



Alior Bank S.A. Q3 2019 results presentation

Alior Bank S.A. | November 5th, 2019
(Consolidated results of the Group)



1 Key highlights

2 Financial results

3 Credit risk

4 2019 guidance

5 Appendix

Key highlights



Strong increase in capital ratios (TCR = 16.24%; TIER1 = 13.37%). Surplus of 162 bps (TIER1) and 249 bps (TCR) above regulatory minimums. The highest level of these ratios in the last 3 years.



PLN 125 M net profit. Significant impact of the provision related to the CJEU ruling (PLN -83 M). ROE ratio at 7.4% in Q3'19.



NII (YTD) increase y/y by 6.6% including the provision related to the CJEU ruling (from PLN 2,284 M at the end of Q3'18 to PLN 2,435 M at the end of Q3'19).



Operating costs under control – decrease in operating expenses y/y by 10% to PLN 372 M in Q3'19 (from 411 M in Q3'18). C/I ratio in Q3'19 at the level of **38.9%** (down -3 p.p. compared to Q3'18).



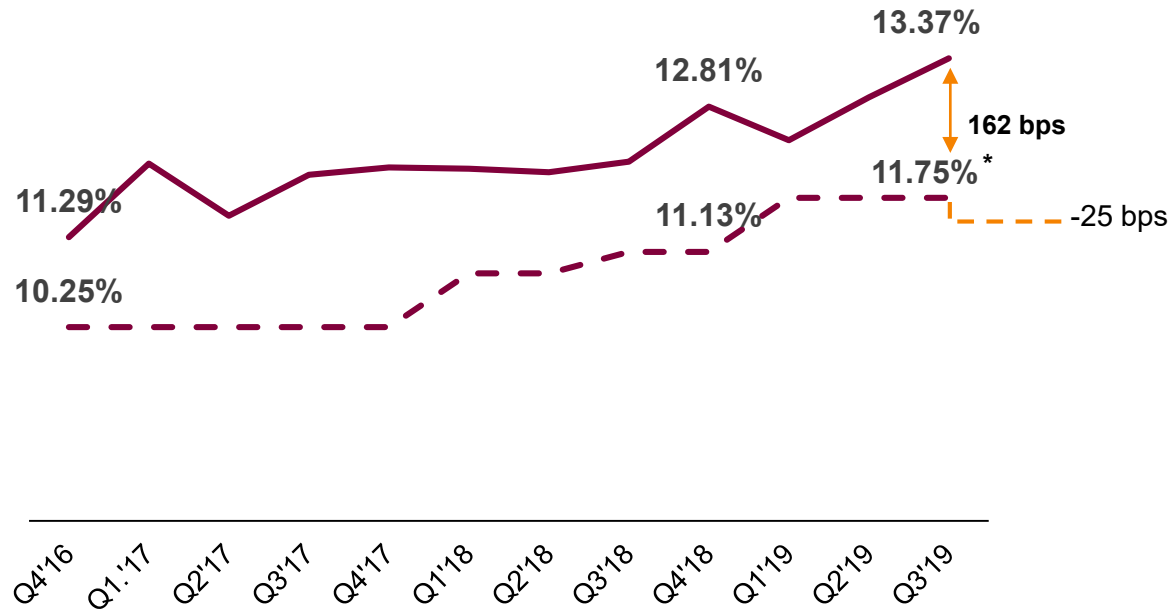
Loan volume growth in line with the plan, implemented in strategic products (micro segment, cash loan and mortgage loans).



Further consistent improvement in cost of financing (to the level of 1.14% in Q3'19 compared to 1.18% in Q3'18).

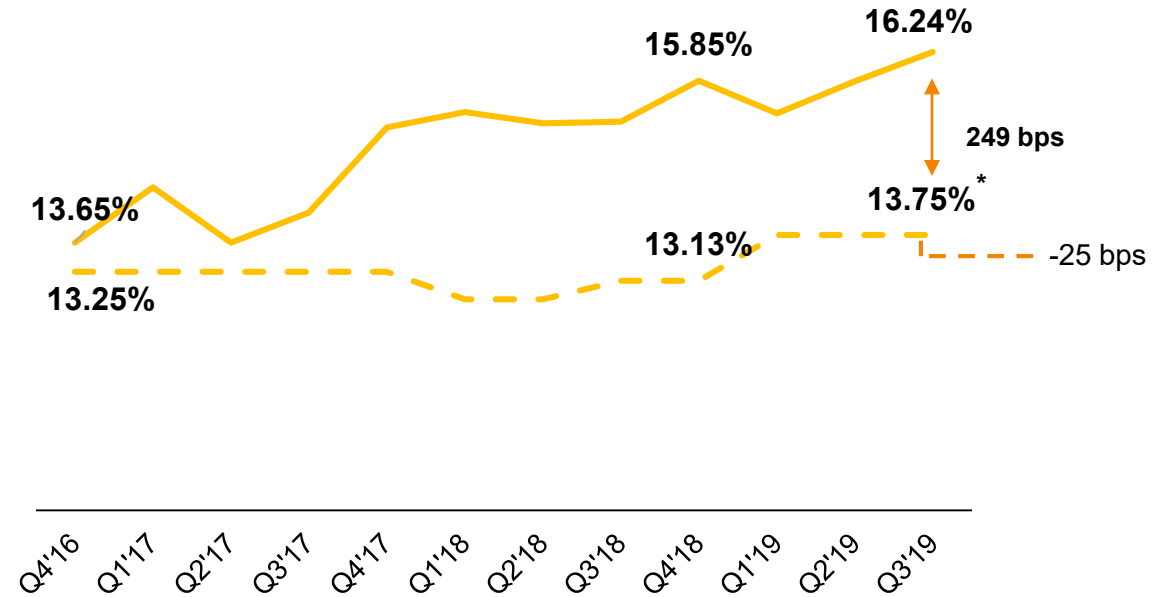
Tier1 ratio increase by 56 bps from the beginning of 2019

TIER1



— Tier1 ratio - - - Tier1 ratio KNF minimum

TCR



— TCR - - - TCR ratio KNF minimum

The level of Tier1 and TCR capital ratios at the end of Q3'19 leaves the buffer above regulatory minimums at 162 bps (PLN 819 M) and 249 bps, respectively.

*From the next quarter the requirements are reduced by 25 bps.

Impact of the CJEU ruling on the Bank's results

The Bank decided to fully comply with the CJEU ruling regarding the consumer's right to reduce the total cost of credit in the event of its early repayment and the application (starting from 11/09/2019) of the principles resulting from the above.

Impact of the provision on the Bank's results:

	Impact (PLN M)
Impact on NII in Q3'19	-45
Impact on other operating costs in Q3'19	-57
Impact on net profit in Q3'19	-83

The provision calculation includes:

- the current number of complaints observed recently in the Bank
- characteristics of the Bank's loan portfolio
- clients' complaints probability reflecting the amount of each potential return

The total amount of the provision (PLN 102 M) in Q3'19 consists of the following:

- provision for refunds regarding cash loan repayments before September 11th, 2019
- provision for refunds regarding cash loan repayments in September 11th-30th, 2019 (in total)
- provision for future earlier repayments on the active portfolio as at September 30th resulting from the difference between the return according to the linear formula and the return according to the effective rate

We have taken steps to improve the profitability of the cash loan portfolio

1

Product changes

- Commission conversion into interest rate
- No price preferences for internal consolidation offers
- Increase of credit card offer competitiveness
- Offer with benefits implementation for loyalty and repayment in line with the schedule

2

New CRM strategy

- New models implementation increasing sales in a simplified credit process
- Complete rebuilding of the retention process to maintain loans subject to external consolidation

3

Distribution model improvement

- Excluding internal consolidation from remuneration system in all distribution channels
- Taking advantage of the possibilities related to the PSD2 directive

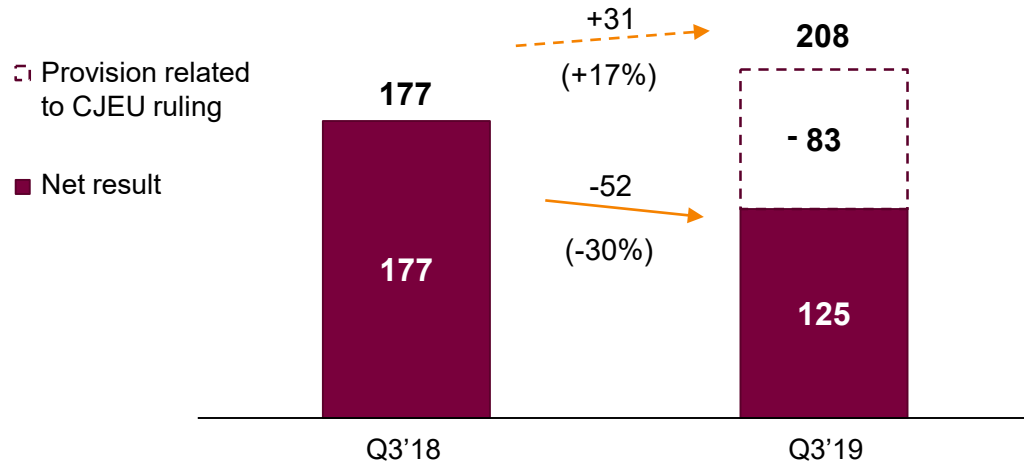
4

Education

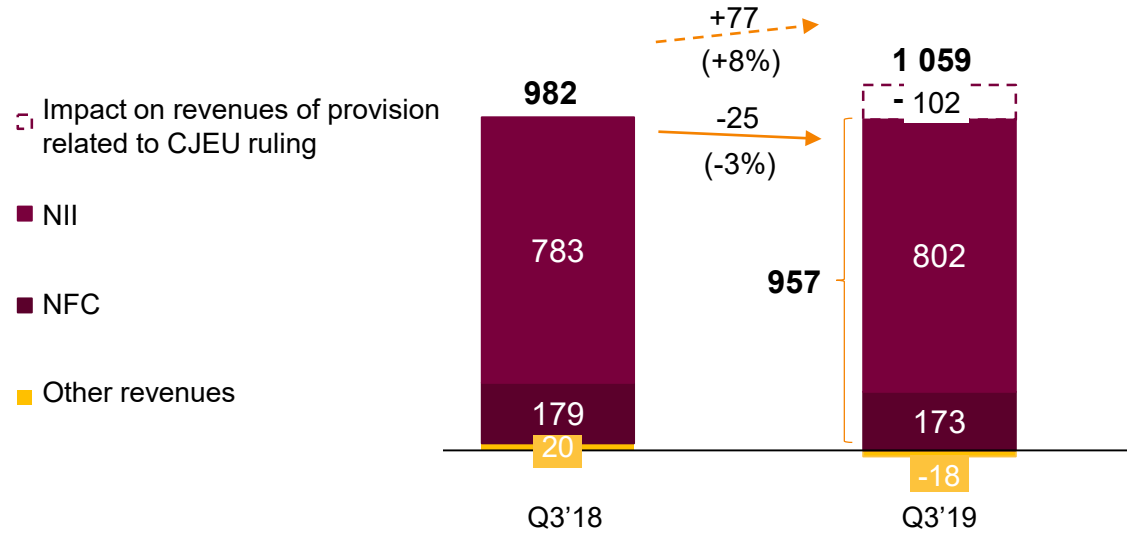
- 3 large training programs dedicated to Branch Directors, Bankers and Partners

Q3 2019 financial results (PLN M)

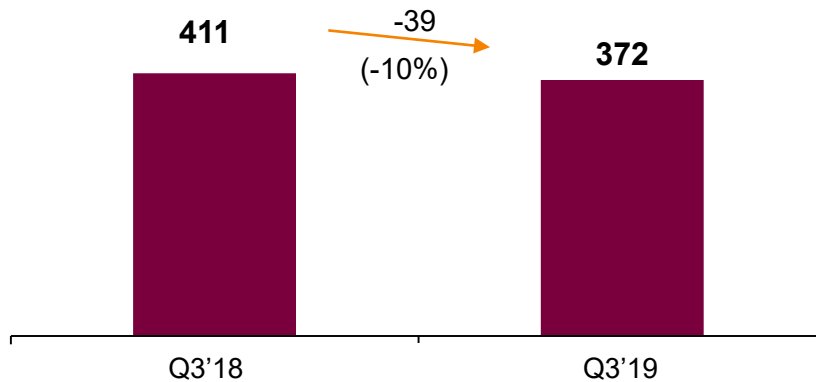
Net result



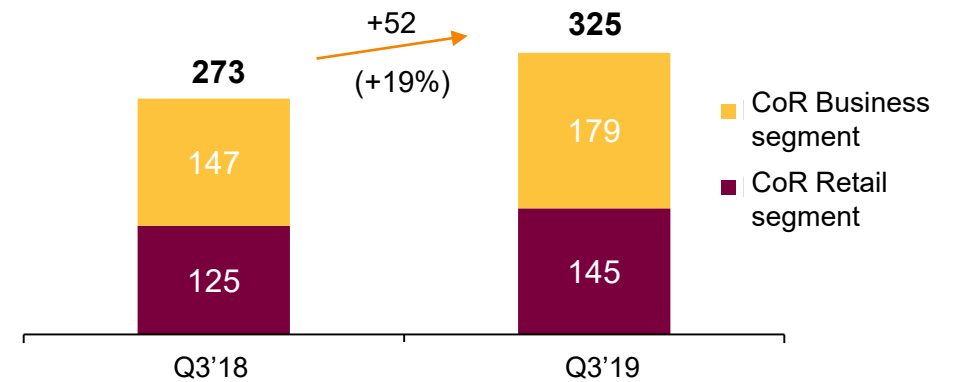
Revenues



General and administrative expenses

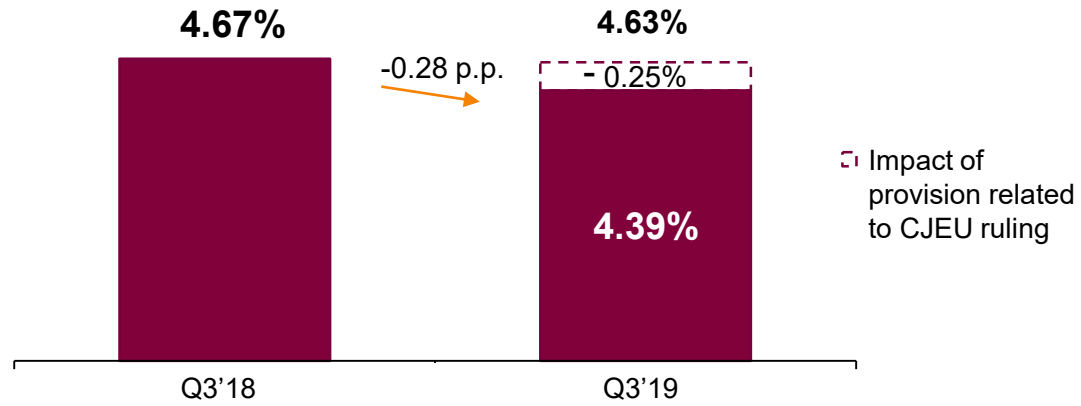


Cost of risk

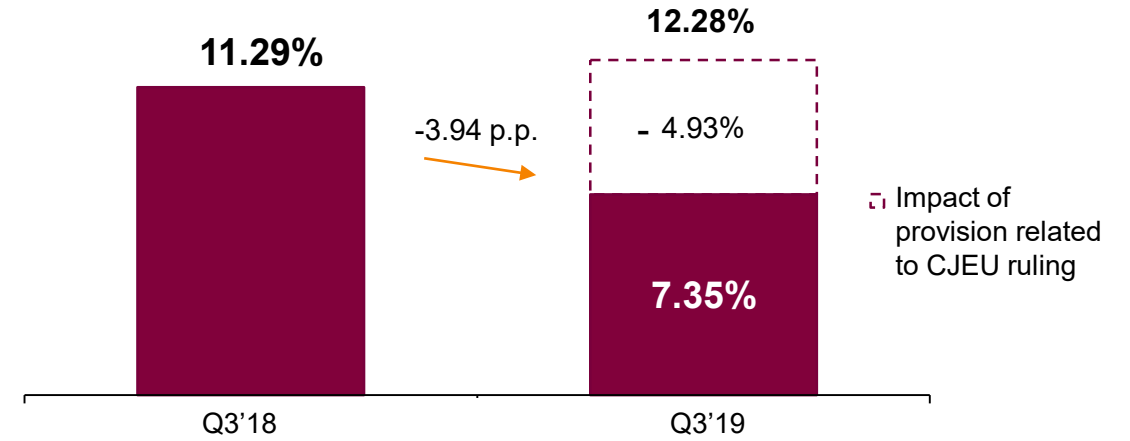


Q3 2019 key financial ratios

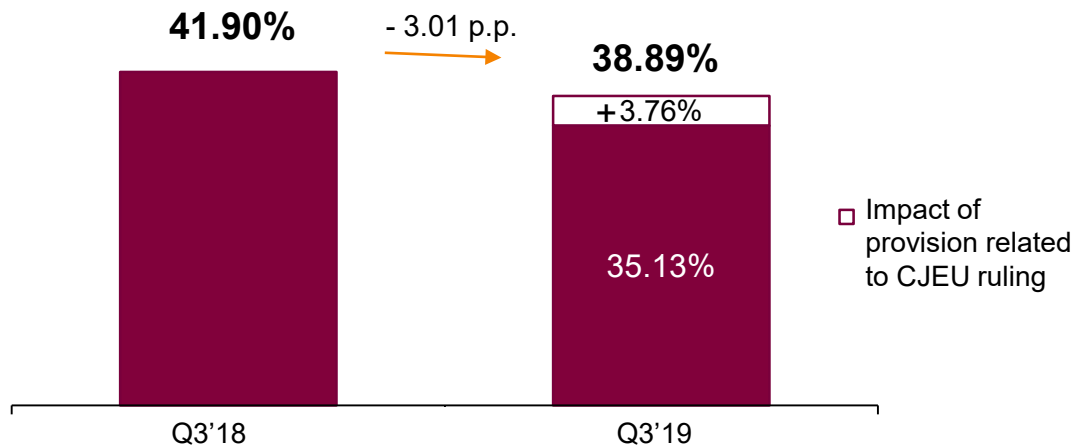
NIM ratio (QTD)



