally, in 2018 the net provisions calculated on the average balance of customers' gross receivables (risk cost ratio) recorded a growth from 1.71% to 1.85% y/y.



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

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017 Adjusted data	Change r/r w%
<b>Stage 3 / Impaired loans</b>	<b>-1 250 091</b>	<b>-887 952</b>	<b>40,78%</b>
<b>Impairment losses on impaired loans and advances to customers</b>	<b>-1 250 091</b>	<b>-887 952</b>	<b>40,78%</b>
retail customers	-547 596	-491 469	11,42%
corporate customers	-702 495	-396 483	77,18%
<b>Debt securities – available-for-sale financial assets</b>	<b>n/d</b>	<b>16 921</b>	<b>n/d</b>
<b>Investment securities</b>	<b>2 820</b>	<b>n/d</b>	<b>n/d</b>
<b>IBNR for customers without impairment losses</b>	<b>n/d</b>	<b>-26 558</b>	<b>n/d</b>
retail customers	n/d	-2 793	n/d
corporate customers	n/d	-23 765	n/d
<b>Expected credit loss (ECL)</b>	<b>123 014</b>	<b>n/d</b>	<b>n/d</b>
<b>Bucket 2</b>	<b>62 173</b>	<b>n/d</b>	<b>n/d</b>
banks	0	0	n/d
retail customers	83 507	n/d	n/d
corporate customers	-21 334	n/d	n/d
<b>Bucket 1</b>	<b>60 841</b>	<b>n/d</b>	<b>n/d</b>
retail customers	28 702	n/d	n/d
corporate customers	32 139	n/d	n/d
<b>POCI</b>	<b>-3 046</b>	<b>n/d</b>	<b>n/d</b>
<b>Recoveries from off-balance sheet</b>	<b>8 537</b>	<b>14 687</b>	<b>-41,87%</b>
<b>Off-balance provisions</b>	<b>70 948</b>	<b>-6 307</b>	<b>-1224,91%</b>
<b>Property, plant and equipment and intangible assets</b>	<b>-6 150</b>	<b>-25 721</b>	<b>-76,09%</b>
<b>Non-current assets held for sale</b>	<b>-101</b>	<b>0</b>	
<b>Net impairment allowance and write-downs</b>	<b>-1 054 069</b>	<b>-914 930</b>	<b>15,21%</b>

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

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017 Adjusted data	Change r/r w%
<b>Stage 3 / Impaired loans</b>	<b>-1 236 660</b>	<b>-882 464</b>	<b>40%</b>
<b>Impairment losses on impaired loans and advances to customers</b>	<b>-1 236 660</b>	<b>-882 464</b>	<b>40%</b>
retail customers	-547 596	-491 469	11%
corporate customers	-689 064	-390 995	76%
<b>Debt securities – available-for-sale financial assets</b>	<b>n/d</b>	<b>16 921</b>	<b>n/d</b>
<b>Investment securities</b>	<b>2 820</b>	<b>n/d</b>	<b>n/d</b>
<b>IBNR for customers without impairment losses</b>	<b>n/d</b>	<b>-22 895</b>	<b>n/d</b>
retail customers	n/d	-2 793	n/d
corporate customers	n/d	-20 102	n/d
<b>Expected credit loss (ECL)</b>	<b>120 444</b>	<b>n/d</b>	<b>n/d</b>
<b>Bucket 2</b>	<b>54 581</b>	<b>n/d</b>	<b>n/d</b>
banks			n/d



retail customers	83 507	n/d	n/d
corporate customers	-28 926	n/d	n/d
<b>Bucket 1</b>	65 863	n/d	n/d
retail customers	28 943	n/d	n/d
corporate customers	36 920	n/d	n/d
<b>POCI</b>	-3 046	n/d	n/d
<b>Recoveries from off-balance sheet</b>	8 537	14 687	-42%
<b>Off-balance provisions</b>	73 866	-6 307	-1271%
<b>Property, plant and equipment and intangible assets</b>	-6 150	-25 721	-76%
<b>Non-current assets held for sale</b>	-101	0	n/d
<b>Net expected credit losses, impairment allowances and write-downs</b>	-1 040 290	-905 779	15%

## Balance sheet

As at 31 December 2018, the balance sheet total of the Alior Bank Group amounted to PLN 73.4 billion and was up PLN 3.9 billion (5.6%) vs. the end of 2017.

Main asset items generating the growth of the balance sheet total included loans and advances to customers (y/y up PLN 3.0 billion to PLN 54.2 billion) and financial assets (y/y up PLN 0.08 billion to PLN 13.7 billion), financed primarily with a growth of liabilities: customers' deposits (an increase of PLN 4.8 billion to PLN 62.4 billion).

The tables below present relevant items of assets, liabilities and equity as at the end of 2018 along with comparable data.

Assets	31.12.2018	31.12.2017	Change (in PLN '000)	Change (%)
<b>Cash and balances with the Central Bank</b>	1 639 033	965 391	673 642	70
<b>Amounts due from banks</b>	612 444	901 629	-289 185	-32
<b>Investment securities</b>	13 727 570	13 642 769	84 801	1
measured at fair value through other comprehensive income	7 280 080	n/d	n/d	
measured at fair value through profit or loss	515 138	n/d	n/d	
measured at amortized cost	5 932 352	n/d	n/d	
available-for-sale	n/d	12 072 324	n/d	
held to maturity	n/d	1 117 894	n/d	
held for trading	n/d	452 551	n/d	
<b>Derivative hedging instruments</b>	112 400	87 785	24 615	28
<b>Loans and advances to customers</b>	54 245 924	51 266 640	2 979 284	6
<b>Assets pledged as collateral</b>	333 286	408 911	-75 625	-18
<b>Property, plant and equipment</b>	460 659	475 691	-15 032	-3
<b>Intangible assets</b>	572 320	548 587	23 733	4
<b>Investments in subsidiaries</b>	4 000	0	4 000	
<b>Asset held for sale</b>	146	357	-211	-59
<b>Income tax asset</b>	1 035 624	591 782	443 842	75
Current	0	0	0	
Deferred	1 035 624	591 782	443 842	75
<b>Other assets</b>	676 481	626 440	50 041	8
<b>Total assets</b>	<b>73 419 887</b>	<b>69 515 982</b>	<b>3 903 905</b>	<b>6</b>



Liabilities and equity	31.12.2018	31.12.2017	Change (in PLN '000)	Change (%)
Amounts due to banks	593 327	891 645	-298 318	-33,5
Amounts due to customers	62 435 585	57 657 019	4 778 566	8,3
Financial liabilities	416 407	435 878	-19 471	-4,5
held for trading	n/d	435 878	n/d	
measured at fair value through profit or loss	416 407	n/d	n/d	
Derivative hedging instruments	9 381	5 419	3 962	73,1
Provisions	126 199	90 457	35 742	39,5
Other liabilities	1 167 111	1 693 915	-526 804	-31,1
Income tax liabilities	267 861	135 690	132 171	97,4
Current	267 429	135 204	132 225	97,8
Deferred	432	486	-54	-11,1
Subordinated loans	1 918 093	1 914 976	3 117	0,2
Total liabilities	66 933 964	62 824 999	4 108 965	6,5
Share capital	1 305 540	1 292 636	12 904	1,0
Supplementary capital	5 386 828	4 820 048	566 780	11,8
Revaluation reserve	52 164	13 944	38 220	274,1
Other reserves	171 629	183 824	-12 195	-6,6
Foreign operations currency translation differences	-202	594	-796	-134,0
Retained earnings / (accumulated losses)	-1 143 409	-92 579	-1 050 830	1 135,1
Profit for the year	713 373	471 194	242 179	51,4
Non-controlling interests	0	1 322	-1 322	-100,0
Equity	6 485 923	6 690 983	-205 060	-3,1
Total liabilities and equity	73 419 887	69 515 982	3 903 905	5,6

Separate data are as follows:

Assets	31.12.2018	31.12.2017 Adjusted data*	01.01.2017 Adjusted data*
Cash and balances with the Central Bank	1 639 033	965 391	1 082 991
Amounts due from banks	611 436	898 977	1 364 226
Financial assets:	13 727 570	13 642 769	9 796 151
measured at fair value through other comprehensive income	7 280 080	n/d	n/d
measured at fair value through profit or loss	515 138	n/d	n/d
measured at amortized cost	5 932 352	n/d	n/d
available-for-sale	n/d	12 072 324	9 374 646
held to maturity	n/d	1 117 894	1 954
held for trading	n/d	452 551	419 551
Derivative hedging instruments	112 400	87 785	71 684
Loans and advances to customers	54 239 172	51 244 093	46 248 623



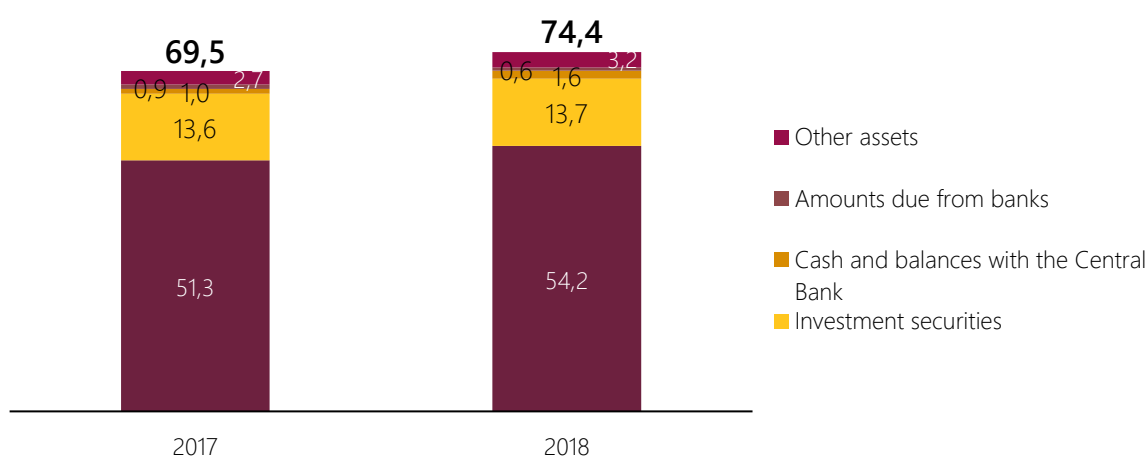
Assets pledged as collateral	333 286	408 911	366 984
Property, plant and equipment	450 404	466 958	483 520
Intangible assets	528 501	510 106	480 913
Investments in subsidiaries	158 681	102 025	72 359
Non-current assets held for sale	146	357	679
Income tax asset	924 383	552 961	540 750
Deferred	924 383	552 961	540 750
Other assets	517 883	524 047	662 095
<b>Total assets</b>	<b>73 242 895</b>	<b>69 404 380</b>	<b>61 170 975</b>

Liabilities and equity	31.12.2018	31.12.2017 Adjusted data*	01.01.2017 Adjusted data*
Amounts due to banks	473 842	743 911	381 235
Amounts due to customers	62 427 865	57 698 144	51 420 275
Financial liabilities	416 407	435 878	298 314
held for trading	n/d	435 878	298 314
measured at fair value through profit or loss	416 407	n/d	n/d
Derivative hedging instruments	9 381	5 419	6 119
Provisions	126 172	90 433	286 791
Other liabilities	1 111 457	1 647 583	1 427 757
Income tax liabilities	208 854	133 659	32 697
Current	208 854	133 659	32 697
Subordinated loans	1 918 093	1 914 976	1 164 794
<b>Total liabilities</b>	<b>66 692 071</b>	<b>62 670 003</b>	<b>55 017 982</b>
Share capital	1 305 540	1 292 636	1 292 578
Supplementary capital	5 382 819	4 817 331	4 184 953
Revaluation reserve	52 164	13 944	-71 615
Other reserves	184 284	184 894	184 894
Foreign currency translation differences	-202	594	-22
Accumulated losses	-1 104 855	-69 870	-26 819
Profit for the year	731 074	494 848	589 024
<b>Equity</b>	<b>6 550 824</b>	<b>6 734 377</b>	<b>6 152 993</b>
<b>Total liabilities and equity</b>	<b>73 242 895</b>	<b>69 404 380</b>	<b>61 170 975</b>



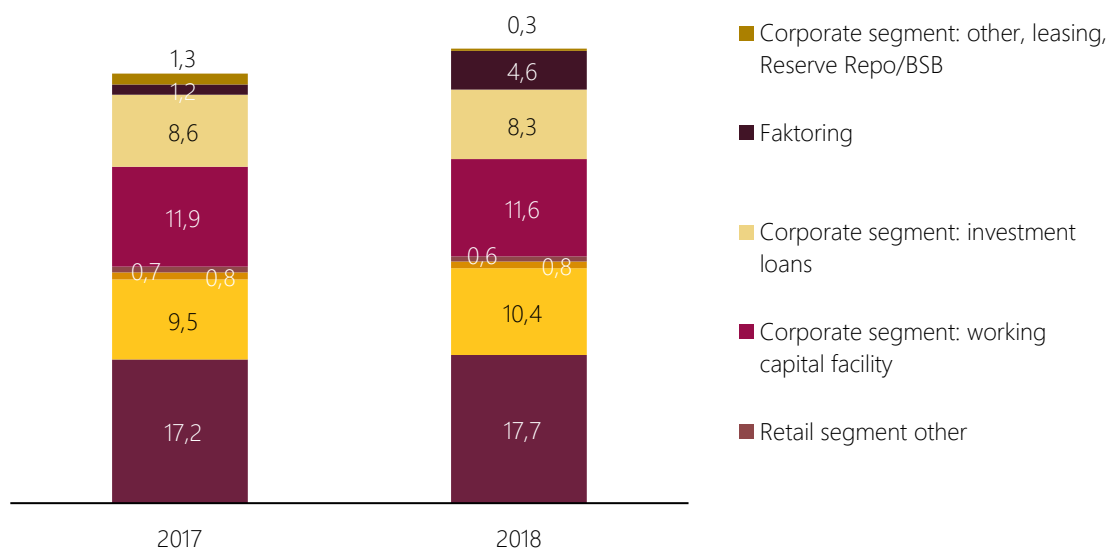
The largest asset item is made up of receivables from the Group's customers (PLN 54.2 billion). Their share in balance sheet total as at the end of 2018 accounted for 73.9%, i.e. up by 0,1pp versus the end of 2017. As at the end of 2018, another large asset item were financial assets at PLN 13.7 billion, which accounted for 18.7% of the total assets (at the end of 2017 – 19.6% of the total assets).

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



The y/y growth of loans and advances to customers by 5.8% was due to both an increased volume of loans granted in the retail segment (up 4.3%, or by PLN 1.2 billion, to PLN 29.4 billion), as well as an increase in the receivable portfolio of corporate customers. The loan volume to the business segment grew by 7.7% (or by PLN 1.8 billion) to PLN 24.8 billion.

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

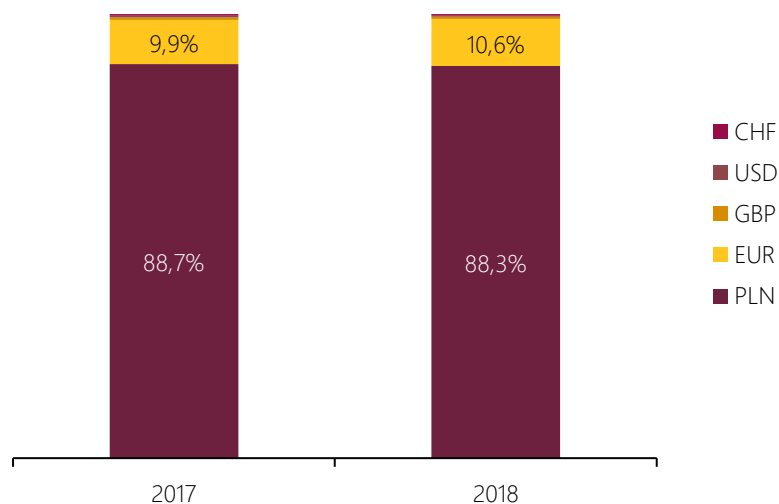


The retail segment loan portfolio primarily included cash and operational loans and consumer finance with the volume almost PLN 17.7 billion (growth y/y by 3%). They accounted for 60% of all loans granted to retail customers and accounted for 32.6% of the entire portfolio of customers' receivables. The second largest item in the retail segment loan portfolio (35.2%) covered housing loans and mortgage loans with the total volume as at the end of 2018 of PLN 11.2 billion (overall growth y/y by 7.6%).



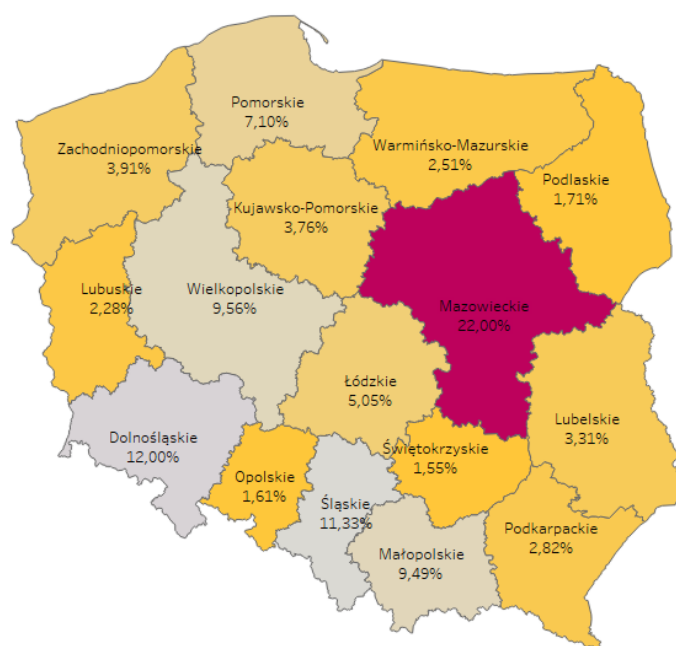
As at the end of 2018, operational corporate loans of PLN 11.6 billion (growth by 2.5% y/y) were the largest single item of the business segment loan portfolio, accounting for 46.8% of its total value. Investment loans were the second largest item of the business segment loan portfolio, accounting for 33.5% of the portfolio. Their value as at the end of 2018 was down 3.6% compared to PLN 8.3 billion at the end of 2017.

#### Currency structure of the loans and advances to customers



Some slight decrease was seen at the end of 2018, versus the end of 2017, in PLN denominated loan receivables – to 88,3% of the total loans and advances to customers (down by 0,4 pp. against 31 December 2017). EUR denominated loans and advances to customers as at the end of 2018 accounted for 10,6% of the total receivables, their share compared to the end of 2017 was down 0,6 pp.

#### Geographical structure of loans and advances to customers as at 31 December 2018 (net value)





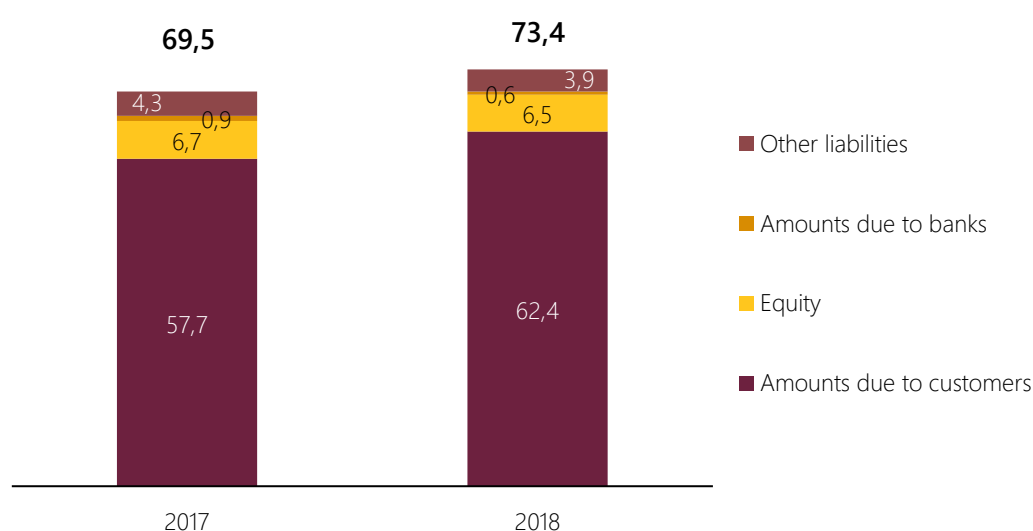


Over 1/5 of the loans granted by the Bank were loans to customers from Mazovia. Over 23% of loans are receivables from customers from Silesia and Lower Silesia. Receivables from customers coming from other voivodeships account for almost 55% of the entire loan portfolio.

As at 31 December 2018 the value of collateral established on customers' accounts and assets at Alior Bank S.A. amounted to PLN 37,633m (including KI: 11,960 and KB: 25,674).

The Group's business is mainly financed with funds of customers from the non-financial sector deposited with the Bank. At the end of 2018, the share in balance sheet total accounted for 85,0% (growth by 2,1 pp vs. the end of 2017). The balance of equity as at 31 December 2018 was PLN 6,5 billion and was by over PLN 0,21 billion lower vs. the end of 2017.

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



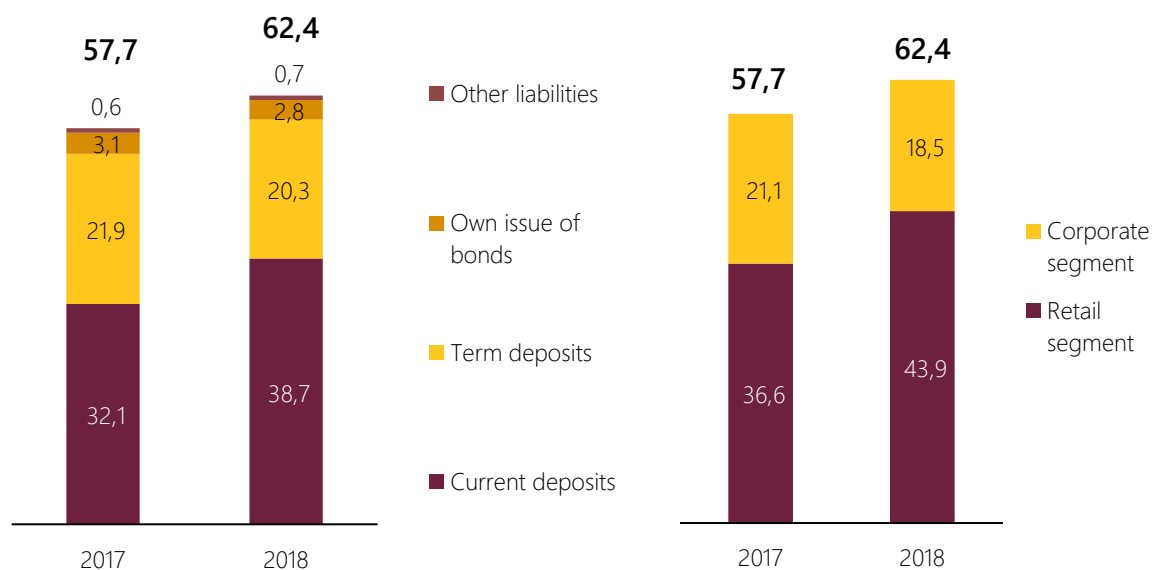
The liabilities due to customers largely included liabilities due to the retail segment which at the end of 2018 accounted for 70% of the customers' deposit portfolio. As compared to the end of 2017, the share increased by 7pp.

Current deposits were the single largest item of the liabilities portfolio to customers. They accounted for 62% of the entire liabilities to customers as at the end of 2018 (growth by 6.3pp versus the end of 2017). Term deposits make second largest item of the liabilities due to customers (32% of all liabilities due to customers as at 31 December 2018). As compared to the end of 2017, their share in overall liabilities to customers dropped by 5.5pp.

The remaining 5.6% of the liabilities to customers as at the end of 2018 were the funds acquired as a result of the Bank's own issues of securities and other liabilities, as well as bond issues.

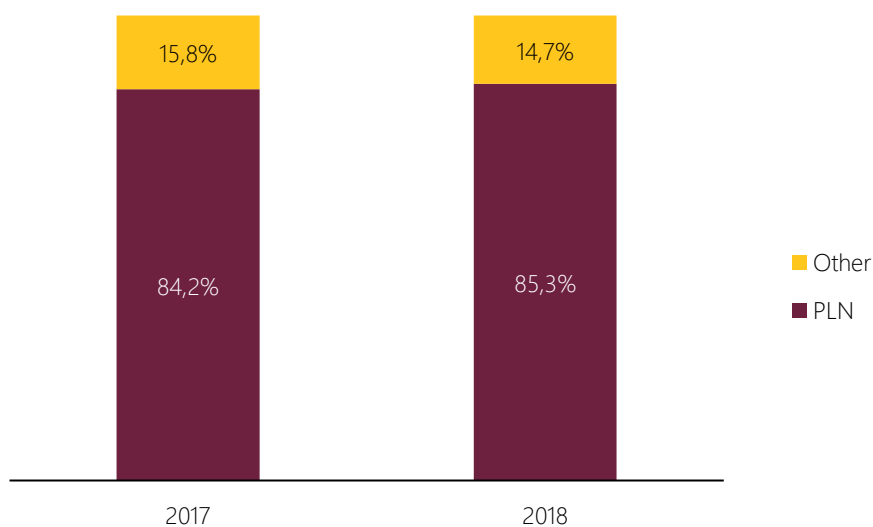


### Types of liabilities to customers (PLN B)



The sum of liabilities to the ten largest depositors accounts for 3.2% of all customers' deposits which is evidence or a strong diversification of the Bank's deposit base.

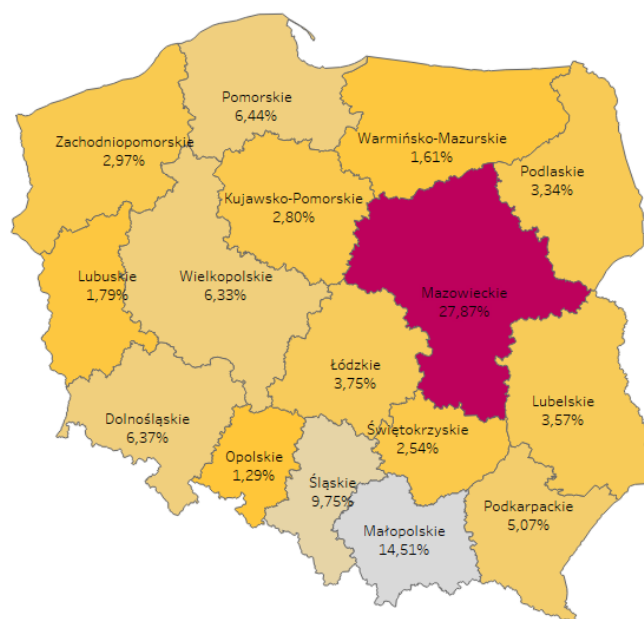
### Currency structure of the liabilities to customers



As at the end of 2018, the share of PLN deposits in the entire portfolio grew by 1,2 pp to 85,3% y/y. The other 14,7% of liabilities to customers were deposits in foreign currencies. EUR and USD were the most popular foreign currencies in which customers deposited their savings at the of 2018.



## Geographical structure of liabilities due to customers as at 31 December 2018



The funds deposited with the Bank primarily come from customers from Mazovia (28%), Lesser Poland (14.5%) and Silesia (10%). Customers from the other provinces deposited funds with the Bank accounting for almost 48% of the entire deposit base.

## Contingent liabilities

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

The Group grants contingent liabilities to business customers as follows:

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

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

As at 31 December 2018, the number of active guarantees granted by Alior Bank was 2,030 for a total amount of PLN 905,896 thousand.

The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (1,490) total PLN 490,832 thousand.

As at 31 December 2018 the total value of off-balance sheet contingent liabilities granted to customers was PLN 10,902,052. The amount comprised PLN 9,996,156 thousand of off-balance sheet contingent liabilities



relating to financing and PLN 905,896 thousand 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 31.12.2018	Status as at 31.12.2017
<b>Granted off-balance contingent liabilities</b>	10,902,052	12,498,037
<b>Concerning financing</b>	9,996,156	11,253,862
<b>Guarantees</b>	905,896	1,244,175

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

By entity	Status as at 31.12.2017	Status as at 31.12.2017
<b>Entity 1</b>	180,117	136,993
<b>Entity 2</b>	74,000	101,000
<b>Entity 3</b>	52,368	84,969
<b>Entity 4</b>	41,346	72,000
<b>Entity 5</b>	40,000	59,453
<b>Entity 6</b>	30,000	50,000
<b>Entity 7</b>	23,093	38,300
<b>Entity 8</b>	20,000	20,000
<b>Entity 9</b>	16,818	20,000
<b>Entity 10</b>	15,192	17,665
<b>Other</b>	412,962	643,795

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

By instrument	Status as at 31.12.2018	Status as at 31.12.2017
Credit lines	9,897,272	11,006,544
Import L/Cs	17,840	18,952
Loan promises	81,044	228,366
Guarantees	905,896	1,244,175
<b>Total</b>	<b>10,902,052</b>	<b>12,498,037</b>

The Bank did not underwrite any bonds in 2018 (no off-balance sheet liabilities relating to bonds).

### Financial projections

Alor Bank S.A. did not publish any projections of its financial results.



## VIII. 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 natural and legal persons, and other entities that are domestic and foreign persons. 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 currently involved in the following sectoral segments:

Individual customer (retail segment)
Business segment (corporate segment)
Treasury activities

Detailed information on the Bank's business operating segments is presented in the Consolidated Financial Statements of the Alior Bank S.A. Capital Group for the year ended on 31 December 2018 (note No. 5).

### Retail segment

#### General information

As at 31 December 2018, Alior Bank serviced 4.0M individual customers. The growth of the number of customers in 2018 was due to the organic growth of Alior Bank.

