Capital Adequacy
and Other Information Subject to Disclosure
of the Alior Bank Spółka Akcyjna
Capital Group
as at 31 December 2020

February 2021

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1. Introduction

The "Capital Adequacy and Other Information Subject to Disclosure of the Capital Group of Alior Bank SA as at 31 December 2020" report was prepared in accordance with the requirements of Part Eight of 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 (CRR), taking into account the provisions of Article 111 of the Polish Banking Law Act of 29 August 1997 (*Dz. U.* [Polish Journal of Laws] of 2019, item 2357, as amended) and Recommendation M of the Polish Financial Supervision Authority on operational risk management in banks and P Recommendation of the Polish Financial Supervision Authority concerning the system of monitoring the financial liquidity of banks, Guidelines of the European Banking Authority concerning disclosure of non-performed and forborne exposures, and the Information Policy Rules of Alior Bank SA approved by the Supervisory Board of Alior Bank SA.

Unless otherwise indicated, the Report presents consolidated data of the Capital Group of Alior Bank SA. Alior Bank SA has a dominant impact on the shape of the risk profile in the Bank's Capital Group, therefore some of the information contained in the report concerns the unit data of Alior Bank SA.

Unless otherwise indicated, numerical data presented in the Report was expressed in millions of Polish zlotys (PLN mn).

2. Information about the Capital Group

As at 31 December 2020, the Capital Group of Alior Bank SA consists of: Alior Bank SA, as a parent company and subsidiaries in which the Bank holds majority shares.

On 31 December 2020, the Capital Group was composed of the following subsidiaries:

Company name	**31/12/2020**
Alior Services Sp. z o.o.	100%
Alior Leasing sp. z o.o.	100%
- Serwis Ubezpieczeniowy sp. z o.o.	*100%*
- NewCommerce Services sp. z o.o.	*100%*
Meritum Services ICB SA	100%
NewCommerce Services sp. z o.o.	0%
Alior TFI SA	100%
Absource sp. z o.o.	100%
Corsham sp. z o.o.	100%
- PayPo sp. z o.o.	*20%*
RBL_VC sp. z o.o.	100%
RBL_VC sp. z o.o. ASI spółka komandytowo-akcyjna	100%
Harberton sp. z o.o.	100%

For the purposes of calculating the solvency ratio in 2020, **prudential consolidation** was applied (in accordance with Article 19 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013, as amended) – consolidation encompassed Alior Bank SA and Alior Leasing sp. z o.o.

Differences in accounting and regulatory consolidation as at 31.12.2020, as recognised in the consolidated financial statements of the Capital Group of Alior Bank SA, are presented in the table below:

BALANCE SHEET	Balance sheet values shown in the consolidated financial statement of the Capital Group of Alior Bank SA.	Balance sheet values falling within the scope of regulatory consolidation
ASSETS		
Cash and cash equivalents	2,459.9	2,454.6
Receivables from banks	508.4	508.4
Investment financial assets	15,744.7	15,742.1
measured at fair value through other comprehensive income	6,983.9	6,979.4
measured at fair value through profit or loss	594.9	596.8
measured at amortised cost	8,165.8	8,165.8
Hedging derivatives	335.0	335.0
Receivables from customers	56,215.4	56,215.4
Assets hedging liabilities	446.5	446.5
Tangible fixed assets	702.4	701.9
Intangible assets	425.1	390.8
Investments in associates	5.3	69.6
Assets for sale	0.0	0.0
Income tax assets	1,218.3	1,215.5
Other assets	581.1	575.6
TOTAL ASSETS	***78,642.1***	***78,655.4***

BALANCE SHEET	Balance sheet values shown in the consolidated financial statement of the Capital Group of Alior Bank SA.	Balance sheet values falling within the scope of regulatory consolidation
LIABILITIES		
Owed to banks	912.4	912.4
Owed to customers	66,875.9	66,904.2
Financial liabilities measured at fair value through profit and loss account	501.9	501.9
Hedging derivatives	86.2	86.2
Provisions	336.6	336.5
Other liabilities	1,569.9	1,565.7
Income tax liabilities	6.7	5.9
Subordinate liabilities	1,793.0	1,793.0
TOTAL LIABILITIES	***72,082.6***	***72,105.8***

3. General principles of risk management at the Bank and the Capital Group

Risk management at Alior Bank SA takes place on the basis of internal regulations adopted by the Management Board and approved by the Supervisory Board, taking into account prudential regulations resulting from the provisions of law and good practices recommended by regulatory authorities.

The general objective and framework rules applicable at the Bank in the risk management process are laid down in the Risk Management Strategy of the Alior Bank SA Capital Group. The Bank's detailed policy has been regulated in separate documents which specify the following rules:

- credit risk and concentration risk,
- counterparty risk,
- market risk,
- liquidity risk,
- operational risk,
- model risk,
- capital risk,
- compliance risk,
- business risk.

The main objective of the risk management strategy in force at the Bank is to ensure early recognition and appropriate management of all significant types of risk connected with the business activity conducted. The scope of risk is verified in terms of materiality on a regular basis, once a year or more frequently, if there are premises for changing the risk profile of the Bank or its environment.

After the verification of the scope of risk, the Bank recognised the following types as material:

- credit risk – insolvency risk,
- residual credit risk,
- credit risk of large exposures,
- credit risk – trade concentration,
- credit risk – concentration towards the Customer or a group of Related Customers,
- credit risk – concentration in foreign currency,
- credit risk – concentration in the region,
- credit risk – concentration of collaterals,
- settlement risk/delivery risk with a later settlement date,
- operational risk,
- IT risk,
- risk of delays, failure to deliver IT solutions,
- market risk in the trading book,
- liquidity risk,
- interest rate risk in the banking book,
- model risk,
- business risk,
- capital risk,
- excessive financial leverage risk,
- economic environment risk,
- compliance risk,
- reputational risk.

The Bank's target risk profile is assessed on the basis of the current risk profile, strategic plans, and the defined tendency to take risk.

The Bank supervises the functioning of subsidiaries of the Capital Group of Alior Bank SA. The Bank supervises the risk management systems in these entities and takes into consideration the level of risk connected with activities of particular entities within the risk monitoring and reporting system at the level of the Bank's Capital Group. Subsidiaries create and update internal regulations on the management of significant types of risk, taking into account recommendations formulated by the Bank and taking into account the provisions of the Risk Management Strategy of the Alior Bank SA Capital Group in regard to subsidiaries.

4. Risk adequacy statements

As part of the risk appetite, the Management Board of the Bank approved the expected levels of key capital ratios of the Bank for 2020 at the level of: total capital ratio - 10.50% and Tier 1 equity ratio - 8.50%. Lower risk appetite levels for capital ratios than observed thus far are related to the signing of the ordinance on the dissolution of the systemic risk buffer by the Minister of Finance, which took place on 18 March 2020. The expected ratio of equity covered by own funds was approved at 1.10%.

The Bank is still not identified as a systemically important institution and, therefore, there is no other systematically important institution (O-SII) buffer. The structure of the value of the risk exposure assessed, measured by the measure of the capital requirement for individual types of risk during 2020 remained at a level consistent with the structure of the risk exposure volume in the entire banking sector in Poland.

The structure of the value of the risk exposure assessed confirms the domination in the total exposure to credit risk. In accordance with the policy, the Bank does not maintain a significant exposure to market risk, therefore the share of risk in the exposure structure is small. The share of exposure to operational risk (measured by the AMA model and TSA model (for a branch in Romania and for Alior Leasing)) was similar to the average share for the banking sector in Poland.

The structure of capital requirements in the Bank and in the banking sector in Poland as at 30 September 2020 has been presented below (data as at 31 December 2020 has not been presented due to the lack of available data on the banking sector as at the date of publication of this report).

Capital requirement	**Bank**	**Polish Banking Sector**
due to credit risk, counterparty credit risk, dilution risk and deliveries with a later settlement date	91.28%	89.9%
due to settlement risk	0.00%	0.0%
due to position risk, currency risk, and commodity price risk	0.86%	1.4%
due to operating risk	7.68%	8.4%
due to fixed indirect costs	0.00%	0.0%
due to adjustment of credit valuation	0.18%	0.2%
due to large exposures in the trading book	0.00%	0.0%
other risk exposure amounts	0.00%	0.1%

5. Risk management organisational structure

In order to efficiently and effectively manage the risk system at Alior Bank SA, supervision, control, and responsibility for the operation of this system were entrusted with:

- The Supervisory Board,
- The Risk Committee of the Supervisory Board,
- The Management Board of the Bank,
- Committees (Capital, Assets and Liabilities Management Committee – CALCO, Operational Risk Committee, Credit Risk and Business Initiatives Committee, Model Risk Committee, Bank Credit Committee),
- Organisational units responsible for individual types of risk,
- The Internal Audit Department.

The Bank's risk management system is based on three independent lines of defence. Its framework is set by standards applicable at the banking sector as well as guidelines in regulations, including supervisory recommendations which are reflected in the applicable internal regulations.

The Supervisory Board supervises the risk management system in the Group, supervises the compliance of the Group's policy with regard to risk taking with the strategy and financial plan of the Group, and assesses the adequacy and effectiveness of this system.

The Risk Committee of the Supervisory Board was appointed to support the Supervisory Board in supervising the risk management process at the Bank. The Committee operates on the basis of the Rules of Procedure of the Risk Committee of the Supervisory Board of Alior Bank SA approved by the Supervisory Board. The most important tasks of the Committee include, in particular, issuing opinions on the overall, current and future readiness of the Bank to take risks that have been quantified in the risk appetite, issuing opinions on the risk management strategy at the Bank and analysing information submitted by the Management Board on the implementation of this strategy, including periodic reports on capital adequacy, credit, operational, market and liquidity risk, as well as model risk and non-compliance risk, supporting the Supervisory Board in supervising the implementation of the risk management strategy at the Bank, verifying the compliance of the price of liabilities and assets offered to customers with the Bank's business model and its risk strategy, and, in the case of non-compliance, presenting proposals to the Management Board of the Bank to ensure the adequacy of prices of liabilities and assets to these types of risk, issuing opinions on regulations defining the Bank's strategy and policy defining the approach to taking risk, the approval of which falls within the competence of the Supervisory Board, as well as analysing regular reports on the implementation of the above strategies and policies. In 2020, the Risk Committee of the Supervisory Board held 14 meetings.

The Management Board of the Bank designs, introduces and ensures the operation of a consistent risk management system in the Group, adapted to the risk profile, including the rules for the management of individual risks of the Group, ensuring their consistency with the risk management strategy of the Group, as well as determines the risk appetite. In effective management of individual types of risk, it is supported by the Committees appointed for this purpose. The Committees make decisions/issue recommendations at stationary meetings or by circulation.

The aim of the CALCO Committee is to support the Management Board of the Bank in effective management of market risk, liquidity risk, counterparty risk, business risk, capital risk and excessive leverage risk, as well as supervision over the functioning of the Recovery Plan. In 2020, the CALCO Committee held 44 meetings. The Operational Risk Committee was established in order to support the Management Board in effective operational risk management at the Bank. The Committee monitors the level of exposure to operational risk and assesses the situation in terms of operational risk throughout the Bank. In 2020, the Operational Risk Committee held 17 meetings.

The aim of the Credit Risk and Business Initiatives Committee is to support the Bank's Management Board in effective management of the credit risk of the Bank, including credit concentration risk. In 2020, the Credit Risk and Business Initiatives Committee held 15 meetings.

The Model Risk Committee supports the Management Board of the Bank in the effective management of model risk. In 2020, the Model Risk Committee held 3 meetings.

The subject matter of the Bank's Credit Committee is the approval of credit decisions on the Bank undertaking, balance sheet and off-balance sheet exposure, making decisions on the introduction of special offers, and making decisions in all matters not regulated in the Credit Competences Principles, connected with the Bank undertaking credit risk, up to the amount of the limit of competence granted.

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

Responsibility for risk review at Alior Bank SA rests with the Risk Significance Group. The Group comprises representatives of individual divisions and areas of the Bank's activity, having appropriate knowledge of the current and potential risk. In particular, these are representatives of units responsible for credit risk, market risk, and operational risk management.

Due to the diversity of phenomena accompanying individual types of risk, each of them is managed by the relevant leading unit. In the case of credit risk, individual functions related to identification, measurement, assessment and monitoring were divided between several organisational units.

The detailed scope of tasks of individual units is presented when discussing each type of risk.

The Internal Audit Department carries out independent inspections aimed at providing the Supervisory Board and the Management Board of the Bank with objective information, including assessments of the effectiveness and adequacy of the risk management system at the Alior Bank SA Capital Group.

6. Credit risk

6.1 Organisation of credit risk

Strategy

The Bank's strategy provides for a universal nature of an institution which directs its offer both to Individual Customers (KI) and Business Customers (BC).

The Bank has defined the credit risk strategy in relation to individual groups of Customers by:

- specifying credit products and introducing them to the offer, taking into account a detailed description of their parameters (product cards), such as: product buyers; object of financing; product purpose; requirements for borrowers; minimum and maximum amount; lending period; form of product operation and its currency; rules of payment, repayments and grace periods, and description of collaterals used together with information on the required LtV ratio level. A strictly defined product offer has been prepared for each homogeneous group of Customers,
- specifying the expected risk profile of Customers on the basis of individual rating or scoring assessments assigned to them and the expected share of individual groups in the credit portfolio. The Bank defined the expected distribution of scoring and rating results,
- specifying the expected risk profile of credit products implemented at the Bank, expressed by standard risk costs. Standard risk costs depend, among other things, on the probability of impairment and value of established collaterals,
- making the strategy dependent on the distribution channel of individual products dependent on credit risk management (i.e. Bank Branches, Contact Center, Internet, Agencies and Intermediates) and impact of each of them on credit risk. This was reflected in credit processes dedicated to individual channels and standard risk costs,
- risk diversification due to the application of concentration limits,
- risk reduction due to various levels of DTI (indicator expressing the ratio of the sum of monthly costs related to servicing liabilities and monthly financial liabilities other than credit liabilities to net income),
- limiting credit risk by establishing credit collaterals,
- reduction of credit risk as part of the implementation of defined monitoring processes.

Organisational structure of the credit risk management and control process

In order to ensure the correctness of credit processes at the Bank, Departments implementing strictly defined tasks are functioning:

Corporate Customer Analysis Department responsible for:

- analysis of credit applications and managing credits for Corporate Customers, including specialised portfolios (AGRO, Leasing),
- assessment of credit capacity and creditworthiness in accordance with defined methodologies and expert knowledge,
- structuring transactions taking into account the risk appetite defined at the Bank,
- making decisions in accordance with the applicable credit competences,
- preparation of credit documentation,
- credit risk assessment and its inclusion in the minimum credit price,
- verification of the conditions for launching/granting a credit product and sending posting instructions regarding the management of credit accounts,
- management of credit committees,
- valuation and periodic monitoring of BC mortgage collaterals.

The SME Customer Analysis Department responsible for:

- analysis of credit applications and credit management for the SME segment, including specialised portfolios (Leasing),
- assessment of credit capacity and creditworthiness in accordance with defined methodologies and expert knowledge, as well as making decisions in accordance with the applicable credit competences,
- structuring transactions taking into account the risk appetite defined at the Bank,
- making decisions in accordance with the applicable credit competences,
- preparation of credit documentation,
- credit risk assessment and its inclusion in the minimum credit price,
- verification of the conditions for launching/granting a credit product and sending posting instructions regarding the management of credit accounts.

Restructuring and Debt Collection Department responsible for:

- minimising credit losses on the customer's portfolio by carrying out effective and cost-efficient monitoring, restructuring, and debt collection activities,
- developing and implementing a strategy for recovering exposures or restoring them to a condition that allows returning to regular business,
- monitoring and supervising individual stages of restructuring, debt collection or sale of individual exposures,
- preparing credit applications in restructuring and debt collection processes,
- preparing and signing agreements, arrangements and submitting, on behalf of the Bank, declarations concerning exposures submitted to individual processes,
- preparing documentation and referring cases to court and enforcement proceedings, monitoring of pending court and enforcement proceedings, cooperation with bailiffs,
- conducting field inspection as part of verification of collaterals and recovery of receivables in restructuring and debt collection processes,
- estimating provisions and impairment losses in accordance with IAS using the individual approach,
- redemption and write-down of receivables,
- sale of receivables on an individual basis and preparation for sale of portfolio receivables,
- securing, taking over and selling assets acquired from customers in restructuring and debt collection processes.

BC Monitoring Department responsible for:

- periodic monitoring of the financial and economic condition of credit customers, sources of repayment, and correctness in handling BC credits, with particular emphasis on BC Customers credited with structured instruments
- periodic monitoring of collaterals securing credit exposures of BC Customers, in particular verification of the correctness of their establishment, registration in the Bank's systems and the value of collaterals,
- monitoring of the portfolio of receivables acquired by the Bank and identification of the risk of repayment of debt acquired under factoring agreements,
- monitoring of contractual clauses, in particular those concerning financial covenants, impact adequacy clause and "borrowing base", and imposing contractual penalties in the case of failure to implement them,
- identification and assessment of Early Warning Signals (EWS) and preparation of recommendations for appropriate remedial actions,
- issuing recommendations concerning the classification of the customer, proposed Rating, and indicating the strategy of cooperation and defining recommendations after monitoring,
- analysis of credit process productivity and effectiveness, diagnosis of bottlenecks, process errors and taking action to increase the effectiveness of monitoring processes,
- monitoring of collaterals and contractual clauses constituting part of structured loans.

Corporate Customer Credit Risk Department responsible for:

- developing and supervising the implementation of the product credit strategy for business customers of the corporate segment (MID/LARGE) with regard to the criteria for granting exposures, offers and the shape of the credit process,
- management of the credit policy of specialised finance (factoring, AGRO, POPC, thermo),
- recommending changes in the credit strategy with an assessment of impact on the Bank's results,
- optimisation of the credit strategy for business customers of the corporate segment,
- issuing opinions on products and processes in terms of credit risk reduction,
- preparing simulations of changes in the credit process and credit policy and assessing their impact on the Bank's results,
- portfolio and process monitoring based on defined reports and problem reviews,
- implementation of the assumed portfolio parameters in terms of credit risk,
- creating, reviewing and updating credit risk assessment methodologies used in granting credit products for the corporate segment,
- managing the Bank's industry strategy,
- developing, reviewing and updating policies and other regulations on the functioning of collaterals for credit exposures,
- developing and updating the rules of cooperation with the project of monitors and external experts,
- development of requirements for tools and systems supporting the handling of collaterals,
- development and implementation of rules for the identification and registration of affiliated entities,
- reporting and analysis of the quality of collaterals for credit exposures at the Bank,
- monitoring the statistical value of real estate being collateral for credit exposures,

SME Customer Credit Risk Department responsible for:

- developing and supervising the implementation of the product credit strategy for business customers of the SME segment with regard to the criteria for granting exposures, offer, and the shape of the credit process,
- recommendation of changes in the credit strategy with an assessment of impact on the Bank's results, including the credit strategy of Alior Leasing.
- optimisation of the credit strategy as part of business customer sub-segments,
- providing opinions on products and processes in terms of credit risk reduction, including counteracting credit fraud,
- preparing simulations of changes in the credit process and credit policy and assessing their impact on the Bank's results,
- substantive supervision over credit tools ensuring consistency of solutions with methodologies' parameters,
- portfolio and process monitoring based on defined reports and problem reviews,
- analysis and reviews of the BC portfolio, SME segment, as regards the implementation of the assumed risk indicators and the diagnosis of reasons for deviations from the objectives,
- creating x-sell offers and credit algorithms,
- implementation of the assumed portfolio parameters in terms of credit risk,
- creating, reviewing, and updating credit risk assessment methodologies used in granting credit products,
- development of requirements and specifications for tools supporting processes and conducting credit risk assessment and monitoring,
- analysis of productivity and effectiveness of credit processes, diagnosis of bottlenecks.
- creating and supervising policies, methodologies and credit processes and monitoring,
- control of the quality of data used in the model design process and of the production functioning of models,
- implementation of the process of granting expert ratings in the case of types of activity without implemented statistical models,
- managing the Bank's industry strategy,

- regular review of the quality of SME credit portfolios,
- supervision over Alior Leasing's credit policy,
- analytical support of operational units of BCs,
- development and supervision of the Early Warning Signals (EWS) system,
- creation, design of IT solutions in the area of credit systems,
- management and development of the rating system (tool).

Credit Operations and KI Debt Collection Department responsible for:

- minimising credit losses by carrying out effective and cost-efficient monitoring, restructuring, and debt collection activities,
- identification of an optimal debt collection path at the level of a single relation
- monitoring the economic and financial situation of customers in the case of suspected loss of credit capacity,
- identifying cases of contractual clause violation and undertaking remedial actions,
- execution of a transaction involving the sale of receivables,
- conducting inspections of individual and business customers prior to granting the credit, prior to the disbursement of the tranche, and as part of monitoring,
- conducting court and enforcement proceedings in debt collection cases,
- cost optimisation by implementing solutions based on robotics and automation,
- monitoring the correctness and timeliness of establishing target collateral,
- development and administration of tools and systems used to handle monitoring, collection and restructuring processes of IC and BC,
- operational management of cooperation with BIK, including: production of periodic update batches in the scope of clarification of errors and complaints concerning credit reports, provision and verification of data provided at the request of Bank units to and from BIK S.A. as part of the so-called package inquiries for the IC and BC segments,
- operational management of cooperation with the Polish Bank Association (ZBP) in the scope of data exchange between the Bank's systems and ZBP databases, including Ministry of the Interior and Administration / Ministry of Digitisation registers.