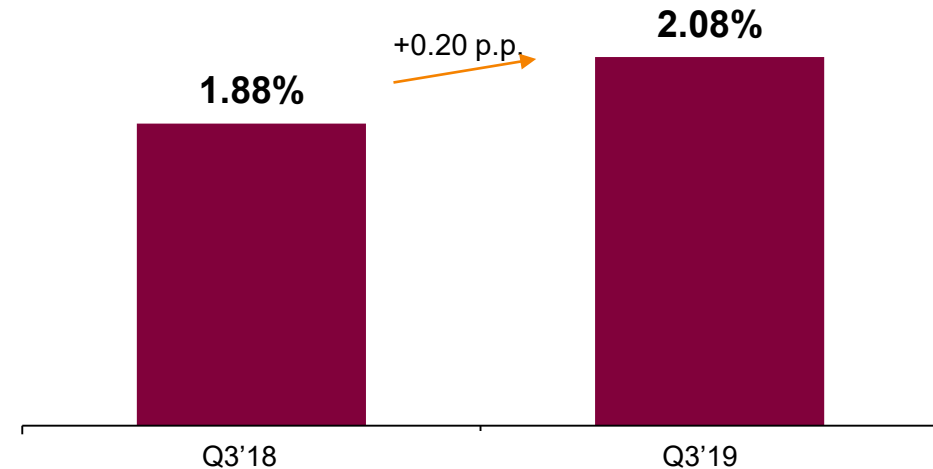
ROE ratio (QTD)



C/I ratio (QTD)



CoR ratio (QTD)



Prizes and awards received in recent months



#1 place in the mobile banking category, #1 place in the online banking category, #2 place in the traditional banking category, #3 place in the mortgage banking category in the "Newsweek Friendly Bank" ranking



#1 place in the Forbes magazine's "Friendly Bank for Company" ranking



The title of **"Top Institutional Innovator of the Year"** for the R&D department of Alior Bank awarded by **CEE Capital Markets X-Tech Awards**



#1 place for the "Smartphonization" project in the "Workforce experience" category of the EFMA-ACCENTURE competition of "Customer Insights and Growth Banking Innovation Awards 2019"

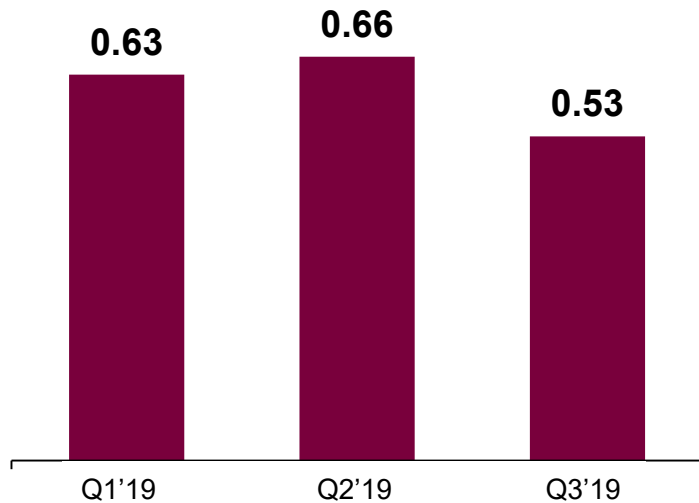


"Smart operations", "Smartphonization" and "RBL_Start accelerator" projects as finalists of BAI Global Innovation Awards 2019

Development of loan volumes in strategic segments (PLN B) (managerial approach)

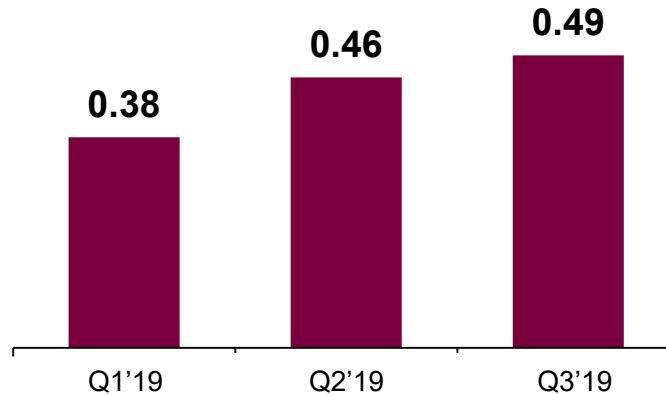
New micro sales

A slight decrease in new sales in the micro segment due to the loan policy tightening...



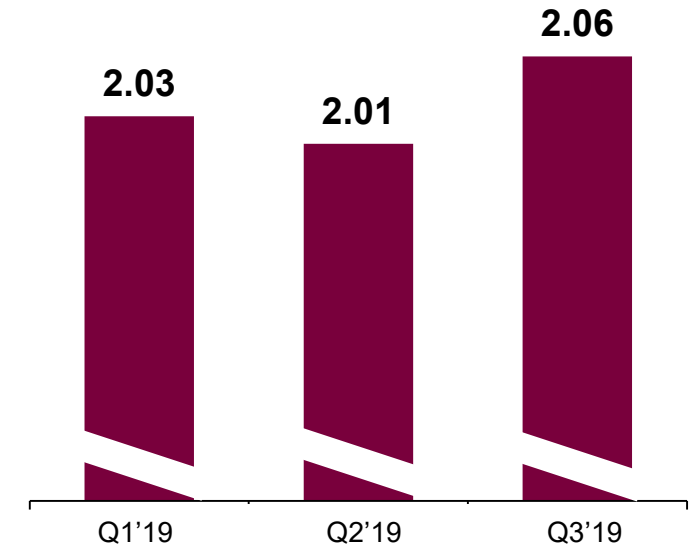
New mortgage loans sales

...with the growing sales of mortgage loans...

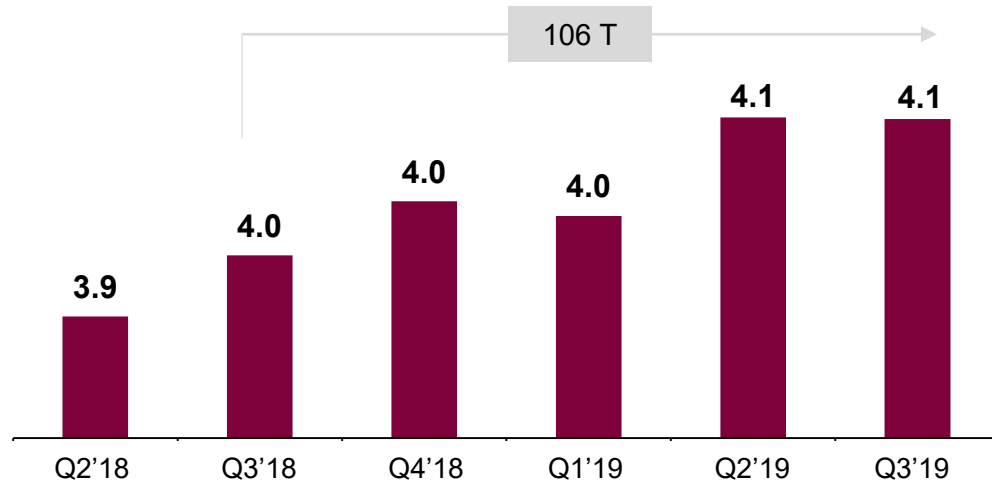


New cash loans sales

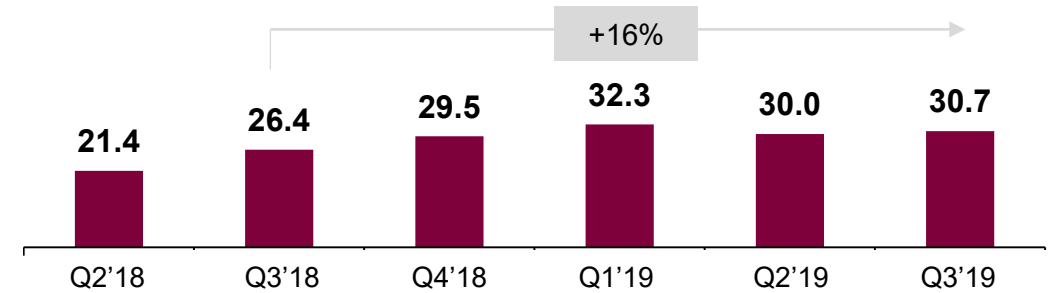
...and a stable level of cash loan sales.



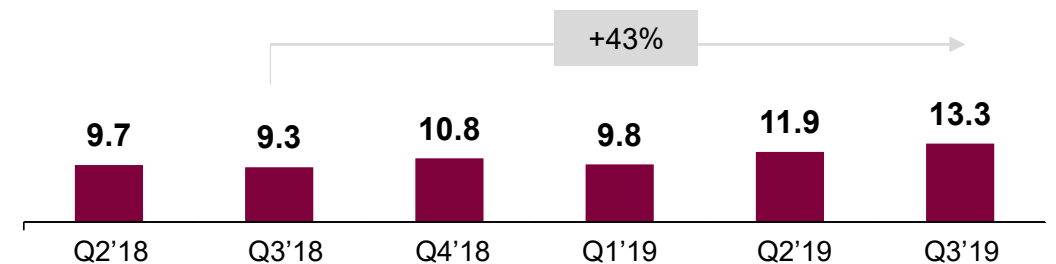
Number of retail clients (M)



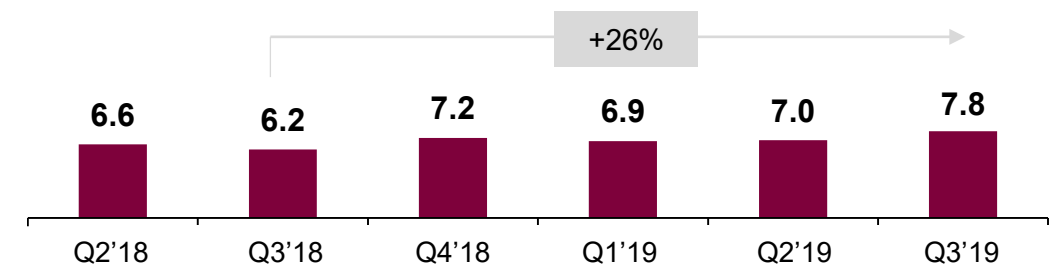
New clients opening current accounts (T)



New clients – cash loans (T)



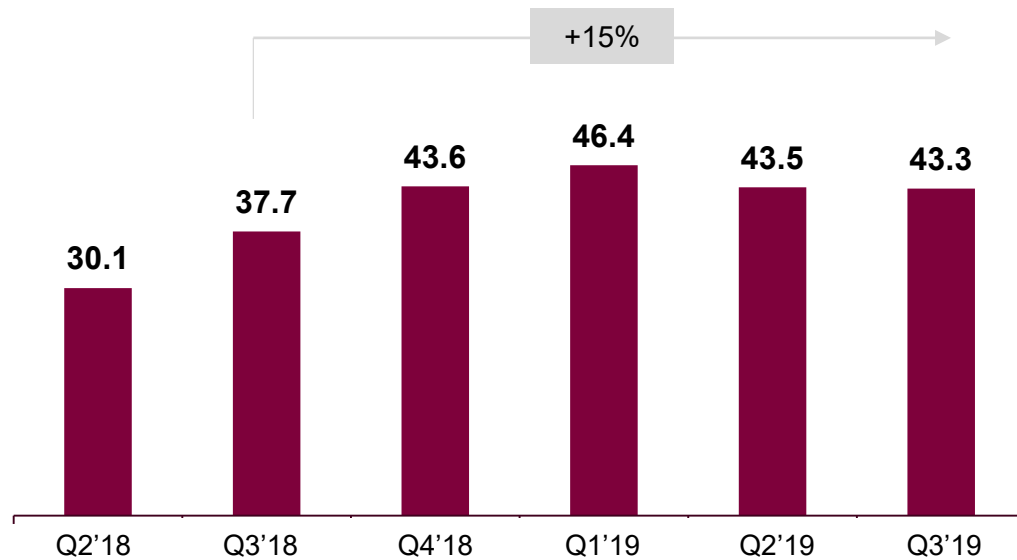
New retail clients from Consumer Finance segment (T)*



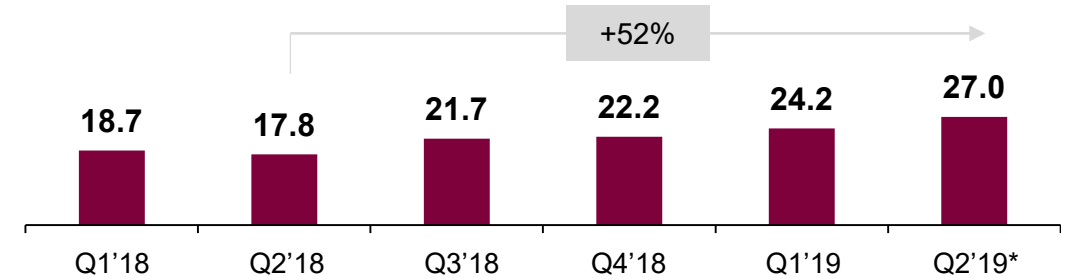
- Increase in the number of clients of 106 T net y/y (including new clients from SKOK Jaworzno).
- Growing importance of current accounts as an acquisition product (an increase of 16% y/y in the number of clients who choose Alior Bank by opening a Personal Account).

Current accounts sales (T)

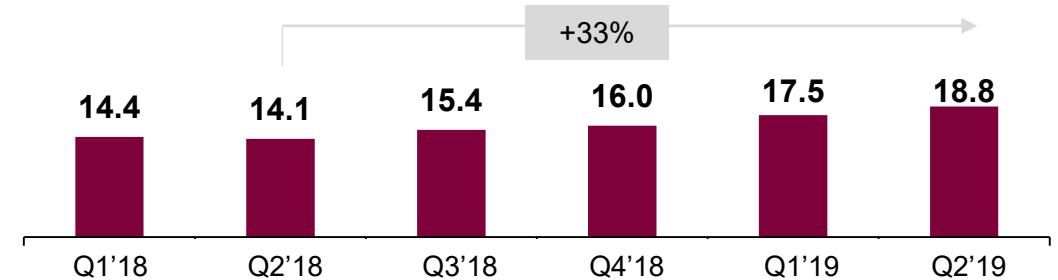
(number of new current accounts for New to Bank and New to Product clients)



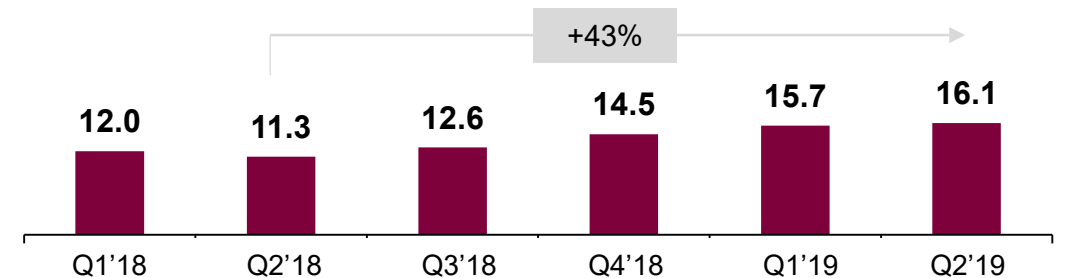
Number of new priority clients (T)



Number of new current accounts with transactions** (T)

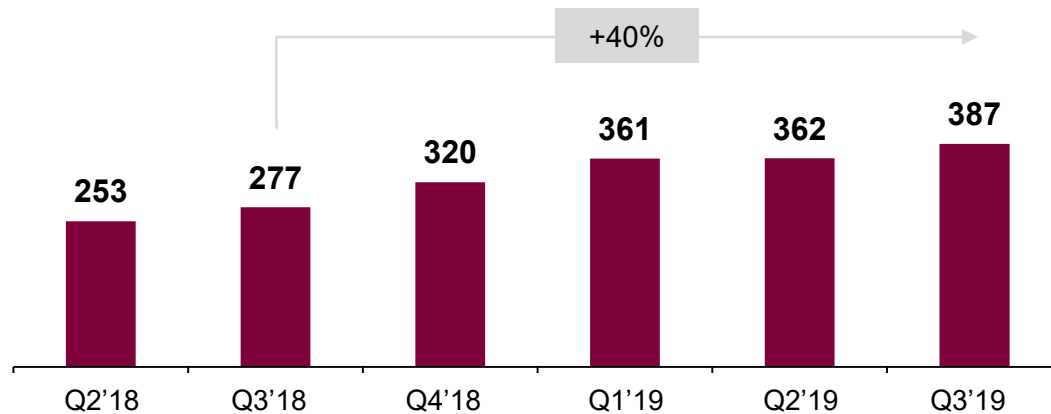


Number of new current accounts with regular inflows*** (T)

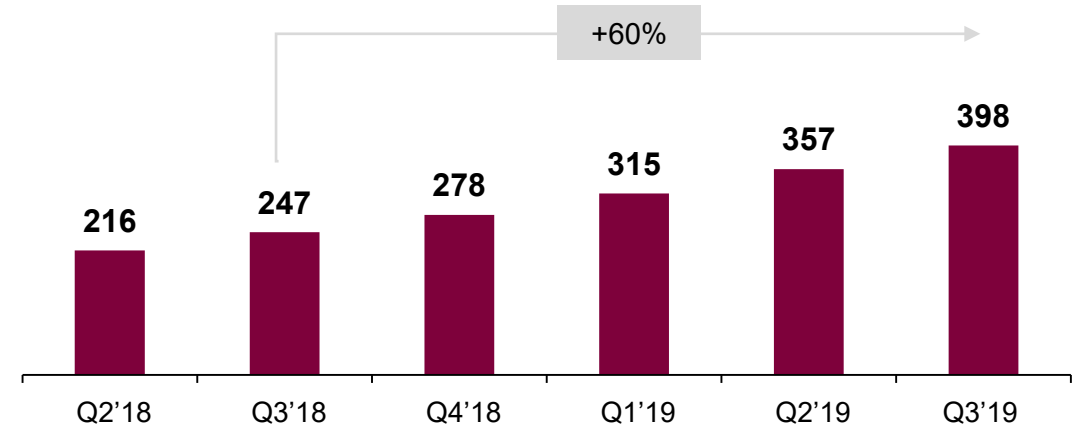


Increase in the number of sold current accounts by 15% y/y while maintaining a growth both in the number of priority clients and the level of transactions.