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 2018 we continued to use the customer strategic segmentation. We launched an innovative solution to survey customers with Dronn – a speech synthesiser combined with Data Mining models so we were able to call 3.5 M customers. Our knowledge of customers' needs and focus on segments that are strategic for the bank supported fast and effective launch of the new Savings Account. We tested the implementation of Strategic Segmentation in one



regional sales network which will contribute to growing sales of ROR accounts after 6 months by 71%. We are getting ready to launch new solutions in 2019.

Apart from the behavioural segmentation, the Bank in 2018 has 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 2018, the Bank operated 861 outlets (202 traditional branches, 8 Private Banking branches and 8 Regional Business Centres, and 643 franchise outlets). The Bank's products are also offered in the network of 10 Mortgage Centres, 10 cash centres, about 5,000 of financial intermediaries.

Alior Bank also used distribution channels relying on a modern IT platform, 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. In the Internet the Bank also offers HP loans in an on-line process and services of an FX exchange office.

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, GTF, and others. The offers of the Bank's products available with financial intermediaries varies depending on the agent, but basically such financial intermediaries offer primarily 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 loans are the main unsecured credit products for individual customers. Such loan can be granted for any purpose or for payment of financial liabilities (consolidation loan). Cash loans are offered in all of the Bank's distribution channels. These 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 200,000 thousand without guarantors or other collateral. These products are offered in PLN to the existing and new customers of Alior Bank. The Bank offers cash loans in amount in excess of PLN 200,000 subject to individual terms and conditions.

In 2018 Alior Bank focused its attention on two areas involving cash loans. The first area is to increase the number of new customers by way of marketing campaigns in the media. Two TV campaigns have been carried out. In Q1 a loan was developed and promoted in an offer with a co-borrower "Two-person loan" – an attractive price could be obtained (all costs reduced by 33%) when the loan was contracted by two or more borrowers who do not have to be related. At the end of Q3 the Bank prepared another TV campaign of a loan with a promotional interest rate of 5% irrespective of the loan amount. The offer was available at all stationary sales outlets. In compliance with the Digital Disruptor strategy, the offer was also available over the Internet and sold via remote sales channels with an additional benefit – a commission reduced to 0%. The price was available to customers who completed an internet form or a full online application.

In 2018 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. In June 2018, a new special offer was launched for the process – Online Loans under which the Bank refunds interest to customers on every 12th repaid instalment. Additionally, the offer of a "Magic loan" was available in December 2018 at an attractive price, without income certificates – the offer was available solely on the Internet. Apart from the offer, the Bank continued its dedicated offer of "0% commission internet loan" with preferential terms for customers who commenced their purchase process using a dedicated Internet form.

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. This purpose was served by a special loan with a simplified lending procedure. The offer was available in all sales channels, including internet and mobile banking. At the end of 2018, new solutions were launched concerning development of cooperation and product sales to new consumer finance customers at Alior Bank. 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 2018 the Bank started promotion of new credit cards: Mastercard OK! and TU i TAM. Cashback is the core benefit of the cards: for OK! card 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 package of concierge services being assistance of a specialised infoline, insurance and a Priority Pass to airport lounges.

In order to make the product offer more attractive, the TU i TAM card promotionally gained an additional benefit for individual customers which covers an additional refund of spendings at fuel stations in Poland; the OK! card was promotionally extended with an additional refund of expenses made by customers using modern form of payments like Google Pay and Apple Pay. In order to meet expectations of those Customers for whom (apart from the price) it is time that is of essence in taking financial decisions, a solution was launched to make transactions in the form of transfers with repayment of the transfer in instalments – such decision can be taken by the Customer at issue of the credit card.

Dedicated activities were applied to customers who already hold credit cards: with increasing the number of transactions, customers may win discount vouchers for purchases at Allegro auctions while customers are increasingly more interested in repaying their transactions in comfortable instalments – a service available under their credit cards.

### **Revolving overdraft facilities**

Overdraft facilities mean the possibility of borrowing to the debit of an account. Within the approved limit, debts may be contracted multiple times – each credit to the account reduces or fully repays the debt. The Bank offers revolving overdraft facilities for amount from PLN 500 to PLN 200 thousand, which does not require 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.

Additionally, in Q2 2018 the Bank provided access to limit approval via new electronic banking in a simplified online process. The process is made available to selected customers subject to optimum offering x-selling in CRM activities. It is worth noting that with respect to the Konto Jakże Osobiste, Customers may select a revolving limit in the account as a result of a dedicated promotion – no interest is charged when the amount drawn under the limit is under PLN 1,000 (in words: PLN one thousand) for maximum 10 days.

### **Mortgages**

In 2018 the Bank continued its policy in the mortgage loan segment. Relying on its two core distribution channels – Mortgage Centres and Branches, the Bank offered mainly PLN housing loans which are the largest item in the mortgage loan portfolio. As a continuation, for customers who generate income in foreign currencies, the Bank maintained its offer of GBP, USD, EUR indexed housing loans.

In 2018 the Bank focused its efforts on enhancing its customer service standards. To this end, dedicated Mortgage Bankers underwent a number of specialist stationary training. Stress was put on comprehensive knowledge of mortgage products, pursuance of good practices in mortgage loan approval with reference to the requirements of the Act on mortgage loans and supervision over mortgage loan brokers and agents, and on improving service quality.

In H2 2018, in the mortgage loan segment, the efforts of the Bank were focused on continuing the sales dynamics from H1 despite the discontinuation of the “Home for the Young” programme and decisions to change the risk weight of variable interest rates in creditworthiness assessment models. Despite such negative business factors, there was a growth of sales by 3% in terms of volumes versus H1.





In order to promote the offer of mortgage loans, in H2 2018 the Bank for the first time relied on artificial intelligence (DRONN technology).

## **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 launched in May is a core acquisition product apart from accounts with variable interest rates relying on WIBID 1M. Apart from attractive interest rates for funds under PLN 100,000 for four months, it offers the possibility of flexible saving with free internet transfers to the customer's ROR account with Alior Bank. The higher interest rate on a savings account can also be available to customers who decide to set up a Very Personal Account 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 2018, the Bank focused on a further development of savings and clearing accounts as part of the existing products by adding new functionalities and payment methods.

Holders of Konto Jakże Osobiste – a flag account in the Bank's offer – may initially choose from 10 benefits – services and functionalities prepared on the basis of surveys and customer reviews. Those are: free ATM disbursements in Poland, ATMs abroad, a package of free immediate transfers (up to 5 monthly) and a higher interest rate in the savings account or an interest-free overdraft limit for 10 days. Security is provided by travel insurance for overseas trips and an assistance package covering car, medical, and home insurance. The benefits also cover the membership in the loyalty programme Mastercard Priceless Specials and refund for contactless payments made by phones or a package of free text messages. Any two benefits selected by the account owner are free, after that each benefit cost is PLN 3.5 per month.

In October 2018 Konto Jakże Osobiste was awarded the EFMA Distribution and Marketing Innovation Award for the most innovative personal account.

The offer of savings and clearing accounts further includes Konto Elitarne dedicated for Private Banking, Konto Internetowe and Konta Walutowe in four major foreign currencies: USD, EUR, CHF, GBP. In July 2018 the Bank



launched a new multi-currency function which enables adding sub-accounts in USD, EUR, GBP to debit cards issued to Konto Jakże Osobiste or Konto Elitarne.

In compliance with the Act on Payment Services, in August 2018 the Bank launched Rachunek Podstawowy (Basic Account) dedicated to consumers who had had no bank account previously.

### **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 been developing innovative telephone payments using BLIK, HCE, Android Pay, and since June 2018 also Apple Pay as one of the first banks in the market.

### **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.

### **Bancassurance Products**

In 2018 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 center; some of them also in the branch network.

In 2018 the Bank extended its stand-alone product offer by insurance against cancer: "Wybieram Zdrowie" which is available for customers of the Bank via the call center. Additionally, within the PZU Group the Bank started cooperation with PZU S.A. to offer property insurance for mortgage borrowers of Alior Bank, implemented additional Assistance insurance to HP loans and started cooperation in financial insurance. In Q3 2018, the Bank modified borrowers' life insurance (PPI) offered to loans, in cooperation with PZU Życie S.A. The Bank extended its offer with life insurance with a fixed sum insured and as a result the product meets the customers' expectations to cover not only their loan obligations and generating new funds.

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, Alior Bank issued 33 securities series with the total nominal value of over PLN 1,087 M. The securities were offered publicly to individual and Private Banking customers with an adequate investment profile and to corporate customers. The issues of bank securities were characterised with 100% guarantee or principal at maturity; in case of 16 series – also a guaranteed coupon payable to customers during the investment period or at completion. The value of interest is subject to market indices, most often selected from among baskets of stocks or investment funds. 2018 saw maturity of 17 issues, the best one returned 5.79% 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". 2018 saw 13 issues of this type being carried out for a total nominal value of PLN 218 M. The issued certificates were listed at the Warsaw Stock Exchange.

In 2018 the Bank continued agency training in preparation to offer individual insurance policies in co-operation with PZU Życie S.A, Generali Życie S.A., TU na Życie Europa S.A., and Open Life TU Życie S.A. In September 2018 the sale of investment insurance offered by TU na Życie Europa S.A. was discontinued: – "Multi Select" and Open Life TU Życie S.A. – "Zadbaj o Jutro".

### **New products and services**

In 2018 the new major products and services in the commercial offer of the Alior Bank Capital Group for the individual customer segment included:

- Konto Mocno Oszczędnościowe which has become the core acquisition product among savings products and an offer from among top rated savings accounts;
- Cash loan/consolidation loan 'Pożyczka dwuosobowa' that offered an attractive price (reduction of all costs by 33%) when it was contracted by two or more borrowers;
- Cash loan/consolidation loan "Pożyczka na piątkę" with a very attractive interest rate of 5% irrespective of the loan amount – addressed to Customers who have not cash loans/consolidation loans with Alior Bank;;
- The offer of Online loans under which the Bank refunds interest on every repaid twelfth instalment;
- Launch of property insurance in cooperation with PZU S.A., available to mortgage loan borrowers of Alior Bank;
- Launch of life insurance for cash borrowers in cooperation with PZU Życie S.A.

### **Retail segment areas**

#### **Consumer Finance**

In the retail segment the Bank also offers Consumer Finance products.

In 2018 projects related to the Bank's strategy were carried out in Consumer Finance. The Bank provided its customers with alternative electronic paperless methods to conclude contracts and tightened relations with its core partner with new on-line integration.

In order to add attraction to the offer of HP loans, Additional Service Packages were launched to improve the comfort of loan repayment, the security of customers' finances and providing support in case of unpredictable events.

Technological changes, changes to sales processes and stable cooperation with Partners resulted in a dynamic growth of on-line sales, record sales results of HP loans in all distribution channels (PLN 3 billion over the whole year which was a growth by 18% versus 2017) and the number of disbursed loan agreements – 1.1 million.

#### **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. In June 2018, Hotel Europejski became a part of most recent history of Alior Bank which in that exceptional location opened its new private banking branch. In November 2018, the branch in Gdańsk changed its offices – it is now located in a prestigious location, in the tallest building on the Tricity – on the 30th floor of Oliwia Star. Alior Bank decided to create a comfortable and discreet place of meetings with customers who entrust their savings to the Bank.

As at 31 December 2018, the Private Banking department and branches employed 87 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 December 2018 was somewhat over 6 thousand.

For the second time in the survey "Private Banking and Wealth Management Survey" held by "Euromoney", Private Banking of Alior Bank was classified as the best Polish bank in terms of services for affluent customers who hold investment assets of USD 1 to 5 M. Non-financial assets of active 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 and alternative investments. Among promotional activities, it is worth noting that Private Banking of Alior Bank became the Titular Partner of golf tournaments arranged by the Association of Golf Instructors PGA SA. Another important event was a competition of Private Banking customers, organised in cooperation with MasterCard with winners attending the International Film Festival in Venice.

Konto Elitarne [Elite Account] is dedicated to Private Banking segment customers holding assets in excess of PLN 1M. The Bank charges no fees for services and transactions for 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 is involved in stock broking activities through the Brokerage House of Alior Bank as an organisationally separate arm in Alior Bank. Brokerage services are offered via Alior Bank branches and in remote distribution channels: the Brokerage House Contact Centre, the online banking system integrated with the Alior Bank system, and the Alior Trader transaction platform.

As at 31 December 2018 the Brokerage House of Alior Bank maintained 137.2 thousand brokerage and deposit and Alior Trader accounts and the value of customers' assets in the accounts was PLN 8.42 billion. Investors using the services of the Brokerage House of Alior Bank submitted over 530 thousand stock exchange orders in H2 2018 of which 97,000 were completed via Alior Giełda broker mobile application. Alior Giełda mobile application was launched by the Brokerage House in September 2016, being one of the most innovative mobile application for individual investors in Poland. It keeps increasing its share in the volume of orders.

The Brokerage House also offers participation units of Polish and overseas investment funds. As at 31 December 2018, Alior Bank co-operated with seventeen 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 H2 2018 the Brokerage House was involved solely in after-sale services. The total assets collected in investment funds via Alior Bank amounted to PLN 2.51 billion as at the end of December 2018.

Additionally, the Brokerage House of Alior Bank in cooperation with Alior TFI offers asset management services.



As at 31 December 2018, the Brokerage House of Alior Bank S.A. acted as market maker for 41 issuers and for 51 financial instruments.

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

### **T-Mobile Usługi Bankowe**

In 2018 the T-Mobile Usługi Bankowe [T-mobile Banking Services] focused on a further development of its offer as part of the existing products by adding new functionalities and facilities for Customers in line with the Digital Disruptor Strategy.

In November 2018, mobile banking offered the function of biometric login – with a fingerprint to Android (the functionality had already been available for iOS). Also in November 2018, as one of the first banks in Poland, T-Mobile Usługi Bankowe implemented to mobile banking Android and iOS the possibility to authorise selected operations with Biometry (a fingerprint for Android and a fingerprint or face scan for iOS). Additionally, also in November Customers were provided with the payment functionality BLIK OneClick which facilitates payments with BLIK codes for e-commerce.

In December 2018, online banking provides for the establishment of a Trusted Profile ePUAP.

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

In 2018 the foreign branch of Alior Bank in Romania continued its commercial activity commenced on 18 October 2017 (operating activities started on 18 July 2016). The products implemented in 2018 are: cash loans and consolidation loans offered with either fixed or variable interest rates. Additionally, sales processes were enhanced which applies to personal accounts in digital channels and the overdraft line in personal accounts in stationary channels. Additionally, last year the Romanian branch was adjusted to the changing regulatory environment that required modifications related, inter alia, to: GDPR, Basic Payment Account (PAD), etc.

The plan for the coming months includes extended sales of banking products in stationary channels: intermediaries (DSA) and brokers; and in remote channels with the possibility to verify customers' identity at opening in digital channels with a "penny transfer" as well as extended sales potential of loans by acquiring loan applications in the form of internet leads. In a longer time horizon, further work will be focused on shortening the time to activate products at filing mobile applications. A plan exists to extend the selection of products with credit cards.

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, savings accounts and term deposits. The products are available at [www.telekombanking.ro](http://www.telekombanking.ro) and in the network of 46 sales outlets called "SiS" (as at 31.12.2018), located in Romania's largest cities. Alior Bank's banking products are offered directly by Telekom Romania at 232 outlets all over the country.

As at 31 December 2018, the Branch in Romania employed 144 people (61 FTEs in the Head Office and 83 FTEs in SiS).



## **Bancovo**

- Bancovo is Poland's first loan marketplace for individual customers, operating in the dynamically growing market of online financial intermediation.
- BANCOVO – a fully digital platform for financial intermediation – opened its operations on 6 March 2018. As a result, for the first time in Poland customers got an online access to real offers of many banks and lending companies. The brand is owned by NewCommerce Services sp. z o.o.
- The platform offers a comparison of offers of financial institutions and a possibility for fast and easy (minimum formalities for customers and institutions) to go through the entire process of acquiring cash (end-2-end).
- The innovative solutions applied in BANCOVO (big data + machine learning systems) support obtaining loans online in a simple and friendly manner. On the basis of the best UX practices, the required data has been limited to a minimum. Within a minute, the customer gets real offers from banks and lending companies to choose from and with a transparent presentation the customer may choose the solution that suits him/her best. The contract is concluded over the Internet subject to top security standards. The Platform provides its Partners with appropriate quality customer profiles due to such tools as prescoring or an anti-fraud shield.
- Bancovo is offered to a growing consumer group using e-commerce and online services – about 70% of those customers are aged under 40.
- About 80% of customers of the platform are now customers of 7 largest banks in Poland.
- As at 31 December 2018, the platform provides offers of 12 financial institutions and lending companies; more partners will join in 2019.
- To financial institutions, Bancovo offers, inter alia, a complementary and cost effective distribution channel in the fast growing segment of online loans.
- BANCOVO aspires at becoming a digital centre of customers' personal finances. The solution is scalable; it has an open architecture so it can easily be implemented also in other countries.

## **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 31 December 2018, Alior Bank serviced over 192,800 business customers and the total credit exposure amounted to PLN 22.7 billion. The offer of Alior Bank for enterprises and the service quality of business customers have been appreciated by independent experts. In 2018 Alior Bank was classified first in the prestigious ranking of "Forbes" as the "Most friendly bank for companies" and "Bank recommended for companies".

### **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 2018 the number of newly opened accounts was 22,495 or by 4,223 more versus 2017 (18,272 accounts) which was a growth by 23% 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. Individual customers may also open company accounts by completing an application in the online banking system. Via remote channels, micro entrepreneurs may open the following accounts: iKonto Biznes, Rachunek 4x4 or Rachunek Partner. In the bank's branches, business customers most often select Rachunek Partner with a Mastercard Debit Commercial. Along with the Partner account, we promote "Cashback for entrepreneurs" which guarantees a fixed fuel price at fuel stations in Poland – only PLN 3.90 per litre. The maximum amount of refund for fuel purchases is PLN 100 monthly. All the above accounts are addressed to entrepreneurs using a simplified accounting system.

The offer is supplemented with Rachunek Wspólnota for housing communities and Rachunek Bezpieczny offered to entrepreneurs who wish to become insured against effects of accidents.

The offer of accounts for business customers who keep books of account covers the following accounts: Biznes Optymalny, Biznes Komfort and Biznes Profil under which the customer selects the offer of account and transactions to the company's profile.

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

The web portal of Alior Bank for micro entrepreneurs [www.zafirmowani.pl](http://www.zafirmowani.pl) was expanded with new functionalities, for instance automatic import of data from the Central Registration and Information on Businesses and the base of the Central Statistical Office in the new user registration process and when inputting new counterparties for account settlement. Portal users were also provided with a credit calculator – the tool supports customers with their calculation of the company's creditworthiness and a possibility to loan applications. For companies looking for alternative forms of financial support, a search engine for EU support has been launched. Additionally, portal users may refer to a special offer for enterprises developed by PZU. New users may also apply for a company account and payment terminal at the registration in the portal. Enterprises using the online accounting application may also use online collection and microfactoring services. Since June 2018, on-line accounting has been offered also to entrepreneurs paying lump-sum taxes.

### **New products and services**

- 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 packages: cash, domestic, foreign and savings. The packages offer an opportunity for entrepreneurs to use a broad range of facilities and rebates versus standard fees and commissions. Each package is priced at only PLN 10 monthly. The account was launched in June 2018 and soon became popular among entrepreneurs – now it accounts for as much as 25% sales of all company accounts;
- Virtual advisor (DRONN) – in compliance with the Digital Disruptor Strategy, it is used in the process of account sales. The system is based on artificial intelligence technology relying on speech synthesis and natural language analysis. DRONN collects data from the CEIDG base, contacts owners of newly set up businesses and presents the offer accounts from Alior Bank and holds meetings in collection campaigns;
- JPK\_WB format files – entrepreneurs are offered an opportunity to generate such files directly from the electronic banking system.



## **New regulations for the business customer segment**

- Split Payment Mechanism – opening of VAT accounts for entrepreneurs, providing for transactions in the split payment mechanism and handling of outgoing transfers in line with the new principles;
- regulatory and systemic changes in the context of the General Data Protection Regulation (GDPR);
- PSD2 – adjustment of documentation the requirements of the Act on payment services consisting in: reduction of transactional costs with the exclusion of OUR option for foreign transfers in EEA countries in any currency, regulation and extension of supervision over new payment services, payment standardisation on the international scale, extension of disclosure requirements for providers of payment services, reduced liability for consumers for losses resulting from unauthorised transactions, change of the time to review complaints, extension of consumer protection tools to transactions outside EEA member states and improved transaction security – implementation of strong authentication of customers at initiating payment transactions.

## **Settlement and transaction products**

Developing the functionalities of debit cards, Alior Bank was among few banks in Poland to offer the Apply Pay service to its business customers. As a result, Apple users will be able to make fast and secure payments with iPhones or Apple Watches – they should only add their company card of Alior Bank to the “Wallet” application on their device.

Alior Bank is the only bank in Poland to offer a Multicurrency Mastercard Debit Commercial for companies with access to 23 currencies without conversion. A sub-account may be attached to the card in each of the following currencies: EUR, USD, GBP, SEK, NOK, CHF, AUD, CAD, CZK, RUB, HUF, JPY, TRY, RON, BGN, ZAR, MXN, HRK, CNY, THB, ILS, HKD, DKK. Customers may also manage sub-accounts attached to the card over online banking and have access to mobile payments: ApplePay and GooglePay. The offer is addressed to all companies involved in foreign currency transactions.

The card offer was additionally extended with a new credit card MasterCard Business LOTOS which provides access to modern financial solutions and guarantees a number of benefits to entrepreneurs:

- PLN 0.20 rebate on each litre of premium fuel;
- PLN 0.16 rebate on each litre of standard fuel;
- 10% rebate for car wash and windscreen washers and the catering offer at Cafe Punkt.

The offer is addressed to entrepreneurs who apply simplified accounting and hold a company account with Alior Bank.

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

The package 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 commenced work on extending its offer of cash services to customers. Cash deposit machines were placed in the bank's branches and cooperation was extended with the bank's core provider of cash services. As a result, business customers have access to a larger number of counting rooms to which they can make direct sealed cash deposits.





## **Loans for business customers**

The 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. The Credit Package is the most important product for micro and small enterprise segment customers and small companies with simplified accounting – the package provides for credit decisions even within 30 minutes and transactions may be closed with just one contact with the bank. Pursuing the Digital Disruptor strategy, the Bank has provided an opportunity to process financing within the Credit package also on mobile devices. The use of iPads will largely reduce the number of paper applications and loan agreements – they will be signed fully digitally on touch screens. Bankers will also be able to process applications and sign loan agreements during one visit with the customer.

Companies in the medium-sized segment may use a standardised credit offer providing fast access to financing. Alior Bank treats each customer individually and develops offers dedicated for specific entities. The Regional Business Centres work closely with the experts on Trade Finance, Treasury Products, and Transactional Products to ensure the best matching of the offer to the actual needs of customers.

To the largest companies Alior Bank offers standard products and specialist finance management services.

Alior Bank has been actively developing its financing offer for entities in the agricultural and foodstuff sector, adequately to match different legal forms and types of business operations. In 2018 the Bank launched a new competitive offer for farmers which provides for comprehensive financing for farms. A fully automated Credit package was made available to food sector companies. In line with the strategy, Alior Bank has been developing modern forms of financing in the food production and distribution chain, while at the same time seeking to reduce the administrative burden for customers. At the end of 2018, the Bank's total exposure to Agro sectors increased by PLN 2.2 billion.

## **New products and services**

- A credit package on bankers' mobile devices (iPads) – a possibility to carry out a complete credit process electronically – from filing the application until execution of the loan agreement – during one visit of a bank's representative to the company's offices;
- COSME guarantees at franchise outlets – this form of loan collateral was launched to franchise outlets in order to further develop a stable loan portfolio;
- an increase of available credit limits and access to loan applications in electronic banking as a pre-approved offer for sole proprietorships;
- multiproduct limit – an additional functionality to analyse an additional product potential with customers;
- credit card Mastercard Business LOTOS with a package of rebates for fuels and for business customers using simplified accounting – the card provides for fuel rebates and rebates for car wash and catering offer at LOTOS fuel stations.

## **European funds and aid schemes**

Alior Bank is an active participant in government schemes for support to small and medium-sized enterprises.

With the guarantees granted by Bank Gospodarstwa Krajowego (BGK) under the de minimis government programme, since 2013 Alior Bank has granted over 41 thousand loans totalling almost PLN 14 billion. Alior



Bank is ranked second in terms of volumes of sold de minimis guarantees. In June 2018, Alior Bank signed an agreement with Bank Gospodarstwa Krajowego on providing de minimis guarantees under the National Guarantee Fund. This is a continued agreement on de minimis guarantees. We intensified sales of COSME guarantees financed with the European Investment Fund – at the end of 2018, we had over PLN 1,250 million worth of guarantees granted to almost 7,000 customers.

Alior Bank is the only bank to have signed an agreement with Bank Gospodarstwa Krajowego to finance access to fast Internet. With this contract, our customers in the telecommunications industry may obtain the so-called broadband loan, or investment or liquidity financing for the development of optical fibre networks. We offer loans with preferential interest rates from PLN 20 thousand to PLN 10 million with repayment period up to 15 years. So far we have granted 10 loans totalling PLN 30 million.

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 cover as much as 80% of the loan amount. Loans covered with the 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 may be refunded interest paid over 3 years from disbursement of the financing.

The Bank also provides companies with comprehensive support in obtaining subsidies and their effective and safe settlement. We offer to our customers examination of the availability of EU funds and a review of specific conditions to receive a subsidy. As part of our “European Package” we offer loan commitments and bridge financing. Customers may also obtain a loan to finance their own investment contribution with subsidies and a loan for technological innovations.

### **New products and services**

- Thermal Upgrading Loans – a new offer developed to finance comprehensive energy modernisation (in other words – thermal upgrading) of multi-family residential buildings, addressed primarily to housing and communities cooperatives and Social Construction Associations (TBS) from the Province of Łódź. 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). In H2 2018, Alior Bank signed an agreement with Bank Gospodarstwa Krajowego for thermal modernisation loans in two provinces: Dolnośląskie and Podlaskie. Sales of the products in those provinces will start in Q1 2019;
- In December 2018, Alior Bank signed agreement with BGK on new guarantee instruments:
  - Guarantees for telecommunications companies funded by the Operational Programme Digital Poland;
  - Guarantees “Creative Europe” – a new guarantee instrument by BGK, addressed to Polish SMEs in the sphere of culture and creative sector. Loan repayment guarantees of Bank Gospodarstwa Krajowego may secure loans up to PLN 8.4 M and cover as much as 80% of the loan amount. Guarantees are issued for up to 27 months (working capital loans) or 99 months (investment loans). The commission is as little as 0.25%.

### **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.



Alior Bank as one of five banks in Poland, in January 2018 signed an agreement with Bank Gospodarstwa Krajowego on risk participation in confirming exports L/Cs. With the instrument, Alior Bank is able to confirm and discount export L/Cs coming from increased risk countries (e.g. Belarus, Russia, Kazakhstan, South American countries). This operation is an element of supporting Polish exports. A similar solution is offered by Alior Bank also in cooperation with KUKI S.A.

To expand its cooperation with KUKI S.A., in October 2018 Alior Bank launched a buyers' credit. This consists in providing direct financing to the importer's bank to facilitate purchases of Polish goods or services. The initiatives are in line with the Sustainable Development Strategy which provides for consolidation of activities to support export expansion by Polish enterprises to new and difficult markets.

Additionally, Alior Bank continued the process of change to handling Housing Trust Accounts and its efforts to replace paper applications filed by customers with electronic applications. In December 2018 the Bank provided new functionalities to first customers. By the end of Q1 2019, the functionalities will be available to all customers who are developers and who wish to rely on electronic communication with the bank in relation to statements and disbursement of tranches from Housing Trust Accounts.

In 2018 new regulations became effective implementing Split Payment Mechanism (SPM). As a result, it was necessary to modify the Bank's factoring offer and make major modifications to the IT systems used in handling factoring transactions. Alior Bank was one of the first institutions to implement solutions to handle incoming transactions and to offer financing applying the Split Payment Mechanism in all types of its factoring services.

Modifications were made to the factoring offer and in the Bank's internal processes in order to become more competitive among SMEs, to shorten and simplify decision processes and documentation.

## **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.

In 2018 the Bank focused on optimisation of existing and launch of new solutions in online and mobile banking.

## **Digital sales**

The organic growth of remote channels and activities enabled to achieve significant increases in sales in the digital channel both for individual customers (increase in the sales volume of cash loans by 44% y/y, current accounts by 51% y/y) and businesses (increase in sales of KB current accounts +80% y/y). In the pre-approved process of loan sales on the basis of prepared offers, 64% of sales are made over the mobile application.

## **New online and mobile banking**

Electronic banking underwent a number of optimising efforts concerning products for business customers. The new electronic banking system (nAIB) and BusinessPro have been adapted to take over the handling of those customers using the previous system ("old AIB") to be discontinued at the end of Q1 2019.

The new online banking system (nAIB) and mobile banking have been expanded, inter alia, by the following functionalities supporting the execution of serial payments, payment for invoices by scanning QR code and



information exchange with the bank. New functionalities were added concerning handling of credit cards – change of PIN and change of daily payment limits.

The new online banking system (nAIB) and mobile banking have also been adapted to the requirements of the GDPR directive. Modifications have also been made to BusinessPro.

Additionally, both electronic banking systems provide for a possibility to download bank statements in the form of Standard Audit Files for Tax, handling of Vat Split Payments and a fast method to be redirected to the "Zafirmowani.pl" platform. Additionally, functionalities have been implemented of multi-currency cards, Elixir transfers and a possibility to file loan applications online.