KI Credit Risk Department responsible for:

- shaping the credit policy for credit products for individual customers as part of the defined credit strategy and budget plan for a given year, in particular introduction of necessary changes in DTI, LTV indicators, maintenance costs, floating interest rate buffers, currency, and other parameters of individual customer credit policy,
- managing the credit policy in a manner that meets the requirements of the Banking Law, S and T Recommendations, as well as other guidelines of the KNF and EIB,
- creating and supervising the implementation of the credit strategy in terms of exposure granting criteria,
- creating, reviewing and updating credit risk assessment methodologies used in granting credit products to Individual Customers,
- developing and supervising the methodology of determining indicators and boundary values of the Individual Customer credit capacity assessment,
- substantive supervision over credit tools ensuring consistency of solutions with methodologies' parameters,
- monitoring of the portfolio and credit processes based on defined reports and problem reviews,
- monitoring sales channels in terms of credit risk,
- development and management of risk decision-making systems in the process of individual customer assessment,
- cooperation with the Credit Information Bureau and economic information bureaus,
- assessment of transactions and credit capacity of the customer applying for credit products, preparation of credit recommendations for higher decision-making levels, making credit decisions within the granted

competence and based on applicable credit procedures,
- verification of the conditions for launching products without collateral and mortgage loans,
- verification of the value and valuation of the real estate being the objects of collaterals of the individual Customer's exposure,
- verification prior to the activation of tranches in terms of the investment progress and the correctness of the funds used,
- individual monitoring of KI real estate,
- substantive support of the sales network.

Risk Strategy Department responsible for:

- developing a risk strategy and risk appetite in cooperation with other Bank units,
- development of risk cost budgets,
- developing operational objectives for units in the area of risk consistent with the applicable budget,
- developing the bank's strategy in terms of capital adequacy,
- co-creation of annual budgets in terms of capital requirements,
- monitoring and reporting capital adequacy and defining capital needs,
- supervision over the methodology and process of impairment and the methodology of risk costs,
- supervision over the scoring models in the Individual Customer segment,
- supervision over the rating models in the Business Customer segment,
- maintaining and developing the methodology of credit risk model management in the Individual Customer and Business Customer segments,
- supervision over the ICAAP process and the methodology of calculating capital requirements,
- supervision over the process of Stress Tests and concentration limits,
- oversight of the Bank's treasury system,
- coordination of the risk reporting management process to the level of RN and ZB,
- development and maintenance of LGD, FLI and Transfer Logic models.
- developing and supervising the implementation of the credit strategy for the Individual Customer in the scope of the scoring strategy,
- development of the methodology of building and monitoring KI scoring models (application and behavioural models) and development and implementation of new models,
- development of the methodology for estimating expected levels of insolvency for the purposes of estimating standard risk costs as a credit margin component, budget plans and forecasts,
- development of treasury products and services and distribution channels,
- participation in development projects related to the development of quality assessment models and predicting the level of loss ratio for new portfolios, channels and processes for KI portfolios,
- development and maintenance of PD lifetime models for Individual Customer and Business Customer portfolios,
- implementation, parametrisation and maintenance of treasury product management systems,
- substantive supervision over the functioning of the treasury system interfaces with other systems of the Bank,
- continuous control of the correctness of the transaction handling processes in the treasury system (including the end-of-day processes),
- creating and maintaining mechanisms for supplying the Bank's systems with market rates,
- creating reports supporting fiscal product sales units,
- ongoing control and verification of transaction records carried out as part of function 1 of the control line,
- supporting treasury product sales units in preparing an offer for Customers for transaction scenarios and KIDs,
- supporting entities processing transactions in reporting from the tax system.

Risk Model Validation Department responsible for:

- developing the bank's strategy in the scope of model risk.

- ongoing identification, measurement, monitoring and control of model risk,
- developing internal regulations in the scope of model risk management or indicating units responsible for their creation,
- defining the acceptance criteria for the quality of the model's operations,
- issuing recommendations to the Model Risk Committee regarding the acceptance of the model for application and implementation in the production environment and monitoring their implementation,
- validation of significant models in accordance with the validation plan,
- independent assessment of the implementation process (including, among other things, testing of implementation),
- outsourcing of external validation for selected models,
- preparing a model register (based on information provided by the Model Owners in model cards and model logs) and management thereof,
- initiating specific remedial or corrective actions in the event of deterioration of the quality of the model,
- approving the significance of the model on a quarterly basis and assessing the model risk level at least annually (including quarterly verification of the validity of the risk level assessment),
- assessment of the model risk at the aggregated level, reported quarterly as part of management information,
- preparation of management information in the area of model risk.

Risk Control Department responsible for:

- ensuring methodologically coherent and effective management of the control process of units in the Bank's Risk area and participation in the development and implementation of the rules and standards of control processes in relation to units in the Risk area,
- controlling the Bank's Risk units in terms of compliance with the applicable policies, procedures, internal and external regulations,
- support for units of the Risk area in the scope of planning, execution and reporting of the results of audits conducted, in accordance with the guidelines of the Internal Control System,
- supervision and monitoring of the implementation of post-control recommendations after the inspection,
- proposing solutions to optimise banking processes and procedures in order to reduce banking risks and improve Customer service,
- cooperation with the Bank's organisational units performing control functions in the scope of identifying and eliminating cases of internal and external fraud.

6.2 Credit risk management

Credit risk management at the Bank is based on an integrated credit risk management system implemented and consists of the following elements:

- identification of credit risk, i.e. determination of internal and external factors affecting the level of credit risk taken by the Bank and constant update of the list thereof;
- measurement and estimation of credit risk - determination of measures and building econometric models whose task is to assess the current risk in a quantitative manner and forecast this risk in the future;
- credit risk monitoring consisting in summarising all credit risk measurements performed for a given reporting period, along with issuing opinions and recommendations; it focuses on collecting credit risk assessments, comparing them over time, and building early warning strategies and credit risk mitigation strategies based thereon;
- oversight over current and potential types of risk – consists in regular measurement of credit risk and assessment of credit risk areas identified in the Bank's system and moreover, it ensures supervision over the permanent verification of the risk map developed by the Bank and its measurement methods.

The Bank carefully examines the financial dimension of the credit identified, and anticipated risk and the place of its occurrence. Compliance of the level of risk costs achieved with the planned and approved tolerance level is monitored on an ongoing basis.

The basic instruments used at the Bank to mitigate credit risk include:

- credit granting methodology and methodology for determining acceptable parameters for creditworthiness assessment and credit risk assessment,
- limits on concentration,
- monitoring system, including early warning mechanisms,
- legal collateral for the repayment of the Bank's receivables.

6.3 Counterparty credit risk management

The exposure value is determined in accordance with the rules for calculating the capital requirement for credit risk using the standard approach. The balance sheet equivalent of off-balance sheet transactions, as well as the balance sheet equivalent of transactions with a repurchase promise, are determined in accordance with the CRR.

The positive fair value of contracts as at 31 December 2020 amounted to PLN 717.5 million, determined by adding up positive market values for all ongoing transactions. The negative fair value of transactions for counterparties having master agreements amounted to PLN 479.4 million. The new value of transactions totalled PLN 238.1 million. The value of accepted collaterals amounted to PLN 373.4 million.

The level of collaterals which the Bank is obliged to submit is normally dependent on the level of current valuation of transactions concluded under a given agreement. At the same time, the Bank did not conclude an agreement in which the counterparty would be entitled to demand the establishment of additional collaterals in the case of a change in the creditworthiness assessment.

Alior Bank Group does not identify a significant exposure to the risk of unfavourable correlation (the probability of default by counterparties remains positive with the general market risk factors), and its level is monitored on an ongoing basis.

Credit risk related to derivative instruments functioning on the interbank market is minimised by determining and monitoring available limits for individual transaction types for designated banks.

Credit risk resulting from making derivative instruments available for to Business Customers who are not banks is accepted and limited to the amount of treasury limits held by these Customers. According to the definition applicable at the Bank, the treasury limit is understood as the amount of potential credit loss that may occur as a result of the Customer's use of derivative instruments. The treasury limit is part of the total credit limit for working capital exposures determined for Customers. It is approved on the basis of the Customer's credit capacity, tested in accordance with standards applicable at the Bank. The decision about granting a treasury limit to the Customer is also conditional upon recognition of the Customer's knowledge and experience as regards the use of derivative instruments and the Customer's knowledge of financial markets. In the case of Individual Customers, only limits secured with cash (registered pledge) are granted. Business Customers may secure limits in accordance with the catalogue of collaterals acceptable by the Bank. The Bank may offer treasury limits without collaterals to the best Business Customers.

6.4 Concentration risk management (concentration limits)

The Bank considers excessive concentration of each item accompanied by credit risk or liquidity risk to be a phenomenon that may have a negative impact on the safety of the Bank's operation.

Knowledge of the scale of dangers related to concentration of exposures allows for proper management of assets and liabilities, and above all creation of a secure structure of the credit portfolio.

In order to prevent adverse events resulting from excessive concentration, the Bank reduces concentration risk by establishing concentration limits and standards resulting from external regulations and internal analyses conducted by the Bank.

Concentration risk management in relation to credit activity at the Bank concerns in particular:

1. areas resulting from external regulations:
- risk resulting from exposures to entities referred to in Part 4 of the CRR (so-called large exposures),
- internal concentration, including the risk resulting from the involvement of entities referred to in Article 79a of the Polish Banking Law Act;
2. risk resulting from exposures to entities characterised by common features, such as:
- the same segment,
- the same industry and the economy sector, i.e. entities conducting the same activity or trading in similar goods,
- the same country of residence or registered office,
- the same voivodeship of residence or registered office;
3. risks resulting from the product specification, including: purpose of financing, currency, product type, LtV and credit period;
- risk resulting from exposures secured with the same type of collateral or secured by the same collateral provider (including the risk resulting from the Bank's collateral on securities of a similar nature);
4. risk resulting from the distribution channel;
5. risk resulting from derogations or simplified credit capacity assessment methods (the so-called statement credits);

and other areas in which a significant risk of concentration of lending activity may occur.

6.5 Collaterals

The Bank allows all types and legal forms of collaterals accepted under Polish law. The Bank accepts, in particular, the following legal forms of collaterals:

- guarantees, counter-guarantees, and sureties;
- guarantees under programmes implemented by BGK
- blockades;
- pledges;
- transfer of ownership;
- assignment of receivables;
- credit insurance;
- bills of exchange;
- mortgages;
- powers of attorney to the bank account;
- deposits as a special form of collateral;
- notarial declaration on submission to enforcement pursuant to Article 777 of the Polish Code of Civil Procedure.

The Bank strives to establish collaterals in a manner adequate to the credit risk incurred and flexible in relation to the needs and capabilities of Customers. As part of the offer for Customers, there are products made available without collaterals and products whose availability is limited by establishing a collateral.

Proportions between the level of exposure and the collateral value are regulated by way of LtV ratios taking account of various risk types, i.a. risk of loss of value of the collateral, exchange risk, interest rate risk, liquidity risk, or other risks relevant for a given type of product. The Bank's customers are informed about the values of these indicators during ongoing contacts with Banks or Bank outlets.

When determining the value of the collateral, the Bank follows the prudent valuation principle and adopts the market value or the possible (real) value to be recovered in the event of satisfaction with the collateral. The Bank has appropriate tools to verify the valuation of collaterals.

The Bank monitors the effectiveness of establishing collaterals by:
- verification of completeness and correctness of documentation concerning collaterals,
- checking the validity of the collateral – in the case of collaterals accepted for a specific period, the collateral renewal process is carried out, e.g. the insurance policy;
- verification of the current value of collateral – a review of collaterals is carried out at least once a year, and in the case of financial collaterals, the value is monitored daily.

The Bank mitigates the risk associated with individual collaterals and collateral providers by determining concentration limits, taking into account the security buffer due to exchange risk and liquidity risk, and continuous monitoring of both the effectiveness of establishing a collateral and its value during the term of the loan.

As at the end of 2020, the amount of reduction of exposure due to the use of credit risk mitigation techniques, in accordance with the comprehensive collateral recognition method applied by the Bank, amounted to PLN 156.1 million.

Secured exposures were included in the class of exposures to institutions (PLN 4.0 mn), exposures to enterprises (PLN 92.4 mn), retail exposures (PLN 19.5 mn), exposures secured on real estate (PLN 12.2 mn), exposures involving particularly high risk (PLN 1.2 mn), and exposures in default (PLN 26.7 mn). The amount of exposures secured by recognised collaterals as at the end of 2020 was PLN 4,907.0 million.

As at 31 December 2020, the Bank applied credit protection in the form of accepted guarantees (the value of exposures secured with guarantees, excluding guarantees granted by the European Investment Fund as part of synthetic securitisation, amounted to PLN 4,750.9 million) and did not use credit protection in the form of credit derivatives.

Secured exposures were included in the class of exposures to enterprises (PLN 347.9 mn), retail exposures (PLN 3,235.9 mn), exposures secured on real estate (PLN 130.1 mn), exposures involving particularly high risk (PLN 630.0 mn), and exposures in default (PLN 407.0 mn).

6.6 Credit analysis process

Credit capacity is examined by entities which:

- apply for credit products;
- guarantee the repayment of credit liabilities granted by the Bank;
- join the debt;
- take over the debt;
- create a common risk group with the applicant due to links.

The credit process consists of the following phases:

- credit analysis (including verification of the criteria for rejection and assessment of transaction risk);
- making a credit decision;
- in the case of a positive credit decision - signing the agreement and disbursement of funds;
- monitoring of the Customer and credit exposure.

The basis for the Customer's credit analysis are: credit application; formal and legal documents provided by the Customer; documents concerning the financial standing of the Customer; documents concerning the subject of the loan and legal collaterals for the credit. The type of financial documents depends on the type of sources of income obtained by the Individual Customer or the legal form and the type of accounting in the case of a Business Customer.

The Customer credit analysis consists of the following steps:

- verification of the criteria for rejecting the application, including verification of the Customer in the Bank's internal databases and external ones, such as: CBD-DZ, CBD-BR, BIK, BIG; - Individual Customer (including Non-banking Sector Entities), Entrepreneur of the Economic Information Bureau (Infomonitor, ERIF, KRD),
- scoring/rating;
- assessment of the creditworthiness in terms of quantity to handle the Customer's debt towards the Bank, prepared in accordance with the guidelines contained in detailed lending methods,
- transactions risk analysis,
- assessment of the type and quality of the proposed legal transaction collateral,
- assessment of the risk of the impact of the economic and financial situation of affiliates from the common risk group.

6.7 Scoring/Rating

Credit scoring is a tool used in shaping individual credit decisions for individual customers. Credit rating is, on the other hand, an instrument supporting the decision-making process in the enterprise segment. The purpose of implementation of scoring and rating models is to:

- shape the credit risk level in accordance with the Bank's risk appetite by achieving a quantitative and qualitative assessment of the Customer's credit capacity;
- unification of credit decision-making criteria while maintaining impartiality and objectivity, as a result of eliminating or minimising the impact of the human factor, and thus minimising the cost of materialisation of operational risk in this regard;
- shortening the time of making credit decisions and ensuring greater effectiveness of evaluating credit applications (increasing work efficiency, reducing service costs, and improving the quality of Customer service);
- simplifying the assessment of credit applications by process automation;
- classification of Customers due to the degree of related risks, and thus enabling multi-dimensional assessment of the portfolio and making more effective managerial decisions;
- monitoring and forecasting the quality of the credit portfolio;
- facilitating the assessment of the existing credit policy and faster introduction of changes in decision-making processes (in particular, it allows for faster diagnosis and elimination of potential irregularities), intended for the assessment of credit risk of Business Segment Customers and Individual Customers.

As at 31 December 2020, the Bank applied creditworthiness assessments granted by external creditworthiness assessment institutions for the following exposure classes:

- contingent exposures or exposures to central governments and banks;
- contingent exposures or exposures to institutions.

The Bank performs a quarterly review of current creditworthiness assessments available on authorised websites of three external credit institutions (ECAI), i.e. Fitch Ratings, Moody's Investors Service and Standard and Poor's Ratings Services. For each counterparty/country, the Bank defines a resultant rating in accordance with Articles 138 to 141 of the CRR, on the basis of all available credit assessments of the aforementioned ECAI. The Bank uses current assessments in the calculation process of the capital requirement on credit risk.

Net amounts of balance sheet exposures and balance sheet equivalent of off-balance sheet liabilities, including derivative instruments to which the Bank assigned creditworthiness levels on the basis of external creditworthiness assessments, are presented in the table below, where 1 means the highest level of creditworthiness and 6 lowest. The following exposures did not qualify for decreasing credit risk reduction techniques.

Credit rating adopted by AB /Resultant Rating of rating agencies: S&P/Fitch IBCA/Moody's	Net value of balance-sheet, off-balance-sheet, and derivative exposures	Exposure after credit risk reduction
1	584.2	583.9
Aa1	468.4	468.4
Aa2	8.7	8.4
Aa3	105.5	105.5
AA	0.0	0.0
Aaa	1.6	1.6
2	1,786.2	1,783.8
A-	108.3	108.3
A+	1,123.7	1,123.7
A1	165.5	165.5
A2	381.3	378.9
A3	7.4	7.4
3	181.7	181.7
Baa1	0.5	0.5
Baa3	6.7	6.7
BBB	165.8	165.8
BBB-	0.0	0.0
BBB-	8.7	8.7
4	1.3	1.3
BB-	0.3	0.3
BB +	1.0	1.0
5	7.7	7.4
B2	7.7	7.4

The table below presents main suppliers of recognised unfunded credit protection:

Collateral provider	Credit rating	Unfunded collateral value
Guarantor 1	2	4,749.0
Guarantor 2	3	1.0
Guarantor 3	2	0.5
Guarantor 4	2	0.3
Guarantor 5	3	0.0

6.8 Credit risk identification

The Bank's internal regulations assume a wide range of reporting in relation to credit risk. Reporting was thought of as a tool used to identify threats and efficiently manage risk at the Bank. Reporting takes place at the level of each area of risk identification. Reports are prepared with monthly, weekly or daily frequency, depending on the defined demand.

The Bank identifies both internal and external factors of credit risk occurrence. They are developed within specific areas of the Bank's operation:

- Product – this area defines all types of risks that may be related to a specific product, meaning a single case, as well as the entire credit portfolio;
- Collateral – the correctness of acceptance of the collateral, its value and timeliness as well as the correctness of preparation of documentation related to the collateral is verified at this level. The analysis of the efficiency of implementation of amended regulations on legal security of receivables and the application of current standards of conduct in securing receivables is also important for credit risk reduction;
- Customer – a single Customer is subjected to the audit in this regard, and homogeneous groups of Customers are verified in terms of the quality of the portfolio being created;
- Process + regulations – verification encompasses the quality and effectiveness of the credit process, credit administration, monitoring, debt collection and restructuring as well as cooperation with external debt collection entities, as well as compliance of the bank regulations controlling these processes with external regulations;
- Systems – in particular, the following are verified: the system supporting the credit process and the monitoring and debt collection support system, as well as the effectiveness of their application, as well as the completeness of the list of cases for which it was necessary to use them;
- Distribution channels – the effectiveness and loss ratio of the functioning of distribution channels adopted by the Bank is verified;
- Employees – the audit covered the correctness of application of the competence policy and the potential irregularities that could arise during the credit process are identified;
- External conditions - the external factors subject to special examination are: market interest rates level; foreign exchange rates; unemployment rate; economic growth rate and sales production rate, and other economic indicators;
- Correctness of the credit risk management system – periodic verification of the correctness of assumptions adopted in the system concerning the Bank's credit risk management policy.

Each of the defined areas of the Bank's operation is subject to a detailed analysis in terms of identification of possible credit risks.

6.9 Credit risk measurement and estimation

The Bank collects information in order to:

- prevent possible criminal phenomena;
- avoid a situation in which a loan is granted to a person who has already been insolvent;
- analysis and assessment of the Customer's creditworthiness in quantitative and qualitative terms;
- monitoring the situation on the Customer's accounts;
- monitoring the economic and financial situation of the Customer;
- monitoring homogeneously isolated part of the portfolio;
- examining the effectiveness of processes;
- examining the profitability of processes (including calculation of the costs of conducted processes);
- examine the loss ratio of credit portfolios for defined Bank's sub-portfolios.

Data used to measure credit risk is derived from various systems, both internal systems of the Bank and external databases. In particular, the information comes from:

- internal, banking databases – the main source of data is the data warehouse which collects information from:

- the central system;
- the system for credit verification;
- the scoring system;
- the rating system;

- the monitoring and debt collection support system;
- the document repository;
- available external sources, including from the databases of the Credit Information Bureau, Economic Information Bureau, Central Database – Bank Register, Central Database – Restricted Documents.

Risk measurement takes place - in accordance with the Bank's internal regulations - in relation to the most important areas of risk identification, e.g. for individual products, established safeguards, processes, procedures and principles of system operation, in relation to all distribution channels and external conditions. Risk measurement is also performed on the basis of a system of concentration limits in relation to industries and entities.

6.10 Review of credit exposures in terms of establishment of impairment charges and provisions

The Bank estimates impairment charges and provisions for expected losses in accordance with IFRS 9. The valuation principles include the division of receivables from customers into 3 quality categories (stages) implying the manner and horizon of estimation of impairment charges:

- Stage 1 – receivables without evidence of impairment and without significant deterioration in quality since initial recognition,
- Stage 2 – receivables without evidence of impairment but with significant deterioration in credit quality since initial recognition,
- Stage 3 – receivables with evidence of impairment.

Receivables classified under Stage 1 are subject to the estimation of losses expected over a 12-month horizon. Receivables classified under Stage 2 are subject to the estimation of losses expected over a lifetime horizon (lifetime estimated maturity of receivables).
The lifetime horizon is also applied to purchased or originated credit impaired (POCI) exposures regardless of their credit quality as at the valuation date.

The principles of estimating expected losses for Stage 1 and Stage 2 comprise the following models:

1. Scoring/rating models assessing the current insolvency risk for a given exposure;
2. PD curve models (ltPD) which determine expected PD in subsequent months of exposure's life;
3. TL Model (Transfer Logic) defining the rules for allocation of exposures to stage 1 and stage 2;
4. LGD model determining expected loss, assuming default;
5. EAD model determining its expected value in subsequent periods of life of the exposure;
6. FLI (Forward Looking Information) model expanding selected risk components with the factor of predicted macroeconomic scenarios.