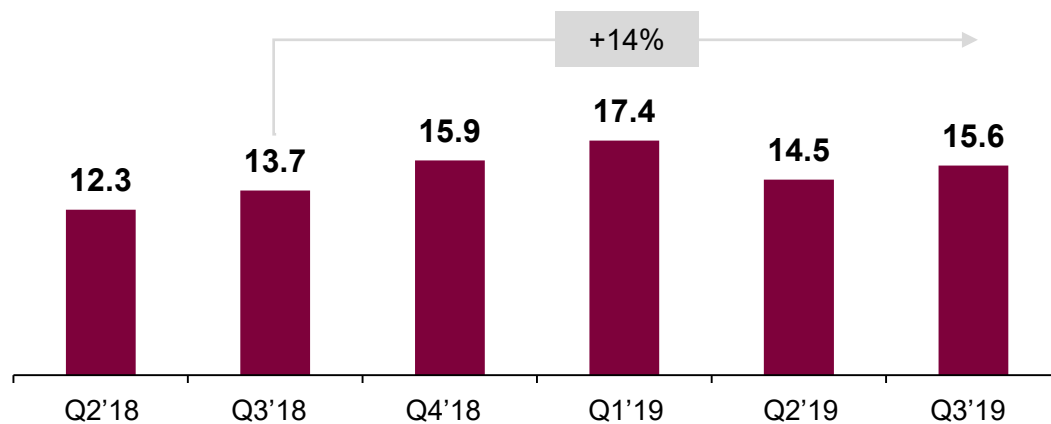
Sales of cash loans in remote channels (PLN M)



Alior Bank Mobile Application users* (T)



On-line sales of current and saving accounts (T)

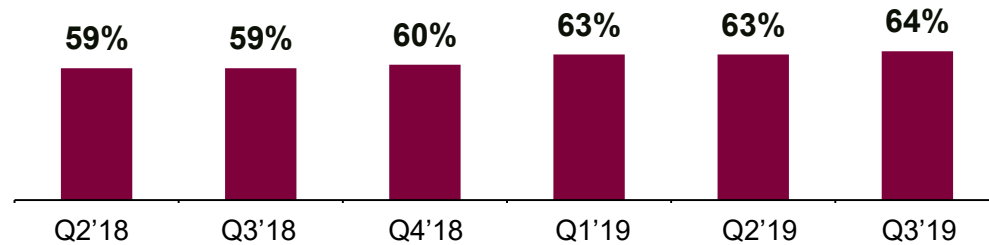


AppStore rating
4.6 OUT OF 5

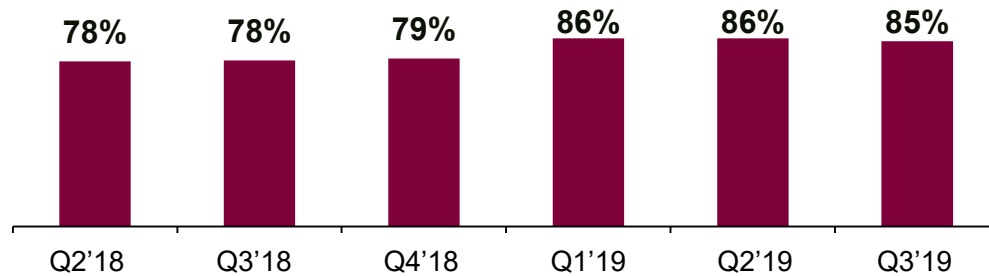
GooglePlay rating
4.3 OUT OF 5

- An 60% y/y increase in the number of clients using the Alior Bank mobile application.
- Stable level of mobile application user ratings in the AppStore and GooglePlay.
- An increase of 40% y/y in cash loan sales in remote channels.
- An increase of 14% y/y in current accounts sales and on-line savings accounts.

NPS own branches



NPS franchise branches



We maintain a high level of service both in own branches and and franchise branches. Clients appreciate the courtesy and commitment of bankers as well as service efficiency.

Alior is a leader in service quality



Secure connection from mobile banking



WiFi in all branches



Simplifying communication



iKiosks – we bring clients into the digital world



SMS communication – relation notifications, information based on events

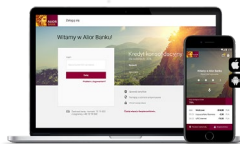
Q3 2019



Enabling installment loans for foreigners with a longer than tourist stay on the territory of Poland.



A new way of system integration for online stores, 70% faster integration of online installments for eCommerce.



Access to online banking together with installment loans offered in online channels, including Allegro via PayU, Euro online.



Implementation of PSD 2 requirements.

Virtual exchange office

Currency Exchange - new online and mobile version (iOS and Android).

P2P transfers in all currencies and transfer request.

Online sale of tourist insurance.



A special offer of big cities mortgage loans.

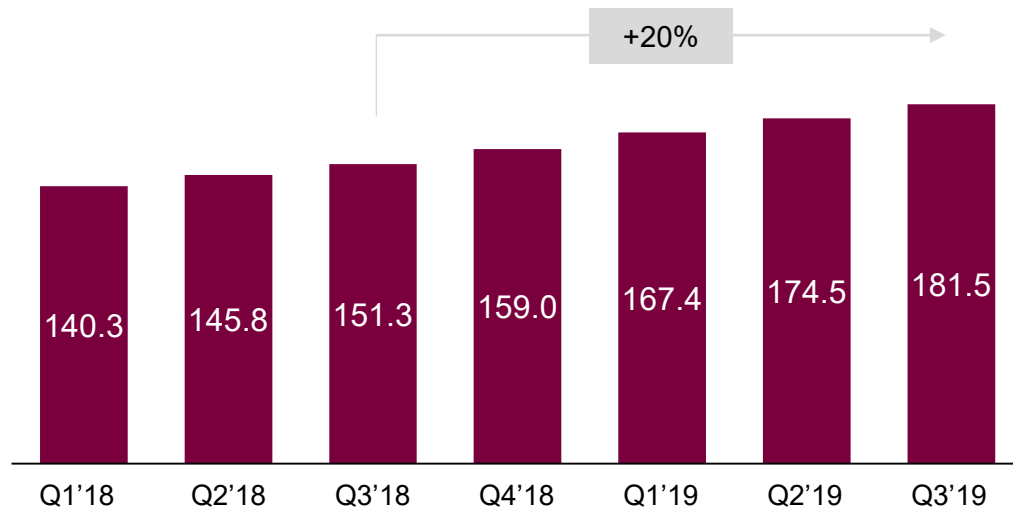


The Digitization Ambassador in each branch helps clients start using banking services safely in the digital world.

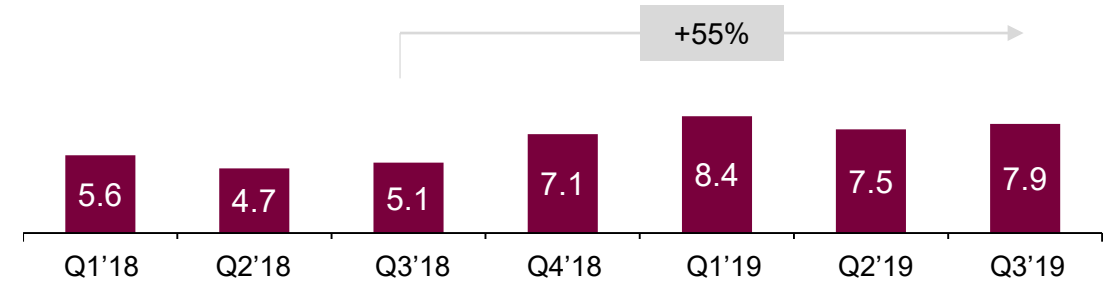


CASH platform – cooperation with PZU, providing a platform with AB products and a special offer for PZU employees.

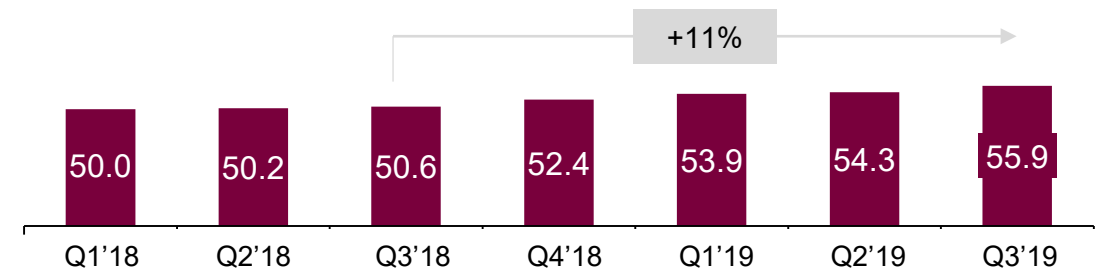
Micro business clients*
(number of business clients in T)



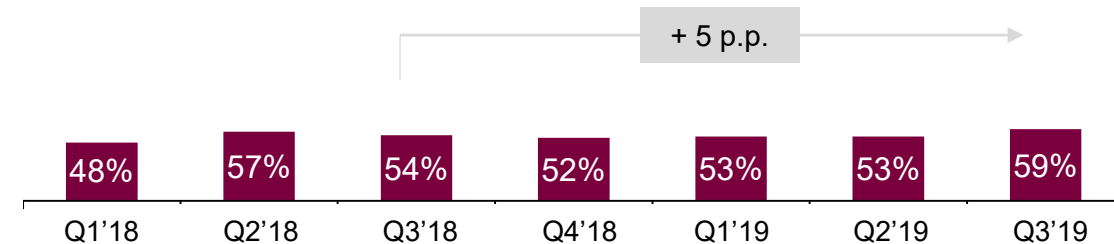
New Micro business clients (T)



Number of clients paying ZUS/US (T)

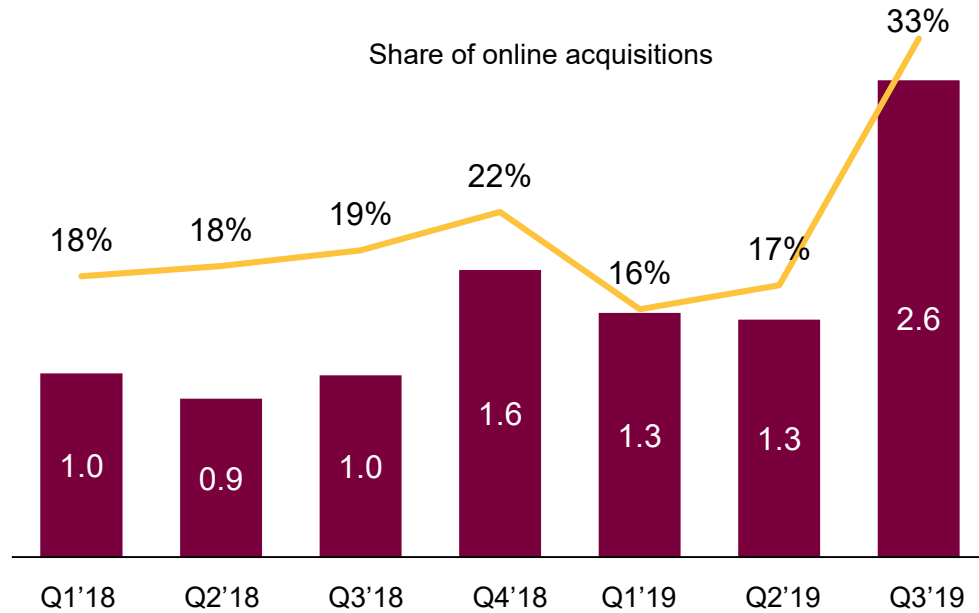


Share of new Micro accounts with a debit card (%)

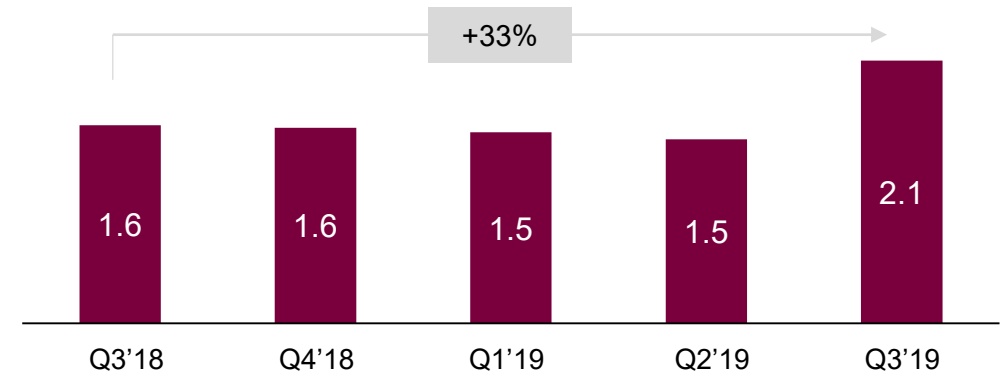


- Dynamic increase in the number of Micro clients by 30.2 T y/y is supported mainly by the growth of over 55% y/y in new Micro clients.
- In Q3'19 a visible increase of 5 p.p. y/y in the share of new accounts with a debit card.

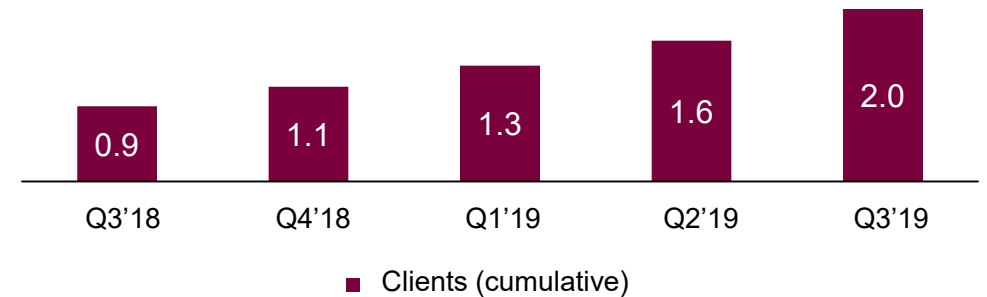
New Micro clients acquired online
(new accounts in T)



Sales of 4x4 account in the micro segment
(number of accounts sold in T)



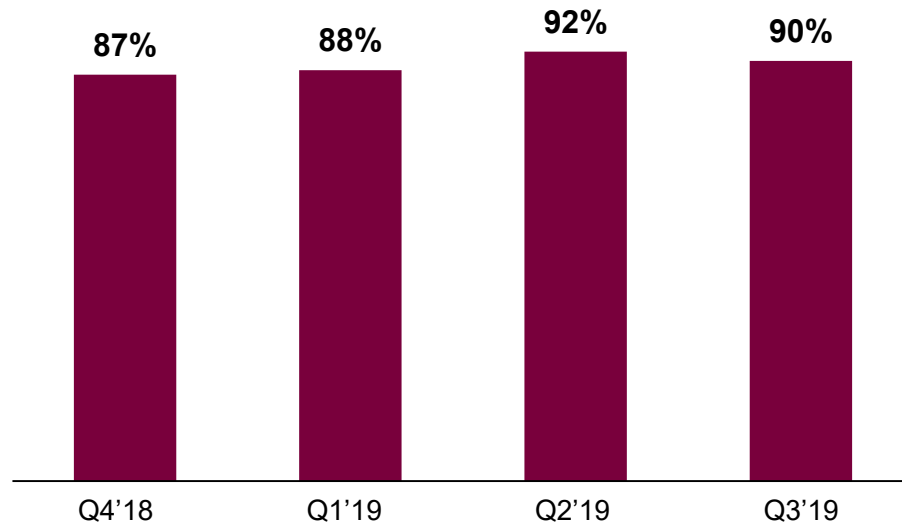
Micro clients acquired through the website
www.zafirmowani.pl (T)



- Share of remote channels increased in Q3 to 33%.
- Increase in sales of Micro enterprises accounts is the result of synchronized marketing activities and intensive online acquisition activities.

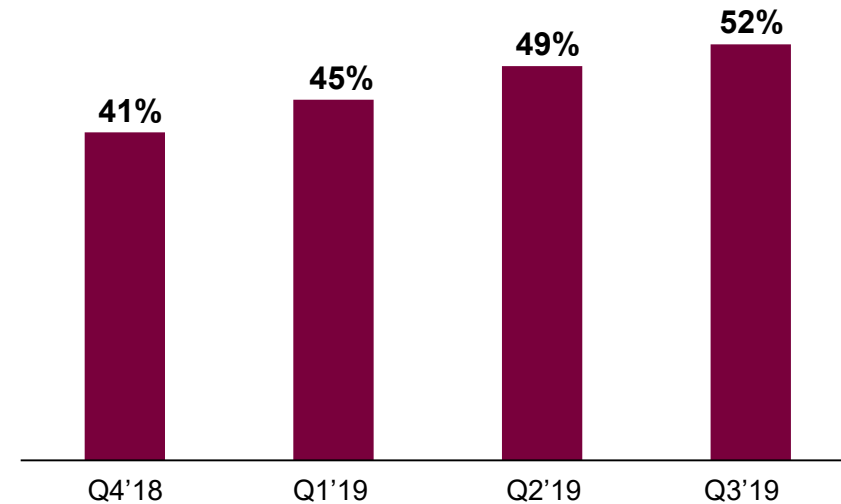
- Client base acquired through the portal is growing by 19% on average.
- Revenue from clients acquired every quarter increases by 50%.

New Micro sales coverage with BGK guarantees



We maintain a high level of coverage of BGK's new Micro loan sales by automating the sales of guarantees in the new loan system.

Share of the portfolio with BGK guarantees in the total Micro portfolio



The high level of BGK guarantees positively affects CoR, RWA and capital ratios.



Reorganization of the sales network for the SME and Large client, including increased effectiveness supervision and regularity of actions.



Increased efficiency of the credit process as a result of organizational changes and IT investments in the new credit system.



The transactional banking development and emphasis on building longlasting relationships with clients.