Much attention was devoted to the project – Alor Trader – access to AT accounts in Business Pro. and new Alor Factor, which was implemented in January 2019, and the application will be made available to Customers in accordance with the agreed timetable for migration of factoring applications, starting from February 2019.

The Bank took steps to integrate the banking system with IFD (it will be fully closed by the end of January 2019) and to adapt to PSD2 directive in the area of cost opinions.

In order to adapt the electronic banking system BusinessPro to the needs of migrated companies, the graphic design of the system was changed in compliance with suggestions provided by customers. The new electronic banking (nAIB) keeps being expanded with functionalities required to service sole proprietorships in order to assure an adequate service standard to those customers.

## Treasury activities

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

- outright currency exchange and hedging FX risk;
- 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 Alor 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 Alor 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 algotrading 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, directly in online banking. 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. The currencies available in Autodealing are as follows: PLN, EUR, USD, GBP, CHF, and additionally for Business Pro users: SEK, NOK, and 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 cards 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.

In 2018, the Bank adapted its treasury activities to the MiFID Directive<sup>5</sup> and the MiFIR Regulation<sup>6</sup>. In particular, the following were implemented:

- concept of target markets;

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<sup>5</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU and the secondary regulations thereto.

<sup>6</sup> Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.



- the process of best execution for customers;
- the process of notifying customers of the costs and fees relating to transactions (disclosure of transactional margins);
- the duty trade the instruments disclosed in the ESMA register in regulated markets, MTF or OTF (Trading obligation);
- transaction reporting to supervisory authorities: ARM (Approved Reporting Mechanism);
- APA reporting (Approved Publication Arrangement) – post-transactional transparency.

Additionally, starting from 1 September 2018, the Bank has been acting as an entity regularly internalising T bond transactions (MIC code: SIAB) and with respect to bonds classified as liquid instruments – it has been providing customers with its guaranteed transactional quotations. In the Bank's opinion, the implemented processes will provide for enhanced protection of the Bank's customers.

## Capital investments

Capital investments of Alor 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;
  - Securities available for trading, equity securities not admitted to trading and NYSE.
- 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 31.12.2018		Status as at 31.12.2017	
	number	market value / nominal in PLN	number	market value / nominal in PLN
<b>Stocks</b>	602 988	247 884	584 789	293 577
<b>Listed</b>	492 788	242 384	426 716	292 365
<b>Not listed</b>	110 200	5 500	158 073	1 212
<b>Bonds</b>	3 847	248 963	3 910	275 729
<b>Investment Certificates</b>	832	77 897	773	88 795

## New products, activities and plans at the Bank Capital Group

Alor Bank primarily focuses on domestic growth, being open to international expansion and new growth opportunities – tactical activities and priorities are adjusted to business growth, the regulatory environment and technology development.

Adopted in 2017 the implementation plan of the Digital Disruptor Strategy assumed an organisational structure and activities covering consistent implementation of initiatives planned for a 3-year Roadmap of the Digital Disruptor. Deliverables of project-related activities include successive implementation of new functionalities,



products and services of priority importance for our customers, which ensure attainment strategic goals of Alior Bank. At the year-end 2018 we reviewed the Streams, adjusting strategic areas to the challenges for 2019-2020.

In the light of the announced Strategy until 2020, the Bank maintains that the implementation of the following initiatives will be done with regard to:

- Individual customer – delivery of transparent products, improvements, and process optimisation and undertaking actions aimed at increasing the core relation with the Bank among its customers;
- Corporate customer – multi-product and fast lending decisions, implementation of a new KB lending system and active operations in the area of daily banking income;
- Digital First and robotic process automation – further development of mobile applications and online banking for customers (new functionalities) and robotic process automation, not only in backoffice;
- Client-centricity – focusing on the identification of the customer's needs, delivery of products centred on the customer, both individual and corporate.

Alior will, too, remain open to expansion and new growth opportunities:

- OPEN API – ensuring technological readiness to possibilities underlying PSD2 and a pro-active approach to those solutions, readiness to develop new services in collaboration with Fintech on an OPEN API platform;
- Fintech ecosystem – including, continuation of the Accelerator's another editions.

RBL\_START – a programme developed by Alior Bank addressed to start-ups all over the world to identify innovative projects, developing them in line with business needs and commercialisation (both within the bank's own systems and among its business partners). In 2018 the first edition of the programme was held during which 8 start-ups – selected from almost 100 candidates – were covered with a 15-week acceleration programme. Over that time the participants were provided with solid support by mentors from the Bank and programme partners to develop a cooperation model and to potentially implement their ideas at the Bank and in PZU that was the core partner of the first edition of RBL\_START. Additionally, the Bank provided the users with access to API Sandbox, being a test environment to display services related, inter alia, to the PSD2 directive. The test laboratory RBL\_LAB carried out tests with customers of prototype solutions developed by start-ups so that the target product could be best adapted to the users' needs. Throughout the programme, the start-ups had access to the modern space of RBL\_, located in Warsaw Spire in the centre of Warsaw. The effects of the accelerator include pilot projects now carried out with selected start-ups at Alior Bank and PZU. A success that accompanied the programme was an investment made by Alior Bank in PayPal that was covered with the accelerator.



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

Alior Bank S.A. Capital Group as at 31 December 2018



<sup>1</sup>As at 31.12.2018 Alior Bank S.A. held 16.66% shares in Polski Standard Płatności sp. z o.o. with its registered office in Warsaw (the shares were acquired on 11.08.2014), and 20% shares in G TR Finanse Sp. z o.o. (registration of the company's change to PayPo sp. z o.o took place on 4/01/2019). The acquisition of shares took place on November 15, 2018. The companies are not consolidated

At the end of the reporting period the following were member companies of the Alior Bank S.A. Capital Group: Alior Bank S.A., as the parent entity and subsidiary companies in which the Bank directly holds majority interests plus a 100% subsidiary of Alior Leasing Sp. z o.o.

No change in the structure of the Alior Bank S.A. Capital Group occurred during the reporting period. As a result of a series of transactions held in March 2018, Alior Bank S.A. increased its stake in Alior TFI S.A. to 91.48% and as a result, on 30 April 2018 it announced a forced buyout procedure of the remaining shares in the company pursuant to Art. 82.1 of the Act on Offering. As a result of executing and settling transactions under the Forced Buyout, since 07.05.2018 the Bank has held 100% of shares in Alior TFI SA. In June 2018, modifications to the Company's Articles of Association were registered as made pursuant to resolution of the





Company's Ordinary General Meeting of 25.04.2018. The changed covered, inter alia, change of the name of Money Makers Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna to Alior Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna.

On 31 December August 2018, the Extraordinary General Meeting passed a resolution approving the liquidation financial statements and split of the Company's assets

### 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.

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 2018 Alior Leasing concluded new contracts for PLN 3.0 billion (+92% vs. the last year). As a result, the loan portfolio financed by the Company grew to PLN 3.9 million at the end of December 2018 vs. PLN 1.7 billion as at the end of 2017. At the end of 2018, the Company serviced 48.6 active contracts (a growth by 178% versus the previous year) concluded with 35.1 customers (a growth by 186% versus the previous year).

85% of contracts concluded by Alior Leasing relates to vehicle financing. As at the end of 2018, the Company's share in the lease market in the segment grew to about 5%.

In 2018 the Company's management board decided to launch a new innovative product called "Alior Stróż" – a product of comprehensive services to vehicle users by offering vehicle financing in the form of a lease or a loan with a package securing the vehicle and the Customer for the price of an insurance package "więcej za mniej" [more for less].

By resolution of 19.03.2018, the Extraordinary General Meeting chose to increase the Company's share capital from PLN 15,003,000.00 to PLN 15,004,000.00 (this increase was registered by the registry court on 28 March 2018) and has not been changed until today. As the sole shareholder the Bank acquired the newly issued shares. Continuing its efforts to transform the legal form of Alior Leasing into a joint stock company, on 19.11.2018 Alior Bank as the sole shareholder approved a resolution to transform the company into a joint stock company under the name of Alior Leasing S.A. and filed a statement on continued participation in Alior Leasing S.A. as the transformed company with all the shares in the company attributable to the Bank.



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

Alior Bank 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. operates in the insurance market. The Company's business covers the activity of insurance agents and brokers.

### 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.) was established with the following purpose: (i) using sales opportunities of non-financial products and services; (ii) expanding 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: (i) search for and attracting external partners to cooperate in offering non-banking services; (ii) establishing business contacts between customers and external partners, (iii) acting as an insurance agent. In 2018, the Company launched pilot projects related to (i) cooperation with PZU on validation of a customer rating model in guarantee approval processes, (ii) sales of exclusive products, and (iii) DRONN – preliminary enforced collection of insurance premiums.

### 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. covers three areas: asset management (management of portfolios of individual/private banking customers), insurance offers of investment funds and management of Alior SFIO sub-funds.

As a result of the fact that on 07.05.2018 Alior Bank S.A. reached 100% in the share capital of Alior TFI S.A. On 04.07.2018, the Extraordinary General Meeting approved a resolution on reversing share dematerialisation and withdrawing the Company from being traded at NewConnect, operated by the Warsaw Stock Exchange. The Polish Financial Supervision Authority agreed to restore the document form to all the dematerialised shares of the company (reversed dematerialisation) on 25.09.2018.

Additionally, the Company's Management Board disclosed in its Current Report 19/2018 of 14.06.2018 that it had learned about the registration of modifications to the Company's Articles of Association, made pursuant to the resolution of the Ordinary General Meeting of 25.04.2018. The amendments covered, inter alia, change to the Company's name from Money Makers Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna to Alior Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna.



### 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: (i) services related to IT and computer technologies; (ii) IT consulting activities; (iii) 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.

The company pursues one of the key initiatives of the Digital Disruptor strategy, namely launch of a fully digital financial intermediation platform, first of its kind in Poland.

With the platform operating as BANCOVO., customers, for the first time in Poland, will have access to actual loan offers – from banks and lending institutions. And in future also to mortgage loans and insurance offers. BANCOVO is said to be the most convenient and innovative platform. As it will utilise some state-of-the-art technological solutions and direct integration with financial institutions, the process of selecting an offer, concluding a loan agreement is intuitive and quick for the customer.

NewCommerce Services sp. z o.o. started its operations on 6 March 2018. Until 2020 the company is expected to become number 1 in online financial intermediation. By the end of 2018, on its platform the company activated 11 partners – banks and lending companies.

In 2018 NewCommerce Services sp. z o.o. started cooperation with Biuro Informacji Kredytowej so that customers could verify their status with BIK.

The company was granted a Banking Technology Award 2018 in IT.

By resolution of 26.06.2018, the Extraordinary General Meeting chose to increase the Company's share capital from PLN 400,000.00 to PLN 500,000.00 (this increase was registered by the registry court on 30.11.2018). As the sole shareholder, the Bank acquired the newly issued shares.

By resolution of 20.11.2018 the Extraordinary General Meeting decided to increase the Company's share capital from PLN 500,000.00 to PLN 600,000.00. As the sole shareholder, the Bank acquired the newly issued shares.

### Centrum Obrotu Wierzytelnościami Sp. z o.o. (company in liquidation)

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

The purpose of the company was to expand its business on the debt market and debt trading also outside the Alior Bank Capital Group. In 2017 further development of this line of business was abandoned. In December 2017, the Extraordinary General Meeting of Shareholders chose to dissolve COW Sp. z o.o.

On 31 August 2018, the Extraordinary General Meeting passed a resolution approving the liquidation financial statements and split of the Company's assets.



### 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.

In 2018 the Bank – as a PZU Group company – in all its subsidiary companies implemented the duties set forth in the Act on the principles of managing state-owned property and the duties set forth in the Act on remuneration rules of persons managing certain companies.



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

### **Communication of the Polish Financial Supervision Authority identifying Alior Bank S.A. as other systemically relevant institution and on imposing a buffer of other systemically relevant institution**

On 31 July 2018, the Polish Financial Supervision Authority – acting pursuant to Art. 39 of the Act on macro-prudential oversight of the financial system and crisis management in the financial system, having consulted the Financial Stability Committee (acting as a competent body in the sphere of macro-prudential oversight), unanimously identified Alior Bank S.A. as other systemically relevant institution and imposed on the Bank a buffer (on its stand-alone and consolidated basis) of other systemically relevant institution in an amount equivalent to 0.25% of its total risk exposure, calculated in compliance with Art. 92.3 of the EU CRR Regulation (No. 575/2013).

### **Closing of analyses and negotiations on potential merger with Bank Polska Kasa Opieki S.A. ("Bank Pekao")**

On 7 August 2018, the Bank's Management Board published confidential information (delayed from 29 May 2018) in accordance with which Alior Bank found the merger option with Bank Polska Kasa Opieki S.A. (under which the shareholders of Alior Bank would be issued shares of the combined bank) as constituting an opportunity to generate potentially additional value for the Bank's shareholders from among cooperation strategies pursued between Alior Bank and Bank Pekao. Additionally, on 29 May 2018 Alior Bank decided to open negotiations on selecting an optimum formula of the potential merger of Alior Bank and Bank Pekao.

Additionally, the Bank's Management Board informed that Alior Bank and Bank Pekao failed to reach agreement on the terms of the merger that in the opinion of the Management Board of Alior Bank could generate potentially additional value for the shareholders of Alior Bank.

In this connection, on 7 August 2018 the Bank's Management Board discontinued further negotiations with Pekao concerning the merger of both banks.

The Bank informed that it intended to continue its consistent efforts to pursue its existing Digital Disruptor Strategy and further development within the PZU Group on a stand-alone basis.



### **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. The transaction will increase the Bank's capital buffers by increasing its Tier 1 capital ratio by 26 basis points when the full contract limit is utilised. As a result of the transaction, the Bank's potential in further financing of SMEs will be increased.

With the support from EIB under the Juncker Plan, the securitisation transaction will contribute to triggering new lending potential in the Alor Bank Group for SMEs at more advantageous interest rates.

The transaction was split into three tranches: junior, mezzanine and senior, where the risk of the junior tranche remains with Alor 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).

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

### **Dividend policy**

Pursuant to the existing strategy, Alor Bank envisages attaining its capability to disburse dividend in 2020 at a maximum level of 25% of the 2019 profit.

Such a dividend disbursement level means that additional PFSA buffers disclosed in a letter of 18 January 2019 do not affect these plans, and thus the assumptions of the Bank's strategy.

### **The resignation of the Member of the Bank's Supervisory Board**

On 31 January 2019 professor Małgorzata Iwanicz-Drozdowska informed about her resignation from the position of the Member of the Bank's Supervisory Board, effective on the same day.

### **Acquisition of SKOK "Jaworzno"**

On 31 January 2019, Alor Bank was provided with consent of the Polish Financial Supervision Authority (PFSA) to take-over Spółdzielcza Kasa Oszczędnościowo-Kredytowa "Jaworzno" (SKOK Jaworzno). The decision was preceded with a positive decision of the Office of Competition and Consumer Protection (UOKiK) for concentration. 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 will take place and SKOK Jaworzno will be acquired by the Bank.

### **Extension of the authorization to use the AMA application**

In reference to the current report no 88/2017, dated on December 22nd, 2017, the Management Board of Alor Bank S.A. with its registered office in Warsaw ('the Company', 'the Bank' or 'the Issuer') hereby informs that on February 14th, 2019 the Bank received clearance from the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) for the material extension and joint application of:



- AMA (Advanced Measurement Approach) – with respect to the activities of Alior Bank SA, taking into account the historical effects of Bank BPH SA's operations in the scope of the acquired part (BPH Core) excluding the branch in Romania;
- Standardized approach for the branch in Romania;

for the purpose of calculating the requirements with respect to own funds from operational risk effective from February 14th, 2019.

The granted clearance reflects the closure of a complex project aimed at the enhancement of the Issuer's operational risk management processes and unification of operational risk management in merged banks. Its effects are reflected in the Bank's operational risk profile as well as the quality of the risk management process in many areas such as operational risk losses or the measurement of operational risk based on the advanced measurement approach.

As a result of AMA implementation within the scope defined by clearance received both on December 22nd, 2017 and February 14th, 2019, Alior Bank's Tier 1 ratio will be increased by ca. 37 basis points and the TCR ratio will be increased by ca. 45 basis points.

**Approval of the Polish Financial Supervision Authority to entrust Mr. Marek Szcześniak function of a Member of the Management Board supervising the management of significant risk in Alior Bank's activity.**

On February 26th, 2019, the Polish Financial Supervision Authority unanimously expressed consent to entrust Mr. Marek Szcześniak function of a Member of the Management Board supervising the management of significant risk in Alior Bank's activity.

**Approval of the Polish Financial Supervision Authority and adoption by Supervisory Board of Alior Bank S.A. the resolution regarding the appointment of Mr. Krzysztof Bachta as the President of the Bank's Management Board**

In connection with the decision of the Polish Financial Supervision Authority, adopted on February 26th, 2019, expressed consent to appoint Mr. Krzysztof Bachta as the President of the Management Board of Alior Bank S.A., the Bank's Supervisory Board on February 27th, 2019 adopted a resolution on appointment of Mr. Krzysztof Bachta, Vice-President of the Management Board, as the President of the Management Board of Alior Bank Spółka Akcyjna.



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

### Public offer of the Bank's bonds

Pursuant to the Resolution of the Bank's Supervisory Board of 23 August 2017, until 12 October 2018 the Bank pursue a second opened public bond issue programme (Second Public Issue Programme) with a maximum value of PLN 1,200,000,000, issued in series in line with Art. 33.1 of the Act on Bonds pursuant to a core prospectus, of which the Bank notified in its Current Report No. 47/2017 of 23 August 2017.

On the basis of the core prospectus for the Second Public Issue Programme, they could issue up to 12,000,000 unsecured, non-subordinated, or subordinated bearer bonds with a nominal value of PLN 100, or a multiple of this amount, with a maturity of up to 10 years from on the day of issue of relevant series of bonds, whereby the Bank's Management Board was entitled to determine the terms of issue of individual series of subordinated bonds in such a way that:

- the total nominal value of all subordinated bonds issued on the basis of the Prospectus (as defined below) remained at or below PLN 600,000,000;
- the unit nominal value of the subordinated bonds was PLN 400,000.

In 2018 no issue of subordinated bonds was made under the Second Public Issue Programme. On 12 October 2018, both the Second Public Issue Programme and the base issue prospectus expired.

### Non-public issue of the Bank's bonds

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.

In 2018, under the Issue Programme the Bank made no issues of subordinated bonds – it held one non-public issue of short-term series L ordinary bonds:

Series name	Bond type	ISIN	Series value (PLN)	Issue date	Redemption date	Listing market
L	ordinary	PLALIOR00243	15,200000	2018-11-30	2019-07-01	the bonds are not listed





### **Non-public issue of series L ordinary bonds**

On 30 November 2018, pursuant to Article 33.2 of the Act on Bonds, the Bank issued 1,520 short-term bearer series L bonds with a nominal value of PLN 10,000 each and a total nominal value of PLN 15,200,000. Bonds were issued in accordance with Article 33.2 of the Act on Bonds. The bonds bear interest at a fixed interest rate of 2.15% p.a. They are 7-month bonds and the redemption date on 01 July 2019. Information on Resolution of 06 November 2018 on series L bond issue adopted by the Bank's Management Board was disclosed in Current Report No. 58/2018 of 6 November 2018.

On 30 November 2018, bonds were registered with KDPW S.A. and marked with ISIN PLALIOR00243 code. The bonds are not listed.



## XII. Risk report of Alior Bank

Risk management is one of the most important internal processes at Alior Bank S.A., as well as in the foreign branch and in subsidiaries of the Alior Bank S.A. Capital 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 implementation of the strategy and aims to ensure an adequate level of profitability and business safety through effective risk level control and its maintenance as part of the adopted risk appetite.

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

- credit risk (including concentration risk);
- interest rate risk in bank's books;
- market risk (including: the interest rate risk, the exchange rate risk, and the 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. is based on three independent lines of defence. The first line of defence is implemented in the Bank's operational units and with process owners who develop and implement compliance with control mechanisms in processes. The second line of defence is implemented in organisational units responsible for managing individual risks. It performs a management function within which risk management is implemented on dedicated positions or in organisational units, regardless of the first line, and the activity of the compliance unit. The third line provides senior management and the Supervisory Board with assurance that activities of the first and second line are compliant with their expectations. The third line of defence involves activity of the internal audit unit.

Of 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 (including: the interest rate risk, the exchange rate risk, and the commodity price risk).



## Credit Risk

Credit risk management and its maintenance at a safe level, defined in the risk appetite, is of fundamental importance for the Bank's stable operation and development. The credit risk control is applied by the 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 regulations in force at the Bank, in particular loan methodologies and risk assessment models adapted to the customer's segment, type of product and transactions, rules for establishing and monitoring legal collateral for loans and monitoring and debt collection processes.

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, the Bank – when approving a credit product – 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 take 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 ends with recommendations concerning the strategy of further co-operation 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**

The concentration risk is analyzed at the Bank in relation to lending activities and defined as a threat resulting from excessive involvement of the Bank in:

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

characterized by the potential to generate large losses enough to threaten the financial condition of the Bank.

The Bank identifies and assesses the concentration risk by analysing the portfolio structure relative to risk factors (exposures) relevant for credit risk, and on this basis groups of exposures are identified whose excessive concentration is undesirable and in extreme conditions may generate losses that exceed the Bank's credit risk appetite. The knowledge of potential hazards related to exposure concentration supports liability management and development of a safe structure of the loan portfolio. In order to prevent adverse events resulting from excessive concentration, the Bank limits the concentration risk, applying concentration limits resulting from external regulations and observing the internally accepted limits and 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 indication

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 or 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 31.12.2018	
Customer Segment	Threshold value in PLN
Retail customers	No threshold
Business customers	1,000,000

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 scenarios 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 taken into account 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 Basket/Stage 1 (or LCR) and a model of anticipated losses estimated for the period until the maturity of exposures classified to Basket/Stage 2 (including POCI).



## **Collateral**

The Bank establishes collateral in a manner adequate to the credit risk to which the Bank is exposed and which is flexible vis-a-vis customers' potential. Collateral does not release the Bank from its obligation to verify the customer's creditworthiness.

Loan collateral is to secure that the Bank will have the loan repaid along with interest and expenses due should the borrower fail to repay on the contractual dates and any restructuring activities fail to generate the anticipated effects.

Collateral is verified in the credit process for its effectiveness to secure the Bank, its liquidity, market value is measured as its realisable value in a potential enforcement process.

## **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 micro enterprises, 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 properly reflect the relevant risk aspects. Additionally, functional controls are applied to verify the correct application of models in the credit process.

The currently applied scoring models 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 the 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 taken into account 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 90 days in restructured accounts in each quarter, as at the end of each quarter after restructuring.

The monthly presentation submitted to the Management Board contains results of the above monitoring of the restructured portfolio.



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

For 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**

### **Definition of operational risk**

Operational risk is a risk of a potential loss occurrence due to inappropriateness or failure of internal processes, humans, and systems or external events. The operational risk covers the legal risk, but does not include the reputational risk and the business risk.

### **The objectives of operational risk management**

The objective of operational risk management in the Bank and the Group is to maintain the operational risk at a safe and adequate level for the Bank's business, objectives, strategy and development, as well as acceptable by the Bank's Management Board and Supervisory Board.

### **Operational risk measurement and assessment**

The Bank has a formalised operational risk management system within which it prevents the occurrence of operational events and incidents and mitigates losses should the risk materialise.

Operational risk management covers identification, measurement and assessment of operational risk, management activities as well as monitoring and control of the risk at all levels, starting from organisational units responsible for operational risk management in their respective areas, operational risk coordinators, to the Operational Risk Management Department, the Operational Risk Committee to the Management Board and the Supervisory Board.

Within its identification of operational risk, the Bank collects data on events and losses in the Bank and its subsidiaries. The operational risk is measured and assessed with quantitative metrics (including calculation of the internal and regulatory capital for the operational risk with the AMA method) and qualitative metrics (e.g. self-assessment of the operational risk). The AMA model relies on internal and external data on the operational risk, economic environment, and internal factors, as well as results of scenario analyses.

Operational risk measurement and assessment include:

- Key Risk Indicators (KRIs);





- calculation of equity requirement related to operational risk;
- internal capital estimation;
- stress tests;
- scenario analyses;
- self-assessment of operational risk;
- identification of limit utilisation for operational risk;
- measurement of actual and potential losses related to identified operational events;
- calculation on internal capital for the Alior Bank Capital Group.

### **Monitoring and reporting of operational risk**

The Operational Risk Management Department exercises daily control and monitoring of operational risk at the Bank. The unit is, among others, responsible for:

- development and implementation of appropriate methodologies and instruments of operational risk control;
- monitoring of the internal capital requirement for the operational risk in compliance with the standard method (TSA) concerning the acquired demerged part of Bank BPH and the Branch in Romania and in compliance with the advanced method (AMA) for the Bank's remaining business;
- consulting of operational risk assessment in projects, products, and procedures (new and modified);
- monitoring of the utilisation level of internal limits and appetite for the operational risk and taking management actions related to the occurrence of an increased or high level of the operational risk;
- collection of high quality data on operational events and effects;
- monitoring of internal and external events;
- monitoring of the Bank's operational risk level with the use of the following tools: key risk indicators (KRIs), self-assessment, and stress tests;
- development of regular reports on the operational risk level at the Bank.

The duty to monitor and mitigate operational risk in daily work applies to all employees and organisational units of the Bank. On an ongoing basis, the Bank's employees control the level of the operational risk in their processes and actively mitigate the risk, taking actions to avoid/mitigate operational losses. They are responsible for ongoing registration of events and financial operational effects concerning their areas of operation, they define and report the values of Key Risk Indicators (KRIs) versus the tolerance level for processes exposes to the operational risk and they are involved in the self-assessment process.

### **Operational risk management tools**

Operational risk management at Alior Bank is supported with the IT system – OpRisk which, among others, registers operational events and losses and records the results of scenario analyses.



The Bank holds records of operational events and effects that supports effective analysis and monitoring of the operational risk. The operational risk and its changes are monitored with key risk indicators (KRIs) of which tolerance levels are identified.

Internal capital for the operational risk is measured with the AMA method.

On the basis of the AMA method, Alior Bank has internally developed a statistical model used to estimate the operational risk level on the basis of the Loss Distribution Approach (LDA) method.

In December 2017, the Bank received PFSA's consent to use the advanced method (AMA) and the standard method (TSA) to calculate equity requirements for the operational risk from 1 January 2018 with a duty to keep the requirement at a minimum level of 80% of the value calculated with the standard method. The Bank has been working on a gradual extension of the application of the method.

In connection with the application of an advanced measurement method of operational risk (AMA), in compliance with Art. 454 of CRR, the Bank has taken out a number of insurance policies in order to mitigate the risk of effects of infrequent but potentially severe operational events. The above policies covered, inter alia, property insurance, civil liability insurance, D&O insurance, civil liability related to agency services, public issues of securities, insurance of electronic equipment – data replacement costs, removable data storage devices, software, insurance against offences.

The terms and conditions of each policy are tailored to the scale and scope of risk exposure. The above policies are not applied as a mechanism to reduce the requirements related to equity attributable to operational risk or as a factor to mitigate the amount of internal capital for operational risk.

## **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;
- measuring, monitoring, and reporting the market and liquidity risk, including the manner of pursuing the policy for market and liquidity risk management;
- process for transaction closing;
- 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 ALCO play an active role in management of the market risk.



The exposure to the market and liquidity risk is formally mitigated with a system of limits, periodically updated by resolutions of the Management Board or ALCO, covering all risk metrics with their levels monitored and reported by the Bank's organisational units that are 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**

The Bank has identified the following types of the market and liquidity risk that are subject to management:

- interest rate risk in the banking book;
- market risk (including: the interest rate risk, the exchange rate risk, and the commodity price risk).

### **Interest rate risk**

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

Measurement and limitation of the interest rate risk is performed by monitoring the volatility of net interest income (NII) and changes in the economic value of the Bank's equity (EVE). In addition to the NII and EVE measures in measuring the interest rate risk, the Bank uses BPV, VaR, repricing gap, and stress 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 31 December 2018 and 31 December 2017 for the Bank are presented in tables below.

**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	Overall
PLN	-33.2	285.2	445	1,002.6	-121.7	1,557.9
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 at the end of 2017 – split by tenor (PLN '000)**

Currency	Up to 6 months	6 months to 1 year	1-3 years	3- 5 years	5- 10 years	Overall
PLN	3.4	192.5	195.7	95.1	-90	396.7
EUR	-0.5	-8.1	61.3	90	-4.5	138.2
USD	1	8.1	-2.2	-0.2	-1	5.6
CHF	-1	0.1	-1	0	0	-1.8
GBP	-4	2	0	0	0	-2
Other	-1	2.1	-1	-0.2	0	-0.3
<b>Total</b>	<b>-1.8</b>	<b>196.7</b>	<b>253</b>	<b>184.7</b>	<b>-96</b>	<b>536.5</b>

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

	01.01.2018-31.12.2018			01.01.2017-31.12.2017		
Book	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	-543	-105	298	-1,298.3	-575	138.8
Trading book	-70.2	-3.7	80	-75.6	5.9	70
ALCO	846.7	1,397.7	2,285	419.6	1,440.6	2,225.1
<b>Total</b>	<b>431.3</b>	<b>1,288.9</b>	<b>2,476.5</b>	<b>212</b>	<b>872</b>	<b>1,611</b>

The table below presents 10-day VaR for the Bank split by the banking and trading book at the end of 2018 and 2017.

VaR (in PLN '000)	31.12.2018	31.12.2017
Banking book	36,860	8,435
Trading book	3,422	928
<b>Total</b>	<b>37,675</b>	<b>9,063</b>



The table below presents BPV statistics split by the banking and trading book at the end of 2018 and 2017 (99% of 10-day VaR).