For exposures with regard to which evidence of impairment has been identified and which the Bank considers to be individually significant, an expert individual analysis is carried out in order to estimate the value of the recoverable exposure, with particular emphasis on estimated recoveries from enforcement of collaterals. The values of exposures that can be recovered, which are not individually significant and for which homogeneous groups can be separated in terms of risk, are determined in accordance with the group valuation model applicable at the Bank. If it is found that the value of the exposure is not possible to recover in the amount corresponding to the balance sheet valuation of the asset, an impairment loss is created in the amount equal to the difference in the book value of the asset item and its recoverable value.

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

As at 31 December 2020, due to the COVID-19 pandemic and as a result of the expected deterioration in the quality of the credit portfolio, the Bank made significant additional impairment charges for projected losses. Notwithstanding the decrease in the share of loans past-due more than 30 days (by 13%), the share of stage 2 in the regular portfolio increased by 21%, whereas the coverage with impairment charges increased by 12%, respectively.

Furthermore, in terms of the portfolio with impairment triggers, the Bank increased the portfolio coverage with impairment charges. It increased by ca. 3 pp, which is an increase of ca. 7%. The main area of growth is the individually priced portfolio where the coverage with impairment charges increased by ca. 17%.

As at 31 December 2020:

- write-down on expected losses in stage 1 amounted to PLN 501.01 million, whereas in stage 2 – PLN 765.9 mn. The impairment loss was estimated in relation to the portfolio of outstanding receivables using the internal model in force at the Bank.
- impairment loss on receivables with evidence of impairment amounted to PLN 4,836.8 mn in relation to the Bank's receivables in the form of credits and loans. The impairment loss was estimated using the scenario analysis (individual valuation) and the statistical model (group valuation).
- impairment loss on credit and loan portfolios purchased or originated credit-impaired (POCI) amounted to PLN 76.4 million.
- as regards exposures for which evidence of impairment has been identified, the recoverable value of collaterals was as follows:
    - for the portfolio valued collectively – PLN 850.8 million
    - for a portfolio valued individually – PLN 1,857.3 million.
- as regards exposures for which evidence of impairment has been identified, overdue items constituted 76% of the exposure, while the impairment loss in the case of these exposures amounted to PLN 4,086 million.

Overdue exposures shall be understood as exposures for which material delay in repayment exceeds 90 days.

6.11 Monitoring the credit risk of Individual Customers and Business Customers

All credit exposures of Individual and Business Customers are subject to monitoring and current classification for appropriate process paths. The display review covers the following areas:

- the customer, in particular with regard to:
- credit capacity (including potential impact of potential changes in exchange rates and interest rates on credit capacity),
- the emergence of signals suggesting that in the future the Customer may have problems with proper performance of their obligations,
- additionally, in the case of a Business Client:

i. analysis of the economic and financial situation,
ii. capital and organisational relationships of customers,
iii. industry,
iv. customer inspection,

- individual credit products, in particular in the scope of:
- adequacy of inflows to the current account,
- usage of the granted credit card limit, revolving limit in the account,
- possibility of renewing the credit card,
- repayment timeliness,
- credit agreements, in particular in the scope of:
- use of the credit in the case of tranches,
- performance of detailed terms and conditions of the agreement/agreement (contractual covenants),
- collaterals, in particular with regard to:

- - monitoring the establishment of a collateral,
- values of accepted collaterals,
- adequacy of accepted collaterals,
- renewal of collateral,
• impairment losses and provisions, in particular with regard to:
- correctness of creation and dissolution of impairment losses in accordance with the International Accounting Standards based on identified premises,
- the correctness of establishment and release of special provisions, including the verification of the correctness of unification of receivables category and the determination of the reserve amount, taking into account the values decreasing the basis for the establishment of a special provision in accordance with the Regulation of the Minister of Finance.

6.12 Basic information on credit risk monitoring

Total value of balance sheet exposures and balance sheet equivalent of liabilities and off-balance sheet transactions not taking into account credit risk mitigation techniques as at 31 December 2020:

EU CRB-B: Total and average net amount of exposure	**Net exposure value as at the end of 2020**	**Average exposure net amount in the period**	**Net exposure value as at the end of 2019**
Governments and central banks	17,496.8	16,737.8	17,051.0
Exposures towards regional or local governments	0.2	4.0	0.2
Public sector bodies	12.9	16.3	7.7
Institutions	2,346.3	2,210.4	1,465.8
Entrepreneurs	13,568.5	14,028.5	13,891.4
of which: SME	7,634.5	8,116.3	8,429.1
Retail	34,280.5	34,034.5	33,510.5
of which: SME	10,873.5	10,898.1	10,998.4
Secured by real estate mortgage	13,137.3	12,940.8	12,629.9
of which: SME	1,563.2	1,878.9	1,999.2
Exposures in default	5,653.4	5,951.9	5,557.8
Items associated with particularly high risk	817.4	209.6	0.0
Equity exposures	186.7	211.4	215.1
Other exposures	2,282.3	2,380.8	2,761.9
Total	**89,782.3**	**88,726.0**	**87,091.3**

The value of balance sheet exposures and balance sheet equivalent of liabilities and off-balance sheet transactions not taking into account credit risk mitigation techniques as at 31 December 2020 - broken down into maturity periods:

Exposure class/Net exposure value	**<= 3M**	**> 3M <= 6M**	**> 6M < = 1Y**	**> 1Y < = 2Y**	**> 2Y <= 5Y**	**> 5Y < = 10Y**	**> 10Y**	**NO_DATE**
Governments and central banks	2,184.3	647.6	1,590.7	5,514.2	4,848.9	1,684.4	0.0	1,026.7
Regional or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Public sector bodies	2.5	0.0	0.0	0.0	0.0	0.0	1.5	8.8
Institutions	1,056.7	58.5	116.8	146.0	402.7	9.6	0.9	555.1
Entrepreneurs	1,270.5	741.4	1,741.7	2,280.5	3,339.6	2,091.5	1,432.9	670.4
Retail	793.4	818.4	1,797.7	3,484.2	6,688.0	10,385.9	10,247.4	65.5

Secured with real estate mortgages	108.7	76.8	233.8	187.8	345.0	922.5	11,128.0	134.7
Exposures in default	3,200.3	134.2	253.3	225.6	592.5	636.0	579.8	31.6
Items associated with particularly high risk	8.1	57.6	200.1	530.0	0.0	0.0	0.0	21.6
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	186.7
Other exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,282.2
TOTAL	**8,624.5**	**2,534.5**	**5,934.1**	**12,368.3**	**16,216.7**	**15,729.9**	**23,390.7**	**4,983.3**

The value of balance sheet exposures and balance sheet equivalent of liabilities and off-balance sheet transactions not taking into account credit risk mitigation techniques as at 31 December 2020 - geographical distribution:

Exposure class/Net exposure value	Poland	Other countries	Total
Governments and central banks	17,434.4	62.4	17,496.8
Regional or local authorities	0.2	0.0	0.2
Public sector bodies	12.9	0.0	12.9
Institutions	250.7	2,095.6	2,346.3
Entrepreneurs	13,204.9	363.6	13,568.5
Retail	33,825.3	455.2	34,280.5
Secured by real estate mortgage	12,907.7	229.6	13,137.3
Exposures in default	5,634.7	18.7	5,653.4
Items associated with particularly high risk	817.4	0.0	817.4
Equity exposures	186.7	0.0	186.7
Other exposures	2,282.3	0.0	2,282.3
Total	**86,557.2**	**3,225.1**	**89,782.3**

The table below presents the credit quality of the exposure according to the geographical layout for the Capital Group of Alior Bank SA as at 31 December 2020:

Geographical division of exposures	Exposures in default	Exposures not in default	Specific credit risk adjustment	mark-ups related to specific credit risk adjustments in a given reporting period	Net value
Poland	10,257.1	84,196.5	-7,896.4	2,974.6	86,557.2
Other countries	43.3	3,229.3	-47.5	40.7	3,225.1
Total	**10,300.4**	**87,425.8**	**-7,943.9**	**3,015.3**	**89,782.3**

The value of balance sheet exposures and balance sheet equivalent of liabilities and off-balance sheet transactions which do not take into account credit risk mitigation techniques as at 31 December 2020 - broken down into industries was presented in millions of PLN:

INDUSTRY / EXPOSURE CLASS	Agriculture, forestry and fishing	Mining and extraction	C Industrial processing	Production and supply of electricity, gas, steam	Water supply	Construction	Wholesale and retail trade	Transport and warehouse management	Activity related to accommodation and gastronomy	Information and Communication	Financial and insurance activities	Real estate activities	Professional, research, and technical activities	ADMINISTRATION SERVICES AND SUPPORT ACTIVITIES	Public administration and national defence, compulsory insurance	Education	Human health services and social work activities	Arts, entertainment and recreation	Other service activities	Other	TOTAL
Governments and central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,192.7	0.0	0.0	0.0	14,437.6	0.0	0.0	0.0	0.0	866.4	17,496.7
Regional or local authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.2
Public sector bodies	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	4.2	0.0	3.0	0.0	5.3	13.0
Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,339.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.8	2,346.3
Entrepreneurs	121.3	106.9	1,639.7	703.2	12.7	2,770.5	787.0	307.9	566.5	511.9	2,239.7	3,044.5	146.5	124.5	0.1	15.3	48.0	16.0	0.5	405.8	13,568.5
of which SMEs	27.3	0.5	568.6	549.1	7.4	2,213.5	573.7	45.9	566.1	42.3	12.8	2,801.2	122.7	51.8	0.0	4.2	32.6	14.8	0.0	0.0	7,634.5
Retail	123.8	12.4	1,650.7	14.1	58.9	318.2	3,579.3	2,259.6	392.5	387.6	72.9	129.8	789.1	408.1	0.8	80.0	424.6	69.2	117.6	23,391.3	34,280.5
of which SMEs	99.1	12.4	1,650.6	14.1	58.9	318.0	3,578.6	2,259.4	392.3	387.3	72.8	129.8	788.8	408.0	0.8	79.9	424.6	69.2	117.6	11.2	10,873.4
Secured by real estate mortgage	99.7	5.9	339.1	56.3	1.0	115.4	249.2	30.8	286.4	2.0	1.5	575.3	22.0	6.4	0.0	7.4	26.4	19.8	15.4	11,277.3	13,137.3
of which SMEs	95.7	5.9	229.9	1.1	1.0	78.3	192.6	18.4	286.4	2.0	1.5	554.3	21.8	5.5	0.0	7.4	26.2	19.8	15.4	0.0	1,563.2
Exposures in default	188.6	9.6	847.9	54.1	40.7	269.2	863.1	265.6	252.3	71.3	11.7	913.9	124.4	179.2	0.0	9.2	98.8	26.4	18.5	1,408.8	5,653.3
of which SMEs	188.3	4.1	550.9	54.0	18.2	128.8	689.4	264.1	251.8	60.2	11.2	825.1	122.1	166.4	0.0	8.8	97.4	26.3	18.5	3.0	3,488.6
Items associated with particularly high risk	37.5	0.0	135.1	0.0	0.0	338.4	82.2	50.8	0.0	3.0	57.9	27.4	5.0	43.6	0.0	0.0	10.0	5.0	0.0	21.6	817.5
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	86.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.2	0.0	186.7
Other exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,282.0	2,282.3
TOTAL	**570.9**	**134.8**	**4,612.5**	**827.7**	**113.6**	**3,811.7**	**5,560.8**	**2,914.8**	**1,497.7**	**975.8**	**7,002.7**	**4,690.9**	**1,087.1**	**761.8**	**14,438.7**	**116.1**	**607.8**	**139.4**	**252.2**	**39,665.3**	**89,782.3**

The table below presents the credit quality of exposures broken down into significant industries for the Alior Bank SA Capital Group, as at 31 December 2020:

Industry	Exposures in default	Exposures not in default	Specific credit risk adjustment	mark-ups related to specific credit risk adjustments in a given reporting period	Net value
Agriculture, forestry, fisheries	290.3	386.4	-105.7	37.1	**571.0**
Mining and extraction	13.3	125.4	-3.8	0.1	**134.9**
Industrial processing	1,344.0	3,826.2	-557.6	109.1	**4,612.6**
Production and supply of electricity, gas, steam and	64.9	786.8	-23.9	-77.40	**827.8**
Water supply	56.0	74.1	-16.6	4.8	**113.5**
Construction	528.6	3,552.9	-269.8	183.6	**3,811.7**
Wholesale and retail trade	1,552.5	4,811.5	-803.3	233.7	**5,560.7**
Transport and warehouse management	472.5	2,715.4	-273.2	148.3	**2,914.7**
Activity related to accommodation and gastronomy	330.7	1,271.4	-104.5	38.9	**1,497.6**
Information and Communication	114.9	916.5	-55.6	-1.9	**975.8**
Financial and insurance activities	23.9	7,010.0	-30.7	-73.0	**7,003.2**
Real estate activities	1,262.6	3,812.5	-384.1	172.7	**4,691.0**
Professional, research, and technical activities	245.8	988.6	-147.3	37.7	**1,087.1**
Administrative and support service activities	307.5	596.0	-141.7	70.7	**761.8**
Public and defence administration, compulsory social security	0.0	14,438.8	0.0	0.0	**14,438.8**
Education	16.4	108.4	-8.8	1.5	**116.0**
Healthcare services and social assistance	185.6	529.8	-107.6	19.6	**607.8**
Arts, entertainment and recreation	45.4	116.5	-22.4	7.1	**139.5**
Other services	37.4	239.8	-25.0	8.8	**252.2**
Other	3,408.2	41,119.0	-4,862.0	2,093.9	**39,665.2**

The consolidated financial statement of Capital Group of Alior Bank SA presents numerical data on the structure of credits and loans and basic quality parameters of the credit portfolio, including:

- non-overdue credits without identified impairments, together with division of exposures by internal risk class,
- overdue loans by maturity dates, broken down into non-recognised and recognised impairment,
- changes in impairment losses, amount and structure of receivables subject to restructuring.

6.13 Equity exposures

The share of equity exposures included in the banking book is insignificant and amounts to only 0.21% of exposures. The value of this item as at 31 December 2020 amounted to PLN 186.7 million, and the requirement for this item amounted to PLN 25.3 million.

6.14 Encumbered assets

The tables below present information on encumbered assets and unencumbered assets. A given asset is treated as encumbered when it has been pledged or is subject to any arrangements aimed at securing or supporting the credit quality of a balance-sheet or off-balance sheet transaction from which it cannot be freely withdrawn.

Encumbered and unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Loans on demand	0.0	x	1,827.3	x
Equity instruments	0.0	0.0	146.5	146.5
Debt securities	446.4	446.4	15,213.1	15,213.1
Credits and advances other than loans on demand	421.5	x	56,311.9	x
Other assets	0.0	x	4,318.5	x
Total	**867.9**	**446.4**	**77,817.3**	**15,359.6**

Collateral received by the reporting institution	Fair value of the collateral received or own debt securities issued	**Unencumbered** Fair value of the collateral received or own debt securities issued, which may be charged
Loans on demand		
Equity instruments		
Debt securities	446.4	
Credits and advances other than loans on demand	421.5	
Other collaterals received		30,862.4
Own debt securities issued other than own secured bonds or securities secured with assets		
Own secured bonds issued and securities secured with assets	x	
ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED IN TOTAL	**867.9**	x

Load sources	Responsibilities, contingent liabilities or securities corresponding thereto and being the subject to the granted loan	Assets, securities received and own debt securities issued other than encumbered bonds and securities secured with assets
Carrying amount of selected financial liabilities	**585.4**	**867.9**
including derivatives	421.5	421.5
including deposits	163.9	446.4

6.15 Securitisation

On 7 June 2019, the Bank operationally launched a transaction of synthetic securitisation of the credit portfolio towards a Business Customer with investors of the European Investment Fund (EIF) and the European Investment Bank (EIB) as a counter-guarantor. The transaction expanded the Bank's funding capacity in the SME segment.

Due to EBI support under the "Juncker Plan", the securitisation transaction also provided Alior Bank SA Group with additional lending capacity in the SME segment on more favourable terms, in the form of lower interest.

The transaction structure is divided into three tranches, i.e. junior, mezzanine, and senior, where:

- the mezzanine and senior tranche credit risk is transferred to the EIF and EIB, while the market risk, in particular the interest rate risk, remains at the Bank,
- credit risk and junior tranche market risk remain at Alior Bank.

Junior tranche amount reduces the Bank's own funds. Mezzanine and senior tranches are considered fully secured and have a 0% risk weight assigned.

Moreover, the Bank maintains the risk of at least 5% of each exposure covered by securitisation.

It is the first transaction of this type in Poland carried out under the regime of the EU CRR (Capital Requirements Regulation), meeting the CRR requirements for qualification as an unfunded credit protection.

The Bank concludes securitisation transactions only as an initiating unit. Transactions are concluded with highly credible institutions whose insolvency is assessed as very low. The Bank built infrastructure processed on a daily basis, dedicated to monitoring the portfolio covered by securitisation. On this basis, on a quarterly basis, it sends reports to the EIF and EIB. In addition, the portfolio covered by securitisation is monitored in terms of risk in accordance with the procedures adopted by the Bank, uniform for the portfolio covered by and not covered by securitisation.

Information on transactions concluded by the Bank by 31 December 2020:

	Securitisation	**Portfolio**	
		Non-trading	Trading
total amount of all receivables for exposures securitised by the institution, in the case of which the institution operates only as a sponsoring entity	traditional	0	0
	synthetic	0	0
total amount of balance sheet securitisation items that have been maintained or acquired	traditional	0	0
	synthetic	13.7	0
total amount of assets to be securitised	traditional	0	0
	synthetic	532.1	0
total used exposures assigned to shares, respectively, to the initiating unit and investor [1]	traditional	0	0
	synthetic	0	0
total capital requirements met by the institution due to the investor's shares in the used balances and unused credit lines [1]	traditional	0	0
	synthetic	0	0
securitisation positions that reduce own funds or are weighted with risk according to a weight equal to 1,250 %	traditional	0	0
	synthetic	13.7	0
recognised profits or losses on sales	traditional	0	0
	synthetic	0	0

The Bank does not have maintained or acquired re-securitisation positions.

The purpose of the securitisation agreement with the EIF is to transfer the risk of a separate portfolio of credit assets by means of a guarantee, which constitutes a collateral for non-deliverable credit protection and is not treated at the Bank as sale or acquisition of financing. In connection with the above, the Bank does not recognise profits from sales and does not use the valuation of securitisation items. The transaction did not result in discontinuation of recognition of financial assets in the Bank's books.

Under the securitisation agreement, the Bank has the right to supplement the depreciated part of the portfolio (replenishment) within 3 years from 7 June 2020.

[1] in the case of securitised instruments subject to early redemption

Below, the Bank presents the amounts of assets covered by securitisation with impairments:

Reason for impairment	amount
Overdue	13.9
Bankruptcy	0
Restructuring	11.5
Other	0.3

6.16 Non-performing exposures and exposures under restructuring

Starting from 31 December 2019, EBA/GL/2018/10 Guidelines on disclosure of non-performing and forborne exposures have entered into force, which impose new disclosures on the Bank.

The following tables present detailed quantitative information on non-performing and forborne exposures, in accordance with the requirements of Guideline EBA/GL/2018/10:

- Template 1: Credit quality of forborne exposures,
- Template 3: Credit quality of performing and non-performing exposures by past due days,
- Template 4: Performing and non-performing exposures and related provisions,
- Template 9: Collateral obtained by takeover and enforcement proceedings.

On the other hand, quantitative information on the presentation of non-performing and forborne exposures according to the following templates:

- Template 2: Quality of restructuring,
- Template 5: Quality of non-performing exposures by geographical area,
- Template 6: Credit quality of loans and advances by industry,
- Template 7: Collateral valuation – credits and advances,
- Template 8: Changes in loans held and non-performing advances
- Template 10: Collateral obtained through the acquisition of assets and debt collection proceedings – by analogous analyses,

in accordance with the provisions of paragraph 15 of the EBA/GL/2018/10 Guidelines should be disclosed by credit institutions meeting at least one of the criteria of materiality from paragraph 12 and having a gross NPL index of at least 5%.

In connection with the above, the Bank, despite the gross NPL index > 5%, fails to meet the definition of a "significant credit institution" in the Guidelines and therefore, it is not obliged to disclose additional tables.