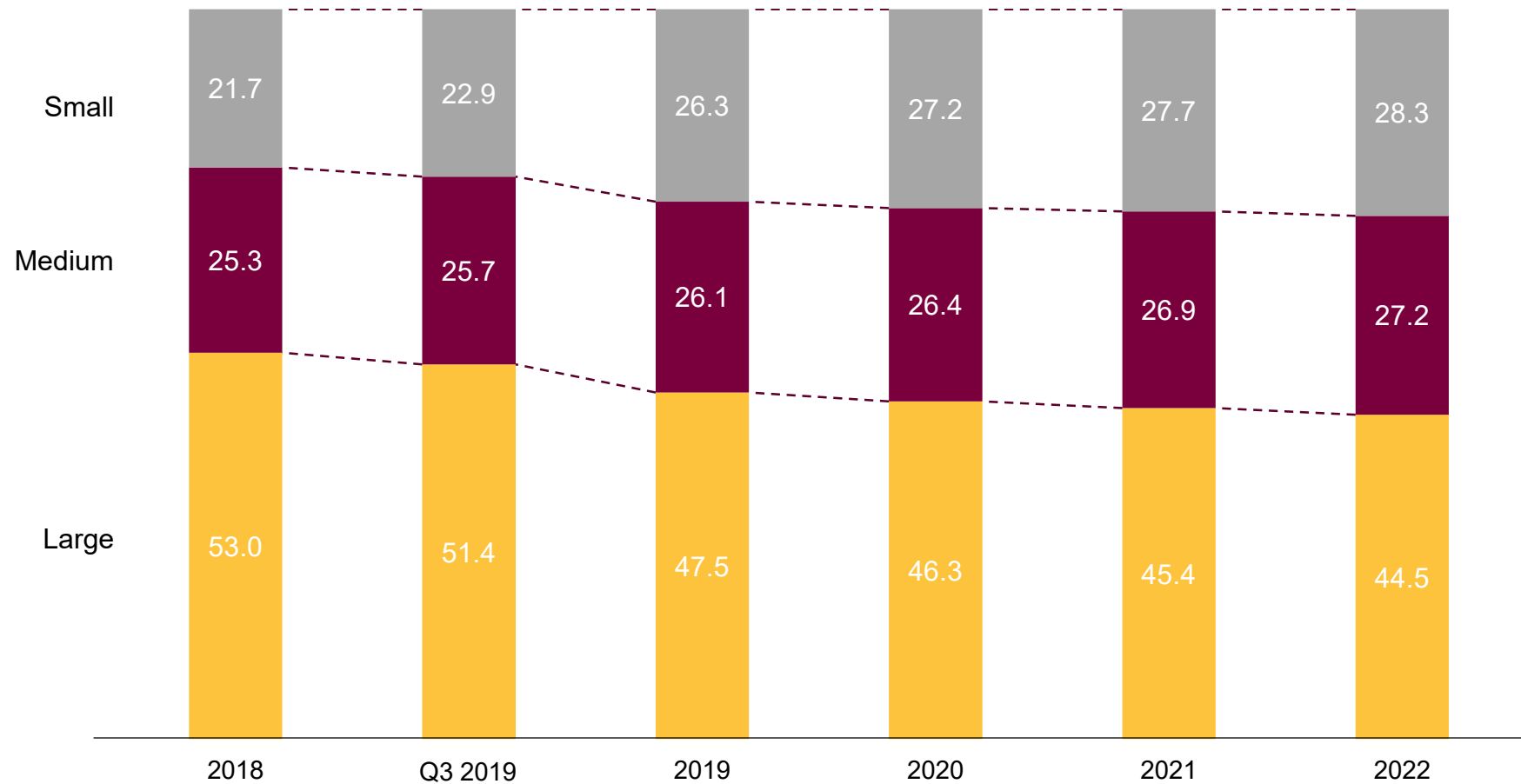


A precise and predictable strategy of cooperation with major corporate clients.

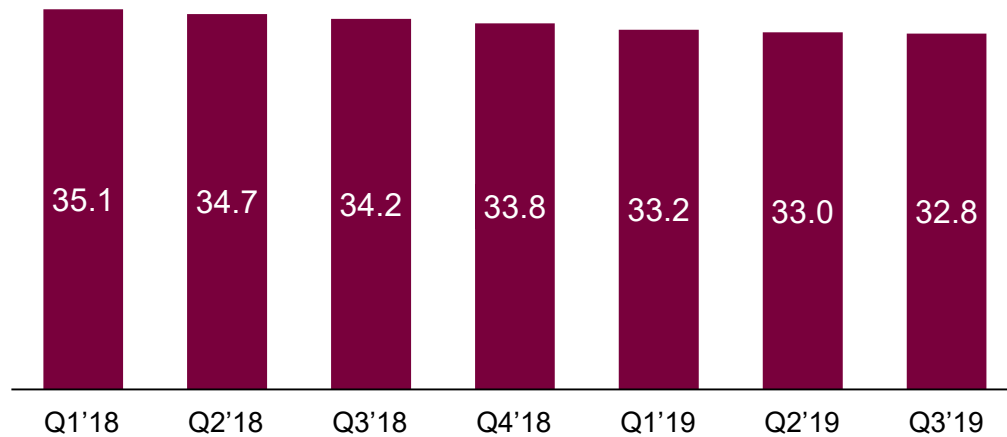


Development of industry strategy on both the business and risk management sides as well as **limiting the risk of concentration** of individual industries and retail clients.

Business clients share in the structure of the credit portfolio

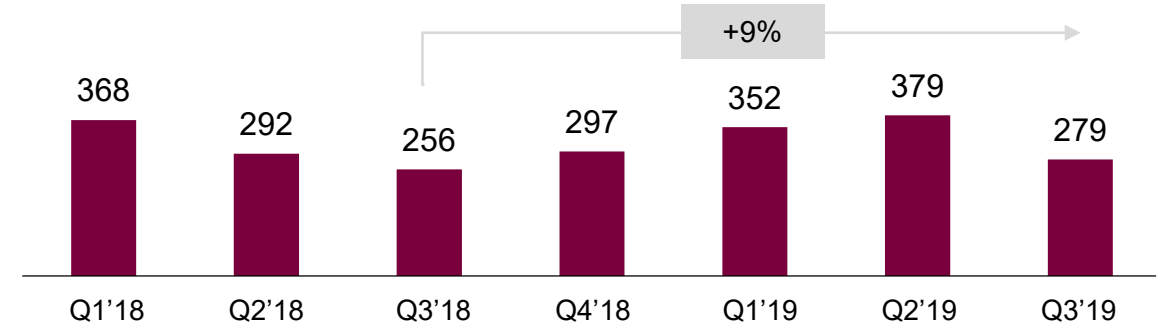


Business clients Small/Medium/Large* (number of business clients in T)

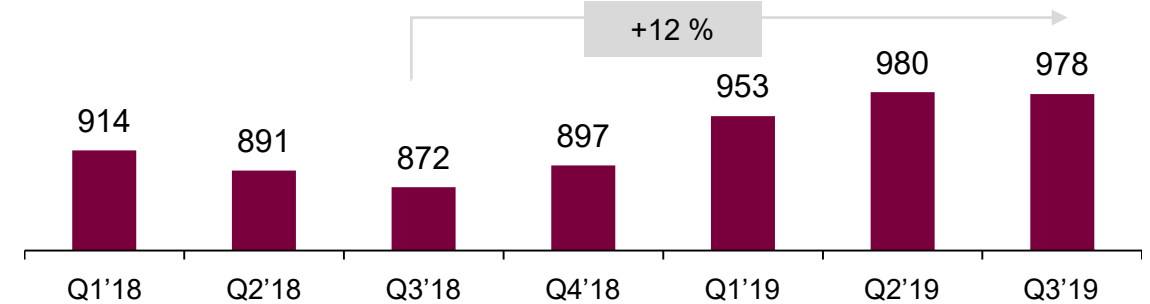


- The introduction of sales efficiency tools has resulted in a decrease of leaving clients number and improvement of their activeness.
- At the same time, we are realizing the growth of new acquisitions with higher productiveness and focus on building the main relationship.

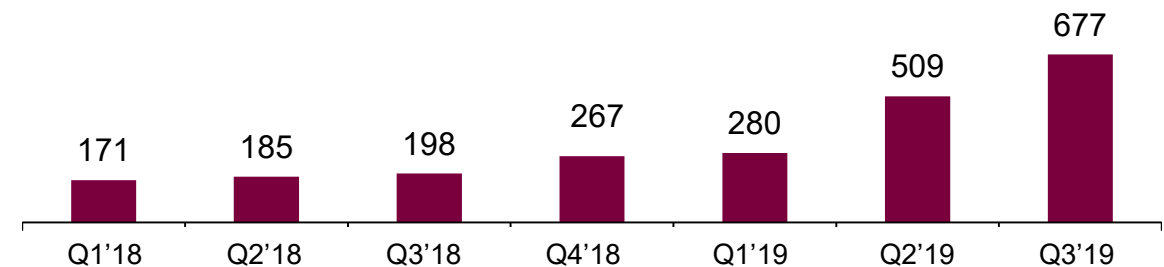
New business clients



Clients actively using payroll accounts



BankConnect clients**



An extensive product offer using EU funds



Creative Europe guarantee for clients from creative industries

- We are the first bank in Poland to implement and grant loans with this guarantee
- We are gradually building competences in this industry
- Evaluations include applications from the film and event industry



Biznesmax guarantee from the SG OP Guarantee Fund

- Offer for innovative companies carrying out the investment with an interest subsidy
- We occupy **2nd place** in the sale of this guarantee among 10 banks offering the product



Thermomodernization loan - financing from EU funds

- Loan for Cooperatives and Housing Communities in dolnośląskie, łódzkie and podlaskie voivodeships with the support of ELENA
- We have already supported nearly 20 institutions in implementing projects that reduce energy consumption



Alior Bank obtained an ELENA subsidy – thanks to the funds from European Local Energy Assistance made available to Alior Bank by the European Investment Bank, investors can get a refund of 90% of the costs of the energy audit of technical documentation necessary to obtain a Thermomodernization Loan. Alior Bank may also finance the costs of employee remuneration and product promotion.

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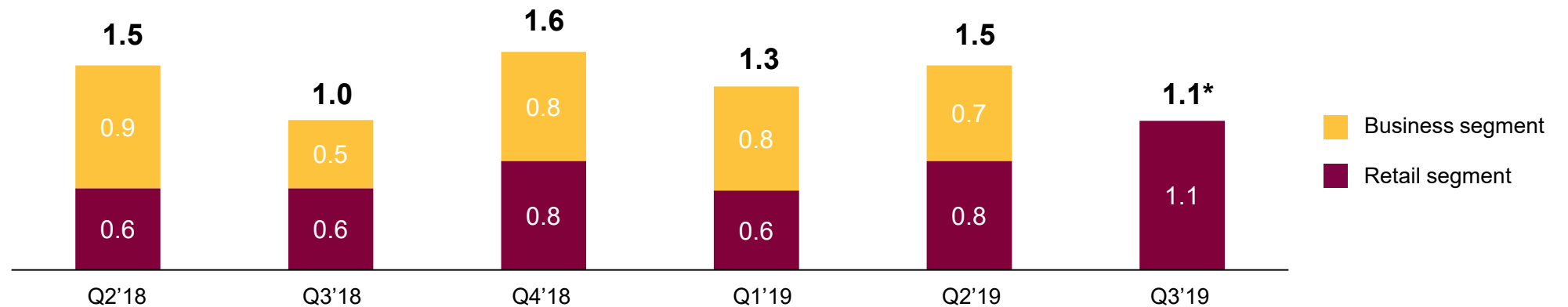
P&L statement – primary data

PLN M	Q3 2019	Q3 2018	Change q/q	Chane q/q (%)
Revenues, including:	957	982	-25	-3%
Net interest income	802	783	20	2%
Net fee and commission income	173	179	-6	-3%
Net trading income and other	-18	20	-39	-189%
General administrative expenses	-372	-411	39	-10%
Net impairment charges and write-downs	-325	-273	-52	19%
Banking tax	-59	-52	-7	13%
Profit before tax	201	245	-44	-18%
Income tax	-76	-68	-8	12%
Net profit	125	177	-52	-30%

Volumes

PLN M	30.09.2019	30.09.2018	Change y/y	Change y/y (%)
Loans, including:	56 684	53 261	3 424	6%
Retail segment	31 021	28 749	2 272	8%
Business segment	25 664	24 512	1 152	5%
Deposits, including:	64 739	60 099	4 641	8%
Retail segment	46 642	40 942	5 699	14%
Business segment	18 098	19 156	-1 059	-6%
<i>L/D ratio</i>	<i>87.56%</i>	<i>88.62%</i>	<i>-1.06 p.p.</i>	

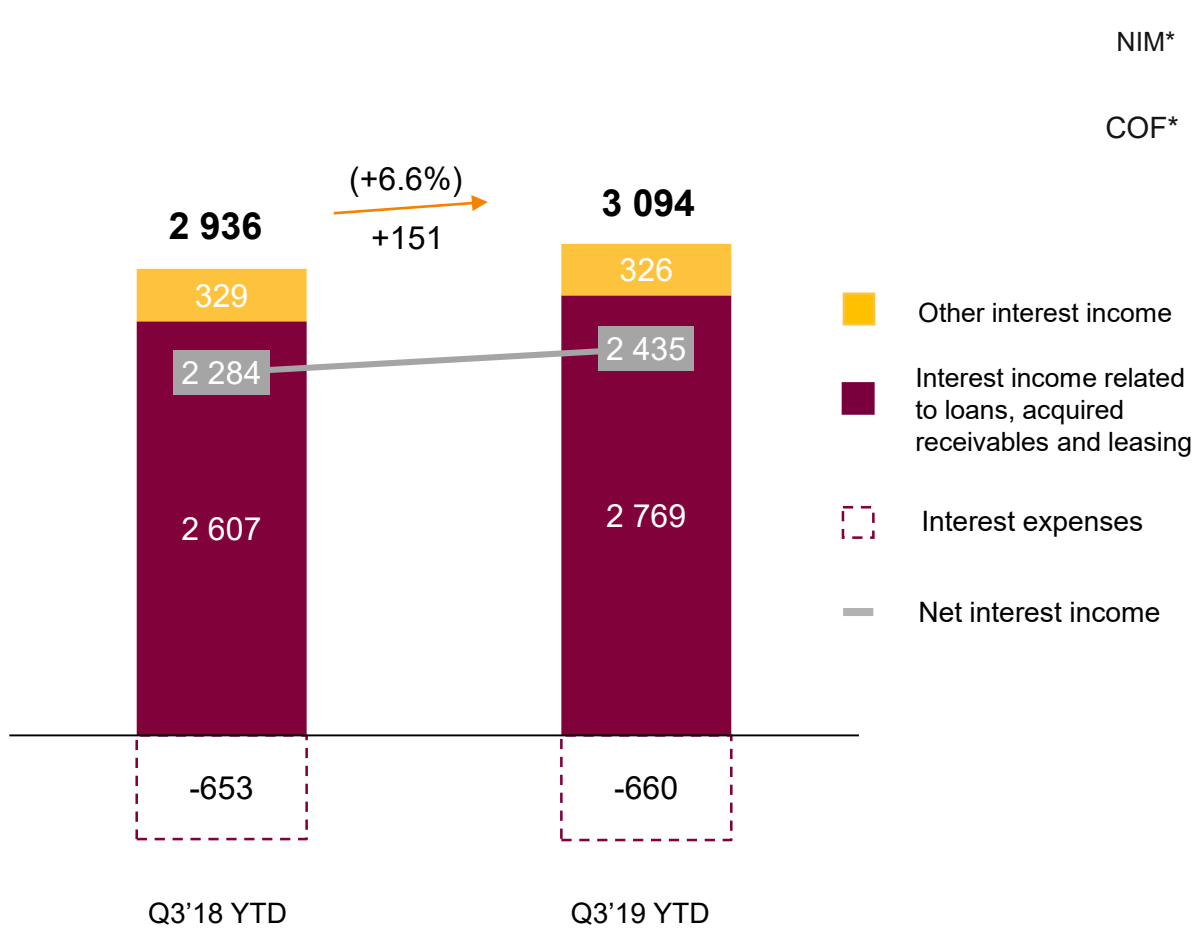
Increase in gross loans volume (PLN B)



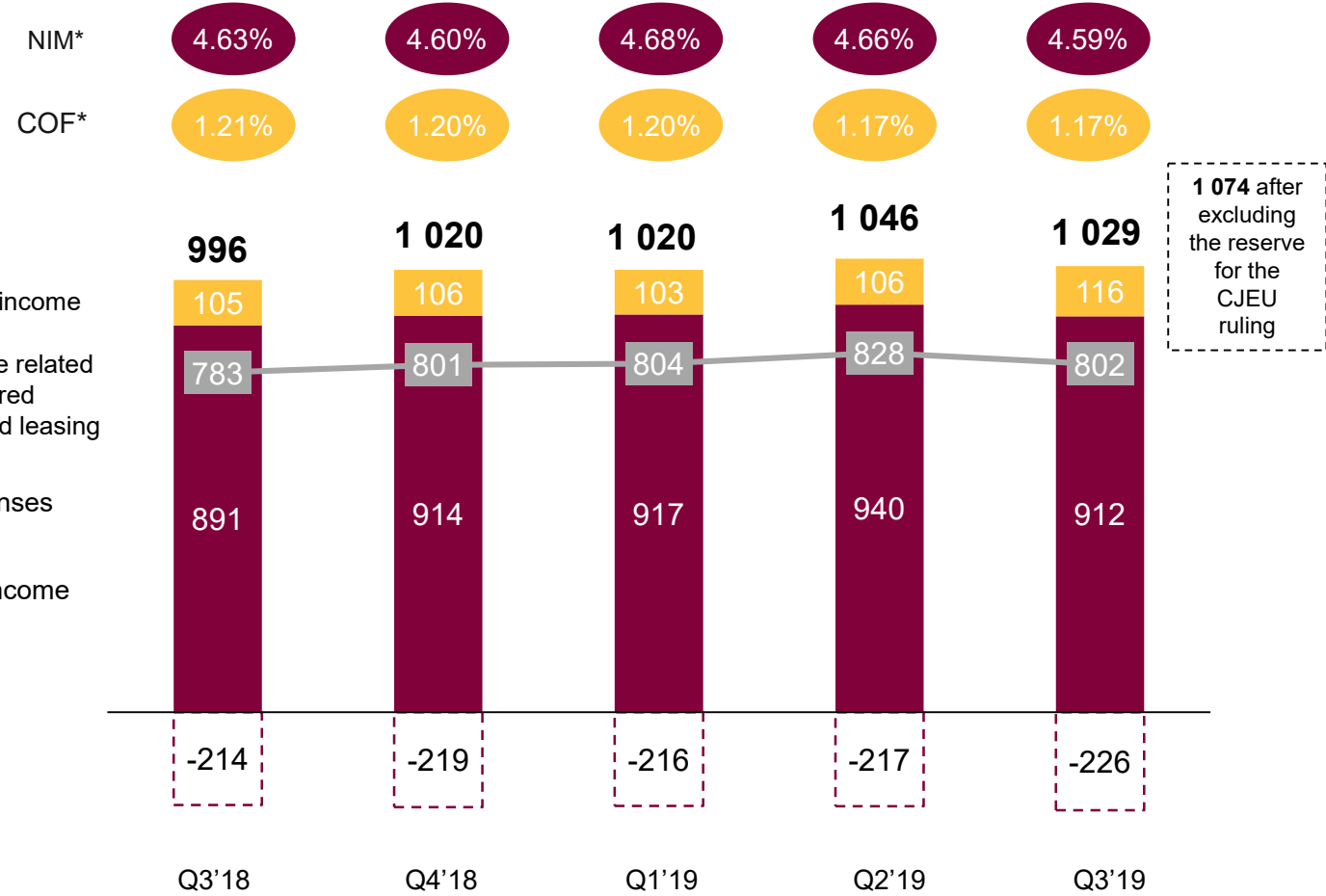
Increase in gross loans volume during 3 quarters of 2019 at the level of PLN 3.9 B.