	01.01.2018-31.12.2018			01.01.2017-31.12.2017		
Book	Minimal	Medium	Maximum	Minimal	Medium	Maximum
Banking book	7,597	21,691	39,735	6,346	18,123	31,068
Trading book	738	2,636	4,580	870	2,208	4,009
<b>Total</b>	<b>8,085</b>	<b>22,961</b>	<b>40,362</b>	<b>6,046</b>	<b>19,398</b>	<b>32,043</b>

The Bank performs scenario analyses covering, among others, 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. Movements in the limit for change of economic value of equity with a parallel shift of interest rate curves by +/- 200bps and non-parallel shifts with scenarios of +/- 100/400bps (in 1M/10Y tenors, between them a linear interpolation of the shifts) at the end of 2018 and 2017 are presented below (PLN '000).

Scenario (1M/10Y)	Change to the economic value of capital 31.12.2018	Change to the economic value of capital 31.12.2017
+400 / +100	385,451	188,906
+100 / -400	306,878	67,831
+200 / 200	281,218	102,857
-200 / -200	-204,040	-84,863
-100 / -400	-204,476	-42,814
-400 / -100	-218,768	-94,591

Change of interest result in 1 year horizon with a change of interest rates by 100bp (negative scenario) at the end of 2018 and 2017 is presented below

	31.12.2018	31.12.2017
<b>NII</b>	5.98%	6.96%

The repricing gap presents a difference between the present value of assets and liabilities exposed to the 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 2018 is presented below:

#### PLN repricing gap in PLN '000

2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
<b>Periodical gap</b>	1,854,930	12,208,612	4,109,608	-4,410,765	-1,812,471	-2,755,112	-1,048,521	8,146,281
<b>Accumulated gap</b>	1,854,930	14,063,543	18,173,151	13,762,385	11,949,914	9,194,802	8,146,281	



### EUR repricing gap in EUR '000

2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
<b>Periodical gap</b>	189,829	126,160	569,229	- 60,658	- 70,758	- 278,570	- 64,265	410,967
<b>Accumulated gap</b>	189,829	315,989	885,218	824,560	753,802	475,232	410,967	

### USD repricing gap in USD '000

2018	1M	3M	6M	1Y	2Y	5Y	>5Y	Total
<b>Periodical gap</b>	- 559,903	186,237	- 208,214	- 149,556	- 97,201	- 68,548	- 14,602	- 911,788
<b>Accumulated gap</b>	- 559,903	- 373,666	- 581,880	- 731,436	- 828,638	- 897,186	- 911,788	

## FX risk

The FX risk is defined as a risk of a loss resulting from changing FX rates. Additionally, the Bank identifies the impact of FX rates on the Bank over a long-time perspective as a result of conversion of future FX-denominated revenues and expenses at potentially disadvantageous 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;
- use of FX risk internal limits and threshold values;
- 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.

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

In order to measure the 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.



As at 31 December 2018, the maximum loss on the FX portfolio held by the Bank (managed within the trading book), is determined on the basis of VaR over the time horizon of 10 days, could be PLN 153,954.14 (PLN 157,474.83 as at 31 December 2017), with the assumed confidence level of 99%.

	31.12.2018	31.12.2017
<b>Horizon [days]</b>	10	10
<b>VaR [PLN]</b>	153,954.14	157,474.83

#### VaR statistics in the Bank's FX portfolio in 2018 and 2017

VaR	31.12.2018	31.12.2017
<b>Minimum</b>	50.92	29.26
<b>Medium</b>	540.58	309.69
<b>Max</b>	1,604.13	1,648.53

#### Bank's FX position as at 31 December 2018 and 31 December 2017

Currencies	Position in '000 31.12.2018	Position in '000 31.12.2017
<b>Gross exposure</b>	56,252	59,697
<b>Group A gross</b>	54,389	46,012
<b>EUR</b>	23,253	15,158
<b>USD</b>	27,538	29,589
<b>GBP</b>	2,432	359
<b>CHF</b>	1,166	905
<b>Other gross</b>	1,863	13,685

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):

	31.12.2018	31.12.2017
<b>FX rates + 20%</b>	-4 203	29 930,08
<b>FX rates -20%</b>	10 716	15 521,79

## Liquidity Risk

The liquidity risk means a risk of failure by the Bank to meet its payment obligations, subject to comfortable conditions and at reasonable prices, resulting from the Bank's on- and off-balance sheet items. As part of the liquidity risk, the financing risk is distinguished, which is the risk of losing the financing sources and the risk of the lack of the possibility to renew the required funding or loss of access to new sources of financing.

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 ALCO. 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 Risk 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. These assumptions are approved by ALCO and the Bank's Management Board.

#### Specification of maturity/payment dates of contractual flows of consolidated assets and liabilities as at 31 December 2018 (PLN M)

31.12.2018	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	Total
<b>ASSETS</b>	<b>2 395</b>	<b>946</b>	<b>2 701</b>	<b>3 330</b>	<b>7 024</b>	<b>10 019</b>	<b>21 829</b>	<b>42 445</b>	<b>90 689</b>
Cash & Nostro	2 116	0	0	0	0	0	0	0	2 116
Loans and advances to and placements with banks	0	10	0	0	0	125	0	0	135
Securities	0	41	2	272	919	1 467	5 594	6 603	14 898
Receivables from customers	279	895	2 699	3 058	6 105	8 427	16 235	32 791	70 489
Other assets	0	0	0	0	0	0	0	3 051	3 051
<b>Liabilities and equity</b>	<b>-43 104</b>	<b>-4 747</b>	<b>-6 221</b>	<b>-3 583</b>	<b>-3 530</b>	<b>-3 046</b>	<b>-1 913</b>	<b>-8 006</b>	<b>-74 150</b>
Liabilities to banks	-342	-7	-5	-10	-61	-40	-76	-109	-650
Liabilities to customers	-40 937	-4 631	-5 995	-3 189	-2 957	-1536	-306	-54	-59 605
Own issues	0	-108	-221	-384	-512	-1 470	-1 531	-1 240	-5 466
Equity	0	0	0	0	0	0	0	-6 486	-6 486
Other creditors	-1 825	-1	0	0	0	0	0	-117	-1 943
<b>Balance sheet gap</b>	<b>-40 709</b>	<b>-3 801</b>	<b>-3 520</b>	<b>-253</b>	<b>3 494</b>	<b>6 973</b>	<b>19 916</b>	<b>34 439</b>	<b>16 539</b>
<b>Cumulated balance sheet gap</b>	<b>-40 709</b>	<b>-44 510</b>	<b>-48 030</b>	<b>-48 283</b>	<b>-44 789</b>	<b>-37 816</b>	<b>-17 900</b>	<b>16 539</b>	





Derivative instruments – inflows	0	6 884	2 394	327	832	485	351	43	11 316
Derivative instruments – outflows	0	-6 867	-2 375	-327	-831	-485	-361	-43	-11 289
<b>Derivative instruments – net</b>	<b>0</b>	<b>17</b>	<b>19</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>-10</b>	<b>0</b>	<b>27</b>
Guarantee and financing lines	-10 902	0	0	0	0	0	0	0	-10 902
<b>Off-balance sheet gap</b>	<b>-10 902</b>	<b>17</b>	<b>19</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>-10</b>	<b>0</b>	<b>-10 875</b>
<b>Total gap</b>	<b>-51 611</b>	<b>-3 784</b>	<b>-3 501</b>	<b>-253</b>	<b>3 495</b>	<b>6 973</b>	<b>19 906</b>	<b>34 439</b>	<b>5 664</b>
<b>Total cumulated gap</b>	<b>-51 611</b>	<b>-55 395</b>	<b>-58 896</b>	<b>-59 149</b>	<b>-55 654</b>	<b>-48 681</b>	<b>-28 775</b>	<b>5 664</b>	

The Bank keeps a high liquidity buffer, 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 31 December 2018, the total liquidity buffer amounted to PLN 14,185 M versus the minimum level of PLN 12,362 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 2018, the amount of deposits accounted for about 87% 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 31 December 2018, the values of the above ratios were as follows: 4.54 and 1.17.

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. Furthermore, 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 31 December 2018, LCR was at 133% versus the mandatory level of 100%.

In 2018, 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.

In 2018, Alor 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 Alor 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.

## 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 model risk management process is handled in a way to ensure achievement of this objective. The model risk management process involves assessment of conformity of the model risk level with the adopted risk tolerance and measures are in place to limit this level. The process includes: model risk identification, measurement, control and reporting. The model risk management process is performed at the level of individual models and at the level of model portfolios.

## Capital management (ICAAP)

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

### Material risks as at 31.12.2018

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

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 the 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 on the basis of CreditRisk+ methodology 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 and interest rate risk in the bank's book on the basis of the VaR methodology;
- 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.

Capital ratios of the Bank's Capital Group		
	31.12.2018	31.12.2017
<b>Capital adequacy ratio</b>	15.85%	15.21%
<b>Tier 1 capital ratio</b>	12.81%	12.10%
<b>Internal capital coverage ratio with available capital</b>	2.22	2.26

In view of the need to support the sustainable growth of the Bank's operations, in 2018 the Bank kept extending its capital base by re-investing the entire generated profit; the Bank further worked intensively on optimising the value of its risk-weighted assets – both in terms of operational risk as specified above and in terms of credit risk, using for the purpose instruments transferring the risk of loan portfolios.

In particular with respect to credit risk, on 07.12.2018 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.

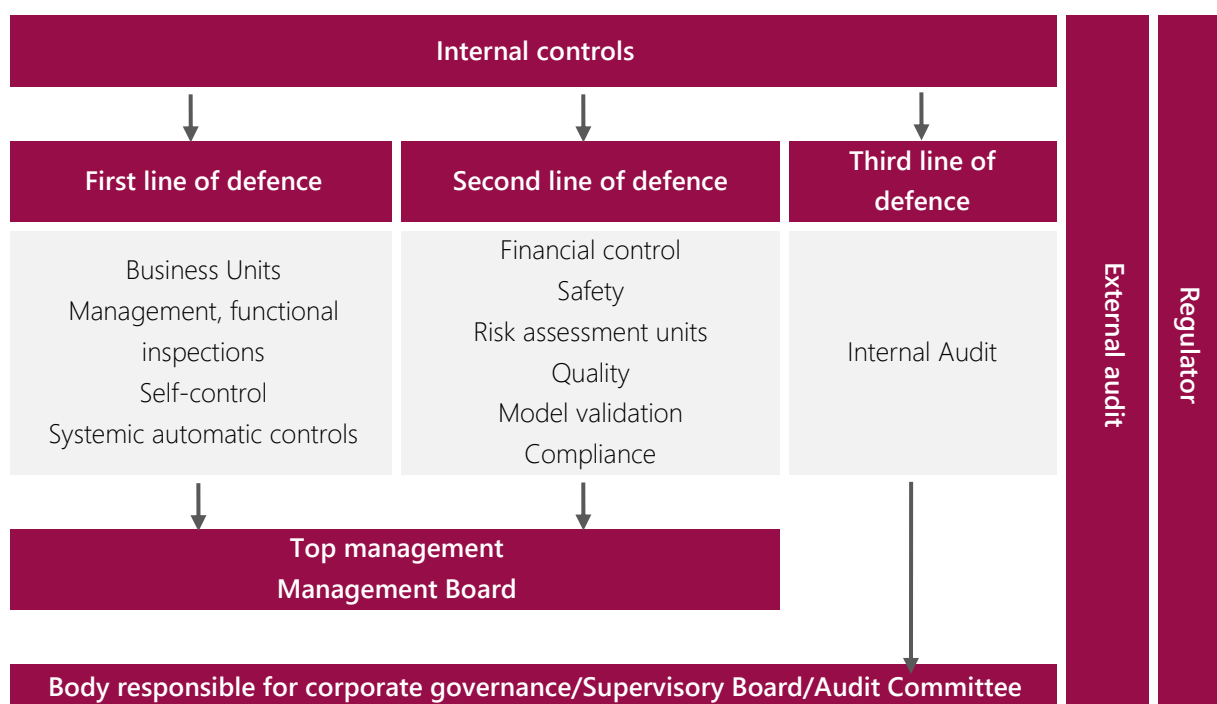


## XIII. Internal control system

Alior Bank S.A. operates an internal control system which covers all controlled solutions and activities ensuring compliance 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. The internal control system is split into: a control function, a compliance unit, and an independent internal unit.

The internal control system is adapted to the risk management system, the organisational structure, as well as the volume and complexity of the Bank's operations. The system covers all of the Bank's units and its subsidiary entities.

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



### 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 reputation loss as a result of failure by the Bank, entities operating on its



behalf (inducing subsidiary entities), or its employees to comply with the law, the requirements of supervisory bodies, the 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 basic 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.

### **Internal Audit**

The task of the internal audit unit is to provide the Bank's Supervisory Board and Management Board with an objective and independent assurance as 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 a multi-dimensional risk analysis 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 adjustment 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.



## XIV. Control system in the preparation process of financial statements

The internal control system at the Bank 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 Company'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.

In order to ensure data correctness for consolidation purposes, the Bank's Controlling Division 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 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 2018.



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

Additionally, the financial statements are reviewed on a quarterly basis (apart from semi-annual financial statements) and an annual audit by an independent auditor. 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.



## XV. Corporate governance statement

A corporate governance statement for 2018 was prepared pursuant to Article 70.6.5 of the Regulation of the Minister of Finance of 29 March 2018 on ongoing and periodic information provided by issuers of securities and conditions to recognise as equivalent the information that is required by the law in Non-Member States (Journal of Laws 2018, item 757).

In 2018, the Bank and its bodies respected the corporate governance rules set forth in the "Best Practice of WSE Listed Companies" ("Best Practice of WSE"). Pursuant to the resolution of the Supervisory Board of the Bank of 29 December 2014, the Bank also adopted the Principles of Corporate Governance Rules for Supervised Institutions, published at PFSA's web site: [https://www.knf.gov.pl/dla\\_rynku/Zasady\\_ladu\\_korporacyjnego](https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego) ("PFSA's Principles"), which was confirmed in Resolution No. 25/2015 of the Ordinary Shareholders' Meeting of 25 May 2015 provided that in the event of a conflict between the PFSA's Principles and the Best Practice of WSE, the latter shall prevail.

### Scope of Corporate Governance

According to the Rules of Giełda Papierów Wartościowych w Warszawie S.A. ("WSE") the Bank, as a public company, must follow the Best Practice of WSE, being a set of recommendations and principles of conduct, in particular for bodies of companies listed on WSE and their shareholders. The full text is available at WSE website <https://www.gpw.pl/dobre-praktyki>.

Within its competences under the Articles of Association and generally applicable law, the Management Board of the Bank intends to introduce all rules of the Best Practice of WSE at the Bank. According to the published declarations on the application of the Best Practice of WSE as at the date of publication of the report, these rules are applied with the following reservations:

- I.Z.1.8. is applied for financial data published after 2012 – admission and introduction to trading on the WSE Main Market of the Bank's shares in December 2012;
- I.Z.1.10. does not apply – no financial forecasts are published by the Bank;
- II.Z.7 is applied for the Risk Committee and the Audit Committee. In the case of the Nomination and Remuneration Committee, the Bank does not apply European Commission Recommendation 2005/162/EC of 15 February 2005 regarding the role of non-executive or supervisory directors of listed companies and committees of the (supervisory) board – because the Bank must ensure consistent remuneration standards for the management board and key managers within the Group;





- III.Z.6. is not applicable to the Bank – the Bank has appointed its Department;
- Point 2 of IV.R.2. is not applied – considering a great number of technical and organisational activities and the related costs and risks, as well as small market experience in this area, the Bank has chosen, so far, to enable its shareholders to participate in a General Meeting using real-time communication where shareholders may take the floor during a General Meeting from a location other than a venue of the General Meeting. The Bank intends to follow the above recommendation, but as the Bank has not yet completed the process of its full implementation, the Bank will start to follow this recommendation upon completion of implementation of proper telecommunication systems;
- IV.R.3. not applicable to the Bank – securities issued by the Bank are traded in Poland;
- IV.Z.16. to IV.Z.18 will be followed – so far the Bank has not distributed dividends, pursued conditional dividend distribution, neither has it conducted any split of the nominal value of its shares.

Further to that the Bank's Management Board makes every effort to ensure that the information policy towards investors, both individual and institutional, is as much as possible in line with their expectations.

## 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 nominal value of PLN 10.00 each.

All of the company's shares are ordinary bearer shares. Rights and obligations attached to the shares are compliant with legal regulations. No special privileges or limitations for the Bank's shares exist. 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 the Bank carried out four increases of the Bank's share capital that followed settlement of the Original Incentive Programme:

- increase of the Bank's share capital by issue of 15,217 ordinary series D and E bearer shares with the total nominal value of PLN 152,170 (shares registered with Krajowy Depozyt Papierów Wartościowych S.A. [National Depository of Securities] on 15 January 2018);
- increase of the Bank's share capital by issue of 1,179,875 ordinary series D, E, and F bearer shares with the total nominal value of PLN 11,798,750 (shares registered with Krajowy Depozyt Papierów Wartościowych S.A. on 29 March 2018);
- increase of the Bank's share capital by issue of 60,000 ordinary series D bearer shares with the total nominal value of PLN 600,000 (shares registered with Krajowy Depozyt Papierów Wartościowych S.A. on 28 June 2018);
- increase of the Bank's share capital by issue of 35,275 ordinary series D and E bearer shares with the total nominal value of PLN 352,750 (shares registered with Krajowy Depozyt Papierów Wartościowych S.A. on 27 September 2018).



## Shareholders of Alior Bank S.A.

### Share capital structure per series of issued shares

Share series	Data as at 31 December 2018		Data as at 31 December 2017	
	Number of shares	Value of the series nominal price (PLN)	Number of shares	Value of the series nominal price (PLN)
<b>A</b>	50,000,000	500,000,000	50,000,000	500,000,000
<b>B</b>	1,250,000	12,500,000	1,250,000	12,500,000
<b>C</b>	12,332,965	123,329,650	12,332,965	123,329,650
<b>D</b>	863,827	8,638,270	413,480	4,134,800
<b>E</b>	524,404	5,244,040	2,785	27,850
<b>F</b>	318,701	3,187,010	300	3,000
<b>G</b>	6,358,296	63,582,960	6,358,296	63,582,960
<b>H</b>	2,355,498	23,554,980	2,355,498	23,554,980
<b>I</b>	56,550,249	565,502,490	56,550,249	565,502,490
<b>J</b>	51	510	51	510
<b>Total</b>	130,553,991	130,553,991	129,263,624	1,292,636,240

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 as a date of publication of the report 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		
	28.02.2019/ 31.12.2018	08.11.2018	31.12.2017	28.02.2019/ 31.12.2018	08.11.2018	31.12.2017
<b>PZU S.A.<sup>1</sup></b>	41,658,850 <sup>1</sup>	41,658,850 <sup>1</sup>	41,658,850 <sup>2</sup>	31.91%	31.91%	32.23%
<b>Aviva OFE Aviva BZ WBK</b>	9,467,000 <sup>3</sup>	9,467,000 <sup>4</sup>	11,562,000 <sup>5</sup>	7.25%	7.25%	8.94%
<b>Nationale- Nederlanden OFE</b>	7,600,000 <sup>3</sup>	7,630,000 <sup>4</sup>	6,600,000 <sup>5</sup>	5.82%	5.85%	5.11%
<b>BlackRock Inc.</b>	7,392,649 <sup>6</sup>	7,392,649 <sup>6</sup>	No data	5.66%	5.66%	No data
<b>Other shareholders</b>	64,435,492	64,405,492	69,442,774	49.36%	49.33%	53.72%
<b>Total</b>	<b>130,553,991</b>	<b>130,553,991</b>	<b>129,263,624</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) Jointly with PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum.

(2) Along with the parties to the agreement of 2 June 2017 – PZU Życie SA, PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2.

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

(4) Based on the number of shares registered at the Ordinary General Meeting convened for 22 June 2018.

(5) Based on the number of shares registered at the Extraordinary General Meeting of 5 December 2017.

(6) on the basis of the notification of 24 April 2018.



## Changes to the ownership structure of major stakes in 2018

On 19 and 24 April 2018, the Bank's Management Board received notifications from BlackRock, Inc on a change to their share in the overall number of votes at the Bank's General Meetings, made in compliance with ESMA/2015/1597 standards. In accordance with the notifications, BlackRock, Inc indirectly held 7,392,649 votes at the Bank's General Meeting in the form of 6,898,750 shares of the Bank entitling to 5.29% votes at General Meetings and other financial instruments entitling to 0.38% votes at the Bank's General Meetings.

On 10 September 2018, the Bank's Management Board received notifications on the acquisition on 6 September 2018 of 48,614 of the Bank's shares by Powszechny Zakład Ubezpieczeń Spółka Akcyjna and on the disposal on 6 September 2018 484,614 of the Bank's shares by Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna. In accordance with the received notifications, the transaction of disposal of the Bank's shares by PZU Życie SA and the transaction of purchase of the Bank's shares by PZU SA aimed at unifying the ownership structure of the Bank's shares within the PZU Group.

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 the 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 Extraordinary General Meeting convened for 26 November 2018.

### Members of the Management Board who were shareholders of the Bank as at 31.12.2018 and as of the publication date hereof

Shareholder	Number of shares/ Number of votes	Nominal value of shares	Percentage in the share capital	Share in the total number of votes
Krzysztof Bachta	2,168	21,680	0.00%	0.00%
Filip Gorczyca*	4,000	40,000	0.00%	0.00%

\*As at the publication hereof, Filip Gorczyca is no longer a Member of the Bank's Management Board

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

Shareholder	Number of purchased shares	Trade Date
Krzysztof Bachta	2,000	08.11.2018
Filip Gorczyca	2,000	09.11.2018
Filip Gorczyca	2,000	16.11.2018

Additionally, on 5 October 2018 Ms Katarzyna Sułkowska notified of the acquisition and sale of 3,514 phantom shares issued under the Management Option Scheme, in force in 2013-2015.

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.

### **Material contracts and commitments**

As at 31 December 2018, Alior Bank S.A. did not have:

- obligations towards the central bank;
- material contracts on loans, sureties, and guarantees not linked to its operations except for the Agreement of 8 November 2017 concluded with PZU SA for periodic granting of insurance guarantees as unfunded credit protection and the framework agreement for provision of periodic counter-guarantees and the agreement of December 7, 2018 allowing for the synthetic securitization of the business loan portfolio to the value of PLN 1.5 billion concluded with the European Investment Fund (EIF) and the European Investment Bank (EIB) as counter-guarantor, which were listed in Chapter X of Events and agreements that are material to the operations of the Alior Bank S.A. Capital Group.

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 2018, the Bank did not conclude or terminate loan agreements outside the normal scope of the Bank's business.

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

As at 31 December 2018, the number of active guarantees granted by Alior Bank was 2,030 for a total amount of PLN 905,896 thousand. The Bank ensures a correct time structure of its guarantees. Active guarantees with expiry dates of less than two years (1,490) total PLN 490,832 thousand.

During the last financial year within the Alior Bank Capital Group there were no material transactions carried out with the 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 has not issued any securities that would give special control rights to the Bank. Financial results of the Alior Bank SA Capital Group they are consolidated within the PZU SA Capital Group. The Bank's Supervisory Board is composed of representatives of PZU SA.



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

### **General Meeting of the Bank**

#### **The rules of operation of the General Meeting**

The manner of operation and essential authorities of the General Meeting and shareholders' rights and how they can be exercised are specified in: Regulations adopted by the Resolution of the Ordinary General Meeting on 19 June 2013, amended by Resolution 29/2017 of the Ordinary General Meeting on 29 June 2017, the Bank's Articles of Association and relevant provisions of the law, including provisions of the Code of Commercial Companies and the Banking Act.

General Meetings of the Bank's Shareholders shall be convened by announcement on the Bank's website and in the manner stipulated for communication of current information in line with the generally applicable regulations. The announcement should be published at least twenty six days prior to the date of the General Meeting. As of the date of convening a General Meeting of Shareholders, the Bank shall publish information required by the provisions of the Code of Commercial Companies on its website [www.aliorbank.pl](http://www.aliorbank.pl).

Only persons being the Bank's shareholders sixteen days prior to the date of the General Meeting (registration date) shall have the right to attend the General Meeting of the Bank's Shareholders.

Shareholder(s) representing at least one twentieth of the share capital may demand certain matters to be put on the agenda of the next General Meeting.

. Each attendant of the General Meeting may speak on matters included in the adopted agenda and currently discussed, including asking questions to the Bank's representatives.

#### **General Meetings of the Bank in 2018**

- The Ordinary General Meeting held on 22 June 2018 and after a break continued on 25 June 2018, apart from resolutions related for formal matters, adopted resolutions on matters relating to the closure of the financial year 2017 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 approved a resolution on 22 June 2018 appointing Mr Marcin Eckert to the Bank's Supervisory Board and at the continued part of the meeting on 25 June 2018 appointed Mr Wojciech Myślecki to the Bank's Supervisory Board.
- The Extraordinary General Meeting (26 November 2018) – apart from procedural resolutions – approved resolutions amending the Bank's Articles of Association and providing its consent to disposing and acquiring by the Bank of financial assets classified as fixed assets and to acquiring, purchasing or disposing shares and interests related to the Bank's operational activity.



## Changes in basic principles of management

Amendments to the Articles of Association of the Bank must be approved by a resolution of the General Assembly and registered with the National Court Register. Pursuant to the provisions of the Code of Commercial Companies, a notification on an amendment to the Articles of Association to the registry court must be submitted within 3 months from the day the resolution is passed by the General Meeting (in the case when the change regards increasing or decreasing the share capital, the deadline is extended to 6 months).

Additionally, according to Art. 34.2 in connection with Art. 31.3 of the Banking Act of 29 August 1997, some amendments to the Articles of Association require approval of the Polish Financial Supervision Authority. The changes were as follows:

- change of the Bank's business name;
- change of the seat, the subject, and the scope of the Bank's operations, including activities referred to in Art. 69.2.1-7 of the Act on Trading in Financial Instruments of 29 July 2005, which the Bank intends to perform pursuant to Art. 70.2 of the Act;
- changes in bodies and their authority, with particular emphasis on the competences of the members of the Management Board appointed upon approval of the Polish Financial Supervision Authority and the principles of making decisions, the basic organisational structure of the Bank, rules for making statements regarding property rights and obligations, the procedure for issuing internal regulations, and the procedure for incurring liabilities or disposal of assets the total value of which in relation to one entity exceeds 5% of own funds;
- principles of operation of the management system, including an internal audit system;
- own funds and financial management principles; and
- share preferences and restrictions in terms of voting rights at the Bank.

In connection with the Code of Commercial Companies, the Bank's Articles of Association and the Regulations of General Meetings, resolutions of a General Meeting amending the articles of association required a majority of three fourth of votes. No specific quorum is required for resolutions of the General Meeting which means that the Bank's General Meetings are valid irrespective of the number of represented shares.

## The Supervisory Board of the Bank

Composition of the Bank's Supervisory Board as at 31.12.2018		Composition of the Bank's Supervisory Board as at 31.12.2017	
<b>Tomasz Kulik</b>	Chairman of the Supervisory Board	<b>Tomasz Kulik</b>	Chairman of the Supervisory Board
<b>Małgorzata Iwanicz-Drozdowska</b>	Deputy Chairwoman of the Supervisory Board	<b>Małgorzata Iwanicz-Drozdowska</b>	Deputy Chairwoman of the Supervisory Board
<b>Marcin Eckert</b>	Member of the Supervisory Board	<b>Paweł Szymański</b>	Member of the Supervisory Board
<b>Dariusz Gątarek</b>	Member of the Supervisory Board	<b>Dariusz Gątarek</b>	Member of the Supervisory Board



<b>Mikołaj Handschke</b>	Member of the Supervisory Board	<b>Mikołaj Handschke</b>	Member of the Supervisory Board
<b>Artur Kucharski</b>	Member of the Supervisory Board	<b>Artur Kucharski</b>	Member of the Supervisory Board
<b>Wojciech Myślecki</b>	Member of the Supervisory Board	<b>Sławomir Niemierka</b>	Member of the Supervisory Board
<b>Maciej Rapkiewicz</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 21 June 2018, the following persons resigned from membership in the Bank's Supervisory Board: Mr Paweł Szymański and Mr Sławomir Niemierka;
- On 22 June 2018, Mr Marcin Eckert was appointed as a Member of the Supervisory Board by resolution of the Bank's Ordinary General Meeting;
- On 25 June 2018, Mr Wojciech Myślecki was appointed as a Member of the Supervisory Board by resolution of the Bank's Ordinary General Meeting, continuing after the break.

Additionally, on 31 January 2019, Prof. Małgorzata Iwanicz-Drozdowska filed her resignation from the function of a Member of the Bank's Supervisory Board.

All Members of the Bank's Supervisory Board, including those appointed in 2018, are not 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 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>

### Principles of operation of the Supervisory Board

The Supervisory Board, in particular, acts on the basis of the Banking Act of 29 August 1997, Act on the Code of Commercial Companies of 15 September 2000, and the Articles of Association, and also the Rules of the Supervisory Board, which all can be accessed on the Company's website. The Supervisory Board performs overall supervision over the business in all areas of its operation.

According to the Articles of Association – apart from other authorisations or duties provided for in the generally applicable regulations of law – the authority of the Supervisory Board includes:

- provision of opinion of the Supervisory Board – on entertainment expenses as well as expenses on legal services, marketing services, public relations services and social communication or management consulting services;
- assessment of periodic information on internal control;
- determining remuneration for Management Board members employed under an employment contract or other contract;



- providing opinion to the Management Board's motions regarding establishing and joining companies by the Bank as a stockholder (shareholder) and disposal of stakes (shares) if such investments are of long-term and strategic nature;
- providing opinion to the Bank's multi-annual development programmes and annual financial plans,
- adopting the rules of creation and use of funds provided for in the Articles of Association at a request of the Management Board;
- approving rules governing internal control and procedures for internal capital assessment, capital management and capital planning;
- approving the Bank's operational strategy and principles for prudent and stable management of the Bank;
- accepting the Bank's general risk level;
- approval of the remuneration policy developed by the Management Board and supervising the implementation and functioning thereof (in compliance with the resolution of the Bank's Extraordinary General Meeting of 26 November 2018 amending the Bank's Articles of Association).