Credit quality of restructured exposures as at 31 December 2020 for the Alior Bank SA Capital Group:

	Gross carrying amount/nominal amount of exposures for which restructuring measures were applied				**Accumulated impairment, cumulative negative changes in fair value due to credit risk and provisions**		**Collateral and financial guarantees received due to forborne exposures**	
	Performing forborne exposures	Non-performing forborne exposures			Performing forborne exposures	Non-performing forborne exposures		Including collateral and financial guarantees received due to non-performing exposures for which restructuring measures were applied
			Of which exposures in default	Of which impaired exposures				
Credits and advances	**1,107.0**	**1,980.3**	**1,979.6**	**1,979.6**	**-112.5**	**-806.0**	**1,300.7**	**933.2**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	3.9	3.9	3.9	0.0	-3.0	0.2	0.2
Non-financial corporations	292.7	1,295.3	1,294.8	1,294.8	-6.7	-427.1	977.0	758.7
Households	814.3	681.2	680.8	680.8	-105.8	-375.9	323.5	174.3
Debt securities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments given	**2.7**	**10.1**	**10.1**	**10.1**	**0.0**	**0.0**	**0.0**	**0.0**
Total	**1,109.7**	**1,990.5**	**1,989.6**	**1,989.6**	**-112.5**	**-806.0**	**1,300.7**	**933.2**

The credit quality of non-performing exposures broken down by the number of days overdue as at 31 December 2020 for the Alior Bank SA Capital Group was presented in PLN million:

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Non-overdue or overdue ≤ 30 days	Overdue > 30 days ≤ 90 days		Low probability of repayment of non-overdue or overdue exposures ≤ 90 days	Overdue > 90 days ≤ 180 days	Overdue > 180 days ≤ 1 years	Past due > year ≤ 2 years	Overdue > 2 years ≤ 5 years	Overdue > 5 years ≤ 7 years	Overdue > 7 years	Of which exposures in default
Credits and advances	**54,829.5**	**54,088.8**	**726.5**	**9,020.3**	**2,451.5**	**570.7**	**1,229.7**	**1,801.3**	**2,231.2**	**420.0**	**316.1**	**8,976.2**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	5.1	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	1,387.9	1,387.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	769.6	769.4	0.0	52.4	41.0	0.0	0.7	0.5	5.9	3.9	0.4	52.4
Non-financial corporations	11,077.2	11,009.2	66.2	4,045.0	1,703.8	163.1	334.7	625.0	920.9	163.0	134.7	4,024.9
Including SMEs	9,547.9	9,481.8	64.4	3,754.7	1,618.5	161.6	333.4	465.9	912.7	147.2	115.3	3,735.1
Households	41,589.7	40,917.2	660.3	4,922.9	706.7	407.6	894.3	1,175.8	1,304.4	253.1	181.0	4,898.9
Debt securities	**15,157.0**	**15,157.0**	**0.0**	**56.0**	**56.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**56.0**
Central banks	1,200.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	13,306.0	13,306.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	107.3	107.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	528.5	528.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	15.2	15.2	0.0	56.0	56.0	0.0	0.0	0.0	0.0	0.0	0.0	56.0
Off-balance-sheet exposures	**8,885.8**	x	x	**436.0**	x	x	x	x	x	x	x	**436.0**
Central banks	0.0	x	x	0.0	x	x	x	x	x	x	x	0.0
General governments	4.9	x	x	0.0	x	x	x	x	x	x	x	0.0
Credit institutions	1.1	x	x	0.0	x	x	x	x	x	x	x	0.0
Other financial corporations	442.1	x	x	0.1	x	x	x	x	x	x	x	0.1
Non-financial corporations	5,788.1	x	x	412.4	x	x	x	x	x	x	x	412.4
Households	2,649.6	x	x	23.5	x	x	x	x	x	x	x	23.5
Total	**78,872.3**	**69,245.8**	**726.5**	**9,512.3**	**2,507.5**	**570.7**	**1,229.7**	**1,801.3**	**2,231.2**	**420.0**	**316.1**	**9,468.2**

Performing and non-performing exposures and related provisions as at 31 December 2020 for the Alior Bank SA Capital Group were presented in PLN million:

	Gross carrying amount/nominal amount						**Accumulated impairment, cumulative negative changes in fair value due to credit risk and provisions**						Accumulated partial write-downs	**Collateral and financial guarantees received**	
	Performing exposures			Non-performing exposures			Performing exposures – cumulative impairment and provisions			Unjustified exposures – cumulative impairment, cumulative negative changes in fair value due to credit risk and provisions				For performing exposures	For non-performing exposures
		Including stage 1	Including stage 2		Including stage 2	Including stage 3		Including stage 1	Including stage 2		Including stage 2	Including stage 3			
Credits and advances	**54,829.5**	**47,174.8**	**7,654.7**	**9,020.3**	**0.0**	**9,020.3**	**-1,243.2**	**-492.8**	**-750.4**	**-5,003.4**	**0.0**	**-5,003.4**	**525.1**	**33,631.4**	**3,065.0**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	5.1	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.9	0.0
Credit institutions	1,387.9	1,387.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	769.6	698.0	71.6	52.4	0.0	52.4	-3.7	-3.1	-0.6	-46.5	0.0	-46.5	1.0	853.5	5.7
Non-financial corporations	11,077.2	7,467.1	3,610.1	4,045.0	0.0	4,045.0	-167.6	-62.1	-105.6	-1,839.1	0.0	-1,839.1	301.5	10,092.1	2,051.0
Including SMEs	9,547.9	6,328.1	3,219.8	3,754.7	0.0	3,754.7	-154.2	-54.1	-100.1	-1,674.3	0.0	-1,674.3	281.8	9,061.4	2,007.7
Households	41,589.7	37,616.7	3,973.0	4,922.9	0.0	4,922.9	-1,071.8	-427.6	-644.2	-3,117.8	0.0	-3,117.8	222.6	22,679.9	1,008.3
Debt securities	**15,157.0**	**15,157.0**	**0.0**	**56.0**	**0.0**	**56.0**	**-19.2**	**-19.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Central banks	1,200.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	13,306.0	13,306.0	0.0	0.0	0.0	0.0	-19.2	-19.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	107.3	107.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	528.5	528.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	15.2	15.2	0.0	56.0	0.0	56.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-balance-sheet exposures	**8,885.8**	**8,153.9**	**1,030.1**	**436.0**	**0.0**	**436.0**	**-39.4**	**-28.2**	**-11.2**	**-116.0**	**0.0**	**-116.0**	X	**0.0**	**0.0**
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	X	0.0	0.0
General governments	4.9	3.2	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	X	0.0	0.0
Credit institutions	1.1	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	X	0.0	0.0
Other financial corporations	442.1	321.7	120.3	0.1	0.0	0.1	-1.7	-0.6	-1.1	0.0	0.0	0.0	X	0.0	0.0
Non-financial corporations	5,788.1	5,356.3	730.0	412.4	0.0	412.4	-31.5	-24.0	-7.5	-116.0	0.0	-116.0	X	0.0	0.0
Households	2,649.6	2,472.7	177.0	23.5	0.0	23.5	-6.2	-3.6	-2.6	0.0	0.0	0.0	X	0.0	0.0
Total	**78,872.3**	**70,485.7**	**8,684.8**	**9,512.3**	**0.0**	**9,512.3**	**-1,301.8**	**-540.2**	**-761.6**	**-5,119.4**	**0.0**	**-5,119.4**	**525.1**	**33,631.4**	**3,065.0**

Collateral obtained by takeover and enforcement proceedings

As at 31 December 2020, there are no disclosures regarding assets taken over through enforcement proceedings, in accordance with templates 9 and 10, published in the Guidelines on disclosure of non-performing and forborne exposures – EBA/GL/2018/10 – of 17 December 2018.

6.17 Credit risk reporting

The Bank monitors the portfolio quality in at least monthly intervals and submits reports to the Bank's Management Board and to the Risk Committee of the Supervisory Board and the Supervisory Board.

In addition, reporting includes, among other things: implementation of risk appetite at the level of the Bank and the Alior Bank Capital Group, quality of the credit process, capital requirements, concentration limits, stress tests, quality and results from validation of scoring and rating models, data on portfolios subject to KNF's supervisory recommendations, i.e. Recommendation S and T.

The risk reporting principles for the purposes of individual decision-making levels in the Bank's organisational structure have been described in the Regulation of the Management Information System (SIZ), in which reporting rules have been defined, including in particular: purpose of reports, recipients of reports, frequency of preparation, publication dates, content and unit responsible for preparation of the report.

6.18 Exposures subject to measures applied in response to the COVID-19 pandemic

The following tables present detailed quantitative information on exposures subject to measures applied in response to the COVID-19 pandemic, in accordance with the requirements laid down in the EBA/GL/2020/07 Guidelines:

- Template 1: Credits and advances covered by legislative and non-legislative moratories
- Template 2: Breakdown of loans and advances covered by legislative and non-legislative moratories according to the residual maturity of moratories,
- Template 3: Newly granted credits and advances under the new public guarantee schemes introduced in response to the crisis caused by COVID-19.

Credits and advances covered by legislative and non-legislative moratories

	Gross carrying value							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying value
		Performing			Non-performing				Performing			Non-performing			
			Of which exposures subject to restructuring measures	Of which: Instruments with significant increase in credit risk from their initial recognition but which are not credit-impaired (Stage 2)		Of which exposures subject to restructuring measures	Of which: with low probability of commitment being satisfied, but commitment is not past due or is past due < = 90 days			Of which exposures subject to restructuring measures	Of which: Instruments with significant increase in credit risk from the moment of their initial recognition but which are not credit-impaired due to credit risk (Stage 2)		Of which exposures subject to restructuring measures	Of which: with low probability of commitment being satisfied, but commitment is not past due or is past due < = 90 days	Inflows to non-performing exposures
Credits and advances subject to moratories	8,410.1	7,727.6	396.0	2,131.4	682.5	194.2	468.5	-618.8	-377.0	-51.4	-263.7	-241.8	-70.5	-137.0	237.1
of which: households	6,238.7	5,797.6	317.1	1,140.0	441.1	92.0	267.5	-533.7	-332.9	-49.6	-227.8	-200.8	-46.9	-104.8	218.1
of which: secured by residential real estate	1,618.7	1,561.0	65.0	169.1	57.7	18.1	42.8	-20.7	-12.0	-1.8	-7.3	-8.7	-3.7	-5.8	23.4
of which: non-financial enterprises	2,169.8	1,928.8	62.2	990.7	241.0	101.9	200.6	-85.0	-44.1	-1.8	-35.8	-40.9	-23.5	-32.1	19.0
of which: small and medium-sized enterprises	2,015.7	1,774.7	22.7	907.4	241.0	101.9	200.6	-83.9	-43.0	-1.5	-34.9	-40.9	-23.5	-32.1	19.0
of which: secured by commercial real estate	1,518.9	1,338.7	2.8	786.4	180.2	59.5	152.1	-36.2	-19.6	0.0	-16.4	-16.6	-6.5	-13.5	14.4

Breakdown of loans and advances covered by legislative and non-legislative moratories according to the residual maturity of moratories

	Number of debtors	Gross carrying value							
			Of which: legislative moratoria	Of which: expired	Residual maturity of moratories				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	>1 year
Credits and advances for which a moratorium has been proposed	81,834	12,661.1	x	x	x	x	x	x	x
Credits and advances covered by moratories (granted)	63,493	8,410.2	322.1	8,009.7	388.8	11.3	0.0	0.1	0.3
of which: households	x	6,238.7	322.1	5,953.6	277.9	7.1	0.0	0.1	0.0
of which: secured by residential real estate	x	1,618.8	70.4	1,565.2	52.1	1.4	0.0	0.0	0.0
of which: non-financial enterprises	x	2,169.8	0.0	2,054.4	110.9	4.2	0.0	0.0	0.3
of which: small and medium-sized enterprises	x	2,015.7	0.0	1,901.9	109.3	4.2	0.0	0.0	0.3
of which: secured by commercial real estate	x	1,519.0	0.0	1,429.9	85.4	3.7	0.0	0.0	0.0

Newly granted credits and advances under the new public guarantee schemes introduced in response to the crisis caused by COVID-19

	Gross carrying value		Maximum recognised guarantee amount	Gross carrying value
		of which: restructured	Public guarantees received	Inflows to non-performing exposures
Newly granted credits and advances covered by public guarantee programmes	1,637.6	2.3	1,414.9	2.7
of which: households	617.3	x	x	1.0
of which: secured by residential real estate	0.0	x	x	0.0
of which: non-financial enterprises	1,000.3	2.3	872.0	1.8
of which: small and medium-sized enterprises	824.0	x	x	1.8
of which: secured by commercial real estate	64.7	x	x	1.7

7. Market risk

7.1 Market risk management

The Bank has identified the following market risks to be managed:
- interest rate risk in the banking book,
- market risk in the trading book (encompassing: interest rate risk in the trading book, currency risk, and commodity price risk).

The purpose of interest rate risk management is to limit potential losses due to changes in market interest rates to an acceptable level by adequate composition of balance sheet and off-balance sheet items.

The Bank distinguishes the following market risk factors:
- exchange rates,
- interest rate indexes,
- price of shares/indices,
- prices of goods,
- credit spread related to the rating of a given issuer,
- option volatility parameters.

The Bank has a clear division of competences in the field of market risk management, including:
- entering into treasury deals,
- measurement, monitoring, and reporting of market risk,
- transaction settlement process,
- operational handling and operational support for business processes.

Supervision of the above-mentioned activities related to entering into transactions, and independent risk measurement and reporting at the Bank is distributed up to the Member of the Management Board level, which ensures full independence of their activity.

Apart from individual organisational units, in the market risk and liquidity risk management process, an active role is played by the Supervisory Board, the Management Board of the Bank and the Capital, Assets and Liabilities Management Committee (CALCO).

In 2017, the subsidiary, Alior Leasing, became an important company from the perspective of managing the market risk of the Alior Bank SA Capital Group. Market risk in the company is monitored, controlled, and reported. Alior Leasing, in consultation with Alior Bank, introduced internal rules of market risk management and regularly reports market risk.

7.2 Interest rate risk

Interest rate risk (including interest rate risk in the banking book) is defined as a risk of adverse effect of market interest rates on the current result or net current value of the Bank's equity. Due to its policy of limiting risks in the trading book, the Bank has attached special importance to specific aspects of interest rate risk related to the banking book, such as:
- risk of mismatched maturities,
- basis risk, or the risk of non-parallel shifts in various reference indices with similar repricing dates on the result of the Bank,
- yield curve risk,
- customer option risk.

At the same time, the Bank pays great attention to the modelling of prepayments of credits with a fixed interest rate and products with an unspecified maturity date and the interest rate determined by the Bank (e.g. for current deposits), as well as the impact on the risk of non-interest bearing positions (e.g. principal, fixed assets).

For the purposes of interest rate risk management, the Bank distinguishes its commercial activity, including securities and derivatives, concluded for commercial purposes and banking activities, including other securities, own issues, loans, deposits, loans, and derivative transactions used to secure the risk of the banking book.

7.2.1 Interest rate risk measurement and assessment

The bank portfolio interest rate risk is measured and assessed by limiting the volatility of the net interest income (NII) and reducing changes in the economic value of the Bank's economic value of equity (EVE). In measuring interest rate risk, the Bank also uses BPV, VaR, revaluation gap and stress tests.

BPV measures determine the estimated change in the valuation of a given transaction/item as a result of shifting the profitability curve in a given point by 1 base point. BPV values are measured every day at each curve point, in relation to each currency.

VaR measure determines the potential value of loss on kept items related to interest rate fluctuations, while maintaining the assumed confidence level and the maintenance period. To determine the VaR level, the Bank uses the 10-day horizon and a confidence level of 99%. The amount is calculated for each day for individual areas responsible for risk taking and management, individually and in aggregate.

7.2.2 Interest rate risk management tools

The main interest rate risk management tools at Alior Bank include:

- internal procedures for interest rate risk management,
- interest rate risk measure, i.e. NII, EVE, VaR, BPV, revaluation gap,
- limits and threshold values for individual interest rate risk measures,
- stress tests (including an analysis of scenarios covering, among other things, the impact of specific interest rate changes on the future interest income and the economic value of capital).

7.2.3 Interest rate risk monitoring and reporting

The Alior Bank Capital Group regularly monitors and reports:

- interest rate risk measure level;
- the degree of utilisation of equity allocated to interest rate risk;
- the degree of utilisation of internal limits and thresholds for interest rate risk;
- results of stress tests.

Interest rate risk reports are prepared on a daily, weekly, monthly and quarterly basis.

7.2.4 Financial data

Sensitivity measures

The table below presents a 10-day VaR for the trading book as at the end of 2020 and 2019.

VaR	31/12/2020	31/12/2019
Trade book[1]	3,532	3,031

[1] VaR of the trading book contains VaR for currency risk.

Change in the economic value of capital

The change in the economic value of the capital while moving parallel interest curves by +/- 100 b.p. and +/- 200 b.p., in scenarios defined by the EBA and internal scenarios as at the end of December 2020 and 2019 for the Alior Bank Capital Group (prudential consolidation covering Alior Bank SA and Alior Leasing Sp. z o.o.) has been presented below:

Scenario	Change in the economic value of equity 31/12/2020	Change in the economic value of equity 30/12/2019
worst scenario	-171,836	-157,107
the most unfavourable scenario as % of Tier 1	2.6%	2.4%

Floating interest income

The variability of interest income in the horizon up to 1 year, with a 100 b.p. change in interest rates (negative scenario) as at the end of 2020 and at the end of 2019 for the Capital Group of Alior Bank (prudential consolidation covering Alior Bank SA and Alior Leasing Sp. z o.o.) has been presented below.

	31/12/2020	31/12/2019
NII – total, materialised interest income sensitivity to changes in interest rates	13.09%	9.30%

[1] data adjusted for comparability purposes.

7.3 Currency risk

Foreign exchange risk is defined as the risk of loss caused by a change in exchange rates. In addition, the Bank differentiates the impact of the exchange rate on the Bank's results in the long-term perspective as a result of conversion of future foreign currency revenues and costs at potentially more unfavourable exchange rates. The risk related to future results may be managed as part of the foreign currency model portfolio.

The primary objective of currency risk management is to identify areas of the Bank's activity which may be exposed to foreign exchange risk and to initiate undertakings that limit possible losses incurred in connection therewith. The Management Board of the Bank specifies the currency risk profile of the Bank, which must be consistent with the applicable financial plan of the Bank.

7.3.1 Foreign exchange risk measurement and assessment

Currency risk is measured and assessed by limiting currency positions taken by the Bank. In measuring foreign exchange risk, the Bank uses VaR and stress tests.

VaR measures determine the potential value of loss on maintained items sensitive to changes in exchange rates, maintaining the assumed confidence level and the maintenance period of items. To determine the VaR level, the

Bank uses the 10-day horizon and a confidence level of 99%. The amount is calculated for each day for individual areas responsible for risk taking and management, individually and in aggregate.

7.3.2 Currency risk management tools

Alior Bank's main currency risk management tools include:

- internal procedures for currency risk management;
- internal models and metrics of currency risk,
- limits and threshold values for foreign exchange risk;
- restrictions on admissible currency transactions,
- stress tests.

7.3.3 Monitoring and reporting of currency risk

At Alior Bank SA, the following are regularly monitored and reported:

- level of currency risk metrics;
- level of utilisation of internal limits and thresholds for currency risk;
- results of stress tests.

Foreign exchange risk reports are prepared on a daily, weekly, monthly and quarterly basis.
Foreign exchange risk limits are determined in such a way that the risk is maintained at a limited level.

7.3.4 Financial data

Sensitivity measures

As at the end of December 2020, the maximum loss on the currency portfolio held by the Bank (managed in the trading book), determined on the basis of VaR within a time horizon of 10 days, could amount to PLN 138.4 thousand, with the assumed confidence level of 99%.

horizon [days]	**10**
VaR [thousands of PLN]	138.4

VaR statistics on the currency portfolio for the period from January to December 2020

Minimum	**Average**	**Maximum**
72.84	325.56	760.84

In measuring the exposure of the Capital Group of Alior Bank to the risk of changes in exchange rates, the Bank carries out stress tests.

The results of stress tests examining the impact of changes in exchange rates in relation to PLN by +/- 20% are presented below.

		31/12/2020
rates	+ 20%	11,656.64
rates	- 20%	7,305.65

The amount of foreign exchange positions is a key factor (apart from currency exchange rate fluctuations) determining the level of currency risk to which the Bank and the Capital Group are exposed. All concluded balance sheet and off-balance sheet currency transactions affect the level of foreign exchange positions. The Bank's exposure to foreign exchange risk is low (in relation to own funds, the 10-day VaR for the Bank's currency position as at 31 December 2020 was approx. 0.0018%.

7.4 Liquidity risk

Liquidity risk is understood at the Bank as a risk of inability to fulfil on conditions convenient to the Bank and at a reasonable price of payment liabilities resulting from balance sheet and off-balance-sheet positions held by the Bank.

The category of liquidity risk includes the funding liquidity risk which is the risk of losing the existing funding sources and the risk of being unable to replenish the required funding, or loss of access to new funding sources.

7.4.1 Liquidity risk management strategies and processes

Liquidity risk management at the Bank consists in ensuring and maintaining the Bank's ability to meet both current and future liabilities while minimising the costs of liquidity acquisition.
The Bank has an internal liquidity adequacy assessment process (ILAAP) which comprehensively assesses the adequacy of liquidity risk management and its adaptation to the nature, scale and degree of complexity of the Alior Bank Capital Group.

This process accomplishes the following objectives:
- ensuring the ability to pay all liabilities in a timely manner at any time, even in stress conditions (including regulatory restrictions in the scope of liquidity transfer within the Group units);
- maintaining liquid assets at an appropriate level, i.e. a buffer of unencumbered high quality liquid assets that ensures an adequate surplus of liquidity in the event of a sudden deterioration of liquidity;
- determining the scale of liquidity risk taken by the Bank by establishing internal liquidity limits, and a stress survival horizon consistent with appetite and strategy, taking into account the results of stress tests;
- minimising the risk of exceeding the liquidity limits defined in the Bank;
- monitoring the Bank's liquidity in terms of the occurrence of an emergency situation in order to launch the Liquidity Contingency Plan and the Recovery Plan;
- it makes sure the Bank's processes comply with the regulatory liquidity risk management requirements.

The abovementioned objectives are pursued independently by relevant organisational units whose competences and responsibilities are clearly defined in internal regulations.

Under ILAAP, the Bank:
- identifies risks and significant risk factors,
- performs measurements and reports liquidity risk,
- develops liquidity procedures and policies, including the financing plan for subsequent years of the Group's activity,
- manages the Contingency Liquidity Plans and the Liquidity Recovery Plan,
- maintains a liquidity buffer consisting of high quality liquid assets,
- develops a system of liquidity limits consistent with the risk appetite, monitors liquidity limits and early warning ratios identifying negative trends that may affect the increase in liquidity risk,
- periodically performs (in the form of reports) an analysis of categories and factors affecting the current and future liquidity level,
- performs stress tests of liquidity risk on the basis of which it assesses the degree to which the Group is prepared

to satisfy its liabilities in stress conditions,
- takes into consideration adjustments supporting liquidity risk management in the fund transfer rate system.

7.4.2 Organisation of the liquidity risk management process

The Capital, Assets and Liabilities Management Committee (CALCO) was appointed for asset and liability management purposes. The liquidity risk strategy, including acceptable risk level, the assumed balance sheet structure and the financing plan, is approved by the Bank's Management Board and then approved by the Bank's Supervisory Board. The Treasury Department is responsible for entering into interbank transactions, and the transactions are settled and accounted for by the Operations Division, whereas the monitoring and measurement of liquidity risk is conducted at the Financial Risk Management Department. The division of competences in the field of liquidity risk management is clear and ensures separation to the level of a Member of the Management Board, which guarantees full independence of their operation.

In 2020, the Bank had a Foreign Branch in Romania. It conducts deposit and credit activities as part of financing obtained from Alior Bank SA and from funds obtained from the local market. The Branch's liquidity level is monitored on an ongoing basis by dedicated organisational units of the Branch and of the Bank's Head Office.