Net interest income (PLN M)

Y/y comparison

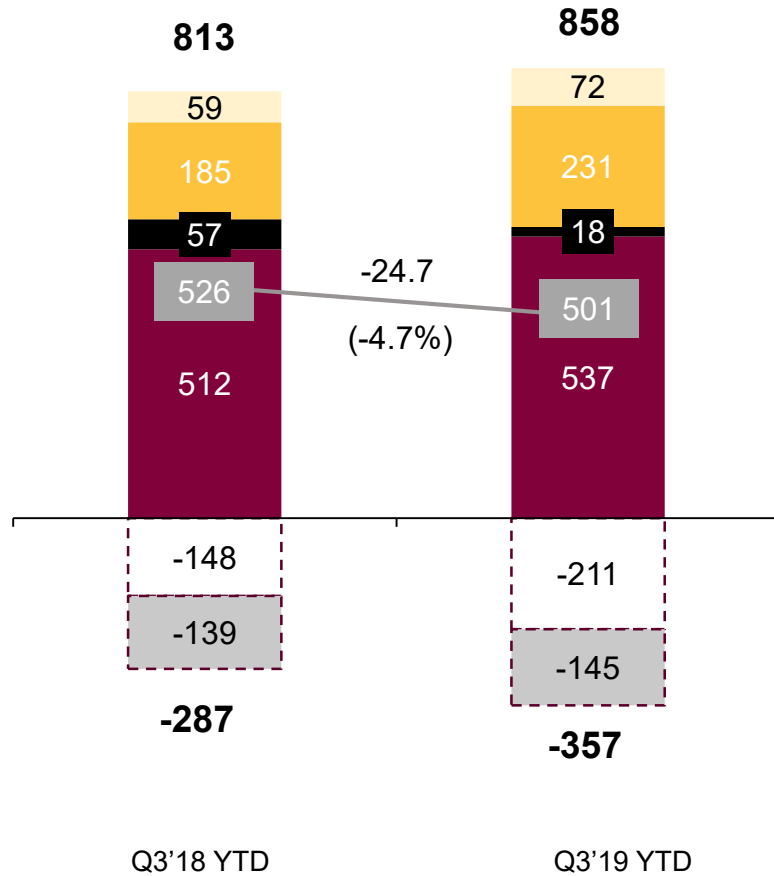


Quarterly split



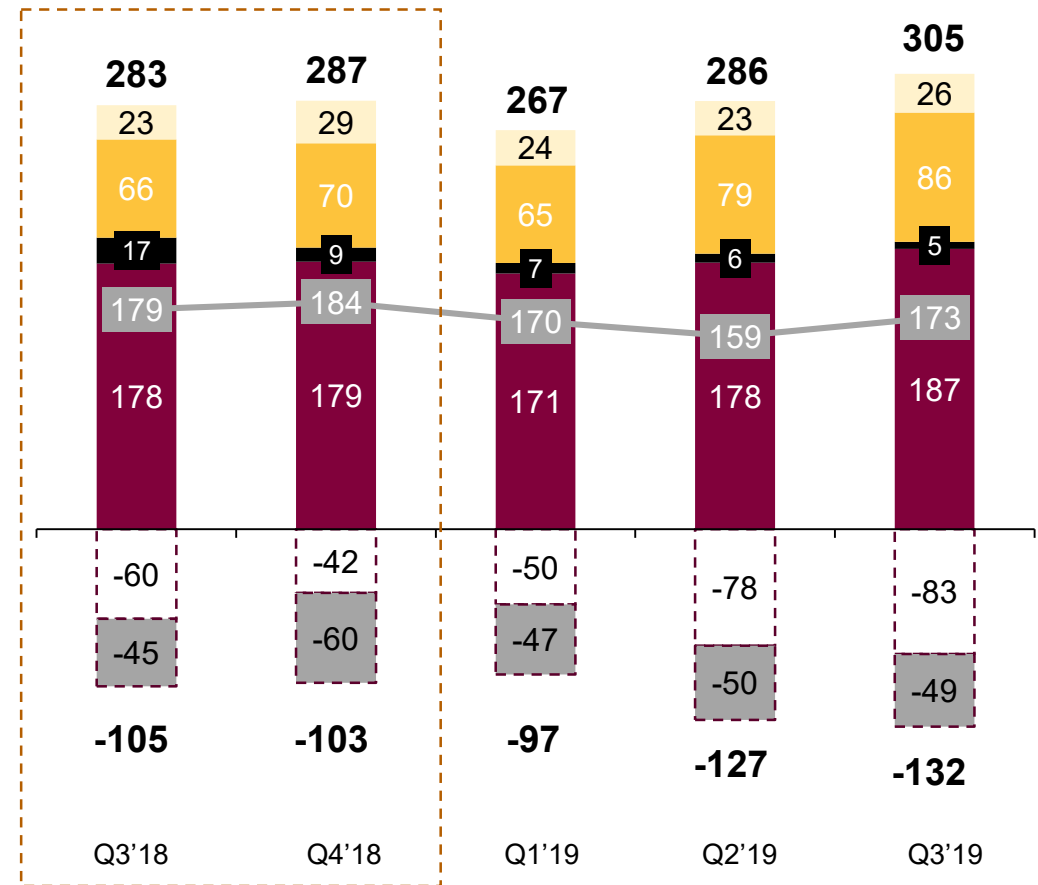
Net fee and commission (PLN M)

Y/y comparison



Quarterly split

- Remuneration for insurance brokerage
- Payment cards and credit cards service
- Brokerage commissions
- Fees related to loans, accounts, transfers, FX transactions etc.
- Other fees cost
- Fees cost related to cards
- Net fee and commission

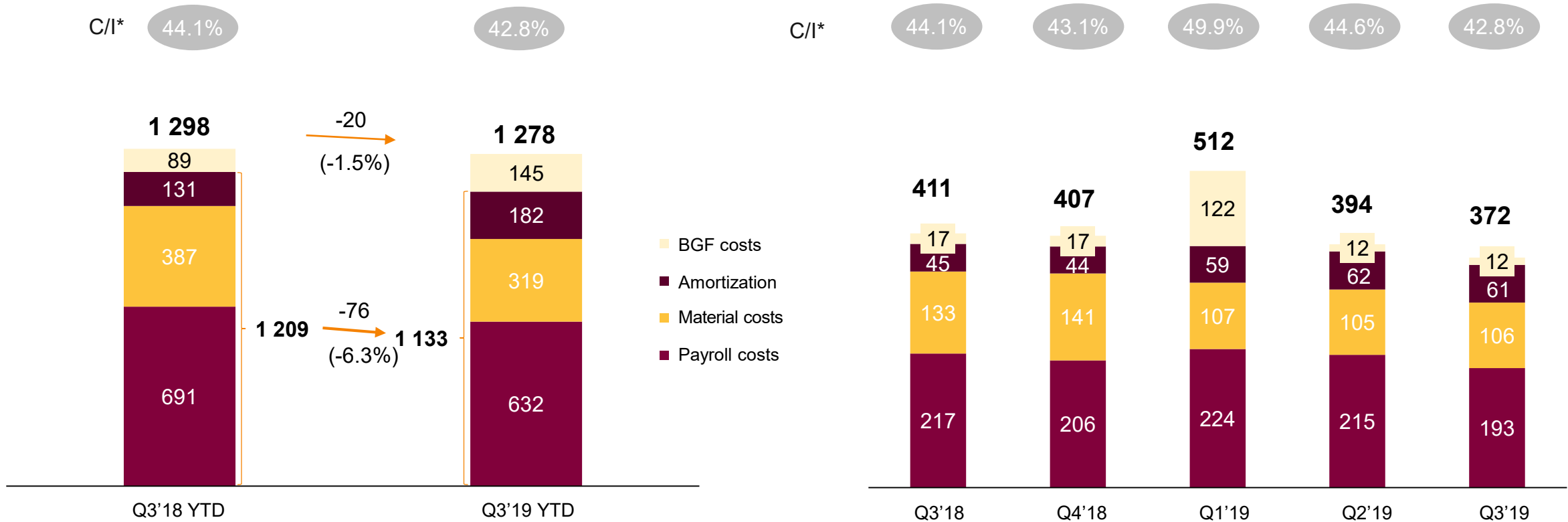


Proforma data for comparability, taking into account the change described on slide 49

Bank maintains high level of cost effectiveness (PLN M)

General and administrative expenses (y/y comparison)

General and administrative expenses (quarterly)



Operating costs under control at PLN 1 278 M YTD vs. PLN 1 298 M in 3 quarters of 2018.

1 Key highlights

2 Financial results

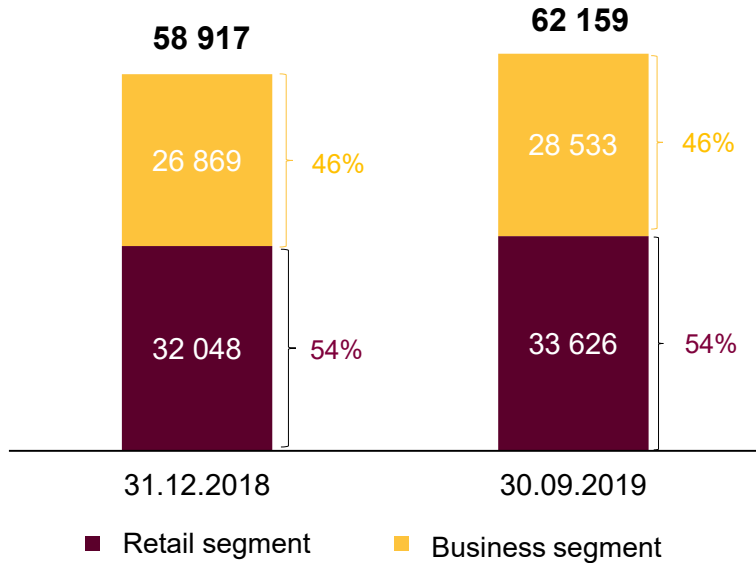
3 Credit risk

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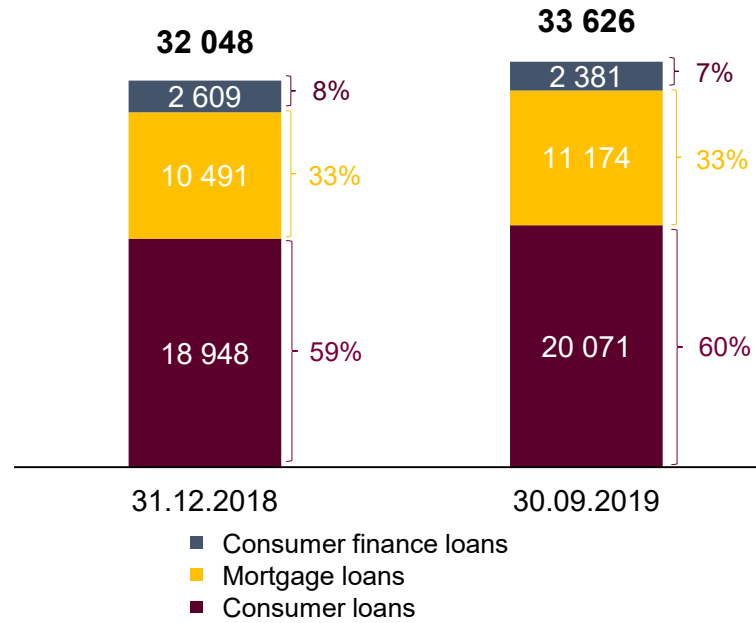
5 Appendix

Structure and quality of the loan portfolio

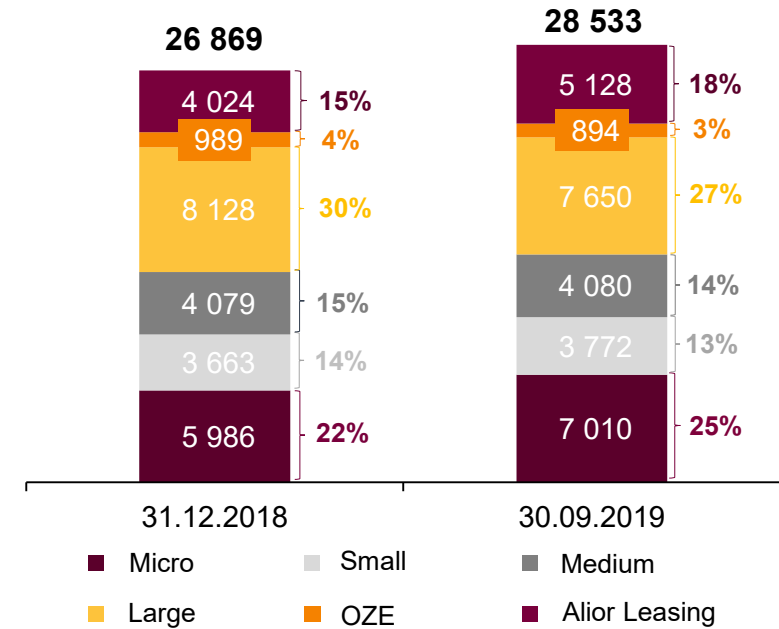
Total loan portfolio (PLN M)



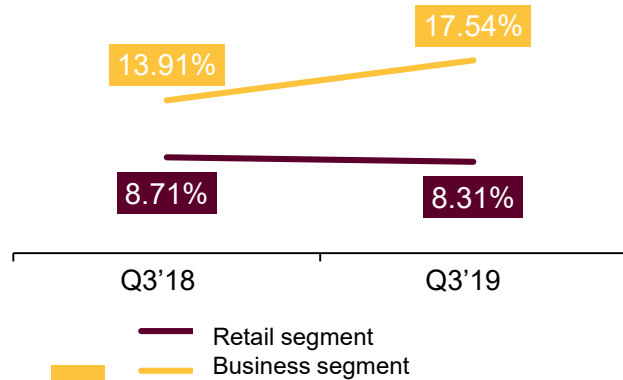
Retail client portfolio (PLN M)



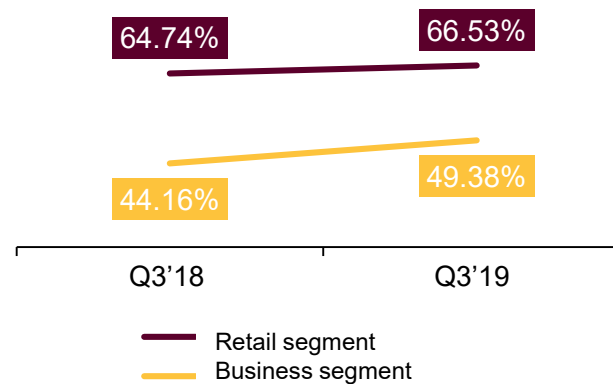
Business client portfolio (PLN M)



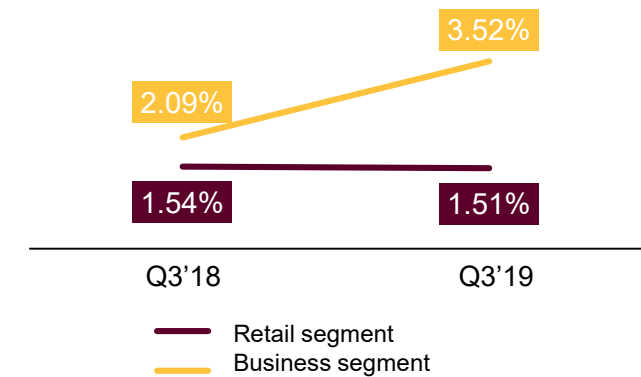
NPL ratio (%)



Coverage ratio (%)



Cost of risk ratio (%)*



Process improvements and risk assessment policies implemented in 2019

Exposure limits and the level of acceptable risk

- Tightening cut-off policy for Micro, Small, Midium, Large segments in the business client segment, including Agro
- Lowering the concentration limits on the debtor and the joint risk group
- Introduction of a grid of total and unsecured limits depending on the rating level

Credit analysis and credit competences

- Structure clients analysis results and transaction as well as standardization of assessment parameters
- Adjusting the structure and limits of credit competences

Collaterals

- Reduction of recovery rates for selected security groups
- Sealing and updating of security monitoring rules

Industry strategy (finalized by the end of Q4)

- Launching in Q2'19 a team of Top Analysts dedicated to assess the risk of the largest clients, including syndicated loans and structured transactions
- Extending the industry classification methodology for assessing risk and business potential
- Development of industry and sector competences of Bankers and credit analysts as well as implementation of sectoral credit strategies under the direction of a dedicated Sector Analysis Team

Client monitoring

- Implementation of automated EWS signals based on transactional and behavioral data
- Standardization of the results of periodic review and automation of selected processes
- Faster risk identification and more effective implementation of monitoring recommendations
- CRM campaigns for the best clients based on the positive results of periodic monitoring (from Q4'19)