Due to the implementation of the amendments the Bank's Articles of Association during the reporting period, in compliance with the Act on the principles of managing state-owned property (registered with KRS on 19 April 2018), approval of the Supervisory Board shall be required for the following:

- conclusion of contracts for legal services, marketing services, public relations services and social communication as well as management consulting services as long as the amount of fees payable for such services exceeds PLN 500,000 net in an annual period;
- amendments to contracts for legal services, marketing services, public relations services and social communication as well as management consulting services, increasing the amount of fees in excess of the amount specified in clause 1;
- conclusion of contracts for legal services, marketing services, public relations services and social communication as well as management consulting services, where no maximum amount of fees is specified;
- conclusion of contracts:
  - donations or similar contracts for amounts exceeding PLN 20,000 or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the last approved financial statements;
  - release from debt or similar contracts for amounts exceeding PLN 50,000 or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the last approved financial statements.

Additionally, in compliance with Resolution No. 4/2018 of the Extraordinary General Meeting of Alior Bank Spółka Akcyjna of 26 November 2018, any disposal and acquisition by the Bank of financial assets classified as fixed assets and to acquisition, purchase or disposal shares and interests related to the Bank's operational activity, as referred to in Art. 1 and Art. 2 of the Resolution, require a positive opinion of the Bank's Supervisory Board.





The Supervisory Board's meetings shall be convened whenever necessary, but at least three times in each financial year. Resolutions of the Supervisory Board shall be adopted by an absolute majority of votes, unless otherwise required by regulations of the law or the Articles of Association, in an open ballot at meetings and by circulation. In HR matters or upon the request of at least one member, the Chairman of the Supervisory Board shall order a secret ballot. In the case of an equal number of votes, the vote of the chairman of the Supervisory Board is decisive. For the validity of resolutions, at least half of the members of the Supervisory Board must be present at the meeting and all members must be invited. From among its members, the Supervisory Board appoints members of the Audit Committee, Risk Committee and other committees that may be required by law; it may also set up permanent or ad-hoc committees to perform specific tasks (in compliance with the resolution of the Bank's Extraordinary General Meeting of 26 November 2018 amending the Bank's Articles of Association).

## Committees of the Supervisory Board

### Audit Committee

Members of the Committee as at 31.12.2018		Members of the Committee as at 31.12.2017	
<b>Małgorzata Iwanicz-Drozdowska</b>	Chairwoman of the Committee	Małgorzata Iwanicz-Drozdowska	Chairwoman of the Committee
<b>Artur Kucharski</b>	Member of the Committee	Sławomir Niemierka	Member of the Committee
<b>Marcin Eckert</b>	Member of the Committee	Paweł Szymański	Member of the Committee
<b>Wojciech Myślecki</b>	Member of the Committee		

On 7 March 2018, Mr Artur Kucharski was appointed to the Audit Committee composed of Ms Małgorzata Iwanicz-Drozdowska, Mr Sławomir Niemierka, and Mr Paweł Szymański. In view of the resignation of Mr Sławomir Niemierka and Mr Paweł Szymański from their membership in the Bank's Supervisory Board, on 22 June 2018, Mr Marcin Eckert was appointed to the Audit Committee. Additionally, on 2 August 2018 the Bank's Supervisory Board appointed Mr Wojciech Myślecki as a member of the Audit Committee.

Ms Małgorzata Iwanicz-Drozdowska, Mr Artur Kucharski and Mr Wojciech Myślecki were identified as the persons who meet the independence criteria.

Mr Artur Kucharski was identified as the person holding knowledge and skills in the sphere of accounting and audit of financial statements. Mr Artur Kucharski acquired such know-how and skills when he worked as a financial auditor with PricewaterhouseCoopers (PWC). Mr Artur Kucharski completed training at the Association of Chartered Certified Accountants (ACCA).

Ms Małgorzata Iwanicz-Drozdowska was identified as the person holding knowledge and skills in the sector in which the company operates. Ms Małgorzata Iwanicz-Drozdowska is a professor of economy. Ms Małgorzata Iwanicz-Drozdowska specialised in banking, including risk management, financial security networks, assessment of bank operations. Ms Małgorzata Iwanicz-Drozdowska is employed at the Warsaw School of Economics and she has written multiple scientific publications; she also has long-term practice in the banking sector.



## Audit Committee activities

During the reporting period the Audit Committee met thirteen times to discuss the issues of financial reporting, the internal control system, the risk management system, internal audit and financial revision activities. The Audit Committee has been provided with information on material issues related to accounting and financial reporting, has controlled and monitored the independence of the auditor and the audit firm.

## Appointment and Remuneration Committee

The Committee evaluates the remuneration policy in order to ensure compliance of the remuneration principles, primarily with the Regulation of the Minister of Development and Finances of 6 March 2017 on risk management systems and internal control systems, remuneration policy and detailed methods of assessing internal capital at banks, in accordance with the principles of stable and prudent risk, capital and liquidity management, and with a particular focus on the Bank's long-term interests and the interests of its shareholders; evaluates the validity of paying variable remuneration components in the part concerning deferred payment terms of variable remuneration components; evaluates and monitors variable remuneration payable to persons holding managerial positions at the Bank, which involves risk management and compliance by the Bank with the applicable laws and the internal regulations; evaluates classification of positions, which is subject to the remuneration policy with respect to persons having a significant impact on the Bank's risk profile; evaluates the annual goals of those people; evaluates the effects of work of those; the Committee prepares opinions, evaluations, or recommendations on the candidates to the Management Board on conclusion, amendment, and termination of contracts with the Management Board members on the structure, size, composition, and effectiveness of the Management Board's operations, and also knowledge, skills, and experience of individual Management Board members; prepares opinions, assessments, or recommendations on other personal matters in which the Supervisory Board or the Committee is competent in accordance with the applicable internal regulations and provisions of the generally applicable law.

## Members of the Appointment and Remuneration Committee

Members of the Committee as at 31.12.2018		Members of the Committee as at 31.12.2017	
<b>Tomasz Kulik</b>	Chairman of the Committee	Tomasz Kulik	Chairman of the Committee
<b>Mikołaj Handschke</b>	Member of the Committee	Mikołaj Handschke	Member of the Committee
<b>Maciej Rapkiewicz</b>	Member of the Committee	Maciej Rapkiewicz	Member of the Committee
<b>Marcin Eckert</b>	Member of the Committee	Sławomir Niemierka	Member of the Committee

In view of the resignation of Mr Sławomir Niemierka from his membership in the Bank's Supervisory Board, on 22 June 2018 Mr Marcin Eckert was appointed to the Appointment and Remuneration Committee.



## Appointment and Remuneration Committee activities

In the reporting period, the Appointment and Remuneration Committee held fourteen meetings devoted, inter alia, to: assessment of members of the Management Board and candidates thereto as well as the Management Board as a whole, issued its opinion on the classification of positions that are subject to the remuneration policy who are material risk takers at the Bank, provided its opinion on the targets of such persons for 2018 and issues related to variable remuneration of such persons, was involved on the process of adapting the remuneration policy to new regulations, recommended modifications to the draft remuneration policy at Alior Bank S.A. and provided its opinion thereon, also provided its opinion on draft modifications to the Policy of selection and assessment of Members of the Management Board and Supervisory Board and forwarded its positive recommendation thereon as to the approval thereof.

## Risk Committee

Members of the Committee as at 31.12.2018		Members of the Committee as at 31.12.2017	
<b>Dariusz Gątarek</b>	Chairman of the Committee	Dariusz Gątarek	Chairman of the Committee
<b>Małgorzata Iwanicz-Drozdowska</b>	Member of the Committee	Małgorzata Iwanicz-Drozdowska	Member of the Committee
<b>Maciej Rapkiewicz</b>	Member of the Committee	Maciej Rapkiewicz	Member of the Committee

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

## Operational Risk Committee

The Risk Committee was set up on 22 December 2015 by virtue of Supervisory Board's Resolution No. 81/2015 in order to support the Supervisory Board in the scope of supervising the risk management process at the Bank.

In the financial year 2018, the Risk Committee held 7 meetings and 2 meetings of the Risk Committee and the Audit Committee combined.

At its meetings, the Risk Committee discussed issues related to risk management at the Bank, including, inter alia, the results of BION assessment, financing terms and conditions of a subsidiary entity, the principles of the rating system applied by the Bank and reviewed the new principles of booking of structured bonds. Pursuing its duties in 2018, the Committee made recommendations to the Supervisory Board to approve: accounting for the risk appetite for 2017, approval of the risk strategy and appetite for 2018, update of the Remedy Plan of the Alior Bank S.A. Capital Group, implementation of the Risk Management Policy of the Alior Bank S.A. Capital Group with respect to subsidiary entities, modifications to the Risk Management Policy at Alior Bank S.A., the Capital Management and Capital Planning Policy at Alior Bank S.A., update of the Operational Risk Management Strategy for 2017-2020 and the Operational Risk Management Policy as well management information in the sphere of model risk management. Additionally, the Committee recommended the Supervisory Board to review scenarios along with the results of liquidity stress tests and to approve the updated



Principles of holding liquidity stress tests. The Committee further reviewed the terms and conditions of issues of short-term liquidity bonds of Alior Bank addressed to professional entities.

As part of its ongoing supervision over the implementation of the strategy, the Committee was provided with monthly reports in the area of credit risk, including credit concentration, counterparty risk, credit risk and liquidity risk, capital adequacy, compliance risk, operational and IT risk.

Members of the Committee were involved in a number of discussions, addressing multiple comments and questions to the submitted documents. Supervising the correct risk management at the Bank, the Committee also discussed the results of a "hard Brexit" scenario and results of a review of assets and liabilities.

Within its tasks involving supervision of the risk management system, the Committee evaluated key documents supporting the risk management process at the Bank.

## Management Board

Composition of the Bank's Management Board as at 31.12.2018		Composition of the Bank's Management Board as at 31.12.2017	
<b>Krzysztof Bachta</b>	Deputy President 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>Michał Jan Chyczewski</b>	Deputy President of the Management Board acting President of the Management Board Reporting units: HR Division, Corporate Development Division, Departments: Management Board, Investor Relations, Marketing and PR, Audit, Procurement
<b>Filip Gorczyca</b>	Deputy President of the Management Board manages the Controlling Division and he directly supervises the organisational units in the Bank's Head Office responsible for: data, accounting, taxes and reporting.	<b>Filip Gorczyca</b>	Deputy President of the Management Board Reporting units: Departments: Controlling, Data, Accounting, Tax, Financial Reporting
<b>Marcin Jaszczyk</b>	Deputy President of the Management Board manages the Corporate Development Division which covers the areas of innovation, strategy and FinTech and he directly supervises the Branch of T-Mobile Usługi Bankowe and the unit responsible for supervising subsidiary companies and the establishment and operations of the Branch of T-Mobile Usługi Bankowe in other countries	<b>Sylwester Grzebinoga</b>	Deputy President of the Management Board Reporting units: Departments: Safety, Electronic Safety, Regulatory Compliance, Legal



<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>Urszula Krzyżanowska-Piękoś</b>	Deputy President of the Management Board Reporting units: Corporate Banking Development Division Departments: Sales, Private Banking, Treasury, Consumer Finance, Sales Support, External Networks, Relations with Customers, KI Products, Brokerage House
<b>Mateusz Poznański</b>	Deputy President of the Management Board manages the KI Sales Division and he is directly responsible for the organisational units in the Bank's Head Office responsible for sales to retail customers, brokerage activities, external networks, products for individual customers, consumer finance and for relations with individual customers	<b>Katarzyna Sułkowska</b>	Deputy President of the Management Board Reporting units: Analysis and Recovery Division, KB Risk Division, Departments: Risk Strategy, KI Credit Policy, Departments: Operational Risk Management, Risk Strategy Models
<b>Agata Strzelecka</b>	Deputy President of the Management Board manages the IT Division and she is directly responsible for the organisational units in the Bank's Head Office responsible for electronic security, digital banking, logistics, procurement, settlements and operational services	<b>Celina Wałęskiewicz</b>	Deputy President of the Management Board Reporting units: IT Division, Operations Division, Departments: Digital Banking, Digital Channel Development, T-Mobile Banking services, CRM, Phone sales, Customer Retention Section
<b>Maciej Surdyk</b>	Deputy President of the Management Board manages is 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 Szczęśniak</b>	Deputy President of the Management Board		

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

- On 12 March 2018, Mr Michał Jan Chyczewski filed his resignation from the function of Deputy President of the Management Board of Alior Bank SA, directing the work of the Management Board. On 12 March 2018, the Supervisory Board appointed Ms Katarzyna Sułkowska, until then a Deputy President of the Management Board, to direct the works of the Management Board;



- On 13 March 2018, the Supervisory Board appointed Mr Marcin Jaszczyk to the position of the Deputy President of the Management Board of Alior Bank S.A.;
- On 13 April 2018, Ms Urszula Krzyżanowska-Piękoś and Ms Celina Waleśkiewicz filed their resignations from membership in the Management Board of Alior Bank S.A.;
- On 13 April 2018, the Bank's Supervisory Board appointed Ms Agata Strzelecka, Mr Mateusz Poznański and Mr Maciej Surdyk to the Management Board to the positions of Deputy Presidents of the Bank's Management Board;
- On 27 April 2018, Mr Sylwester Grzebinoga, 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.;
- On 21 May 2018, the Bank's Supervisory Board appointed Ms Katarzyna Sułkowska, Deputy President of the Bank's Management Board to the position of the President of the Bank's Management Board following the approval issued on 15 May 2018 by the Polish Financial Supervision Authority;
- On 17 October 2018, Ms Katarzyna Sułkowska filed her resignation from the position of President and Member of the Bank's Management Board. Additionally, on 17 October 2018 the Bank's Supervisory Board nominated Mr Krzysztof Bachta to the Bank's Management Board as Deputy President of the Bank's Management Board, to manage the operations of the Management Board until approval is obtained from PFSA to nominate him to the position of the President of the Management Board of Alior Bank;
- On 26 November 2018, Mr. Filip Gorczyca, Vice President of the Management Board, resigned from the position of Member of the Management Board of Alior Bank S.A. on January 31, 2019. In addition, the Supervisory Board nominated Mr Marek Szcześniak and Mr Seweryn Kowalczyk, effective on 27 November 2018, by entrusting them the positions of Deputy Presidents of the Bank's Management Board. On the same day, the Supervisory Board nominated Mr Dariusz Szwed (effective on 1 January 2019) and Mr Tomasz Biłous (effective on 1 February 2019), by entrusting them the positions of Deputy Presidents of the Bank's Management Board.

Moreover, after the balance sheet date, ie February 26<sup>th</sup> 2019, the Polish Financial Supervision Authority unanimously expressed consent to:

- appoint Mr. Krzysztof Bachta as the President of the Management Board of Alior Bank S.A.;
- entrust Mr. Marek Szcześniak function of a Member of the Management Board supervising the management of significant risk in Alior Bank's activity.

On February 27<sup>th</sup>, 2019, the Bank's Supervisory Board adopted a resolution on appointment of Mr. Krzysztof Bachta, Vice-President of the Management Board, as the President of the Management Board of Alior Bank Spółka Akcyjna.

All Members of the Bank's Management Board, including those appointed in 2018, are not 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 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>



## **Rules for appointing and dismissing managerial staff**

The Members of the Management Board are appointed and dismissed pursuant to the provisions of the Code of Commercial Companies, and also the Banking Act and provisions of the Bank's Articles of Association. Member of the Management Board shall be appointed subject to qualification proceedings aimed at verifying and identifying the best candidate. The Management Board has at least three members appointed for a joint term of office of 3 years and the number of Management Board members is determined from time to time by the Supervisory Board. At present, the Management Board members include its President, Deputy Presidents, and Members. Two members of the Management Board, including its President, require approval of the Polish Financial Supervision Authority, which is applied for by the Supervisory Board. The competences of the other member of the Management Board, whose nomination is subject to PFSA's consent, include supervision over the management of material risks in the Bank's operations. Now PFSA is reviewing applications filed by the Bank requesting approval for the nomination of Mr Krzysztof Bachta, a Member of the Management Board to the position of the President of the Management Board and the nomination of Marek Szcześniak, a Member of the Management Board to the position of the Deputy President of the Management Board responsible for managing material risks in the Bank's operations. Until the Polish Financial Supervision Authority approves the nomination of Mr Marek Szcześniak to the position of the Deputy President of the Management Board responsible for managing material risks in the Bank's operations, it is the entire Management Board that is temporarily responsible for supervising the Business Customer Risk Division and the Individual Customer Analysis and Collection Division and for organisational units in the Bank's Head Office responsible for the strategy of credit and capital risks, credit policy for individual customers, operational risk management and model risk strategy as well as for supervising the management of material risks in the Bank's operations.

## **Competencies of the Management Board**

The Management Board shall direct the affairs of the Bank and represent the Bank. Its competencies shall include all matters not reserved by law or provisions of the Articles of Association to other bodies of the Bank. All matters that go beyond the scope of normal activities of the Bank shall be adopted by a resolution of the Management Board. The Management Board, in the form of resolutions, shall in particular:

- define the Bank's long-term plans of operations and strategic objectives;
- set the Bank's short-term and long-term financial plans and monitor their implementation;
- monitor the system of bank management, including the management reporting system for ongoing inspections of the Bank's operations;
- accept rules, policies and regulations with regard to the Bank's operations, in particular with respect to prudent and stable managing of the Bank, risk management, lending activity, investment activity, system of the Bank management, asset and liability management, accounting, the Bank's funds, HR management and rules for the performance of internal control;
- determine the bonus amount for the Bank's employees and how it should be distributed;
- approve proxies;



- take decisions regarding issue of bonds by the Bank, with the exception of convertible bonds or bonds with equity warrants; accept taking-up, acquisition and disposal of shares or interests in companies by the Bank;
- take decisions regarding contracting financial obligations, disposing of the assets, encumbrances or lease (including rental) of assets with total value towards one entity exceeding 1/100 of the Bank's share capital, subject to Art. 8.2 of the Regulations of the Management Board;
- approve an investment plan and accept each own investment of the Bank (acquisition or disposal of fixed assets or property rights) with value exceeding 1/100 of the Bank's share capital, subject to Art. 8.2 of the Regulations of the Management Board;
- accept matters regarding the organisational structure of the Head Quarter of Bank, including establishment and liquidation of the Bank's organisational units and the Head Quarter's organisational sections;
- take decisions regarding the establishment and liquidation of the Bank's branches;
- take decisions regarding paying advance on dividend to the shareholders upon the Supervisory Board's consent;
- accept all documents submitted to the Supervisory Board or the General Meeting;
- review other matters brought before the Supervisory Board, General Meeting, members of the Management Board, the Bank's organisational units or committees or teams established in line with the Bank's principles;
- take decisions on all other matters regarding the Bank's operations, if required by separate provisions or if such decisions could have a material impact on the Bank's financial situation or image.

The Bank's Management Board, pursuant to Resolution No. 28/2012 of the Extraordinary General Meeting of Shareholders of 19 October 2012 on a conditional share capital increase of the Bank and an issue of subscription warrants, was authorised to:

- offer and issue subscription warrants to participants of the Incentive Scheme other than the members of the Bank's Management Board (in the case of Management Board Members, this authorisation belongs to the Supervisory Board);
- register new share issue with NDS and undertake all activities for their dematerialisation;
- undertake all necessary actions for admission and introduction of a new share issue to trading on the WSE regulated market, immediately after their issue;
- A detailed description of the activities performed by the Management Board for the purpose of issuing shares under the Incentive Scheme can be found in the Rules of the Incentive Scheme approved by the Supervisory Board.

### **Rules of the Management Board's operation**

The Management Board shall operate on the basis of the Articles of Association and the Rules adopted by the Supervisory Board. The Management Board shall take decisions in the form of resolutions at the meeting of the Management Board and by circulation. The Management Board's resolutions are adopted by an absolute majority of votes cast by Members of the Management Board present at its meeting or by circulation. As a





rule, resolutions are adopted by open ballot. In the event of parity of votes, the President of the Management Board shall have a casting vote. According to the Rules of the Bank's Management Board, the validity of resolutions approved by the Management Board shall require at least half of the Management Board's Members to be present at a meeting and when all Members have been duly notified of the meeting. Statements on behalf of the Bank shall be made by:

- two members of the Management Board acting jointly;
- one Member of the Management Board acting jointly with a proxy or representative;
- two proxies acting jointly;
- proxies acting individually or jointly within a power of attorney granted to them.

## Remuneration policy

The Bank pursues its Remuneration Policy applicable to all employees. The existing Remuneration Policy at Alior Bank S.A. was approved by Resolution No. 79/2018 of the Bank Supervisory Board.

The Remuneration Policy is the Bank's basic document on its policies and principles regarding remuneration of the Bank's employees, with particular consideration of the employees who, due to a special nature of their role in the Bank's risk management system, are subject to a separate regulatory regime, i.e.:

- Employees who are Material Risk Takers having an impact on the Bank's risk profile;
- Employees holding Control functions;
- Employees of the Audit Department and the Compliance Department;
- Employees involved in offering or distributing banking, investment, and insurance products and services.

Qualification of an employee as a Material Risk Taker is determined on whether or not that employee has such impact in the meaning of the Commission Delegated Regulation.

Remuneration of employees who are Material Risk Takers comprises a fixed and a variable part. Senior management is not granted undefined retirement benefits. Material Risk Takers agree not to use individual hedging strategies or insurance concerning the remuneration and responsibility in order to undermine the effects of risk in the remuneration system applicable to them.

Except the Persons in Control Functions, the total amount of variable remuneration is based on the assessment of performance of the Material Risk Takers and the organisational unit, as well as the Bank's performance in the area for which such person is responsible, subject to the performance of the entire Bank.

Minimum 50% of the variable remuneration granted to the Material Risk Taker is to serve as an incentive for special care for the Bank's long-term interests and is therefore composed of financial instruments related to the Bank's shares. The remainder of variable remuneration is paid in cash as cash variable remuneration.

Minimum 40% of the variable remuneration of the Material Risk Takers for each Assessment Period – and if the variable remuneration of such persons for the relevant Assessment Period is exceptionally high – minimum 60% of the variable remuneration is deferred.



## Management option scheme

Based on Resolution No. 28/2012 of the Extraordinary General Meeting of Shareholders of 19 October 2012 on conditional share capital increase of the Bank and issue of subscription warrants and the rules for the incentive scheme adopted by the Resolution of the Bank's Supervisory Board of 27 March 2013 the incentive scheme was launched for 2013-2015. It applies to the members of the Management Board and key managers who have not been Management Board members.

The Management Option Scheme provided for issue of three tranches of subscription warrants (series A, B, and C) and corresponding three tranches of new shares (series D, E, and F) with a total nominal value of up to PLN 33,312,500, including:

- up to 1,110,417 series A subscription warrants awarding their holders 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 holders 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 holder the right to subscribe for 1,110,417 series C 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 programme, series A warrants, entitling their holders to acquire series D shares, expired in December 2018.

Details of non-exercised warrants as at 31.12.2018 are presented in the table below:

Warrant series	List of awarded, 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.

## Bonus scheme for Management Board

Since 2016 the Management Board has been covered by the Bonus Scheme for the Management Board. The Scheme is set to provide additional incentives motivating its participants to effectively perform the entrusted responsibilities, in particular to manage the Bank and take efforts aimed at further sustained development of the Bank and its group, while maintaining proper and effective risk management in the Bank, stabilising the Bank's management team and long-term shareholder interests by ensuring a sustained increase in stock



market valuation of the Bank's shares, while maintaining the growth of the Bank's net asset value and that of its companies. The appraisal covers financial and non-financial criteria and performance of the Eligible Person in the previous three calendar years. The bonus is awarded and disbursed in line with the Remuneration Policy.

The variable part of remuneration may not exceed 100% of the fixed part.

When the Bank implemented the Act of 9 June 2016 on the principles applicable to remuneration of persons managing certain companies, the provisions of the Bonus Programme for the Management Board were adjusted accordingly with Resolution of the Supervisory Board No. 17/2018.

## Remuneration of the members of the Management Board and the Supervisory Board at Alior Bank SA in 2018

Remuneration of the members of the Management Board at Alior Bank SA in 2018 (in PLN '000)

(in PLN '000)	Period	Fixed remuneration	Variable remuneration deferred for 2016 and earlier years	Damages related to no-competition clause	Other benefits	Employee benefits (overheads)	Total
Krzysztof Bachta	17.10.2018 - 31.12.2018	165	-	-	1	16	182
Michał Chyczewski	01.01.2018 - 31.12.2018	746	-	600	2	48	1 396
Filip Gorczyca	01.01.2018 - 31.12.2018	1 014	-	-	5	65	1 084
Sylwester Grzebinoga	01.01.2018 - 31.12.2018	772	-	500	1	47	1 320
Marcin Jaszczuk	13.03.2018 - 31.12.2018	615	-	-	5	74	694
Seweryn Kowalczyk	27.11.2018 - 31.12.2018	72	-	-	-	28	100
Urszula Krzyżanowska-Piękoś	01.01.2018 - 31.12.2018	1 198	-	-	5	32	1 235
Mateusz Poznański	13.04.2018 - 31.12.2018	547	-	-	4	29	580
Agata Strzelecka	13.04.2018 - 31.12.2018	547	-	-	6	38	591
Katarzyna Sułkowska	01.01.2018 - 31.12.2018	1 440	993	1440	5	100	3978
Maciej Surdyk	13.04.2018 - 31.12.2018	547	-	-	4	30	581
Marek Szcześniak	27.11.2018 - 31.12.2018	72	-	-	-	14	86
Celina Waleśkiewicz	01.01.2018 - 31.12.2018	1 200	-	-	5	77	1 282
<b>Total</b>		<b>8 936</b>	<b>993</b>	<b>2 540</b>	<b>44</b>	<b>598</b>	<b>13 113</b>

The salary does not include social security benefits.

The amounts include disbursements in January 2019, due for December 2018.

Remunerations do not include benefits from the Social Benefits Fund



\* Values include payouts in January 2019 due in December 2018.

\*\* The amounts include deferred variable remuneration for 2016 and previous years paid in cash and phantom shares

#### Remuneration of the ex members of the Management Board at Alior Bank SA in 2018 (in PLN '000)

(in PLN '000)	Fixed remuneration*	Variable remuneration**	Employee benefits (overheads)	Total
Małgorzata Bartler	1 996	1 066	79	3 141
Krzysztof Czuba	1 960	1 538	94	3 592
Michał Hucał	-	403	13	416
Joanna Krzyżanowska	1 847	1 180	79	3 106
Niels Lundorff	-	315	32	347
Witold Skrok	1 894	1 484	90	3 468
Barbara Smalska	1 990	1 040	79	3 109
Wojciech Sobieraj	2 830	2 658	137	5 625
<b>Total</b>	<b>12 517</b>	<b>9 684</b>	<b>602</b>	<b>22 803</b>

\* Fixed remuneration includes remuneration in the period of notice, holiday equivalent and compensation for non-competition

\*\* The amounts include deferred variable remuneration for 2016 and previous years paid in cash and phantom shares

As at 31 December 2018, variable remuneration for 2017 and 2018 for Members of the Bank's Management Board and ex Members of the Bank's Management Board were not granted.

In accordance with the regulations in force at the Bank, the above persons may be entitled to variable remuneration for the above-mentioned years, whose payment may take place in the next reporting periods. A provision in the amount of PLN 25.9 million was created for the payment of the said variable remuneration. The decision on the granting and payment of the bonus will be made by the Supervisory Board of Alior Bank.

#### Remuneration of the members of the Supervisory Board at Alior Bank S.A. in 2018 (in PLN '000)

Supervisory Board	Period	Remuneration	Employee benefits (overheads)	Total
Eckert Marcin	22.06.2018 - 31.12.2018	82	7	89
Gątarek Dariusz	01.01.2018 - 31.12.2018	170	28	198
Handschrke Mikołaj	01.01.2018 - 31.12.2018	163	27	191
Iwanicz-Drozdowska Małgorzata	01.01.2018 - 31.12.2018	156	19	175
Kucharski Artur	01.01.2018 - 31.12.2018	156	22	178
Kulik Tomasz	01.01.2018 - 31.12.2018	0	0	0
Myślecki Wojciech	25.06.2018 - 31.12.2018	81	13	95
Niemierka Sławomir	01.01.2018 - 21.06.2018	74	14	88
Rapkiewicz Maciej	01.01.2018 - 31.12.2018	0	0	0
Szymański Paweł	01.01.2018 - 21.06.2018	74	18	92
<b>Total</b>		<b>959</b>	<b>148</b>	<b>1106</b>

The remuneration does not include any cost refunds.



### **Agreements concluded with the Management Board members**

The Extraordinary General Meeting of 5 December 2017 approved a resolution regulating the principles of remuneration of members of the Management Board of Alor Bank. At its meeting of 14 December 2017, the Supervisory Board approved new principles of remuneration of the Management Board based on managerial contracts, relating to the Act of 9 June 2016 on the remuneration of persons managing certain companies and individual contracts for individual members of the Management Board, as follows:

- Conclusion of contracts for the time of performing a function in the Management Board;
- Period of notice:
  - one-month notice period if the Member of the Management Board has performed his/her function for less than 12 months, effective at the end of the calendar month;
  - three-month notice period if the Member of the Management Board has performed his/her function for minimum 12 months.
- Severance pay equivalent to 300% of the fixed remuneration if the contract is terminated by the Company for reasons other than breach of the Member of the Management Board of his/her core duties provided the function of a Member of the Management Board has been performed for minimum 12 months before contract termination;
- No competition clause pursuant to which Members of the Management Board agrees that when the contract is terminated and the function of a Member of the Management Board has been performed for minimum 3 months, within 6 months of his/her ceasing to be a Member of the Management Board or of contract termination he/she will not be involved in any competitive activity and as a result he/she will be entitled to compensation equivalent to 600% of the fixed remuneration;
- Service contracts subject to the terms and conditions as specified above have been signed with all members of the Management Board performing the function on 31.12.2018.