7.4.3 Organisation of the liquidity risk management process

In 2020, in accordance with the provisions of internal regulations concerning liquidity risk, the Bank had one company which was important in terms of liquidity risk management of the Group, i.e. the subsidiary - Alior Leasing. Liquidity risk in the company is monitored, controlled and reported. Alior Leasing has internal liquidity risk management principles developed in consultation with Alior Bank, according to which it defines liquidity risk appetite, contingency liquidity plans and prepares cyclical reports. The reports prepared by Alior Leasing concerning the liquidity risk in the company constitute, in particular, a starting point for making decisions on liquidity management of the company and are used to consolidate the liquidity risk at the level of the Alior Bank SA Capital Group.

7.4.4 Measurement and assessment of liquidity risk

Liquidity risk measurement is performed at the Bank by the Financial Risk Management Department in a manner entirely independent from units responsible for entering into transactions. The risk is measured in order to present the impact of all the significant factors on the Bank's capacity to maintain an adequate liquidity level. Apart from the consolidated liquidity risk measures, analyses are also performed on the individual categories and factors impacting the real or potential future level of the Bank's liquidity. Liquidity risk measurement covers the Polish currency and all foreign currencies relevant in terms of liquidity risk in which the Bank conducts its operational activities, taking into account all significant positions, both balance sheet and off-balance-sheet (including in particular derivatives).

The liquidity management metrics at the Bank include ratios and the related limits of the following liquidity types:

- intraday liquidity, defined as the ability to perform all financial liabilities on the current day,
- current liquidity understood as the ability to finance assets and timely settle liabilities in the course of normal operations of the Bank or in other conditions that can be foreseen without the need to incur a loss within the next 7 days,
- short-term liquidity, defined as the ability to perform all financial liabilities within the payment period falling within 30 consecutive days,
- medium-term liquidity is understood as the ability to perform all liabilities within the maturity period of more than 1 and up to 12 months,

- long-term liquidity – monitoring the ability to meet all monetary liabilities at maturity falling later than in 12 months;

Intraday, current and short-term liquidity risk management includes events that will affect the Bank's liquidity between 1 day and 1 month. Intra-day, current and short-term liquidity is managed by the Interbank Transactions Department, and the Financial Risk Management Department, using daily reports, supervises and monitors the management process.
The Financial Risk Management Department is responsible for controlling and monitoring medium-term and long-term liquidity, which draws up monthly reports discussed at CALCO Committee meetings and presented to the Bank's Management Board as well as quarterly reports presented to the Supervisory Board.

The Alior Bank Group uses a number of indicators and analyses to measure and analyse liquidity risk, including:

- calculation and monitoring of LCR, NSFR, M3, M4 supervisory indices – assessment of the Group's compliance with quantitative supervisory requirements;
- forecasts for the development of supervisory liquidity measures - ensuring that the Group meets quantitative supervisory requirements in the future;
- calculation and monitoring of internal liquidity ratios, including intra-day, current, short-term, medium and long-term liquidity measures, and the surplus of core and total liquidity buffer;
- the liquidity gap makes it possible to estimate the size of the mismatch (difference) between the balance sheet and off-balance sheet assets and liabilities with regard to every maturity band (periodical gap), as well as for the total of assets and liabilities in all of the maturity bands (cumulative gap). The Group calculates contractual and marked-based liquidity gap. The realigning of flows takes place as a result of using contract flow realignment weights in order to specify the most probable (economic) maturity date. The realignment of values and dates is leveraged for both balance sheet and off-balance sheet items, including items such as: assets which may be disposed of early, items without contract maturity dates, banking products in the case of which the analysis of trends and customer behaviours reveals differences between contract maturity dates and real maturity dates, off-balance sheet liabilities on the granted credit lines and guarantees;
- the analysis of stability of stable foreign funds – determining, on the basis of historical data, what part of these liabilities demonstrates features of stability and may, with a high probability level under normal market conditions, constitute a stable source of financing.
- the deposit renewal/termination analysis – aimed at verifying the behavioural stability of customer behaviours, which is the basis for specifying the sediment and weights of updates related to cash flows in the Group.
- the analysis of foreign stable funds concentration – aimed at indicating the potential risk of the Group's too far reaching dependence on the financing sources characterised by too low diversification, which could render negative influence on the stability of foreign funds.
- the analysis of the stability of receivables related to the granted off-balance sheet liabilities – aimed at determining the utilisation of guaranteed and credit lines by customers;
- the long-term liquidity analysis – aimed at specifying the risk related to the financing of long-term loans (mainly mortgage collaterals or the financing of large projects unrelated to real property, including industrial investments) with liabilities characterised by shorter-term maturities.

7.4.5 Liquidity risk monitoring, security and mitigation strategy

The Bank's strategy for securing liquidity risk consists in:

- shaping the appropriate structure of sources of financing,
- limiting concentration risk by diversification of the structure of the deposit base by retail, business, financial customers, government and local government institutions,
- maintaining a liquidity surplus at an adequate level in the form of the most liquid securities,
- increasing the availability of alternative sources of financing.

The Alior Bank Group regularly monitors and reports liquidity risk metrics levels and the degree to which the internal limits and thresholds have been utilised. Liquidity risk reports are prepared on a daily, weekly, monthly, quarterly and annual basis. Their frequency, scope and list of recipients (including CALCO, Management Board of the Bank and the Supervisory Board) are regulated in the Group's internal regulations.

The limits set the boundaries of the Group's activities and they cannot be exceeded. The Group extends selected limits by warning thresholds the purpose of which is to provide protection against exceeding internal limits by determining the limit utilisation level (minimum surplus), the attainment of which will mean a higher liquidity risk and real risk of exceeded limits in the given time horizon.

In the event of a liquidity crisis understood as a hypothetical risk and a real occurrence of a situation in which it will not be possible to meet current or anticipated future payment obligations in a timely manner, liquidity contingency plans have been developed to identify solutions to ensure survival through the liquidity crisis. The liquidity situation shall be monitored on an ongoing basis in terms of identifying the threat situation by defining and monitoring a wide range of indicators concerning the situation within the Group as well as the market and macroeconomic environment, which aim to identify situations of increased liquidity risk, high liquidity risk and liquidity risk crisis and enable appropriate actions to be taken, as set out in the contingency plans. The review and testing of contingency plans shall be carried out at least once a year or where a change in market conditions so requires. The following is determined as part of contingency plan testing: feasibility and possibility of carrying out actions, decision-making process, competence of individual units, amount of obtainable funds and time necessary to implement actions.

7.4.6 Liquidity risk stress tests

Stress tests are an important element of liquidity risk management. A key part of the stress tests is scenario analysis, which consists in examining the impact on the liquidity of a given scenario, taking into account different risk factors and the different severity levels of individual risk factors (while maintaining the overarching principle of conservative approach when constructing scenarios). In addition, separate scenarios for intra-day liquidity are carried out. Scenario tests are supplemented by sensitivity analyses where only selected risk factors are tested, which, in the Group's opinion, have the greatest impact on the liquidity situation, and reverse tests, where it is tested what level of the most important risk factors leads to the loss of liquidity. Reverse tests are carried out by analysing two aspects: loss of liquidity implying a lack of ability to settle liabilities and a decrease in liquidity resulting in a lack of compliance with supervisory liquidity requirements. The results of stress tests are accepted by CALCO, the Management Board of the Bank and the Supervisory Board.

Stress test scenarios adopted by the Management Board of the Bank are developed in three basic options for which at least two scenarios are constructed:

- internal crisis - a situation in which intra-bank factors or other factors are responsible for liquidity problems, but concerning only the Bank (2 scenarios involving loss of reputation),
- systemic crisis - a situation where liquidity problems arise in all or a significant part of the banking system due to an economic or financial crisis (4 scenarios, including 2 linked to the COVID-19 pandemic),
- a combination of the internal crisis and the systemic crisis - a situation which is a combination of elements from the two options mentioned above (2 scenarios assuming simultaneous problems of the Bank and the entire sector).

The results of stress tests are used, in particular, to assess the preparation to settle liabilities in stress conditions, to assess the adequacy of excess liquidity by comparing the available liquidity buffer with the required liquidity buffer in stress conditions, and to verify whether the survival horizon in each scenario is at least equal to the one initially assumed. The comparison of the demand for liquid funds for each scenario with the values that can be obtained on the basis of the tests of contingency plans allows to check whether the Group is able to settle liabilities in longer horizons (beyond the horizon of survival) using contingency actions. Moreover, the results of stress tests serve to establish internal limits, adjust and improve internal regulations, everyday practice in managing liquidity risk through using the results of stress tests to assess the Group's day-to-day liquidity situation, as well as to shape a liquidity contingency plan.

7.4.7 Basic information on liquidity risk monitoring

The Bank maintains a high level of a liquidity buffer consisting of unencumbered high-quality liquid assets, investing in government debt securities and enterprises with the highest ratings, characterised by the possibility of quick liquidation, maintaining funds on the current account at the National Bank of Poland and other banks (*nostro* accounts), maintaining cash at the Bank's cash desk and placing funds as part of interbank deposits, within the scope of established limits. The adequacy of the maintained liquidity buffer level is controlled by comparing with the defined minimum amount of the liquidity buffer necessary to survive the stress scenario in the time horizon of up to 7 days and 30 days. As at 31 December 2020, the total liquidity buffer was PLN 17,084 million as compared to a minimum level of PLN 13,003 million under the shock scenario. To calculate the liquidity buffer, the Bank uses appropriate reductions of particular components of that buffer to take into account market liquidity risk (product).

The Bank applies a number of methods for assessing the situation in the liquidity area, including, among other things, monitoring (in brackets - values as at the end of 2020):

- the deposit base ratio and own issues ratio to net loans (1.18%);
- stability of the deposit base (95.5%), including termination of deposits (0.5%);
- deposit concentration (WWK=0.98% - no concentration);
- balance sheet and off-balance sheet liquidity gap.

The Bank analyses the gap based on realigned cash flows, taking into account, among other things, the following assumptions:

- stability of liabilities with unspecified maturity dates (e.g. current accounts, renewal of deposits);
- possibility of extending the maturity date of specific asset items (e.g. lack of taking into account inflows from at-risk loans);
- possibility of disposal of asset items (liquidity portfolio).

In addition, when setting a realigned liquidity gap, the Bank uses model weights of deposit sediment and uses granted off-balance sheet liabilities determined on the basis of the implemented statistical model and historical balance observations for individual products.

The analysis of maturity of assets and liabilities for the Alior Bank Capital Group, according to realigned dates as at the end of 2020, is presented in the table (in millions of PLN).

31/12/2020	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	**9,580**	**8,377**	**1,573**	**2,392**	**4,548**	**6,487**	**11,051**	**34,634**	**78,642**
Cash and Nostro	2,075	0	0	0	0	0	0	311	2,387
Receivables from banks	55	100	0	0	0	0	0	421	576
Securities	7,352	7,461	0	0	359	367	35	225	15,800
Receivables from customers	93	813	1,568	2,385	4,177	6,101	10,989	30,075	56,201
Other assets	4	3	5	6	12	20	27	3,601	3,678
Equity and liabilities	**-3,197**	**-3,044**	**-3,027**	**-1,708**	**-2,748**	**-2,993**	**-5,692**	**-56,233**	**-78,642**
Owed to banks	-304	-307	-15	-2	-13	-19	-62	0	-722
Owed to customers	-1,047	-2,680	-2,728	-1,327	-1,841	-2,404	-4,320	-49,440	-65,788
Own issues	0	-50	-257	-340	-814	-468	-1,239	-5	-3,172
Shareholders' equity	0	-5	-9	-14	-29	0	0	-6,503	-6,560

Other liabilities	-1,845	-2	-17	-26	-51	-102	-71	-286	-2,400
Balance sheet gap	6,383	5,333	-1,454	683	1,800	3,495	5,359	-21,599	0
Accumulated balance sheet gap	**6,383**	**11,716**	**10,262**	**10,946**	**12,745**	**16,240**	**21,599**	**0**	
Derivatives – inflows	0	7,368	1,913	436	414	493	277	0	10,901
Derivatives – outflows	0	-7,358	-1,897	-434	-412	-469	-291	0	-10,861
Derivatives – net	**0**	**10**	**16**	**2**	**2**	**24**	**-14**	**0**	**40**
Guarantee and financial lines	0	-280	-205	-201	-284	108	323	539	0
Off-balance sheet gap	0	-270	-189	-199	-282	132	309	539	40
Gap, total	**6,383**	**5,063**	**-1,643**	**485**	**1,517**	**3,626**	**5,669**	**-21,060**	**40**
Accumulated gap, total	**6,383**	**11,446**	**9,803**	**10,288**	**11,805**	**15,431**	**21,100**	**40**	

The analysis of maturity of assets and liabilities for the Capital Group of Alior Bank, according to contract dates as at the end of 2020, is presented in the table (in millions of PLN).

31/12/2020	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	**2,539**	**2,192**	**1,669**	**3,239**	**6,000**	**11,811**	**16,579**	**34,614**	**78,642**
Cash and Nostro	2,387	0	0	0	0	0	0	0	2,387
Receivables from banks	55	100	0	0	0	0	0	421	576
Securities	0	1,200	36	643	1,571	5,505	4,984	1,861	15,800
Receivables from customers	93	889	1,627	2,589	4,418	6,286	11,568	28,730	56,201
Other assets	4	3	5	6	12	20	27	3,601	3,678
Equity and liabilities	**-58,773**	**-2,978**	**-3,254**	**-1,978**	**-2,101**	**-1,082**	**-1,622**	**-6,853**	**-78,642**
Owed to banks	-304	-307	-15	-2	-13	-19	-62	0	-722
Owed to customers	-56,623	-2,619	-2,965	-1,611	-1,223	-493	-251	-2	-65,788
Own issues	0	-50	-257	-340	-814	-468	-1,239	-5	-3,172
Shareholders' equity	0	0	0	0	0	0	0	-6,560	-6,560
Other liabilities	-1,845	-2	-17	-26	-51	-102	-71	-286	-2,400
Balance sheet gap	**-56,234**	**-786**	**-1,585**	**1,261**	**3,899**	**10,728**	**14,957**	**27,761**	**0**
Accumulated balance sheet gap	**-56,234**	**-57,020**	**-58,605**	**-57,345**	**-53,446**	**-42,717**	**-27,761**	**0**	
Derivatives – inflows	0	7,368	1,913	436	414	493	277	0	10,901
Derivatives – outflows	0	-7,358	-1,897	-434	-412	-469	-291	0	-10,861
Derivatives – net	**0**	**10**	**16**	**2**	**2**	**24**	**-14**	**0**	**40**
Guarantee and financial lines	-9,322	0	0	0	0	0	0	0	-9,322
Off-balance sheet gap	-9,322	10	16	2	2	24	-14	0	-9,282
Gap, total	-65,556	-776	-1,569	1,263	3,901	10,752	14,943	27,761	-9,282
Accumulated gap, total	**-65,556**	**-66,332**	**-67,901**	**-66,638**	**-62,737**	**-51,985**	**-37,042**	**-9,282**	

Under resolution 386/2008 of the Polish Financial Supervision Authority of 17 December 2008, the Bank establishes and reports on a daily basis:

- M3 – ratio of coverage of non-liquid assets with own funds, calculated as the quotient of the Bank's own funds less the total value of capital requirements for market risk and delivery settlement risk and counterparty risk and non-liquid assets;
- M4 – ratio of coverage of non-liquid assets and assets with limited liquidity with own funds and stable foreign funds, calculated as the quotient of the sum of own funds less the total value of market risk capital requirements, delivery settlement risk, counterparty risk and stable external funds, as well as the sum of non-liquid assets and limited liquidity assets;

The values of the above ratios for the Bank as at 31 December 2020

	Regulatory liquidity measures - the Bank	31/12/2020
M3	Rate of coverage of illiquid assets with own funds,	3.53
M4	Ratio of covering non-liquid own assets and assets of limited liquidity with own funds and stable foreign funds.	1.19

Pursuant to 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 a Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR) at an adequate level.

In order to calculate the LCR and NSFR ratio, the Bank applied prudential consolidation which covered Alior Bank SA and Alior Leasing Sp. z o.o.

Regulatory liquidity measures	31/12/2020
LCR	174%
NSFR	122%

In the period from 31 December 2019 to 31 December 2018, the values of the above measures remained above the limits, including the supervisory limit imposed on the LCR ratio of 100%.
Apart from the presented value of the LCR index calculated for all currencies, the Bank also monitors the indicators calculated for significant currencies. The Bank limits currency mismatch by monitoring the LCR for significant currencies and increasing investments in liquid securities in foreign currencies. When calculating the LCR ratio, the Bank takes into account exposures on derivatives and potential requests to supplement the collateral.

The table below presents the net outflow coverage ratio (LCR) calculated on the basis of prudential consolidation covering Alior Banka SA and Alior Leasing Sp. z o.o.:

Consolidation scope: consolidated		**Total non-weighted value (average)**				**Total weighted value (average)**			
Currency and unit: million PLN									
End of quarter (DD MM YYYY)		**31/12/2020**	**30.09.2020**	**30.06.2020**	**31.03.2020**	**31/12/2020**	**30.09.2020**	**30.06.2020**	**31.03.2020**
Number of data points used to calculate average		**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**
HIGH-QUALITY LIQUID ASSETS									
1	Total high quality liquid assets	x	x	x	x	15,181	14,996	14,467	13,868
CASH OUTFLOWS									
2	Retail deposits and deposits of customers who are small enterprises, including:	48,722	45,781	42,652	39,319	3,347	3,246	3,148	3,080
3	Stable deposits	21,152	19,951	18,893	17,930	1,058	998	945	896
4	Less stable deposits	22,516	22,075	21,611	21,385	2,290	2,248	2,203	2,180
5	Unsecured wholesale financing	13,216	13,198	13,381	13,721	5,712	5,774	5,945	6,157
6	*Operating deposits (all counterparties) and deposits within the cooperative bank cooperation network*	0	0	0	0	0	0	0	0
7	*Non-operational deposits (all counterparties)*	13,161	13,126	13,314	13,652	5,657	5,702	5,878	6,087
8	*Unsecured debt*	55	72	67	70	55	72	67	70
9	Secured wholesale financing	x	x	x	x	0	0	0	0
10	Additional requirements	8,491	8,280	8,085	8,404	963	966	951	1,009
11	*Outflows related to exposure to derivative instruments and other security requirements*	160	141	126	154	160	141	126	154
12	*Outflows related to loss of financing for debt products*	0	0	0	0	0	0	0	0
13	*Credit instruments and liquidity support instruments*	8,331	8,139	7,960	8,250	804	825	825	854
14	Other contractual liabilities related to financing	711	956	1,039	1,174	585	831	913	1,045
15	Other contingent liabilities related to financing	869	819	837	858	0	0	0	0
16	**TOTAL CASH OUTFLOWS FLOWS**	x	x	x	x	10,608	10,816	10,957	11,290
CASH INFLOWS									
17	Secured credit transactions (e.g. with repurchase promise granted)	276	342	685	626	0	0	0	0
18	Inflows from fully performing exposures	1,622	1,617	1,621	1,616	1,201	1,185	1,179	1,192
19	Other cash inflows	385	317	251	188	377	309	243	179
EU-19a	(The difference between the sum of weighted total proceeds and the sum	x	x	x	x	0	0	0	0

	of weighted total outflows resulting from transactions in third countries in which there are restrictions on the transfer or transactions denominated in non-listed currencies)								
EU-19b	(Surplus of proceeds from related specialised credit institutions)	x	x	x	x	0	0	0	0
20	**TOTAL CASH INFLOWS**	2,283	2,277	2,557	2,430	1,578	1,494	1,422	1,372
EU-20a	*Fully excluded inflows*	0	0	0	0	0	0	0	0
EU-20b	*Inflows subject to limitation of 90%*	0	0	0	0	0	0	0	0
EU-20c	*Inflows subject to limitation of 75%*	2,283	2,277	2,557	2,430	1,578	1,494	1,422	1,372
									TOTAL ADJUSTED VALUE
21	**SECURITY AGAINST LOSS OF LIQUIDITY**	x	**x**	x	**x**	**15,181**	**14,996**	**14,467**	**13,868**
22	**TOTAL NET CASH OUTFLOWS**	x	**x**	x	**x**	**9,030**	**9,322**	**9,535**	**9,919**
23	**NET OUTFLOW COVERAGE RATIO (%)**	**x**	**x**	**x**	**x**	**169%**	**162%**	**153%**	**140%**

The main source of financing of the Bank is the deposit base, which as at 31.12.2020 amounted to approx. PLN 62 billion, which constitutes approx. 80% of the Bank's liabilities. Current accounts (approx. 83% of the base) predominate in the deposit base, most of which (approx. 70%) are individual customer accounts against 30% of business customer accounts. The remaining part of the deposit base, i.e. around 17%, are fixed-term deposits, including 67% of individual customer fixed-term deposits and 33% of business customer deposits. Liabilities to financial customers amount to approx. PLN 3 billion and account for approx. 4% of liabilities. Own issues, amounting to PLN 2.8 billion, account for approx. 4% of liabilities.

In the following years, the Bank assumes a moderate increase in the balance sheet total and maintenance of customer deposits as the main source of financing (in particular from individual customers).

In monthly cycles, the Bank also analyses the concentration of the deposit base, which is aimed at indicating the potential risk of excessive dependence of the Bank on the sources of financing characterised by too low diversification level. In order to estimate the concentration level, the Bank defines the WWK (High Concentration Ratio) calculated as the ratio of the value of funds accumulated by the largest depositaries to the value of the deposit base. As at 31 December 2020, the High Concentration Ratio (HCR) amounted to 0.98%, which indicates no concentration. The HCR statistics for 2020 are presented in the table.

High Concentration Ratio (HCR) statistics for the Bank for 2020

Minimum	Average	Maximum
0.77%	0.85%	1.00%

In order to reduce concentration risk, the Bank diversifies the structure of the deposit base broken down into retail, financial, business customers, including government and local government institutions, monitoring and reporting the monthly share of individual groups in the entire deposit base.