Credit process

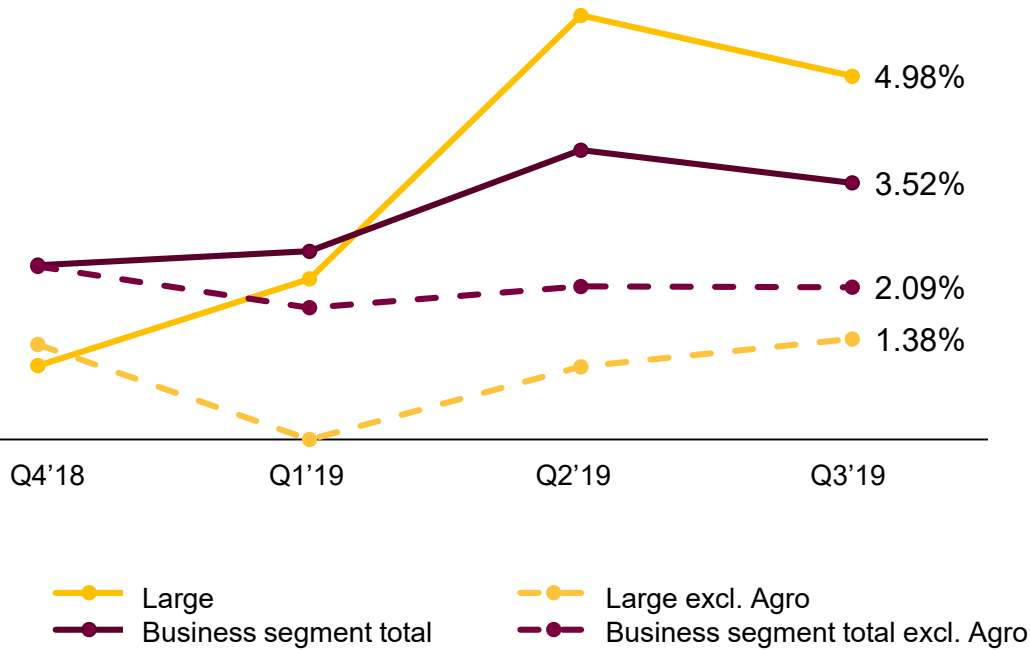
- Verification of efficiency parameters and update of bonus system
- Implementation of dedicated assessment and acceptance paths (differentiated in relation to the amount of exposure and risk profile)
- Automation of reporting processes in the field of quality and effectiveness of the credit process

Internal control system

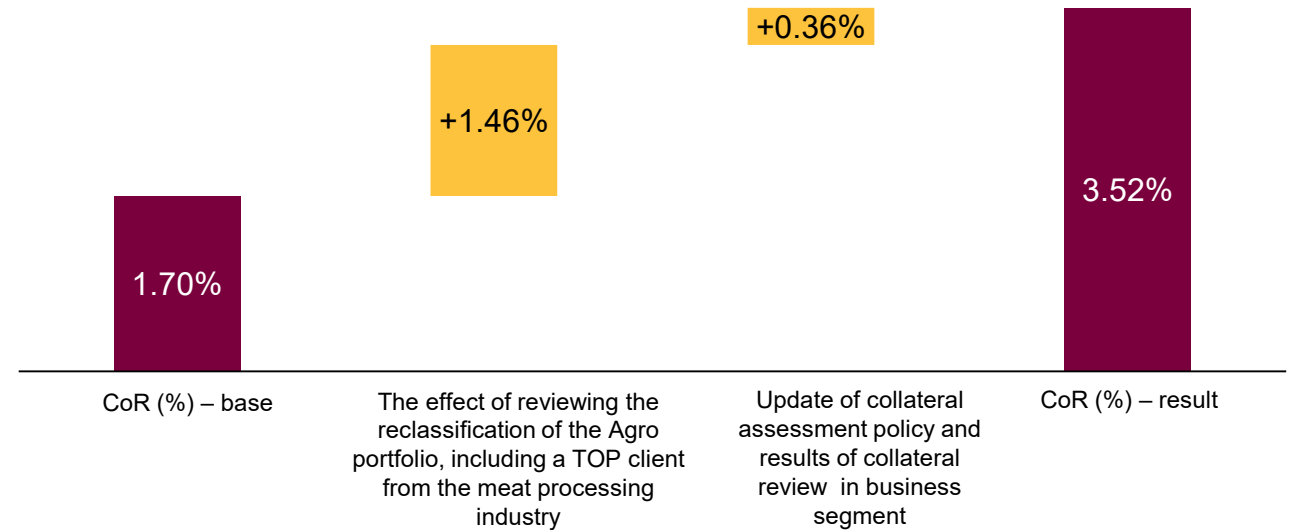
- Establishment of a central unit to perform the vertical control function in the area of credit risk
- Implementation of the new system control formula of the second degree (automatic and database control rules), generating a set of alerts and expanding the catalog of transactions directed for individual verification
- Update of bonus systems of Bankers and Credit Analysts

The quality of the business loan portfolio – CoR in Q3'19 increased due to the Agro segment

CoR in business client segment

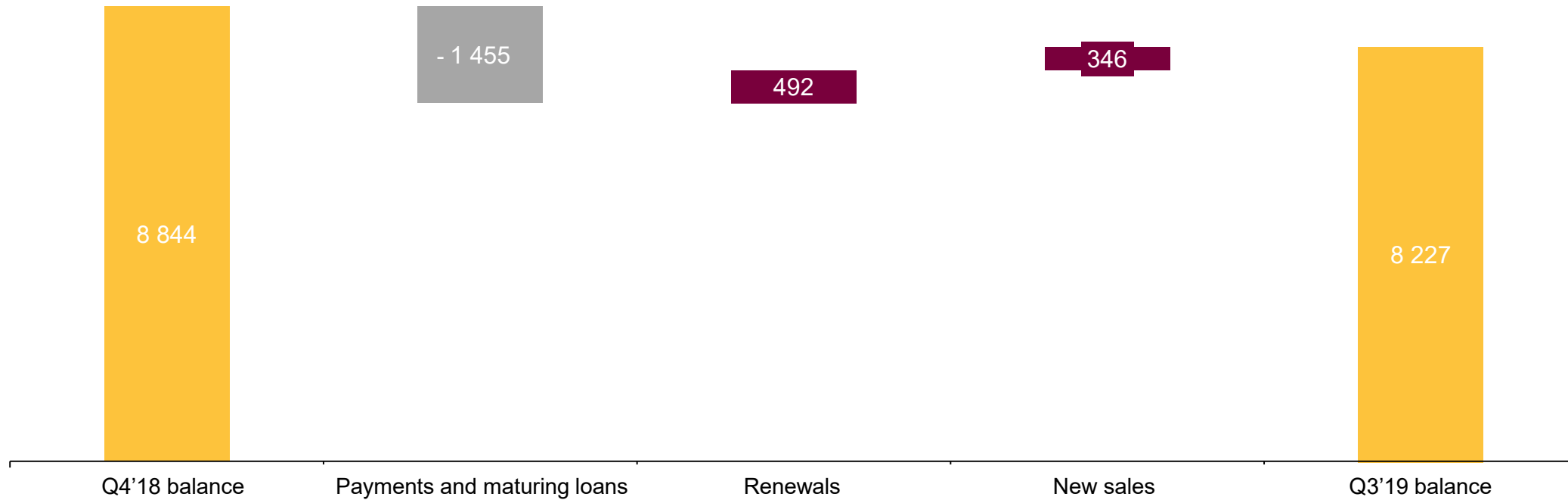


CoR decomposition in Q3'19 in business client segment



The temporary increase in CoR in the business client segment results primarily from taking into account the results of an in-depth portfolio review and collateral for the Agro segment in the Large segment.

Portfolio evolution in the large enterprise segment (PLN M)



A temporary slowdown in the growth of the large enterprise segment as a result of the reorganization of the sales network and the risk area as well as the adopted strategy of limiting exposure to clients with the highest concentration.

In Q4'19, the Bank expects volumes to increase as a result of introduced organizational changes and to improve the credit process.

Quality of the renewable energy portfolio (wind farms) and industry perspective

	On-balance exposure (PLN M)			Coverage ratio (%)		
	2017	2018	09.2019	2017	2018	09.2019
Stage 2 (PL)	365.9	482.3	463.52	14.5%	11.1%	9.57%
Stage 3 (NPL)	683.5	493.5	409.04	14.3%	24.4%	23.34%
RES (total)	1 049.4	975.8	872.56	14.4%	17.8%	16.02%

- Timely commitments service in 2019
- Continuous reduction of the debt amount by 10.5% during 9M 2019
- Conservative level of coverage

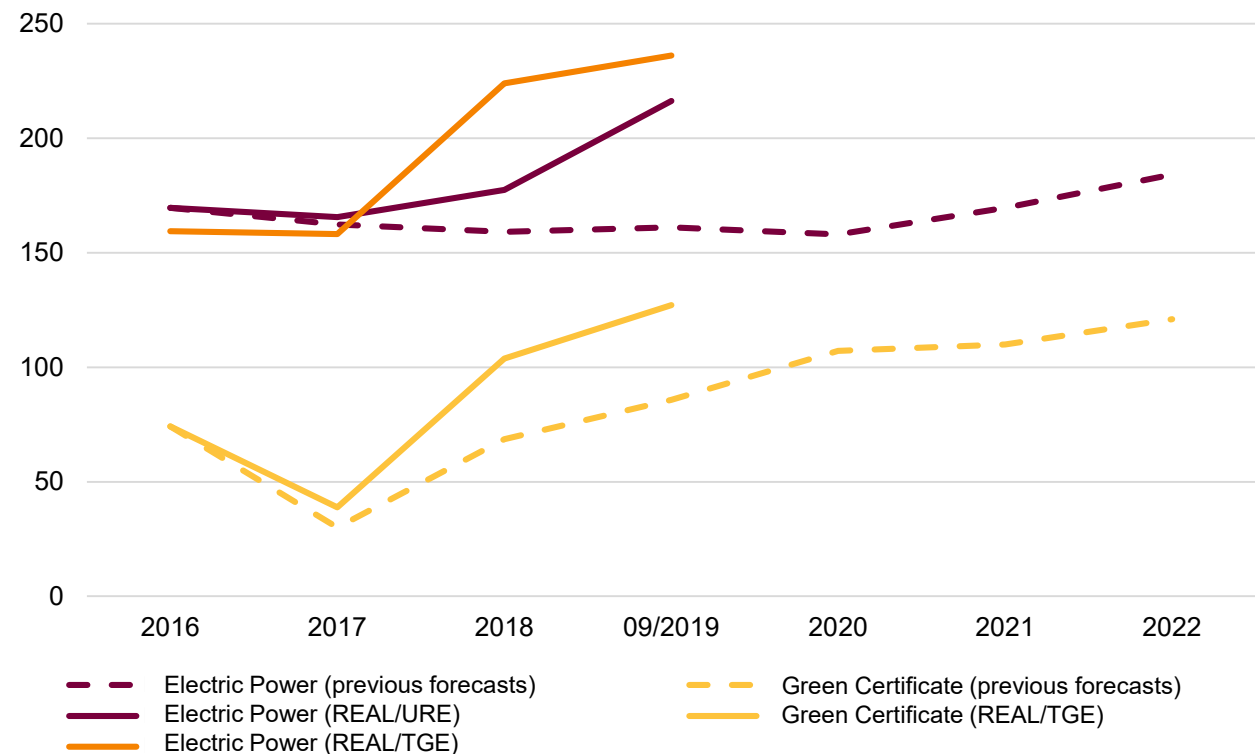
Significant improvement in the financial situation of the renewable energy sector caused by the increase in the prices of Green Certificates and lowering the property tax.

As a result, the Bank noted an improvement in the financial situation of RES clients and a decrease in exposure as a result of faster than scheduled loan repayment.

Positive forecasts for the coming years – Poland's delay in implementing the EU's commitment to the energy mix (32% to 2030), where RES share in Poland in 2018 was only 8% (after a decrease from 10% in 2017). The Ministry of Energy assumes that for 2020 the 15% target is possible, but at the same time very ambitious.

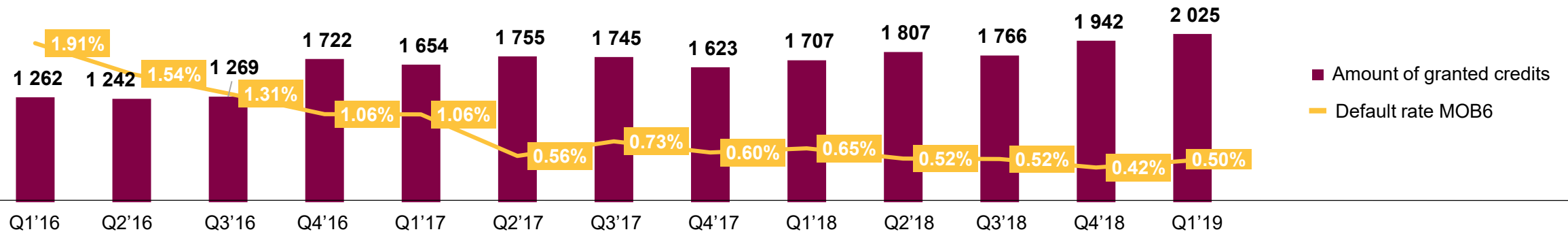
Another favorable factor – the increase in black energy prices.

Projected vs actual prices of Black Energy and Green Certificates

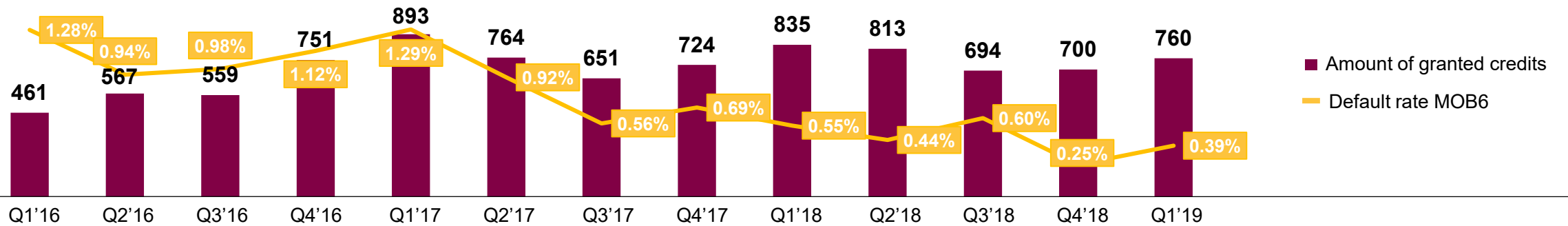


Constant improvement in the quality of new loan sales

Sales volume and quality of new cash loan sales (PLN M)



Sales volume* and quality in the micro business client segment (PLN M)



Loan quality in strategic segments (cash loan and micro) has been systematically improving for the past 3 years. 2019 plan: maintaining this positive trend – optimizing risk management at every stage of the credit process.

1 Key highlights

2 Financial results

3 Credit risk

4 2019 guidance

5 Appendix

	Q3'19 actual (YTD)	2019 guidance
NIM net interest margin	4.6% (including impact of CJEU reserve in Q3)	4.5% (change from 4.6%)
C/I* cost/income	42.8%	41%
CoR cost of risk	2.4%	2.3%
Gross loan book growth** (12 months)	3.9 PLN B	5 PLN B

The Bank's strategy update process has started. New 2020-2022 strategy will be presented in the first quarter of 2020.