### **Diversity policy with regard to authorities and key managers of Alor Bank S.A.**

The Bank pursues a Diversity Policy which is an element of the Selection and Assessment Policy of Members of the Management Board and of the Supervisory Board. The Policy provides that in order to ensure diversity when selecting Members of the Management Board and of the Supervisory Board, candidates should be considered who have varied education, experience, age and gender. In particular, in order to achieve the desirable share of women in the Management Board, the Appointment Committee ensures that women are involved in the selection of Members of the Management Board and that the candidates are awarded equal treatment irrespective of gender.

Alor Bank S.A. pursues the principle of equal treatment, irrespective of sex, age, property status, family situation, degree of physical fitness, nationality, sexual orientation, beliefs and political and religious views as provided for in Alor Bank's Code of Conduct. The Bank provides working conditions that favour full use and development of unique features, skills, and interests of all employees, including managers, among others by means of training.



## XVI. Proceedings pending before a court

In the Bank's opinion, no single court, arbitration court or public administration body proceedings in progress during the 2018, and none of the proceedings jointly, could pose a threat to the Bank's financial liquidity. The proceedings which according to the opinion of the Management Board are significant are presented below:

- case claimed by a client - limited company for a payment of PLN 102 738 thousand in respect of compensation for damage incurred in connection with the conclusion and settlement of treasury transactions. The claim dated 27 April 2017 was brought against Alior Bank SA and Bank BPH SA. In the Bank's opinion, the claim has no valid factual and legal basis;
- case claimed by a client - limited company for a payment of PLN 17 843 thousand for clearing currency option contracts. The claim dated 10 February 2015 was brought originally against BPH SA. In the Bank's opinion, the claim has no valid factual and legal basis;
- case claimed by a client - a private individual - a representative of a group of 84 private individuals and corporate clients to determine the Bank's liability for damage. On 5 March 2018 class actions were filed against Alior Bank in determining the Bank's liability for damage caused by improper performance of information obligations by the Bank towards clients and improper performance of contracts for the provision of services for the receipt and transfer of purchase or sale orders investment's certificates of investment funds previously managed by Fincrea TFI SA, and currently Raiffeisen Bank International AG (Joint Stock Company) Branch in Poland. In the claimant's view Bank did not provide clients with information about the real risk of investing in investment products, thus exposing the clients to damage resulting from the impairment of investment certificates and the loss of guaranteed profits. In the Bank's opinion, a class action lawsuit has no valid factual or legal basis and therefore should not be resolved in favor of customers. As at the date of financial statements, the court to which a class action was filed did not issue a decision on the admissibility of considering a class action. In addition, Alior Bank assumes that the risk of a disadvantageous settlement of the suit and a significant loss in this respect is estimated at a lower than medium level, thus as at 31 December 2018, the Bank did not create any provisions in respect of this claim. At the present stage, it is not possible to estimate the financial consequences for the Bank in the event of a different settlement by the court than assumed by the Bank.

In addition, on 14 September 2018, the Polish Financial Supervision Authority initiated administrative proceedings regarding the imposition of a financial penalty on the basis of art. 167 para. 2 point 1 in conjunction from art. 167 para. 1 point 1 of the Act on Trading in Financial Instruments in connection with irregularities. The



proceeding is related to the inspection carried out by the Polish Financial Supervision Authority from November 2017 to May 2018, which concerned the correct operation of Alior Bank and the Brokerage Office in the scope of distribution of investment certificates of funds previously managed by Fincrea TFI SA, and currently Raiffeisen Bank International AG ( Joint Stock Company) Branch in Poland. As at the date of the report, the Polish Financial Supervision Authority did not complete the proceedings regarding the imposition of a forfeit.

The value of disputed claims amounted to PLN 258 700 thousand as at the end of 2018 and PLN 220 598 thousand as at the end of 2017.

The value of provisions for disputed claims amounted to PLN 28 521 thousand as at the end of 2018 and PLN 16 024 thousand as at the end of 2017.



## XVII. Information on the auditor

### **Entity authorised to carry out audits of financial statements**

By the Resolution of the Supervisory Board of 22 May 2017, KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. based in Warsaw was selected as the auditor for the Bank's financial statements. The contract was concluded on 14 June 2017 for 2 years.

### **The selection policy of the audit firm to audit and review financial statements at Alior Bank S.A. and the Policy of providing permitted services other than audit at Alior Bank S.A. by the audit firm, entities related to the audit firm and members of the audit firm network.**

The core assumption of the developed selection policy of the audit firm to audit and review financial statements at Alior Bank SA is to ensure correctness and compliance with applicable laws, including to avoid conflicts of interest at the selection of the audit firm. The Bank follows the rules of business ethics in order to have transparent relations with counterparties. The Policy sets forth the rules of procedure applicable to the selection process of the audit firm. The selection is made subject to the rules of impartiality and independence of the audit company and an analysis of works performed by it for the Bank. Differences of opinion related to the application of accounting principles or audit standards may not be valid reasons to terminate the contract for audit of financial statements. The principles applicable to rotation of the audit firm and the key auditor have been set forth, including the related grace periods. The core assumption underlying the Policy of providing permitted services other than audit at Alior Bank S.A. by the audit firm, entities related to the audit firm and members of the audit firm network, is to control and monitor the independence of the audit firm and the key auditor, including to avoid conflicts of interest. The Policy provides for the rendering of permitted services as referred to in Art. 136.2 of the Act of 11 May 2017 in auditors, audit firms and public supervision. Such permitted services may only apply to areas that are not related to the Bank's tax policies, after an analysis of independence and provision of consent therefor.

The recommendation on the selection of the audit firm to audit financial statements was made as a result of a selection procedure meeting the above criteria.

In the financial year of 2018, the audit firm auditing the financial statements provided other permitted services to Alior Bank SA. Each time the audit firm was verified for independence and consent was provided for the provision of such services.





An entity authorised to audit the financial statements performing an audit of the annual financial statements of the Alior Bank Capital Group, as well as the annual financial statements of Alior Bank S.A. was selected in compliance with the applicable law. The entity and statutory auditors auditing the financial statements reports shall meet the requirements to express an impartial and independent opinion on these financial statements of the Bank Capital Group and the financial statements of the Bank, in line with applicable regulations of law and professional standards.

**Information of the Management Board made pursuant to Art. 70.1.7 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical disclosures (...) (Journal of Laws of 2018, item 757)**

The Bank's Management Board informs on the basis of a statement made by the Bank's Supervisory Board of 24 January 2019 on the selection of the audit firm to audit the annual financial statements in compliance with applicable laws, including those applicable to selection and procedures of the audit firm and that:

- the audit firm and members of its team performing the audit have complied with the requirements to make an impartial and independent report from the audit of the annual financial statements in compliance with the applicable laws, professional standards and the rules of professional ethics;
- the applicable laws related to the rotation of the audit firm and the key auditor as well as the mandatory grace periods have been complied with;
- The Bank has a policy relating to the selection of the auditing company and a policy of the provision of services that are not an audit by the audit firm, entities related to the audit firm or a member of its group, including services that are not covered with the ban on being provided by audit firms.

**Auditor's remuneration**

As at 31 December 2018, the following auditor's remuneration was approved:

- audit of the separate and consolidated financial statements of the Alior Bank Group – PLN 820,000;
- other assurance services – PLN 955,000;
- other services – PLN 100,000.

As at 31 December 2017, the following auditor's remuneration was approved:

- audit of the separate and consolidated financial statements of the Alior Bank Capital Group – PLN 680,000;
- other assurance services – PLN 719,300;
- other services – PLN 76 000.

As at the publication date of the report in connection with the audit of the annual financial statements for 2018, the Bank's subsidiary companies (this does not apply to Centrum Obrotu Wierzytelnościami Sp. z o.o. whose annual financial statements are not audited) established provisions for audit services as disclosed in the table below:



Company	Auditor	Established provision (PLN)
<b>Absource sp. z o.o.</b>	VISTA Audytorzy, Księgowi i Doradcy sp. z o. o.	4,500
<b>Meritum Services ICB S.A.</b>	VISTA Audytorzy, Księgowi i Doradcy sp. z o. o.	4,800
<b>NewCommerce Services sp. z o.o.</b>	Kancelaria Biegłego Rewidenta "Konto" Sp. z o.o.	12,300
<b>Alior Leasing sp. z o.o.</b>	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	205,000
<b>Serwis Ubezpieczeniowy Sp. z o.o.</b>	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	40,000
<b>Alior Services Sp. z o.o.</b>	UHY ECA Audyt Sp. z o.o. Sp. k.	30,000
<b>Alior TFI S.A.</b>	BDO spółka z ograniczoną odpowiedzialnością sp.k.	17, 000



# XVIII. Standalone and Consolidated Statement on Non-Financial Information of Alior Bank S.A.

## 1. Alior Bank S.A. Capital Group and Alior Bank S.A. – Parent Entity

### 1.1. Who we are

[GRI 102-2]

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. Our offer comprises services and products for individual and business customers, including small and medium-sized enterprises and institutional customers. We combine the principles of traditional banking with innovative solutions – as a result, we have been regularly consolidating our market position and for years we have been consistently setting new development directions of Poland's banking

#### Key numbers – the position of Alior Bank among top Polish banks

5% market share	#5 number of customers (about 4 M)	#4 distribution network	Top 3 brand recognition
#5 headcount	#6 net profit	#8 balance sheet total	15 awards in 2018

The operations of the Alior Bank S.A. Capital Group extend to comprise several different, but inter-related segments. This is closely related to the operations of the companies making up the Capital Group. Apart from banking activities, the operations of the Group cover, among others: lease and insurance agency services, asset management, search for and identification of external partners to co-operate in offering non-banking products, services in the sphere of IT, and computer technologies, as well as other activities related to IT, online financial agency services.



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. We are also involved in stock broking activity, financial advisory and intermediation services, arrangement of issues of corporate bonds and provide other financial services. In the near future, we plan a major growth of sales via electronic channels.

We offer our banking products and services via a network of our own branches, franchise outlets, and financial intermediaries, as well as the distribution channels based on an IT platform, covering: online banking, mobile banking, and telephone service centres. The distribution network is supported with service outlets that offer our products under the following brands: T-Mobile Banking Services provided by Alior Bank.

#### Products and services of Alior Bank

Individual customers					
Loans and deposits	Brokerage products	Investment funds	Personal accounts	Transactional services	Currency exchange

Business customers					
Loans and deposits	Trade financing	Current accounts and sub-accounts	Transactional services	Treasury products	Issue of corporate bonds

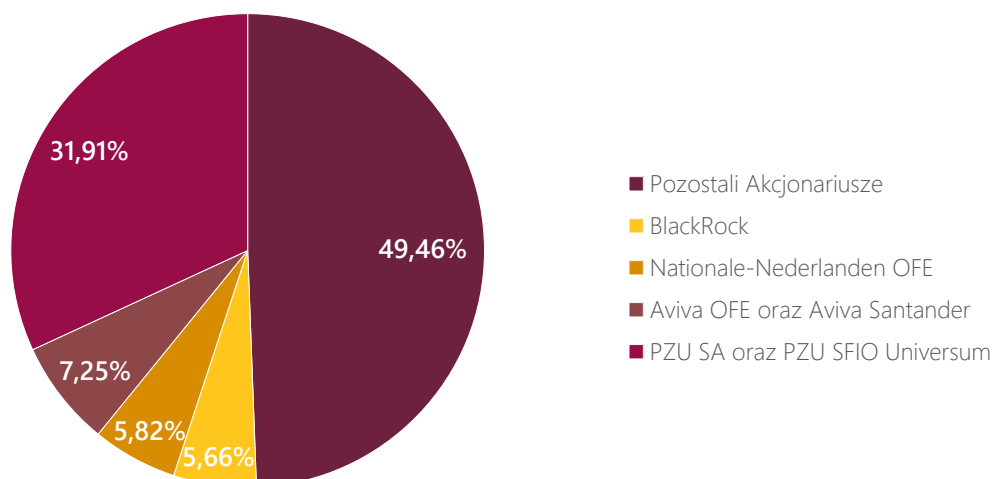
Apart from Alior Bank S.A., which is the parent company, the Alior Bank S.A. Capital Group is made up of subsidiary companies where the Bank holds majority interests.

<b>Alior Leasing Sp. z o.o.</b> 100% shares	<b>Serwis Ubezpieczeniowy Sp. z o.o.</b> 100% shares (indirectly)
<b>Alior Services Sp. z o.o.</b> 100% shares	<b>Centrum Obrotu Wierzytelnościami Sp. z o.o.</b> 100% shares (company in liquidation)
<b>Alior TFI S.A.</b> 100% shares	<b>Meritum Services ICB S.A.</b> 100% shares
<b>Absource Sp. z o.o.</b> 100% shares	<b>NewCommerce Services Sp. z o.o.</b> 100% shares

Detailed description of the subsidiaries' business is provided in Chapter X hereof.

[GRI 102-5]

Alior Bank is a public company. Since December 2012 our shares have been traded at the Warsaw Stock Exchange – the IPO at that time PLN 2.1 billion was the largest private offering in the history of WSE. Since 2014 Alior Bank's shares have been listed in the WIG20 index. Our shareholders include domestic and international investors.



Detailed information on the structure of the Bank's share capital and its shareholders is provided in Chapter XVI hereof.

[GRI 102-3]

[GRI 102-4]

[GRI 102-6]

Alior Bank's head office is located in Warsaw. However, we operate all over Poland. As at the end of December

2018, Alior Bank operated 202 its own branches, eight Private Banking branches, 8 Regional Business Centres, and 643 partners' outlets (franchise)

Alior Bank S.A. – in cooperation with Telekom Romania, a member of the Deutsche Telekom group – in October 2017 started commercial operations in the Romanian market. At present, the cooperation between Alior Bank and Telekom Romania is unique among such large and important entities from the financial sector and telecommunications sector in the Romanian market. The brand – Telekom Banking – is becoming increasingly recognisable and associated by customers as a modern bank focusing on offering innovative products and services. Many processes no longer require customers' visits to branches (contract signature, opening of ROR) – this is well received by the market and is in line with Digital Disruptor strategy. The synergy generated between the companies facilitates their access to a broad customer group at outlets of Telekom (POS) and our own branch network (SIS) as well as over the highly appreciated mobile and internet applications; the above resulted in an award of Digital Project of 2017 for Telekom Banking granted in Q1 2018 at the Business Days Gala in Bucharest.

## 1.2. Business Strategy

[GRI 102-16]

**Our objective is to maintain the position as an innovation leader in Poland and to be among the most innovative banks in Europe.**



In accordance with the approved strategy, since 2017 we have been investing in innovative technological projects (in 2017-2020 jointly PLN 400 M apart from the originally planned expenditures for ongoing development works and IT system maintenance). The expenditures will drive the digital transformation of Alior Bank within which highly motivated employees will guide



individual and corporate customers to a digital world, in a safe and friendly manner that will prove profitable for the shareholders.

Investments in innovative projects are supported by the FinTech Department. They follow business objectives by looking for fintechs on a global scale and for initiating partnership with those that best suit the Bank's strategy.

We simplify our product offer and provide carefully selected, innovative products and services, characterised with simplicity, transparency, friendly nature in handling and access and handling via Internet and mobile banking. With those actions we wish to become a leader in terms of individual and business customer satisfaction.

In the business segment, we focus on micro-, small, and medium-sized enterprises. We wish to be the bank of first choice for start-ups and to comprehensively support SMEs.

We also plan to intensify co-operation with entities in the PZU Group in order to implement cost and revenue synergies. The co-operation will cover, among others, innovation areas, digital channels, IT, real estate properties, marketing, development projects, procurement, and financial products.

The strategy of Alior Bank requires changes to the working mode of the Bank's employees. It is our staff who will lead our customers from the "off-line" to the "on-line" world. Apart from training and promotion of pro-customer attitudes, the working comfort of our team is very important to us. We regularly survey satisfaction among our staff, asking them about their needs in their place of work and we try our best to provide for such needs.

### **Operationalisation of the Digital Disruptor Strategy**



The operationalisation of the Digital Disruptor Strategy provides for systematic implementation of initiatives that follows our core business objectives. After 15 months, the effects of the Strategy operationalisation are ahead of the speed of the work in the original plan. Until the end of 2018, 43% of initiatives in the strategic portfolio was completed and 37% other initiatives are subject to analysis and programming.

Many solutions have been implemented to support process automation and enhanced security of business applications. As a result, we have automated the infoline, launched a chatbot supporting sales area and in cooperation with fintechs we implemented DRONN – a bot relying on artificial intelligence, speech analysis and biometry to recognise and synthesise speech. The initiatives taken by the Bank are aimed at supporting agile transformation at Alior Bank towards developing a modern working environment, resource optimisation, shortening the delivery time of new products and services and primarily at ensuring the security of customers and of the Bank in transactional and legal spheres.

As part of Alior Bank's Digital Disruptor strategy, the FinTech Department is responsible for developing an innovation ecosystem relying on partnership with start-ups. The objective is to establish co-operation with 20 companies by 2020 and make the Alior Bank be perceived as the partner of first choice for fintechs in Europe and a sponsor contributing to their business development. In 2018 we established cooperation with the first six fintechs and we became the technical partner for the first edition on the acceleration program: Scale Up



"Huge Thing powered by Alior Bank" during which the Bank's mentor supported the development of 20 start-ups.

Since 2018, Alior Bank has been operating its own acceleration programme – RBL\_START. The first programme edition focused on trends in new technologies with special stress on open banking, blockchain and roboadvisory. The programme enjoyed much interest – mentors and experts qualified 8 start-ups to the accelerator from among almost 100 proposals from all over the world. During the three-month acceleration, programme participants took part, inter alia, in multiple workshops, customer research, networking sessions and a trip to London. Due to the great success of the programme, the second edition of RBL\_START will be held in March 2019.

In parallel, we have been developing architecture in line with the Open API standard, underlying open banking. We were the first to have launched an Open API interface, compliant with the PSD2 directive that supports our effective work with fintechs. Alior Bank is now one of 8 institutions that have been qualified by PFSA as an operator of the regulatory sandbox. The first tests of the environment will start in 2019; however, RBL\_START participants could verify the compatibility of their solutions with the Bank's technology as early as in H2 2018.

Following its Digital Disruptor strategy, in 2018 Alior Bank established a Blockchain Competence Centre. The core task of the new team is to identify potential of use and implementation of projects relying on the technology of distributed blockchain registers. The first identified application of the blockchain technology at Alior Bank is its use to authenticate documents on durable media.

Perceiving the vast potential of the technology and striving at setting new directions in banking development in Poland, Alior Bank has been supporting innovative projects relying on the technology. We accomplish the goal by cooperating with fintechs and by getting involved in sectoral organisations, including an active participation in PFSA's Blockchain Commission or membership in the Economic Chamber of Blockchain and New Technologies as a co-founder and ordinary member.



Caring about positive customer experience in contact with the services offered by Alior Bank is a priority for us. We regularly study the needs of individual customers to address the Bank's activities in line with their expectations. We simplify our product offer and provide carefully selected, innovative products and services, characterised with simplicity, transparency, friendly nature in handling, accessible also via Internet and mobile banking. With those actions we wish to become a leader in terms of individual and business customer satisfaction.

In retail banking, in 2018 we expanded our product offer by launching a new savings account and a new personal account with a package of additional services. We also started the migration process of customers to the new internet platform. The quality of our activities is confirmed with a regular growth of our customers' activity in remote channels. In 2019 we will continue to focus on intensive development of digital channels and extending the product offer for our customers.

In response to our business customers' needs, we have provided our advisers with tablets with full access to banking applications and resources to support customer services at the place and time of their choice. We have expanded our product offer with a 4x4 account of great interest among entrepreneurs with a package of services to be selected by the customer and we have launched a LOTOS credit card with a package of



rebates for products and services offered at the Partner's outlets. We have provided our business customers with Apple Pay and Google Pay in contactless cards; for SMEs we launched a multi-currency card.

In 2018 we also developed the offer of complementary services beyond banking on the [zafirmowani.pl](http://zafirmowani.pl) platform, dedicated to entrepreneurs. Over the portal customers may, inter alia, generate invoices online, use tools to search for EU funds, keep VAT records, settle lump taxes, generate JPK\_VAT files and keep their accounting in the cloud. The [zafirmowani.pl](http://zafirmowani.pl) portal has become a core web address offering comprehensive tools to set up, carry on, and develop business activities.



The comprehensive offer and service quality resulted in Alior Bank in 2018 being classified at the top of rankings by Newsweek and Forbes, being first in the Friendly Bank by Newsweek ranking in Traditional Banking and online banking and in the rankings: Company-Friendly Bank and Bank Recommended to Businesses.

In order to be fully successful, business transformation must be combined with the transformation of organisational culture inside the Bank. At Alior Bank we have been developing a manager leadership style from transactional to transformation approach. The major success in the area covers an increased level of Employee Commitment, reflected in a high NPS review result.

In parallel, we have been improving internal process in the Bank and in the employee environment. In 2018 all employees of the branches and Head Offices were provided with smartphones so that internal banking processes could be transferred to the digital world. The development of a modern employee mobile application on the Kompas platform was completed.

Following the Digital Disruptor strategy, we have been focusing on reinforcing the ethical attitude of the Bank's employees and on risk prevention in the sphere of sales practices and ensuring legal and regulatory security to our customers.

The Bank as an employer has been following the rules of business ethics and the employees of Alior Bank are focused on developing long-term customer relations by promoting adequate conduct among bankers and care for ethics in the sale of banking products. Our competences have also been developed with multiple development initiatives taken inside the Bank with the support of external companies (Development programme of competencies of the future). The study "Zoom na Alior" held in 2018 and the results confirm the effectiveness of the actions taken as part of cultural transformation.

### 1.3. Our relations

#### Our stakeholders

Business and retail customers (existing and prospective),	Shareholders	Regulator and supervisory bodies
Employees	Suppliers and sub-contractors	Beneficiaries of social activities

We want to learn more about our customers. Therefore, we regularly carry out satisfaction surveys among them so that we learn more about our customers' needs and problems. Friendly and effective communication





with customers is a key element of our information policy. The information we disclose, we formulate in a simple and understandable manner.

We also care that the communication is confidential. When we provide data that is subject to banking secrecy, we always take optimum care that such information is transferred subject to the strictest security standards.

We also take care of regular, timely, and efficient communication with capital market players. As a public company we take measures to comply with the disclosure needs of our stakeholders, while ensuring that the information is available publicly and equally in line with the top market standards and the applicable laws.

The activities are carried out by the Investor Relations Department whose basic duty is to develop relations with shareholders based on reliable information and to ensure regular access to information on all major changes taking place at Alior Bank that have or may have impact on the prices of its shares.



The Investor Relations Department regularly arranges meetings of representatives of the Management Board with capital market players, including investors and analysts. The meetings are devoted to discussions on the current financial and operational conditions of Alior Bank, presentation of its operational strategy and the planned directions of future development. Issues are discussed that are related to current macroeconomic situation, the overall condition of the financial sector and the competitive environment of our Bank.

Our representatives regularly participate in conferences organised by domestic and foreign brokerage houses.

In order to maintain the high quality of cooperation and internal customer service, in 2018 Alior Bank continued its cyclical internal NPS reviews of selected organisational units. In 2017, the review covered two departments, in 2018 – 10 departments. The results of the review are a valuable source of knowledge for the reviewed departments and support them in further adjustment of their operations to the reported needs; therefore, in the future we intend to cover more departments with the review. In 2019, the review will also cover the FinTech Department and the Innovation Centre. At Alior Bank we are at constant dialogue with employees. For the purposes, we use the most popular and most effective communication tools. Those include, inter alia, meetings, e-mail messages, posters, stickers, competitions and films. Each employee is sent weekly newsletters with information useful in their daily work ("HR News") and information on the pursued strategy, new products and achievements of the Bank ("Digital Disruptor"). With questionnaires, on an ongoing basis we collect feedback on employee satisfaction with the newsletters.

In 2018, we launched a new employee portal named "Kompas". It has functionalities known from popular social media and news portals. Over the portal, employees can freely share information with others, open discussion groups and comment on or "like" articles.

We regularly meet social partners being the six trade union organisations representing employees. The mode of dialogue covers both individual consulting and discussions concerning legal regulations covering collective labour law.

We also hold satisfaction surveys with employee benefits. Employee feedback is also provided from the annual commitment survey in which employees respond to several dozen questions concerning work at our Bank.

For key directors and managers we organise meetings with the Bank's Management Board. In 2018, two meetings were held with the managerial staff – "Alior MeetUp" during which a discussion was held on progress in implementing the "Digital Disruptor" strategy.



### Selected organisations where Alior Bank was member in 2018

Polish Bank Association	Bank Cyber Security Centre
Security Board of Banks	Bank Register of IT Security Incidents
ACI Polska	Clearing Agent Committee
Polish Franchise Organisation (POF)	Polish Factors Association (PZF)
Electronic Economy Chamber	Qualification Standard Committee
Employers of Poland	Depository Bank Council
Security Forum of Electronic Transactions	EFMA
Banking Ethics Commission	Electronic Banking Council
Coalition for Polish innovations	Warsaw Blockchain Alliance

### Strategic partnerships at Alior Bank



PZU, Lotos, Allegro, Apple, Tauron, Microsoft, Google, IBM, WSE, Empik – are examples of just a few companies with which we cooperate daily in Alior Bank, jointly pursuing projects or providing mutual services. Seeing the potential in developing and building such partnerships, the Bank has decided to establish a new unit that started operating in 2018 – Strategic

Partnership Unit.

The core task of the unit is to develop the existing and build new strategic partnerships as well as to identify synergies under the projects that are pursued. On a daily basis, the unit coordinates, analyses and initiates a number of initiatives in the area, cooperating with many other units in the Bank and with external partners.

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. The unit also supports the implementation of business strategies and facilitates projects in many areas. The Warsaw Stock exchange is an example – their experts supported the first edition of our RBL\_Start acceleration programme and promoted it among its recipients.

From Alior 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.

The Strategic Partnership Unit collects information on partnerships in which the bank is involved as well as it initiates and establishes new strategic partnerships, consults the development of synergies and use of each case of cooperation in various areas. 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.

Now 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. The activities that are being taken and implemented serve both the Digital Disruptor strategy and the New PZU strategy (in particular in the context of objectives related to cooperation in the Group and cooperation with



banks). Here we look, inter alia, for new models of providing banking or insurance services (and combination thereof) with a view to customers' needs and comfort.

An example of such partnership started in 2018 is a solution for business customers that we launched jointly with LOTOS Paliwa – a Mastercard Business LOTOS credit card. With the partnership, entrepreneurs may enjoy the promotion "Cheap refuelling" and save up to PLN 0.20 per one litre of fuel and other rebates. With LOTOS we have been working on expanding our cooperation with other joint solutions.

#### 1.4. Our awards



We are happy with external recognition of our activities and the awards granted to us. In 2018, we were awarded prizes 15 times in Poland. Seven prizes related to the way we run our business, four appreciated our innovative nature and technologies, two rewarded our products and customer service.

##### Business

- The title of the "Best bank in Poland" was awarded by "Global Finance";
- The first place in the rankings by Forbes as the "Company Friendly Bank" and as the "Bank recommended to companies". The other title was awarded by the organiser for the first time in the history of the plebiscite;
- The first positions in the ranking "Newsweek friendly bank" in two categories – "Traditional banking" and "Bank in the Internet". Second position in the category "Mortgage banking";
- An award in the plebiscite "Best Business Partner" organised by the economic portal Home&Market.

##### Innovations and technology

- First position in the prestigious ranking "Golden Banker" in the category "Security – Best Practices: FinTech" for the FX Exchange Office of Alior Bank. The award is granted by the editors of Bankier.pl;
- Honorary Award in the category "Innovative Banks" in the ranking of "Poland's 50 largest banks", organised by "Miesięcznik Finansowy BANK";
- A FinTech & InsurTech Awards 2018 in the category "FinTech Award" granted for Dronn – a virtual adviser being also a system based on artificial intelligence technology, supporting operational and sales processes at the Bank;
- "The Heart Open Innovation Award" in the categories: "Organisation" and "Initiative";
- The title of "IT Leader 2018" in a competition organised by "Computerworld".

##### Products and customer service

- Konto Jakże Osobiste of Alior Bank with a golden EFMA-Accenture Distribution & Marketing Innovation Award 2018 in the category "Offering Innovation";



- The award for the best service of customers interested in personal accounts in the ranking “Institution of the Year 2018”;
- The title of Poland’s best bank for super affluent customers. Holding investment assets of USD 1-5 M – a review “Private Banking and Wealth Management Survey” organised by “Euromoney”. In the main category of ‘private banking services’, the bank was ranked 4th in Poland;
- First position in the ranking of Puls Biznesu for a stockbroking account. The experts appreciated the comfort of using the account and an innovative approach to customer service;
- First position in the ranking of bank FX exchange offices of the [najlepszekonto.pl](http://najlepszekonto.pl) portal for the FX Exchange Office of Alior Bank.

## 2. Foundations of our activities

[GRI 102-2]

Employees of the Alior Bank S.A. Capital Group are required to comply with the law, regulators’ guidelines, and the regulations and procedures in force at the Bank. In their daily operations, the Bank and its employees should follow the “Principles of Good Banking Practice” approved by the Polish Bank Association. Both Alior Bank is comply with the Best Practice of WSE Listed Companies.