7.4.8 Impact of the COVID-19 pandemic on liquidity risk

Throughout 2020, since the beginning of the pandemic, the liquidity of the Alior Bank SA Group and its environment was monitored on an ongoing basis, with particular emphasis on areas where initially unfavourable movements were observed that could have affected the future liquidity position and reputation of the Group, e.g., increased cash withdrawals by customers, increased customer demand for foreign currencies, mainly USD, and reduced liquidity in the interbank market. Throughout the entire period since the outbreak of the pandemic, the Group's liquidity was kept at a safe level, which was reflected in the levels of liquidity ratios considerably above the limits (e.g. LCR at historically high levels). In light of the above, during the pandemic the Alior Bank SA Capital Group did not identify the need to take extraordinary measures aimed to improve liquidity, in particular, in the light of measures taken by the supervisor and the central bank, such as reducing the reserve requirement.

In order to take into account the possible long-term effects of the pandemic and to adapt liquidity risk management to the changed environment in connection with the COVID-19 pandemic, Alior Bank SA applied the following improvements in 2020 (above the requirements set by the supervisory authority, such as daily reporting of the liquidity situation at the beginning of the pandemic, and at the end of 2020 on a weekly basis):

- monitoring increased customer cash withdrawals (especially during the initial period of the pandemic) and increasing cash buffers in the depository, mainly EUR and USD;
- the financing plan included in the Asset/Liability Management Policy for the years 2020-2022 was established on the basis of the financial plan for 2020 and the Bank's balance sheet forecast for the years 2021-2022, taking into account the effects of COVID-19;
- two stress scenarios providing for the effects of the pandemic have been taken into account in full liquidity risk stress tests:
    - short-term COVID-19 – a more expected scenario, assuming a higher level of epidemic control and a gradual return of the economy to pre-pandemic activity
    - long-term COVID-19 – a pessimistic scenario, less expected, assuming longer epidemic persistence and restrictions that affect the economy to a much larger extent
- the required liquidity buffer for the external scenario in the monthly stress test analysis is determined on the basis of the long-term COVID-19 scenario,
- regular review of the adequacy of the assumptions of COVID-19 scenarios used in stress tests,
- regular monitoring of the macroeconomic situation.

8. Operational risk

8.1 The principles and structure of operational risk management at the Bank are based on:

- provisions of the Polish Banking Law Act,
- resolutions and recommendations issued by the Polish Financial Supervision Authority,
- CRD IV/ CRR Package,
- technical documents (RTS) concerning operational risk and advanced measurement methods published by the European Banking Authority (EBA),
- recommendations of the Basel Banking Supervision Committee,
- Operational Risk Management Policy and Strategy - approved by the Management Board and the Supervisory Board of the Bank.

8.2 Definition of operational risk

For the purposes of operational risk management, Alior Bank SA applies the definition of operational risk proposed by the Basel Banking Supervision Committee, according to which operational risk is a possibility of loss resulting from failure to apply or professions of internal processes, people and systems or external events. The operational risk includes legal risks, but does not include reputation risk and business risk.

8.3 Purpose of operational risk management

The purpose of operational risk management of the Bank and the Capital Group is to maintain operational risk at a safe and adequate level in relation to the activities, objectives, strategies and development of the Bank, as well as acceptable by the Management Board and the Supervisory Board of the Bank.

The Bank's operational risk management system is based on three pillars:
- governance,
- operational risk management process,
- operational activities.

8.4 Measurement and assessment of the operational risk

The Bank has in place a formalised operational risk management system to prevent operational events from occurring and minimise losses if the risk materialises.
Operational risk management includes identification, measurement and assessment of operational risk, management activities, monitoring and control of risk at all levels, from organisational units responsible for operational risk management in their areas, Operational Risk Coordinators, through the Operational Risk Management Department, Operational Risk Committee, to the Management Board and Supervisory Board.
As part of operational risk identification, the Bank recognises risk factors that significantly affect its level. At the identification stage, various methods are used to obtain information, such as:
- collection of data on events and losses at the Bank and its subsidiaries,
- identification of risk in processes, products and systems,
- identification of risk in outsourced processes,
- analysis of external operational risk events,

Measurement and assessment of operational risk are carried out using quantitative and qualitative measures, such as:
- Key Risk Indicators (KRI), for which tolerance thresholds are defined,

- target, limits and determination of their level,
- The Bank calculates the own funds requirement for operational risk in accordance with an advanced method (AMA) for the Bank, excluding its Romanian Branch for which the standard method (TSA) is used,
- Estimation of the Bank's operational risk equity based on the output of the AMA model,
- Stress tests,
- Scenario analyses,
- Operational risk self-assessment,
- assessment of new and modified processes, products and business disclosures.

8.5 Operational risk measurement and reporting

The Management Board of the Bank is responsible for the correct course of the operational risk management and control process, which actively participates in operational risk management at the Bank. Supervision over the implementation of the adopted operational risk strategy is exercised by the Supervisory Board and a dedicated Risk Management Committee at the Supervisory Board.

The Bank's organisational structure includes the Operating Risk Committee (ORC) which supports the Bank's Management Board in effective operational risk management. The Committee monitors the level of exposure to operational risk on an ongoing basis and assesses the current situation in terms of operational risk throughout the Bank.

The Operational Risk Management Department is responsible for current supervision of and strategic control of the operational risk on the second line of defence. This is an organisational unit responsible for, among others:

- development and rollout of appropriate methodologies and instruments for operational risk management;
- monitoring of the own funds requirements for operational risk in accordance with the standardised approach (TSA) for the Romanian Branch and in accordance with the advanced measurement approach (AMA) for other activities at the Bank;
- providing opinions and consulting operational risk assessment in projects, products and procedures (new and modified ones);
- monitoring of the level of internal utilisation of the operational risk target and limit and taking managerial measures related to the occurrence of increased or high level of operational risk;
- collecting high-quality data on events and their operational consequences;
- monitoring internal and external events;
- monitoring of the Bank's operational risk level using tools, including key risk indicators (KRI), self-assessments, stress tests;
- preparing regular reports on the Bank's operational risk levels.

All workforce and organisational units of the Bank have the responsibility to monitor and limit operational risks in their daily work. The Bank's employees control the level of operational risk on an ongoing basis in the processes they operate and pro-actively minimise the involved risks, taking all possible measures to avoid/limit operational losses. They are responsible for current registration of events and financial consequences within their respective activity areas, they define and report Key Risk Indicators (KRIs) against tolerance levels for processes particularly exposed to operational risks, as well as they take active part in the self-assessment process.

8.6 Tools for operational risk management

Operational risk management at Alior Bank is supported by the OpRisk IT system which, among other things, captures operational events and losses, and records the results of scenario analyses and self-assessment.

The value of operational losses (net) in the Alior Bank S.A. Capital Group for 2020 amounted to PLN 27.56 million. The amount of operational losses was within the limit adopted for 2020 and target for operational risk.

The biggest share in losses were external frauds and losses in the customer, products, and operational practices category. In connection with losses suffered by the Bank and continuous efforts to reduce operational risk in this area, the Bank undertook measures to mitigate the risk of occurrence of similar events in the future; among other things, it implemented additional control mechanisms, made changes to processes and systems, developed additional training for the Bank's employees.

Operational losses in the Alior Bank S.A. Capital Group in 2020 in PLN million – by category:

Loss category	net loss 2020
Internal fraud	2.75
External fraud	4.88
Employment rules and workplace safety	0.52
Customers, products, and operational practices	12.60
Losses related to fixed assets	0.40
Disruption of the Bank's operations and system failures	0.17
Execution of transactions, delivery and management of operational processes	6.25
Sum total	27.56

AMA approach is used for measuring the equity for operational risk. Based on the AMA approach, Alior Bank has built its proprietary statistical model used for the estimation of operational risk levels based on Loss Distribution Approach (LDA).

On 30 January 2020, Alior Bank was granted by the Polish Financial Supervision Authority permission to remove the lower limit in regard to the application of the AMA approach (the restrictions had been in force until 14 February 2019). In line with this restriction, the Bank had observed own funds requirements at a level not lower than 60% of the requirements calculated according to the standard approach.

In addition, on 16 December 2020, the Alior Bank Group was granted a permit by the Polish Financial Supervision Authority for the combined use of various methods for the purpose of establishing own funds requirements for operational risk at the consolidated level of the Alior Bank SA Group, i.e., advanced measurement methods (AMA) – with regard to the operations of Alior Bank SA and the standardised method (TSA) – with regard to the operations of the Romanian Branch and the operations of Alior Leasing Sp. z o.o. – the company subject to consolidation.

Until 16 December 2020, the Baseline Indicator (BIA) approach had been used for Alior Leasing Sp. z o.o. The introduction of the TSA approach is yet another step towards the development of operational risk management and it translates into a reduction in the capital requirement at the level of the Alior Bank Group.

The value of net operational losses recorded in 2020 was within the adopted objective and the operational risk limit for the Capital Group.

In connection with the use of an advanced measurement approach (AMA) for operational risks, and to limit the risk of materialisation of rare but potentially severe operational events and in compliance with Article 454 CRR, the Bank purchased a number of insurance policies. These policies included, among other things, coverage for: property (including electronic equipment), third-party liability, tax criminal liability, and professional liability.

The terms of particular policies are adapted to the scale and scope of risks. Such policies are not used as a mechanism to reduce the amount of own funds requirements for operational risk nor as a factor to mitigate the amount of equity for operational risk.

An important element of operational risk management at Alior Bank is business continuity management (BCM). As part of BCM, the Bank implements the BCM system and strategies in accordance with the Business Continuity Management Policy approved by the Management Board of the Bank. As part of the BCM system, the Bank regularly:

- analyses business processes/operating activities,

- reviews and updates the operational strategy in contingencies and crisis situations,
- develops and implements contingency solutions and Business Continuity Plans (BCP),
- performs tests, updates and self-assessment of the BCM system,
- builds awareness in the organisation in the field of BCM.

The implementation of the agreed system and BCM strategy is aimed at ensuring the implementation of critical business processes in the event of an unplanned disturbance.

The Bank has cyclically tested contingency solutions for critical processes (including substitute locations) and disaster recovery solutions.

9. Equity

The structure of equity of the Alior Bank SA Group as at 31 December 2020 is presented in the following summary (for the purposes of calculation of the solvency ratio for 2020)

Equity components as at 31 December 2020

	Equity	in PLN mn	Reference to an Article of Regulation (EU) No 575/2013
Common Tier 1 equity: instruments and reserve equity			
1	Equity instruments and related share premiums	**5,182.3**	art. 26.1, art. 27, 28 and 29, EUNB list referred to in art. 26.3
	Series A	1,500.0	EUNB list referred to in art. 26.3
	Series B	99.9	EUNB list referred to in art. 26.3
	Series C	685.3	EUNB list referred to in art. 26.3
	Series D, E, F	108.2	EUNB list referred to in art. 26.3
	Series C	458.0	EUNB list referred to in art. 26.3
	Series H	172.5	EUNB list referred to in art. 26.3
	Series I, J	2,158.4	EUNB list referred to in art. 26.3
2	Retained profits	-511.5	art. 26.1 (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	1,908.6	art. 26.1 (c)
3a	General banking risk funds	0.0	art. 26.1 (f)
4	The value of eligible items referred to in art 484.3, related share premiums intended to be withdrawn from common Tier 1 equity	0.0	art. 486.2
5	Minority shares (amount allowed in consolidated common Tier 1 equity)	0.0	art. 84,
5a	Irrespective of the verified profits from the current period, after deducting all encumbrances or dividends that can be foreseen	0.0	art. 26.2
6	**Common Tier 1 equity before regulatory adjustments**	**6,579.4**	
Common Tier 1 equity: regulatory adjustments			
7	Additional value adjustments (negative amount)	-8.7	art. 34, 105
8	Intangible assets (net of the related deferred income tax provision) (negative value)	-304.8	art. 36.1 (b), art. 37
9	Empty set in the EU	0.0	
10	Deferred income tax assets based on future profitability, excluding assets resulting from temporary differences (after deducting a related deferred income tax provision if the conditions specified in Article 38.3 are met (negative amount)	0.0	art. 36.1 (c), art. 38
11	Reserve capitals reflecting the fair value related to profits or losses arising from money flow hedging instruments	-155.7	art. 33 (a)
12	Negative amounts resulting from calculations of expected loss amounts	0.0	art. 36.1 (d), art. 40, 159,
13	Each increase in equity due to securitised assets (negative amount)	-13.7	art. 32.1
14	Profit or loss on liabilities, measured at fair value, resulting from changes in the credit capacity of the institution	0.0	art. 33 (b)
15	Assets of the pension fund with defined benefits (negative amount)	0.0	art. 36.1 (e), art. 41
16	Direct and indirect capital shares held by the institution in own instruments in common Tier 1 equity (negative amount)	0.0	art. 36.1 (f), art. 42
17	Equity shares in instruments in common Tier 1 equity of financial sector entities, if these entities have cross capital ties with the institution, aimed at artificial overestimation of the institution's own funds (negative amount)	0.0	art. 36.1 (g), art. 44
18	Direct and indirect equity shares held by the institution in instruments in common Tier 1 equity of financial sector entities, if the institution has not made a significant investment in these entities (the amount exceeding the threshold of 10% and after deducting eligible short positions) (negative amount)	0.0	art. 36.1 (h), art. 43, 45, 46, art. 49.2 and 3, art. 79,
19	Direct, indirect and synthetic equity shares held by the institution in instruments in common Tier 1 equity of financial sector entities, if the institution has made a significant investment in these entities (the amount exceeding the threshold of 10% and after deducting eligible short positions) (negative amount)	0.0	art. 36.1 (i), art. 43, 45, 47, art. 48.1 (b), art. 49.1 to 49.3, art. 79,
20	Empty set in the EU	0.0	
20a	The amount of exposures of the following items qualifying to the risk weight equal to 1,250%, if the institution decides to deduct	0.0	art. 36.1 (k)
20b	including: significant share packages outside the financial sector (negative	0.0	art. 36.1 (k) (i), art. 89-91

	Equity	in PLN mn	Reference to an Article of Regulation (EU) No 575/2013
	amount)		
20c	including: securitisation items (negative amount)	0.0	art. 36.1 (k) (ii) art. 243.1 (b) art. 244.1 (b) art. 258
20d	including: delivery of instruments with a later settlement date (negative amount)	0.0	art. 36.1 (k) (iii), art. 379.3
21	Deferred income tax assets resulting from temporary differences (amount exceeding the threshold of 10%, after deducting the related deferred income tax provision in the event of meeting the conditions set out in Article 38.3 (negative amount)	-357.5	art. 36.1 (c), art. 38, art. 48.1 (a),
22	Amount exceeding the threshold of 17.65% (negative amount)	0.0	art. 48.1
23	including: direct and indirect instruments held by the institution in common Tier 1 equity of financial sector entities, if the institution has made a significant investment in these entities	0.0	art. 36.1 (i), art. 48. 1 (b)
24	Empty set in the EU	0.0	
25	including: deferred income tax assets resulting from temporary differences	0.0	art. 36.1 (c), art. 38, art. 48.1 (a)
25a	Losses for the current financial year (negative amount)	0.0	art. 36.1 (a),
25b	Expected tax burdens related to common Tier 1 equity (negative amount)	0.0	art. 36.1 (l)
26	Other adjustments in the temporary period in the Tier 1 primary equity	806.2	art. 473a
27	Eligible deductions from Additional Tier 1 equity which exceed Additional Tier 1 additional institution equity (negative amount)	0.0	art. 36.1 (j)
28	**Common Tier 1 equity total regulatory adjustments**	**-34.2**	
29	**Common Tier 1 equity**	**6,545.2**	
Additional Tier 1 capital: instruments			
30	Equity instruments and related share premiums	0.0	art. 51, 52
31	including: classified as own equity in accordance with applicable accounting standards	0.0	
32	including: classified as liabilities in accordance with applicable accounting standards	0.0	
33	The amount of eligible positions referred to in Article 484.4 and related share premiums intended for withdrawal from additional Tier 1 equity	0.0	art. 486.3
34	Eligible Tier 1 equity taken into account in the consolidated additional Tier 1 equity (including minority shares not included in line 5) issued by subsidiaries and held by third parties	0.0	art. 85, 86
35	including: instruments issued by subsidiaries intended to withdrawal	0.0	art. 486.3
36	**Additional Tier 1 equity before regulatory adjustments**	**0.0**	
Additional Tier 1 equity: regulatory adjustments			
37	Direct and indirect capital shares held by the institution in own additional instruments in Tier 1 equity (negative amount)	0.0	art. 52.1 (b), art. 56 (a), art. 57
38	Equity shares in own additional instruments in Tier 1 equity of financial sector entities, if these entities have cross-capital ties with the institution aimed at artificial overestimation of the institution's own funds (negative amount)	0.0	art. 56 (b), art. 58
39	Direct and indirect equity shares in own additional instruments in Tier 1 equity of financial sector entities, if the institution has not made a significant investment in these entities (the amount exceeding the threshold of 10% and after deducting eligible short positions) (negative amount)	0.0	art. 56 (c), art. 59, 60, 79,
40	Direct and indirect equity shares held by the institution in own additional instruments in Tier 1 equity of financial sector entities, if the institution has made a significant investment in these entities (the amount exceeding the threshold of 10% and after deducting eligible short positions) (negative amount)	0.0	art. 56 (d), art. 59, 79,
41	Empty set in the EU	0.0	
42	Eligible deductions from Tier 2 equity positions which exceed Tier 2 of institutions' equity (negative amount)	0.0	art. 56 (e)
43	Additional Tier 1 equity total regulatory adjustments	0.0	
44	**Additional Tier 1 equity**	**0.0**	
45	**Tier 1 equity (Tier 1 = Common Tier 1 equity + Additional Tier 1 equity)**	**6,545.2**	
Tier 2 equity: instruments and provisions			
46	Equity instruments and related share premiums	1,113.2	art. 62, 63
47	The amount of eligible items referred to in Article 484.5 and related issues for withdrawal from Tier 2 equity	0.0	art. 486.4
48	Qualified own funds instruments included in the consolidated Tier 2 equity (including minority shares and additional instruments in Tier 1 equity not included in lines 5 or 34) issued by subsidiaries and held by third parties	0.0	art. 87, 88,
49	including: instruments issued by subsidiaries intended to withdrawal	0.0	art. 486.4

	Equity	in PLN mn	Reference to an Article of Regulation (EU) No 575/2013
50	Credit risk adjustments	0.0	art. 62 (c) (d)
51	**Tier 2 equity before regulatory adjustments**	**1,113.2**	
Tier 2 equity: regulatory adjustments			
52	Direct and indirect equity shares held by the institution in Tier 2 equity and subordinated loans (negative amount)	0.0	art. 63 (b) (i), art. 66 (a), art. 67
53	Equity shares in instruments in Tier 2 equity and subordinated loans of financial sector entities, if these entities have cross-capital ties with the institution aimed at artificial overestimation of the institution's own funds (negative amount)	0.0	art. 66 (b), art. 68
54	Direct and indirect equity shares held by the institution in Tier 2 equity instruments, and subordinated loans of the financial sector entities, if the institution does not have a significant investment in those entities (amount over the threshold of 10% and net of eligible short positions) (negative value)	0.0	art. 66 (c), art. 69, 70, 79,
55	Direct and indirect equity shares held by the institution in instruments in Tier 2 equity and subordinated loans of financial sector entities, if the institution has made a significant investment in these entities (after deducting eligible short positions) (negative amount)	0.0	art. 66 (d), art. 69, 79,
56	Empty set in the EU	0.0	
57	**Tier 2 equity total regulatory adjustments**	**0.0**	
58	**Tier 2 equity**	**1,113.2**	
59	**Total equity (total equity = Tier 1 equity + Tier 2 equity)**	**7,658.4**	
60	**Total risk-weighted assets**	**48,315.6**	
Equity ratios and buffers			
61	Common Tier 1 equity (as a percentage of risk exposure amount)	13.55%	art. 92.2 (a)
62	Tier 1 equity (as a percentage of risk exposure amount)	13.55%	art. 92.2 (b),
63	Total equity (as a percentage of risk exposure amount)	15.85%	art. 92.2 (c)
64	Institution specific buffer requirement (common Tier 1 equity requirement in accordance with art. 92.1 (a)) increased by equity conservation and countercyclical buffer requirements, by systemic risk buffer, and by the systemically relevant institutions buffer (global systemically relevant institutions buffer or other systemically relevant institutions buffer), expressed as a percentage of risk exposure amount)	1,209.0	capital requirements directive, art. 128, 129, 130.131, 133
65	of which: capital conservation buffer requirement	1,207.9	
66	of which: capital conservation buffer requirement	1.1	
67	of which: systemic risk buffer requirement	0.0	
67a	of which: global systemically relevant institutions buffer or other systemically relevant institutions buffer	0.0	directive on capital requirements, art. 131
68	Common Tier 1 equity available to cover buffers (expressed as a percentage of the total risk exposure amount)	7.00%	directive on capital requirements, art. 128
69	[insignificant in EU regulations]	0.0	
70	[insignificant in EU regulations]	0.0	
71	[insignificant in EU regulations]	0.0	
Equity ratios and buffers			
72	Direct and indirect equity shares of financial sector entities, if the institution has not made a significant investment in these entities (the amount below the threshold of 10% and after deducting eligible short positions)	0.0	art. 36.1 (h), art. 45, 46, art. 56 (c), art. 59, 60, art. 66 (c), art. 69, 70,
73	Direct and indirect capital shares held by the institution in instruments in common Tier 1 equity of financial sector entities, if the institution has made a significant investment in these entities (the amount below the threshold of 10% and after deducting eligible short positions)	87.9	art. 36.1 (i), art. 45, 48,
74	Empty set in the EU	0.0	
75	Deferred income tax assets resulting from temporary differences (the amount below the threshold of 10%, net of the related deferred income tax provision, if the conditions specified in art. 38.3 are fulfilled	609.7	art. 36.1 (c), art. 38, 48,
Ceilings used to take account of provisions in Tier 2 equity			
76	Credit risk adjustments taken into account in Tier 2 equity in relation to exposures covered by the standard approach (before the ceiling was applied)	0.0	art. 62
77	Ceiling for taking into account the credit risk adjustments in Tier 2 in accordance with the standardised approach	0.0	art. 62
78	Credit risk adjustments included in Tier 2 equity in relation to exposures covered by the internal rating method (before applying the ceiling)	0.0	art. 62
79	Ceiling for taking into account the credit risk adjustments in Tier 2 equity in accordance with the internal ratings approach	0.0	art. 62
Equity instruments being the subject of arrangements concerning withdrawal (applicable only from 1 January 2013 to 1 January 2022)			

	Equity	in PLN mn	Reference to an Article of Regulation (EU) No 575/2013
80	Current threshold in relation to instruments in common Tier 1 equity being the subject of arrangements concerning withdrawal	0.0	art. 484.3, art. 486.2 and 5
81	Amount excluded from common Tier 1 equity due to the ceiling (surplus above the ceiling after the expiry of redemption and maturity dates)	0.0	art. 484.3, art. 486.2 and 5
82	Current ceiling in relation to additional instruments in Tier 1 equity which are the subject of arrangements concerning withdrawal	0.0	art. 484.4, art. 486.3 and 5
83	Amount excluded from additional Tier 1 equity due to the ceiling (surplus above the ceiling after the expiry of redemption and maturity dates)	0.0	art. 484.4, art. 486.3 and 5
84	Current ceiling in relation to Tier 2 equity instruments subject to arrangements concerning withdrawal	0.0	art. 484.5, art. 486.4 and 5
85	Amount excluded from Tier 2 equity due to the ceiling (surplus above the ceiling after the expiry of redemption and maturity dates)	0.0	art. 484.5, art. 486.4 and 5

For the purposes of calculation of the solvency ratio for 2020, prudential consolidation was applied – Alior Bank SA and Alior Leasing Sp. z o.o. were consolidated.