1 Key highlights

2 Financial results

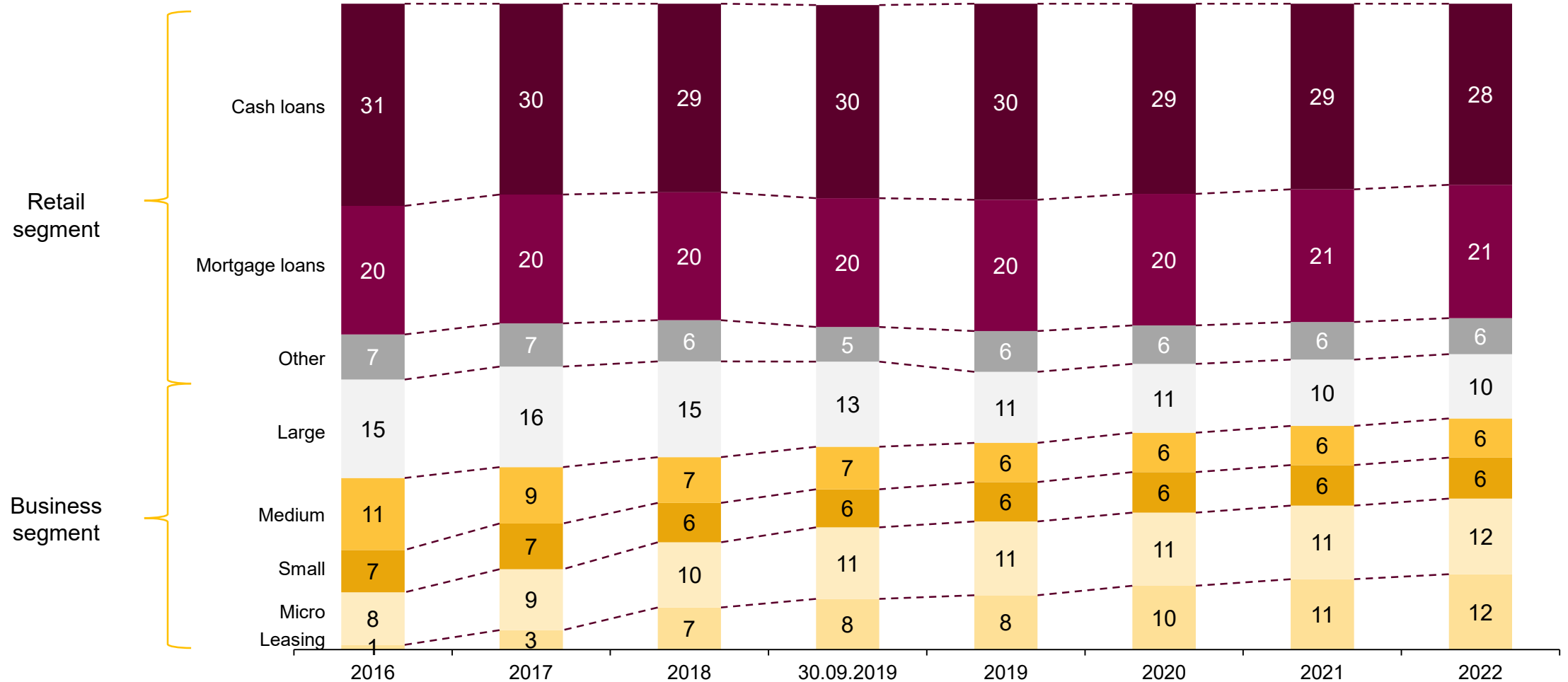
3 Credit risk

4 2019 guidance

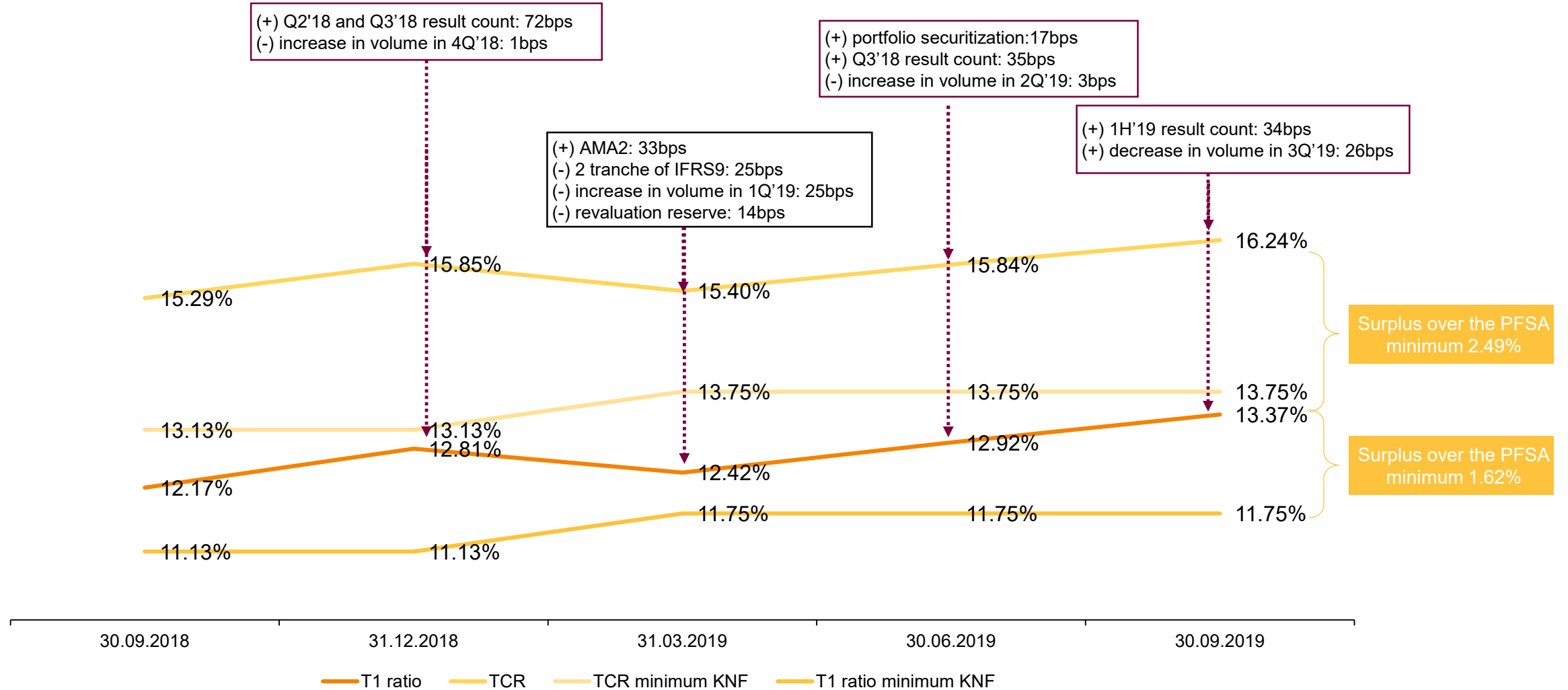
5 Appendix

By 2022, a significant reduction in the share of the loan portfolio in the Large segment

Credit portfolio structure (%)

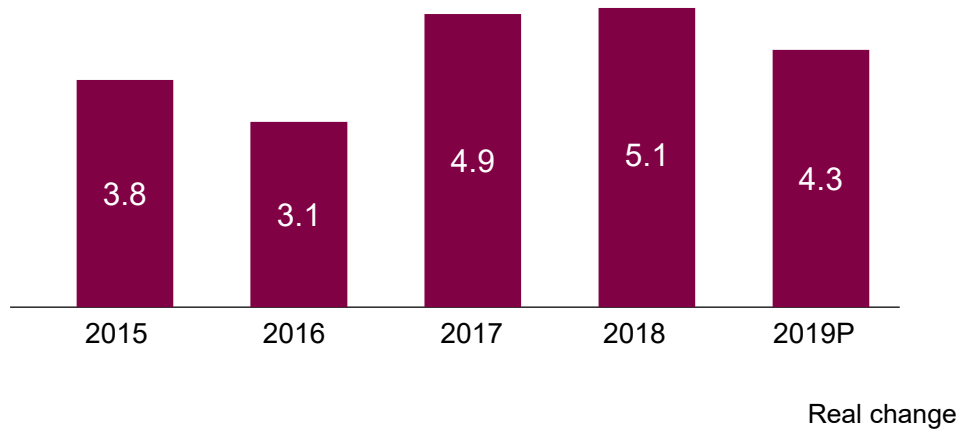


Bank's capital position allows to maintain dynamic loan volume growth

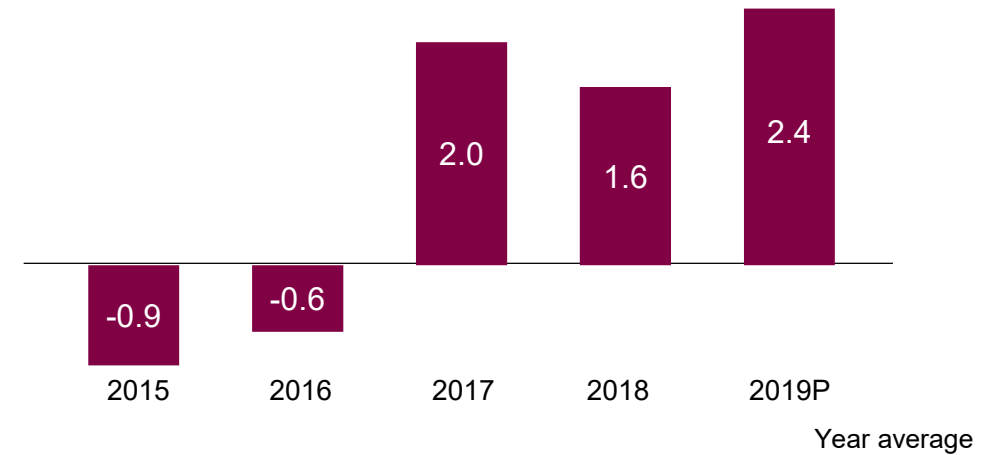


The increase in the loan volume by PLN 1 B "consumes" 17 bps of Tier1 capital.
 The current level of Tier1 capital allows for a further increase in the loan portfolio by PLN 10.9 B.

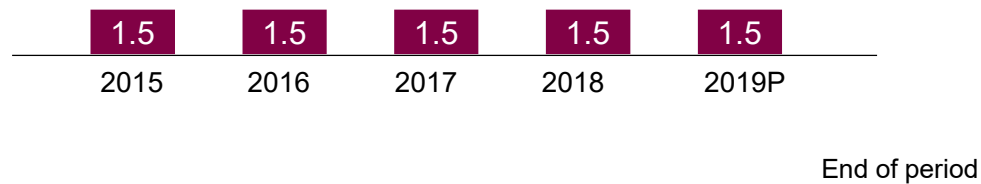
GDP growth (% y/y)



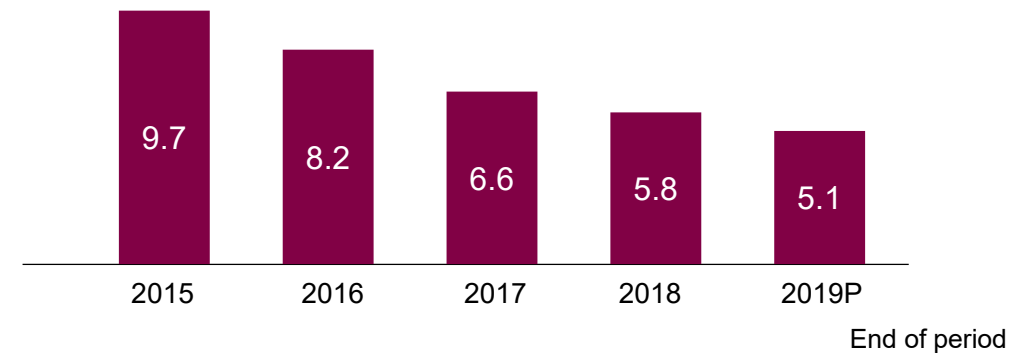
Inflation (CPI % y/y)



NBP reference rate (%)



Unemployment rate (%)



Income statement

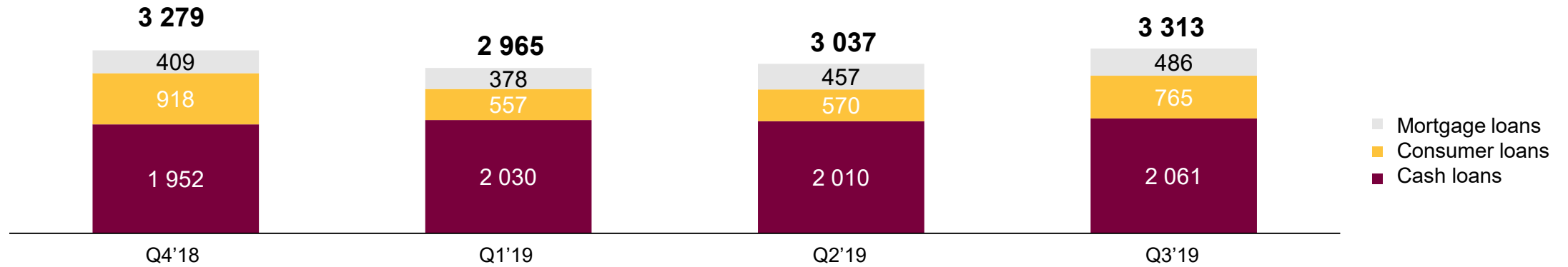
PLN B	Q3 2019	Q3 2018 Adjusted data
Interest income*	1 029	996
Interest expenses	-226	-214
Net interest income	802	783
Fee and commission income	305	283
Fee and commission expenses	-132	-105
Net fee and commission income	173	179
The result on financial assets measured at fair value through profit or loss and FX result	15	29
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	7	8
Other operating income	36	20
Other operating costs	-77	-36
Net other operating income	-41	-16
General and administrative expenses	-372	-411
Net expected credit losses, impairment allowances and write-downs	-325	-273
Banking tax	-59	-52
Profit before tax	201	245
Income tax	-76	-68
Net profit	125	177

Balance sheet

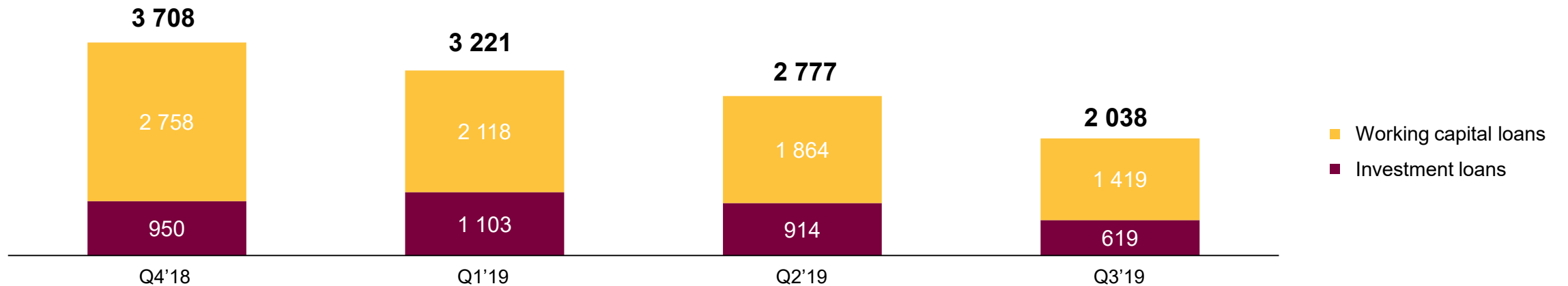
PLN B	30.09.2019	31.12.2018
Cash and balances with the Central Bank	947	1 639
Amounts due to banks	2 945	612
Financial assets	12 707	13 728
Measured at fair value through total income	6 950	7 280
Measured at fair value through P&L	682	515
Measured at amortized cost	5 076	5 932
Derivative hedging instruments	135	112
Loans and advances to clients	56 684	54 246
Assets pledged as collateral	358	333
Property, plant and equipment	788	461
Intangible assets	578	572
Investments in subsidiaries	5	4
Asset held for sale	0	0
Income tax asset	1 114	1 036
Other assets	723	676
Total assets	76 984	73 420
Amounts due to banks	984	593
Amounts due to clients	64 739	62 436
Financial liabilities measured at fair value through profit or loss	520	416
Derivative hedging instruments	46	9
Provisions	120	126
Other liabilities	1 824	1 167
Income tax liabilities	42	268
Subordinated liabilities	1 928	1 918
Total liabilities	70 204	66 934
Equity	6 779	6 486
Total liabilities and equity	76 984	73 420

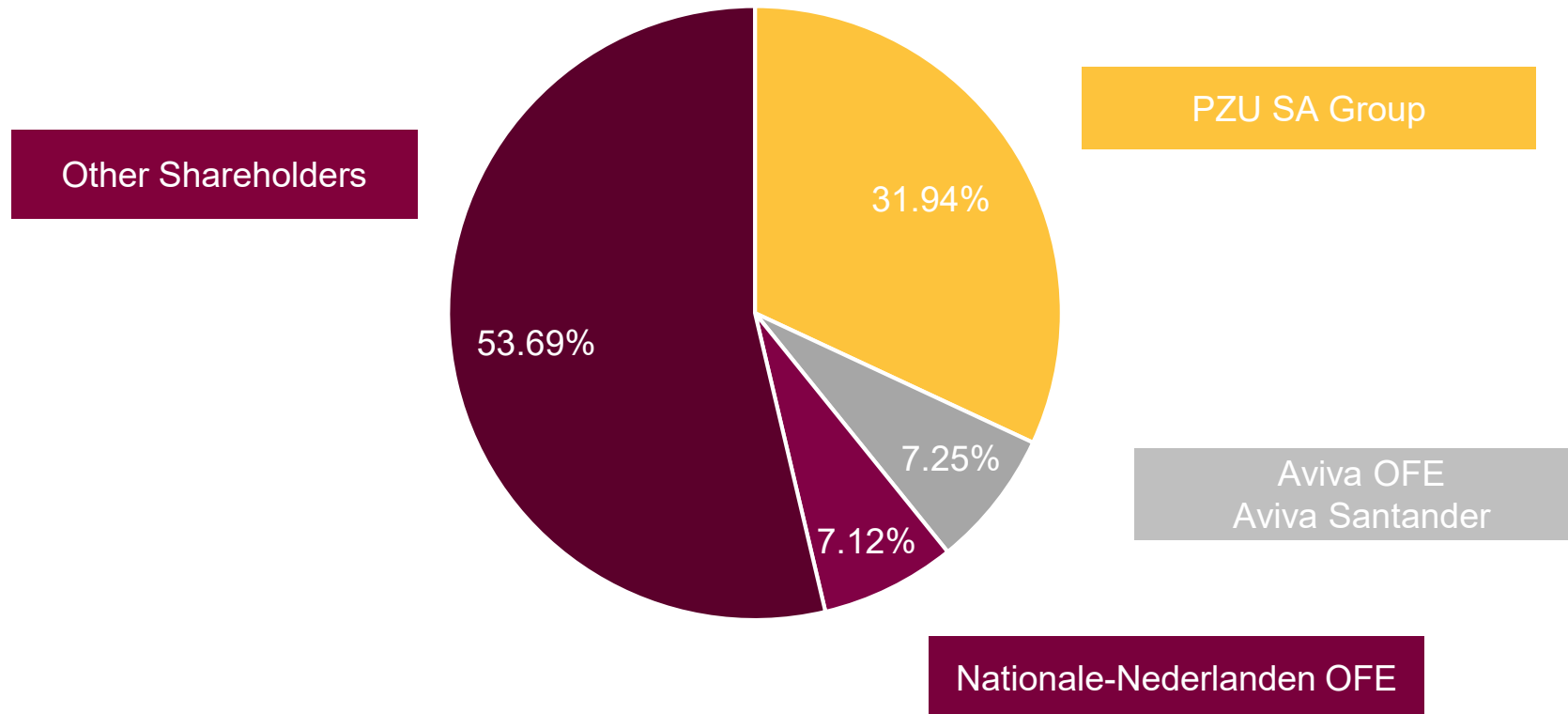
New loans sales (PLN M)