**In 2018, no financial penalties were imposed on the Group for non-compliance with law and regulations.**

### 2.1. Ethics – rules of conduct

[GRI 102-16]

Ethics, Simplicity, Agility, and Team Spirit – those are the four values that are most important for Alior Bank S.A. We identified the values in the new business strategy approved in 2017 – “Digital Disruptor”, setting forth the activities of the Bank for 2017-2020

#### Our values

ETHICS	We act fair in internal relations and vis-a-vis customers.
SIMPLICITY	We focus on things that actually build value for Customers by promoting simple and effective solutions.
AGILITY	We react fast to changing circumstances and efficiently implement the required solutions.
TEAM SPIRIT	We assume responsibility for accomplishing the objectives of Alior Bank and we adjust our priorities to the strategy of the team and organisation. We follow the principle: “we play with only one goal”.



Ethics is one of the core values identified in the Strategy of Alior Bank for 2017-2020. Every day, we take a number of measures and initiatives that are focused on consolidating the employee's awareness and attitude towards compliance and ethics.



The organisation follows the Code of Ethics implemented at Alior Bank SA and at: Alior Leasing Sp. z o.o., Serwis Ubezpieczeniowy Sp. z o.o., NewCommerce Services Sp. z o.o. and Alior TFI S.A. The other companies in the Alior Bank S.A. Capital Group hire staff employed at Alior Bank S.A. who are obliged to comply with the Code as prevailing in the Bank.

The Code of Ethics of Alior Bank is a collection of the most important rules of conduct related to the Bank's business. It is addressed both to our employees and people who perform banking activities via the Bank. For the staff of Alior Bank, the Code is a guideline facilitating fair and lawful decisions.

The Code of Ethics contains four parts with the rules of conduct towards customers, vis-a-vis each other, counterparties and the market and the community at large. The Code contains guidelines concerning compliance with the principles of professionalism and personal culture, and also openness to diversity and tolerance. Additionally, in the document the employees will find information encouraging them to take care of the natural environment.

We have been doing all reasonable efforts that the Code of Ethics becomes a pillar in our daily work – therefore, all employees of the Bank are involved in training on general ethics. The employees who will join Alior Bank will be provided with onboarding training to be completed with a knowledge test. The other employees regularly undergo e-learning refreshment courses on ethics. Ethical rules are also promoted in the Compliance Bulletin.

[GRI 102-17]

[GRI 412-1]

We attach great importance to the appropriate organisation of the whistleblowing system – we want employees to be able to provide information or share their doubts in an easy way and without any fear

Alior Bank provides opportunities for its staff to use multiple communication channels to this end. Such report may be done orally, in writing, or by e-mail to specially dedicated e-mail boxes, including directly to Members of the Management Board or the Supervisory Board.

The existing whistleblowing reporting system ensures anonymity. The Bank shall not apply any retaliation, discriminative measures or another type of unfair treatment against employees who have in good faith reported breaches. Additionally, in 2018 we launched the Policy of a work environment free of undesirable behaviour at Alior Bank S.A. and the Procedure concerning reporting of undesirable behaviour at Alior Bank S.A., in particular such undesirable behaviour as discrimination, mobbing, harassment, sexual harassment. An e-learning course has been developed and made available to all employees on undesirable behaviour at work place.

In 2018 we had 49 reports concerning potential breaches of ethics (including harassment of employees by managers, discrimination, etc.). All reported instances were subject to a detailed analysis and 8 of them were found as justified. In relation to confirmed breaches, recommendations were issued to remedy irregularities.



## 2.2. Fraud risk management

[GRI 419-1]

A core element to mitigate compliance risk is that the Bank ensures appropriate supervision over conflict of interest management. In the Alior Bank Group the area is regulated in the

### **Conflict of Interest Management Instruction.**

Instructions related to conflict of interest management apply in the five largest companies of the Alior Bank S.A. Capital Group. (Alior Bank S.A., Alior Leasing Sp. z o.o., Serwis Ubezpieczeniowy Sp. z o.o. and Alior TFI S.A., NCS Bancovo). The other companies hire staff employed at Alior Bank S.A. who are obliged to comply with the rules as prevailing in the Bank.



In the document, the employees of the Alior Bank Group can find answers to questions how to define conflicts of interest and how to identify their potential or actual effects and how they should act to avoid conflicts of interest. The instruction regulates such important elements like the rules of providing services to close persons, acceptance of gifts and invitations and employment of staff members outside the Group. The document clearly sets the rules of reporting between close persons with special stress on eliminating the risk of nepotism.

Additionally, Alior Bank has implemented **Compliance Policy** and **Fraud Prevention Policy**. The documents precisely state how Alior Bank ensures compliance with the law, the internal regulations, and the market standards with its control function and compliance risk management. The Bank pursues a policy of full compliance with the law and the principles of fairness and business ethics in all areas of its operations.

The employees of Alior Bank S.A., Alior Leasing, and Alior TFI S.A. have been trained in procedures preventing abuse and the rules of ethical conduct. The training at Alior Bank covered, among others, the compliance risk where conflicts of interest was one the most popular subjects similarly to bank secrecy and the gift policy. The training is mandatory for all new employees of Alior Bank.

[GRI 201-1]

[GRI 205-3]

In 2018, the Bank's employees reported 362 instances of accepted benefits – gifts, invitations to conferences, or training, tickets, gifts in kind, etc. that were recorded in a special register. A vast majority of the reported benefits were within the acceptable limit of PLN 200. In the case of gifts exceeding the value, usually such objects are sold at a charity auction and the proceeds are transferred to, e.g. an orphanage. In the case of invitations to conferences

In 2018, out of 91 reported potential conflicts of interest, 76 percent were found as actual instances of the applicable principles of avoiding conflicts of interest and therefore, recommendations were issued to restore the required situation. Usually, the breaches referred to servicing close persons or potentially competitive activities.

**In 2018 no confirmed corruption instances were identified in the Group.**

## 2.3. Compliance with human rights in the supply chain

Each entity that wishes to join any bidding procedure organised by the Bank shall be obliged to file a special appendix to the bid – "Business Ethics Declaration" that part of the assessment of the bid in terms of formal



legal aspects. By signing the document, the bidder declares that in its business it complies with the applicable laws and rules of ethical conduct. The most important elements of the declaration are as follows:

- no employment of under-age staff;
- no discrimination of employees on any account;
- compliance with the law with respect to minimum wages and working hours;
- provision of safe and secure working conditions for employees;
- compliance with the regulations concerning environmental protection and no adverse impact on the immediate neighbourhood;
- compliance with the regulations concerning protection of competition and consumers;
- compliance of the internal policies concerning business ethics. In 2018 the practice was followed solely at Alior Bank S.A., while in 2019 it will also be pursued by the other Group companies.

## 2.4. Management of risks related to business operations

Risk management is one of the major internal processes in the Bank and in the Alior Bank's Group.

The risk management system operated at the Bank is based on three independent lines of defence. The system relies on the standards in force in the banking sector and the guidelines in supervisory regulations and recommendations.

The objective of the risk management policy pursued at the Bank is to ensure an early detection and adequate management of material risks inherent in the Bank's operations.



In its operations, the Bank identifies the following risks as material: credit risk, interest rate risk in the banking book, market risk in the trading book, liquidity, operational, compliance risk, model risk, business risk, reputational, and capital risk. Among them, the Bank treats the following risks as major one: credit risk, operational risk, interest rate risk in the banking book, market risk in the trading book, and the liquidity risk. From the viewpoint of impact on social, employee-related, environmental, human rights, and counteracting corruption issues, the operational and compliance risk are of special importance. Additionally, the Bank identifies environmental risk in the process of corporate financing.

**Selected risks are managed by the Bank subject to factors of sustainable development (ESG – *Environmental, Social, Governance*).**

### Credit Risk

Credit risk is understood at our Bank as a possibility of default by the counterparty. 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 use of the regulations in force at the Bank, 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. We endeavour to fully centralise and automate the processes while relying on available external and internal information on customers.



	<p>In order to mitigate risk levels, each time a credit product is granted we assess the customer's creditworthiness and credibility covering, inter alia, a detailed analysis of repayment sources, reliability of the accepted collateral.</p>
<b>Operational Risk</b>	<p>Operational risk is a possibility of occurrence of a loss resulting from inadequate or unreliable internal processes, loss of key employees systems or external events. Operational risk further covers the legal risk and events with a low frequency, but high losses. Operational risk does not cover reputational risk and strategic risk.</p> <p>Alior Bank has a formalised operational risk management system within which we counteract to the occurrence of operational events and incidents and mitigate losses should the risk materialise. The principles and structure of operational risk management at Alior Bank rely on the Banking Act, resolutions and recommendations of the Polish Financial Supervision Authority, and also the internal regulations.</p> <p>We control the operational risk at many levels in the organisation; this is done, among others, by an independent unit of the Bank dedicated to operational risk management.</p>
<b>Market and liquidity risk</b>	<p>At Alior Bank we have identified the following types of the market and liquidity risk that is subject to management:</p> <ul style="list-style-type: none"><li>• Interest rate risk in the banking book,</li><li>• Market risk in the trading book (the risk covering in particular interest rate risk in the banking book and the commodity price risk),</li><li>• Liquidity Risk.</li></ul> <p>The interest rate risk is defined as a risk of adverse impact of market interest rates on the current performance or the current value of the Bank's equity.</p> <p>FX risk is defined as a risk of a loss resulting from changing FX rates in the open FX positions.</p> <p>FX risk is measured and mitigated by monitoring and limiting the FX positions opened by the Bank.</p> <p>The risk of commodity prices is a risk of a loss due to changing commodity prices. Commodities are understood as any material trading objects identified in terms of type and grade and the quantity of which may be expressed in physical units of measure. Commodity price risk is measured and mitigated by monitoring and limiting open commodity positions so that the risk becomes immaterial for the Bank.</p> <p>Liquidity risk means a 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. The policy of liquidity risk management at the Bank consists in maintaining its own liquidity positions so that payment obligations can be met at any time with the available cash on hand, proceeds from transactions with specific maturities or with sales of marketable assets, while minimising the costs of liquidity maintenance.</p>
<b>Compliance risk</b>	<p>Compliance risk is a risk of legal sanctions, financial losses, or reputation loss due to incompliance by the Bank or its employees with the law, requirements of supervisory bodies, internal regulations, or the accepted standards of conduct and ethical standards. Of particular importance for the compliance risk are issues related to: use of new regulations, processing and protection of personal data and bank secrecy, conflicts of interest, the protection of confidential information and counteracting market abuse and proper treatment of employees.</p> <p>The Bank operates a cohesive compliance risk management system, composed of:</p> <ul style="list-style-type: none"><li>• Identification and assessment of the compliance risk with an aim to mitigate the risk level and ensure safe functioning in a dynamically changing and demanding legal and market environment, without adverse consequences resulting from a breach of regulations and ethical standards. The process is carried out on an annual basis,</li></ul>





	<ul style="list-style-type: none"><li>• Control is performed on the basis of compliance test plans,</li><li>• Monitoring of the compliance risk is aimed at eliminating instances of non-compliance and preventing their recurrence, Monitoring is performed using key risk indicators.</li><li>• Reporting – periodic submission of information on the most important and crucial issues resulting from compliance risk management at the Bank.</li></ul> <p>The approved compliance risk management system ensures that Alior Bank operates in compliance with the law, regulators' requirements, and the approved ethical standards.</p>
Environmental risks	<p>We measure environmental risk of investments financed by our customers as a socially responsible financial institution. For customers with a total exposure (existing and requested) in excess of PLN 1 M we perform a detailed assessment of the environmental risk, including the social risk.</p> <p>The environmental risk is defined as a risk of the customer's deteriorated creditworthiness as a result of adverse financial and legal effects due to business activity pursued or taken up by the customer or the proposed collateral for the loan that has or may have material adverse impact on the natural environment or the community.</p> <p>For our employees, we have developed an Environmental Risk Assessment Sheet that provides for a precise determination of the environmental risk level related to the transaction financed by the Bank. Statements and documents submitted by customers are analysed and verified in detail. In certain instances, we also resort to opinions of independent experts on the environmental and social risk of a project.</p> <p>There are regulations in place at Alior Bank identifying the types of entities that the Bank does not finance. Those are entities involved in the following operations:</p> <ul style="list-style-type: none"><li>• production or sale of weapons and armaments,</li><li>• gambling,</li><li>• production of nuclear energy of nuclear fuel,</li><li>• tobacco growing, manufacturing of tobacco products,</li><li>• fishing in sea waters when the company uses fishing driftnets exceeding 2.5km in length.</li><li>• alcohol distillation, rectification, and mixing,</li><li>• manufacturing of industrial cooling and ventilation devices, if they use substances depleting the ozone layer,</li><li>• coastal transport of goods, if it is related to transport of oil or other environmental hazardous substances with tankers that do not meet the risk requirements of the International Maritime Organisation,</li><li>• business activities adversely affecting the neighbouring protected areas in line with domestic laws or international conventions, places of scientific interest, habitats of rare/endangered species and those with adverse impact on places of cultural or archaeological significance,</li><li>• enterprises operating contrary to the applicable Polish laws or the laws of the country of business, or without the licences, permits, or approvals that are required to pursue such business,</li><li>• speculative transactions and other projects that may generate reputational risk for the Bank.</li></ul> <p>Additionally, Alior Bank does not finance activities of religious organisations, political parties, sports clubs, or projects relying on harmful and exploitation related to forced labour, children's work, direct discrimination, or practices that prevent employees from exercising their right of association and collective bargaining.</p>

A detailed description of risk management at Alior Bank can be found in Chapter XIII hereof.



## 3. Customer Focus

### 3.1. Customer experience



In 2018, Alior Bank continued the enhancement of processes and implementation of new solutions aimed at providing Customers with a competitive service level in Polish and global banking. The objective was to provide customers with agile and friendly processes and unique products in line with their expectations.

At Alior Bank, we care about the Customers' experience at each stage of cooperation with the Bank and in all sales and service channels so that we can become the Bank of first choice and develop long-term relations. Additionally, we focus on activities to support Customers in taking informed decisions on the basis of understanding the functioning of the products and the offered technological solutions.

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 2018, we asked an opinion of almost 80 thousand customers who assessed our products and service channels.

Since September 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 of remedial measures. When problems are eliminated, the number of complaints is reduced due to a reduction of the underlying reasons which results in improved customer satisfaction.

On 1 September 2018, the Customer Ombudsman of Alior Bank started to operate. If the Bank's responses to complaints and any appeals do not fulfil customers' expectations, 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.

Additionally, in order to ensure the development of long-term relations we have appreciated the group of Customers who have been actively using the Bank's services since it was established. Such Customers were given gifts prepared especially on the occasion of the 10th anniversary of Alior Bank along with thanks for the cooperation until then.

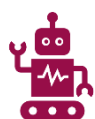
### 3.2. Customers' opinions

The Customer Experience team is the Customer's Ambassador at Alior Bank; its core and key task is to provide Customers with the best experience in contacts with our Bank, both in case of traditional banking at stationary outlets and also in electronic banking. For that reason, we have divided the staff of Customer Experience into two teams specialised in remote services and customer relations in brick-and-mortar branches.

We want customers of Alior Bank to take informed decisions and always understand our products and the offered technological solutions. We try to avoid complicated banking and legal gobbledegook. We see to it



that information is provided in a simple language, understood for people who are not bankers, and the customers can always count on our know-how and competences.



Pursuing the Digital Disruptor strategy we keep working on optimising processes focusing on minimising Customers' efforts. We are open to all suggestions and comments coming from customers. The issues that are reported to the Bank in communication addressed to the Management Board, the PR department, or social media, are directed to the dedicated unit – Customer Problem Lab (CPL) – which is a "fast response team" to solve customers' problems immediately (as a rule within 48 hours) and prevent their recurrence. CPL is also responsible for recommending modifications to the Bank's processes and products required by our customers.

Since 1 September 2018, the Customer Ombudsman of Alior Bank has started receiving appeals from Customers against responses to complaints provided by the Bank. The Customer Ombudsman is the last appeal instance in the Bank in the complaint process. Appeals to the Customer Ombudsman of Alior Bank may be filed by Customers when a complaint has been earlier filed and reviewed by the Bank but the Bank's responses and any appeals have not been satisfactory to the Customer. Appeals to the Customer Ombudsman shall comply with the following requirements: written form, addressed directly to the Customer Ombudsman of Alior Bank, sent to the Bank's address for service or filed personally with a Bank's branch.

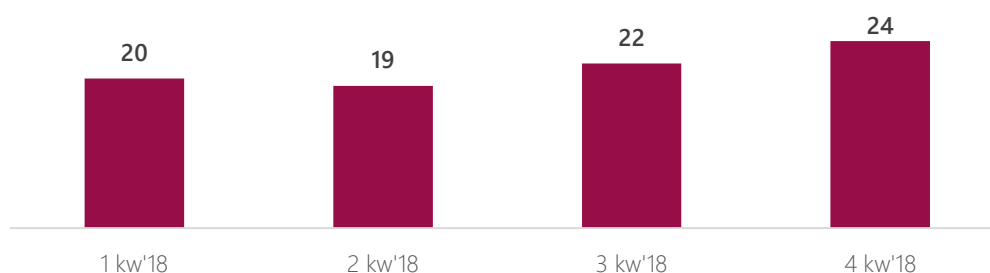
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Additionally, at Alior Bank we closely listen to customers' opinions, among others, as a result of regular surveys of customers' satisfaction following the NPS method (Net Promoter Score). The survey covers both the overall satisfaction level of co-operation with the Bank and satisfaction levels with each product and distribution channel

The quarterly relationship NPS survey shows us the customers' overall satisfaction level and their willingness to recommend our Bank to others. As a result, due to the fact that the information on the satisfaction levels is accompanied by customers' comments, we are able to perform more comprehensive analyses being a starting point to implement improvements for further growth of our customers' satisfaction with co-operation with us.

In accordance with the survey held in Q4 2018, Alior Bank's relational NPS was 24.

The chart below presents the level of relationship NPS resulting from the surveys held by Alior Bank with retail customers on a quarterly basis in 2018:



We have been performing regular surveys of NPS of specific products and distribution channels for customer groups that were using the products or channels immediately before the survey – as a result we gain accurate knowledge on how customers view the aspects of the Bank's operations that are of interest to us. The results



of the surveys are presented on an ongoing basis to persons responsible for specific products or channels along with details on the underlying factors and actions that may be taken to improve their operation.

The surveys of the distribution channels also cover regular satisfaction surveys of service quality on our own and franchise branches. The surveys cover customers who as a minimum have ROR accounts or deposits or who perform transactions or contract loans who in the two weeks preceding the survey visited our own and franchise branches.

Detailed NPS results are analysed and presented to branch directors or owners of franchise outlets. As a result, we are able to monitor the quality of service on an ongoing basis and we are able to respond fast should worrying symptoms occur.



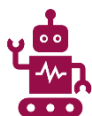
The systematic NPS surveys helped us focus our activities on key aspects indicated by our Customers. Broadly understood comfortable banking is the direction. That is why it is always Customers' opinion that is taken into account in product, service and process development – in a sense, the Customer is a product and service architect at Alior Bank. Research shows that apart from pricing and human factor, comfort is the major aspect that is primarily looked at by Customers in their relations with the Bank. We keep analysing the problems reported in various contact channels between Customers and the Bank. Afterwards, on the basis of developed process maps and analysis of competitors, the Customer Experience team develops recommendations to implement modifications and enhancements to develop the best experience of our Customers. We attach great importance that Customers feel that we care about them by ensuring an appropriate level of education on our products and technological solutions – for instance, the new online banking platform where – before it had been made available and afterwards – we ran a large scale information and educational campaign using all available communication channels and forms.

We keep inspiring our employees to act to the benefit of customers – we have activated an internal portal called Inspirujemy [We inspire] where we publish incentivising videos that are very popular.

At Alior Bank we understand that despite all the efforts we take, situations may happen that customers will not be fully satisfied with the provided services. Complaints and claims are also treated by us as important opinions of customers to help us improve the quality of daily services. We facilitate the placement of complaints by customers and we accept them in practically any available form – directly in a branch, by phone over the infoline, in the online banking system, by traditional or electronic mail. Each filed complaint or claim is assigned a unique number and when so requested by customers, we provide a written acknowledgement of receipt.

We respond to all complaints without undue delay, however, not later than within 30 days. We respond to all subjects touched upon by customers in a reliable and objective and exhaustive manner. We observe the rule that no complaint or claim may be reviewed by a person to whose conduct it relates. When the customers' claims are not accepted, we justify our position in detail and inform about methods to appeal against our standpoint.

### 3.3. Innovations



The objective of Alior Bank in the sphere of innovations is to maintain its position as an innovation leader in Poland and become one of the top innovative banks in Europe. We wish to



comprehensively respond to our customers' needs so we do not hesitate when we resort to modern technologies, we test new solutions, we look for partners among start-ups and FinTech companies.

The Innovation Management Model of Alior Bank is based on two ecosystems – internal and external. The first is being developed by the Innovation Centre which focuses on inspiring employees to develop new solutions and is also specialised in surveys with customers and improving the UX image of banking. The FinTech Department is responsible for developing the ecosystem in cooperation with external partners. Its task is to establish cooperation with the most promising start-ups in order to develop and implement ready-made solutions responding to specific business requirements at the Bank and within the Group. To support smooth work, both units cooperate closely with the Strategy Unit which provides for integrating innovations in daily projects and better adjustment to the needs of business units.

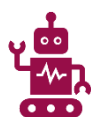
In September 2018, Alior Bank launched a new brand: RBL\_ which combines all things that are innovative, digital and modern. Now two entities operate under the RBL\_ brand (short for REBEL): RBL\_START – an acceleration programme for start-ups and RBL\_LAB – a laboratory for work on technological solutions and testing such solutions. In 2019 the Bank will open new initiatives: RBL\_VC (investment fund), RBL\_BRAIN (a new crowdsourcing portal) and RBL\_SPARKS (mentoring programme). The activities under the RBL\_ brand are performed on a daily basis in the Bank's modern space at Warsaw Spire. Workshops, meetings, events and research on the Bank's products and services take place there. The RBL\_ space also houses RBL\_LAB – one of Poland's most modern laboratories to work on digital solutions, including tests with users. The multi-functional flexible location is adjusted to the innovation development process – this is supported for instance with intelligent tables, video conference devices or cameras. The authors were inspired with the idea of an agile approach to projects which is characterised with immediate incorporation of user recommendations in developing solutions. Owing to modern technologies, employees of the head office in Kraków and in Gdańsk may participate in the daily activities of the Centre.



The Innovation Management Model intends to accelerate the creation of new ideas, identify fast those with the largest potential and to effectively prepare the identified projects for implementation. To this end, for instance design thinking workshops are held at which Alior Bank's experts develop practical solutions. Finally, the concepts are tested during qualitative and behavioural tests with users. Such mode of operation shortens the time in which solutions are implemented and facilitates identification of the ideas that miss the customers' needs. The innovation management model provides for systemic testing of new ideas so that the offered products and services are most attractive and friendly in daily handling.

Now Alior Bank focuses on product and service digitisation and providing customers with friendly and solutions that would underlie real banking experience. This is made possible with a holistic approach to creating innovations at the Bank and its openness to modern solutions. Very recently we have offered new functions based on biometric identification for mobile applications and therefore such actions like login or payment authorisation in the application have become simpler and more comfortable.

The innovation management model at Alior Bank supports cultural transformation in the organisation with such tools like crowdsourcing with a platform for multidisciplinary group work, a training and mentoring programme supporting development of competencies among employees or a broad use of the resources of the Innovation Centre in initiatives developed among employees.

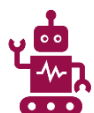




The Bank established a special team responsible for research and coordination of activities aimed at implementing blockchain in selected projects. Now work is under way to develop a platform based on blockchain technology to serve a durable medium and enable customers to verify on their own the authenticity of such documents as fee and commission tables, regulations and financial statements. Additionally, Alior Bank was the only bank that joined the Blockchain and New Technology Chamber; now it is actively involved in other initiatives supporting the development of the technology in Poland, for instance in PFSA's Blockchain Commission or the Interbank Information Network.

The Digital Disruptor strategy of Alior Bank is combined with a technological revolution that we make at branches. We provide our staff members with modern tools to provide services to customers at the place and time of their choice. Those, inter alia, include iPads in branches, Regional Business Centres and Head office with the Open Account application, developed on the basis of Mobile First IBM class solutions. Advisers provided with tablets may, for example, open and modify customers' profiles, open bank accounts and file applications for debit cards. The processes available in the application are as simple as possible and understandable for advisers and customers.

In 2018, in cooperation with Innegro Systems we provided our employees with over 5 thousand modern Apple smartphones. The provision of employees with modern working tools is aimed at facilitating digital transformation by developing a desirable mobile channel and making remote work possible, which is explicitly in line with the Digital Disruptor strategy. The AirWatch MDM system implemented in the Bank provides for centralised smartphone management and smartphone security. The devices with a pre-installed set of applications are ready to work within 3 minutes without any assistance required on the part of the technical department. We use the COPE model which provides for segregation of the company and private profiles so our employees can use the smartphones for any purposes in a secure and transparent manner.



Robotisation and automation are the key assumptions underlying the Digital Disruptor concept. Alior Bank is involved in a robotisation project aimed at implementing the RPA (Robotic Process Automation) and RDA (Robotic Desktop Automation) technologies for back-office functions.

When the project has been completed, recurring systematised processes will be taken over by a programmed robot. Until now, 35 processes have been automatised which improved the effectiveness, speed and quality of operations. The target of the project is to automate about 120 back-office processes.

The FinTech Department is responsible for developing an innovation ecosystem based on partnership with start-ups at Alior Bank. The objective is, inter alia, to establish co-operation with 20 companies by 2020 and make Alior Bank be perceived as the partner of first choice for fintechs in Europe and a sponsor contributing to their business development. For that reason, the Bank has been actively involved in events related to start-ups, shares its knowledge, provides its acceleration programme and invests in promising companies. All those activities are aimed at supporting the development of innovations and breakthrough solutions that may change the condition of banking in Poland.

Now Alior Bank is involved in its own acceleration programme – RBL\_START; its first edition focused on trends in new technologies with special stress on open banking, blockchain and robo-advisory. Mentors and experts qualified 8 start-ups to the accelerator from among almost 100 proposals from all over the world. During the three-month acceleration, programme participants took part, inter alia, in multiple workshops, customer research, networking sessions and a trip to London. All those activities were aimed at providing start-ups with



the required knowledge and at having it verified in practice, establishing valuable business contract and – last but not least – development of projects in line with the Bank's requirements. Now work is under way to develop a plan and implementation schedule of pilot projects with certain selected start-ups. In March 2019, the second edition of RBL\_START will take place.

However, the search for breakthrough solutions is not limited solely to the accelerator. Bank experts establish various partnerships in Poland and abroad to look for solutions that respond to current business needs; start-ups with the largest potential may get an opportunity to acquire financing. In November 2018, Alior Bank invested in PayPo – a start-up offering deferred payment for purchases made over the Internet. This is not only an investment in the success of the solution offered by PayPo but also support to the expansion plans of the foreign company. The transaction is the first investment of Alior Bank's investment fund which is scheduled to start officially at the beginning of 2019.

There is a dedicated team in the FinTech Department, responsible for implementing open banking strategy in line with the PSD2 Directive. Its tasks included, inter alia, access by the start-ups involved in the RBL\_START programme to the testing environment Alior Bank Developer to integrate the solutions with API Alior Bank in a secure manner. It should be noted that Alior Bank is now one of 8 institutions that have been qualified by PFSA as an operator of the regulatory sandbox. The first tests of the environment will start in 2019; however, RBL\_START participants could verify the compatibility of their solutions with the Bank's technology as early as in H2 2018. Alior Bank not only intends to comply with the requirements of the Directive and act as an external data aggregator (both models will be tested and used in business) – in the near future the Bank plans to deliver advanced financial services to its customers relying on a detailed data analysis, and develop new solutions using OpenAPI in cooperation with external partners.

### 3.4. Responsible sales



At Alior Bank we always see that our products and services to be sold to people who actually need them and who may benefit from them. We strictly adhere to the Counteracting to Misselling Policy. We have identified the principles of appropriate product structure and distribution. We have reduced the products offered off a shelf and selected elements of the offer may be distributed solely over dedicated channels (e.g. Private Banking) and employees holding appropriate know-how and experience. We systematically monitor sales processes for misselling risks. We have implemented procedures applicable to identified misselling instances. All employees have been trained in transparent sales. In 2018, we held a cycle of training for branch employees (Road Show) within which specialists from the Bank's Head Office presented detailed requirements applicable to responsible sales of investment products. Bonus for sales attributable to employees is subject to the quality of sales processes which is regularly controlled. Post Sale Calls are a core mechanism applied in relation to products with the highest risk of misselling which is complemented by assessment of the quality of documentation, complaints and early resignations by customers.



### 3.5. Safety of customers' data and transactions

The safety of finances entrusted to us and our customers' data is of most importance to us. For that reason, restrictive safety procedures that are in force in the Alior Bank Capital Group ensure confidentiality, integrity, and availability of the processed information. Our Security Policy and all related procedures are updated on a regular basis in response to the changing market conditions in the sphere of cyber security, and also to include new requirements and guidelines provided by regulators.

#### Protection of Personal Data



Protection of our customers' personal data and data subject to bank secrecy is a priority of the Bank. The Bank is the data controller of millions of customers and processes it for various purposes, including sales purposes as most important ones. We care about protecting our customers' privacy. Due to the fact that in May 2018 the deadline expired to adjust personal data controllers to the requirements of the new personal data protection regulations – Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC, hereinafter referred to as: "GDPR"), 2018 was for Alior Bank a year of challenges relating to personal data protection.