Characteristics of capital instruments

Main features of capital instruments	Series A	Series B	Series C and D	Series E and F	Series C and H	Series I and J
Issuer	Alior Bank SA	Alior Bank SA	Alior Bank SA	Alior Bank SA	Alior Bank SA	Alior Bank SA
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for bids on the non-public market)	PLALIOR00045	PLALIOR00045	PLALIOR00045	PLALIOR00045	PLALIOR00045	PLALIOR00045
Governing law or laws to which the instrument is subject	Polish	Polish	Polish	Polish	Polish	Polish
Recognition in regulatory equity						
Transitional rules set out in the CRR	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable
Rules set out in the CRR applicable after the transitional period	Principal Basic	Principal Basic	Principal Basic	Principal Basic	Principal Basic	Principal Basic
	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 1
Qualified at the unit level or (sub-) consolidated/at the unit level and (sub-) consolidated level	level unit/	level unit/	level unit/	level unit/	level unit/	level unit/
	level consolidated	level consolidated	level consolidated	level consolidated	level consolidated	level consolidated
Type of instrument (types defined by each legal system)	ordinary shares	ordinary shares	ordinary shares	ordinary shares	ordinary shares	ordinary shares
Amount recognised in regulatory equity (currency in full	500,000,000	12,500,000	131,967,920	8,431,050	87,137,940	565,503,000
PLN, as at the last reporting date)						
Nominal value of the instrument	10	10	10	10	10	10
Issue price	30	80	issue prices for individual tranches in current report 3/2012 of 04 December 2012 (D) 62	65 (E) 66 (F)	73	39
Redemption price	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Accounting classification	Own equity	Own equity	Own equity	Own equity	Own equity	Own equity
		10 May 2012	23 July 2012	12 September 2017	28 November 2013	25 May 2016
			19 October 2012	12 September 2017	25 February 2015	08 November 2016
Original issue date	21 April 2008		12 September 2017	29 March 2017		
			15 January 2018			
			29 March 2018			
			28 June 2018			
Perpetual or periodical	perpetual	perpetual	perpetual	perpetual	perpetual	perpetual
Original maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date
Call option at the request of the issuer subject to prior approval by	No	No	No	No	No	No

Main features of capital instruments	Series A	Series B	Series C and D	Series E and F	Series C and H	Series I and J
supervisory authorities						
Optional redemption date, conditional redemption dates, and redemption amount	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Subsequent redemption dates, if applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Coupons / dividends						
Fixed or variable dividend / fixed or variable coupon	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Interest coupon and any related index	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
The existence of rights to not pay dividend	No	No	No	No	No	No
Fully discretionary, partially discretionary, or mandatory (in terms of the deadline)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
Fully discretionary, partially discretionary, or mandatory (in terms of the amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
The existence of an option with a growing interest rate or other incentive for redemption	No	No	No	No	No	No
Non-cumulated or cumulated	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Convertible or fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
If convertible, event or events causing conversion	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
If convertible, fully or partially	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
If convertible, conversion rate	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
If convertible, specify the type of instrument conversion to which can be made	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
If convertible, specify the issuer of the instrument to which the conversion is made	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Impairment losses	No	No	No	No	No	No
In the case of impairment loss, event or events causing the impairment loss	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
In case of impairment loss, in full or in part	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
In case of impairment loss, permanent or temporary	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
In case of a temporary impairment loss, a description of the impairment loss mechanism	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Position in the subordination hierarchy in the case of liquidation (it is necessary to specify the type of the Instrument directly privileged in relation to a given Instrument)	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Incompatible transitional features	No	No	No	No	No	No
If yes, it is necessary to determine the incompatible features	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

The table below presents a comparison of the institution's own funds and the capital ratio and the leverage ratio, taking into account and without taking into account the application of transitional solutions concerning IFRS 9 and analogous expected losses on account of credits

Capital - disclosure of information on transitional solutions related to IFRS 9	**31/12/2020**
Available capital	
Common Tier 1 equity (CET 1)	6,545.2
Common Tier 1 equity (CET 1) if transitional solutions concerning IFRS 9 or analogous expected losses on account of	5,548.5

credits were not applied	
Tier 1 equity	6,545.2
Tier 1 equity (CET 1) if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	5,548.5
Total equity	7,658.4
Total equity if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	6,661.7
Risk-weighted assets	
Total risk-weighted assets	48,315.6
Risk-weighted assets if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	47,522.2
Equity ratios	
Common Tier 1 equity as a percentage of risk exposure amount	13.55%
Common Tier 1 equity as a percentage of the risk exposure amount if transitional solutions concerning IFRS 9 or analogous expected credit losses have not been applied	11.68%
Tier 1 equity as a percentage of the risk exposure amount	13.55%
Tier 1 equity as a percentage of the risk exposure amount if transitional solutions concerning IFRS 9 or analogous expected credit losses have not been applied	11.68%
Total equity as a percentage of the risk exposure amount	15.85%
Total equity if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	14.02%
Leverage ratio	
Measure of total exposure comprising the leverage ratio	82,258.1
Leverage ratio	7.96%
Leverage ratio as a percentage of the risk exposure amount if transitional solutions concerning IFRS 9 or analogous expected credit losses have not been applied	6.81%

Arrangements of own funds to the amounts presented in the consolidated financial statements of the Capital Group of Alior Bank as at 31 December 2020.

	items of the consolidated financial statements	**adjustments resulting from the application of prudential consolidation**	**items of the consolidated financial statements after taking into account prudential consolidation**	**items not taken into account in regulatory own funds**	**items recognised in regulatory own funds**
ASSETS					
Intangible assets	425.1	-34.3	390.8	0.0	-390.8
LIABILITIES AND EQUITY					
Share capital	1,305.5	0.0	1,305.5	0.0	1,305.5
Supplementary capital	5,399.6	-4.4	5,395.2	0.0	5,395.2
Revaluation reserve	215.7	0.0	215.7	155.7	60.0
Other reserves	161.8	12.7	174.4	0.0	174.4
Retained profits	-523.0	11.7	-511.5	0.0	-511.5
- previous years' result	-211.8	19.4	-192.5	0.0	-192.5
- current year net result	-311.2	-7.7	-319.0	0.0	-319.0
Non-controlling interest					
Total own equity	**6,559.6**				**6,423.7**
Equity included in the calculation of regulatory own funds					6,423.7
Other components (decreases and increases) of own funds, including:					1,234.7
- subordinated liabilities					1,113.2
- goodwill and other intangible assets					-304.8
- profit verified by a statutory auditor for which the Capital Group has the consent to include in its own funds					0.0
- deferred income tax assets based on future profitability and resulting from temporary differences					-357.5
- adjustment in the transitional period due to adjustment to IFRS 9 requirements					806.2
- securitisation positions					-13.7
- adjustment of the value due to prudent valuation requirements					-8.7
Regulatory own funds adopted to calculate the total capital ratio					**7,658.4**

The amount of deduction from own funds for intangible assets was decreased by PLN 86.0 million. This adjustment represents the value of prudentially measured intangible assets that are software, which has been determined by the Bank in accordance with the Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. This adjustment has been taken into account by the Bank in the calculation of capital requirements for credit risk.

10. Financial leverage

The regulatory leverage ratio of Alior Bank SA Group as at 31 December 2020 was calculated on the basis of the provisions of Commission Delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to leverage ratio (hereinafter referred to as "Regulation 2015/62").

The financial leverage ratio is calculated by dividing Tier 1 equity by total exposure and expressed as a percentage value. Total exposure measure is the sum of exposure values defined in accordance with Regulation 2015/62 for all assets and off-balance sheet items not calculated when determining Tier 1 equity measure. The leverage ratio is calculated in relation to Tier 1 equity using a full and transitional definition.

The table below presents the arrangement of the total exposure to calculate the leverage ratio with the value of assets in the consolidated annual report of the Alior Bank SA Capital Group published in accordance with Commission Implementing Regulation (EU) 2016/200

LRSum: Summary for reconciliation of accounting assets and leverage ratio exposures		**31/12/2020**
		Applicable amount
1	Total assets according to published financial statements	78,642.0
2	Adjustment on account of entities subject to consolidation for accounting purposes but not covered by the scope of regulatory consolidation	13.3
3	(Adjustment on trust assets recognised in the balance sheet in accordance with applicable accounting standards, but excluded from the total exposure measure consisting of the leverage ratio in accordance with art. 429.13 of Regulation (EU) No. 575/2013)	0.0
4	Adjustment on derivatives	591.7
5	Adjustment on securities financing transactions (SFTs)	0.0
6	Adjustment on off-balance sheet items (i.e. conversion to the amount of credit equivalent of off-balance-sheet exposures)	2,065.7
EU-6a	(Adjustment due to exposures within the group excluded from the total exposure measure consisting in the leverage ratio in accordance with art. 429.7 of Regulation (EU) No. 575/2013)	0.0
EU-6b	(Adjustment due to exposures excluded from the total exposure measure consisting in the leverage ratio in accordance with art. 429.14 of Regulation (EU) No. 575/2013)	0.0
7	Other adjustments	945.5
8	**Measure of total exposure comprising the leverage ratio**	**82,258.2**

Below is the division and measurement of total exposure and the leverage ratio for the Capital Group of Alior Bank SA

LRCom: Joint disclosure of leverage ratio		**31/12/2020**
		Leverage ratio exposures specified in the Capital Requirements Regulation
Balance sheet exposures (excluding derivatives and transactions financed with the use of securities)		
1	Balance sheet items (excluding derivatives, transactions financed with the use of securities and trust assets, but taking collateral into account)	79,430.6
2	(Amounts of assets deducted when determining Tier 1 equity)	-676.0
3	Total balance-sheet exposures (excluding derivatives, transactions financed with the use of securities and trust assets) (sum of lines 1 and 2)	78,754.6
Exposures for derivatives		
4	Replacement cost related to all transactions on derivatives (i.e. excluding a qualifying variable security deposit in cash)	726.1
5	The amount of mark-up in relation to the potential future exposure related to all derivative transactions (valuation method according to market value)	583.1
EU-5a	Exposure calculated using the valuation method of the primary exposure	

LRCom: Joint disclosure of leverage ratio		**31/12/2020**
6	Grossing-up the collateral provided for derivatives, if deducted from balance sheet assets in accordance with applicable accounting standards	
7	(Deduction of debt assets in relation to a variable security deposit in cash provided in transactions on derivative instruments)	0.0
8	(Excluded exposures under transactions settled through the customer in relation to an asset settled with a central counterparty)	
9	Adjusted effective nominal value of the issued credit derivatives	
10	(Adjusted effective nominal value of compensations and deductions of mark-ups in relation to the issued credit derivatives)	
11	Total derivatives exposures (sum of lines 4 to 10)	1,309.2
Exposures under transactions financed with the use of securities		
12	Assets in respect of transactions financed with the use of gross securities (without offsetting), after adjustments in respect of accounting transactions related to sales	127.5
13	(Compensated amounts of cash liabilities and cash receivables in relation to assets under transactions financed with the use of gross securities)	
14	Exposure to counterparty credit risk in relation to assets under transactions financed with the use of securities	1.2
EU-14a	Derogation concerning transactions financed with the use of securities: Exposure to counterparty credit risk in accordance with art. 429b.4 and art. 222 of Regulation (EU) no. 575/2013	
15	Exposures under transactions concluded by the intermediary	
EU-15a	(Excluded exposures under transactions financed with the use of securities settled through the customer in relation to an asset settled with a central counterparty)	
16	Total exposure to transactions financed using securities (sum of rows 12-15a)	128.7
Other off-balance-sheet exposures		
17	Off-balance sheet exposures expressed as gross nominal value	9,326.7
18	(Adjustments due to conversion to the credit equivalent amount)	-7,261.1
19	Other off-balance-sheet exposures (sum of lines 17 and 18)	2,065.6
Exposures excluded in accordance with art. 429.7 and 429.14 of Regulation (EU) No. 575/2013 (balance sheet and off-balance-sheet exposures)		
EU-19a	(Exclusion of exposures inside the group (on a consolidated basis) in accordance with Article 429.7 of the Regulation (EU) No. 575/2013 (balance sheet and off-balance-sheet)	
EU-19b	(Exposures excluded in accordance with art. 429.14 of Regulation (EU) No. 575/2013 (balance sheet and off-balance-sheet exposures)	
Equity and total exposure measure		
20	Tier 1 equity	6,545.2
21	**Measure of total exposure comprising the leverage ratio (sum of lines 3, 11, 16, 19, EU-19a, and EU-19b)**	**82,258.0**
Leverage ratio		
22 Leverage ratio		7.96%
Selection of transitional provisions and amount of excluded trust items		
EU-23	Selection of transitional provisions to define the capital measure	temporary
EU-24	Amount of trust items excluded pursuant to art. 429.11 of Regulation (EU) No. 575/2013	

LRSpl: Division of balance sheet exposures (excluding derivatives, transactions financed with the use of securities, and excluded exposures)		**31/12/2020**
		Leverage ratio exposures specified in the Capital Requirements Regulation
EU -1	Total balance-sheet exposures (excluding derivatives, transactions financed with the use of securities, and excluded exposures), including:	**79,430.6**
EU-2	Exposures included in the trading book	123.5
EU-3	Exposures included in the banking book, including:	**79,307.1**
EU-4	Covered bonds	0.0

EU-5	Exposures treated as exposures to the State	17,496.8
LRSpl: Division of balance sheet exposures (excluding derivatives, transactions financed with the use of securities, and excluded exposures)		**31/12/2020**
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as states	9.8
EU-7	Institutions	1,411.4
EU-8	Secured with real estate mortgages	12,922.9
EU-9	Retail exposures	30,687.1
EU-10	Enterprises	8,459.2
EU -11	Exposures in default	5,333.3
EU -12	Other exposures (e.g. equity, securitisation, and other assets not generating credit liability)	2,986.6

The leverage ratio is at a satisfactory level. The Bank has identified factors that have an impact on its amount, including:

- increase in the balance sheet total,
- increase in Tier 1 equity by retaining all generated profits.

The leverage ratio for the Bank's Capital Group in 2020 is as follows:

Leverage ratio	31.03.2020	30.06.2020	30.09.2020	31.12.2020
Leverage ratio - application of a fully introduced definition of equity	7.04%	6.30%	6.59%	6.81%
Leverage ratios using the temporary definition of Tier 1 equity	8.15%	7.78%	7.84%	7.96%

In its activity, the Bank applies risk management procedures of excessive financial leverage. These procedures define:

- leverage ratio measurement method as a Tier 1 equity measure divided by total exposure,
- frequency of calculating leverage ratio,
- responsibility for calculating the leverage ratio.
- excessive financial leverage risk limits,
- responsibility for managing the risk of excessive financial leverage.

11. Capital requirements

As at the end of 2020, the total capital requirement included requirements for:

- credit risk,
- position risk,
- risk of large exposures,
- currency risk,
- settlement risk,
- commodities risk,
- credit valuation adjustment risk (CVA),
- operational risk,
- counterparty risk,

When calculating capital requirements as at 31 December 2020, the Bank applied the provisions of 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, amending Regulation (EU) No 648/2012 (hereinafter: CRR), as amended:

- capital requirement for credit risk and counterparty risk was calculated using the standard approach in accordance with Title II of the third part of the CRR,
- the capital requirement for position risk was calculated in accordance with Chapter 2 of Title IV of Part 3 of the CRR, whereas the general risk requirement was calculated using the maturity date method,
- the requirement for large exposures was calculated in accordance with part 4 of the CRR,
- the foreign exchange risk requirement was calculated in accordance with Chapter 3 of Title IV of Part 3 of the CRR,
- capital requirement for settlement risk was calculated in accordance with Title V of Part 3 of the CRR,
- capital requirement for commodity prices was calculated in accordance with Chapter 4 of Title IV of Part 3 of the CRR,
- capital requirement for credit valuation adjustment risk was calculated using the standard approach in accordance with the third part of the CRR,
- capital requirement for operational risk was calculated using a combined advanced approach (AMA) and a standard approach (TSA).

As the total currency position as at the end of 2020 did not exceed 2% of the Bank's own funds, the foreign exchange risk requirement was 0. The zero value was also achieved by the requirement for large exposures and the risk of settlement and delivery.

The value of the risk-weighted exposure and individual capital requirements by types of risks as at 31 December 2020:

Risk types	Value of risk-weighted exposure	Capital requirement
credit risk	44,102.6	3,528.2
CVA credit valuation adjustment risk	88.7	7.1
high exposure risk	0.0	0.0
position risk	340.0	27.2
currency risk	0.0	0.0
settlement risk	0.0	0.0
commodity price risk	76.0	6.1
operational risk	3,708.3	296.7
of which the standard approach (TSA)	98.9	7.9
of which the advanced measurement approach (AMA)	3,609.4	288.7
TOTAL	**48,315.6**	**3,865.3**

Value of risk-weighted exposure and capital requirement for credit risk according to exposure classes as at 31 December 2020:

Exposure class	Value of risk-weighted exposure	Capital requirement
Governments and central banks	1,563.4	125.1
Regional or local authorities	0.0	0.0
Public sector bodies	2.5	0.2
Institutions	927.8	74.2
Entrepreneurs	8,062.7	645.0
Retail	20,198.4	1,615.9
Secured with real estate mortgages	5,621.6	449.7
Exposures in default	5,871.5	469.7
Items associated with particularly high risk	188.6	15.1
Equity exposures	316.5	25.3
Other items	1,349.6	108.0
TOTAL	**44,102.6**	**3,528.2**

11.1 Capital buffers

The provisions of the CRD IV Directive, in particular those concerning regulatory capital buffers, have been implemented into the Polish national legislation in 2015 by adoption of the Act on macro-prudential supervision over the financial system and crisis management in the financial system and appropriate update of the Banking Law.

As at 31 December 2020, the Alior Bank SA Capital Group estimates additional requirements in the form of the following buffers: Safety buffer

Pursuant to Article 19.1 of the Polish Act on macro-prudential supervision over the financial system and crisis management in the financial system as of 1 January 2019. Alior Bank SA Group uses a security buffer in the amount of 2.5% of the risk exposure.

System risk buffer

On 18 March 2020, the Minister of Finance signed an ordinance on the dissolution of the systemic risk buffer. As at 31.12.2020, the value of the buffer is 0%.

Anti-cyclical buffer

The anticyclical buffer ratio consists in average weighted anti-cyclical buffer indicators applicable in jurisdictions where appropriate credit exposures of the institution are located or applied for the purposes of this article pursuant to article 139.2 or 139.3. Since 1 January 2016, the anti-cyclical buffer ratio is 0% for credit exposures in the territory of the Republic of Poland. The ratio in this amount shall apply until its level is changed by the Polish Minister of Finance by way of a regulation. In 2020, the Financial Stability Committee did not identify significant third countries for the Polish banking system. As at 31.12.2020, the value of the buffer is 0.0022%.