Retail loans (new quarterly sales)*



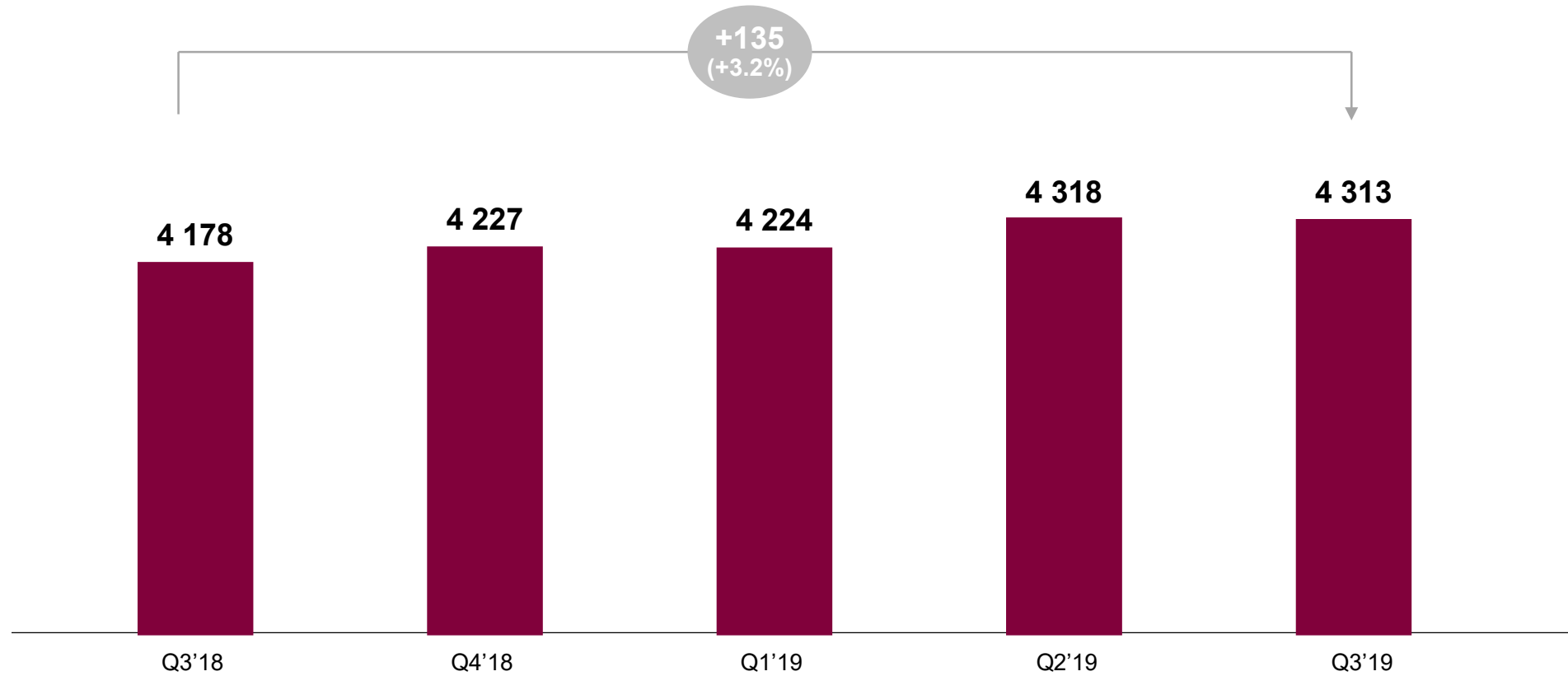
Business loans (new quarterly sales + renewals)*



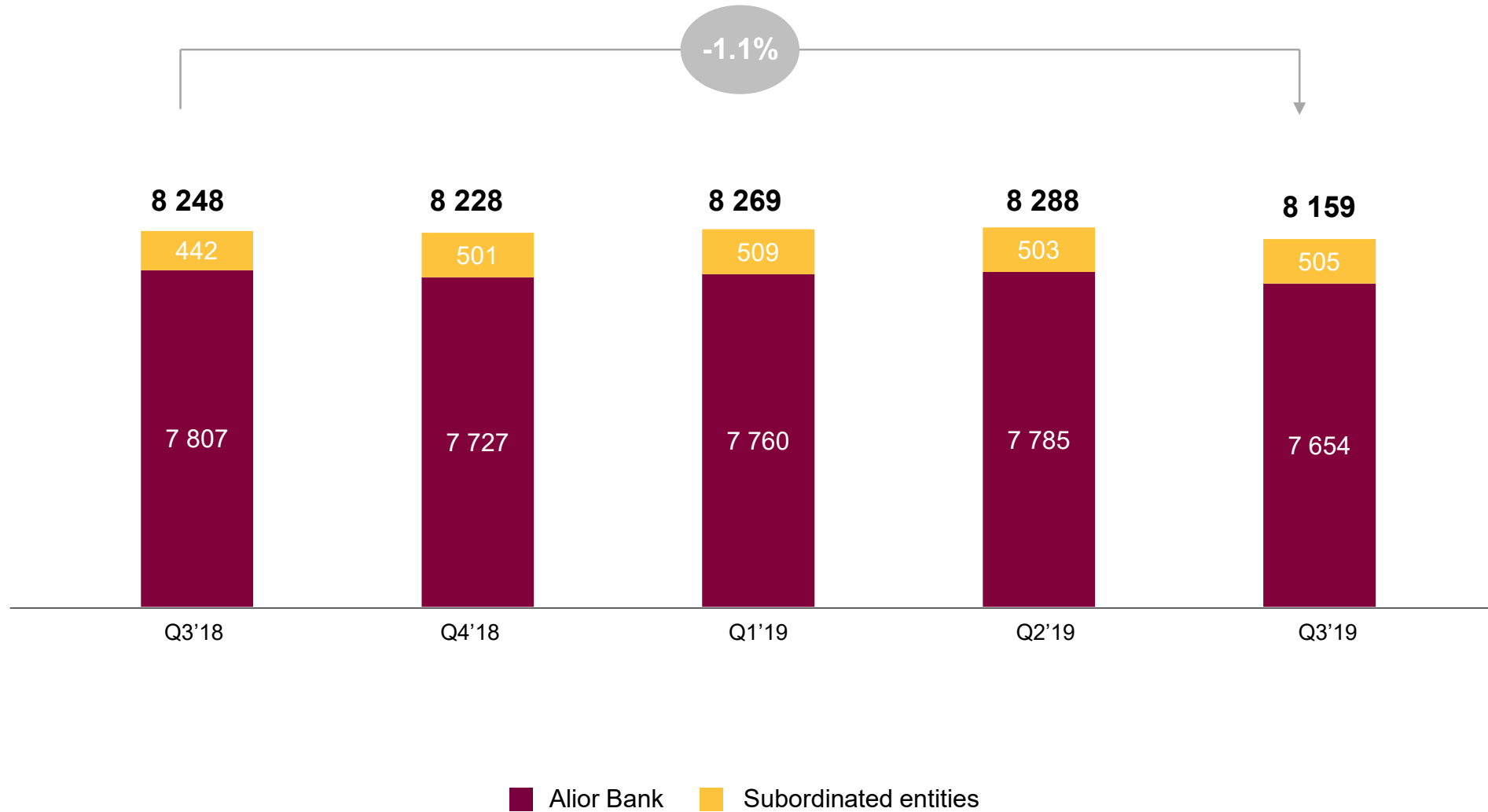


The largest free float among Polish financial institutions.

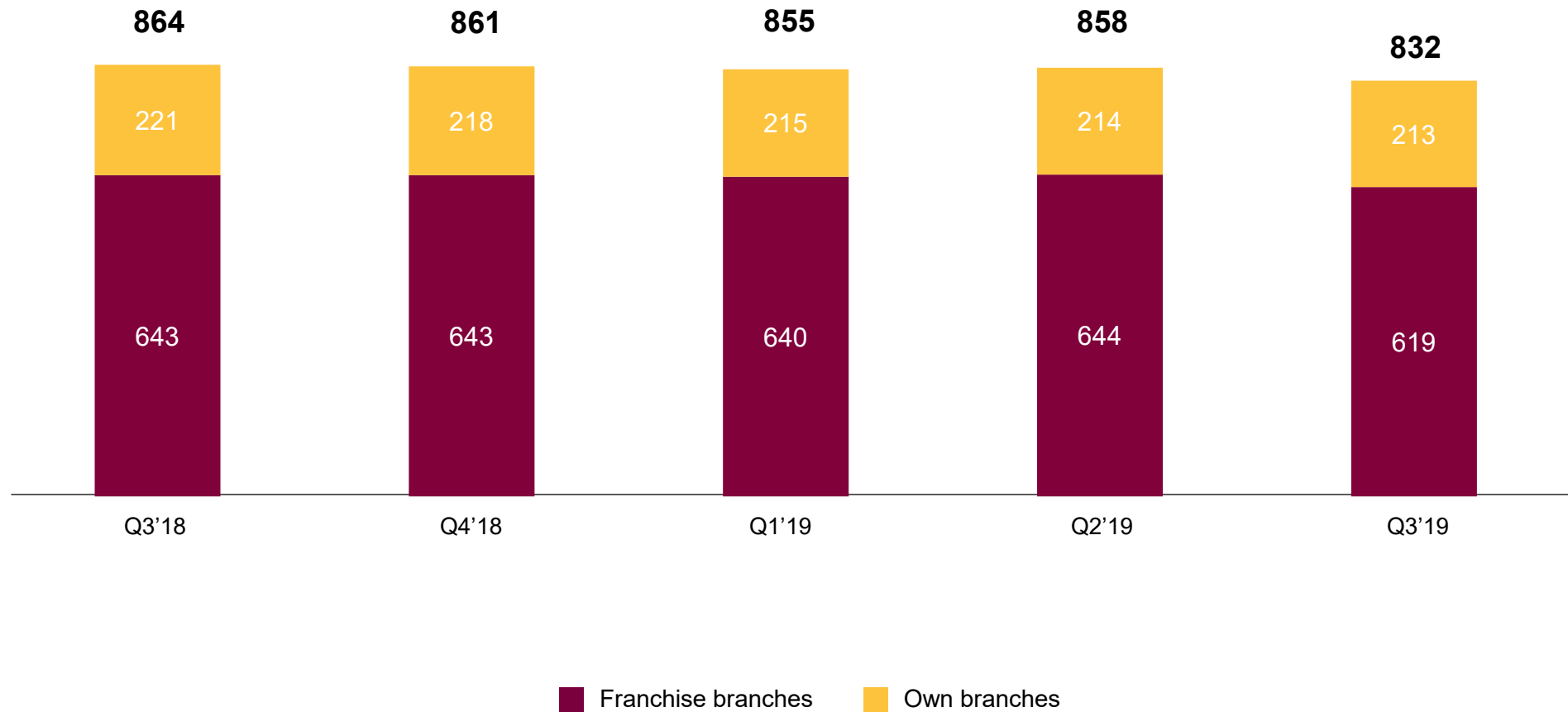
Number of clients



Alior Bank Group – FTE evolution



Alior Bank – number of branches

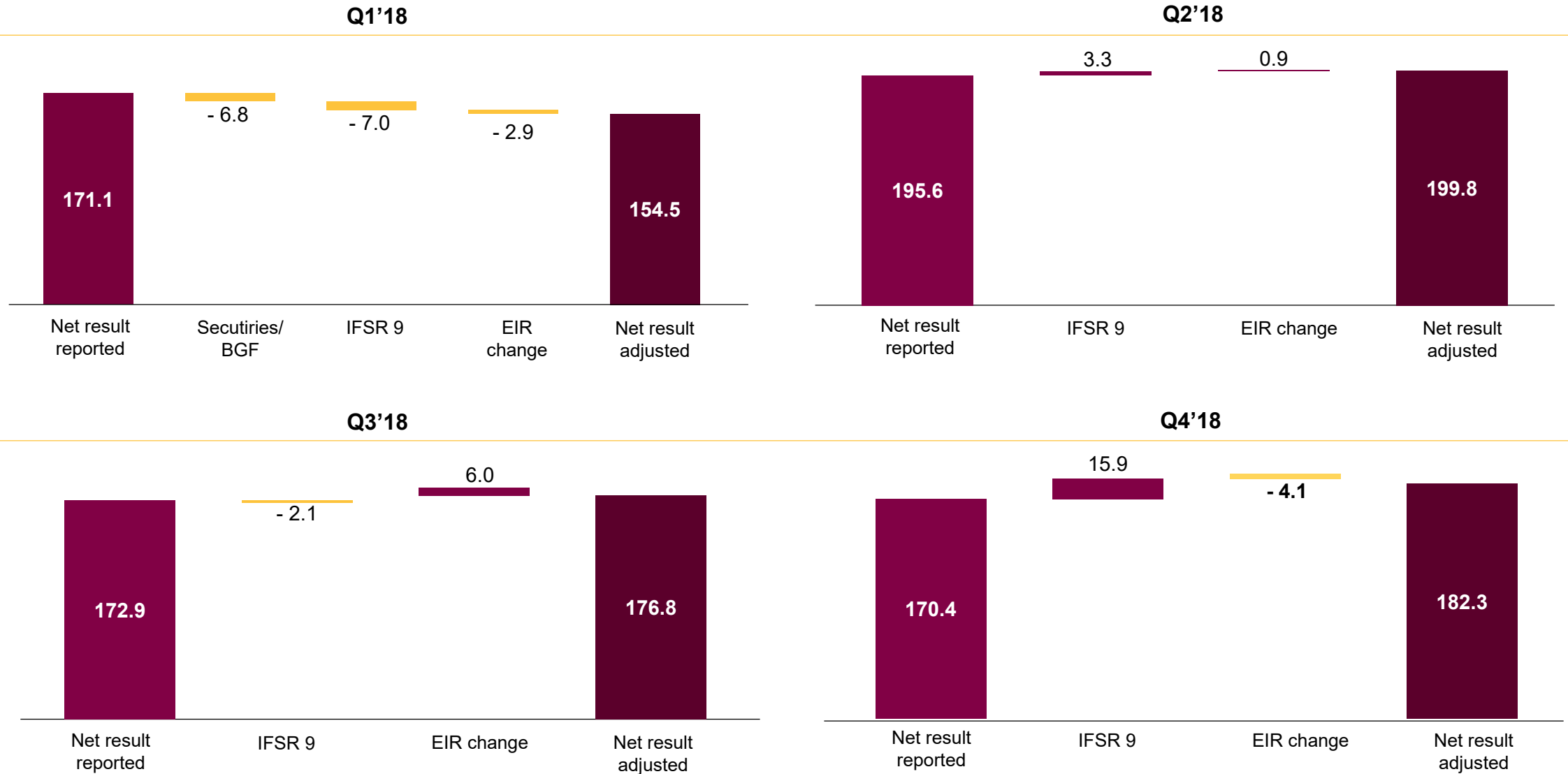


Change in the presentation of the transaction margin on FX transactions

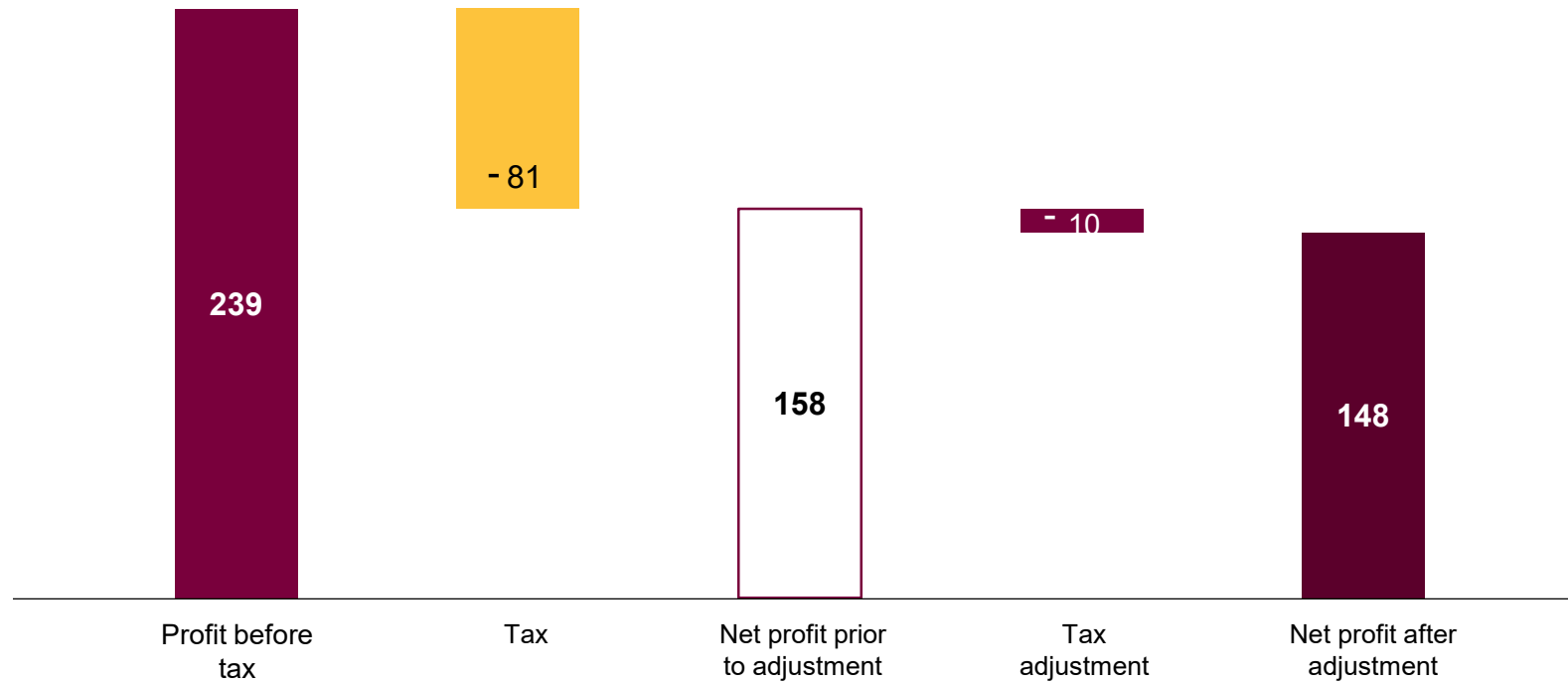
	2018 Before change	Change	2018 After change
Interest income	3 085		3 085
Fee and commission income	436	274	710
The result on financial assets measured at fair value through profit or loss and FX result	372	-274	98
The result on derecognition of financial assets and liabilities not measured at fair value through profit or loss	78		78
Net other general and administrative income and costs	-15		-15
General and administrative expenses of the Group	-1 705		-1 705
Net expected credit losses, impairment allowances and write-downs	-1 054		-1 054
Banking tax	-208		-208
Profit before tax	988		988
Income tax	-275		-275
Net profit	713		713

Starting from Q1 2019 Bank changed its presentation in terms of the realized transaction margin on foreign exchange transactions. In earlier periods, it was presented in the result on instruments measured at fair value through profit and loss and the revaluation result, at present in the fee and commission income.

Impact of accounting adjustments on net profit 2018 (PLN M)



First half of 2019 tax adjustment impact on net profit (mln PLN)



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Thank you for attention

Q3 2019 Alior Bank S.A. results presentation

Alior Bank S.A. | 05/11/2019