Among other things, we implemented new after-sale processes to comply with customers' rights related to data processing such as: the right to be forgotten, to have data transferred, to have processing restricted or to file an objection to marketing. We have adjusted the processes and product documentation to new requirements (information clauses, marketing consents). Additionally, we have signed annexes to personal data processing outsourcing contracts and we have implemented a register of processing activities. We have adjusted HR processes and held training for employees on GDPR. We have nominated the Data Protection Inspector who supervises processing activities and is the point of contact for the Bank's customers and the supervisory authority. We keep monitoring amendments to the applicable regulations and guidelines by regulators to be able to respond fast to all changes in the area and ensure compliance with the applicable legal requirements.

### 3.6. Education of employees



In the Group, we see to it that our employees improve their competences in the sphere of information security. All employees have to undergo related training to increase their competences and awareness of the existing hazards. We actively review the effectiveness of such training by simulating socio technical attacks at our staff members.

For the first time in history, in 2018 at the Academy of Competencies of the Future we arranged classes related to well-being: relaxation workshops, yoga classes and healthy spine. The classes were very popular; we plan to continue such workshops next year.





### 3.7. Secure electronic banking



As the “Digital Disruptor” we are aware that along with technological progress and digitisation of financial services, every day new hazards appear in the market that we have to anticipate and face. That is why we have offered new online banking to our customers that has been designed on the basis of the most modern technologies and trends in the area of cyber security thus ensuring a top security level of transactions executed electronically.

- Our customers have access to an encrypted and secure communication channel with the bank, relying on traditional secure login methods (such as traditional passwords, masked passwords), and also on modern biometric methods (login with a fingerprint or face scan) on mobile devices;
- While logging in, the customer may see their personalised security image which may prevent the disclosure of their data on a phishing site (one that pretends to the Bank's site);
- Transactions executed by customers may be accepted with a one-off code sent in a text message, and also a mobile application on a smartphone or tablet (currently available in T-Mobile Banking Services);
- Having regard to the highest security level for card transactions, the Bank is implementing a 3D Secure service for its customers (an additional authorisation for web card transactions).

In the area of cyber security, we pursue preventive and detection activities. In 2018, we held several hundred advanced security controls and tests of the IT systems and the sensitivity of internal processes. We have a dedicated unit responsible for ongoing monitoring of electronic banking systems and active responses to attempted attacks. We actively analyse new hazards that occur in the market and we also anticipate future trends in the area and on that basis we modify and adjust our security systems.

We are aware that the security of transactions also depends on our customers' conduct in the web and therefore, the Bank and Alior TFI S.A. remind of the fundamental security rules and inform about hazards on their web sites as they appear. We also address educational actions to our customers via social media or dedicated e-mail communications.

## 4. Headcount – who our employees are?

### 4.1. Number of employees

At the end of 2018, the headcount in the Alior Bank S.A. Capital Group was 8228 FTEs. A majority of the people works at Alior Bank – 7727 FTEs. In terms of headcount, Alior Bank S.A. is ranked 5th among the top 10 banks in Poland.

[GRI 102-8]

#### Alior Bank employees by type of employment

	Males	Females
Contracts for unspecified time	2327	4183
Contracts for specified time	532	836
Trial contracts	81	79



Replacement contracts	17	44
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#### Employees of Alor Bank in terms of FTEs

	Males	Females
Full time	2737	4696
Half time and more	53	304
Less than half time	167	142

The implementation of the Digital Disruptor strategy at Alor Bank requires changes on the part of our employees and modifications to HR policy. We are aware that if we wish to transfer our customers in an effective and safe way from the analogue to the digital world, we also have to undergo a cultural transformation inside the Bank. Only on that basis will we be able to accomplish our strategic objectives by 2020.

The four priorities in HR development for 2017-2020 as set forth in the business strategy of Alor Bank are as follows:

- Development of Transformation Leaders;
- Taking Care of Employees' Experience;
- Development of Digital Alor Staff;
- Support for the development of an ethical and effective organisational culture.

## 4.2. Development of Transformation Leaders



Changes in Alor Bank require new generation leaders. While implementing the strategy, much stress is paid to the role of managers who, as leaders of the organisation, should not only be effective, but are also expected to inspire employees, get them involved and be ambassadors of the values pursued by Alor Bank – ethical attitudes, simplicity, agility, and the team spirit.

We have developed our own leader model covering the challenges faced by Alor Bank. A leader at the Bank must be a person who:

- Sets engaging objectives related to the strategy of Alor Bank and clarifies how they contribute to achieving the objectives. By communicating the objectives, they show their sense referring to Alor Bank's values and customers' perspective;
- assures independence in the way the tasks are implemented. Demonstrates trust and respect and appreciates the individual contribution of each employee to the accomplishment of the objectives by Alor Bank;
- Supports development, encouraging employees to assume responsibility for their own development. Inspires and supports employees in their development efforts and takes their professional aspirations into account;
- Follows the four values of the Alor Bank Group – they act fairly in internal relations and contacts with customers, assumes responsibility for the accomplishment of objectives by Alor Bank and adjust their team priorities to the organisation's strategy. Follows the principle: "we play with only one goal". In



their operations, they focus on things that actually build value for the Customers by promoting simple and effective solutions. Reacts fast to changing circumstances and efficiently implements the required solutions.

The actions we have taken in the sphere of Leader transformation:

- T-LAB – a programme dedicated to directors and B-2 level managers with the main idea to develop transformational leadership;
- Transformation Ambassadors – workshops for directors who are ambassadors of the idea of transformational leadership;
- Managerial Toolkit – a package of training for directors, managers and leaders at Alior Bank.

The numbers are as follows:

Program	Number of events	Participants	Number of individual coaching sessions
T-Lab	25	212	343
Manager's Toolkit	39 (+2 persons for team building)	447 (+113 persons for team building)	-
Leaders of transformation	2	21	-

### 4.3. Working conditions



We keep improving the working environment and conditions at the Bank. For instance, we have implemented "smartphonisation" by implementing modern phones to support remote work. 6186 iPhones were distributed among the Bank's employees.

We care that our employees have access to the most recent information on the Bank and employee matters. The employee portal named Kompas was developed for the purpose. This is a tool that has functionalities similar to those of social media. On Kompas we publish daily news to keep everybody updated. Once a week a newsletter is sent with a summary of the previous week. Kompas also supports efficient communication among employees (via a chat), employees may have their own profiles, create social groups fostering integration and supporting project work. Kompas is also available in all the employees' company phones.

It is also important that at Alior Bank we have been trying to implement new agile working methods. E.g. project teams are set up to combine multiple competences at one place – business, analytical, programming and testing competences – as may be required to carry out a specific project. The core advantage of the approach is to shorten the communication path which supports agile activity and fast response to the changing requirements and technologies.

In 2018, we organised photo sessions for employees. The objective of the initiative was to encourage employees to publish their photos in the Intranet. The sessions were held 7 times in the year and attracted over 1100 people.

Every year we survey the commitment of our employees in all our units. On the basis of the results, we initiate activities focusing on increased commitment and improvement in key areas. **In 2018 we achieved the**



**commitment indicator of 49 percent. We plan to have it increased up to 60 percent in 2020. As many as 83% of employees participated in the survey.**

#### 4.4. Benefits



All employees have access to attractive benefits (group life insurance or medical care) and to a broad offer of the Company's Social Benefit Fund.

For employees we organise sports games, family picnics and day camps for our employees' children. We regularly offer competitions for our employees with attractive prizes.

In 2018, ZFŚS provided employees with 12 types of benefits that were used over 35 thousand times. This means that each employee with their children was provided on average with four benefits.

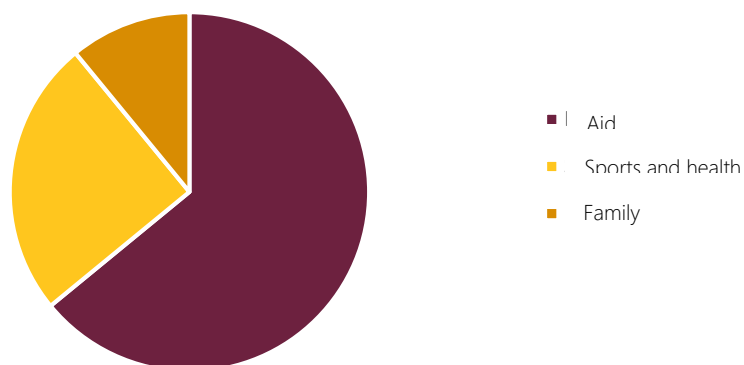
The most popular were multi tickets that were received by 6250 persons and multitickets used by 4945 employees. Almost 5400 children were issued Christmas packages and holidays were subsidised for over 4200 employees and almost 3400 children; layettes were provided to 541 newly born babies of employees.

It is worth noting that in June 2018, picnics were held in Kraków, Warsaw and the Tricity to which employees of Alior Bank with their families were invited. They were a great opportunity of teams to meet one another and integrate at barbecue and sports games; the meetings also covered the employees of the dispersed sales networks of Alior Bank in those regions. That form of rest was used by almost 1700 people.

To support sports initiatives, funding was provided to 12 sports sections for employees; in September, sports games were organised that were attended by 450 persons from the Bank who competed in 10 sports competitions – both for teams and individual athletes.

Additionally, Alior Bank operates a Support Fund. Its task is to provide non-refundable financial assistance to those employees of the Bank and their family members who are in severe life difficulties. In 2018, the amount of PLN 193,800 was disbursed from the Support Fund, including monthly benefits for 11 children of diseased employees and 3 one-off benefits for employees.

Benefits





## 4.5. Managing diversity

Alor Bank S.A. has not yet developed and approved a diversity policy applicable in the entire organisation. However, for many years the Bank has in practice taken into account the basic elements of the diversity policy in its HR policy, considering the values resulting from differences are an additional asset of the organisation.

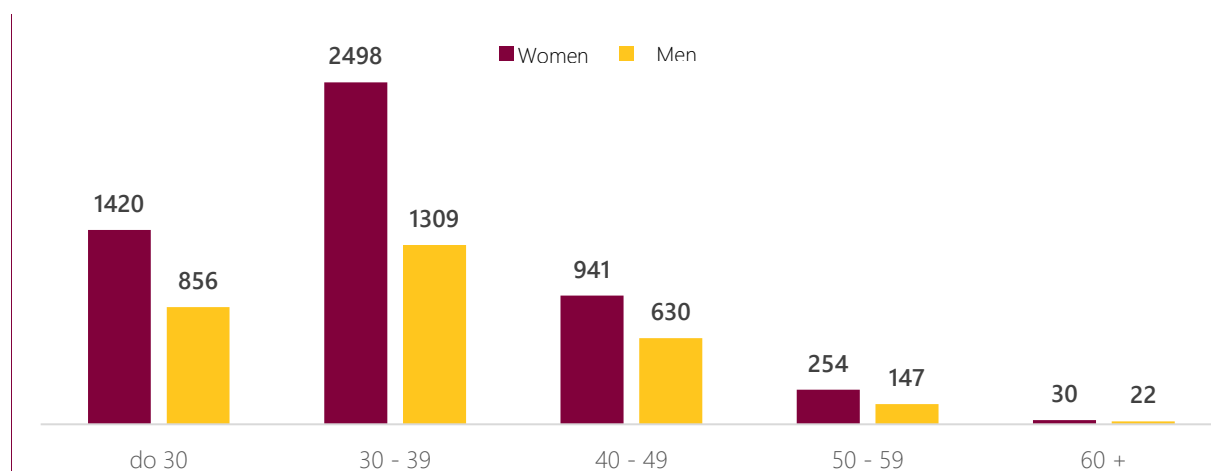
Alor Bank S.A. pursues the principle of equal treatment, irrespective of sex, age, property status, family situation, degree of physical fitness, nationality, sexual orientation, beliefs and political and religious views as provided for in Alor Bank's Code of Conduct. The Bank provides working conditions that favour full use and development of unique features, skills, and interests of all employees, including managers, among others by means of training.

### Staff by position level and gender





## Employee structure by age



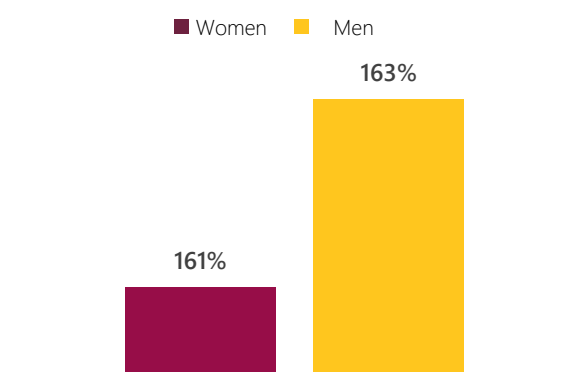
We want the best specialists to work at Alior Bank. Our employees are offered attractive salaries, regulated in the Remuneration Policy that fulfils the following objectives:

- Promotes correct and effective risk management and discourages from accepting excessive risks,
- Supports a strategy of the sustainable development and prudent risk management policy;
- Mitigating conflicts of interest;
- Maintaining a transparent relationship between individual performance and individual remuneration by focusing on goals related to responsibility and real influence;
- Guarantees that employees act in the customers' best interests, including the provision of clear and transparent information concerning our services and products.

All Group companies with more than 10 staff members have their own Remuneration Policies. Such policies have been implemented in four largest companies of the Alior Bank S.A. Capital Group: Alior Bank S.A., Alior Leasing Sp. z o.o., Serwis Ubezpieczeniowy Sp. z o.o. and Alior TFI S.A.

[GRI 202-1]

## Lowest level salary versus the minimum pay (PLN 2100 gross) split by gender





## 4.6. Employee competence development



We see to the actual development of competences of the staff. Our development policy gives the employees of Alior Bank an opportunity to become experts in the area of their choice by developing their own competences or related to team management. The management system and the implemented new development model support effective direction of specialists and dynamic development of their carriers. Employees are offered a broad range of training programmes held by internal and external trainers. The offer covers product, sales training and training related to service quality, interpersonal and managerial skills. Within their development paths, we offer training in the sales network the completion of which is a criterion for promotion.

[GRI 404-1]

In 2018 the average number of training days per employee with an employment contract was 2.20 days

Since the moment of hiring, we have been taking many efforts that employees are provided with know-how required to perform the tasks entrusted to them. Newly hired employees are provided with onboarding training in line with their individual position with specific focus on their position in the Sales Structure. In 2018, the Bank's employees could participate in development activities, irrespective of their selected career paths. In the year, multiple training courses and workshops were organised during which the participants could extend their knowledge related to the offered products and services and pursue their set development targets in the areas related to soft skills – the offer is presented as the Academy of Competencies of the Future. Apart from training carried out by Internal Trainers, the activities available at the Academy of Competencies of the Future include access to experience of selected external companies. The activities included skills set forth in the business strategy of Alior Bank: development of Digital Alior Staff (Excel, VBA, SQL application training, training in new technologies), caring about employees' experience (Design Thinking workshops, LEAN, creative thinking training) and compliant with the development of an ethical and efficient organisational culture (social intelligence, intra-generation bridges, personality typology, voluntary activities). A new item of the Academy of Competencies of the Future in 2018 was the part related to well-being – apart from relaxation workshops it offered yoga classes and healthy spine classes in each head office location.

In order to ensure internal know-how transfer, in 2018 we continued the "Share your Know-How" programme under which experienced employees supported with the Talent Development Unit shared their know-how with willing employees.

Actions agreed with line managers are an element directly affecting employees' development – within the assigned budget, managers have funds for training and development of their staff members. With such management, in compliance with the principles of agility and simplicity, employees of departments may propose training initiatives. The related development covers the following areas:

- Those that require expertise (for instance subjects related to strategy, IT architecture management, physical and electronic security, programming languages);
- The ever changing regulatory requirements (e.g. MiFID, GDPR, IDD, IFFS);
- Those that improve the effectiveness and quality of performed work (application training, foreign languages, interpersonal skills).



Under the programme, employees may also apply for co-funding of costs of studies, e.g. post-graduate studies.



## 5. Responsibility to the society and the environment

### 5.1. Support to entrepreneurship development of Polish companies

[GRI 203-1]

At Alior Bank we appreciate every business person and we realise the role of small and medium-sized enterprises in Poland's economy.

We are aware of the major problems of SMEs and we realise that the shortage of funding is a core issue for such businesses. This in particular applies to newly established companies and enterprises pursuing innovative projects constituting for instance implementation of results of R&D works.

We have looked carefully at the government programme of "Strategy for Responsible Development by 2020" which provides for support for SMEs in their access to capital as one of the efforts to be taken in the near future. We are proud to stress that Alior Bank has been actively involved in government programmes supporting the development of SMEs.

#### BEST PRACTICES

##### ZAFIRMOWANI.PL

In 2018, Alior Bank's web portal for micro entrepreneurs [www.zafirmowani.pl](http://www.zafirmowani.pl) was expanded with new functionalities, for instance automatic import of data from the Central Registration and Information on Businesses and the base of the Central Statistical Office in the new user registration process and when inputting new counterparties for account settlement. Portal users were also provided with a credit calculator – the tool supports customers with their calculation of the company's creditworthiness and a possibility to loan applications. For companies looking for alternative forms of financial support, a search engine for EU support has been launched. Additionally, portal users may refer to a special offer for enterprises developed by PZU. New users may also apply for a company account and payment terminal at the registration in the portal. Enterprises using the online accounting application may also use online collection and microfactoring services. On-line accounting has been offered also to entrepreneurs paying lump-sum taxes.

Portal users were also offered an opportunity to participate in webinars and stationary conferences organised all over Poland. Meetings were moderated by well known experts in various economic areas.



We are ranked second in sales of de minimis guarantees of BGK – we provided almost 41 thousand of such guarantees and the total value is almost PLN 8.5 billion. The volume of guarantees has been translated into lending activity totalling PLN 14 billion. Our credit offer combined with BGK guarantees has been utilised by over 20 thousand SMEs. The Bank's customers may also be provided with COSME guarantees – an alternative for those who will not obtain a de minimis guarantee. We are a leader in sales of the product – at the end of 2018 we granted guarantees for almost PLN 1.3 billion which was translated into loans for PLN 1.6 billion.





We have developed a European package for business people – a programme offering support in obtaining EU financing and effective and safe accounting for such financing. We propose for instance stand-by arrangements and bridge financing; customers may obtain loans to finance their own contributions to subsidised investments.

With EU funds under the Operational Programme Smart Development for 2014-2020, we can offer loans to SMEs for technological innovations and portfolio guarantees. Loans for technological innovations is an instrument supporting companies in implementing their own technologies (or purchase) and thus commencing production of new or much enhanced goods, processes, or services. Portfolio guarantees are addressed to customers who implement innovative investment projects. We were the first bank in Poland to grant loans to customers secured with such guarantee.

Alior Bank is the only bank to have signed an agreement with BGK to finance access to fast Internet. As a result, we offer a broadband loan to our telecommunications customers – investment financing of fibre-optic networks. So far ten contracts have been concluded for almost PLN 31 M.

In July 2018, Alior Bank launched a thermal modernisation loan which is destined for energy modernisation in multi-family houses in the provinces of Łódź, Dolny Śląski and Podlasie. The loan is financed with the Regional Operational Programme for the provinces of Łódź, Dolny Śląski and Podlasie and funds provided by Alior Bank.

We initiate and get involved in initiatives developing **Polish entrepreneurship and innovations**, providing education in broadly understood economy.

- In June 2018, Alior Bank was a partner to a major European conference devoted to innovation and future of digital economy – Impact'18;
- In October 2018, the Fourth European Cybersecurity Forum – CYBERSEC 2018, strategically partnered by Alior Bank, was held Kraków;
- In October 2018, Alior Bank sponsored the business conference Inside Trends organised by Business Insider.

## 5.2. Social commitment

[GRI 203-1]

The Group has no formal procedures or policies regulating the impact on the social environment – nevertheless, operating in line with corporate social responsibility is very important for us and we stress support for initiatives of local communities. We have been committed to social responsibility virtually since our establishment.

Higher culture is a specific area of CSR – this is an association for our customers since the beginning of our operations. In the area of social responsibility this means our commitment to support initiatives promoting culture and to counteract social exclusion by supporting access to cultural and sports values. We do our best to be close to events that are important for Poles.



## BEST PRACTICES

### SPONSORING OF SPORT

Under our co-operation with the Polish Football Association (PZPN), as an official sponsor/partner we have been supporting Poland's National Football Team. Many tickets have been offered to people who have restricted access to football games and for whom financial reasons are a major barrier to such access. In co-operation with PZPN, the Association has offered a number of football gadgets that we have been contributing to charity actions.

We believe that support to artistic or literary initiatives will help develop social capital in Poland.

For the third consecutive time, Alior Bank was the general sponsor of the 11th Procession of the Three Kings. The largest Nativity play held on 6 January 2018 gathered about 1.2 million people in over 700 places in Poland and abroad.

Alior Bank took patronage over the third edition of the "Capital of Polish Language" festival in the locality of Szczepieszyn, which took place in August 2018. The event, popularizing Polish classical and contemporary literature, as a major aspect of social and national identity, reached the rank of one of the most highly renowned literary festivals in Poland.

As an institution putting stress on social corporate responsibility, for years we have been supporting local communities, getting involved in a number of initiatives on a local and national scale. The efforts are aimed at supporting the implementation of specific projects but also to disseminate knowledge on social responsibility and sustainable development among employees, customers, business partners and shareholders of the Bank.



Most importantly the Bank's personnel more and more often submit projects that are important in their opinion and reflect the values represented by the Bank. As a result, in 2018 the area expanded and assumed the form of an organised employee volunteering programme "Committed to help". All actions are initiated by employees. It is employees – with full support and involvement of the Management Board – who decide in which actions to participate. Within the "Committed to help" programme we have successfully launched a number of valuable projects, to name a few:

- As a result of the action **"Share a book"** that we organised jointly with the Zacztyani.org Foundation, we collected as many as 1.8 thousand books that we donated to hospital libraries and educational establishments;
- Under the **"Banking is OK"** project we organised lessons in banking for children;
- The **"Paka dla zwierzaka"** [crates for animals], Alior Bank's employees made as many as 110 beds and 5 scratchers for animals. Additionally, we arranged a collection for stray animal shelters we collected among others 600 kg of feed and various treats, 200 blankets and towels, multiple toys and leashes and collars;
- **"Zaczytana Akademia"** [Reading Academy] organised with the Zacztyani.org foundation trained Alior Bank's employees to the role of fairy tale educators. Thirty volunteers from Warsaw, Gdańsk and Kraków are holding classes to minimise fear among young patients at hospitals;



- Within integration activities, the Remote Service Unit jointly with the Iskierka Foundation arranged an event during which employees of the Bank provided the Foundation with materials required to arrange art therapy sessions for children with oncology diseases.

Christmas volunteering activities were prepared within three initiatives:

- Within the **"Make a Gift"** initiative, Alior Bank's employees responded to over 200 letters sent to Santa Claus and prepared gifts in accordance with the requests. As a result, support from Alior Bank was provided to children and teenagers, handicapped persons, sick children, elderly and lonely people as well as families in extremely difficult situations;
- The **"Dorzuć do pudła"** [drop something in the box] action was focused on collecting articles for the homeless, patients of the Hospice Foundation, handicapped people and senior citizens living in Social Welfare Homes. We collected warm clothing and shoes, sleeping bags, vacuum flasks, bed linen, plastic articles for therapy;
- The **"Spotkaj się"** [Let's meet] initiative was developed jointly with social partners and consisted in a series of Christmas meetings and workshops to develop relations among people coming from various environments. Our employees met children, handicapped people, elderly people and refugees, and jointly they prepared Christmas tree ornaments, sang Christmas carols, cooked meals and learned about other environments;
- The Christmas initiatives were ended with a festival during which money was collected and Christmas tree ornaments were sold that were made by the patients of our social partners and employees of the bank. The fairs were held in Warsaw, Gdańsk and Kraków also in the internal internet space so that all employees of the bank could participate.

In H2 2018, Alior Bank started cooperation with the Zacztyani.org foundation whose core mission is to promote reading and social education. The joint efforts proved to be successful and the collected books offered access to literature for many people during their hospital stay. Additionally, with our series of training in fairy tale therapy, in the last three months we supported 480 children in hospitals with over 100 hours of reading workshops.

- **Collecting books**

In August – September 2018 Alior Bank held an internal volunteering programme. Internal book collections were held in Gdańsk, Kraków and in Warsaw. In their joint efforts, employees of Alior Bank collected and donated over 1800 books which meant access to literature to people in two hospitals. The collected books were sorted and donated to the selected hospitals. As a result of the action, we provided access to literature to 4200 hospitalised people.

- **Therapy with fairy tales**

Employees of Alior Bank have started long-term fairy tale therapy programmes in three cities. Before commencing their social activities, volunteers attended one-day training to the role of a fairy tale educator. Programme participants declared three personal visits to hospitals which guaranteed an 8-month educational and relaxation programme for the youngest hospital patients. Now the reading



visits are regularly made in Gdańsk, Warsaw and Kraków. Our employees read books to sick children, spend time with them and support their parents.

- **Wisława Szymborska's bench**

Alior Bank sponsored the Zaczytana Ławka [reading bench] – an urban piece of furniture designed in cooperation with the Wisława Szymborska Foundation with Michał Rusinek acting as the ambassador. The Wisława Szymborska bench was first presented at the Polish Language Capital Festival in Szczecznieszyn of which the bank has been a long-term partner. Afterwards, the literary bench stayed in the Head Office of Alior Bank in Warsaw and in October it was moved to Kraków for six months to the square in front of Galeria Krakowska. Jointly with the Foundation, we arranged a presentation of the Bench in Kraków for the media. Michał Rusinek was the guest of honour who held a special workshop for the invited teenagers. The literary meeting started with a city game for representative of two junior high schools from Kraków with the task to find Wisława Szymborska's hidden poems. Afterwards, a short presentation was made on the Nobel Prize winner.

As part of the customer focus programme, Alior Bank started the action "We Make Your Dreams Come True". Assistance was provided to the son of a customer of ours with an oncology disease. A charity concert was organised and an amount was donated to treat the boy.

On 17-23 September 2018, a cruise was made in the Baltic Sea on STS Kapitan Borchardt. The cruise was exceptional since almost one half of the participants were either blind or visually impaired; the cruise was organised by the Tomek Opoka See the Sea Foundation. Alior Bank supported the Foundation financially to organise the cruise.

In 2018, we also supported the Legia Foundation and the Association of Help to the Unemployed and Disadvantaged People.

### 5.3. Management of environmental impact



We, are a friendly bank to our customers and employees, but also to the natural environment. Due to the nature of its business, Alior Bank does not have direct material adverse impact on the natural environment. Although we have no formal policy in that area, in our philosophy since the establishment we have been looking carefully at minimising our footprint on the environment and we have been implementing our solution of a "paperless bank" as a result of which paper consumption has been falling. Caring for the natural environment, we have been reducing consumption of electricity and heat energy, we promote waste segregation and we use the services of specialised companies to recycle the toners used in the Bank and large size elements.

#### Consumption of materials and raw materials in the Alior Bank Group

		2017	2018
Paper	tons	221	218
Gasoline	tons	165	198



Diesel fuel	tons	760	772
Fuel oil	tons	35	37
Natural gas	m3	145,391	116,313
Electricity	GJ	25,597	20,478
Thermal energy	MWh	135,710	108,568

Environmental data for 2018 has been disclosed solely by the Bank due to limited availability of the data at other Group companies and its immaterial nature.

### On the Report

The above statement on non-financial information of the parent entity of Alor Bank S.A. and its subsidiary entities has been developed in line with the regulatory requirement imposed on public interest companies by the amended Accounting Act. The Alor Bank S.A. Capital Group is subject to a regulatory obligation at the standalone (Alor Bank) and consolidated level.

The statement presents managerial standpoints, policies, and due diligence procedures in force in the Group and its subsidiary companies in 2018. The major performance indicators were presented for a period from 1 January to 31 December 2018.

The statement was developed in relation to the International Non-Financial Reporting Standard.

Requirements of the Accounting Act with respect to disclosures of non-financial data		
Description of the unit business model and key performance indicators	Yes	<i>Who are we, Business strategy and social corporate responsibility, Our relations</i>
Description of management of risks identified as material	Yes	<i>Management of risks related to business operations</i>
Description of policies, due diligence procedures and performance indicators related to business of the entity with reference to prevention to corruption	Yes	<i>Foundations of our activities</i>
Description of policies, due diligence procedures and performance indicators related to areas important for the Bank in its customer relations, service quality, dialogue, responsible sales, and safety of data and transactions	Yes	<i>Customer Focus</i>
Description of policies, due diligence procedures and performance indicators related to the business of the entity with reference to employee matters	Yes	<i>Headcount – who our employees are</i>
Description of policies, due diligence procedures and performance indicators related to business of the entity with reference to observing human rights	Yes	<i>Ethics – rules of conduct, Headcount – who our employees are</i>



## **XIX. Representations of the Management Board**

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

- To the best of its knowledge the annual consolidated and separate financial statements for 2018 and the comparable data were prepared in line with the applicable accounting standards and in a manner reliably and clearly presenting the Alior Bank Group's economic and financial condition and its financial result.
- The Management Board's Report 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 2018.



## Signatures of all Management Board Members

Date	First name and surname	Signature
27.02.2019	Krzysztof Bachta President of the Management Board	
27.02.2019	Tomasz Biłous Deputy President of the Management Board	
27.02.2019	Marcin Jaszczyk Deputy President of the Management Board	
27.02.2019	Seweryn Kowalczyk Deputy President of the Management Board	
27.02.2019	Mateusz Poznański Deputy President of the Management Board	
27.02.2019	Agata Strzelecka Deputy President of the Management Board	
27.02.2019	Maciej Surdyk Deputy President of the Management Board	
27.02.2019	Marek Szcześniak Deputy President of the Management Board	
27.02.2019	Dariusz Szwed Deputy President of the Management Board	