The amount of the anti-cyclical buffer specific to the institution as at the end of 2020 for the Alior Bank SA Capital Group is as follows:

	31/12/2020
Total risk exposure amount	48,515.9
Specific anti-cyclical buffer indicator for the institution	0.0022%
Requirements for the specific anti-cyclical buffer institution	1.1

Geographical distribution of relevant credit exposures for the purposes of calculating the anti-cyclical buffer specific to the institution as at 31.12.2020:

	General credit exposures	Exposure included in the trading book	Securitisation exposure	Own funds requirements					
	Exposure value according to the standard method	Total of long and short positions in the trading book	Exposure value according to the standard method	Of which: General credit exposures	Of which: Exposures included in the trading book	Of which: Securitisation exposures	Total	Weights used to determine own funds requirement	Anti-cyclical buffer indicator
Division by state:									
Poland	60,470.8	7.7	502.9	3,262.0	2.5	0	3,264.5	0.9800	0.00%
Netherlands	18.4		-	0.8			0.8	0.0002	0.00%
Luxembourg	353.2		-	28.2			28.2	0.0085	0.25%
Belgium	12.2		-	0.5			0.5	0.0002	0.00%
Singapore	0.1		-	0.0			0.0	0.0000	0.00%
Malta	1.6		-	0.1			0.1	0.0000	0.00%
Denmark	0.3		-	0.0			0.0	0.0000	0.00%
Latvia	0.9		-	0.0			0.0	0.0000	0.00%
United Kingdom	156.0		-	7.7			7.7	0.0023	0.00%
Austria	6.1		-	0.3			0.3	0.0001	0.00%
Norway	3.8		-	0.3			0.3	0.0001	1.00%
Spain	1.5		-	0.1			0.1	0.0000	0.00%
Czech Republic	0.7		-	0.1			0.1	0.0000	0.50%
Switzerland	23.9		-	1.5			1.5	0.0005	0.00%
United States	5.9		-	0.2			0.2	0.0001	0.00%
Romania	352.1		-	21.4			21.4	0.0064	0.00%
Australia	0.7		-	0.1			0.1	0.0000	0.00%
Ireland	44.4		-	1.8			1.8	0.0005	0.00%
France	6.6		-	0.3			0.3	0.0001	0.00%
Cyprus	1.7		-	0.1			0.1	0.0000	0.00%
Germany	58.6		-	2.7			2.7	0.0008	0.00%
Italy	3.0		-	0.2			0.2	0.0001	0.00%
Sweden	0.8		-	0.1			0.1	0.0000	0.00%
Other countries	1.9		-	0.2			0.2	0.0001	0.00%
TOTAL	**61,525.2**	**7.7**	**502.9**	**3,328.7**	**2.5**	**0.0**	**3,331.2**	**1.0000**	**-**

Buffer of other systematically important institutions (O-SII)

By decision of 14 October 2019, the Polish Financial Supervision Authority repealed the decision of the Polish Financial Supervision Authority of 31 July 2018 ref. DAZ-W5.751.1.2018 classifying Alior Bank S.A. in the other institutions of systemic importance, and removed the duty to maintain a buffer in the equivalent of 0.25% of the total risk exposure. In 2020, the Bank continued not to be under an obligation to maintain the O-SII buffer.

11.2 Specific credit risk adjustment

In accordance with Commission Delegated Regulation (EU) No. 183/2014 of 20 December 2013 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms with regard to regulatory technical standards concerning the determination of the method of calculating adjustments due to special and general credit risk, when calculating capital requirements the Bank takes into account adjustments due to special credit risk after obtaining a permit from the Polish Financial Supervision Authority to include the result of a given period in the Bank's own funds or in the case of a loss, when appropriate amounts have been deducted from Tier 1 equity. In particular, as at 31.12.2020 the Bank included adjustments from the last date for which it recognised the result (loss) in own funds, i.e. 31.12.2020, as part of adjustments due to special credit risk.

As of 01.01.2018, the Financial Reporting Standard (IFRS 9) is applied at the Bank. With regard to recognition of expected credit losses on financial assets, it replaces the International Accounting Standard (IAS 9). The application of IFRS may lead to a sudden increase in provisions for expected credit losses and a sudden decrease in common Tier 1 equity. Therefore, the Bank decided to apply transitional solutions related to IFRS 9, described in Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No. 575/2013 as regards transitional solutions to mitigate the impact of implementing IFRS 9 on own funds and regarding treatment as large exposures of certain exposures to public sector entities denominated in the national currency of any Member State.

EU CR2-A: Changes in adjustments due to special credit risk	**Accumulated specific credit risk adjustment**
Initial balance	6,568.7
Increases due to amounts set aside for estimated credit losses in a given period	4,167.0
Decreases due to amounts reversed for estimated credit losses in a given period	1,371.9
Amounts taken against the accumulated credit risk adjustments	1,419.9
Transfers between credit risk adjustments	
Impact of exchange rate differences	
Merger of enterprises, including acquisition and disposal of subsidiaries	
Other adjustments	
Final balance	7,943.8
Amounts recovered by adjustments by credit risk disclosed directly in the profit and loss account	55.7
Adjustments by specific credit risk disclosed directly in the profit and loss account	

Provisions laid down in the Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic, aimed at mitigating the impact of sudden increase in expected loss provisions for capital ratios became effective on 27 June 2020. The provisions of the aforementioned Regulation extend the term of transitional solutions concerning the implementation of IFRS 9 by two years and allow to fully add to their Common Equity Tier 1 any increase in new expected credit loss provisions for the years 2020 and 2021.

12. Equity

Alior Bank SA has a process of assessing the adequacy of equity (ICAAP) in accordance with the Regulation of the Polish Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating equity in banks (Dz. U. [*Polish Journal of Laws*] of 24 March 2017, item 637).
The purpose of the equity adequacy assessment process is to ensure that all risks to which the Bank is exposed are analysed in terms of materiality and that the Bank has an appropriate amount of capital to cover the risk considered significant.

This process includes the following phases:

- identification of significant risks,
- quantification of individual risks and total equity,
- stress tests,
- reporting and monitoring capital targets, including available capital allocation limits,
- capital management and capital planning,
- process review.

Each phase is subject to regular verification in order to adapt it to the current internal and external situation of the Bank.

12.1 Risk analysis and selection of significant types of risk

The Bank regularly reviews all possible types of risks that may threaten the achievement of the Bank's goals and classifies them as significant or insignificant in the Bank's operations. This review is carried out once a year or more frequently, if there are premises for changing the risk profile of the Bank or its environment.

As at 31 December 2020 the Bank recognised the following types of risk as material:

- credit risk - insolvency (including residual risk and large exposures),
- credit risk – concentration in the industry,
- credit risk – concentration towards the customer, group of related customers, as well as to capital groups,
- credit risk – concentration in foreign currency,
- credit risk – concentration of collaterals,
- operational risk,
- liquidity risk,
- interest rate risk in the banking book,
- market risk in the trading book,
- settlement risk/delivery risk with a later settlement date,
- model risk,
- business risk (including economic environment risk),
- excessive financial leverage risk,
- collateral concentration risk,
- reputational risk.
- capital risk,
- compliance risk,

For each significant type of risk, the Bank defines the method of estimating the amount of capital necessary to cover it.

The following methods of estimating the amount of equity were used for the types of risks considered material at the Bank as at 31 December 2020:

- credit risk (including counterparty credit risk) – a combination of the statistical approach to estimating the unexpected loss in the credit portfolio and the regulatory standard approach,
- industry concentration credit risk – a statistical approach towards estimating an unexpected loss with the assumption of an unfavourable scenario for the level of insolvency events, taking into account the characteristics of the industry,
- concentration credit risk towards the customer – a statistical method of estimating an unexpected loss, taking into account the aggregation of exposures towards a single customer or a group of customers linked in terms of capital or organisation,
- credit risk of concentration in currency – a statistical method of estimating an unexpected loss, taking into account PLN depreciation against main currencies, which affects an increase in currency exposures,
- operational risk – advanced operational risk measurement approach (AMA model) and TSA,
- liquidity risk – internal model based on crisis scenarios,
- interest rate risk in the banking book – measure of the economic value of capital and interest income,
- market risk in the trading book – internal model based on the VaR method,
- model risk – an expert method depending on the results of stress tests,
- business risk - an expert method depending on the results of stress tests,
- settlement/delivery risk with a later settlement date – an expert method based on the probability of insolvency within 1 D for the largest maturing treasury transactions,
- reputation risk - a statistical method of estimating an unexpected loss resulting from materialisation of the risk.

The estimated amounts are aggregated in order to determine the amount of capital required to cover all significant types of risk incurred by the Group. The Group uses a conservative approach by not taking into account the correlation effect between various types of risk.

12.2 Process monitoring

The amount of equity estimated for individual significant types of risk is regularly monitored in relation to the amount of available equity. Monitoring results are regularly reported to the Bank's governing bodies.

The ICAAP process and its documentation are subject to review. During the review, it is checked whether ICAAP corresponds to the nature and size of the Bank's activity, whether there is a clear link between the level of required capital and the strategy of activity and risk appetite. This review takes place once a year or at the time of significant changes in the internal or external environment of the Bank.

13. Remuneration policy

The Remuneration Policy in force at the Bank, covering its provisions of all employees, is the basic document in the scope of policy and rules in the scope of shaping remuneration of the Bank's employees, with particular emphasis on the principles of remunerating employees who, due to the special type of their role in the Bank's risk management system, were covered by a separate regulatory regime in this regard, i.e.:

- persons being material risk takers (MRTs), including the Management Board
- Individuals exercising Control Functions,
- employees of the Compliance Department and the Audit Department,
- employees involved in offering or distributing banking, investment and insurance products and services.

Objectives of the Policy:

- to promote correct and effective management of risks, and discourage from taking excessive risks (exceeding the risk levels acceptable to the Bank) in order to maintain a solid equity base and having regard to the long-term interests of the Bank – its shareholders and customers,
- to promote the Bank's strategy for sustainable development and prudent risk management policy,
- to mitigate conflict of interest,
- maintain transparent relationship between individual results and individual remuneration by focusing on goals linked to responsibilities and actual influence,
- ensure that the Bank's staff act in the best interests of their customers, including provide them with clear and transparent information on services and products offered by the Bank.

In the implementation of the above objectives, the Policy in relation to MRTs plays a special role.

The main Policy statements regarding MRTs:

- remuneration composed of fixed and variable parts,
- avoidance of awarding retirement benefits which are not defined in advance to MRTs,
- obligating MRTs to avoid using individual hedging strategies or insurance regarding remuneration and liability in order to alleviate the consequences of incorporation of risks in the pay system applicable thereto,
- except for persons performing control functions, the basis for determining the total amount of variable pay is the assessment of results an MRT and a given organisational unit and the Bank's results in the area of responsibility of that person, taking into account the results of the entire Bank,
- maximum ratio of an MRT's variable pay to fixed pay: 100%,
- at least 50% of the variable remuneration of MRT is an incentive to detailed commitment to long-term interests of the Bank, and comprises financial instruments linked to the Banks' shares. The remaining part of the variable remuneration paid in cash as Cash Variable Pay,
- at least 40% of an MRT's variable pay, and if an MRT's variable pay is for a particularly high amount, at least 60% of the variable pay – shall be deferred pay,
- variable remuneration of the Management Board adjusted to the provisions of the Polish Act of 9 June 2016 on the principles of shaping remuneration of persons managing certain companies.

Except for staff exercising control functions, the total amount of the variable pay is based on the assessment of the results of a given MRT and of their respective organisational unit as well as results of the Bank within the area of responsibility of that person, taking into account the results of the Bank as a whole.

The Bank's results adopted in order to determine variable remuneration components take into account the Bank's risk, the cost of capital, and liquidity risk in the long-term perspective. The results are assessed for three years so that the amount of variable remuneration includes the economic cycle of the Bank and the risk associated with the business activity conducted by the Bank. When assessing results of individual MRTs, financial and non-financial criteria are taken into account. Financial criteria include, in particular, one or several of the following: net result of

the Bank or its capital group, return on capital, capital adequacy ratios of the Bank, liquidity ratios of the Bank or its capital group, profitability ratios of the Bank or its capital group, other adopted for individual purposes for implementation for individual employees. Non-financial criteria include, in particular, one or several of the following criteria: the criterion of compliance with the rules of law and internal regulations, the criterion of life of employment, the criterion of compliance assessment and risk assessment performed in accordance with separate internal regulations, other criteria adopted for individual purposes for implementation for individual employees.
As regards variable remuneration of MRTs being Members of the Management Board of the Bank, variable remuneration is payable to a given Member of the Management Board, after approval of the Management Board report on the activities of the Bank and the financial statements for the previous financial year and granting discharge to that Member for the performance of their duties by the General Meeting.

The Policy is subject to annual review of validity and adequacy, and if it is necessary to update it, it is evaluated by the Nomination and Remuneration Committee and adopted by the Management Board and approved by the Supervisory Board.

13.1 Selection and evaluation policy

Alior Bank SA applies the Policy of selection and assessment of the Members of the Management Board and the Supervisory Board, implemented by the resolution of the Supervisory Board. In 2020, the Policy was adapted to the requirements resulting from the Methodology for assessing the suitability of entities supervised by the PFSA. The process of selecting candidates for Members of the Management Board is conducted on the basis of suitability assessment and taking into account the diversity policy adopted by the Bank. The subject matter of the assessment is the suitability of a Member of the Management Board to perform a function at the Bank, understood as a degree to which the person is considered to have an untarnished reputation and having an adequate level of knowledge, skills and experience, on their own or jointly with other persons, enabling the performance of duties of a member of the Management Board of the Bank. In this respect, verification includes education, professional experience (including performing managerial or supervisory functions in the past, as well as specialisation in areas relevant to the Bank's activity), devoting sufficient time to perform duties of a Member of the Management Board or Supervisory Board. Suitability also includes integrity, ethics and independence of judgements of each person and the ability to devote sufficient time to perform their duties. The assessment of suitability of the Members of the Management Board and the Management Board as a whole is carried out by the Nomination and Remuneration Committee, and then presented to the Supervisory Board.
In accordance with the Policy, the Bank undertakes efforts to ensure diversity of the Management Board, in particular in the scope of education and professional experience, gender, and to the extent ensuring a broad spectrum of views of the management body. When assessing the diversity of Management Board members in terms of their education and professional experience, criteria such as: place (country, region) in which education or professional experience is obtained, education profile, university degree, specialisation in a specific field, type of entities in which the candidate held the function or was employed and employment time are taken into consideration in particular. The Nomination and Remuneration Committee, as part of the annual review of the composition of the Management Board, assesses its compliance with the objectives and target values, and if they are not met, should document the reasons for such fact and measures that will be taken and the dates of their adoption in order to ensure the fulfilment of objectives and values.

Nomination and Remuneration Committee of the Supervisory Board

The Nomination and Remuneration Committee was appointed on the basis of a resolution of the Supervisory Board on 7 December 2011.

Committee's responsibilities:

- providing opinions on the remuneration policy in order to ensure compliance of the terms and conditions of pay with regulations, in particular with the Regulation of the Polish Minister of Development and Finance of 6 March 2017 on risk management system and internal control system, remuneration policy, and detailed method of estimating equity at banks, in accordance with the principles of stable and prudent management of risk, capital and liquidity, as well as with special consideration of long-term interests of the Bank and interests of its shareholders;
- providing opinions on the classification of jobs, which is governed by the pay policy with regard to individuals having material impact on the risk profile of the Bank (Material Risk Takers - MRTs), providing opinions on annual objectives; providing opinions and monitoring variable pay of the MRTs,
- preparing opinions, assessments or recommendations on candidates to the Management Board of the Bank, on entering into, amending or termination of contracts with Members of the Management Board, on matters of structure, size, and effectiveness of the Management Board as a body, and the expertise, skills and experience of individual Members of the Management Board;
- preparing opinions, assessments or recommendations on other personnel matters for which the Supervisory Board or the Committee are competent as per the applicable in-house regulations and mandatory legislation.

Composition of the Committee

Composition of the Committee as at 31/12/2020		**Composition of the Committee as at 31/12/2019**	
Aleksandra Agatowska	Chair of the Committee	**Tomasz Kulik**	Chair of the Committee
Ernest Bejda	Member of the Committee	**Mikołaj Handschke**	Member of the Committee
Mikołaj Handschke	Member of the Committee	**Maciej Rapkiewicz**	Member of the Committee
Marek Pietrzak	Member of the Committee	**Marcin Eckert**	Member of the Committee

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

With regard to the assignment of the Member of the Nomination and Remuneration Committee of the Supervisory Board, Mr Mikołaj Handschke, to temporarily act as the Vice-President of the Management Board of the Bank, the Supervisory Board of the Bank, on 28 December 2020, replenished the composition of the Nomination and Remuneration Committee of the Supervisory Board by appointing Mr Marek Pietrzak to act as a Member of the Nomination and Remuneration Committee of the Supervisory Board.

In 2020, the Nomination and Remuneration Committee held 9 meetings during which, among other things, it prepared initial assessments regarding the individual adequacy of candidates to the Management Board of the Bank, prepared a secondary assessment regarding the individual adequacy of Members of the Management Board of the Bank appointed for the ending term of office and the collective adequacy of the Management Board, prepared opinions regarding amendments to the Remuneration Policy or the classification of positions subject to the Remuneration Policy to the extent of individuals who have a major impact on the risk profile of the Bank and decisions related to the variable remuneration payable to those persons.

Functions of members of the management body

As at 31 December 2020, Members of the Management Board of Alior Bank SA held 5 positions in management boards and 3 positions in supervisory boards. Data includes function in the Management Board of the Bank and treats functions as a single function within the Alior Bank SA Group. Members of the supervisory boards delegated to carry out the duties of a member of the management board are taken into account as members of the supervisory board.

13.2 Bonus Schemes for the Management Personnel

The Management Board is covered by a separate bonus system. Its purpose is to create additional incentives motivating its participants to effectively perform their duties, in particular to manage the Bank and take efforts aimed at further permanent development of the Bank and its capital group, while maintaining proper and effective risk management at the Bank, stabilising the Bank's management staff, and achieving long-term interests of shareholders by leading to a permanent increase in the stock exchange valuation of the Bank's shares, while maintaining an increase in the net asset value of the Bank and its companies. The assessment takes into account the financial and non-financial criteria and the results of work of the Authorised Person from the previous three calendar years.

The bonus is awarded and paid out in accordance with the Remuneration Policy and the provisions of the Act of 9 June 2016 on the Principles of Shaping the Remuneration of Persons Managing Certain Companies.

The remaining members of the Management Personnel, with particular emphasis on the Persons with Impact on the Risk Profile, receive an annual bonus. Except for Staff Exercising Controlling Functions, the basis for determining the total amount of variable remuneration is the assessment of the results of the Person Affecting the Risk Profile and a given organisational unit and the Bank's results in the area of responsibility of that person, taking into account the results of the whole Bank.

13.3 Quantitative information related to remuneration of persons with impact on the risk profile

The summary quantitative information for the Members of the Management Board and persons with impact on the risk profile in 2020 (in PLN million) has been presented below:

Business Area	**Total Remuneration**
Products and sales – Business Customer segment	6.0
Products and sales – Individual Customer segment	6.8
Risk/Audit/Compliance	7.5
Other units	12.5
Subsidiaries	3.5
Total	**36.3**

Remuneration	**number of people**	**Total remuneration for the financial year**		**Variable remuneration for the financial year**			
		fixed for 2020	**variable for 2019**	cash	financial instruments	issued/ paid out	deferred for subsequent years
Management Board Members	12	5.6	-	-	-	-	-
Other persons affecting the Bank's risk profile	74	27.0	0.1	0.1	-	0.1	-
Total	**86**	**32.6**	**0.1**	**0.1**	**-**	**0.1**	**-**

Below you will find quantitative information on benefits related to departure, including compensation under the non-competition clause for persons affecting the risk profile in 2020 (in PLN million):

Remuneration	**number of persons**	**Benefits connected with departure**
Management Board Members	9	3.0
Other persons affecting the Bank's risk profile	5	0.8
Total	**14**	**3.8**

The amount of the highest single payment to one person is PLN 0.8 million.

Below you will find quantitative information for persons with impact on the risk profile in previous years with regard to deferred parts (in PLN million):

Remuneration	**number of persons**	**Variable remuneration granted in previous years - paid in a given year**
Management Board Members	7	1.4
Other persons affecting the Bank's risk profile	32	2.8
Total	**39**	**4.2**

In 2020, among the persons employed by the Bank and belonging to the category of persons whose professional activity has a significant impact on the Bank's risk profile – no one achieved total remuneration exceeding the equivalent of EUR 1,000,000.

Statement of the Management Board

The Management Board of Alior Bank SA hereby declares that the findings described in the Report correspond to the facts and the risk management systems used are appropriate from the perspective of the risk profile and risk strategy of the Alior Bank SA Capital Group.

Statement of the Management Board on liquidity risk

In 2020, the Management Board of the Bank – taking into account the effects of the COVID-19 pandemic – performed an annual review of the expected liquidity risk tolerance level, defined by the system of limits imposed on liquidity risk, which results from the risk appetite included in the assumptions of the overall strategy of the Bank's operations and is consistent with it and by determining the "survival horizon", taking into account scenarios of varying severity and probability of materialisation.

Alior Bank, as an institution operating mostly on the retail market and independent of a foreign parent institution, is characterised by a lower level of liquidity risk resulting from maintaining a stable deposit base (characterised by high stability at 95.54%), as well as a small involvement in long-term mortgages denominated in foreign currencies.

As at 31 December 2020, all liquidity limits were at a safe level, including: LCR amounted to 174%, M3 ratio reached the level of 3.53, M4 amounted to 1.19, and the total liquidity buffer amounted to PLN 17 billion compared to the required level of PLN 13 billion resulting from the shock scenario. Detailed information on the Bank's liquidity risk profile has been discussed in Disclosures in the part concerning liquidity risk.

The liquidity risk management systems applied by the Bank ensured liquidity risk in 2020 at a level consistent with the risk appetite defined by the Supervisory Board and provided for adjustment to the changed environment in connection with the COVID-19 pandemic. The process of assessing the adequacy of liquidity resources (ILAAP) functioning at the Bank ensured that the Bank has stable financing and appropriate liquidity buffers to pay its liabilities in a timely manner, also in an extreme situation, and compliance with supervisory liquidity requirements. Throughout the year, the situation was closely monitored, with particular emphasis on the effects of the COVID-19 pandemic which may have an adverse impact on the Bank's liquidity and reputation, such as increased cash withdrawals or reduced liquidity on the interbank market in the initial phase of the pandemic. Throughout that period, the Group's liquidity was kept at a safe level, which was reflected in the levels of liquidity ratios considerably above the limits. Therefore, the Bank did not identify the need to take extraordinary actions to improve the liquidity situation.

The Management Board of the Bank hereby declares that the arrangements concerning liquidity risk management described in the Disclosures are adequate to the actual state, and the liquidity risk management systems applied are appropriate from the point of view of the profile, scale of activity, strategy, and financial plans of the Capital Group of Alior Bank SA.

	Signature
Iwona Duda – Vice-President of the Management Board in charge of managing its affairs	
Maciej Brzozowski - Vice-President of the Management Board	
Seweryn Kowalczyk – Vice-President of the Management Board	
Mikołaj Handschke - a member of the Supervisory Board delegated to act as Vice President of the Management Board of the Bank in charge of finance	
Agata Strzelecka - Vice-President of the Management Board	
Dariusz Szwed - Vice-President of the Management Board	